
comercio internacional

Maritime Transport
**Liberalization and the challenges
to further its implementation in
Chile**

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Contents

Abstract	5
Introduction	7
I. Liberalization of the maritime sector:	
Some elements to consider	9
A. Costs of Transport	9
B. Maritime Transport Services Liberalization.....	11
C. Ports: operation, challenges and the prevailing Model in the Region	13
D. Maritime cabotage traffic	16
II. Chilean Maritime Transport:	
Liberalization and regulation	17
A. Foreign trade and transport cost	17
B. Chilean Liberalization	19
C. Chilean ports	21
D. Regulatory reform and the remaining barriers	22
III. Final considerations	33
Bibliography	35
Serie Comercio internacional: Issues published	37

Index of Tables

Table 1 Freight and insurance expenditures as percentage of imports, CIF	10
Table 2 Challenges for a modern port	14
Table 3 Problems of the traditional port institutions	14
Table 4 Chilean modal split, 2001	18

Table 5 Containers full and empty mobilized by some chilean ports, 2001	22
Table 6. Chilean Cabotage: Main ports, 2001	31

Index of boxes

Box 1 Measures affecting trade in maritime and transport in inland waterways	12
Box 2 Chilean maritime transport regulatory framework	25
Box 3 The “Bottom Line”, evaluation by the private sector of the current barriers	27

Index of Graphics

Graphic 1	Chilean maritime exports in volume	18
Graphic 2	Chilean containedorized trade	19
Graphic 3	TDW of national flag vessels	24
Graphic 4	Chilean crew and officials	24
Graphic 5	Chilean pilotage in the southern channels	28
Graphic 6	Maritime cabotage in Chile	30

Abstract

The liberalization of Maritime Transport is one important element to increase the export competitiveness of a country. In fact, studies remark that, for some countries, the effective rate of protection by the costs of transport is much higher than that of tariffs. One of the most relevant elements in the determination of the costs of maritime transport refers to the efficient management of ports. The global trend towards trade liberalization and integration and economic interdependence led Latin American countries to opt for programs of economic reforms that incorporated the participation of domestic and foreign private agents in sectors of the economy that were previously reserved to the state. Among the most significant of these was the reform of ports. In this area, the most vital seems to be to secure that the competition potential among operators is maximized. In the case of Latin American countries one should consider three factors which concur to the successful implementation of a public/private financing for the ports: a) seeking capital is very important for the financing of investments, since many governments have restricted budgets due to the debt service payments; b) the rapid economic growth has generated new traffic that demands new facilities and more efficient services and, finally, c) the strong competition makes indispensable the improvement of port facilities because otherwise the ports can be displaced by their rivals.

Another problem that affects maritime transport efficiency refers to the regulation of the cabotage traffic. Restrictions to cargo and passenger transport inside the national territory are part of the maritime legislation of nations on a worldwide scale. Several countries still restrict this type of transport to the ships with national flags, and

they establish minimum percentages for crews of national origin. Nonetheless, some countries have liberalized cabotage completely. The liberalization of cabotage traffic brings advantages in terms of: smaller freight costs, better use of idle capacity, higher frequency, higher competition, needlessness of the waivers and more maritime cargo transportation.

Although Chile has been at the forefront of the process of trade liberalization this process has not been without difficulties. In the case of maritime transport Chilean law and regulations have been extensively modified and liberalized. The objective has been the increase of efficiency and the attraction of foreign direct investment. However, there are limits to this process that refer specially to questions of sovereignty, security and simple protectionism. In the area of cabotage and pilotage the evolution of maritime trade liberalization has been an example of the challenges that still face the liberalization process in Chile.

The present document will briefly review the modifications implemented in the Chilean maritime legislation and the difficulties that remain for a more efficient public sector management. Taking into consideration the transformations that happened on a global scale, it discusses some aspects of the maritime transport sector and suggests areas of policy action that may assist the construction of a common regional maritime integration regime.

Introduction

Service activities are becoming the most relevant sector in the world economy. They are incorporated in most of the economic activities, representing around 70% of world value added and 18% of world exports of goods and services. Maritime transport services are one of the main services sectors, together with telecommunications, financial services, business services and tourism.

Trade in services is affected by laws and service regulations that may discriminate against foreign services or foreign services suppliers. Their liberalization is a recent topic, since it entered the multilateral scene at the beginning of the 1980s. The results of negotiations to liberalize services were compiled in the General Agreement on Trade in Services (GATS) under the framework of the World Trade Organization (WTO) that entered into force on January 1, 1995.

It must be stressed that "liberalization of trade in services" means the extension of the multilateral trade system principles to regulation applying to services in each country, i.e., to the widest variety of public policy measures, which must be applied reasonably, objectively and impartially.

The basic principles of GATS are non-discrimination, transparency and progressive liberalization. Non-discrimination refers to twofold principles of most-favored-nation (MFN) and national treatment. The agreement consists of three parts: the main text, which details the general principles and obligations applying to all signatories; the annexes, which deal with regulations applicable to certain sectors; and national schedules of specific commitments, which are arrived at by negotiation and represent the starting point for services liberalization (for details, see ECLAC, 2001).

At the end of the Uruguay Round, an important worldwide movement toward the liberalization of commercial flows was originated. At the same time, the maritime services sector intensified the incorporation of new technologies and began regulatory reforms. As a result, even though there are no multilateral liberalization provisions, this process resulted in the decrease of transport costs.

The liberalization process may also be appreciated at three different levels: unilateral, bilateral and multilateral. According to this characterization, the process of liberalization of transport services in Chile from the middle of the 1970s can be associated to a unilateral opening strategy. Later on, it also incorporated the bilateral and multilateral context. By reviewing this Chilean process of liberalization, we can find examples of the three levels of liberalization. Moreover, the study of the Chilean Maritime Sector can be justified by the extended regulatory reform that this sector has undergone in the country, by the relevance of the sector for the Chilean economy, particularly to its export sector and by the possibility of studying the effects of a more advanced application of regulatory reform in a developing economy.

The present paper will review the modifications implemented in the Chilean maritime legislation and difficulties that remain for a more efficient management of the sector. Taking into consideration the transformations that have happened on a global scale, it discusses some aspects of the maritime transport sector.

The paper is divided in three sections; the first introduces the main issues in the current discussion about liberalization of the maritime transport sector. The second part describes the Chilean legislation of the sector in order to illustrate the changes that have happened as well as the remaining barriers in the Chilean regulation with a view to introducing a greater flexibility in the future. Finally, in the third section the paper suggests areas of policy action that may assist the construction of a common regional maritime integration regime.

I. Liberalization of the maritime sector: some elements to consider

In the first place, it is necessary to choose a definition of the maritime sector. We will adopt the definition of maritime transport services elaborated in Fink, Mattoo and Neagu (2001). According to the authors, the maritime transport is composed of three types of activities:

1. International maritime transport - refers properly to the transport (excluded the cabotage traffic);
2. Auxiliary maritime services – concerns the activities related to the cargo handling in the ports and on ships,
3. Port services - concerns services to the ships in the ports.

This paper will also consider some aspects of cabotage.

A. Costs of Transport and Foreign Trade

One of the main elements that influence the evolution of the external trade of the countries is the cost of transport, apart from the specific elements of each country that increase or decrease the competitiveness of their exports.

In this regard, Clark, Dollar and Micco (2002) pointed out that the importance of the cost of transport is superior to that of tariff barriers. The authors indicate that as long as liberalization spreads to

reduce artificial barriers to trade, the effective rate of protection provided by the costs of transport is much higher than that of tariffs. They indicate that for certain countries, such as Chile and Ecuador, the costs of transport exceed in more than twenty times the tariff averages that these countries face in the North American market for their products. On the other hand, as indicated on table 1 Latin American and the Caribbean imports also suffer the high costs of transport. In fact, in 2000 the countries of the region disbursed 8.58% of the value of their imports of goods in freight and insurance, 38% more than the world average.

Table 1
FREIGHT AND INSURANCE EXPENDITURES
AS PERCENTAGE OF IMPORTS, CIF

	<i>(All modes of transportation)</i>			
	1980	1990	1999	2000
Latin America and the Caribbean	8.85	8.17	7.66	8.58
World	6.64	5.22	5.52	6.21
Developing countries	10.44	8.6	8.39	8.83

Source: UNCTAD, "Review of Maritime Transport", Geneva, 2002, Table 41

According to Hummels (1999), direct evidence based on prices and indirect evidences from volumes indicate that the costs of the maritime freights have increased, while those of airfreights have diminished. Transport costs are intimately linked to the technological developments and to the restructuring process of the private sector as well as to that of the governments.

The promotion of competition and its provision of incentives toward the increment of export competitiveness has been associated with the reduction of transport costs, as has the involvement of the private sector in port investments and operations. As an ECLAC document concludes, for Latin America and the Caribbean the cost and quality of transport services is of increasing importance for the competitiveness, development and economic integration of Latin America and the Caribbean. However, the authors of the document also remark that simple differences in average transport costs should not lead to the conclusion that the system is inefficient. They call the attention to the fact that perhaps this is the sole area where the government can influence towards the reduction of transport costs by, for instance, allowing inter-modal transport services to operate at the national, regional and international levels, although this is currently prohibited in the case of coastal shipping.¹

In this regard, Fink, Mattoo and Neagu (2001) maintain that the traditional determinants of the costs of transport (distance, infrastructure, technology) continue to exercise strong influence on maritime transport costs, although they affirm that private operators' anti-competitive practices have a bigger influence in these prices.

With regard to maritime transport, one could adopt easily the conclusions and recommendations of an OECD (1997) conference on international transport networks and logistics to better understand the costs linked to maritime transport (and, naturally, to multimodal transport). Inter alia, during the Conference certain elements were identified that are necessary for the promotion of multimodal transport. Among them, we believe that the following can also apply to maritime transport.

¹ United Nations, Economic Commission for Latin America and the Caribbean, "The cost of international transport, and integration and competitiveness in Latin America and the Caribbean", FAL Bulletin 191, July 2002, <http://www.eclac.cl/Transporte/noticias/bolfall/2/11072/FAL191e.htm>

1. **Efficiency gains:** development will only occur where there is some economic, financial or environmental advantage to be exploited. Some of these advantages are derived from certain intrinsic elements such as geography, technological developments and opportunities that may arise from the requirements of the chain of transport. However, the potentialities for efficiency gains will only be materialized if appropriate price mechanisms are in place.

2. The existence of **critical mass** that justifies high investments in infrastructure and in logistical support to assure high efficiency and low cost transport services. In spite of the intrinsic tautology of this characteristic, since it could be argued that the existence of critical mass is the one that originates the existence of highly efficient services, it is not less certain that the availability of high efficiency services promotes the formation of critical mass.

3. **Quality of the services.** It is fundamental to have high quality services along the transport chain, that is to say, in all the modes of transport supply. This requires the formation of corridors since, due to the high infrastructure and logistics costs involved, it is almost impossible to attain universal availability.²

B. Maritime Transport Services Liberalization

Data on trade in services are insufficient to provide a basis for empirical studies and therefore have to be supplemented by questionnaires, surveys or some other forms of direct data compilation.

As opposed to trade in goods, where the main barriers are tariffs applied at the border, in services market access barriers are applied “behind the border” and refer to regulations that control entry and/or operation and discriminate on the basis of nationality, imposing restrictions on foreign presence or ownership of businesses in the country.

A recent document prepared by ECLAC (2000) presents a typology of measures that affect trade in Maritime Transport (See Annex 1) This list illustrates the many obstacles that affect providers of these types of services in the receiving countries. These barriers can be classified in three types of measures: a) *measures affecting market access*, which refers to, among others, limits on foreign capital participation, obligation of commercial presence to operate in the country and provision of cabotage services forbidden, etc.; b) *measures affecting national treatment* – these measures comprise, among others, nationality requirements to own and register vessels under the local flag, crew nationality requirements, reservations for local cargo, provision of cabotage services forbidden, etc. and, c) *measures affecting most-favored-nation (MFN) treatment* – in this case the measures listed are: preferential tax treatment and/or other benefits for the transport of specific or general products based on the principle of reciprocity or preferential treatment for certain nations.

The case of transport by inland waterways is also considered in the annex and further to the previous examples, some other measures are included, for instance: in the case of *measures affecting market access* environmental tests, advance notification requirements for the hiring of vessels, etc. and the *measures affecting MFN treatment* include: reserving access or trading rights to vessels or operators from countries with which agreements are in force.

It is important to point out that the list is only indicative, and measures can apply at two or more levels, i.e. one measure can affect market access and at the same time affect national treatment. The list reveals that the universe of measures that affect maritime and inland transportation is ample and disseminated at various levels of state administration.

² See Regional Integration Infrastructure of South America (IIRSA):[http:// www.iirsa.org/](http://www.iirsa.org/)

MEASURES AFFECTING TRADE IN MARITIME AND TRANSPORT IN INLAND WATERWAYS

Maritime transport services (7211, 7212, 7213, 8868, 7214, 745)

Measures affecting market access

- Limits on foreign capital participation
- Restrictions on type of legal entity
- Commercial presence in the country required for operations to be permitted
- Provision of cabotage services forbidden
- Consultation process

Measures affecting national treatment

- Requirements for the granting of licences
- Need to appoint a local agent
- Nationality requirements to own and register vessels under the local flag
- Crew nationality requirements
- Restrictions on the type of vessels that may be used.
- Discriminatory taxes and subsidies
- Discriminatory port tariffs
- Limitations on the handling of government cargo
- Restrictions on the type and quantity of cargo transported
- Reservations for local cargo
- Restrictions on storage and use of port warehouses
- Financial assistance for local providers
- Discriminatory standards
- Provision of cabotage services forbidden
- Local registration required for certain services to be offered
- Supply and demand-related adjustment requirements

Measures affecting most-favoured-nation treatment

Identification of the measure: Preferential tax treatment and/or other benefits for the transport of specific or general products based on the principle of reciprocity or preferential treatment for certain nations.

Justification for the Measure: Promotion of reciprocal trade with particular countries; need to guarantee access to foreign markets for local vessels.

Transport by inland waterways (7221, 7222, 7223, 8868, 7224, 745)

Measures affecting market access

- Environmental tests
- Limitations on foreign capital participation
- Restrictions on the type of local entity
- Partnership requirements
- Requirements to establish a commercial presence
- Government authorization requirements
- Licensing requirements
- Restrictions on the area of activities
- Nationality and/or residency requirements
- Advance notification requirements for the hiring of vessels

Measures affecting national treatment

- Government authorization requirements
- Nationality and/or residency requirements
- Restrictions on access to trading or cabotage rights
- Discriminatory taxes
- Restrictions on access to port services, maintenance, etc.

Measures affecting most-favoured-nation treatment

Description of the Measure: Measures reserving access or trading rights to vessels or operators from countries with which agreements are in force. Justification for the Measure: To protect the infrastructure and environment of inland waters and to regulate trading rights.

Source: ECLAC, 2000, *Manual for completing the questionnaire on measures affecting services trade in the hemisphere*, (LC/L. 1296-P), International Trade and Integration Division, May. The numbers in parenthesis refer to the CPC Provisional classification of the subsectors included in the sector Maritime Transport Services. Note by the Secretariat, WTO Doc. S/C/W/62. A typology of barriers to trade in services. Peat Marwick, Management Consultant. 1986

C. Ports: operation, challenges and the prevailing model in the Region

One of the most important elements in the determination of the costs of maritime transport refers to the efficient management of the ports.

In this sense, it is relevant to mention the work of Sánchez, Hoffmann, Micco, Pizzolitto, Sgut and Wilmsmeier (2003) where they create a model of waterborne transport costs and arrive at the conclusion that port efficiency measures have the same relevance for maritime transport costs than that of distance.

The Latin American economic system was characterized during great part of the last century by the direct intervention of the state to promote investment and industrial diversification, by means of state-owned companies in sectors linked to the national security or in which investments of great value were required.

The evolution of the world economy during the 1990s necessarily forced the governments of the region to re-evaluate their economic policies. The global trend towards trade liberalization and integration and economic interdependence led all economies to be fully engaged in market-friendly reforms, to welcome a greater participation of the private sector and of foreign direct investments (FDI). For this reason, in Latin America, the great majority of the countries opted for programs of economic reform that, among other elements, incorporated the participation of domestic and foreign private sectors in sectors of the economy that previously were reserved to the state. Among these, undoubtedly one of the most important to the countries of the region in their strategy of participation in the international trade and investment flows, as well as for the effects on the labor organization of the sector, was that of the reform of the ports.

The privatization of the ports implied changes in their form of operation. At the present, on a global scale, three main models of port administration can be identified (Boske et al, 2001):

1. The **Landlord Port** model - under this model the port authority owns the port infrastructure and responds for its administration. The port authorities serve as concessionary, since they subcontract services to private companies. These companies possess the assets and equipments of the port superstructure and they carry out the necessary services.

2. A second model of port organization is that of "**Tool Port**" under which the port authorities are owners of the infrastructure, but they also possess the superstructure (such as the buildings), and the equipments. The private companies lease these assets by means of concessions and licenses.

3. The third model of port administration refers to the "**Service Ports**" where the port authorities are responsible with exclusivity for all the activities. The "Service Ports" possess the infrastructure as well as the superstructure, hire employees and provide services directly..

According to Trujillo and Nombela (2000b) the challenges of the operation of the ports at the present can be summarized as follows:

Table 2
CHALLENGES FOR A MODERN PORT

-
- Need to seek financing for infrastructure renovation and building of new facilities.
 - Need to achieve high efficiency levels in costs and operation times, and to keep prices low.
 - Reduction of excess of labor, aggravated by the trend towards the intensive use of capital at seaports.
-

Source: Trujillo, Lourdes and Gustavo Nombela, 1999

These challenges have led to an increment of the participation of the private sector in the maritime transport sector, particularly in the ports, using concessions. Two main reasons explain this trend: first, the private sector can offer services at lower costs than the public sector. In the second place, by using private capital the public sector liberates resources that can be used in areas of higher priority for the country.

Nevertheless, this new competitive environment makes necessary the reassessment of the role of the port sector regulatory institutions, (ministries, public agencies and port authorities). These institutions traditionally have suffered of problems such as those enunciated by Hochstein:

Table 3
PROBLEMS OF THE TRADITIONAL PORT INSTITUTIONS

-
- | | |
|--|--|
| <ul style="list-style-type: none"> • Political pressures • Excess bureaucracy • Hierarchical rigidities • Absence of planes and clear objectives | <ul style="list-style-type: none"> • Poor managerial techniques • Poor marketing strategies • Lack of investment funds • Excess labor • Absence of incentives |
|--|--|
-

Source: Hochstein, A. (1996) as mentioned in Trujillo and Nombela (1999)

Four types of strategies have been applied to solve these problems: those oriented toward the improvement of the **commercialization**, recourse to **liberalization** policies, application of **privatization** policies and, finally, implementation of **modernization** policies.³

According to Hochstein (1996), the improvements in **commercialization** refer to the reform of port institutions to make them work independently of political interferences and oriented toward the development of quick solutions to changes in market circumstances. For this, it is required that ports work under similar rules to those that regulate the private business, and free of the slowness of the public administration control systems. At the same time, it is required that the port system structure be as decentralized as possible, to allow decisions concerning ports to be taken by an organ that understands the problems and the local conditions sufficiently, instead of by a central agency.

The **liberalization** strategy refers to the reduction of monopolistic situations inside the ports. It refers to the entry of new private operators, which can compete with, now transformed, old public companies. The **privatization** is oriented toward the sale to private agents of companies previously in the hands of the State, with the purpose of eliminating subsidies, to improve the efficiency and to make users pay the real costs of the services. Finally, the **modernization** strategy is concerned with the improvement of the institutions in charge of the ports, through the introduction of changes in the

³ Trujillo and Nombela, op.cit, p. 48

incentives toward the administrators, who have to carry out their tasks in the most efficient way. In a highly competitive environment, to be able to survive ports require the most effective possible commercial and marketing strategies. Moreover, only by the use of computer science techniques, it is possible to think of port modernization.

Hoffmann (2001 a) identifies five elements, which, taken together, conform a typology of Latin American ports, that could be denominated a “Latin American ports model”. These common elements, according to the author, would be:

1. Public sector ports tend to be Landlord Ports or sole operator type port,
2. Specialized ports and terminals are mostly privately owned and operated,
3. New ports and terminals are established through private investment,
4. Compared to many other regions, there exists a relatively high foreign participation and,
5. There exists a relatively large number of smaller ports. Larger ports tend to be divided to introduce intra-port competition.

Following this "model", Hoffmann classifies in four groups of countries the main ports of the region, according to the degree of advance of their privatization and modernization processes in 2000:

1. Those that have already been able to complete the privatization of the port operations: Panama, Argentina, Mexico and Colombia.
2. Those in process of completing the participation of the private sector: Chile, Brazil, Peru and Venezuela. (Although today Chile would belong to group 1)
3. Those with private stevedores, but still with investments of the private sector, tariffs and bureaucracies: Costa Rica, Ecuador, Guatemala (Port Quetzal) and Uruguay. (Uruguay has by now also concessioned its container terminal)
4. Finally, those countries where the modernization process, labor reform in the ports and participation of the private sector is still pending (at least in the ports of common use) constitute a fourth group: Costa Rica (Caldera), El Salvador, Guatemala (San Tomás), Honduras, Nicaragua, Paraguay. (El Salvador has since then introduced private stevedoring).

In the privatization process, an important element to consider is whether the service to be privatized requires the exclusive use of the fixed assets of the port. Some of the activities that admit sharing the fixed assets are, for example: pilotage, towing, consignment services and auxiliary services to the ships and crews. Under a licensing system, different operators can be authorized to provide these services. The prices and the quality of the services can be regulated. When competition is possible, in cases such as between consignees and pilots, the strict regulation of prices is not necessary unless collusion practices are detected.

On the other hand, the prices and the conditions of services should be regulated in the ports where the space limits the number of operators, to prevent the market domination by some companies, which can try to use their position to extract rents from the port users.

It seems clear that, in the privatization process, it is the competition potential among the operators that should be maximized. There is no universal rule for the ideal level of competition and regulation. However, it is possible to establish certain correlations between the size of the port and the number of operators. Nevertheless, at each level it should also correspond a higher participation of the operators in the investments and operations of the port, although some incentives may also be used for raising the interest toward fulfilling these goals.

In the case of Latin America three factors seem to concur to the success of the application of the pattern of public/private financing of the ports: a) seeking capital is very important for the financing of investments, since many governments have restricted budgets due to the debt service payments; b) the rapid economic growth has generated new traffic that demands new facilities and more efficient services and, finally, c) the strong competition makes indispensable the improvement of port facilities because otherwise the ports can be displaced by their rivals (Trujillo y Nombela, 2000 b) (Hoffmann, 2001 a).

D. Maritime cabotage traffic

Another problem that affects maritime transport efficiency refers to the regulation of the cabotage traffic. Restrictions to cargo and passenger transport inside the national territory are part of the maritime legislation of nations on a worldwide scale. Several countries still restrict this type of transport to the ships with national flags, and they establish minimum percentages for crews of national origin. In some cases, this transport is even restricted to ships of national construction, as establishes a 1920 North American Law (Merchant Marine Act) that requires that participant ships of the national cabotage traffic be of North American property, of North American flag and production and have a national crew. Additionally, some countries provide subsidies to their shipowners.

Other countries have liberalized cabotage almost completely (United Kingdom) or at least for international liner shipping companies (New Zealand).

There are opposing currents to these policies. Among those that oppose them are the groups of consumers and users of this type of transport, who argue that the elimination of these distortions to free trade would bring an increment in the efficiency and a strong decrease in the costs (in the American case the decrease in costs are considered to reach between 5 to 12% of current levels). Also, in terms of increase of welfare the elimination of the restrictions to cabotage traffic would bring benefits estimated by the USITC of U\$138 to U\$380 million annually to the consumers of those services (USITC, 1999 mencionado en Boske et al, 2001,p. 241).

The supporters of limitations to access to the cabotage traffic disagree with the previous calculations and argue that: 1) the current legislation allows that direct employment be given to nearly 124.000 Americans, 2) these restrictions are not more severe than those applied by other 40 countries, 3) the existence of a strong merchant marine during times of peace allows to be prepared to face times of war and 4) that the calculations of the USITC consider that with the elimination of the restrictions freight costs for cabotage traffic immediately would diminish significantly.

Any way, the existence of protection policies for the national shipping industry was recognized by most of the twenty-one Asia Pacific Economic Cooperation (APEC) economies by occasion of their answers to the Questionnaire on the Transparency Exercise relative to the General Maritime Policy (APEC, 2000). In that occasion, these economies acknowledged different visions toward the protection of the national shipping sector, for example: the introduction of an international registration of ships, incentives to high qualified ship owners, implementation of measures of promotion included cargo reservation and, finally, the elimination or decrease of several market access restrictions.

Briefly, the following advantages of the liberalization of cabotage traffic stand out: smaller freight costs, better use of idle capacity, higher frequency, higher competition, needlessness of the waivers and more maritime cargo transportation.⁴

⁴ See Hoffmann (2001b) for a more thorough discussion of this topic. Hoffmann supports the regional liberalization of maritime cabotage. -

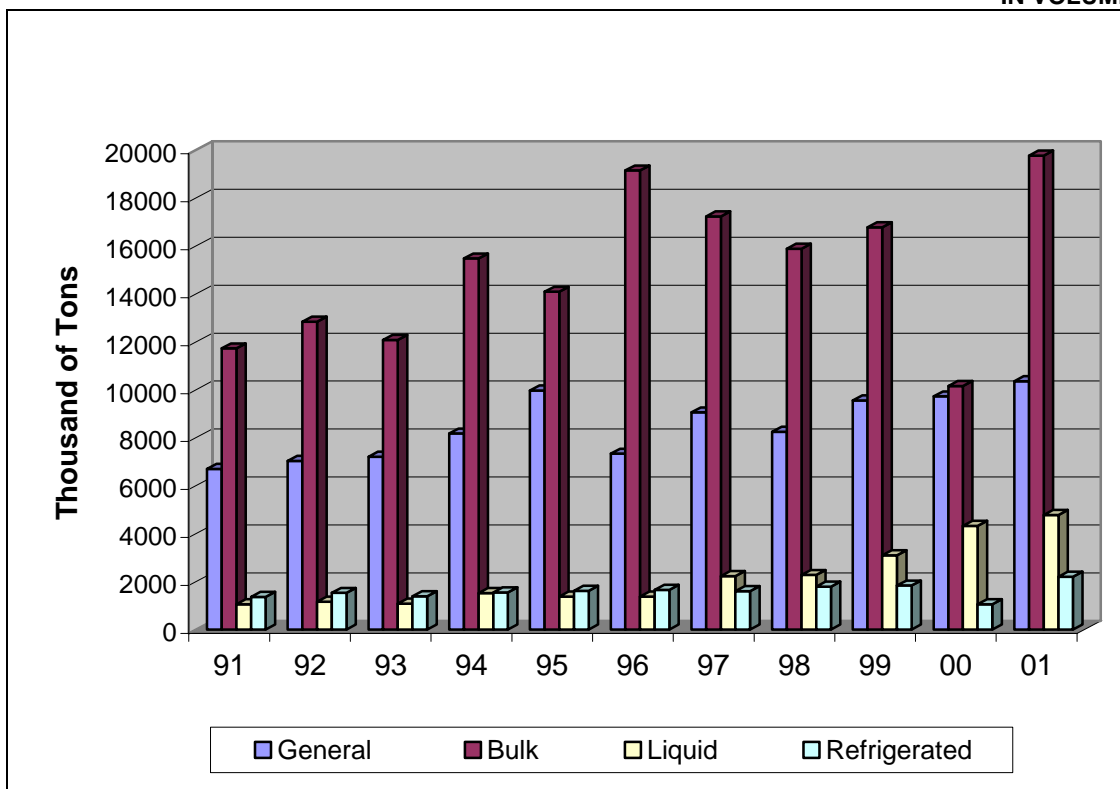
II. Chilean maritime transport: liberalization and regulation

A. Foreign trade and transport cost

Measured by the share of exports and imports in the domestic product, Chile presents high levels of trade openness: roughly 35% and 30% respectively in 1995 constant dollars. In terms of modal split, 96% of Chile's exported volume and about 70% of its imports used maritime transport. About 96% of Chile's exported volume and about 57% of its imports used maritime transport (see table 4), and the average cost of freight was US\$ 23 per ton.

As graphic 1 illustrates, bulk freight exports accounted for the highest share of Chilean exported volumes, the same as the world level where the whole bulk traffic (i.e. transport of oil, crude and refined, iron ore, grain, coal, bauxite) in 1997 accounted for 67.7 % of the volume of traffic (WTO, 1998). According to graphic 2 containedorized exports will reach 631,077 Tonnage Equivalent Units (TEU) in 2003, that represent 1% of world market share. Respect to 2002, Chile has exported by maritime carriers 15 billion dollars while imports reached 8 billion dollars. The main products exported by sea, in terms of tons, are: copper, salt, pellets of iron, fine minerals, methanol and sheet. These export products represent over two million tons and \$ 7.4 billion. In the case of imports, the main products are: fruit, agriculture and livestock farming, oil and chemical products.

Graphic 1
CHILEAN MARITIME EXPORTS
IN VOLUME



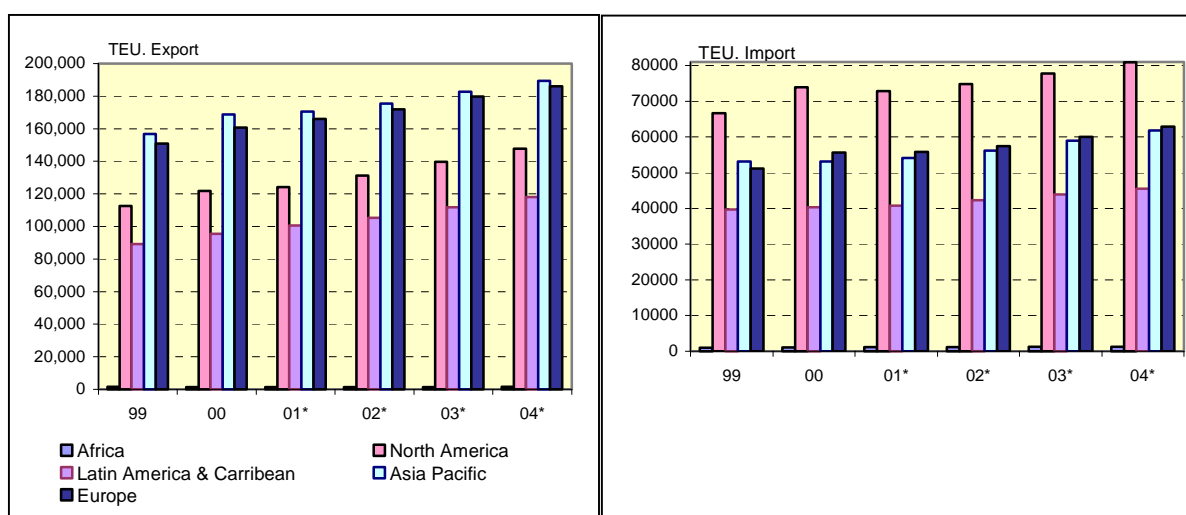
Source: Directemar

Table 4
CHILEAN MODAL SPLIT, 2001

Transport mode	Exports			Imports		
	Tons	FOB	Freight	Tons	FOB	Freight
	%	%	(US\$ per ton)	%	%	(US\$ per ton)
Maritime	96,10	86,89	22,96	56,68	57,38	23,12
Road	2,70	6,07	15,45	9,32	14,92	14,55
Airborne	1,17	6,97	2,18	0,32	18,13	0,58
Rail	0,02	0,01	38,52	0,08	0,04	27,43
Pipeline	0,01	0,02	18,40	32,94	9,25	60,58
Other	0,00	0,04	4,36	0,66	0,29	91,09
Total	100,00	100,00		100,00	100,00	

Source: Directemar. Boletín Estadístico Marítimo 2002 (www.directemar.cl)

Graphic 2
CHILEAN CONTAINERIZED TRADE



Source: ECLAC, Maritime Profile, (www.eclac.cl/transporte/perfil) based on Global Insight

Chilean exports are distinguished by a diversified market composition. The United States is the single largest trading partner but accounts for only about 18% of Chilean exports. The aggregate set of Asia-Pacific countries accounted for more than 28% of Chilean exports in 2000 and the European Union accounted for another 25%. Together, these three sets of countries represented more than 70% of Chilean exports. Surprisingly, the same countries accounted for less than 55% of Chilean imports. Mercosur countries (Argentina, Brazil, Paraguay and Uruguay) accounted for less than 10% of Chilean exports but for more than a quarter of Chilean imports (ECLAC, 2002).

As mentioned before, maritime transport has the largest share of modal split. Thus the market composition of trade in maritime transport follows that of total trade. Therefore, in Teu the 2003 forecast indicates that 29% of total exports will go to Asia-Pacific countries, 28% will find their way to Europe and 22% to the United States. The historical perspective indicates that, in the case of the maritime sector, either in terms of volume or value, Japan has been the main market for Chilean products in the last 10 years, concentrating 30% of total export volume and 18% of total export value, on average; followed by United States (15% both in volume as in value) while Rep. of Korea came in third place (9% of total export volume and 6% of total export value). On the import side, the products carried via maritime transport came mainly from the United States market, which provided 15% of the total carried tons, and 20% of the total value of imports using this mode of transport. Japan, and more recently China and Mexico are secondary suppliers of imports in terms of value.

B. Chilean Liberalization

The Chilean opening process went through different phases. The first occurred in the 1970s, with a unilateral liberalization. This process was interrupted after the 1982 crisis and resumed in 1985. Over the 1990s, however, the Chilean government decided that trade liberalization should be complemented by an active diplomacy based both on foreign policy and economic considerations. In other words, that low tariffs should be combined with a market access strategy of opening foreign markets through bilateral Free Trade Agreements (FTAs).

The Chilean version of “open regionalism” comprises the following instruments: i) unilateral liberalization, which the country has been applying in the last three decades; ii) the multilateral trade negotiations, where Chile has a strong and effective participation; and iii) the bilateral and plurilateral agreements which have been advocated and implemented with great intensity in recent years. In addition, the concept of “deep integration” complements the character of the bilateral and multilateral agreements of recent “generation” that have been signed by Chile. The recent Chilean FTAs precisely have this character of “intrusion” to the areas previously considered solely as domestic issues (ECLAC, 2002)

Currently, Chile has fifteen Trade Agreements fully in vigour, three agreements on double taxation, and 53 investment promotion and protection agreements (IPPA). Chile’s FTAs and other agreements are considered to be “comprehensive” in nature and scope because they involve almost all areas of bilateral economic relations (goods, services, investments, standards, competition policy, intellectual property rights, transparency, dispute settlement, etc.). In the transport sector, Chile has signed six agreements relative to all transport modes, and twenty relative to the maritime transport. Of these, fourteen are multilateral and six bilateral (four of them on taxation, as mentioned).⁵ Of all these agreements, only that between Chile and Brazil presents a cargo reservation.⁶

In the Maritime sector, the beginning of the liberalization process is reflected in the Merchant Marine Development Law of 1979 (Ley de Fomento de Marina Mercante) or DL 3059 that eliminated cargo reservations as well as tax exemptions and national subsidies (with the exception of those to the cabotage traffic).⁷

The result of these regulatory reforms was the entrance of new private operators and the creation of a competitive market for cargo handling. This implied in significant savings in the handling of general as well as in dry and bulk cargo, although not in the handling of liquid loads. Due to a higher participation of private operators, particularly in the ports specialized in bulk cargo, an important increase in savings was noted (Trujillo y Nombela, 1999).

However, to increase the efficiency of the sector more reforms were necessary. This is understandable because the port activities are a state monopoly and the stevedoring services are a workers’ monopoly (under a license system). This monopolist situation implied high costs and low productivity. In order to amend this situation, in 1981, Law 18042 ended the exclusive operation of the National Port Company (Emporchi) inside ports. In addition, Law 18 032 ended the license system for stowage; opening this activity to any worker, with a respective compensation for 2700 workers (Chile, 1994-2000).

⁵ Regarding the bilateral agreements they correspond to the agreements signed with Germany (1995) and Brazil (1974), the same as those of double tribute among Chile and: Brazil (1976), Argentina (1976), Venezuela (1990) and Uruguay (1992).

⁶ The Agreement between the Republic of Chile and the Federative Republic of Brazil on Maritime Transport was approved by the DL 617 and promulgated by DS 676 both of 1974. The Law establishes a reservation of cargo of 50%. In its first article, the Agreement points out that the trade between Chile and Brazil will be by means of ships with Chilean or Brazilian flags and that the freights will be divided. In case ships of both countries are not available, then traffic will be given to another country. However, the country that hands over its right will lose part of its quota. Also it sets up that a Part can give up to 50% of its quota to a member country of the LAFTA (currently LAIA), for reciprocity. According to the Agreement, bulk mineral loads are excluded, as well as petroleum and their derivatives in bulk, loads will be subjected to the legislation of each Part (Article I:5). The rates are mutually agreed, and in case an agreement cannot be reached in this respect, the decision falls on the respective maritime authorities. (Article VI and X). This rate agreement will be responsible for the organization of the traffic corresponding to the Accord. (Article IX).

⁷ Chile still maintains cargo reservation with Brazil, Ecuador, Mexico, Paraguay and Venezuela, under the reciprocity principle. See Hoffmann (2001b, p.35). Respect to subsidies, the policies of Merchant Marine Development allows for the Chilean State to subsidise certain companies for special traffics, which will be subject to bid and that are not covered by national shipping companies. Similarly, in the year 1980, Under secretary of Transports of the Ministry of Transports and Telecommunications, created a program called Subsidy to the Regional Transport (Subsidio al Transporte Regional), to grant subsidies to isolated areas. By the year 2001, 17 subsidised services existed in the national territory, all them under the considerations previously exposed, responding to the notions of “universal service” and not to those related to the introduction of distortions to the market.

In 1990, Law 18 966 definitively left stowage services, cargo transfer and berthing in the hands of the private sector. Emporchi only would be devoted to administer the infrastructure and to the storage in ports. Therefore, the property and administration were in state's hands and port services in private hands under a multioperator system.

Finally, in 1997 the Law 19542 (called Emporchi Law) was promulgated to increase the participation of the private sector with a view of accelerate the modernization of the ports of the country. Therefore, ten state companies with public terminals were created.⁸ These companies are responsible for administration of the ports. On the other hand, the provision of port services is set up by concession and bid. The ports were divided in berths. After the Law was promulgated, monooperator berths have been bid in four ports: Iquique, Valparaíso, San. Antonio and San Vicente.

C. Chilean Ports

According to the Maritime Authority, Chile has 26 ports, 82 spaces, 35 docks, 20 solid terminals, 39 liquid terminals and 89 ramps. Then in the ports traffic they mentioned more than 43 ports. While, the Maritime Profile of Eclac identifies 68 ports. And according to a gremial and regional source, Chile has 39 ports. Hence, if we goes to the meaning of harbour (place for shelter of ships); it settle the previous misunderstandings allowing the different classifications.

Something clear is that Chile has 12 landlords ports. As Law 19542 established, these State ports are administrated by ten enterprises. These are: Empresa Portuaria Arica (Arica's port), Empresa Portuaria de Iquique (Iquique's ports), Empresa Portuaria Antofagasta (Antofagasta's port), Empresa Portuaria Coquimbo (Coquimbo's port), Empresa Portuaria Valparaíso (Valparaíso's port), Empresa Portuaria San Antonio (San Antonio's port), Empresa Portuaria Talcahuano-San Vicente (ports of Talcahuano and San Vicente), Empresa Portuaria Puerto Montt (Puerto Montt's port and its ferry terminal), Empresa Portuaria de Chacabuco (Chacabuco's port and its ferry terminal); and Empresa Portuaria Austral (ports of Punta Arenas and Puerto Natales).

The main State ports are San Antonio, Valparaíso and San Vicente. The ports of Lirquén, Ventana and Tocopilla are the main private ports of public use. And Huasco, Tocopilla and Guayacán are the main one in the category of private ports of private use. The private ports have increased their share of transferred cargo. However, State ports, although still needing to improve technologically, possess important access networks. Most of the private ports specialize in bulk-loaded freight, while the containedorized freight is transferred mostly in State ports (see Table 5)

⁸ . It will be listed in the next section. For further details see Chile (1997).

Table 5:
CONTAINERS FULL AND EMPTY MOBILIZED BY SOME CHILEAN PORTS, 2001**
(Number and percentages)

Ports	No. Containers	Annual growth	No. TEUs	Annual growth	% TEUs of total
San Antonio*	166674	1,44	278456	-7,18	22,94
Valparaíso*	164190	17,02	249986	21,35	20,60
San Vicente*	96269	44,38	166340	13,49	13,70
San Antonio	67010	-34,94	135444	-12,96	11,16
Iquique	67478	-3,57	105250	-2,08	8,67
Lirquén	39191	0,00	65633	-0,53	5,41
Total Ports	762835	-3,07	1213793	-0,71	100,00

Source: Cámara Marítima y Portuaria A.G.

* Corresponds to international terminals

** Includes cabotage, transit and free trade zone

At world level, nowadays the Chilean ports are very competitive. In 2002 -according to Drewry Shipping- they has a forwarding rate of US\$90 per container. The major port is San Antonio, it mobilized more than 9 millions of tons in 2002. And is planning double it transfer capacity in the next 20 years. San Antonio's goal is to mobilize more than 30 millions of tons per year. For that reason, they begin a beat process of storage of containers to reach to handle more than 60000 TEUs per year (El Mercurio, 2003).⁹

In the next sections, we will revise the current barriers to maritime transport.

D. Regulatory reform and the remaining barriers

Chile does not have significant entrance barriers to foreigners in the provision of international transport services, cargo handling, storage, stowage and maintenance and repair of vessels. There are no restrictions to the establishment of foreign companies in the country. To provide services via commercial presence, enterprises should be constituted as companies in Chile. For the provision of transborder international transport, the previously mentioned DL 3059 of 1979, also known as Merchant Marine Development Law (Ley de Fomento de Marina Mercante), establishes that should be carried out according to the principle of reciprocity (see box 2). This means that 50% of the cargo is reserved to Chilean ships in their routes to or from Chile in those bilateral traffics where the other country has reserved all or part of the cargo for itself (article 4, title II).

Because of the legal framework that was established, from 1974 to 1984 foreign direct investments (FDI) in the country reached their highest levels, attaining a stock for the later year of US\$ 10.1 million dollars. The second period that shows the occurrence of FDI corresponds to the years following the promulgation of the denominated Law of Port modernization of 1997 (Ley de modernización de los puertos). In this case, between 1998 and 2000 the stock of FDI reached the amount of US\$ 7.4 million dollars.¹⁰

⁹ For more detail about San Antonio see its web page (www.saiport.cl)

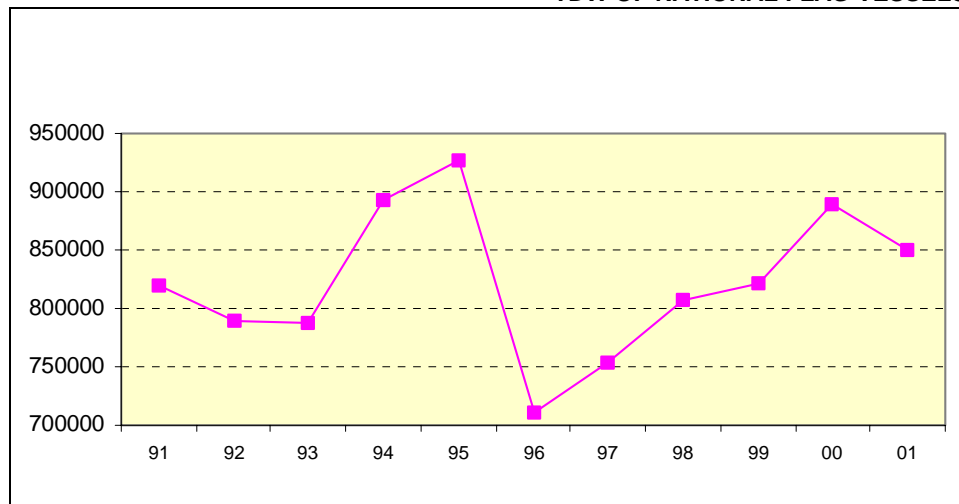
¹⁰ The values of foreign investments presented here correspond to those of DL 600 of 1974, additional detail regarding the flows of these investments can found in the annex.

Regarding the ships, the conditions that these should fulfill to register in Chile include that their owner should be a Chilean national and adds certain additional requirements.¹¹ In 2000, according to estimates of the Maritime Authority the number of ships with Chilean flag ascended to 118 and they estimated that it would reach 130 by 2005. Graphic 3 illustrates this point by showing the total dead weight of the ships with Chilean flag.

On the other hand, to fly the Chilean flag, it is required that the captain of the ship, their officialdom and crew be Chilean. Graphic 4 shows the evolution of the Chilean maritime personnel in the 1990s and their expected evolution up to 2005. It is pertinent to point out that after the 1981 Law, the creation of instruction centers for maritime sector personnel began to be encouraged in Chile, as well as their constant training.

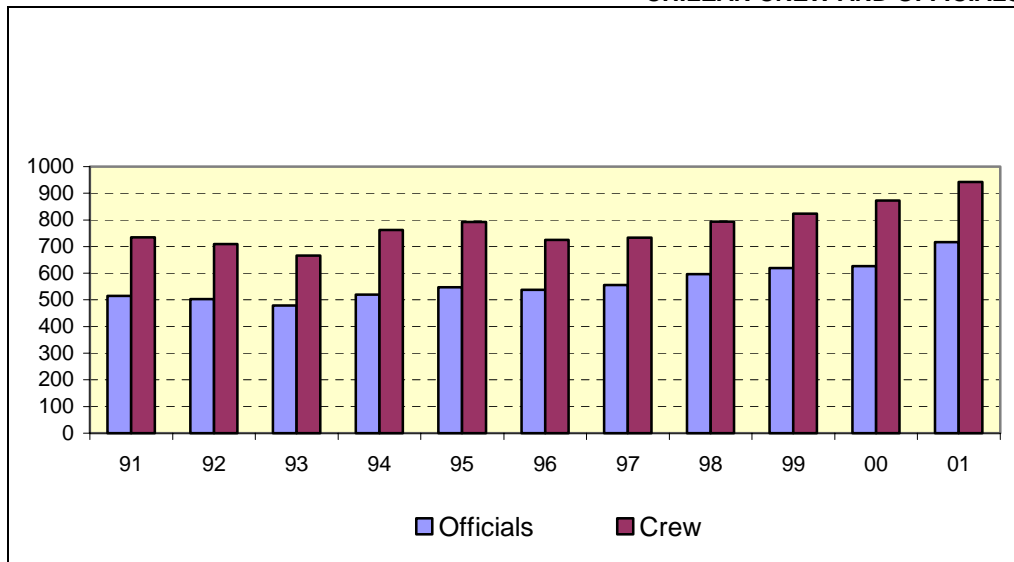
¹¹ The requirements that they should fulfill are the following ones: a) if the owner is a company, it should be established in Chile, that its president, manager and most of the directors and office workers must be Chilean, and that great part of the social capital belongs to Chilean natural or juridical persons; b) if the ship belongs to a community, it will be considered Chilean if most of the members of the community are Chilean, are domiciled and reside in Chile, that its administrators, are Chilean and that most of the rights in the community belong to Chilean natural or juridical persons; c) based on a) and b) it will be considered that juridical persons of a society, or community, are Chilean if they fulfill the enunciated requirements. (Article 11, Title II, DL 2222 of 1978)

Graphic 3
TDW OF NATIONAL FLAG VESSELS



Source: Directemar

Graphic 4
CHILEAN CREW AND OFFICIALS



Source: Directemar

Box 2

CHILEAN MARITIME TRANSPORT REGULATORY FRAMEWORK

1836 The Sailing Law (Ley de Navegación) specified, among other things, that 75% of the company should be national, "a ship is Chilean if it is built in the shipyards of the Republic or in other nations, it comes to be the property of a Chilean natural or legal citizen, for licit contract", the captains of Chilean vessels should be a Chilean natural or legal citizen.

1939 Law 6415, it reserves 100% of the cabotage traffic, as well as 50% of the load of foreign trade for Chilean ships.

1956 Law 12041 of Development of the Merchant Marine (Ley de Fomento de Marina Mercante). It established some tax exceptions as import customs tariff, and fuel tax, etc

1960 DFL 290 created the Port Company of Chile (EMPORCHI).

1974 DL 466 modernized the tributary exemptions and maintained the 50% reservation for international trade and 100% for cabotage traffic.

1978 The DL 2222 Sailing Law (Ley de Navegación) conserves the principles of the 1836 Law.

1979 DL 3059 Law of Merchant Marine (Ley de Marina Mercante). It eliminated the cargo reservation for foreign trade, as well as the subsidies and tributary exemptions.

1981 Law 18042 modified the Law of the Port Company of Chile (Ley de la Empresa Portuaria de Chile - EMPORCHI), and ended the exclusive operation of Emporchi at the interior of the ports.

1991 Law 18 032 put an end to the system of licenses for stowage, opening this activity to any worker.

1997 Law 18 966. Definitively left in the hands of the private sector the stowage services and cargo transfer and berthing. Emporchi would only be devoted to administer the infrastructure and to the storage in ports. Therefore, the property and administration was in hands of a state company and the port services in the hands of the private sector under a multioperator system.

Law 19542 (Port Modernization Law, Ley de Modernización de los puertos). It was promulgated looking forward to increase the participation of the private sector in order to accelerate the modernization of the ports of the country. Therefore, ten state companies with terminals for public use were created.. These companies are responsible for the administration of the ports. On the other hand, the provision of port services is set up by concession and bid. The ports were divided in berths.

Sources: Hoffman, Jan (2001b), *Transporte Marítimo Regional y de Cabotaje en América Latina y el Caribe: El Caso de Chile*, (LC/L 1598-P), Serie Recursos Naturales e Infraestructura, vol. No 32, Santiago, Chile: ECLAC.

Directemar, www.directemar.cl

Nuñez, Sergio (1992) *Efectos Prácticos Producidos por la Política de Eliminación de la Reserva de Carga y la Mayor Apertura del Sector Marítimo en el Caso Chileno* in *Políticas de Transporte Marítimo en el Grupo Andino y las Comunidades Europeas*

Additionally, there are two areas that are highly regulated: pilotage and cabotage. There are many obstacles created for the provision of maritime transport services in these activities, affecting both Chilean nationals and the external trade.

Pilotage

The Regulation of Pilotage, promulgated by DS 397 of 1985, establishes that this activity should be executed by Chilean pilots. It is also indicated that all ships, Chilean or foreign, that navigate in the interior waters of the Republic, through the Magellan's Strait or that make any maneuver in the ports of the Republic of Chile, or in their vicinities, will use Chilean pilots. The Law also defines pilots as professionals of the Maritime Authority dependent of the Navy (General Direction of Maritime Territory and Merchant Marine, Directemar), authorized by it and not associated with the ship. They advise the Captain in all matters related to sailing, maneuvers, legislation and regulation of the Republic (Article I, Title I).

In relation to the previous paragraph, it can be observed that is another restricted activity: a Navy monopoly. DS 398 of 1985 stipulates that there are two kinds of pilots: official pilots and authorized pilots. The officials correspond to the Navy officials, and the other to retired officials, retired pilots or retired Merchant Marine captains.

Box 3

**THE "BOTTOM LINE", EVALUATION BY THE PRIVATE SECTOR
OF THE CURRENT BARRIERS**

According to the Maritime Chamber of Chile the barriers to the optimization of the flow of transport in Chile can be classified in the following four groups:

Those that affect several modes and transport terminals (originating on the absence of a global competition policy)

Those that refer to the services/controls that the institutions of the State provide in the ports (Customs / Directemar* *)

Those that affect mainly investments in port infrastructure and the competition among ports and, finally,

Those that emanate from the labor situation

In addition, with regard to the concessions, the vice-president of the Maritime and Port Chamber indicates three important problems on behalf of the concessionaires. In the first place, the *rates* that the State charges to occupy the multioperator places on the ports. The value of these rates should be linked to the market value of the assets of the State companies. However, these assets were valued at reinStatement cost, which is not the same thing. On the other hand, it has not been defined how their value is adjusted if investments or repairs are made in the place in question.

The second problem he mentions refers to the *berthing priority* in public ports. When the bid was carried out the bidders estimated that they would compete with public places with a certain priority, which can be subject to change according to modifications of the demand. However, it is not defined what constitutes an alteration in the demand, or how does it consolidate. This generates abrupt changes that are detrimental to the private operator.

Finally, the directive of the Chamber mentions the *second concessions*. According to the law, all interested parties can present an investment project and the Directory of the Port Company should call to bid, unless it is rejected for founded reasons. In the bid bases, it is established that the directories will use social profitability approaches to evaluate these projects, which implies considering the effects of the new projects on the concessions. Potential investors don't agree with the validity of the bases in these terms.

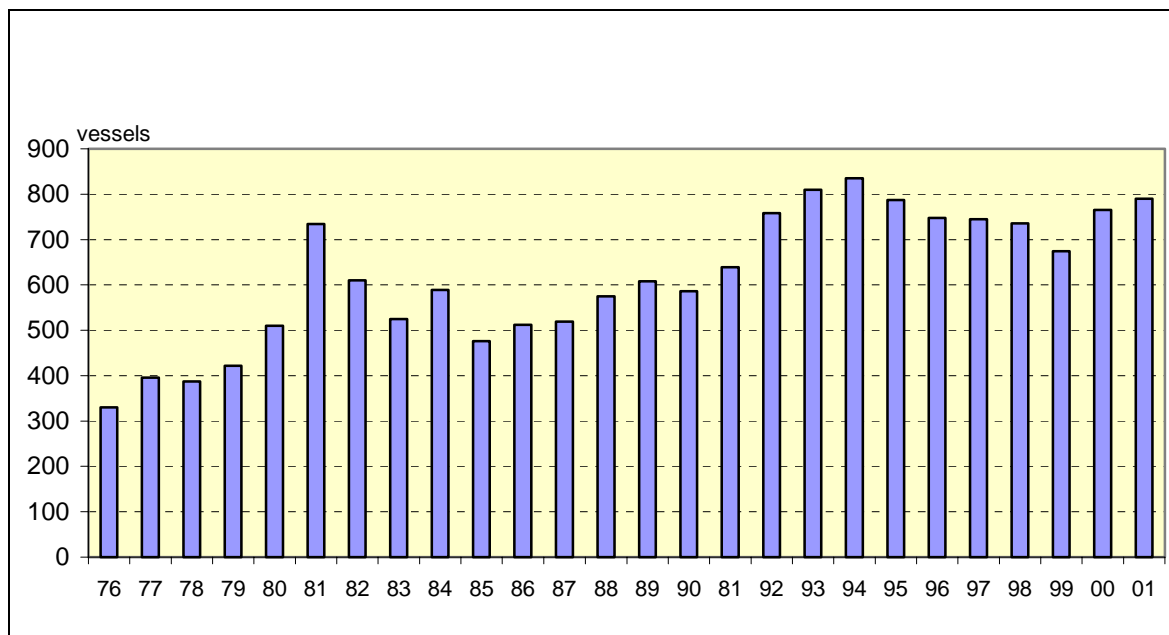
Sources: Sources: El Mercurio (2002, p.2) "There are Problems to Solve" in the insert "*Maritime Transport*" of August 30. Maritime Chamber (2000) Internal Barriers to the External Trade: Area of Transports

Tariffs are regulated according to the Tariffs and Rights Regulation of Directemar (Reglamento de Tarifas y Derechos) - DS 427, 1979, modified in 2001-. Article 301 stipulates that the global tariff of pilotage consists of a base rate and a multiplier factor. A Maritime Chamber study considers that the tariff are overvalued and that if the activity were liberalized, according to estimates, their value would decrease to 10 to 30% of current levels.¹²

According to the next graphic, pilotage in southern channels attended 765 vessels in 2000. These numbers do not comprise the rest of pilotage in the country.

¹² See Maritime Chamber (2000), where some considerations are made about which ones they could be.

Graphic 5
CHILEAN PILOTAGE IN THE SOUTHERN CHANNELS*



*Does not include regional pilotage in Port Montt and Punta Arenas

Source: Directemar

It is necessary to look into the future of this activity, restricted not only to foreign competition, but also to nationals. Chilean authorities have already mentioned their awareness of this problem in different forums and documents. Therefore, the discussion of this topic may be expected.¹³

Cabotage

Cabotage traffic in Chile has mobilized almost 11 million tons in 2001, representing 17% of total mobilized (see graphic 6). According to table 6, the most important port for load is San Vicente and for unload is Quintero. Both specialized in liquid freight (see table 6). General freight is carried along the country mainly by truck.

Dividing Chile in zones, we characterized three zones for cabotage: a. North: Arica to Valparaíso/San Antonio, b. Central: Valparaíso/San Antonio to Puerto Montt, and c. South: Puerto Montt to Punta Arenas. The first zone has long distances inter cities, there are located many mining companies that use the combination of train and maritime transport. The second zone use a lot the combination of road and maritime transport. Finally, in the south because of the geographical characteristics, the maritime transport is the main mode used.

Therefore, the maritime cabotage in Chile are different depending of the zone. For the north to the south the cabotage are mainly bulk freight (salt, copper and iron). Puerto Montt send to the Center oil, gas, coal. And the Central zone send to the other zones elaborated products mainly for consumption.

Considering the geography of Chile, the main transport mode to cabotage should be the maritime. Unfortunately, the current regulations does not allow this and increase the cost to the maritime cabotage turning this modal inefficient and unutilized. According to Hoffmann (2001b,

¹³ See Chile (1994-2000) and International Seminar on Ports: Development of Integration for the Mercosur, Santiago, November 2001.

p.36), the rate for an standard freight to San Antonio- Callao cost in average 715US\$, while the same freight to San Antonio-Iquique cost 1025US\$. This obviously is an example of the inefficient system.

If we look at the current legislation, we can found answers of how a transport of 806 miles is more expensive than 1334 miles. Reasons for that over cost are, as has already been pointed out in section 2.D, in the Merchant Marine Development Law of 1978. That establishes reserved of cabotage traffic only for Chilean vessels. However, the foreign merchant ships will be able to participate in cabotage traffic when they load volumes that are inferior to 900 tons, previous public bid. If the load is superior or similar to the mentioned weight, and there are no ships under Chilean flag available, then foreigners can participate in this traffic, with due authorization of the Maritime Authority. This authorization to foreign ships will only be in the case of passengers transport (Article III, Title II, DL 2222). Also the current legislation maintain the reciprocity as principle for the cabotage, as law of 1939 stipulated.

To be a national vessel, DL 2222 stipulated that requisites a Chilean owner and if the owner is a company or a community the address major of capitals and administration has to be Chilean. Then, the vessel is Chilean and can hoist the Chilean flag. And as we said before, for that the captain and the crew have to be Chilean.

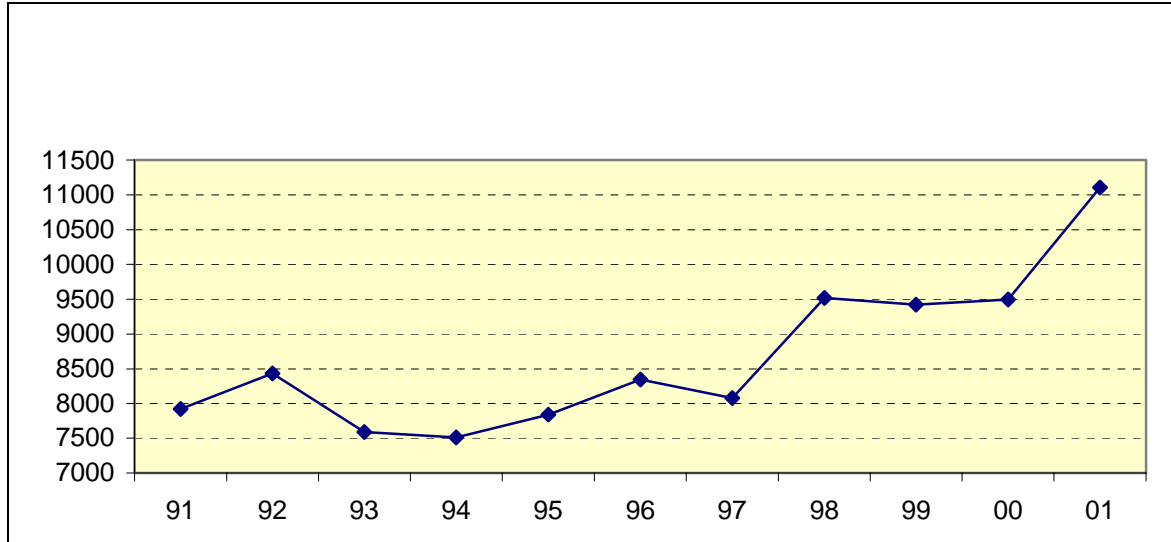
Therefore, because of the current legislation the major vessels operate not a its full capacity. The supply for cabotage is low, so the price are high. As Hoffmann (2001b) pointed out, in Chile exist many vessels that dock in different Chilean ports, but it did not allow to made cabotage, even though has capacity for that. If it capacity were well-planned, the supply will be five or ten times more than nowadays.

If the current situation change, the maritime transport services will be augmented. The freight that use the road transport will be use maritime. That imply many social benefit like diminishing the pollution, the congestion and deterioration of the highways, etc. The cabotage discussion presents different political approaches. According to Transport and Telecommunications Ministry sources, the government is concerned and is looking for ways to introduce more flexibility to this service.

However, the benefit of open the cabotage, not only be national. If we consider that around 18% of Chilean trade are regional, so the opening of this service would bring, not only in terms of the eventual pay offs for the country, but rather the multiplier effects that the liberalization of policies of this nature could bring to the region.

As it was already mentioned in the first part of the paper, there are different arguments and different positions around the topic of maritime cabotage traffic. To this respect, the region should generate initiatives around the introduction of flexibility in this type of traffic, in order to allow for a better use of the available resources.

Graphic 6
MARITIME CABOTAGE IN CHILE
(Thousand US\$)



Source: Directemar

Table 6:
CHILEAN CABOTAGE: MAIN PORTS, 2001
(percentage and tons)

PORTS LOAD	GENERAL	BULK	LIQUID	Load by Port/Total
SAN VICENTE	40453		3283721	29,94
QUINTERO			1359127	12,24
SAN ANTONIO	202460		679353	7,94
GUAYACAN		827695		7,45
HUASCO/GUACOLDA	15	591189		5,32
TERM. OXIQUM QUINTERO			359160	3,23
PATILLOS		274900		2,48
TOCOPILLA		154938		1,40
Total	242928	1848722	5681361	100,00
UNLOAD				
QUINTERO			2876474	25,91
TERM. SID. HUACHIPATO	15	2159737		19,45
ANTOFAGASTA	90859		824850	8,25
MEJILLONES			756866	6,82
HUASCO/GUACOLDA	1325	426849	63779	4,43
SAN VICENTE	16914	150235	313458	4,33
IQUIQUE	3279		299151	2,72
SAN ANTONIO	63185	159266	15293	2,14
GUAYACAN	9		236923	2,13
TOCOPILLA			235986	2,13
CALDERA/CALDERILLA			184511	1,66
MICHILLA COVE			173086	1,56
Total	175571	2896087	5980377	100,00

Source: Directemar

Final considerations

This document describes the process of liberalization of the maritime transport sector and the application of liberalization reforms in one country, Chile. It has shown that the process of liberalization has gone quite far in Chile, although there are some areas that remain strongly regulated, favoring local operators.

One of these areas is cabotage. As mentioned previously this is an area where there has been very little development. The country still excludes foreign vessels from this service, and although this is not a unique position in the world of maritime transport, it is an odd posture for a country that has been at the forefront of economic reform in many other areas.

One has to dig deep to discover the roots of protection of this traffic in Chilean maritime transport, which dates back to the post World War II and the national security concerns of the time. As mentioned before, there is a current of thought that supports the notion that having a strong merchant marine helps the fast deployment of war vessels in times of conflict.

Moreover, Chile's neighbors have not liberalized their cabotage traffic, so the country would not benefit of faster access to these markets once it liberalizes. Worse, neighbors would try to catch a part of the market for themselves.

Nevertheless, the issue rests that it would be beneficial to the country to liberalize its cabotage traffic, even without full access to their neighbors' market. At this stage, however, nationalistic issues and, additionally, corporative interests may prevent the political feasibility of adopting this measure in the short run.

A second best option, then, would be to look for reciprocity agreements with neighbor countries. This strategy looks most promising in the light of the process of economic integration and interdependence that has characterized the recent evolution of the Latin America economy, in particular those of the Southern Cone. Reciprocity agreements in cabotage would have plentiful positive effects in relation to these processes, and would increase the possibilities of intensifying and expanding them.

This liberalization at a regional scale presents significant advantages, not only in the area of maritime transport, but rather in the sphere of multimodal transport. It is crucial not to forget that there is a growing necessity to feed long production chains, since nowadays transport systems are in reality parts of integrated logistical networks.

The liberalization of cabotage could be accompanied by a thorough restudy of the multilateral and bilateral commitments of the country in the area of maritime transport, in order to adequate these commitments to the contemporary necessities of the economy of the country. It could imply denouncing some legal instruments that belong to another era of economic protectionism.

Moreover, the questions raised by the regulation of pilotage should be cautiously considered in the light of the costs implied and the increments in productivity that could arise from a certain relaxation of current rules. Although safety considerations should play a leading role in the worries of maritime authorities, monopolistic positions should be equally avoided or seriously curtailed by strict price regulations.

The effects of ignoring the new elements of international competitiveness (innovation, knowledge and locational advantages, among others) implies holding back the possibilities for increasing the regional participation in the international flow of goods, services and investments in accordance with the development needs of Latin America.

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