



THE SNOW LEOPARD

Quarterly Newsletter of the U.S.-Kazakhstan Business Association

“Stalking Investment Success across the Steppes”

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Issue No. 1

Fall 2000

Executive Director's Note:

With the Association now over a year and a half old, we are launching in this issue our first newsletter for members and prospective members. Our Website is under development and will probably be activated by the end of the year. It will serve the electronic media task of keeping interested persons and organizations more extensively informed about the Association and its activities on a ready and timely basis. This print media newsletter will focus on providing members with an easily accessible public relations document for quick reference and further distribution to your own contacts. Our next issue will provide an overview of the year. Your comments on this first issue and suggestions for future issues are most welcome.

-- William C. Veale

U.S.-KAZAKHSTAN RELATIONS

After last December's sixth annual United States-Kazakhstan Joint Commission meeting in Washington, political relations intensified with visits to Kazakhstan early in 2000 by Secretary of State Albright, Central Intelligence Director Tenet, and Federal Bureau of Investigations Director Freeh. In August, Secretary of Energy Richardson visited Kazakhstan, followed in September by Chairman of the Joint Chiefs of Staff General Shelton. The seventh annual Joint Commission that was expected to be held this fall in Astana has been postponed indefinitely because of U.S. election year scheduling problems. On Capitol Hill and in print media, however, a few voices continue to subject Kazakhstan to criticisms about human rights issues, notably regarding elections and press freedoms, but also occasional commercial disputes. The Association intends to work with the Embassy of Kazakhstan and the U.S. government to give a more balanced perspective of the investment opportunities in Kazakhstan.

On a personal note:

The Association regrets that the turns of diplomatic life required us to bid farewell to Kazakhstan's Ambassador to the United States, Bolat Nurgaliyev, who left Washington for another assignment at the end of October. We will remember him fondly for the strong support he provided during the formative period of the Association.

ASSOCIATION ACTIVITIES

Formed in March 1999 to promote the involvement of the U.S. private sector in trade and investment activities in Kazakhstan, USKBA is an independent nonprofit 501 (c) (6) corporation based in Washington, DC. It provides a forum for the exchange of views and information on business matters and maintains liaison with business and government leaders of the two countries. USKBA and its members continue to stress the importance of cooperating with Kazakhstani officials to build respect for the rule of law, transparency in regulatory processes, and pursuit of policies that promote a level playing field for new investors. USKBA does not engage in lobbying activities for itself or on behalf of its members.



MAY 19 CONFERENCE ON CASPIAN ENERGY

Bill Veale, Executive Director US Kazakhstan Business Association; Senator Sam Brownback; Mamuka Tsereteli, Executive Director of the American Georgian Business Development Council; Galib Mammad, Executive Director of the US Azerbaijan Chamber of Commerce.

The Association has held events generally on a bimonthly basis. In our relatively short existence there have been some fifteen activities. These have ranged from our large April 1999 inaugural dinner and reception in honor of President Nazarbayev, to small informal discussions with senior U.S. and Kazakhstani officials. After a large reception USKBA sponsored for the Kazakhstani Delegation to the Joint Commission in December 1999, major events in 2000 included:

USKBA ACTIVITIES IN 2000

FEBRUARY	Breakfast with Minister of State Revenues Kakimzhanov providing insights on taxation policies and progress toward a new tax code.
APRIL	Luncheon with Commerce Department Counselor Jan Kalicki, National Security Council staff director Jonathan Elkind, and State Department official John Beyrle discussing prospects for better U.S.-Kazakhstan relations in 2000.
MAY	Conference on Caspian energy, security, and transportation issues held jointly on Capitol Hill with Azerbaijan and Georgia counterpart organizations, featuring Senator Sam Brownback, U.S. Caspian Energy Advisor John Wolf, Kazakhstan Ambassador Bolat Nurgaliyev, Chevron Vice Chairman Richard Matzke, ExxonMobil Executive Vice President Bill Scoggins, and other senior Russian, Azeri, and Georgian representatives.
JUNE	Luncheon with two Kazakhstani parliamentarians and a senior official of Kazakhtelekom addressing investment opportunities in telecommunications and ways to encourage foreign investment in Kazakhstan.
SEPTEMBER	Roundtable with Foreign Minister Idrissov on the role of foreign investment in Kazakhstan's foreign policy and the significant part played by American investors.
OCTOBER	Breakfast with 12 visiting Kazakhstani parliamentarians focusing on investor practices and Kazakhstani investment policies. Luncheon with Energy Department Assistant Secretary David Goldwyn providing a readout on Energy Secretary Richardson's late August visit to Kazakhstan and an overview of the energy relationship.

Executive Director's Activities:

Having attended the Kazakhstan International Oil and Gas Exhibition (KIOGE) and conference in Almaty last October, Bill Veale participated in the World Economic Forum's Eurasia Economic Summit in Almaty in April 2000, making a panel presentation on successful strategies for investing in Kazakhstan. Earlier in April he attended a U.S. government sponsored conference at Airlie House on Central Asia. In July he attended a Republican International Relations Institute foreign policy program in Philadelphia. He also met in August with Commerce Department sponsored Kazakhstani delegations from Atyrau and from the pharmaceutical and biotechnology sector. A major preoccupation from February until late August was planning for a proposed visit by President Nazarbayev to Chicago during his September visit to New York for the Millennial Summit. The main emphasis of the Chicago visit was to be agribusiness issues as well as to promote Kazakhstan among Midwest-based corporations. In July, Bill traveled with Kazakhstan Embassy officials to reconnoiter program possibilities in Chicago. Although changes to President Nazarbayev's schedule ultimately ruled out the Chicago visit this time, the Association established many useful contacts for our first investment roundtable, possibly to be held there next year.

FUTURE EVENTS FOR 2000-2001

A full program of events is being planned for the balance of the fourth quarter and next year. The following are tentative projections. Other events will be scheduled as the travel dates and availability of visiting Kazakhstani officials become known. Members will receive details as planning progresses.

DECEMBER	Meeting with new Caspian Basin Energy Advisor Elizabeth Jones, to be held jointly with counterpart organizations for the region. Meeting with new Ambassador of Kazakhstan to the United States, once named and assigned.
JANUARY	Panel discussion with international financial institutions (IFI's) on investment climate in Kazakhstan.
FEBRUARY	Luncheon with key National Security Council official of new administration dealing with Kazakhstan.
MARCH.	Panel discussion on social and cultural factors in doing business in Kazakhstan
APRIL	Breakfast briefing on Kazakhstan for key senate and house legislators and staff.
MAY	Breakfast meeting at Offshore Technology Conference in Houston.
JUNE.	Agribusiness trade mission to Kazakhstan
JULY-AUGUST	Meeting with new U.S. Ambassador to Kazakhstan and other new embassy officers.
SEPTEMBER	Possible meeting with visiting Kazakhstani officials attending UN meetings.
OCTOBER	Possible event with Kazakhstani delegation to Washington IFI meetings.
NOVEMBER	One day investment roundtable on Kazakhstan in connection with reception and dinner for United States-Kazakhstan Joint Commission in Washington.

GROWTH OF THE ASSOCIATION

From our original six corporate members we have now grown steadily to 14, after the Exxon Mobil merger. We have also gained nine nonprofit or individual memberships, providing useful complements to corporate perspectives. Member companies include: ABB Inc.; Access Industries Inc.; The AES Corporation; CaseNewHolland Inc.; Chevron Overseas Petroleum Inc.; Coudert Brothers; Exxon Mobil Corporation; Nations Energy Company Ltd.; NUKEM Inc.; Parker Drilling Company; Phillips Petroleum Company; Pricewaterhouse-Coopers; Squire, Sanders & Dempsey; and Texaco Inc. Nonprofit members include: ACDI/VOCA, the American Chamber of Commerce in Kazakhstan, the American Councils for International Education, the Citizens Network for Foreign Affairs, the International Foundation for Election Systems, and the International Tax and Investment Center. Recruitment of new members is the overriding concern of the Association and its members at this stage of our development. To that end, the Association is again offering to let dues paid by new members joining in the fourth quarter of 2000 cover all of 2001.

NEW MEMBERS TO DATE IN 2000

Corporate Members:

Benefactors:

Access Industries Inc.,
CaseNewHolland Inc., and
Nations Energy Company Ltd.

Regular:

Coudert Brothers, Parker
Drilling, and Squire, Sanders
and Dempsey.

Associate Members:

Nonprofit:

ACDI/VOCA, The Citizens
Network for Foreign Affairs,
and the International Foundation
for Election Systems

Individual:

Peter J. Sinnott
(Columbia University)

RANKINGS

Kazakhstan's year 2000 rankings in various socio-economic indices are tracked here, with changes and additional ranking categories to be reported in future issues of this newsletter.

	(Rank/number ranked)
Economist Intelligence Unit e-business ready rankings	56/60
Transparency International Corruption Perceptions Index	65/90
U.N. Human Development Report	73/174
WHO World's Health Systems	64/191

DOLLAR-TENGE EXCHANGE RATE (as of 28 November 2000): 144.16

ECONOMIC TRENDS AND DEVELOPMENTS IN KAZAKHSTAN

Fall 2000

(This section is drawn from various news sources)

Agriculture:

- ? Grain production in 2000 to exceed 13 million tons (bunker weight), including 8.5 million tons of wheat. A new grain terminal at Aktau is set for completion in April 2001.
- ? The parliament started to consider a draft law on land in October.
- ? The U.S. Department of Agriculture has recently authorized \$15 million in supply credit guarantees for Kazakhstan.

Economic Growth:

- ? Gross Domestic Product rose 10.5 percent in the first nine months of 2000, up from 0.3 percent in the same period of 1999. Industrial output rose 15.3 percent in the first 10 months of 2000, up from 0.5 percent in the same period of 1999.
- ? Unemployment fell from 3.9 percent in September 2000 to 3.8 percent in October, returning to the October 1999 level.
- ? For January-September 2000, Kazakhstan posted a trade surplus of \$2.9 billion, compared to the \$933 million surplus for the same 1999 period.

Energy Developments:

- ? Full appraisal of oil struck at the Kashagan East well off Kazakhstan's Caspian coast will probably take until late 2002. Drilling is now underway at the Kashagan West site (Offshore Kazakhstan International Operating Company: July).
- ? Crude oil and gas condensate production to double to 60-67 million tons, equivalent to 1.2 to 1.35 million barrels a day, by 2005 (Economics Minister Kulekeyev: August).
- ? Crude oil production will increase to 37 million tons, or 740,000 barrels a day, in 2001, obtained mainly by boosting output at Tengiz and Karachaganak fields (Deputy Economics Minister Akhanov: September).

Financial Developments:

- ? Outlook for Kazakhstan's banking sector is positive, due to the banks' intrinsic financial strength, their limited and sheltered role, and their gradual adoption of international banking standards (Moody's Investment Services).
- ? The tenge is unlikely to fluctuate sharply against the dollar any further this year, and inflation will have a year-end rate of 9 percent. Next year, inflation will fall to 6-7 percent and the tenge will depreciate 3-5 percent (Central Bank Chairman Marchenko).
- ? Long-term ratings for Kazakhstan are raised due to significant improvement in external liquidity and prudent fiscal and monetary policies over the last year. Deficit is expected to stay under 2 percent of Gross Domestic Product through 2002 (Standard & Poor's).

Investment Policies and Plans:

- ? Despite over \$10 billion in foreign investment since 1993, long term agreements struck early on did not result in expected benefits for Kazakhstan, thus the government will soon initiate talks with foreign firms (Strategic Planning head Kairat Kelimbetov: October).
- ? With political reform needing to keep pace with economic transformation, new legislation on courts and judges will be the next step toward an autonomous judicial system (President Nazarbayev: October).
- ? Direct foreign investment in mining and metallurgy sectors slumped by nearly half to \$67 million last year and is not expected to recover in 2000, because of the fall in investment in poor world markets and stringent state policies on the tax obligations of metallurgical enterprises (KAZINVEST: September).

Privatization:

- ? In response to calls for the government to decide what it would privatize immediately, in the long term, and what it would never privatize, a presidential decree lists state-owned entities that would not be subjected to privatization (President Nazarbayev: August).
- ? The government hopes to complete privatization of several giant oil and metals producers in 2001 by selling shares to strategic investors. Proceeds have been put realistically at \$268 million in the 2001 budget (Finance Minister Yesenbayev: November).

Transportation:

- ? A new national carrier, Kazakhstan Airlines, will be created to develop Astana as a transit center and compete with Air Kazakhstan (Transport and Communications Minister Karim Masimov: November).
- ? Up to \$1 billion will be spent to improve transportation infrastructure in Kazakhstan by 2005. Railway freight volumes rose 70 percent from 1998 to 1999 and 31 percent in 2000.
- ? An unprecedented \$175 million will be spent on road building (Prime Minister Tokayev: October). Additional funds will be spent to build a fleet of tanker vessels to ship Kazakh crude oil on the Caspian Sea.