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**BUSINESS OPPORTUNITIES IN THE  
CONSTRUCTION AND PUBLIC WORKS INDUSTRY**

**PRESENTATION BY  
MR. HERNAN DOREN L.**

**PRESIDENT OF THE  
CHILEAN CHAMBER OF CONSTRUCTION**

**LONDON**

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**CAMARA CHILENA DE  
LA CONSTRUCCION  
Centro Documentación**

**LONDON  
June 2 th. 1997**

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**Introduction**

The strong development shown by Chile since 1984 has reflected on its Gross Domestic Product average annual growth rate of 7% in the past 12 years.

Although certain infrastructure sectors have been key to achieve such progress in the country's economy, some other areas of infrastructure have lagged behind.

Thus, on one side of the coin we can see the infrastructure that provides for communications and electric power supply. In these areas, where both the facilities and the services administration were handed over to the private sector more than a decade ago, no deficits exist, and the expansion plans we know about ensure their future development.

On the other side there is the infrastructure for transport and sanitary services. Here investments and the administration of the services have remained so far in the hands of the State, and this is where the main weaknesses exist, that generate around US\$1.7 billion a year in costs and lost resources. This figure is equivalent to nearly 2.4% of the country's GDP or 11.1% of last year exports. It affects our international competitiveness, and jeopardizes our future development potential.

To avoid such losses as well as to generate new development opportunities, an investment of around US\$19.7 billion is necessary from now to the year 2000, of which 11.7 billion must go to those infrastructure sectors still in the State's hands, which means to nearly double the current investment levels in those areas, especially transport infrastructure and sewage water treatment plants, that show the most severe deficits.

Our Government has given top economic and social priority to investments in Public Works, and is currently making great efforts in the area, but such a challenge is impossible to tackle only with public resources, so private sector involvement is a must, through the creation, construction and administration of infrastructure works.

### **A diagnosis of the Chilean Infrastructure**

#### **Railroads**

Our country was a pioneer in the continent. However, today for various reasons its railroad infrastructure is used at less than 20% of its capacity, with low traffic density and enormous fixed costs. It is also severely deteriorated because of lack of maintenance due to the financial incapacity of the state-owned corporation that manages and operates it, which for years has been suffering losses that have been absorbed by the taxpayers.

To modernize our trains and railroads and their administration, a new Rail Road Act has been enacted which, by a concession, and paying EFE (the state corporation) a fee for the use of the roads and associated services, permits the private sector to operate in freight transport. In late 1994 the first freight transport concession began operating, which was awarded to a joint consortium composed by EFE and private companies with a combined majority stake. Last year the EFE subsidiary FERRONOR which ran the branch line of the north was privatized. In April this year began the process that will ultimately transfer to the private sector the freight operation of the Chilean part of the railroad that connects our port of Arica with the city of La Paz in Bolivia.

EFE's modernization process includes an investment program to restore its railroads and rolling stock, amounting to some US\$150 million, which we believe insufficient, since the minimum investment required is an estimated US\$210 million and for the next few years its is around 432 million. Last year EFE contracted the implementation of a substantial project to replace part of the railroad support system by modern concrete crossties.

As for passenger transport, the Government has announced that it will soon put up for a public offering its Santiago - Puerto Montt stretch to the south. Also the possibility of a concession is being studied for a high-speed train between Santiago, the capital city, and Valparaíso, the principal port of the country. And, there are also projects to develop suburban trains in the capital city and another two of our main urban centers.

## Roads

The Chilean Interurban Network runs an extension of 80,000 kilometers, of which barely 13,000 or 16% are paved. Their maintenance condition is poor. The road network of the country has hardly changed since the seventies, despite that the traffic has almost quadruplicated.

To solve the above situation a significant investment plan is needed to repair the roads, carry out a minimum plan to improve standards and to extend the trunk network's double lane.

It is also necessary to build new safe and expedite accesses to each and every city and port served by the 3,100-kilometers-long trunk road, as well as other associated works such as signs, lights, demarcations, etc.

The investment required to implement these projects implies to nearly double the annual 714 million that were invested on average in 1995 and 1996, that is to bring the figure to US\$1.35 billion per year from now to the year 2000.

As for urban streets and speedways, the solutions must conjugate a number of measures, for increased investments and expanded supply together with a rationalized demand and improved management. Only in the next four years US\$2.3 billion must be invested in urban ways, at a rate of US\$576 million a year, as compared to the 1995-96 figure of only US\$276 a year.

To undertake these investments with the participation of the privates, the Public Works Concessions Act was enacted. Since 1993, when this modality started, 12 projects have been granted in concession, 4 of which are already in operation, with a combined investment of over US\$1.46 billion, and for the next three years the public offering program contemplates concessions in both interurban and urban ways, that will demand an investment of US\$3.04 billion.

In general terms, this system establishes the possibility of private companies financing the construction of specific works, recovering their investment directly through the tolls applied for the use of the works during the concession period.

The most remarkable features of the law that regulates public works concessions are that it can be applied to any public work, and that it provides for a variety of conditions, adjusted to the nature of each project; it is open to competition, since any individual or company, national or foreign, that complies with the conditions, can participate in the bidding; it is open to private initiative, giving incentives to the proposing of project ideas; it is equitable, because it grants bilateral and commutative rights and obligations for the parties to the concession contracts (the State and privates).

### **Airports**

To attend the growing flow of both passengers and cargo, the country has an airport infrastructure made up of the Santiago international airport and a trunk network of 15 airports.

The integration of Chile to the world over the past years, together with the growth in our economic activity, have resulted in that in 1996 the number of passengers in our domestic routes increased to 2.4 million, more than twice the 1985 figure; that the international traffic of passengers increased by over 4 times to 2.2 million over the same period, and that cargo traffic quintuplicated in 10 years.

This strong expansion of airport demand is exceeding our capacity, so most of our airports need to undergo significant enlargement and modernization, that require a combined investment of over US\$205 million from 1997 to 2000.

Here also some advancements are being made to attend part of the investment needs of this sector, through projects that will be implemented through the public works concession modality, where the privates may build new facilities, extend the existing ones, set up stores and parking lots, in a word, to operate every service associated to the arrival and departure of aircrafts. The government's General Aviation Bureau holds the responsibility of controlling aeronautic and safety operations. The private concessionaires in charge of the projects recover their investment through the collection of a certain percentage of airport taxes.

So far the concessions to develop passenger terminals in two airports have been awarded. The offerings timetable contemplates similar concessions in 6 other airports, as well as the expansion of the national passenger terminal of the Arturo Merino Benítez Airport in Santiago.

### **Ports**

Chilean exports have shown a remarkable growth over the past few years, and the port modernization of the eighties that allowed private operation of a few port activities has become insufficient. Moreover, the current port capacity is expected to receive further pressure from the increase in cargo volume that will result from the increased foreign trade that is forecast for the near future.

Chile is in a privileged geographic position in the American continent and the Pacific Ocean. Now we can take the great opportunity given by our neighbors, that are opening and restructuring their economies, to integrate them to the strong development of the Asian countries, providing them the services that will facilitate trading between the two continents.

Of the 32 ports and terminals that make up our port infrastructure, the principal 10 ports are managed by the State through the Chilean Port Corporation EMPORCHI.

Coastal trade excluded, in 1996 50.8 million tons of foreign trade were moved, with almost an equal share between the state-managed and private ports. Only that the former transported 85% of the general cargo that is composed of our main export products, which explains EMPORCHI's significance in our exports' competitiveness, which is being affected by it since most of the ports are overloaded.

In 1995, the Government sent a bill to Congress for the modernization of the port industry, transforming EMPORCHI's legal and operating structure so as to promote competition among the ten ports it manages and thus put an end to inefficiencies and crossed subsidies.

Although privatization has been ruled out, important changes will be introduced, decentralizing EMPORCHI into ten autonomous subsidiaries, open to private participation in investments and port administration. Concessions will be granted both for the development of existing moorings as well as for new ones.

The bill is expected to pass very soon, and investment plans and timetables for each port are already being prepared, to expedite public offerings as soon as the law is enacted, so the private sector can materialize the necessary investments in the industry, that add up to US\$462 from now to the year 2000. This, together with expanding port capacity, will create new incentives for improved management and efficiency in our ports, provided that the final discussions clarify some aspects that endanger the original bill.

#### **Sanitary services**

As for sanitary infrastructure, although our urban drinking water and sewage coverage are relatively high at 98% and 86% respectively, as compared with the rest of the continent, our goal is to reach 100% coverage by the year 2000, and incorporate 200 new drinking water services in populated rural zones not yet supplied.

To achieve that goal means to connect the zones not served as yet, and to absorb the projected increase in demand that will come from both the natural population growth and the increased per capita consumption resulting from the expected increase in personal income. Thus it will be necessary to expand the networks and matrixes and carry out projects to find new water sources, to make water drinkable, and to replace deteriorated and obsolete assets.

As for sanitation, the goal is to increase treated sewage water coverage from the current 15% to 70% in the year 2000, for which it is necessary to start as soon as possible a treatment plant construction program, with investments that will range from US\$825 and 1.55 billion, depending on the degree of purity and the technology of the treatment adopted.

To carry out these development plans in the sanitary sector, an investment of US\$552 million a year is required for the next 4 years, a figure that exceeds by over 150% the investment of each of the past two years.

The infrastructure deficit that exists in this field, together with the need to upgrade the public companies' management, call for private participation in this area.

To this end, the Government sent to Congress some legal amendments to adequate the sector, where 13 state-owned companies operate, adding up to a combined 93% of the total services. If passed, the Executive's bill will privatize up to 65% of their property.

Although some aspects of the bill must be improved, it is a significant step forward that we expect will help solve the industry's shortcomings of today.

### **Opportunities in Chilean Infrastructure**

Chile's future development is linked to the investment we are able to channel to meet our public infrastructure needs, a task that will demand shared efforts from the State and private investors.

Thus, Chile offers great business opportunities in infrastructure, where large investments are imperative. The Government has given top priority to resolving this sector's problems, and is engaged in implementing measures to attract investments, in such a way that the privates assume the bigger responsibility of filling the existing deficits, be it by means of concessions or through the total or partial privatization of public companies.

These opportunities are also open to foreign investors. Our Foreign Investment Code provides for benefits and guaranties for foreign capital investment and repatriation. It ensures foreign investors non-discriminatory treatment, free access to the exchange market, and no State intervention in their activities.

The Chilean construction activity has not been left aside of the market globalization process. Today any foreign company can invest and work in the country, and be treated the same way as a national one. These have learned to relate to business people from all around the world who are willing to take the opportunities offered by our country.



Our domestic market is too small for projects that need large economies of scale to be profitable, so the private sector has started to turn to other countries to place their investments. The second step was to internationalize the services, and there has been an interesting development of the production and distribution of electric power, as well as projects in the banking area, in manufacture, and several other services.

In this new stage, opportunities are oriented to the creation of alliances that incorporate into investment projects some degree of technological innovation, management capacity, financing and, where possible, market backup. In this sense, Chile must be considered a long beachhead that, with the appropriate infrastructure and commercial services, may become the Western exit for vast areas of the southern continent that are having a growing interest in international trade, such as the mediterranean areas of Bolivia, Paraguay, Brazil, Uruguay and Argentina, connecting them with the enormous Pacific Rim markets.

The auspicious economic forecast of our country ensure that this continental platform will also be favorable for penetrating into those new markets. In this sense, it may be important to create an integrated land and sea transport system, that includes developing national and international railroads to complement the others, as well as projects in airports and ports.

The physical integration with our neighbors in the continent, by improving our existing trans-Andean roads as well as building new ones, opens additional possibilities for communications and transport of freight and passengers, for the exchange of energy in all its forms and for the optimization of the water resources.

Our development strategy is determined by our being a small open economy. England is one of the eight principal countries with whom we trade: the fourteenth source of our imports and fourth as destination of our exports. But beyond this trade, we can create interesting business relationships in some of our weak infrastructure areas, where you have a wider experience, significant developments, and advanced technology.

Thus, for instance, concessions in public works, especially highways, have great potential for the development of joint ventures and investments between Chilean and British companies. Our doors are also open for investments in other sectors such as railroads, sewage water plants and ports.

Besides, with your great experience in railroads, you can help us recuperate this means of transport, defining solutions and making the investments we need.

Similarly, ports offer great projections for investing and creating alliances between Chilean and British companies.

Together with the need to materialize the substantial financing we need to carry out our projects, which will depend on the public or private nature of the projects, and on the mechanisms under which private capital can participate in each area of infrastructure, we need to incorporate modern technologies for equipment, facilities and inputs, and for construction processes.

Although we do not have a study on the country's installed capacity of construction machinery and equipment, or on the current available capacity, it is clear that if we are to double the investment in infrastructure, an important demand will be created in the sector, which will have to be covered in the most part by imports.

In Europe you have developed a good variety of high-tech equipment, and the competition with American and Japanese technology will depend on our specific needs, the post-sale service you can offer and your price and payment conditions, as compared with other alternatives.

In terms of technology, our needs are large and varied: we need new systems for sewage water treatment, for railroads development, for safety systems and land aids for air navigation, for modern toll mechanisms, road signs and safety systems, port load moving equipment, to name some.

So, we invite you to share in the great challenge it is for Chile to resolve its infrastructure problems, engaging in joint projects with us.

So far we Chilean business people have overcome most of the obstacles to place our country on the path to development. We are certain that once again we will face this new challenge successfully, and the possibility of doing it with the cooperation of countries like yours, make us optimistic about our accomplishing it.

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**INVERSIÓN EN CONSTRUCCIÓN  
EN EL PERÍODO 1995 - 1996 Y  
CATASTRADA PARA EL PERÍODO 1997**

SECTOR	Estimada		Proyectada	Estimada	Proyectada
	1995	1996	1997	96/95	97/96
	Millones de US \$ de 1996			% de Variación Anual	
<b>VIVIENDA</b>	3,125.9	3,415.6	3,397.4	9.3%	-0.5%
Pública	489.1	499.3	516.1	2.1%	3.4%
Privada	2,636.8	2,916.3	2,881.3	10.6%	-1.2%
<b>INFRAESTRUCTURA</b>	4,204.5	4,655.2	5,243.1	10.7%	12.6%
Pública	1,413.6	1,747.5	2,258.8	23.6%	29.3%
Servicios	1,282.2	1,448.0	1,654.2	12.9%	14.2%
Concesiones O.P.	52.1	227.7	515.4	337.4%	126.4%
Empresas	79.4	71.9	89.3	-9.4%	24.2%
Privada	2,790.9	2,907.7	2,984.3	4.2%	2.6%
Catastro	1,887.7	2,404.6	2,487.9	27.4%	3.5%
EE.PP. Productivas	230.4	273.8	296.4	18.9%	8.2%
Resto	672.8	229.3	200.0	-65.9%	-12.8%
<b>I. CONSTRUCCION</b>	7,330.4	8,070.8	8,640.4	10.1%	7.1%
Pública	2,081.0	2,292.9	2,555.9	10.2%	11.1%
Privada	5,249.4	5,777.9	6,084.6	10.1%	5.3%
<b>PIB CONSTRUCCIÓN</b>	3,658.9	4,027.6	4,311.8	10.1%	7.1%
<b>PIB GLOBAL</b>	67,062.1	71,906.2	75,861.0	7.2%	5.5%
<b>FBCF</b>	15,768.7	17,598.6	18,689.7	11.6%	6.2%
<b>FBCF/PIB (%)</b>	23.5%	24.5%	24.6%	4.1%	0.7%