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CHILE – AN INTRODUCTION

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Chile has shown decades of modernisation and economic growth, with a strong commitment to democracy, transparency and economic freedom.

Opening to free trade in the 1980s, the democratic changes of the 1990s and a record of stable and predictable economic policies and regulation have distinguished the country and encouraged stable long-term growth. During the 1990s Chile enjoyed an average annual growth rate of 6.3%, and although in recent years the economy suffered from a loss of momentum, in the 2000s it still shows a respectable growth path. In 2009 Chile was not isolated from the financial crisis that impacted the world economy, with a decrease in its economic activity similar to the average of the entire world, but a solid financial system and a group of contra-cycle economic policies implemented by the government have seen the country set to recover. The Central Bank is now projecting a 5% annual growth rate for both 2010 and 2011.

Alongside its promising economic activity, Chile has been able to maintain moderate inflation, averaging approximately 4% during the years 2005-08. An independent and respected Central Bank defines the monetary policy of the country and it has projected an inflation rate of 3% for 2010.

Chile is distinguished worldwide for its macroeconomic and political stability, its transparent and stable public finance management, its strong protection of property rights and its openness to free trade and investment. Its impressive record of economic reforms consistently applied over time moved the Heritage Foundation to rank the country 11th in the 2009 World Index of Economic Freedoms, enjoying the highest degree of economic freedom in the South and Central American region. Likewise, based on its commitment to a stronger, cleaner and fairer world economy, Chile was admitted as the 31st permanent member of the OECD in January 2010.

Other highlights for foreign investors thinking about doing businesses in Chile are the equal treatment received by foreign and domestic investment, the absence of restrictions on the inflow and repatriation of funds, extremely low tariffs on international commerce (average tariff rate was 2.1% in 2006) and minimal non-tariff barriers, and adequate protection of private property and enforcement of contracts.

Corruption is not a major problem in Chile. In Transparency International's Corruption Perceptions Index for 2009, Chile ranks 25th out of 180 countries. The government has instituted new rules looking for more transparency in public services, funding of political campaigns and awarding of government contracts. In 2009, following a recommendation from the OECD, new laws were enacted to establish the criminal liability of legal entities who participate in money laundering, bribery or financing of terrorism, and to allow Chilean courts to pierce secrecy on banking activities after a request from tax authorities.

The reputation of Chile explains the large and long-term investments made

by foreign and domestic investors in all relevant sectors of our economy. It explains why Canadian pension funds, like Ontario Teachers' Pension Fund and CPP, have invested over the last two years large amounts in water utilities, toll roads, energy distribution companies and energy networks. Foreign investors can find in the country's infrastructure assets long-term revenue, protected against inflation and in a stable and transparent environment.

Notwithstanding the above, there are still important challenges for the government and the private sector. The unemployment rate is currently above 10%, and it is going to be difficult to see an improvement in the short term with a labour market that has become more rigid as regulation increases costs and obstacles to dismissing redundant employees. The public education system is in total crisis and this represents a serious threat to the competitiveness of the country. The banking industry is strong and stable, but there is an over-concentration: three banks control about 60% of assets and more than 80% of commercial loans go to just 1.6% of the population. We have been observing increasing interference from decentralised and multiple governmental agencies and authorities in the approval of new projects.

Three cases illustrate how burdensome and lengthy obtaining permits or licences for major new projects have become:

(i) Hydroaysén, a 2,750 MW hydroelectric project of Endesa-Colbún located in the south of Chile, after more than two years of serious work has not been able to obtain a green light from the administrative authorities to start construction. In October 2009, Hydroaysén submitted its responses to more than 3,000 questions made by the environmental regulator. The filing of the company was more than 5,000 pages long, plus annexes, packed in 45 boxes and delivered in a truck specially hired to transport such massive, mostly useless, paperwork.

(ii) In June 2009, the Supreme Court ordered AES Gener to interrupt indefinitely the construction of Project Campiche, a 270 MW thermo-electric power plant located close to Valparaíso, because the existing permit granted by the environmental authority had failed to appropriately consider an ambiguous zoning restriction.

(iii) Praderas, Urnanya and Enea, real estate developers of more than 1,800 hectares in Santiago, have suffered more than five years of delay as a consequence of continued comments from municipal, environmental and administrative authorities which represents an impediment to start the construction of housing solutions for middle and low-income families.

Finally, with congressional and presidential elections just around the corner, it is worth mentioning that all governmental coalitions in Chile remain largely committed to economic and political stability and successful free-market institutions. There is no risk that a change in government of 2010 would mean a deviation from the current model.