Doing Business in Kazakhstan: 2013 Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business in Kazakhstan

Market Overview Return to top

Business in Kazakhstan is often focused on the oil and gas sector, which has been responsible for the country's strong economic expansion over the last decade. Kazakhstan, however, has developed into the leading market in Central Asia and is positioning itself as a transit route between China and Europe. It is also actively seeking ways to use its new mineral wealth to diversify its economy. These efforts, combined with a growing middle class, are providing trade and investment prospects for U.S. firms seeking new opportunities in one of the most dynamic of the emerging markets.

Like other former Soviet Republics, Kazakhstan is still developing a transparent and effective business culture that is attractive to foreign investment. Kazakhstan's authorities realize the need to implement economic reforms. However, new laws and regulations that should improve the business environment are often incorrectly implemented at the local level. Foreign investors, as well as local firms, complain about burdensome regulations that often reflect a way of doing business that is reminiscent of the Soviet Union. Challenges remain in addressing problems related to the country's competitiveness and economic diversification, its over-reliance on the extractive sector, continued corruption, need for increased rule of law, and concentration of political power.

Economic highlights include:

- Kazakhstan has a healthy appetite for imported goods and in some, not all, cases is willing to pay more for higher quality and innovative technology/service.

- The most recent report from the Heritage Foundation's Index of Economic Freedom rated the country as "moderately free" and ranked it 68th out of 177 countries, well above neighboring Russia and China. The country recorded one of the 20 largest score improvements in the 2012 Index, primarily reflecting purported improvements in property rights, freedom from corruption, and the control of public spending, but its ranking dropped slightly in 2013.

- President Nazarbayev's declared aim is to have Kazakhstan join the World Economic Forum's "Global Competitiveness" Top 30 economies by 2050. In 2012-2013, Kazakhstan significantly improved its ranking by turning around a five year decline and currently ranks 51 out of 144 countries.

	2006	2007	2008	2009	2010	2011	2012
Ranking	56	61	66	67	72	72	51

- Brief economic indicators are as follows:

	2010	2011	2012	2013 current
GDP growth	7%	7%	5%	5.5%
GDP per capita (PPP)	$12,115	$13,189	$13,900	$14,750
Inflation	7.6%	8.7%	7%	7.2%

Market Challenges Return to top

Kazakhstan continues to transform its economy to create a more transparent, less regulated, and more market-driven business environment. Nonetheless, this progress continues to be steadily undermined by continued developments that have caused increased concern for U.S. investors and other stakeholders. Firms that have experience in Russia and other post-Soviet economies will be familiar with these challenges:

- As of January 2010, the Customs Union (CU) between Belarus, Kazakhstan, and Russia became effective. It has boosted trade in the three countries, particularly between Kazakhstan and Russia. Since 2009, overall trade among the three countries increased by over a quarter by the end of 2010, and by two thirds by the end of 2011. Kazakhstan's turnover (export plus import) with Russia and Belarus has grown by almost 80 per cent between 2009 and 2011. However, Kazakhstan's non-CU trade may be more restricted as it had to increase the majority of its tariff levels to match Russia's and now has similar limitations on certain categories of goods. Importers are affected by a poorly planned implementation of the territories' integration, non-standardized application of the common customs code, and unclear documentation requirements.

- Competition is strong as Russia and China vie for access to the country's energy resources and growing buying power. Investment from these two neighbors remains high while inexpensive products are readily supplied across these borders.

- Interpretation of laws by local officials is often at variance with that of the central government, especially in the implementation of Kazakhstan's system of taxation, collection of revenues, and customs procedures. U.S. investors report taxation as one of their top concerns, reporting frequent harassments by local and national 'financial police.'

- Corruption remains widespread despite the government's anti-corruption campaigns and dismissals of guilty bureaucrats. The judiciary, police, and customs are often cited as the source of problems. Kazakhstan ranked 133rd of 182 countries (a 28 place drop over the last year two years) in Transparency International's Corruption Perceptions Index for 2012.

Market Opportunities Return to top

Kazakhstan ranks 49th on the World Bank's Ease of Doing Business Report for 2013, a two place drop from 2012. Of the various indicators used, Kazakhstan ranks higher than its overall score in "Starting a Business", "Protecting Investors", "Paying Taxes" and

“Enforcing Contracts”. This report however, does not take into consideration vital business criteria such as corruption, labor skills, or investment regulations.

Demand in this developing market goes beyond the few best prospect sectors that this report is able to cover (see Chapter 4). Kazakhstan's strategic aspiration is to become a modern, diversified economy with a high value-added and high-tech component, and they are cognizant of the need for foreign expertise to accomplish this. The government is developing international partnerships and has agreed to projects with China and Germany worth billions of dollars in order to accomplish this.

The “People’s IPO” was announced in early 2011 but is just beginning to be implemented. This privatization program will sell assets of Air Astana (national airline), Kazakhstan Electric Grid Operating Company (KEGOC), and KazTransOil (pipelines).

Like other former Soviet republics, Kazakhstan’s infrastructure needs modernization, especially roads, transportation, and telecommunications. The Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD) finance major infrastructure, financial, corporate, and agricultural projects in the country. Likewise, areas such as health and environment need an infusion of investment to reach global best practices. However, firms that seize this moment to explore the country’s many business opportunities may be rewarded in the long term.

Market Entry Strategy

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Kazakhstan offers many opportunities, but may not be the right market for all firms. Companies that meet one or more of the following criteria will have an edge:

- Export sales and emerging markets are an important part of your business.
- Your firm has experience in Eastern Europe, the Caucasus, Russia, or Ukraine.
- Your firm is active in growth sectors highlighted in Chapter 4.
- You are willing to invest your time, effort, and resources for the long term.

Most exporters find using local distributors an easy first step for entering the Kazakhstani market. A local distributor is typically responsible for handling customs clearance, dealing with established wholesalers/retailers, marketing the product directly to major corporations or the government, and handling after-sales service, if required. It is not uncommon to partner with a firm that is involved in several unrelated sectors. Other useful early steps:

- Perform detailed market research to identify specific sector opportunities.
- Establish a local presence or select a local partner for effective marketing and sales distribution in Kazakhstan. Keep in mind that Kazakhstan has a small population spread over a large landmass, and your distribution channels should be able to represent your needs countrywide. Due diligence is also a must.
- Maintain a long-term timeframe to implement plans and achieve positive results. Don’t expect this to be an inexpensive market that can be entered quickly.
- Be prepared to offer financing to your buyers (see Chapter 7).

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INTERNATIONAL
TRADE
ADMINISTRATION

COUNTRY FACT SHEET: KAZAKHSTAN

PROFILE

Population in 2011 (Millions): 17
Capital: Astana
Government: Republic

ECONOMY	2009	2010	2011
Nominal GDP (Current Billions $U.S.)	115	148	186
Nominal GDP Per Capita (Current $US)	7,119	9,009	11,167
Real GDP Growth Rate (% change)	1.2	7.3	7.5
Real GDP Growth Rate Per Capita (% change)	-1.4	5.7	6.0
Consumer Prices (% change)	7.3	7.1	8.3
Unemployment (% of labor force)	6.6	5.8	5.4

Economic Mix in 2011: 44.3% All Industries; 12.7% Manufactures; 50.4% Services; 5.3% Agriculture

FOREIGN MERCHANDISE TRADE ($US Millions)	2009	2010	2011
Kazakhstan Exports to World	43,196	57,244	88,108
Kazakhstan Imports from World	28,409	24,024	38,010
U.S. Exports to Kazakhstan	603	730	826
U.S. Imports from Kazakhstan	1,544	1,872	1,679
U.S. Trade Balance with Kazakhstan	-940	-1,142	-854
Position in U.S. Trade:			
Rank of Kazakhstan in U.S. Exports	86	82	84
Rank of Kazakhstan in U.S. Imports	69	69	71
Kazakhstan Share (%) of U.S. Exports	0.06	0.06	0.06
Kazakhstan Share (%) of U.S. Imports	0.10	0.10	0.08

Principal U.S. Exports to Kazakhstan in 2011:

1. Machinery, Except Electrical (32.5%)
2. Transportation Equipment (31.7%)
3. Computer & Electronic Products (8%)
4. Fabricated Metal Products, Nesoi (5.5%)
5. Chemicals (5.1%)

Principal U.S. Imports from Kazakhstan in 2011:

1. Primary Metal Mfg (28.2%)
2. Petroleum & Coal Products (28%)
3. Oil & Gas (25%)
4. Minerals & Ores (9.9%)
5. Chemicals (5%)

FOREIGN DIRECT INVESTMENT	2009	2010	2011
U.S. FDI in Kazakhstan (US $Millions)	7,649	9,383	9,200
FDI in U.S. by Kazakhstan (US $Millions)	-21	-17	-8.0

DOING BUSINESS/ECONOMIC FREEDOM RANKINGS

World Bank Doing Business in 2012 Rank: 49 of 185
Heritage/WSJ 2012 Index of Freedom Rank: 65 of 179

Source: Created by USDOC/ITA/OTII-TPIS from many sources: FDI from USDOC, Bureau of Economic Analysis. US Trade from USDOC,Census Bureau,Foreign Trade Division. Kazakhstan Trade with World from United Nations where available. National Macroeconom data from IMF/World Bank databases including World Economic Outlook and World Development Indicators. .WORLD and other country aggregates are summaries of available UN COMTRADE, IMF and other data, and coverage varies over time and by source, but typically represents greater than 85 percent of world trade and production. Note: Principal U.S. Exports and Imports Are 3-digit NAICS Categories

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

http://www.state.gov/r/pa/ei/bgn/5487.htm

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Chapter 3: Selling U.S. Products and Services

Using an Agent or Distributor

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With a history rich in clan and tribal relations, business in modern Kazakhstan is still based on personal relationships. In an economy where rule of law is not yet firmly established, the quality and depth of key business relationships are often your best protection against loss and your key to market access. Selection of a local partner (or partners) is probably the most important decision your company will make in its market entry. Though some firms choose to cover the Kazakhstani market from a regional office in Russia, an on-the-ground presence is crucial for effective business development.

A good distributor is the best way to solve a variety of problems including communication and providing after sales service. Many exporters designate a Kazakhstani-based trading company as their local sales agent responsible for handling customs clearance of imported goods, dealing with established wholesalers and/or retailers, marketing the product directly to major corporations or the government, and handling after-sales service. In some cases, especially when selling to the government, a Kazakhstani distributor is vital.

Establishing an Office

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Registration: Registration is the first step that should be undertaken by a company wishing to operate with a physical presence in Kazakhstan. Depending on the type of business, a company has several options in terms of its legal entity in Kazakhstan. The most typical are branch office, limited liability partnership, or joint-stock company. Representative offices are also used as an initial step to enter the market, but are not recognized as separate legal entities and cannot undertake commercial activities. The government utilizes a "one-stop-shop" for registration, and requires documents to be submitted to the local department of the Ministry of Justice. The latter sends all the required documents to the relevant statistical and tax committees via a computerized network. The process should take no more than ten days for registration, but according to the World Bank it takes 14 days on average.

The required package of documents includes, but is not limited to, application for registration, by-laws of the entity to be registered, by-laws of the foreign partner of the joint venture, application form, and documents confirming address. In reality, the registration process might take much longer than the specified time above. Usually the reason for delay is submission of an incomplete package of registration materials, a subjective interpretation of the requirements, or a failure of the government's computer system. 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. It is recommended that experienced and well-established legal counsel be used to register a company.

Domestic telephone service is adequate; international service is reliable in major cities but expensive. Mobile phone services, both GSM and CDMA, are available in most cities throughout Kazakhstan. Internet service is currently available at most locations in Kazakhstan. Broadband solutions are available in major cities via cable or satellite, but still expensive. Office equipment (fax machines, telephones, and photocopiers), parts, and service are readily available in major cities of Kazakhstan. Russian is the language of commerce. With the exception of Almaty and several other major cities, it is difficult to find professional English-speaking staff. Training is an essential component to any start-up operation.

Companies interested in working in the oil sector, as well as various types of sub-contractors for the oil majors, may consider opening representative offices in the Caspian Sea region cities of Atyrau, Aktau, or other cities in western Kazakhstan located near the major oil fields. There is a lack of quality office space in this region and most of the companies tend to establish offices in apartments. The cost per square meter is generally the same as in Astana.

Franchising

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While the small number of inhabitants and low population density of Kazakhstan limits franchising opportunities, this sector is believed to have significant potential for development. There are approximately 450 franchises operating in Kazakhstan, most of them located in Almaty, making Kazakhstan the franchising leader in Central Asia. The book, *Franchising in Kazakhstan*, puts the number at 3,000 franchising outlets, however, with an estimated annual turnover of $1 billion.

Although franchising is a fairly new business concept in Kazakhstan, it is drawing increasing interest from entrepreneurs. Kazakhstani companies have accumulated financial resources that, combined with a lack of available investment instruments, are stimulating interest in franchising. While the number of potential franchisees grows steadily in Kazakhstan, franchisers have yet to express a notable interest in expanding into the market.

Any franchising contract should be carefully drafted because judges in Kazakhstan are not familiar with this area of law. In fact, the Law of Franchising adopted in June 2002 does not even use the term but retains the archaic term "complex business license."

Direct Marketing

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Direct marketing is becoming more common in Kazakhstan, especially in larger cities such as Almaty and Astana. Some popular forms of direct marketing are the distribution of free samples at points of sale and major cultural events and visits to households to promote consumer products. Marketing by mail is less popular, as mail is not considered a reliable delivery instrument, but the situation is improving and it is gaining popularity. E-commerce is becoming more and more popular in Kazakhstan. In 2012 the annual turnover of e-commerce reached $400 million; this is 0.7% of the market. Also, Kazakhstani people spent $1.3 billion purchasing products from 500 foreign Internet shops.

Direct sales and sales through catalogs are particularly popular in the cosmetics sector. The total share of direct sales of cosmetic products was about 33% in 2012, consequently the share of retail made up 67%. Leading direct selling companies include Avon, Oriflame, Mary Kay, Faberlic (Russia), and Amway. The majority of these products are U.S. brands. Direct sales are oriented towards middle and lower class consumers.

There are many advertising agencies all over Kazakhstan and more than a dozen local and several Western advertising firms in Almaty, including some global Public Relations firms, such as McCann Erickson, Ogilvy & Brothers etc. Television, outdoor advertising, and general-interest publications represent primary advertising channels for consumer goods. Advertising of services and general image promotion are usually done using outdoor advertising and personal sales.

Joint Ventures/Licensing

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Joint ventures may be organized as a limited liability partnership or a joint stock company. Joint stock companies (JSC) are defined as legal entities, which issue shares to raise the funds for carrying out their activity. Generally, shareholders are not liable for JSC's obligations and bear the risk of losses associated with activity of the JSC within the value of owned shares. A company is formed on the basis of charter and decision of founders. Initial capital is provided by contributions from shareholders and may take the form of cash or other property and property rights assessed in monetary equivalent.

According to the Statistics Agency of the Republic of Kazakhstan, more than 10,000 joint ventures with foreign partner participation currently operate in Kazakhstan.

Many joint ventures are established in the oil and gas sector. Altogether, some 390 joint ventures with partners from 55 countries operate currently in the Atyrau oblast – the oil-rich region in Western Kazakhstan. The newly formed Kazakhstani Center for Engineering and Technology Transfer is actively involved in organizing strategic partnerships with foreign companies investing in Kazakhstan. Additionally, government-related organizations, such as the National Investment Fund, are seeking to invest in foreign firms that are developing new technologies, or to license production of such technologies in country for distribution in the region. Other successful joint ventures are operating in the mining, agribusiness, transportation and food processing sectors of economy.

Licensing has been identified as an obstacle to investment and trade in Kazakhstan. In compliance with the 1995 Law on Licensing, as amended in 2007, many economic activities are subject to licensing, and there is an extensive list of goods that require licensing to be imported into or transited through the territory of Kazakhstan. Obtaining licenses is needed only for those types of activities that are directly stated in the law. Examples include health care services, notary services, telecommunications services, and juridical services.

Licensing procedures are often slow and non-transparent, though amendments are aimed at improving and simplifying the issuance of licenses such as:

- The number of activities that are subject to licensing has been reduced to 100 types and 249 subtypes;
- License issuance has been simplified based on a “one window” principle;
- The process of license deprivation is executed by the court;
- Operation of a license is not territorially limited; and
- Licenses must be issued within a 25-day period (for small businesses, seven days).

Provisions for issuing a license are determined by certain government agencies in accordance with the type of license.

In order to simplify procedures and as part of its e-Government strategy, Kazakhstan introduced E-licensing - an electronic license application. E-licensing allows the individual submitting an application for a license the ability to monitor the status of the application. One can find detailed information on the web-site http://www.elicense.kz/?lang=en.

Selling to the Government Return to top

State procurement is regulated by the 2007 Law on State Procurement and amendments, which was adopted in 2008 – 2009 and applies to ministries, state agencies, and companies and enterprises in which the state holds more than 50% of the shares. Procurement by state agencies and companies working in such sectors as defense and security is subject to special terms and procedures, as is procurement by firms in the oil and gas sector. The “Rules on Oil and Gas Procurement” give significant preferences to local suppliers, and establish what many firms, foreign and domestic, consider unwarranted state interference in even small tenders.

The procurement system in Kazakhstan is highly decentralized with different government agencies and companies managing specific procurement projects, though the Committee for Financial Control and Public Procurement is responsible for enforcing the laws and regulations on public procurement. The Ministry of Finance develops procurement policies through the legislative framework.

The state procurement process is implemented through mandatory tenders announced by government agencies. Newspapers designated by the Committee for Financial Control and Public Procurement publish the tender opportunities. To facilitate the procurement process, the Kazakhstani government has created an e-procurement system. The State procurement website (only in Kazakh and Russian) was launched in 2008 and the E-commerce Center (website only in Kazakh and Russian) was assigned as the sole operator in electronic state procurement.

In October 2008, the government of Kazakhstan approved a draft of amendments to the Law on State Procurement. The amendments are aimed at eliminating conditions for corruption in state tenders, increasing transparency of the procurement process, and developing an e-procurement system. E-procurement was used as an alternative method for State procurement in 2009-2011. In December 2009, the Ministry of Finance reported that e-procurement would be the sole tool used in selling to the government in the future. The current effective date of this initiative is set for June 2013. In May 2012, the government of Kazakhstan approved a degree regulating state e-procurement procedures. According to the most recent official figures, the total amount of state procurement agreements signed using the e-procurement system in 2011 amounted to approximately $880 million.

Kazakhstan's state procurement regulations seek to provide 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 (suggesting a preselected supplier), a lack of transparency in business dealings, and serious nonpayment issues constitute a challenging commercial environment. In addition, the regulations often favor domestic suppliers over foreign companies.

U.S. companies are advised to approach any government tender with due caution. However, lucrative opportunities do exist and American companies have had success in Kazakhstan. Companies should be wary of payment-after-service arrangements and use payment schemes providing additional guarantees of timely payments. Not doing so puts any firm at risk, with little recourse in the Kazakhstani judicial system.

Distribution and Sales Channels

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As distribution and telecommunications networks in Kazakhstan have been diversified and upgraded, the major sales and distribution challenges for businesses have shifted from simply getting goods to market to more concern about legislative and regulatory issues. U.S. companies in Kazakhstan use a combination of marketing methods including direct sales, working through a countrywide distributor or agent, working through more than one local-area distributor or agent, and/or distributing or selling products directly from a warehouse. A recent development is the emergence of e-commerce (see Electronic Commerce section below). Distribution channels still require extensive training/service, marketing support and project financing, such as leasing schemes for equipment.

Most of Kazakhstan's population is concentrated in two geographic areas: the southeast (Almaty, Southern Kazakhstan, and Zhambyl Oblasts) and the north/northeast (Astana, Karaganda, Kustanai, northern Kazakhstan, Pavlodar, and eastern Kazakhstan oblasts). Average incomes are higher in these regions than in other parts of the country. The economic development of Kazakhstan's oil-rich western regions has expanded the economies of the largest towns there, principally Atyrau, Aktau, and Uralsk, where major international oil companies currently operate.

Companies are advised to pursue a long-term strategy, as well as careful business development and marketing approaches in order to succeed. Certain factors should be taken into account, such as the presence of less expensive competitors from Russia and China, price sensitivity, and local content requirements.

Selling Factors/Techniques Return to top

Transportation costs, product pricing, trade and project financing, and establishing trade relations are all important considerations for U.S. companies examining the Kazakhstani market. Kazakhstan's major cities should be considered first as potential markets for consumer products, 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 here, but competition is growing. U.S. firms must provide customer support and a reliable supply of products to their distributors. Distribution networks within Kazakhstan cover great distances because of the country's vast size. Transportation costs and delivery times from the U.S. are significant which obviously affects the price competitiveness of U.S.-made products.

Electronic Commerce Return to top

Kazakhstan's online shops first emerged in 2000 but even after twelve years the industry is still underdeveloped. Kazakhstan's expensive Internet access has historically limited the number of Internet users. Nevertheless, based on recent reports, Internet use has grown quickly over the last year, from 34% use in 2011 to 53.4% of the population in 2012 (according to the International Telecommunication Union). This provides excellent opportunities for growth in e-commerce. More than 200 Internet shops and Business-to-Business (B2B) trade marketplaces exist in Kazakhstan's domain. Products sold online include prepaid phone and Internet cards, multi-media, books, computer hardware, computer peripherals and accessories, software, cosmetics, apparel, and more recently, consumer electronics and airline tickets. The most progressive types of e-commerce in Kazakhstan include online airline and railway tickets, and online payments for mobile services and utilities.

Local industry experts forecast that the volume of e-commerce will reach $3.6 billion by 2015 compared to $300 million in 2011.

B2B commerce is starting to grow, as many Kazakhstani companies begin to realize that having a web page is a must for good standing in the business community. Some firms now include product catalogs on their Internet pages. Most companies, however, are not ready to go beyond the web representative office to conducting on-line business. In 2004, Kazkommertsbank, the leading local bank in Kazakhstan, and Commerce One, with the support of IBM, activated the first Electronic Trade Ground (ETG) in Kazakhstan to conduct sales and tenders through the Internet. By the end of 2012, the ETG registered approximately 5,500 members and 7,300 completed tenders. These numbers represent a considerable increase compared with 2005: 126 members and 140 tenders.

In the B2C segment of the e-commerce marketplace, growth has started to occur. According to local experts, the volume of e-commerce reached $1.4 billion in 2012. 66%, of the goods were purchased from the United States, while 9% originated from Europe and 8% from Russia. Only $60 million of the $1.4 billion was paid to Kazakhstani providers. On-line shopping amounted to only 6-7% of all Internet services provided in Kazakhstan in 2012. Most international courier services have representation in Kazakhstan and use online sites to support delivery. In 2007, Air Astana, a leading international air carrier in Kazakhstan started to provide online services for its customers. The volume of Air Astana online services reached 9% of total ticket sales in 2012 and company plans to increase its electronic transactions to 30% in five years.

Imperfect and insecure systems of Internet payments and goods delivery, and a low level of consumer confidence in e-shopping are still the main obstacles for e-commerce development in Kazakhstan. Payments for orders over the Internet from Kazakhstan online shops are mostly done by cash-on-delivery or bank transfer and rarely by credit/debit cards. Most industry experts attribute the sector's weak development to a lack in critical mass of internet users, as well as poor management of existing e-shops, most of which were opened in Kazakhstan by technical specialists with little or no experience in this specific business. At the same time, none of the large retail chains have yet attempted to open online stores. Weak consumer confidence concerning the reliability of Internet shops and security of online transactions remain large obstacles for the development of this business in Kazakhstan. During a July 2009 meeting by the Minister of Communication and Information with representatives of the e-mass media, creation of the association Reliable Shop was proposed. In 2011, the association started its operation providing independent evaluations of Kazakhstani Internet shops by leading e-commerce experts. A multifaceted system has been developed in order to survey all aspects of e-shops in Kazakhstan including level of access, feedback, ways of payment and delivery, technical support, etc. An association website has also been developed to rate the various Internet services and help customers compare prices. .

The Kazakhstani government plans to prepare a draft law on electronic commerce by the end of 2013.

Trade Promotion and Advertising

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The Law on Advertising, which prohibits advertising alcoholic products, baby formula, and products that are not licensed in the country, regulates the advertising industry, while tobacco advertisements are permitted only in printed publications. All advertised products should be certified. Advertising should be presented in both Russian and Kazakh languages. The Ministry of Health regulates advertisement of medicines and medical products.

Pricing

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Key pricing components that should be considered include transport costs, duties associated with import (customs duties and fees, certification payments, etc.), VAT and high expectations of profits by importers/distributors (businesses in Kazakhstan tend to charge much higher margins than in other countries).

The Customs Union (CU) of Russia, Kazakhstan and Belarus implemented new unified customs tariffs and non-tariff regulations as of January 1, 2010. More than 5,000 tariffs have been raised to meet those in Russia (among them foodstuffs and equipment). The CU Customs Code took effect from July 1, 2010 to regulate the resulting integrated customs zone.

Kazakhstan's overall trade-weighted import tariff in 2011 was around 5.9%. However, the consequences of joining the Customs Union with Russia and Belarus are reflected on 60% of Kazakhstan's tariff bases. 45% of them have been raised and only around 10% were reduced. As a result of further harmonization of CU Party tariffs, the average trade-weighted import tariff in 2012 increased from 5.9% to 10%. However, other aspects of border-crossing procedures represent more significant problems. The greatest challenge is that customs regulations tend to change often. Procedures, lists of goods that are subject to mandatory licensing, and other technical issues are under constant revision and customs officials tend to use regulations selectively and arbitrarily.

The establishment of the Customs Union also introduced new customs control procedures for importers from non-CU countries. The cost of importing has gone up due to an increase in import duties and fees for registration, as well as new licensing requirements for numerous goods.

Kazakhstan plans to enter to the World Trade Organization (WTO) by the end of 2013. Joining the WTO is expected to cause a decrease in some of the import tariffs which were raised through the creation of the Customs Union with Russia and Belarus.

Another factor affecting price and competitiveness of imported products is that the value-added tax of 12% has to be paid on top of all customs duties and excise taxes at the time of customs clearance. Considering all the difficulties associated with customs clearance procedures, importers are advised to use the services of customs brokers.

U.S. companies face strong competition from Russian, Chinese, Southeast Asian, and European producers. Consumers in Kazakhstan are very sensitive to the prices and quality of the goods supplied, though most consumers are willing to pay premiums for uniqueness or higher quality. Higher-than-average prices, however, have to be justified by a recognizable brand name, marketing or special features.

Sales Service/Customer Support Return to top

Strong customer support and service add value in Kazakhstan. In a country where the practice of customer service is developing but still leaves much to be desired, providing after-sales service (either directly or through a trained local representative) will make a lasting difference. U.S. companies should be prepared to commit resources to customer-service training for local staff. Local companies starting business with foreign partners are becoming increasingly concerned about after-sales service and customer support, and distributors in Kazakhstan expect that equipment/technologies will come with some kind of guarantee. U.S. companies entering the market are recommended to have pre-arranged agreements with certified maintenance centers. This is extremely important when selling vehicles, construction equipment, electronics, and other equipment. Due to the considerable time difference between Kazakhstan and the U.S., companies should consider using 24-hour help lines, or existing customer support centers in Asia, Russia, or Europe, when support centers in Kazakhstan are not economically justified.

Protecting Your Intellectual Property

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The government's effort to diversify the economy away from the energy sector and spur the growth of a domestic high technology industry, along with the WTO accession process (Kazakhstan's law does not currently comply with the TRIPS Agreement), has led to a stronger emphasis on IPR protection. The progress achieved on the legislative front as well as in enforcement was reflected in the May 2006 removal of Kazakhstan from the USTR's Special 301 Watch list. Kazakhstan has made progress in its legal reforms, but the country is weak in the area of enforcement, especially against organized crime syndicates. Although pirated software, films and music are still widely available, the vast majority is believed to be imported, not produced domestically.

The government's efforts have greatly helped to expand the Kazakhstani market for licensed goods (considered to be the most promising marketplace of the CIS region, behind only Russia and Ukraine.) Still, much remains to be done; particularly in making the customs controls a more effective line of defense against incoming infringing goods. This is particularly important with the increased flow of counterfeit goods from China coming across the border to enter the 200 million customer base that is the new Russia-Belarus-Kazakhstan Customs Union. Further progress is also needed in the realm of civil adjudication, where an increasing number of IPR disputes are being settled. Although civil courts have been used effectively to stem IPR infringement, judges often lack expertise in the area of IPR.

The National Patent Office performs official examination of patent applications, and their website contains several informative links. Applications for trademark, service mark, and appellations of origin protection may also be filed with the National Patent Office. Existing Soviet patents are being converted to Kazakhstani patents. The Committee for Intellectual Property Rights, under the Ministry of Justice, oversees copyrights. For more information, see the Protection of Property Rights section in Chapter 6 of this report.

Protecting Your Intellectual Property in Kazakhstan:

Several general principles are important for effective management of intellectual property ("IP") rights in Kazakhstan. First, it is important to have an overall strategy to protect your IP. Second, IP is protected differently in Kazakhstan than in the U.S. Third, rights must be registered and enforced in Kazakhstan, under local laws. Your U.S. trademark and patent registrations will not protect you in Kazakhstan. There is no such thing as an "international copyright" that will automatically protect an author's writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the national laws of that country. However, most countries do offer copyright protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

Registration of patents and trademarks is on a first-to-file basis, so you should consider applying for trademark and patent protection even before selling your products or services in the Kazakhstani market. It is vital that companies understand that intellectual property is primarily a private right and that the US government generally cannot enforce rights for private individuals and legal entities in Kazakhstan. It is the responsibility of the rights' holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in Kazakhstani law. The U.S. Commercial Service can provide a list of local lawyers upon request.

While the U.S. Government stands ready to assist, there is little we can do if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a law suit. In no instance should U.S. Government advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners. Negotiate from the position of your partner and give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Kazakhstan require constant attention. Work with legal counsel familiar with Kazakhstani laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting. There are a number of these organizations, both Kazakhstan or U.S.-based. These include:

- The U.S. Chamber and local American Chambers of Commerce
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

IP Resources

A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the US and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at **www.StopFakes.gov**.

- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the US Patent and Trademark Office (USPTO) at: **1-800-786-9199**.

- For more information about registering for copyright protection in the US, contact the US Copyright Office at: **1-202-707-5959**.

- For more information about how to evaluate, protect, and enforce intellectual property rights and how these rights may be important for businesses, a free online training program is available at www.stopfakes.gov.

- For US small and medium-size companies, the Department of Commerce offers a "SME IP Advisory Program" available through the American Bar Association that provides one hour of free IP legal advice for companies with concerns in Brazil, China, Egypt, India and Russia. For details and to register, visit: **http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html**

- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: **www.StopFakes.gov**. This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IP-infringing products) and allows you to register for Webinars on protecting IP.

- The U.S. Commerce Department has positioned IP attachés in key markets around the world. You can contact the IP attaché who covers Kazakhstan at: Donald.Townsend@trade.gov.

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Kazakhstan can be a challenging market fraught with obstacles for any company that does not take the time to learn about the business environment and choose local partners wisely. Taking shortcuts in evaluating business opportunities and selecting local partners is not advisable. Complicating these efforts is the fact that the Kazakhstani economy is still transitioning from a closed economy to a more open, market economy. This means that basic business information about regulations, company ownership, and credit worthiness are not always easy to find.

In many cases, business in Kazakhstan is still based on family ties and personal connections. Knowing if your potential business partner is able to proactively negotiate these networks can help your firm better determine if this is the right relationship to take on. Finding a reliable, credit-worthy partner in Kazakhstan requires due diligence, caution, and attention to a potential partner's achievements and reputation. U.S. firms are advised to verify trade references offered by potential partners, check banking records and correspondent account capability with Western banks, and verify the personal *bona fides* of key company officers.

Local Professional Services

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There are several international firms providing legal, accounting and consultancy services in Kazakhstan. Auditing firms include: Deloitte, Ernst & Young, KPMG, and PriceWaterhouseCoopers. Western-based legal firms include Baker & McKenzie, Bracewell & Giuliani LLP, Chadbourne & Parke, Curtis Mallet-Prevost Colt & Mosle, Dewey and LeBoeuf, Denton Wild Sapte, Macleod Dixon, McGuire Woods Kazakhstan LLP, Salans, Sherwood & McKenzie, Rosenblatt & Company**,** Patterson Belknap Webb & Tyler/Assistance, White & Case, Baker Tilly Eltal Kazakhstan. For additional references of firms or industry associations, please contact the Commercial Service in Almaty. You can also visit our website's list of business service providers, which includes local and international service providers supporting the international business community in Kazakhstan.

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Republic of Kazakhstan Electronic Licensing: http://www.elicense.kz/?lang=en

Electronic Trade Ground (ETG): www.mp.kz

National Patent Office: http://www.kazpatent.kz/index.php/en/

International Telecommunications Union: http://www.internetworldstats.com/asia.htm

Kazkommertsbank: www.kkb.kz

KazPost's Postmarket: Kazakhstan's E-Commerce Center: http://www.ecc.kz/kk
http://www.postmarket.kz/webapp/wcs/stores/servlet/TopCategoriesDisplay?langId=-1&storeId=10001&catalogId=10001

State Procurement Website: http://www.goszakup.gov.kz/

World Bank's Doing Business Report:
http://www.doingbusiness.org/data/exploreeconomies/kazakhstan

U.S. Commercial Service Kazakhstan – Business Service Providers listing:
http://export.gov/kazakhstan/businessserviceproviders/index.asp

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Chapter 4: Leading Sectors for U.S. Export and Investment

Commercial Sectors

Agriculture Equipment and Machinery

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	2010	2011	2012	2013 (estimated)
Total Market Size	320	229	484	508
Total Local Production	36	40	45	50
Total Exports	4	1	1.5	2
Total Imports	290	190	440	460
Imports from the U.S.	60	35	50	20

In USD Millions; Source: The above statistics are unofficial estimates based on Kazakhstan customs data and industry sources.

Agriculture accounts for approximately 6% of Kazakhstan's economic production. Approximately 25% of the land is arable; farmers raise sheep and cattle, and livestock products include dairy goods, leather, meat, and wool. The country's major crops are wheat, barley, cotton, and rice with wheat exports, a major source of hard currency, ranking among the leading commodities in Kazakhstan's export trade.

Nearly 80% of machinery currently in use is at the end of its lifecycle and needs to be replaced. Tractors in use for more than 10 years account for 94% of the entire fleet, while harvesting combines in similar condition make up 77%. Due to the financial crisis, most farmers lost access to bank loans and the annual rate of replacing worn-out equipment has slowed to 1% for tractors and 3% for harvesting combines.

Local production of agricultural machinery and equipment is insignificant so Kazakhstani farmers heavily depend on imports. In 2012, the Kazakhstani agricultural machinery and equipment sector was roughly estimated at $480 million, of which $440 million was imported. Russia is a market leader for agricultural machinery and equipment with a 40% market share. Germany, Canada, the Netherlands, Belarus, Turkey, and China are other large suppliers. In 2012, Kazakhstani agricultural companies made their investments in grain harvesting combines (18% of all imported machinery and equipment), tractors (18%), and seeders and planting machines (14%).

The 2011 decline in market size reflected the consequences of the financial crisis, which began in 2008, as well as Kazakhstan's entrance into a Customs Union (CU) with Russia and Belarus in 2010. The U.S. share decreased from 21% of all imports in 2010 to 18% in 2011 and further to 11% in 2012. The growth of the overall market in 2012 resulted primarily from an increase in imports from the CU countries totaled to $182 million (40% of total imports). It is estimated that the import of combine harvesters to Kazakhstan from non-CU countries will drop in 2013 due to new CU regulations which have temporarily increased import tariffs on combines imported from outside the CU from 5% to 27.5%. The new tariffs were approved in February 2013 and will be valid until fall 2013.

Another result of entering into the CU is an anticipated increase in the local production/ assembly of agricultural machinery and equipment. In recent years, Kazakhstan launched several assembly projects with firms from Russia, Ukraine, and Belarus, which are now under active development. The Government of Kazakhstan's Industrial Development Program has set new goals to double the local production of agricultural machinery and increase its exports to 8% by 2014.

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U.S. exports to Kazakhstan consist mostly of grain harvesting combines, reapers, sprayers, tractors, seeders, cultivators, and grain drying and cleaning equipment. American products enjoy an excellent reputation in Kazakhstan. In light of the lower dollar exchange rate vs. the Euro, Kazakhstani buyers are interested in purchasing U.S.-made equipment.

Best prospects include: 100-150 horse power (hp) tractors and combines for the southern regions, tractors of greater than 250 hp and combines for the northern regions, pneumatic seeders, reapers, sprayers, grain drying and cleaning technologies, grain storage equipment and storage quality control systems, engineering and design services for cattle feed complexes, and on-farm processing facilities.

Opportunities Return to top

Both the government of Kazakhstan as well as private entities are looking for international partners to increase existing domestic production of agricultural machinery and equipment and establish new manufacturing and assembly facilities..

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KazAgro/KazFarm 2013, International Specialized Exhibitions for Agriculture and Animal Husbandry
October 30 – November 1, 2013
Astana, Kazakhstan
http://www.ifw-expo.de

AgriTek Astana, 9th International Exhibition for Agriculture, Horticulture, Animal Husbandry & Stock Breeding
March 12-14, 2014
Astana. Kazakhstan
http://www.agriastana.kz/index.php?lang=en

Kazagrofinance:	www.kaf.kz
Kazagromarketing:	http://www.kam.kz
Ministry of Agriculture:	www.minagri.kz

For more information contact Commercial Specialist Nurlan Zhangarin

Construction and Building Materials

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Kazakhstan's construction sector is expected to improve in 2013, continuing its rebound after the 2008-2009 global economic crisis. There are residential, office, commercial and multi-functional projects developing in Astana, Almaty and Atyrau. In addition, large infrastructure and industrial projects are planned for Western Kazakhstan. The construction sector significantly influences the national economy as well as social judgments. Further developments of the industry, improvements in safety, and updates in the quality of construction products are key economic and political tasks of the government. In recent years, economic growth in Kazakhstan had a positive effect on the development of the construction industry.

There are signs that the housing market is turning the corner: recent apartment prices registered their first annual gains since 2007. However residential investment activity remains well below its previous level, which means that the construction industry may lag behind the overall economic recovery.

One of the most rapidly growing sectors is the construction of residential buildings. The most active regions in residential construction for 2011 were South-Kazakhstan oblast (19%), the city of Almaty (16%), and the city of Astana (14%). The number of apartments made available in 2011 increased to 1,626, a 15% increase from the previous year's figure. From 2002 to 2007, Kazakhstan had a construction boom both in the residential and commercial areas. Due to the financial and economic crisis, construction of residential buildings declined from 2007 to 2010. In order to boost residential construction, the state adopted a Rental Housing program. According to the program, most unfinished buildings were completed in 2011-2012.

In 2010, the Government of Kazakhstan approved the Accelerated Industrial Innovation Development Program 2010-2014 (AIIDP), a major strategy of economic development aimed to stimulate industrial innovation in various sectors of Kazakhstan's economy. The construction industry is one of the priorities. The main goal of the AIIDP is to achieve a sustainable diversification of the economy as well as to increase its competitiveness in the long-term. According to the AIIDP, project financing will be provided from the state budget, commercial banks, and international financial development institutions.

Improvement in Kazakhstan's overall economic situation, growth of the real estate and construction sectors, and the restructuring of the housing industry have stimulated demand for building equipment and materials as well as for architectural, construction and engineering services. There is a growing demand for all types of construction services. For example, construction, renovation, and conservation of industrial and public utilities and residential buildings are all much needed. Also, architectural, design, engineering and assembly services are in demand. In addition, there is a need for a full range of civil engineering, including: research and development, all aspects of design, design and build, management contracting, and construction management.

There are residential, office, commercial and multi-functional projects developing in Astana, Almaty and Atyrau. In addition, large infrastructure and industrial projects are planned for Western Kazakhstan. Currently, the government is implementing a new program that will stabilize the supply of new residential construction – "Affordable Housing-2020" Program.

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Less than half 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. A fairly high portion of locally produced materials and products are not considered to be up to international standards. Most other materials are imported, mainly from Turkey, China, Germany and Russia.

There is strong demand for high quality imported products and materials used in the finishing and renovation process, which include: wall & floor coverings, ceiling products, doors and windows, kitchen and bath equipment, plumbing and electrical equipment, hardware, and DIY products. In recent years, output of building products grew between 3 and 30%, depending on the product category.

Domestic production of a number of new quality and cost competitive basic building products was established. Among these products are fiberglass insulation materials, new types of roofing and waterproofing products, energy efficient glass, aluminum extrusion, engineering equipment, cement, bricks, and wall panels. Imported technologies/equipment significant contribute to the overall improvement in the industry.

Due to government emphasis on import substitution and diversification of industry, many opportunities exist for suppliers of manufacturing machinery and systems as well as suppliers of new technologies. The end-users of these products are quite varied: small- and mid-sized construction and building renovation contractors, large contractors, government agencies and individuals.

Opportunities

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While the oil and gas sector will be the major purchaser of architecture, construction, and engineering services for years to come, there is demand for these services in many other sectors. These include construction, renovation, and conservation of residential buildings and industrial and public utilities, as well as design and assembly services. There is a need for the full range of civil engineering, construction, and engineering activities including research and development, all aspects of design, design and build, management contracting, construction management, tunneling and tunnel lining, foundation engineering, mining, and facilities management.

The government is interested in pursuing infrastructure development, including roads renovation and construction in the region. With government plans to invest more than $4 billion for four major road construction projects, manufacturers of heavy earth moving equipment and road construction equipment might find good opportunities in the market. Another source of financing will be the international financing institutions, such as the World Bank, European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), and Islamic Development Bank (IDB).

The city of Almaty, the commercial and financial center of Kazakhstan, has been at the center of Kazakhstan's economy. The city is dynamically developing. New business centers, hypermarkets, cultural centers, and roads are under construction. One of the new and unique projects is the G4 City. The G4 City will consist of four satellite cities (Gate City – financial center, Golden City – center of education and culture, Growing City – transport and logistics center and Green City – entertainment resort city). A key aspect of G4 City is its location. The project will be along the Almaty-Kapshagai motor route linking all four parts of the G4 City into a powerful, high-tech and modern conglomerate.

Intensive construction in the country's new capital, Astana, has been going on since 1997 and the demand for machinery, construction equipment and materials is constantly increasing. A large part of the investment has gone into developing construction and transportation infrastructure, including airports, sports facilities, supermarkets, apartment houses, and highways. Although most official buildings have already been built, there is still strong demand for modern office space and housing in this once small city in the middle of the Kazakh steppe. The new capital is also awaiting construction of sport and entertainment centers, shopping malls and hotels, as well as of a highway system connecting Astana to other parts of the country.

On November 22, 2012, the Bureau International des Expositions selected Astana, Kazakhstan as the host of Expo 2017. It will be Kazakhstan's first world fair as well as the first in Central Asia. The city of Astana has made "Future Energy: Action for Global Sustainability" the exhibition's main theme. Kazakhstan will allocate approximately $1.6 billion (€1.2 billion) to the project. The Astana Akimat (the City Mayor's office) has reserved 113 hectares for construction of the EXPO-center in the Valley of the Millennium, a significant political and cultural part of the city. After Expo 2017, the exhibition spaces will be converted into scientific laboratories, research centers and research institutions.

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Atyrau Build:	www.atyraubuild.kz/en/
Committee for Construction and Housing Utilities of the Ministry of Industry and Trade of the Republic of Kazakhstan:	www.mit.kz/
Construction web gate for Kazakhstan:	http://building.bk.kz/
Kaz Build 2013:	www.kazbuild.kz/
Kazakhstan Academy of Architecture and Construction:	www.kazgasa.kz/
Kazakhstan Construction Association:	http://www.azk.kz/
Kazakhstan legal website:	http://www.zakon.kz/
Kazakhstan Statistic Agency:	www.stat.kz/

For more information contact Commercial Specialist Azhar Kadrzhanova

Drugs and Pharmaceuticals

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	2010	20121	2012	2013 (estimated)
Total Market Size	1,152	1,276	1,300	1,350
Total Local Production	131	151	195	270
Total Exports	19	20	25	30
Total Imports	1,040	1,145	1,130	1,110
Imports from the U.S.	42	84	90	95

In USD Millions: The above statistics are unofficial estimates based on Kazakhstan customs data and industry sources.

In 2010, the government approved a draft program for the development of the pharmaceutical industry for 2010-2014. According to the program, the government's priority task is to supply 50% of the market with locally produced medicines and healthcare products by 2014. To meet this goal, modernization of existing and construction of new pharmaceutical production facilities are planned.

Kazakhstan joined the Customs Union (CU) with Russia and Belarus in 2010. Entrance to the Union has not yet affected the pharmaceutical market as customs fees for imported pharmaceuticals from CU member countries and third countries are still zero. However, as of 2014, customs fees for pharmaceutical imports from third countries will be increased first to 5% and then in 2015 to 10%. It is assumed that during these years local production will increase and new production lines adhering to international standards will be developed. This local production is expected to concentrate in a wide niche of generics, which account for 85% of the overall market.

Accurate 2012 data on the amount of funds allocated from State and local budgets for the purchase of pharmaceutical products is not yet available. Based on figures from previous years, government purchases of pharmaceuticals account for approximately 50% of the total market. Local production is relatively insignificant, accounting for only 15% of the market in 2012. Local manufacturers produce basic pharmaceutical products that do not require innovative technologies. Market demand for specific complex pharmaceuticals is met entirely by imports.

All imported and locally produced pharmaceutical products must be registered in Kazakhstan. The agency responsible for registration is the Committee for Pharmacy under the Ministry of Health. The National Center of Expertise under the Ministry of Health overseas the approval process for all pharmaceutical products to be registered. This process includes a number of physiochemical, biological, and clinical tests, which verify efficiency, safety, and quality of, imported pharmaceuticals. Depending on the type of drug, a registration payment varies from $3,000 to $5,000. Generally, a manufacturer pays the registration fee.

From 2011 to 2012, the market for pharmaceuticals in Kazakhstan increased by an estimated 2%. The U.S. market share was approximately 7% last year, valued at almost

$90 million. Pharmaceutical imports in 2013 are expected to increase by about 4%, reaching an estimated $1.35 billion. Likewise, U.S. imports are predicted to increase slightly to an estimated $95 million, keeping U.S. market share roughly the same. Local production of pharmaceuticals in 2013 is expected to account for 20% of the total market.

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The pharmaceutical market is divided almost equally into two major segments: State procurement and retail sales.

State Procurement

State procurement of pharmaceuticals is implemented through tenders announced by regional and city health departments. A State-financed program funds state procurement of oncology and diabetic medicines. The existing model of procurement is highly decentralized with about twenty distributers supplying hospitals with medicines. This has resulted in an increase of logistics expenses, interrupted supply, and unjustified prices for pharmaceuticals. In 2009, the Ministry of Health set up SK-Pharmatsiya LLP as a single distributor for supplying pharmaceuticals to State health institutions. The share of pharmaceuticals bought through the single distributor system will gradually increase, reaching 80% by 2013. The remaining 20% of pharmaceuticals with a low consumption level will be directly purchased by hospitals. In 2012 the single distributor bought pharmaceuticals in the amount of $380 million and planned to increase the amount to $455 million in 2013.

U.S. companies producing the following pharmaceutical products have strong prospects:

- Vaccines and other immuno-biological medications for immuno-prophylaxis of population;
- Anti-tuberculosis medications;
- Anti-diabetic medications;
- Oncology medications;
- Antibacterial medications;
- Medications and dialyzers, and medical supplies for patients with renal deficiency and patients operated on for kidney transplantation.

Generally, foreign suppliers participate in State-funded tenders through their local distributors.

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Despite government attempts to improve and increase local production of pharmaceuticals, Kazakhstan is still attractive for U.S. exporters because, as already mentioned, production of highly efficient and innovative medicines is not considered a priority task in the local program. Severe diseases such as CVD, cancer, and diabetes still require advanced pharmaceuticals.

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Ministry of Health: http://www.mz.gov.kz/en

National Center of Expertise under the Ministry of Health:
http://www.dari.kz/category/mainpage

Pharmaceutical news in Kazakhstan: www.pharmnews.kz

SK Pharmatsiya: http://www.sk-pharmacy.kz/en/

Media-Systems Agency: www.mediasystem.kz/

Astana Zdorovie 2013, October 22-24, 2013 Astana, Kazakhstan, 10th Anniversary International Kazakhstan Exhibition on Healthcare: http://www.astanazdorovie.kz/en/

For more information contact Commercial Specialist Nurlan Zhangarin

Education

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- Over 570,000 students in higher education and universities in Kazakhstan
- 120,000 high school students graduate on an annual basis on average
- 80% of the overall 620,000 student population is self-funded
- Out of 67,000 self-funded students studying abroad, <10% study in the U.S.
- The local government is committed to Education with $7.75 billion allocated to the sector for 2012-2014: $2.5 billion to be spent in 2012-2013
- Education technology; secondary, vocational and higher education are key priority areas

According to Kazakhstan's Ministry of Education, there are 571,691 students enrolled in higher education currently in 139 universities nationwide, with the highest concentrations of students in Almaty, Shymkent, Karaganda and Astana. Additionally, 80% of the students are self-funded and just 20% are on state scholarships. The country's 2020 Strategic Development Plan which includes the adaptation of the education system to the new socio-economic environment creates opportunities for U.S. higher education institutions, education technology sectors, as well as for U.S. education literature and textbooks publishers.

According to the Ministry of Education and Science of Kazakhstan, the state financing of the education sphere was increased to $7.75 billion or 4.2% of the GDP per year in Kazakhstan. The State Program of Education includes a transfer to the 12 year education model, construction of schools and kindergartens, modernization of vocational and technical education, e-learning education projects and professional development systems for teachers. The ministry notes that with the introduction of new reforms and high-quality school technologies improved student academic performance improved by 15-20%.

National Test

157,200 students graduated from Kazakhstani high schools and 121,044 or 77% completed the United National Test (ENT) in 2012. Students who successfully passed (50 points out of 100) are then allowed to apply to local universities and other higher educational institutions. The ENT is not obligatory for those students applying for foreign universities on a self-funded basis, but those students that apply for state-funded scholarships for studying abroad are required to pass the ENT. 99,560 students registered for the test in 2013, which is 72% of the overall number of graduates.

Students from Kazakhstan studying abroad can be classified into two groups:

- Students whose parents can afford to finance their education abroad. The majority of these students live in the largest cities of Almaty and Astana.
- Students that study abroad through different grant and scholarship programs. The majority of these are students who have obtained scholarships provided by Bolashak, a state funded educational grant program.

Local Higher Education Institutions

Higher education institutions in Kazakhstan include universities, academies, and technical institutions. In 2010-2011, there were approximately 150 higher education facilities in Kazakhstan including 53 public facilities. The number of mostly private universities decreased to 139 in 2012-2013, following the Government's reform on 'optimization' of higher education in Kazakhstan. This reform tightens licensing regulations and qualification requirements for local universities to improve the quality of the programs and their correspondence to international standards. According to the Ministry of Education and Science, the number of higher educational facilities will be limited to 100 within 3 to 4 years.

Higher secondary education in Kazakhstan is represented by general secondary schools, training schools, and lyceums that provide general secondary and initial vocational education, as well as by colleges providing secondary vocational education. There are 494 private and state-funded colleges in Kazakhstan that offer technical/intermediate vocational programs.

Vocational Schools

In late 2007, the World Bank proposed plans to upgrade and 'commercialize' the nation's research and development efforts. Part of the Bank's blueprint called for the creation of a network of university-housed, market-oriented research and development centers based primarily on U.S. models. Subsequent World Bank proposals for the revamping of the country's technical and vocational education followed suit.

Nazarbayev Intellectual Schools (NIS) are a part of a wider program of educational reform, which includes the establishment of Nazarbayev University, the Centre for Educational Excellence and further initiatives to focus on teacher training and development. Nazarbayev Intellectual Schools are a group of 11 existing schools in Kazakhstan, which will grow to 20 by 2014. The schools are currently in the major cities such as Astana, Uralsk, Semey, Kokshetau, Ust-Kamenogorsk, Taldykorgan and Almaty. Uniquely, the children in Nazarbayev Intellectual schools are educated in a tri-lingual environment in Kazakh, Russian and English. Most NIS schools are for children aged 12 to 18.

Nazarbayev University (NU) located in Astana is a state founded educational institution, which started admitting students in 2010, and currently has around 1500 students. It offers Bachelor degrees in engineering, science and technology as well as humanities and social studies and a Business Master's degree. The University is a unique U.S. based model institution teaching in English language and originally worked with a team from the University of Pennsylvania to design academic and governance procedures. Harvard University is to establish NU's Medical school in 2014. It is currently cooperating with Duke University, University of Wisconsin-Madison, Cambridge University, University College London (UCL) and University of Singapore to help run its academic programs.

U.S. Higher Education Competition

Overall, there are approximately 67,000 self-funded Kazakhstani students studying overseas. In 2012, there were 26,000 people studying in Russia, 9,000 in China, 3,000 in Malaysia and 4.300 in the UK. The rest are studying in other countries: USA, Australia, Canada Germany, Japan, Netherlands, Singapore, South Korea, Sweden, Switzerland and other European countries. Only 20% of all the students studying abroad are awarded with the Bolashak Scholarship, the rest are self-funded. Fewer than 10% of potential Kazakhstani applicants are studying in the U.S.

Competition from other countries, admissions deadlines, fees and policies, current testing availability, perceived visa difficulty, limited access to high schools for recruitment and lack of institutional relationships tend to severely hamper the growth of enrollment in U.S. higher education institutions.

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Education Technology

- 522 new schools are planned to be built in the next five years
- Almost $1 billion allocated to electronic education, with a pilot project being rolled out in 44 education facilities in 2011
- $4 million has been budgeted for the improvement of the material and technical base of four higher education institutions
- Over 600 Kazakh schools joined e-learning projects in 2011 and 2012 and the modernization figures are expected to reach 90% by 2020.

U.S. Higher Education

According to Kazakhstan's Ministry of Education, there are 571,691 students enrolled in higher education. Out of 67,000 students studying overseas, 80% are self-funded, but fewer than 10% are studying in the U.S.

U.S. Community Colleges

Vocational education is underdeveloped as many vocational colleges and technical training schools were closed or reformed in the 1990s. They prepared students for skilled professions whenever students were not able to or did not wish to pursue higher education. Community colleges offering associate degrees in the U.S. could be a good fit to this specific category of students.

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Although there is very high demand in Kazakhstan to study overseas at both undergraduate and graduate-levels, the total numbers for Kazakhstanis choosing to study in the US has remained flat over the past five years. Unlike the rest of Central Asia, Kazakhstan's per-capita GDP has increased significantly, creating burgeoning middle -and upper-class youth eager to travel and study abroad. In addition, government policy encourages this and has also dramatically increased English-language education nationwide over the past decade.

Degrees in demand

The labor market demands for certain qualifications do not match its supply, mostly in technical professions. Major multinationals on the scene from the mid-1990's regularly note a "skills gap" – an insufficient supply of up-to-date technicians, engineers, scientists and professional managerial types capable of filling increasing demand.

The Bolashak Scholarship

The Bolashak is a national government scholarship established in 1993. It aims to assist talented young people in obtaining quality education abroad. The scholarship covers all costs related to education including tuition and fees, costs of travel, and a living stipend.

The program requires all Bolashak recipients to return to Kazakhstan upon completing their education and to work for five years in Kazakhstan. Since 1993 over 9,000 Kazakhstani students became Bolashak Scholarship recipients with a capacity of 3,000 scholarship recipients a year. From 2011, the program provides scholarships for magistrate and PhD programs only. The most popular countries for study are the UK, U.S., and Russia. The Bolashak program currently has agreements with 200 educational institutions worldwide, of which 49 are in the United States.

Bolashak scholarships awarded in 2005 – 2012 by educational programs

Programs	2005		2006		2007		2008		2009		2010		2011		2012		Total	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#		No	%
Under-graduate	1243	69	441	57	97	36	636	49	419	41	543	32	-	-	-	-	3379	40
Graduate	478	27	299	38	138	52	607	46	561	56	881	53	447	86	560	51	3971	47
Doctorate	55	3	19	2	11	4	15	1	11	1	11	1	14	3	15	1	151	2
Research Fellowship	-	-	-	-	-	-	28	2	12	1	200	12	59	11	527	48	826	9.6

Source: Bolashak Statistics

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Ministry of Education and Science of the Republic of Kazakhstan: www.edu.gov.kz/en

Bolashak Program: www.bolashak.gov.kz

World Bank for Technical and Vocational Education Project: www.worldbank.org

For more information contact Commercial Specialist Aliya Shaikhina

Electric Power Generation

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	2007	2008	2009	2010	2011	2012	2013 (est.)
Total Market Size	930	1010	920	760	775	796	845
Total Local Production	170	150	120	90	90	96	95
Total Exports	11	6	10	6	6	5	5
Total Imports	760	860	800	670	685	700	750
Imports from the U.S.	58	70	80	60	80	85	85

In USD Millions. Source: The above statistics are unofficial estimates based on Kazakhstan customs data and industry sources.

Kazakhstan's power generation industry has undergone a challenging and painful post-Soviet transformation. The production and consumption of electricity in Kazakhstan fell significantly following independence in 1991. An aggressive privatization program followed this, with state involvement in a few generation companies. Robust economic growth during the early 2000's helped boost generation but the financial and economic crisis caused a decrease in electricity generation as well as consumption due to production stagnation in metallurgical plants and the construction industry. In 2010, power generation and consumption rose again. In 2011, power generation increased by 5.2% while consumption also jumped. During 2012 the production of electric power rose by 4.6%. Kazakhstan produced 88.1 billion kilowatt hour (kWh) in 2011 and 90.5 billion kWh in 2012, a 4.5% increase from 2011, which should in theory have been sufficient to satisfy the country's annual consumption of 90 billion kilowatt hours (KWh) of electricity.

According to the Ministry of Industry and New Technologies, Kazakhstan hopes to produce 150 billion kWh of electricity by 2030. It is estimated that Kazakhstan will produce approximately 98 billion kWh by 2014 but consume 96.8 billion kWh. Kazakhstan has 68 power plants including five hydroelectric power stations, giving the country an overall installed generating capacity of 19.8 gigawatts (GW). Almost 80% of the country's power generation comes from coal-fired plants located in the northern coal producing regions. Kazakhstan's hydroelectric facilities are located primarily along the Irtysh River, which flows from China across northeast Kazakhstan.

The majority of Kazakhstan's generating capacity, however, is in the northeast of the country while the southeast is the main power consumer. While north-south connections for the transfer of power exist, they are insufficient to supply southern demand. Kazakhstan also lacks sufficient generating capacity in the west and relies on Russian imports to overcome deficits there. Furthermore, Kazakhstan's electricity sector is unable to regulate its generating frequency — i.e. to manipulate its generating capacity to meet increases in demand during peak loads or supply disruptions. Therefore, the country needs to import electricity not only to offset supply gaps, but also to regulate frequency. Energy trade is not a one-way proposition, however, as Kazakhstan is also a significant exporter of energy to Russia, Kyrgyzstan and Uzbekistan. The bi-direction nature of electrical power trade reflects both variations in seasonal energy supply/demand as well as the legacy of a Soviet-era grid that was built without respect to modern-day national boundaries. Soviet power planners, for example, established the northern Kazakhstan city of Pavlodar as the primary energy-producing hub for a region that straddles the current Kazakhstan-Russia border.

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013 (est.)**
Kazakhstan power generation	78.9	80	78.4	82.3	88.1	90.53	93
Kazakhstan power consumption	76.9	80	77.9	83.8	88.1	88.6	89.

In Bkwh. Source: Kazakhstan Statistic Agency

The electric power industry remains a key factor in Kazakhstan's industrial development and economic growth as electric power generation accounts for about one-tenth of all industrial output. The government of Kazakhstan has developed an action plan for electric power development up to 2030, which includes a list of proposed power plants for modernization or reconstruction as well as the construction of new facilities. The country's power generation sector is projected to boost total capacity to 98 billion kWh by 2014. However, equipment in existing electric power plants will only allow an increase in energy production to 93 billion kWh. Therefore, the country plans to modernize existing facilities and construct new power plants in order to meet consumer demand and increase its export potential and reserve capacity.

Financing for new generation facilities remains questionable, however in July 2012, amendments to the Law on Electricity came into effect, which permitted to change wholesale tariff structure. These amendments to the law require generators to have an investment agreement with the Ministry of Industry and New Technologies and to reinvest 100% of profit either into new infrastructure development or upgrades.

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Needs are great in the services market as Kazakhstan seeks to replace aging plants and equipment. Overall, 94% of Kazakhstan's gas turbines, 57% of its steam turbines, and 33% of its steam boilers have been in use for at least twenty years. Electricity transmission networks are inefficient, with estimated losses of 15% during transmission and distribution, although the actual number may be higher. Construction of new power plants and expansion of power distribution networks are priorities for the government and are likely to be implemented in the medium-term. Some observers project steady growth in the market for a wide range of power generation and distribution equipment.

Major categories of goods imported by the electric power generation sector include fuel elements (non-irradiated), liquid dielectric transformers, inverters, parts for transformers and inverters, and vapor-generating boilers and parts. Considering the overall remodeling of the Kazakhstan Electric Grid Operating Company's (KEGOC's) systems and development of new power generation facilities, it is likely that demand for IT support, management, and communications systems will increase as well.

U.S. companies must prepare to compete with Russian, German, Korean, and Chinese companies that have acquired strong positions in the market and are sometimes entitled to tax breaks and other preferential treatment (particularly when they qualify as investors and not only as importers). Attempts to sell equipment for the power generation sector are more likely to be successful if based on a strategic approach to the market and accompanied by appropriate training, servicing, and consulting programs.

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Kazakhstan's electricity sector, both its generating and transmitting infrastructure, suffers from a high degree of physical depreciation. A senior official at the Kazakhstan Electric Grid Operating Company (KEGOC) recently complained that the majority of the firm's 25,000 kilometers of power transmission lines were built in the Soviet era. He noted that KEGOC is conducting an assessment to identify "vulnerable" transmission lines that need to be modernized, and he claimed that KEGOC will implement 15 projects valued at $3 billion to modernize or construct new power transmission lines and substations by 2025. Meanwhile, the Chairman of Kazakhstan's national electricity generator Samruk-Energo has stated that Kazakhstan plans to install 14 GW of new power generating capacity by 2030, and the Minister of Industry and New Technologies Asset Issekeshev recently reported that investments in the power sector should reach $63 billion over the next 18 years, including $37 billion in power generation, $9 billion in power distribution networks, and $17 billion in regional power distribution organizations.

Kazakhstan has many renewal and development projects planned. One large successful construction is the 300 megawatt (MW) Moinak Hydroelectric Power Station that has been operating since December 2012. The restoration of the power block No.8 in Ekibastuz GRES-1 was completed on July 3rd, 2012. Regarding the construction of a third power block at Ekibastuz GRES-2, 6.9% of the cost of the project was financed in 2012. On December 29th, 2012, the Kordai district commissioned the first industrial solar power plant in Kazakhstan. The funding came from private investments, and the plant is connected to the state electricity grid. The first part of the construction of the solar energy plant “Otar” cost nearly $1.33 million.

Although Kazakhstan has significant hydrocarbon resources concentrated in the west, this region still imports electric energy from neighboring Russia. In this connection, local authorities and oil companies are seeking to create their own power supplies. The primary focus is on the construction of a gas-turbine power station (GTPS) that will utilize local gas. The most significant projects in this area will be: construction of gas-turbine installations (GTI) with 48 MW capacity at the Aktobemunaygas industrial complex; the start of the Tengizchevroil Ltd gas-turbine power station with 144 MW capacity, completely covering the needs of the Tengiz oil-and-gas complex; and the construction of a 200 MW GTI at the Kumkol (Kzylorda area) developed by Petro Kazakhstan Inc.

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Alatau Zharyk Company: www.azhk.kz

Balkhash combined heat and power station: http://www.btes.kz/

Energy Efficiency and Renewable Energy Consulting:
http://www.energypartner.kz/index.php?option=com_content&view=article&id=23&Itemid=32&lang=en

Samruk Energo: http://www.samruk-energy.kz/

Kazakhstan Electricity Association: http://www.kea.kz/eng/

Kazakhstan Electricity Grid Operating Company: http://www.kegoc.kz/

Kazakhstan Operator of Electricity Market: http://www.korem.kz/

KazAtomProm: http://www.kazatomprom.kz/

For more information contact Commercial Specialist Azhar Kadrzhanova

Franchising

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Kazakhstan is a leader in Central Asia in franchising. Although franchising is still a fairly new business concept in Kazakhstan, it is drawing increased interest from entrepreneurs. In 2002, the Parliament adopted a Law on Franchising providing legal grounds for franchising development. In the past several years, spending patterns in Kazakhstan have begun to resemble those of the Western world, creating a demand for name brands and quality products. Kazakhstani companies have accumulated financial resources that, combined with a lack of available investment instruments, is also stimulating interest in franchising.

There is no single registration agency for franchising systems. Consequently, there are no reliable statistics on franchising in Kazakhstan. The Kazakhstan Franchising Agency states the total number of all franchises and brands operating under franchising or other similar terms rose to 450 in 20122013 with approximately 3,500 franchising outlets. Domestic franchising is just starting to develop with 20 local franchises and 200 franchising outlets.

Kazakhstan is characterized by a large number of franchisees working on the basis of sub-franchising agreements with master franchisees based in Russia, Turkey, or elsewhere. Only a few foreign franchisors work directly with Kazakhstani partners but their numbers are growing. There are several reasons for this including a small market size of approximately 18 million people combined with low population density and the virtual absence of Kazakhstani entrepreneurs in the international franchising market. Kazakhstani entrepreneurs find it easier to work with Russia-based franchises instead of foreign owners because Kazakhstani and Russian consumers share the same language and a similar mentality. Thus, sub-franchises bought from a Russian partner can be used in Kazakhstan without significant adaptation. However, as Kazakhstan becomes more and more integrated into the international market, the number of direct franchising agreements is expected to grow further.

In January 2010, Kazakhstan entered into the Customs Union (CU) between Belarus, Kazakhstan, and Russia. This has somewhat eased the market entry for Russian and Belorussian companies. This factor is predicted to cause an increase in involvement and transfer of Russian and Belorussian franchising models and international brands from these countries to Kazakhstan. Experts predict an increase in the number of franchises from 20% currently coming from Russia to 30-40% from both Russia and Belarus. As of January 2012, the share of franchise-originating countries represented in Kazakhstan was as follows: Europe - 40%, USA - 30%, Russia - 20%, and all other countries - 10%.

Given the market's lack of transparency, it is difficult to define the combined sales turnover of franchises operating in Kazakhstan. However, according to industry experts, sales turnover of franchise systems in Kazakhstan amounted to approximately $1 billion. On average, each franchisor has 2-3 franchisees in Kazakhstan. The industry is developing most intensively in Almaty, Astana (capital of Kazakhstan), and a few other large cities. Most franchises operate in the following sectors: retail, business services (especially accounting services), consumer services (hairdressing salons, cleaning, dry cleaning), mass media, and fast food. Roughly 60% of all franchisors are based in Almaty, 30% in Astana, and the rest are in cities in the oil rich region in western Kazakhstan. Other centers of franchising in Kazakhstan are the cities of Atyrau, Karaganda, and Shymkent. More than 70% of franchise projects originate in Almaty, where foreign franchises are adapted to local interests and conditions before developing in other cities.

Several well-known U.S. franchises have successfully entered the Kazakhstani market. Among the most visible brands are: Baskin Robbins, Crestcom, Cinnabon, FasTracKids, GAP, Pizza Hut, KFC, New Yorker, Office 1 Superstore, Tiffany Marble, FitCurves, Marriot, and Intercontinental.

Factors that limit the growth rate of franchising in Kazakhstan include weak legal protection of intellectual property rights, lack of long-term financing opportunities, lack of transparency in Kazakhstan's business environment, and low awareness of Kazakhstani entrepreneurs of franchising opportunities. Despite these negative factors and the country's relatively small population, this sector has significant potential for development.

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According to experts, franchising is quite attractive for businesses that are interested in sales of business support services (business consulting, audit and accounting services, advertising, HR related services, technical consulting), housing construction and repair services, education services (tutoring, foreign language courses), leisure and entertainment, fast food, medical and cosmetic services, retail sales, and other personal services (laundry, footwear and clothing repair, delivery services etc.)

Currently, the majority of local potential franchisees are seeking agreements with franchisers operating in the following sectors:
• Fast food and casual dining;
• Retail sales (clothing, footwear, furniture, sporting goods, supermarkets, gasoline stations);
• Auto repair and maintenance services, gasoline stations;
• Hotel chains for low and medium income travelers;
• Printing and copying services, photo-shops, etc; and
• Body/health care services (beauty salons, gyms, etc.).

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The U.S. Commercial Service in Kazakhstan is working with a number of prospective franchisers that are either finalizing agreements with local partners or in the midst of constructing their first outlets in Kazakhstan. U.S. franchise models are in great demand for fast food restaurants. U.S. market presence is also visible in business education and training services, business services, and children's services/preschools. The majority of non-U.S. foreign franchises in Kazakhstan are from Russia and Western Europe, mainly the U.K., France, Germany, Spain, and Italy.

U.S. franchisors should focus marketing efforts on the growing middle class, estimated to be as high as 15-20% of the population and responsible for 50-70% of the value of all goods sold in Kazakhstan. Multibillion dollar investments made by oil companies in

Kazakhstan are creating a retail market for locals employed in the energy and related services sectors, as well as for growing expatriate communities.

The middle class can be divided roughly into two groups by income levels:

- lower middle class, employees with salaries of $12,000-24,000 per year per person (70% of the middle class) and
- upper middle class, with salaries of $24,000-60,000 per year per person (30%).

To understand the potential for franchising in Kazakhstan, it is important to consider the rapidly developing retail infrastructure of new shopping malls. The development of hypermarkets (i.e. megastores that include grocery stores), which is spurring retail growth, is opening up new opportunities for franchisors. In the past ten years, about 20 new hypermarkets opened in Almaty and Astana, including Metro Superstores. This is occurring in other major cities on a smaller scale. According to investors involved in developing new trade centers, retail infrastructure development is far from saturated and will continue to grow.

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Central Asian Franchising and Licensing Agency (CAFLA) (covers Kazakhstan and Uzbekistan): www.cafla.com

Kazakhstan Franchising Agency: www.franchising.agentstvo.kz

Ministry of Industry and Trade of Kazakhstan: www.mit.kz

National Institute for Intellectual Property (Kazpatent): www.kazpatent.org

Small Business Development Fund: www.fund-damu.kz

For more information contact Commercial Specialist Aliya Shaikhina

Medical Equipment

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	2010	2011	2012	2013 (estimated)
Total Market Size	410	572	470	491
Total Local Production	25	30	45	47
Total Exports	1.8	1.8	5	6
Total Imports	387	544	430	450
Imports from the U.S.	18	103	92	98

In USD Millions: The above statistics are unofficial estimates based on Kazakhstan customs data and industry sources

Kazakhstan's healthcare sector accounted for 4.5% of overall GDP in 2012. Government priorities in this sector include developing the country's primary healthcare networks, improving its public health administration system, providing expanded medical personnel training, enhancing mother and child health services, and emphasizing preventive measures such as diagnostics, treatment of social diseases, and patient rehabilitation. Approximately $4.3 billion were allocated to Kazakhstan's healthcare sector from the 2011 budget and another $2.9 billion in 2012. The government plans to allocate $3 billion and $2.7 billion to the healthcare sector in 2013 and 2014 respectively.

There is almost no production of medical equipment in Kazakhstan and the government recognizes the need to replace obsolete equipment, which comprises approximately 80% of medical equipment currently being used in the country's public hospitals. 85% of medical equipment in Kazakhstan is purchased by the public sector. Most procurement for public healthcare institutions is done through government-related tenders.

From 2011 to 2012, the market for medical equipment in Kazakhstan decreased by an estimated 18%, with almost all of the medical equipment imported (91%). Medical equipment imports from 2011 to 2012 dropped by 21%, totaling $430 million. The U.S. market share was 21% of total imports in 2012, valued at almost $92 million. America's closest competitors are Russia, Germany, and Japan. Local production of medical equipment in 2012 accounted for only 9.6% of the total market.

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The best potential for U.S. medical equipment is in the following areas:

- electro-medical diagnostic and therapy equipment,
- diagnostic imaging with a special emphasis on X-ray equipment and supplies,
- surgical supplies,
- equipment for cardio surgery,
- cardiac rhythm management and interventional cardiology equipment,
- medical lasers,
- chemotherapy, radiotherapy, and oncology markers,
- neurosurgery equipment,

- endoscopes,
- dental equipment and supplies,
- laboratory equipment, and
- test kits including HIV/AIDS blood testing sets.

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The construction of facilities to produce medical equipment and devices is not included in the Government of Kazakhstan's Accelerated Industrial Innovation Development Program 2010-2014 (AIIDP), a major strategy of economic development aimed to stimulate industrial innovation in various sectors of Kazakhstan's economy. This means that the market will be heavily in need of imported medical devices and equipment. Local producers of medical equipment will not be able to fully supply the market with necessary equipment and there are no capabilities to develop a strong local industry in the near term. Currently, there are about 60 companies in Kazakhstan registered as medical equipment producers, most of who are small businesses with insignificant production volumes.

The Ministry of Health continues to work on the introduction of telemedicine and mobile medicine in the country's rural regions. The goal of the project is to improve diagnostics and treatment in rural hospitals, improve access to quality healthcare for rural citizens, and further the professional development of medical personnel.

In June 2008, the government of Kazakhstan established the National Medical Holding. A joint stock company wholly-owned by the government, the company comprises seven separate entities that include Kazakhstan Medical Academy, National Center for Maternal and Child Health, National Research Center for Emergency Care, Republican Center for Medical Rehabilitation, National Center for Neurosurgery, Republican Diagnostic Center and National Research Center for Cardiac Surgery. The mission of the National Medical Holding is to introduce international standards of quality and safety of care and to ensure financial sustainability and growth. The holding's priorities and goals include the following:

- consolidation and efficiency of management processes,
- creation of a comprehensive hospital information system,
- development and integration of electronic patient records,
- establishment of RIS/PACS system, and
- design of financial and operational modules such as accounting, treasury, human resources, inventory management and purchasing.

In January 2008, the World Bank approved a $117.7 million loan for the Kazakhstan Health Sector Technology Transfer and Institutional Reform Project, which will be implemented by 2015 (based on unofficial data of the Ministry of Health). The total project cost is $296 million, with $178.4 million being co-financed by the Government of Kazakhstan. The project will help introduce international standards and build long-term institutional capacity in the Ministry of Health and related healthcare institutions in support of key health sector reforms pursued by the government.

Project components include:

- *Health Information System Development ($188.6 million)*
- *Health Care Quality Improvement ($59.9 million)*

- *Health Financing and Management ($20.2 million)*
- *Reform of Medical Education and Medical Science ($9.4 million)*
- *Food Safety and WTO Accession ($8.7 million)*
- *Project Management ($4.6 million)*
- *Pharmaceutical Policy Reform ($4.2 million)*

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Ministry of Health: http://www.mz.gov.kz/en

National Medical Holding: http://www.nmh.kz/

Astana Zdorovie 2013, 10th Anniversary International Kazakhstan Exhibition on Healthcare, October 22-24, 2013 Astana, Korme Exhibition Center: http://www.astanazdorovie.kz/en/

For more information contact Commercial Specialist Nurlan Zhangarin

Mining Equipment

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	2007	2008	2009	2010	2011	2012	2013 (est.)
Total Market Size	920	972	868	818	830	845	895
Total Local Production	88	92	56	50	50	45	45
Total Exports	5	6	3	2	2	2	2
Total Imports	832	880	812	768	780	800	850
Imports from the U.S.	70	76	62	45	40	55	55

In USD Millions. Source: The above statistics are unofficial estimates based on Kazakhstan customs data and industry sources.

Kazakhstan is endowed with a wide range of mineral resources including coal, ferrous metals, and non-ferrous metals. Because of this mineral wealth, there is a large mining sector and more than 230 separate enterprises which produce or process coal, iron and steel, copper, lead, zinc, manganese, gold, aluminum, titanium sponge, uranium, barites among others. The mining sector is responsible for approximately 30% of export earnings, 16% of GDP, and 19% of industrial employment.

In 2012, coal production in Kazakhstan increased by 3.5%, totaling 120.5 million tons, including coal concentrate. In 2011, Kazakhstan produced 116.3 million tons of coal, a 4.9% increase over 2010. Kazakhstan is currently the world's 10th largest producer of coal and has the 8th largest iron ore reserves with 12.5 billion tons. The nation ranks second in manganese ore reserves with an estimated 600 million tons. Kazakhstan boasts 30% of worldwide chromite ore deposits. The country is also a significant producer of beryllium, tantalum, barite, cadmium, and uranium. Kazakhstan is interested in further developing its gold mining (ranked 10th globally) and uranium mining (25% of world reserves) as commodity prices rise, and will need to attract foreign investment in order to expand current production.

Much of the technology and management practices of this industry date from Soviet times, which has hampered foreign sales. Exports of mining equipment to Kazakhstan have been limited by a lack of investment in this sector. In the mid-1990's, many foreign investors entered the country and started exploration and development activities, but, with few exceptions, have ceased their operations. The investors claimed that lack of transparency, poor financial incentives, unclear and arbitrary laws which favor local investors, bureaucracy, and unclear land tenure made it impossible to continue their operations. The government, in turn, claims that many investors failed to deliver on promised commitments. As a result, under the current system, few foreign companies are willing to risk investment, with or without a local partner.

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Due to price increases for non-ferrous metals, gold, uranium and the growing demand for coal from 2000-2007, Kazakhstan's mining industry rapidly developed. Due to the global economic crisis from 2008-2010, prices decreased for non-ferrous metals and coal demand dropped. Consequently, local mining companies decreased capital expenditures and production, although 2011 saw a small increase. Still, Kazakhstan remains an attractive market for U.S. mining equipment/machinery suppliers, particularly for manufacturers of bulldozers, drilling equipment, explosives, trucks, drill rigs, trams, cranes, crushing and pulverizing machinery, dredges, hydraulic excavators, quarrying machinery and equipment, elevators, compressors, hammer mills, special trucks, etc.

Among the best sales prospects and services are diamond drilling contractors and service providers that perform geological, geochemical and geophysical surveying; equipment involved in bulk sampling such as a processing plant; small aircraft; fuel supplies; and geological supplies like sample bags. Companies that provide goods and services that address erosion, formation of sinkholes, loss of biodiversity, and contamination of groundwater and surface water by chemicals from the mining process as well as products that may minimize the harm towards the environment, will also enjoy significant demand in Kazakhstan. Explosives also present interesting opportunities in the region.

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More than half of Kazakhstan's mining, processing, and smelting enterprises currently use outdated equipment that is often in need of repair. Almost all lack environmentally friendly technologies. Kazakhstan does not have its own mining machinery industry and relies heavily on Russian imports. U.S. mining equipment firms should explore trade opportunities in used and refurbished equipment, as well as turnkey project management. Demand in Kazakhstan for mining machinery grew 9% annually through 2008, but slowed in 2009 and 2010. U.S. mining equipment and service suppliers should target major players in the mining sector such as Kazakhmys, Eurasian Natural Resources (ENRC), TNK Kazchrome, KazakhGold Group, ShalkiyaZinc, KazAtomProm, and others.

Kazakhstan's Accelerated Industrial Innovation Development Program 2010-2014 (AIIDP) identifies the metallurgy sector as one of its priorities in the overall plan to diversify the economy and significantly increase the country's GDP by 2015. Key projects in the sector include:

- Construction of an ore mining and processing enterprise based on Aktogay and Bozshagol deposits, East Kazakhstan and Pavlodar Regions (2010-2014)
- Construction of an ore mining and processing enterprise based on "SGPK" CA, Stepnogorsk city

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Astana Mining & Metallurgy (AMM) 2013: www.amm.kz

Central Asia Mining Congress 2013:
http://www.zapaday.com/event/63092/1/Central+Asia+Mining+Congress.html

Eurasian Natural Resources Corporation (ENRC): www.enrc.com/

KazakhGold Group: www.kazakhgold.com/

KazAtomProm Corporation: www.kazatomprom.kz/

Kazakhmys: www.kazakhmys.com

Mining World Central Asia Expo: www.miningworld.kz/en/2013/

MinTek Kazakhstan: www.tntexpo.com

National Center on Complex Processing of Mineral Raw Materials of the Republic of Kazakhstan, RSE: www.cmrp.kz

Tau-Ken Samruk: www.tsk.kz

Republican Association of Extraction and Mining and Metallurgical Enterprises of Kazakhstan (AEME): www.agmp.kz

For more information contact Commercial Specialist Azhar Kadrzhanova

Oil/Gas Equipment and Services

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	2007	2008	2009	2010	2011	2012	2013 (est.)
Total Market Size	8,752	9,115	8,590	8,068	8,375	8,584	9,585
Total Local Production	112	115	90	68	75	80	85
Total Exports	14	12	8	3	3	4	4
Total Imports	8,640	9,000	8,500	8,000	8,300	8,500	9,500
Imports from the U.S.	438	530	500	470	460	550	650

USD Millions. Source: The above statistics are unofficial estimates based on Kazakhstan customs data and industry sources.

Kazakhstan is ranked 11th in the world in terms of proven oil reserves (US Energy Information Administration, Kazakhstan, September 18, 2012) and is the second largest oil producer among the former Soviet Republics after Russia, producing nearly 1.6 million barrels per day (bbl/d). Kazakhstan has the Caspian Sea's largest recoverable crude oil reserves. The Government of Kazakhstan and foreign investors continue to focus heavily on the hydrocarbons sector, which, since 1991, has received approximately 60% of the foreign direct investment in Kazakhstan, and constitutes approximately 53% of its export revenue. Existing oil extraction sites offshore in the North Caspian, combined with onshore fields currently under development, signify Kazakhstan as a potential major near-term oil exporter.

In 2010, oil production in Kazakhstan reached 1.71 million bbl/d, compared with 1.62 million bbl/d in 2009 (a 5.5% increase). Production dropped slightly in 2011 to 1.64 million bbl/d and 1.6 million bbl/d in 2012. According to KazMunaiGas, the decrease in oil production in 2011 and 2012 was due to labor disputes, obsolete infrastructure and equipment, and adverse weather conditions. Major producers include Tengiz, Karachaganak, CNPC-Aktobemunaigas, Uzenmunaigas, Mangistaumunaigas, and Kumkol, all of which account for 1 million bbl/d. Output solely from the country's three major fields (offshore Kashagan, onshore Karachaganak, and onshore Tengiz) is set to grow to 1.2 million bbl/d by 2015.

The huge offshore Kashagan field, with an estimated 7-9 billion barrels of recoverable oil, was expected to come on stream by the end of 2013, and production should reach 370,000 bbl/d by 2015. If further expansion phases are undertaken, production at Kashagan could eventually peak at 1.3 million bbl/d.

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Oil industry sources estimate that Kazakhstan could eventually attract up to $140 billion of foreign investment in its oil infrastructure. The current market for oil and gas field equipment and services slowed in 2009-2010 due to the global economic crisis as well as cuts in capital expenditures by oil and gas exploration and production companies. Overall demand remains strong, however, with opportunities for U.S. companies in virtually every sub-sector associated with oil extraction, processing, and transportation. Best prospects include drilling, research and data management, laboratory studies, oil spill cleanup technologies, and pipeline equipment and services.

To date, Kazakhstan has no experience in offshore production and operations. This experience gap offers many opportunities for U.S. service companies in rig work, support infrastructure, and environmentally sensitive technologies. The Caspian Basin's oil-bearing formations are generally 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.

U.S. oil and gas field equipment suppliers have the potential for solid growth over the next decade as new fields are brought on-stream and secondary recovery methods are introduced to existing deposits. The most promising sub-sectors are the following: offshore/onshore oil and gas drilling and production equipment; turbines, compressors and pumps for pipeline applications; measurement and process control equipment for pipeline applications; industrial automation, control and monitoring systems for refineries, gas processing and petrochemical plants; seismic processing and interpretation; petroleum software development; sulfur removal and disposal technologies; well stimulation and field abandonment services.

There are significant opportunities for companies producing oil and gas field equipment and machinery such as drilling and wellhead equipment, Christmas trees, valves, pumps, motors, compressors, electrical submersible and jet pumps, underwater repair equipment, and oil spill containment equipment. Good prospects also exist for firms offering downstream engineering and services such as fabrication, welding, engineering services and testing in accordance with API and ASME standards.

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The Government of Kazakhstan is pursuing a development program for oil fields in the Caspian Sea that calls for increasing oil production to about 3 million bbl/d, and for the development of terrestrial infrastructure. The offshore development program also calls for more new offshore blocks to eventually be privatized through open tenders. These future projects, combined with current production and exploration, should provide opportunities for interested U.S. exporters over the next few decades.

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Caspian Pipeline Consortium: www.cpc.ru/

Kazakhstan Ministry of Oil and Gas: http://mgm.gov.kz/

Kazakhstan International Oil & Gas Exhibition and Conference (KIOGE) 2013 – http://www.kioge.com/2013/

Kazakh Institute of Oil and Gas (KING): http://www.king.kz/

Kazakhstan Petroleum Association:	www.kpa.kz/
KazEnergy Association:	http://www.kazenergy.com/
KazMunayTeniz:	www.kazmunayteniz.kz/
KazStroyService:	www.kazstroyservice.kz/
KazTransGas:	www.kaztransgas.kz/
KazTransOil:	www.kaztransoil.kz
KMG:	www.kmg.kz/
KMG Exploration Production:	http://eng.kmgep.kz/
North Caspian Operating Company:	http://www.ncoc.kz/

U.S. Energy Information Administration:
www.eia.doe.gov/emeu/cabs/Kazakhstan/Background.html

For more information contact Commercial Specialist Azhar Kadrzhanova

Agricultural Sectors

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Kazakhstan's vast territory and various climate conditions make it a unique country for agriculture, forestry, hunting, fishery, and eco-tourism. The country's 85.2 million hectares (ha) of agricultural lands include 22.5 million ha of arable land and 57.5 million ha of pasture. Agricultural output in Kazakhstan is dependent on weather conditions as summer droughts often drastically affect the productivity of land, and irrigation infrastructure is largely absent. Hard wheat grain production is primarily in the north/northeast and large parts of the west and central regions. Kazakhstan is a major producer and exporter of wheat, and is one of the world's largest exporters of flour. However, the Government of Kazakhstan is encouraging a diversification of crop production away from wheat and into more feed grains and oilseeds, in order to support the livestock sector. The eastern and southeastern regions are favorable for oilseeds, sugar beets, corn, fruits, and vegetables. Southern Kazakhstan's climate is favorable for fruits and vegetables, horticultural products, and cotton and rice production. The livestock sector is developing in Kazakhstan, and large portions of government funding have gone to rapidly building this sector, including support for the importation of breeding cattle. The Government of Kazakhstan has a strategy to turn Kazakhstan into a major net exporter of beef by 2020, with the goal of Russia as its primary market.

Best Prospects/Services

Kazakhstan's U.S. agricultural product imports hit a record high in 2012, increasing more than 11% to approximately $189 million. While poultry continues to dominate, representing more than 60% of all agricultural exports from the United States, breeding cattle jumped into second place and has the potential to continue growing. Kazakhstan has sought to enhance its domestic capacity in meat production and has looked to the United States to bolster its breeding program. Kazakhstan has already imported thousands of U.S. cattle and plans to continue to import U.S. livestock, as well as new equipment and technologies to complement the national strategy to increase domestic meat production. U.S. red meat exports have also shown strong growth in 2012, more than tripling in sales.

Opportunities

In 2012, the United States was the fourth largest supplier of agricultural products to Kazakhstan, after Ukraine, Uzbekistan and China. Trade has become more challenging with Kazakhstan since it became a member of the Customs Union with Russia and Belarus in 2010, because of new requirements. Currently, the majority of U.S. agricultural exports are poultry. However, Kazakhstan does have ambitious plans to develop it agricultural sector so opportunities may arise with agricultural inputs.

Poultry

U.S. poultry dominates the Kazakh market, and imports into Kazakhstan reached a record of about $116 million in 2012. However, further opportunities are hindered by the implementation of Custom Union regulations and are limited by Tariff Rate Quotas.

Livestock breeding

The Government of Kazakhstan is investing large sums in developing livestock production, with the goal of making Kazakhstan a major exporter to Russia and other countries. Large subsidies have been provided for the importation of breeding stock, and this has boosted imports of cattle from the United States. In 2012, the United States was the largest supplier of cattle to Kazakhstan. Livestock and genetics (bovine semen and embryos) are expected to continue to be a growth market in Kazakhstan for the next few years as they continue to try to build up their livestock herds and the Government continues to subsidize costs of imported products.

Source:
www.minagri.kz
http://www.agrosektor.kz
www.sib-agro.com

For more information contact the agricultural specialist at the U.S. Embassy in Astana, Ms. Zhamal Zharmagambetova, Zhamal.Zharmagambetova@fas.usda.gov.

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Chapter 5: Trade Regulations, Customs and Standards

Import Tariffs

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With Kazakhstan's entry into the Russia-Kazakhstan-Belarus Customs Union (CU), the average import tariff rate almost doubled, reaching approximately 10%. Member countries opened their markets to each other, exposing domestic producers to more competition and forcing Kazakhstan to raise their customs duties, which ultimately led to price hikes on goods coming from outside of the union. In 2013, Kazakhstan faces such a tariff increase on more than 5,000 types of goods. However, Kazakhstan retains some flexibility in applying the common external import tariff regime. For example, the country has no tariff on approximately 900 specific commodity items including modern aircraft, certain types of engines, and raw materials needed in the food processing industry such as tropical fruits. More than 400 specific commodity items are subject to a transitional period varying from 1.5 to five years. These items include pharmaceuticals, medical equipment, processed aluminum products, raw materials for the petrochemical industry, paper products, and rail wagons. Agricultural combines and tractors will be exempt from customs duties if the import is financed through state programs.

Kazakhstan implemented a common external tariff (CET) with Belarus and Russia beginning on January 1, 2010. According to CU regulations, Kazakhstan is allowed to apply tariffs that differ from the CET on 88 tariff lines, although all tariff lines must be harmonized by 2015. The 88 tariff lines cover pharmaceuticals, medical equipment, aluminum foil, rail wagons, and prefabricated buildings. In addition, a CU Party can increase tariffs for up to six months on selected goods without the consent of the other CU Parties.

Beginning August 2011, a moratorium on changes in import duties and on changes in the unified nomenclature of goods was in place for the Customs Union. The Customs Union Commission made this decision.

The full Customs Union schedule can be found (in Russian only) on the Customs Union Commission's website http://www.tsouz.ru/ and on the Kazakhstan Customs Control Agency's website www.keden.kz.

Kazakhstan charges a 12% value-added tax (VAT), which is paid on top of all customs duties and excise taxes at the time of customs clearance. The country also provides a drawback of import duties and taxes when the imported goods are processed in Kazakhstan and exported within two years after importation. The processing operations that qualify for drawback include manufacturing and assembly operations and repairs.

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Structural Barriers: Structural barriers to trade in Kazakhstan include a weak system of business law, a lack of an effective judicial system for breach-of-contract resolution, and an unwieldy government bureaucracy. Many companies serving the Kazakhstani market report significant logistical difficulties. In addition, there is a burdensome tax monitoring system for all companies operating in Kazakhstan, which may affect U.S. firms that decide to operate through a representative office. Many companies report the need to maintain excessively large staffs in Kazakhstan to deal with the cumbersome tax system and frequent inspections. The tax authorities have, on occasion, initiated criminal cases against local employees of foreign firms.

Though the Customs Code has provisions for WTO-compliant customs valuation methodologies, in practice customs administration remains a problematic aspect of trade. U.S. exporters to Kazakhstan have consistently identified the requirement to obtain a "transaction passport" to clear imported goods through customs as a significant barrier to trade. This regulation is designed to stem capital outflows and money laundering by requiring importers to show copies of contracts and other documentation to legitimize and verify the pricing of import/export transactions. Though new regulations have simplified the practice, the requirement is still seen as retarding the growth of trade. The impact of the Customs Union between Russia, Kazakhstan and Belarus is also troublesome as implementation is not harmonized across the Union or within the country of Kazakhstan itself. Customs inspectors have not received training and are not able to make informed or educated decisions regarding requirements or clearances. Widespread corruption, present at all levels of government, is also seen as a barrier to trade and investment in Kazakhstan. It reportedly affects nearly all aspects of doing business in Kazakhstan, including customs clearance, registration, employment of locals and foreigners, payment of taxes, and extends even to the judicial system.

Service Barriers*:* Foreign banks and insurance companies are limited to operating in Kazakhstan through joint ventures with Kazakhstani companies. Oil and gas procurement regulations stipulate that oil companies must purchase services only from Kazakhstan-based companies unless the required service is unavailable in Kazakhstan.

Import Requirements and Documentation Return to top

All goods entering the customs territory of Kazakhstan are subject to declaration and customs clearance at approved customs clearance points. A declaration must be filed within thirty days of arrival of the goods to Kazakhstan, but a brief declaration and notification on arrival of goods shall be submitted to the customs body within 24 hours after the goods cross the border and are placed at a temporary storage warehouse. With the exception of private persons permitted to transfer goods under a simplified procedure, a customs declaration must be filed by a Kazakhstani entity - that is, a business organization registered under Kazakhstani law or its affiliate or representative located in Kazakhstan, an individual entrepreneur registered in Kazakhstan, or a permanent resident of Kazakhstan. *Foreign entities cannot deal directly with customs officials in Kazakhstan and are legally required to use services provided by licensed customs brokers having the right to operate in Kazakhstan.*

A party declaring commercial goods at a customs office in Kazakhstan for their release for free circulation is responsible for submitting the paper and electronic copies of customs declarations (one copy of each per shipment), as well as accompanying documents. The Customs Cargo Declaration (5 copies) must be completed in either the Kazakh or Russian language. Other documents may be submitted in a foreign language. A customs officer, however, has the authority to request a translation of such documents into Kazakh or Russian as well as a notarization of the translation. In addition to the Customs Cargo Declaration, a party declaring goods is required to submit a set of other documents including invoices, a contract for the supply of goods, an import/export transaction passport, and shipping documents (e.g., bill of lading, airway bill, etc.) The passport of transaction is the primary tool used in the framework of the currency control system. The passport of transaction represents a cross-agency document filled out by the exporter/importer and reviewed by customs officials and representatives of the exporter/importer's bank.

As already mentioned in this report, Kazakhstan entered the Customs Union with Russia and Belarus in 2010. Adoption of a common customs tariff within the Union impacted customs fees for imported goods. According to the Minister of Industry and Trade, the average level of customs fees increased from 6.2% to 10.6% in January 2010. According to the forecast of the Russian Ministry of Economic Development, the average rate of customs fees within the Union will gradually fall from 9.64% in 2011 to 7.6% in 2013, 6.9% in 2014, and around 6.9% in 2015.

In January 2013, Kazakhstan encountered a temporary tariff increase of 27.5% for agriculture combine harvester imports due to new tariffs for harvesters introduced by Russia, a large producer of agricultural equipment.

U.S. Export Controls

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Exports and re-exports of munitions, as well as dual-use commodities and technology, to Kazakhstan are subject to U.S. export controls. U.S. companies exporting to Kazakhstan may need to apply for an export license from the Bureau of Industry and Security (BIS) if their products or services are controlled by BIS' designations (see Part 738 of the EAR for descriptions). If a firm does not know its export commodity control number, it should contact its local U.S. Export Assistance for more information on BIS commodity classification, or review the Export Administration Regulations database. Additional information about the types of products covered may be obtained from the State Department's Directorate of Defense Trade or the Commerce Department's Bureau of Industry and Security.

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Certain goods that are imported temporarily are fully or partially exempt from payment of customs duties and taxes. These include transport vehicles, professional equipment, goods imported for demonstration purposes, shipping containers, and advertising materials. Specific periods for temporary use of the goods are determined by the party declaring the goods, but are not to exceed two years from the date of shipment in or out of the customs territory of Kazakhstan.

A firm importing goods for a temporary period should provide customs with documents containing the description and value of the goods and a written confirmation stating that the goods will be sent out of Kazakhstan after a defined period. Goods not eligible for full or partial duty exemption include spare parts and components (not intended for use on temporarily imported transport vehicles), raw materials, foodstuffs, and industrial wastes.

The "temporary import" customs regime may provide for the full or partial exemption from import VAT and import customs duties. Generally, the term of the "temporary import" may not exceed 3 years.

- Partial Exemption: Under the "temporary import" customs regime, import VAT and customs duties are payable on a monthly installment basis at 3% of the import VAT and customs duties that would have been paid had the imported assets been imported under the "free circulation" regime (i.e. normal import).
- Full Exemption: For assets imported under a financial lease arrangement, the Customs Code permits full exemption from Kazakhstan import VAT and customs duties for the period of the financial lease, provided that certain statutory conditions are met.

Labeling and Marking Requirements Return to top

Government observance of standards, testing, labeling, and certification requirements is uneven. Such requirements constitute a barrier when they differ significantly from U.S. and internationally accepted standards. Kazakhstan requires that most products be labeled in both the Kazakh and Russian languages, and permits placing a labeling sticker with information in Kazakh on top of the packaging. It is recommended to use both languages when labeling goods. Details should include the name of the goods, country of origin, the producer, and for food items, the date of manufacture and expiry, storage and handling instructions, and nutrition data.

Prohibited and Restricted Imports Return to top

According to Kazakhstani law, import of the following items is prohibited: "(i) military weapons, its ammunition; weapons of mass destruction, material and equipment that can be used to create weapons of mass destruction; (ii) printed or graphic material intended to undermine state and public systems, or promote war, terrorism, violence, racism or pornography; (iv) ozone layer destructing substances (21 titles)". Item (iii), narcotics, psychotropic substances, and precursors, are generally prohibited but can be imported subject to Government of Kazakhstan legislation or permission. See the U.S. Export Controls section of this report for additional information.

As part of the non-tariff regulations, the Kazakhstan customs legislation prescribes that certain types of goods imported to Kazakhstan must comply with Kazakhstan's quality standards and must have a certificate of conformity to such standards. Specific restrictions (bans, quotas, licensing, registration, etc.) may apply to the import or export of certain goods, such as uranium, ozonous products, special-purpose hardware, oil products, weapons, etc.

Customs Regulations and Contact Information

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Kazakhstan's customs code remains overly complicated and does not encourage transparency or the expeditious movement of goods. This is one of the reasons why the country continues to rank at the bottom (182nd out of 185) on the World Bank's indicator for "Trading Across Borders".

On January 1, 2010, Kazakhstan adopted the unified customs tariffs and non-tariff regulations of the Russia, Belarus, and Kazakhstan Customs Union (CU). The CU implemented the new common Customs Code and abolished internal customs borders in July 2011. Detailed information on legal agreements and the customs duties schedule can be found on the Customs Union Commission's website http://www.tsouz.ru/

According to CU regulations, Kazakhstan is allowed to apply tariffs that differ from the CET on 88 tariff lines (down from 409 prior to July 2011), although all tariff lines must be harmonized by 2015. The 88 tariff lines cover pharmaceuticals, medical equipment, aluminum foil, rail wagons, and prefabricated buildings. In addition, a CU Party can increase tariffs for up to six months on selected goods without the consent of the other CU Parties.

Kazakhstan continues to maintain tariff-rate quotas (TRQs) on imports of poultry, beef, and pork, as part of its obligations within the CU. Precious metals and stones, encrypted technologies, documents from national archives, and items of cultural value are among the products now subject to export licensing.

The Law on Investments provides customs duty exemptions for imported equipment and spare parts, but only if Kazakhstani-produced stocks are unavailable or not up to international standards. In addition, imported equipment and spare parts designated for priority investment projects under the governmental industrialization program are exempted from customs duties.

Other reforms allow foreign citizens to import and declare goods at a port of entry without utilizing domestic customs brokers. Previously, foreign citizens that wished to import goods into Kazakhstan were required to have a Kazakhstani partner. Notwithstanding this reform, foreign citizens may still be required to have domestic customs brokers in order to file electronic customs declarations, unless they have software compatible with the new CU computer system. New laws also modified provisions regarding *ex officio* rights for customs officers and standardized practices for the valuation of goods, making the valuation process more consistent. These amendments were approved on December 9, 2009, and entered into force on January 1, 2010.

Kazakhstan's customs valuation rules largely conform to the WTO Valuation Agreement, and the country has adopted HS 96 as its tariff nomenclature. Kazakhstan is planning to join the WTO in 2014. Foreign firms can import some items for their own use duty-free including equipment and spare parts imported to implement an investment project, if this equipment is unavailable on the territory of Kazakhstan. 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 that the need to present "transaction passports" ranging from document procurements to bank transfers in order to clear their goods with Customs is a significant barrier to trade. Implementation of regulations allowing periodic declarations remains problematic.

Foreign entities cannot deal directly with customs officials in Kazakhstan and are legally required to use services provided by licensed customs brokers having the right to operate in Kazakhstan. The Customs Control Agency maintains a registry of licensed customs brokers and is required to post it at: www.keden.kz with regular updates.

Standards

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Overview

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Certification and/or conformity assessment procedures are part of the national system of technical regulation. Kazakhstan is striving to join the World Trade Organization (WTO), thus, much work has been done to harmonize its legal base with international standards. To implement international standards, in 2007 Kazakhstan adopted a number of laws and amendments to the existing Law on Technical Regulations including such laws as Safety of Chemical Products, Safety of Food Products, Safety of Toys, and Safety of Equipment and Machinery. The national file of standards now includes 66,422 rules and norms, of which 15,439 represent international standards (ISO) and are applied in all economic sectors.

Under the current regulations, safety standards acquire the status of normative documents, mandatory for consideration, while quality standards will gradually become voluntary. The functions of governmental bodies will be limited to dealing with safety control issues. Technical regulations will acquire the status of laws and will be intended to ensure the safety of life and health of consumers. Other standards relating to quality of goods will be given a voluntary status, and manufacturers will no longer be forced to follow outdated requirements dictating a shape, or color of goods as it was under the old legislation.

Standards Organizations

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The Committee on Technical Regulation and Metrology (Gosstandart), under the Ministry of Industry and New Technologies, is the national agency regulating technical regulation issues in Kazakhstan. Gosstandart is subdivided into two subordinate enterprises: the Kazakh Institute for Standardization and Certification and the Kazakh Institute of Metrology.

NIST Notify U.S. Service
Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: http://www.nist.gov/notifyus/.

Conformity Assessment

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The existing procedure of conformity assessment applied in Kazakhstan does not allow for 100% application of international standards due to legal and technical inconsistencies. Kazakhstan entered the International Laboratory Accreditation Cooperation (ILAC) in 2010 and plans to join the International Accreditation Forum (IAF) in 2013.

Any goods imported into Kazakhstan and included on the mandatory list of goods are subject to the mandatory procedure of certification under national requirements. The list includes machines, cars, agricultural and telecommunication equipment, construction materials, fuel, clothes, toys, food, and drugs. Contracts for goods delivery should be accompanied by the following documents: product description, country of origin certificate, name of producer, customs declaration, expiration date, storage requirements, and user manuals printed in Kazakh and Russian. Foreign certificates, testing protocols, and compliance indicators of imported products should correspond to appropriate international treaties.

In Kazakhstan, as well as in other CIS countries, mandatory requirements for goods are set out in standards and legal documents regulating sanitary, environmental, veterinary and other issues, thus requiring further harmonization efforts.

The existing system of conformity assessment represents an onerous set of procedures that includes, among others: state control over conformity with mandatory standard requirements, mandatory certification and examination, obtaining a conclusion, and registration. All of these factors are considered as serious non-tariff administrative barriers to trade, and prevent competition and free market circulation of goods.

Product Certification

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The law on certification establishes the legal foundations of product certification and quality systems in manufacturing, operations, and services, as well as regulating relationships in the field of certification and establishing rights, commitments and responsibilities of certifying parties. The government owned National Center of Expertise and Certification manages certification. In order to increase protection against fake or falsified certificates of conformity, the government has introduced a hologram for additional protection, which has the mark of conformity and inscription "Memstandard."

Accreditation Return to top

Kazakhstan is a member of the International Organization for Standardization (ISO) and the International Laboratory Accreditation Cooperation (ILAC) but not the International Accreditation Forum (IAF). National mechanisms for the adoption of international standards are in place. This process stipulates a gradual, but complete, transition to international standards. Kazakhstan has already adopted some of the international standards in the sphere of quality assessment including ISO/IEC17025 General Requirements in Terms of Competence of Testing and Calibrating Laboratories, and these standards are considered to be national.

In August 2008, the Law on Accreditation in Conformity Assessment and a number of appropriate legislative amendments came into force. According to the law, accreditation in conformity assessment became voluntary and the validity of an accreditation certificate was increased to five years.

The National Center for Accreditation (NCA) of the Committee on Technical Regulation and Metrology is an authorized state organization for accreditation.

Publication of Technical Regulations Return to top

Firms can subscribe to SNIP, which publishes monthly updates to technical regulations and standards in use in Kazakhstan.

Labeling and Marking Return to top

According to Kazakhstani legislation, most products imported into the country should be labeled in both the Kazakh and Russian languages. Product labels should include names, manufacturer, country of origin, and information on date of production, period of validity, storage conditions, and usage.

Product manufacturers or sellers obtaining a certificate of conformity have a right to use a mark of conformity by all means established by the state system of technical regulation.

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Committee on Technical Regulation and Metrology:
http://www.memst.kz/en/index.php

Kazakh Institute for Standardization and Certification: http://www.kazinst.kz/

National Center of Expertise and Certification: http://www.naceks.kz/en/

National Center of Accreditation: http://www.nca.kz/

Russian Certification Services: www.rcsint.com/

SNIP: www.snip.com/index.php?Page=Kazakhstan

Trade Agreements

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Kazakhstan signed a Free Trade Zone treaty with Commonwealth of Independent States countries in November 2011 that eliminates nearly all tariffs between the countries. This treaty came into force in December 2012.

Trade agreements signed by Kazakhstan with the United States include:

- The U.S. and Kazakhstan Bilateral Investment Treaty of May 1992; and
- The U.S. and Central Asian Countries Trade and Investment Framework Agreement (TIFA) of June 2004. This includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

Kazakhstan continues to negotiate its WTO accession. By the end of 2011, Kazakhstan had completed bilateral negotiations with almost all of its Working Party members, including the United States and the European Union. Kazakhstan still needs to conclude WTO bilateral market access agreements with a few WTO Members, and has signaled its intention to turn to multilateral issues and complete its accession package by the end of 2013.

In 2010, the Russia-Kazakhstan-Belarus Customs Union came into force. The three countries agreed to have a common external customs tariff and common customs procedures. The Customs Code of the Customs Union came into effect on July 1, 2010. The Kazakhstani-Russian customs border was abolished on July 1, 2011. A next stage of economic integration of three countries, the Common Economic Space (CES) came into force on January 1, 2012. Due to this change, the Customs Union renamed its supranational permanent regulating body to the Eurasian Economic Commission. Deeper economic integration among Russia, Kazakhstan and Belarus remains at an early stage and many details, including non-tariff trade barriers, have yet to be fully resolved.

Web Resources

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Customs Union Commission: http://www.tsouz.ru/

Kazakhstan Customs Control Agency: www.keden.kz

Bureau of Industry and Security (BIS): www.bis.doc.gov

U.S. Export Assistance: www.export.gov/eac/

Export Administration Regulations: http://www.access.gpo.gov/bis/index.html

State Department’s Directorate of Defense Trade: http://www.pmddtc.state.gov/

World Bank’s Doing Business Rankings: http://www.doingbusiness.org/rankings

Committee on Technical Regulation and Metrology: http://www.memst.kz/en/index.php

Kazakh Institute for Standardization and Certification: http://www.kazinst.kz/

National Center of Expertise and Certification: http://www.naceks.kz/en/

National Center of Accreditation: http://www.nca.kz/

Russian Certification Services: www.rcsint.com/

SNIP: www.snip.com/index.php?Page=Kazakhstan

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Chapter 6: Investment Climate

Openness to Foreign Investment

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Kazakhstan has made significant progress toward the creation of a market economy since it gained independence in 1991, and the European Union (2000) and the U.S. Department of Commerce (March 2002) have granted it market economy status. Kazakhstan also has attracted significant foreign investment since independence. As of September 30 2012, foreign investors had placed a total of $177.7 billion in Kazakhstan, primarily in the oil and gas sector. Kazakhstan is widely considered to have the best investment climate in the region. Numerous international firms have established regional headquarters in Kazakhstan.

The government's Program for Accelerated Industrial Development, part of its “Road Map for Business 2020,” created investment priorities aimed at diversifying Kazakhstan's economy away from an overdependence on extractive industries. The government of Kazakhstan adopted a "National Plan for Attracting Investment" in December 2011, which seeks to improve the investment climate by simplifying visa procedures, customs clearance, and transit across borders, as well as establishing special service centers for foreign investors under regional municipal authorities. In 2012, every regional government set up an Investors’ Service Center.

In 2011, Kazakhstan announced the goal of joining the Organization of Economic Cooperation and Development (OECD). To meet OECD requirements, the government will need to amend its investment legislation.

Kazakhstan submitted its Memorandum on the Foreign Trade Regime (MFTR) to the World Trade Organization (WTO) in 1996 and the first round of consultations on accession took place in 1997. Kazakhstan has made significant progress in implementing the legal framework necessary for WTO accession and has signed bilateral protocols on market access for goods and services with the bulk of working party members. Multiparty talks have been more contentious with difficult negotiations centering on agricultural subsidies, sanitary and phytosanitary standards, local content requirements, export duties on petroleum, and enforcing intellectual property rights for pharmaceuticals. Despite domestic opposition to compromising on these issues, the government has vowed to satisfy working party concerns by the middle of 2013 in order to accede to the WTO by the end of the year.

Russia, Belarus, and Kazakhstan officially entered into a Customs Union on July 1, 2010. As a condition of membership, Kazakhstan has almost doubled its average import tariff and introduced annual tariff-rate quotas (TRQs) on poultry, beef, and pork. U.S. exporters have raised concerns about the possible trade-limiting effects of these TRQs, as well as the way TRQs are calculated and distributed. According to the Ministry of Economic Development and Trade, Kazakhstan will slightly increase tariff rate quotas in 2013.

On January 1, 2012, the Customs Union partners created the Common Economic Space (CES), which is intended to be a step toward further economic integration. While many agreements for the Common Economic Space are still being negotiated, the first 17 came into force in 2012. The government of Kazakhstan has asserted that CES agreements comply with WTO standards. If CES agreements are not WTO compliant, however, WTO commitments supersede CES rules.

The following acts of legislation impact foreign investment in Kazakhstan: 1) the 2003 Law on Investments; 2) the 2003 Customs Code and the Customs Code of the Customs Union, which came into force in July 2010; 3) the Tax Code; 4) the Law on Currency Regulation and Currency control; and 5) the Law on Government Procurement. These laws provide for non-expropriation, currency convertibility, guarantees of legal stability, transparent government procurement, and incentives for priority sectors. Inconsistent implementation of these laws and regulations at all levels of the government, combined with a tendency for courts to automatically accept government positions, can create significant obstacles to business in Kazakhstan.

The 2003 Law on Investments established a single investment regime for domestic and foreign investors and provides, inter alia, national treatment and non-discrimination for foreign investors. It guaranteed the stability of existing contracts at the time of its passage, with the qualification that new contracts will be subject to amendments in domestic legislation, certain provisions of international treaties, and domestic laws dealing with "national and ecological security, health, and ethics." The Law on Investments contains incentives and preferences for government-determined priority sectors, providing customs duty exemptions and in-kind grants (see A.5. Performance Requirements and Incentives). The Law also provides for dispute settlement through negotiation, Kazakhstan's judicial process, and international arbitration (see A.4. Dispute Settlement). In general, U.S. investors have expressed concerns about the Law's narrow definition of investment disputes, its lack of clear provisions for access to international arbitration, and certain aspects of investment contract stability guarantees.

In January 2009, Kazakhstan adopted a new Tax Code that lowered corporate income and value-added taxes, replaced royalty payments with a mineral extraction tax, and introduced excess profits and rent taxes on the export of crude oil and natural gas. Accordingly, the corporate income tax rate has dropped from 30% to 20%. The value-added tax (VAT) has been reduced gradually from 16% in 2006 to 12% in 2009 where it now remains and will likely remain in the near term. Kazakhstan applies a flat 11% social tax to employers based on employees' earnings and a personal income tax rate of 10%. The tax rate for non-residents is between 5% and 20%, depending on an individual's type of income. Subsurface users are subject to additional taxes: a signing bonus, commercial discovery bonus, and historical cost reimbursement.

Experts consider Kazakhstan's tax laws among the most comprehensive in the former Soviet Union. It is common for Kazakhstan's tax authorities to invoke the national Tax Code provisions over International Financial Reporting Standards (IFRS). At times this can lead to double taxation, especially when employing IFRS standards for deducting expenses between a company's home office and its branch office in Kazakhstan (see A.4 Dispute Settlement).

In 2001, Kazakhstan adopted transfer-pricing legislation, which gives tax and customs officials, the authority to monitor export-import transactions. A transfer pricing law that came into force on January 1, 2009, introduced the commonly accepted "arm's length principle" embraced by the OECD. The law was amended in 2010 to provide for rights and liabilities of government agencies, the right of a transaction party to provide state agencies with a justification for applied prices, and the right to appeal results of tax inspections. According to the law, the Ministry of Finance has the right to monitor transactions of companies by surveying the prices of transactions and analyzing companies' reports. Foreign investors concede that the new law is more closely aligned with international standards, but are concerned that the law will be applied not only to transactions with related parties, but to all international transactions. The Embassy is not aware of any cases involving the inappropriate application of transfer-pricing legislation in 2012.

Although no sectors of the economy are legally closed to investors, restrictions exist, such as a 20% ceiling on foreign ownership of media outlets and a 49% limit for foreign ownership in the telecommunications sector, which does not apply to mobile operators. The government has indicated that the restriction in the telecommunications sector will be removed following Kazakhstan's accession to the World Trade Organization (WTO). No constraints on the participation of foreign capital in the banking and insurance sectors exist, but there is a ban on foreign bank and insurance company branches operating in Kazakhstan. Foreign companies in the banking and insurance sector may instead form a local joint stock company under parent company ownership. Restrictions also exist on foreign ownership of land in Kazakhstan (see A.6. Right to Private Ownership and Establishment).

Foreign investors have complained about irregular application of laws and regulations, and have interpreted regulatory pressure as an effort to extract bribes. Some investors report harassment by the Financial Police via unannounced audits, inspections, and other methods. At times, the authorities have used criminal charges in civil disputes as a pressure tactic.

By law and in practice, foreign investors can participate in privatization projects. Many foreign companies, however, cite the need to defend their investments from a steady stream of decrees and legislative changes, most of which do not "grandfather" existing investments. Foreign investors also complain about arbitrary tax inspections, as well as problems in finalizing contracts, delays and irregular practices in licensing, and land fees. Foreign companies report that local authorities arbitrarily impose environmental fines, which are then placed in the general budget vice being used to offset any alleged environmental damage. The national and local budgets include revenue from environmental fines, which can result in fines being levied to generate additional revenue, regardless of whether environmental regulations are breached or not. Some foreign firms have expressed concern about the failure of government organizations to fulfill their contractual obligations, particularly regarding payments, which can prevent the foreign partner from advancing its investment program. Investors can then be exposed to government charges of non-performance, which could allow the government to cancel the contract.

The government regulates foreign labor at macro and micro levels. Foreign workers must obtain work permits, which can be difficult and expensive. The government limits the issuance of work permits to boost local employment based on the area of specialization and geographic region. From 2003-2008, the quota for foreign labor steadily increased from 0.14% to 1.6% of the total workforce, but was reduced by half on the heels of the economic crisis in 2008. A foreign labor quota of 0.75% of the active labor force remained in force throughout 2009 and 2010, and was slightly increased in 2011 to 0.85%, reaching 1% in 2012. In 2013, the foreign labor quota is scheduled to grow to 1.2% of the active labor force.

A February 2011 amendment to Kazakhstan's Expatriate Workforce Quota and Work Permit Rules mandated that medium and large businesses have 90% local content in their workforce for technical personnel and 70% for company executives as of January 2012. Following a concerted campaign led by Western oil companies, Kazakhstan passed an October 2011 decree that exempts Kazakhstan's three largest hydrocarbon projects – Tengiz, Karachaganak and Kashagan – from the requirement for three years. Other foreign businesses find it difficult to meet the local content demands, especially in technical fields where Kazakhstan cannot supply skilled workers in sufficient numbers.

The 2011 law on migration allows foreign citizens with Kazakhstani residence permits to work in Kazakhstan without additional permission and without being counted against labor quotas. Kazakhstan also opened its labor market for its Common Economic Space partners Russia and Belarus. On January 1, 2012, Kazakhstan cancelled labor quotas for citizens of Russia and Belarus, and labor migrants from those countries are able to stay in the country for 90 days without registration with the migration police.

Index	**Ranking**	**Year**
Transparency International	133 (score:28)	2012
Heritage Economic Freedom	68(score: 63)	2013
World Bank Doing Business Report	49	2013

Foreign Investment in the Extractive Industries

Despite growing investment in Kazakhstan's energy sector, concerns remain about the government's tendency to challenge contractual rights, to legislate preferences for domestic companies, and to create mechanisms for government intervention in foreign companies' operations, particularly in procurement decisions. Together with vague and contradictory legal provisions that are often arbitrarily enforced, these negative tendencies feed a perception that Kazakhstan is a suboptimal investment environment.

Business associations and investment advisors are concerned that Kazakhstan's Tax Code could undermine tax stability clauses in existing and future subsoil contracts. The government has stated that it will only guarantee tax stability for existing production sharing agreements (PSAs) and for the one major hydrocarbon project that has a tax and royalty contract (Tengiz). Furthermore, in December 2011, the Minister of Finance publicly stated that only tax rates, but not tax filing/collection procedures, will be held stable. Contracts for Tengiz, Kashagan, and Karachaganak include tax stability clauses that theoretically shelter the operating companies from changes to the tax code or customs regime.

In April 2008, Kazakhstan introduced a customs duty on crude oil and gas condensate exports. The government zeroed the customs duty rate in January 2009, but then it re-introduced it at a rate of $20 a ton in August 2010. The customs duty doubled to $40 a ton as of January 1, 2011 and has not changed since. Companies that pay "rent tax," a tax on mineral/crude oil exports, are exempted from the customs duty on crude exports.

The government’s "local content" strategy is considered to have a discriminatory effect on foreign investors. International oil companies complain that implementation is uneven, irregular, and non-transparent, particularly at local levels of government. Representatives of international service companies also report that it is difficult to obtain Kazakhstani certificates of origin. According to the Local Content Law, a product must carry a certificate of origin issued in Kazakhstan to meet the local content criteria.

The 2010 Law on Subsoil and Subsoil Use contains explicit requirements regarding the purchase of local goods and services for all investments in offshore oil and gas exploration and production. A December 2009 Local Content Law also requires that companies set a minimum percentage of local content for goods and services in contracts, but does not articulate how to address existing contracts without such quotas. U.S. businesses have privately reported intense pressure from the government of Kazakhstan to rewrite contracts to meet the revised local content standards. The Local Content Law allows the state to revoke the subsoil production rights of companies that do not meet local content requirements during a project’s exploration phase. The National Agency for Local Content Development (NALCD), under the Ministry of Industry and New Technologies, oversees local content policy. In April 2012, NALCD accused 38 mining companies of violating local content regulations (i.e. failure to provide information on planned and actual purchases of goods, works, and services in March 2012). The Agency threatened to impose penalties, including unilateral termination of subsoil use contracts, however, no contracts have thus far been annulled.

The government, led by the Ministry of Industry and New Technologies, is currently drafting an Action Plan on Enhancement of Local Content in Procurements for Major Subsoil Users and Strategic Mining and Petroleum Companies, which is scheduled for submission to the Presidential Administration in the first quarter of 2013. The Action Plan would require companies to utilize local content for 50% of Front End Engineering Design (FEED) and design works, would ban export of geological information (core samples, rocks and reservoir fluids) and would require the nomination of a Ministry of

Industry and New Technologies representative onto Boards of Directors of key subsoil use projects. Kazakhstan's Foreign Investors Council has been given a draft of the Action Plan and provided comments outlining industry's concerns.

The Subsoil Law also allows the government to unilaterally amend existing contracts of "strategic significance" or even to terminate contracts deemed to threaten Kazakhstan's economic security or national interests. In April 2012, the government issued a new decree that enlisted 361 hydrocarbon fields and mineral deposits as having "strategic significance." Companies must also obtain the government's permission to conclude combined exploration and production contracts. Additionally, the Subsoil Law shortens the time limits for exploration contracts, enhances the government's authority to terminate contracts not in compliance with the law, requires parliamentary approval for tax stability clauses in individual contracts, and precludes the use of production sharing agreements (PSAs) in the future. Moreover, the Law treats draft work plans containing cost and production volume projections as formal contract commitments. Companies must establish equal terms, conditions, and pay for Kazakhstani and foreign workers, and the government should evaluate subsurface resource bids based on proposed social contributions. The Law also severely reduces gas-flaring quotas and imposes harsher penalties for environmental violations.

The Subsoil Law reaffirms the state's preemptive right to participate in equity transactions involving subsurface user rights in oil and gas or mining operations, including but not limited to the purchase of shares in new exploration and production projects. The government can also block the sale of oil and gas assets and exclude specific companies from participating in oil and gas tenders in the interests of "national security." The Subsoil Law establishes transparent procedures for state and private companies to exercise subsurface rights, and clearly defines when the state can exercise its priority right. A December 2010 regulation established an interdepartmental committee to advise whether and how to exercise the government's preemptive rights in extractive projects.

On January 9, 2012, President Nazarbayev signed the Law on Natural Gas and Gas Supply. The Law aims to regulate gas transportation, distribution, and pricing, as well as to create a single, monopolistic operator to purchase natural gas. On July 5, 2012, Kazakhstan's state owned firm KazTransGaz was designated as the national gas operator.

Conversion and Transfer Policies Return to top

In 1999, the government and National Bank of Kazakhstan announced that the national currency would be allowed to float freely at market rates. After a February 2009 tenge devaluation, the National Bank returned to a managed float exchange rate regime and maintained an exchange rate in the corridor 150 tenge/per U.S. dollar plus/minus 3%. In 2010, the National Bank broadened the corridor of fluctuation, allowing the tenge to float between 127.5 and 165 to the dollar. Although the National Bank cancelled the corridor of fluctuation and announced a return to a managed float exchange rate regime early in 2011, the exchange rate has not changed sharply. In 2012, the tenge fluctuated between 147.79 and 150.52 to the dollar.

In 1996, Kazakhstan adopted Article 8 of the IMF Articles of Agreement, which stipulates that current account transactions, such as currency conversions or the repatriation of investment profits, will not be restricted. No distinction is made between residents and non-residents in opening bank accounts, but all account holders must have a Kazakhstani tax identification number. Money transfers associated with foreign investments, whether inside or outside of the country, are unrestricted. Non-residents may be paid wages in a foreign currency (see Article 16 of the Law on Currency Regulation and Currency Control), and foreign investors may convert and repatriate earnings.

In June 2005, President Nazarbayev signed the Law on Currency Regulation and Currency Control. This law lifted restrictions on money transfers and allows individuals to take up to $10,000 in cash out of the country without documentation of the money's origin. The Russia- Belarus-Kazakhstan Customs Union further liberalized the money transfer regime by removing the requirement for a National Bank to certify money's origin in amounts over $10,000. On January 1, 2007, Kazakhstan eliminated all licensing requirements and procedures for foreign currency operations, except the licensing of foreign exchange operations. Banks conducting transactions in foreign currency, including bank payments and transfers relating to capital movements, must notify the National Bank of their operations as soon operations exceed a certain threshold. The notification threshold for capital outflow operations is $100,000 and for capital inflow operations is $500,000.

Export-import credits and financial loans with terms longer than 180 days fall under the National Bank's registration regime. Banks processing these credit transactions must register them and notify the National Bank before completing the transaction. Legislation stipulates that non-fulfillment of payment obligations on export of investment contracts triggers administrative or criminal charges. Administrative penalties are applied for non-payment of up to $50,000, above which criminal charges are applied.

The Law on Currency Regulation and Currency Control specified measures for a "special currency regime" which can only be introduced when the country's economic and financial stability are in jeopardy. Measures may include requirements for companies to retain a certain percentage of their foreign currency profits in the National Bank of Kazakhstan or other authorized banks, the mandatory sale of foreign currency earnings, and limits on the use of foreign bank accounts. Considered an extreme measure, its application in the foreseeable future appears unlikely.

The National Bank no longer requires so-called transaction passports for export-import operations following December 2011 legislative amendments to the Law on Currency Regulation and Currency Control. The law was simplified to instead require commercial banks to issue a contract registration number for imports and exports. A registration number is required for all transactions exceeding $50,000, and the procedure to receive a registration number can take several days.

The National Bank regularly monitors the currency operations of selected non-residents. This procedure primarily affects the oil and gas, construction, and mining industries, as well as companies providing architectural, engineering, and industrial design services. According to the National Bank, this monitoring provides better statistical data on the balance of payments and external debt.

The U.S. Embassy is not aware of any concerns with regard to remittance policies or the availability of foreign exchange conversion for remittance of profits. However, Kazakhstan’s 2012 Law on Electricity Generation could, in theory, be used to force electricity generators to reinvest all of their profits into infrastructure upgrades, thereby negating foreign investors’ opportunity to realize profits or take them out of the country.

Expropriation and Compensation Return to top

The 2003 Law on Investments allows nationalization by the state in emergency cases "as provided in legislative acts of the Republic of Kazakhstan." Unlike its predecessor -- the 1994 Investment Law -- it does not provide clear grounds for expropriation, nor does it require "prompt, adequate and effective" compensation at a fair market value. The 2003 Law differentiates between nationalization and requisition, providing full indemnification in the case of the former, as opposed to payment of market value in the case of the latter. Bilateral investment treaties (BITs) between Kazakhstan and other countries, including the United States, require compensation in the event of expropriation.

There has been only one case of legal expropriation of a foreign investor's property for public purpose. The investor ultimately submitted the case for international arbitration and the government paid the amount awarded by the arbiter in May 2006.

Dispute Settlement Return to top

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, many are linked to alleged violations of environmental regulations, tax laws, transfer pricing laws, and investment clauses. Some disputes relate to alleged illegal extensions of the exploration schedule by subsurface users as costs incurred during this period are fully reimbursed under the terms of a production sharing agreement. In some instances, disputes involve hundreds of millions of dollars. Problems arise in the enforcement of judgments, and ample opportunity exists for influencing judicial outcomes given the relative lack of judicial independence.

Kazakhstan's Civil Code establishes general commercial law principles. The 2003 Law on Investments defines an investment dispute as "a dispute ensuing from the contractual obligations between investors and state bodies in connection with investment activities of the investor." It states that such disputes can be settled by negotiation, in Kazakhstani courts, or through international arbitration. According to the Law, disputes not falling within the aforementioned category "shall be resolved in accordance with the laws of the Republic of Kazakhstan." Kazakhstan's laws favor the use of the Kazakhstani judicial system, however, international arbitration clauses in contracts are honored. While the laws of Kazakhstan favor use of the Kazakhstani judicial system, when contracts include an international arbitration clause it is honored. Moreover, in 2004 Kazakhstan adopted a law on international arbitration.

Kazakhstan has been a member of the International Center for the Settlement of Investment Disputes (ICSID) since December 2001 and ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 1995. By law, any international arbitral award rendered by the ICSID, a tribunal applying the UN Commission on International Trade Law Arbitration rules, Stockholm Chamber of

Commerce, London Court of International Arbitration, or Arbitration Commission at the Kazakhstan Chamber of Commerce and Industry is enforceable in Kazakhstan.

Despite effective dispute resolution mechanisms for most commercial activity, an issue of serious concern for foreign investors is the lack of explicit provisions for international arbitration in the Subsoil Law. International law firms worry that because the Subsoil Law does not expressly provide for international arbitration, the government might choose not to include a provision in contracts to allow resolution of disputes through international arbitration. That said, in July 2010, then Prime Minister Karim Massimov ordered the Ministry of Justice to create a special legal department to defend the country's interests in international courts. Monetary judgments are normally made in domestic currency, but currency conversion is not a barrier to repatriation of awards.

Even when investment disputes are eventually resolved in accordance with contract conditions, the process of reaching a resolution can be very slow and involve considerable investment of time and resources. Many investors therefore elect to handle investment disputes privately, rather than make their cases public. The U.S. Embassy advocates on behalf of U.S. firms with investment disputes.

Additionally, the U.S. Ambassador participates in every meeting of the Prime Minister's Council to Improve the Investment Climate. The Council was created with the goal of paying special attention to questions related to foreign investors, including protection of their rights and interests. The Council proved to be an efficient forum for foreign companies to voice concerns about doing business in Kazakhstan in front of the country's Ministers and decision makers. In 2012, the Council discussed various issues, including tax administration problems, decriminalization of administrative violations, the rule of law, judicial independence, and the arbitrary application of environmental fines.

The 1997 Bankruptcy Law contains a detailed list of creditors' rights and prescribes mechanisms for enforcement. Amendments to the Law in 2008 provided a comprehensive list of the governmental authorities involved in bankruptcy procedures and expanded the rights of enterprises during rehabilitation procedures. According to Article 28 of the Civil Code, civil suits concerning the restructuring of financial institutions now fall within the jurisdiction of the Almaty Financial Court. The Court must approve creditor-agreed restructuring plans of financial institutions.

Performance Requirements and Incentives Return to top

The 2003 Law on Investments and 2008 Tax Code provide for tax preferences, customs duties exemptions, and in-kind grants as incentives for foreign and domestic investment in priority sectors. The Investment Committee under the Ministry of Industry and New Technologies makes decisions on customs duties exemptions (with notification to customs authorities) and in-kind grants on a case-by-case basis. The Investment Committee also ensures that investors meet their contractual obligations. The Law allows the government to rescind such incentives, collect back-payments, and/or revoke an investor's operating license if an investor fails to fulfill its contractual obligations. Tax preferences can be extended upon the decision of regional tax authorities.

The government uses preferences to help diversify its economy away from the extractive sector. Priority sectors include agriculture, construction, metallurgy, chemistry and pharmaceuticals, food production, consumer goods, oil refining, oil and gas infrastructure, metallurgy, transport, information communication, machinery, tourism, logistics, education, health care and aerospace. The system applies to new enterprises, as well as to existing enterprises making new investments. The duration of tax preferences increases with the size of investment.

In light of Kazakhstan's Accelerated Industrialization and Innovation Program (see A.1. Openness to, and restrictions upon, Foreign Investment), the government amended the Law on Investments in 2012 and broadened possible preferences to include "strategic investment projects." If the project helps develop the high-tech industry or exceeds $50 million of investment in an economically depressed region, it is eligible for property and land tax exemptions and/or subsidies for electricity and gas.

Right to Private Ownership and Establishment Return to top

Private entities, both foreign and domestic, have the right to establish and own business enterprises, buy and sell business interests, and to engage in all forms of remunerative activity.

Kazakhstan's constitution provides that land and other natural resources may be owned or leased by Kazakhstani citizens in accordance with the law. The 2003 Land Code allows citizens of Kazakhstan (natural and legalized) and Kazakhstani companies to own agricultural and urban land, including commercial and non-commercial buildings, complexes, and dwellings thereupon situated. Amendments to the Labor Code in 2011 permit foreigners to own land to build industrial and non-industrial facilities, including dwellings. Foreigners may rent, but not own, agricultural land for up to 10 years. Foreigners may, however, own agricultural land through either a Kazakhstani-registered joint venture or a full subsidiary. The Land Law does not allow private ownership of the following types of land:

- land used for national defense and national security purposes;
- specially-protected natural territories;
- forests, reservoirs (lakes, rivers, canals, etc.), glaciers, swamps, etc.;
- public areas (urban or rural settlements);
- main railways and public roads;
- land reserved for future development and construction of national parks, railways and public roads, subsoil use and power facilities, and social infrastructure.

Protection of Property Rights Return to top

Secured interests in property (fixed and non-fixed) are recognized under the Civil Code and the 2003 Land Code. All property and lease rights for real estate must be registered with the Ministry of Justice through its service centers distributed throughout the country.

Kazakhstan continues to move closer to international IPR standards. The Civil Code and various IPR laws, in principle, protect U.S. intellectual property. In 2006, USTR removed Kazakhstan from the Special 301 Watch list. In 2010, the government introduced amendments to trademark legislation that would bring provisions of the law in line with WTO guidelines for trade related aspects of intellectual property rights

(TRIPS). Kazakhstan has also ratified 16 of the 24 treaties endorsed by the World Intellectual Property Organization (WIPO). In 2010, Kazakhstan joined the Madrid Agreement on the Repression of False or Deceptive Indications of Source on Goods and the Agreement Concerning the International Registration of Trademarks. It also ratified the Nairobi Treaty on the Protection of the Olympic Symbol. In 2011, Kazakhstan ratified the WIPO Patent Law Treaty.

In June 2011, Kazakhstan ratified the Agreement of the Common Economic Space on unified principles of regulation in the area of IPR protection. As follow-up steps within the framework of this agreement, in 2012 Kazakhstan ratified the Singapore Treaty on the Law of Trademarks and the Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations. In December 2011, Kazakhstan adopted amendments to IPR laws that enhance the responsibility for copyright violations on the Internet and simplify procedures for trademark registration.

Patent protection is available for inventions, industrial designs, prototypes, novel processes, and products that have industrial applications. The National Institute of Intellectual Property performs formal examinations of patent applications. Patents for inventions are granted for 20 years; patents for utility models are granted for a five-year period with a possible three-year extension. Prototypes patents are granted a 10-year initial period of protection, with the possibility of an additional five year extension. Kazakhstani legislation also permits an "innovation" patent, which is granted for an initial three-year period with a possible extension for two years. Issued after only checking the local novelty of an invention, an innovation patent is expected to boost local business innovation. Unsuccessful applicants can appeal decisions of the National Institute of Intellectual Property and the Committee for Intellectual Property Rights. Kazakhstan is a member of the Moscow-based Eurasian Patent Bureau and the Munich-based European Patent Bureau.

Trademark violation is a crime in Kazakhstan. While trademarks are protected in Kazakhstan, counterfeit goods can be found at local markets. Registration fees charged to foreign patent and trademark applicants are significantly higher than those charged to domestic applicants. Applications for trademark, service mark, and appellations-of-origin protection should be filed with the National Patent Office and approved by the Committee for Intellectual Property Rights. Trademarks and service marks are afforded protection for 10 years from the date of filing. The Law on Copyrights and Related Rights was enacted in 1996. The law largely conforms to the requirements of the WTO TRIPS Agreement and the Berne Convention. One of the latest amendments to the Copyright Law allows licensed vendors to seek damages from unauthorized dealers selling pirated merchandise. Illegal software development and manufacture generally is not conducted in Kazakhstan. Russia, Ukraine and China are believed to be the local market's primary sources.

Transparency of Regulatory System Return to top

The non-transparent application of laws remains a major problem in Kazakhstan and an obstacle to expanded trade and investment. Foreign investors complain of inconsistent standards and corruption. While foreign participation in the economy is generally welcomed, some foreign investors point out that the government is not always evenhanded and sometimes reneges on its commitments. Although the Investment Committee of the Ministry of Industry and New Technologies was established to facilitate foreign investment overall, it has had limited success in addressing the concerns of foreign investors.

Kazakhstan has taken great strides to try to improve its business environment and streamline bureaucratic practices, including accelerating start-up procedures and reducing minimum capital requirements for businesses. The government also introduced new building regulations and a risk-based approach for permit approvals in 2009 to decrease the onerous nature of attaining construction permits. As a result, Kazakhstan moved up 15 places to 53 out of 183 countries in the World Bank's 2011 Doing Business Report. In 2012, Kazakhstan progressed to 47th place in the report's rankings. In the 2013 report, Kazakhstan placed 49th.

Kazakhstani law provides for government compensation for violations of contracts that were properly entered into and guaranteed by the government. However, where the government has merely "approved" or "confirmed" a foreign contract, the government's responsibility is limited to the performance of administrative acts (i.e., those "concerning the issuance of a license, granting of a land plot, mining allotment, etc.") necessary to facilitate a subject's investment activity. In those cases, commercial arbitration or other dispute resolution mechanisms would need to be used to redress contract violations.

A 2007 Licensing Law established the legal framework for licensing activities and simplified procedural requirements. The relevant agency must issue a license within one month of receiving the required documents from a company. Amendments to the law in 2012 require that all licenses be issued in electronic format. Toward this end, the government launched a special website (www.elicense.kz) which contains a license database updated monthly. Despite the government's efforts to improve licensing procedures and reduce the number of licensed activities, the process remains time consuming, confusing, and costly, particularly for small-and-medium sized enterprises.

Efficient Capital Markets and Portfolio Investment Return to top

Kazakhstan has endeavored to create and implement a sound financial system and stable macroeconomic framework. As a result, the financial system has started to direct financial resources to the most promising parts of the economy. Official policy clearly supports credit allocation on market terms and the further development of legal, regulatory, and accounting systems consistent with international norms.

Most domestic borrowers obtain credit from Kazakhstani banks, although foreign investors find the bank margins and collateral requirements onerous. It is usually cheaper and simpler for foreign investors to use retained earnings or borrow from their home country. Since 1998, Kazakhstani banks have placed Eurobonds on international markets and obtained syndicated loans to support domestic lending. Leading Kazakhstani banks were able to obtain reasonably good ratings from international credit assessment agencies until the global financial crisis struck. In operation since 1993, the Kazakhstani Stock Exchange (KSE) is an insignificant source of investment. Decreased capitalization and diminished transaction volumes at KSE have not impacted the overall economic situation or financial markets

In October 2008, the Kazakhstani government announced a stabilization plan in response to the global financial crisis that included a $10 billion bailout package for banks. In February 2009, the government, via parastatal holding company Samruk-

Kazyna, acquired majority stakes in four systemically important banks: 75% of common shares in BTA, 100% of Alliance Bank, 20% of common shares in Halyk Bank, and 21% of common shares in KazKommertsBank. Early in 2011, Halyk Bank bought out its common shares from Samruk-Kazyna. BTA, Alliance Bank, Astana Finance, and Temirbank all defaulted by the end of 2009 and began debt-restructuring processes. BTA alone required over $16 billion in debt restructuring, while Alliance Bank had to negotiate $4.5 billion in additional debt. In 2010, Alliance Bank and BTA bank concluded debt-restructuring negotiations.

At the end of December 2011, BTA bank announced the necessity of a second debt restructuring. BTA bank failed to make a $150 million coupon payment due on January 1, 2012. Creditors and the National Bank approved the restructuring plan at the end of 2012. As a result, the debt of BTA bank will be reduced from $11 billion to approximately $3.3 billion. Samruk-Kazyna, which now owns 97% of BTA, has converted $1.2 billion of deposits into equity and will provide a $1.6 billion subordinated loan to the bank. Although the bank will be recapitalized and its equity will meet Basel II requirements, the bank is still recovering. Analysts consider BTA bank an outlier when assessing the overall health of the industry.

Kazakhstan has 38 commercial banks and as of November 1, 2012, the assets of the five largest banks, including KazKommertsBank, HalykBank, BTA bank, Bank CenterCredit and ATF-UniCredit bank were valued at 8.34 trillion tenge (approximately $55 billion).

Although stable, Kazakhstan's banking system has not yet recovered. The poor and deteriorating quality of many banking assets, capital constraints, and cautious lending policies remain major challenges. As of November1, 2012, the share of non-performing loans (NPL) remained a high 36%. Analysts noted, however, encouraging signs of recovery, including 10.5% loan growth from January through November 2012.

To help the banks deal with NPLs, the National Bank established a Distressed Assets Fund that became operational in summer 2012. As of September 2012, the fund’s equity was around $33.5 million. Further capital injections from the National Bank will depend on the performance of the fund. The fund is expected to purchase from banks NPLs not backed by real estate. The National Bank also promulgated rules permitting commercial banks to create Special Purpose Vehicles (SPVs) for NPLs collateralized with real estate. As of January 2013, the two largest banks, Halyk Bank and KazKommertsBank, have created SPVs to address these types of bad loans.

Block trades dominate trading on the Kazakhstan Stock-Exchange (KSE). The spreads are extremely wide, and the bulk of KSE trade is in foreign exchange, which accounted for about 52% of total trade in 2012. Transactions with government securities accounted for 4.8% of KSE trade. In December 2012, the stock market capitalization of the KSE was $33.1 billion, and bond market capitalization was $40.5 billion. The number of listed companies dropped from 354 in 2010 to 122 in 2012.

In 2012, Samruk–Kazyna and KSE jointly launched the “People’s IPO” designed to permit Kazakhstani citizens and entities to purchase stock in the country’s state owned enterprises. The first stage of the program exceeded analysts' expectations when 34,000 individuals, 10 pension funds and one commercial bank purchased $393 million in shares of the parastatal pipeline company KazTransOil. The government and Samruk–

Kazyna plan IPOs of other national companies, including KEGOC (operator of the electricity grid), KazMorTransFlot (a maritime shipping company), and eventually KazTransGas (the national gas operator) and Kazakhstan TemirZholy (the national railway company). Foreign companies and individuals will be eligible to purchase shares in these companies only on the secondary market.

Pension funds are investors in both the KSE and foreign markets. As of December 2012, 11 pension funds had accumulated 3,116.6 billion tenge (approximately $20.8 billion) in assets. According to national legislation, pension fund assets can only be invested in specific categories of securities, including corporate and government bonds, and securities issued by foreign governments and foreign corporations. The government is considering reform of the pension system, including a possible liberalization of the pension funds' investment rules and increasing the age of retirement for women.

There have been few hostile takeovers in Kazakhstan, probably because there are few publicly traded firms. Defensive measures against takeovers are not targeted toward foreign investors in particular. The Civil Code requires a company that has purchased a 20% share in another company to publish information about the purchase.

Competition from State Owned Enterprises Return to top

Officially, private enterprises compete with public enterprises under the same terms and conditions. However, state-owned enterprises generally enjoy better access to natural resources, markets, credit, and licenses than private entities.

The government of Kazakhstan has actively consolidated state-owned enterprises in recent years. At the end of 2012, six state-owned holding companies existed in Kazakhstan. Kazakhstani law requires national holding companies to publish annual reports and submit their books for independent audit. The following details each of the holding companies:

1. Samruk-Kazyna - National Welfare Fund (S-K) was modeled on Singapore's Temasek. Kazakhstan's largest national holding company, it manages the state's assets in oil and gas, energy, transportation, telecommunication, and the financial and innovation sectors. According to some estimates, Samruk-Kazyna controls more than half of Kazakhstan's economy and is the nation's largest buyer of goods and services. Samruk-Kazyna's official purpose is to facilitate economic diversification and to increase effective corporate governance; however, it spent its first two years spearheading the government's anti-financial crisis program.

The Prime Minister chairs Samruk-Kazyna's Board of Directors, which includes the Ministers of Finance, Industry and Trade, Economic Development and Trade, and Oil and Gas, as well as the Head of the Presidential Administration (Chief of Staff) and three independent directors. In February 2009, President Nazarbayev signed a separate law providing Samruk-Kazyna special status and rights. Samruk-Kazyna can now conclude large transactions between members of its holdings without public notification. Samruk-Kazyna also has a pre-emptive right to buy strategic facilities and bankrupt assets. It is exempt from government procurement procedures and has the right to establish its own procurement rules. Moreover, the government can transfer to Samruk-Kazyna state-owned property, simplifying the process to transfer state property to private owners.

2. KazAgro manages the state's agricultural holdings, including the National Food Contract Corporation (government wheat purchasing agent), KazAgroFinance (equipment subsidy provider), Agrarian Credit Corporation, Corporation on Livestock Development, and the Fund for Financial Assistance to Agriculture. Chaired by one of the Deputy Prime Ministers, the Board of Directors includes the Ministers of Finance, Agriculture, and Economic Development and Trade, as well as three independent directors.

3. Parasat is charged with stimulating the development of scientific research and domestic capacity in the high-tech sector. The holding company manages several scientific institutions and funds. Chaired by one of the Deputy Prime Ministers, the Board includes the Minister of Education of Science, the Vice-Minister of Economic Development and Trade, the Chairmen of the State Property and Science Committees, and independent directors.

4. Zerde - National Informative and Communication Holding Company was created to develop modern information and communication technologies and to stimulate investments and innovations in the communication sector. The Managing Board's Chairman is subordinate to the Ministry of Communication and the Prime Minister's office.

5. The National Medical Holding company seeks to implement business-oriented and innovative corporate management in Astana's newly built medical facilities. In 2010, the holding company became a part of Nazarbayev University with the stated goal of creating favorable conditions for medical research and the use of advanced medical technologies in Astana. The Board of Directors is chaired by one of the Deputy Prime Ministers.

6. In 2011, the government established National Holding Company “Kasipkor” to develop a modern vocational education system in Kazakhstan in the areas of engineering, communication and information technologies, design, metallurgy, machinery building and crafts.

<u>National Oil Fund</u>

Kazakhstan has a sovereign wealth fund which is formally named the National Oil Fund of the Republic of Kazakhstan. Established by Presidential decree in 2000, the fund aims to diminish the country's budgetary dependence on fluctuating world oil prices and to accumulate savings to benefit future generations. The Fund receives all direct taxes and a percentage of revenues from the oil sector, revenues from the privatization of state property in the mining and manufacturing industries, and proceeds from sales of farmlands, as well as the Fund's investment income. The Ministry of Finance owns the National Fund. The National Bank is its trustee, and selects external administrators from internationally recognized investment companies or banks to oversee the fund. Information on external administrators and the assets they manage is confidential.

In addition to preserving wealth for future generations, the Fund is also used to support the government’s political and economic objectives. In February 2012, a $4 billion loan was extended from the Fund to Kazakhstan's state-owned oil company KazMunayGas (KMG) to support its participation in the Kashagan oil field. The National Fund also invests in the domestic economy through "official transfers to the state budget," which can now vary from $6.8 billion to $9.2 billion annually. President Nazarbayev has decreed that the National Fund should retain a minimum balance of no less than 20% of GDP.

In 2012, the National Bank founded the Investment Corporation to invest small portions of the National Fund and the Bank's international reserves in international markets in order to diversify Kazakhstan's assets and to increase its returns. The Investment Corporation has been allotted $5 billion for the next five years to invest into private equity, hedge funds, real estate, and infrastructure projects abroad.
The Ministry of Finance and the National Bank prepare the National Fund's annual report, which the President approves. In addition, the Ministry of Finance and National Bank publish on their websites (www.minfin.kz, www.nationalbank.kz) monthly and annual reports on revenues and use of National Fund money. Although these reports provide information on the Fund's general financial situation, they do not provide details. As of January 1, 2013, the National Fund's assets totaled $57.8 billion. Kazakhstan's total international reserves, including the National Bank's foreign currency and gold reserves, equaled $86.1 billion (in current prices).

Corporate Social Responsibility Return to top

Kazakhstan is in the process of adhering to OECD Guidelines for International Investment and Multinational Enterprises, and the government actively promotes the idea of corporate social responsibility. In his addresses to foreign investors and local businesses, President Nazarbayev has repeatedly asked them to implement corporate socially responsible projects, to provide occupational safety, to pay salaries on time, and to invest in human capital. The President annually awards "Paryz" ("Honors" in Kazakh) for achievements in corporate social responsibility.

Foreign Investors report that local government officials regularly pressure them to provide social investments in order to achieve local political objectives. These local officials also attempt exert as much control as possible over both the selection of and the subsequent allocation of funding for the projects.

Political Violence Return to top

There have been no incidents of politically motivated violence against foreign investment projects, and politically motivated civil disturbances remain exceptionally rare. In 2012, Kazakhstan experienced several incidents in which individuals or groups associated with Islamic extremists launched small-scale violent attacks against government offices, with most concentrating on police and national security organs. The violence has remained isolated and has not targeted foreign investment or foreigners working in Kazakhstan. Kazakhstan has good relations with its neighbors, although the government is concerned that the borders with Kyrgyzstan and Uzbekistan are vulnerable to penetration by extremist groups.

In the January 15, 2012 parliamentary elections, the president's party Nur Otan won 80 percent of the vote, Ak-Zhol won 7.47 percent, and the Communist People's Party won 7.19 percent. All three parties elected are generally considered supporters of President Nazarbayev. While the Organization for Security and Cooperation in Europe (OSCE) asserted that the election did not meet Kazakhstan's OSCE commitments or international standards for democratic elections, and opposition groups denounced the election as fraudulent, no significant demonstrations against the results occurred.

Corruption

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Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U. S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: http://www.justice.gov/criminal/fraud/

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. This country is party to [add instrument to which this country is party], but generally all countries prohibit the bribery and solicitation of their public officials.

OECD Antibribery Convention: The OECD Antibribery Convention entered into force in February 1999. As of March 2009, there are 38 parties to the Convention including the United States (see http://www.oecd.org/daf/anti-bribery/). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Antibribery Convention through the U.S. FCPA. [Insert information as to whether your country is a party to the OECD Convention.]

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 158 parties to it as of November 2011 (see http://www.unodc.org/unodc/en/treaties/CAC/signatories.html). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. [Insert information as to whether your country is a party to the UN Convention.]

OAS Convention: In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 34 parties (see http://www.oas.org/juridico/english/Sigs/b-58.html) [Insert information as to whether your country is a party to the OAS Convention.]

Council of Europe Criminal Law and Civil Law Conventions: Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 49 member States (48 European countries and the United States). As of December 2011, the Criminal Law Convention has 43 parties and the Civil Law Convention has 34 (see www.coe.int/greco.) [Insert information as to whether your country is a party to the Council of Europe Conventions.]

Free Trade Agreements: While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and transnationally) as well as domestic "passive bribery" (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: http://www.ustr.gov/trade-agreements/free-trade-agreements. [Insert information as to whether your country has an FTA with the United States: Country [X] has a free trade agreement (FTA) in place with the United States, the [name of FTA], which came into force. Consult USTR Website for date: http://www.ustr.gov/trade-agreements/free-trade-agreements.]

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. and Foreign Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company's overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at tcc.export.gov/Report_a_Barrier/index.asp.

Guidance on the U.S. FCPA: The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at http://www.ogc.doc.gov/trans_anti_bribery.html. More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

Although the Kazakhstani Criminal Code contains special penalties for accepting and giving bribes, corruption is common throughout Kazakhstan. The President issued an anti-corruption decree in April 2009 that provides whistle-blower protection, punishes state officials who fail to report corruption cases, and tries to prevent conflicts of interests. Amendments to the anti-corruption law were signed on December 7, 2009 increasing punishments for corruption, instituting mandatory asset forfeitures, broadening the definition of corruption crimes to include fraud committed by government officials, and criminalizing the acceptance of a bribe on behalf of a third party. The law also extended the definition of government official to managers of companies in which the government holds more than a 35% stake.

The Ministry of Interior, Financial Police, Disciplinary State Service Commission, and Committee for National Security (KNB) are responsible for combating corruption. However, questions of jurisdiction and competition between the Financial Police and KNB have occurred recently.

Transparency International (TI) maintains a national chapter in Kazakhstan. Kazakhstan's rating in TI's annual Corruption Perceptions Index is currently 2.8, placing Kazakhstan at 133 out of 176 countries rated -- a relatively weak score but the best for any country in Central Asia. TI experts have pointed out that corruption is particularly prevalent in the judiciary, police, customs, land registration, licensing, and construction projects. The government has signed on to the Extractive Industries Transparency Initiative (EITI) and is working to complete the validation process.

U.S. firms have cited corruption as a significant obstacle to investment. Law enforcement agencies occasionally have pressured foreign investors who are perceived to be uncooperative with the government, a practice that is made possible by the fact that many errors or omissions that would constitute routine civil violations in OECD countries are treated as criminal cases in Kazakhstan. The government and local business entities are widely aware of the legal restrictions placed on business abroad, such as the Foreign Corrupt Practices Act and the UK Bribery Act.

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a “Lay-Person’s Guide to the FCPA” is available at the U.S. Department of Justice’s Website at: http://www.justice.gov/criminal/fraud/fcpa.

- Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: http://www.oecd.org/dataoecd/11/40/44176910.pdf.

- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html.

- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/research/cpi/overview. TI also publishes an annual *Global Corruption Report*, which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 213 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/index.asp. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: http://data.worldbank.org/data-catalog/BEEPS.

- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See http://www.weforum.org/s?s=global+enabling+trade+report.

- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at http://www.state.gov/g/drl/rls/hrrpt/.

- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 106 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: http://report.globalintegrity.org/.

Bilateral Investment Agreements

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The United States-Kazakhstan Bilateral Investment Treaty came into force in 1994. In 1992, the United States and Kazakhstan signed an Investment Incentive Agreement.

In 1996, the Treaty on the Avoidance of Double Taxation between the United States and Kazakhstan came into force. Since independence, Kazakhstan has signed treaties on the avoidance of double taxation with 44 countries. Kazakhstan has bilateral protection investment agreements with 47 countries, including Great Britain, Germany, Italy, France, Russia, South Korea, Iran, China, Turkey, and Vietnam. 30 of these 47 agreements have been ratified. In 2012, Kazakhstan signed investment agreements with Macedonia and Afghanistan. Some foreign investors charge that Kazakhstani tax authorities are very reluctant to refer double taxation questions to appropriate bi-national resolution bodies.

OPIC and Other Investment Insurance Programs

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The Overseas Private Investment Corporation (OPIC) has been active in Kazakhstan since 1994. OPIC is seeking commercially viable projects in Kazakhstan's private sector, and offers a full range of investment insurance and debt/equity stakes.

Kazakhstan is a member of the Multilateral Investment Guarantee Agency (MIGA), which is part of the World Bank Group that provides political risk insurance for foreign investments in developing countries.

Labor

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Kazakhstan has an educated workforce, although the proportion of highly technically competent workers is fairly small. Demand for skilled labor generally exceeds local supply. Technical skills, management expertise, and marketing skills are all in short supply. Many large investors rely on foreign workers and engineers to fill the void.

The Kazakhstani government has made it a priority to ensure that Kazakhstani citizens are well represented in foreign enterprise workforces. In 2009, the government instituted a comprehensive policy for local content, particularly for companies in the extractive industries (see A.1 Openness to, and restrictions upon, Foreign Investment and A.5. Performance Requirements and Incentives). It is particularly keen to see Kazakhstanis hired into the managerial and executive ranks of foreign enterprises. Local content regulations require a minimum of 1% of a project budget be earmarked for training programs and workforce development, including overseas assignments with the lead operator. Employers' reliance on foreign labor in the face of poverty in rural Kazakhstan has become a political issue in recent years. In 2012, the minimum wage was $116.26 per month, and the minimum pension was $116.6 per month. By government estimates, the unemployment rate remained stable at just over 5% at the end of 2012.

A quota system for foreign employees and local content requirements creates an additional burden for employers. Several American and other foreign employees doing business in Kazakhstan have informed the U.S. Embassy that immigration authorities continue to scrutinize foreign work permits. U.S. companies are strongly advised to contact locally based law and accounting firms and the U.S. Foreign Commercial Service in Almaty for updated information on work permits.

The Constitution and 2007 Labor Code guarantee basic workers' rights, including the right to organize and the right to strike. Workers can execute this right, if all arbitration measures defined by law are exhausted and solutions are not found. Decisions to strike must be taken in a meeting where at least half of workers are present. Strikers must give five days advance notice to their employer and include a list of complaints as well as the date, the time and the place of strike. The court has the power to declare a strike illegal at the request of an employer or the General Prosecutor’s office. Workers who participate in illegal strikes are subject to penalties. The Labor Code prohibits lockouts. The government is drafting a new law on Labor Unions.

Kazakhstan joined the International Labor Organization (ILO) in 1993. As of December 2012, Kazakhstan had ratified 19 ILO conventions, including those pertaining to minimum employment age, forced labor, discrimination in employment, equal remuneration, collective bargaining, the worst forms of child labor, and safety and health in construction. In 2011, Kazakhstan ratified Asbestos Convention 162.

Foreign-Trade Zones/Free Ports Return to top

The 2011 Law on Special Economic Zones allows foreign companies to establish enterprises in special economic zones, simplifies procedures to attract foreign labor, and establishes a special customs zone regime not governed by Customs Union rules. A system of tax preferences exists for foreign and domestic enterprises engaged in prescribed economic activities in Kazakhstan's nine Special Economic Zones (SEZ). The SEZs are located in the New Administrative Center in Astana, the Seaport of Aktau, the Alatau Information Technology Park (near Almaty), the Ontustik Cotton Center in south Kazakhstan, the international tourism zone "Borabay" (a resort area 300 kilometers from Astana), the Atyrau National Industrial Petrochemical Techno park, a metallurgical zone in the Karaganda region, a transport and logistics zone in Khorgos at the Kazakhstan-Chinese border, and a chemical zone in Pavlodar. Kazakhstan also plans to create a chemical industry SEZ in Taraz.

Foreign Direct Investment Statistics Return to top

SUMMARY OF Investments as of 2012: As of June 30, 2012, Kazakhstan has received $171.9 billion of foreign direct investment since independence: 41.5% in business consulting and geological exploration, 12.9% in the financial sector, and approximately 14% in the extractive industries. U.S. firms have consistently ranked as some of Kazakhstan's largest foreign investors having invested $4.1 billion in the extractive sector. This includes large investments in Kazakhstan's petroleum sector by Chevron, ExxonMobil, and ConocoPhillips. From 1993 to October 2012, Tengizchevroil, in which Chevron holds a 50% stake and ExxonMobil a 25% stake, contributed approximately $72.3 billion to Kazakhstani entities through purchases of Kazakhstani goods and services, tariffs and fees paid to state-owned companies, profit distributions to Kazakhstani shareholders, taxes and royalties paid to the government, and the salaries of employees. Other foreign investors in the petroleum sector include the Chinese National Petroleum Corporation (CNPC), Shell, BG Group, Total, Agip, Lukoil, Eni, and Inpex. Other major U.S. investors in the broader economy include JP Morgan Chase&Co (over $300 million in business services), Marriott International (around $170 million in construction), and General Electric Transportation ($78 million in a locomotive facility). Non-U.S. major foreign investors include ArcelorMittal and BAE Systems.

A.18. Foreign Direct Investment Statistics

Table 1. ANNUAL GROSS FOREIGN DIRECT INVESTMENT FLOWS BY COUNTRIES-MAJOR INVESTORS (Millions of Dollars; nominal)

	1993-2010	**2011**	**2012 (9 months)**	**Total**
USA	38,060.7	1,793.3	479.5	42,514.1
Netherlands	48,915.6	8,137.3	6,639.4	69,439.1

UK	17,963.9	799.2	340.8	20,124.7
Italy	9,511.7	455.2	-91.1	10, 448.1
France	13,240.9	1,545.3	839.3	17,158.7
Switzerland	7,349.8	443.8	411.9	8,683.2
Germany	1,175.5	125.7	362.6	1,855.3
South Korea	5,624.6	348.5	361.0	6,633.8
China	7,737.1	1,168.6	1,835.6	11,628.8
Canada	7,573.6	575.7	1,060.3	9,625.5
Russia	8,905.1	1,009.8	14.5	10,858.7
Japan	5,906.8	622.0	363.0	7,506.3
Turkey	2,771.7	123.3	137.6	3,122.8
British Virgin Islands	12,513.3	678.1	376.5	14,253.3
Others	36,500.3	2,983.3	3,894.0	46,727.7
TOTAL	**223,751.0**	**20,809.0**	**17,025.0**	**280,620.0**

Source: National Bank of Kazakhstan (the stock data is valued at market cost)

Table 2. ANNUAL GROSS FOREIGN DIRECT INVESTMENT FLOWS BY INDUSTRIES (Millions of U.S. Dollars; nominal)

	1993-2010	**2011**	**2012 (9 months)**	**Total**
agriculture, hunting and forestry	142.5	7.4	15.1	171.0
mining and quarrying	73,708.8	4,035.9	2,925.9	85,684.9
including, but not limited to extraction of crude petroleum and natural gas	65,130.3	2,208.6	1,519.8	72,644.7
manufacturing	21,311.5	2,855.4	1,619.1	27,836.2
electricity gas and air conditioning	573.5	116.1	154.5	914.0
water supply, sewage and waste management and remediation activities	0.4	9.3	-0.4	9.5
construction	3,786.9	414.8	899.7	5,523.8
wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	13,461.7	1,556.2	1,448.3	16,735.3
food and accommodation services	576.3	27.1	27.7	659.6

transport& storage	2,365.6	208.0	282.4	2,921.6
information & communication	1,301.8	228.1	1,927.2	3,814.2
financial and insurance activity	13,104.8	407.6	1,169.5	15,209.7
real estate activities	1,337.8	165.4	69.3	1,705.0
professional, scientific & technical activities	85, 576.8	10,555.5	6,365.3	112,220.6
including but not limited to geological exploration and prospecting activities	80,109.1	8,821.8	4,985.0	102,316.7
education, health and social work services; arts, entertainment and recreation	383.3	16.8	11.5	426.7
administration and support services	299.9	107.0	26.0	520.1
other	5,819.5	98.4	83.5	6,268.5
TOTAL	**223,751.0**	**20,809.0**	**17,025.0**	**280,620.0**

Source: National Bank of Kazakhstan

Table 3. FDI AS PERCENTAGE OF GDP (FLOW)

2010	**2011**	**2012(9 months)**
13%	11.4%	12.8%

Source: National Bank of Kazakhstan

Table 4. FOREIGN DIRECT INVESTMENT (stock) IN KAZAKHSTAN BY MAJOR INVESTORS AND INDUSTRIES AS OF SEPTEMBER 30, 2012 (Millions of U.S. dollars)

Direct Investment TOTAL	**105, 804.0**
AGRICULTURE, HUNTING AND FORESTRY	34.7
Including, but not limited to Netherlands	21.2
MINING AND QUARRYING	17,733.1
Including, but not limited to USA	2,495.8
Netherlands	5,994.0
China	3,383.5
Great Britain	570.9
Canada	1,687.0

MANUFACTURING	11,870.7
including, but not limited to Netherlands	9,147.0
Switzerland	1,621.0
Great Britain	363.3
ELECTRICITY, GAS AND AIR CONDITIONING	698.8
Including, but not limited to British Virgin Islands	180.7
Netherlands	399.1
WATER SUPPLY, SEWERAGE & WASTE MANAGEMENT REMEDIATION ACTIVITIES	11.9
Including, but not limited to Netherlands	8.3
CONSTRUCTION	1,479.3
Including, but not limited to China	711.3
Netherlands	354.0
Turkey	23.3
Russia	111.9
WHOLESALE AND RETAIL TRADE, REPAIR OF MOTOR VEHICLES, AND PERSONAL AND HOUSEHOLD GOODS	3,814.8
Including, but not limited to Netherlands	964.5
Russia	631.6
Arab Emirates	832.4
ACCOMODATION AND FOOD SERVICES	191.1
Including, but not limited to Russia	2.7
Netherlands	108.5
TRANSPORT AND STORAGE	350.2
Including, but not limited to USA	70.5
Netherlands	58.1
INFORMATION AND COMMUNICATION	1,210
Netherlands	740.9
Cyprus	427.4
FINANCIAL AND INSURANCE ACTIVITY	5,367.7
Including, but not limited to Austria	1,471.0
Netherlands	249.5
Great Britain	349.2

USA	308.5
Russia	795.7
China	201.5
PROFESSIONAL, SCIENTIFIC& TECHNICAL ACTIVITIES	60,077.4
Including, but not limited to Netherlands	25,500.8
USA	12,263.5
France	7,994.9
Japan	3,606.2
Great Britain	261.6

Source: National Bank of Kazakhstan (the stock data is valued at market cost)

Table 5. FDI (stock) AS PERCENTAGE OF GDP

As of September 30, 2012	80.1%

Table 6. KAZAKHSTANI DIRECT INVESTMENT OUTFLOWS (Millions of U.S. dollars, nominal)

Country of Destination	2004-2011	2012(9 months)	Total
Netherlands	36,499.9	1,254.8	37,754.7
Great Britain	5,815.7	-37.1	5,778.6
Russia	3,354.6	74.8	3,429.4
Virgin Islands	1,942.4	-74.4	1,868.0
Turkey	1,377.5	-14.0	1,363.6
Switzerland	1,299,9	17.9	1,317.8
USA	1,265.0	0.5	1,265.5
Cyprus	933.3	0.8	934.2
Kyrgyzstan	829.2	-5.5	823.6
Ukraine	710.0	8.8	718.7
Germany	479.6	1.0	480.6
China	343.6	21.2	364.8
Arab Emirates	220.5	344.2	564.7
Other Countries	2,248.0	247.1	2,495.0
TOTAL	**57,319.0**	**1,840.0**	**59,159.0**

Source: National Bank of Kazakhstan

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Republic of Kazakhstan Ministry of Finance: www.minfin.kz

The National Bank of Kazakhstan: www.nationalbank.kz

FCPA Lay-Person's Guide: http://www.justice.gov/criminal/fraud/

OECD Antibribery Convention: http://www.oecd.org/daf/anti-bribery/

UN Convention: http://www.unodc.org/unodc/en/treaties/CAC/signatories.html

OAS Convention: http://www.oas.org/juridico/english/Sigs/b-58.html

Council of Europe Criminal Law and Civil Law Conventions: www.coe.int/greco

Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html

Transparency International Corruption Perceptions Index (CPI): http://www.transparency.org/research/cpi/overview

Free Trade Agreements - U.S. Trade Representative Website: http://www.ustr.gov/trade-agreements/free-trade-agreements

The World Bank Institute - Worldwide Governance Indicators (WGI): http://info.worldbank.org/governance/wgi/index.asp

The World Bank Business Environment and Enterprise Performance Surveys: http://data.worldbank.org/data-catalog/BEEPS

The World Economic Forum - Global Enabling Trade Report: http://www.weforum.org/s?s=global+enabling+trade+report

U.S. State Department's – Human Rights Report: http://www.state.gov/g/drl/rls/hrrpt/

Global Integrity- Global Integrity Report: http://report.globalintegrity.org/

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Chapter 7: Trade and Project Financing

How Do I Get Paid (Methods of Payment)

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As in other markets, payment methods and terms vary depending upon the U.S. company's business model and relationship with its trading partners. For companies that are new to this market, requesting advance payment for goods and services from a Kazakhstani customer may be prudent until both parties establish a positive record of payment. Exporters should also keep in mind that Kazakhstani firms are finding it increasingly difficult to gain access to credit from local banks due to the decreased access to international financing available to these banks following the global economic crisis.

The safest method to receive payment for a U.S. export is through an irrevocable letter of credit (L/C) confirmed by 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 of several major local commercial banks to obtain an L/C, which, according to Kazakhstani banking legislation, must usually 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. A number of U.S. banks accept letters of credit from some of the largest Kazakhstani banks, especially those that have been approved by the U.S. Export-Import Bank. Once a U.S. firm has established a strong relationship with a local trading partner, it may wish to consider extending short- and eventually longer-term credit as a way to bolster sales volume. This should be done with caution and only after careful evaluation and the establishment of successful payments.

As of April 2013, the National Bank renewed the refinancing rate at the record low rate - 5.5%. This was due to low inflation levels during 2012 and the existing situation in the banking sector. where some banks still have large non-performing loan portfolios dating from the recent financial crisis.

How Does the Banking System Operate

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Kazakhstan has a two-tier banking system. The first tier, represented by the National Bank, is the central bank of Kazakhstan and reports to the President of the country. The second tier includes 34 private commercial banks, one state-owned bank, and three banks owned by the National Welfare Fund "Samruk-Kazyna". The National Bank acquired the functions of a financial regulator after merging with the Financial

Supervision Agency in April 2011, and is charged with overall supervision of the banking sector.

Prior to the financial crisis of 2007, the international financial community considered Kazakhstani banks the most dynamic and developed in Central Asia. From 2002-2007, the share of banking sector assets in Kazakhstan's GDP increased from 25% on January 1, 2002 to 88% on January 1, 2008. From 2004-2007, Kazakhstan's relatively high sovereign rating provided its banks with easy access to global capital markets. A favorable macroeconomic environment and high demand for credit fueled domestic banks' external borrowing, which encouraged rapid development, particularly in construction and real estate, leading to price bubbles. At the end of 2007, a sudden freeze in global financial markets and the loss of capital inflows to Kazakhstani banks caused a credit crunch and severe liquidity constraints on banks. The subsequently sharp fall of oil and commodity prices in 2008 aggravated the economic situation and plunged Kazakhstan into recession. One of the most challenging years for Kazakhstan's banking sector was 2009. At the end of that year, Kazakhstan's total external debt was $112.8 billion, comprising 98.2% of GDP, and the external debt of the banking sector was $30.2 billion, or 26.3% of GDP.

Kazakhstan's banking sector appears set for recovery, as evidenced by positive indicators such as the ongoing restructuring of BTA Bank and Alliance Bank. Early in 2012, BTA Bank had to start a second round of restructuring negotiations, which were completed in December 2012 (see Chapter 6 for details). In April 2013, sovereign wealth fund Samruk-Kazyna suggested that Halyk Bank JSC acquire BTA Bank, but Halyk Bank has not yet made a final decision. Samruk-Kazyna also plans to sell Alliance and Temir banks before the end of 2013.

The high level of non-performing loans (NPL) remains one of the main challenges of the Kazakhstan’s banking sector. Despite the efforts of the Government and the National Bank, NPLs did not shrink significantly in 2012, and comprised 36.7% of all loans as of January 1, 2013. Observers noted, however, a revival of lending activity by 11.3% in 2012, especially in consumer lending. In 2012, bank assets grew by 8.3% and reached 13,880 billion tenge ($93.1 billion). Total bank equity capital reached 2,072.3 billion tenge (approximately $13.9 billion) as of January 1, 2013, up from 1,955.1 billion tenge ($13.1 billion) at the end of 2011. Deposits of both legal entities and individuals also grew in 2012 by 9.4%, totaling 8,532.9 billion tenge ($57.2 billion).

Kazakhstan’s banking sector is highly concentrated. Kazkommertsbank, Halyk Bank, BTA Bank, CenterCredit Bank and ATF Bank are the largest and systemically most important banks; they controlled up to 60% of Kazakhstan’s total banking assets at the end of 2012. The top 10 banks controlled 81.7% of the country's banking assets at the end of 2012.

Foreign banks are active in Kazakhstan. As of December 2012, 29 foreign banks had representative offices in Kazakhstan. Under existing legislation, foreign banks and foreign insurance companies cannot have branches in Kazakhstan but may establish subsidiaries, joint ventures, and representative offices. By law, foreign investors and Kazakhstani investors are treated equally, and amendments to banking legislation in 2005 lifted restrictions on the participation of foreign capital in the banking sector. Notably, no individual may own more than 10% of a bank’s shares (unless that bank is a subsidiary of another bank) without permission from the National Bank.

As of the end of 2012, 19 Kazakhstani banks had foreign partners, meaning that a minimum of one-third of the bank's shares is owned by non-Kazakhstanis. The global financial turmoil appears to have made the Kazakhstani banking sector more attractive for potential foreign investors. A number of foreign stockholders entered the Kazakhstani banking market in the period 2008-2012, including Russia's Sberbank, Israel's Bank Hapoalim, South Korea's Kookmin Bank, the Arab investment company Alnair Capital, Russia's VTB and Islamic Al-Hilal bank from the UAE. After selling 30% of its shares to Kookmin Bank, CenterCredit Bank became the largest foreign bank in Kazakhstan and the fourth largest bank by asset size. Citibank and HSBC established subsidiaries in Almaty in 1998. Citibank Kazakhstan offers a wide range of products and services for foreign and local corporate clients, including cash management, working capital and trade finance, electronic banking, foreign exchange and money market products, card services, and personal banking for corporate employees. Chinese and Russian banks have established wholly owned subsidiaries in Kazakhstan, and several Dutch and Turkish banks have established joint ventures.

Foreign-Exchange Controls

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The National Bank controls the tenge, which is fully convertible with the U.S. dollar, via a managed float. In 1996, Kazakhstan joined Article 8 of the International Monetary Fund Charter, which calls for full convertibility and the removal of all controls on current account transactions. After the tenge devaluation on February 4, 2009, the National Bank returned to a managed-float exchange-rate regime and maintained throughout 2009 a tenge exchange rate in the range of 150 tenge per U.S. dollar (+/- 3%). In 2010, the National Bank widened the KTZ/USD exchange rate corridor, allowing it to fluctuate between 127.5 KZT/USD and 165 KTZ/USD. In 2012, the National Bank kept the tenge between 147.79-150.52 per U.S. dollar. Analysts predict that the exchange rate will likely remain stable over the course of 2013, although fluctuation of the tenge is influenced by several factors, including the global price for petroleum and the value of the Russian ruble.

According to Kazakhstan's 2005 Law on Currency Regulation and related 2009 amendments, the country's National Bank has the right to establish a different regime of currency regulation for different types of capital movement, including registration or notification. The procedures and necessary documentation required for each of these regimes are specified in the Law on Currency Regulation and special rules approved by the National Bank. For example, the National Bank must be notified about foreign direct investment, participation in joint ventures, and securities operations if the operation exceeds $500,000. Other currency operations can be conducted without any restrictions, including non-resident transfers to/from the National Bank and the Finance Ministry. However, the National Bank reserves the right to impose a notification regime on selected foreign-currency operations. In order to process a foreign currency transfer, residents and non-residents must present supporting documentation (e.g., a copy of an invoice or a copy of a contract) to justify the purpose of the transfer. The National Bank no longer requires so-called transaction passports for export-import operations following December 2011 legislative amendments to the Law on Currency Regulation and Currency Control (please see Chapter 6 for details).

Both residents and non-residents must provide information and supporting documents, such as invoices and contracts, about capital movements (for example, foreign loans) in line with the reporting requirements of the National Bank, including the purpose of the subject payment or capital movement and the beneficiary's residence. New Russia-Belarus-Kazakhstan Customs Union rules allow residents and non-residents to take amounts less than $10,000 abroad without declaration while any amount in excess of $10,000 must be declared at the border of the Customs Union. The Customs Union agreement removed the requirement for a National Bank to certify the origin of funds in amounts over $10,000.

U.S. Banks and Local Correspondent Banks Return to top

Citibank and J.P. Morgan Chase have a presence in Kazakhstan. Citibank and J.P. Morgan Chase opened offices in 1994 and 2011 respectively to provide services to corporate clients. In 2007, Standard Chartered Bank purchased an office of American Express Bank Ltd. and it works in close cooperation with Kazkommertsbank in Kazakhstan on some of its credit card and retail banking.

Citibank
41A, Kazybek Bi St, 2nd floor
050010 Almaty, Kazakhstan
Tel: 7 (727) 298-0400
Fax: 7 (727) 298-0415

J.P. Morgan
13/1 Al-Farabi Ave, b/c Nurly Tau, 3B, 7th floor
050059 Almaty, Kazakhstan
Tel: 7 (727) 330-5035
Fax: 7 (727) 330-5005

U.S. banks with correspondent relations include, but are not limited to: American Express Bank, Bank of New York, Citibank, Deutsche Bank Trust Company Americas, JP Morgan Chase Bank, MashreqBank and Wachovia Bank.

Project Financing Return to top

In addition to the Export-Import Bank of the United States (EXIM) and Overseas Private Investment Corporation (OPIC), the U.S. Trade and Development Agency (USTDA) provides funds to carry out feasibility studies related to major projects in emerging markets. USTDA has extensive experience in transitional economies, and the agency moved quickly to establish programs when Kazakhstan became independent in 1991. As of year-end 2012, USTDA provided approximately $13 million in funds to benefit Kazakhstan, financing a number of feasibility studies and technical assistance projects and sponsoring missions to the U.S. regarding major projects in key sectors such as oil and gas, railway transportation, information technology, health care and electric power. These projects, which require significant inputs of foreign equipment and technology, will help develop Kazakhstan's physical infrastructure. Feasibility studies typically assess the technical, economic, financial, and environmental aspects of a project to determine whether and how the investment project should be built.

The appropriate Kazakhstani sponsoring organization (government or private sector) must submit 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.

World Bank

Historically, the World Bank has been a major source of external assistance to Kazakhstan, having provided 39 loans that total over $6.7 billion, of which about $4.1 billion has already been disbursed. Following the successful implementation of key structural reforms, World Bank support now focuses exclusively on investment projects, including the development of agriculture, environmental protection, health and general infrastructure.

The Country Partnership Strategy (CPS) approved on May 1, 2012 ensures a continued strong Government ownership of the Bank's program. The CPS concentrates on the Government's key priorities of competitiveness, jobs growth, strengthened governance in public administration and service delivery and safeguarding the environment.

The Bank's total commitments for active projects is currently $3.59 billion, over 80 percent of which are concentrated in the South-West Roads Project, which has been operational for over three years, and the recently approved East-West Roads Project. The Bank's other active projects include Health Sector Technology Transfer and Institutional Reform, an Agriculture Competitiveness Project, a Customs Modernization Project, and a Tax Administration Program. Currently, the following projects are being discussed with the Government: (i) the Elimination of Persistent Organic Pollutant Wastes Project, (ii) the second Irrigation and Drainage Improvement Project, (iii) the second Syr Darya and Northern Aral Sea Project, and (iv) a new Justice System Support Project.

Since 2002, the World Bank and the government of Kazakhstan collaboratively have financed and implemented the multi-year Joint Economic Research Program (JERP). The program has effectively provided strategic research on key areas of policy development. Current themes include public-finance management reform, municipal reform, vocational education, the implementation of international financial reporting standards, public-private partnerships and the country's pension and social protection systems.

International Finance Corporation

Kazakhstan became a member of the International Finance Corporation (IFC) in 1993. As the IFC's largest client in Central Asia, Kazakhstan has received commitments of over $1.5 billion worth of IFC funds, including $298 million of syndicated loans to support 53 private sector projects in the financial, oil and gas, agribusiness and manufacturing sectors.

As of December 31, 2012, the IFC's total committed portfolio in Kazakhstan amounted to $379 million, with 10 clients in financial markets, agribusiness, retail, construction materials, and the railway sector. Recently financed projects include a cement plant, a medical insurance company, and a shopping mall.

IFC supports the country's financial sector development by providing a full range of investments to financial institutions. Over $500 million in investments was provided to

Kazakhstan via equity participation, quasi-equity products, and senior debt and trade finance products to a number of commercial banks, including microfinance and leasing companies.

IFC intends to facilitate infrastructure development through Private Public Partnership (PPP) advisory work and direct investments with both private sector and subnational sponsors. Specific focus areas include the logistics and transportation sectors to improve connectivity and trade. IFC has recently provided financing to Eastcomtrans to help expand its railcar fleet, broadening commercial logistics services and helping develop the country's infrastructure for trade and industry. In addition to investments, IFC, jointly with EBRD, is advising the Government of Kazakhstan on its first large-scale PPP project for the Almaty Ring Road.

European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD), whose largest shareholder is the U.S. Government, offers a full range of financial services to U.S. investors in Kazakhstan. The largest investor outside of the oil and gas sector in Kazakhstan, it seeks to promote diversification of the economy. The EBRD provides loans for large projects and technical assistance in a number of economic sectors, concentrating on enterprise, financial and infrastructure development. Using its AAA credit rating, the EBRD can provide debt, equity, quasi-equity, syndications and trade finance in local and foreign currency at competitive commercial rates and with longer tenors than are usually supplied by commercial lenders. The EBRD's lending priorities are for private sector-led investment, but it also provides sovereign lending, particularly for water, transport and energy needs at the municipal level. For sovereign loans, the EBRD requires open, competitive tenders that offer an opportunity to supply U.S. goods and services.

In 2013, the EBRD will celebrate its 20th anniversary in Kazakhstan and will begin working on a new Country Strategy for Kazakhstan. As of January 1, 2013, EBRD disbursements in Kazakhstan stood at more than €2.958 billion, with 53% of financing going to the private sector. Currently, EBRD's portfolio totals €1.84 billion with 83 active operations.

In last two years, the EBRD has invested in the transport, power, mining and utilities sectors. In 2012, the EBRD started a €16 million project to help modernize the district heating system in the city of Aktau. The EBRD co-financed the project with a local currency loan worth around €6 million for supporting the Clean Technology Fund. The EBRD also signed a €76 million project to replace old equipment and improve efficiency at the Shardara Hydro-Power Plant.

In 2012, for the first time, Kazakhstan became a donor to the Bank and provided co-financing resources worth €3 million for a three-year Small Business Support program and prepared to co-finance a range of core banking activities in 2013.

Asian Development Bank

Headquartered in Manila, the Asian Development Bank is an international financial development institution owned by its 67 member countries, 48 of which are from the region and 19 from other parts of the world. ADB's main instruments for assistance to developing member countries are policy dialogue, loans, equity investments, guarantees, grants and technical assistance.

Since joining the ADB in 1994, Kazakhstan has received $2.84 billion in public sector loan commitments, making it ADB's 12th largest borrower. ADB's commitments include: 22 sovereign loans in the areas of agriculture, education, finance, transport and communications, water supply, sanitation and irrigation; three non-sovereign loans of $175 million; partial credit guarantees of $200 million; and 66 technical assistance projects with total value of $29.5 million. In recent years, ADB operations in Kazakhstan have focused on road transport and small and medium-sized enterprise (SME) sector development. In 2012 Kazakhstan enhanced its relationship with ADB by becoming a donor, contributing $5.49 million to the Asian Development Fund (ADF)

ADB's support is helping Kazakhstan upgrade its transport network along the Central Asia Regional Economic Cooperation (CAREC) transport corridors and strengthen its regional trade and transport links. Multitranche Financing Facilities for CAREC Corridors Investment Programs include $700 million for CAREC 1 to reconstruct about 375 km of Western Europe–Western PRC International Transit Corridor in Zhambyl oblast, which is expected to increase external trade and economic development, and $800 million for CAREC Corridor 2 in Mangistau oblast to improve travel times within the region by 2016.

ADB continues public sector lending assistance to SMEs, primarily channeled through the current multitranche financing facility to provide liquidity support to financial institutions. In the energy sector, ADB is focusing on energy efficiency and providing technical assistance on modernization of the district heating distribution networks aimed at stable, safe, and energy-efficient operations.

ADB is active in Kazakhstan through co-financing operations in partnership with government agencies, multilateral financing institutions and commercial organizations. By the end of 2012, cumulative direct value-added official co-financing for Kazakhstan amounted to $2.56 billion for three investment projects and $1.0 million for three technical assistance projects. In 2012, Kazakhstan received $196.5 million loan co-financing from the EBRD for the CAREC Corridor 3 (Shymkent–Tashkent Section).

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Export-Import Bank of the United States: http://www.exim.gov

Country Limitation Schedule: http://www.exim.gov/tools/countrylimitationschedule/

OPIC: http://www.opic.gov

Trade and Development Agency: http://www.ustda.gov/

SBA's Office of International Trade: http://www.sba.gov/oit/

USDA Commodity Credit Corporation:
http://www.fsa.usda.gov/FSA/webapp?area=about&subject=landing&topic=sao-cc

U.S. Agency for International Development: http://www.usaid.gov

The World Bank: http://www.worldbank.org.kz

The International Finance Corporation: http://www.ifc.org

The European Bank for Reconstruction and Development:
http://www.ebrd.com/pages/country/kazakhstan

The Asian Development Bank: http://www.adb.org

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Chapter 8: Business Travel

Business Customs

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Kazakhstan draws on a combination of Russian and Central Asian cultural influences, and customs may depend on the ethnicity of the person with whom you are meeting. It is customary to shake hands and call people by their first name and patronymic (adaptation of the father's first name) at business meetings and at informal gatherings, though use of just the first name is also acceptable. Business attire is generally a suit and tie for men, and a suit or business dress for women. Refreshments are usually served at business meetings - coffee, tea and water are the norms. Small gifts (pens, company logo pins, portfolios, and books) are frequently given at the end of an initial meeting as a token of appreciation. Business cards are the norm, often printed in both Russian and English.

Scheduling meetings can be difficult, but this is also the norm. It can sometimes take weeks to get a response to an email, fax, or a telephone message request for a meeting. Once contact has been established, patience is still required to confirm a date and time to meet. It is not uncommon for meetings to be cancelled with no explanation. Since traffic is a problem in Almaty, company representatives appreciate meeting at their office locations, but are not averse to accepting an invitation for a lunch meeting.

Kazakhstani businessmen are generally less direct than American businessmen. What can be accomplished in a few meetings in the U.S. might take more in Kazakhstan, requiring patience and discipline on the part of the American. An experienced and competent interpreter can be invaluable to your business meetings.

Though Kazakhstanis tend to be Muslim, business travelers with experience in Islamic countries will find the country to be very secular, and many practices that exist elsewhere are not widely observed here, although this is slowly changing. It is quite common for ethnic Kazakhs and Uighurs to consume alcohol at dinner functions or receptions.

Travel Advisory

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Please consult the State Department's Bureau of Consular Affairs web site, www.travel.state.gov or the Embassy's website http://kazakhstan.usembassy.gov for current travel and consular information, including the most recent Consular Specific Information for Kazakhstan.

All U.S. citizens residing in or visiting Kazakhstan are encouraged **to sign up for the Smart Traveler Enrollment Program (STEP).** Enrollment in the STEP greatly facilitates our ability to locate you in the event of an emergency. The STEP also allows us to replace your passport quickly if it is lost or stolen, or contact you in case the Embassy or your relatives need to pass you an urgent message. We will release information about you to others only in accordance with your wishes (as stipulated by the U. S. Privacy Act of 1966).

• The U.S. Embassy in Astana is located at Akbulak-4, St. 22-23, Building 3, 010010, Astana, tel. 7-7172-70-21-00, fax 7-7172-70-22-80, e-mail USAKZ@state.gov

• The U.S. Consulate General in Almaty is located at 97 Zholdasbekov St., Samal-2, Almaty 050059, tel. 7-727-250-49-00, 250-49-01, fax 7-727-250-48-84, e-mail USAKZ@state.gov

Visa Requirements

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A valid passport and visa are required. The Embassy of Kazakhstan in Washington, D.C., and the Consulate of Kazakhstan in New York issue visas. The Embassy of Kazakhstan is located at 1401 16th Street NW, Washington, DC 20036, telephone (202) 232-5488 or 550-9617, fax (202) 232-5845, http://www.kazakhembus.com, and the Consulate at 866 United Nations Plaza, Suite 586 A, New York, NY 10017, telephone (212) 230-1900 or 230-1192, fax (212) 230-1172, http://www.kazconsulny.org. An invitation is not required for single-entry business and tourist visas, but multiple-entry visas require an invitation from an individual or organizational sponsor in Kazakhstan. The U.S. Embassy in Astana and the U.S. Consulate General in Almaty do not issue letters of invitation to citizens interested in private travel to Kazakhstan. All travelers, even those simply transiting Kazakhstan, must obtain a Kazakhstani visa before entering the country. Travelers should be aware that overstaying the validity period of a visa will result in fines and delays upon exit. Travelers may be asked to provide proof at the border of their subsequent travel arrangements. Travelers transiting through Kazakhstan are reminded to check that their visas allow for a sufficient number of entries to cover each transit trip and to check the length of validity of the visa. Crossing the land border to and from the neighboring Kyrgyz Republic can result in delays or demands from border officials to pay fines.

Most visa categories cannot be extended in Kazakhstan. Exceptions to this rule are student visas, visas for medical treatment, visas for permanent residents of Kazakhstan, and work visas, which can be extended in Kazakhstan up to the expiration date of the holder's work permit, a separate document issued only in Kazakhstan. Business visas can be extended domestically if the traveler is in Kazakhstan at the invitation of the Government of Kazakhstan, a diplomatic mission, or international organization in Kazakhstan.

Registration of U.S. passports is conducted at the same time as the issuance of the visa in one of Kazakhstan's embassies and consulates abroad or at the time of a border crossing. At airports and border posts, Kazakhstani immigration officers present travelers with a white registration card. Travelers must retain this card throughout their stay in Kazakhstan. Two stamps on the card indicate that the traveler is registered. If the card contains only one stamp, the traveler must register with the Migration Police within five days. All registrations are valid for three months, regardless of where they are issued. To extend your registration beyond three months, or if you are not sure if you have been properly registered at the time of visa issuance or border crossing, please contact your local office of the Department of Migration Police. Foreigners must inform the Migration Police of changes of address. Penalties for violating registration rules include imprisonment for up to 15 days, and deportation.

Some HIV/AIDS restrictions exist for visitors to and foreign residents of Kazakhstan. Visitors applying for a work or residency permit, required for U.S. citizens who wish to spend more than 6 months in Kazakhstan, must submit negative HIV test results with their application to the Migration Police in the city where they intend to work or reside. The results must be less than three months old. The city HIV clinic in the place of registration can conduct the test or may certify test results performed abroad. If the original test results are in a language other than Russian or Kazakh, they must be accompanied by an official translation. If a foreigner tests positive for HIV in Kazakhstan, he or she must depart the country. Please verify this information with the Embassy of Kazakhstan before you travel.

Inviting Your Business Contacts to the U.S.
The Embassy supports business travel to the United States by making the U.S. visa process as efficient and transparent as possible. We encourage travelers to apply for U.S. visas 4-6 weeks before their planned departure to allow time for any special processing requirements or seasonal delays. Most visas, however, can be issued in far less time. For more information on U.S. visa requirements and validity, please consult either the Embassy website: http://kazakhstan.usembassy.gov, or www.travel.state.gov.

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security evaluations are handled via an interagency process. Visa applicants should go to the following links:

State Department Visa Website: http://travel.state.gov/visa/

Contact Consular Section in Kazakhstan.

Telecommunications Return to top

Telephone coverage in Kazakhstan remains less than universal and Internet connections are not ideal especially in remote areas, but there is significant progress in providing high speed internet in the largest cities of the country. As in developing countries with poor telecommunications infrastructure and regulations, the number of cellular users has surpassed the number of landlines. Most business travelers with roaming capabilities will have no problem using mobile phones here. Both land line and cellular rates in Kazakhstan are higher than in Europe, especially for domestic long distance and international calls.

Business travelers can obtain Internet access via most hotels, but at a price. Wi-Fi at cafes is becoming more and more common in Almaty, including at shopping and entertainment facilities and at the Almaty airport. Many expatriates living in larger cities still find it difficult to get high-speed Internet access. Even after getting ADSL lines installed, many expatriates complain that speeds obtained are far from what was advertised by the provider.

Transportation Return to top

Though Kazakhstan's capital moved to Astana in 1997, Almaty remains the country's business hub. Business travelers tend to arrive into Almaty via Frankfurt, Amsterdam or London, though there are also several other international connections. Kazakhstan's national airline, Air Astana, has a fairly modern fleet of Airbuses and Boeings along with direct flights from major European cities such as London so is an alternative to European airlines. It is roughly a 7-8 hour flight from Europe. For up-to-date travel information, it is best to check the websites of the airports in Almaty or Astana for arrival/departure schedules.

In-country travel is accomplished by utilizing the national airline, Air Astana. Some smaller scale companies also offer limited services within Kazakhstan. There is also a high-speed, overnight Spanish train between Almaty and Astana.

Almaty's public transit system can be confusing to business visitors, and it is recommended that travelers hire a driver to ensure their stay is efficient and effective. Rates for a car and driver vary between $15-20 an hour.

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Despite a national movement to encourage the use of the Kazakh language, Russian is still widely used, especially in business.
Both Kazakh and Russian languages appear on road signs, at stores and on product packaging. English is one of Kazakhstan's three official languages and occasionally appears on some signs. Travelers will also find that English skills are quite strong in the service industries. Though good interpreters demand a premium price, business travelers are well advised to ensure they have a qualified interpreter in business meetings.

Health

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Medical care in Kazakhstan is limited and well below North American and Western European standards. Basic medical supplies, including disposable needles, anesthetics, and antibiotics can be in short supply. Elderly travelers and those with pre-existing health problems may be at risk due to inadequate medical facilities. Most resident Americans travel to Western Europe for serious medical treatment. Such travel can be extremely expensive if undertaken under emergency conditions.. For this reason, **all** visitors are strongly advised to carry medical evacuation insurance that includes overseas hospitalization coverage and emergency air ambulance evacuation insurance. There are many private insurers that offer these types of services such as: http://medjetassist.com/ or http://www.internationalsos.com/en/.

Although the U.S. Embassy cannot provide medical assistance or care to private citizens visiting Kazakhstan, there is a link to medical resources in Almaty and Astana on the consular section of the Embassy's website. No medical facilities in Kazakhstan currently take U.S.- issued insurance cards so be prepared to pay cash or, in some locations, with a credit card. Travelers requiring prescription medications or specific brand-name medicines should bring sufficient supplies with them and not rely on local availability.

Information on vaccinations and other health precautions, such as safe food and water precautions and insect bite protection, may be obtained from the Centers for Disease Control and Prevention's hotline for international travelers at 1-877-FYI-TRIP (1-877-394-8747) or via the CDC's internet site. For information about outbreaks of infectious diseases abroad consult the World Health Organization's (WHO) website. Further health information for travelers is available at http://www.who.int/ith.

Local Time, Business Hours, and Holidays

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Eastern Kazakhstan (which includes Almaty and Astana) is 10 or 11 hours ahead of EST, depending on the time of year (Kazakhstan does not practice day light savings).

Business hours are normally 9:00 – 6:00.

Local holidays can be found on the Embassy's website but travelers are also advised to confirm dates with contacts in Kazakhstan. If a holiday falls on a Tuesday or Thursday, the Government of Kazakhstan may elect to make the preceding Monday or following Friday a holiday as well, thereby linking the holiday to the weekend.

Temporary Entry of Materials and Personal Belongings

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ATA Carnets cannot be used for the temporary entry of materials into Kazakhstan. Certain goods that are imported temporarily are fully or partially exempt from payment of customs duties and taxes. These include professional equipment, goods imported for demonstration purposes, shipping containers, and advertising materials. A firm importing goods for a temporary period should provide Customs with documents containing the description and value of the goods, and a written confirmation stating that the goods will be sent out of Kazakhstan after a defined period.

Web Resources

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State Department's Bureau of Consular Affairs web site:	www.travel.state.gov
Embassy's website:	http://kazakhstan.usembassy.gov
State Department Visa Website:	http://travel.state.gov/visa/
U.S. Center for Disease Control:	www.cdc.gov
World Health Organization:	http://www.who.int/ith

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Chapter 9: Contacts, Market Research and Trade Events

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U.S. Embassy, Astana
Ambassador Kenneth Fairfax
Michael Klecheski, Deputy Chief of Mission, American Embassy
22-23 St, No. 3 Ak Bulak 4
010000 Astana, Kazakhstan
Tel: +7 (7172) 70-21-00
Fax: +7 (7172) 54-09-14

U.S. Consulate General, Almaty
Michael Snowden, Principal Officer
U.S. Consulate General
97 Zholdasbekov St, Samal 2, 17th Floor
050059 Almaty, Kazakhstan
Tel: +7 (727) 250-4806
Fax: +7 (727) 250-4867

Ian Turner, Consul
U.S. Consulate General
97 Zholdasbekov St, Samal 2, 17th Floor
050059 Almaty, Kazakhstan
Tel: +7 (727) 250-4900, 250-4850
Fax: +7 (727) 250-4884
E-mail: USAKZ@state.gov

Anne Aarnes, Mission Director for U.S. Agency for International Development
41 Kazybek Bi St
050010 Almaty, Kazakhstan
Tel: +7 (727) 250-7612
Fax: +7 (727) 250-7636

U.S. Department of Commerce, Washington DC
Market Access and Compliance
Office of Russia/Ukraine/Eurasia
14th and Constitution Aves, NW
Room 3316
Washington, DC 20230

Tel: 202-482-3952; Fax: 202-482-3042
Ms. Danica Starks,
E-mail: Danica.Starks@trade.gov

Special American Business Internship Training Program (SABIT)
14th and Constitution Aves, NW
Room 4325
Washington, DC 20230
Tel: 202-482-0392; Fax: 202-482-2443
Ms. Tracy Rollins, Director
Office in Almaty
Ms. Natalya Maintser, Coordinator
Tel: +7 (727) 250-7612; Fax: 250-0774

U.S. Department of State, Washington, DC
Martin O'Mara, Country Officer for Kazakhstan
U.S. Department of State, SCA/CEN
Washington, DC 20520
Tel: 202-647-6859; Fax: 202-647-3506
E-mail: OMaraMJ@state.gov

Other U.S. Government Agencies
U.S. Trade and Development Agency
1000 Wilson Boulevard, Suite 1600
Arlington, VA 22209-3901
Tel: 703-875-4357; Fax: 703-875-4009
Scott Greenip, Country Manager
E-mail: sgreenip@ustda.gov

U.S. Export-Import Bank
811 Vermont Ave NW
Washington, DC 20571
Tel: 202-565-3946; Fax: 202-565-3931

Overseas Private Investment Corp.
1100 New York Ave, NW
Washington, DC 20527
Tel: 202-336-8799; Fax: 202-336-7949

International Financial Institutions
World Bank
1776 G St, NW
Washington, DC 20433
Tel: 202-458-0120; Fax: 202-477-2967
Scott Bozek, U.S. Liaison Officer
E-mail: Scott.Bozek@trade.gov

World Bank in Kazakhstan
World Bank, Samal 12, 14th Floor
473000 Astana, Kazakhstan
Tel: +7 (7172) 580-555
Fax: +7 (7172) 580-342
Sebnem Akkaya, Country Manager

International Finance Corporation
41 Kazybek - Bi St, 4th Floor
050100 Almaty, Kazakhstan
Tel: +7 (727) 298-0580; 298-0586
Fax: +7 (727) 298-0581
Mr. Moazzam Mekan, Regional Manager for Central Asia

Asian Development Bank
American Embassy Manila
US Commercial Service - ADB

PSC 500 Box 33
FPO AP 96515-1000
Tel: +632-887-1345; Fax: +632-887-1164
Ms. Margaret Keshishian, U.S. Liaison Officer
Email: Margaret.Keshishian@trade.gov

Asian Development Bank in Kazakhstan
12 Samal Microdistrict
Astana Tower Business Center, 10th Fl. 010000 Astana, Kazakhstan
Tel: +7 (7172) 325-053
Fax: +7 (7172) 328-343
Mr. Christopher Hnanguie, Acting Country Director

European Bank for Reconstruction and Development
American Embassy, CS-EBRD
PSC 801, Box 33
FPO AE 09498-4033
Tel: +44-20-7588 8490
Fax: +44-20-7588 8443
Will Center, U.S. Liaison Officer
Will.Center@trade.gov

EBRD Kazakhstan Liaison Office
12, Samal Micro District, Astana Tower
010000 Astana, Kazakhstan
Tel: +7 (7172) 580-204
Fax: +7 (7172) 580-201
Ms. Janet Heckman, Country Director

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To view market research reports produced by the U.S. Commercial Service please go to the following website: http://www.export.gov/mrktresearch/index.asp and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, and is free.

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Please click on the links below for information on upcoming trade events.

http://www.export.gov/tradeevents/index.asp

http://export.gov/kazakhstan/tradeevents/index.asp

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Chapter 10: Guide to Our Services

The President's National Export Initiative aims to double exports over five years by marshaling Federal agencies to **prepare U.S. companies to export successfully**, **connect them with trade opportunities** and **support them once they do have exporting opportunities**.

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers
- Gain access to the full range of U.S. government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please click on the following link: www.export.gov

For more information on the services the U.S. Commercial Service offers to U.S. exporters, please click on the following link: http://export.gov/kazakhstan/servicesforu.s.companies/index.asp

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRAD(E).**

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