

Mining Equipment and Technology

CHILE FACT SHEET

The Chilean mining industry has expanded rapidly in recent years, owing to the extremely high price of commodities and the Chilean government's business friendly economic, financial and sectoral policies. According to the most recent Fraser Institute Report, Chile appeared in 6th place out of 68 worldwide mining districts in their Policy Potential Index, which measures how attractive a government's policies are for investment, as well as providing a surrogate indicator of the business environment prevailing in their mining sector. The driver of this growth, in both exploration and production and in attracting Foreign Direct Investment (FDI), has been copper mining, although this growth has also been experienced in many of Chile's metallic and non-metallic minerals. The increasing size of the industry, backed by the openness of the market has also created opportunities for foreign suppliers of mining equipment and advanced sector related technologies. These factors and the similar needs of mining companies in Australia have seen Australian firms entering Chile in large numbers to not only own and operate mines, but also in the business services sector (consultancy) and increasingly in the provision of new mining technologies.

Australia Chile Free Trade Agreement

This agreement, signed between the two countries, came into effect on 6 March 2009 and covers trade in goods, services and investments. The intention of this agreement is trade liberalisation, through measures that include the elimination of all tariffs on existing merchandise trade by 2015 (Certificate of Origin required). Mining technology and services is one sector, identified by the Australian government to which this agreement provides substantial opportunities in services and investment for Australian exporters. Provisions of the agreement regarding trade in mining equipment and technology are as follows (for provisions relevant for investment refer Chile infrastructure fact sheet):

- **National Treatment:** To treat goods of the other party no less favourably than a party's own like goods.
- **General prohibition on import and export restrictions:** Neither party may adopt or maintain any prohibition or restriction (non tariff barriers) on the importation of any good of the other party or on the exportation or sale for export of any good destined for the territory of the other party, except in accordance with the relevant articles of the General Agreement on Tariffs and Trade (GATT) 1994.
- **Agreement not to apply export taxes:** Neither party may adopt or maintain any duty, tax or other charge on the export of any good to the territory of the other party, unless such duty, tax or other charge is adopted or maintained when destined for domestic consumption.

Also relevant for this sector, especially for engineering and consultancy services are the provisions of the agreement relating to Cross-Border Trade in Services (CBTS):

- **Market access obligation:** Prohibits certain limitations on market access (eg. limitations on the number of service suppliers or the total value of service transactions or assets).
- **National treatment obligation:** Each party must accord, to services and service suppliers of the other party, treatment no less favourable than it accords to its own like services and service suppliers.
- **Most-favoured-nation obligation:** Each party must provide no less favourable treatment than it applies to the services and service suppliers of any third country.
- **Local presence obligation:** Prohibits a party from requiring that service suppliers of the other establish or maintain any form of enterprise or to be resident as a condition for the cross-border supply of a service.

Mining Industry

Chile is a country with extensive mineral reserves. In particular, Chile has large deposits of copper, iron, molybdenum, magnesium, lead, zinc, gold, silver and also numerous non-metallic minerals. Of highest significance to the Chilean economy is the abundance of copper, as it is the principle export and main productive activity of the country. All except one of Chile's mining companies are privately owned, having both Chilean and multinational ownership. The exception

is the state-owned mining corporation CODELCO, which is the world's largest producer and exporter of copper. The lifting of restrictions on private investment on exploration and exploitation of mining deposits increased Foreign Direct Investment (FDI) in the mining sector, so that between 1974 and 2009 it accounted for 32.8% of total foreign investment in Chile. This therefore made the mining industry the investment driver of the Chilean economy. In recent years the bulk of foreign investment has been concentrated in the form of new copper and gold projects, which has helped the mining industry to achieve an annual growth rate of between eight and ten percent right up until 2008. It is expected that this expansion rate will return to these levels in the next few years (and beyond) due to the scope of current identifiable mining projects, which call for investments exceeding US\$18 billion by 2015. Seeing the benefits of mining operations in Chile, Australian companies are already well represented. Large scale Australian investment and ownership of copper mines, as both sole owner/ operator and in joint ventures is widespread in the mining regions of the country, with expansion opportunities in both greenfield (new sites) and brownfield (development on existing sites) expected.

Mining Equipment and Technology

The growth of the Chilean mining industry has been the main driver of local demand for mining equipment and technology (traditional annual growth rate of 10%). Not surprisingly the bulk of their product needs are directed towards open pit copper, gold, silver and non-metallic ore mining, with foreign suppliers providing the bulk of this equipment and machinery. Chile is one of the largest markets for mining equipment in the world and also the most open, trade friendly market in the region. In addition, for Australian exporters, the recently implemented Free Trade Agreement (FTA) between the two countries is expected to further enhance trade opportunities, through the elimination of import duties, especially for those selling heavy equipment. The size of the industry means that Chile attracts suppliers of prime quality products from all over the world, who not only compete on price but also their ability to provide value added services for their clients and end users. Best prospects for mining equipment exporters include (but not limited to):

- Off-road trucks
- Scoop shovels
- Excavators
- Cranes
- Crushers and grinders

Chilean industry values technological innovation. The mining sector is always looking out for new advanced technologies that will improve efficiency, productivity and sustainability. They spend large amounts of money to obtain what will best satisfy these needs, with the government even providing financial assistance where necessary. Opportunities exist for Australian

mining technology suppliers, owing to the many similarities in both countries mining operations and the resultant suitability of Australian technological innovations to Chile. Australian companies already in Chile have noted success in:

- Specialised heavy machinery parts (power transmissions and gearboxes, etc.) to improve efficiency of equipment.
- Technologies to improve mill operation efficiency and lifespan.
- Polyethylene mining products
- Water conservation products
- Chemicals used in mineral processing
- New technologies to improve operation and efficiency of machinery.

Mining Services

The growth of the mining sector has also been responsible for the growth of the market in mining services. The services sector is actually experiencing faster growth rates than the equipment and technology markets. Any service providers with the necessary knowledge to reduce production costs and increase energy and process efficiency are highly in demand. Best prospects for Australian companies include:

- Underground mining technology services
- Environmental systems solutions in:
 - water treatment
 - energy efficiency
 - air pollution and dust abatement
 - mine closure
- Problem solving solutions
- OH+S services

Barriers

In sales of mining equipment and technology to Chile, the United States is the clear market leader, supplying up until recently between 50 and 55% of all products. Owing to this many Chilean mining companies trust and understand recognised US brands of equipment, increasing the difficulty of initial entry for Australian suppliers. In recent years there has been a growing demand for European and Asian manufactured supplies, which may point to a shift in buying habits.

In Chile, it is customary for multinational owners of mining operations to use the same suppliers when opening new mines and undertaking expansion projects. This policy can provide problems for Australian companies attempting market entry (or benefits for those already selling to these companies).

Distance and travel time between Australia and Chile

Language has been nominated by many surveyed companies as a difficult barrier to overcome. This extends, not only to initial negotiations but also for the provision of after sales technical assistance.

Suppliers have also noted initial entry problems arising from Chilean SAE certification standards, which do not apply on the sale

of the same goods sold in Australia. State government assistance (Trade Queensland) and support has been readily available.

Some companies have experienced difficulty in finding a suitably reliable local agent to market and distribute their product.

The Chilean government applies an additional tax on profit remittances back to Australia of 35%. Allowance of this fact needs to be considered before your company chooses to invest. For remittance of funds up to the level of your initial investment, the tax does not apply (only for profits).

Best Advice

A majority of surveyed Australian companies note the benefit, upon initial market entry attempts in Chile, of attending local trade shows or missions, as part of a group delegation with other mining sector firms.

It is recommended that all business dealings in Chile are undertaken in Spanish. Even though many Chileans speak English, sound business practice requires that Spanish speakers should always be present during negotiations.

Australia has the fifth largest expatriate Chilean community in the world. Australian companies should therefore be able to utilise this vast network of residents with Chilean background to their advantage.

Companies who are exporting various mining related products into Chile are advised to acquire the services of a reliable local representative, distributor or dealer, who has access to various buyers and sound knowledge of the local market to achieve best results. If the sales volume is high, then a decision can be made as to whether it is justifiable to set up a local office. Sales in this sector should also have some sort of financing attached to them, to match the conditions offered by European suppliers.

In relation to Australian producers of mining technology, some firms have spoken of the benefits of setting up branch offices in Chile. This has the advantage of ensuring more reliable after sales service as well as demonstrating a long term commitment to the country - A fact that is highly respected by Chilean end-users of mining products. Other options interviewees have noted include: partnerships with local distributors or to license local producers to manufacture and sell your product.

It must be noted that all business dealings in Chile (as with other countries in Latin America) take a long time. Before entering Chile you must be prepared to be there for the long haul and to spend considerable time in country building a relationship of trust with the companies you are negotiating with. It may take a considerable amount of time and money before you begin to reap the rewards of your labour. Once they like and trust you business is assured. For mining companies this involves demonstrating a commitment to Chile and the region in general. Australian companies already present in Chile have spoken of initiatives such as funding projects at local schools, etc. to prove

to them that your company's intentions are genuine, and aimed towards the mutual benefit of everybody involved.

It is also advisable to acquire sound legal representation and advice before entering Chile. Chile has many complicated legal requirements and regulations for foreign companies that only lawyers with sufficient knowledge of the country will be able to fulfil correctly. In addition, they will be able to build you knowledge of the local market and how it operates, as well as advising your company of the benefits available through the Australia Chile Free Trade Agreement. For mining companies selling new, advanced technologies, legal representatives, with sound local knowledge will also be able to advise you on the best way of protecting your intellectual property.

A double taxation agreement has been signed between Australia and Chile, so that the payment of double tax is avoided, with respect to taxes on income and fringe benefits and the prevention of fiscal evasion. This agreement will create certainty and stability, free up exchange of taxpayer information, and reduce tax related barriers to trade. For implementation of the agreement, it needs to be passed by the Australian Parliament. It will come into effect on 1 January the year after it is passed.

Many companies have noted that successful entry into the market in Chile is a good base for further access into other Latin American countries. Although care must be taken to not treat each country the same, as each one is vastly different and therefore they require different strategies for market entry.

Chile also has a number of Free Trade Zones (Zonas Francas), which are areas, usually close to port or airport facilities where goods stored are considered to be outside of the national customs territory and therefore are free of import tariffs and the payment of the 19% Value Added Tax (VAT). The goods can be stored in these zones for how ever long is necessary, before being shipped to another country or into Chile. Customs taxes are only payable when the goods reach their final destination.