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INFRASTRUCTURE PANEL

**SITUATION & OUTLOOK OF
PUBLIC INFRASTRUCTURE IN CHILE**

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SITUATION AND OUTLOOK OF PUBLIC INFRASTRUCTURE IN CHILE

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I.- Introduction

Chile is a small country located at the southwestern extreme of South America. It covers an area of 764,000 km² of continental territory, and is bordered to the East with the Andes Mountains and to the West by the Pacific Ocean. It runs 4,390 kilometers from 17°30' and 56°30' south latitude, along a narrow strip of land where the maximum width is of only 445 km. Its population is fourteen million inhabitants.

After overcoming the debt crisis of the early eighties, our country has shown significant achievements: in the last 10 years the Gross Domestic Product has grown at an annual average rate of 6.5% to US\$3,720 per capita in 1994; exports have increased remarkably at nearly 10% per year. This has been achieved thanks to a serious investment effort, which jumped from 13.3% to 26.8% of the National Product in ten years, permitting our traditional sectors to develop and to bring into production other non-traditional areas, both in natural resources and in manufacture & services.

But these accomplishments, based on the application of the market economy model, are not explained only by the sound economy with a considerable increase in productive investments, but also by private sector investments in technology: the private sector has eliminated inefficiencies by speeding, rationalizing, and modernizing its administrative and productive processes, and has substantially reduced its production costs, improved competitiveness and entered new markets.

II.- Infrastructure development: Overview

Being the Chilean development model context one of a small, open, export-oriented economy, **having the adequate public infrastructure is essential in order to meet the aspirations in terms of economic growth and social development** particularly taking into account its geographic location, distant from the large international markets, and its difficult territorial structure.

Unfortunately, both our international competitiveness and our development potential are being severely impaired by inefficiencies and insufficiencies of our infrastructure, despite all the investments made by the Government in recent years. Such shortcomings are resulting in tremendous costs and loss of resources, that we have estimated in US\$1,435 million per year, which accounts for almost 3.0% of our GDP or 12.4% of last year exports.

On the other hand, our country now faces the historical opportunity to become a commercial passageway between Latin America and Asia and create a true "infrastructure services industry" with not only ports, but also airports, roads and railroads, if it will only take advantage of the comparative advantages from its geographical position in the Pacific Basin, its political, social, and economic

stability, the capacity and push of its businessmen, the existence of stowing companies and of financial and telecommunications services, together with the excellent international reputation it has attained as a country.

For all these reasons, **the importance of investment in public infrastructure is no longer debated in Chile.** It is essential for it to grow strongly in the coming years, in order to prevent current losses and create new development opportunities. This, according to a Chilean Chamber of Construction study, will demand an investment of around US\$17,190 over the 1995-2000 period.

III.- Infrastructure Situation and Outlook

1.- Infrastructure sectors where private participation is either total or the majority:

1.1.- Electric power

Since 1980 a regulatory and pricing framework operates in the power sector which has permitted the private sector to enter into service-provision concessions and acquire the property of the facilities.

Seventy-five percent of investments in this area is carried out by private companies, which have achieved sustained growth in productivity and efficiency, high coverage and significant improvement in service quality, a 20% reduction of prices and a 30% increase in wages & salaries in real terms. The sector's private companies have a sound financial position and their operations are profitable, to the extent that they have been able to venture into other countries such as Argentina and Peru, where they have made substantial investments and transferred their know-how and entrepreneurial capacity.

Current electric power production is of 25,000 Gwh/year, and is expected to grow steadily and significantly in the future.

1.2.- Telecommunications

The telecommunications sector, of which 92% was state-operated until 1984, was totally privatized between 1985 and 1990. Since then, foreign capitals have participated strongly, and have made the sector the most dynamic in the economy for the past few years, with a remarkable efficiency level and state of the art technology, which have resulted in the area becoming one of the most important comparative advantages of the country as of today.

Recently the sector legislation has been revised, as well as its pricing scheme and regulatory framework. Important investment programs are under way accounting for a combined US\$2.5 billion for the next five years, all of which ensure the strong development of the sector.

2.- Sectors where private participation is insufficient or nonexistent:

Contrarily, in the transport and the sanitary services areas, particularly in the sewage water treatment, severe infrastructure deficits exist which are turning into a "bottleneck" for our future development, precisely in those areas where the State is either the only or the largest responsible for the production, investments, and service provision.

In order to close the gaps and carry out the new works required for the next six years, it is necessary to raise investment levels in those infrastructure sectors that are still in government hands from the current US\$775 million a year as of the last two year period, to US\$1.67 billion a year.

Aware of the impossibility of confronting the challenge relying only on public resources, and reflecting the Government's concern on the situation, the authorities have given top economic and social priority to the Public Works issue, for which a strong effort is necessary in which the State must be present, but **most of all the private sector, through its participation in the creation, construction, and management of public infrastructure works.**

2.1.- Ports

The remarkable growth in exports that Chile has experienced over the past few years has exceeded the port modernization of the eighties that permitted private participation in some port operations. Furthermore, the present port capacity will be pressed by the growing freight volume that will result from the expected increase in foreign trade.

Of the 32 ports and terminals that make up the domestic port infrastructure, the 10 most important ones are administered by the State through the national port corporation Empresa Portuaria de Chile (EMPORCHI).

Cabotage excluded, last year 41 million metric tons of foreign trade freight were moved, almost in equal parts by public and

private ports, although the former transfers 85% of general freight composed by containers, fruit, timber, copper, and others which are our principal exports. This explains the great significance of EMPORCHI in Chilean foreign trade and its influence on the competitiveness of our exportable products, which is being hampered by most of the ports it administers being congested.

If we are to become a commercial passageway in the Pacific Basin, the competition model in force in Chilean ports must be extended into ports competing between them, focusing on the private sector in order to make port development compatible with the needs of our foreign trade.

To modernize the sector, transforming EMPORCHI in such a way as to foster competition between all the ports it manages and end the existing inefficiencies and crossed subsidies, the Government has decided to study some legal and institutional changes to create a regulating Authority independent of port operation, and a system of maritime concessions with some regulated form of property together with predefined and clear-cut tariff systems for port services.

2.2.- Airports

The country's international integration of recent years and the growth in its economic activity resulted in that the number of passengers in the national air routes more than doubled between 1985 and 1994, to 1.8 million; international passenger air traffic increased **even more** to 1.9 million whereas freight traffic **tripled in 7 years**, exceeding 200,000 tons.

The country has the airport infrastructure of Santiago and a trunk network of 15 airports for national and international passenger flow and foreign trade, most of which are needing substantial extensions and/or modernization.

No tariff system exists in the sector, but a system of rates, rights, concessions, leases, and other encumbrances to airlines and private users who finance the budget of the Civil Aeronautic General Board, dependent from the Air Force to finance its investment plans and operating expenses. All the other planning and control decisions are also under government hands.

Within a competitiveness and development framework where market and sound competition are the main factors of growth, the Air Force should be freed from the commercial aspects of aviation, that are completely alien to its well-known quality of professional training.

The airport network should be granted in concessions for its most part, so that private companies can make the necessary investments to have an efficient and competitive commercial airport service, with clear regulations not distorted by opposing objectives. Fortunately some steps have already been taken, such as accepting to include in the Concessions Program some private projects to execute some works in the sector.

2.3.- Railroads

Our country was the pioneer of railroad transport in the continent and developed heavily until mid-century, permitting the incorporation of vast isolated land extensions into the country's social and economic life. However, with the construction of the Pan-American highway, the rail road lost importance and relapsed gradually ever since.

Today, the railroad infrastructure, that comprises three different areas that cover a total extension of over 6,000 kms is being operated at only 15% of its capacity, with low traffic density and high fixed costs, and is severely deteriorated because of lack of maintenance due to the bad financial condition of the state company that administers and operates it, which for a long time has suffered operating losses that must be covered by the State.

A couple of years ago a new Rail Road Act was enacted to allow private participation in the operation of freight transport through concessions, upon paying the state railroad company a fee for railway use and associated services. Extension of the law into passenger transport is being studied.

2.4.- Roads

Finally, it is no doubt that it is the road sector which demands the biggest effort, since an investment of US\$6.3 billion is needed for the next six years.

2.4.1.- Interurban roads

The Chilean interurban road network has an extension of 80,000 kms. of which 13,000 (16%) are paved, 32,000 (40%) are stone roads, and the remaining 35,000 kms are dirt roads. On top of this low paving and poor road condition is their low maintenance. Currently the road network is no better than it was in the early seventies, despite that the car flow has almost quadrupled.

To solve this situation it is necessary to start an investment plan for road conservation, carry out a minimal upgrading plan and extend the trunk network double-lane. It is also necessary to create new safe and free accesses to each of the cities served by the aforesaid network along its 3,100 kilometers. Signals, lighting, demarcations, and other annex works, as well as access improvements to the country's main ports are also needed.

Despite that a program such as the above described is not an ambitious one, given the poor condition of the interurban road infrastructure, the investments necessary for its execution are twice the average resources that were destined to it in 1993 and 1994. This means that they must increase from US\$345 million a year to an average US\$700 million a year until the year 2000.

It is precisely to tackle this challenge that ways have been opened for private participation in the sector, such as the enforcing of the Public Work Concessions Act, a system basically associated to road infrastructure development, which contemplates a public offering program of US\$2.82 billion for the next 4 years, of which US\$2.2 billion are for road projects.

The private sector is recognizedly interested in the system, and to this end a bill for amending the said Act is being revised, to make it more agile and operative, while the Ministry of Public Works has taken important administrative steps to handle the activity, with which it is expected to be able to solve the current shortcomings.

2.4.2. Urban roads

Severe problems exist in the main urban centers. Here solutions must comprise a set of measures, both to encourage investment to expand supply, and to discourage and rationalize demand. Only in the next six years an investment of US\$2.1 billion is needed in urban roads, while only US\$150 million per year are invested as of now.

The Government has formulated a street works program via concessions, which contemplates a set of 16 projects, with a combined total investment of US\$723 million to be executed between 1995 and 2000. At the same time, a bill is being studied to set up a road toll system aimed at decongesting streets and to obtain from the true users the resources necessary for the construction and maintenance of both the urban and interurban road infrastructure.

2.5.- Sanitary Services

According to the Chilean Chamber of Construction calculations, in order to carry out the sanitary sector's development plans investments of around US\$400 million a year are needed for the next five years, including the urgent construction of sewage water treatment plants which account for needed investments that range from US\$800 million to US\$1.5 billion, depending on the treatment coverage and technology adopted.

In this area, since 1988 several legal bodies have been issued that create a new legal framework, complete, modern and coherent with development, and which makes it possible to transfer the services to the private sector, whereupon the State maintains policy formulation, normative regulation, and quality and coverage control.

Currently 20 concessionaires of sanitary services are in operation, of which 13 are state-owned and account for a combined 93% of total services.

Recently, the Government defined a new strategy and proposed some legal modifications to adjust sector institutionality. Private capital participation is to be raised from 49% to 65% in 11 sanitary state companies under different modalities that range from tendering some services to make management and investment

contracts to a partial sale of the companies to private investors, although such participation has been limited to that same percentage in the two main companies that could legally be privatized totally.

All in all, we do appreciate that ways have been open for increased participation of the private sector, correctly regulated and supervised, which will increase management efficiency, improve service, and ensure the substantial investments required by the sector.

IV.- Final remarks

Chile offers excellent business opportunities in the infrastructure sector, where urgent and substantial investments are needed. The Government has given first priority to the sector problems solution and is committed to the rapid implementation of measures that will attract growing private investment inflows, both by the way of concessions and through the total or partial privatization of public companies.

Such opportunities are available to foreign investors, who may rely on the Foreign Investment Act, the instrument that fosters investments by setting up benefits for capital internation and repatriation, together with granting a non-discriminatory treatment, free access to the foreign exchange market, and non-intervention by the State in investors' activities.

Our development strategy is determined by our being a small open economy. The United States account for one fifth of our foreign trade volume, both as the origin of our imports and as the destination of our exports, for which it is the most important country with which we have commercial links in the world. But beyond trade transactions, with your country we can establish interesting business relations in some of our infrastructure deficit areas where you have great expertise, developments and advanced technology.

Thus, public works concessions, particularly for roads, offer enormous potential for investment opportunities and joint ventures between Chilean and American companies. Also welcome are investments in the other areas of infrastructure such as railroads, concessions for the construction of sewage water treatment plants, and ports.

So far, we Chilean businessmen have been able to overcome most of the obstacles to put 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 through mutual cooperation with a country like your own, enhances our optimism in that we will accomplish it.

Denver, June of 1995.