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From Bicentennial to Tercentennial

This month Chile celebrates a very special independence day – 200 years of history, 200 years of developing a rich and beautiful culture, 200 years of nation building.

Chileans will be spending time with family and friends, celebrating by dancing the cueca and eating traditional foods. The country will be rejoicing in its accomplishments - its unique culture, a stable economy, the globalization of its businesses, improving infrastructure, a strong democracy, a solid institutional framework and significantly reduced poverty.

While remembering the tragedy of the February earthquake and the fact that 33 miners remain trapped in the north of Chile, Chileans will consider their country’s swift recovery from the quake and the sense of teamwork that has emerged to free those miners.

And they will also look to the future, wondering what the next hundred years will bring. If the last century is remembered for the consolidation of Chile’s cultural identity, economic growth and democracy – what will the next 100 years bring?

The signs are encouraging. Chile has developed a new self-confidence as reflected by the country’s willingness to determine its own course of action – doing things “the Chilean way” – the best way for its people. This is visible in its economic leadership and willingness to make tough decisions – from controlled public spending to opening its markets and deciding not to participate in wars involving regime change.

The pace of change has also accelerated over the past 50 years and there is a sense, with the recently installed Piñera administration, of a renewed energy and dynamism that could take the country and its people into uncharted waters.

So what will this new Chile look like?

Let’s dream.

Chile in the 22nd century is a country where everyone is bilingual – Chileans will need to be because exporting is so important to the economy, more large global businesses have chosen Chile as a regional and global hub, the number of Chilean multinationals has grown, and Chile is a center of immigration for human capital since it offers some of the best opportunities in the region. Businesses are focused on technological innovation and services – it’s a country where miners can no longer be trapped because new mining technology developed in Chile limits the need to work underground.

Meanwhile, Chile’s self-confidence is projected internally in dynamic new businesses leading to innovation and growth. Education is world class from primary school through university. Externally, Chile has taken on leadership roles in regional diplomacy, global economic matters, the arts, and renewable energy. This peaceful country works closely with all countries from Asia, to the U.S., to its South American neighbors. Blessed with natural beauty and geographic diversity, Chile has set an example in how conservation and development can work hand-in-hand for the benefit of all Chileans.

The country has also become more economically homogeneous and culturally diverse. Municipalities and regions are strong. Whether living in Puente Alto, La Dehesa, Punta Arenas or Arica, all Chileans have the same access to education and opportunities. It’s a country where the best plumber lives in the best neighborhood next door to the innovator who developed the latest solar energy technology, and across the street from the Mapuche who wrote the latest history of their people and just returned from teaching at Oxford.

In other words, it’s a country that has successfully focused on human capital in all its dimensions.

These are not just dreams – this future is within reach of Chile and its people. We at AmCham are confident of Chile’s future and will continue to actively promote investment and trade in order to make these dreams come true. Happy birthday Chile!!
Chilean Technology Makes a Splash

With patented technology that allows developers to create huge crystalline lagoons anywhere and maintain them at a fraction of the cost of traditional pools, the Chilean firm Crystal Lagoons aims to revolutionize the real estate industry.

By Julian Dowling

Crystal clear water, white sand beaches, palm trees and sun. It sounds like Club Med in the Caribbean, but in the summer months it is also a fitting description of the world’s largest swimming pool in the beach resort town of Algarrobo, just a couple of hours from Santiago.

The US$3 million pool, which covers an eight hectare area equivalent to 6,000 backyard pools, was built using Chilean firm Crystal Lagoons’ technology as part of the San Alfonso del Mar condominium project.

Including San Alfonso, Crystal Lagoons has four lagoons in Chile and one in Panama. The patented technology allows real estate developers to build huge crystalline lagoons anywhere while increasing the land’s commercial value.

“We are changing the real estate paradigm which says that location is the key to any project,” said Eduardo Klein, Business Manager at Crystal Lagoons.

Even the desert can be made into an oasis. Crystal Lagoons has licensed its technology to the Egyptian real estate developer Citystars Properties, which is building a huge US$5 billion housing project in Sharm El Sheikh.

“This project will have 10 lagoons covering 100 hectares which will create beach life in the middle of the desert,” said Klein.

In addition to this project, Crystal Lagoons has projects in construction in Peru, Jordan and Dubai where the Santiago-based firm has opened a second office.

In total, the company has 150 projects in different stages of development in 35 countries with plans to open offices in the United States and Asia in the near term.

Made in Chile

Keeping an eight- hectare pool clean is not easy. The Chilean businessman and biochemist Fernando Fischmann founded Crystal Lagoons in 2007 after spending a decade looking in vain for an affordable technology that would maintain his beachfront pool at the San Alfonso del Mar resort.

“The shoreline there is rocky and the water is cold so he needed something different to offer an attractive beach lifestyle for residents,” said Klein.

Through a process of trial and error, Fischmann and his team discovered a technological process that would maintain large bodies of crystalline fresh or salt water at a relatively low cost.

It works by using special sensors in the pool that monitor pH levels and inject chemicals automatically to maintain the required balance.

“Normal pools use large quantities of chlorine to keep them clean, we don’t do that,” said Klein.

Crystal Lagoons also uses energy-efficient filtration systems that use 2% of the energy consumed by traditional pools. Its low energy and chemical consumption helped the firm obtain the Chile Verde environmental certification, which
is supported by UNESCO.

“Our technology is a combination of everything from the quality of the water we use to how it is treated and filtered,” said Klein.

The pools also use only enough water to compensate for evaporation. “Our pools consume half the water that would be consumed by a park of similar size,” said Klein.

**Business model**

Building a Crystal Lagoons pool is not cheap – around US$350,000 per hectare – but building a pool over three hectares is impossible using traditional technology.

For real estate developers, a big pool can be a major asset in tempting customers to buy high-priced houses or condos. Since the pools are safe and clean, they are attractive to families with children who can swim, sail or kayak with limited supervision.

“It allows a beach lifestyle in a very safe environment,” said Klein.

Crystal Lagoons participates in every aspect of the project from design to engineering and construction. Once the project is completed, the company trains personnel and monitors, via Internet, the water quality.

Crystal Lagoons receives nothing upfront, but is paid a percentage, usually 1-2%, of the developer’s sales. “We only charge our fee when the developer starts to sell, so it’s comfortable for them,” said Klein.

But it’s also good for Crystal Lagoons, which has US$600 million in royalties wrapped up in its signed contracts. “Our project adds value to a new development, and we receive a percentage of that value,” said Klein.

The company’s existing projects are in resorts like San Alfonso del Mar and Las Brisas de Santo Domingo, but it is building a 3.5 hectare pool in the community of Padre Hurtado just outside Santiago. “This is revolutionary, for the first time people living in Santiago will have a beach outside their front door,” said Klein.

That’s good news for the project’s developer, Inmobiliaria Aconcagua. In its first weekend, all 50 houses on offer sold and the same thing happened the following weekend.

**Patently clear**

In the U.S., Crystal Lagoons is in talks with developers in South Carolina and Las Vegas, and it plans to open an office there by early 2011, but no projects are confirmed yet.

The slowdown in the housing market is behind the lack of progress, says Klein, “but the U.S. is a very interesting market for us, we just patented our technology there which is great news.”

It took Crystal Lagoons five years to obtain its U.S. patent. “Intellectual property is respected in the U.S. and it makes it easier to get patents in other countries,” said Klein.

Including the United States, Crystal Lagoons is now patenting its technology in 150 countries and has hired U.S. intellectual property firm Marksmen to protect its technology from potential competitors.

Crystal Lagoons pushed for Chile’s accession to the World Intellectual Property Organization’s Patent Cooperation Treaty (PCT) in 2009, which has made the process of applying for patents in different countries much simpler and cheaper for Chilean firms, notes Klein.

“We have paved the way so other companies can follow,” said Klein.

Crystal Lagoons is also the leading candidate to become the first Chilean company to list on the NASDAQ, which is one of the new government’s goals for the next four years.

“We are evaluating this, it’s an important decision and there’s no going back,” said Klein.

Either way, Crystal Lagoons will have plenty of work; the Boston Consulting Group estimates that 14,000 crystalline lagoons could be built in the world in the next 20 years.
A Stronger

Trans-Pacific Partnership

The United States is looking to a small regional trade pact - of which Chile is a founding member - to become a vehicle for trade liberalization across the Asia-Pacific region, but Asia’s economies are looking to create their own bloc while support for new trade deals in the U.S. remains weak.

When it came into force in June 2006, the Trans-Pacific Strategic Economic Partnership Agreement, previously known as P4, between Chile, Brunei, New Zealand and Singapore garnered little attention.

The four countries immediately slashed tariffs on 90% of trade and promised to lower remaining tariffs by 2015. But, on the face of it, the deal offered relatively little in the way of new trade opportunities for Chile.

Singapore’s tariffs on Chilean goods were already very low, New Zealand’s exports were, like Chile’s, dominated by natural resources, while little of Brunei’s huge oil and gas resources would make it across to this side of the Pacific.

Rather than boosting trade between member countries, however, the aim of the Trans-Pacific Partnership was to create a group of small, competitive economies with an interest in liberalizing trade among Pacific Rim countries. When the agreement was signed, Chile’s then President Ricardo Lagos called it “an alliance to compete in the global economy.”

Like Chile’s other trade agreements, the Trans-Pacific Partnership covers a broad range of issues in addition to tariffs such as trade disputes, farm subsidies and intellectual property. But unlike its bilateral agreements, the treaty was designed so that more countries could join.

Now, four years after it came into force, this is starting to happen.

Partners across the Pacific

In September 2008, the U.S. announced its intention to join the Trans-Pacific Partnership, or TPP. Since then, Australia, Peru and Vietnam have also entered into talks.

The 2008 U.S. presidential election and the drawn-out appointment of President Obama’s trade representative, Ron Kirk, delayed the formal start of negotiations by a year, but events have since moved quickly.

Two rounds of negotiations have taken place, including the latest in San Francisco in June, and two more rounds are scheduled this year with the next taking place in Brunei in October.

The TPP “is a launch pad for the Obama administration’s intention to dramatically increase American exports to the Asia-Pacific and create good jobs here at home,” said Kirk at the San Francisco round.

Negotiations remain at an early stage, but so far no major differences have cropped up between participants, said
Barbara Weisel, Assistant U.S. Trade Representative for Southeast Asia and the Pacific who is also the top U.S. negotiator in the talks.

The U.S. interest in the TPP was sparked after recent moves by Southeast Asian economies to create a regional free trade area of their own and the risk that poses to U.S. business, said Weisel.

The TPP is small but it offers the best platform due to its regional scope and the pro-free trade approach of its founding members, said Weisel.

While other deals are “bilateral agreements that will be stitched together later, the TPP is conceived as a regional agreement to maximize trade and boost regional integration,” Weisel notes.

The U.S. already has free trade agreements with two of TPP’s members – Chile and Singapore – and two of its potential members, Australia and Peru.

But by joining a regional agreement, the U.S. hopes the TPP will create a framework for future trade talks on both sides of the Pacific.

A deal for the 21st Century

The potential impact of the TPP on global trade is huge, according to Patrick Kilbride, director of the Americas office at the U.S. Chamber of Commerce.

“This could be a trendsetting group that leads WTO negotiations in the future,” he said.

But the TPP is not just about creating another trade bloc; the U.S. wants to raise the bar for all future trade talks.

At the start of TPP negotiations in November 2009, President Obama said the deal would incorporate “the high standards worthy of a 21st century trade agreement.”

And Ambassador Kirk has spoken of “platinum standards.”

This means higher standards for investment and intellectual property as well as environmental and labor issues, said Osvaldo Rosales, a trade expert at the United Nations’ Santiago-based Economic Commission on Latin America and the Caribbean (ECLAC).

Higher standards in these areas would make it easier for U.S. companies to compete abroad as well as appeasing trade-skeptic groups at home, said Rosales.

Higher standards

In TPP negotiations, the U.S. has focused on non-tariff barriers which can distort trade just as much as high tariffs, said Weisel.

For example, bilateral trade agreements have slashed tariffs on agricultural products, but the gains have been offset by poor food safety standards in some countries, she points out.

One fly in a shipment of fresh fruit and open doors are quickly slammed shut.

But better coordination between regulators in different countries could mean that food safety measures are less disruptive to trade.

The U.S. is also keen to find ways for smaller businesses to benefit from global trade, which would create more jobs at home.

Weisel says such proposals have been well received by other participants in the first two rounds of TPP talks, and many have brought their own ideas to the table.

But not everyone is convinced.

As developing countries tend to be more interested in traditional trade matters such as anti-dumping and farm subsidies, they may resent the U.S. emphasis on intellectual property rights and climate change, said ECLAC’s Rosales.

“The U.S. should give clear signals that similar standards will be applied to the issues that matter to its trade partners,” he said.

Kilbride agrees. “Other economies may well resist tough positions on areas like labor and the environment,” he said.

Weisel argues that higher standards will benefit member countries so much that others will feel pressure to join. For now, however, concern over where TPP negotiations may be heading is keeping some potential participants on the sidelines.

Canada, Japan and Malaysia are all watching how talks develop.

“It is far from clear what [the TPP] is going to look like,” Canada’s Minister for International Trade, Peter Van Loan, told bUSiness CHILE.

“If it becomes a significant free trade body in Asia then, yes, we have a lot of interest in joining,” he said.
U.S. trade concerns

The biggest barrier to an enlarged Trans-Pacific Partnership, however, comes from within the U.S. itself. In the aftermath of the worst economic crisis since the Great Depression, trade has slipped off the political agenda in Washington.

With the jobless rate close to 10% in July and mid-term elections looming, free trade agreements negotiated months ago with Colombia, Panama and South Korea are still awaiting approval in Congress.

Meanwhile, the Obama administration has focused attention on historic reforms of the healthcare and financial industries as well as ending the protracted military endeavors in Afghanistan and Iraq, leaving little time for trade issues.

Still, in the absence of progress in the Doha round of WTO negotiations, the TPP is the only significant item on the government’s trade agenda.

And the political climate is improving as shown by the Obama administration’s willingness to move trade agreements forward, notes Kilbride.

Concrete progress on trade agreements will, however, depend on a brighter economic outlook.

“A weakened economy is not a good scenario for audacious trade initiatives – this is the problem facing Obama,” said Rosales.

And without authorization from Congress to negotiate new deals, the government’s efforts could amount to little.

Asian trade blocs

But if the U.S. wants the TPP to succeed as a means of integrating the Asia Pacific region, then it had better get a move on.

The Association of Southeast Asian Nations (ASEAN), which groups ten South East Asian countries, is planning to expand its free trade area across Asia, creating a regional bloc that would rival...
ASEAN has already signed free trade agreements with Japan, South Korea and most recently China, but the challenge now is to knit them together to create a truly regional agreement.

To form such an agreement, these countries would have to overcome decades of mistrust, but their existing economic links and the huge benefits of further integration may well dwarf any cultural barriers, argues Rosales.

Such a bloc would comprise not only a massive slice of the world’s population but also the bulk of its exports, many leading technological firms and huge financial resources.

“The world is going in this direction and the Western Hemisphere has fallen behind,” notes Rosales.

The risk of being left out of the world’s largest markets should be sufficient pressure to convince the U.S. to support an alternative trade initiative for the region.

Next year could be critical. The U.S. will be hosting the 2011 Asia-Pacific Economic Cooperation (APEC) Summit in Hawaii, which is not only President Obama’s birthplace but also a midway point between Asia and the Americas.

That could make it a highly symbolic opportunity to unveil a major new proposal to move trade talks forward across the region.

Advanced negotiations of the Trans-Pacific Partnership could be presented as a partial fulfillment of APEC’s aim of liberalizing trade between its member economies.

As a founding TPP member, Chile has an important role to play in facilitating its expansion, but much depends on the U.S.

With or without the United States, Asia-Pacific trade integration is accelerating, but it’s in the interests of all APEC countries that the U.S. is involved from the outset.

Tom Azzopardi is a freelance journalist based in Santiago

Hacienda Tres Lagos, the perfect place for those who are looking for adventure, coupled with relaxation in a fascinating and unique landscape.
Happy 200th Birthday! Make a Wish

As Chile celebrates its bicentenary this month, bUSiness CHILE looks back at its successes as an independent nation, examines its current state of health, and asks what challenges lie ahead for future generations.

By Gideon Long

September is always a month of celebration in Chile, but this year is special. The first half of the year was an emotional rollercoaster for many Chileans beginning in February with one of the strongest earthquakes ever recorded, but now the bicentenary has arrived and the party has begun.

The festivities will continue all month with flag-raising ceremonies, military parades and church services. Across the country, and particularly on September 18 - Chile's Independence Day - millions of Chileans will come together to eat empanadas, drink wine, dance cueca and celebrate their shared heritage.

National unity has been a key theme of the new government since it took office 12 days after the earthquake. So it’s fitting that, on September 2, President Sebastián Piñera presided over a ceremony at the Plaza de la Ciudadanía in central Santiago where a statue of José Miguel Carrera, one of the country’s founding fathers, was placed alongside that of Chile’s liberator, General Bernardo O’Higgins.

Two days later, the President again emphasized unity in his inauguration of the Gabriela Mistral cultural centre, named after Chile’s Nobel Prize-winning poet. A cavernous building on Santiago’s main thoroughfare, the Alameda, its restoration after a fire is the most ambitious public works project of the bicentenary, and is symbolic of efforts to strengthen Chile’s cultural identity.

But the bicentenary also gives cause for reflection. How far has Chile come since its independence, and has it progressed as far as it should have? How do Chileans view themselves and their place in the world these days, and how do others view them? What challenges does Chile face in the years ahead? Just how sweet is the “Sweet Homeland” that Chileans eulogize with such ardor in their national anthem?

A Century of Progress

Step back in time 100 years and Chile is clearly a different country today. When Chile celebrated its centenary in 1910, it was a country of just 3.2 million people, compared to nearly 17 million now. Its chief export was not copper, but saltpeter. Life expectancy was less than 40, some 60% of the population was illiterate and less than 5% had the right to vote. One in four children died in infancy.

Thankfully, those days are long gone. Nowadays, Chile regularly tops the class when it comes to Latin American social and economic statistics. This year’s accession to the Organisation for Economic Cooperation and Development (OECD) is the clearest sign yet that Chile is well on the way to joining the world’s elite group of developed nations.

“We still don’t realize how far we’ve come and, at times, our pessimism about the future clouds our judgment of how far we’ve advanced,” said Eugenio Guzmán, a sociologist and dean of the school of government at the Universidad del Desarrollo in Santiago.

Looking back at Chile’s history, it’s striking how the events of September 1973 still loom large in the minds of ordinary Chileans. Two years ago, as it prepared for the bicentenary, the previous government commissioned a survey and published the results in a book.
titled ‘Chile Dreams the Bicentenary.’

Respondents were presented with a list of events in Chilean history from the past 50 years, including the military coup of 1973, the earthquake of 1985, the visit of Pope John Paul II in 1987, the return to democracy in 1990, the election of the country’s first female president in 2006 and the death of General Augusto Pinochet that same year. When asked to choose which had had the biggest impact on their country, 55% chose the coup. The Pope’s visit came a distant second with 20%.

The same poll asked Chileans which politician from their country’s history they admired most. President Salvador Allende (1970-1973) topped the poll with 31%, followed by President Eduardo Frei Montalva (1964-1970) with 20% and Pinochet with 13%.

Economic Revolution

But if the coup remains etched into the minds of Chileans, it is the period that followed, from the mid-1970s to the present day, which defines the modern nation. The economic reforms implemented by the military government, and the vertiginous growth rates of the 1990s after the return to democracy, are a source of pride for many Chileans.

“The most fundamental achievement of the last 50 years was the economic revolution that began in 1975 and brought us a free economic system, open to the world,” said Patricia Arancibia, a leading Chilean historian.

“It was a step forward that has allowed Chile to get close to full development before any other Latin American country.”

Luis Larrain, executive director of right-leaning think-tank Libertad y Desarrollo, agrees. “Over the past 30 years Chile has achieved a key qualitative change: economic stability.”

Some of the major successes of the period have included controlled inflation, central bank autonomy, a privately managed pension system and a concessions system for public works projects. These economic achievements have given Chileans greater self-confidence than they had in the past. “Our self-perception is much more positive than it used to be despite the setbacks of the past and the challenges ahead,” Arancibia said.

But if Chileans view themselves in a more positive light, how do others view them? The reality is that despite the marketing campaigns of recent years, most people outside Chile – and certainly outside Latin America – have only a vague idea of what the country is like.

“People know bits and pieces about Chile, but these perceptions are scattered and do not constitute a whole,” said
Excellence
It is a skill that can be obtained from practice and experience.
Patricio Navia, a Chilean political analyst and professor at New York University. According to Navia, this is both a problem and a great opportunity. “Chileans have the chance to complete their own identity and shape the way the world sees them.”

Chile remains geographically isolated by the forbidding natural barriers – mountains, desert and ocean – that separate it from the rest of the world, but it has made great strides to overcome these barriers through openness to trade and technology. “Thanks to the Internet, cable television and cheaper communications, Chile is less isolated today,” Navia said.

Future Challenges

As Chile heads into its third century, it faces numerous challenges. Asked to name them, Arancibia was emphatic: “First, education; second, education; and third, education.”

The centre-left governments of the past 20 years oversaw a seven-fold increase in funding for education, and yet that investment has reaped only modest returns. The country lags well behind most other OECD members in the Project for International Student Assessment (PISA) rankings, regarded as the most reliable international measure of educational standards.

The SIMCE, the national measure, has recently thrown up some alarming findings. It suggests that standards haven’t improved much in Chilean schools over the past 10 years and in some subjects, notably math, they have fallen.

“The problems go far beyond simply having better teachers,” Guzmán said. “We’re not discussing in any depth what we teach our kids, the teaching of science and math in particular is at rock bottom.”

The new government has vowed to tackle these shortfalls through better management of the education system as well as more funding, but it remains to be seen whether it can do better than previous governments.

Health is another area where Chile needs to improve, especially in its public hospitals. As the number of ailments covered by AUGE system, which guarantees access to free or low cost care, increases, so will fiscal spending on healthcare. As in the United States, the debate over how the nation should
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care for its sick is likely to be long and complex.

As life expectancy increases and the birthrate drops, the pressure on Chile’s pension system will rise in the years to come. Back in 1950, there were just 18.7 adults of retirement age for every 100 children. By 2050, according to projections from the National Statistics Institute (INE), there will be 170. In the last 60 years, life expectancy has risen from 55 to over 80. Put bluntly, Chileans are getting older with fewer youngsters to pay for their care.

Immigration is also likely to be an important theme, particularly if the economic gap between Chile and its neighbors remains. At the moment, there are only around 350,000 immigrants in Chile, making it a strikingly homogenous country compared to the United States or Europe. Of those, most are from Peru (around 26%), Argentina (22%) and Bolivia (8%). More

immigrants will arrive in the coming decades, bringing benefits for Chile but also tensions, particularly over jobs, which will have to be addressed.

There are a host of other social and ethical issues that Chilean society will have to confront. Will it relax its strict abortion law? Will it allow same-sex marriages? This year, for the first time, the number of divorces in Chile is set to exceed marriages, a remarkable statistic in a country where divorce has been legal for only six years. These days, around 65% of Chilean children are born out of wedlock – a huge change from the past. The birth rate may be falling but the number of girls having babies before their 16th birthday has soared 70% in the past five years, according to the civil registry.

On the economic front, Piñera’s government has pledged to turn Chile into a developed country by 2018. “For that to happen we will need 6% economic growth a year, way above the average of 2.8% of the last four years,” says Larrain at Libertad y Desarrollo.

The government has also vowed to eradicate poverty, which dropped sharply during the 1990s but has recently leveled off and even shown signs of climbing. In addition, the Piñera administration plans to tackle economic inequality, which for the most part remained stubbornly impervious to 20 years of centre-left social reform.

Energy supply is another challenge to future economic growth. The recent construction of Liquefied Natural Gas (LNG) terminals has alleviated Chile’s energy crisis in the short term and broken the country’s dependency on Argentine gas. But as the economy and population expand, Chile will need more fuel and that will entail some tough decisions. Will the country opt for nuclear power? Or will it authorize the construction of large hydroelectric plants in the south, like HydroAysén, despite environmental opposition?

If Chile decides to go nuclear within the next decade, atomic energy could make up over 15% of the country’s overall energy mix by 2035, according to the state’s National Energy Commission (CNE). Coal would account for another 15% and LNG around 10%. If the country decides against nuclear power, coal will make up around 28% of the energy mix by 2035, with all that implies for Chile’s carbon footprint.

To reduce carbon emissions, non-conventional renewable energy could play a greater role in the mix. When it comes to solar, wave, tidal, wind and geothermal power, few countries are blessed with as much potential as Chile. But governments of the future will have to take bold decisions to realize that potential.

Finally, while most Chileans celebrate the bicentenary with gusto, the country’s indigenous population will perhaps feel a little ambivalent. The

“The most fundamental achievement of the last 50 years was the economic revolution,”

Patricia Arancibia,
Historian

“Our pessimism about the future clouds our judgment of how far we’ve advanced,”

Eugenio Guzmán,
Universidad del Desarrollo
Más de 32 años de liderazgo en Leasing Operativo de flotas.
Confíe en el número uno, confíe en RELSA.
Mapuche lived here well before Chile became a nation and, believing they were stripped of their land and forced to live in a country called ‘Chile,’ they may feel they have little to celebrate.

The recent hunger strikes by Mapuche prisoners in the south is evidence that the wounds of that 19th century conquest remain unhealed, and could fester if left untreated. “This is an issue that Chilean society practically ignored during most of the 20th century,” wrote former President Patricio Aylwin in Chile Dreams the Bicentenary. Clearly, it can't keep ignoring it.

Dreaming the Future

As part of this month’s celebrations, Chilean school children born a decade ago will write down their dreams for the Chile they want to live in. Their messages will be placed in a casket, to be opened in 2110 to mark the tercentenary.

The year these children were born, the then-newly elected President Ricardo Lagos, in his first state of the nation address to Congress, set a goal of turning Chile into a developed nation by 2010. That timetable has slipped, largely because economic growth over the past ten years has been markedly slower than over the previous decade.

President Piñera has set a new date to reach the goal – 2018 – and could hardly have chosen a more fitting year since that is when Chile will truly turn 200. It was on February 12, 1818, that General O’Higgins formally declared independence from Spain. It would be nice to think that in eight years, the country will have gone some way to realizing at least some of those children’s dreams.
Biotechnology: Sowing Seeds in the Desert

Chile’s inhospitable Atacama Desert is an unlikely place to conduct seed research during the North American winter, but the world’s leading suppliers of advanced seed genetics have established a research hub that is benefitting the local economy as well as global food producers.

By Aaron Nelsen

n theory, the ideal seed is resistant to plagues and pests, resilient in the face of dry or nutrient deficient soil and able to survive inclement weather. The perfect seed hybrid, if such a thing exists, is the Holy Grail of plant geneticists, a billion dollar enterprise of multinational corporations trying to stay one step ahead of their rivals in a high stakes competition for precious market share.

With so much to be won or lost, it seems odd that the latest battlefield in this biological quest should be a narrow stretch of the Atacama Desert on some of the harshest soil the planet has to offer.

Imagine farming on the moon. As far-fetched as it sounds, this is very nearly what Semillas Pioneer Chile, the Chilean affiliate of one of the world’s leading developers and suppliers of advanced seed genetics, does at its new research facility opened almost two years ago in the Azapa Valley near the city of Arica.

Twenty years ago, Arica didn’t even register as a blip on the map of the world’s biggest seed producers and scouts for Pioneer must have had their doubts as they gazed upon Atacama’s moonscape. It never rains there, and the soil is a mix of sand and stone.

But despite the region’s glaring drawbacks, it also offers several advantages. More than the absence of plagues and pests or golf ball-sized hail, Arica’s greatest asset is its climate, explains Germán Alessandri, corporate affairs manager at Pioneer Chile.

“In Arica we found a climate that’s not too hot or rainy,” Alessandri said. “So, you don’t have the natural plagues or pests... It’s a very good alternative to the tropics.”

Pioneer’s state-of-the-art installation in Arica is the company’s third in Chile – the others are in Vílucu, near Santiago, and in Temuco, 700 kilometers south of the capital.

The Temuco site is used primarily for canola research and production, and the Vílucu site, which is larger than Arica and Temuco combined, handles maize, soy and sunflower production. But Arica is dedicated solely to maize development, partly because Arica’s unique conditions are only suitable for this crop.

For decades Chile has played a key role for Northern Hemisphere off-season seed production and research programs, but the Vílucu and Temuco installations are limited by their climate to a single growing cycle per year.

Arica, however, offers three growing cycles annually, vastly accelerating lines of research. More cycles per year
allows researchers to shave years off a laborious and time consuming process, gaining a valuable edge over competitors.

Researchers select plants that have desirable characteristics for breeding, but finding the perfect strain can take up to 15 years in other countries versus just five years in Arica, said Alessandri.

The advantage of an extended growing season in a non-tropical location cannot be overstated, according to Mario Schindler, general manager of Chile’s seed producers’ association Anpros, which represents 95 percent of the producers in the country.

Anpros saw the industry through its lean years of the early 1980s when seed exports scarcely topped US$3 million per year, gradually inching higher through the end of the decade and into the 1990s.

Today, seed exports are booming. Exports have grown an average 19 percent annually in the past five years to around US$415 million in 2009 (see graph).

Reasons for the surge in demand for Chilean seeds include biotech events such as the outbreak of diseases in other countries, the rise of commodity prices, and the growth of ethanol demand in the United States, said Schindler.

A winter nursery

A good part of Chile’s draw as a winter nursery is its unique topography and climate. The country is a veritable ecological island, shielded on all sides by geographic barriers that make its central valley a natural greenhouse.

Standing in front of a wall length map of the world showing the locations of seed varieties, Schindler cut a line with his hand across central Chile and Argentina, indicating the 35th parallel.

“This is the optimal off-season area for seed producers,” Schindler said. “Think of it as California inverted.”

The Central Valley, nestled between the Chilean coastal mountain range and the Andes extending from Santiago south to the Bio-Bio Region, is ideal for growing, among other things, corn, soy, canola and assorted vegetables.

Corn seed accounts for around 50 percent of all seed production in the valley; 30 percent is vegetables; and 15 percent is soy and canola with the remaining five percent comprised of other assorted plants.

But as the value of off-season research has risen, Pioneer’s new facility is helping make northern Chile into a strategic location for global seed companies.
Nuestro foco:  Su empresa
The center “is a great addition to biotechnology investigation in Chile,” said Francisco Gana, head of research at the National Agricultural Society (SNA), which promotes farmers’ interests.

The multimillion dollar investment, around US$10 million for the laboratory alone, is the largest of its kind in the Arica and Parinacota region. In addition to creating 100 full-time and 500 part-time jobs, the facility promises to develop new seed varieties for export.

Eureka Arica

Pioneer’s Azapa Valley research site is still relatively small compared to the company’s overall operations in the country, but that it exists at all is its own improbable tale.

In the late 1980s, Mario Loredo, a young agronomist from Arica was looking to bring opportunities to the economically depressed area. It was a long shot, but he contacted Pioneer.

Pioneer was the first large seed company to produce in Chile when it began operations in the 1970s and was looking to increase its footprint, but its executives were largely unmoved save a devoted few who insisted on giving Loredo a chance.

At that time the company had operations in Puerto Rico, Hawaii and Mexico, tropical regions...
Son ricas. Te hidratan. Te hacen sentir bien.

Aproximadamente un 60% de tu cuerpo es líquido, por eso hidratarte es parte importante del cuidado de tu salud. Nosotros te ofrecemos una variedad de bebidas y sabores para que sea más fácil y divertido consumir el líquido diario que necesitas.
that offered multiple growing seasons. But those places have their own unique set of complications. Each is subject to inclement weather, and pests and disease are ever present hurdles.

Pioneer wasn’t looking in northern Chile at that moment, but it was actively pursuing an alternative to the tropics and Arica presented a distinct, albeit unlikely opportunity.

The company began sending Loredo small samples of corn seed to see if he could make them grow. Pioneer still had to establish a presence in the area, conduct field research and understand how to navigate a variety of unique challenges.

The soil is toxic and bone dry. But as inhospitable as the desert can be for plant life, an underground spring formed by run-off from the Bolivian altiplano could be treated and made suitable for irrigation.

Drawing on local experience and agronomic technology, Loredo, who still works for Pioneer in Arica, spent years testing strategies to manage irrigation, eventually developing a Made in Chile drip irrigation system that improves the soil quality.

The technology was a breakthrough for winter nursery research.

“Arica is special,” Alessandri said. “When we launched our installation it caused quite a stir among our competitors.”

Not to be outdone, Swiss-based Syngenta inaugurated the second stage of its own Arica installation in late August while U.S. firm Monsanto is looking to establish itself in the area. Today there are no fewer than nine seed producers in the Azapa Valley.

“The truth is Arica didn’t even figure on the map two years ago,” Schindler said. “Now we’ve created an Arica committee precisely due to its growing importance.”

**Offseason research**

A good climate with multiple growing seasons is only one of the ingredients companies look for when choosing a location to produce seeds. Pioneer was attracted to Chile in the 1970s by the country’s favorable regulatory framework, which facilitates the movement of seeds in and out of the country.

“One of the things we look for is whether we are able to plant when we want to,” said Mike Chapman, research director in maize product development for Pioneer at the firm’s Iowa headquarters.

“Chile offers a stable planting and growing environment... it just makes

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**“We need seeds that yield more and use less water,”**

Jean Pierre Posa, Seed Association of the Americas

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**“Think of [Arica] as California inversed,”**

Mario Schindler, Anpros
COASIN Group

building high performance business

The Value of Technology
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good sense to be there.”

As Pioneer has invested heavily in winter nurseries and research programs over the last five-years to support breeding programs in the U.S., Europe and, to a lesser degree, South America, Chile has been among the primary beneficiaries.

The job of a seed researcher is to piece together a complex genetic puzzle, an undertaking that couldn’t be accomplished without offseason research and development.

In addition to producing millions of seeds ahead of the northern hemisphere planting season, breeders in the U.S. send hybrid seeds to their winter nurseries around the world for trial evaluations.

The results of these trials lead to the development of the next generation of product that North American and European farmers will plant in their fields.

“It’s sort of like starting a race with a thousand people,” said Chapman. “There’s a gradual culling process where certain traits are needed for a commercial product and the other material is discarded.”

The process is exceedingly data driven and deadlines are tight. Above all, it’s about developing the next generation of product for the marketplace, said Chapman.

Breeding better crops

The average consumer doesn’t question where their food is produced or how it arrives on their plate, but often its production involves many people and countries.

Take for example the world’s ever growing population, especially in China and India where rapidly expanding economies have led to increased demand for corn.

“How do we feed them all?” asks Jean Pierre Posa, president of the Seed Association of the Americas, which represents the interests of the seed industry throughout the region.

“There isn’t any more agricultural land, so how are we going to feed billions of people? We are going to need a seed that yields more and probably uses less water.”

There are other pressures, unforeseen decades ago, that have suddenly been thrust to the fore, such as the use of corn for ethanol. Recent fuel shortages have led to a boom in corn for ethanol production, straining the supply.

Suddenly a potentially new line of research has been created to develop a seed that produces more ethanol per plant.

“This all creates a cascading demand,” said Posa. “Let’s put it this way; you buy a new car every year with new technology and sometimes the advance is small, but vehicles will eventually operate by themselves.”

Desarrollar productos, servicios e iniciativas que vayan en directo beneficio de nuestros trabajadores y de nuestras empresas adherentes, ha sido el eje de nuestro trabajo por más de cuarenta años.
The competition to stay on the cutting edge and solve problems as they arise is fierce. Projected sales are worked out years in advance as is what and how much clients will need in the future.

Perhaps there will be a drought requiring a seed variety that can survive on less water, or a sudden mutation of a disease thought to be long since eradicated. The point is the obstacles are themselves evolving and if, through research, a company can produce a seed that is resistant to a pest that is laying waste to its competitor’s, it will have the upper hand.

In the end these are strategic maneuvers to capture market share, which is why companies dedicate considerable time and money to research.

Arica’s role in this global chess match is to accelerate the process. For Pioneer, the future value of its research investment far outpaces production, Alessandri said.

“You can see why investing in Arica is very important for the future of the company worldwide.”

Aaron Nelson is a freelance journalist based in Santiago.
Congratulations on the Bicentennial of Chile
The Great Corporate Debate 2010: Rebuilding Chile

AmCham’s annual debating competition, The Great Corporate Debate, is a chance for young Chilean executives to practice their English and polish their public speaking skills.

By Michael Combes

In a state of emergency,” such as that declared in parts of Chile following last February’s earthquake, “the government should immediately send troops into the area to maintain law and order.” That was the motion successfully opposed by a team from the Foreign Ministry’s General Directorate of International Economic Relations (DIRECON) in the final of the Great Corporate Debate 2010 held on August 18.

Organized by AmCham, and sponsored by local newspaper El Mercurio, the spirited and emotional final – between DIRECON and a team from local retail group D&S - was held at El Mercurio’s offices before a packed house including DIRECON’s head, Jorge Bunster, and the Minister of Foreign Affairs, Alfredo Moreno.

Not only was the debating standard exceptionally high, but the entire competition was held in English with no native speakers allowed on any of the four-member teams.

In addition to the two finalists, the other six teams that entered this year’s competition were Seguros Interamericana, 3M, Codelco, Sheraton, Ripley, and Parque Arauco. The Interamericana and 3M teams were defeated in the semifinals by DIRECON and D&S respectively.

This is the first year that teams from the public sector (DIRECON and Codelco) have entered the competition and they were impressive in an event usually associated with the private sector. AmCham hopes both teams will be back next year along with possibly even more teams from the public sector.

The debate motions, or moots, were all based on the theme “Rebuilding Chile” in recognition of the hardships suffered by Chileans since the devastating February earthquake. Some moots were related to reconstruction, such as whether this should be based on government loans and credit guarantees rather than handouts, while others focused on how Chile could be better prepared for future natural disasters, for example by improving construction standards.

The early rounds were held in a round robin format comprising two groups of four teams with each team debating the other three in their group. The top two teams in each group advanced to the semifinals with the two winners proceeding to the final.

The award for Best Debater went to Andrés Lopez of Parque Arauco who earned the highest combined score in the preliminary rounds and won a weekend for two courtesy of the Hyatt Hotel.

DIRECON’s team won a trip to the United States courtesy of American Airlines, but generously donated their prize to Hogar de Cristo in recognition of the charity’s work following the earthquake. The Ministry of Foreign Affairs will display the AmCham Great Corporate Debate Cup in their offices until next year when the DIRECON team will have a chance to defend their title.

The jury for the final consisted of nine distinguished public figures: Kathy Uribe, in representation of the Minister of Economy, Juan Andrés Fontaine; Alejandro Ferreiro, former Minister of Economy; Vittorio Corbo, former president of the Central Bank; Paulina Dittborn, president of the Chilean-North American Institute of Culture; Juan Carlos Délano, president of the Chilean branch of Transparency International; María Olivia Recart, former Undersecretary of Finance;
Andrés Velasco, former Minister of Finance; Drina Rendic, former vice-president of the Corporación Cultural de lo Barnechea (COBA) where she organized an interuniversity debating competition; Álvaro Fischer, former president of the Chilean Engineers Institute; and Soledad Arellano, an economist and consultant at the Inter-American Development Bank.

Promoting Public Speaking Skills

The AmCham Great Corporate Debate has two main aims. The first is to give young Chilean executives practice speaking English publicly in a competitive environment. The second aim is to promote public speaking skills through debating techniques.

Businesspeople are often required to speak in front of groups including their employers, board members, or potential clients. And all of these situations involve using communications and persuasion skills. The AmCham competition included instruction and training for competitors in debating techniques, public speaking, and how to prepare a convincing presentation. The results of this training were noticeable throughout the tournament, as was the old adage that practice makes perfect.

 Debating is especially good training for executives since debaters may find themselves forced to defend or refute a motion in which they do not necessarily believe. This makes the exercise much more interesting since it requires even greater skill.

Every speaker has a set time, which is indicated to them and the audience by a traffic light device that turns yellow when there is 30 seconds left and red when the time is up. Going over time is penalized by the judges, which encourages the debaters to keep within their limits and ensures the debates are entertaining.

The AmCham Great Corporate Debate has finally come of age and made its presence felt in the business community. Chile is not a country with a highly developed debating culture, a point that was forcefully made by Vittorio Corbo at the final. In his closing comments, Corbo added that the debate culture must be developed at the school level and he hoped that competitions such as this, and the COBA interuniversity debates, would inspire Chile’s educators to add debating to their school activities. AmCham hopes so too.
CEO Lunch

On August 6, AmCham held its monthly CEO lunch at the Radisson Hotel with special guest speaker, the Undersecretary of Finance, Rodrigo Álvarez. CEOs from AmCham’s members heard Álvarez speak about the Finance Ministry’s priorities and plans.

Direcon Wins The Great Corporate Debate 2010

A team from the Foreign Ministry’s General Directorate of International Economic Relations (DIRECON) won the final of the AmCham’s Great Corporate Debate on August 18 against a team from local retail group, D&S.

Before a packed house at the offices of newspaper El Mercurio, including Foreign Affairs Minister Alfredo Moreno, the teams debated the motion “that when a state of emergency is declared by the President, the Armed Forces should be send in immediately to maintain law and order.” The DIRECON team opposed the motion.

Before the debate, which was conducted completely in English, AmCham vice-president Charles Kimber highlighted the importance of English for professional advancement, while Juan Jaime Díaz of El Mercurio praised the annual competition as beneficial not just for the participating companies, but for the whole country.

“DIRECON’s victory shows that there are excellent professionals in Chile not only in the private sector, but also in the public sector with its emphasis on vocation and service,” said the team’s leader, Felipe Sandoval.

AmCham would especially like to thank Michael Combés, president of the Great Corporate Debate 2010, and Drina Rendic, a judge in the final and a member of the National Arts & Culture Council, for their work in organizing the event this year.

For a full report on the debate see the Spotlight in this issue on page 30.

Direcon Wins The Great Corporate Debate 2010

Jaime Bazán, AmCham; Fernando Hurtado, AmCham’s Labor and Human Capital Committee and María Cecilia Sánchez, National Labor Service

Finance and Capital Markets

Pablo Correa, the Finance Ministry’s coordinator of capital markets, was the guest speaker at AmCham’s Finance and Capital Markets Committee meeting on August 25.

Correa spoke about the challenges of the Bicentennial Capital Markets Agenda (MKB), which aims to integrate Chile’s capital markets with international markets, improve the regulatory framework, promote innovation and adopt best practices regarding financial supervision, corporate governance in state-owned companies, and consumer protection.
AmCham’s Guide to Congress

AmCham has published a new Guide to Congress with information about the members of Chile’s lower house – the Chamber of Deputies – and the Senate. The guide is designed for Chileans who want to know more about how their legislature works and for foreigners looking for contacts in the government.

NEW MEMBERS

Hiller Inversiones
Entertainment Industries
Peter Hiller / President

Fidegroup
Education & Training Consultants
Pablo Vilches / General Manager

Flowserve Chile
Engineering & Construction
Juan Carlos Morena / Regional Sales Manager

Dimension Data Chile
Business Related Services
Alberto Mordojovich / Country Manager

Aromencils
Cosmetics & Health Products
Juan Carlos Gómez / Manager

Solunegocios
Consultants
Carlos Espinoza / Corporate Affairs Manager

Simple Op
Computer & Related Services
Sebastián Acuña / General Manager

Micros Fidelio Chile
Computer & Related Services
Juan Maciel / General Manager

Farmacias Ahumada
Cosmetics & Health Products
Alejandro Rosenblatt / Vice President

Par Comunicaciones
Consultants
Monserrat Rivas / Commercial Manager

Soinpro (Viña Aresti)
Financial & Investment Services
Alejandro Irarrázabal / General Manager

Special Offers by AmCham Partners

AmCham has signed an agreement with the travel agency Carlson Wagonlit Travel to offer discounts to AmCham members. Additional savings and special offers are available for business travelers. If you are planning a vacation call 374-7741 or 374-7560 in Santiago. For help planning a business trip call 374-7566 or 374-7510 and speak to Carolina Fazzio or Sebastian Vicuña.

Jessup Debating Competition Meeting

On August 17, AmCham hosted a meeting between the Universidad de los Andes team that won the Chilean round of the international debating tournament known as the Philip C. Jessup International Law Moot Court Competition, and law school students from around the country.

The Los Andes team spoke about their experience including their preparation and participation in the international stage of this year’s competition held in Washington DC where they reached the quarter finals out of 105 teams from around the world.

AmCham organizes the national component of the competition annually with the aim of encouraging young people to practice their English and public speaking skills.

Students from Universidad los Andes speak about their Jessup experience
On August 9, President Sebastián Piñera inaugurated local firm Recycla Chile’s new state-of-the-art recycling plant in the Santiago community of Pudahuel. The plant, which recycles electronic and industrial waste, is the first of its kind in Latin America.

Accompanied by his Minister of Economy, Juan Andrés Fontaine, his Minister of Environment, María Ignacia Benítez, and Recycla Chile’s founder and CEO, Fernando Nilo, President Piñera noted that Chile recycles only a fraction of its waste but that the recycling business has potential to grow.

“Today Chile recycles between 1% and 3% of its electronic waste and, therefore, we have a long road ahead,” said President Piñera, who was awarded Recycla Chile’s E-Waste 2010-Bicentenary prize for promoting environmental legislation.

GeoPark to Invest US$300 Million in Magallanes

Latin American hydrocarbons exploration and production firm GeoPark plans to invest US$300 million in Chile’s Magallanes Region over the next five years to expand its operations.

GeoPark’s CEO James Park made the announcement during a visit by President Piñera to the firm’s production plant outside Punta Arenas in August. “We will keep looking for opportunities because the Magallanes region has important potential to produce hydrocarbons for the country,” said Park.

GeoPark, which began operations in 2006, is the only private oil and gas production firm in Chile. It has 30 wells currently producing 1,600 barrels of oil and 1 million cubic meters of gas per day, representing 30% of Chile’s total hydrocarbons production.

Universidad Mayor Accredited in the United States

After a five-year process, the U.S. Middle States Commission on Higher Education has accredited Chile’s Universidad Mayor, making it the first Chilean university to obtain this distinction.

The news was announced in August at a ceremony in the residence of the Chilean Ambassador, Arturo Fernández, in Washington DC. This certification will allow students from Universidad Mayor to obtain graduate or postgraduate degrees in the U.S. “The doors to American universities are open wide for our students,” said the university’s rector, Rubén Covarrubias.

UPS Small Business Competition 2010

UPS has launched the 2nd edition of the “UPS Entrepreneurial Spirit Prize,” open to small businesses in 14 Latin American countries including Chile. The contest closes on September 30 and the three winners will share US$50,000 in cash prizes and Hewlett-Packard computers.

“SMEs are the main motor of growth in Latin America and, as economies in the region begin to recover, they will play an important role,” said Joe Tavares, vice-president of marketing for the Americas region at UPS.

According to the Inter-American Development Bank, SMEs generate around 80% of the jobs in Latin America and an important share of the region’s GDP.

To register for the contest, companies should fill out a form at: www.ups.com/premiopyme.
President of GM South America Visits Chile

The president of General Motors South America, Colombian Jaime Ardila, visited with local Chevrolet executives and dealers in August, congratulating them on the company’s good results in the first half of 2010.

Ardila highlighted the solid leadership of the Chevrolet brand in the industry for more than 27 years and the recent launching of the new Spark GT. During a welcome dinner, the new general manager of GM Chile, Bruce Kauppila, said he is very satisfied with the company’s management.

“We expect a positive second half of the year in which Chevrolet will maintain its leadership in the Chilean market,” said Kauppila. Chevrolet has a 16.7% market share in Chile.

Grupo Coasin Launches Business Intelligence Unit

Chilean technology group COASIN has created a new Business Intelligence subsidiary with the aim of supporting its clients to make decisions related to new investment projects.

The unit is comprised of 10 consultants with extensive knowledge of project management and the company’s SAP software platform, which has 260 clients in Chile.

“This new area should generate business opportunities for COASIN because of the synergies between these types of businesses,” said Pablo Retamales, CEO of COASIN Business Intelligence.

Endesa Subsidiary Wins Brazil’s Top Environmental Prize

The Brazilian electricity distributor Coelce, a subsidiary of Spanish power firm Endesa through its Chile-based holding company Enersis, has won Brazil’s prestigious Chico Mendes Environmental Prize for its Ecoelce project which allows clients to deduct the value of recyclable waste from their electricity bill.

The initiative will also be included in the ‘Chico Mendes - Por um Fio’ 2010 Annual Environmental Report, and has been recognized by the United Nations for its commitment to sustainability.

The scheme began in 2007 and today benefits 236,000 socially vulnerable families in the state of Ceara where Coelce supplies electricity to over 3 million customers. To date, 8,140 tons of recyclable waste has been collected, generating a total US$540,000 in discounts for customers.

Finning Opens New Training Center

In August, Finning South America opened its new training center in Santiago’s Renca community. The center is designed to benefit the company’s employees, its clients and the country’s economic and social development.

“Above all we are creating opportunities so that hundreds of underprivileged young Chileans will have world class technical training, which will improve their prospects for employment and their quality of life,” said Finning South America’s president, Juan Carlos Villegas.

The center, which cost US$1.2 million to build, is equipped with state of the art technology and classrooms where up to 150 employees and clients will learn to operate Caterpillar heavy machinery such as bulldozers and excavators.

EXECUTIVE APPOINTMENTS

Manfred Loebel, Teradata’s Sales Executive for Chile and Peru

U.S.-based data warehousing firm Teradata has named Manfred Loebel as its Sales Executive for Chile and Peru in the Telecommunications, Media and Entertainment areas. He is a civil engineer from Diego Portales University and has worked at Quintec and Cencosud.

Fernando Pau, Senior Consultant for Mining at Boyden Chile

Human resources consulting firm Boyden Chile has named Fernando Pau as its Senior Consultant in the mining area. Pau has worked for Proveedora Industrial Mineral Andina (Pimasa), Scotiabank, Banco Santander, Servicios FCT, and SCM Vallemar Iron Company amongst other companies.
The Great Corporate Debate 2010 Final

On August 18, newspaper El Mercurio hosted the final of The Great Corporate Debate 2010 between teams from the Foreign Ministry’s General Directorate of International Economic Relations (DIRECON) and local retail group, D&S.
En el año del Bicentenario, nuestra esperanza también es de acero.

Esperanza en construir todos juntos un Chile cada vez mejor. Un Chile que cuida el medio ambiente y a quienes viven en él.

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The Interest in Chilean Pesos

By Mario Farren

While it is true that Chile is well known in foreign financial markets, government issued sovereign bonds, especially those denominated in pesos, were unavailable to foreign investors until recently. The government’s decision to issue US$500 million in 10-year peso-denominated bonds abroad on July 29 is important since it has created a valuable benchmark for Chilean companies that can now seek long-term financing more easily in foreign markets.

The first issuance of a peso global bond in Chile’s history received a warm reception in foreign markets. Tax and regulatory difficulties prevent foreign institutional investors from directly participating in the local market, but they can take positions in the Chilean peso through swaps. Since the yield on peso swaps is below that of comparable bonds, foreign investors demanded a lower yield on the government peso bonds than the yield demanded in Chile for similar instruments.

The reception in the U.S. and European markets was particularly enthusiastic, with orders seven times the amount offered and a yield 0.6% below that in Chile for paper of similar characteristics.

Developed countries generally issue debt in their own currency at long-term fixed rates. The fact that Chile has also taken this path is encouraging, but even more important is the placement’s impact on the economy through two main aspects.

The first is that, as Chile integrates its financial market with international markets, interest rates should fall generating a strong driver for investment. Taking the yield on the peso bond issue as a benchmark and applying it to the total public and private debt in local currency, equivalent to US$60 billion, we are talking about annual savings of US$360 million; in other words, half of the cost of Transantiago or the equivalent of ten hospitals like those being built after the earthquake.

The second aspect relates to the intention to “nominalize” the debt market and the economy in general. Our custom of pegging all kinds of contracts to the inflation-indexed unit, the Unidad de Fomento or UF, makes inflation more difficult to control as this feeds back into prices. Chile’s private institutional investors such as pension funds and insurance companies prefer to invest in UF instruments, but investing in external markets may prove to be a way out of this dilemma.

Chile’s capital markets are awash in UF instruments but corporate placements in pesos are scarce due to the weak appetite of institutional investors. In total, 79 series of bonds were placed in 2009 but only 12 of these were in pesos. Following the government’s recent placement, however, Chilean issuers can include access to international markets among their peso financing options, with the consequent positive externalities this brings.

Other instruments and markets could also benefit from the greater integration of capital markets. Local investors and companies seeking to hedge dollar, interest rate or inflation risks currently pay a premium for liquidity since tax and regulatory restrictions often limit them to the domestic market. But the government’s successful placement in July opens up new financing options and is another sign that Chile is serious about its aspirations to join the developed world.

Mario Farren is Manager of the Corporate and Investments Division at Banco de Chile.

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Elige las Soluciones Sostenibles de Arauco

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A nation’s defense supersedes any political divisions.

If anyone knows this, it is Chile’s Minister of Defense, Jaime Ravinet, who first held the post in 2004-2006 under former President Ricardo Lagos, and returned to the ministry in March this year as part of the Piñera administration.

Ravinet resigned from the center-left Christian Democratic Party to accept President Piñera’s offer in the interest of national unity, he told members and their guests at an AmCham breakfast in September.

“There were many things left pending,” said Ravinet, “but I also think this new government should have the support to be able to succeed.”

But Ravinet’s job has not been easy. The military has come under fire since the February 27 earthquake when its weaknesses were painfully exposed for all the world to see.

Not only did the navy’s tsunami early warning system fail, but the tsunami itself caused extensive damage to the Talcahuano naval base and troops failed to stop looters in the badly hit city of Concepción and surrounding areas.

“The earthquake stripped us bare,” said Ravinet. “We were without power, without communication, and it was really a wake up call for the security of our country in the wider sense.”

Making the military better prepared to deal with natural disasters is a key part of the minister’s ambitious agenda for the next four years.

The first big challenge, said Ravinet, will be to implement a new law to create an Undersecretary of Defense, who will be integral in the formation and implementation of an emergency response plan.

“We have an important opportunity to bring together academics and military personnel to generate an integral defense policy for our country,” said Ravinet.

This new policy will include a modernization of military technology and equipment, although Chile is way ahead of most countries in the region in this regard, said the minister.

Chile’s navy is the most advanced in Latin America. “Our submarines are the most powerful and efficient,” he said. “And with the sixteen F16s we will receive at the end of September, we will be the only country in Latin America with these new fighter jets.”

But there is room to improve. Ravinet recently penned an agreement with his Brazilian counterpart, making public the Chilean government’s wish to participate in the highly selective KC-390 military transport jet program headed by the Brazilian plane manufacturer Embraer. If successful, the program would generate an important flow of new technology into Chile.

Another aspect of the military’s new policy is meant to foment cooperation with foreign countries, especially to offer humanitarian aid during natural disasters.
To that end, a new Chile-Argentina peace brigade comprised of 500 soldiers from each country has been created that will be ready to respond to natural and humanitarian disasters around the globe. Similarly, the minister recently signed an agreement with the Chinese military to strengthen bilateral relations.

But as Ravinet attempts to make the military more modern and mobile, there will be some growing pains.

“This modernization process creates another problem which is the cost,” Ravinet said. “Obviously it’s a lot more expensive to operate a tank than to feed a horse.”

As state of the art military hardware flows into the country, trained personnel will be needed to operate it. But the ranks of Chile’s Armed Forces are filled with draftees who have not been trained to operate modern equipment.

Here, Ravinet called for a professionalization of the military.

“We have strong deployment and ultra new equipment, but the military career is the same as it was at the beginning of the 20th century,” he said.

But perhaps the biggest change could be in the way the military is funded. Since 1943, Chile’s military has been financed through the Copper Reserve Law, which establishes that 10 percent of the sales of state copper mining firm Codelco will be given to the Armed Forces.

In the short term it would appear that the armed Forces have gotten the better end of the deal, but over the long haul it means the fortunes of the military rise and fall in line with volatile copper prices.

“It’s totally absurd to finance defense needs linked to the price of a commodity, much less to a state company,” said Ravinet.

Without giving details, Ravinet said the idea is to replace the current financing system with annual contributions to the Armed Forces based on 15-year budget forecasts.

Additional tasks on the agenda include the launching of a new satellite purchased years ago but still out of use, and revamping the military justice system. But repairing the damage caused by the earthquake is the greatest challenge today.

To ensure the military is never caught unprepared again, Ravinet plans to create a central command structure, modeled after Spain and France, which is prepared to provide emergency assistance during a crisis caused by an earthquake, tsunami, volcanic eruption or other disaster.

“We have learned our lesson, we have to back up our communications and satellite systems,” said Ravinet.

Aaron Nelson is a freelance journalist based in Santiago.
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Internationalizing the Peso

By Julian Dowling

When President Piñera named him as his Finance Minister early this year, the Harvard-trained economist Felipe Larrain knew he was going to be under the spotlight but he could not have known how bright it would be until the earthquake struck on February 27. Tasked with financing the reconstruction, Mr. Larrain came up with a mix of sources including issuing peso and dollar denominated bonds in international markets. Chile’s first global peso bond issue in its history was a big success, obtaining low yields compared to similar instruments in Chile and opening the door for Chilean firms to access international financing in pesos. Mr. Larrain spoke to Business CHILE about the bond issue, how Chile is seen by foreign investors and the ministry’s strategy to improve the country’s financial supervision system.

Why did the Republic of Chile issue US$1.5 billion in global bonds last July?

These are fresh resources we can use to finance the reconstruction and we obtained them under exceptional conditions. With this bond issue we have also opened an important market for Chilean companies to obtain financing abroad in dollars and in pesos.

How was the bond issue received?

The reception in the market was extraordinary. The 10-year dollar denominated bond obtained a yield of 3.89%, the lowest in history since the first issue by the Republic of Chile in 1822. The bond issue in pesos for just over US$500 million obtained a nominal yield of 5.5%, nearly 60 basis points less than the yield for similar bonds in the internal market. This makes our fiscal financing cheaper and presents new and attractive possibilities for Chilean companies.

The last time Chile tapped international capital markets was in 2004. Was this a good time to issue sovereign bonds?

Despite what some said, it was an excellent moment because we are perceived as a country with solid macroeconomic policies, with very low risk and good growth perspectives. Also, our financing plan for the reconstruction has been internationally recognized as a balanced plan which has led international ratings agencies, like Moody’s, to raise our credit rating. All these characteristics resulted in a very high demand for our bonds and allowed us to obtain excellent credit conditions.

What has been the impact of the bond issue on the local market?

When we issued these bonds, we decided as a government to inject around US$1 billion into the Economic and Social Stabilizations Fund and leave over US$500 million deposited outside Chile, which we will bring to Chile only when necessary. This is a powerful sign about our concern for the macroeconomic effects. This measure was obviously aimed at taking pressure off the exchange rate, so that any variations are not related to the issue of these bonds.

After the success of this first issue, could Chile issue more bonds in foreign markets in the coming months?

As we have said, the decision to issue bonds was part of a balanced financing plan which uses multiple sources. From this perspective, we are completely open as far as future decisions regarding bond issues in foreign markets. In the future we could evaluate operations with similar or different terms to take advantage of the yield curve in the external market, but this is a decision the Finance Ministry will evaluate at the time.

You led a group of Chilean businesspeople to New York in July for Chile Day. How were you received in the United States?

We received an excellent reception and there is huge interest in Chile. On the one hand, there is a lot of respect for the way our country has recovered from the earthquake and, in particular, the financing package has been internationally recognized as being responsible and balanced, while looking to reduce unnecessary pressure on the exchange rate, interest rates and inflation. On the other hand, our country’s process of economic recovery and the pro-growth reforms we are implementing has generated a lot of interest.

In August, the finance ministry created the Financial Supervision Commission. What is the idea behind that?

The commission has already begun its work; it has met several times and has started to hold public hearings, which makes us very satisfied. Its objective is – before the end of the year – to deliver to the Ministry a study on the possible...
adjustments in institutional terms that could be applied to the structure of the financial supervision system.

But during the recent crisis Chile’s financial supervision system seemed to work relatively well. Why does it need to be revised?

Even though the system responded well to the crisis, its current design was proposed by the Kemerer Mission [named after American economist Edwin Walter Kemmerer] in 1925. As the financial system’s products and participants have become more sophisticated, we believe that it is also necessary to modernize the supervision model, precisely so that in times of crisis it can respond more efficiently. The focus is preventive, not reactive.

Organizations like InBest are working to integrate local and international capital markets to facilitate investment in Chile. What is the finance ministry doing to improve the access of Chilean companies to financing?

The integration of markets is one of the objectives in our Bicentennial agenda of reforms for capital markets, or MKB, being implemented by this administration. Concrete measures in this agenda include the bond issues that give a benchmark for sovereign debt that facilitates the access of Chilean companies to international financing. The internationalization of the peso is another of our goals – a first step was the bond placement denominated in pesos. In parallel, we are looking to attract foreign investors – both buyers of debt instruments and issuers - so that they participate more actively in the internal market. That means removing obstacles that hinder their access as well as working on a permanent agenda that promotes the advantages of our capital markets.

On a personal note, I imagine these first few months have been intense. How are you handling the workload after the earthquake?

They have been intense but amazingly energizing as well. The workload has increased a lot. Before coming here my agenda was 10-11 hours a day, now it’s 13-15 hours. But the important thing is that there is a lot of will to work for the country. And we have an excellent team in the Finance Ministry that allows us to manage the high workload. It also motivates us that we are starting to see the results of our work. business CHILE

Julian Dowling is the Editor of business CHILE
Two Hundred Years and Counting...

By Santiago Eneldo

What a year – and it ain’t over yet! We thought 2009 was bad enough with the worldwide financial crisis, which Chile survived remarkably well thanks to solid fiscal policies. Then, on February 27th, Chile was clobbered by one of the largest earthquakes on record, followed by a tsunami which poured misery on those already hit by the quake and those who were not; even those on Robinson Crusoe Island. The survival stories were remarkable and the national response was exemplary. Solidarity prevailed and Chile has emerged more united than ever before.

But the earth under our feet continues to test the mettle of Chile’s national character. After more than a month trapped 700 meters underground, 33 miners at the San José mine are ALIVE! The resilience of these men has captured the attention of the world and earned them a place on a list of heroes that includes Chile’s red-haired liberator Bernardo O’Higgins, the valiant Captain Arturo Prat, and many others who regularly put their own wellbeing on the line for their neighbors: police officers, soldiers, firefighters, paramedics, priests, passersby and the list goes on.

Of the last 200 years, this year has been one of the most difficult Chile has ever faced, but even in its “hour of darkness” the promise for the future is extraordinarily positive. So, why is this funny? Well it’s not but, at a time when a number of Latin American countries are celebrating their own bicentenaries, Chile is by all accounts an extremely good place to be, given the alternatives...

I am not Chilean by birth but I do believe in Chile, I vote in Chile and I pay taxes (as little as possible...) in Chile. Mrs. Eneldo is Chilean by birth, our three Eneldiños are Chilean and our one Eneldiñita is 100% Chilean; actually she is one quarter almost everything but still 100% Chilean.

Whether you’ve adopted Chile as your home or grown up here, the Bicentenary is a wonderful opportunity to bury the political hatchet and unite behind one flag, one anthem and a common desire for a better, kinder Chile with equal opportunities for all. This may say sound like a Party Manifesto but it is a momentous occasion. When will we have a better opportunity to shake the hand of our neighbor for the first time? To make the Mapuches feel truly welcome in their own country? For a child to believe he or she will receive a world class education? To put the words sustainable, renewable, recycle, clean air and safe streets into our everyday vocabulary?

If we buried time capsules now to be opened in 100 years, how would our descendants look back on us? How will history judge us compared to our neighbors and countries of similar size? Can we say we have done enough? Never! Have we done well? We haven’t done badly, but... Can we do better? Absolutely! I believe we are capable of much, much more if we set ambitious yet attainable goals. We should take our lead from countries like Norway, Finland, New Zealand, Costa Rica, South Korea, Ireland and even Vietnam, learning from their successes and failures.

On the downside (or upside?) of progress, yours truly could soon be made obsolete. By 2110 this article will be written by a robot in just three minutes flat (not eight hours of fretted misery...), edited by a super computer weighing less and a kilogram located in Mumbai and published by AmCham.worldpowerandinfluence.com on a “cloud” for all the world to read – in Mandarin!

Been there, done that, but I ain’t got the T-shirt yet....

¡Viva Chile!

I remain, pathetically patriotically yours,

Santiago Eneldo

(Prejudicial & patriotic blathering welcome at: santiagoeneldo@yahoo.com)
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