Chile

Traffic Cop to the Giants

A foreman supervises the procession of megatrucks at the Collahuasi copper mine. Collahuasi produced 415,000 tons of copper in 2011—8 percent of Chile’s total copper production.
Chile
Natural resource extraction—and copper mining specifically—have always played an outsized role in Chile's economic development, as well as its politics. The bulk of that, of course, is produced for export; for example, between 1998 and 2011, primary products accounted for 70 percent of the country's exports. In a familiar story across all three case studies—indeed across much of the developing world—the share of primary products in Chile's economy has been guided by the political desire to capture rents from natural resource extraction—and the bulk of that, of course, is produced for export; for example, between 1998 and 2011, primary products accounted for 70 percent of the country's exports. In a familiar story across all three case studies—indeed across much of the developing world—the share of primary products in Chile's economy has been guided by the political desire to capture rents from natural resource extraction.

Three Countries, Three Different Trajectories
Since 1974, foreign investment in Chile's economy has been guided by the Iron Law of 1974 (DL 600), which establishes the terms for FDI. After 2004 the price swelled to an average $2.22 per pound, an increase of 122 percent. Wood pulp also grew in value, at an average price per ton increasing by 25 percent between 2004 and 2010 compared to prices from 2000 to 2003. The overwhelming bulk of investment in extractive industry in Chile has come from outside the country. In the period between 1998 and 2011, 30 percent of the total foreign direct investment (FDI) that entered through DL 600—a law that sets the terms for FDI—went to the mining sector, while only 1 percent of the total foreign direct investment went to other primary sectors (forestry, agriculture and fishing). From 1998 to 2010, foreign direct investment was 52 percent of the total investment in the mining sector in Chile. Investment in forestry, agriculture and fishing sectors was largely made by Chilean companies. In the period to 2002 to 2010, 84 percent of investment in private mining copper and gold projects was made by foreign mining companies. The overwhelming bulk of investment in extractive industry in Chile has come from outside the country. In the period between 1998 and 2011, 30 percent of the total foreign direct investment (FDI) that entered through DL 600—a law that sets the terms for FDI—went to the mining sector, while only 1 percent of the total foreign direct investment went to other primary sectors (forestry, agriculture and fishing). From 1998 to 2010, foreign direct investment was 52 percent of the total investment in the mining sector in Chile. Investment in forestry, agriculture and fishing sectors was largely made by Chilean companies. In the period to 2002 to 2010, 84 percent of investment in private mining copper and gold projects was made by foreign mining companies.

What's on the Books? CHILE

General Framework and Taxation
Since 1974, foreign investment in Chile's economy has been guided by the Iron Law of 1974 (DL 600). DL 600 grants foreign investors a number of guarantees: access to the formal exchange market; rights to remit capital and profits; access to all economic sectors; nondiscrimination between domestic and foreign public or special enterprise; exemption from value-added taxes; and tax stability. According to DL 600, foreign investors can choose between two different income taxation regimes: a flat rate of 42 percent on taxable income; or the General Taxation Regime with a 17 percent tax on income plus additional taxes on income.

Private mining companies must pay special taxes on income. The first is an annual payment for the mining concession or area at a rate of $1.60 per hectare for land under exploration and $4.00 per hectare for land under active mining. The second is Law 20,026 approved in 2006, the Impuesto Específico a la Actividad Minera (Specific Tax on Mining Activity)—IEM. The IEM allows the bigger copper-producing companies—that invest over $50 million—to choose between the tax rates established in DL 600 or a new tax in exchange for 15 years of tax stability. The IEM establishes two ranges of tax rates according to the size of the mining activity:

Distribution of Revenue and Rent
Chilean law gives natural resource extraction companies a 52 percent share of income taxes paid by the state copper company CODELCO; 48 percent, by private companies; income taxes paid by the large copper mining companies under the IEM; and annual payments on mining concessions.

The proposed revenue from the natural resource extraction comes from four sources: income taxes paid by the state copper company CODELCO; income taxes paid by private companies; income taxes paid by the large copper mining companies under the IEM; and annual payments on mining concessions.

The projected revenue from the natural resource extraction includes income taxes paid by the state copper company CODELCO; income taxes paid by private companies; income taxes paid by the large copper mining companies under the IEM; and annual payments on mining concessions.

Sustainability approved a proposal for a new regulation of the SEIA that strengthens the procedure for indigenous participation in consulta previa. Currently, the approval of environmental qualification of a project is granted, in a first instance, by a committee of regional representatives of the different ministries evaluating the environmental permits for specific projects. A project receiving a negative answer in the first instance may appeal to a superior authority: a committee of the ministers responsible for the same environmental permits, who will re-evaluate the project, giving a rejection or an approval with new requirements.

Value-added Economic Development
Financial incentives that seek to increase research and development in Chile. Financial incentives that seek to increase research and development in Chile. Financial incentives that seek to increase research and development in Chile. Financial incentives that seek to increase research and development in Chile.