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Chile and Peru: Pacific Partners
Despite a dispute between Chile and Peru over their maritime border, both countries are working together to increase economic integration.

TRADE TESTIMONIAL
Success is Brewing
Chilean herbal tea brand Garden of the Andes has had to work hard to earn its place on the shelves of US supermarkets and specialty stores.

SECONDARY STORY
Protecting Pharmaceutical Patents
Chile’s Constitutional Court voted unanimously to reject an accusation that a bill to strengthen protection for pharmaceutical patents is unconstitutional.

COVER STORY
Chile and Peru: Pacific Partners
Peru and Chile are the most economically integrated countries in South America, but changes to facilitate the free movement of workers would help.

SPECIAL REPORT
Going Global: Chilean Investment Abroad
Chilean investment abroad has been concentrated in a few South American countries, but now Chilean companies are also investing in the US and beyond.

SPOTLIGHT
Chile and California: Partners for Prosperity
The annual meeting of the Chile-California Council was held in San Francisco in April and AmCham President Kathleen Barclay was in attendance.

ECONOMIC SNAPSHOT
Global Economics Update: Moderation Appears Temporary Growth in emerging economies, including Chile, as well as a resurgence in US growth, means the global economic recovery could pick up this year.

AMCHAM SPECIAL
Chile-US Opportunities in Sustainable Energy
In April AmCham hosted a roundtable on sustainable energy development that was attended by a US delegation from the renewable energy sector.

INTERVIEW
Marine Education and Conservation in Chile
Julie Packard, executive director of California’s Monterey Bay Aquarium, talks to bUSiness CHILE about the marine conservation challenges in Chile.

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LIFE IN THE SLOW LAN
Who Flung Dung?
Kim Jong-il, the baby-faced North Korean leader, is more interested in playing with his toys than starting World War III, writes Mr. Eneledo.

SPECIAL REPORT
Going Global: Chilean Investment Abroad
Chilean investment abroad hit a record in 2012 and the pace of growth is set to continue as local companies seek opportunities within the region and beyond.
Intellectual property protection has been an ongoing issue between Chile and the United States since the Free Trade Agreement (FTA) was signed between the two countries ten years ago.

The lack of adequate patent protection creates a problem for US companies selling their products in Chile, especially multinational pharmaceutical companies. But it also creates a problem for Chilean companies that invest heavily in research and then find that the lack of patent protection means that their products can be copied and sold cheaply in the local market. In effect this suffocates innovation, and not just in pharmaceuticals.

The government has presented a new bill in the Chilean Congress that addresses this issue and would strengthen the application of patent law and the protection this affords to companies that invest in research. But a group of Senators challenged the bill in Chile’s Constitutional Court on the grounds that it is unconstitutional. The Court recently handed down a unanimous verdict that the bill is in fact constitutional, thus clearing the way for its approval in Congress.

The argument against patent protection principally relates to the price the public has to pay for patented products. Patents restrict competition and allow the patent holders to charge higher prices for their products - prices that they argue are necessary to support the cost of expensive research in developing the product. The logic of reduced competition and higher prices is used strongly in the defense of cheap medicines, especially in countries where salaries are relatively low. The freedom of manufacturers to copy medical formulas without paying license fees allows them to pass on some or all of these savings to the public who then have access to much cheaper health products.

The counter-argument of course, says that without patent protection there would be no money available for research, and new medical products essential in the control and eradication of diseases would never make it to market.

The Secondary Story in this issue of Business CHILE explains this problem, the reasons behind it, and the importance of strengthening intellectual property protection in Chile. The subject is also closely linked with the Free Trade Agreement between the two countries, an agreement that links intellectual property protection to the development and growth of trade.

AmCham has always attached great importance to implementing and making more effective this protection, as a means of continuing to facilitate the growth of trade between our two countries. The recent court ruling referred to above is a big step forward, and it is hoped that Chile’s Congress will expedite the legislation in its hands as quickly as possible.
Success is Brewing

Chilean herbal tea brand Garden of the Andes has infused the thirsty US market, but keeping its teas on supermarket shelves has taken investment and creative marketing.

By Katie Manning

Fresh mint, daisy-like chamomile flowers, and fiery marbles of rosehip perfume a 500-acre farm on the hilly outskirts of the coastal Valparaíso Region in a town called Quilpué. The fields’ yearly tea harvest travels to cupboards in 25 countries under the brand Garden of the Andes.

Its parent company Cambiaso Hermanos, founded in 1875, has focused on warming up its organic tea exports in recent years. Colorful boxes featuring close-ups of Chilean-grown herbs now line the shelves of over 800 stores in the US alone. That’s up from 500 in 2005.

But Garden of the Andes didn’t race onto the US food scene. It first dipped into the market in 1998. Fifteen years of brand building and shelf-space skirmishes later, the company is just hitting its stride.

“In the past we invested a lot of money and this year it’s starting to make sense,” said Garden of the Andes Export Manager Hernán Peralta. “We would like to be in the market for the next 100 years. That’s our concept.”

But any Chilean company eyeing a slice of the US market should brace itself for hefty upfront investment and do its homework before getting into the ring with a US supermarket Goliath, Peralta advises. That’s how Garden of the Andes broke in. It’s also how the herbal teas earn their keep.

“We didn’t just prepare something and send it to the US. We studied the market,” said Peralta.

Peralta joined the company in 2000 and toiled for years crafting the company’s US image. He hustled between trade shows. He studied and analyzed growth potential with US marketing experts. He tracked down the most cost-effective distributors and brokers that he could find. He also hired a US advertising agency to revamp Garden of the Andes’ logo.

The company counted a landmark year in 2012 when it nabbed shelf space at three subsidiaries of US retail group TJX Companies: TJ Maxx, HomeGoods and Marshalls. The retail discounters helped hike Garden of the Andes’ annual profits by 60% last year. The tea maker has also predicted an 85% to 90% profit jump this year.

Still, despite the recent spike in earnings, Garden of the Andes battles to stay in the black and has yet to recoup its investment. “Right now the numbers are showing a profitable business (in the future),” said Peralta.

Bagging the right distributor

Garden of the Andes tackled distribution by approaching national US supermarket chains, teaming up with an organic distributor and targeting local distributors to get its teas into specialty shops.

The company hired United Natural Foods, the biggest distributor of organic foods in the US, to reach local health food shops on the East Coast.

Its teas also stack up in several grocery stores. Among these, Garden of the Andes counts Hannaford, a 167-store chain based in Maine, and Giant Eagle,
which has 400 stores in the eastern US.

The supermarket world can be cutthroat, according to Peralta. He says companies often shell out between US$20,000 and US$25,000 just to get a supermarket chain to make room for their product. If a product doesn’t keep up with the average sales in its category within 13 weeks, it’s out. No refunds.

Garden of the Andes competes with 450 other tea brands, many of which are organic. It can’t just bank on having a quality tea or good looks to stand out.

“You have to make sure you have a really good marketing strategy and promotional activities in order to move the product,” said Peralta.

On the West Coast, the company relies on a local gourmet distributor in southern California called M5 Corporation.

Given that most gourmet shops are facing a tight squeeze, the shops stock light and demand weekly deliveries. This costs a bundle to companies like Garden of the Andes. As a result, companies seek out distributors that truck a wide array of different products to the same stores to lower their costs.

Garden of the Andes aims to corral a network of ten distributors in each major US city. Without this, the freight fees would render it impossible to make a profit.

Another challenge is that, unlike in Chile and many parts of Latin America, a US distributor doesn’t share costs or hold hands through the marketing process. But Peralta attributes the company’s success in the US to a tireless marketing program and its effort to forge a symbiotic relationship with stores.

Garden of the Andes has given away thousands of samples, slapped together booths at trade shows, and dropped prices periodically to increase a store’s sales.

“There’s an experience curve. You have to learn the market a little bit,” said Peralta.

When customers leaf through coupon books from supermarkets that stock Garden of the Andes teas, they’ll regularly see a discount. This boosts sales, said Peralta.

But the company wants to steer the process from plant to teacup, which calls for a longer-term plan. “We are building the brand awareness. That is the most important thing for the future.”

**Catering to cultural preferences**

Garden of the Andes doesn’t just harvest herbs. It has also planted olive trees and, after waiting a year for the olives to ripen, the first bottles of its organic olive oil will soon ship to the US and Japan. In the US, the olive oil will debut in TJ Maxx and HomeGoods in the next three months.

The company is also laying out future plans to export honey once its organic honeycomb supply grows enough to keep up with supermarket demand.

Maintaining an adequate supply is particularly important in Asian countries where customers might not forgive a missed order, warns Peralta.

“Let’s say there was a port strike, and you’re delayed. In Japan, that’s your fault for not having your product on the shelf. You should have sent a container earlier just in case.”

Although quality tops Peralta’s checklist of what matters most worldwide, palates and preferences vary. European mouths water over a more bitter, heavier taste to their olive oil. North Americans prefer a lighter fare.

Along with flavors, design hinges on cultural context. This is key according to Peralta. He turned to a US company to apply a North American concept to the packaging and the website, which clarified the message and cleaned up the font.

But there are no cutting corners to make a buck in the supermarket world, Peralta said.

Market penetration requires stamina because, in the US, you sink or swim. Over 12,000 new products spring up each month around the world, according to market research company Mintel, and 85% to 95% fail. A company that proves to have an interest in its product’s longevity sets itself apart from the pack.

“We’re still here. That’s what’s important,” Peralta said.

Katie Manning is a freelance journalist based in Santiago
Protecting Pharmaceutical Patents

Chile remains on the USTR Priority Watch List of intellectual property delinquents, but a bill proposed by the Chilean government that would strengthen protection for pharmaceutical patents is a step closer to becoming law.

By Julian Dowling

Pharmaceutical companies invest billions of dollars in developing new drugs every year. The United States is by far the world’s leader in this regard as pharmaceutical companies there invested a total US$36.4 billion in research and development in 2011. Some of this research results in groundbreaking new drugs to treat afflictions like cancer, depression and Alzheimer’s, many of which are available over the counter in Chile. But in order for companies to recoup their investment in innovation, and thereby fund more innovation, their patents must be protected. Without protection any laboratory can, in theory, copy a drug and sell it, like a counterfeit CD or soft drink, without incurring the cost of research and development.

In Chile the pharmaceutical market is worth about US$2 billion annually. But, according to the Ministry of Health, patented brand name drugs only represented 41.3% of this market in 2012 and 12.3% by unit volume. The rest of the market is split between ‘similar’ drugs produced by a laboratory without a patent, private label drugs produced by a pharmacy’s own laboratory and generic drugs. Since brand name drugs are much pricier – around ten times the price of generic drugs – cost-conscious Chilean consumers often choose a cheaper version. When a patent expires, usually 20 years after it is filed, generic drugs certified as bioequivalent can be legally produced and sold in Chile. But there is a problem – some laboratories don’t wait for the patent to expire before they register new patents for drugs that contain identical active ingredients.

Understandably, big pharma is not happy about the situation. Under Chile’s Free Trade Agreement with the United States, signed in 2003, pharmaceutical patents in Chile must be protected. But given the lengthy judicial process required for companies to prove patent infringement in Chile, this protection has proven to be ineffective.

Chile’s shortcomings in intellectual property protection have not gone unnoticed. In May, the office of the United States Trade Representative (USTR)
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InTEllECTuAl propErTy

published its annual Special 301 Report and, for a seventh straight year, Chile appears on the Priority Watch List of countries that have failed to protect intellectual property adequately. The other countries on the list are: Algeria, Argentina, China, India, Indonesia, Pakistan, Russia, Thailand and Venezuela.

“Although Chile took some steps in 2012 to propose legislation, the United States continues to urge Chile to implement an effective system for addressing patent issues expeditiously in connection with applications to market pharmaceutical products,” said the report.

The problem is not limited to the pharmaceutical industry – the report also urges Chile to increase protection for encrypted satellite signals and to crack down on Internet piracy. But, according to the US industry association Pharmaceutical Research and Manufacturers of Americas (PhRMA), which recommended that Chile remain on the Priority Watch List this year, better protection of pharmaceutical patents and test data could prompt a review of Chile’s inclusion on the list.

Linkage bill

Despite Chile’s failure to properly protect intellectual property, there is reason to be hopeful. The legislation referred to by the USTR includes a bill proposed by the government of President Piñera that would modify Chile’s Industrial Property Law to increase patent protection for active ingredients in pharmaceuticals.

The legislation, known as the Linkage bill, was drafted by a government committee consisting of the Ministers of Finance, Economy, Health and Justice, and was submitted to Congress in January 2012.

But not everyone agrees that Chile needs such a law. In January, a group of Senators led by Fulvio Rossi and Francisco Chahuán of the Senate Health Committee presented a complaint to Chile’s Constitutional Court claiming that the bill is unconstitutional. They argued that the bill would increase prices of medication for consumers and is unnecessary since patents are already protected under Chilean law.

But President Piñera appointed a crack legal team, led by Chile’s former Ambassador to the US, Arturo Fermandois, to defend the bill. The result was that on March 22 the Court ruled unanimously (nine votes for, zero against) that the bill is constitutional. The decision clears the way for Congress to pass the bill, although as of May it remained on the floor.

According to Fermandois, the bill is needed for Chile to reform its patent application system and make it easier for companies to protect their intellectual property.

“It’s important because it provides the first effective tool for stopping the marketing and selling of pharmaceutical products that are not supported by patents,” explained Fermandois.

Under Chile’s current legal system, the burden is on the patent-holder to prove in court that a patent application infringes its own, but judges are often inexperienced in health matters and lawsuits can drag on for months before an injunction is granted.

“It’s an extremely sophisticated and technical area of knowledge and judges are often not willing to order an injunction,” said Fermandois.

“Research and development is what contributes to lowering costs in the health system, which is why ensuring the continuity of innovation is of vital importance.”

| Sandra Guazzotti, Oracle | This bill would create the first proper tool for stopping the marketing and selling of pharmaceuticals without patents.”

Arturo Fermandois,
Fermandois, Evans y Cía.
Part of the problem, explains Fermandois, is that the institution responsible for registering industrial patents in Chile, the National Industrial Property Institute (INAPI), is separate from the institution responsible for certifying the ingredients of new medications - the National Institute of Public Health (ISP).

The Linkage bill aims to solve this by making the ISP responsible for both keeping a registry of patented active ingredients – similar to the US Food and Drug Administration's Orange Book – and stopping new patent applications when they contain one or more of these ingredients. The combination of these two functions – keeping a public registry of patents and suspending the registration process when necessary – is what is known as “linkage”.

Since a judge will automatically issue an injunction if the application contains an active ingredient already registered, the bill effectively shifts the burden of proof from the patent-holder to the patent seeker. “There is a presumption of infringement,” said Fermandois.

Chile’s pharmaceutical laboratories say this is unfair and they argue it would hike prices for consumers. According to José Luis Cárdenas, a legal advisor to the board of the Chilean Association of Pharmaceutical Laboratories (ASILFA), an automatic mechanism to block generic drugs means that consumers or the Chilean State will be forced to pay “monopolistic prices” for medication.

“Even if the judge is convinced there is no patent violation, he must suspend the sanitary registration of the generic. Reasonable? No,” wrote Cárdenas in a column published in the newspaper Diario Financiero.

But an injunction does not necessarily mean a patent will never be granted. The suspension is a preventative measure for up to one year and can be lifted if the applicant presents two independent reports showing the medication does not violate any existing patent.

As for the opposition’s claim that the bill will increase prices for medication in Chile, Fermandois says the Piñera government has committed resources to make sure this doesn’t happen, at least in the public health system.

“If prices are the consequence of an unfair or distorted market, then there are the tools in our legal system to correct that distortion,” he said.

**Promoting innovation**

The bill is not only aimed at protecting the intellectual property of multinational pharmaceutical companies. It is also designed to promote Chilean innovation, which is key for the country’s continued economic development.

“Any developed country requires strong innovation power and we won’t have that without effective protection of intellectual property,” said Fermandois.

According to Sandra Guazzotti, CEO of Oracle Chile and director of AmCham’s intellectual property working group, the bill is very important for Chile’s innovation agenda.

“In order for there to be more innovation in Chile, innovators need greater legal security regarding intellectual property,” she said.

The bill would create the legal stability for intellectual property that is a “basic and fundamental” requirement in order to stimulate research and development, she pointed out.

In addition to Chile’s FTA with the US, Article 19 of Chile’s Constitution establishes a special right to intellectual property. This is backed up by the Intellectual Property Law, created in 1970 and modified in 2010 under the government of former President Bachelet, which guarantees patent and copyright holders the exclusive right to benefit from their products.

But this is insufficient. Chile needs effective tools to make sure this right is enforced, said Fermandois. In this regard, the ruling by the Constitutional Court is the first to formally recognize the obligation of the Chilean legislative to fulfill its constitutional mandate to protect intellectual property.

Crucially, it could also have a positive impact on Chile’s foreign relations. The issue of linkage in regard to pharmaceuticals is one of the items being discussed by the United States and Chile as part of negotiations for the Trans-Pacific Partnership (TPP) agreement. This multilateral trade initiative in the Asia-Pacific region aims to be a high-standard agreement and protection for intellectual property is a key pillar.

According to Fermandois, the recent ruling is not directly related to the TPP talks, but the bill’s eventual approval by Congress would be a significant step forward by showing the government’s will to better protect intellectual property, said Sandra Guazzotti.

It remains to be seen if there is the political will in Congress to pass the Linkage bill before Chile’s presidential election this November, but it would be a healthy sign that Chile is serious about protecting patents. And that would be welcome news for innovators in both Chile and the United States.

Julian Dowling is Editor of bUSiness CHILE
Despite a maritime boundary dispute between Chile and Peru that has reached the International Court of Justice in The Hague, the South American neighbors have much to gain from closer economic integration and the free movement of workers.

By Julian Dowling

Until recently, many Chileans would not have been able to point to The Hague on a map. But last December the coastal Dutch city, known as La Haya in Spanish, was the focus of blanket media coverage as hearings related to Peru’s maritime dispute with Chile got underway at the International Court of Justice.

Lawyers for both sides – dressed in traditional wigs and red robes – wrapped up their closing arguments just before Christmas and the Court’s decision is expected by August. But now Chile faces another legal battle in The Hague. In April, Bolivia announced its decision to take Chile to court over its land border.

Both disputes date from the 19th Century when Chile defeated Peru and Bolivia in the War of the Pacific, and seized territory including lucrative nitrate deposits that helped to fuel Chile’s economic growth.

Peru claims that its maritime border with Chile was never formalized and that a huge swath of Pacific Ocean, teeming with anchovies and other fish used
Pedro Reus, Chile-Peru Business Council

"Chile and Peru have much to gain from economic cooperation and partnership, but first we have to leave the past behind."

This is not the first time Chile has quarreled with its neighbors. Chile nearly went to war with Argentina in 1978 over a group of islands off the southern edge of Tierra del Fuego. But this time, at least in the case of Peru, the risk of war seems remote. Chile has vowed not to cede any of its territorial waters, but both sides have said they will accept the court ruling.

Meanwhile, it is business as usual. “The issue of the maritime dispute (in The Hague) has not affected business at all,” said Pedro Reus, executive director of the Chile-Peru Business Council, which was formed by former Presidents Ricardo Lagos and Alejandro Toledo in 2004 to promote business between the two countries.

“On the contrary, the figures show the opposite, there has been more trade and investment, both by Chilean companies in Peru and Peruvian companies in Chile,” said Reus.

Make peace-co, not war

It helps that the two countries share a similar outlook. Peru lags behind Chile in economic development, but like its neighbor it has a natural resource-based...
export economy with large mining and agriculture sectors. It also offers a stable regulatory and political environment and a network of free trade agreements, including agreements with Chile and the United States that both came into force in 2009. This similarity in approach has helped to accelerate economic integration, said Reus.

“There are no two countries in Latin America that are more integrated than Chile and Peru,” said Camilo Navarro, director of the Peru office of ProChile, the Chilean government’s trade promotion agency.

The figures back this up. Total trade reached US$4.07 billion in 2012, which is just off the peak reached in 2011, and ten times higher than a decade ago. Over 2,000 Chilean companies export goods and services to Peru and, importantly, these exports are highly diversified. After the United States, Peru imports the second highest number of Chilean products of any country in the world (2,827 last year).

Bilateral trade slipped slightly in 2012 due mainly to lower prices for fuel, which Chile – a refiner of petroleum products – exports to Peru and other countries in the region. Even so, “Peru is the most important market for Chile in the region in terms of non-copper products,” said Navarro.

And it is growing fast. In the decade 2002-2012, the Peruvian economy almost doubled in size while real GDP grew at an average annual rate of 6.3%, the highest 10-year average growth in Peru’s history and one of the highest rates in South America.

This growth is at least partly due to Chilean investment. Total Chilean investment in Peru reached US$11.63 billion in 2012, the fourth highest in the region, while Peruvian investment in Chile totaled US$7 billion. That’s up from combined investment of US$3 billion ten years ago.

“There has been a very significant increase in investment since 2004, even with the case in The Hague, which is unprecedented,” said Juan Eduardo Errázuriz, president of the Chile-Peru Business Council and of Chilean engineering firm Sigdo Koppers.

Chilean investment in Peru has been concentrated in retail and services. Retailers Ripley, Falabella, Cencosud and Casa & Ideas have all expanded into Peru in the last decade. In 2007, Cencosud bought the Peruvian supermarket chain Wong for US$500 million and Entel recently agreed to acquire Nextel Peru for US$400 million. Chile’s national airline LAN also has a regional hub in Lima.

Today over 250 Chilean companies are present in Peru, around half of which have arrived in the last three years. Most of the new arrivals since 2010 have been small and medium-sized enterprises, mainly providing services in Peru’s mining, construction and agriculture industries.

“There is an important opportunity for Chilean companies in Peru,” said Reus.

Linking up

For Chilean companies constrained by the size of the domestic market, investing abroad is a way to generate value for shareholders. But entering a new market requires economies of scale. “If companies want to keep growing and achieve economies of scale they need to internationalize,” said Reus.

Trade agreements are important in this. Chile and Peru are both members of the Trans-Pacific Partnership, a proposed free trade agreement that includes the United States, as well as the Pacific Alliance, a trade initiative signed last year that includes Colombia and Mexico. This initiative, which is in an early stage, aims to facilitate economic integration and the free movement of people.

Some progress has been made. The stock markets of all four countries were recently integrated to form the Latin American Integrated Market (MILA), which allows investors to trade shares in any stock exchange. “This is a huge step forward,” said Errázuriz.

The Alliance also aims to implement cumulative rules of origin, but some Chilean companies are already taking advantage of synergies with Peru to export to third-party countries, explains ProChile’s Navarro.
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One example is The Foodlinks, a Chilean firm founded in 2009 by the local Invertec group, as a platform for exporters to sell products in China. The company initially received support from Chile’s economic development agency, CORFO. In 2012, Peru’s Credicorp group bought a 30% stake in the company and The Foodlinks opened an office in Lima.

China, with its growing middle class, imports more than US$70 billion in food annually and, according to The Foodlinks CEO Gonzalo Mena, partnering with Peru to meet this demand makes good business sense for Chilean exporters.

“China is a huge consumer so it makes sense to increase integration in Latin America to meet this demand,” he said.

One Chilean company on its own could never meet China’s demand, and forming a group within Chile is tricky because of domestic competition, but partnering with companies in Peru can generate the economies of scale needed to penetrate the Chinese market, Mena explained.

Peru’s food industry is around half the size of Chile’s, but in certain areas the two countries complement each other, said Mena. For example, since grapes ripen earlier in Peru than in Chile, these can be exported to China first, which allows Chinese importers to receive a permanent supply of fresh fruit nearly year round from Latin America.

Peru is also an attractive market for Chilean agriculture companies to invest since it offers lower wages, lower energy costs, a warmer climate, cheaper agricultural land and easier access to water for irrigation, said Mena.

“Chile has a very good export model and the level of technological development is world-class, but Peru is catching up,” said Mena. “Peru is like Chile around 10 or 15 years ago.”

Another area of integration is tourism. Peru is the top destination for Chilean tourists who go not only to visit attractions like Machu Picchu, but also to enjoy Peru’s world famous cuisine. “Peru has combined tourism and gastronomy well, which has contributed to its image abroad and we can learn a lot from this,” said Reus.

Mining services are also becoming more integrated. Sigdo Koppers has formed a joint venture with Peru’s Brescia group to build a petrochemicals plant in Peru’s Pisco Province. They are also expanding in Brazil - last year, through their respective subsidiaries Enaex and Exsa, the companies agreed the acquisition of Brazilian explosives manufacturer IBQ Industrias Quimicas for US$120 million.

The double taxation agreement between Chile and Peru makes it easier for companies to form joint ventures, points out Errázuriz. And, for Chilean companies like Sigdo Koppers, the ability to create clusters of mining suppliers in Chile, Peru and Brazil is a “huge competitive advantage”, he said.

But apart from harmonizing tax regulations, deeper integration requires reforms to allow the free movement of people between the two countries, said Errázuriz.

Border trouble

Despite Peru’s rapid growth, it struggles with a large informal economy and millions still living in poverty. That is the main reason why thousands of Peruvians still come to Chile seeking a better life. There are now an estimated 200,000 of them resident in Chile, many of them working illegally in unskilled jobs.

“When (Peruvian) workers come here illegally, companies take advantage because they don’t exist under the law,” said Mena.

This is starting to change as recent Chilean immigration reforms have allowed Peruvians to normalize their visa situation, but more could be done to improve their working conditions, said Mena.

Enabling more Peruvians to work legally in Chile would also help to address Chile’s severe labor shortage, but both Peru and Chile need to invest more in training workers to obtain higher paying positions, especially in the booming construction and mining sectors, said Mena.

Chilean law currently restricts
the number of foreign workers to 15% of a company’s payroll, which is a problem especially for some mining companies in the north. Increasing this limit, if only in certain sectors, would benefit both Peruvian workers and their Chilean employers, said Reus.

“This is a good example of what could be achieved through deeper integration,” said Reus.

But immigration reform matters little if the main border crossing remains inefficient. Over 5 million people a year pass between the Peruvian city of Tacna and the Chilean city of Arica but the line-ups can be endless. Part of the problem is that people must pass through customs both leaving Peru and entering Chile or vice versa. An integrated customs window would facilitate the movement of people because they would only have to fill out one set of forms, said Reus.

According to Errázuriz, allowing workers to move more freely across the border would help both countries solve their labor shortage problem. “A greater flow of professionals would help us to be more efficient and generate economies of scale,” he said.

Cultural adaptation

Of course, the traffic is not all one way. More Chileans are also moving to Lima, particularly entrepreneurs who find their talents are in demand in Peru where there is less competition than in Chile.

According to Mena, Chilean agronomists and retail consultants, especially, are highly sought-after in Lima and other Peruvian cities because they bring with them know-how that has been developed over decades in Chile. “Chile had to learn all this from scratch, but Peru is developing quicker thanks to Chilean expertise,” he said.

But adjusting to the Peruvian way of doing business can be difficult, says ProChile’s Navarro, who encourages Chilean companies planning on entering the Peruvian market to prepare for a different business climate. “We think that just because we speak the same language we have the same way of doing business, but that’s not true,” he said.

Chilean companies, like The Foodlinks, tend to hire Peruvians to run their local operations since they know the customs, but for Chileans who work in Peru there is a steep learning curve, said Reus. That’s why the Chile-Peru Business Council offers courses for executives to help them adapt.

In general, the Chilean approach to business is direct and pragmatic, which is similar to

the US. But, according to Navarro, Peruvians are more like Asians in their emphasis on building relationships first.

“They want to become friends first and then later do business, whereas in Chile it’s the opposite,” he said.

The good news is that integration is gradually bringing the two countries closer together, both culturally and economically. “The only way to get over the trauma of the past is to move forward together,” said Reus.

Future cooperation could lead to integration in other areas like energy. Chile has some of the highest energy prices in the region and virtually no oil or gas of its own, while Peru has huge reserves of natural gas. If a pipeline could be built to serve both southern Peru and northern Chile it could bring huge benefits, said Navarro.

Peru’s border dispute with Chile has, ironically, drawn attention to the high level of economic integration. Despite the bellicose rhetoric from some Peruvian politicians, the dispute has served to generate valuable discussions at the political, academic and business levels.

Aside from these positive outcomes, the court battle has had little impact on the investment decisions of Chilean businesses. “In business the question is simple, will I make money or not?” said Mena.

Chilean companies realize that to offer the economies of scale that global markets demand, they must form alliances within the region and Peru is the perfect stepping stone. The same, of course, goes for Peruvian companies in Chile. For both countries, the future seems bright and the past, as they say, is history.
Going Global: Chilean Investment Abroad

Chilean companies are investing abroad like never before, with bigger deals and in a broader range of sectors. But despite rising Chilean investment in the US, they remain focused on a trio of South American neighbors.

By Tom Azzopardi

Last year was a record for foreign investment in Chile in every sense. Not only did inflows of foreign direct investment hit a record US$30.32 billion, up 32.2% from 2011, but outbound foreign investment – investment by Chilean firms in countries other than Chile – also hit a historic high of US$8.55 billion, a rise of 47% from 2011 and beating the previous record of US$6.35 billion set 15 years earlier.

Constrained by Chile’s small size, and flush with cash available at relatively low interest rates, Chilean firms are seeking bargains in foreign markets. Following the 2008 financial crisis and the debt crisis in the Eurozone, such opportunities are easier to find. Hit by miserable growth and debt problems at home, many European firms are looking to sell valuable assets in South America to bolster their weak balance sheets.

But while the size and scope of Chilean foreign investment has never been larger, Chilean companies remain heavily concentrated in a handful of South American neighbors. Brazil, Colombia and Peru account for more than 70% of the US$27.69 billion that Chilean firms have invested abroad during the last five years.

That should come as no surprise. Trailing Chile economically, these three countries have undergone huge transformations over the last decade or so, with the development of stable democracies and sensible economic and social policies, which have allowed their economies to expand while offering investors, from Chile and elsewhere, a new level of security and opportunity.

But that level of concentration could be cause for concern. For now, rising incomes and stable political scenes make Brazil, Colombia and Peru look like safe bets for investors. But a slowdown in global growth, a slump in commodity prices or a burst of inflation could quickly reorder the political situation, and makes things a lot less comfortable for foreign firms.
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Chilean investors have had their fingers burnt before. In the decade before its 2001 financial meltdown, Argentina accounted for more than 40% of Chilean investment abroad and the country still represents almost a quarter (23.6%) of all Chilean foreign investment undertaken between 1990 and 2012.

But after 2001, the pace of Chilean investment in Argentina slowed dramatically, largely in response to the changing economic and political outlook. Chilean companies have found themselves suffering the brunt of growing state intervention in the economy. Caps on electricity tariffs have forced Endesa Chile to write off some of its investment in power plants while Cencosud has found itself on the sharp end of Buenos Aires’ attempt to control consumer prices.

Argentina’s proximity and close ties with Chile mean that it will always attract significant investment. Last year, Chilean firms invested US$540 million in the country. But despite Argentina’s strong growth over the last decade, investment has never recovered to 1990s levels and accounted for less than 6% of total Chilean investment since 2008.

As a result, a growing number of Chilean companies are seeking opportunities elsewhere in the region and even further afield, either driven by the unique needs of their businesses, new opportunities or in the quest to turn their businesses into truly global operations.

The risk is wanting to stay

Colombia has taken off as a foreign investment destination in recent years as the country benefits from the winding down of the decades-long conflict against guerrilla movements and a boom in its oil industry. With a population almost three times that of Chile (47 million inhabitants) and a rapidly developing economy, Colombia seems a sure bet for Chilean companies seeking rapidly growing markets for their products. Last year, it accounted for US$5.32 billion, or 62% of last year’s record foreign investment by Chilean firms.

Barring major investments in hydroelectric plants in the mid-1990s by Chilean power generation companies Endesa Chile and AES Gener, Colombia has been almost completely absent from Chile’s foreign investments over the last two decades.

Today, however, retail is the biggest spender. Cencosud’s US$2.63 billion acquisition of the Colombian assets of French retail giant Carrefour, the country’s second largest chain, accounted for almost half of Chilean investment in Colombia last year. Department store chain Falabella and mall operator Parque Arauco are already present in the country, while Ripley, one of Falabella’s main rivals, opened its first stores there in April.

“The stores in Colombia are extremely important to our growth plans,” said Hernán Uribe, one of Ripley’s directors, at the company’s annual shareholders’ meeting in April.

Banking is also a promising sector that looks set to benefit from Colombians’ rising incomes. In 2012, Chilean financial group CorpBanca closed a deal to buy the Colombian business of Spain’s Banco Santander for US$1.23 billion.

Energy is another interesting market for Chilean companies. All three of Chile’s main LPG distributors - Lipigas, Abastible and Gasco - have built up businesses in Colombia, where demand for the fuel is expected to rise as families seek cleaner alternatives to woodstoves and
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paraffin. The Chileans also hope to profit from the consolidation of the local industry. Gasco, which has acquired seven firms controlling around a fifth of the market, now plans to seek synergies between them, by closing eight of its 16 filling plants.

But the largest move has been Chilean fuel and forestry conglomerate Copec’s gradual takeover of Colombian fuel distributor Terpel. Limited by competition rules at home, where it already controls almost 60% of the service station market, the deal gives Copec exposure not only to Colombia, but also to Ecuador, Peru, Panama and Mexico.

Shopping in Peru

The rush of Chilean firms into Colombia follows their incursion into neighboring Peru’s retail sector over the last decade, where Falabella, FASA and Cencosud are already established operators. Now firms from other sectors of the Chilean economy are eyeing Peru’s growing middle class.

Where retailers once led, others are following. Parque Arauco and fellow mall operator Mall Plaza been have joined by construction firms like Echeverría Izquierdo and Salfacorp. Now Vidrios Lirquen, which produces sheet glass for the construction sector, is planning to invest US$200 million in a new glass plant in Peru.

In April, mobile phone operator Entel announced the acquisition of Nextel Peru for US$400 million. The company has been present in the country since 2001, operating a call-center and a business-to-business telecommunications operation, but the Nextel deal includes a license to provide cellular telephony services. As well as Peruvians’ rising income, the company sees an opportunity in breaking the cozy duopoly controlled by Claro and Movistar, its rivals in Chile.

“There are just two big operators in the market and we think that means there is space for us,” said Entel President Juan Hurtado at the company’s 2013 annual general meeting.

AFP Habitat, one of Chile’s largest private pension fund administrators, has also broken into Peru, recently winning a tender for all new affiliates who join the pensions system over the next two years by offering lower commissions than the competition.
With around 350,000 individuals joining the workforce annually, Peruvians could soon represent around a third of Habitat’s affiliates, not counting those who are enticed to switch pension providers by the lower tariffs.

“The level of affiliation is still very low compared to the size of the workforce so the pension system is still in the development stage which, together with the level of economic growth and employment, offers an interesting outlook,” said AFP Habitat President José Antonio Guzmán.

But for Chilean companies seeking stellar growth, Brazil remains the target. With a population of almost 194 million and the world’s sixth largest economy, the country offers Chilean investors opportunities and challenges on another scale.

So far, among Chilean retailers only Cencosud has dared to take the plunge, which has been building up its supermarket business in the country since 2007. Its acquisition of the Prezunic supermarket chain in 2011 made it Brazil’s fourth largest operator, close on the heels of giants Carrefour, Walmart and Pão de Açúcar.

Another company seeking scale in Brazil is forestry giant Empresas CMPC. Late last year, the firm approved a US$2.1 billion investment to build a second pulp mill in Rio Grande do Sul, the largest in its history. The Guaiba II project will increase the company’s pulp output to over four million tons a year, making CMPC the world’s second biggest pulp producer ahead of local rival Arauco.

**Sweet grapes**

Increasingly globalized companies are also eyeing opportunities beyond the region, and today the most popular destination for Chilean foreign investment outside South America is the United States.

Since 1990, Chilean investment in the US has totaled US$4.82 billion, or 7% of the total, while last year it overtook Argentina to rank fourth behind Colombia, Brazil and Peru. The recent financial crisis in the US has also offered Chilean investors the opportunity to snap up assets at competitive prices.

One of the biggest acquisitions has been Concha y Toro’s US$238 million purchase of Fetzer Vineyards, one of the biggest wine producers in the US.

Chile’s biggest wine producer saw an opportunity in Fetzer as, although it is a well-known brand in the US, its star had faded at the hands of former owners Brown-Forman, which is best known for producing Jack Daniel’s whiskey.

“We found a company that had lost its momentum a little and our mission is to prove our commitment to the industry and win back Fetzer’s clients,” said Blanca Bustamante, head of corporate communications at Concha y Toro.

During 2012, the company focused on developing a dedicated nationwide sales team for the winery and overhauling its brands. And the results are becoming clear. Sales in the final quarter of last year were up 12.3% year-on-year, against a decline of
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23.1% in the first three months of 2012 compared to the same period a year earlier.

Although the US may be the world’s largest market for wine, it is far from reaching maturity, says Bustamante. Annual demand has grown by more than 50% since 2000 to 360 million cases.

Moreover, rather than cannibalize Concha y Toro’s sales to the US, Fetzer compliments them. While Concha y Toro’s exports are focused on the US Northeast, Fetzer is best known in its home state of California and neighboring markets.

Teaming up with Concha y Toro, one of the world’s biggest wine groups has also opened new export markets for the Fetzer stable of products. The company’s Bonterra brand of organic wines has been a particular hit among Scandinavia’s environmentally minded wine lovers, points out Bustamante.

Building a US presence

Last year also saw two of the biggest ever investments by Chilean companies in the world’s largest economy. Forestry giant Arauco continued to expand its North American timber business with the US$242 million acquisition of Canada’s Flakeboard, which controls five plants in the US, and followed its 2011 purchase of a board plant in Moncure, North Carolina, for US$56 million from Uniboard.

Another forestry firm eyeing opportunities in the US is wood board producer Masisa. After the recent acquisition of Mexican producer Rexcel, it plans to triple annual board production in Mexico to around 450,000 cubic meters over the coming years, not only to meet the domestic demand where per capita consumption remains historically low, but also to export within North America.

“[Mexico] is a good platform from which to serve other markets such as the United States, where demand is growing steadily,” said Masisa CEO Roberto Salas.

Another major investor in the US has been Molymet. Already one of Chile’s most globalized companies with plants in Belgium, China, Germany and Mexico, the company last year announced a US$390 million investment in Colorado-based mining firm Molycorp. Molymet, which controls a third of the world’s supply of molybdenum, hopes the deal will give it exposure to the growing market for rare earths, which is tightly-controlled by China.

The recent slump in mining stocks and changes in Chinese trade policy have sunk Molycorp’s share price, forcing Molymet to write off some of the investment. But it has doubled down its wager on rare earths, taking advantage of the cheaper share price to increase its stake in the firm to 20%.

Another potential Chilean investor in the US is Antofagasta Minerals, which is looking to develop the Twin Metals copper and nickel deposit in Northeast Minnesota. The project, however, is at an early stage of development and any opportunities uncovered in the US will have to compete for investment with exploration projects in Chile and around the world.

Antofagasta’s portfolio of projects reflects a trend among Chilean companies to seek opportunities worldwide. As Chilean businesses have expanded, they have outgrown their limited domestic market and increasingly sought opportunities throughout the Americas. The next stage will see a growing number expand beyond the region to become truly global businesses.
In mid-April the third annual meeting of the Chile-California Council was held in San Francisco with the attendance of Felipe Bulnes, Chile’s Ambassador to the US, and Alejandro Wolff, the US Ambassador to Chile, as well as Chile’s Undersecretary of Economy, Tomás Flores. AmCham Chile is a member of the Council and was represented by the Chamber’s president, Kathleen Barclay. The Council, a public-private partnership of business, academic and government leaders from both California and Chile, was established in 2010 during President Piñera’s trip to California. Building on the Chile-California Plan that was initiated in 2008 by former President Michelle Bachelet, it is based on the strong ties developed in the mid-1960s between the State of California and Chile.

The Council represents a new take on foreign relations – developing closer ties with specific states within the United States to increase the breadth and depth of our bilateral relationship. As Chile’s relationship with the United States moves more towards investment, this type of agreement gives Chile a competitive advantage in developing a richer relationship based on strategic areas of interest – education, innovation and agriculture in the case of California.

The work of the Council is completed through four committees focusing on education, innovation and technology, environment and urban development, as well as sustainable agriculture. Agustín Huneeus, a Chilean winemaker now based in Napa Valley, serves as chair of the Council.

The Council’s most recent success was the launch of a marine education program through a partnership between the Catholic University of Chile, the Austral University, and the Wildlife Conservation Society. Funded by the Packard Foundation of California – developers of the Monterey Bay Aquarium – the program, known as ‘Chile is the Ocean’ (Chile es Mar), seeks to develop education to promote understanding of the importance of the sea to Chile, thereby promoting its conservation and sustainable development.

The initiative was launched in early April in Santiago with the presence of Julie Packard, executive director of the Monterey Bay Aquarium, (see Interview on page 40) and was initiated through the efforts of Isabel Valdés, a member of the Chile-California Council. The roots of the partnership date back to an
agreement signed between UC Santa Barbara and the Wildlife Conservation Society in 2010 at the time of President Piñera’s trip to California – an agreement that AmCham helped to develop.

During the mid-April visit to California, Undersecretary Flores signed a Memorandum of Understanding between UC Berkeley and a group of Chilean universities to carry out joint research. The MoU, which builds on a 2008 agreement that has enabled more than 200 Chilean students to pursue graduate studies at UC Berkeley, seeks to accelerate the exchange of students, scientists, and researchers. The program will be administered by UC Berkeley’s Center for Latin American Affairs. This was another initiative launched through the Chile-California Council.

The meeting also included a presentation by California Lieutenant Governor Gavin Newsom, the keynote speaker at the Council’s lunch. Lt. Governor Newsom has had a prestigious political career with a strong background as an entrepreneur having worked very effectively with social media. His presence at the meeting was an indication of the political support for the agreement from California.

Looking to the future, there is much yet to be accomplished. We at AmCham will be working to build business opportunities, particularly in innovative areas such as renewable energy and biotechnology. Working together in a public-private partnership under the umbrella of the Chile-California agreement, we believe that much can be achieved.

Kathleen C. Barclay is president of AmCham Chile and principal of the consulting firm Asesorías KCB Ltda.
On April 15, AmCham hosted a breakfast in honor of the visit to Chile by the Governor of Pennsylvania, John Corbett. A group of about 30 people accompanied the Governor including businesspeople, representatives of the tourism sector, universities and the energy area. This mission had the objective of enhancing the relationship between Pennsylvania and Chile, focusing on the creation of new economic opportunities and employment growth.

The breakfast was chaired by AmCham’s president, Kathleen Barclay, with AmCham directors Pablo Achurra and Michael Grasty also in attendance. The Governor said that Chile has the conditions, because of its political and economic stability, to be an ideal partner for Pennsylvania. The State already receives around half of the fruit exported from Chile to the United States. In addition, Chile and Pennsylvania can benefit from the exchange of knowledge in areas such as energy, human resources, tourism and education, said Corbett.

AmCham invites member companies to participate in the following AmCham Committees for 2013: Productivity and Competitiveness; Best Practices and Communications; and Trade and Business.

Members are invited not only to attend meetings, but also to propose to the directors of the different groups within each Committee new topics and activities that are in line with AmCham’s mission of promoting trade and investment between Chile and the United States.

AmCham’s Board aims to strengthen the Committees this year to increase their value for members. In addition to enriching their knowledge about relevant topics, the Committee meetings are also an opportunity for members to make business contacts and build networks in accordance with their specific interests.

For more information write to comites@amchamchile.cl or call Carolina Poblete, tel. 2290-9746.
IFT Energy 2013 at Espacio Riesco

The IFT Energy 2013 Fair was held for the second consecutive year in Espacio Riesco in Santiago on April 17-19. This year more than 100 suppliers of technological solutions and energy companies from 21 countries participated. The Fair was organized by AmCham and US-based tradeshow management firm Kallman Worldwide. "This is an excellent event to develop a network of contacts and build businesses," said AmCham President Kathleen Barclay.

Chilean Energy Minister Jorge Bunster gave the keynote address during the opening ceremony. He highlighted the strong participation in this year's edition of the Fair, which he said was aimed at promoting the incorporation of new actors into the energy market.

In parallel to the Fair, the Chile-US Energy Business Council, which is chaired by AmCham, organized a series of seminars for members focused on clean energy technologies, energy efficiency and energy regulations.

At the conclusion of the Fair, Kallman announced that IFT Energy 2014 will be held in Antofagasta.
Fernando Fischmann Meets with Entrepreneurs

A group of entrepreneurs from Silicon Valley met with Fernando Fischmann, CEO of Crystal Lagoons and an AmCham director, at the San Alfonso del Mar resort in the Chilean coastal city of Algarrobo in April.

The entrepreneurs, including the founder of MySpace, Uri Levine, and the president of Waze, Justin Waldron, flew by helicopter from Santiago after requesting a meeting with Fischmann. They were in Chile to participate in the MeetLatam 2013 entrepreneurship forum, which took place on April 26-27 at the University of San Sebastián.

The visitors got a tour of the resort, which was Crystal Lagoons’ first project in Chile, including its iconic crystalline lagoon. Founded in 2007, Crystal Lagoons has over 220 projects in development in 50 countries.

Proforma Launches Monitoring Center for Employment Training

OTIC Proforma, the job training organization of Chile’s mining sector, signed an agreement with the University of Santiago on May 7 to launch the Chilean Monitoring Center for Employment Training (Observatorio Chileno de Formación y Capacitación Laboral).

The aim of the Center, which is approved by the National Training and Employment Service (SENCE), is to measure the impact of training and performance programs on the productivity of public and private investment in the development of human capital.

"Its purpose will be to analyze systems of management, promotion and monitoring of good practices in vocational training," said Michel Faure, president of OTIC Proforma.

Intel Recognizes Outstanding Chilean Clients

At the Intel Solutions Summit 2013 held on March 19-21 in Los Angeles, California, the US chip maker recognized its best Latin American clients for innovation in computer technology. The list of finalists and winners included several Chilean companies.

Olidata Chile won the Form Factor Innovation Award for its outstanding work in the development of new products. In addition, Chilean firm Ingeniería e Informática Asociada was co-winner of the 10th Year Anniversary prize. Finally, the Chilean firm PC Factory was a finalist in the category Knowledge Excellence.

"With much enthusiasm we celebrate the outstanding work of our partners in different countries of Latin America. This award is a recognition of their work, which brings technological development and innovative experiences to end users," said Marcelo Bertolami, sales and channel director at Intel Latin America.
**AmCham Members in Chile 3D 2013 Ranking**

AmCham members Coca-Cola, Sodimac, Carozzi, Líder, Rosen, Colgate and Falabella were included in research firm GfK Adimark’s Chile 3D 2013 ranking of the 15 most respected brands in Chile. The brands were announced on April 25 during a ceremony at the Hotel Hyatt in Santiago.

The study covered 260 brands in 43 categories nationwide. The overall perception of consumers, as measured by the Brand Capital Index, improved with respect to 2012. The index – on a scale of zero to 1,000 – is based on three pillars: prestige, affection and presence. The brand with the highest rating was Nescafé, which obtained 968 points in the market presence category.

**LAN Upgrades Technology on Airbus A320s**

In April, Chilean carrier LAN Airlines equipped its first Airbus A320s with fuel-saving wingtip devices known as ‘Sharklets’. In addition to improving the aircraft’s fuel efficiency, these devices cut CO₂ emissions by 4% and reduce the noise footprint.

LAN and Brazilian partner TAM will equip more than 100 aircraft with this technology through 2017, requiring a total investment of US$100 million.

“Commercial aviation emits 2% of global CO₂. In LAN and TAM we are constantly committed to reducing that number through concrete actions,” said Justin Siegel, senior projects manager of the holding company LATAM Airlines Group.

**Ernst & Young and El Mercurio Recognize Chilean Business Leaders**

On April 4, Ernst & Young and El Mercurio announced the winners of the 2012 business awards at their sixth annual Gala Empresarial held at Casa Piedra.

Jorge Pacheco, founder of maritime logistics company Oxxeán, won the Entrepreneur of the Year award. Juan Eduardo Errázuriz, president of Sigdo Koppers, won the Businessperson of the Year award, and Thomas Keller, executive president of Codelco, was named Executive of the Year. The Gala Empresarial is the Chilean business community’s most important awards ceremony.
Breakfast with the Governor of Pennsylvania

On April 15 the Governor of Pennsylvania, John Corbett, attended a breakfast at AmCham’s offices in Santiago along with a business delegation from the State. The purpose of the mission was to enhance the commercial relationship between Pennsylvania and Chile, focusing on the creation of economic opportunities and employment.

Chile-US Sustainable Energy Roundtable

On April 16 AmCham hosted a Chile-US sustainable energy roundtable at Casa Piedra in Santiago. The event was attended by US businesses linked to the sustainable energy industry as well as Chilean companies, investors and energy analysts.
IFT Energy Fair 2013

The second version of the IFT Energy Fair was held on April 17-19 at Espacio Riesco in Santiago. The event was organized by Kallman Worldwide Inc. AmCham hosted a series of seminars during the three days with the participation of government representatives, academics and entrepreneurs.

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AUSPICIANTS:
Global Economics Update: Moderation Appears Temporary

By Brian P. Chase

Economic Snapshot

April produced numerous signs of global economic moderation with declines in various leading indicators, not to mention commodities prices. However, with the absence of any major negative shocks to the system and continued accommodative posturing by Central Banks, the most likely outcome appears to be a resumption of global economic recovery in the coming months.

The beginning of 2013 was marked by a significant shift in sentiment. With the fiscal cliff behind and relative stability in the Euro Zone, market participants began to raise their economic expectations. The JP Morgan Global Manufacturing Purchasing Managers’ Index (PMI), a leading indicator of business sentiment, rose to an 18-month high in January. Meanwhile, the Citigroup Economic Surprise Index (ESI) for the G10, a key indicator for market perception of potential economic surprises in the world’s major economies, remained near peak levels which suggests all positive surprises have been incorporated in forecast adjustments. The International Monetary Fund (IMF) also revealed its economic forecasts for the year, with global GDP growth at 3.5%, up from 3.2% in 2012, led by emerging economies at 5.3% while US growth stabilizes at around 2.1%.

However, data released in April suggests that recovery in 2013 might not be as easy as initially thought. The JP Morgan Global PMI declined only moderately in April, but there were sharp dips in the Chicago PMI, as well as key subcategories of the China PMI, which raised red flags among market participants. Meanwhile, the Citigroup G10 ESI retraced to its lowest levels since August. We also saw some renewed fears related to the potential end of stimulus in the US, structurally lower growth in China and the ongoing recession in the Euro Zone. As a result, the IMF reduced its 2013 global GDP growth forecast to 3.3% in its April update with economists at various banks following suit, in some cases to below 3.0%. Commodities prices also began to collapse on expected lower demand, especially from China.

Despite these clear signs of moderation in the global economic outlook, it appears to be transitory and unlikely to produce the bouts of doom and gloom that we have seen in recent pullbacks. This is primarily due to:

• The absence of major shocks. With Cyprus ring-fenced and North Korea having gone quiet, it seems that major shocks are unlikely.
• Euro Zone relative stability. Government deficits have been slashed, trade deficits have been eliminated and breakup risks have been marginalized.
• Japan stimulus. Better late than never, but coming at a time when Japan’s economy was already recovering, suggesting rapid recovery during 2013.
• US growth beyond fiscal...
constraints. The IMF still has growth at 1.9% in 2013, which is net of a 1.8% fiscal drag. Housing and manufacturing recovery continues.

- China flexibility. Although bent on rebalancing growth and reluctant to inject stimulus, China still has plenty of firepower if needed.

- Emerging markets, business as usual. Many growing above the global average with low debt levels, ample reserves and room to add stimulus.

The other leading indicator that recovery should resume has been equity markets, which have shrugged off recent data. Despite a sharp retracement in mid-April, the MSCI World Index and S&P 500 Index have both recovered since then to post even higher year-to-date returns of 10% and 12%, respectively, as of April 30. It is clear that investors are more focused on stimulus, and thus even greater liquidity than markets are experiencing today. Returns have also been helped by improving corporate profits on both growth recovery and efficiency efforts amidst capital restraint.

Market sensitivity to high frequency data has undoubtedly increased since the 2008 global financial crisis, but the world appears to be in better shape today with global economies on track to achieving what the IMF described in its April update as a “three-speed recovery”. This is led by strong growth in emerging economies, as well as a pick-up in US growth, while the Euro Zone muddles through.
Chile-US Opportunities in Sustainable Energy

A meeting in April of the Chile-US sustainable energy industry showed that US renewable energy technology providers have much to offer Chilean companies looking to secure clean and affordable energy supplies.

By Julian Dowling

On April 16 AmCham hosted a roundtable at Casa Piedra in Santiago titled “Meeting of the Chile-US Sustainable Energy Industry”. This meeting was an opportunity for US renewable energy technology suppliers and Chilean companies to discuss issues related to the development and financing of renewable energy projects in Chile.

During her introductory remarks, AmCham President Kathleen Barclay highlighted the work of the US-Chile Energy Business Council in making the roundtable possible. The Council, which is chaired by AmCham, was formed in 2011 on the invitation of Presidents Piñera and Obama following President Obama’s visit to Chile. Its mission is to promote opportunities in the private sector in clean energy and support sustainable development in both countries.

Nicole Lamb-Hale, US Assistant Secretary of Commerce for Manufacturing and Services, led the US delegation that attended the meeting as part of a trade mission to Chile. She said that Chile has the potential to be “the next great renewable energy superpower”. From wind and mini-hydro in the south, to solar in the north and geothermal throughout the country, Lamb-Hale pointed out that Chile is blessed with the conditions to develop a variety of non-conventional renewable energy projects.

The United States, which has vast experience with clean energy, is the ideal partner to develop this potential, she said. The US delegation included representatives from 14 firms offering a range of solar, geothermal, biomass, hydropower, waste-to-energy, smart grid, and energy efficiency products and services.

In her remarks, Lamb-Hale discussed how clean energy projects could help to meet Chile’s growing energy demand and benefit the people of both countries. “This is not a zero sum game,” she said. “It’s win-win for all involved.”

The US trade mission came under the framework of the US Renewable Energy and Energy Efficiency Export Initiative (RE4I), which the US Department of Commerce launched in support of President Obama’s goal of doubling exports by the end of 2014.

Lamb-Hale pointed out that trade between Chile and the US has grown 300% since the signing of the Chile-US Free Trade Agreement in 2003, reaching US$28 billion in 2012, and is expected to keep growing. “Like us, Chile enjoys considerable renewable energy potential,” she said.

Demand heating up

The roundtable was divided into three panels. Former Energy Minister Karen Poniachik moderated the first panel on the demand for Non-Conventional Renewable Energy (NCRE). The speakers in this panel represented large energy consumers in Chile.

Marina Hermosilla, sustainability manager at WalMart Chile, discussed the company’s goal of obtaining 100% of its
23 de mayo 8:30-13:30 hrs. Hotel Hyatt

SEMINARIO:
¿Cómo hacer negocios en Florida y los EE.UU?

8:30 Bienvenida - Presidente del AMCHAM de Chile, Kathleen C. Barclay.

“Florida: Punto estratégico para compañías chilenas entrando a los EE.UU.” Gray Swoope, Secretario de Comercio de Florida.

“Proyectos de infraestructura en Florida” Richard Biter, Subsecretario de Desarrollo de Sistemas Intermodales, Departamento de Transporte de Florida.

“Testimonial - Experiencia de una compañía chilena” Matías Matte, Gerente General de Verdenova.

Preguntas y respuestas - Coffee break

“Establecerse en EE.UU.” - Aspectos tributarios implícitos. Macarena Navarrete Poblete, Socia Ernst & Young.

“Establecerse en EE.UU.” - Aspectos legales y otros vinculados al mundo de los negocios. Michael Grasty, Senior Partner de Grasty, Quintana, Majlis & Cía.

“Visas de financiamiento y como hacer negocios en EE.UU.” Gerente General de BCI, oficina de Miami.

“Como trasladar tu compañía” Ana Gazarian, Presidente de Employee Mobility Solutions.

“Servicios y programas de ProChile” Carlos Honorato, Subdirector Internacional de ProChile.

12:30 Almuerzo: “Economía en Florida” Key Note Speaker: Gobernador de Florida, Rick Scott.

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energy supplies worldwide from renewable sources. She said that Walmart Chile recently tendered 30% of its energy requirements from NCRE projects.

“Energy is becoming more expensive in Chile so it’s a very good opportunity to seek opportunities like this,” she said.

Other firms in Chile are also catching on. Chilean steel and iron ore producer CAP, which is the third largest industrial energy consumer in Chile, aims to buy 15% of its energy needs from NCRE projects.

As part of this commitment it has signed a 20-year power purchase agreement with US solar developer SunEdison, which plans to develop a 100-megawatt solar project in the Atacama Desert.

“Solar presents a golden opportunity,” said Arturo Wenzel, executive vice-president at CAP.

Chile’s state-owned mining firm Codelco is also looking to renewable energy to meet part of its energy needs, said Andrés Alonso, manager of energy and hydro resources at Codelco. The company launched a tender for NCRE suppliers last year and the winners, wind company NorVind and biomass generator Arauco Bioenergía, were announced in April.

A relative newcomer on the Chilean energy scene is Duke Energy, the largest utility in the US. Duke recently added Chile to its Latin America portfolio and Cheryl Lipshutz, vice president of portfolio management and strategic planning, said her company is on the lookout for wind and solar opportunities.

“Chile has relatively low per capita consumption (of energy) and long-term contracting opportunities,” she said. However, she also suggested that State subsidies or other incentives would encourage the development of Chile’s renewable energy industry.

Fine-tuning regulations

Another former Energy Minister, Rodrigo Álvarez, moderated the second panel on market conditions and regulations. Participants noted that the renewable energy industry benefitted from the 2008 global financial crisis because many developed countries have eliminated subsidies for renewable energies, which has reduced the cost of new technologies in emerging markets like Chile.

Although Chile does not offer state subsidies for renewable energy, wind and solar projects are starting to make financial sense without them, said Rodrigo Castillo, president of the Asociación de Empresas Eléctricas, which groups Chile’s main power distributors.

Castillo said that, until recently, the Chilean market saw renewable energy as a luxury with environmental benefits, but this is changing as new technologies are becoming cost competitive with conventional sources of generation such as coal or gas.

The price of solar panels, for example, has fallen dramatically in the last few years, pointed out Castillo, but given the risk associated with solar and wind projects he said state support is needed to make them more attractive to consumers.

Carlos Finat, executive director

![USTDA Signs Grant for Chiloé Wind Project](image-url)

Following the Chile-US sustainable energy roundtable on April 16, the United States Trade and Development Agency (USTDA) awarded a US$610,000 grant to Chilean wind company Empresa Eólica Tablaruca. The grant will allow Tablaruca to study the feasibility of a 99 MW wind farm on the island of Chiloé in southern Chile. Jacob Flewelling, USTDAs Country Manager for Chile, signed the grant, while Nicole Lamb-Hale, Assistant Secretary for Manufacturing and Services of the US Department of Commerce, and María Ignacia Benítez, Chile’s Minister of Environment, witnessed the signing.
of the Chilean renewable energies association (ACERA), agreed that there are some “holes” in Chilean legislation that need to be filled, especially to hedge against the risk of intermittency for investors and clients.

Meanwhile, Alex Hay and José Perez of First Solar and SunEdison, respectively, agreed that the demand for energy 24/7 is the main challenge facing the solar industry given that the sun only shines during the day.

“The market needs to be open to thinking more creatively about how energy is contracted,” said Hay. “We need to think outside the box.”

The solution, he said, is for solar developers to offer clients a mix of sources to mitigate their risk. CAP, for example, has dealt with the problem of variability in solar generation by negotiating with conventional power generators to provide back-up supplies.

Access to financing

The third and final panel on financing for renewable energy projects was moderated by René Muga, chairman of AmCham’s infrastructure and technology group in the US-Chile Energy Business Council and general manager of the Chilean Power Generators’ Association.

Renewable energy projects tend to require hefty upfront investment, which can be an obstacle for developers, especially those without power purchase contracts. In this regard the experience of the US can be valuable, said Muga.

The US Ex-Im Bank, for example, has a mandate to provide financial support for renewable energy projects in Chile and other countries, said Craig O’Connor, director of renewable energy & environmental exports at the bank.

“Now is the time to borrow money because Libor rates are very low,” he said.

Ex-Im bank has provided project finance and loan-guarantees for Chile’s mining and energy industries in the past. “Chile is an investment grade country so the risk premium that all the banks charge is low,” he said.

Chilean companies or public sector agencies can also apply for grants from the United States Trade and Development Agency (USTDA). The USTDA offers grants for Chilean companies to conduct feasibility studies with funding available in the range of US$300,000 to US$700,000 per project, said Jacob Flewelling, the agency’s country manager for Chile.

Another option is the US Overseas Private Investment Corporation (OPIC). This government agency provides debt financing for projects in emerging countries up to 75% with a focus on renewable energy projects, said James Meffen, director of structured finance at OPIC.

“Our pipeline in Chile is fairly robust and we expect to have close to US$1 billion in transactions within the next year and a half,” he said.

Funding is also available from Chilean banks. Six banks have financed mini-hydro and wind projects in Chile, said Rodrigo Violic, business manager at Banco BICE. So far no solar projects have received financing but he said that could change soon. “All good projects have access to financing, there is no problem on that side,” said Violic.

Chilean venture capital firms are also investing in clean energy projects. One such firm is Austral Capital, which identified waste-to-energy projects as a growth area in Chile two years ago and has raised funds to build two biogas plants scheduled for completion by the end of 2013, said Gonzalo Miranda, Austral’s founding partner.

Overall the roundtable was highly successful and provided an excellent networking opportunity for Chilean and US companies. Through the Chile-US Energy Business Council, AmCham will continue to support events that allow the exchange of experiences and contribute to the development of sustainable energy in Chile.

Julian Dowling is Editor of bUSiness CHILE
C
ould the famous Monterey Bay Aquarium in California serve as the model for an aquarium in Chile? That is one of the questions being asked by the National Marine Education Program, launched last year by partners that include two local universities and the Chile-California Council, a San Francisco-based non-profit organization for cooperation between Chile and California. It was thanks to the latter that Julie Packard, daughter of Hewlett-Packard co-founder David Packard, visited Chile recently to share her experience, as a biologist and the Monterey Bay Aquarium’s executive director, not only about aquariums but also about marine education and conservation in general.

How important would an aquarium be for marine education in Chile? Just a cherry on the cake or more central than that?

In the US, aquariums have had a major impact on public awareness of the ocean and ocean issues and an aquarium that reaches a lot of people can, by serving as a catalyst to mobilize people around the importance of the ocean and protecting it, be a critical element in achieving healthy ecosystems.

But is an aquarium realistic in Chile? How many visitors does the Monterey Bay Aquarium receive each year?

Around 1.8 million but, in the US, each aquarium has its own specific story in terms of its business model, funding and structure. There are successful aquariums of all sizes but, yes, you have to size it appropriately to the target market and you have to have the donor support.

You were only in Chile briefly but what's your impression of the state of marine conservation?

I saw a very impressive set of research and universities with excellent capacity to provide information about ecosystems. There’s a long history of information about some parts of the coast - for example, the central coast where the Las Cruces marine station is located. A lot of valuable work and very high-quality science is being done. Of course, they don’t have enough funding but that’s the same everywhere.

And what do you see as the main challenges going forward?

Certainly, Chile needs to invest not only in characterizing its ecosystems but also in monitoring and enforcing the laws that are put in place. There’s also a big emerging interest in the expansion of salmon farms. They’re a very important part of the economy and economic growth but there’s a lot of concern about ensuring better controls and standards and that they’re sited in the right place. And there’s a need for more scientific understanding and planning work where the government really needs to invest, although not a vast amount.

One thing that seems to be at an early stage is the development of NGOs based in Chile to work with the government and engage with the public on these issues. A lot of environmental government actions happen in the US because of advocacy groups.

At our meetings in Chile, we also talked about the need to develop general public awareness and environmental education in schools. A lot of concern was expressed by Chileans about the state of science and environmental education.

The Packard Foundation has contributed funding to the National Marine Education Program; what other projects does it have in Chile?

With other foundations, we're starting to make grants towards improving management of fisheries off the coast of Chile, Peru and Ecuador. We've funded a major marine conservation program in the Gulf of California and Mexico for a very long time and have also done a lot of fisheries management work off the coast of California.

Better fisheries management in what sense?

Right now, we're in a global fisheries crisis because the majority of fisheries are being fished either at or beyond
their capacity to sustain themselves. There are a lot of tools that can be used to manage them in a way where they sustain the fishing enterprise in the long term and provide food for something like the one billion people who depend on fish for their primary protein. It’s a matter of food security and economic security for many countries.

Chile, as it turns out, is on its way to putting in place some effective fisheries policies. The US foundations that are starting to engage are funding organizations in Chile - including some US-based NGOs that have offices in Chile - and some grants may go to research institutions such as the universities that are doing really important work to assess and understand the status of the ecosystems.

**How good a job are NGOs doing in Chile?**

I was impressed with the quality of the teams that I interacted with. But they’re very small. Generally, all NGO work is funded by contributions. They need to grow and they’re only going to grow through philanthropic support. One of the big areas of some US foundations is to build NGO capacities in other countries but each country also needs to chart its own future.

**Chile doesn’t have a tradition of philanthropy, at least not on a par with the US. Is that just a matter of income level or more than that?**

Some people say it’s a matter of tax laws but a lot of people in the US who are very generous aren’t so just to get a tax deduction. It has to do partly with each country’s model of who funds the things that make for a rich civic environment. In the US, all our great museums, zoos, aquariums and so on are heavily, heavily funded by private contributions. That’s the funding model here.

Now, to your question of whether there are enough financial resources for philanthropic contributions in Chile, I would say that yes, of course. Chile is very successful economically and there are individuals who have enough resources to make some wonderful things happen. All that’s required is for them to learn more about what they can create through their generosity.

My main message is that providing charitable gifts to create something that makes the world a better place is hugely rewarding. Now, that doesn’t happen overnight but Chile, which is a leader in many other fields, could for example also become a leader in marine education and conservation.
Who Flung Dung?

By Santiago Eneldo

So we really think North Korea is a major threat to survival – especially to its neighbors and any country within range of its single nuclear missile (or missiles?). Personally I think young Kim Jong-un is just having fun now that he owns his country and what better way than playing with his toys? He probably had a sad childhood with no friends to hang out with and having Kim Jong-il as a father and Kim Il-sung as a grandfather made for pretty scary bedtime stories. Now he has all the toys he could ever want and no one to say “stop playing, Kimmy, tidy up the toys and get ready for bed”. Kim Jong-un owns ALL the toys in North Korea and he is having a ball...! He probably has no idea what a nuclear warhead is, but oh such fun to have his own rockets and people around who will cry or laugh or just fall over if he asks them to. Some soldiers (army in excess of 1 million!!) had to do many extra push-ups for not crying hard enough when Kim Jong-il died.

I would love, just for one day, to wield the power Kimmy has. Just imagine the fun you could have...

Stopped by the police for speeding but I order them to lie down on the road and let cars run over them.

Chile’s Congress (which I OWN!) attempts to debate a new education bill after constitutionally dismissing MY Minister only to be instructed by ME to reinstate said Minister and extend school year to 360 days. The remaining five days (of the Western Calendar) will be spent celebrating MY birthday and paying homage to ME.

As there is little cash I have requested (same as demanding) that my gifts are only in gold (bars) and stones (as in diamonds, rubies, emeralds...) and caviar and champagne. It is good for the collective soul that MY citizens (well, more like serfs) see how their leader lives. I mean who would want to see me in an Oldsmobile? I will demand a real Batmobile!

Dream on, dream on...

But Kimmy must be having the time of his life and of course getting all the right responses from the countries he is playing with. Then laughing all the way home to be with his wife, Ri Soi-ju, about whom we know nothing except that she is probably a “she”. His opera-singing mother, Ko Young-hee (RIP), must surely have given Kimmy a love for the arts, which is fine because he owns all the “art” in North Korea.

The sad thing is that so many countries are taking Kimmy seriously!! Even China has warned him to be cautious and to “back off the nuke rhetoric”. Just as my solution to the Cuba issue has always been to “kill it with love and billions of dollars”, which would put Fidel and Raúl into retirement immediately, Kim Jong-un needs to be ignored and told, as King Juan Carlos I once said to Chávez (also RIP), “Why don’t you shut up?”

If we take Kimmy seriously then he might, God forbid, take himself seriously and that could be really dangerous... If I were Kim Jong-un, I would be just a little frightened of the 25 million or so people he “owns”. Never forget that Egypt’s Spring Revolution was started and coordinated through social networking – but do they actually have cell phones in North Korea? What is it like to surf the Internet in the most secretive country on Earth? The short answer is - strange, at least by the rest of the world’s standards.

Permanent hunger and deprivation is not the right model for “World Domination”. Let Kimmy fire his little missile; in fact, encourage him to do so – and then just shoot it down! Kimmy will cry and stamp his feet and then help himself to a new wife, some caviar and a glass of champagne...

I remain a thespian at heart, enjoying the opportunity to dance carelessly upon my own stage,

Santiago Eneldo.
(Threats and counterattacks to santiagoeneldo@yahoo.com)
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