



# Chile: Aircraft & Aircraft Parts

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Voluntary Report

## Summary

The Chilean aircraft market is currently experiencing a rapid expansion fueled by both the private airline industry and the Chilean Air Force's fleet renewal projects.

Both private sector and government investments in the industry will be allocated to the purchase of new and refurbished planes and aircraft equipment.

## Market Demand

Despite its small market of only 16 million citizens, Chile has the third highest demand for aircraft in the region as a result of having the most prosperous middle class in Latin America thus, increasing the number of commercial flights.

In the next twenty years, it is projected that Chile will purchase 261 aircraft for commercial use worth an estimated US\$14.6 billion. LAN, Chile's largest airline, will of course play a large role in the expansion and has already budgeted approximately US\$1.1 billion for the purchase of six 767-300-cargo freighters and six 767-300ER long-range passenger aircraft. Also, by the end of the second half of 2006, LAN will have received 25 Airbus A318 and A319 short-range passenger aircraft with a cost of US\$750 million. In addition to the expansion of LAN's fleet, other aircraft purchases will represent spending of US\$2.1 billion on 45 aircraft over the next four years. In comparison, this amount is larger than the projected size of the Mexican aircraft market in the same time span.

In December 2005, the Chilean government confirmed the purchase of between 20 and 28 used F-16 fighter jets from the Netherlands at a price of less than US\$5 million each. The US\$185 million agreement includes the modernization of the planes and delivery within the next two years. This contract is in addition to the US\$650 million budgeted for the purchase of ten F-16s from Lockheed Martin, the leading U.S. aerospace manufacturer. These purchases are part of the "Bicentennial Plan" which is a modernization project intended to upgrade the Chilean Air Force fleet. In addition to the purchase of new and used jets, the plan also calls for the withdrawal of the Air Force's Mirages Elkan and Mirages Pantera, which consume too much fuel and are too old. This project includes purchases until 2015.

## Market Data

According to Chilean Custom's data, the total market size of the aircraft sector in 2005 was estimated at US\$40.9 million, including local production of US\$14.4 million. This data excludes large acquisitions such as the F-16s or LAN purchases. Imports of aircraft and aircraft parts for 2005 amounted to US\$26.5 million, with imports from the United States reaching US\$8.1 million. Exports were US\$ 23.2 million.

Local production is represented mainly by the company ENAER (Empresa Nacional de Aeronáutica), which provides maintenance, retrofitting, and repair services for aircraft, engines, and accessories, as well as parts manufacturing. They manufacture the T-35 "Pillán" plane, a single reciprocating engine, tandem two-seat, tricycle retractable landing gear military trainer. It is designed to meet the needs of basic training, and at the same time, teach students to fly a high performance aircraft. It is equipped with a LYCOMING IO-540-K1K5, six horizontal opposite cylinder, 300 BHP engine, driving a HARTZELL, three-blade, variable pitch, and constant speed propeller.

The Asian players in the aircraft market have forced ENAER to reduce its costs and improve performance by renewing machinery and introducing new technologies.

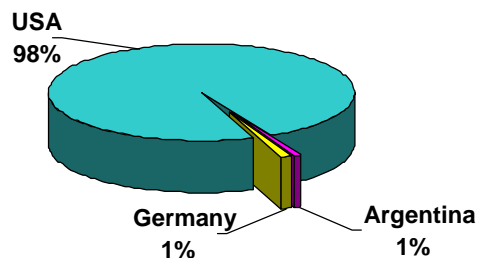
Other manufacturers of parts are: FAMAE (Army Manufacturers) and SISDEF (System Engineering and Functional Developments Company) specializing in the development of defense electronic and computer systems.

**Aircraft Parts Market (US\$ millions)**

	2004	2005	2006 (est)
<b>Export</b>	23.3	17.2	12.0
<b>Import</b>	28.8	16.1	11.4
<b>Local Production</b>	12.2	9.4	5.2
<b>Import USA</b>	28.8	6.8	7.2

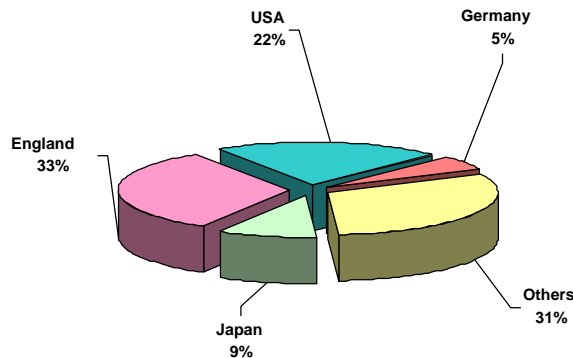
Source: Chilean Custom's Office

**Country of Origin: Airplane Imports 2005**



Source: Chilean Custom's Office

### Aircraft Parts Imports 2005



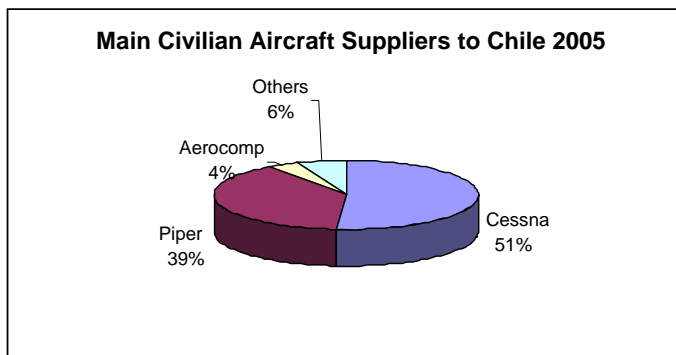
Source: Chilean Custom's Office

### Best Prospects

- Current trends suggest that best prospects will include large aircraft. In particular the LAN Group, which has been expanding its transportation businesses in cargo and passenger service in Mexico, the Dominican Republic, Ecuador, Argentina, and now has aspirations to enter the Brazilian market.
- Military aircraft and equipment. The Chilean air force with its "Bicentennial Plan" aims to update its entire fleet of aircraft by the year 2015. Copper export revenues from the State-owned copper mining company, Codelco, will finance this plan.
- The Russian Company Kamov Helicopter Scientific & Technology Co. announced that the Chilean government is also considering the purchase of several Ka-27 and Ka-31 helicopters, for their Air Force.
- CONAF, the government-run National Forestry Corporation, is in the process of completing a study to form a unit dedicated to forestry fire control and protection. The study suggests that the program will start by purchasing four fire-fighting airplanes from Poland.

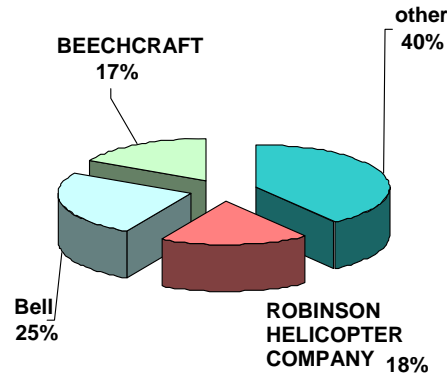
### Key Suppliers

The key suppliers of aircraft to Chile are US manufacturers. Cessna and Piper dominate Chilean imports of civilian aircraft.



Source: Chilean Custom's Office

In other aircraft categories, the principal suppliers include Beechcraft, Bell, and Robinson Helicopter Company.



Source: Chilean Custom's Office

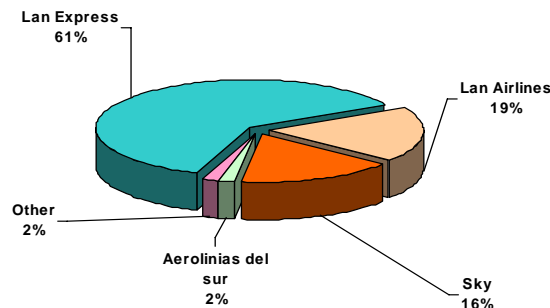
### Prospective Buyers

The increasing number of airlines servicing Chile, combined with additional national air traffic, has created more competition for the aircraft industry as a whole; however, the largest market player continues to be LAN. LAN, LAN Airlines and LAN Express have experienced an increasing combined market share of 80%, 61.38% and 18.8% respectively. LAN Express operates national flights while LAN Airlines operates international flights. In 2005, LAN Airlines designed a plan to buy 45 airplanes in the next four years, with an investment valued at US\$2.1 billion.

Following LAN, there are other small passenger airlines operating in Chile: Sky Airlines, which has a market share of 16.4%, and the recent addition of Aerolinias del Sur, with its 1.7% market share. Charter Star Airlines, which began operations in February 2006, have already announced their intention to buy a new aircraft with a goal of achieving US\$10 million in sales and 280 flight hours per month.

Outside of the passenger operators, the biggest player for non-civilian aircraft remains the Chilean Air Force.

The principal buyers in Chile of "other" aircraft are Helicópteros del Pacifico Ltda., and EcoCopter S.A. Respectively, these buyers imported US\$2.13 billion and US\$1.72 billion worth of aircraft equipment.



Source: Interviews and press articles

## Market Entry

Tariff barriers are practically non-existent due to the Free Trade Agreement between Chile and the United States. Aircraft dedicated to commercial service are free of Customs duties VAT (Value Added Tax). Other aircraft imports, not related to commercial service, are still subject to VAT (Value Added Tax).

Large airplanes are being purchased via leasing.

Fuel charges represent 25% of operating costs for airlines, which is why Chilean operators prefer to buy aircraft with low fuel consumption.

## Market Issues & Obstacles

Necessary regulations and certifications are determined by the "Certification of Type" document issued by the manufacturer of the aircraft. This document achieves universal characteristics when an authorized office of the country of origin of the manufacturer approves it.

When importing aircraft, Chile requires that an importer be in possession of an ownership title, a certificate of air navigability that determines the achievement of established technical norms, and confirms that the aircraft has lost its foreign nationality.

## Trade Events

FIDAE – International Air and Space Trade Show, March 31 to April 6 of 2008.

<http://www.fidae.cl/>

## Resources & Key Contacts

Chilean Air Force

<http://www.fach.cl/>

General Civil Aviation Authority

[www.dgac.cl](http://www.dgac.cl)

Chile's National Aeronautical Enterprise

[http://www.enaer.com/negocios/p\\_aero.php](http://www.enaer.com/negocios/p_aero.php)

Civil Aviation Board

[www.juntadeaeronauticacivil.cl](http://www.juntadeaeronauticacivil.cl)

Santiago Airport

[www.aerpuertodesantiago.cl](http://www.aerpuertodesantiago.cl)

Ministry of Transportation and Telecommunications

<http://www.mtt.cl/>

Airline Association of Chile

[www.achila.cl](http://www.achila.cl)

### **For More Information**

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Phone: (+56 2) 330-3402; Fax: (+56 2) 330-3172 or visit our website: [www.buyusa.gov/chile](http://www.buyusa.gov/chile).

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