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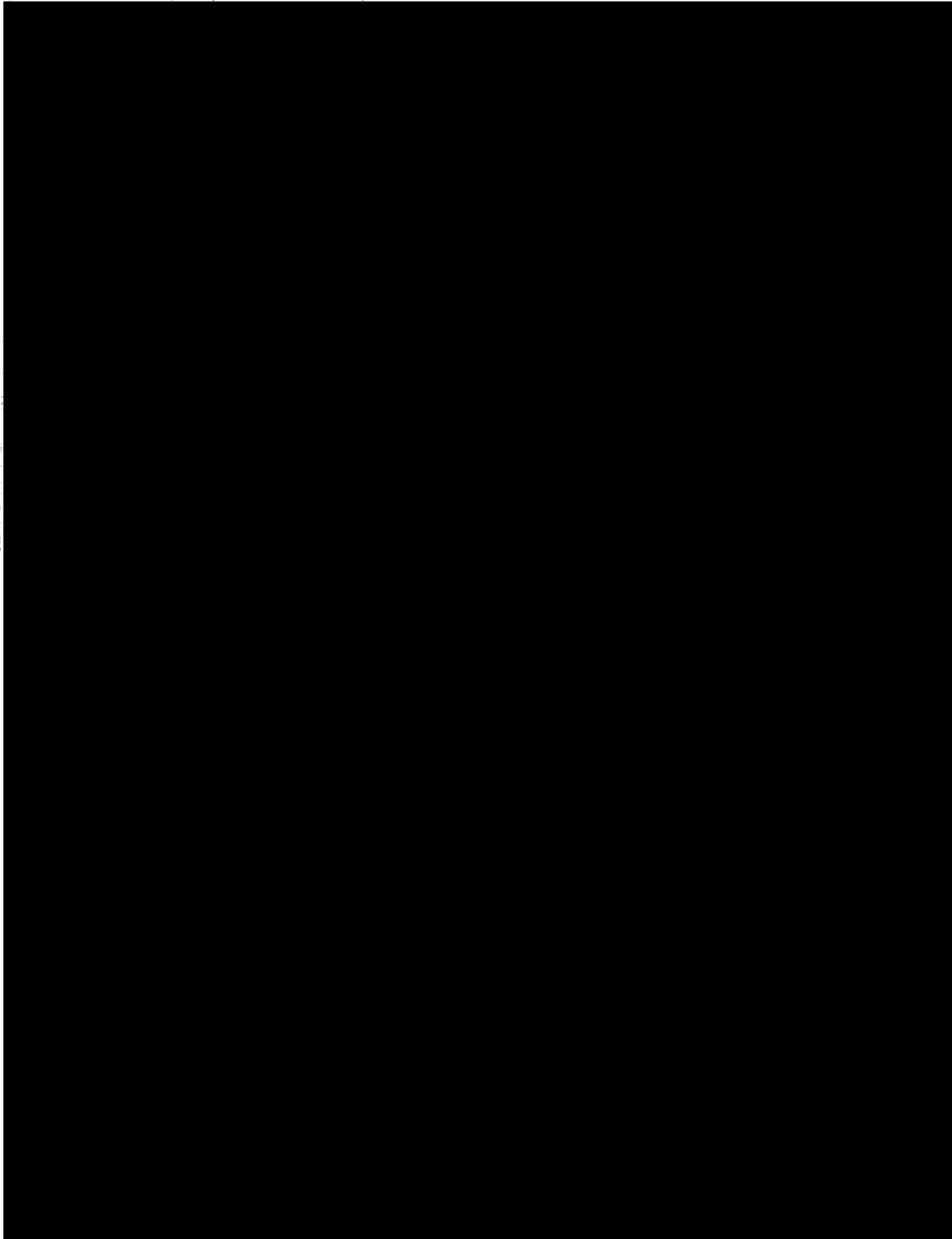
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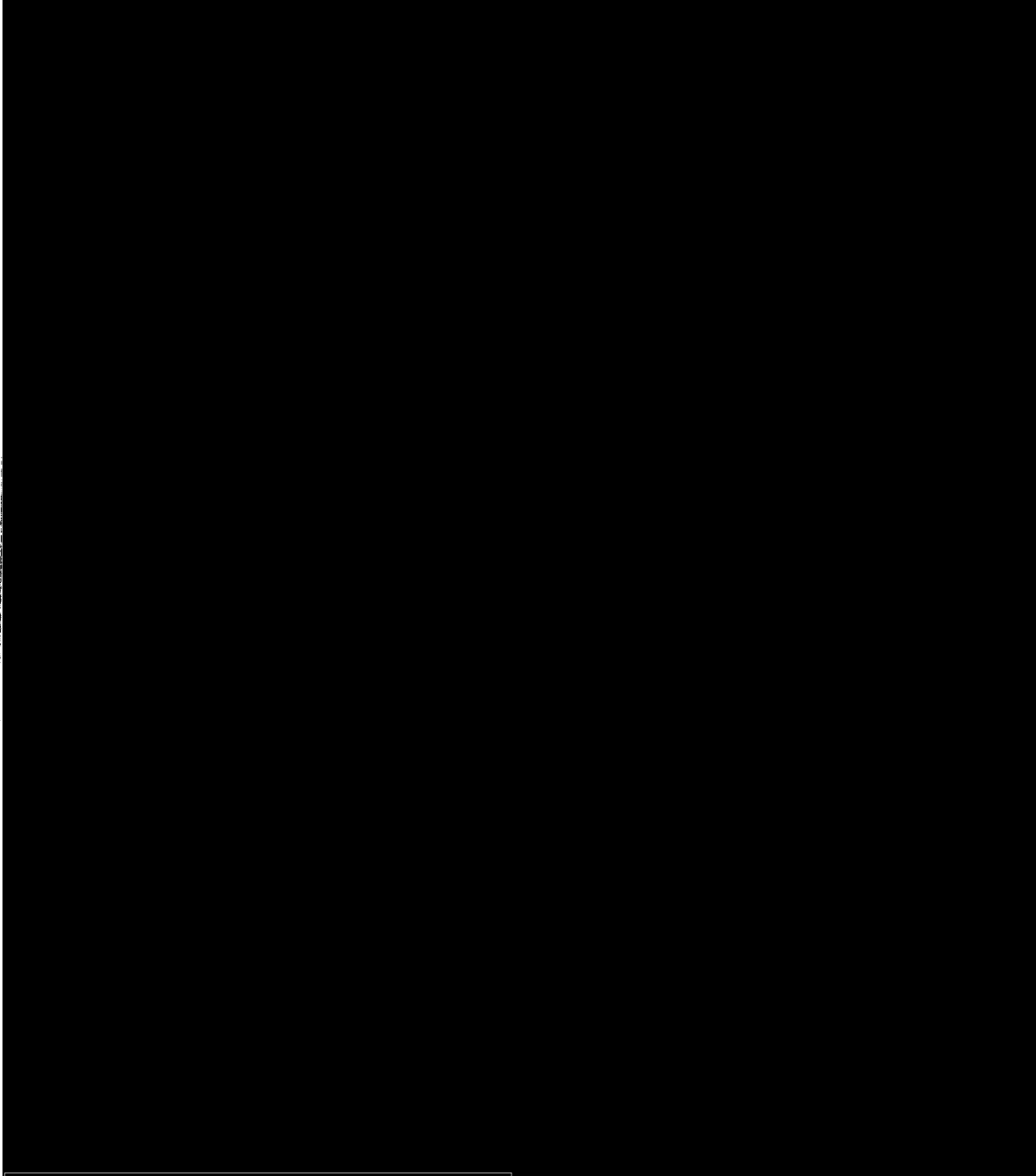
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**Chile: Displeasure with Andean Pact**

Chile may withdraw from the Andean Pact, a group of six South American countries formed to foster trade and development.

Chile opposes an amendment that would postpone for two years implementation of new tariffs and industrial development programs. Last week, Chile refused to sign the amendment and said it will reopen discussions only if other Pact members agree to revise restrictions on foreign investment.

According to the Chileans, the Pact's foreign investment code, which limits foreign equity in an enterprise to 49 percent and profit remittance to 14 percent, is an obstacle to economic development. The Chileans further assert that the delay in implementing common external tariff and internal tariff reductions maintains high consumer prices.

The other five members concede that

some easing of the profit remittance level would benefit Pact countries but consider the amendment necessary to give members time for joint industrial development programs while protecting their economies from competition abroad and among themselves.

Chile has until August 30, when the Pact Commission reconvenes, to reconsider its position on the amendment.

Ministers from all the Pact countries except Chile will meet in Lima on August 16. They probably will agree to Chilean requests for revision in the profit remittance to keep Chile in the Pact, but they are unlikely to give ground on the amendment.

As long as the five remain in essential agreement on the timing and extent of implementation of Pact agreements, Chile is in a poor position to force further concessions. (U)