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Section 1 of 1

Chile

Mining

Although copper's relative importance declined in the 1970s and 1980s, it was still the Chilean economy's most important product in 1992. The mining sector represented 6.7 percent of GDP in 1992, as compared with 8.9 percent in 1985. In 1991 copper exports represented 30 percent of the total value of exports, a substantial decline with respect to the 1960s, when it represented almost 80 percent of total exports. Mining exports in general accounted for about 48 percent of total exports in 1991.

Since the late 1970s, the production of gold and silver has increased greatly (see [table 22](#), Appendix). The lead, iron, and petroleum industries have shrunk since the mid-1970s, the result of both adverse international market conditions and declines in the availability of some of these resources. With a combined total value of about US\$4 billion, two of the largest investments planned in Chile in the early 1990s were designated for aluminum-smelter projects in the Puerto Aisén and Strait of Magellan areas.

Two developments in the copper sector were noteworthy. First, in the 1987-91 period there was a substantial increase in the output of refined copper, as well as a relative decline in the production of blister copper (see [table 23](#), Appendix). Second, the state-owned Copper Corporation (Corporación del Cobre--Codelco), the world's largest copper producer, still had an overwhelmingly dominant role (accounting for 60 percent of Chile's copper output in 1991). The so-called Codelco Law of April 1992 authorized Codelco for the first time to form joint ventures with the private sector to work unexploited deposits. Thus, in a major step for Codelco, in 1992 it invited domestic and foreign mining firms to participate in four joint explorations in northern Chile. Foreign-owned private firms were to become increasingly important as new investment projects got underway. The heightened importance of these foreign private firms in large-scale copper mining also resulted from the international business community's improved perception of Chile and from a mining law enacted during the Pinochet regime that clearly established compensation rules in the case of nationalization and otherwise encouraged investment in this sector. Given this more favorable context, Phelps Dodge,

a United States mining company, and the Sumitomo Metal Mining Company, a Japanese firm, signed a US\$1.5 billion contract in 1992 with the Chilean government to develop La Candelaria, a copper and gold mine south of Copiapó. The mine's potential production of refined copper was equivalent to about 10 percent of Codelco's entire production.

Despite the decline in copper's importance, Chile continued to be affected by the vagaries of the international copper market. The high variability of copper prices affected the Chilean economy, particularly the external accounts and the availability of foreign exchange, in several ways. In the 1987-91 period, the international copper market was very favorable; for example, copper prices in 1989 were 50 percent higher than in 1980. By May 1992, however, the price of copper had declined to about its 1980 level. The government decided to counteract the effect of the variability of copper prices by creating the Copper Stabilization Fund, which worked as follows: whenever the price of copper increased, the government would direct a proportion of the increased revenues into the fund; these resources would then be used during those years when the price of copper fell below its "normal" level. This institutional development helped Chile at least partially free itself from the volatility of the copper market.

Data as of March 1994

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