

INDEX

1.- FREE TRADE ZONES	3
1.1 Free Trade Zones in Chile	4
1.1.1 Iquique Free Trade Zone	4
1.1.2 Punta Arenas Free Trade Zone	5
1.4 Free Trade Zone obligations	5
2.- BONDED WAREHOUSES	7
3.- TEMPORARY ADMISSION FOR INDUSTRIAL ENHANCEMENT	8
3.1 System obligations	9
4.- CONCLUSIONS	10

This market survey aims to provide relevant information on the mechanisms available for goods to be landed, stored, handled, manufactured and/or reprocessed in Chile, under a specific customs regulation and not subject to customs duty and other taxes until they are imported into Chile and/or re-export to other countries.

It will allow Indian exporters to understand how they can take advantage of these mechanisms (if applicable to their foreign trade operations) when exporting their goods to Chile and other countries of the region.

These mechanisms are:

- Free Trade Zones (FTZ)
- Bonded warehouse
- Temporary admission for industrial enhancement

1. Free Trade Zones

A Free Trade Zone (FTZ) should be understood as a well-delimited geographical area where goods may be landed, stored, exhibited, assembled, packed, manufactured or reprocessed. During its stay in the FTZ, goods are not subject to duties and taxes. Goods can be re-exported to other countries or entered into Chile, following a regular import procedure.

From the Customs point of view, Free Trade Zones are a foreign territory; therefore while the goods remain in them they must be considered as being in their country of origin. One of the main benefits offered by this alternative is that there are no time restrictions for goods to remain in a free trade zone.

Companies operating in Chilean Free Trade Zones are exempt from corporate income tax, as well as from value added tax (VAT) –in the product’s first sale-, and customs duties as long as goods remain in the FTZ. From January 2017, companies also benefit of a credit for partners and shareholders, consisting in 50% against the Global Complementary Tax or the Additional Tax.

Goods manufactured and/or stored in a FTZ can be freely re-exported to other countries or sent to other free trade zones. They can also be entered for consumption into Chile, in which case they are subject to regular Customs import procedures and to the payment of duties, sale taxes (VAT) and other taxes (i.e. luxury, alcohols, tobacco, etc.), if applicable.

Goods can also be sold in the FTZ extension zones, which consist in pre-determined geographical areas (normally nearby the FTZ) benefiting of tax reductions or exemptions. In this case, goods are exempted of regular duties and value added tax (VAT), but should pay an import tax of 0.52% (calculated on CIF value).

Some economic sectors, such as fishing and financial services are not eligible for free zone concessions. These companies are allowed to operate in the FTZ area but subject to the general tax regime.

Foreign-owned firms have the same possibilities to operate in in free trade zones as Chilean firms, but should before create a local company. The process for setting up a subsidiary is the same inside as outside the zones, regardless of whether the company is domestic or foreign-owned.

1.1 Free Trade Zones in Chile

Chile has two free trade zones: one in the northern port city of Iquique (Tarapacá Region) and the other in the far south port city of Punta Arenas (Magallanes Region).

1.1.1.- Iquique Free Trade Zone

Iquique FTZ is located in Tarapacá Region and is the most important one.

Iquique FTZ is administrated and operated by Zofri (www.zofri.cl), a public-private company, under a concession lasting until 2030. It is located in a 900.000 m² area and is composed by a Wholesale Business Area (representing around 40% of total business) and a Shopping Center. Zofri also administers the Chacalluta Industrial Park (located in Arica), in which companies also benefit of the same tax exemptions of the FTZ.

Currently, there are around 1.300 companies installed and operating in Iquique FTZ.

In 2016, Iquique FTZ showed sales for US\$ 3.296 million and purchases for US\$ 3.710 million. It is worth mentioning that commercial activity in Iquique FTZ has been consistently decreasing in the last 5 years; in 2012, sales were US\$ 4.411 million and purchases US\$ 4.840 million.

In 2016, most sales were to Iquique FTZ Extension Zone (composed by Arica-Parinacota and Tarapacá regions), representing 54% of total, followed by sales to other countries (43% of total). Only 3% of sales were destined to other Chilean regions.

Related to sales to other countries, in 2016 main destinations were Bolivia (57%), Paraguay (22%) and Peru (14%).

Most Iquique FTZ sales corresponded to vehicles (17%), followed by electronic products (17%) and garments (13%).

Regarding Iquique FTZ purchases, in 2016 main origin countries of goods were China (48%), USA (17%) and Japan (8%). As same as in the case of sales, main purchases were electronic products (19%), vehicles (16%) and garments (13%).

1.1.2.- Punta Arenas Free Trade Zone

Punta Arenas FTZ was created in 2007. It is administrated and operated by the private-owned company Sociedad de Rentas Inmobiliarias Ltda. (SRI), under a concession granted until 2030.

In 2016, Punta Arenas FTZ sales reached US\$ 309 million, with around 960 companies installed and operating in its more than 53 hectares (130 acres). Sales are mostly to Punta Arenas FTZ extension zone (composed by Aysen and Palena regions) and to the Argentinian Patagonia.

1.2 Free Trade Zone obligations

The entry and exit of merchandise to and from a Free Zone should comply with the Decree-law 2 issued by the Ministry of Finance in 2001¹ and the Resolution N° 74, (D.O. 13.02.84) issued by Customs.²

In order to be able to operate in Iquique and Punta Arenas FTZ, it is necessary to sign a user and space rental contract with the administration company (Zofri and SRI, respectively).

FTZ users should closely observe the internal rules of procedure imposed by administrators regarding several aspects, such as information, security, maintenance, working time, waste management, allowed and forbidden activities, etc. Apart of space rental costs, users

¹Full Text could be revised in the following link: www.leychile.cl/Navegar?idNorma=188367

²Full Text could be revised in the following link:
www.aduana.cl/aduana/site/artic/20110531/asocfile/20110531155405/manual_de_zonas_francas_para_la_web_v_2.pdf

should also pay for other additional services provided by administrators, such as merchandise handling, out-of-hours services, advertising, etc.

Administrators can also impose penalties to users for non-compliance with internal rules of procedure. All these additional costs and penalties are informed beforehand to users.

Main aspects to take into account are:

- Merchandises should be stored exclusively in the delimited area corresponding to the Free Trade Zone.
- In general, it is allowed to intern any type of merchandise in Free Trade Zone, including some of the ones prohibited under the regular import procedures (i.e. used cars and motorcycles, used tires, etc.) . Nevertheless, there are some exceptions, such weapons and merchandises affecting human health, vegetal and animal safety or are contrary to the moral and good manners.
- Merchandise entered into Free Trade Zones can be exhibited, packed, divided, labelled, re-packed and commercialized. It can also be transformed, given that in this area it is allowed to conduct processes such as assembly, finishing, manufacturing, etc. (Decree Law 1.055, article 11)
- Machinery designed to perform any of the processes referred in the Free Zone Decree Law may enter the Free Trade Zone under the same custom regime, as well as those for the transport and handling of goods, fuels, lubricants and spare parts required for maintenance.
- Any good processing or manufacturing conducted in FTZ should comply with the Chilean laws concerning labor, safety, environment, etc. and with eventual specific restrictions the FTZ could impose to their members.
- In case of products manufactured or assembled in FTZ, duties and taxes affecting its import into Chile will be calculated on raw materials, parts and pieces of foreign origin. Domestic raw materials, pieces and parts used in manufacturing will be subject to VAT.
- The integration of domestic and imported raw materials can be done within the Free Trade Zone, provided that sales of goods manufactured or processed from raw materials or nationalized local inputs do not exceed 50% of the total components of the final product.

- The entry and exit of merchandise to and from Free Zones should follow the Custom procedures described in Resolution N° 74, (D.O. 13.02.84).
- Free Zone users should keep an inventory of all the merchandise they store, classified by type of merchandise. Merchandise and records should be always available in case of any control conducted by Customs. Record and documentation should be kept for at least 6 years.
- User should request authorization to Custom previously to destroy any merchandise stored in the Free Zone area, even if it is damaged or unusable.

2. Bonded Warehouse

A bonded warehouse should be understood as a secured area in which goods entering the country may be stored for a certain period of time, without payment of duties and taxes.

In Chile, a bonded warehouse (called locally “almacén particular”)³ allows the temporal storage of goods arriving to Chile before its clearance or re-export.

It is important to mention that – during its stay in a bonded warehouse – no material actions may be carried out on goods other than recognizing them, transferring them or performing any other act necessary to preserve the goods in the state in which they came in. Merchandises cannot be used or sold and should always remain in their original boxes and cases, which cannot be opened.

In Chile, bonded warehouses should be authorized by Customs and are owned and managed by private enterprises. In some cases, they correspond to importers’ warehouses. In other cases, they belong to storage companies renting facilities or storage space to third companies.

Almost all types of goods are allowed to be stored in a bonded warehouse, except of those classified under HS codes 03.01 to 03.04, 03.06, 03.07, 04.01, 11.01 and 1506 to 1517 and HS chapters 2, 6 and 8. These HS codes and chapters correspond mainly to fresh fish and sea food, meat, flowers, oils and vegetables, among others.

It is worth mentioning that goods stored in a bonded warehouse keep their origin status, which is why the import of those goods - supported by a Certificate of Origin - will be granted

³This regime is regulated by Customs Administrative Code, Chapter III, Section 15.

with the benefits of the free trade agreements signed between origin and destination countries, if applicable.

The minimum import value of goods to be stored in a bonded warehouse is USD 10.000 (CIF Value). A specific request should be submitted to Customs upon the arrival of the goods. This procedure should be conducted through a custom broker.

Goods can stay in a bonded warehouse for a maximum of 90 days. Within this term, goods should be entered for consumption into Chile or re-exported to other countries. Each of these options has a well-described Custom procedure to follow. It is possible to remove partially the goods stored in the warehouse, if they are divisible without affecting its nature and packaging.

During this 90-day period, goods will not pay duty taxes or other taxes (i.e. VAT). Nevertheless, from day 30 on, goods should pay to Customs the daily equivalent of the average interest rate charged by banks and financial institutions (this rate is informed monthly by the Central Bank). Additionally, Customs will require the importer to provide a guaranty (equivalent to the amount of duties and taxes), which will be returned after goods are definitely imported into Chile or re-exported.

During the time the goods remain in the warehouse, they should be clearly identifiable and distinguishable in relation to other goods that could be stored in the same area. Good and/or bonded warehouse owners should also keep a detailed inventory of all good stored, showing the documentation supporting the entry and exit of merchandises. Customs is entitled to conduct inspections at any time and without prior notice.

3. Temporary Admission for Industrial Enhancement

Chilean legislation⁴ provides a Temporary Import System for goods that will receive industrial enhancement in the country (called “Admisión Temporal para Perfeccionamiento Activo”).

Such goods have to be re-exported for consumption in the new industrially-enhanced format within 180 days after their clearance date; when duly justified reason do not permit the export in due time, such term may be extended upon Customs authorization.

⁴This regime is regulated by Customs Administrative Code, Chapter III, Section 16.

Industrial enhancement includes any manufacturing process involving a benefit, transformation, manufacturing, combination, mix, reconditioning, assembly, repair, or incorporation into a set, machine or device of more technological and functional sophistication.

Goods that can be entered into Chile under this regime could be raw materials, semi-elaborated goods, parts or pieces that will be used to manufacture an export good.

Prior to import goods under this regime, the importer should get from Customs the authorization of the warehouse where these goods will be industrially enhanced and stored. This authorization is granted for up to 5 years.⁵

3.1 System obligations

The main obligation assumed by the importers using this Temporary Import System is the export of the goods covered by such system within the term established by Customs. Despite of this, if for duly justified circumstances the importer could not comply with the production process, goods could be re-exported or imported for consumption within the term authorized, without having been subject to the improvement provided for them upon import.

There are other obligations aimed at enabling Customs to control that the purposes for which the System was granted are complied with. For those cases in which goods imported temporarily are subjected to a transformation process that will make it impossible to identify such goods after the transformation, Customs establishes special control measures that should be implemented by importers at the places where the transformation takes place, as well as a specific accounting system.

While stored before being used for a production process, temporarily imported goods should be easily identifiable, and should be maintained the correlation between the goods and import clearance. When such goods are used in a production process, they should continue being identifiable to the extent that may be reasonable regarding the production in question. Otherwise, the importer will be required to prove the amount of goods used in the process through technical or accounting methods, which should be adequate and reliable. Similarly, it will be required that the product resulting from using temporarily imported goods be identified.

That is to say that the importer will not only be required to identify temporarily imported goods while they are stored, but also when used during production processes. However,

⁵The procedure to get warehouse authorization for temporary admission is described in the Customs Administrative Code, Chapter III, appendix IV.

should it not be possible to exercise the control over the goods while they are being used in the production process, such physical control should be replaced by an accounting or similar system that would make it possible to follow up goods.

4. Conclusions

All three mentioned Customs regimes could be very useful for Indian exporters in case they are planning to send their products to different countries of the region, centralizing their storage in Chile. They can also be a cost saving solution when goods should be subject to transformation or improvement processes at destination.

There are some differences between the three mechanisms. For instance Free Trade Zones and Temporary Admission for Industrial Enhancement regimes allow the transformation of goods, while merchandises stored in bonded warehouses should remain in the same condition they were entered into the country.

Similarly, in the case of Free Trade Zones and Bonded Warehouses goods can be freely imported for consumption into Chile, while in the case of Temporary Admission for Industrial Enhancement, goods can be imported in duly justified circumstances.

Another difference is that – in the case of Free Trade Zones – the storage of goods should be conducted in specific geographical areas, while in the case of Bonded Warehouses and Temporary Admission for industrial Enhancement, storage facilities could be located anywhere in the country (subject to prior approval from Customs).

The identification of the best regime would obviously depend on the exporter needs. It is recommended to conduct a deep analysis, evaluating advantages, costs and obligations of each system.