

Trade and investment links between Australia and Chile and potential gains from a Free Trade Agreement

Australia has a modest but growing trade relationship with Chile and substantial investment interests there. Australian exporters stand to gain from improved market access that an FTA with Chile could deliver. By enhancing investment conditions, an FTA could also encourage more Australian business to establish in Chile. A comprehensive, high-quality FTA could deepen Australia's links with Chile's dynamic and expanding economy and advance Australia's presence in South America more broadly.

In December 2006 Australia agreed in principle to commence a bilateral negotiation process with Chile, with a view to developing a comprehensive free trade agreement (FTA) to strengthen and deepen the relationship between the two countries. The Government is consulting key stakeholders and industry as part of the process. Preliminary talks between Australia and Chile were held in February and April 2007.

Trade performance

Two-way **goods and services** trade between Australia and Chile amounted to \$574 million in 2006. Though from a moderate base, trade increased 35 per cent over 2006 and growth has averaged 12 per cent per annum over the past five years.

Over the past two years, total two-way **merchandise trade** increased by over 20 per cent per year reaching \$385 million in 2006. Since 2001 total two-way merchandise trade between Australia and Chile has grown at an average annual rate of 11 per cent (**Figure 1**).

In 2006, Australia's **merchandise exports** to Chile increased 27 per cent to \$233 million. Australia's main export to Chile was coal (\$134 million), accounting for 57 per cent of total

exports (see Appendix A). Since 2001, Australia's merchandise exports to Chile have grown at an annual average rate of 10 per cent. Australia's **merchandise imports** from Chile have increased by an average of 12 per cent a year.

Bilateral **trade in services** between Australia and Chile has grown rapidly from \$88 million in 2001 to \$189 million in 2006 (**Figure 2**). Australia's services exports to Chile grew from \$18 million in 2001 to \$70 million in 2006. Services imports from Chile, largely from Australian tourists visiting Chile, have risen from \$70 million in 2001 to \$119 million in 2006.

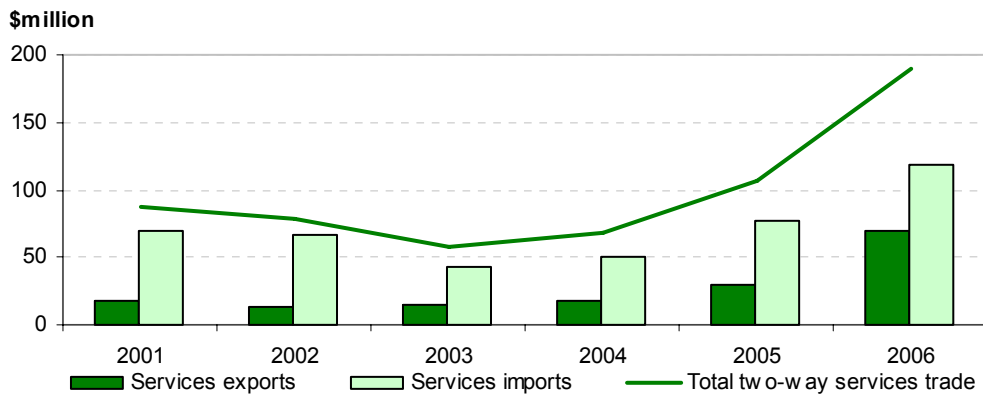
Travel services, including education-related travel accounted for 46 per cent of Australia's total services exports to Chile (based on 2005-06 figures). Since 2002 there has been an average 40 per cent increase per year in the number of student visas granted to Chileans. The easing of student visa regulations and the establishment of an Australian Education International office in Santiago have contributed to this increase. In May this year, Qantas announced that it would commence direct air services between Sydney and Santiago from November 2008, reflecting the growing trade relationship and increasing demand for leisure travel in both directions.

Figure 1: Australia's merchandise trade with Chile – 2001 to 2006



Source: ABS trade data on DFAT STARS database.

Figure 2: Australia's services trade with Chile – 2001 to 2006



Source: ABS catalogue no 5368.0.

Investment

Australia is the fourth largest foreign direct investor in Chile. According to official Chilean government statistics, total Australian investment in Chile, including funds channelled through third countries, amounted to approximately US\$2.8 billion in 2006. In 2006, there were over 70 Australian or Australian-affiliated companies operating in Chile, a dramatic increase from just two firms in 1990. More than half are involved in the mining sector, although there has been some diversification in recent years. Significant Australian investors include BHP Billiton, which holds a 57.5 per cent stake in the world's largest copper mine, La Escondida, in northern Chile. Australian companies are also experiencing success in small-to-medium-sized mining concerns in Chile. Other Australian firms with substantial interests in Chile include Orica (mining services), Hoyts (cinemas), AGL (gas distribution) and Pacific Hydro (power generation).

Potential gains from an FTA

Australian companies stand to gain from the improved market access that an FTA with Chile could deliver. While both Australia and Chile have overall export profiles that are dominated by commodities, the products they specialise in are for the most part different. Australia's largest merchandise exports are coal, iron ore, gold and petroleum, whereas Chile's are copper and related products. An FTA could generate further export opportunities in Chile for Australian companies in traditional sectors like mining and energy, as well as in other areas such as agribusiness, food and beverages, education, tourism, engineering and information technology.

Energy in particular may offer significant potential for Australian firms. Chilean energy demand is forecast to grow at 6-7 per cent over the coming few years, and demand for Australian coal could

double over the next five years due to the increased requirements of both the commercial and residential sectors. With liquefied natural gas (LNG) making up approximately 25 per cent of all its energy consumption, Chile is looking to identify alternative sources of supply. An announcement was made in October last year that a second LNG plant would be built in the north of Chile. An FTA that eliminates the current 6 per cent tariff on LNG would benefit Australian exporters. Furthermore, the elimination of the six per cent tariff on coal would place Australia on an equal footing with Canada. Since the implementation of the Canada-Chile FTA in 1997 – which reduced tariffs on Canadian coal imports to zero – Canadian coal exporters have been increasing their market share.

Australian mining equipment and technology companies are already participating in Chile's buoyant mining and energy sectors. Eliminating the six per cent tariff on Australian mining equipment and other technologies would be of significant benefit for Australian business, particularly for small-to-medium-sized companies, which are providing niche mining products.

An FTA would provide further impetus to the fast growing, albeit relatively small, bilateral trade in services between Australia and Chile. Chile's growing middle class and booming business sectors in areas of banking, insurance and entertainment provide enormous opportunities for Australian services suppliers. Education-related travel is Australia's largest service export to Chile. Australia's education service providers are expecting growth in the number of Chilean students coming to Australia as well as opportunities in corporate education. A comprehensive FTA would address a number of barriers currently being faced by Australian service suppliers, including skills recognition, government-mandated contractual requirements,

visa processes for Australian professionals in Chile and transparency issues in the regulatory environment governing Chile's services sector.

By enhancing investment conditions, an FTA could also encourage more Australian companies to establish themselves in Chile. Australia already has an Investment Promotion and Protection Agreement (IPPA) with Chile. An FTA would attempt to build on the IPPA.

An FTA could, furthermore, have an important 'head-turning' effect by increasing awareness among Australian businesses of the potential of the Chilean market. During the 15-year period through to 2005, Chile's economy grew at an average rate of 5½ per cent a year. The International Monetary Fund projects that Chile's economic growth will slow somewhat, but still register 5.2 per cent in 2007 and 5.1 per cent in 2008.

Chile already has FTAs with many countries, particularly with its neighbours, highlighting its increasing importance as a gateway to South America. Chile has FTAs with Mexico, Colombia, Peru, Panama and Central America and agreements of more limited scope (Economic

Complementarity Agreements) with most other Latin American countries as well as India. Outside Latin America, Chile has concluded FTAs with the United States, Japan, China (on goods), Canada and South Korea as well as the 'P4' agreement with New Zealand, Singapore and Brunei. It has, in addition, launched feasibility studies with Thailand and Malaysia, while an association agreement with the European Union, including a FTA element, came into effect in 2003.

Australian businesses with an interest in an FTA with Chile want it not only to create and access opportunities in Chile but also in the wider Latin American region. A comprehensive, high-quality Australia-Chile FTA could deepen Australia's links with this dynamic and expanding economy and strengthen the overall relationship between the two countries. A high quality agreement would also strengthen Australia's efforts to promote a comprehensive approach to economic integration and trade liberalisation in Asia Pacific region and advance Australia's presence in South America more broadly.

Table 1: Australia's top 5 exports and imports with Chile 2006

		\$' 000	% share
Exports			
1	Coal	133,805	57.3
2	Civil engineering equipment	12,987	5.6
3	Optical instruments	6,196	2.7
4	Specialised machinery	5,466	2.3
5	Refined petroleum	5,299	2.3
	Total merchandise exports	233,334	
Imports			
1	Pig iron	26,047	17.2
2	Pulp & waste paper	17,053	11.3
3	Explosives & pyrotechnic products	15,250	10.1
4	Animal feed	13,356	8.8
5	Wood, simply worked	12,303	8.1
	Total merchandise imports	151,229	

Source: ABS trade data on DFAT STARS database.

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