

Chile's defence policy

Copper-bottomed

A very strange way to pay for an army, a navy or an air force

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WELL-packed with men but short of ships, planes and guns, Chile's armed forces urgently need modernisation. But by agreeing to purchase new F-16 fighter planes without first sorting out the defence budget, the government has made that job harder.

When President Ricardo Lagos took office in March 2000, he promised to review an inefficient arrangement under which Chile's armed forces receive an off-budget allocation from Codelco, the state-owned copper company, to finance purchases of equipment. Instead, by agreeing to acquire ten Lockheed Martin F-16s from the United States at a cost of \$660m, the government may have locked the arrangement in place until 2009, when the air force will finish paying for the planes.

The allocation, introduced in the 1950s but increased during the dictatorship of Augusto Pinochet in 1973-1990, transfers 10% of Codelco's export returns directly to the armed forces. By law, the allocation cannot be trimmed or diverted to other uses and must be pumped up if it falls below \$225m, thus undermining the government's control of military spending. The fund also goes up and down with the copper price: after rising to around \$341m in 1995, it fell to around \$235m last year. In addition, because the money is split equally between the army, the navy and the air force, the purchases of each branch are determined by how much cash is available, rather than by any proper set of defence priorities.

The arrangement is one of the reasons why the government has postponed indefinitely—and almost certainly scrapped—the navy's proposed purchase of four new frigates from Germany's Blohm+Voss. Because the navy still has to pay for two Scorpene submarines from DCN-Izar, a French-Spanish consortium, the frigates, estimated to cost \$1.25 billion, would have tied up its copper allocation for almost 20 years.

Reforming the copper allocation will be a long job, but analysts wonder why, in the meantime, the government did not buy second-hand aircraft instead. Chile, they say, could have got 16 refitted F-16s and four frigates for \$550m, improving defence capacity more markedly and at a lower cost than by buying the new aircraft. Although the government denies it, Chile's current negotiations for a free-trade treaty with the United States may have inclined it to buy brand-new ones.

The purchase is particularly surprising because, although the air force needs new planes, the navy needs new ships much more. By 2010, the entire surface fleet will be obsolete. Without new frigates, the gap will have to be plugged with second-hand acquisitions. Ships also have a peacetime role—protecting fisheries, controlling drug-trafficking—that the government considers vital to overall defence. By contrast, since Chile's relations with its neighbours are pretty good at present, the only outing the F-16s are likely to get is at the annual military parade in September.

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