

Chile-U.S Free Trade Agreement: lessons and best practices

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The successful conclusion of trade negotiations between Chile and the United States in December meant excellent News for free trade in the Americas and a boost to economic expectations. Indeed, the 2001-2002 economic cycle was particularly adverse for the world's economy. In addition to the terrorist attacks to the Twin Towers and its impact on international finances, air transportation, insurance and foreign trade, the public witnessed a serie of accounting scandals in big enterprises that shattered confidence on corporate ethics, which in turn had a severe impact on stock markets. The terrorist threat provoked tighter security measures in customs, ports and airports, increasing transaction costs at a moment when weak demand prevailed.

In this context, the conclusion of these negotiations was like a dam, containing protectionism and stimulating negotiations of the FTAA and the Doha Development Round of WTO, raising economic expectations of investors and exporters, appreciative of the true commitment of the USA with Free Trade. It should be stressed that this is the most comprehensive agreement that the USA has ever negotiated: an agreement with no exceptions, that includes all the difficult issues of the international trade agenda, like agriculture and textiles; that establishes an adequate balance between labor, environmental and trade issues, with a democratic country where labor organizations are an important political player; and that includes, for the first time, e-commerce.

The interest of the USA and the EU in negotiating a free trade agreement with Chile does not lie in the size of our market. The strength of Chile is to be found in its institutional stability, in the transparency of public and private decision-making, in its strategy of opening up trade, in the quality of its macroeconomic management and in its solid financial system. Chile had a smooth political transition, with democratic reforms that were undertaken with complete independence of the political powers, low levels of corruption, full respect of human rights and an active presence in regional and world foras promoting free trade.

This is the achievement of several decades, and has required the convergence of a variety of political and economic actors, conforming a culture open to the world. These are achievements that were not easy neither fast, however, as they work, they facilitate consensus-building needed to face the challenge of sophisticated negotiations as the ones Chile has concluded with the United States and the European Union.

These negotiations cover a broad agenda of public policies and end up transforming the political economy of the State, linking them with international judicial commitments. In effect, it consolidates a strategy of export-oriented

openness, and juridical certainty for exporters and investors is reinforced, granting the foreign investor a non-discriminatory treatment.

This feature is very important since the negotiations were concluded at a moment of great dissatisfaction in Latin America with the economic cycle and with the results of the economic reforms that the region has undertaken since mid 80s. Latin America is undergoing a moment of slow growth, rising unemployment rates, soaring poverty indicators, and its discredited and worn-out political systems are under stress.

In the region, today, it is not evident for the main political forces that it is possible to grow with equal opportunities, in a context of trade openness. The voices of anti-globalization spread out and have a prominent coverage in international congresses and in the News media. In this context, the Chilean case out stands as a center-left experience that has persisted in the route of market-friendly economic reforms, with a rigorous macroeconomic management, institutional stability and a bold policy oriented to exports, that demonstrate that it is possible to conciliate competitiveness and social cohesion with an aggressive liberalization of trade, economic growth, and a sharp reduction of the levels of poverty.

The new international scenario grants a strategic dimension to free trade negotiations. We fully support the United States in its commitment to a successful conclusion of the WTO round, in its stand for FTAA deadlines and in favor of balanced and comprehensive negotiations. We are confident that the promulgation of the FTA between Chile and the USA will be an endorsement for regional efforts of liberalization, as well as a precise incentive to those who believe that free trade, a market economy and a democratic system mutually reinforce each other.

In the next pages, we will develop some of the main lessons and best practices that we have learned and practiced in this negotiation.

I. NINE LESSONS

1.- PERSISTENCE ON THE OBJECTIVE

A FTA with the USA is a longtime sought goal of our trade policy. Chile was the first country to react to the Initiative of the Americas, promoted by President George Bush senior in 1991. Carla Hills played an outstanding role in this process.

Later, under the Administration of President Clinton we were damaged by the difficulties experimented by the trade agenda in the Capitol, striking eight years in a row without granting an authorization for trade negotiations. The American authorities always highlighted Chile's best rights to access a FTA with the United States, insisting that Chile headed the "waiting list", considering its good economic and trade performance. Nevertheless, the differences on the link between labor and trade impeded a bipartisan consensus on the American

trade agenda, differing our negotiations. The negotiation with Jordan opened a space for those democrats more worried by the labor issue than by trade to look for a more balanced approach towards labor and trade.

Therefore, at the end of the Clinton Administration, after the US initiated trade negotiations with Jordan in October, 2001, and after the US announced negotiations with Singapore the 15th of November of the same year, Chile was invited to initiate trade negotiations with the US.

President Lagos welcomed immediately the invitation and a week after the announcement we were already in Washington with a text proposal for 17 of the 19 chapters, bringing in addition another diskette with a comparative analysis of Chilean and American positions in each of the issues covered by the FTAA.

We incurred in the risk of engaging in negotiation with an administration that was ending and we initiated them without a fast-track, convinced that the trade agenda would impose it very soon. Negotiations were ratified by President Bush and were engaged without fast-track, developing at a good rhythm up to December 2001.

The pledge of President Bush and Ambassador Zoellick to obtain the approval of the TPA begun to bear their fruits and it led to a virtual freezing of the negotiations in the first semester of 2002, waiting for the approval of the TPA and avoiding to touch on TPA sensible issues: labor, environment, investment, and dispute settlements. We waited with patience this approval and after that, between September and December, negotiations were successfully concluded. There was, therefore, a persistence that exceeded a decade in this objective.

2.- OPENING VOCATION : ACTIVE TRADE AGENDA

During this time, Chile did not wait passively. In the first half of the 90s, Chile established Economic Complementary Agreements, ECA, with Mexico, Mercosur and the Andean Area. In 1996, a FTA is signed with Canada and in 1998 the ECA with Mexico was deepened, transforming it into a FTA, along the lines of the NAFTA model. In 1999, we concluded the FTA negotiations with C. America, also along the lines of NAFTA model.

In April 2000, Chile initiates negotiations for a FTA with the European Union, which concluded successfully in April 2002, being enforced February the 1st, 2003.

With South Korea, negotiations were initiated in mid 2001. Negotiations concluded October the 1st and both Foreign Affairs Ministers signed the agreement in February, 2003, in Seoul and we are initiating legislative procedures of ratification. This is the first FTA between an Asian economy and a non-Asian economy and we expect to further consolidate our trade relationship with Asia-Pacific.

We just finished the negotiations for a FTA with EFTA and we expect to sign the agreement next June in Norway.

In the second semester we will initiate negotiations for a FTA with New Zealand and Singapore in what would be the first trilateral transpacific agreement. We hope that with this, and with the agreement with Korea, they could stimulate a dynamic of trade liberalization in APEC. We should remember that in 2004 Chile will be the host of APEC.

In short, we have waited for more than a decade for a FTA with the USA but in the meantime we have moved forward opening up our main markets: European Union, EFTA, South Korea, Canada, Mexico, Central America and South America.

Today we have access to a market of 858 million consumers, thanks to the network of trade agreements that we have build-up. Our next objective is to deepen our trade relations with India, China and Japan.

The next promulgation of the agreement with the USA consolidates our option for export-oriented development but our bet is still to be a global-trader, with diversified foreign trade in products and in markets.

3.- STRATEGIC ORIENTATIONS: OPEN ECONOMY

One of the main achievements in the Chilean experience is the constitution of a solid national consensus on the export strategy. Politicians, academics, entrepreneurs and labor leaders agree that the economic and social destiny of Chile is to reinforce its international insertion, taking advantage of the opportunities offered by globalization and limiting its risks.

Opinion polls show that 75% of the population approves with enthusiasm the FTAs concluded with the EU and the USA: they understand the challenges that they embody but they also understand that the road to development is loaded with demanding requirements and challenges.

We are a very small market (15 million inhabitants). To grow at a rate of 6% each year, we need that our exports grow at 10% and that non-traditional exports grow at 12% or 14%. Thanks to a growth based on exports, in the 90s we could reduce the rate of poverty from 47% of the population to just a 20%. Chile is indeed the experience of a developing country that shows that it is possible to conciliate growth with equal opportunities.

4.- CONSISTENCY BETWEEN TRADE POLICY AND MACROECONOMIC POLICY

Chilean experience shows high economic growth, macroeconomic stability, trade and financial opening to world markets, strong institutional framework and concentration of social policies in reducing poverty and promoting greater

equality of opportunities.

Our macroeconomic experience is known in the world. Inflation rate declined from 27% in 1990 to 3-4% today, maintaining inflation within the target band of 2-4%, with interest rates at a historical low level, given our low country-risk; our fiscal policy includes a rule oriented approach, on the basis of a structural balance measure, a surplus of 1% of GDP, with a counter-cyclical bias in public finances. We maintain a freely floating exchange rate, with flexibility to deal with external shocks. Our level of international reserves is very high and the level of government external indebtedness is very low.

We have learned that there is a structural link between trade liberalization, macroeconomic stability, institutional and economic growth. Export-oriented growth is the best scenario to upgrade global efficiency or total productivity factors. Low levels of protection and the elimination of the anti-export bias, allow for exploiting economies of scale and of scope, technological externalities, adequate access to a better quality of inputs and higher levels of foreign investment, all key factors for stimulating growth and productivity.

Trade liberalization reduces the costs of production through cheaper inputs and capital goods, stimulates innovation and creativity, favours access to technological change and reinforces connectivity to the global economy. Macroeconomic stability, in conjunction with trade liberalization, allows for incentives to adjust to comparative advantages; institutional stability reinforces property rights and attracts long-term foreign direct investment. In a nutshell, the best scenario for increases in productivity, diffusion of technological change and the entrepreneurial spirit is one of trade opening up. When this opening up takes place in a context of macroeconomic stability and the reinforcement of institutions, it is possible to access higher rates of growth. This is an important lesson from the Chilean experience.

5.- STRONG ECONOMIC INSTITUTIONS

The opening up of trade and macroeconomic stability is not sufficient, if they do not go with solid economic institutions that reinforces the stability of incentives, the transparency of public decisions, and unless they cope with market imperfections -externalities, natural monopolies and problems of information- with market friendly criteria.

In this sense, economic reforms in Chile show a successful decade of an autonomous Central Bank, a financial system highly capitalized, with a solid and prudential supervision and with regulatory agencies specialized and highly technical.

Other important institutional innovations were:

i) A modern system of social security based on individual saving accounts, that have reduced the pressure on the fiscal deficit, bringing, moreover, domestic savings;

- ii) A new system of unemployment insurance oriented to enhance social safety net without distorting the labor market;
- iii) A sustained upgrade in transport infrastructure through Build-Operate-Transfer (BOT) concessions;
- iv) Advances in digital government, including the 60% of taxes that are now paid through Internet: that government purchases will be on-line in 2004.

6.- STRENGTH OF DEMOCRATIC INSTITUTIONS

Institutional economists have taught us that transaction costs reduces the efficiency of the economic processes. There lies the importance to blend sound macroeconomic policies and the export-oriented strategy with an independent judicial system, a transparent electoral system, and with guarantees for all the citizens, low levels of corruption and major transparency.

7.- TO REINFORCE THE LINK BETWEEN COMPETITIVENESS AND SOCIAL COHESION

A scenario of stability and opening up is more appropriate to reinforce this link, with training policies for the work force, broader diffusion of technological change and export support for SMEs. Chilean experience shows a very positive performance in the effects of economic growth on poverty reduction and also in the correction of income distribution, when the effort of focalized social policies is included.

Thanks to export increase, in democracy, social expenditure of the government rised 10% a year from 1990. Chile has the highest level of social indicators among Latin American countries (education, health and housing conditions).

Population living below the poverty line fell from 45% in 1988 to 20% in 2000. Proportion living in extreme poverty fell from 17% to 5% in the above-mentioned period. Ratio between the income of the 20% richest and the 20% poorest is 15 times yet, when social policies are included, this gap declines to 8 times.

8.- TO CONSOLIDATE THE EXPORT-ORIENTED STRATEGY AND THE MACROECONOMIC REGIME

The main objective of this negotiation has been to consolidate and to deepen the orientation towards exports, increasing the potential level of our GDP, thanks to the higher exports and the attraction of foreign direct investment. The FTA with the US generates certainty and clear rules in trade and investments, reducing transaction costs and favoring new exporters and investors in both parties.

The agreement allows to build a preferential relationship with the greatest economy of the world, consolidating preferential access (GSP), compensating for preferential access of third countries and creating new preferential access.

The agreement eliminates tariff escalation, giving a great impulse to our efforts to diversify exports. More important, the FTA stimulate entrepreneurial

partnership and reinforce productive internationalization, reaching benefits for our strategic bet on e-commerce, digital government and broader diffusion of telecommunications to every corner of our country.

The closer link with American trade and management practices is an important incentive to promote competitiveness, the incorporation of new technologies, to improve quality by reinforcing learning process and training activities.

The chapters on services, investment and financial services would allow to attract more FDI flows and to deepen our domestic financial market, including long term capital and support for innovators (seed capital). This strengthens the competition, reducing credit costs and widening the scope of financial products available to customers and enterprises.

Additionally, the FTAs with US, EU and South Korea, give more viability to our objective to build a bridge of trade and investment between the South of America and Asia Pacific. In more normal times for the world economy and with the restoration of higher flows of external capital, Chile may become a regional investment platform.

a) Main achievements in market access.

The FTA with US considers a free trade area with no exceptions. In other words, this FTA is the more comprehensive and deep agreement negotiated by the US, including the treatment of agricultural and textile products, the most conflictive areas of the international trade agenda. The agreement consolidates the GSP, eliminates the tariff escalation, and includes a clause of standstill and liberalizing reviews. The negotiation also gives the opportunity to zero tariffs for all non-agricultural products that may be included in the GSP, like shoes, for example.

There is a commitment to the non-application of subsidies in agricultural exports to Chile and the installation of a bilateral committee for programming marketing and quality (marketing order, program of promotion and information).

There is an immediate elimination of tariffs for wood and wood products, textiles and clothes, mining, fishery (fresh, frozen and smoked), chemicals and metalmechanics.

94% of Chilean agricultural products will have an immediate elimination of tariffs. Sensitive products incorporate tariff-free quotas and the gradual elimination of extra quota tariffs. All sensitive products end up with free trade except ad-hoc considerations for sugar. Then, 100% of present and potential trade will have a zero tariff in a maximum of 12 years, without quotas and restrictions. From this point of view, US offer matches the European offer in industry, mining, forestry, fruits and vegetables; it's better in meats, dairy products and fishing, and is inferior in agroindustry.

b) The impacts on macroeconomic stability

In a more general approach, the agreements with EU and US reduce the volatility of growth, that hurts the sustainability of investment, the elasticity of employment with respect to the level of economic activity and the level of social expenditure. These agreements reduce the external and internal causes of volatility. In the first case, with the diversification of exports, terms of trade become more endogenous, reducing the variance of growth and the variance of public finances. In financial terms, we expect more stability of the flows of financial capital, more dependent on the net profits of the projects and less on the circumstances of regional environment, because of juridical certainty.

The internal causes of instability are also reduced. The stability of policies and of economic institutions is reinforced, including intellectual property rights and predictability of the rules of the game. The most important issue is that the economic policy becomes a State-policy, with international obligations that consolidates the option of export-oriented growth and attracting FDI, with non-discriminatory treatment.

9. FTA AND THIRD GENERATION ECONOMIC REFORMS

The demanding requests of the FTA that Chile has negotiated with the EU are considerable because they cover the complete set of economic policies. In addition to consecrate the complete liberalization of goods, a high level of opening up in services, investments, financial services, telecommunication, e-commerce and public purchases. Strict disciplines are established in customs procedures, technical norms and sanitary and phytosanitary standards and aspects.

On the other hand, the demands in matters related to transparency and information to the public, in relation to the economic policy-making are WTO-plus and they impose a high degree of technical and professional requirements to the public function. The commitments in intellectual property means that it will be necessary to strengthen the enforcement of our legislation, making dramatic advances in the combat against piracy in videos, CDs, software and digital transmissions. To a great extent that will mean that it will be necessary to adjust our legislation and administrative norms. The complexity of much of these commitments lead the negotiators to incorporate time limits of 2 and even 4 years for the full implementation of some of these measures.

The former means that last generation FTAs seems to be more appropriate with economies that are advanced in the third generation of economic reforms (macroeconomic, institutions and microeconomic). This is to say, that once the structural reforms are tackled and following the appropriate sequence (stabilization, fiscal control, trade opening up, privatization, and financial opening up), the second generation reforms are resolved (institutional, autonomy of the Central Bank, independence of regulatory agencies, public management) and the third generation of reforms is well advanced (social and microeconomic reforms), a FTA with the demands described could be

assimilated without an excessive stress and pressures on the economic and political institutionality.

In theory, to agree on FTAs so demanding like the ones that Chile and Singapore have negotiated with the United States, without having finished the previous reforms, could be counterproductive. If not, the FTA itself will act like a third generation reform, without building before the economic and institutional conditions. This could mean a scenario of frequent controversy between the parties because of reiterated non-compliance with the commitments of the agreement, with all the complication that this adds to the political systems. To enhance transparency and efficiency in customs decisions or in SPS agencies is not a short-term task. Neither to change the practices of Bank regulators is something that can be improvised.

Fortunately in our case, all the international indicators show that the Chilean economy is in a good position in these reforms. This means that, in general, the commitments that were engaged in the FTAs with the United States and the EU do not modify our policies, they rather consolidate the present situation and in those cases in which we consider that the full implementation of what has been agreed demand resources and training of our functionaries, in a very responsible way, we have requested more reasonable time limits to gradually adjust to its conformance.

Commitments that are reckless and forcefully exceed the potential of the public sector can affect the fluidity of trade and of investments, leading to a series of controversies that could harm the main goal of a FTA: create conditions for stability and juridical certainty for the decision-making of exporters and investors.

II. SOME BEST PRACTICES

1.- A goal with National Consensus

The negotiations with mega-markets of the type of the US or the EU lead to great debates in the congress, entrepreneurial associations, labor unions and News medias. Because of this very same reason, part of the success of these negotiations consists in understanding the importance of building national stands on the main issues of the negotiation, with the most transparent process and information as possible. This part of the negotiations is the most intensive in time and has major political complications. Nevertheless, the time invested has a very high rate of return because this it is what makes possible to make decisions that will be endorsed by the main economic and political actors.

The definition of unified positions starts with the work within the government itself. This task is complex, given the big number and diversity of agencies involved in the negotiations. In our case, we are talking about more or less 90 public officers that belong to 10 different ministeries and 8 specialized

agencies. During the two years negotiation, these public officials could not abandon the agenda of their own ministry, which meant an additional tension in the process of building cohesive governmental positions. As it is known, behind each ministry or agency there are institutional attributions or administrative practices that very often are not easy to modify.

a) Ministers Committee

At the beginning of the incumbent administration, a ministers committee was defined to tackle the different issues in the trade agenda: WTO, FTAA, bilateral negotiations, controversies, etc. For an out-ward looking economy like the Chilean one, this agenda is a vital aspect of its economic policy and covers decisions that involve several ministries. In this way, the Interministerial Committee for Foreign Economic Affairs was created, headed by the Minister of Foreign Affairs, and integrated by the Ministers of Finance, Economy, Agriculture and the General Secretariat of the Government. The technical secretary of the Committee is the head of International Economic Negotiations (Director General of International Economic Relations).

This interministerial committee was very useful in the negotiations with the EU, with South Korea and with the US, since it assessed the course of the negotiations and made the main decisions. At a couple of moments during the negotiation with the US, the committee met with the President to define the strategy or to take the last decisions. The committee was supported by a group of advisors that prepared the documents for the ministerial meetings. During the administration of Pd. Lagos, from March 2000, this Interministerial Committee met in 25 occasions, which means an average of one meeting each month and a half.

b) Advisory Council for the FTA with the United States

Once the negotiations started, an Advisory Council for the FTA was formed, which included members of the parliament, academics, former Ambassadors to the US and former ministers, favouring the Knowledge they had about the US. This Council had the participation of around 20 persons and met around eight times with the Ministers of the Interministerial Committee, being informed of the march of the negotiations and receiving their points of view and suggestions on several aspects of them. Several of the members of this Council participated in missions to Washington, meeting members of the Congress, administration authorities, NGOs, entrepreneurial and labor organizations.

To the extent that the members of the Council are influential in the public opinion, they transform themselves into valuable allies to transmit messages to the Congress or to the business community.

c) Work with the private sector

DIRECON has close working relations with business and export organizations. However, in this opportunity it was necessary to build formal instances to channel the dialogue on the negotiations with the US. This meant a great

number of sessions, seminars and presentations on the goals of the negotiation, the definition of sensitive areas, modalities of negotiations and contacts between the Chilean and American private sectors to build spaces for convergence. This is the unknown part, but it is also the most eroding of all the negotiations. They consist of activities with a very low public profile but fundamental in order to define the negotiating position of the country. This work ended in the "room next door", which is explained later. The good work that was done with the private sector in the course of these negotiations allows today to preserve good working relations in Chile between the government and the private sector for the modernization of our export strategy.

d) Work with the Congress

One aspect that is highly sensitive is the contact with members of the Congress. Here the work was done basically with the commissions of Foreign Affairs of the Senate and the House, through a series of meetings in which was presented the state of advance of the negotiations and were received the comments of the parliamentarians.

The sensitivity of the issue lies in the high degree of public exposure of the parliamentary work and the difficulty of fully disclosing all the aspects of the strategy of negotiation, both domestic and external. What is required here is the mutually binding support of a core of congress-members that fully understand these issues and the characteristics of these negotiations so they transmit to the public opinion headlines that will reinforce a country vision, avoiding the emergence of divisive issues that could affect the work between the government and the private sector. We had this important support of our Congress.

e) Work with the Communication Media

In our countries, a FTA with the US unleashes hatred and passions and for our press it will always be a motive for headlines. It is therefore fundamental to keep the cohesion within the government and between the government, the private sector and the Congress during the whole process of negotiation. This means a permanent work to avoid communicational fires, reacting with measure and with information to the News on the US and to persist in the attempt to transmit good News about these negotiations, for example, on the impact of the FTA on exports, economic growth and employment. The pitiful tendency is to highlight the eventual costs that could arise from these negotiations, looking after the conflict between the actors involved. Here also a good part of the job is to try to avoid bad News.

2.- Best Practices in Citizen Participation and Trade Negotiations

In all of the trade negotiations undertaken by Chile, there has been a permanent process of consultation with the business sector, with the aim of properly detecting and interpreting the sensibilities and interests of the different production sectors, which are included in the offers and negotiations,

especially in matters of tariffs and rules of origin. However, historically there has not been a similar dialogue with other sectors of society.

A considerable change began to take place in the mid-1990s, when the General Directorate for International Economic Relations (DIRECON) of the Ministry of Foreign Relations initiated a dialogue with different civil society organizations (environmentalist, academic and union organizations) about international economic negotiations.

This dialogue began during the negotiation of the Free Trade Agreement (FTA) between Chile and Canada (1995-1996), along with which both environmental and labor agreements were signed. This dialogue later intensified when FTAA negotiations began, as did the work of the Committee of Government Representatives on the Participation of Civil Society, just prior to the World Trade Organization Ministerial Meeting in Seattle.

This Committee's work was hindered by the reluctance of some countries participating in the FTAA, who saw in the issues that civil society participated in (the environment and labor issues) a political risk and a strategy on the part of industrialized countries to impose new protectionist trade barriers.

This FTAA Committee's work is very novel and of interest to the Chilean government, since it is the first of its kind to be involved in a trade negotiation of this magnitude and constitutes an important precedent for dealing with the issue of civil society's participation in multilateral negotiations.

In 2000, with President Lagos' government already in power and a new emphasis on the need for dialogue with civil society in all levels of government established by a Presidential Decree to that effect, the FTAA Open Invitation was also strengthened. A broader open invitation was made, with more newspaper inserts, public activities on the part of the authorities, dissemination of information about the FTAA negotiation process and joint initiatives with the interested sectors of civil society.

Starting in 2001, it became clear that the activities of the FTAA Committee needed to be reoriented toward making it more proactive and participative, in order to be able to respond to the concerns and protests that had gradually been arising in response to these negotiations in countries throughout the Hemisphere.

The Chilean government then proposed the establishment of an FTAA Committee of Civil Society (to be made up of representatives of the Hemisphere's civil society and to be complementary to the Committee of Government Representatives on the Participation of Civil Society), which would facilitate greater participation and a real two-way dialogue. This proposal has yet to be embraced by the other FTAA countries.

In 2001 and 2002, during the negotiations with the European Union and the United States, various seminars were held both in Santiago and in other regions, aimed at providing the greatest possible amount of information regarding the negotiations and also receiving contributions and comments.

a) Consultations for Chile-US FTA.

Over the course of the FTA negotiations with the United States in 2001 and 2002, the government carried out a wide variety of activities with civil society, as it had never done before during and previous negotiations, in order to lend transparency to the process and to compile the concerns of all sectors. For example, for the first time in negotiations of this nature, three “rooms next door” were established (for business owners, workers, and small- and medium-sized businesses) to be able to inform and consult with the different sectors during the successive rounds of negotiations. Currently, this process is still under way with the dissemination of the content of the Agreement and the opportunities it opens to the different sectors, as well as the FTA presentation in parliament.

These activities had a great political visibility, with a good response to an open invitation. They included consultations with Congressional Committees, direct consultation of market access offers, specific work with trade unions on Labor Chapter, seminars with all civil society stakeholders.

b) Invitation to participate in the “room next door”

During and after each round of negotiation we gave public information about the evolution of negotiation process at our web site www.direcon.cl

From the tenth round of negotiations (Miami, December 2001), the Government also included three “rooms next door” at negotiating rounds (trade unions, business representatives, SMEs) for information and consultation. This experience helped to build trust between negotiators and private and labor organizations, very useful in the last parts of the negotiation that requires fast and urgent decisions.

The goal of this work is to obtain increased awareness, education and participation about trade negotiation process, to access to inputs regarding trade issues by informed civil society participants and to generate a greater analysis and evaluation of results and impact of trade negotiations, increasing the legitimacy and consensus about trade policy issues, deepening the democratic feature of trade negotiation process, with greater civil society participation

3.- Good Productive Practices

The high degree of orientation towards exports of our productive activity has meant that we are starting to incorporate very quickly the best productive practices that incorporates environmental concerns or the safety of the

consumer, as a strategy of business that pretends to access sophisticated and demanding market-niches.

a) Agricultural Sector

The Ministry of Agriculture created the National Commission of Best Agricultural Practices, an instance conformed by the public and private sector and whose main goal was to promote clean and high quality agriculture.

In the course of 2002, the definition and diffusion of the standards of best agricultural practices was achieved in 4 headings: poultry, pigs, fruit-trees and corn; the design of a proposal to develop systems of normalization; the signature of a Plan of Best Agricultural Practices for the small agriculture.

For the year 2003, the National Commission of Best Agricultural Practices centered its major actions in:

- i) The diffusion of the standards of best agricultural practices in the main headings of the sector;
- ii) To promote a public-private institution of technic normalization for food and agriculture quality;
- iii) To design a proposal for a National System of Registration and Identification of Bovine animals;
- iv) In Agreements of Clean Production of Bovine Meat and Pigs; and,
- v) To advance in the modernization of the public institutionality in food and agriculture matters, especially with regard to what is related to a major coordination between the Ministry of Health and the Ministry of Agriculture.

b) Cattle Sector

In the area of best cattle practices, the programme includes joint actions with the producers, the Agriculture and Cattle Service, SAG in Spanish, veterinary medical doctors and laboratories recognized by SAG, covering objectives like: the upgrade of sanitary conditions of the cattle; to prevent the introduction of exotic diseases; to introduce the concept of good cattle-raising practices, including the use of registers; to develop systems of field and individual identification in the animals that arrive to the slaughterhouse that allow to trace the cattle products originated in the animals that arrive to the slaughterhouse and to endorse the official process of certification of cattle products for national and international trade.

The PABCO allows that the fields in their role as suppliers of slaughter plants, give information certified by SAG in matters related to the sanitary condition of the cattle, at the same time that it guarantees that both the feeding, as well as the general handling of it, runs a minimal risk of presence of medical veterinary residuals in their meat.

At the same time the Association of Poultry Producers and the Association of Pigs Producers have elaborated the Manuals of Best Practices that are part of the Pork and Poultry - Quality Assurance Programme, and complement with the previous programs of modernization of the slaughter plants, with the goal

of giving the maximum safety to consumers in accordance to the concept of "from the farm to the table".

c) Forestry Sector

There is in Chile 250.754 hectares of forest with their forest management certified by the Forest Stewardship Council (FSC), all of them belonging to medium size enterprises such as Forestal Berango, Forestal Bío-Bío, Forestal Millalemu and others. There are also enterprises with FSC certification for its chains of custody. The environmental management of the enterprises certified through the norm ISO 14001 of the ISO system reaches 1.735.516 hectares and includes 12 enterprises.

Regarding the national certification, by the end of April Certfor Chile is already in operation, and will be able to certify more than one million hectares. This initiative led by Fundación Chile and Corma, is a National Standard of Forestry Certification for plantations and natural forest of "lenga" and renewable forest (pine and eucalyptus) with sustainable forestry handling, coherent with our national reality. They are today working on their international homologation.

d) Salmon

The Code of Best Environmental Practices (CBPA, in Spanish)) provides criteria for the sustainable development of the cultivation of Salmon, with a special emphasis on the environment and the optimization of the productive processes. This involves all the productive process of the cultivation of salmon and trout, that is, from the handling of the reproducers, fish eggs, young fishes and smolts, up to the catch of the raised fish.

This clean tool gives environmental and cleaner production criteria and standards that allows the centers of cultivation of salmons in Chile to establish a system of environmental management, under a common framework of application and on a voluntary basis, and in this way to be able to apply for an Eco-label that certify the conformity to the application of good environmental practices to its operation of cultivation.

The World Wildlife Fund (WWF) of Norway informed Chile that among all the standards that exist in the world, the CBPA developed by Fundación Chile is the most detailed, friendly, auditable and with the best environment orientation.

The CBPA was assessed and accepted by the independent certifying enterprise Lloyd's Register Quality Assurance (LRQA), one of the main enterprises of the world, which will allow to obtain a certification with world-wide recognition and validity. A Unity of Certification of Products (UCP, in Spanish) was also created and it counts with the accreditation of Instituto Nacional de Normalización, through which the Eco-labels will be given to the final product, in provenance from centers certified by Lloyd's.

4.- SHARE THE EXPERIENCE AND SPREAD FREE TRADE

When the initiation of the negotiations with the US was announced, the initial reaction of Mercosur, where Chile is an associated member, was not very positive. Six months later it was Mercosur itself that asked for a direct negotiation with the USA. Today, there are several members of Mercosur and the Andean Community that have incorporated in their agendas the possibility of a bilateral agreement with the USA. This has introduced a sense of urgency to the negotiations in FTAA, pressing for domestic measures opening up the economy and for a national debate on the perspectives of trade liberalization in the Americas.

It is very likely that the negotiations between Chile and the US had spreaded the liberalizing effect in the region, shaping public and private decisions in Mercosur, Andean Community, AC and Central America. There are today more dispositions to sign bilateral trade agreements. Chile is actively participating in this process, updating its agreements of economic complementation with the countries in the region and cooperating with the Caribbean countries with seminars on international negotiations. Chile emphasizes the negotiations of a FTAA, with proposal with broad covering and depth for the liberalization of trade of goods and services, aiming at the establishment of rigorous disciplines that favours juridical certainty for the decisions of exporters and investors.

At the request of several countries of Mercosur, the AC and Central America, we have undertaken activities where we present our organizational and working experience in the negotiations with the USA, as a contribution to spread the goal of free trade

Annex: DIRECON's activities with Civil Society, 2000-2003

Main Activities 2001

- **Business Owners.** DIRECON has collaborated on an ongoing basis with technical groups from the private sector regarding the FTA negotiations between Chile and the United States.
- **Permanent technical consultations.** Throughout the FTA negotiation process, a permanent process of information exchange and technical consultations has taken place between DIRECON and CUT.
- **Invitation to participate in the "room next door".** The Chilean government has invited business owners, medium and small companies representatives and organized workers organizations (CUT) to participate in the FTA negotiation rounds with the US from the so-called "room next door," in order to be able to keep the society informed and available for any technical consultations that may be necessary.
- **National DIRECON-CUT Seminar.** On 9 October in Santiago, DIRECON held the seminar "Economic and Labor Perspectives on a Chile-United States FTA," in conjunction with the Chilean Central Workers' Union (CUT), with the participation of all CUT regional leaders and Executive Council members. An active debate was held between negotiators, academics and union leaders.

- **Informative meeting with unions in Punta Arenas.** On 26 November DIRECON representatives met with CUT and other unions in Punta Arenas to report on the progress of the FTA negotiations, respond to questions and hear the concerns of workers from the Magallanes Region.
- **Meeting with CAMPOCOOP (National Confederation of Farming Cooperatives).** On 22 August a meeting was held with the National Confederation of Farming Cooperatives, an entity that represents an important number of the country's small farmers, with the aim of establishing a place for this organization both in the process of negotiations with the United States and in other negotiations.
- **Seminar with Civil Society on the Chile-United States FTA.** In response to the negotiation process between Chile and the United States, DIRECON, in conjunction with various nongovernmental organizations and academic institutions, held a seminar on 29 August entitled "The Chile-United States FTA, Perspectives and Challenges," where participants were informed about the negotiations and civil society's comments and criticisms were heard.
- **CIPMA-DIRECON seminar on the environmental impact of an FTA between Chile and the United States.** A seminar organized by CIPMA (Center for Environmental Investigation and Planning) and sponsored by DIRECON was held on 2 October to discuss the impact of the FTA with the United States from a sustainable-development perspective, with the participation of members of the negotiation team, academic centers and environmental NGOs.
- **Meeting with Aymaras communities from the First Region of Chile.** On 9 November 2001 in the city of Arica, a meeting was held with more than 20 leaders of the Aymarás community in the north of Chile with the aim of informing them of the main aspects of the process of negotiations between Chile and the United States, and hearing their concerns regarding specific products and general aspects of the negotiations.
- **Regional Seminar in the Ninth Region.** In Temuco on 23 November 2001, DIRECON participated in a discussion seminar on the negotiations with the United States where specific meetings were also held with business sectors and workers from the Region.

Main Activities in 2002

- **Business owners.** DIRECON has collaborated on an ongoing basis with technical groups from the private sector regarding the FTA negotiations between Chile and the United States.
- **Small- and Medium- sized Businesses.** A seminar about the FTA with the United States was held on 27 June for the members of CONUPIA (a national association made up of micro, small- and medium-sized industrialists). Additionally, a permanent informative project was carried out with CONUPIA leaders.
- **ACJR document.** At a meeting held on 10 April 2002, the Chilean Alliance for Just and Responsible Trade (ACJR) submitted a document to DIRECON containing its proposals for the FTA.

- Meeting with Greenpeace. A meeting was held with Greenpeace representatives on 16 April to analyze different aspects of the negotiations between Chile and the United States.
- Dialogue with the cultural world. On 10 May a meeting was held with the Coalition for Cultural Diversity, which represents various Chilean cultural groups, including Plataforma Audiovisual (Audiovisual Platform), SIDARTE (Chilean actors' union), and the Asociación Gremial de Editores Independientes (Professional Association of Independent Publishers), to discuss the inclusion of a cultural reserve in the FTA. This dialogue was maintained throughout the course of the negotiations and representatives of the Coalition participated from the "room next door," along with other service providers.
- Leather and Footwear Federation Seminar. On 5 October, DIRECON organized a seminar on free trade agreements and their impact on the leather and footwear industry in conjunction with the Leather and Footwear Federation in Santiago.
- Mesa Mujer Rural (a rural women's organization). On 28 November, DIRECON representatives met with members of Mesa Mujer Rural at the headquarters of SERNAM (National Women's Service) to inform them on the FTA negotiations and their impact on rural women.
- Function on the FTA and culture. This event was held on 18 December at the Fine Arts Museum in conjunction with the Coalition for Cultural Diversity to inform on the results of the FTA negotiations regarding culture.

***Paper presented to the American Chamber of Commerce in Washington D.C., on 28th april, 2003 /
Presentación efectuada ante la American Chamber of Commerce en Washington D.C., el 28 de abril, 2003***