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Chile: Government Proposal To Extend Tax Breaks For Foreign Automotive Assembly Firms Sparks Opposition

by Barbara Khol

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A proposal by President Patricio Aylwin's government to extend tariff and tax exemptions for the foreign automotive assembly operations in Chile has encountered little enthusiasm in the national congress. The proposed legislation would extend tax breaks in force since 1965. In 1972, eight companies benefitting from the tax exemptions produced 26,000 vehicles per year containing 70% Chilean parts. At present, only two companies (US-based General Motors, and a joint venture comprised of French companies Peugeot and Renault) remain, producing 16,000 vehicles per year. In the case of pickups, Chilean parts account for 30% of the finished product; for automobiles, the Chilean component comes to only 15%. Ruling party Deputy Francisco Huemchumilla said that at the end of a quarter century, such poor results for Chilean industry and the domestic market in general do not justify continuity of large subsidies. Opposition party congresspersons are also opposed to extending the tax breaks to 1995. In 1990, the import tariff and tax exemptions saved the two foreign assembly operations about \$1,000 per vehicle. According to the Chilean association of automotives importers, the subsidies granted the foreign assembly plants cost the government \$60 million in lost revenue between 1985 and 1990. The most recent statistics available indicate that in 1989, automobiles and pickups assembled in Chile accounted for only 15% and 37% of domestic market sales, respectively. The two auto assembly firms, with operations located on the outskirts of Santiago and in Arica (near the Peruvian border), provide direct employment to about 700 persons. The importers association said that if the government had invested the \$60 million lost under the tax exemptions in a housing program, it could have provided jobs to 2,600 people, and constructed between 28,000 and 29,000 homes. The Association of Metalworking Industries (Asociacion de Industriales Metalurgicos) has reported that continuing the tax breaks for the auto assembly firms to 1995 translates to a total subsidy of \$41 million. (Basic data from AFP, 04/23/91)

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