



## THE SNOW LEOPARD

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

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**Robert Parker, Sr.**  
Parker Drilling Co.

#### Issue No. 2

#### 2001: The Year in Review

*“Stalking Investment Success across the Steppes”*

#### Executive Director’s Note:

*The Association added a new staff member, Patrick Hussey, at the end of 2001. In the months ahead, we expect to produce quarterly newsletters, mobilize on the web for new initiatives, and provide additional services to members of the Association. These changes should attract more members, increase revenues, and strengthen our collective voice, thus providing more value to all members. As previously, your comments on this issue and suggestions for future issues are most welcome.*

– William C. Veale

#### U.S.-KAZAKHSTAN RELATIONS

After September 11, it is impossible to think about Central Asia in the same way we once did. Kazakhstan has now taken on a special meaning for the United States and its war on terror. Not only has Kazakhstan provided critical logistical support in the American hour of need, it has also served as a rock of stability in Central Asia and is moving to help Afghanistan to rebuild anew.

Moreover, now that energy policy is increasingly important, and with record reserves found in Kashagan, Kazakhstan is now front and center in the eyes of the Bush Administration as well as members of Congress. In December 2001, President Nursultan Nazarbayev met with President Bush to sign important agreements on energy policy, the environment, arms proliferation, and terrorism that together begin to chart a new strategic partnership between the two countries.

During 2001, there were also many other senior Kazakhstani officials who visited the United States. These included Deputy Prime Ministers Shkolnik and Dzhandosov, Foreign Minister Idrissov, Labor Minister Baimenov, and Transportation and Communications Minister Massimov. Secretary of State Powell visited Kazakhstan in December as the U.S. moved to strengthen ties across Central Asia. But even before the September events, Kazakhstan in June sought to better

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trade relations and initiated a request for Market Economy Status with the Department of Commerce (a favorable decision was rendered in March 2002, granting Market Economy Status). Kazakhstan is also seeking waiver of the outdated, Cold War-era Jackson-Vanik provisions so as to gain permanent normal trade relations with the U.S. On a longer term basis, Kazakhstan has begun a serious dialogue with the U.S. on accession to the World Trade Organization (WTO).

### STAFF ADDITIONS IN 2001



*Patrick Hussey, our new Executive Assistant, possesses a Bachelor of Science degree in Foreign Service from Georgetown University, a major in International Politics, and a minor in Russian Studies. He has lived and studied abroad in Almaty, Kazakhstan, and St. Petersburg, Russia, and speaks Russian. Mr. Hussey has experience running his own internet-based small business, management experience at an Israeli think tank in Washington, research experience in the U.S. and Russian Governments, and has managed property in the Washington, D.C. area.*

### USKBA ACTIVITIES IN 2001

While the Association generally aims to hold events on a bimonthly basis, the heavy flow of Kazakhstani visitors resulted in fifteen separate events during 2001.

**Senator Sam Brownback** (left) confers with **Ambassador Kanat Saudabayev**, (center) and Kazakhstan Embassy Staff at the Association's Luncheon in the U.S. Capitol for the 10<sup>th</sup> Anniversary of the Independence of Kazakhstan, held December 6, 2001.





**Representative Joseph Pitts** (*above, center*) addresses guests at the Association's Capitol Hill Luncheon on the 10<sup>th</sup> Anniversary of the Independence of Kazakhstan, December 6, 2001.



**USKBA Chairman George L. Allen** (*above, center*) introduces **Deputy Minister Vladimir Shkolnik** (*above, right*) at a luncheon on Capitol Hill on April 26, 2001, as **Representative Phil English** (*above, left*) listens.

**1<sup>st</sup> Quarter, 2001**

<b>JANUARY</b>	<p>Informal working luncheon with Ambassador Elizabeth Jones, Special Advisor to the President and Secretary of State for Caspian Basin Energy Diplomacy, held jointly with the America-Georgia Business Council (AGBC) and the U.S.-Azerbaijan Chamber of Commerce (USACC), offered assurance that the new administration's energy policy would continue to emphasize Caspian sources and multiple transportation routes (1/17).</p> <p>Roundtable with Labor and Social Protection Minister Baimenov providing insights into Kazakhstan's evolving efforts to develop a post-soviet social safety net and a business-friendly social contract (1/30).</p>
<b>FEBRUARY</b>	<p>Luncheon meeting with Transport and Communications Minister Massimov discussing investment opportunities in Kazakhstan's telecommunications, railroads, highways, and transportation infrastructure (2/7).</p> <p>Reception and dinner to introduce newly appointed Ambassador of Kazakhstan, Kanat Saudabayev, to members of the Association (2/13).</p>

**2<sup>nd</sup> Quarter, 2001**

<b>APRIL</b>	<p>BISNIS Roundtable and Luncheon Meeting with Deputy Prime Minister and Minister of Energy and Mineral Resources Shkolnik outlining Kazakhstan's efforts to promote investment in its emerging oil and gas sector (4/26).</p> <p>Small group working luncheon with Deputy Prime Minister (Finance and Economy) Dzhandosov and Deputy Central Bank Chairman Kudyshev discussing national income accounting issues and the establishment of the national strategic fund (4/27).</p>
<b>MAY</b>	<p>Luncheon meeting with Foreign Minister Idrissov providing an overview of U.S.-Kazakhstani relations and the important role of American companies in the continuing economic reform effort (5/1).</p> <p>Reception and dinner in Houston in honor of Vice Minister of Energy and Mineral Resources Kapparov, providing insights into coming opportunities for private investment in Kazakhstan's oil and gas sector (5/2).</p> <p>Offshore Technology Conference Industry Breakfast, held in Houston, Texas, in cooperation with the U.S. Department of Commerce and the Petroleum Equipment Suppliers Association, featuring Vice Minister Kapparov discussing Kazakhstan's growing energy exports (5/3).</p>
<b>JUNE</b>	<p>Breakfast roundtable with Director of the Investment Committee of the Ministry of Foreign Affairs Alzhanov and local officials from Eastern Kazakhstan, offering an exchange views on the investment climate in Kazakhstan and better understanding of local perspectives on foreign investors (6/21).</p>

### 3<sup>rd</sup> Quarter, 2001

<b>JULY</b>	Informal luncheon with departing U.S. Ambassador to Kazakhstan Richard Jones, providing an overview of the past three years of U.S.-Kazakhstan relations and an assessment of the likely future course of the relationship (7/19).
<b>AUGUST</b>	Luncheon meeting to introduce new U.S. Ambassador to Kazakhstan Larry Napper to members of the Association and discuss U.S. policy goals for Kazakhstan and the Central Asia region for the next several years (8/30).

### 4<sup>th</sup> Quarter, 2001

<b>OCTOBER</b>	<p>Silk Road Caucus Breakfast with members of Congress and Ambassadors of the Central Asia and Caucasus region providing an overview of Congressional interest in the region and individual country profiles by Ambassadors (10/10).</p> <p>Informal roundtable with National Security Council Staff Director for Aegean, Caucasus, and Central Asian Affairs Matt Bryza discussing U.S. post-September 11 perspectives on the Caspian region, held jointly with the USACC (10/18).</p>
<b>DECEMBER</b>	Luncheon roundtable in the U.S. Capitol in honor of Kazakhstan's 10 <sup>th</sup> Anniversary of Independence, featuring speakers Senator Sam Brownback, Representative Joseph Pitts, Ambassador Saudabayev, NSC Staff Director Matt Bryza, World Bank Senior Advisor Tanju Yurukoglu, and Access Industries Senior Vice President Nick Zana providing congressional, executive branch, international financial institution, and private sector perspectives on Kazakhstan's efforts to steadily improve its investment climate (12/6).

### *Executive Director's Activities*

Early in 2001 I outlined for newly arrived Ambassador Saudabayev the goals and objectives of the Association, the nature of our relationship with the Embassy of Kazakhstan, and our program ideas for 2001. A concentrated schedule of visitors from Kazakhstan and intensive coordination with the Department of Commerce on plans for the Offshore Technology Conference in Houston occupied most of the spring. In support of the Association's goal of building more extensive legislative contacts, I launched a major effort to build support in Congress for extending permanent normal trade relations to Kazakhstan, sending some 140 letters to key members of Congress and providing informational materials to member companies. Over the summer I worked closely with congressional staffers to help organize and launch the Congressional Silk Road Caucus. On the morning of September 11, I was representing the Association at a planned press conference for visiting Deputy Prime Minister Shkolnik at the National Press Club, and later that week attended the U.S. Chamber of Commerce luncheon for Shkolnik. In support of Kazakhstan's request for Market Economy status under U.S. dumping and countervailing duty laws, I prepared a letter in October to Commerce Secretary Evans arguing point-by-point why such status was now clearly deserved. In November, at a conference in Tucson, Arizona, I presented an overview of Kazakhstan's investment climate and the strategies successful investors follow. When President Nazarbayev visited the U.S. in December, I represented the Association at a small Houston dinner with senior American oil and gas company executives, and attended the President's speech at the Baker Institute.

## 2002 AGENDA

### 1<sup>st</sup> Quarter, 2002

<b>JANUARY</b>	<b>1/17: Board Representatives meet on CY2002 Program and Budget</b>
<b>FEBRUARY</b>	<b>2/4: Reception and Dinner in honor of State Secretary and Foreign Minister Tokayev (previously Prime Minister)</b>
<b>MARCH</b>	<b>3/14: Members-only briefing on taxation and investment policy in Kazakhstan</b>

### 2<sup>nd</sup> Quarter, 2002

<b>APRIL</b>	<b>4/2: Luncheon Meeting with Ambassador Steven Mann, Senior Advisor for Caspian Basin Energy Diplomacy at the U.S. Department of State</b> <b>4/7-9: Executive Director to participate in Eurasia Economic Summit in Almaty</b>
<b>MAY</b>	<b>Working luncheon briefing on Kazakhstan for Congressional staff members</b> <b>Members-only briefing on Civil Society Building Efforts</b> <b>Publication of Association sponsored Investment Prospectus on Kazakhstan</b> <b>Publication of 2001 Summary and 2002 Quarterly Newsletter (Q1).</b> <b>Launch of Association's Website (www.uskba.net)</b>
<b>JUNE</b>	<b>6/24-7/6: Smithsonian "Silk Road" Folk Festival on the Mall, including Kazakhstan</b> <b>Roundtable on U.S. Regulatory Assistance Programs in Kazakhstan</b>

### 3<sup>rd</sup> Quarter, 2002

<b>JULY</b>	<b>7/1-2: Embassy of Kazakhstan Conference "Kazakhstan: The Premier Market for Investment and Trade," Kansas City, KS</b> <b>7/2: Board of Directors Meeting and election of new board members at Kansas City Conference</b> <b>Publication of 2002 Quarterly Newsletter (Q2).</b>
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<b>AUGUST</b>	<b>Breakfast meeting with U.S. Government Officials posted to Kazakhstan</b> <b>Briefing on status of Kazakhstan's accession to the World Trade Organization</b>
<b>SEPTEMBER</b>	<b>9/23-30: Association-sponsored Business Development Mission to Kazakhstan</b>

**4<sup>th</sup> Quarter, 2002**

<b>OCTOBER</b>	<b>10/1-4: Executive Director attends Kazakhstan International Oil &amp; Gas Exhibition/Conference</b> <b>Publication of 2002 Quarterly Newsletter (Q3).</b>
<b>NOVEMBER</b>	<b>Luncheon Panel on Roles of International Financial Institutions in Kazakhstan</b>
<b>DECEMBER</b>	<b>Members-only meeting on U.S. policy towards Kazakhstan</b>

## ECONOMIC TRENDS AND DEVELOPMENTS IN KAZAKHSTAN IN 2001

*(This section is drawn from various news sources, as reported by Kazakhstani wire services)*

### Agriculture:

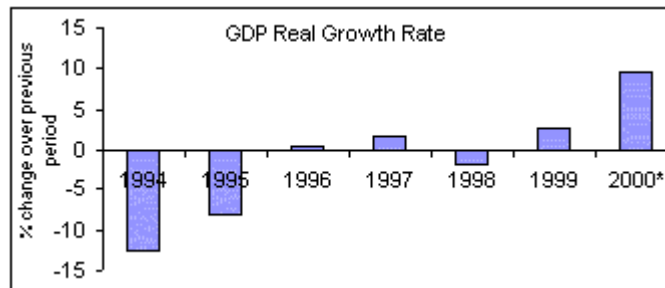
- The USDA estimates 2001/02 grain production for Kazakhstan at 13.7 million tons, down from 2000's bumper crop of 14.2 million tons.
- Good rainfall boosted Kazakhstan 2001/02 grain yields 24%.
- Overseas markets for grain are expanding to include new markets beyond the Former Soviet Union and states on the Caspian Sea littoral.
- The land law signed in 2001 allows local citizens to lease arable land for up to 99 years and frees up capital by allowing farmers to pledge their land as collateral for loans, but limits foreigners to leasing from the government.
- It also releases land and property from collective farms, provides protection from illegal expropriation; freedom of choice concerning farming activities and product choice, and equal access to markets, materials, information, and finance. **COMMENT:** The overall effect of the new land law should drive up demand for capital goods, technology, fuel (and possibly North American joint venture partners) in this sector, particularly as farmers learn to take more risks with capital.

### Economic Growth:

- 2001 GDP growth rate was 13.2%. Although the economy is heavily dependent upon energy and metals exports, economic growth of 7 % is forecast for 2002, assuming world commodities prices remain depressed.

### **GDP Growth**

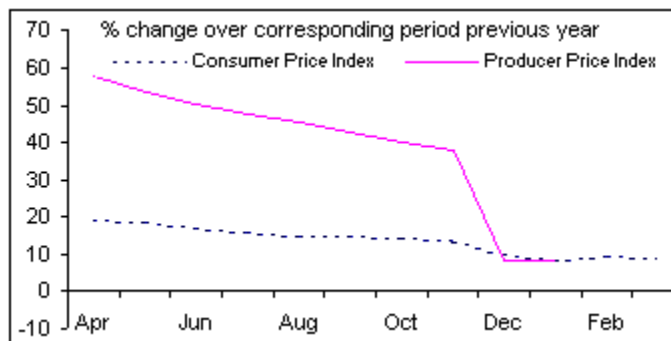
Source: Committee on Statistics and Analysis



- December 2001 inflation rate was 6.4%.

### **Inflation**

Source: Committee on Statistics and Analysis



- Industrial output increased by 13.5% in 2001.
- Trade surplus in the first 10 months of 2001 was \$2.1 billion, down from \$4.1 billion in 2000.
- Unemployment levels went down from 3.4% in January 2001 to 2.8% by the end of 2001, totaling 221,000, of which 11.5% receive government assistance. Average nominal wage at the end of 2001 was \$121 per month.
- Kazakhstan has the best per capita income in the CIS and one of the best year-on-year GDP improvements.
- In November 2001, the government submitted to parliament draft laws about the stock market and joint stock companies aimed at enhancing transparency, toughening control over the security of financial and economic information, and defense of investor rights.
- The World Bank's 2001 country study of Kazakhstan's economy focuses on the non-oil sectors of its economy, particularly agriculture and enterprise finance, and can be found at the following link: [http://www.worldbank.org.kz/content/esw\\_eng.html](http://www.worldbank.org.kz/content/esw_eng.html).
- Transparency International Corruption Perceptions Index ranked Kazakhstan 71/90 (lower numbers imply less corruption).
- Freedom House's Press Freedom Index (100 = 0 press freedom) ranks Kazakhstan at 70 out of 100. This placed it behind Russia, Kyrgyzstan and Turkey, but ahead of the remainder of Central Asia.

### **Energy Developments:**

- Kazakhstan has tentatively agreed to support the Aktau-Baku-Tblisi-Ceyhan pipeline, a logistical solution backed by the Bush Administration.
- In November the Caspian Pipeline Consortium (CPC) opened a 982-mile link to the Black Sea, connecting the Tengiz oilfield with the Russian port of Novorossiysk. Current capacity is approximately 600,000 b/d.
- The Kashagan oilfield in the North Caspian, which is the largest oil find in 30 years, has been further explored and may contain in excess of 10 billion barrels of oil.
- The Offshore Kazakhstan International Operating Company (OKIOC) has been renamed the Agip Kazakhstan North Caspian Operating Company (Agip KCO). American partners in the consortium include Exxon Mobil and Phillips Petroleum.
- With its oil sector accounting for 25% of GDP, Kazakhstan is becoming more vocal about the addition of multiple pipeline routes, particularly one south to Iran or possibly Afghanistan.
- Karachaganak Integrated Organization (KIO) began drilling its first new well in May as part of a six-year, \$3.5 billion phase two development program, to increase production to 12 million tons of crude and gas condensate, and 10 billion cubic meters per year of gas by the end of 2003.
- Kazakhstan produced approximately 783,000 b/d of oil, and exported 546,000 b/d of this total. The republic's oil output in 2002, 2003 and 2004 is slated to climb to 880,000, 905,000 and 963,000 b/d respectively, of which approximately two-thirds is to be exported. By 2005, output is expected to be over 1.2 million b/d.
- The Kazakhstan Electricity Grid Operating Company (KEGOC), began a wholesale power exchange in late 2001 to optimize energy supply and demand in Kazakhstan through energy trading. In 2002, it aims to do advance trading. **COMMENT:** Such measures could allow greater efficiency in the domestic market, and therefore allow more international oil exports.
- Energy usage increased from 51.4 billion kWh in 2000 to 55.2 kWh in 2001, representing a 13.5% increase in power usage. Energy efficiency also improved.

### **Financial Developments:**

- The Tenge continued to fluctuate within a narrow band, beginning 2001 at 145 to the dollar and ending 2001 at 151.
- Total international reserves are \$2.5 billion
- Private investor deposits by November 1, 2001, totaled \$2.7 billion, an increase of 37.9% from 2000.

- S&P upgraded Kazakhstan's long-term foreign and local currency ratings to 'BB' and 'BB+', respectively, as well as its short-term rating of 'B'. The outlook on the long-term rating is stable, primarily as a result of economic reforms.
- Capital amnesty (“no questions asked”) netted \$480 million from the extralegal sector, 82 percent in cash deposited in local banks, and 11.4% from foreign banks.
- Pension fund assets increased 33% in 2001 to total over \$1.13 billion by the end of the year.

#### **Investment Policies, Plans, & Taxation:**

- New foreign direct investment (FDI) in Kazakhstan was about \$5 billion in 2001, up from \$2.85 billion in 2000. In 1991-1999, cumulative FDI was \$10 billion.
- Kazakhstan seeks to produce goods and services for the oil and gas sector domestically, using import substitution to modernize its Soviet-era machine-building sector.
- Other plans include a proposed insurance policy for investors to insure against political risks and overtaxation.
- New tax code signed in June 2001 eliminated some exemptions and added provisions for managerial, legal, marketing, and consulting services, even if such services were performed outside Kazakhstan but are construed as “Kazakhstan Source Income”.
- Adjustments in the tax code to transfer pricing (the practice by which local commodities are sold at “fire sale” prices to offshore affiliates in order to reduce tax assessments) will make it more difficult to avoid previously existing loopholes. New provisions for inspections and penalties for non-compliance were also introduced.
- The Government of Kazakhstan plans to increase wages of civil servants, particularly doctors and teachers.
- The National Oil Fund rose to over \$1.2 billion at the end of 2001, but may need to be drawn down in 2002 if oil prices remain low.
- The Government of Kazakhstan has continued its investor-friendly approach by signing a law reducing VAT taxes from 21% to 16%, and decreasing the payroll tax from 26% to 21%.
- The Asian Development Bank lent \$103 million to Kazakhstan in 2001 to provide for programs in technical assistance that contributed to small urban business development, locust management, energy sector study, rural water supply and sanitation, rural income generation, road improvement, and early child and women’s development.
- The 2002 budget anticipates an 80.5 billion tenge deficit, amounting to 2.3% of estimated GDP. Last year’s deficit was forecast at 2.2%, but was revised downward by 0.9% due to high oil revenues.

#### **Transportation & Construction:**

- Bechtel, in conjunction with the Turkish company Enka, is building an artificial island in the Caspian on behalf of Agip KCO, to serve as a drilling platform.
- A new grain terminal has been completed at Aktau, and a second is under consideration if demand remains strong.
- A proposal on rail transport, currently in parliament, would strengthen state control over rail security, introduce mandatory insurance for passengers, and regulate relations between cargo owners, rail carriers, and cargo recipients. Another law concerning civil aviation safety is in preparation.

#### **Environmental Issues:**

- Under increasing international scrutiny, 2002 Caspian fishing quotas should allow Kazakhstan to fish 247 tons of sturgeon and 23.8 tons of caviar in 2002, each representing 16.7% and 15.9%, respectively, of the total allotted to all littoral states. This quota generates \$100 million in fishing revenues for these states, but the black market accounts for an estimated \$900 million in fishing revenue, thus compounding the problem of dwindling stocks.

- In summer of 2001, senior Kazakhstani officials considered signing agreements allowing the burial of hazardous nuclear materials, which might produce revenues to the tune of \$200-500 million per year for the state. One possible site might be an existing uranium mining pit in the western Mangistau region.
- An increasing amounts of sulfur, a byproduct of crude processing, has attracted the notice of senior Kazakhstani officials. An American company, Parsons, has proprietary sulfur processing technology that will allow a gradual reduction in the mounds of accumulated sulfur.

**Other Sectors:**

- Gold production in 2001 was up 50% from 2000.
- The World Bank released its latest findings on Kazakhstan's Mining Sector in the summer of 2001. (go to: [http://www.worldbank.org.kz/content/esw\\_eng.html](http://www.worldbank.org.kz/content/esw_eng.html))
- A BISNIS survey in 2001 found that there were 250,000 online subscribers in Kazakhstan.

**ABOUT THE ASSOCIATION**

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.

**At the close of 2001, member companies included:** ABB Inc.; Access Industries Inc.; The AES Corporation; Bechtel Corporation; Brush International; CaseNewHolland Inc.; ChevronTexaco; Coudert Brothers; Deere & Company; Exxon Mobil Corporation; Fluor Corporation; General Electric Company; Halliburton Company; Nations Energy Company Ltd.; NUKEM Inc.; Parker Drilling Company; Parsons Corporation, Phillips Petroleum Company; PricewaterhouseCoopers; and Squire, Sanders & Dempsey. **Nonprofit members included:** ACDI/VOCA, American Chamber of Commerce in Kazakhstan, the American Councils for International Education, Civilian Research and Development Foundation, the Citizens Network for Foreign Affairs, The Eurasia Foundation, International Foundation for Election Systems, and the International Tax and Investment Center.

**NEW MEMBERS IN 2001**

**Corporate Benefactors:** Bechtel, Ltd.

**Corporate Sustaining Members:** General Electric, The Fluor Corporation, and Deere & Co.

**Corporate Regular Members:** Parsons, Brush International, and Halliburton

**Non-Profit Associate Members:** The Eurasia Foundation and the U.S. CRDF

If you have further questions about the U.S.-Kazakhstan Business Association and its activities, please contact:

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