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# **CHILE**

## **COUNTRY STRATEGY PAPER**



## EXECUTIVE SUMMARY

As an introduction, it is important to underline that development policy is not the central aspect of the EC relations with Chile, although it contributes to promoting a sustainable development model in Chile. The EU has just negotiated an economic and political Association agreement with Chile, which involves many other EC policies, such as trade, agriculture, health and consumer, etc. and which will have a major influence on the relations between the EU and Chile in the coming years.

Indeed, Chile is increasingly considered and treated internationally as a developed country. Politically democracy seems consolidated now, socially Chile has improved over the last years in terms of healthcare, life expectancy, education and housing, and economically, the Chilean economy has proven stable enough to resist recent financial crisis, that severely affected neighbouring countries.

Still, there are areas of improvement. The Chilean production and exports are in general too concentrated on few commodities and the price fluctuation of these commodities has an impact on the overall economy. The very structure of the economy also has a negative impact on the environment and calls for measures to preserve the sustainability of the Chilean development model. Another area of improvement is social equity: the income distribution is still very inequitable and there is a gap between men and women, between richer regions and poorer regions, etc.

The Chilean Government tries to bring an answer to these challenges since promoting economic growth and providing equal opportunities to all citizens are central features of the its political programme.

Against this background, the following intervention priorities have been identified for 2000-2006:

- I. Economic co-operation and technological innovation.
- II. Environment and natural resources
- III. Support to the reform of the state

These strategic priorities fit in the EC general co-operation objectives, which are to reduce poverty, to consolidate democracy and to enhance economic development and are in line with the Memorandum of understanding, signed by the EC and by Chile in March 2001. They are also complementary with other donors' priorities for Chile.

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## **Short introduction**

Chile stretches on a strip of land of 4300 km long between the Andes and the Pacific Ocean. The country is located along the melting line of the oceanic plate « Nazca » and the continental plate of South America, which generates an intense volcanic and seismic activity.

45% of the population (15,3 M inhabitants) are concentrated in the capital, Santiago. Ameridians and minority tribal groups represent 5% of the population.

With a GNI per capita of 4610 US \$ in 2000, Chile belongs to the upper middle income group of emerging countries. Chile is also a moderately indebted country.

## **1. DESCRIPTION OF THE EC CO-OPERATION OBJECTIVES**

### **1.1. Objectives**

Article 177 of the EC Treaty sets out the three broad objectives for Community development co-operation. The Community policy in this area shall foster:

- the sustainable economic and social development,
- the smooth and gradual integration of the developing countries into the world economy and,
- the campaign against poverty .

Furthermore, Community policy should contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms.

The Communication of the Commission on the European Community's Development Policy<sup>1</sup> identified six priority fields on which development co-operation should be concentrated: a) trade and development, including the development of trade and investment policies, assistance with integration into the multilateral trading system<sup>2</sup> and into the world market, b) Regional integration and co-operation, including tackling of transboundary economic, social and environmental problems, c) support to macroeconomic policies with an explicit link with poverty reduction strategies, in particular sector programmes in social areas (health and education), d) transport, e) food security and sustainable rural development strategies and f) institutional capacity-building, good governance and the rule of law.

Co-operation between the EC and Chile also fits in the frame defined by Regulation (EC) 443/92, related to financial and technical aid and to economic co-operation with the developing countries of Latin America and of Asia and in the frame defined by the Commission Communications on co-operation between the EU and Latin America.

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<sup>1</sup> COM(2000) 212

<sup>2</sup> At the WTO ministerial Conference launching the Doha Development Agenda, the developing country Members of the WTO, it was agreed to provide trade related technical assistance as a central component of the negotiations under that agenda.

- (a) regulation 443/92 stresses the importance that the Community assigns to promoting human rights, to supporting the process of democratisation, to a sound public management, to an increased protection of the environment, to liberalising trade and to strengthening the cultural dimension by means of a dialogue on political, economic and social questions. The ALA regulation further stipulates that indicative multi-annual guidelines should apply to the main partner countries and accordingly the EC introduced CSPs for the ALA recipient countries after 1992.
- (b) the first Commission Communication on the prospects for closer partnership between the European Union and Latin America 1996-2000<sup>3</sup> proposed three priority lines for co-operation, namely:
- institutional support and the consolidation of the democratic processes, in order to guarantee the irreversibility of democratic processes (institutions' consolidation, support to the reform of the state, support to the formulation of sectoral policies...)
  - the fight against poverty and social exclusion, with a view to incorporating into the economy the excluded population fringes (possible interventions in the field of health, of education, of housing...)
  - support to the economic reforms and to the improvement of competitiveness (support to the development of the private sector, of the information society, mutual economic co-operation, industrial, scientific and technological co-operation, strengthening of industrial promotion and of investments, promotion of foreign trade...)

Horizontal issues such as the support to regional co-operation and integration, education and training and management of the North-South interdependences (environment, energy, drug) will have to be taken into account in implementing the priorities.

- (c) the Commission Communication on a new European Union - Latin America partnership on the eve of the XXI century<sup>4</sup> states the need to continue on the same path, however, co-operation should take more account of new challenges such as the need to consolidate democratic systems, to better distribute wealth, to encourage an harmonious insertion in the world economy and to strengthen regional integration processes.
- (d) as a result of the Rio Summit in 1999, the Commission in its Communication to the Council and to Parliament<sup>5</sup> proposed intensifying its action in three priority fields, namely the promotion and protection of human rights, the promotion of the information society and the reduction of the social imbalances.

## **1.2. Bilateral agreements**

Co-operation between the EC and Chile is also defined in bilateral agreements. The Community Co-operation Framework Agreement signed in 1990 between the European Community and Chile was the main instrument that permitted the initiation of co-operation on a government level after the re-establishment of democracy in 1990. The Agreement

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<sup>3</sup>COM (95)495

<sup>4</sup>COM (99) 105

<sup>5</sup>COM (2000)670

underlined in its first article that co-operation was based on the respect of democratic principles and human right and it encouraged co-operation in different fields: economic, industrial, environmental, commercial, social and institutional.

The 1990 agreement was replaced by the current Co-operation Framework Agreement signed in 1996 which has as a final aim the establishment of a political and economic association between Chile and the European Community and its Member States.

This Co-operation Framework Agreement covers the areas of political dialogue, commerce and economic co-operation. In this area, the objective is to stimulate productive synergies through and to increase economic competitiveness in the areas of industry, services, investments, science and technology, energy, transport, information society and telecommunications, environment and agriculture. The Agreement also underlines the importance of financial and technical co-operation, which should be geared towards combating extreme poverty and generally assisting the most deprived sections of the population. Other areas of financial and technical co-operation include public administration and regional integration, information and culture, training and education, consumer protection and combating drug trafficking.

The Framework Agreement relating to the implementation of financial and technical assistance and economic co-operation in Chile, signed in 1998, establishes the legal, administrative and financial framework for Community co-operation with Chile.

The main priorities of the co-operation with Chile for 2000-2006 have been defined in the Memorandum of understanding signed by both the EC and Chile in March 2001 (see annex IV).

Finally, it should be underlined that an S&T agreement is currently being negotiated between the EC and Chile. When entering in force, this agreement will open reciprocal possibilities of participating in R&D programmes and activities developed by each party.

## **2. POLICY AGENDA OF THE CHILEAN GOVERNMENT**

In the early days of his administration, Lagos has emphasised stability and continuity of the reform process with the appointment of noted economic liberals in key cabinet positions. Lagos has set as the key priority of his administration the restoration of high levels of economic growth and a reduction in unemployment following the economic recession which struck Chile in the second half of 1998 and for most of 1999.

The Chilean government has adopted a broad agenda of reforms that embrace all of Chilean society and seek to transform it into a society that is not only wealthier but more equitable, democratic and participatory.

In a speech to the National Congress on 21 May 2000, President Lagos presented the three central pillars of his government's agenda, which are:

- first, to open the doors to development by promoting the growth<sup>6</sup> of the economy in an increasingly globalised and competitive world.
- second, to integrate the country by providing equal opportunities to all Chilean men and women, regardless of their ethnic, social and geographic background;
- third, to strengthen the people's freedom and to consolidate national unity in terms of democratic institutions and republican values;

So as to **promote the country's development**, the Government identified as a priority the incorporation of Chile to the information society through a broader access to the Internet and through the development of on-line public services. The Government also stressed the importance of increasing labour productivity - with an emphasis on training -, of improving access to financing for the private sector through the setting up of capital venture funds, and of devoting more funds to R&D<sup>7</sup>.

The Government committed itself to maintaining a budget surplus of 1% of GDP through a reduction of tax evasion and through a more efficient use of public funds. Reforming the State was identified as a central objective to increase efficiency and transparency of public institutions.

In the social field the emphasis was put on the reform of the labour legislation<sup>8</sup> and of the health system, mainly to reduce patients' attendance delays. In the area of education, the Government intended to consolidate reforms initiated under the previous government so as to improve the rate of children completing secondary education.

The Government also stressed the need for improved environmental institutions and legislation to promote a sustainable development.

To enhance the **country's integration**, the Government proposed to further decentralise decisions and to develop infrastructures at regional level through private investment. The stress was also put on urban development, especially as far as culture, tourism or environment are concerned. The Government underlined the need to also better integrate the Chilean society, increasing women's participation and recognising indigenous communities.

And finally, the Government stressed the need for a **stronger national spirit**, which could be promoted through new forms of citizens' participation and investments in the national cultural heritage. On the legislative side, the Government proposed to adapt the Constitution, leaving behind legacies of the past such as the existence of designated senators. In the area of foreign policy, the Government recognised the strong integration of Chile in the world economy and underlined the need to give priority to the Mercosur countries, while also developing links with America, Asia and Europe through free trade agreements and through the recognition of common values.

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<sup>6</sup> The Government set the growth target at 6 to 7% per year

<sup>7</sup> Government's objective is to spend over 1% of GDP on R&D

<sup>8</sup> A Labour Reform was adopted in September 2001; it aims *inter alia* at increasing collective bargaining capacities, at increasing fines in case of unjustified redundancies and at reducing the number of working hours.



### 3. ANALYSIS OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION; MEDIUM TERM CHALLENGES

#### 3.1. Political situation

As a result of a referendum outcome, Chile held its first presidential elections in 19 years in December 1989. Voters chose Patricio Aylwin, the candidate of a coalition of parties, known as the *Concertación*. In the 1993 elections, the candidate - Christian Democrat Eduardo Frei - of the coalition was again successful. In Chile's third presidential election since the restoration of democracy the *Concertación*<sup>9</sup> candidate, social liberal Ricardo Lagos, won a narrow victory (51.31%) in a run-off round over Joaquin Lavín, the leader of the alliance of rightwing parties, and was inaugurated as Chile's president in March 2000. After the Parliamentary elections of December 2001 President Ricardo Lagos can still count on a simple majority in the Chamber of Deputies (63/120) but, given the narrow majority, the Government will have to privilege the dialogue with the Opposition to push through its political agenda.

##### 3.1.1. *Democratic participation, human rights and rule of law*

Chile is a constitutional democracy with three independent branches: a strong executive branch, headed by a president elected for 6 years, a bicameral legislative branch, and a judicial branch. From the end of the military regime periodic free elections have been carried out, through which three governments have been elected following the established democratic processes. This shows the consolidation of democratic institutions and processes after seventeen years of military government and a clear sign of this consolidation is the decision of the Chilean National Congress in April 2001 to abolish the death penalty and the recent appointment of Mrs Michelle Bachelet Jeria as Minister of national defence.

Still, there are certain constitutional regulations which limit the authority of the executive and the sovereignty of the voters, such as the existence of designated senators<sup>10</sup>, a binominal electoral system that over-represents the minority vote. The "Concertación por la Democracia" coalition which has governed Chile since 1990 has presented various constitutional reform projects in this matter, however it has not obtained the necessary votes for their approval in Parliament.

The domestic political sensitivities surrounding constitutional reform illustrate the divisions that remain in Chilean society and which were brought to the fore by the detention of Pinochet in 1998 in London in response to an extradition request by Spain. Following Pinochet's return to Chile in March 2000, the Supreme Court lifted Pinochet's immunity from prosecution as a Senator-for-life and initiated criminal proceedings, which were lifted in July 2001 when Pinochet was sentenced as "demented".

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<sup>9</sup> Coalition of parties including the Partido Demócrata Cristiano, Partido Socialista de Chile, Partido por la Democracia, Partido Radical Social-Demócrata

<sup>10</sup> The Senate has 48 seats, 38 elected by popular vote and 10 appointed (all former presidents who served 6 years are senators for life)

Against this background, maintaining good civil-military relations will continue to be a priority<sup>11</sup>. President Lagos will be aided in this by the fact that a new generation of military leaders has come to power since the end of military rule with the retirement of many of the Pinochet-era generals. In fact, the armed forces have not played an overtly political role during the legal proceedings involving Pinochet, although they have on occasion expressed their discontentment with the progress of the proceedings against Pinochet and other serving and retired officers.

A process of reform and modernisation of the State was engaged in Chile in 1994 and led to the creation of the Interministerial Committee for the modernisation of public management. The redefinition of role of the State involved introducing clear rules of the game and increasing the degree of transparency and predictability in public government. Chile's public institutions now rank amongst the more transparent and credible of the region<sup>12</sup>.

Still, surveys indicate that the Chilean political class enjoy low popularity among the common citizen<sup>13</sup> and the most frequent criticism is the lack of contact with the daily problems the people live with. The civil society organisations (CSO) are numerous in Chile, over 83,000 organisations<sup>14</sup> are registered, which represents round 56 organisations per 10,000 inhabitants. In comparison, France counts 225,600 CSOs, that is to say round 39 organisations per 10,000 inhabitants. OSCs intervene in a variety of sectors: 21.7% of them have an economic objective (trade unions, professional and technical colleges, business and consumer organisations), 20.4% intervene in the areas of health, education and housing, 20.1% are neighbourhood organisations, 18% have a recreational or cultural goal and 12% represent ethnic groups or women's interests. Although they are numerous, OSC argue for a better formal recognition from the State of their role as entities able to contribute to the thinking and designing of public policies.

Regarding human rights, the successive democratic governments, having inherited a heavy burden from the military government, have been facing up to their responsibility. Now there are no more systematic violations of fundamental rights by state actors, although some charges of ill-treatment and undue use of force by police and jail authorities persist. Violations committed before 1990 are submitted to investigation by the courts which in the course of the last few years have shown greater will to solve these delicate cases.

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<sup>11</sup> Military expenditure now only represents round 3% of GDP.

<sup>12</sup> the Transparency International 2001 survey shows that Chile ranks 18<sup>th</sup> just after the U.S. and at the same level as Ireland with a corruption perception index of 7.5 (10 being the score for the least corrupted country)

<sup>13</sup> According to the 2001 Latinobarometro poll, 71% of the Chilean citizens are not satisfied with the way democracy works

<sup>14</sup> this figure does not include church organisations

### *3.1.2. Regional and international stance*

On the international level, Chile has managed to re-insert itself into the international community after the years of isolation lived during the military regime. Its relations with the neighbouring countries has improved substantially by resolving long lasting border conflicts and by following policy of open regionalism based on trade agreements.

At a bilateral level, Chile has entered into a number of FTAs, including with Canada, Mexico and most major South American countries. Negotiations for an FTAs with the U.S. and Korea are currently underway and feasibility studies for agreements with Singapore and Japan are being undertaken.

Negotiations with the EU to establish an economic and political association have also just been concluded. The negotiations with Chile and Mercosur started at the same time, although they were based on different agreements (the Interregional Framework Co-operation Agreement signed in 1995 for Mercosur and the Framework Co-operation Agreement signed in 1996 for Chile). The intention was to maintain a parallelism between the association negotiations with Mercosur and those with Chile, since Chile initially wanted to join Mercosur. The main objective assigned to the negotiations was to liberalise all trade in goods and services, aiming at free trade, in conformity with WTO rules, as well as to enhance co-operation and to strengthen political dialogue. Negotiating directives were approved by the Council in 1999, based on the political compromise reached by the EU ministers in Luxembourg the same year. However in 2000 Chile opted not to become a full member of Mercosur to keep its commercial policy independent and it became apparent that the two negotiations would follow their own pace and path.

After 10 negotiating rounds, a political agreement was found between negotiators and the conclusion of the negotiations was announced at the EU-Latin America and Caribbean Summit in May 2002 in Madrid. Through the association agreement, the European Union and Chile will pursue and intensify the regular political dialogue instituted by the 1996 co-operation agreement and which has until now taken the form of periodic meetings at Heads of State and Government, foreign Ministers and senior officials' levels. They will also seek to co-ordinate positions and undertake joint initiatives in international fora. The political dialogue will be extended to an institutionalised dialogue between the Chilean National Congress and the European Parliament, and will be enriched by meetings with the EU and Chilean civil societies. In the area of co-operation, the agreement will open up possibilities of co-operating in new areas. And in the field of trade, the association agreement will contribute to significantly strengthen mutual trade relations; trade in goods will be opened up through the gradual elimination of both tariffs and non-tariff barriers and trade in the services sectors will be liberalised. Besides, the agreement aims at improving access for investors, opening up government procurement markets, liberalising capital movements, protecting intellectual property rights, implementing a co-operation mechanism for competition and an effective dispute settlement mechanism and it also includes provisions on veterinary and phytosanitary measures, on wines and spirits, and trade facilitation.

At regional level, Chile also plays an active role. When Argentina was facing serious liquidity problems, President Lagos interceded on behalf of Argentina with President Bush so as to win U.S. support. Beyond the perceptible risk of contagion for the Chilean economy, this act shows the growing solidarity between the two countries, even though

Chile is not a member of the Mercosur Common Market<sup>15</sup>. Chile participates together with Bolivia in the Mercosur Political Consultation Mechanism, the so-called “political Mercosur” but this does not allow it to participate in various institutions of Mercosur, and Chile has no say in the preparation of common policies and new legislation. With Bolivia, relations are normalised, although Bolivia has wanted a sovereign corridor to the South Pacific Ocean since the Atacama area was lost to Chile in 1884. At continental scale, Chile intends to consolidate its role within the Rio Group, contributing to co-ordinating positions so as to harmonise and raise Latin American countries’ voices internationally.

Finally Chile also strongly supports trade and investment liberalisation within APEC and WTO and, on agricultural issues, as a member of the Cairns Group.

## **3.2. Economic situation**

### *3.2.1. Recent economic developments*

In the last few years Chile distinguished itself in the Latin American context thanks to the continuity of reforms and an economic performance characterised by high rates of growth, low inflation and a surplus of the public sector. Indeed, between 1990 and 1997 the GDP grew to an average of 7% per year, inflation was reduced from 27% to 6%, the balance of payments was positive and social indicators improved significantly.

These results were obtained through the implementation of prudent macro-economic policies and serious structural reforms. On the basis of a regular budget surplus, monetary policy was consistent with pre-announced and declining inflation goals. This permitted the currency to depreciate gradually within a band. Additionally, controls to the flows of short term capital were in place.

Chile also undertook structural reforms in the late 80s and consolidated them in the 90s. The main features of these reforms were the introduction of a flexible exchange rate regime, more than a decade before the rest of Latin America, the implementation of an open economic policy directed at promoting export and the launching of a privatisation programme. Chile’s trade liberalisation permitted an expansion of the traditional export industries, mainly mining and fishing. But new sectors have also developed their exports, such as cellulose, fruit, salmon, wine, methanol production and a variety of services including tourism. Through the privatisation programme, most telecom and electricity companies were privatised between 1985 and 1989. Between 1994 and 1998 the majority of State owned transport companies were transferred to the private sector. The Government is still pursuing the strategy of increasing private sector involvement in the provision of public services and infrastructures<sup>16</sup> - through a system of concessions - and is trying to strike a better balance between regional need and public investment decisions.

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<sup>15</sup> Chile’s reasons for not joining so far have been various, the main one being the continuing high level of Mercosur’s CET (average of around 14%), compared to Chile’s low tariffs (6% by 2003) following unilateral trade liberalisation over the past decade

<sup>16</sup> Since 1994, several construction projects in airports, highways and tunnels have been put out to tender

Until 1998, the flows of FDI increased significantly and the country kept the public external debt at moderated levels. However the positive results were interrupted in 1998 when the Asian crisis negatively affected external demand, the price of copper (38% of Chile's exports) and the inflow of capital. Furthermore, all this occurred in a context of excess of internal expenditure (the current account deficit rose to more than 5%) which was unsustainable in the medium and long term. Thus economic growth slowed down in 1998 and turned into recession in 1999 (GDP fell 1.1% and aggregate demand fell 9.9%). Unemployment increased to more than 10% for some months.

In 2000 the economy recovered growth (5.4%) and unemployment yielded somewhat. However, from the last quarter of 2000 growth lost momentum due to the fall of the copper price, the deceleration of the US economy and the crisis in Argentina. The economic slowdown occurred despite the application of an expansive monetary policy and the considerable depreciation of the Chilean peso in 2001. Still the government aims at reaching 3.5% GDP growth in 2001 with an inflation of about 3%.

In April 2001 the Central Bank eliminated all restrictions on capital movements completing in this way the liberalisation of the capital accounts of the balance of payments.

Fiscal policy aims at establishing a structural surplus equivalent to 1% of GDP, and in 2000 Chile managed to advance significantly in this direction, reaching a surplus of 0.4% of the GDP. This policy objective has a moderating effect on the economic cycle and permits the public sector to make a greater contribution to national savings in the medium term, thus leading to higher investment.

Monetary policy has managed to maintain price stability (the Central Bank has an annual inflation goal of 2% to 4%), which since the middle of 1999 has been compatible with an expansionary monetary policy in order to stimulate aggregate demand. This in 2001 is reflected in interest rates which are clearly under the level observed in the last decade.

### *3.2.2. The economic structure*

Services account for the bulk of GDP, with trade and catering at 17% of GDP (2000), financial services at 14%, transport and communication at 9% and personal services (incl. private and public health and education) at 6%. In the area of services, it should be underlined that the telecommunication sector is developed in Chile and that there is a strong political will to develop the Internet<sup>17</sup>. Traditional activities still have an important share in the GDP structure: mining activities represented 10% of GDP in 2000, agriculture and forestry 6% and fishing 2%. The labour force occupation rate of agriculture is still high (14%). The share of manufacturing in the GDP has decreased from 17% in 1993 to 14.5% in 2000. As far as energy is concerned, Chile is not self-sufficient for the oil production. The country produces hydroelectricity but experienced power shortages due to a drought in 1999

Economic activity is very much concentrated in the central region. The Santiago metropolitan region accounted for 47% of GDP in 1998, and the Valparaiso region (see

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<sup>17</sup> The administration is increasingly developing G2C services (Government to citizens); fiscal declarations can be sent through the Internet and tenders are published on an Internet site (Chile Compra).

map in annex I) for 10%. However, the mining activities in the North and the economic dynamism in the extreme South - achieved amongst others by salmon breeding and methanol production - are boosting regional economies.

### 3.2.3. *An open economy*

Chile is a small but open economy. In 2000, round 6,000 companies exported more than 3,700 articles to over 170 countries but 21 companies exported 52.4% of the total value. There are no non-tariff barriers of importance and Chile applies low across the board import tariffs (currently 8% ad valorem, from 2003 6%).

In 2000 Chile registered a trade surplus of US\$ 1,400 million with total exports of 18,000 million. The EU is (and has been for a long time) the principal trading partner of Chile – followed by the U.S. and Japan - with a surplus in Chile's favour of US\$ 1,700 million (deficit with Mercosur and NAFTA). 24.7% of Chilean exports went to the EU and 16.7% of imports came from the EU (the principal exporters to Chile are the U.S. and Mercosur). EU trade with Chile represents 0.5% of the share of EU total imports and 0.3% of EU total exports

Even if the share of non-traditional products in total exports has increased<sup>18</sup> and that of copper has declined, Chilean exports remain very concentrated on natural resources. In 2000, mining represented 46% of total exports and copper 87% of the latter (or 40% of the exported total). That same year, farming, forestry and fishing products<sup>19</sup> represented 8.6% of the exported total. Concentration is even greater in the case of the Chilean exports to the EU. Only twenty products represent around 80% of the total exported by Chile to the EU, with the principal products being: cathodes of copper, minerals of copper, wines, cellulose, gold, refined copper, grapes and apples. Given Chile's heavy dependence on primary products, exports revenues - which have been the engine of growth of the past two decades - are vulnerable to external market fluctuations and this vulnerability can only diminish through increased export diversification.

As far as imports are concerned, Chile imports mainly consumer goods, chemicals motor vehicles, fuel, electrical machinery, heavy industrial machinery and food. From 1991 till 2000 exports grew at a lower annual pace than imports (respectively 8.2 % Vs 9.4%).

From 1974 to June 2001 the stock of FDI in Chile reached US\$ 46.935 million (in 1999 the record annual flow of US\$ 9.200 million was registered, falling to US\$ 3.600 million in 2000). The majority of FDI has been orientated towards natural resources (mining). In the last few years there was a significant increase in FDI in services (electricity, telecommunications, financial services) and infrastructure (roads, ports and airports). The industrial sector has attracted only a smaller fraction of FDI, with industries processing natural resources as the main recipients (cellulose, wood, aquaculture and agro-industry).

Due to the significant increase in European investment from 1998, the EU has become the principal foreign investor in Chile. In 2000 40% of FDI was from the EU (USA

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<sup>18</sup> The share of non-traditional products in total exports rose from 25% in 1995 to 38% in 1999. The share of copper declined by 12.1% over the last decade.

<sup>19</sup> Chile is the 4<sup>th</sup> world producer in the fishing area, the 11<sup>th</sup> for wine and the 21<sup>st</sup> for wood

24.4% and Canada 22.1%) and for period 1974-2000 the EU reached 35.5% of FDI (USA 30.9% and Canada 14.3%).

### **3.3. Social situation**

#### *3.3.1. Social policies: a government priority*

The democratic governments in power since 1990 have all tried to combine economic growth with greater social equity. Good economic performance based on macro-economic stability is seen as a necessary but not sufficient condition to obtain greater equity and to reduce poverty. Therefore specific policies favouring the poor and vulnerable have been implemented.

Public expenditure in health, education, housing and employment has grown and now represents 38% of budget (67% including pensions). Additional resources resulting from the tax reform of 1990, as well as the high rates of growth in the economy, permitted financing this expansion of the expenditure without, at the same time, overburdening the budget or creating inflationary pressures. Between 1989 and 1999 per capita public social expenditure grew 72.4% and per capita fiscal social expenditure 105.9%. In 1999, per capita public social expenditure reached US\$ 747 and fiscal social expenditure US\$ 626.

As a result of this effort, the quality of basic services, including education and health, has progressed considerably placing Chile on the 38<sup>th</sup> rank out of 174 countries of the UNDP human development index.

#### *3.3.2. Poverty, inequality, gender and ethnic minorities*

Chile was able to reduce the poverty index from 38.6% in 1990 to 20.6% in 2000, and in the same period to reduce the percentage of the indigent population from 12.9% to 5.7%. However some regional inequalities persist; in the Araucanía, Atacama and Lagos Regions (see map in annex II) the poverty rate is closer if not superior to 30%. In Chile poverty is higher in rural areas than in urban areas.

The degree of inequality in income distribution has remained high in Chile over the last decade; in 1998, the poorer 20% of the population earned round 4.1% of the national income, while the richer 20% earned 56.9% of the national income. The unemployment rate tends also to be higher amongst the first income quintile<sup>20</sup>.

With regards to gender, the low female participation rate in the labour force – round 35% in 2000 – should be underlined. Women are employed in majority in the service and trade sectors and earn in average 68.2% of men's salaries. The unemployment rate of women (9% in 2000) is slightly superior to men's (8%).

The integration of ethnic minorities is still problematic in Chile, as the turmoil in the IXth region since 1999 have shown. Through the Indigenous Pact adopted in 1999, the Chilean Government committed itself to recognising indigenous people in the

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<sup>20</sup> the unemployment rate of the first income quintile stood at 27.7% in 1998 while the national rate was 10%.

Constitution and to undertaking affirmative action in favour of ethnic minorities. However since then, the land disputes between indigenous people (Mapuches), who live in majority below the poverty line, and logging concerns have intensified. The failure of CONADI<sup>21</sup> to solve the issue and to better integrate ethnic minorities has created tensions in the Region and has recently led Government to create an inter-ministerial Committee to deal with this sensitive issue.

### 3.3.3. *Health and education*

Spending on education has doubled in real terms over the 1990. Chile devotes 7% of its GDP to education, but almost half of that is spent either on higher education or on private schooling for the 10% of children who do not go to state schools. Reforms have been implemented under the previous Government to ensure that poorer Chileans get better schooling, but efforts need to be continued.

Chile has a relatively advanced health system, however its users express growing discontent over timely access to care and the unequal quality of services by the public and private systems. Improving access equity and quality of services are Government priorities.

## 3.4. **The environment**

The state of the environment has deteriorated in Chile over the past years, a fact that derives mainly from Chile's economic structure based on an intensive use of natural resources. In the 90s the traditional agriculture has declined while productivity has increased. Like in many other countries, this trend led to the erosion of the soil and to a growing presence of pesticides and fertilisers in the rivers. The problem of over-exploitation of forests has been a strong source of controversy in Chile between environmentalists and the wood sector (representing 230 000 direct and indirect jobs and 2.7% of Chile's GDP – which makes it the second most important economic activity after mining). Chile is moderately forested - forests cover altogether round 21 % of the national territory<sup>22</sup> - but the majority of forests are privately owned. Production, which has increased substantially, is based on industrial exploitation of plantations but also of natural forests, which has already brought a deterioration of the flora and a decline of the natural forest surface. In the fishery area, over-exploitation has also had an influence on the reduction of species. In the mining sector, the intensive copper production has had a negative impact on the environment, bringing water and air pollution (emission of high amounts of arsenic and carbon monoxide into the air and water around the mines).

The gradual deterioration of the environment is also linked to the population growth rate, which brought an increase in the number of cars (+ 28% between 1995 and 1999), and to the concentration of the population and industrial activity in the Central region. Air pollution has increased, especially in Santiago where air circulation is slowed down by the mountains.

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<sup>21</sup> Corporación Nacional de Desarrollo Indígena

<sup>22</sup> Native forests cover round 18 of the national territory and can be found mainly in the IX Region



A growing concern for environmental matters can be noted in Chile and environment is part of the Government political agenda (see title 2). In 1994, the Comisión nacional del Medio Ambiente (CONAMA) was created thus giving more support and strength to a still embryonic environmental policy. Since then, protected forestry areas have been established (30 national parks and 40 national reserves, natural sanctuaries and places of scientific interest) and with the financial support of the World Bank, CONAF (the Corporación Nacional Forestal of the Agricultural Ministry) has developed an information system to monitor the evolution of Chilean forests and to define a more targeted forest policy. Chile has also given clear signs at international level of its concern for environmental matters. Chile is a signatory of the Kyoto Protocol to the UN Framework Convention on Climate Change. Chile has also undertaken specific international obligations under major Multilateral Environmental Agreements<sup>23</sup> and, together with four other Andean countries of the PUNA region, participates in a UNPD programme to combat desertification and land degradation in the Altiplano.

This growing concern is also linked to the fact that public authorities realised that in an export based economy, national production had to be in line with international demand, which is increasingly oriented towards green products or products respecting specific norms. However, although public awareness for environmental issues has increased, an important work remains to be undertaken by the State so as to develop the environmental legislation and to better monitor knowledge in this field. Given the current context of over-exploitation of resources, it has become a priority to improve the sustainable management of natural resources and to reinforce public control on the economic activities.

### 3.5. Sustainability of current policies

In recent past years Chile has advanced importantly in the economic, institutional and social areas.

**Politically**, democracy seems consolidated and stable - with increasingly modern and transparent public management - and the Government intends to further strengthen democracy through its political programme. The existence of stable and transparent rules, an independent judiciary enhances the country position in the region.

**Economically**, macroeconomic fundamentals are strong. The Government has maintained continuous growth in a context of low inflation, stable external accounts, moderate level of external debt and strong international reserves, a rules-based approach to macroeconomic management and an autonomous and an independent Central Bank, that ensures fiscal and monetary discipline. Although the Chilean economy is vulnerable to external shocks, public finances seem sound enough to absorb a deep crisis. Dynamic and relatively low-risk business environment together with the existence of adequate business and technological infrastructure (a modern telecommunications system, an internationally competitive and efficient banking sector, improved infrastructure and increasing access to the internet) guarantee a business-friendly environment. Externally, Chile has had a very open and outward looking economic policy. The country signed

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<sup>23</sup> The Convention on the control of Transboundary Movement of hazardous wastes and their disposal; the Convention on Biological Diversity; the International Convention to Combat desertification in those countries experiencing serious drought and/or desertification, particularly in Africa.

trade agreements with several other countries, which put Chile in a privileged position as a global trader. This trend will continue in the coming years since the country is committed to reduce tariffs gradually until they reach 6% in 2003.

**Socially**, Chile shows important improvements with regards to human development (according to UNDP). It shows high marks in healthcare, life expectancy, education and housing. They translate into a relatively skilled workforce at the professional, technical and blue-collar levels.

As a conclusion, the development model seems to present many factors that will contribute to its medium term sustainability.

### **3.6. Medium term challenges**

Chile's areas of improvement or medium term challenges are:

- The need to increase citizens' participation and involvement in public decisions given the increasing dissatisfaction Chilean citizens express regarding the way democracy works in their country and the limited involvement of civil society in public decisions and actions.
- The need to diversify the economy: exports and national production in general are still too concentrated on few commodities (copper, cellulose, fishmeal) and the price fluctuation of these commodities has a major impact on the economy. To limit Chile's dependence to external shocks, the country needs to strengthen and to further diversify its productive basis in non-traditional sectors.
- The need to develop economic activities at a regional scale. As shown in the analysis, economic wealth comes principally from the central metropolitan region, while poverty is still high in other peripheral regions.
- Matching economic growth with more equality: income distribution is relatively bad, the female participation rate in the labour force is still low and some population segments still live in extreme poverty. Education (especially public) and health need improvement.
- The need to build capacities in the area of environment so as to ensure the viability of the various ecosystems in the future. The economic growth model of the country - based on raw material exports - put a pressure on the natural resources, especially on non-renewable resources.

## **4. OVERVIEW OF PAST AND ONGOING CO-OPERATION**

The high levels of growth achieved by Chile over the last fifteen years, the per capita income which places Chile within the group of emerging countries, as well as the continuous strengthening of democracy, brought a significant decrease of the international co-operation financial flows to Chile, both at bilateral and at multilateral levels. Recent bilateral agreements have shifted to new priorities. Co-operation agencies

increasingly intervene in new sectors, such as productive development, technological innovation and environment.

The paragraph below covers mainly an assessment of past co-operation. Information on on-going co-operation is available in annex III.

#### **4.1. Co-operation with the European Institutions**

40 years of EU experience in the field of co-operation have shown that in this matter, the essential factors for sustainable development are a stable democracy and the rule of Law, competent institutions, and the implementation of sound internal policies based on a sound management of public affairs, an equitable income distribution, a macroeconomic balance, an economic and trade openness, the respect of environment and a social dialogue.

Until 1989, the EC co-operation was exclusively channelled through NGOs, whose central objective was to contribute to the restoration of democracy, mainly through the support to civil organisations. Between 1990 and 1994, with the first elected Government, co-operation increasingly focussed on resolving structural problems corresponding to governmental priorities. Consequently, co-operation was centred mainly on supporting the democratic consolidation process - through institutional support programmes aimed at modernising and decentralising the State -, developing the local productive environment, enhancing regional and territorial development - so as to increase local participation -, and improving the social environment, mainly through NGO interventions.

The diversity of fields of intervention increased further after 1995. Altogether from 1993 until 2000, technical and financial co-operation represented round 36% of the EC financial commitments, followed closely by NGO interventions (35%) – mainly in the social field. Democratisation and human rights was also an important intervention area representing 7% of the funds committed. The other intervention significant fields included scientific co-operation (5%) and environment (4%).

From 1993 till 2000, Chile received round €13 million per year in average from the EU in terms of bilateral co-operation, a significant amount for an emerging country of this size. This external support from the EC contributed in an important way to democracy consolidation<sup>24</sup> and economic development in the last years of the twentieth century. In the frame of the economic co-operation, an EC-Chile foundation (“EuroChile”) was created with the objective of reinforcing industrial, commercial and technological relations between the EU and Chile.

Chile is also an active participant in regional programmes: from January 1996 till April 1998, Chile received a subsidy of round €416,700 in the frame of the AL-Invest programme. 126 Chilean SMEs participated in the programme and 9 of them signed a trade contract for a total value of M €1,5. Chile also benefitted from the ECIP scheme (round M €4 from 1993 to 1999), and coordinates the network “drugs and town” within URB-AL as well as many projects within the 8 networks set up. The most active Chilean municipalities are Santiago, Viña del mar and Concepción. One single Chilean project

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<sup>24</sup> The EC has been the main financial source of support to restore democracy with 82% of total co-operation from 1990 till 1994.

was financed within the frame of ALURE in 2000. From 1994 till 1999, Chile has been one of the main beneficiaries of the ALFA programme, behind Brazil and Argentina with Chilean institutions participating in 337 projects (mainly mobility projects) for a total amount of round M € 20.5 and coordinating 28 projects.

From 1993 till 2000, the EIB only supported one project in Chile (in 1994). The project aimed at modernising and expanding the telecommunication networks (€75 million). The low participation of the EIB in Chile is due to the fact that the Bank's intervention criteria are in contradiction with Chilean prevailing rules.

An evaluation of the EC co-operation with Chile was made in 1997. The report underlined the following points, some of which have also been highlighted in the evaluation of economic co-operation with the developing countries in Asia and Latin America (completed in August 2001):

- The need to maintain interventions aimed at making democratic consolidation irreversible;
- The need to support the durability of Chilean entities created through the EC co-operation and more generally the need to increase the role of those actors that enjoyed a limited participation in the past (such as regions, municipalities, universities, private sector representatives, etc.);
- The need to pay more attention to the identification and appreciation of institutional and technical capacities of entities involved in co-operation, so as to ensure a closer follow-up;
- Given the reduction of the eligibility conditions in Chile to external co-operation, it seems necessary to establish new criteria and objectives and to better define intervention areas, especially for budget lines 310 and 311. An increased concentration of aid in the fields of the design and implementation of industrial and SME policies as well as the reinforcement of public entities seem relevant. As far as budget line 310 is concerned, greater attention should be given to the **identification** and **delimitation** of areas of interventions, the potential beneficiaries, the adequacy between the objectives and resources assigned to projects, and the geographical and social dimensions;
- In its co-operation with Chile, the EU should seek increased synergies with the Member States, especially in the post secondary education sector.

Besides, co-operation with Chile was based on various budget lines, managed by different General Directorates within the Commission. Not only did Chile benefit from credits through the economic and financial and technical budget lines, but also through lines related to co-operation in the field of energy (B4-104), scientific et technological co-operation (B6-62), co-operation through NGOs (B7-6000), etc. The diversity of actors provoked the multiplicity of intervention sectors and the fragmentation of the EU efforts. In the future it seems necessary to limit the number of intervention fields and to increase the consultation between the different actors. Another major challenge is the range of current procedural bottlenecks. To develop a mature partnership, difficulties due to procedural and legal complexities must be reduced.

Regarding more specifically budget line B7-6000, an effort should be made to match the selected projects with the global co-operation strategy. Besides, lesser projects should be implemented to maximise the impact of individual interventions.

## 4.2. Co-operation with the EU Member States and other donors

### 4.2.1. EU Member States

Between 1990 and 2000, over 1000 million Euro were allocated to Chile by the Member States. An evaluation of Member States' bilateral co-operation with Chile<sup>25</sup> (see annex III) shows a strong presence of the Member States in the areas of social infrastructure and services.

The main bilateral donor to Chile is **Germany**, whose co-operation represented round 70% of the EU total amount in 1999. Until 2001, the German financial co-operation has represented 489.4 million DM and the technical co-operation 224.4 million DM. The German-Chilean technical co-operation is increasingly focused on two priority areas: environment protection/sustainable management of natural resources and modernisation of the Chilean State. Main projects are "air pollution control in Santiago" and "maintenance of natural resources". Other programmes cover the areas of "regional territorial planning and management", "reform of the Penal Law system" and "programme of assistance to decentralisation". As for financial co-operation, the main projects are "equipment for hospitals", "sustainable management of Chilean native forest" and "allowances for SMEs for investments in environmental technology".

The second donor to Chile is **Belgium** with round 8% of the EU total amount in 1999 (US\$3.2 million). Like for Germany, most of Belgium's funds (67%) are dedicated to social infrastructure and services: health represents 20% of the total, education 19%, "other social services"<sup>26</sup> 16%, and Government and civil society 12%. The remaining funds are spent mainly on agricultural and industrial projects. Belgium also supports NGOs' projects.

**France** and **Spain** rank third with round 7% of the EU total co-operation with Chile (US\$2.7 million). France intervenes mainly in the area of social infrastructure and services, with a focus on post-secondary education (33%), "other social infrastructure" (14%) and Government and civil society (7%). 21% of the financial envelope go to projects in the area of transport and storage. The rest is spent on industrial and agricultural co-operation. As for Spain, over 3/4<sup>th</sup> of the country's co-operation funds are dedicated to social infrastructure and services, with 62% spent on education and 13% on "other social services". The rest is spent on agricultural and industrial co-operation.

**Sweden** is also a significant donor, with round 6% (US\$2.56 million) of the EU total co-operation funds in 1999. 52% of Sweden's co-operation go to projects in the area of transport and storage. 27% are dedicated to Government and civil society and 20% to industrial co-operation.

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<sup>25</sup> Source: OECD - DAC data for 1999 except for Germany (source: German Embassy in Santiago)

<sup>26</sup> In DAC's terminology, this term covers institutional building, culture, social security and programmes, central administration services, R&D institutions and drugs prevention

In 1999, **Italy** (US\$1.04 million) intervened mainly in the fields of industrial co-operation (52%), education and "other social services". The UK co-operated with Chile exclusively in the area of water supply and sanitation

Most other Member States co-operate with Chile through the funding of NGO activities. NGOs, which have experienced a decline in access to funds, focus mainly on social issues such as gender, youth, indigenous peoples etc.

#### 4.2.2. *Other donors*

Concerning multilateral donors, and as an example of the recent changes in funding priorities, it is worth noting the role of the **World Bank**, that focused its activities in Chile on education & technology, on improving the efficiency of the public sector especially at municipal scale, and on environment mainly through institutional support. The World Bank complemented its donations with loans, especially towards the development of primary and secondary education.

For 2000-2002, the **Interamerican Development Bank** foresees a financial envelope of US\$ 525.5 million for loan operations and US\$ 1,801 million for technical co-operation. The Bank's action in Chile will concentrate on the following priority areas:

- 1) increase competitiveness by improving the regulatory framework, helping the country penetrate external markets, promoting greater efficiency in the provision of public services and in mechanisms to support technological innovation, with particular stress on establishing partnerships with the private sector and with civil society.
- 2) Reduce social and regional inequalities and improve living of standards, with particular attention to vulnerable groups (indigenous communities, women, children, the disabled and the elderly).
- 3) Improve State management in the provision of public services, strengthening partnerships between civil society, the State and the private sector, and increasing citizen participation.

In 2002, the Bank granted in particular a loan of US\$ 80 million to improve the situation of indigenous people.

In the multilateral co-operation context, the **UNDP** played a vital role in humanitarian help. More recently, UNDP's direct contribution has decreased.

At bilateral level, **Japan** and the **United States of America** are also significant donors and they focus mainly on science and technology.

### 4.3. **Other community policies, resources and instruments**

The main objective of Chile as an emerging country is to fully integrate itself in the global system and to participate in international regulatory organisations, so as to best represent its national interests. The European Union encourages Chile to participate in international discussions and exchanges and has supported the establishment of tight relations with this country.

Thus in the case of Chile, the **development policy is subordinate** in EC relations with the country, whereas other policies play an important role, for instance the EC trade policy, the EC health and consumer policy, the EC agricultural and fish policy, etc.

As far as **trade aspects** are concerned, the long-term objective of the EU in relation to Chile is the full liberalisation of trade and investment. This will imply pursuing the conclusion of the EU/Chile negotiations for a political and economic Association Agreement, a key element for the European presence in Chile. In the short and medium term this also implies trying to solve the main trade irritants and prevent the introduction of new barriers. The priority is thus to come to amicable agreement with Chile on priority market access cases, which contravene WTO rules, via bilateral consultations and to establish lists and analyse other cases of market access barriers. Bilateral co-operation projects could support the concrete translation of objectives linked to trade policy.

The will to liberalise trade has substantial collateral effects : the EU tries to promote its model through other community policies so as to facilitate exchanges and to increase trade opportunities, notably in the area of internal market policy, fiscal and customs policy, statistics and competition policy. In this area, the EU is in favour of establishing a co-operation with the relevant Chilean competition authorities.

In the area of the **single market policy** the EU strategy is to conclude a public procurement agreement, aiming at an opening up of the sector to European companies and, more in general, the EU is seeking to promote its practices in this area. The EU is also interested in concluding an agreement on concessions and other types of public-private partnerships. The current negotiations with Chile should ensure an effective and appropriate protection of intellectual property rights.

The UE imports many **agricultural** products from Chile (wine, apples, etc.). Some products enter with a preferential access within the frame of tariff contingents. However Chile, which remains an important agricultural producer, rejects the EU common Agricultural Policy and is striving for a total liberalisation of trade in this area, in particular through the Cairns Group. However, it has to be mentioned that the CAP has significantly changed during the past years, with social and environmental measures being strengthened, while institutional prices have been lowered, leading to gradual approximation of community agricultural prices to the level of world prices.

Measures taken by the EU in the framework of some of its policies, such as its **health and consumer protection policy**, might be referred to by some as being “protectionist”, however, they relate to an established level of quality required by European consumers. If Chile wishes to maintain its strong presence in the European market, it will have to adapt to the established requirements for food safety of European consumers, thus the importance for this country of concluding a veterinary and phythosanitary agreement with the EU.

In the field of **fisheries**, Chile is also an important partner of the EU and the Union aims at reaching a bilateral co-operation agreement with Chile. Within the frame of such an agreement, the Chileans could benefit from a assistance in the area of technical and scientific co-operation while the EU could exploit Chilean resources through the constitution of joint ventures .

In the area of **science**, the community policy also has a significant impact on Chile. The EU is seeking co-operation with these countries, in particular to allow high-level

researchers from these countries to participate in community research. The EC and Chile are negotiating a scientific co-operation agreement, so as to open mutual possibilities of participating in programmes and activities led by each partner in terms of RTD. The EU strategy will then consist in supporting the implementation of this agreement, inciting the Chilean authorities to finance the participation of their researchers to projects from the 6<sup>th</sup> framework Programme and supporting the participation of European researchers to Chilean research programmes. Moreover, there is a community programme called INCO, which offers possibilities of scientific co-operation in the areas of health, agriculture, environment and development policy.

In the area of **environment**, the priorities for action have been identified in the 6<sup>th</sup> Community Environment Action Programme. Amongst the biggest threats to sustainable development are climate change, the depletion of natural resources and the loss of biodiversity. With Chile, the objective should be to promote the conservation and sustainable management of forests and the implementation of the Kyoto Protocol.

Finally, other community policies deserve to be mentioned to the extent where they may influence the EU co-operation strategy. The development of the **information society** is an important horizontal objective for the EU, having a positive impact on essential development issues. The horizontal programme @LIS will be the main instrument for co-operation with Chile. In the field of **transport** priorities are market opening and improvement of security/safety in air and maritime transport, while in the field of **energy** the EU seeks to ensure security of supply including an appropriate energy infrastructure network and to develop alternative sources of energy. In this field, the multiannual programme to promote international co-operation in the energy sector allowed for the financing of co-operation projects with Chile, to assist them in defining, formulating and implementing their energy policies in areas of mutual interest and to promote industrial co-operation in the energy sector. Comparable projects might be supported under the planned energy co-operation programme of the future (Intelligent Energy for Europe).

## **5. THE EU RESPONSE STRATEGY**

### **5.1. General objective and principles**

The main objective of the EU response strategy is to bring an adequate answer to Chile's main current challenges. To summarise, three main challenges have been identified in the analysis: the need to strengthen the country's competitiveness and productive diversification, the need to support the modernisation of the Chilean State through an increased participation of civil society and regions, and through the support to on-going reforms (e.g. in the area of health), and thirdly the need to ensure a sustainable development to preserve the environment.

The EU strategy must also be in line with the EC general co-operation objectives, which are to reduce poverty, to consolidate democracy and to enhance economic development. Co-operation with an emerging country such as Chile cannot be based on the same criteria as co-operation with poor countries and the concept of mutual interest should prevail; co-operation funds should be used whenever possible as an instrument to implement or support the implementation of specific issues foreseen in the political and economical Association agreement negotiated with Chile.



Secondly, the EU strategy should be consistent with the “Memorandum of Understanding”, which was signed in Santiago in March 2001 and foresees an indicative financial envelope of € 34.4 million for the period 2000-2006 (see annex IV). The priorities identified within the MOU remain valid and they have indeed been reconfirmed by AGCI in September 2001. Local consultations with the EU Member States have shown the full compatibility of the proposed sectors and priorities with the analysis, strategy and activities of the Member States.

Thirdly, the strategy should build on past experience. In the case of Chile, more time and resources should be allocated to project identification within the selected sectors so as to focus the choice on projects with a real European value added. This involves a narrow co-ordination with the Member States. Furthermore, the EU should support the durability of Chilean entities created through the EC co-operation - the role of Eurochile should be enhanced – and an increased decentralisation should be targeted.

Fourthly, the strategy should be complementary to the Member States’ and other donors’ strategy. It appears for instance that most Member States and the World Bank are very involved in co-operation in the area of education. Besides, some Member States and the IDB are also involved in supporting civil society. Therefore, when selecting a project a special attention must be given to what other donors do, which involves a good knowledge at project level. Impeding all EU interventions in these areas would however not make sense given the variety of intervention possibilities but it seems necessary to avoid duplications

And finally the horizontal principles that are the promotion of equal opportunities for men and women, an increased protection of the environment, and the promotion of the information society, are guiding principles that should be taken into account when selecting co-operation projects.

## **5.2. Intervention priorities**

As a result of the above mentioned considerations, a strategy based on the following priorities can be proposed for 2000-2006:

1. Economic co-operation and technological innovation.
2. Environment and natural resources
3. Support to the reform of the state

So as to meet the objectives detailed hereunder, financial resources can be drawn either from the ALA budget lines (B7-310 and B7-311) or from other horizontal budget lines so as to maximise the overall coherence of the Community action with the strategy defined. Final project selection and amount will be subject to a detailed identification and appraisal to be undertaken by the Commission. The scheduled work programme will be subject to the availability of respective budget funds in the overall EC budget.

### **I. Economic co-operation and technological innovation:**

The two main objectives of this intervention priority are **to develop Chilean companies' competitiveness** - principally SMEs' - and also **to facilitate trade** between the EU and Chile as a follow-up to the Association agreement.

A country's **competitiveness** is linked to many different factors. It appears clearly that few countries have succeeded in maintaining high growth rates over the long term basing their production and exports on traditional products. Therefore diversifying the Chilean economy, focussing on the secondary and tertiary sectors is a priority.

A key element to increase a country's competitiveness is its capacity of integrating *innovation* in its production thus adding value to its products. To better integrate innovation in the Chilean production, interactions between the scientific world and the private sector should be encouraged and support could be granted to the State to develop tools aiming at facilitating the creation of innovative businesses.

Competitiveness also has to do with the development of competitive advantages. The international demand is increasingly oriented towards *quality*; if companies want to raise their market share, they have to adapt consequently. The modern concept of quality affects all the processes of the company - from the purchase of production factors, the design of products and of services, the motivation and the engagement of workers, to the marketing process – and brings increased productivity and competitiveness.

One of the central objectives of the Association Agreement negotiated is to **facilitate trade** between the EU and Chile. Some of the chapters of the agreement will require technical assistance and studies for the implementation phase and it seems relevant to partly use the co-operation funds to this end (for instance to accelerate mutual alignment through convergence as regards technical and statistical standards, customs matters, public procurement, etc.). Besides, the EC is willing to support Chile in its efforts to build up its regulatory, legislative and institutional capacities to implement and apply its WTO commitments in fields such as TBT/SPS, trade related intellectual property rights (TRIPS) and customs valuation. As part of the Doha Development Agenda, the EC may also support Chile in its efforts to build its institutional, judicial and regulatory capacities in trade related fields

To stimulate investments and joint ventures, co-operation between economic actors from Chile and from the EU should be simulated. Such co-operation is foreseen in the frame of the horizontal Atlas programme.

Possible budget lines: B7-310, B7-311, B6-551 and B6-621 (see annex V)

## **II. Environment and natural resources**

The objective of this priority is **to promote the protection of the environment** through support to public entities but also to private companies. Environment is an important issue in Chile and the EU is seen as a partner having considerable experience in this area and offering value added, especially in the mainstreaming of environment and economic co-operation.

Co-operation could focus on institutional support, so as to improve the collection of data and the capacity of sectoral and regional monitoring. Institutional support could

contribute to the definition and establishment of standards and of measurements. It could also lead to a better assessment of the environmental impact of investment projects and public policies, to research in environment and to increasing public awareness.

In the specific area of energy, co-operation could be particularly relevant, especially to develop alternative sources of energy.

Productive sectors are very much responsible of the gradual degradation of environment, be it through toxic emissions, pesticides or solid residues. Therefore it seems relevant to develop the environmental legislation, to increase controls, decontamination and treatment and to promote and develop clean production. Support to the private sector should also contribute to promoting eco-certification of Chilean products.

Possible budget lines: EIB loans, B4-104, B7-310, B7-311, B7-620 and B7-6000 (see annex V)

### III. Support to the reform of the State

In this area, the objective is twofold: the first priority is to **support the Government's reform process**, while the second priority is **to strengthen citizens' involvement** in the definition of public policies.

The central priority of the process of the **reforms undertaken by the State** consists in improving social and territorial equity and integration. Reforms are underway to improve the urban and territorial management, to increase women's participation, to improve the vulnerable children care system and the efficiency of the health system as a whole, etc.. Co-operation in this area will aim at supporting reforms in the priority areas selected by Government. Co-operation may focus on capacity building through the provision of technical expertise and exchanges, training, studies, the setting-up of regional and municipal co-operation networks.

Projects contributing to the horizontal objectives which are poverty reduction and enhanced women participation in the labour market shall be selected in priority.

The second priority intervention area is the **strengthening of civil society** through increased participation of citizens in all fields of the governmental action. Institutional support should contribute to the design and implementation of appropriate legislation to guarantee the participation, to the creation of a "citizen's advocate", to the design of participatory systems and to the introduction of a Council of Social Dialogue. Co-operation should also involve strengthening the institutions and the mechanisms of their participation.

Possible budget lines: B7-310, B7-6000 and B7-703 (see annex V)

## 6. THE NATIONAL INDICATIVE PROGRAMME

The national indicative programme covers the budgetary period 2000-2006 and its financial envelope amounts to € 34.4 million and **concerns only budget lines B7-310: financial and technical co-operation (€ 12.2 million) and B7-311- economic co-**

**operation (€ 22.2 million).** The objectives identified in the co-operation strategy with Chile are the following :

- I. Economic co-operation and technological innovation.
- II. Environment and natural resources
- III. Support to the reform of the state

#### **I. Economic co-operation and technological innovation.**

##### 1.1. Support to quality

#### **Objectives :**

- to increase the competitiveness of the Chilean production through the promotion of the concept of quality .
- to raise the productivity of local companies.

#### **Indicators :**

- number of quality interventions for SMEs;
- number of companies that introduced quality in their production process.

#### **Expected results:**

- To strengthen the quality management instruments in Chile and to raise the number of enterprises incorporating quality management systems and certifications.
- On the longer term to increase the local productivity index (production volume/number of employees).
- On the longer term to increase the percentage of Chilean exports in non-traditional goods by 2006 (2000 = 45%).

**Cross-cutting themes :** projects contributing to the development of the information society shall be selected in priority.

**Programmes to be implemented:** within this measure, technical assistance can be provided to the Centres of Quality and to the Government to develop its legislation, quality certification system and programmes. Interventions at companies' level can also be supported financially but a private contribution to the project seems indispensable, as a sign of the company's involvement and commitment. Actions can also include raising awareness of the private sector through information campaigns. Eurochile could be involved in this measure.

##### 1.2. Trade facilitation

#### **Objective :**

- To increase and facilitate trade between the EU and Chile
- to foster Chile's further integration into the multilateral trading system.

**Impact indicator :**

- To increase the trade flow between the EU and Chile (Chile: 24.7% of exports to the EU, 16.7% of imports from the EU – EU: 0.3% of exports to Chile, 0.5% of imports from Chile)

**Expected results:**

- To harmonise trade procedures and standards
- To contribute to removing existing technical barriers to trade

**Cross-cutting themes :** projects contributing to the promotion of equal rights between men and women, to the development of the information society or to the protection of the environment shall be selected in priority

**Programmes to be implemented:** The EC will support Chile in its efforts to further build its institutional and regulatory capacities in trade related fields. Technical assistance may be provided to build capacity in the areas of trade facilitation (simplification, harmonisation and automation of import, export and transit procedures), the improvement of the domestic competition policy framework, the assistance in the analysis of tariff and non-tariff priorities and needs, and support for the further development of Chile's foreign direct investment regime (increasing its capacity to attract and benefit from FDI, human and institutional development). Any project in this measure should be implemented after consulting DGs involved in the negotiations of the EU-Chile agreement.

### 1.3. Support to innovation

**Objective :**

To promote innovation (start-ups), mainly through capital venture, technology transfer and incubation, so as to increase the added value and diversification of the Chilean production

**Impact indicators :**

- Increase in the number of patents in Chile
- Number of projects financed with risk and venture capital
- Number of training courses provided

**Expected results:**

- To develop and extend risk and venture capital interventions in Chile
- To foster interchanges between the academic world and small innovative businesses

**Cross-cutting themes :** projects contributing to the development of the information society or to the protection of the environment shall be selected in priority

**Programmes to be implemented:** within this measure, technical assistance may be provided so as to strengthen existing public instruments and programmes targeted at

SMEs. An exchange of experience with Member States on incubation, venture capital, etc, could be of added value for the Chilean authorities. Single start-up or incubation projects may also be supported.

## **II. Environment and natural resources**

### 2.1. Integral management of natural resources

#### **Objectives :**

- to encourage environmental protection and sustainable use of natural resources,
- to introduce environmental considerations in the productive sector
- to strengthen the environmental institutional framework, at local or at national level, as well as the data collection, which is an essential tool for policy making.

#### **Indicators :**

- number of standards and measurements established,
- number of new instruments or mechanisms to incorporate clean production in SMEs.
- Number of SMEs introducing environmental friendly procedures or processes (clean production)

#### **Expected results:**

- to improve knowledge on national environmental issues (tons of residues produced, level of pesticide contamination of the waters, etc.) so as to better target public actions where necessary.
- To raise awareness amongst SMEs of the need to contribute to protect the environment, and to implement new instruments to assist them for this purpose.
- To meet the requirements set in the Multilateral Environmental Agreements signed by Chile

**Cross-cutting themes :** environment is a cross-cutting theme

**Programmes to be implemented:** within this measure, technical assistance can be provided so as to support the strengthening of the public sector management capacities, at national, regional or local levels. Assistance can also be provided to develop the eco-labelling or the eco-certification systems, for companies that do respect some well defined criteria in the area of environment. The further development of statistical information systems as well as awareness raising actions could also be financed. Any project within this measure should be coordinated with the German co-operation authorities since Germany is already active in this field.

## **III. Support to the reform of the state**

### 3.1. Support to the processes of reform of public policies

#### **Objective :**

- to increase equity both at social and geographic levels, so as to reduce existing social disparities
- to strengthen democracy through the modernisation of the State and the improvement of its efficiency.

**Indicators :**

- number of training courses on urban management provided
- number of women organisations supported through technical assistance
- number of projects adopted by SENAME<sup>27</sup> following a call for tender
- number of medical centres equipped with telemedical systems

**Expected results:**

- to develop urban and territorial management systems so as to promote sustainable development in Chile
- to contribute to reducing the regional poverty differences
- to increase female participation rate in the labour market by 2006 (2000 = 35%) and to integrate gender issue in the design of public policies
- to develop public tendering procedures in Chile so as to increase transparency
- to improve the health system, especially in the remote areas

**Cross-cutting themes :** projects contributing to reducing poverty, to increasing women's participation to the labour market – especially in the poorer regions - , and to raising environmental protection shall be selected in priority.

**Programmes to be implemented:** within this priority, technical assistance can be provided to the Government, or to the intersectoral ministerial subcommittees responsible for the design and implementation of reforms. Technical assistance could also be provided to institutional actors involved in cross-cutting themes or to local/regional governments. If needed, financial support could also be granted to elaborate statistical information systems so as to support the reform process (provision of targeted data) and to assess its impact.

3.2. Promotion and strengthening of citizens' participation

**Objective :**

- to strengthen democracy through the increase of civil society's participation in Chile.
- to facilitate the participation of citizens in all fields of the governmental actions.

**Impact indicators :**

- creation of a technical secretariat for the Social Dialogue Council
- number of civil society groups or organisations involved in the Social Dialogue Council
- number of training courses on social dialogue provided

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<sup>27</sup> Servicio Nacional de Menores

**Expected results:**

- to increase interactions between Government and CSOs in Chile, so as to incorporate the views of civil society in the design of public policies

**Cross-cutting themes :** CSOs in the area of environment, women rights and health/education/housing shall be supported in priority.

**Programmes to be implemented:** within this priority, technical assistance can be provided at municipal, regional or national level (exchange of experts or experience, training, studies, setting-up of networks...) to design institutional mechanisms to increase participation. For any project designed in this area, the Member States where civil society participation is high should be consulted to gather best practices.

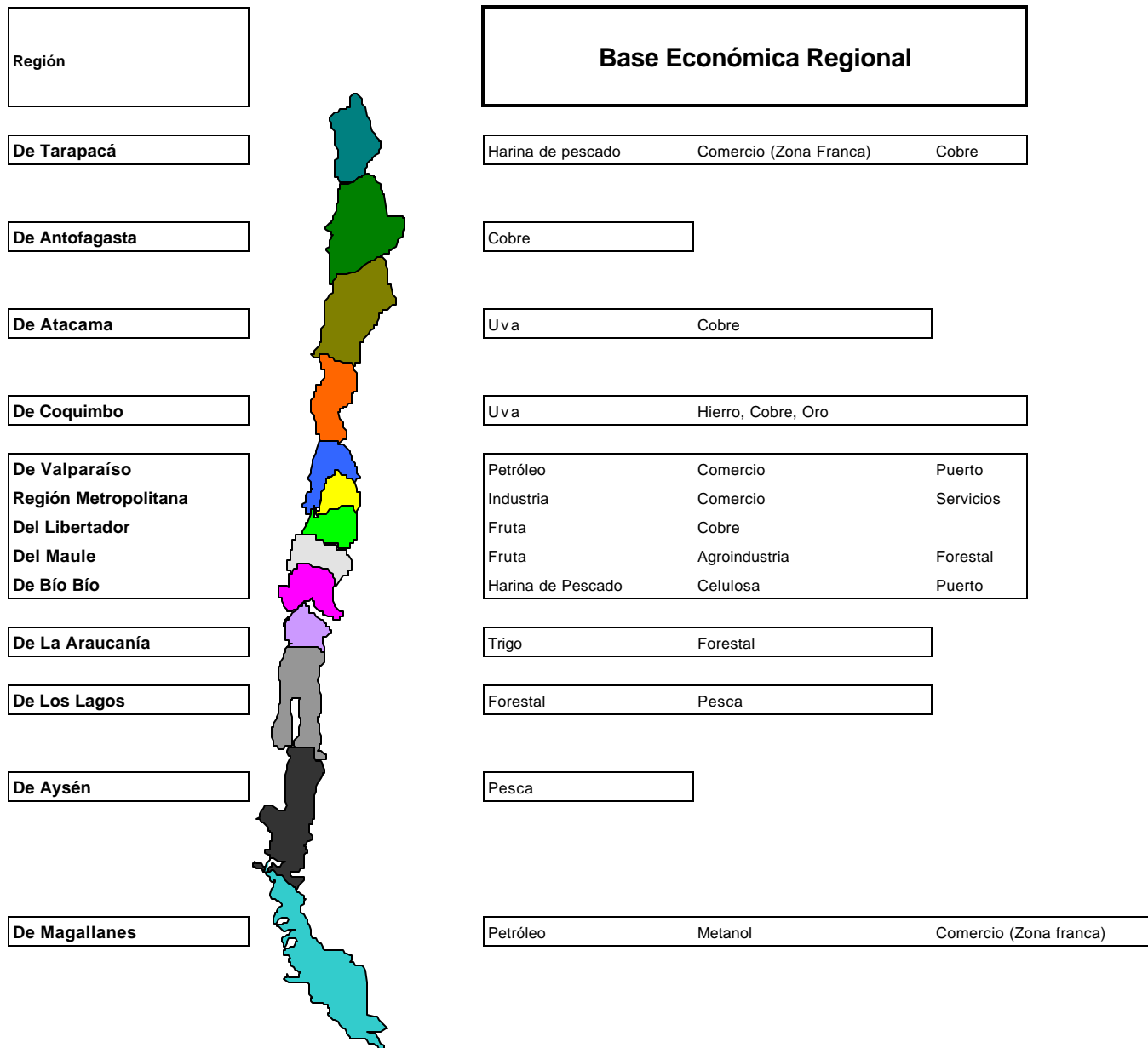




OBJECTIVES	PRIORITIES/ Measures	2002	2003	2004	2005	2006	Indicative amount (M €)	Budget line
<ul style="list-style-type: none"> <li>- To develop Chilean companies' competitiveness</li> <li>- To promote the diversification of the Chilean economy</li> <li>- To facilitate trade between the EU and Chile</li> </ul>	<b>PRIORITY I: ECONOMIC CO-OPERATION AND TECHNOLOGICAL INNOVATION</b>						<b>22.2</b>	<b>311</b>
<ul style="list-style-type: none"> <li>- To promote the concept of quality in the Chilean production so as to increase competitiveness</li> </ul>	<b>Measure I.1. – Support to quality</b>			4.5		1.7	6.2	311
<ul style="list-style-type: none"> <li>- To increase trade between the EU and Chile</li> </ul>	<b>Measure I.2. – Trade facilitation</b>	4.6				1.8	6.4	311
<ul style="list-style-type: none"> <li>- To increase the value added of the Chilean production so as to increase competitiveness</li> </ul>	<b>Measure I.3. – Support to innovation</b>		5.7			1	6.7	311
<ul style="list-style-type: none"> <li>- To encourage environmental protection and sustainable use of natural resources</li> </ul>	<b>PRIORITY II: ENVIRONMENT AND NATIONAL RESOURCES</b>						<b>2.9</b>	<b>311</b>
<ul style="list-style-type: none"> <li>- To encourage environmental protection</li> </ul>	<b>Measure II.1 – Integral management of natural resources</b>			2.9			2.9	311
<ul style="list-style-type: none"> <li>- To modernise the State</li> <li>- To strengthen democracy through increased citizen's involvement</li> </ul>	<b>AXE III – SUPPORT TO THE REFORMS OF THE STATE</b>						<b>12.2</b>	<b>310</b>
<ul style="list-style-type: none"> <li>- To support public efforts to increase equity, both at social and geographical levels and to modernise public services</li> </ul>	<b>Measure III.1 – Support to the process of reform of public policies</b>		9.5			1	10.5	310
<ul style="list-style-type: none"> <li>- To facilitate the participation of citizens in all fields of governmental actions</li> </ul>	<b>Measure III.2 – promotion and strengthening of citizens' participation</b>		1.7				1.7	310
	<b>TOTAL</b>	4.6	16.9	7.4	0	5.5	<b>34.4</b>	

## **7. ANNEX I - MAP OF THE ACTIVITIES PER REGIONS**

# INDICADORES REGIONALES



Fuente: Elaborado por Departamento de Estadísticas Territoriales INE, con base en Banco Central e INE

## **8. ANNEX II - MAP OF SOCIAL INDICATORS PER REGIONS**

## INDICADORES REGIONALES

Región	Indicadores Sociales									
	Poblac. pobre (porcentajes)			Tasa de desocupación			20%rico/ 20%pobre			% poblac. en 2 ciudades principales
	1990	1994	1998	1990	1994	1999	1990	1994	1998	
De Tarapacá	28,3	22,3	16,1	7,8	7,7	9,0	14,9	12,8	10,4	90,3
De Antofagasta	34,2	25,6	13,2	8,5	6,5	7,4	12,5	11,0	8,8	80,9
De Atacama	34,2	32,4	28,5	11,1	10,4	8,0	11,6	9,8	9,0	61,0
De Coquimbo	45,5	32,2	25,1	10,6	10,7	9,3	13,7	10,3	10,4	43,7
De Valparaíso	43,0	26,5	18,8	9,0	8,9	12,7	11,7	9,8	9,1	41,7
Región Metropolitana	33,0	19,8	15,4	8,7	8,3	10,8	13,9	16,3	13,3	81,7
Del Libertador	41,0	32,5	22,7	6,3	5,7	7,3	11,6	11,8	11,2	31,9
Del Maule	42,7	39,6	29,3	8,4	6,4	8,8	16,3	13,7	11,8	28,4
De Bio Bio	48,2	39,6	32,3	7,2	9,5	9,9	14,5	11,5	13,7	32,9
De La Araucanía	45,1	33,5	34,3	4,1	6,2	8,7	14,6	16,1	12,7	32,0
De Los Lagos	40,1	32,4	29,4	2,8	3,7	6,0	14,6	12,6	11,1	23,9
De Aysén	31,0	28,1	14,8	2,8	2,2	4,4	10,8	12,2	9,1	61,0
De Magallanes	30,0	14,0	11,6	4,0	3,5	7,4	12,1	11,4	8,9	86,7
Pais	38,6	27,5	21,7	7,8	7,8	9,4	12,9	13,2	13,9	

Fuente: Elaborado por el Departamento de Estadísticas Territoriales del INE, con base en MIDEPLAN, Banco Central e INE

## 9. ANNEX III – ON-GOING CO-OPERATION

### 9.1. Commitments 2001-2002

Over the period, 8 projects were committed for a total amount of € 3,470,765:

Total committed	Budget line	Project title
213.171	B7-600	Strengthening of the municipal management capacity and development of local capacities in the municipalities of Puerto Montt, Fresia, Llanquilue, Maullin
778.212	B7-600	Strengthening civil society through development, capacity building and promotion of universal human rights
716.231	B7-600	Building and equipment of a Mapuche ethnographic interactive museum, Villarica, IX Region
408.596	B7-600	Consolidation and expansion to neighbouring municipalities of a programme of credit and specialised consulting in the agricultural field for micro-enterprises
293.056	B7-600	Struggle against social exclusion and poverty through the development of violence prevention in Chile
549.838	B7-701	Health Programme for the Rehabilitation of Torture Victims
311.661	B7-702	Independent Media for the Citizenry and Democracy in Chile
200.000	B7-701	Support to rehabilitation centres for torture victims
3,470,765		

### 9.2. Main on-going projects

The main on-going projects (> to € 500,000) are :

CHL/B7-3010/95/067-ACTUA – Urban poverty	€	9,660,000
CHL/B7-3010/95/256 Integrated development Programme for Coquimbo	€	10,708,281
CHL/B7-311/96/163 Ecocertificacion wood sector and forestry products	€	825,000
CHL/B7-310/97/0056 Integrated development of the IXth Region	€	9,000,000
CHL/B7-311/1999/0127 Statistical Co-operation between Chile, Mercosur, EC	€	548,300
PVD/1999/675 Support to the creation of micro-companies and tertiary sector	€	575,025
PVD/2001/634 Construction/equipment of an ethnographic Museum (IX Region)	€	716,231

## **10. ANNEX IV - MATRIX OF DONORS**



year	1999
recipient	Chile

Sum of USD_million	donor																					
Sector	ALL	Donors -			DAC	EU	G7 -					Multilate	Norwa				UNDP				UK	USA
	Total	Ö	B	a	Total	Total	FL	FR	Total	DE	Italy	Japan	Total	NL	y	Spain	Sweden	CH	UNDP	UK	USA	
I.1 Education	11,12	0,11	0,6	0	11,11	11,11	0	1,07	8,75	7,53	0,16	0	0,01	0	0	1,65	0	0	0,01	0	0	
I.11 Education - Level Unspecified	2,36	0	0,31	0	2,35	2,35	0	0,19	1,92	1,66	0,07	0	0,01	0	0	0,12	0	0	0,01	0	0	
I.12 Basic Education	0,43	0	0	0	0,43	0,43	0	0	0,43	0,43	0	0	0	0	0	0	0	0	0	0	0	
I.13 Secondary Education	3,25	0	0,01	0	3,25	3,25	0	0	2,71	2,65	0,06	0	0	0	0,53	0	0	0	0	0	0	
I.14 Post-Secondary Education	5,08	0,11	0,29	0	5,08	5,08	0	0,88	3,68	2,78	0,03	0	0	0	1	0	0	0	0	0	0	
I.2 Health - Total	0,95	0	0,63	0	0,91	0,91	0	0,07	0,19	0,12	0	0	0,03	0	0	0,09	0	0	0,03	0	0	
I.21 Health - General	0,37	0	0,24	0	0,34	0,34	0	0,07	0,07	0	0	0	0,03	0	0	0,03	0	0	0,03	0	0	
I.22 Basic Health	0,57	0	0,39	0	0,57	0,57	0	0	0,12	0,12	0	0	0	0	0,06	0	0	0	0	0	0	
I.3 Population Programmes	0,06	0	0	0	0	0	0	0	0	0	0	0	0,06	0	0	0	0	0	0,06	0	0	
I.4 Water Supply & Sanitation	0,11	0	0	0,01	0,11	0,11	0	0	0,11	0,07	0	0	0	0	0	0	0	0	0	0,04	0	
I.5 Government & Civil Society	6,15	0	0,37	0,23	4,16	1,84	0	0,18	0,92	0,49	0	0	1,98	0	2,04	0,11	0,69	0,03	1,98	0	0,02	
I.6 Other Social Infrastructure & Services	8,54	0	0,51	0,01	8,08	7,63	0	0,37	7,18	6,22	0,14	0,44	0,46	0	0	0,39	0	0	0,46	0	0	
I.61 Employment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
I.62 Housing	0,06	0	0,02	0	0,06	0,06	0	0	0	0	0	0	0	0	0,04	0	0	0	0	0	0	
I.63 Other Social Services	8,48	0	0,49	0,01	8,02	7,57	0	0,37	7,18	6,22	0,14	0,44	0,46	0	0	0,35	0	0	0,46	0	0	
<b>I.SOCIAL INFRASTRUCTURE &amp; SERVICES - Total</b>	<b>26,92</b>	<b>0,11</b>	<b>2,12</b>	<b>0,25</b>	<b>24,38</b>	<b>21,61</b>	<b>0</b>	<b>1,69</b>	<b>17,15</b>	<b>14,43</b>	<b>0,29</b>	<b>0,44</b>	<b>2,54</b>	<b>0</b>	<b>2,04</b>	<b>2,24</b>	<b>0,69</b>	<b>0,03</b>	<b>2,54</b>	<b>0,04</b>	<b>0,02</b>	
II.1 Transport & Storage	2,56	0	0	0	2,56	1,93	0	0,57	1,21	0	0,02	0	0	0	0	1,34	0	0	0	0	0,63	
II.2 Communications	0,1	0	0,03	0	0,1	0,1	0	0,07	0,07	0	0	0	0	0	0	0	0	0	0	0	0	
II.4 Banking & Financial Services	1,24	0	0,11	0	1,24	1,24	0	0	1,13	1,13	0	0	0	0	0	0	0	0	0	0	0	
II.5 Business & Other Services	0,02	0	0	0	0,02	0,02	0	0	0	0	0	0	0	0	0	0,02	0	0	0	0	0	
<b>II.ECONOMIC INFRASTRUCTURE &amp; SERVICES - Total</b>	<b>3,91</b>	<b>0</b>	<b>0,14</b>	<b>0</b>	<b>3,91</b>	<b>3,29</b>	<b>0</b>	<b>0,63</b>	<b>2,41</b>	<b>1,13</b>	<b>0,02</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,36</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0,63</b>	
III.1 Agriculture - Forestry - Fishing	3,96	0,06	0,24	0	3,96	2,67	0,2	0,08	2,01	1,93	0	0	0	0	1,3	0,16	0	0	0	0	0	
III.11 Agriculture	1,94	0,06	0,21	0	1,94	0,96	0,2	0,04	0,33	0,3	0	0	0	0,98	0,16	0	0	0	0	0	0	
III.12 Forestry	1,68	0	0	0	1,68	1,68	0	0,05	1,68	1,63	0	0	0	0	0	0	0	0	0	0	0	
III.13 Fishing	0,34	0	0,02	0	0,34	0,02	0	0	0	0	0	0	0	0,32	0	0	0	0	0	0	0	
III.2 Industry - Mining - Construction	2,28	0	0,07	0,32	2,18	1,5	0	0,2	1,42	0	0,54	0	0,11	0	0,19	0,5	0	0,11	0	0,36		
III.21 Industry	2,23	0	0,07	0,26	2,12	1,5	0	0,2	1,36	0	0,54	0	0,11	0	0,19	0,5	0	0,11	0	0,36		
III.22 Mining	0,05	0	0	0,05	0,05	0	0	0	0,05	0	0	0	0	0	0	0	0	0	0	0	0	
III.3 Trade & Tourism	0,33	0	0	0	0,33	0,33	0	0	0,33	0,33	0	0	0	0	0	0	0	0	0	0	0	
III.31 Trade	0,33	0	0	0	0,33	0,33	0	0	0,33	0,33	0	0	0	0	0	0	0	0	0	0	0	
<b>III.PRODUCTION SERVICES - Total</b>	<b>6,58</b>	<b>0,06</b>	<b>0,3</b>	<b>0,32</b>	<b>6,47</b>	<b>4,49</b>	<b>0,2</b>	<b>0,28</b>	<b>3,75</b>	<b>2,26</b>	<b>0,54</b>	<b>0</b>	<b>0,11</b>	<b>0</b>	<b>1,3</b>	<b>0,35</b>	<b>0,5</b>	<b>0</b>	<b>0,11</b>	<b>0</b>	<b>0,36</b>	
IV.1 General Environment Protection	2,25	0	0,13	0,06	2,25	0,17	0	0	1,43	0,02	0,02	0	0	0	0	0	0,7	0	0	0	1,33	

IV.2 Women In Development	0,12	0	0,04	0	0,12	0,12	0	0	0,04	0,04	0	0	0	0	0	0,03	0	0	0	0	0
IV.3 Other Multisector	9,07	0	0,01	0	9,01	8,94	0	0,09	8,98	8,66	0,15	0,08	0,06	0	0	0,03	0	0	0,06	0	0
<b>IV.MULTISECTOR / CROSSCUTTING</b>	<b>11,45</b>	<b>0</b>	<b>0,18</b>	<b>0,06</b>	<b>11,39</b>	<b>9,22</b>	<b>0</b>	<b>0,09</b>	<b>10,45</b>	<b>8,72</b>	<b>0,17</b>	<b>0,08</b>	<b>0,06</b>	<b>0</b>	<b>0</b>	<b>0,06</b>	<b>0</b>	<b>0,7</b>	<b>0,06</b>	<b>0</b>	<b>1,33</b>
<b>V.TOTAL SECTOR ALLOCABLE</b>	<b>48,86</b>	<b>0,17</b>	<b>2,75</b>	<b>0,63</b>	<b>46,15</b>	<b>38,6</b>	<b>0,2</b>	<b>2,7</b>	<b>33,77</b>	<b>26,53</b>	<b>1,02</b>	<b>0,51</b>	<b>2,71</b>	<b>0</b>	<b>3,34</b>	<b>2,65</b>	<b>2,55</b>	<b>0,73</b>	<b>2,71</b>	<b>0,04</b>	<b>2,33</b>
VI.3 EMERGENCY ASSISTANCE	1,04	0	0,27	0	0,99	0,27	0	0	0	0	0	0	0,05	0	0,07	0	0	0,66	0,05	0	0
VI.31 Relief Food Aid	0,66	0	0	0	0,66	0	0	0	0	0	0	0	0	0	0	0	0	0,66	0	0	0
VI.32 Non-Food Emergency and Distress Relief	0,38	0	0,27	0	0,33	0,27	0	0	0	0	0	0	0,05	0	0,07	0	0	0	0,05	0	0
VI.4 ADMINISTRATIVE COSTS OF DONORS	0,11	0	0,11	0	0,11	0,11	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VI.5 SUPPORT TO NGO'S	0,04	0	0,04	0	0,04	0,04	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VI.6 UNALLOCATED/UNSPECIFIED	2,14	0	0	0,04	2,13	2,09	0	0	2,08	2,01	0,03	0	0	0,05	0	0	0,01	0	0	0	0
<b>VII. TOTAL - all sectors</b>	<b>52,18</b>	<b>0,17</b>	<b>3,16</b>	<b>0,67</b>	<b>49,42</b>	<b>41,11</b>	<b>0,2</b>	<b>2,7</b>	<b>35,85</b>	<b>28,54</b>	<b>1,04</b>	<b>0,51</b>	<b>2,76</b>	<b>0,05</b>	<b>3,4</b>	<b>2,65</b>	<b>2,56</b>	<b>1,39</b>	<b>2,76</b>	<b>0,04</b>	<b>2,33</b>

## 11. ANNEX V -MÉMORANDUM OF UNDERSTANDING

La Communauté européenne, ci-après dénommée "la Communauté" représentée par la Commission des Communautés européennes, ci-après dénommée "la Commission",

d'une part, et

Le Gouvernement de la République du Chili,

d'autre part,

Considérant que la Convention Cadre de Coopération entre l'Union Européenne et le Chili signée le 21 juin 1996 à Florence, destinée à préparer, comme objectif final, une association à caractère politique et économique, prévoit, afin de contribuer à la réalisation de ses objectifs, plusieurs domaines en matière de coopération,

Considérant que le règlement (CE) n° 443/92 du Conseil des Communautés européennes en date du 25 février 1992, dénommé règlement "ALA", fixe les principes de base qui doivent être appliqués pour l'exécution des projets relatifs à l'aide financière et technique et à la coopération économique dans les pays en développement d'Amérique Latine, et qu'à l'article 9 de ce même règlement il est recommandé, chaque fois que cela est possible, de procéder à une programmation pluriannuelle indicative par pays,

Considérant que la Convention-Cadre relative à l'exécution de l'aide financière et technique et de la coopération économique au Chili, signée à Bruxelles en date du 24 novembre 1998, détermine les modalités de gestion des programmes et/ou des projets financés par la Communauté,

Considérant les Orientations Pluriannuelles Indicatives pour le Chili (OPIN) approuvées par le Comité PVD/AILE en octobre 1998,

Considérant les résultats du dialogue existant dans diverses instances permanentes entre le Chili et l'Union Européenne et considérant l'expérience conjointe en matière de coopération,

Il est convenu ce qui suit:

## Article 1: Objectif et contexte

Les parties considèrent qu'il est nécessaire de préciser le cadre de leurs relations de coopération en définissant les priorités et en établissant une programmation pluriannuelle qui couvre la période 2000-2006. Il s'agit de concevoir un programme de coopération dont l'impact est substantiel et efficace tant pour les objectifs à moyen ou à long terme que s'est fixé le Chili comme pays que pour la Communauté européenne qui recherche une plus grande efficacité et visibilité à travers la concentration de ressources dans des programmes structurés.

En ce sens les parties s'engagent à développer un programme de coopération pluriannuel pour la période 2000-2006, qui comprenne l'aide financière et technique (ligne budgétaire B7-310) et la coopération économique (ligne budgétaire B7-311) définie par le règlement précité (CE) n° 443/92 du Conseil des Communautés européennes entre le Gouvernement du Chili et la Communauté européenne.

Les montants financiers indicatifs de la contribution communautaire pour l'exécution de ce programme sont indiqués au chapitre 6 de ce programme. À ces montants s'ajouteront les ressources de la contrepartie chilienne qui doivent être fournies par le budget national.

Outre les actions de coopération visées par le présent Mémoire d'Entente, d'autres programmes de coopération, aussi financés par la Communauté, pourront être également développés ayant un caractère régional, national (projets développés par des ONG par exemple) ou décentralisé (programmes AL-INVEST, URB-AL, ALFA, ALURE, ARIEL, SYNERGIE, etc.).

## Article 2: Principes de base

Désireuses d'assurer la pertinence et la viabilité de la programmation, objet de ce mémoire, les parties s'obligent avec l'accomplissement des principes de base suivants:

Les projets et les actions à développer conjointement doivent constituer un complément aux efforts nationaux à ce sujet et être encadrés dans les lignes prioritaires d'action définies par le Gouvernement du Chili et dans les politiques sectorielles clairement définies.

Pour les programmes qui comprennent des thématiques transversales et qui requièrent pour cela l'intervention d'acteurs différents, il est important de compter dans chaque cadre sur une contrepartie adéquate qui dispose de la capacité politique et technique pour articuler les initiatives de manière cohérente.

La contrepartie nationale fournira les ressources financières et humaines pour mener à bien les actions de coopération programmées et assurer le caractère durable de ces dernières.

Les parties désignent pour l'exécution du présent Mémoire, l'Agence de Coopération Internationale (AGCI) et la Commission Européenne par le biais de sa délégation à Santiago comme coordinatrices et responsables des actions qui dérivent du présent Mémoire, afin de maintenir un dialogue permanent tant en matière d'identification et de définition des programmes et des projets spécifiques qu'en matière de mécanismes et de procédures nécessaires pour leur mise en oeuvre.

L'Agence de Coopération Internationale (AGCI) se chargera de fournir les mécanismes de coordination adéquats pour éviter des duplications dans les actions ou les programmes qui sont menés à bien avec d'autres sources de coopération, y compris les États Membres de l'Union Européenne.

Les parties respecteront également dans ce processus les questions qui font référence au sexe, à l'environnement, aux droits de l'homme et aux populations indigènes.

### Article 3: Secteurs de la coopération

L'intervention et l'appui conjoint de la Communauté européenne et du Gouvernement du Chili seront structurés sur la base d'un plan de travail qui comprend trois niveaux de concrétisation, allant du plus général vers le particulier:

– Secteurs thématiques d'intervention, qui constituent des sujets prioritaires pour le pays, qui ont été convenus par les deux parties et qui sont détaillés par la suite.

– Programmes, définis comme un ensemble de projets qui tendent à la réalisation d'un impact qualitatif dans un secteur ou un cadre d'action à moyen terme.

– Projets qui sont à définir dans le contexte des programmes contenus dans ce Mémorandum of Understanding.

#### 1. Secteurs thématiques:

##### 1.1. Développement productif et innovation technologique

Le développement productif comme garantie de création de postes de travail dignes et correctement rémunérés, constitue l'un des principaux objectifs du Gouvernement chilien dans les domaines économique et social. Avancer dans ce domaine suppose également avancer dans l'accès aux nouvelles technologies, à travers un effort propre ou l'expérience de tiers.

##### 1.2. Environnement et ressources naturelles

L'utilisation de ressources naturelles fournissant un développement soutenable respectueux des exigences de l'environnement a constitué un défi pour le Chili et représente aujourd'hui une priorité pour le Gouvernement et pour la société chilienne.

##### 1.3. Modernisation de l'État

Le gouvernement chilien a également comme objectif prioritaire une profonde modernisation de l'État : décentralisation, institutionalisation du dialogue social, renforcement et amélioration de la législation environnementale et un vaste programme de réformes figurent déjà à son agenda.

#### 2. Programmes:

Dans le cadre des secteurs prioritaires indiqués les parties s'accordent pour se conformer aux programmes suivants dont la priorité et la concordance avec les politiques nationales sont garanties par les consultations effectuées avec des institutions et des autorités publiques. Les programmes 2.1., 2.3. et 2.4. sont en relation avec le secteur thématique 1.1., le programme 2.2. avec le secteur thématique 1.2. et les programmes 2.5. et 2.6. avec le secteur thématique 1.3..

##### 2.1. Programme pour le développement d'un système national de qualité

#### Problème

La mondialisation de l'économie pose des défis croissants aux entreprises, en les obligeant à développer des avantages stratégiques qui leur permettent d'étendre leurs marchés, particulièrement dans le domaine international.

Le concept moderne de qualité affecte tous les processus de l'entreprise, et fait augmenter la productivité et la compétitivité des organisations. Il est associé à l'amélioration continue de toutes les activités, depuis l'achat des facteurs de production, la conception des produits et des services, la motivation et l'engagement des travailleurs, le processus de commercialisation, en veillant à obtenir la satisfaction de tous les intervenants de l'entreprise: les propriétaires, cadres et travailleurs.

### Objectif

Le Chili a mené à bien il y a plusieurs années les réformes de première génération qui ont permis une croissance sans précédent. L'objectif actuel du Chili, faire partie du groupe des pays connaissant le développement le plus performant, requiert une seconde génération de réformes qui renforcent la compétitivité de son économie. La qualité doit être considérée comme un outil essentiel pour arriver à cette fin.

### Stratégie de réponse

Dans ce contexte il est proposé de soutenir la création d'un système national de qualité dont les domaines d'action stratégique seraient les suivants:

Promotion de la qualité

Développement de l'infrastructure technologique en faveur de la qualité

Diffusion et information en faveur de la qualité

Qualification en faveur de la qualité

Réglementation en faveur de la qualité

### Formes de soutien

Soutien au réseau des centres de qualité.

Intervention au niveau sectoriel avec une forte implication du secteur privé.

Le montant prévu de la contribution européenne pour ce programme s'élève à 7,4 millions d'euros.

## 2.2. Programme de gestion intégrale des ressources naturelles

### Problème

Le modèle de croissance économique du pays basé sur l'exportation de matières premières a produit une pression sur les ressources naturelles, spécialement au niveau des non renouvelables, qui peut mettre en danger la viabilité des différents écosystèmes dans le futur.

### Objectif

Dans ce contexte il est proposé de :

Récupérer et améliorer la qualité environnementale.

Favoriser la protection environnementale et l'utilisation soutenable des ressources naturelles.

Introduire des considérations environnementales dans le secteur productif.

Renforcer le caractère institutionnel environnemental au niveau national et régional.

#### Stratégie de réponse

Les aspects qui peuvent être pris en considération dans ce domaine sont liés à:

Dépollution atmosphérique, hydrique et politiques de manipulation de résidus solides.

Évaluation de l'impact environnemental des projets d'investissement et politiques publiques.

Recherche scientifique et technologique.

Définition et établissement de normes et de mesures de conservation environnementale relatives à la bio-diversité, aux ressources hydrobiologiques, ressources hydriques, sols, ressources forestières, zones côtières etc.

Promotion de normes de qualité environnementale internationalement admises pour les intégrer aux produits et aux processus productifs chiliens.

Éducation environnementale et consolidation des mécanismes de participation des citoyens.

Amélioration de la capacité de surveillance sectorielle et régionale. Mise en marche du système national d'information environnementale et amélioration de la législation environnementale.

#### Formes de soutien

Assistance technique et financière destinée à soutenir le renforcement des capacités de gestion du secteur public et le renforcement des processus de gestion soutenables dans le secteur privé.

Le montant prévu de la contribution européenne pour ce programme s'élève à 4 millions d'euros.

### 2.3. Programme de développement de l'infrastructure de l'information

#### Problème

Un pays émergent et ouvert au commerce international comme le Chili doit faire face au défi consistant à profiter au maximum des potentialités qu'offre la société de l'information, non seulement comme une forme d'accroissement de sa compétitivité au niveau international mais en outre comme un instrument pour renforcer l'intégration et l'accès égalitaire aux nouvelles potentialités que cette dernière engendre.

#### Objectif

Parvenir à accroître l'égalité des opportunités pour les secteurs des plus petites ressources via un meilleur accès aux technologies de l'information.

Favoriser l'inclusion et aider les personnes qui ont des besoins particuliers.

Utiliser la technologie de l'information pour améliorer la qualité et l'efficacité de l'Administration publique et renforcer les politiques publiques.

Faciliter la coopération entre agents privés et institutions publiques.

#### Stratégies de réponse

La proposition stratégique est ordonnée dans les domaines suivants:

Universalisation/généralisation de l'accès à l'information

Développement de nouvelles capacités pour favoriser la compétitivité.

Modernisation de l'État en rendant ses institutions plus efficaces.

#### Formes de soutien

Programmes d'assistance technique destinés définir des stratégies et des politiques publiques dans des domaines en rapport avec l'application d'instruments informatiques dans la gestion publique spécialement en ce qui concerne l'amélioration des normes de résolution de problèmes et l'accélération de la prise de décisions. A titre d'exemples de ces applications on peut citer : le domaine de la télémédecine, l'éducation et la qualification, etc.

Le montant prévu de la contribution européenne pour ce programme s'élève à 7,4 millions d'euros.

#### 2.4.-Programme pour la facilitation du commerce

##### Problème

La libéralisation progressive et réciproque des échanges de biens, de services et de capitaux, objet des négociations qui se déroulent actuellement entre l'Union Européenne et le Chili, exige un travail de connaissance et de rapprochement dont l'objectif vise à atteindre un degré de convergence qui facilite les relations entre les systèmes économiques et commerciaux des deux parties.

Le processus actuel de négociation constitue la meilleure source d'information pour identifier les questions les plus urgentes dans ce domaine.

##### Objectif

Faciliter les négociations et l'accord éventuel.

Accélérer le rapprochement mutuel à travers la convergence en matière de normes techniques, statistiques, affaires douanières, etc.

##### Stratégie de réponse

Réalisation d'études et assistance technique qui permettent des modifications éventuelles ou des adaptations de la réglementation et du caractère institutionnel chilien.

##### Formes de soutien :

A définir au fur et à mesure que le processus de négociation en cours génère les besoins à résoudre

Le montant prévu de la contribution européenne pour ce programme s'élève à 7,4 millions d'euros.

#### 2.5. Programme de soutien aux processus de réforme des politiques publiques

##### Problème:

Au cours de la dernière décennie le Chili a atteint des niveaux importants de croissance économique ; cependant il reste d'importants défis dont un des plus notables est lié à l'équité tant au niveau social que territorial. Dans ce contexte, le sujet des réformes intervenant pour une



partie importante des politiques publiques a été défini comme la priorité essentielle du Gouvernement du Chili.

#### Objectif:

L'objectif central du processus des réformes qui est proposé consiste à parvenir à donner un saut qualitatif d'importance dans la réalisation des objectifs d'équité qui constituent l'axe central de la politique à promouvoir par le Gouvernement du Chili. Ceci implique l'amélioration dans l'accès de la population aux fruits du progrès économique, la promotion de la participation à la définition des politiques publiques et une réforme substantielle dans la gestion de l'État.

#### Stratégies de réponse:

Indépendamment de la conclusion des deux réformes importantes actuellement en cours de développement (Education et Justice), le Gouvernement du Chili propose des réformes dans 7 domaines:

Réforme Fiscale

Réforme de la Santé

Réformes aux processus du travail, y compris la réforme du travail

Réforme intégrale de l'État, y compris une plus grande décentralisation

Réforme des politiques d'accès aux nouvelles technologies de l'information

Réformes Politiques

Réformes des politiques relatives à la ville et au territoire

De ces réformes, celle qui se réfère aux technologies de l'information apparaît déjà faire partie de ce document comme un programme spécial. En ce qui concerne le reste, les réformes relatives à l'Etat apparaissent comme d'une importance spéciale du point de vue de la coopération et leurs axes d'action se concentreront autour des matières suivantes:

a Nouvelle conception et réorganisation de l'appareil de l'État

b Modernisation de la gestion publique

c. Participation des citoyens

d Audit, transparence et probité

En même temps, on considère que le soutien aux réformes des processus du travail et que la réforme de la santé s'avèrent importants.

#### Formes de soutien:

Pour chacune de ces réformes, on a constitué des commissions ministérielles intersectorielles pour l'étude, la conception et l'exécution postérieure de ces premières. Par conséquent, bien qu'il n'existe pas encore de linéaments terminés dans chacune d'elles, le processus de diagnostic et de conception préliminaire est assez avancé, spécialement en ce qui concerne la réforme et la modernisation de l'État. Dans ce contexte il est important de laisser bien définie la volonté de coopérer au soutien qui sera éventuellement requis, spécialement au niveau de l'assistance

technique européenne, du transfert de connaissances et d'expériences, de la qualification des ressources humaines etc.

Le montant prévu de la contribution européenne pour ce programme s'élève à 4,1 millions d'euros.

## 2.6. Programme de promotion et de renforcement de la participation des citoyens

### Problème:

Le saut qualitatif qui signifie la définition d'un schéma de développement, dont l'axe ordonnateur est l'équité, requiert, parmi d'autres conditions, la génération d'un processus de participation des citoyens qui permette la définition de politiques publiques organisées autour d'objectifs d'intérêt collectif et donc conséquents avec la nécessité de produire une voie d'intégration sociale plus grande.

### Objectifs:

L'objectif central de ce programme vise à renforcer la société civile et faciliter la participation des citoyens dans tous les domaines de l'action gouvernementale

### Stratégie de réponse:

Le sujet de la participation des citoyens est confronté à deux perspectives qui sont complémentaires entre elles :

Dans la première perspective on aborde la participation des citoyens depuis l'optique de son insertion dans les processus de prise de décisions de l'État. Dans cette perspective les sujets centraux se réfèrent à la conception et à la mise en œuvre de la législation adéquate pour garantir la participation, la création de la figure de "défenseur du citoyen", la conception des systèmes de participation et l'instauration d'un Conseil du dialogue social.

Dans la seconde perspective, on étudie le sujet de la participation depuis l'optique de la société civile, en centrant la proposition sur le renforcement des institutions et des mécanismes de participation de celle-ci.

### Formes de soutien:

La coopération devra se concentrer sur des projets d'assistance technique, d'échange d'experts et de qualification de cadres techniques qui permettent d'appuyer les définitions institutionnelles en apportant l'expérience dont bénéficient à ce sujet les pays de l'Union Européenne.

Le montant prévu de la contribution européenne pour ce programme s'élève à 4,1 millions d'euros.

## 3. Projets:

En ce qui concerne les projets spécifiques qui constitueront chaque programme, les deux parties s'engagent, chacune dans ce qui lui correspond, à accélérer les phases d'identification et de faisabilité de ces projets afin de présenter une proposition de financement ou de convention qui permette, en un temps raisonnable, la mise en marche effective de ces actions.

### Article 4: Chiffre indicatif pour le financement du programme

Pour le financement de la totalité des activités et des projets que comprend l'exécution du présent mémorandum, la Commission a prévu un chiffre indicatif de 34,4 millions d'euros pour la période 2000 – 2006 (lignes budgétaires B7-310 - coopération financière et technique,

12.200.000 Euro, et B7-311- coopération économique, 22.200.000 Euro). Ce montant indicatif ainsi que les ressources de contrepartie considérées par la partie chilienne, sont soumises à d'éventuelles variations en fonction des disponibilités budgétaires effectives, tant de la Communauté que du Chili.

Article 5: Modalités de consultation

Les deux parties maintiendront, par le biais de leurs représentants respectifs, un dialogue permanent sur le suivi du contenu du présent mémorandum.

Article 6: Révision à moyen terme

Dans le cadre du dialogue prévu à l'article 5, le présent mémorandum fera l'objet d'une révision conjointe à moyen terme, afin de déterminer les mesures et les révisions éventuelles que l'on considère comme nécessaires pour assurer leur bonne exécution.

Article 7: Dispositions finales (Clause évolutive)

Il est décidé que, à la demande d'une des deux parties, celles-ci pourront, d'un commun accord, réformer, modifier et/ou compléter les dispositions convenues dans le cadre du présent mémorandum d'accord.

POUR LA COMMISSION

POUR LE GOUVERNEMENT DE LA

DES COMMUNAUTÉS EUROPÉENNES

REPUBLIQUE DU CHILI

Date

Date

## 12. ANNEX VI – BUDGET LINES

Article	<u>B7-310</u>	<u>Coopération financière et technique avec les pays en développement d'Amérique latine</u>
Article	<u>B7-311</u>	<u>Coopération économique avec les pays en développement d'Amérique latine</u>
Article	<u>B6-551</u>	<u>Crédits provenant de la participation de tiers (non «Espace économique européen») à la recherche et au développement technologique</u>
Article	<u>B6-621</u>	<u>Affirmation du rôle international de la recherche communautaire</u>
Article	<u>B4-104</u>	<u>Coopération et observation des marchés dans le secteur de l'énergie</u>
Article	<u>B7-620</u>	<u>Environnement dans les pays en développement</u>
Article	<u>B7-600</u>	<u>Participation communautaire à des actions en faveur de pays en développement exécutées par des organisations non gouvernementales</u>
Article	<u>B7-703</u>	<u>Promotion du respect des droits de l'homme et de la démocratisation, à l'appui de la prévention des conflits et à la restauration de la paix civile.</u>