



U.S. Department of State FY 2000 Country Commercial Guide: Kazakhstan

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TABLE OF CONTENTS

CHAPTER I	Executive Summary
CHAPTER II	Economic Trends and Outlook
CHAPTER III	Political Environment
CHAPTER IV	Marketing U.S. Products and Services
CHAPTER V	Leading Sectors for U.S. Exports and Investment
CHAPTER VI	Trade Regulations and Standards
CHAPTER VII	Investment Climate
CHAPTER VIII	Trade and Project Financing
CHAPTER IX	Business Travel
CHAPTER X	Economic and Trade Statistics
CHAPTER XI	U.S. and Country Contacts
CHAPTER XII	Market Research and Trade Events

I. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Kazakhstan's commercial environment, using economic, political and market analyses. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S.

business community. Country Commercial Guides are prepared annually at U.S. embassies through the combined efforts of several U.S. Government agencies.

Falling oil prices in 1998 combined with the lingering effects of the Asian and Russian financial crises to interrupt two consecutive years of GDP growth (1.1 percent in 1996 and 1.5 percent in 1997). The resulting fall in 1998 GDP was 2.5 percent. The Russian devaluation severely impacted on Kazakhstani exports to Russia. A poor harvest also contributed to the fall in GDP. The slowing of economic activity led to a government revenue shortfall, forcing expenditure cuts of USD 750 million, or 20 percent of the budget. Revenues in 1999 also have fallen short of budget projections (34 percent below forecasts for the first 10 months of the year), again forcing the government to cut expenditures to keep the budget deficit within roughly 5.6 percent of GDP. By the third quarter of 1999, rising oil prices and the stimulating effects of the April devaluation led to a return to growth; the government expects 1999 GDP growth of 0.6%.

In early 1999 the government introduced protectionist measures to stem the outflow of hard currency reserves as part of its defense of the local currency (the Tenge). In January, the government introduced a six-month ban on the import of over 20 Russian-produced food products; this ban expired in June. In February, Kazakhstan imposed indefinite 200-percent tariffs on selected food items and other imports from Kyrgyzstan and Uzbekistan as well as introducing a requirement that companies convert 50% of their foreign currency earnings into local currency. This conversion requirement was rescinded in December 1999.

Kazakhstan is a major recipient of U.S. assistance, much of which has been provided for nuclear disarmament and defense conversion projects. Since 1993, Kazakhstan has also received \$260 million for economic reform, commercial law reform, democracy-building, health care and environmental projects.

In October 1999, President Nazarbayev named a new government. Among other changes, the President named three new Deputy Prime Ministers: First Deputy PM Pavlov has responsibility for economic development issues, Deputy PM Daniyal Akhmetov is responsible for industry and energy, and Deputy PM Yerzhan Utebayev is responsible for economic and financial issues. In addition, there is a new Minister for Energy, Industry and Trade, the former Science Minister Vladimir Shkolnik, and a new Minister of Finance, Mazhit Yesembayev.

President Nursultan Nazarbayev is the central political figure in Kazakhstan. He served as Communist Party Secretary from 1989-1991 and has been President since Kazakhstan's independence in 1991. In January 1999, President Nazarbayev was re-elected to a seven-year term in a campaign that fell far short of meeting international standards for transparency, freedom and fairness, according to the Organization for Security and Cooperation in Europe (OSCE), which Kazakhstan joined shortly after independence. President Nazarbayev's current term will expire in 2006. The 1995 constitution concentrates power in the presidency, which exercises extensive influence over the judiciary and the parliament. The OSCE judged that the conduct of the Parliamentary elections in October 1999 represented an improvement over the January Presidential elections, but they still fell short of the international standards by which Kazakhstan agreed to abide.

The U.S.-Kazakhstan Bilateral Investment Treaty is in force, as is the U.S.-Kazakhstan Treaty on the Avoidance of Double Taxation. Kazakhstan has applied for membership in the World Trade Organization (WTO). Joining the WTO will help integrate Kazakhstan into the world economy, as well as help conform its trade regime to international standards. Kazakhstan's effort to join the WTO is proceeding slowly; however, significant progress has been made in creating a WTO consistent legal framework.

U.S. companies have been active in Kazakhstan since 1991, particularly in the oil and gas, business services, telecommunications and electrical energy sectors. The Chevron-Kazakhstani Tengizchevroil joint venture (now with Exxon-Mobil and LukArco participation) is one of the landmark U.S. investments in the former Soviet Union. In 1999, construction began on the Caspian Pipeline Consortium (CPC) oil pipeline from oil fields on the Caspian Sea to a port on the Black Sea; the CPC pipeline is will be finished in 2001. The pipeline is expected to facilitate the supply of Caspian basin oil to world markets. Oil exports from Kazakhstan will also be facilitated by the construction of a Main Export Pipeline from Baku, Azerbaijan, through Georgia and Turkey to the Turkish Mediterranean port of Ceyhan. The Government of Kazakhstan pledged to facilitate the delivery of significant volumes of Kazakhstani oil to the pipeline during a November 1999 Summit in Istanbul, Turkey. Two U.S. companies, Exxon-Mobil and Philips, are partners in a nine-company consortium (OKIOC) to develop Kazakhstan's offshore petroleum resources. The consortium began drilling its first exploratory well in late summer 1999.

U.S. exports to Kazakhstan were \$268 million in 1998, up from \$202 million in 1997. U.S. imports from Kazakhstan were \$76 million in 1998, down from \$139 million in 1997. U.S. companies have invested more than \$2 billion in Kazakhstan, accounting for the largest foreign investment in the country.

Kazakhstani consumers are very open to Western products, but are quite price sensitive, given that, according to official statistics, the average monthly wage in 1999 was approximately \$75. Kazakhstan encourages joint venture arrangements. A foreign partner should expect to supply financing, Western-style management practices and high-tech equipment. The privatization tendering process often lacks transparency. The government continues to scrutinize past privatizations to foreigners and expects greater participation by domestic investors in the future.

While in the past year the government has strengthened its commercial laws to make doing business in Kazakhstan more attractive to investors, there are a handful of high-profile U.S. investment and business disputes which the USG has urged the government of Kazakhstan to resolve. Furthermore, amendments to Kazakhstan's Petroleum and Subsurface Use laws gave the National Oil Company, Kazakhoil, a regulatory role and further required foreign oil and minerals companies to use local goods, services and raw materials have caused deep concern among foreign investors in Kazakhstan. Implementing regulations to put the law into force are still being drafted. A new work permits quota system, which limits the number of work permits available to foreigners based on area of specialization and geographic region, was scheduled to go into effect on January 1, 2000 but has not yet been promulgated.

Kazakhstan's customs system is at times an obstacle to doing business, especially because customs procedures are not always conducted in an orderly, consistent, and business-friendly

manner. Other obstacles include arbitrary implementation of many key laws (e.g. customs, intellectual property, licensing), widespread corruption and a weak, though improving, banking system.

II. ECONOMIC TRENDS AND OUTLOOK

A. Major Trends and Outlook

Prices for Kazakhstan's leading exported commodities (oil, metals, and grain) all dropped markedly in 1997 and 1998, resulting in a significant, protracted decline in government revenues. GDP shrank 2.5% in 1998; this downward trend continued into 1999. Increased prices for Kazakhstani commodity exports as well as the positive effects of an April devaluation led to an upturn in growth during the third quarter of 1999 that the government predicts will lead to GDP growth of 0.6% for the year. The Asian economic crisis and Russia's financial woes have dampened the enthusiasm of international investors for Kazakhstan, as for other developing markets. In addition, on-going construction costs for the new capital in Astana have increased budgetary pressures.

Kazakhstan's monetary policy has been fairly successful, both in bringing down inflation--just 1.9% in 1998--and in strengthening the banking sector. However, due in part to the effects of the Russian financial crisis of 1998, the government was forced to float the national currency, the tenge, in April 1999. It successfully managed a de facto 30-percent devaluation, which eased pressure on foreign exchange reserves and has stimulated exports. Inflation jumped to over 15% in the months following the devaluation, but the upward trend has since been arrested and is expected to total about 16% for the year as a whole. Kazakhstan reached agreement with the International Monetary Fund (IMF) in late 1999 on a three-year economic program, supported by IMF credits. The program and IMF support will help Kazakhstan continue its relatively successful macroeconomic adjustment.

The current economic climate for investment in Kazakhstan has been clouded by the Russian debt default in August 1998. Kazakhstan has suffered from a downgrading of its sovereign and corporate debt ratings, as have many emerging markets. Independent assessments by the main credit agencies Moody's and Standard & Poor (S&P) reflect a worsening economic climate in 1998 and 1999. In September 1998 S&P reduced the rating of long-term debt from BB- to B+ and long-term debt in tenge from BB+ to BB-. Short-term debt in foreign currency and Tenge was left unchanged at B. According to S&P methodology, the rate of BB- indicates a level of inflation of 25-100%. Moody's reduced the credit rating of foreign currency debt from a level of Ba3 to B1 in early 1999. In addition, it reduced the rating for bank deposits in foreign currency from B1 to B2, and the corporate rating of the Kazakhstan Electricity Grid Operating Company (KEGOC), a natural monopoly electricity distributor, from Ba3 to B1.

Kazakhstan has experienced high costs in its transition to a market economy since the breakup of the Soviet Union in 1991. By early 1999, real GDP and wages were less than two-thirds of their 1991 levels. With the exception of the second half of 1998 and the first half of 1999, output has been increasing since 1996, when a steep decline bottomed out.

Kazakhstan expects oil production (including gas condensate) for 1999 to total about 30 million metric tons, a 15% increase over 1998 (25.93 million tons, up from 25.77 million tons in 1997). Actual production for the first 11 months of the year was 27.4 million metric tons. Kazakhstan exported nearly 17 million tons of oil in 1998. Natural gas production was 1.6% higher in 1998 than in 1997. Increasing oil prices in 1999 provided a welcome respite after significantly lower than expected earnings in 1998.

The vast majority of Kazakhstan's onshore oil production has been privatized and there has been no significant oil privatization activity since the end of 1997. However, the government still intends to sell some shares in several privatized oil companies in 1999 and 2000 through Kazakhstan's stock market. In September 1998, Philips Petroleum (U.S.) and Inpex (Japan) each acquired half of the Kazakhstani government's one-seventh stake in the potentially lucrative Offshore Kazakhstan International Operating Company (OKIOC), an international consortium that will explore and develop Kazakhstan's offshore Caspian region. In 1998 and 1999, Kazakhstan negotiated an increase in its quota for Kazakhstani oil exports through Russia to seven million tons per year. In May 1999, the state oil company, Kazakhoil, purchased an additional 45-percent share of the Atyrau refinery (previously held by a Swiss firm) for \$10 million and took over management of the refinery.

Kazakhstan's metals sector also was adversely affected by low world commodity prices during 1998 and early 1999. Decreased demand from its major East Asian markets during the same time period also hurt Kazakhstan's iron and steel sector, dominated by the giant ISPAT-KARMET steel mill in Karaganda. The subsequent rebound in some metals prices and growth in East Asian demand during the second half of 1999 has mitigated some of this damage.

The Kazakhstani government is locked in a legal battle with Trans World Metals, a London-based trading company, over ownership of the Sokolovsky operation and three other metals factories. By summer 1999, it was unclear what effect the dispute would have on investment in Kazakhstan's metals sector.

Swarms of locusts descended upon Kazakhstani farmland in summer 1999. Nonetheless, despite the locust infestation, the 1999 harvest was far more plentiful than 1998's disastrous harvest. Kazakhstan harvested 15.9 million tons of grain, including 12.5 million tons of wheat, in 1999. It remains to be seen what impact the infestation will have on the 2000 crop. In 1998, Kazakhstan harvested only 6.4 million tons of grain, a 50-percent decrease from the 1997 harvest of 12.2 million tons. The record-low harvest came after a strong summer drought that destroyed about 2 million hectares of grain areas. Moreover, wheat prices were only \$80 per ton, compared to \$150 per ton in 1997.

In the fall of 1999, Kazakhstan reached an agreement in principle with the IMF on a new Extended Fund Facility program, which was approved by the IMF Board of Directors in December 1999. Kazakhstan's efforts to stick to a realistic government budget will be key to the success of the IMF-supported economic program. Given the devaluation of the Tenge, the rebound of oil and minerals prices and the recovery of exports, the government expects that revenues will come closer to target levels in the second half of 1999. Kazakhstan's revenue from taxes is extremely low by world standards--only 12% of GDP in 1998. Government efforts to

increase tax collections, with the exception of customs collections, have been largely unsuccessful. Kazakhstan's Ministry of State Revenues has set up an electronic monitoring system of about 200 of the country's major enterprises, which encompasses most major U.S. investors in Kazakhstan. Tax inspections of domestic and foreign companies are expected to increase.

Kazakhstan instituted an ambitious pension reform program in January 1998. Early problems with computer software have been overcome, and by mid-1999, contributors were placing more money in privately managed investment funds than in the State-run equivalent. President Nazarbayev has pledged his strong support for the project. The Kazakhstan Stock Exchange, in which the government hopes the majority of pension funds will go, has been largely inactive since its founding in September 1996. Most enterprises lack proper accounting records that would enable them to sell stock via the stock market. These factors have delayed the issuing of shares of five or six "blue chip" companies, which experts believe would invigorate the Kazakhstan Stock Exchange. For the time being, pension fund capital is being invested almost exclusively in government bonds.

In November 1998, Kazakhstan for the first time drew on its U.S. \$400-440 million IMF Extended Fund Facility (EFF) in its ultimately unsuccessful efforts to defend the tenge from pressure for devaluation. While the April 1999 devaluation sparked an inflationary burst, the government expects to limit inflation to no more than 16% in 1999. The National Bank has continued its campaign of consolidating and strengthening the banking sector. As of July 1999, the number of banks in the country stood at 69, down from 76 in December 1998, and 100 at the start of 1997. Bad loans comprised just over 6% of banks' portfolios, which is close to international standards. State-owned Turan-Alem, one of the country's largest banks, was sold to a consortium of local investors in March 1998. At the same time the government sold 18% of its shares in Halyk Savings Bank, Kazakhstan's largest bank in terms of deposits. The government intends to lower its stake in Halyk to a minority interest by 2001. Several major foreign banks have branches in Kazakhstan, including ABN-AMRO, Citibank, and Societe Generale.

While the official unemployment rate is low, actual unemployment is estimated at 15%. This is somewhat mitigated, however, by an active gray market economy. The government has become increasingly concerned over the unemployment issue and has made it clear to U.S. and other foreign firms that, as much as possible, they should hire Kazakhstans.

In the next several years, GDP growth will depend greatly on commodity prices, particularly the price of oil. Oil discoveries under Kazakhstan's portion of the Caspian seabed (the first exploratory well was being drilled as of late summer 1999) also will be an important factor. Major finds would spur a new surge of foreign investment. However, without a return to the level of mid-1997 oil prices (and if offshore discoveries prove disappointing), the rate of GDP growth will likely remain quite low until new export routes enable Kazakhstan to boost significantly its onshore oil production. Overall, Kazakhstan needs to diversify its economy away from a reliance on natural resources to protect itself from future shocks in oil and other commodity markets. Kazakhstan has found its manufacturing sector affected by competitive devaluation in Russia, Uzbekistan, and the Kyrgyz Republic.

After the April 1999 devaluation, Kazakhstan introduced--and subsequently rescinded--a tax of one percent on the value of any transaction to purchase hard currency. Rumors persist that income derived from investments in Government securities may also be considered taxable income under profits tax changes (it is presently exempt under Article 34(3) of the Tax Code).

B. Principal Growth Sectors

Natural resources, principally oil and gas, dominate the Kazakhstani economy. Kazakhstan has proven reserves of 16 billion barrels of oil. Government estimates of potential oil reserves under Kazakhstan's portion of the Caspian vary widely. A conservative government estimate is that 30 billion barrels may lie offshore under the Caspian seabed. In addition, Kazakhstan has approximately two trillion cubic meters in proven natural gas reserves, with a high likelihood of significant additional gas deposits under the Caspian. Western interest in Kazakhstan's oil and gas sector is significant and the scale of contemplated projects is enormous. These projects would offer major opportunities for U.S. investment and trade.

Kazakhstan's electrical power sector, currently running at just over half its installed capacity of 17,000 megawatts, is another area of projected growth. The Kazakhstani government is keenly interested in attracting new investment to ensure adequate electricity to support Kazakhstan's recovering economy.

Although Kazakhstan's mineral resources of ferrous and non-ferrous metals hold great promise, several high-profile investment disputes have hampered development of Kazakhstan's metals sector. A Canadian firm brought suit against the Kazakhstani government for more than \$200 million, because the government reneged on its commitment to provide export licenses. The Kazakhstani government is engaged in a legal battle with another foreign firm over control of four major mining and metallurgical plants. More than anything else, however, the slump in metals prices has driven investors elsewhere. Once prices recover, significant opportunities in Kazakhstan's mining and metallurgical industries could lure new investment and lead to growth in this sector.

C. Government Role in the Economy

The Kazakhstani government, especially the President's office, takes a leading role in directing national economic development. Many major policies governing the economy have been issued as decrees from the President's office.

As of the summer of 1999, the vast majority of all small and medium-sized enterprises had been privatized, along with most large-scale state companies. Nearly all of Kazakhstan's major state oil companies are now privately controlled. The same is true of its mining and metallurgical enterprises. Many important assets still remain in state hands, although the government is seeking to renew its privatization program. Likely sales--the so-called "blue chip privatization program"--in the near future include some of the government's shares in now privately managed oil and metals companies.

In June 1999, the government submitted to Parliament a bill that would privatize agricultural land. (Agricultural land currently cannot be owned, although it can be leased for up to 99 years). The privatization program envisioned in the bill would be enacted in stages, starting with the sale of abandoned land and land held in reserve by the state. Land currently leased would be sold after that. Only Kazakhstanis born in Kazakhstan would be allowed to own agricultural land. Due to opposition, the bill was withdrawn from Parliament in late 1999, but the government is expected to re-submit it in modified form.

D. Balance of Payments Situation

Kazakhstan has run a trade deficit since 1992. Kazakhstan's ambitious investment program has led to substantial capital inflows from abroad, much of which finances the import of capital equipment. Moreover, demand for imported consumer goods is growing. These trends are likely to continue and keep Kazakhstan's trade balance negative in the near term. Because the country lacks proper international trade statistics, trade figures are only approximations. According to Kazakhstan's National Bank, the 1998 current account deficit was roughly \$1.25 billion, or 5.6% of GDP. By way of comparison, the 1997 current account deficit was \$952 million, or 4.2% of GDP. Kazakhstan's 1998 trade deficit was roughly \$800 million - up from \$385 million in 1997.

In the second half of 1998, Kazakhstan's imports from Russia grew by 40% as a result of the Russian devaluation of the ruble. Imports decreased, however, in the first two quarters of 1999 after the introduction a six-month import ban on selected Russian-made products and 200-percent import tariffs on some Kyrgyz and Uzbek goods in February 1999. The April 1999 tenge devaluation increased Kazakhstani exports by making the price of Kazakhstani-made products more competitive. The devaluation, along with increased world market prices for oil and minerals, Kazakhstan's principal exports, successfully reduced what was a dramatically growing trade deficit. As of November 1999, net international reserves of the National Bank of Kazakhstan stood at approximately \$1.285 billion, sufficient for three months' worth of imports.

In 1998, Kazakhstan failed to meet its foreign direct investment target by almost 50%, attracting only \$700 million in foreign direct investment (FDI). This was significantly lower than \$1.3 billion in 1997, according to the Agency for Investment. However, as of the third quarter of 1999, Kazakhstan had attracted more than \$8.3 billion in FDI--most of which is in

the oil and gas sector--since its independence in 1991. Most foreign direct investment comes from Western investors and South Korea. The \$2.08 billion invested by U.S. companies makes the United States the largest single source of investment in Kazakhstan.

E. Infrastructure

Kazakhstan's geographical position--landlocked in the center of Eurasia--makes it dependent on transport links through neighboring countries to deliver its goods to world markets. Kazakhstan's railroad system is linked to Europe via Russia, to the Persian Gulf via Iran, and to the Pacific Rim via China and Russia. The European Bank for Reconstruction and Development (EBRD)

financed recent improvements to the Caspian Seaport of Aktau, from where oil and other goods are shipped across the Caspian. Regular flights connect Kazakhstan with Europe and some Asian countries. In 1999, five major carriers (Austrian Airlines, British Airways, KLM, Lufthansa, and Turkish Airlines) operated non-stop flights to Almaty, although Austrian Air ended its operations in Kazakhstan at year's end.

Kazakhstan's government-run railroads are poorly funded and, consequently, in very weak financial condition. The three state railroad companies were merged into one national company in January 1997. A paved road network connects all major cities. However, lack of funds since the collapse of the Soviet Union in 1991 has left most roads in a state of disrepair. The Asian Development Bank (ADB), EBRD, and the Islamic Development Bank (IDB) are jointly funding a \$284 million highway rehabilitation project connecting the commercial center, Almaty, with the new capital city, Astana. U.S. companies should monitor infrastructure tenders supported by international financial institutions to identify potential business opportunities.

Transportation network statistics:

Railroads--17,700 kilometers

Roads (paved)--87,337 kilometers

Navigable waterways--4,000 kilometers

III. POLITICAL ENVIRONMENT

A. Nature of the Bilateral Relationship with the U.S.

The U.S.-Kazakhstani bilateral relationship was severely tested by a 1999 transfer of Kazakhstani MIG-21 fighter aircraft to North Korea, and the lack of transparency of Presidential and Parliamentary elections. Despite these contentious issues, the

United States remains committed to supporting Kazakhstan's development as an independent, market-oriented, and democratic state. A Joint Commission under the chairmanship of Vice President Gore and President Nazarbayev meets annually, most recently in December 1999, to review the entire scope of relations between the two countries.

Initial U.S.-Kazakhstani cooperation emphasized the removal of nuclear warheads, weapons-grade materials and supporting infrastructure under the U.S. Congress's Cooperative Threat Reduction (CTR) program, which supports the implementation of Kazakhstan's decision to eliminate the weapons of mass destruction and related infrastructure that it inherited from the Soviet Union. In November 1994, Kazakhstan and the U.S. transferred over a half-ton of weapons-grade uranium from Kazakhstan to the U.S.; Kazakhstan's last nuclear warheads were removed in 1995. The U.S. continues to provide assistance for programs to seal missile silos and nuclear test tunnels, and to enhance export controls and re-orient defense industries, continue, as well as maintain an active military-to-military relationship.

Since 1993, the United States Agency for International Development (USAID) has administered

more than \$260 million in technical assistance programs in Kazakhstan, in addition to the counter-proliferation programs mentioned above. These programs include cooperation in privatization, fiscal and financial policy, commercial law, judicial reform, support for democratic institutions and non-governmental organizations, energy, social transition (especially in the health care sector), and efforts to improve Kazakhstan's natural environment. The Department of Defense has provided significant amounts of humanitarian assistance, and in August 1996 provided six coastal patrol boats to enhance Kazakhstan's export control capabilities on the Caspian Sea. The Departments of State and Justice sponsor law enforcement and counter-narcotics training and assistance. The United States State Department also provides support to independent media and manages an active exchange program. The U.S. Foreign Commercial Service (the overseas branch of the Department of Commerce) provides U.S. business internships for Kazakhstanis, supports Kazakhstani businesses through a match-maker program, and disseminates information on U.S. goods and services. The Peace Corps has more than 100 volunteers working throughout Kazakhstan in business education, English teaching, and the development of environmental non-governmental organizations.

With more than \$2 billion in U.S. investment in Kazakhstan, the U.S. Government has a strong interest in the wellbeing of American companies doing business in the country. Moreover, the potential for significant future investment and trade will ensure that commerce will continue to be a major element of the bilateral relationship.

B. Major Political Issues Affecting the Business Climate

The major political issues affecting the business climate are: centralization of power around the President; constant personnel and portfolio changes at senior levels of the government; increasing government harassment of foreign investors thought not to be meeting their contract obligations; and, an increasing emphasis on mandatory use of locally produced goods and services.

In 1997, the Higher Disciplinary Council under the President was created to combat corruption among public officials. It has since been reorganized as the State Anti-Corruption Commission. A new criminal code passed in 1997 contains special articles regarding penalties for giving and receiving bribes, and provisions regarding other economic crimes unheard of in the Soviet period. In 1998, the government stepped up prosecution of low and mid-level officials for corruption. One provincial governor was removed from office on corruption charges in 1998, but prosecution of senior officials is extremely rare.

C. Brief Synopsis of the Political System

Kazakhstan is a constitutional republic with a strong presidency. President Nursultan Nazarbayev, who has been in office since Kazakhstan became independent, won a new seven-year term in a January 1999 election that the Organization for Security and Cooperation in Europe (OSCE) said fell far short of international standards. The election was held nearly two years early, only three months after Parliament adopted a series of constitutional amendments in October 1998 permitting the early election and extending the Presidential and Parliamentary terms of office. The government disqualified two would-be opponents from running on the

grounds that they had participated in an unsanctioned political meeting. Nazarbayev's previous term in office, which began when he was elected to a five-year term in 1991, was extended to the year 2000 in a 1995 referendum. A separate 1995 referendum, held after Nazarbayev dissolved the Parliament, approved a new constitution that concentrates power in the presidency, permitting it to dominate the parliament, judiciary, and local government. There was increasing centralization of power within the presidency in 1997-98, when the presidential administration took on some of the responsibilities of line ministries.

The President is the head of state. He is also the commander-in-chief of the armed forces and may veto legislation that has been passed by the Parliament. In November 1996, the President created a State Committee on Investments to manage new direct investment in "priority sectors." The Committee reports directly to the President. The Prime Minister, who serves at the pleasure of the President, chairs the Cabinet of Ministers and serves as Kazakhstan's head of government. In March 1997, the President ordered a major restructuring of the government, resulting in significant reductions in the number of governmental bodies and government staff. There are three deputy prime ministers, 14 ministers, and 11 chairmen of state agencies.

Kasimzhomart Tokayev, the former Minister of Foreign Affairs, became Prime Minister in October 1999. At the same time, the President replaced several key ministers and created a new Ministry of the Economy, among other governmental changes. Previous high-level government shuffles occurred in February and April 1998, and following President Nazarbayev's reelection in January 1999.

Kazakhstan has a bicameral parliament, comprised of a lower house (the Majilis) and upper house (the Senate). The 77-seat Majilis is popularly elected by single-mandate districts, with 10 members elected by party-list vote. Senate membership following the 1999 election stood at 39. Two senators are selected by each of the elected assemblies (Maslikhats) of Kazakhstan's 16 principal administrative divisions (14 regions, or oblasts, plus the cities of Astana and Almaty). The President appoints the remaining 7 senators. Majilis deputies and the government both have the right of legislative initiative, though most legislation considered by the Parliament is proposed by the government.

Until 1999, political parties in Kazakhstan, other than the opposition Communists, were generally small and nearly unknown outside the major cities. Party affiliations have traditionally played little role in local Kazakhstani politics, where personal and family ties are more important. Several new parties formed and were registered in 1999 following passage of a constitutional amendment that created ten new seats in the Majilis attributed by party-list voting. Three parties that support President Nazarbayev--Otan (Fatherland), the Civic Party and the Agrarian Party--won eight of the ten seats; the Communists won the other two. Two opposition parties, the Republican National People's Party (RNPK) and Azamat, were registered for the election. One member of RNPK, but no Azamat candidate, was elected, from a single-mandate district. The political opposition is weak and subject to constant government harassment. Most major opposition figures unified following the parliamentary elections to form the Forum of Democratic Forces of Kazakhstan.

In 1997, the president consolidated several provinces (oblasts), bringing the total down to 14

from 19. In 1998, the new capital, Astana, received the status of a special administrative territory. Kazakhstan is now divided into 14 oblasts, the territory of the former capital (Almaty), and the territory of the new capital (Astana). Each is headed by an "akim" (provincial governor) appointed by the President. There are also local city and "rayion" (city district) government administrations. Oblast and city akims commonly play an important role in facilitating or hindering trade and investment in Kazakhstan: U.S. companies often must deal with these officials in their day-to-day operations.

Although the government of Kazakhstan respects many of the human rights of its citizens, it has frequently infringed upon the basic democratic rights of free speech, press and assembly. Prosecutors have brought legal actions against government critics for insulting the President and participating in unsanctioned meetings and demonstrations. Under a May 1998 amendment to the election law, the government was able to use administrative convictions for such political offenses to disqualify two opponents from participating in both the January 1999 presidential election and the October 1999 Parliamentary elections. Presumed government allies have bought out or have sued independent media perceived to be unfriendly to the government.

IV. MARKETING U.S. PRODUCTS AND SERVICES

A. Distribution and Sales Channels

A weak distribution network, poor telecommunications, and the country's enormous size present several challenges to any company wishing to distribute its products in Kazakhstan. Although a number of agents and distributors are beginning to emerge, U.S. companies currently active in Kazakhstan prefer to use a combination of methods to get their products to market.

The following are the most widely used methods: distributing or selling the product directly; working through a country-wide distributor or agent; working through more than one local-area distributor or agent; and, distributing or selling products directly from a warehouse.

Most of Kazakhstan's population is concentrated in two geographic areas: the southeast (Almaty, South Kazakhstan, and Zhambyl oblasts) and the north/northeast (Astana, Karaganda, Kustanai, North Kazakhstan, Pavlodar, and East Kazakhstan regions). U.S. consumer-product companies are advised to first target their efforts in these regions. People in both areas (particularly in the south) have greater purchasing power than elsewhere in the country.

B. Use of Agents and Distributors; Finding a Partner

Finding a reliable, credit-worthy partner in Kazakhstan is difficult. Extensive due diligence is critical to avoid the pitfalls of Kazakhstan's challenging market. Given the country's relative youth and the legacy of Soviet central planning, there are no reliable databases (i.e. Dun and Bradstreet, etc.) to verify a firm or partner's ability to distribute U.S. products. U.S. firms are advised to: verify client lists offered by potential partners; check banking records and correspondent account capability with Western banks; and, verify the personal *bona fides* of key company officers. Transactions should be started on an irrevocable letter-of-credit basis or, if possible, full pre-payment. A trading relationship should be developed over time. Conservative,

non-rotating credit lines may be extended to Kazakhstani importers/distributors if business and trust warrant it.

U.S. companies looking at international markets can take advantage of several excellent trade promotion programs created by the U.S. Department of Commerce and carried out by its overseas arm, the U.S. Foreign and Commercial Service (USFCS).

One such program offered by USFCS Almaty is the Agent/Distributor Service (ADS), which assists U.S. companies in finding potential distributors of their products in Kazakhstan. For a nominal fee, USFCS will do all the legwork and screening to identify up to six potential local contacts. The ADS is ordered through Commerce Department's regional Export Assistant Centers (EAC) located throughout the U.S. Contact the Commerce Department or any USFCS office for more information.

For U.S. companies interested in taking a closer look at Kazakhstan, there is no better program than the Gold Key Service (GKS). GKS includes: a commercial briefing with U.S. Commercial Service staff; an appointment schedule of up to five meetings per day tailored to the company's needs; hotel and air ticket reservations; and, arrangements for a car/driver and an interpreter. Contact USFCS Almaty for more information.

Commerce's Business Information Service for the Newly Independent States (BISNIS) publishes its monthly "Search for Partners" newsletter, which lists local companies looking for U.S. partners. The newsletter is also available through the Internet.

Finally, a few local business associations, including the Almaty-based Kazakhstani Union of Industrialists and Entrepreneurs, provide contact services. U.S. companies, however, must be careful to investigate potential local partners thoroughly before doing business with them.

C. Franchising

Although franchising is new in Kazakhstan, the idea is appropriate for Kazakhstani consumer industries since many business people do not have sufficient experience and knowledge in establishing their own businesses. The Kazakhstani Chamber of Commerce believes the following industries have the most potential for franchising: fast food, dry cleaning/laundry services, hotels and motels, and auto parts/service.

Franchising has great potential in Kazakhstan due to the bare minimum start-up investment required. But successful franchising will need a stronger legal environment. Any franchising contract should be carefully drafted because many judges in Kazakhstan are not familiar with this area of law. The contract would be judged under the Civil Code, which does not explicitly deal with franchising agreements, and there is no body of precedents on this subject.

D. Direct Marketing

The practice of direct marketing is growing slowly in Kazakhstan, especially in Almaty. A popular form of direct marketing is distributing free samples at points of sale, at major cultural

events, and door-to-door. Marketing by mail is generally not used due to Kazakhstan's unreliable postal system. There are more than a dozen local and several Western advertising firms in Almaty. Television and radio are useful media in this respect. (See Chapter XI for Kazakhstani contacts)

E. Joint Ventures and Licensing

Prior to the August 1998 Russian financial crisis, there were more than 1,000 joint ventures registered in Kazakhstan, according to the Legal Entities Registration Department of the Ministry of Justice. Joint ventures may be organized into an unlimited partnership, a limited liability partnership, or a joint stock company. In some cases, such as a particular privatization deal, a joint venture structure may be required as part of the tender package. Kazakhstani companies, because they often have little working capital and face high interest rates from local banks, depend on Western partners to shoulder the majority of capital investment in a joint venture.

According to the 1995 Law on the Registration of Legal Entities, all legal entities created on Kazakhstani territory, irrespective of the form of their incorporation and founding partners, are subject to state registration. The Kazakhstani Ministry of Justice is in charge of the registration of all legal enterprises and organizations.

U.S. companies have identified licensing as an obstacle to investment: more than 300 types of economic activities are subject to licensing. Licensing procedures are slow and non-transparent. It is also an added cost to doing business in Kazakhstan. There are several government agencies that have licensing authority, with most licensing responsibility concentrated in the Ministry of Energy, Industry and Trade. USAID is providing technical assistance to the government of Kazakhstan on reforming licensing policy.

F. Steps to Establishing an Office

U.S. companies wishing to establish themselves in Kazakhstan are highly encouraged to contact the USFCS Almaty for consultations. Contact information is provided in Chapter XI.

Registration with the Ministry of Justice is the first step to establishing an office in Kazakhstan. The registration process should take no more than 15 days, but some foreign companies have complained that the process can take several months. Turning in all requested materials from the start will facilitate processing. There is also a registration fee that varies depending on the type of organization being registered. Joint stock companies and limited liability partnerships must pay an additional fee equivalent to one-tenth of one percent of their charter fund capital when they issue securities. The Embassy recommends that legal counsel be used in registering one's company.

Renovated, Western-style office space rents for \$20-\$40 per square meter per month in Almaty and \$10-\$30 per square meter per month in other major cities (some rents have gone up as high as \$70 per square meter). In general, domestic telephone service is poor but getting better. International service is reliable, although expensive. Most U.S. business representatives prefer to use a cellular phone, which is widely used in Almaty and is gaining popularity elsewhere in

Kazakhstan. Office equipment (fax machines, telephones, photocopiers), parts, and service are readily available in Almaty.

While Almaty remains the commercial capital of Kazakhstan, an increasing number of U.S. and foreign firms are establishing satellite offices in Astana due to the importance of government relations in Kazakhstan. U.S. firms have generally bought renovated apartments in Astana, with costs of up to \$40,000-50,000 for a decent albeit not renovated office/apartment layout. The Inter-Continental Astana Hotel offers ready-made Western style office space with fully equipped business facilities.

With the exception of Almaty, it is difficult to find an English-speaking labor pool in Kazakhstan's cities. Moreover, finding local managers with Western work experience and a business education is still a rarity--even in Almaty. Training is an essential component to any start-up operation in Kazakhstan.

The Kazakhstan Institute of Management and Economic Strategic Research (KIMEP) was created to develop a cadre of young business professionals to meet the growing needs of the country. Funded with foreign grants (USAID, Soros, TACIS), corporate grants, and tuition, KIMEP offers its students graduate degrees in business management and public administration. Most courses are taught in English, and many international firms recruit KIMEP graduates. KIMEP offers a possible recruitment pool for U.S. firms.

G. Selling Factors and Techniques

Transportation costs and product pricing are two important considerations for U.S. companies looking at the Kazakhstani market. Kazakhstan's handful of major cities should be considered first as potential markets, since they are well-connected to the country's transportation system and their populations generally have greater purchasing power. U.S. products have a good reputation in Kazakhstan, but competition is growing. U.S. firms must provide customer support and a reliable supply of product to their distributors. Distribution networks within Kazakhstan cover great distances because of the country's vast size (equivalent in area to Western Europe). Transportation costs from the U.S. are significant (approximately \$5,000 for a 20-foot container shipped to Kazakhstan from the American eastern seaboard). This affects the price competitiveness of American-made products.

Selling in Kazakhstan differs from other markets, and detailed marketing surveys should be prepared before launching a product. For example, mosquito repellent creams will sell much better than sprays because of Kazakhstanis' aversion to chemical sprays on the skin. Also, many Kazakhstanis prefer all-natural products to products with additives or preservatives.

H. Advertising and Trade Promotion

Several means of advertising are effective in Kazakhstan. Print and television are among the most popular. The Russian-language weekly "Caravan" is the most-widely read newspaper in Kazakhstan, and the best for advertising. Other Russian-language newspapers in which U.S. firms might consider advertising are "Panorama" and "Delovaya Nedelya." Both carry current

economic, political, and business articles of interest to the entire business community. The English-language "Almaty Herald" is widely read by the foreign community. The most popular TV channels in Almaty are: ORT (country-wide), Khabar (country-wide), and KTK (Almaty). Radio, billboard, and transport (buses) advertising are also commonly used by U.S. and local companies. U.S. firms may wish to consult with one of the several international advertising and public relations firms operating in Kazakhstan.

Kazakhstan has several trade shows throughout the year. The largest is the Kazakhstan International Oil and Gas Exhibition (KIOGE) held every October in Almaty. Other scheduled events include: Consumer Expo (April); the Kazakhstan International Health Exhibition (KIHE) (May); a transportation conference and exhibition (May); the Kazakhstan International Telecommunications Exhibition (KITEL) (June); and, a power and energy exhibition (KAZPOWER) (September). (See Chapter XII for a complete list of Trade Events).

USFCS maintains a library that displays up-to-date advertising sources including information on catalog shows, specialized trade missions, and product literature.

I. Pricing Product

Western products are expensive for the average Kazakhstani consumer. High transport costs, high taxes, customs duties, and high expectations of profits by importers all contribute to keeping Western imports out of the reach of most Kazakhstanis. The overall trade-weighted import tariff is 12%, and there is also a value-added tax (VAT) of 20% (although VAT on food and medicines is only 10%). Importers also pass along to consumers the extra costs incurred clearing goods through Kazakhstani customs more quickly (i.e. by bribes).

Conditions demand that U.S. companies take into account the extreme price sensitivity of Kazakhstani consumers when pricing products. Kazakhstani consumers will, however, pay a premium for high-quality goods. For example, Kazakhstani mothers, once educated in the value of quality baby food or diapers, will reserve a portion of their income for these higher-priced items.

J. Customer Support

Strong customer support service can be a value-added aspect of a U.S. company in Kazakhstan. In a country where the practice of customer service still leaves much to be desired, providing after-sales service (either directly or through a trained Kazakhstani representative) can make a lasting difference. U.S. companies should be prepared to commit resources to customer-service training for local staff.

K. Selling to the Government

In August 1997, President Nazarbayev signed the Law on State Procurement. This provides foreign bidders with enhanced access to government tenders, assurances of national and most-favored-nation treatment, and international standards of transparency and public accountability. However, what appears in print and what happens in practice can be very different. Short

deadlines for tenders, a lack of transparency in business dealings, and serious non-payment issues make for an extremely challenging commercial environment. U.S. companies are advised to approach any government contract with extreme caution. However, lucrative opportunities do exist, and U.S. companies have had successes in Kazakhstan. U.S. companies should be wary of payment-after-service arrangements and request full or partial payment in advance. Not doing so puts any U.S. firm at great risk, with little to no recourse in the Kazakhstani judicial system.

L. Protecting Your Product from IPR Infringement

Legislation on patent and trademark protection was adopted in 1992 and 1993, respectively, and legislation on copyright protection was adopted in June 1996. Adequate enforcement, however, remains a critical shortcoming. There is still very little understanding of or respect for intellectual property rights in Kazakhstan. The government is currently considering amendments to the Customs Code to provide for special border control measures to deal with pirated software and counterfeit trademark problems. Moreover, amendments to the Administrative, Criminal and Civil Procedural Codes have been adopted to bolster enforcement capabilities. Nevertheless, systematic intellectual property violations persist and enforcement remains sporadic at best.

U.S. companies should depend on their locally based representatives or distributors to protect their products. In one case, a local company immediately stopped using a major U.S. franchise's copyrighted trademark after receiving cease-and-desist orders from the franchise's Almaty-based U.S. law firm. This effective "shot across the bow" approach is one way of dealing with IPR and/or copyright infringement.

Although Kazakhstan has improved enforcement of intellectual property rights, intellectual property losses to U.S. firms, in terms of computer software and audio/video goods, are estimated to amount to more than \$50 million annually. Increased trade with China may exacerbate this problem. A large percentage of computer software and videos available are pirated, but apparently are not mass-produced in Kazakhstan. Kazakhstan was removed from the USTR "Special 301" watch list in 1999.

M. Need for a Local Attorney

The need for competent counsel, either Western or Kazakhstani, is critical for both understanding this challenging market and protecting your investment.

Kazakhstan is still in the process of building the institutional capabilities of its judicial system. Until this is complete, the performance of courts in the country will be less than optimal. Further problems exist in having a judgment enforced. A judicial executor system is only beginning to be established by the Ministry of Justice. Given this level of development, it is likely that interference in judicial cases by private parties or by government officials will sometimes occur.

General commercial law principles are established in Kazakhstan's Civil Code. The General Provisions of the Civil Code was adopted in December 1994; the Specific Provisions were passed by the Parliament in July 1999. The General Provisions were amended several times

between 1995 and 1998. Commercial law development is ongoing, further necessitating strong legal counsel.

There are currently more than 10 U.S. law firms operating in Kazakhstan. In addition to expatriate staff, most employ local attorneys or work with a local firm.

Many major U.S. accounting firms have offices in Almaty that provide accounting services and business counseling. They also offer services in tax matters, payroll, employee benefits, and registration.

The Embassy strongly recommends that businesses contemplating working in Kazakhstan hire legal and accounting professionals with "on the ground" experience.

N. Due Diligence

Any U.S. company wishing to establish a joint venture or partnership with a Kazakhstani company should find out as much about a potential partner as possible. There are many cases where the Kazakhstani partner proved unreliable or even turned on the foreign partner after their joint venture started making money. Spending a little money on due diligence early on could save a company a lot of money later. U.S. companies may want to contact an American consulting firm in Almaty for assistance, or utilize the U.S. Commercial Service's Company Profile service (Contact USCS Almaty for more information).

V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

BEST PROSPECTS FOR NON-AGRICULTURAL GOODS AND SERVICES:

A. Sector Rank: 1

Sector Name: Oil and Gas

ITA Industry Code: OGS

No sector has generated greater international exposure for Kazakhstan than its oil and gas industry, and U.S. upstream oil companies and service companies have been most active in this key sector. This industry contributes about 32 percent of Kazakhstani hard-currency export earnings and strongly affects the entire economy. Kazakhstan has proven oil reserves of 16 billion barrels and may have, according to Kazakhstani government projections, a further 30 billion barrels both onshore and under its portion of the Caspian seabed. In 1998, oil output in Kazakhstan was 25.9 million tons and natural gas output was 5.5 billion cubic meters, a slight increase from 1997. The Kazakhstani government hopes to boost oil output to 80 million tons per year by 2005 and to 120 million tons by 2020. The success of six test wells to be drilled in the offshore Caspian Kashagan structure in late 1999 will provide an early indicator of how likely these plans are to succeed. Western investment and technical assistance will be a prerequisite to sharply increasing output in the next decade. Though upstream and downstream opportunities exist for U.S. companies, newly-legislated requirements for producers to use Kazakhstani goods and services, transportation problems, unclear legislation and licensing

procedures, and constant personnel changes within the hierarchy of Kazakhstan's energy-related entities present serious challenges.

Chevron, with its 45-percent stake, is leading the TengizChevrOil (TCO) venture, which was set up to develop the Tengiz oil field. Mobil and Kazakhoil each have 25 percent and Russia's LUKoil holds the remaining 5 percent. Chevron and the Kazakhstani government have been working on the Tengiz project since 1992. Tengiz is one of the biggest oil fields in the world and may require up to \$20 billion in investment. In early 1999, Chevron announced that it would continue its large investment program in Kazakhstan's oil sector despite the dramatic fall in world oil prices. Chevron invested \$550 million in the TCO joint-stock company in 1998 and will stick to its plans for another \$450 million investment in 1999. TCO produced 8.5 million tons in 1998 (more than 30 percent of Kazakhstan's oil production) and plans to raise annual output to 12 million tons by 2000. California-based Bechtel, in a joint venture with Enka (Turkey), provides engineering, construction, project management, procurement, and financial control services to the integrated TCO team.

The Offshore Kazakhstan International Operating Company (OKIOC), under a production sharing agreement signed in November, 1997, with the government of Kazakhstan, will explore for oil and gas in the North Caspian Sea. The initial owners of OKIOC were Shell, Agip, British Gas, British Petroleum, Kazakhoil, Mobil, Statoil, and Total. In September 1998, Oklahoma-based Phillips Petroleum and the Japanese corporation Inpex each acquired half of Kazakhoil's 14 percent share in OKIOC. OKIOC expects to start drilling in late summer 1999. The first exploration well, East Kashagan, is located 50 miles away from Atyrau city on the northern coast of the Caspian Sea. OKIOC plans to explore and develop 10 out of 200 blocks of Kazakhstan's portion of the Caspian Sea shelf, which may hold an estimated four billion tons of hydrocarbon reserves. OKIOC plans to spend around \$450 million over the first six years of operations and anticipates about \$220 million of that amount will have been spent by the first drilling.

All the oil majors will be watching OKIOC's progress particularly closely now that two consortia exploring in the Azerbaijani section of the Caspian have closed after failing to find commercially viable quantities of oil.

Negotiations continue with Russia, Azerbaijan, Turkmenistan, and Iran on establishing a viable Caspian demarcation and legal regime for the Caspian Sea. In July 1998, Kazakhstan and Russia signed an agreement dividing their portions of the seabed in the north Caspian. This represents the first and only deal to date that clarifies borders within the Caspian between any of the littoral states.

Kazakhstan has very limited experience in offshore oil production and operations, creating opportunities for U.S. firms in rig work; oil tools (completion, workover, and services); well stimulation; water injection and gas treatment packages; support infrastructure; and environmental technologies. The Caspian Basin's oil bearing formations are quite deep (15,000 feet), under considerable pressure, and often contain a high degree of sulfur and other contaminants, making special Western-made drilling and processing equipment necessary.

Another production sharing agreement signed in 1997 is between Kazakhstan and a consortium of British Gas, Agip, and Texaco to develop the giant Karachaganak oil and gas field in northwestern Kazakhstan. This project is expected to run through 2036, with oil and gas production capacity peaking at 12 million tons per year and 25 billion cubic meters per year respectively. Bechtel won the contract to provide engineering and procurement services for the refurbishment and expansion of existing crude processing facilities, additional export pipelines for oil and gas, and new infrastructure required to support the project.

Aside from building a welcoming investment climate, the major challenge for land-locked Kazakhstan is to build access routes to export its oil to world markets. Kazakhstan currently depends on its neighbors to transport petroleum products to the world markets. Presently, the bulk of Kazakhstan's oil exports pass through the Russian pipeline system, by railcar through Russia to the Black Sea and the Baltics, and by barge across the Caspian to Baku. In late 1998, Russia agreed to increase its export quota on Kazakhstani oil from 3.5 to 7.5 million tons per year for transit through the Atyrau-Samara pipeline via Russia to Europe. This has helped shippers, such as TengizChevrOil, who export oil through this pipeline. However, Kazakhstani production already exceeds even this increased quota and it will therefore need additional export routes as production increases. This presents medium and long-term opportunities for U.S. engineering and service companies. After two years of delays, the Caspian Pipeline Consortium's (CPC) project to build an oil export pipeline from Tengiz to Novorossiysk is moving ahead. On May 12, 1999, CPC celebrated a major milestone as construction began on the marine terminal for a 1,500-km pipeline from the northeast shore of the Caspian to Novorossiysk, the Russian port on the Black Sea. If plans proceed as expected, Kazakhstan will have an export outlet with an initial capacity of 28 million tons per year by 2001. Completion of upgrades (probably not before 2005) would boost capacity to 67 million tons per year. Approximately \$1.5 billion worth of contracts have already been awarded. California-based Fluor Daniel is a main subcontractor to this project. The construction contracts have a large Russian content, with contracts awarded to companies such as Kubaneftegazstroy, Stavropoltruboprovodstroy, and JSC Koksokhimmontazh. The governments of Kazakhstan, Russia, and the Sultanate of Oman are signatories to the CPC agreement. The following petroleum companies are shareholders of CPC: Chevron, LukArco, Rosneft-Shell Caspian Ventures, Mobil, Agip, British Gas, Kazakhoil, and Oryx.

However, the CPC pipeline alone will not be enough to export Caspian production. Several pipelines may be needed to ship Kazakhstani hydrocarbons to world markets. Another possible route is a pipeline from the Tengiz field in western Kazakhstan via Baku to the Georgian port of Supsa. Oil then would be shipped through the Black Sea and the Bosphorus to the Mediterranean Sea. A small Baku-Supsa pipeline, re-opened in April 1999, cost \$565 million to rehabilitate, or about twice its original estimate. Another route currently moving beyond the planning stage is a pipeline from Baku, Azerbaijan, through Georgia and Turkey to Ceyhan (Turkish Mediterranean coast). Western Kazakhstani oil would, at least initially, be shipped across the Caspian Sea to Baku by tanker and then join the pipeline. Cost estimates for this pipeline range from \$2.4 to \$2.9 billion, although the Government of Turkey has guaranteed to reimburse builders for any costs for the Turkish portion of the pipeline exceeding \$1.4 billion. The Baku-Ceyhan route avoids the commercial, environmental, and safety risks associated with increased oil shipments through the Bosphorus and received the endorsement of the region's leaders at an Istanbul Summit

meeting in November 1999. A proposal to build a large-scale pipeline across Kazakhstan to China is widely believed to have given the Chinese National Petroleum Corporation (CNPC) the edge in winning onshore tenders for Uzen, Zhanazhol, and Kenkiyak (three large oil fields in western Kazakhstan). CNPC agreed to study construction of this eastward-flowing, 2,000-mile pipeline, but progress on the study has been slow and the study had not been published as of December 1999.

Kazakhoil, Kazakhstan's national oil and gas company, is largely responsible for arranging tenders of oil and gas properties still to be privatized (although actual licensing for projects is issued by the State Agency for Investment) and plays the leading role in practically all contracts with foreign oil and gas companies. New legislation also gives Kazakhoil a regulatory role in overseeing contract execution, although it has not yet been implemented. Kazakhoil's portfolio also includes Kazakhstan's share of CPC and the TengizChevrOil joint venture. Kazakhoil earnings provide 37 percent of the Kazakhstani government budget revenues. In 1998, Kazakhoil's subsidiaries pumped 5.3 million tons of oil. In March 1999, Kazakhoil signed a grant agreement with the U.S. Trade and Development Agency that provides financing for a feasibility study on national oil and gas exploration and a production database project and petroleum information service. The feasibility study is being implemented by Virginia-based Mathtech International and the Sarkeys Energy Center of the University of Oklahoma.

The Kazakhstani National Oil Transportation Company (Kaztransoil) was created in 1997 to manage all of Kazakhstan's domestic oil pipelines. Mr. Timur Kulibayev, formerly a vice president at Kazakhoil, became president of Kaztransoil in March 1999. In 1997 the Kazakhstani government leased the main Kazakhstani gas pipeline system to Tractebel, a Belgian energy company. Kazakhstan's pipeline infrastructure needs are great, but Kaztransoil does not have the ability to finance upgrades and/or new pipelines. It remains to be seen how prominent a role Kaztransoil can really play in Kazakhstan's transportation picture.

Kazakhstan has three oil refineries: Shymkent, Pavlodar, and Atyrau. Shymkent is currently owned by Kazakhstan's largest private bank, Kazkommertsbank. In 1996, CCL Oil, a U.S.-registered company, took a five-year concession on the Pavlodar refinery. The Atyrau refinery is under the control of Kazakhoil. The three refineries are all producing below their design capacity due to poor maintenance. All of the refineries need funds for repairs and working capital.

Extensive construction continues in Astana, Kazakhstan's new capital. There are many business opportunities for U.S. suppliers of equipment for gas stations. In other regions new gas stations continue to open despite the fact that a number of gas stations meet demand. Texaco opened up two new gas stations in Astana and Almaty between the end of 1998 and the beginning 1999. In August 1998, Chevron also opened its third gas station in Atyrau. U.S. firms involved in build-operate-transfer of gas station networks should explore opportunities in this sector.

Oil and Gas Sector Statistics for oil and gas equipment in USdollars:

	1997	1998	1999(est.)
Total market size	\$860m	\$960m	\$1.0b

Total local production*	n/a	n/a	n/a
Total exports	n/a	n/a	n/a
Total imports	\$860m	\$960m	\$1.0b
Imports from the U.S.	\$12.8m	\$23m	\$25m**

b=billions of dollars, m=millions of dollars

* Total local production and export of oil and gas equipment is not significant and consists entirely of auxiliary equipment such as pressure vessels and metal construction, according to a Kazakhoil representative. Local production is estimated at less than five percent of the total amount of oil and gas equipment used in Kazakhstan.

** This figure, provided by the Kazakhstani National Statistics Agency, is considered a very conservative estimate.

B. Sector Rank: 2
Sector Name: Power Generation Industry
ITA Industry Code: PGE

Kazakhstan's power generation industry is in the midst of a challenging transformation from a centrally planned economy to the free market. The Kazakhstani government has auctioned off more than 85 percent of its installed power generation capacity. The planned privatization of regional electric companies and the establishment of a market-based tariff transmission system will present further opportunities and challenges for U.S. power generation companies.

Most of Kazakhstan's power generation assets are obsolescent and, therefore, require upgrading or replacement. This presents major opportunities for U.S. equipment suppliers with the proper financing in place. Kazakhstani partners normally expect U.S. and other foreign investors to purchase new equipment and parts. Construction of new power plants in the medium-term is also being discussed. Kazakhstan's budget woes and chronic industrial and residential electricity payment arrears limit U.S. imports. The focus, for now, is on attracting foreign investment.

Since Kazakhstan does not produce its own electric power equipment, it relies on foreign imports. The total market size is conservatively estimated at \$71 million, in which the U.S. share is small (2.5 percent). In 1998, leading exporters of electrical power equipment to Kazakhstan were Germany and Russia (31 percent and 20 percent respectively). U.S. strategic investors manage more than 30 percent of Kazakhstan's power generation assets. As direct investors, these companies receive incentives that make importing equipment less troublesome by reducing import barriers for U.S. equipment. Political and commercial risk will challenge businesses well into the year 2000, so most should consider medium to long-term strategies for their activities in Kazakhstan.

Kazakhstan's power generation industry has deteriorated markedly since 1991. Although Kazakhstan's installed capacity was approximately 17,000 megawatts in the early 1990's, functioning capacity has dwindled down to less than 10,000 megawatts by mid-1998. This

decline was the result of several factors, including fuel shortages, breakdowns, and cannibalization of off-line equipment. Non-payment has also forced many power companies to reduce drastically the amount of electricity and heating provided. In 1998, output was 49 billion kilowatt hours, nearly a five percent drop from the 1997 figure. Consumption of electricity in the same period fell similarly, by four percent, although at 54 billion-kilowatt hours, it outstripped national production. The additional five billion-kilowatt hours was imported from Russia and neighboring Central Asian states.

Approximately 80 percent of Kazakhstan's energy generation--based largely on coal from the Ekibastuz and Karaganda regions--is centered in the north. At the same time, the north is also the largest user of electricity (nearly 70 percent of all electricity consumed) because the vast majority of Kazakhstan's electricity-intensive heavy industry is located there.

About two-thirds of Kazakhstani electricity production is generated at coal-fired plants. The remainder comes from petroleum-fired plants and seven hydroelectric stations. Forty-six of Kazakhstan's 54 coal/petroleum-fired plants supply electricity, heating, and hot water to nearby residences and industries during the winter. The remaining eight coal/petroleum-fired plants, the country's largest generating facilities, are devoted solely to electricity production.

Kazakhstan does not have its own power equipment manufacturing facilities, and Kazakhstani power stations companies traditionally have used Russian-made equipment. As the country has little experience with Western electrical equipment, U.S. companies will need to include an educational component in their marketing to raise awareness of the benefits of U.S. technology. The vast majority of Kazakhstani power generation equipment is out-of-date and in poor repair. Ninety-four percent of Kazakhstan's gas turbines, 57 percent of its steam turbines, and 33 percent of its steam boilers have been in use for at least 20 years. There will be opportunities for U.S. electrical equipment companies when existing facilities are eventually renovated and new plants are built. But much of these procurement opportunities will depend on significant U.S. and foreign investment in the sector. U.S. companies are advised that potential Kazakhstani importers of electrical equipment are extremely price-sensitive. The ability to secure trade financing will be a crucial aspect of any potential sale to Kazakhstan.

One U.S. company, AES, is active in Kazakhstan's power generation sector. The Virginia-based power generating company is a major U.S. investor in Kazakhstan, currently managing more than 30 percent of the country's power generating capacity. Since 1996, AES has invested more than \$150 million in the Kazakhstani power generation industry. In August 1996, AES purchased Kazakhstan's largest power plant--coal-fired Ekibastuz GRES-1--with a total production capacity of 4,000 megawatts or about 25 percent of Kazakhstan's total installed power-generating capacity. AES intends to upgrade the facility, which was operating at less than 20 percent capacity at the time of purchase, to up to 65-70 percent of its total capacity over the investment period. In the fall of 1997, AES purchased four combined heat and power stations and won concessions on two hydroelectric stations in East Kazakhstan Oblast, with a combined total capacity of more than 1,300 megawatts. In 1998, industrial and residential consumers estimated the company's losses at \$10 million for heating and \$16 million for electricity due to non-payment. In summer 1999, AES reached an agreement with the government, which, when implemented, will allow AES to take over management of several regional electricity

distribution companies as compensation for the government's debt to AES. AES' strategic commitment to the market is characteristic of the long-term approach needed in this challenging sector.

In the fall of 1996, the Belgian energy company, Tractebel, won a concession to manage Almatyenergo, the electricity provider to Kazakhstan's largest city, Almaty. While the company maintained electricity and heating supplies from 1996 to 1999, it was able to collect only 60-80 percent of its receivables. To cover renovation, reconstruction, and maintenance of its generating facilities, Tractebel has been trying to increase its rates since 1997, which drew public outcry especially among the pensioners who claimed that the increase would be more than their monthly pensions. Tractebel also faces resistance from the Kazakhstani State Anti-monopoly Committee. The fate of Tractebel's investment remains unclear.

The most pressing problem facing the strategic investors in the industry has been the difficulty in receiving payment for power supplied to industries, businesses, and households. The problem is caused by a poorly designed and poorly executed collection system, as well as from the still widely held Soviet belief that electricity and heat are "free."

The Kazakhstani electricity network is extremely inefficient. In 1995, losses during transmission and distribution were approximately 15 percent of energy produced; it is reasonable to assume that losses have increased, since little maintenance work has been done in last several years. Regional electric companies (RECs - power distributors) privatization has moved more slowly than generation assets, which is a reflection of the complexity of the issue and the politics that surround it. Only two out of 15 RECs, Almatyenergo and Karagandaenergo, have been privatized. Kazakhstani government plans to privatize the rest of the local distribution system in 1999 were postponed, but will represent a major strategic opportunity for U.S. investors when they are privatized. The REC's are generally in very poor condition and debt-ridden, thus both the number of bids and the value attached to them are likely to be less than would have been expected even one year ago. Kazakhstan maintains over 460,000 km of distribution lines, with voltages of 500, 220, 110, 35, and 10 KV. Given Kazakhstan's tremendous size, (four times the size of Texas) this presents significant opportunities for U.S. equipment suppliers who could follow on major investor acquisitions and management contracts. Continued regulatory issues, however, have discouraged investment in the grid. In 1998, the Kazakhstani Electricity Grid Operating Company (KEGOC), whose sole responsibility is to manage Kazakhstan's grid network, was identified as an impediment to further investment in the transmission network sector due to policies harmful to private electricity producers. For example, in 1998, KEGOC split the national grid into northern and southern networks that caused separation of the northern electricity suppliers, including AES, from their southern customers. The combination of KEGOC's high tariffs and customer non-payments is taking a heavy toll on power generation companies. In November 1999, former Finance Minister Zhandosov was appointed as the new President of KEGOC. It is as yet unclear whether KEGOC can evolve into an operating network that will allow the market to determine transmission tariffs. The path that KEGOC chooses will have important repercussions for future foreign investment in the energy sector.

The World Bank, The European Bank for Reconstruction and Development (EBRD), and USAID provide significant technical assistance and other support for the development of the

Kazakhstani power sector. Hagler Bailly, a USAID contractor, provides technical assistance to the Ministry of Energy, Industry, and Trade on possible modernization of the Kazakhstani power industry, including strategic issues, electricity pricing methodology, privatization of regional electric companies, and introduction of retail and wholesale competition. The World Bank plans to issue a \$100 million loan to KEGOC for upgrading the Kazakhstan transmission network. The EBRD has signed a loan agreement to provide \$40 million to the Karaganda Power Company and is currently considering other loans to foreign and domestic investors active in the market.

Power Industry Sector Statistics (\$ millions):

	1997	1998	1999 (est.)
Total market size	49.4	71.2	n/a
Total local production*	---	---	---
Total exports*	---	---	---
Total imports	49.4	71.2	n/a
Imports from the U.S.	0.75	1.8	n/a

*Note: total local production of electric power equipment is not significant and consists entirely of auxiliary equipment and spare parts. Exports are also not significant and largely consist of re-exporting to other CIS countries.

C. Sector Rank: 3

Sector Name: Telecommunications/Telecom Equipment

ITA Industry Code: TEL

Kazakhstan is planning an extensive, long-range effort to modernize its telecommunications network. U.S. companies should closely monitor this sector for trade and investment opportunities.

Kazakhtelecom, the national telecommunications operator for Kazakhstan, became one of Kazakhstan's largest companies upon its founding on June 17, 1994. As a natural monopoly, Kazakhtelecom controls all of the country's data communication networks and communication centers. Kazakhtelecom currently provides local, long-distance, and international telephone communication services. It also provides telegraph, e-mail, cellular, paging, and satellite communications as well as wire broadcasting throughout Kazakhstan.

In May 1997, the Kazakhstani government sold a 40-percent stake in Kazakhtelecom to South Korea's Daewoo Corporation. By February 1998, Daewoo quietly sold three-quarters of its holdings to Kazkommertsbank, a large Kazakhstani private bank. Kazkommertsbank sold 10 percent of its Kazakhtelecom shares mainly to Western investors and held the remaining 30 percent, which Kazkommertsbank hoped to sell off to a "strategic partner" with experience in the development and operations of telecommunication networks.

Kazakhtelecom has begun a national program to modernize the Kazakhstani telecommunications system. Kazakhtelecom aims to provide a unified information environment based on the latest telecommunication technologies, integrate existing international information networks into the new system, and provide modern telecommunications services to the public, government authorities, and the business community. Areas to be modernized in the framework of this program include: wireless communications, paging, and trunk communications.

The modernization program also includes: card payphones; construction of three international switching centers (Astana, Almaty, Aktyubinsk); construction of four long-distance telephone exchanges (Aktyubinsk, Semipalatinsk, Taraz, Uralsk); and, construction of fiber optical lines. Kazakh Telecom also plans to modernize its rural telecommunications networks using digital telephone exchanges.

In March 1999, GSM-standard cellular phone service was introduced in Kazakhstan. Two GSM operators emerged in the Kazakhstani telecommunications market--K'cell--a Kazakhstani-Turkish joint venture between Kazakhtelecom (49 percent of shares) and Turkcell (51 percent of shares); and K-Mobile--a joint venture between the Kazakhstani company Investel (30 percent of shares) and Turkish Rumeli Telecom (70 percent of shares).

The long-awaited arrival of GSM to Kazakhstan has resulted in strong downward pressure on AMPS standard-based cellular equipment and services in Kazakhstan, provided to almost 30,000 subscribers by Altel, a Kazakhstani-British joint venture with Wireless Technology Corporation (UK). The launching of two competing GSM operators resulted in lower prices and new services for Altel customers, which opened the door for cellular communications services to an emerging Kazakhstani middle class. Compared to the existing Kazakhstan analog telecommunications standard, GSM's digital standard has a number of advantages: low cost air time; free incoming calls; confidentiality; noise immunity; high quality voice transmission; and, international roaming.

Along with Kazakhtelecom, a number of other telecommunications service providers operate in the Kazakhstani market: Kazinformtelecom (KIT), Nursat, Jarykh, SA Telcom, and KAZINTEL. KIT, a joint stock company organized in April 1994, provides the following services: connection to the Internet (e-mail, digital-mail services); connection to the Infotel international network; and an international Intelsat-based satellite communications network. KIT is developing projects to provide satellite communications and connections to hotels and business center networks worldwide. KIT, together with a U.S. investor in a defense conversion project, established the joint venture Nursat. Nursat provides e-mail, digital-mail, video conferencing and voice communications. Jarykh provides a number of services, including satellite communications, Inmarsat, paging and satellite television. SA Telcom offers leased channels and data transmission as well as satellite communications. KAZINTEL unites three well known Kazakhstani companies--Arna, Astel, and Ratel. Arna is the operator of local telephone communications in Almaty; Astel operates data transmission throughout Kazakhstan; and Ratel operates satellite communications systems in Kazakhstan. According to KAZINTEL's President, merging the three companies will integrate communications services to reduce expenses and increase the quality of management decisions. Finally, a Kazakhstani-Turkish joint venture called Vesnet was established in 1992 to produce digital telephone exchanges.

The Trans Asia-Europe Optical Fiber Cable (TAE) project was begun in August 1995. This international fiber-optics communication line will connect China, Central Asia, Iran, and Turkey with the European continent, with future outlets to the U.S. via Japan. In 1998 the southern branch of TAE (1750 km) went into operation, and construction of the western branch (2500 km) began in April 1999. U.S. firms should watch for contracting and sub-contracting opportunities.

The rapid and successful development of telecommunications in Kazakhstan has already encouraged several foreign manufacturers and suppliers to establish a presence in this emerging market. Such companies as Motorola, Lucent Technologies, Ericsson, Siemens, Alcatel, Nokia, Daewoo, and Nortel are presently active in Kazakhstan. High demand for telecommunications products comes from the following sectors: aviation, oil and gas, power generation, banking, and mining.

Telecommunications Sector Statistics

	1997	1998	1999 (estimates)
Total market size	\$46.4m	\$55.4m	\$79.1
Total local production*	--	--	--
Total exports	\$0.9m	\$0.8m	\$0.9m
Total imports	\$47.3m	\$56.2m	\$80m
Imports from the U.S.	\$3.6m	\$6.25m	\$8m

* Local production is not significant, and comprises mostly of producing telephones sets, telephone exchanges, cables and wires.

-- There are 1.8m lines: urban - 1.5 mn, rural - 0.3 mn (1999)

-- telephone density per hundred people in urban area is 16.4 and 6.3 in rural area (1999)

D. Sector Rank: 4

Sector Name: Mining Industry

ITA Industry Code: MIN

Kazakhstan, four times the size of Texas, boasts one-third of the world's chromium and manganese deposits and has substantial reserves of other minerals such as: 50% of the former Soviet Union's tungsten and lead; 40% of its zinc and copper; and 25% of its bauxite, silver, and phosphorus.

Kazakhstan is also the largest producer among NIS countries of beryllium, tantalum, barite, uranium, cadmium, and arsenic. Kazakhstan was a major producer of copper, lead, and zinc for the Soviet Union. Existing copper operations are large, such as at Dzhezkazgan and Balkhash. Geological studies indicate that there are opportunities for U.S. companies interested in copper in these regions and in other parts of the country. Large iron mines are located in the north. Large reserves of coal are found in the central and northern parts of the country. Kazakhstan also contains large reserves of phosphorus ores.

There is good gold mining potential in Kazakhstan. Newcomers to the market usually target gold, since it is easily transported out of the country and easily sold. Most of the current

production of gold and silver comes as a by-product from base metal production, but there are also gold deposits that are significant in their own right. It has been estimated that there are 23 gold-bearing regions in Kazakhstan. Industrial diamonds and semi-precious gemstones are also mined in Kazakhstan.

Another opportunity for U.S. investment lies in processing of tailings or slags following the production of both base and precious metals. Soviet industrial methods resulted in high precious metal loss during processing. The processing of tailings for precious metal values can be especially attractive for U.S. firms, since capital investment is much smaller than for opening an entire mining complex.

More than half of Kazakhstani mining, processing, and smelting enterprises use outdated equipment that is often in need of repair. Most lack environmentally friendly technologies. Kazakhstan does not have its own mining machinery industry, and relies mainly on Russian imports. U.S. mining equipment firms should explore trade opportunities in used and refurbished equipment, as potential Kazakhstani buyers are quite price sensitive, given the availability of cheaper (albeit poor quality) Russian equipment.

The government began to privatize state mining companies in 1994. By July 1998, virtually the entire sector had been privatized. The Kazakhstani mining industry lost some of its traditional markets with the breakup of the Soviet Union, and is a relative novice in the international marketplace.

Although a number of business opportunities in mining exist, U.S. companies are advised that there are serious obstacles and pitfalls in this sector. The single biggest obstacle is the lack of a Western-style mining code in Kazakhstan. In this sense, such issues as recognition of title, validity of contracts, mechanisms to resolve disputes, and red tape make contract law, in general, a significant risk factor. The second problem faced by investors is the vague tax regime specifying the arrangements for taxes on imported capital equipment, royalty arrangements, and taxes on exports. Political and commercial risk remains an issue for foreign mining companies, particularly the potential for arbitrary decisions, unclear criteria for awarding licenses, or ambiguous processes to negotiate deals. Several foreign investors have experienced non-payment for everything from services to equipment; extensive due diligence is a must.

Falling prices for precious metals, poor implementation of existing foreign investment legislation, difficulties faced by foreign investors in Kazakhstan, and the real and perceived risks of investing in this potentially-lucrative sector have not allowed the Kazakhstani mining industry to achieve its potential.

The Kazakhstani government is working to improve the outlook for Kazakhstani mining. The mechanism for granting exploration licenses has been simplified, but implementation remains a problem. The procedure for obtaining environmental permits is being streamlined.

Mining Industry Sector Statistics

	1997	1998	1999(estimates)
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Total market size	\$158.9m	\$135.5m	\$130.8m
Total local production	\$371m	\$213m	\$205.6m
Total exports	\$244.6m	\$105m	\$101.4m
Total imports	\$32.5m	\$27.5m	\$26.6m
Imports from the U.S.	n/a	n/a	n/a

(Source: Kazakhstani Committee on Statistics and Analysis)

E. Sector Rank: 5
Sector Name: Architecture/Construction/Engineering Services
ITA Industry Code: ACE

Most of the activities in ACE services are devoted to four areas: building the new national capital, Astana; oil and gas exploration, processing, and transportation; mining; and road and airport construction.

The transfer of Kazakhstan's capital from Almaty to Astana is a priority program under the personal supervision of President Nazarbayev. Projects associated with the move include the following: upgrading the Almaty-Astana motorway (900 kilometers); construction of a circular roadway around Astana; reconstruction of the Astana Airport; construction of business centers, a trade center, Western-standard hotels, and, residential construction. Projects underway in Astana include a new residence for the President (Mabetex, Swiss) and a building for the Ministry of Finance building (Basic A/FCH, Kazakhstani/U.S.). The estimated total cost for building the new capital is about \$6 billion. U.S. companies should note that getting remuneration for their services could be a problem.

To stimulate investment, the government will grant tax holidays to companies investing in housing and public utilities construction in Astana. Those investors will reportedly be exempt from paying income tax, land tax, and property tax for up to five years.

Needless to say, the construction industry serving Astana is growing quickly, and construction materials for Astana and its outlying regions are in short supply. Housing for government employees there remains in short supply.

While the tender process for construction projects tends not to be open or transparent, U.S. companies are advised to watch for tender announcements and submit proposals. Turkey has been very active in Kazakhstan, with more than ten Turkish construction firms presently operating in the country.

The EBRD, Asian Development Bank (ADB) and the Islamic Bank have agreed on a number of projects for the rehabilitation of the Almaty-Astana motor way. The road is being built in four sections:

- 1) Almaty-Gulshat- EBRD - \$40 million (tender TBA);

- 2) Gulshat-Akchatua- ADB - \$34 million (Balfour-Beatty)(British) and Mensel (Turkish);
- 3) Akchatau-Karaganda - EBRD - \$50 million (tender TBA);
- 4) Karaganda-Astana - Islamic Bank - \$75 million (tender TBA).

U.S. firms should watch for tender announcements for both goods and services.

In the oil and gas sector, U.S. engineering firm Bechtel is undertaking a de-bottlenecking project in the Tengiz oil field, a land infrastructure project at the Karachaganak gas field, and an EBRD-financed Aktau seaport reconstruction project. Halliburton is completing an U.S. Department of Defense contract to dismantle land mines at the Baikonur Space Center. Many engineering projects are expected in the oil and gas sector, especially in pipeline construction. Such projects will require engineering and construction services. U.S. companies are advised that oil and gas contracts in exploration, drilling, producing, processing and transport are usually awarded in London or Houston, where contractors and sub-contractors are identified.

The need for construction materials provides another opportunity for U.S. companies. Only 47% of the construction materials used in Kazakhstan are available domestically. Locally produced materials include cement, bricks, wooden doors, windows, steel doors, and soft and iron roofs. All other materials are imported, mainly come from Turkey, China, and Germany.

The Kazakhstani government strongly encourages U.S. companies to hire and train local workers. In 1998 a rather cumbersome work permit system was put into place to discourage importing foreign labor. A quota system will enter into effect on January 1, 2000, which will limit the total number of work permits granted to foreigners by job category and geographic region. The exact method of implementation is as yet unclear.

Architecture/Construction/Engineering Services Statistics*

	1996	1997	1998
Total market size	n/a	n/a	n/a
Total local production	n/a	n/a	n/a
Total exports	n/a	n/a	n/a
Total imports	n/a	n/a	n/a
Imports from the U.S.	\$0.39m	\$0.31m	\$0.34m

* No Kazakhstani data is currently available for this sector.

F. Sector Rank: 6

Sector Name: Computers and Peripherals

ITA Industry Code: CPT

The Kazakhstani computer market is growing to meet increased demand. The government has a need for automation of its financial institutions, customs, ministries, and educational institutions. There have been a number of tenders announced for the procurement of computer equipment, some of which are projects of the World Bank and Asian Development Bank. An increasing number of domestic businesses also require the latest in information technologies and equipment.

Among the U.S. manufacturers representing the Kazakhstani computer market are: IBM, Dell, Sun Microsystems, Apple, Compaq, and Hewlett-Packard. Main foreign competitors include LG, Daewoo, Samsung, and Hyundai.

There is a growing market in Kazakhstan for computer spare parts. Given economic considerations, some local computer companies specialize in assembling computers from imported spare parts to make their products less expensive and to avoid customs duties (0.2%), VAT (20%), import tax (5%), etc.

Computers and Peripherals Sector Statistics*

	1996	1997	1998
Total market size	n/a	n/a	n/a
Total local production	n/a	n/a	n/a
Total exports	n/a	n/a	n/a
Total imports	n/a	n/a	n/a
Imports from the U.S.	n/a	n/a	n/a

* No data is currently available for this sector.

G. Sector Rank: 7
Sector Name: Medical Equipment
ITA Industry Code: MED

Kazakhstan's health care industry has suffered considerably since the collapse of the Soviet Union. The slow transition from a government-controlled health care system to an open one is proving especially difficult due to Kazakhstan's economic problems. A sharp decline in the quality of medical services and the lack of such basics as sanitary facilities, running water and electricity put medical equipment low on the priority list of many hospitals.

However, in 1998 the GOK identified health care as a priority sector and launched the "Health of the Nation" program. The program encompasses many aspects of health care--three of critical importance. They are as follows: 1) the development of a long-term strategy for environmental improvements in regions where the health of citizens is at risk because of damage from nuclear testing and overuse of pesticides; 2) a special effort to overcome the rapid spread of tuberculosis and other infectious diseases; and, 3) the improvement of primary health care and infant care.

Currently, the health care industry is financed through the state budget by credit lines from international banks and by grants from Japan and the U.S. As a consequence, U.S. companies interested in procurement opportunities are urged to monitor projects funded by international financial institutions that assist Kazakhstani health care providers.

In May 1999, the GOK signed a \$42.5 million loan agreement with the World Bank to restructure Kazakhstan's health care system. The healthcare project includes as one of its components the procurement of medical equipment for primary health care and hospitals in Kazakhstan.

According to Kazakhstan's "Law on State Procurement," all medical equipment for public health care institutions shall be purchased only via tender. Each city and oblast in Kazakhstan has government funding for medical equipment, supplies, and pharmaceuticals to be procured through a tendering program. However, these opportunities diminish every year. For example, only \$7.5 million was earmarked for medical equipment in the FY 1999 federal budget.

The lack of domestic production in Kazakhstan has resulted in a total dependency of Kazakhstani importers on Russian-made medical equipment. New state-of-the-art Western medical equipment and supplies are becoming more known and popular among Kazakhstani doctors. Market dynamics have shown that Kazakhstani consumers of medical and dental devices have started to shift from purchasing inexpensive, poor-quality Russian equipment to more costly and better quality Western-made equipment.

"The simpler, the better" sums up what many consider to be the best market-entry strategy for Kazakhstan. Low cost and minimal maintenance are key concerns of Kazakhstani medical equipment importers. U.S. companies are counseled to arrange for flexible discounts and privileges for medical equipment buyers in the form of leasing, lines of credit, and extended payment schedules.

U.S. companies should become familiar with Kazakhstan's requirements for registering, licensing, and certifying medical equipment. Moreover, any U.S. company interested in entering the Kazakhstani market might want to consider shipping manufactured parts to Kazakhstan for final assembly in order to achieve a significant edge over foreign companies that supply more expensive finished products.

The best prospects for U.S. exports include the following types of medical products and equipment: dental equipment and supplies, disposable items, surgical instruments and appliances, laboratory equipment and supplies, diagnostic and monitoring systems, ophthalmologic instruments and appliances, and manufacturing lines for pharmaceuticals production.

American medical equipment firms with a presence in Kazakhstan are the medical divisions of 3M and General Electric. Local dealers represent other U.S. companies. These companies are: Medtronic, Beckman, A-DEC, and Hewlett-Packard. Foreign firms currently active in Kazakhstan include: Siemens, Phillips, Toshiba, and Mitsubishi.

Medical Equipment Sector Statistics

	1997	1998	1999
Total market size	\$14.6m	\$14.3m	n/a
Total local production	n/a	\$0.001m	n/a
Total exports	\$0.7m	\$0.2m	n/a
Total imports	\$15.3m	\$14.5m	n/a
Imports from the U.S.	\$1.1m	\$2.9m	n/a

Source: National Statistics Agency of Kazakhstan

The Embassy is closely monitoring several sectors for possible inclusion in next year's Country Commercial Guide. U.S. companies may wish to explore the following potential niche markets:

H. Sector Rank: 8

Sector Names: Processed Food/Food Processing and Packaging

TA Industry Code: FOD/FPP

A surge of imported food products is meeting the growing demand of Kazakhstan consumers, especially for candies, cakes, potato chips, etc. This presents opportunities for U.S. firms. U.S. companies active in this sector are usually big multi-nationals who are able to work through their European-based branches. Transportation costs and in-country logistical problems present greater challenges for small to medium-sized U.S. companies. The U.S. Commercial Service published an Industry Sector Analysis (ISA) on Processed Foods in summer 1998.

MEAT PROCESSING:

The meat processing industry traditionally has been one of Kazakhstan's major agro-industries. In 1991, some 850,000 tons of meat and 150,000 tons of meat products were processed in Kazakhstani plants. The industry comprises almost 1,300 enterprises, but is dominated by approximately 50 large firms. Meat remains a highly popular food in Kazakhstan. Because of extensive grazing land, Kazakhstan has a comparative advantage in livestock production.

In July 1998, American meat processing company Koch (Kansas) established a joint venture with a Kazakhstani partner. Besides operations in Astana, the company is supplying processing lines to facilities in Chromtau, a mining town in the north. The processing lines cost between one and two million dollars each. There is also tremendous potential demand for smaller-scale equipment in the \$100,000 - \$200,000 price range among the numerous small firms that process meat. There is some foreign competition from German and Turkish meat-processing companies.

DAIRY:

Dairy processing is growing quickly in Kazakhstan. One local Kazakhstani company, FoodMaster, has expanded rapidly in the last few years and now sells its dairy products throughout much of southern Kazakhstan. There is considerable room for further growth, however. This company and others in the dairy business could provide markets for dairy processing equipment imported from the U.S.

VEGETABLE AND FRUIT PROCESSING:

No more than 10% of Kazakhstani vegetable production and 20% of fruit production is processed by local industries. Instead, vegetables and fruits are preserved by individuals in their homes. In 1991, there were 98 vegetable and fruit enterprises employing 5,500 people in Kazakhstan. Far fewer survive today. Most enterprises are relatively small. Eight large enterprises account for almost 90% of commercial production and employ 80% of all workers. Most are canning operations; there is only one frozen food factory.

Kazakhstan has large vegetable and fruit storage facilities: over 500,000 tons of potato storage, 220,000 tons for other types of vegetable storage and 90,000 tons for fruit. Most of these facilities have inadequate ventilation and cooling systems and, as of June 1999, were only partially utilized. There is considerable foreign competition from the Swedish firm, Tetrapak, in the juice processing industry.

SUGAR:

Eight factories produce sugar in Kazakhstan. In 1991 output from these factories was approximately 300,000 tons of granulated sugar, although only 20% came from locally-grown sugar beets --Kazakhstan used imported raw sugar for the remainder. The industry cannot meet domestic requirements even at the much reduced consumption levels of 1998. Significant opportunities for U.S. equipment sales exist in the sugar industry.

BEST PROSPECTS FOR AGRICULTURAL PRODUCTS:

There is a growing demand for meat and poultry goods in Kazakhstan, particularly higher quality imported products. One U.S. company supplying beef and pork sausages to Russia is seriously exploring market opportunities in Kazakhstan. The volume of trade in poultry products is increasing: chicken from the U.S. has become quite popular in the past few years.

Kazakhstani agricultural companies bought approximately five million dollars worth of soybean meal from the U.S. in 1998. A portion of the soybeans will be crushed into meal for poultry feed (some enterprising Kazakhstanis are starting poultry farms to meet the demand for poultry mentioned above). The remainder will be used to produce vegetable oil, another sought after commodity.

Kazakhstan's vast grain-growing areas hold potential for U.S. farm equipment, as well as for fertilizer and pesticides. In 1996, John Deere sold more than \$115 million dollars worth of grain combines and cotton pickers to a Kazakhstani company. The deal was only possible because of payment guarantees by the government, however. In fact, Kazakhstan's agricultural sector remains extremely depressed; most Kazakhstani farmers are heavily in debt, and very few have money to pay for U.S. goods. A recently announced program to privatize agriculture will go a long way toward putting the sector on firmer footing, thereby enabling farms to source needed inputs with credit from banks. When privatization takes hold, U.S. suppliers are likely to find their products in high demand. In anticipation of this, U.S. companies would be well advised to closely monitor the pace of reform in the agricultural sector.

Note - See above for opportunities in Kazakhstan's food processing and packaging sector.

VI. TRADE REGULATIONS AND STANDARDS

A. Trade Barriers, Including Tariffs, Non-tariff Barriers, and Import Taxes

1. Structural barriers: shortage of domestic capital to finance investment and imports, lack of an effective judicial process for breach-of-contract resolution, logistical difficulties of serving the Kazakhstani market, and, despite a rationalization in the number of government bodies in August 1998, an unwieldy government bureaucracy. The current governmental organization scheme is set out in a Presidential Decree "On the Structure of the Government of Republic of Kazakhstan" signed on October 12, 1999.
2. Service barriers: Foreign insurance companies are limited to operating in Kazakhstan through joint ventures with Kazakhstani companies. A number of U.S. firms offering accounting and legal services operate in Kazakhstan. New amendments to the oil and gas law require that oil companies purchase services only from Kazakhstani companies unless the required service is unavailable in Kazakhstan.
3. Investment barriers: There is a severe lack of capital in domestic enterprises for servicing loans and a lack of capital to meet equity percentages in joint ventures. In addition, foreign firms currently cannot purchase land. Firms can obtain leasing rights to land only through a domestic partner and for a maximum of 99 years. Kazakhstani authorities often insist that U.S. firms invest in social programs for the communities in which they work.
4. Tariffs: Kazakhstan has no export tariffs. A new government resolution was issued in June 1998 that reduces the overall average trade-weighted import tariff rates from approximately 12% to 9%. The low average import tariffs are due to the fact that trade with Russia--Kazakhstan's major trade partner--is duty-free pursuant to the Customs Union agreement. However, in the first quarter of 1999 several punitive duties were imposed on a number of products imported from Russia, the Kyrgyz Republic and Uzbekistan. These were described as temporary measures to protect domestic producers and most were removed in June 1999. Merchandise from CIS and non-CIS countries are subject to a value-added tax (VAT) of 20% at the time of importation. In addition, Customs levies a 0.2% import processing fee, based on the declared value of the item. In July 1998 the Tax Code was amended, so that VAT applied on agricultural products and foodstuffs was reduced from 20% to 10%, while pharmaceuticals were exempted from VAT.

B. Customs Procedures

Kazakhstan's customs valuation rules largely conform to the WTO Valuation Agreement. In June 1997, Kazakhstan adopted HS 96 as its tariff nomenclature. Foreign firms can import some items for their own use duty-free. Article 22 of the 1994 Foreign Investment Law exempts equipment and spare parts from customs duties which are imported by a foreign investor as a contribution to the charter capital of an "enterprise with foreign participation" (defined as a Kazakhstani legal entity, such as a limited liability company, in which the foreign investor has an ownership interest). Generally, Customs requires that imported goods be placed in a temporary

storage warehouse operated by a Customs-licensee pending clearance, a procedure that importers claim can add significant costs and delays to customs processing. U.S. firms have noted the problem of the need to present “transaction passports” to document procurements and bank transfers, in order to clear their goods with Customs (See E below). Although customs declaration procedures were successfully introduced in 1998, implementation of regulations allowing periodic declarations remains problematic.

C. Import Licenses

The Kazakhstani government has removed the need for import and export licenses on most commodities. However, for health and security reasons, a number of imported commodities, such as pesticides, medicine, drugs, nuclear materials, weapons, certain chemicals, and industrial waste, are subject to licensing requirements.

D. Export Controls

Kazakhstani export control laws and regulations are in the early stages of development. With U.S. assistance, Kazakhstan is working to improve its export controls on military and dual-use technology, and on sensitive/strategic materials. The Ministry of Energy, Industry and Trade has responsibility for the issuance of export licenses, however, other relevant ministries concerned with the goods must also concur in the issuance.

E. Import/Export Documentation

Importers and exporters are required to file a customs declaration, which is based upon the European Union Single Administrative Document, as well as a commercial invoice and shipping documents (e.g., bill of lading, airway bill, etc.). Customs may also require that importers submit a contract for the supply of goods, a certificate of origin, and a certificate of conformity, depending upon the circumstances of the importation. As a result of a 1997 regulation, Customs also requires submission of a “transaction passport,” a document intended to enable the National Bank and Customs to monitor the use of funds in import-export transactions. Uncertainty about requirements for documents for particular shipments has been a frequent source of complaint by importers. The State Customs Committee has been taking steps to simplify these procedures. Reforms are slow, however. (See Chapter VII, (A.5))

F. Temporary Entry

Certain goods that are imported temporarily are exempt from payment of Customs duties and taxes. These include transport vehicles, professional equipment, goods imported for demonstration purposes, shipping containers, and advertising materials. Such goods may remain in Kazakhstan for one year duty-free. The period may be extended by Customs, subject to the importer's payment of 3% of the duty chargeable for each calendar month that the goods remain in Kazakhstan beyond one year.

A firm importing goods for a temporary period should provide Customs with documents containing a description and value of the goods, and a written confirmation stating that the goods will be sent out of Kazakhstan after a defined period.

With some exceptions, all other goods may be imported temporarily for a period of two years under a partial duty exemption. The amount of duty payable is also equivalent to 3% of the duty chargeable for each calendar month. Goods not eligible for full or partial duty exemption are food products, industrial waste, and consumable materials.

G. Labeling/Marking Requirements

Government observance of old Soviet standards, testing, labeling, and certification requirements is uneven. Such requirements constitute a barrier when they differ significantly from U.S. and Western standards. Starting April 1, 2000 Kazakhstan will ban the sale of certain products not labeled in both the Kazakh and Russian languages. For a complete list of goods that are exempted from the labeling requirements, contact the U.S. Foreign and Commercial Service at the U.S. Embassy in Almaty.

H. Prohibited Imports

According to Kazakhstani law, “printed or graphic material intended to undermine state and public systems, or promote war, terrorism or pornography” is prohibited. Narcotics, firearms, and other dangerous goods can be imported, subject to licensing.

I. Standards (e.g. ISO 9000 Usage)

In November 1996, the U.S. National Institute of Standards and Technology signed a Memorandum of Understanding with the Kazakhstani government to bring Kazakhstani metrology methods in conformity with international rules and practices. While Kazakhstan has sought to bring standards in line with WTO regulations, these reforms are uneven.

J. Free Trade Zones/Warehouses

See Chapter VII, E.

K. Special Import Provisions

According to the February 1997 Law on State Support for Direct Investment, Chapter II, Article 7, imported goods — equipment, raw and other materials--can qualify for complete or partial exemption of duty if the goods are used as an investment in designated “priority sectors” of the economy. In addition to other so-called “priority sectors,” this provision applies to all imported goods related to construction of the new Kazakhstani capital at Astana. (See Chapter VII (A) for more information on investment in “priority sectors.”)

In April 1997 the Ministry of Finance announced that enterprises that import consumer goods used in industrial processing will be granted a three-month grace period in paying VAT taxes.

Of these companies, those that regularly import such items may be granted a one-year grace period in paying VAT taxes.

L. Membership in Free Trade Arrangements

Kazakhstan is a member of a Customs Union with Russia, the Kyrgyz Republic and Belarus. Under the provisions of the Customs Union, trade between these four countries is free of customs duties. In 1996 and 1997 trade with Russia was complicated by the fact that Russia levied a VAT (approximately 20%) on exports, while Kazakhstan, after revising its trade regime to follow common practice in the West, levied a similar VAT on imports. Therefore, exports from Russia to Kazakhstan were subjected to VAT taxes twice. In 1998 a solution to the 'double VAT' problem between the two countries was reached. During 1998, Kazakhstan agreed to temporarily charge a VAT only on exports to Russia, to give Russia time to draft new VAT legislation. Starting January 1, 1999, the two countries intended to switch to charging VAT on imports. However, as of January 2000, Russia had not yet amended its legislation as agreed, and continues to assess the VAT on exports.

VII. INVESTMENT CLIMATE

A.1. Openness to Foreign Investment

Shortly after declaring its independence from the Soviet Union in 1991, Kazakhstan began a series of broad-based reforms in an effort to move from a planned economy to a market economy, and to attract foreign investment. These reforms include: de-monopolization, privatization, debt restructuring, banking reform, lifting profitability controls, price liberalization, establishing a securities and exchange commission, trade liberalization, enacting laws on investment, setting up an adequate government procurement process, customs reform, and tax reform.

Although the Kazakhstani government has made great strides in improving foreign investment legislation, key concerns remain, including the vagueness of laws, contradictory legal provisions and poor implementation, especially at the local level of government. For instance, the lack of clarity in tax laws allows for creative interpretations by the Tax Police and other government agencies. Customs always presents challenges to foreign firms. Customs officials often interpret Customs regulations arbitrarily. Government downsizing and the move to the new capital, Astana, have seriously compounded problems surrounding implementation of legislation. The State Agency on Investments, established in late 1996 and advertised as a "one-stop shop" for foreign investors, has had a mixed record in its attempts to resolve investment issues. In 1999, in an effort to raise the profile of foreign investment issues within the government, President Nazarbayev promoted then-Foreign Minister Tokayev to the rank of Deputy Prime Minister and gave him specific responsibilities to attract foreign investment and resolve investment disputes. Tokayev was subsequently chosen as Prime Minister after his predecessor resigned in October.

Beginning in 1997, there has been a trend to grant preference to domestic investors over foreigners in most state contracts. September 1999 amendments to the oil and gas law requiring oil companies to use local goods and services represent an extension of this trend. President

Nazarbayev has complained publicly that previous privatizations were executed too quickly and did not allow for the involvement of domestic investors. Other government officials have further expressed the need to “protect” domestic producers from outside competition. However, it is unclear whether domestic investors have the medium-to-long term financial capacity to support major projects and whether domestic investors have the strong management and technical skills to rejuvenate largely bankrupt Kazakhstani industries. To help develop local industry, the government enacted changes to legislation, published September 1, 1999, requiring all oil and minerals companies to use domestically produced goods and services when available.

In recent years, the Kazakhstani government has enacted four major pieces of legislation affecting foreign investment. These are: 1) The Law on Foreign Investment, 1994 (amended in July 1997); 2) The Tax Code of 1995; 3) The Law on State Support for Direct Investment, 1997; 4) The Law on Government Procurement, 1997.

Poor implementation of these laws and reforms remains the key obstacle to business in Kazakhstan. Important concerns remain, for example, in the area of government tenders, despite new legislation and government promises that tendering will be conducted in an open and fair manner. Tenders are sometimes issued just a week ahead of the application deadline, thereby limiting competition.

The main features of the Law on Foreign Investment (as amended) are:

- Guarantees with regard to non-expropriation, profit repatriation, currency convertibility, and national treatment;
- Clear and unequivocal access to international arbitration in the event of a dispute between a foreign investor and the State;
- The automatic consent of the State to the dispute settlement option selected by a foreign investor;
- A definition of investment dispute that embraces authorized official bodies;
- An expanded definition of foreign investment (which includes rights to undertake activities based upon a license) that reflects an open policy towards encouraging investment;
- A compensation regime for expropriation due to ultra vires actions by State officials;
- A choice of law options for employment agreements between foreign investors and their foreign employees in Kazakhstan;
- A guarantee that only those state bodies permitted to carry out examinations of foreign investor operations should do so.
- Exemptions from customs duties for equipment and spare parts imported into Kazakhstan for the charter fund of an enterprise with foreign participation, as well as for personal

property imported into Kazakhstan by foreign personnel of an enterprise with foreign participation; and

--A 10-year stability guarantee in the legal regime applicable to all foreign investors except those engaged in (I) the importation, production or sale of goods excisable in Kazakhstan, and (ii) the importation of finished products into Kazakhstan for the purpose of re-sale in Kazakhstan. Investments made under long-term contracts (over 10 years with authorized state bodies), enjoy this guarantee until the expiration of the contract, unless otherwise specified by the contract itself.

The Law on Foreign Investment was amended in April 1998 to include an anti-avoidance clause with respect to contributions to charter capital. This is primarily to prevent abuse of duty exemptions permissible under Article 22 of the same law. Independent experts can be called in under certain circumstances to verify that that no such “avoidance” is taking place.

Contracts between foreign nationals and Kazakhstani citizens must meet the requirements laid out in Article 24(2) of the investment legislation. Such contracts must address labor conditions. These are negotiated by the parties and included in the contract. The conditions agreed must meet the standards set out in Kazakhstani labor legislation, Article 25(3).

The February 1997 Law on State Support for Direct Investment was enacted to stimulate additional investment, both foreign and domestic, in “priority sectors of the economy.” Currently, these priority sectors include: infrastructure (including electrical infrastructure and telecommunications); light manufacturing; high-yield varieties of crops, livestock, fertilizers and pesticides; social sector investments, including investment in the health, education, sports, and tourism sectors; and investments connected to the transfer of the capital to Astana. These sectors may be subsequently modified with the approval of the President. As inducements to stimulate additional investments in these sectors, various forms of tax and customs exemptions, together with contributions of real property by the government, may be negotiated with the Agency for Investments.

Incentives include:

--Up to 100% tax relief on the first five years of the investment;

--Up to 50% tax relief on the second five years of the investment; and

--Partial or full customs duty exemptions on equipment and raw materials needed for the investment.

Kazakhstan's generally liberal investment regime means that no sectors of the economy are closed to investors. The Government of Kazakhstan remains both an implicit and explicit player in attracting foreign investment. Government officials, sometimes at the highest level screen foreign investment proposals. Major projects, such as the Caspian offshore production sharing agreement (PSA) and the Karachaganak PSA, bear the President's personal imprimatur. The screening process itself is not a significant impediment to investment in terms of limiting

competition or protecting domestic interests. However, the process is often non-transparent and can slow investment decisions.

In August 1997, Kazakhstan enacted the Law on Government Procurement, largely based on the UNCITRAL Model Government Procurement Law and the WTO Government Procurement Agreement. The new government procurement system replaced a system that was discriminatory and non-transparent. The new law provides Kazakhstani procuring entities with various competitive bidding options, including open and closed tenders. The law also establishes a more transparent government procurement process (bidding, review of bids, and contract award) and gives companies opportunities for administrative and judicial appeal. The law does not contain any discriminatory measures such as “offsets” and “margins of preferences.” The Kazakhstani government, moreover, has declared its intention to join the WTO Government Procurement Agreement, a binding international commitment to ensure transparency and non-discrimination in the government procurement process.

The supervising body is the Agency for State Procurement, established by Presidential Decree in December 1997. Although the new government procurement process is significantly better than its predecessor, there are a number of provisions in the law that contradict the principle of equal treatment and allow procuring entities to provide preferences to domestic suppliers. Article 25(1) of the Law on State Procurement (16 July 1997 No. N163-1, as amended December 9, 1998) states that, “potential domestic suppliers, including small businesses, when defining a winning bid, shall have priority of preference--procedure for granting such priority preferences shall be determined by the Government.” It is therefore not a question of possible discrimination but mandatory discrimination in state purchases.

Kazakhstan's Tax Code, enacted in April 1995, is considered by tax experts to be among the most comprehensive in the NIS. In general, taxes are applied universally within the Code, allowing only a limited set of exemptions. The Code essentially applies the international model of taxation, which is based on the principles of equity, economic neutrality and simplicity. In December 1996, a treaty on the Avoidance of Double Taxation between the United States and Kazakhstan came into force. A number of treaties on the avoidance of double taxation were ratified in 1998, including with the Czech Republic, France, Sweden, Bulgaria, Turkmenistan, Georgia, South Korea, Germany, Belgium and Mongolia. On the negative side, however, the administration of the Tax Code and the tax treaty is not as efficient, transparent, or consistent as it should be. There is a broad recognition of this by the Kazakhstani government, though, and a program to reform the system of tax administration is currently underway. However, U.S. and foreign firms often complain of harassment by the tax police via unannounced inspections and other methods. In 1998 the government limited the number of visits which can be made by government bodies in the course of a year to small businesses, but tax inspections were unfortunately excluded from the limitation. The government plans to amend the tax code in 2000.

Since 1995, the government has wholly privatized many large-scale companies and sold majority shares in those companies to foreign investors. Privatization moved ahead quickly in 1996 and into the summer of 1997 in all sectors of the economy, including oil and gas, power generation, coal, and telecommunications. In early 1998, however, citing low oil prices, President

Nazarbayev announced the government would suspend future privatizations in the oil and gas sector. However, the suspension would not affect contracts already under discussion; for example, offshore blocks in the Caspian.

The Foreign Investment Law provides for, inter alia, guarantees for national treatment and non-discrimination among foreign investors. Generally, Kazakhstan does not restrict investment in any sector and it does not subject foreign investment to any prior authorization requirements.

Despite the general guarantee, there exists at present at least the formal possibility of denial of national treatment in the petroleum and subsurface utilization (minerals) sectors. Recent amendments to the laws regulating these activities, published September 1, 1999, require investors to contract with Kazakhstani service-providers, and to purchase Kazakhstani equipment, goods and raw materials so long as these meet the requirements for participating in government tenders. The law requires that an unnamed government body review all service contracts to ensure compliance with these requirements; however, implementing regulations to the law have not been issued and it remains unclear how these requirements will be implemented. The requirements may be challenged prior to Kazakhstan's hoped-for WTO accession negotiations since they appear to breach GATT and GATS rules and the Agreement on Trade Related Investment Measures.

By law, foreign investors are allowed to participate in all privatization projects, and are commonly allowed to do so at the initial stages of the privatization process. There appears to be no discrimination against foreign investors after an investment is made. However, many foreign companies state that they need to protect their investments from a never-ending barrage of decrees and legislative changes. Foreign investors also complain of arbitrary tax inspections and unanticipated taxes, problems with closure on contracts, delays and irregular practices in licensing, land fees, etc. Some foreign firms have expressed concern that government organizations fail to live up to their side of the contract (particularly regarding payment). This often prevents the foreign partner from moving ahead with its investment program. When this occurs, the investor is exposed to government charges of non-performance and the increasingly real possibility that the government will cancel the contract.

U.S. firms can participate in government-financed research and development projects on a national-treatment basis.

All U.S. citizens need a visa to enter or transit Kazakhstan. An official invitation from a registered Kazakhstani or Kazakhstani-based organization is the first step to receiving a Kazakhstani visa. (In June 1999, the government announced the intention to drop this requirement for business visas, but has not made this official.) Visa applications are available at any Kazakhstani Embassy. Travelers are advised that visits of more than three days require registration with the Kazakhstani Ministry of Internal Affairs-Department of Visas and Registration (OVIR). Failure to register can result in high fines and in being prevented from leaving the country. Contact the nearest Kazakhstani Embassy for more information.

Obtaining licenses to import foreign workers, and the work permits for these employees, can be difficult and expensive, and U.S. companies should consult legal firms for assistance (see A.5 for details). Although licensing and permit procedures were streamlined somewhat in 1999, under a December 1998 Law on Employment of the Population the government must assign numerical quotas on the number of foreign workers. These quotas, based on area of specialization and geographic region of employment, were scheduled to enter into effect on January 1, 2000.

A.2. Conversion and Transfer Policies

There are minimal restrictions on converting or transferring funds associated with an investment into a freely usable currency at a legal market-clearing rate.

In July 1996, the IMF accepted Kazakhstan's application to adopt Article 8 of the IMF Articles of Agreement, stipulating that Kazakhstan would not restrict current account transactions such as currency conversions or the repatriation of investment profits. In April 1999, the Government and National Bank of Kazakhstan announced that the national currency would be allowed to freely float at market rates, thus abolishing the previous managed exchange rate system. A requirement established at that time for importers to convert half of their hard currency earnings into local currency has since been abolished.

There is no distinction made between resident and non-residents when opening bank accounts. There are no restrictions whereby different types of bank accounts are necessary for investment or import/export activities. For non-residents, money transfers in currency associated with foreign investments, whether inside or outside of the country, can take place without restriction. For example, foreign entities or persons not incorporated in Kazakhstan are permitted to settle their non-cash obligations, including payment of wages to their resident and non-resident employees, in foreign currency. The National Bank introduced a regulation in June 1998 that permits the payment of wages in cash in foreign currency. Commercial banks charge transaction fees based upon the amount of withdrawals: these fees differ from bank to bank. Foreign investors may convert and repatriate tenge earnings made inside Kazakhstan. In practice, though, the rate of tenge conversions is at spot official rates. From February 4, 1999, the above procedures do not apply to contracts where the value is less than \$5,000.

There are procedures and licensing arrangements set up by the National Bank to cover bank payments and transfers relating to capital movements. Inward capital flows are basically unrestricted. However, a resident company in which there is foreign investment exceeding one hundred thousand dollars must register the transaction for statistical purposes. There are restrictions on capital movements when a non-resident sells or disposes of an interest in a resident company to another resident company. These are dealt with under the licensing arrangements of the National Bank. Travelers should also be aware that the government imposes a 1% tax on the import of foreign currency (physical bank-notes) by companies, collected at the airport upon arrival; this requirement may be extended to private persons. This tax does not apply to bank-to-bank transfers, but it does apply to transfers made through banks to companies.

The procedure for licensing foreign currency transactions related

to capital movements is governed by Regulations Numbers 129 and 130 of the Procedure for Licensing Activities Related to the Use of Foreign Currency of April 24, 1997.

The following types of transactions are examples of capital movements from residents to non-residents that are subject to licensing:

--Investments of residents in the business of non-residents abroad (The professional activity of authorized banks on the securities market--e.g. brokers and dealer activity with state securities of non-residents--is exempted.);

--Transfers from residents in favor of non-residents for property, including real estate, transactions;

--The carrying out by residents of payments connected with lending to non-residents concerning export-import transactions for the period of more than 180 days. (Note: the requirement to obtain a license may hinder speedy financing. This is because there is a large number of individual consents required from state bodies before the National Bank can issue a license. In the case of transactions involving the transfer of \$100,000 or more, these include the written consent of the Ministry of Energy, Industry and Trade. Where secured lending involves the transfer of collateral to a third party account abroad, or the rights over property in the event of default, the will of the contracting parties can be thwarted.);

--Other loans to non-residents for over 180 days.

In mid-1997 the State Customs Committee and the National Bank implemented a new documentation requirement on import and export transactions, ostensibly for the purpose of currency control. The rules complicate import and export processing, and there is a real question whether they are effective for their stated purpose - to ensure that the proceeds from export sales are returned to Kazakhstan, and to prevent fraudulent over-invoicing of imports.

The regulations require that the importer or exporter prepare a document called an "Import [or] Export Transaction Passport" that restates the details of the import or export contract, such as price paid, name of purchaser, date of delivery, etc. Customs checks the details in the "Passport" against the contract and shipping documents presented by the importer or exporter when the goods reach the border. The importer's or exporter's bank again checks the Passport against the importer's or exporter's contract at the time the payment for the goods is made or received in Kazakhstan. The steps are reversed if the Kazakhstani importer transfers funds to the foreign seller before the goods arrive, or the Kazakhstani exporter receives payment from the foreign buyer before it ships the goods.

The Embassy is not aware of any concerns with regards to remittance policies. Indeed, foreign investors have praised Kazakhstan's liberal policies on foreign exchange availability – in sharp contrast to some other countries in the region.

Capital inflows have enabled the National Bank to accumulate foreign exchange reserves, and at the same time to lower interest rates as inflation comes down. As of November 1999, net international reserves of the National Bank of Kazakhstan stood at approximately \$1.285 million.

The National Bank has developed a set of market-based instruments with which to implement monetary policy. Until the banking system becomes sound and competitive, and money velocity and multipliers more predictable, however, the National Bank will concentrate on exchange rate stability as its operating target. The National Bank estimates that households are hoarding around \$1 billion in cash. The main source of inflows remains foreign direct investment, although its growth has slowed along with the pace of privatization.

A.3. Expropriation and Compensation

The Foreign Investment Law is quite clear about the legal expropriation process. Direct expropriation may take place only in the public interest under the terms of the Foreign Investment Law, on a non-discriminatory basis, and with the payment of “prompt, adequate and effective” compensation. Compensatory payment must be at fair market value, with interest, in the currency in which the investment was made. The Amendments to the Foreign Investment Law of July 1997 substantially enhanced the guarantees against direct and indirect expropriation, unequivocally provided those guarantees to joint venture entities (in addition to their foreign shareholders), and ensured an identical, non-discriminatory compensation regime to investors that suffer either direct or indirect expropriation. Bilateral investment treaties (BIT's) between Kazakhstan and other countries, including the U.S., also refer to compensation in the event of expropriation.

Strictly speaking, there have been no expropriations of U.S. investment in Kazakhstan. Some foreign investors have encountered serious problems, however. In one instance, in 1996, three foreign companies were forced to relocate their offices under pressure from the government. In 1997, investors, after reviving an important mine, found they could not obtain export licenses for their ore, although the right to export was written into their contract. The same year another investor alleged forgery and fraud by government officials, claiming its employees had been physically threatened in a management dispute at its ferro-alloy venture in northern Kazakhstan.

There are no known instances of “creeping expropriation” or governmental action tantamount to expropriation.

Although foreign capital is allowed to participate in most areas of the economy, there are some limitations on the participation of foreign capital in the services sector. In particular, under the Law on Banks and Banking Activities in Kazakhstan (August 31, 1995), the total registered charter fund of all banks with foreign participation may not exceed 25% of the overall registered charter fund of all banks in Kazakhstan. In 1998 the National Bank submitted to parliament a change in the law to increase the ceiling of total foreign participation in total banking capital from 25% to 50%; as of December 1999, no Parliamentary decision on this issue had been made.

In addition, under the Law on Insurance (October 3, 1995), while foreign legal entities, including foreign insurance organizations and foreign citizens, are permitted to participate in insurance and

re-insurance organizations in Kazakhstan, the maximum foreign participation permitted is 50%. Insurance supervision powers were transferred to the National Bank on June 30, 1998. The Insurance Supervision Department of the National Bank also controls the licensing of insurance activities.

As of January 1999 there were 71 insurance companies in Kazakhstan, of which three were fully state owned. The minimum capital for an insurance company is 40,000 tenge, less than \$500 at that time. As of June 1999, the Department of Insurance of the National Bank was in the process of drafting a new insurance law.

Restrictions also exist on foreign ownership of land in Kazakhstan. See below (A.6 “Right to Private Ownership and Establishment”).

General commercial law principles, including procedures for pursuing civil court cases, are established in Kazakhstan’s Civil Procedural Code. Parliament passed a revised Civil Procedural Code July 13, 1999.

A.4. Dispute Settlement

There have been a number of investment disputes involving foreign companies in the past several years. While the disputes have arisen from unrelated, independent circumstances, they are all linked to alleged breaches of contract or non-payment on the part of Kazakhstani state entities. The disputes involve, in some instances, more than \$100 million.

Either the Collegium for Economic Matters or the Collegium for Civil Matters handles disputes between legal entities in Kazakhstan. In general, when the dispute is between commercial entities, the matter will be decided by the Collegium for Economic Matters. When the dispute is between a commercial entity and the government, however, the particular forum that would hear the case is less clear. Jurisdictional issues are outlined in the new Civil Procedural Code, which was approved by Parliament July 13, 1999.

Kazakhstan is still in the process of building the institutional capabilities of its court system. Until this is complete, the performance of courts in the country will be less than optimal. Further problems exist in having a judgment enforced (including, for example, having a government official seize a debtor's property and sell it to pay the debtor's liabilities). A judicial executor system is only beginning to be established by the Ministry of Justice. Given this lack of development, there is ample opportunity for interference in judicial cases, be it by private parties or by government officials.

General commercial law principles are established in Kazakhstan's Civil Code.

The July 1997 amendments to the Foreign Investment Law provide foreign investors involved in disputes with the State with clear and unequivocal access to international arbitration. This access is restricted to arbitration fora located in states that are signatories to the New York Convention for the Recognition and Enforcement of Foreign Arbitral Awards. The U.S. is a signatory state.

In addition, the amendments provide the automatic consent of the state to the dispute settlement option selected by a foreign investor.

The law contains a definition of investment disputes referring to “authorized state bodies.” An authorized state body is a state entity that has the right to act on behalf of the Republic of Kazakhstan within its competence as established by legislative and normative legal acts. It does not, therefore, include a comprehensive set of state bodies or even the central state bodies. In order for a dispute to qualify as an investment dispute (and on this depends the right to refer to foreign arbitration fora), the state body itself must have been authorized to act or contract. From this it follows that lack of authority to act/contract would leave the dispute outside the definition of investment dispute. The right to foreign arbitration would then fall. Care should be taken with contracts to ensure that the contracting state body is indeed authorized. The State Agency for Investments can assist with this. Authorized bodies change frequently.

If the foreign investor requests investment dispute settlement abroad (and the government is one of the parties to the dispute, through its authorized bodies) then the consent from the government is automatic. If the government, through its authorized bodies, is the initiator of the action then the court process of Kazakhstan is utilized in the absence of a written preference from the foreign investor. If the foreign investor declines to make a choice of forum then the state body is authorized to apply to the court system of Kazakhstan. Judicial bodies of the Republic of Kazakhstan settle disputes (other than investment disputes) between foreign investors and citizens or legal entities of Kazakhstan.

If a dispute does go to international arbitration, awards rendered by certain arbitration fora should be enforced in Kazakhstan in accordance with the law. These fora are the International Center for the Settlement of Investment Disputes tribunals, any tribunal applying the United Nations Commission on International Trade Law Arbitration rules, the Stockholm Chamber of Commerce, and the Arbitration Commission at the Kazakhstan Chamber of Commerce and Industry. The U.S.-Kazakhstan Bilateral Investment Treaty can serve to buttress the Foreign Investment Law in this area. In October 1995, Kazakhstan ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitrage Awards.

Despite such safeguards, however, there continues to be great practical difficulties for foreign investors in enforcing arbitrage awards against government enterprises in Kazakhstan, particularly given the near-bankruptcy of many such enterprises.

Kazakhstan's bankruptcy regime suffers from a complex bankruptcy law, passed in early 1997. Amendments that would somewhat simplify the law and speed up proceedings have been submitted to the Kazakhstani Parliament but not yet approved. Creditor rights are set forth clearly under the current law on bankruptcy. It is possible, however, that some of these rights may be eroded by the amendments currently before Parliament.

Kazakhstan's bankruptcy agency became a self-financed government-owned enterprise in 1997. As yet, the role this quasi-agency would take in bankruptcy proceedings is still unclear.

In general, the Kazakhstani government has a moderately good record of addressing investment disputes. However, foreign investors have often had to endure protracted negotiations with working-level officials, only to have the highest levels of the government make key decisions on the future of a given investment. Most investors generally prefer to handle investment disputes “in the corridors,” fearing a real or perceived backlash from the government if the case were to be made public. Investment disputes with U.S. firms take up a considerable part of the Embassy's advocacy portfolio, and likely will continue to do so until clear and consistent application and enforcement of legislation becomes the norm.

Kazakhstan has made excellent progress in developing a proper platform for a functioning legal system with the assistance of USAID. However, while there are good laws “on the books,” effective means for enforcing property and contractual rights are underdeveloped. For example, the constitution does not establish an independent judiciary. While the judiciary is trying hard to develop its own identity, “telephone law” (that is, a phone call to the “right people”) is often cited by Kazakhstanis as the way court decisions are handed down. Judgments of foreign courts only sometimes are accepted in Kazakhstani courts, and enforcement is very difficult. While there is a well-written set of commercial laws on the books, there is virtually no system of case law to establish important precedents for future commercial disputes. This is another area in which USAID experts hope to make improvements.

A.5. Performance Requirements/Incentives

Performance requirements, to the extent that they are imposed, are the result of a contract between the individual investor and the Agency for Investments. They are the quid pro quo for tax, customs duty, or other privileges and benefits, as provided by the Law on State Support of Direct Investments. Typically, an investor’s obligations might include financial obligations, obligations to train local specialists, and contributions to social funds or needs.

Performance requirements, in some cases, are central to investment contracts. Companies are frequently required to pay back wages, remodel factories and plants, and provide an agreed level of output. In several instances, the government has revoked contracts because firms did not follow their performance obligations.

The Agency for Investments is responsible for monitoring the fulfillment of obligations undertaken by investors. At present there have been no formally adopted procedures for the enforcement of performance requirements. Generally, however, where the Agency determines that a company has not complied with its financial or other contractual obligations, the government may revoke the operating license of the company. In order to obtain the benefits and privileges of investing in Kazakhstan, an investor is typically required to provide the Agency with detailed information on technical and financial matters of the proposed project, which may include confidential or proprietary information.

Rules on local content, hiring of nationals and local source of financing vary from contract to contract. While investors usually are not required to purchase from local sources, such terms can be written into contracts. Article 41 of the Petroleum Law requires that petroleum contractors use local equipment, goods and services, so long as these meet minimum standards necessary for

participating in Government of Kazakhstan tenders. Article 63 of the Law on the Subsurface and its Utilization

(covering mining operations) contains similar requirements. These requirements are contradictory to the protections offered by the U.S. – Kazakhstan Bilateral Treaty on Investment, but implementing regulations enacting these requirements had not been completed as of the time of this writing.

(See Chapter VII, D for more information on a requirement by the Kazakhstani government that foreign firms hire Kazakhstani nationals.)

There is no requirement in Kazakhstan that nationals own shares in foreign investments. In the banking sector, foreign investors have participated only through joint ventures with local entities, but this is no longer necessary. Likewise, there is no general requirement that the level of foreign equity be reduced over time. Technology transfers frequently occur and sometimes are written into contracts, but do not appear to be a necessary aspect of foreign investment.

The Law on State Support of Direct Investment (Feb. 28, 1997) authorizes the Agency for Investments to provide duty exemptions under contracts with investors on a case-by-case basis for equipment and materials imported for investment projects in Kazakhstan. The benefits and privileges of investors under the law are not based on nationality of the investor or the origin of goods.

Investment incentives also exist for investors in government-designated “priority sectors” of the economy (see Section A.1. above). There are also investment incentives for investors in Special Economic Zones (see Section E). The legal basis for these zones is Chapter 12 of the Customs Code (July 12, 1995) and numerous “Decrees of the President, Having the Force of Law.” The principle decree is “On Special Economic Zones in RK.” There was an important change in December 1998 that eliminated guarantees made for operations on the territory of special economic zones. Prior to the changes, the law gave guarantees that in the event of changes to the legal regime of a zone, including changes to borders, investors were protected as to their agreed terms at the time they were made. Now the guarantees are extended only to changes in legislation related to the importation of equipment, goods consumed in the processing of manufacturing, and goods used for re-processing.

The Kazakhstani Government is seeking accession to the World Trade Organization (WTO), and is bringing its export/import trade policies in line with WTO standards. During the last two years, the GOK has recognized the benefits of freer trade and has liberalized its trade policies and passed legislation that brings its legal trade regime into conformity with WTO standards. Kazakhstan submitted its Memorandum on the Foreign Trade Regime (MFTR) in July 1996 and the first round of WTO accession negotiations took place in October 1997. The quality of initial offers on goods and services made by the Kazakhstani government has slowed down the process of accession. However, the 1999 accession of the Kyrgyz Republic to the WTO, combined with agreement between China and the U.S. on the terms for Chinese WTO accession, both important Kazakhstani trade partners, will likely give Kazakhstan an incentive to move more quickly.

Kazakhstan has not had, until recently, discriminatory policies with respect to imports. However, in January 1999 Kazakhstan introduced a six-month import ban on a range of food, tobacco and milk products imported from Russia; the ban expired in June 1999. In 1999, Kazakhstan also imposed punitive duties (200%) on food and construction materials imported from Uzbekistan and Kyrgyzstan. These measures were taken in response to domestic producers' complaints of unfair trading practices following devaluation in those countries' currencies.

Kazakhstan permits the importation of goods from CIS free-trade partners and certain developing or least-developed countries free of duty or at a reduced rate within the framework of the Generalized System of Preferences. With certain exceptions, goods that originate in and are directly imported from developing countries are subject to duty at a rate that is 75% of the MFN rate, while goods that originate in and are imported directly from least-developed countries are free of duty.

Article 22 of the Foreign Investment Law provides a customs duty exemption for equipment and spare parts that are imported as a contribution to the Charter Fund of foreign-owned enterprises in Kazakhstan. The imported personal effects of foreign personnel of such enterprises may also be admitted free of duty under Article 22. Article 22 exemptions should be read together with new provisions of the Law on Joint Stock Companies. Contributions to a charter fund should be completed within one year of registration (Art. 8(3)(2) Law on JSC, 10 July 1998 n. 281-1).

There are very few quotas and duties on exports. Among the more important is an agreement signed with the EU concerning quotas on textiles. There are, in addition, some quotas for oil export that relate to capacity restrictions in Kazakhstan's oil pipeline.

Presently, there are no special requirements for engaging in trade-related activities. Registration as an entrepreneur, legal entity, or branch/representation office is required, which is in keeping with internationally accepted practices.

There are no known cases in which U.S. or other foreign firms have been denied participation in government-financed or subsidized research and development programs on a national treatment basis.

A.6. Right to Private Ownership and Establishment

Foreign and domestic private entities have the right to establish and own business enterprises, and to engage in all forms of remunerative activity. Private entities can freely buy and sell interests in business enterprises. Public enterprises often enjoy better access to markets, credits, and licenses than do private entities. However, this is changing as Kazakhstan completes the privatization of most of its economy.

Kazakhstan's constitution provides that land and other natural resources may be owned or leased by physical persons who are Kazakhstani citizens according to conditions established by law. These conditions are:

--Permanent ownership is restricted to state enterprises;

--Life inheritable tenure is granted for family farms, household plots, gardens, and dachas;

--Other land and natural resources may be leased up to 99 years.

At present, agricultural land (except for land in categories mentioned in Section 2 above) is not privately owned. A bill calling for the phased privatization of arable land was introduced in June 1999, but it was quickly withdrawn after receiving severe criticism from the Parliament. Under the draft law, only Kazakhstani citizens born in Kazakhstan would have been allowed to own farmland. Currently, foreign citizens and foreign legal entities can lease land, through a domestic partner, for a period up to 99 years.

A.7. Protection of Property Rights

Secured interests in property (fixed and non-fixed) are recognized under the Civil Code and the 1995 Land Law. Adequate enforcement of these interests, however, is seriously compromised by the absence of registries for non-fixed property (although a law that would establish such registries is currently in Parliament). Further, land cadastre for registering rights in fixed property have been fully established in only a limited number of regions (most notably Almaty and Astana). The use of mortgages on real property has just begun, with a Law on Mortgages adopted in 1996. However, legal and banking expertise in this area is limited and enforcement procedures are uncertain.

In principle, Kazakhstan's Civil Code protects U.S. intellectual property. In addition, the U.S.-Kazakhstan Trade Agreement, which came into force in 1993, obliges Kazakhstan to protect intellectual property. However, lax enforcement and the absence of criminal sanctions have meant that intellectual property rights are often violated.

Patents and trademarks: Patent protection is available for inventions, industrial designs and utility models. Patents for inventions are available with respect to processes and products that are novel and have industrial applications. However, patent protection for certain types of products and processes--such as layout designs and plant variety--is not yet available. New legislation providing these protections has been presented to Parliament but not yet passed. Formal examination of patent applications is performed by a National Patent Office, established in 1992. Existing Soviet patents are being converted to Kazakhstani patents.

Patents for inventions are granted for a period of 20 years. Patents for industrial designs are granted on a preliminary basis for five years (this period may be extended for an additional 10 years if the preliminary patent is converted to a patent). Utility models are granted a five-year initial period of protection, with the possibility of an additional three-year extension. Unsuccessful applicants have the right to appeal decisions of the National Patent Office.

The registration of trademarks began in July 1992. Trademark violation is a crime, but enforcement appears to be rare and arbitrary. There are marked disparities in fees charged to domestic patent and trademark applicants, as compared to foreign applicants. Applications for

trademark, servicemark and appellations of origin protection may also be filed with the National Patent Office. Trademarks and servicemarks are afforded protection for a period of 10 years from the date of filing.

Copyrights: The Law on Copyrights and Related Rights was enacted in June 1996. The law is largely in conformity with the requirements of the WTO TRIPS Agreement and the Berne Convention.

The government is currently considering amendments to the Customs Code to provide for special border measures to deal with pirated software and counterfeit trademark problems. Amendments to the Administrative, Criminal and Civil Procedural Codes, moreover, have been adopted to bolster enforcement capabilities. Nevertheless, systematic violations persist and enforcement remains sporadic at best.

Pirated U.S. and Western movies routinely appear on television stations in Kazakhstan, but are not apparently mass-produced in Kazakhstan. Many bootleg videos and movies are provided through Russian intermediaries. Illegal software development and manufacture generally is not conducted in Kazakhstan; Russia and Ukraine are major sources of bootleg software. Several television stations routinely broadcast U.S. and Western programs and news reports pirated via satellite dish.

In November 1998, Kazakhstan ratified the Berne Convention for the Protection of Literary and Artistic Works.

Kazakhstan has several remaining steps to take to fulfill its IPR commitments under the U.S. bilateral trade agreement. It needs to adhere to the Geneva Phonograms Convention. It must provide full-term retroactive protection for U.S. copyrights. The government must specify protection for sound recordings, as well as enforce requirements that television stations broadcast only bona fide licensed programs.

Piracy of all copyrighted products is reportedly widespread, and there have been no known enforcement measures to date. Intellectual property losses to U.S. firms, in terms of computer software and audio/video goods, are estimated to amount to more

than \$50 million annually.

Although Kazakhstan enacted a number of laws and changed many policies during the last two years, a number of additional changes are still required. Bilateral negotiations must be intensified and concluded in order to comply with WTO standards.

A.8. Transparency of the Regulatory System

Transparency in the application of laws remains a major problem in Kazakhstan and an obstacle to expanded trade and investment. Foreign investors complain of moving goalposts and corruption. While foreign participation is generally welcomed, some foreign investors point out that the government is not always evenhanded and sometimes reneges on its commitments.

Although the Agency for Investment (originally the “State Investment Committee”) was established to facilitate foreign investment, it has done little to address the concerns of foreign investors.

There has been some clarification of the hierarchy of laws in Kazakhstan. The 1999 Law “On Normative Acts” sets out the following hierarchy:

1. The Constitution is the highest legal authority;
2. Laws, introducing changes and additions to the Constitution;
3. Constitutional Laws of Kazakhstan and Decrees of the President, having the force of constitutional law;
4. Codes of Kazakhstan, laws, and also decrees of the President having the force of law;
5. Normative Decrees of the President;
6. Normative Acts of Parliament;
7. Normative Acts of the Government of Kazakhstan;
8. Normative orders of Kazakhstani ministries, and agency and state committees;
9. Normative decisions of local administrators (akims).

The lower normative act may not in law contradict the higher. If there is a contradiction the terms of the higher act take precedence over the lower. Where there is a contradiction on the same level the terms of the most recent act apply.

Under Article 6 of the 1994 Foreign Investment Law, foreign investors were broadly guaranteed that no adverse change in the legal regime would affect their investment for a period of 10 years. However, in 1997 the government amended Article 6 to withdraw the guarantee with respect to changes in laws related to importation, production, or sale of excise goods, or laws relating to importation of finished products. Adverse changes in such laws thus would apply immediately to existing foreign investors. By worsening the position of such foreign investors, the 1997 amendment contradicted the very premise of the original 1994 law that held that foreign investors would be protected from adverse changes in the law. It should be pointed out that stability clauses of this type cannot be relied upon absolutely. This is because: 1) no law can bind the actions of a future legislature and entrench its provisions against change; 2) the law itself sits within a hierarchy of laws and is subject to the terms of those occupying a higher position; and 3) the later terms contained in a law of the same level will prevail.

Kazakhstan, by law, will answer with the assets of its treasury for violations of contracts that were properly entered into and guaranteed by the government. Where the government has merely “approved” or “confirmed” a foreign contract, Kazakhstan's responsibility will be limited to performing administrative acts necessary to facilitate the subject investment activity (acts “concerning the issuance of a license, granting of a land plot, mining allotment, etc.”). While this provision might appear to be investor-unfriendly, it should be welcomed as a clear statement of the actual state of affairs.

Kazakhstan's institutional governance is weak, further adding to the problems of transparency in commercial transactions. Senior Kazakhstani government officials have a large say in major transactions, and decisions are often made “behind closed doors.” The exception to this general

rule is seen in major tender or international projects where the Kazakhstani government generally ensures transparency and a detailed “road map” of decision-making authority.

The Tax Code has provision for tax relief. This includes deductions “of expenses from the annual aggregate income of corporations and individuals connected with its derivation” (Art. 14). There is provision for deduction of interest on loans (Art. 16), on allocations to Reserves for insurance and subsurface users (Art.18), R&D (Art. 19) and Loss Carry Forward (Art. 27). In addition, there are exemptions on income derived from activities such as mortgage lending by banks (Art. 34(1)(8), leasing activities (Art. 34(1)(9) and on investments in government securities (Art. 34(3)). There are provisions that replicate the terms of the Law on State Support for Direct Investment where investment agreements are made with the Agency for Investments (Art. 34(8). Tax holidays can be granted to certain investors by the Agency under the new Law on State Support for Direct Investment.

An April 1995 Licensing Law established the legal framework for licensing activities in Kazakhstan. It requires the relevant agency to issue a license within one month of a company's submitting all required documents. Unfortunately, the implementation of this law has been grossly inadequate. For example, most of the qualification and procedural requirements for issuing licenses have not yet been approved by the government. This situation has left some businesses vulnerable to inspection bodies, which have threatened them with fines and shutdowns for not having licenses that are, in many instances, legally impossible to obtain. 1998 saw the adoption of many procedural acts that implement the requirements of the Edict on Licensing. Some of the most important include:

- Licensing of management of Securities Portfolios- NSC N-7 06/12/98;
- Licensing of activity of investment funds-NSC-7-06/12/98;
- Licensing activity with foreign Currency- NB Resolution N29 01/27/98.

The situation has therefore improved, but many areas still lack implementing legislation.

Kazakhstan adopted WCO HS 96 as its tariff nomenclature in June 1997.

There are numerous transparency problems connected with the customs regime in Kazakhstan. These include the following:

--Granting customs exemptions stipulated in the Law on Foreign Investment continues to be problematic. Although such exemptions were stipulated in the original law of 1994, Customs has failed to issue any regulations or instructions for its implementation. Instead, Customs decides claims in an ad-hoc manner, which has resulted in inconsistent and unclear application of the law. According to investors, it is very difficult sometimes to get Customs to accept that certain imported goods are for personal use.

--Kazakhstan has adopted the international tariff nomenclature as the basis of its Tariff Schedule. However, the government has not published the Tariff Schedule in full. According to businesses, this leads to unnecessary delays in processing and increased costs for importers.

Certain disputes between importers and customs officers connected with customs classification might be avoided if the importers had access to the full Tariff Schedule (up to 9 digits).

--Each year Customs issues a number of orders, regulations and instructions of general application. Neither Customs nor any other entity publishes these administrative documents in any systemic way. To the extent that these rules have been distributed to the public, Customs has relied in the past on general media or private legal information services, which have published only selective customs rules, and then not necessarily in a timely manner. In late 1996, Customs took a positive step toward improving dissemination of the legal information when it began to publish a bulletin for sale to the public for approximately \$4.00. Unfortunately, due to lack of funding, publication of the bulletin has not been regular.

--Customs does not generally consult industry for its views on proposed new regulations and procedures, or amendments to existing requirements. Generally, Customs develops a rule in whole, and announces it to the trade community without the possibility of modification, often shortly in advance of the effective date. The result frequently is a rule or procedure that involves difficulties and controversy in implementation, which may not have been foreseen by Customs but which might have been avoided had the trade community been consulted. Because the trade community is not forewarned about the new rules sufficiently in advance to adjust, it can suffer unnecessary delays and costs.

A.9. Efficient Capital Markets and Portfolio Investment

For a brief description of Kazakhstan's banking system, see Chapter VIII, A.2

The free flow of capital in Kazakhstan is still very limited. Banks provide virtually all of the credit to domestic borrowers. However, foreign investors find the margins taken by local banks and the security required for credit to be very onerous. It is cheaper and simpler for them to use retained earnings or borrow

from the home country. Kazakhstan's stock exchange is tiny and, as such, not yet a source of funds (see below). Kazakhstan's largest private bank, Kazkommertsbank, sold \$100 million in Eurobonds in the spring of 1998. In April 1998, Kazkommertsbank received a syndicated loan of \$35 million, led by Commertzbank and ING Barings. Shortly thereafter, Kazkommertsbank completed a program for the placement of \$100 million of eurobonds with foreign investors with a maturity of three years. The EBRD also lent Kazkommertsbank \$40 million structured as convertible debt.

The government of Kazakhstan also placed a \$200 million Eurobond on international markets during the late September of 1999. In December, the government paid off the principal on its first, \$200 million Eurobond, issued in 1996.

The Kazakhstan Stock Exchange (KASE) has been in operation since September 1997. As of November 1999, there were eight "A-listed" companies, 11 "B-listed" and 46 Over the Counter (OTC) stocks. In November 1998, to enliven trading activity at the exchange, the Department of State Property and Privatization placed over 40 state share packages of "second tier" companies for sale on the KASE. Of these companies, 14 share packages had been sold (through mid-March 1999) for approximately 1.2 billion tenge, or almost \$14 million. Inadequate financial

records prevent many other companies from being put on the exchange. Moreover, company managers fear diluting control of their enterprises by selling more shares. In the second half of 1998 the government decided to postpone the sale through the exchange of shares in four or five “blue chip” companies until investors’ interest in the emerging markets recovers. The sales, which were planned for 1999, had not taken place as of December of that year.

Kazakhstan's National Securities Commission has been operating since late 1996 and is consistent with the norms of the International Organization of Securities Commissioners. Resident Kazakhstani companies must compete for capital with attractive returns available from government debt (tax deductible) and are hampered by licensing procedures under the 1996 Currency Law.

In January 1998, the government introduced an accumulation pension system that requires all employed persons to contribute 10% of their salary to accumulation pension funds. As of April 1999, 14 private accumulation funds were operating in Kazakhstan. Asset management companies invest the contributions on behalf of the pension funds. The pension assets must be invested only in specific categories of instruments such as government bonds and A-listed securities. As of November 1999, the accumulation system had approximately \$417 million in assets. The largest concentration of investments was in dollar-denominated Kazakhstani Eurobonds. Pension assets are held by custodian banks.

The privatization funds are also being converted to investment companies. Foreign investors may invest in these funds. In July 1998 the Law on Joint Stock Companies with some transparency and shareholder protection provisions has been passed.

Because of the recent devaluation of the tenge, some policy decisions have been taken with the aim of protecting assets denominated in tenge and held in Accumulative Pension Funds (APFs).

There appears to be no “cross-shareholding” and “stable shareholder” arrangements used by private firms to restrict foreign investment through mergers and acquisitions. Joint stock companies may not cross hold more than 25% of each others’ stock unless permitted by law, and may not exercise more than 25% of the votes in a cross-held joint stock company”. There is the notion of a related joint stock company, which is a company recognized as related when another company or legal entity has more than 20% of its voting shares. The company owning the shares may not vote more than 25% of the total shares at the general meeting of shareholders of the related company. The general meeting must approve various corporate actions, such as mergers and acquisitions. This rule applies to all persons, domestic or foreign.

There have been very few hostile takeovers in Kazakhstan, primarily because there are few publicly traded firms. Defensive measures are not targeted towards foreign investors. Current legislation provides a legal framework for takeovers, besides the Civil Code, which requires a company that has purchased a 20% share in another company to publish information about such a purchase.

The Autumn 1997 downturn in emerging markets stock values has meant that the prices originally hoped for under the Blue-Chip privatization program will not materialize. Therefore, the government's plan to sell small packets of stock (5-10%) in these companies will no longer cover budget/balance of payments deficits, as had been hoped. Given these low stock prices and sagging investor interest, the government has delayed privatizing the thirty or so companies included in the program.

1998 and the first half of 1999 were disappointing for the stock markets. A December 1998 tender for sales of government holdings in Kazkhrom, Kaztsink, Aluminum of Kazakhstan and Sokolovsko-Sarbaiskoye did not take place as scheduled. Moreover, the sales of part of the state holdings in Aktobemunaigas, Kazakhmis, Mangistaumunaigas and Ust-Kamenogorskii (gas and metals firms) did not take place as scheduled in April 1999.

Kazakhstan has a well-developed infrastructure for equity and debt trading with a network of brokerage firms. This is a resource for future corporate finance in Kazakhstan. However, at the present, the absence of attractive stocks for purchase is a significant obstacle to the development of this method of corporate finance in Kazakhstan.

The stocks of four privatized companies trade as Global Depository Receipts (note: unlike ADRs they are not subject to US SEC rules) on Frankfurt and Berlin exchanges. These are Kazkommertsbank, Kazakhtelecom, The Shymkent Refinery (SHNOC) and UKTMK. There may be similar plans for depository receipt programs with other category "A" companies once market sentiment improves.

In July 1998 a new Law on Joint Stock Companies was passed with extensive international input. The law provides the basis for regulation of open and closed-type joint stock companies. It also contains clauses to protect investors in often-abused circumstances such as: additional share issues, maintenance of charter capital and restrictions on payments of dividends, re-purchase by a company of its own shares, debt-to-equity conversions, fiduciary duties imposed on company officers, proxy votes, independent audit and determination of asset values during sales of company property.

The July 1998 Law on Joint Stock Companies also regulates tender offers for stock of open joint stock companies by requiring the purchaser to notify the National Commission on Securities and the target company of their intention to purchase 30% or more of the target company and; after such purchase, make an offer to all remaining shareholders to purchase their shares at the average price during the last six months before the purchase.

There are no laws or regulations specifically authorizing firms to adopt articles of incorporation or association that limit or prohibit foreign investments. The Law on Joint Stock Companies, however, allows charter limits on the number of shares or votes that one shareholder may have.

Standards, including sanitary and phyto-sanitary standards, are promulgated solely by the State Body on Standardization, Metrology, and Certification (Gosstandard). Proposals for adoption, amendment, or abolishment of state standards are normally prepared by technical committees constituted by Gosstandard, and may include producers, scientific and engineering associations,

and technical experts. There are no restrictions on foreign participation in the development of standards, including participation in meetings of technical committees.

There are some general restrictions that limited liability partnerships (LLP) and closed joint stock companies can establish in their charters. LLP's can set the maximum participation that can be possessed by one founder, as well as the changes in the ratios of share holdings. Closed joint stock companies can limit the number, total nominal value or maximum number of votes possessed by one shareholder. These restrictions can be applicable to both domestic and foreign investors.

A.10. Political Violence

There have been no incidents of politically motivated violence against foreign investment projects. The political environment in Kazakhstan is stable, with opposition to the government fragmented. There are no nascent insurrections in the country and politically motivated civil disturbances are very rare. Kazakhstan has good relations with its neighbors.

A falling standard of living for many and continued economic hardship have resulted in some protests. During the winter of 1997/1998 a wave of social unrest swept through southern industrial towns Zhanatas and Kentau, where a local plant owed its employees \$7 million in unpaid wages. The plant was leased to a Russian-dominated consortium, but that contract was cancelled. Rather than being forced to declare bankruptcy, the firm was allowed to survive by not paying wages or creditors. Without their wages, many workers could not pay utility bills and so had no heating all winter. Such protests have taken place relatively infrequently since then. However, unpaid wages and pensions remain a serious economic, social and political problem in Kazakhstan.

Opposition groups have spoken out on issues of economic decline. A broad coalition of the opposition, the Democratic Forum, was formed in late 1999 after most opposition parties were frozen out of political office in presidential and parliamentary elections that did not meet international standards. The authorities monitor the activities of the opposition very closely, and have occasionally engaged in low-level legal harassment of many of its leaders.

It should be noted that although there is a law enshrining complete freedom of assembly, the chief Kazakhstani prosecutor has said that the authorities would take a firm line on public meetings that had not received prior government permission.

Kazakhstan conducted peaceful presidential elections in December 1998; elections for Parliament in September 1999 were similarly peaceful. The Organization for Security and Cooperation in Europe (OSCE), of which Kazakhstan is a member, criticized the fact that the Presidential elections were moved forward two years with little notice, and that a major opposition candidate was denied access to the ballot. Regarding the 1999 parliamentary elections, the OSCE said that while the elections fell short of OSCE standards in several areas, they nevertheless marked a tentative step forward in Kazakhstan's democratic development.

A.11. Corruption

U.S. firms have cited corruption as an obstacle to investment. The Kazakhstani government and local business entities are widely aware of the legal restrictions placed on U.S. business abroad (i.e., the Foreign Corrupt Practices Act). Therefore, approaches to U.S. firms for bribes and other irregular business practices are the exception, rather than the rule.

Although the Kazakhstani Criminal Code contains special articles on penalties for accepting and giving bribes, corruption in all economic sectors is a problem in Kazakhstan. The Ministry of Interior, as well as a special subdivision of the Committee for National Security (the KNB), is responsible for combating corruption.

The Kazakhstani government has undertaken a number of initiatives to combat corruption. In late 1997 President Nazarbayev created the Higher Disciplinary Council. Its mandate is to increase discipline among government organs and identify and weed out corruption at both federal and local levels. In the spring of 1998 Parliament passed the Law on Fighting Corruption. A state body was formed to implement its terms and is directly controlled by the President.

As of the summer of 1999, however, there had been no major prosecutions and the dismissal of only few senior government officials due to the creation of the Higher Disciplinary Council or the Law on Corruption.

B. Bilateral Investment Agreements and Double Tax Treaties

In May 1992 the United States and Kazakhstan signed a Bilateral Investment Treaty, which came into force on January 12, 1994. In May 1992, the United States and Kazakhstan signed an Investment Incentive Agreement, which became effective from the date of signing. In December 1996 the United States and Kazakhstan ratified the Treaty on Avoidance of Dual Taxation.

Kazakhstan has bilateral investment agreements in force with the following countries: Great Britain, Germany, Spain, Italy, Finland, France, Switzerland, Hungary, Lithuania, Poland, Romania, the Czech Republic, Israel, Iran, Turkey, India, China, South Korea, Malaysia, Mongolia, Egypt, Azerbaijan, the Kyrgyz Republic, Georgia, and Ukraine.

A number of double tax treaties were ratified in 1998. This includes agreements with the following countries: the Czech Republic (November 1998), France (November 1998), Sweden (July 1998), Bulgaria (July 1998), Turkmenistan (July 1998), Georgia (July 1998), Republic of Korea (July 1998), Germany (November 1998), and Belgium (November 1998).

C. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) has been active in Kazakhstan since 1994 and is seeking commercially viable projects in the emerging Kazakhstani private sector. OPIC has invested in Kazakhstani oil and gas projects and, in early 1998, in two modern business

centers in Almaty through the OPIC-backed New Century Holding Fund. OPIC offers a full range of

investment insurance and debt/equity stakes, and has expressed interest in Kazakhstan's power generation and telecommunication sectors.

Kazakhstan is a member of the Multilateral Investment Guarantee Agency (MIGA).

D. Labor

Kazakhstan has a highly educated and technically competent workforce, but lacks trained labor in the manufacturing and service sectors. Management expertise is also in short supply. U.S. firms employ a large variety of Kazakhstani specialists across a broad spectrum of industries.

The Labor Code of the Republic of Kazakhstan (a 1997 amended version of the 1973 Kazakhstan SSR Labor Code) and the Constitution of the Republic of Kazakhstan guarantee basic workers' rights, including the right to organize and the right to strike. Teachers, miners and workers at a variety of enterprises have gone on strike for, generally, short periods in the past several years. The 1993 Law on Professional Labor Unions provides a legal guarantee against limitations of a citizen's labor, social-economic, political or personal rights and freedoms as a result of membership in a union. It also prohibits the denial of employment, the denial of promotion or the release from employment on the basis of such membership. Kazakhstan joined the International Labor Organization (ILO) in 1993. In 1996, Kazakhstan ratified the ILO worker safety conventions.

The 1996 Law on Labor Disputes and Strikes lays out the procedure for resolving disputes. However, the Law "On Labor Disputes and Strikes" also restricts strikes by requiring that a peaceful attempt at a solution first be made, that two-thirds of the labor collective must approve the strike, and that the employer must be warned 15 days in advance in writing, among other restrictions. In addition, strikes for political purposes are forbidden.

A separate 1992 Law on Collective Bargaining Agreements sets out the basic framework for concluding such agreements. There are instances of unions successfully negotiating collective bargaining agreements with management.

There is significant hidden unemployment in Kazakhstan's enterprises, with numerous employees working only part-time or on compulsory leave. Wages are often unpaid or badly in arrears. The government has used the privatization process as one method of dealing with the wage arrears problem--settling wage arrears is usually part of any privatization contract. Nonetheless, despite some progress, non-payment of wages and pensions by both governmental and private entities remains a serious problem.

The Kazakhstani government has been putting greater emphasis on foreign firms to hire Kazakhstani nationals--a de facto performance requirement. All U.S. companies are strongly advised to contact locally based law and accounting firms, as well as the U.S. Commercial

Service in Almaty, for the latest information on work permits. More and more expatriates with specialized skills have had requests for visa extensions denied or have been unable to register with the local OVIR office for not having a work permit.

E. Foreign Trade Zones/Free Ports

On April 1, 1999, by presidential decree, three special economic zones (SEZ) in Kazakhstan-- Lisakovsk, Kyzylorda and Zhairm-Atasu – were closed. The Akmola SEZ, which had encompassed Akmola Oblast, is to shrink to the Astana city limits only.

The legal basis for the Special Economic Zones is Chapter 12 of the Customs Code (July 12, 1995) and the Decree of the President On Special Economic Zones in the Republic of Kazakhstan (January 26, 1996). That decree provides that individual SEZ's may be established by the President.

The four SEZ's had been established in 1996 and were initially designed to function until late next decade. The presidential decree gave no reason for the SEZ's early termination. (Note: experts say that the government tried to eliminate "unfair competition" from the companies operating in the SEZ against the ones based in other parts of the country. Some of the Lisakovsk SEZ companies were accused of illegal hard liquor production and tax evasion, although no list of lawbreakers was ever published by the government. End note.)

The Chairman of the Administrative Council of the Economic Zones is appointed and dismissed by the President. The administrative authority in the SEZ enjoys a considerable degree of autonomy and is financed by taxes and fees paid by legal entities and natural persons registered in the territory of the special economic zones.

Any commercial operation, with the exception of retail trade, may be conducted in a SEZ. Such zones are defined as located outside the customs territory. Goods may be admitted to such zones from abroad without payment of duty and taxes. Entities operating in the zone, however, are subject to taxation, registration, and licensing legislation. The tax code provides that legal entities registered and operating in the territory of a SEZ are subject to a privileged income tax rate of 20%, as opposed to the 30% rate otherwise applicable to corporations.

In order to operate within a SEZ, a company must be a Kazakhstani legal entity. However, Kazakhstani legal entities may be fully or partially foreign owned. The Decree On Special Economic Zones envisages the admission of foreign citizens into the zone.

F. Foreign Direct Investment (FDI) Statistics

According to the Agency for Investments, the stock of foreign direct investment (1993-1998) was \$5.979 million.

Annual Foreign Direct Investment Flows by Country of Origin
Millions of Dollars

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
USA	247	77	83	181	470
S.Korea	0	187	391	138	0
UK	9	200	318	242	51
Virgin Islands (UK)	0	254	391	345	1
Turkey	62	49	46	51	37
France	197	41	31	9	2
Germany	16	78	40	44	41
Japan	12	5	44	39	0
Others	24	111	121	97	240
Total	567	1002	1465	1146	842

Investment Flows by Sector
(Millions of dollars)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Oil/Gas	556	291	210	220	423
Non-Ferrous Metals	4	313	495	289	32
Ferrous Metals	0	314	576	418	19
Electric Power	0	58	98	144	152
Food Processing	0	10	8	33	118
Communications	7	6	3	6	4
Others	0	10	75	36	94
Total	567	1002	1465	1146	842

FDI Stock (1998) as a Percentage of GDP (1998) = 26.8%

Net FDI Flows as a Percentage of GDP:

1995	1996	1997	1998
6.0%	7.0%	5.1%	3.8%

Largest Investments as of June 1998:

1. TengizChevrOil (TCO), a joint venture founded between Kazakhstanmunaigaz and Chevron, was formed as part of a 40-year, \$20 billion agreement signed in 1993. Mobil obtained a 25-percent share in the joint venture in 1996. In March 1997, Chevron sold to the Russian company LUKoil a 5-percent share of TCO. By the summer of 1998, the joint venture partners had invested more than \$1.1 billion in TCO. In September 1999, TCO stated publicly that construction of the Caspian Pipeline Consortium project, a pipeline from the Caspian across southern Russia to the Black Sea, is proceeding on schedule for completion in the summer of 2001.

2. Philip Morris signed an agreement with the Almaty Tobacco Company in 1993, under which Philip Morris pledged to invest \$350 million through 1998. The project is considered to be one of the largest privatization efforts in the former Soviet Union. Philip Morris has been producing cigarettes in Kazakhstan for domestic consumption since 1994, and hopes to begin exporting large quantities of cigarettes from Kazakhstan in 1997-1998.

- Summer 1998 update: On June 25, 1998 then-Prime Minister Balgimbayev attended a ceremony to lay the cornerstone of a greenfield cigarette manufacturing plant in Almaty oblast. The \$200 million investment will produce over 25 billion cigarettes annually by the year 2000.

3. The Offshore Kazakhstan International Operating Company (OKIOC), nine international petroleum companies (BP-Amoco, Statoil, British Gas, Royal Dutch Shell, Mobil, Agip, Inpex, Philips and Total), in 1993 began work to explore oil and gas reserves in the northern section of the Caspian Sea. The Government of Kazakhstan had been a member but sold its share to Inpex and Philips. Consortium members jointly paid approximately \$350 million for a seismic study and a bonus to the Kazakhstani government for the rights to prospect for oil in the Caspian. Seismic work was completed in August 1996. A production sharing agreement (PSA) was signed in November 1997. Early estimates of offshore reserves are placed at ten billion barrels of oil and two trillion cubic meters of natural gas. OKIOC spouted its first well above the offshore structure known as Kashagan in August 1999.

4. Two international petroleum companies, Agip and British Gas, together with the Russian company Gazprom, signed an agreement in 1992 with the Kazakhstani government for the development of the Karachaganak gas field in western Kazakhstan. Texaco acquired a 20% interest in Karachaganak in the fall of 1997 (Agip and British Gas have a 32.5% interest, and Lukoil has 15% in the field). A PSA was signed for Karachaganak in November 1997. Western partners plan to build a pipeline to Atyrau to join into the Caspian Pipeline Consortium pipeline to Novorossisk, Russia on the Black Sea.

5. In August 1996, the American firm AES bought the Ekibastuz-1 power plant and committed to invest more than \$500 million over the next six years to renovate and improve the facility. The power plant currently generates only 10% of its potential capacity of 4,000 megawatts. In the fall of 1997 AES purchased two hydroelectric power generation plants and several other coal-fired power/heating plants in and around Ust-Kamenogorsk, in eastern Kazakhstan. AES continues to upgrade its entire generation network in Kazakhstan, and is also investigating the export of power to western China and Russian Siberia. However, due to a dispute the Government, AES has requested international arbitration. The arbitration process has been put

on hold while the two sides engage in direct negotiations. The government stressed in December 1999 that it has firm intentions to sign and implement contracts that will allow AES to continue its investment in Kazakhstan.

6. In October 1996, the American firm Access Industries bought the Bogatyr coal mine and 66% of the neighboring Stepnoy coal mine (both part of the giant Ekibastuz colliery) for more than \$40 million. Access pledged to invest \$550 million toward upgrading the coal mines over the next five years. Access Industries continues its investment program at the Ekibastuz colliery. The government is negotiating compensation with Access Industries for disruption to operations caused by competing claims to parts of the Bogatyr mine as of end-1999.

Other major investments in the past several years have included:

Trans World Metals (a UK-registered company) in October 1995 purchased Kazakhstan's chromium plant and associated mine. Trans World paid \$65 million for the facilities and pledged to invest a further \$400 million. As of June 1998, Trans World was locked in a legal battle with Kazakhstan Mineral Resources, a local Kazakhstani company, over rights to its chromium operation and rights to other properties in Kazakhstan.

Ispat (India), in November 1995, purchased the Karaganda steel plant. Ispat paid \$225 million and pledged to invest a further \$450 million. Ispat's Karaganda investment is experiencing losses because of financial problems in East Asia, where it sells most of its product.

Samsung (South Korea) bought the Zhezkazgan Copper plant in May 1996, for which it paid \$49 million and pledged to invest a further \$300 million. Despite falling world prices for copper in 1998, Samsung's low production costs mean its operations in Kazakhstan are still profitable.

Tractebel (Belgium), in October 1996, bought the city of Almaty's electricity and heating facilities. In the spring of 1997, Tractebel also purchased rights to operate the gas pipeline network in southern Kazakhstan. In doing so, Tractebel pledged to spend \$150 million on the construction of a gas pipeline by-pass around the section of pipe currently transiting the Kyrgyz Republic. Tractebel, unable to raise utility rates high enough to earn a profit, claims its Kazakhstani operation is well over \$60 million in debt.

Hurricane Hydrocarbons (Canada), in November 1996, bought the state oil company Yuzhneftegas. Hurricane paid \$120 million for the property and pledged to invest \$280 million. Since acquiring the property, Hurricane has greatly boosted production, selling all of it to the local market in southern Kazakhstan.

Triton-Vuko (Indonesia), in the spring of 1997, bought the Karazhanbas state oil company for an undisclosed sum (presumably in the tens of millions of dollars, along with an associated investment pledge in the hundreds of millions of dollars). The financial crisis in Indonesia has seriously weakened Triton-Vuko's ability to keep to its investment schedule.

Central Asian Petroleum (Indonesia), in the spring of 1997, bought a controlling share of the Mangistau state oil company. Central Asian Petroleum, similarly, is severely affected by the financial crisis in Indonesia.

China National Petroleum Company (CNPC)(PRC) purchased 65% of the Aktyubinsk state oil company in Summer 1997. CNPC paid \$325 million, while pledging to invest a further \$4 billion in the field and in an associated oil pipeline to western China.

CNPC (PRC), in July 1997, was awarded a tender for purchase of the Uzen state oil company. CNPC plans to pay \$52 million for it and to pledge to invest several hundred million dollars in developing the field. The final contract has not yet been signed because it was conditional on building a pipeline to China. A feasibility study on the pipeline has been completed, but not released to the public.

VIII. TRADE AND PROJECT FINANCING

A. Brief Description of Kazakhstan's Banking System

The banking system of Kazakhstan is a system in transition due to consolidation within the industry and movement towards adoption of international banking standards as the National Bank of Kazakhstan (NBK) continues to strengthen its supervision of the financial sector.

The NBK is charged with overall supervision of all banks in the country. It has introduced regulations to implement international banking standards in such areas as accounting, liquidity management, capital requirements, the recognition of problem loans in a timely manner, limitations on insider transactions and limits on aggregate credit exposures to any one borrower. The NBK has also introduced more vigorous requirements for the establishment and licensing of banks. In 1996 the NBK introduced its own chart of accounts, which was prepared with the assistance of USAID and conforms to international standards.

The NBK performs standard central bank functions and acts as lender of last resort.

The number of banks as of November 1999 was 58, down from 71 at year-end 1998. The decrease in the number of banks was due to the NBK policy of increasing capital requirements, the merging of institutions and the re-licensing of some smaller institutions as credit unions or credit partnerships. The number of banks will continue to drop as the NBK implements policies to raise capital requirements for institutions engaged in banking activities.

The ten largest banks control approximately three-quarters of total banking assets. There are four large domestic banks: Kazkommertsbank, Halyk Bank, Turan-Alem Bank and Bank CenterCredit, which share between them over approximately 60% of total banking assets. Halyk bank (80% state owned) is scheduled to be privatized over the next few years. There were 23 banks with foreign participation (*i.e.*, minimum 33% owned by non-residents;) ABN-AMRO is the largest foreign bank in Kazakhstan. Citibank, Societe Generale and Hong Kong Shanghai Bank established subsidiaries in Almaty in 1998.

Total banking sector assets reached KZT 291.5 billion as of September 1999, while total capital levels of the consolidated banking sector have improved to KZT 15.3 billion as of September 1999, up 33% from KZT 47 billion at the end of 1998 and KZT 29 billion in 1997.

Approximately 75% of banks met the capital requirements set by the NBK for 1999. The National Bank of Kazakhstan had set a capital requirement of approximately KZT one billion per bank to be reached by year-end 2000. Currently eleven institutions meet this requirement. Kazkommertsbank, Halyk Bank, Turan-Alem Bank and Temir Bank were assigned credit ratings by international agencies.

The government now recommends that second-tier banks set aside 10% of their loan portfolios for small business lending.

Nine banks now have licenses issued by the NSC to carry out custodian services at the securities markets. Of these nine four are also licensed to carry out custodian services to APF (pension accumulation funds)

Banking remains heavily concentrated in Almaty. As of late 1999, there has not been a noticeable shift of the banking community to Astana, and the NBK has no plans to move to the new capital.

Bank deposits increased by 8% in 1998, but still remain at a low level of overall GDP compared to international norms. This is due to a combination of mistrust of the banking system and historically low yields on deposits. Overall bank lending increased by 21% during 1998, with loans to wholesale and retail trade and the fuel, chemical, oil, food and metal industries predominating. Loans to individuals, while increasing, continue to represent only a small portion of overall bank lending, necessitating borrowing from friends, pawnshops, or barter to obtain funds or capital goods.

Local citizens are wary of the reliability of Kazakhstani banks and fear local tax authorities. They generally keep their savings at home "under the mattress." Kazakhstani banks offer loans at high interest rates, which often frustrate small, budding entrepreneurs. The volume of lending is low, with Kazakhstani banks concentrating on currency speculation and short-term trade finance.

Under existing legislation, foreign banks are not allowed to have branches in Kazakhstan, but may establish subsidiaries, joint ventures and representative offices. Foreign investors are treated equally with Kazakhstani nationals, but their overall share of Kazakhstan's banking system capital must not exceed 25 per cent (excluding portfolio investments), unless the National Bank permits this limitation to be exceeded. (This limitation is currently being reviewed and may be raised to 50%.) If a bank is not a subsidiary of another bank, no person may own more than 25% of its shares without special permission from the National Bank.

Foreign banks have been active in Kazakhstan since 1993. Chinese and Russian banks have established 100% subsidiaries, and several Dutch and Turkish banks have established joint ventures. In June 1998 Citibank received its license to operate a subsidiary in Kazakhstan (it had maintained a representative office for several years prior to this). Two Kazakhstani-American

banking joint ventures, Texaka Bank and Lariba Bank, offer small, community-based loans. Texaka Bank provides personal banking services. American investment in both banks is relatively small, approximately \$500,000 each. The Dutch bank ABN AMRO serves corporate clients' cash management needs.

Many larger banks offer personal banking services, and money transfers from the West can be completed in as little as twenty-four hours through the SWIFT network.

B. Foreign Exchange Controls Affecting Trade

The National Bank of Kazakhstan allows the national currency, the tenge, to float. It is fully convertible with the U.S. dollar. In July 1996, Kazakhstan joined Article 8 of the International Monetary Fund Charter, which calls for full convertibility of the tenge and the removal of all controls on current account transactions.

Kazakhstani banks require that legal entities wishing to withdraw funds from hard currency accounts in local banks present an invoice for goods or services to be purchased to prove the currency is being purchased to fund a service for which the entity has the appropriate license, if necessary. Foreigners have complained that this requirement is burdensome, as businesses cannot predict future expenses in any given month.

According to Article 3(2) of the Law on Currency Regulation the National Bank of the Republic of Kazakhstan has the right to establish restrictions on the currency of payment of export operations of residents and the regime of mandatory sale of export receipts. According to a National Bank's order issued in April 1999, procedures for the obligatory sale of export earnings are now in force. This means that all organizations, including companies of all kinds, are obliged to sell 50% of their foreign currency earnings for local currency.

C. General Financing Availability and Terms of Payment

The levels of capitalization of the Kazakhstani banks do not permit them to finance major projects.

The official National Bank of Kazakhstan refinancing rate as of November 1999 was 18%, below its previous low of 18% in October 1997. Tenge-based loans from Kazakhstani banks carry an interest rate at times 20% higher than the refinancing rate. These high rates are set partly because the rates lag behind falling inflation and partly because the banks are trying to compensate for losses due to bad loans of the past.

In the early 1990's, the Government of Kazakhstan liberally issued sovereign government guarantees for loans from foreign creditors. In 1994-95, as government debt accumulated, Kazakhstan recalled as many as thirty guarantees. This move tarnished Kazakhstan's reputation in the international banking community. Since then the government has been very reluctant to back loans with sovereign guarantees. In 1997 it provided no more than \$50 million in sovereign guarantees. International creditors will continue to approach Kazakhstan with caution and carefully monitor payments on outstanding loans.

The safest method of receiving payment for a U.S. export is through an irrevocable letter of credit (L/C) from a major Western bank. In general, importers must deposit enough funds to cover the payment before applying for a letter of credit. Local companies may apply at any one of several local commercial banks to obtain a L/C, which in most cases, according to Kazakhstani banking legislation, must be confirmed by a reputable Western bank. U.S. companies are strongly advised to re-confirm payment arrangements with the importer prior to shipping goods.

However, Kazakhstani commercial banks are relatively inexperienced with regard to using letters of credit and Kazakhstani firms frequently are unable to pay the bank for products and services obtained through letters of credit.

In December 1996, Kazakhstan placed its first sovereign Eurobond issue, which was valued at \$200 million and was heavily oversubscribed. The government issued a second Eurobond in September 1997 worth \$350 million. Plans to issue a third Eurobond for approximately \$400 million in the fall of 1998 were postponed by the Russian financial crisis. Kazakhstan became the first country in the region back into the bond markets after the Russian financial crisis when it floated a \$200 million Eurobond in September 1999. However, it paid a substantial interest rate premium in order to ensure placement.

D. Types of Export Financing and Insurance Available to U.S. Exporters

1. Export-Import Bank of the United States (Exim): Exim is an independent U.S. government agency that provides support for U.S. exports through export credit insurance, loan guarantees, and loans. It also assists U.S. exporters shipping on short and medium-term credits by insuring against nonpayment. This type of insurance coverage is usually limited to irrevocable letters of

credit issued by the Kazakhstani Exim Bank. Other transactions are examined on a case-by-case basis. U.S. Exim has provided short- and medium-term financing to several projects in Kazakhstan, particularly in the agricultural sector. For further information on U.S. Exim programs, please contact: U.S. Exim Bank, 811 Vermont Avenue NW, Washington, DC 20571; Tel: (202) 565-3946, Fax: (202) 565-3390.

In 1996, the Kazakhstani government decided to strictly limit sovereign guarantees to no more than \$50 million per year. Hence, sovereign guarantees for U.S. Exim financing are, practically speaking, unavailable.

2. Overseas Private Investment Corporation (OPIC): OPIC is an independent U.S. government agency that provides project financing, political risk insurance, and a variety of investor services in approximately 140 developing countries and emerging economies around the world. OPIC encourages U.S. private investment in sound business projects overseas, thereby improving U.S. global competitiveness, creating American jobs, and increasing U.S. exports. OPIC focuses its efforts mainly on the following areas: 1) financing of investments through direct loans and loan guarantees; 2) insuring investments against a broad range of political risks; and 3) providing investor services such as trade missions and outreach. To be eligible for OPIC financing, an

overseas venture must either be wholly owned by a U.S. company or a joint venture between a local partner and an American company. The U.S. investor should contribute at least 25% of the required equity investment. For more information, contact: Overseas Private Investment Corporation, 1100 New York Avenue NW, Washington, DC 20527; Tel: (202)336-8651; Fax: (202)408-5145.

E. Types of Project Financing Available

1. Export-Import Bank of the United States--see above.
2. Overseas Private Investment Corporation -- see above.
3. Central Asian-American Enterprise Fund (CAAEF): The CAAEF has offices in all five Central Asian republics, and makes loans to small enterprises for private sector development. The U.S. government-sponsored \$150 million fund makes equity investments, approves loans, and offers technical assistance to new private companies and entrepreneurs in the Central Asian republics. Emphasis is placed on small- and medium-sized enterprises. The CAAEF also offers assistance to Kazakhstani entrepreneurs for business plan development. The CAAEF's mandate is similar to U.S. government-supported funds operating in Poland, Russia, Ukraine and the western Newly Independent States (NIS), and the Czech Republic. For more information, contact: Jan Owens, Acting CEO, Central Asian-American Enterprise Fund, 531 Seyfullina St., Almaty, Kazakhstan 480083; Tel: 7 (3272) 587-912; Fax: 7 (3272) 587-913.
4. U.S. Trade and Development Agency (TDA): The Trade and Development Agency, an independent U.S. government agency, provides funding for U.S. firms to carry out feasibility studies related to major projects in developing countries in emerging markets. TDA funding is in the form of non-reimbursable grants for studies to determine the technical, economic, and financial feasibility of major projects, and to provide detailed data for making decisions on how to proceed with project implementation. Historically, TDA has provided funding for public-sector undertakings, planned and implemented by government ministries and agencies. Increasingly, countries, including some NIS countries, have begun to promote private sector involvement in major infrastructure and industrial projects.

The appropriate Kazakhstani sponsoring organization (government or private sector) must make an official request for TDA assistance directly to TDA in writing. If a U.S. firm is already working with a Kazakhstani entity, the American partner should submit a separate proposal to TDA, following an outline available from TDA. For more information about TDA activities, please contact: Dan Stein, Deputy Director, U.S. Trade and Development Agency, SA-16, Room 309, Washington, DC 20523-1602; Tel: (703) 875-4357; Fax: (703) 875-4009.

5. The World Bank: The World Bank is a source of long-term financing for projects in Kazakhstan. The World Bank finances not only traditional infrastructure projects such as road and bridge building, oil and gas development projects, and power facilities but also finances health and social sector projects. The World Bank has provided structural adjustment loans to Kazakhstan to assist the country in resolving some of its financial problems through market-

oriented policy and institutional reforms. As of end-1999, Kazakhstan had signed agreements with the World Bank for approximately \$1.82 billion in technical assistance and financing in such areas as urban transport, oil and gas field development, pension reform, agricultural privatization and social protection. In addition, the World Bank has many projects under preparation for financing in the areas of treasury modernization, highway infrastructure, power transmission modernization, environmental protection and private enterprise support. Total undisbursed financing from existing projects and financing for future projects is more than \$ 1 billion. For more information on World Bank activities in Kazakhstan, please contact: Kadir Tanju Yurukoglu, Resident Representative, World Bank, 41 Kazybek Bi, Building A, 4th floor Almaty, Kazakhstan 480100, Tel: 7-(3272)608-580; Fax: 7-(3272)608-581. In Washington, please contact: Charlie Kesterbaum, U.S. Liaison Officer, World Bank, 1776 G St. NW, Washington, DC 20433; Tel: (202)458-0120; Fax: (202)477-2967.

6. International Finance Corporation (IFC): The IFC, the private sector arm of the World Bank, provides loans for small-scale projects (not exceeding \$10 million) in developing countries and emerging markets. The IFC is focusing its efforts in Kazakhstan on private sector development, and is actively analyzing small and medium-scale undertakings in the medical, agricultural (including food processing), and consumer goods sectors. For more information, please contact: Gorton Demond, F Building, Room 3P228, 2121 Pennsylvania Ave., N.W., Washington, DC 20433; Tel: (202)473-5639; Fax: (202)974-4397.

7. European Bank for Reconstruction and Development (EBRD): The EBRD provides loans for large projects, as well as technical assistance, in the areas of oil and gas development, mining, agriculture, and infrastructure development. As of June 30, 1999, the EBRD had signed eight investments in Kazakhstan worth approximately \$480 million. The EBRD financed the recently completed reconstruction of the Aktau Port facility in western Kazakhstan. In addition, the EBRD has developed a 100 million ECU program to develop small and medium-sized enterprises (SME). The funds from this program will be channeled through selected participating banks in Kazakhstan. The SME program helps local entrepreneurs draft business plans to develop bankable projects, and issues loans to small and medium-sized enterprises for up to five million dollars. A new investment will finance the modernization of Kazakhstan's railroad system. For further information on EBRD programs in Kazakhstan, please contact: Dean Peterson, U.S. Liaison Office, EBRD, One Exchange Square, London, EC2A, 2EH, United Kingdom; Tel: 44 (171)338-6609; Fax: 44 (171)338-6680. The EBRD resident representative is: Michael

Davey, European Bank For Reconstruction and Development 10-A Abay St., corner of Furmanov, 8th floor, Almaty, Kazakhstan 480013, Tel: 7 (3272) 632-247, 631-576; Fax: 7 (327)-581-1424.

8. Defense Enterprise Fund (DEF): With U.S. government funding, the DEF was created as a not-for-profit capital fund in March 1994 to assist the Newly Independent States of Russia, Kazakhstan, Ukraine, and Belarus to privatize defense industries and to convert military technologies and capabilities into civilian enterprises. The DEF makes both equity investments and loans, and may make grants to qualified joint venture projects, with a preference for joint

business initiatives involving U.S. firms or a U.S. subsidiary of a foreign-owned firm. The DEF invests only in initiatives involving privatized enterprises or in enterprises that have committed, in writing, to privatization. For more information on the DEF's activities in Kazakhstan, please contact: Dennis Montz, Vice President and Investment Manager, Defense Enterprise Fund, 20 Custom House St., Suite 1040, Boston, MA 02110; Tel: (617) 261-1929; Fax: (617) 261-1935.

9. The Asian Development Bank (ADB): The Asian Development Bank, headquartered in Manila, is an international financial development institution owned by 56 member countries of which the United States and Japan are the largest shareholders. As of the beginning of 1999, the ADB had signed agreements to lend Kazakhstan \$415 million. The transport and communications sector received the largest share of lending, followed by energy, agriculture and natural resources, and social infrastructure. Loan agreements for an additional \$115 million for agriculture and roads were signed in 1999. The Bank's medium-term strategy focuses on poverty reduction, improving the status of women, population planning and environmental protection. Going into the next century, the Bank has also assumed the role of a catalyst for development. In implementing this policy, the Bank leverages its own financial resources through co-financing and other modalities to attract additional private capital in funding the development needs of its member countries.

A commercial liaison office, which reports directly to the Office of Multilateral Development Banks at the Commerce Department in Washington, assists U.S. suppliers and consultants in winning contracts on projects and activities funded by the Bank. The office includes a senior commercial officer and two commercial specialists. One of the specialists represents the United States-Asia Environmental Partnership (US-AEP) at the Bank. The

liaison works closely with the U.S. Executive Director who represents the United States on the Bank's board of directors.

Since 1967, the U.S. has won \$2.8 billion in overall procurement. For the period 1995-1996, the United States ranked number one in overall procurement among donor countries, receiving a total of \$533.3 million in contract awards. The U.S. has consistently ranked first in consulting services awards, capturing about 20% of total awards every year.

In Kazakhstan, the Bank is involved in a road rehabilitation project on a portion of the Almaty - Astana highway and is considering lending funds to support Kazakhstan's pension reform efforts.

Interested parties should contact: Peter Choynowski, Resident Representative, Asian Development Bank, 126\128 Panfilov St., corner of Zhambul St., Almaty, Kazakhstan 480091, Tel: 7 (3272) 639-329; Fax: 7 (3272) 631-912, E-mail: karm@asdc.kz In the U.S.: Cantwell Walsh, U.S. Commercial Liaison to the Asian Development Bank; Fax: (632) 890-9713, e-mail:cwalsh@doc.gov.

G. List of Banks with Correspondent U.S. Banking Arrangements

Some of the largest banks in Kazakhstan have correspondent arrangements with U.S. banks. The following banks have these arrangements:

Kazkommertsbank
49 Bayseitovoy St.
Almaty, Kazakhstan 480013
Tel: 7-(3272)638-553; FAX: 7-(3272)638-571

Narodnyy Bank
101 Rozybakiev St.
Almaty, Kazakhstan 480046
Tel: 7-(3272)462-881; FAX: 7-(3272)460-264

Bank Tsenter Credit
156 Bogenbay Batyr
Almaty, Kazakhstan 480012
Tel: 7-(3272)507-813; FAX: 7-(3272)630-929

Lariba Bank
81A Rozybakiev St.
Almaty, Kazakhstan 480046
Tel: 7-(3272)491-432; FAX: 7-(3272)496-421

Texaka Bank
24 Zenkov St., 3rd Floor
Almaty, Kazakhstan 480100
Tel: 7-(3272)308-614, 302-500; FAX: 7-(3272)506-309

ABN AMRO Bank
45 Khadzhi Mukana St.
Almaty, Kazakhstan 480099
Tel: 7-(3272)507-301; FAX: 7-(3272)507-503

Hong Kong Shanghai Bank
43 Dostyk Avenue
Almaty, Kazakhstan, 480100
Tel 7-(3272) 581333; FAX 7- (3272) 501501

Societe Generale
41 Kazybek bi St
1st floor
Almaty, Kazakhstan, 480100
Tel 7 -(3272) 608200; FAX 7- (3272) 608222

IX. BUSINESS TRAVEL

A. Business Customs

In terms of business customs, Kazakhstan is more European than Asian. It is customary to shake hands and call people by their first and patronymic names at business meetings, as well as at informal get-togethers. However, men generally do not shake women's hands in company. Business attire is generally a suit and tie for men, and a suit or business dress for women. Small gifts (pens, company logo pins, memo, and books) are sometimes given at the end of a meeting as a token of appreciation. Business cards are the norm, often in both Russian and English.

Kazakhstani businessmen are generally less direct than American businessmen, and what can be accomplished in three meetings in the U.S. might take thirteen in Kazakhstan, requiring patience and discipline on the part of the U.S. businessmen. An experienced, discreet and motivated interpreter can add invaluable context to your business meetings.

It is common in Kazakhstan to have dinner with business contacts, but only after establishing business contacts in a more formal setting. Business attire is worn. Usually diners share a bottle of vodka or cognac and offer toasts, stating their desire for a fruitful business relationship and warm personal relations between partners. After-hours informal meetings, dinners and toasts, as well as weekend hunting and barbecues can be very important to forge business relations.

B. Travel Advisory and Visas

There is no U.S. Government travel advisory in effect for Kazakhstan.

U.S. business travelers should obtain a Kazakhstani visa through Kazakhstani embassies abroad, prior to arrival in Kazakhstan. Travelers may reach the Embassy of Kazakhstan in the U.S. in Washington, DC at 1401 16th Street, N.W., Washington, DC 20036; Tel: (202) 232-5488; Fax: (202) 232-5845. Travelers coming from countries that do not have a Kazakhstani embassy should see if the Russian Embassy handles Kazakhstani visas (by bilateral agreement). The Embassy of Kazakhstan requires a completed visa application form; the applicant's passport (not a photocopy); three professional, identical black and white passport-size photos; and a letter of invitation from a sponsoring institution in Kazakhstan. Visas are absolutely necessary in Kazakhstan: travelers have been put back on the plane in Almaty if they do not have valid visas.

Two types of invitations usually suffice an invitation from a registered Kazakhstani sponsor (an individual or organization), or a Kazakhstani-based organization.

In December 1999, the cost of a single-entry visa for a one-week stay was \$30; for two weeks \$50; for one month \$70; more than one month \$10. The cost of a one-year multiple-entry visa was \$200; for two years the cost was \$400. A transit visa costs \$15. These prices do not include a separate \$5 processing fee. Note: visa fees change often and with little notice. Please check with the U.S. Embassy Commercial Service for up-to-date information.

All travelers must register with the Kazakhstani Office of Visas and Registration (OVIR) within three days of arriving in the country. At the airport upon departure, severe fines may be served without proper documentation from OVIR. If invited by a local firm, the local firm can assist with visa registration procedures. Some leading Hotels also offer assistance with registering visas. Otherwise, travelers should expect to spend one full day at the main OVIR office, located

on the corner of Bogenbay Batyr and Masanchi Streets, Registration Department: Tel: 7 (3272) 62-54-62, 63-86-81. Travelers should prepare a written request for registration, which should include full name; citizenship, passport number; duration of stay; address in Kazakhstan; purpose of the trip; and places in Kazakhstan to be visited. As of the end of 1999, the registration fees are: up to 10 days--around \$20; up to 30 days--around \$50; each additional 30 days--around \$5. Major hotels generally take care of OVIR registration, but be sure to check.

In January 2000, the Government of Kazakhstan announced that all travelers transiting Kazakhstan, regardless of whether they have a valid visa for another CIS country, must obtain a Kazakhstani transit visa. A Kazakhstani visa allows a traveler to transit many other countries of the Commonwealth of Independent States (CIS) for a maximum of 72 hours without a visa for that country. However, as of June 1999, Kyrgyz visas are required for all travel to Kyrgyzstan, whether or not you have a valid Kazakhstani visa. Uzbekistan has also announced that as of January 1, 2000 it will require visas for all travel to and through Uzbekistan, including transit, regardless of whether the traveler has a valid visa from another CIS country.

C. Kazakhstani Holidays

January 1	New Year's Day
March 8	International Women's Day
March 22	Nauryz (Kazak New Year's Day)
May 1	Unity Day
May 9	Victory Day
August 30	Constitution Day
October 25	Day of Unity
December 16	Independence Day

The U.S. Embassy in Almaty is closed on both Kazakhstani and American holidays.

D. Business Infrastructure

Travel to Astana - the new capital of Kazakhstan

Any need to conduct business with the Kazakhstani Government requires a visit to Astana. Since the official dedication of the capital in June 1998, more and more businessmen have made Astana a part of their travel itinerary--as witnessed by the packed daily 7:00 am shuttle. U.S. business based in Astana largely does "day trips" to the capital to allow for meetings and business lunches/dinners. The five-star Intercontinental Hotel is a pricey but favored spot for informal meetings. A car and driver, an Almaty based interpreter and a cellular telephone with international access are a standard part of any business day in Astana. Day rates are available at International Hotel for morning arrivals and evening departure clients. Temperatures range from -35 C in the winter to +40 C in the summer--be sure to dress appropriately. Air travel between Astana to Almaty during the October-March period can be difficult and unpredictable given Almaty airport's tendency to fog in and Astana's blizzards. Be prepared to wait it out in the airport or take a 20-hour train ride--driving is not recommended. The lack of major infrastructure will make doing business in the new capital difficult in the short run. The U.S. Commercial Service Almaty provides the popular U.S. Embassy Gold Key Service for Almaty

and Astana--let us handle your business and logistical programming. For more information please contact U.S. Embassy Commercial Service (See Chapter XI).

Transportation

There is no direct commercial air service between the U.S. and Kazakhstan. International airlines serving Almaty from Europe, the gateway for most travelers, include: Transaero, Austrian Airlines, KLM, Turkish Air, Lufthansa, Asia-Service, San, and Air Kazakhstan (formerly Kazakhstan Air), British Airways. Travelers to Kazakhstan may experience prolonged delays, unexpected re-routing and sudden cancellations of flights. Air Kazakhstan, the government airline, has scheduled flights to some Asian cities. Due to financial problems, poor weather, and erratic supplies of aviation fuel, domestic and international flights on Air Kazakhstan are frequently disrupted.

Roads in Kazakhstan are poorly maintained; a four-wheel drive vehicle is recommended for comfort and safety, especially in the winter. Americans wishing to drive in Kazakhstan should possess a valid American driver's license and international driver's license. Trains are inexpensive and keep fairly reliable schedules (more reliable than airplanes), but are slow, uncomfortable, and sometimes attract thieves. Buses between cities are often slow and uncomfortable.

On occasion, Americans traveling in Kazakhstan have reported problems with local officials demanding documentation authorizing travel within their province, in cities officially open to foreigners. However, there is no apparent pattern to this situation.

Hotels

Hotel prices in Almaty range from \$300 (not including a 20% VAT) for a single room at the five-star Rakhat Palace Hyatt Regency (other luxury hotels include the Ankara and Astana), to Soviet-style hotels that charge approximately \$100-150 per night for a single room. In the summer of 1998, the five star Intercontinental Hotel was opened in Astana. Other hotels recommended in Astana are: Tourist Hotel, Ishym Hotel, and Comfort Hotel. Many hotels now accept major credit cards; the Hyatt will also allow guests to obtain a cash advance from their credit cards. Many hotels have a business center with computers, business assistance services and fax capability, although with a high price tag. U.S. companies can also take advantage of competitively priced business facilitation services offered by the American Business Center, co-located with the U.S. Commercial Service offices. The following hotels in Almaty are not recommended because of problems with cleanliness and security: Danyl, Dinamo, Kargalinka, Kolos, Kulan, Molodezhnaya, Salut, Sport, and Turkestan.

Communications

International direct-dial telephone lines are available; calls via satellite range from \$1.5 to \$3 per minute plus VAT. Cellular telephone - 24 cents (GSM) to 40 cents (AMPS) per minute, and

paging services are also available. Fax capabilities are generally good, and there are several options for e-mail.

Health

The air in Almaty is dusty, polluted, and often dry. Travelers should be inoculated against diphtheria, hepatitis A/B, meningitis, and influenza. It is advised that drinking water be filtered or boiled. Many business travelers drink bottled water and carefully clean fruits and vegetables before eating. Medical care in Kazakhstan is below western standards, with severe shortages of basic medical supplies. Travelers should obtain overseas medical insurance that includes coverage for medical air evacuation.

Food and Miscellaneous

Almaty's restaurants are gradually reaching international standards, but high prices are no guarantee of quality. Almaty has restaurants with American, Austrian, Chinese, Indian, Italian, Korean, Lebanese, Pakistani, Swiss and Turkish cuisine's. Tipping does not follow any specific formula, but a service charge of 5-10% may be added to the bill. Traditional Kazakh cuisine revolves on horse meat. Besbarmak is the most popular dish, served every day and on special occasions. Dairy products are also popular and include: Kumys (mare's milk); Shubat (camel milk); and Airan.

Kazakhstan uses the metric system of weights and measures. Electrical appliances run on 220 volts AC.

Language

According to the Kazakhstani constitution, Kazak is the "state" language and Russian an "official" language. Though the government of Kazakhstan makes efforts to enforce the official use of Kazakh language, Russian is generally used in everyday communications and in business. Kazakh is much more prevalent in western and southern Kazakhstan and Russian in the eastern and northern regions of the country. In Almaty, most local residents speak Russian and many speak foreign languages, predominantly English. English is rarely spoken outside the capital. A Russian-English phrase book, with sayings printed in Russian and English, can go a long way to avoid misunderstanding.

X. APPENDICES

APPENDIX A: COUNTRY DATA

POPULATION (in millions): 14.9 (March, 1999)

AREA: 2.7 million square km

POPULATION DENSITY: 5.5 people per square km

BIRTH RATE (1997): 14.7 births per 1,000

LIFE EXPECTANCY (1997):

MALE: 59.0 years

FEMALE: 70.2 years

ETHNIC COMPOSITION (1999)

Kazak 52.0%

Russian 31.4%

Other 16.6% (This includes mostly Ukrainians, Tatars, Germans, in descending numbers.)

POPULATION GROWTH RATE (1998): -1.2%

Urban: 55.1%

Rural: 44.9%

RELIGIONS (based on 1991 data):

Sunni-Muslim: 47%

Russian Orthodox: 44%

Protestant: 2%

Other: 7%

GOVERNMENT SYSTEM: Parliamentary Democracy

Main Government Officials (see Appendix E, Sect. H)

President: Nursultan Nazarbayev

Prime Minister: Kasymzhomart Tokayev

First Deputy Prime Minister: Alexander Pavlov

Deputy Prime Minister: Daniyal Akhmetov

Deputy Prime Minister: Erzhan Utembayev

Minister of Foreign Affairs: Yerlan Idrisov

Minister of Finance, Mazhit Esembayev

Minister of Agriculture: Sauat Mynbayev

Minister of State Revenues: Zeynulla Kakimzhanov

Minister of Economy: Zhaksybek Kulekeyev

Minister of Energy, Industry and Trade: Vladimir Shkolnik

Minister of Transport, Communication: Serik Burkibayev

President of National Oil Company "Kazakhoil": Nurlan Balgimbayev

Minister of Ecology and Natural Resources: Serikbek Daukeyev

LANGUAGES:

Kazak: State language

Russian: Official language (used routinely in business)

WORK WEEK: Monday through Friday, 9-6

APPENDIX B: DOMESTIC ECONOMY

		1996	1997	1998
GDP (\$ billion)	22.1	22.5	21.9	
Real GDP (Pct change)	1.1	2.0	-2.5	
GDP Per Capita (\$)	1,408	1,433	1,395	
Gov't Spending (Pct of GDP)	19.8	20.0	20.0	
Inflation (Pct change)	27.5	11.2	1.9	
Unemployment (Pct)	13.0	13.0	15.0	
Foreign Exchange Reserves (\$ million)	1,244	2,200	1,350	
Average Exchange Rate Tenge/\$	67	75	80	
Gross External Debt (\$ million)	4,205	5,951	7,543	

Debt Service Ratio (Pct)	11.8	14.6	N/A
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U.S. Economic Assistance (\$ million, U.S. fiscal years)	34	36	38
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APPENDIX C: TRADE - 1996, 1997 AND 1998
(in \$ Millions)

	1996	1997	1998
Kazakhstani Exports	6292	6769	5,470
Kazakhstani Imports	6618	7154	7,120
Exports to U.S.	59	139	76
Imports from U.S.	66	202	268

(Note: The above figures should be used only as baseline estimates.)

APPENDIX D: Foreign Direct Investment (FDI) Statistics

See Chapter VII, F, for FDI statistics.

Joint Ventures in Kazakhstan

According to the National Statistics Agency of the Republic of Kazakhstan, by January 1, 1998 there were 1,388 joint ventures registered in Kazakhstan. The following is a partial list:

1. Russia 237
2. Turkey 228
3. Germany 116
4. USA 115
5. China 79
6. UK 53
7. Iran 45
8. S. Korea 38
9. Others 477

CHAPTER XI. U.S. AND COUNTRY CONTACTS

Appendix E: U.S. Contacts and Kazakhstani Contacts

A. U.S. Embassy Contacts:

Richard H. Jones, U.S. Ambassador to Kazakhstan
Jon Purnell, Deputy Chief of Mission
Ann Breiter, Chief of Political/Economic Section (arrival 09/99)
Alfred Vincent, Regional Security Officer
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Almaty, Kazakhstan 480091
Tel: 7-(3272) 63-39-21; Fax: 7-(3272) 63-38-83

Julie Snyder, Senior Commercial Officer
Patrick Smeller, Commercial Officer
Alexander Katkov, Senior Commercial Specialist
Nataliya Antonenko, BISNIS Representative
Banat Ashkenova, SABIT CAR Coordinator
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Glenn Anders, Director
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Wylie Williams, Director
U.S. Peace Corps
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B. Selected U.S. Government Grantees and Contractors:

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E-mail: office@zdrav.alma-ata.su

ARD/CHECCI/Commercial Law Drafting and Implementation Project
103 Furmanov Str, 8th floor, corner of Dzhambul Street
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American Bar Association
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ALmaty, Kazakhstan 480091
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Arthur Andersen/Capital Markets Institutional Development
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Astana, Kazakhstan.
Tel/Fax: 7-(3172) 26-17-07

EcoLinks/IIE
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IBTCI/Bank Supervision
IBTCI/Bank Accounting
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Futures Group/Policy Project
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KIMEP/IRIS
4 Abay Pr., 1st floor
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International Executive Service Corps
76 Kabanbay Batyr St., corner of Dostyk Avenue, Room 2
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Tel: 7-(3272)61-88-21,61-57-62; Fax: 7-(3272)50-62-46

KPMG/Fiscal Reform
93/95 Ablay Khan St., Rooms #505
Almaty, Kazakhstan 480091
Tel: 7-(3272)50-71-27,50-76-05; Fax: 7-(3272)50-76-05
Astana, Kazakhstan
92 Ablay Street, Room 519
Tel: 7-(3172) 28-02-09; Fax: 7-(3172)28-01-29

Volunteers in Overseas Cooperative Assistance (VOCA)
157A Abay Avenue, 3rd floor, Suite 12
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C. Other Non-Governmental Organizations:

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American Chamber of Commerce in Kazakhstan
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D. U.S. Department of Commerce:

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Judith Robinson, International Trade Specialist
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E. U.S. Department of State:

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F. Other Agencies:

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Homepage:<http://www.tda.gov>

Peter Ballinger, Director of Marketing
Overseas Private Investment Corporation
1100 New York Avenue NW
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Tel: (202) 336-8600; Fax: (202)408-5145
Homepage:<http://www.opic.gov>

David Fiore, Senior Loan Officer
U.S. Export-Import Bank
811 Vermont Avenue NW
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G. Chambers of Commerce and Business Associations:

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E-mail:tpprkaz@online.ru
Website: <http://www.ccikaz.kaz>

Yesen Amanzholov, Executive Director
Kazakhstan Center for Support and Development of
Entrepreneurship
58-A Ablay Khan Prospect, 6th floor
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Kazakhstan Business Service Foundation (under Kazakhstan Center
for Support and Development of Entrepreneurship)
58-A Ablay Khan Prospect
Almaty, Kazakhstan 480004
Tel/Fax: 7-(3272)33-54-24

H. Kazakhstani Government:

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President of the Republic of Kazakhstan
Presidential Administration
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Kasymzhomart Tokayev, Prime Minister
Government Apparat
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Alexander Pavlov, First Deputy Prime Minister
Government Apparat
60 Republic Av.
Astana, Kazakhstan 473000
Tel: 7 (3172) 32-30-04; Fax: 7 (3172) 32-40-89
Website: <http://www.kazinvest.kz> (under construction)

Daniyal Akhmetov, Deputy Prime Minister
Government Apparat
11 Beybitshilik St.
Astana, Kazakhstan 473000
Tel: 7(3172) 32-76-49; Fax: 7 (3172) 32-48-03

Erzhan Utembayev, Deputy Prime Minister
Government Apparat
11 Beybitshilik St.
Astana 473000
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Fax: 7 (3172) 15-23-08

Bolat Nurgaliyev, Ambassador of Kazakhstan to the U.S.
1401 16th St., NW, Washington, D.C. 20036
Tel: (202) 232-5488; Fax: (202) 232-3541, 232-5845

I. Selected Kazakhstani Ministries and Agencies:

(Note: The Kazakhstani government and most of its ministries have relocated to the new capital, Astana, about 800 kilometers north of Almaty.)

Sauat Mynbayev, Minister
Ministry of Agriculture
49 Abai St.
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Tel: 7 (3172) 32-37-63; Fax: 7 (3172) 32-45-41

Zhaksybek Kulekeyev, Minister
Ministry of Economy
2 Beybutshilik St.
Astana, 473000
Tel/Fax: 7 (3172) 33-30-03

Krymbek Kuserbayev, Minister
Ministry of Education and Science
83 Kenesary St.
Astana, Kazakhstan 473000
Tel: 7 (3172) 32-25-40; Fax: 7 (3172) 34-12-70

Vladimir Shkolnik, Minister
Ministry of Energy, Industry and Trade
37 Beybitshilik St.
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Tel: 7 (3172) 33-71-33, 33-71-34; Fax: 7 (3172) 33-71-64

Mazhit Esembayev, Minister
Ministry of Finance
60 Republic Prospect
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Tel: 7 (3172) 33-41-86; Fax: 7 (3172) 28-03-21

Yerlan Idrisov, Minister
Ministry of Foreign Affairs
Government Apparat
10 Beybitshilik St.
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Tel: 7 (3172) 32-71-22; Fax: 7 (3172) 32-76-67

Baurzhan Mukhamedzhanov, Minister
Ministry of Justice
45 Pobeda St., Room 304
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Nikolay Rodostovets, Minister
Ministry of Labor and Social Protection of the Population
2A Manas St.
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Tel: 7 (3272) 15-36-02; Fax: 7 (3272) 34-12-70, 15-36-54

Serikbek Daukeyev, Minister
Ministry of Natural Resources and Protection of the Environment
81 Karl Marx St.
Kokshetau, Kazakhstan 475000
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Mr. Zeynulla Kakimzhanov, Minister
Ministry of State Revenue
50 Abay St.
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Tel: 7 (3172) 32-69-51; Fax: 7 (3172) 332-69-63

Serik Burkitbayev, Minister
Ministry of Transport and Communication
49 Abay Pr.
Astana, Kazakhstan 437000
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II. Selected State Committees and Agencies

Dulat Kuanyshev, Chairman
State Agency for Investment
10 Beybitshilik St.
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Maratkali Nukenov, Chairman
State Customs Committee
166 Pushkin St.
Astana, Kazakhstan 473000
Tel: 7 (3172) 75-04-47; Fax: 7 (3172) 75-30-16, 75-31-09

Kayrat Kelembetov, Chairman
Agency for Strategic Planning
99 Abay St.
Astana, Kazakhstan 473000
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Nurlan Balgimbayev, President
National Oil & Gas Company "Kazakhoil"
60 Republic Pr.
Astana, Kazakhstan 473000
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142 Bogenbay Batyr St.
Almaty, Kazakhstan 480091
Tel: 7 (3272) 62-60-80; Fax: 7 (3272) 69-54-05

Timur Kulibayev, President
Kazakhstan Oil Transportation Company "KazTransOil"
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Astana, Kazakhstan 473000
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Nurlan Sakipov, President
National Telecommunications Company KAZAKHTELECOM
86 Ablay Khan Pr., corner of Bogenbay Batyr St.
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Alexander Krinichansky, President
National Airways Company "Air Kazakhstan Group"
14 Ogareva St.
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Ablay Myrzakhmetov, General Director

National Railways Company “Kazakhstan Temir Zholy”
98 Pobedy Pr.
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Department of Science and New Technologies
127 Furmanov St.
Almaty, Kazakhstan 480091
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J. Country Market Research Firms:

Mikhail K. Nazarchuk, Regional Coordinator
FYI Information Resources for a Changing World
1413 K St.NW, 10th floor
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Tel: (202)682-2394; Fax: (202)682-2399

Khamid Rakishev, Chairman
Chamber of Commerce and Industry of the Republic of Kazakhstan
26 Masanchi Street
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Yelena Kireyeva, Director
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4 Abay Ave. , Room 417
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Alexander Ruzanov, President
BRIF Social & Marketing Research Agency
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Gyulsum T. Akhtamberdieva, General Manager
Carana Corporation/Accounting
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Information and Presentation Center
of the Raw Materials Complex of Kazakhstan
85 Dostyk Avenue

Almaty, Kazakhstan 480100
Tel: 7-(3272)63-54-16; Fax: 7-(3272)63-87-43

K. Selected Kazakhstani Law and Consulting firms

Kazakhstani Law firms:

Mr.Nukolai Slavyak, General Manager
Lex Analitik
85A Dostyk Avenue, 3rd floor, Apt. #314,315
Almaty, Kazkhstan 480021
Tel: 7-(3272) 50-62-17, 63-69-22; fax:7-(3272) 50-62-17

Mr.Tlek Baygabulov, President
GRATA
157 Shevchenko Street, corner of Zharokov Str.
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Ms.Olga Chintsova, Director
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Kazakhstani Consulting firms:

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Ms. Saule Kanasheva, Director
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Ms.Botagoz Dzhangaustina, Director
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118 Pushkin Str., corner of Kurmangazy Str., office 201
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L. Consulting Firms

Russell W. Lambert, Managing Partner
PriceWaterhouse Coopers
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Almaty, Kazakhstan 480070
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Susanne Stenfors, Manager
Robert Ames, Head of Tax Division
Arthur Andersen
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Keith Byer, Manager
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Nick Hortle, Partner
KPMG Janat
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M. Law Firms

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Gregory Vojack, Resident Attorney
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Steven Nielsen, Partner; Erlanbek Zhusupov, Partner
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Yuriy Maltsev, General Director, Joel Benjamin, Director
White & Case
20A Kazybek Bi street
Almaty, Kazakhstan 480100
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N. Country Commercial Banks and Financial Institutions:

Reza Ghaffari, General Representative
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41 Kazibek Bi St., 2nd floor
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Alexander Boychenko, Chairman of the Board
Lariba Bank
181-A Rozybakiyev Street, corner of Kikhtenko Str.
Almaty, Kazakhstan 480060
Tel: 7-(3272)49-14-32; Fax:7-(3272)49-64-21
Igor V. Gonsul, President

TexaKa Bank
24 Zenkov Street, 3rd floor
Almaty, Kazakhstan 480100
Tel: 7- (3272)30-80-27; Fax: 7- (3272)50-63-09

Otbert de Jong, General Manager
ABN-AMRO Bank Kazakhstan
45 Khadzhi Mukana Street
Almaty, Kazakhstan 480099
Tel: 7-(3272)50-73-00/1, 64-35-52; Fax: 7-(3272)50-73-03, 50-72-98

Yerzhan Tatishev, Chairman
Turan-Alem Bank
55 Aiteke Bi St, corner of Furmanov Street
Almaty, Kazakhstan 480091
Tel: 7-(3272)50-01-00; Fax: 7-(3272)50-02-24

Bisenbay Izteleuov, Chairman
Eximbank Kazakhstan
118 Pushkina Street, corner of Kurmangazy Str.
Almaty, Kazakhstan 480021
Tel: 7-(3272) 62-28-15; 63-43-00; Fax: 7-(3272) 50-75-49

Nurzhan S. Subkhanberdin, Chairman of the Board
Kazkommertsbank
49 Bayseitova Street.
Almaty, Kazakhstan 480013
Tel: 7-(3272)50-51-06/7, 63-85-53; Fax: 7-(3272)63-85-71
Homepage: <http://www.kazkombank.almaty.kz>

O. Multilateral Development Banks and Investment Funds:

Kadir Tanju Yurukoglu, Resident
World Bank / International Bank For Reconstruction And Development
41A Kazybek Bi Str., corner of Kaldayakov Str., 4th floor
Almaty, Kazakhstan 480100
Tel: 7-(3272)60-85-20; Fax: 7-(3272)60-85-81

Paul Burton, Deputy Resident Representative
European Bank for Reconstruction and Development
10-A Abay St., corner of Furmanov 8th floor
Almaty, Kazakhstan 480013
Tel: 7-(3272)58-14-23/4; Fax: 7-(3272) 58-14-22-422
Peter Choynowski, Resident Representative
Asian Development Bank
126\128 Panfilov St., corner of Zhambul St.

Almaty, Kazakhstan 480091
Tel: 7-(3272)63-93-29; Fax: 7-(3272)63-19-12
E-mail: karm@asdc.kz

John Owens, Senior Vice-President and Chief Investment Officer
Central Asian-American Enterprise Fund
531 Seyfullin Prospect, 2nd floor
Almaty, Kazakhstan 480091
Tel: 7-(3272)63-58-48, 63-88-15; Fax: 7-(3272)69-45-89
E-mail: caaef@sovam.com

Central Asian-American Enterprise Fund
1634 Eye Street, N.W., Suite 2000
Washington, D.C. 20006
Tel: (202)737-7000; Fax: (202)737-7077
E-mail: us@caaef.com

Michael Waxman-Lenz, Vice-President
Post Privatization Fund
64 Zhibek Zholy Str., office 501
Almaty, kazakhstan 480002
Tel: 7-(3272)33-13-57,33-57-46,33-55-82; Fax: 7-(3272)50-39-09

Scott Foushee, General Manager
AIG Silk Road Capital Management Ltd.
64 Amangeldy Str., corner of Kabanbay Batyr Str., 1sr floor
Almaty, kazakhstan, 480012
Tel: 7-(3272)60-82-73; 7-(3272)60-82-72

TPCC Trade Information Center Number in Washington: 1-800-USA-TRADE.

U.S. Department of State Office of the Coordinator for Business Affairs
Tel: 202-746-1625, FAX 202-647-3953

U.S. Department of Commerce Country Desk Officer
Pamela Feodoroff, Contry Desk Officer
Tel: 202-482-2042; Fax: 202-482-3042

U.S. Department of Agriculture, Foreign Agricultural Service,
Trade Assistance and Promotion Office
Tel: 202-690-0159; Fax:202-690-4374

CHAPTER XII. MARKET RESEARCH REPORTS AND TRADE EVENTS

APPENDIX F: Market Research Reports

- Dental equipment supplies and service - Spring 1999
- Power generation equipment - Summer 1999
- Telecom - Fall 1999

Note: List of existing market research reports is available on the National Trade Data Bank.

APPENDIX G: Trade Events

KITEL '99

Computers, Bank and Office Equipment, Telecommunications, Protection, Security and Fire Safety- June1-4, 1999

Edward Strachan, Manager, I.T.E. Central Asia

42 Timiryazev Street, 5th floor

Almaty, Kazakhstan 480057

Tel/Fax: 7-(3272)50-93-90, 47-48-06

E-mail: strax@online.ru

Homepage: <http://www.online.ru/people/iteca>

ASTANA KITEL '99

Computers, Bank and Office Equipment, Telecommunications, Protection, Security and Fire Safety - October 19-21, 1999

Edward Strachan, Manager, I.T.E. Central Asia

Astana, Kazakhstan 473000

Tel/Fax: 7-(3272) 39-36-30

TRANSIT-TRANS-EURASIA '99

Construction and Transport equipment - June 16-19, 1999

Ms. Natalia Dosanova, Senior Specialist, KAZEXPOSERVICE

44 Abay Avenue

Almaty, Kazakhstan 480072

E-mail: kazexposervice@kaznet.kz

AGROPRODEXPO '99

Food-processing, Packaging, and Agricultural equipment - June 24-27,1999

Ms. Zhanna Abdulayeva, Director, Kazakhstan Center of Business Cooperation "ATAKENT"

42 Timiryazev Street

Almaty, Kazakhstan 480057

Tel: 7-(3272)44-11-37, 47-66-69;Fax: 7-(3272)47-60-48, 50-96-08

E-mail: expo@kazmail.asdc.kz

KAZBUILD '99

Building & Construction - September 17-20, 1999

Edward Strachan, Manager, I.T.E. Central Asia

42 Timiryazev Street, 5th floor

Almaty, Kazakhstan 480057
Tel/Fax: 7-(3272)50-93-90, 47-48-06
E-mail: strax@online.ru
Homepage: <http://www.online.ru/people/iteca>

ASTANA BUILD'99
Building & Construction - May 18-20, 1999
Edward Strachan, Manager, I.T.E. Central Asia
Astana, Kazakhstan 473000
Tel/Fax: 7-(3272) 39-36-30

KITEL '99
Computers, Bank and Office Equipment, Telecommunications, Protection, Security and Fire
Safety- June1-4, 1999
Edward Strachan, Manager, I.T.E. Central Asia
42 Timiryazev Street, 5th floor
Almaty, Kazakhstan 480057
Tel/Fax: 7-(3272)50-93-90, 47-48-06
E-mail: strax@online.ru
Homepage: <http://www.online.ru/people/iteca>

KIOGE '99*
Oil & Gas - October 6-9, 1999
Edward Strachan, Manager, I.T.E. Central Asia
42 Timiryazev Street, 5th floor
Almaty, Kazakhstan 480057
Tel/Fax: 7-(3272)50-93-90, 47-48-06
E-mail: strax@online.ru
Homepage: <http://www.online.ru/people/iteca>
* Certified U.S. Department of Commerce Trade Event

KAZMIN '99
Mining - October 6-9, 1999
Edward Strachan, Manager, I.T.E. Central Asia
42 Timiryazev Street, 5th floor
Almaty, Kazakhstan 480057
Tel/Fax: 7-(3272)50-93-90, 47-48-06
E-mail: strax@online.ru
Homepage: <http://www.online.ru/people/strax>

CONSUMER EXPO '2000
Consumer Goods - April 11-15, Year2000
Justin Webb, President, TNT Productions Inc.
Alexander Khemlevskiy, Director
42/44 Abay Av., corner of Baitursynov Street
Almaty, Kazakhstan 480057

Tel: 7-(32720 67-19-03,67-03-96; Fax: 7-(3272)50-19-99
E-mail: tntprod@dgs.dgsys.com; tntalex@atte.kz
Website: www2.dgsys.com/~tntprod

FOOD EXPO '2000

Food Products - April 11-15, Year2000
Justin Webb, President, TNT Productions Inc.
Alexander Khemlevskiy, Director
42/44 Abay Av., corner of Baitursynov Street
Almaty, Kazakhstan 480057
Tel: 7-(32720 67-19-03,67-03-96; Fax: 7-(3272)50-19-99
E-mail: tntprod@dgs.dgsys.com; tntalex@atte.kz
Website: www2.dgsys.com/~tntprod

KIHE '2000

Health Care - May 10-13, Year2000
Edward Strachan, Manager, I.T.E. Central Asia
42 Timiryazev Street, 5th floor
Almaty, Kazakhstan 480057
Tel/Fax: 7-(3272)50-93-90, 44-97-63, 47-48-06
E-mail: strax@online.ru
Homepage: <http://www.online.ru/people/iteca>
* Certified U.S. Department of Commerce Trade Event

The Trade Event schedule for 1999 - Year 2000 is only an estimate since exact dates have not yet been determined. U.S. businesses are cautioned that shows have been canceled without notice or due to low participation of exhibitors. For more information, consult the export promotion calendar in the National Trade Data Bank or contact the USCS Almaty.

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