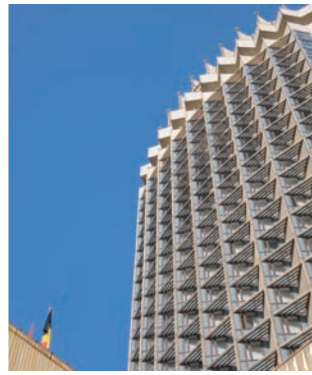
Views of Almaty, Kazakhstan's booming commercial center



Kazakhstan

Investing in the Future

Thanks to its oil wealth and program of economic reforms, Kazakhstan is on course to become the economic hub of the Central Asian region

In May oil began flowing for the first time through a 600-mile pipeline from Atasu in central Kazakhstan into China. It is a development that underscores the pivotal role that Kazakhstan is playing in the 21st century version of what diplomats in Central Asia are once again calling "The Great Game."

With the U.S. and China seeking greater and more secure supplies of energy, and Russia showing signs of using its oil and gas reserves as a diplomatic bargaining counter, the three superpowers are vying for influence in Central Asia – much as Britain and Czarist Russia did in the 19th century when the term "Great Game" was coined.

"There is certainly a big geopolitical game being played over our oil," says Kairat Kelimbetov, Kazakhstan's minister of economy and budget planning. "All the largest consuming countries would like to be here, and we try to keep a balance between these giants."

The immediate benefit of the oil pipeline into China will be to lessen Kazakhstan's dependence on Russia for outlets for its energy exports. Although the country is almost the size of Western Europe, it is effectively landlocked and, until now, the only way it has been able to export its oil in any volume has been through Russia.

Because of its size, its oil wealth and the Western-influenced economic reforms it has gradually been introducing, Kazakhstan is on course to become the economic hub of the Central Asian region. In this it has the enthusiastic backing of the U.S.

American investment in the country already amounts to about $10 billion and is expected to double in the next five years.

Kazakhstan's qualifications for its predominant regional role are substantial. It is by far the wealthiest of the five Central Asian republics. It has proven oil reserves totaling at least 26 billion barrels. It currently produces about 1.3 million barrels a day and by 2015 the daily output is expected to reach 3 million barrels. It also has proven reserves of natural gas amounting to 3 trillion cubic meters.

The murders in November and March of two prominent opposition politicians have served as a sharp reminder that civil society is still a fragile flower in post-Soviet Kazakhstan. Behind the fledgling and still carefully managed democracy, so-called "influence groups" – brought together by a mixture of clan and business loyalties – jostle for dominance in various areas.

But in comparison to the rest of the regional players, Kazakhstan has an enviable social and political stability. It has a population of only 15 million, just over half of whom are Kazakhs – descendents from Turkic and Mongol nomadic tribes – while a third are Russians.

There are Muslims, Orthodox Christians and Jews, but the country is predominantly secular in the urban centers. There have been no notable incidents of religious extremism, and the spirit of free-enterprise investment and business innovation is being adopted with zeal.

Nursultan Nazarbayev, firmly installed for a third term as president, following an election in December in which he notched 97 percent of all votes, is a wily survivor of the Soviet power structure. As the father-figure of the post-Communist reforms, he is widely regarded as a strong leader who can achieve what is required.

He has gained the overall support of his people by judiciously spreading the country's prosperity among the populace, and the support of Western governments by pursuing a program of economic and political reform and introducing prudent fiscal and monetary policies.

Nazarbayev has three priorities: to ensure that Kazakhstan does not relinquish its economic or political independence to Moscow, Beijing or Washington; to diversify the economy away from its reliance on its energy reserves; and to enable Kazakhstan to become one of the 50 most developed countries in the world.

This bold ambition is not beyond the bounds of possibility. The economy expanded by 9.4 percent last year and is set to average 8.8 percent over the next three years. On this basis Kazakhstan will have doubled its gross domestic product within eight years.

This progress is reflected in Almaty, the bustling commercial capital, where the broad tree-lined highways are jammed with limousines and 4x4 vehicles, and restaurants and nightclubs do a roaring trade. Property prices have increased by 40 percent in the past five years and fur-hatted city-based Kazakhs are busy spending incomes that have also increased by a similar amount. Annual per capita purchasing power is the equivalent of $8,700, although, for the moment, affluence is largely limited to the urban areas.

The new capital, Astana, is also growing rapidly and will soon be adorned by a glass pyramid-style Palace of Peace, a symbol of the interethnic and multireligious harmony of which Kazakhstan's leaders are understandably proud.

The government's immediate priority is to diversify the economy. A total of $12.6 billion was invested in the country's mineral and raw materials sector last year.

Dr. Karim Massimov, the deputy prime minister, says the next challenge is to attract investors from other sectors. He emphasises the country's open-door policy in oil and gas development.

"Everybody who's anybody is here," he says. "This openness is testament to our independence and we appreciate the U.S. recognition of our market economy."

Astana's aim now is to attract substantial foreign investment in the expansion of the transportation system and the processing of primary raw materials, industrial wastes, petrochemicals and manufacturing goods, particularly power engineering.

To assist this process, pilot clusters are being set up to engender innovation and collaboration in sectors in which the country can achieve a competitive edge.

"Situated as we are between Russia and China, we can offer strong advantages as a safe and stable regional hub," says Dr. Massimov. ❖

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Enterprise spawns new middle class

From tailors and barber shops to restaurants and mini-supermarkets, the number of small and medium-sized enterprises (SMEs) in Kazakhstan is doubling every year as the economy opens up and the revenues from hydrocarbon and mineral mining trickle down into other sectors of the economy.

Only in the past couple of years has a middle class begun to emerge, in a society that was largely nomadic less than 70 years ago. Now the middle class numbers between 1 and 2 million.

Bankers see this as a defining moment. "The volume of loans we are issuing to SMEs is doubling annually," says Mukthar Ablyazov, chairman of the board at Bank TuranAlem, the country's second-largest bank. Such enterprises are increasing their presence countrywide, he says, and the surge of this sector has caused the government to simplify taxation and decrease red tape. He expects these developments to boost transparency.

"It is an evolutionary process. Ten years ago, there was not a single transparent large enterprise or bank," he says. "Now the number of transparent large businesses has increased to an enormous extent."

For several years, Kazakhstan has been able to boast that it has the best-regulated banking system of the 12 countries that form the Commonwealth of Independent States, following the breakup of the Soviet Union.

The number of banks that emerged in the country in the immediate post-Communist era at one time numbered more than 300, but increased regulation, mergers and a stricter licensing policy have helped reduce the number to fewer than 50.

The relatively small number of banks has made it easier for the authorities to regulate and monitor the sector. Consolidated supervision was introduced four years ago to enhance transparency, and since 2003 all financial reports have had to be prepared in accordance with international financial reporting.

The three largest banks, the Halyk Savings Bank of Kazakhstan, Kazkommertsbank and Bank TuranAlem, now account for more than 60 percent of total assets. With the sector growing so fast, all three say that the arrival of foreign banks is inevitable and the competition will be welcomed.

"Now the number of transparent large businesses has increased to an enormous extent."
Mukthar Ablyazov, Chairman, Bank TuranAlem

Andrey Timchenko, managing director of Kazkommertsbank, says six or seven foreign banks have expressed serious interest in establishing themselves in Kazakhstan. However, the opportunities for mergers may be slight.

Mukthar Ablyazov says Bank TuranAlem has no need to attract strategic investors. "Our bank is growing fast, and last year our profit increased by 45 percent to $54 million. This year we expect no less than $120 million, and this profit will be capitalized." ❖

Railroad to world trade

Work begins this year on a railroad in Kazakhstan that will link the Asia-Pacific region with northern Europe, opening up new vistas for intercontinental trade.

It will have immense logistical value, enabling freight to be transported virtually nonstop from the eastern ports of China to the northern ports of Europe within 11 days.

"The Trans-Kazakhstan trunk railroad project will allow us to move about 10 million containers annually and will pay back its cost within seven years," says Yerlan Atamkulov, president of Temir Zholy, the Kazakhstan national railroad company. Some estimates reckon it will increase throughput by up to $40 million a year.

At an overall cost estimated at $10 billion to $12 billion, the railroad will traverse some 2,400 miles, passing from China through Kazakhstan, Russia, Ukraine and Belarus.

This ambitious project has taken 70 years to be implemented. It was proposed in Moscow in the 1930s but turned down by Stalin, it is said, because he feared that it would strengthen China's influence in Central Asia.

The Kazakhstan section will run from Druzhba, a railroad junction on the country's eastern border with China, to the port of Aktau on the Caspian Sea. A 200-mile section from Dostyk to Aktogai, north of the Aral Sea, will be the first section to be constructed at a cost of $300 million.

"Even this initial stretch of railroad will enable us to double our transit potential," says Atamkulov. "We don't have to wait until the entire track is constructed as each section will be able to function once it is laid."

Because of Kazakhstan's enormous size and its location between Europe and China, its transportation infrastructure is as important as its mineral wealth. At present, its railroad accounts for 12 percent of GDP and 79 percent of freight turnover, but its full potential as a national resource is far from being realized.

The trans-Asian and trans-Siberian trunk lines, which incorporate 13 main transcontinental routes, cross through Kazakhstan. Railroads connect with Europe through Russia and with the Persian Gulf through Iran, as well as with the Pacific Coast through China.

However, the current width of Kazakhstan railroad tracks is 1,610 millimeters (5ft. 3in.), while in both China and Europe it is 1,435 millimeters (4ft. 7in.). This means that carriers lose time and run up costs at state borders when wheels have to be changed.

The new railroad tracks will be of narrower gauge to conform to the Chinese and European ones. This will mean that trains can transit the borders without delays. New high-tech locomotives will travel at speeds that will result in a significant reduction in tariffs.

Atamkulov says the Trans-Kazakhstan trunk railroad will open up areas in the middle of Kazakhstan that are rich in mineral resources, and allow access to land that has not been developed

because of its remote location. This in turn could lead to new settlements, rail stations and work in the uninhabited Bolshiye Barsuki Kazakh desert.

"The Trans-Kazakhstan trunk railroad project will be undertaken by a large international consortium, and I know that many American companies will be interested in participating," says Atamkulov.

Fiber-optic cable is to be laid along the route. Twenty percent of its capacity will be used by Temir Zholy and the remainder rented out commercially.

Temir Zholy, which maintains and operates the entire Kazakhstan railroad system, has annual income of $2.2 million. Last year it received government subsidies amounting to an additional $93.9 million to extend, modernize and electrify the system and its equipment. A two-year $250 million contract with General Electric for the modernization of locomotives has almost been completed. Already, passenger railcars are being built locally, and plans are under way to open a factory to manufacture freight railcars.

The enthusiasm among Kazakhs for the proposed railroad is matched by that of the Chinese, who believe it will greatly assist the development of the Xinjiang Uygur Autonomous Region in the northwest of the country.

"The Trans-Kazakhstan trunk railroad project is a real project of the 21st century," says Atamkulov. "As a land bridge between the Asia-Pacific region and northern Europe, it will advance the cause of world trade." ❖

Nest egg

Next year the Astana government is planning a bold attempt to distinguish its routine expenditure from the National Fund, which has been established to accumulate financial reserves for future generations.

At present, the government uses the first $19 earned from each barrel of oil to finance its budget, sending anything above that sum to the National Fund.

From next year however, all the revenue from oil sales "which average out to 1.3 million barrels a day at present" will be deposited in the Fund.

The government will try to meet its day-to-day expenditures from its non-oil revenues, only drawing money from the Fund to cover the deficit and capital investments.

"The size of the transfer will show us how efficient the government has been in diversifying the economy away from oil," says Kairat Kelimbetov, minister of economy and budget planning. ❖

A view of the Tien Shan mountains

Olympic bid to boost credibility

The 2014 Winter Olympics could be staged on the pristine slopes of the Tien Shan mountains, which offer a captivating snow-peaked backdrop to Almaty. Kazakhs believe that the city – the commercial capital of a thriving quintessential Eurasian state – should stand a good chance of being selected.

Imangali Tasmagambetov, a former prime minister and Almaty's mayor, says that the city's bid to host the Games will be based on three firm pillars. First, it is situated on the 40th parallel, an ideal location that guarantees the right weather conditions. Second, thanks to Kazakhstan's booming oil-rich economy and the need to modernize the city, it has the funds to build the Olympic sports complexes and other necessary facilities. And third, if it were chosen as the venue, it would expand the geographic and cultural range of the Games, thus fulfilling one of the aims of the Olympic charter.

"We are a stable homeland to more than 130 ethnic groups that coexist in peace," says Tasmagambetov. "We are polyethnic and polyconfessional. We combine an ancient culture and new Western values such as a market economy and a commitment to democracy. We are a Central Asian country, once part of the Soviet empire, worthy of a brand-new reputation."

Should Almaty succeed with its bid, much of the inevitable building work will certainly be carried out by the Bazis-A Corporation, the country's leading construction company. The government and the major oil and gas companies are loyal customers.

Bazis-A built the the headquarters of the ministry of finance, the ministry of transport and communications, and the national state oil company in Astana, the new capital, and is currently building the country's tallest skyscraper.

It specializes in turnkey projects that are unique in architectural style, and has constructed embassies, banks and exclusive apartment complexes.

Created in 1991, the company had a consolidated turnover last year that exceeded $200 million and expects to exceed $350 million this year.

Alexander Y. Belovich, the company chairman, says that as the economy expands there is more financing available to build apartments and business premises. "For that reason, more businesses will grow and will need the valuable services that we provide," he says.

"We have a strong, open country that is stable, with good economic and political conditions. We appreciate foreign investment and we would like to establish partnerships in construction, development and the production of construction materials."

With this view, he echoes the words of the mayor, who says: "We should drive away the assumptions abroad that Asia is a wild hell's pawn, making its living out of war and terrorism, and unable to comprehend and to assimilate culture and civilization."

The best way to do that, he believes, would be for Almaty to win its bid for the Winter Olympics. ❖

A golden opportunity

Kazakhstan has enough varieties of minerals under the surface of its vast plains, lakes and mountains to tick off each item in the Periodic Table.

It has the world's second-largest reserves of uranium, chromium, lead, silver and zinc; the third-largest reserves of manganese; and is among the ten countries with the most reserves of copper, coal, iron and gold.

Kazakh ores are mostly compound, have complex structures and include a wide range of rare and dispersed elements, says Dimkesh Mukanov, first deputy general director of the National Center for Complex Mineral Refinement.

The country also has more than 20 billion tons of metallurgical tailings, left behind by the excesses of the Soviet Union's mining practices, which can be considered a raw material base for future processing. However, because of its remoteness, much of the raw ore is commercially unviable at the moment in an industry equipped with aging machinery, outdated technology and a low level of processing expertise.

Nevertheless, mining represents a large sector of the domestic economy, and the Astana government is attempting to rationalize the industry by introducing market principles and transferring state-run enterprises to the private sector.

"We have good laws governing foreign investments and we invite foreigners to come and invest here," says Vladimir Shkolnik, minister of trade and industry.

One company taking advantage of the opportunities is Frontier Mining, a mineral exploration and development company incorporated in Delaware, which began operating in Kazakhstan in 1998. Brian Savage, the company's chief executive officer, says he would have no hesitation in advising other American companies to invest in Kazakhstan.

"The laws and regulatory regimes are very fair and reasonable," he says. "The government doesn't restrict exports, there is zero tax on exploration and the currency is freely convertible. Only about one-third of the country has been extensively explored, and we believe that there are many more assets here."

Frontier Mining has licenses for two mines, one estimated to contain more than a million ounces of gold and the other 750,000 tons of copper. Its gold mine is forecast to produce 25,000 ounces this year at a cash cost of $250 an ounce. It expects to double its gold production to 50,000 ounces next year and to double it again in 2008.

The company was admitted to the London Stock Exchange's Alternative Investment Market in 2004 when it was valued at £20 million ($34.8 million). Savage says it is currently discussing with several companies the possibility of entering a joint venture for its copper project and would also consider the possibility of merging with a local enterprise.

"We are here to create value – long-term value – not to grab some assets, list on a public market and then walk away," he says. ❖

Rock-solid business

In recent years international attention has been focused mostly on Kazakhstan's immense deposits of oil and gas. A less glamorous but still valuable resource, however, is the country's vast deposits of phosphate rock. Estimated reserves exceed 13 billion tons and are the sixth largest in the world.

Sales in US$ millions

The company responsible for exploring, mining and processing this treasure trove is Kazphosphate, which, in the last three years, has resuscitated a Kazakhstan industry that had collapsed when the Soviet Union disintegrated 15 years ago.

Today it is one of the leading companies in producing and selling yellow phosphorus and its derivatives. These include phosphoric acid and sodium tripolyphosphate (STPP), which is the main component in the production of various detergents.

Kazphosphate's success, and its potential, is based upon two simple facts. The first is that, despite Kazakhstan's remoteness, its neighbor China is the world leader in the use of fertilizers, already accounting for 41.2 million tons a year. This is double the amount the U.S. uses and the figure is certain to increase. The second is that Kazphosphate has a symbiotic relationship with Thermphos International, a Netherlands-based chemicals company with production plants at home in Holland as well as China, Germany, France and Argentina.

The synergies between the two companies are enabling them to improve their competitiveness and profitability across the international phosphorus sector.

In the past seven years Kazphosphate has achieved high efficiencies in the exploration, mining and processing of phosphate rock, while Thermphos has supplied world-class technology and expertise in marketing elemental phosphorus and its derivatives. These include phosphoric acid and specialty phosphates widely used in agrochemicals, pharmaceuticals, surfactants, flame retardants, lubricant additives and catalysts.

"The synergies we have found between the two companies are way beyond our wildest imagination," says Nahum Galmor, an Italian-Israeli economist with more than 25 years' experience in the international chemicals sector. He is owner and president of Kazphosphate, and led a group of private investors who acquired ownership of Thermphos in February 2003.

Galmor emphasizes that both companies operate independently, but have great compatibility in working together. Thermphos has gained access to Kazphosphate's output of elemental phosphorus (P4), one of two main raw materials used to make Thermphos's products. It will help the company diversify into higher value-added products and reach target sales of $1 billion a year by 2009.

For its part, Kazphosphate is using Thermphos as a springboard to international markets. In addition to its exports, demand for fertilizers in Kazakhstan will grow by up to 15 percent a year, Galmor believes, giving the company excellent opportunities for expansion.

Most of Kazphosphate's P4 is now shipped to Thermphos for further processing. According to analysts, the companies have a combined 22 percent share of the estimated global Phosphorus (P4) capacity of 800,000 tons a year.

Kazphosphate, which was established as a limited liability company in October 1999, has branches across southern Kazakhstan in Zhambyl, Taraz and Karatau, Stepnogorsk and Chulaktau.

The phosphate rock the company mines is the major source of phosphorus, an essential element for plant and animal nutrition. Much of it is converted into phosphoric acid, which is used as an intermediate in the manufacture of granular and liquid ammonium phosphate fertilizers and Superphosphate.

Phosphorus is also used in livestock feed supplements, detergents, pesticides, soft drinks, safety match heads, aluminum polish, timber, photographic films, toothpaste, shaving cream, soaps, cosmetics, textile dyes, gasoline and oil additives.

Phosphate rock occurs widely in many parts of the world, but high-grade reserves of a quality worth commercial exploitation are limited. Although Kazakhstan's deposits are vast, they are not of the highest quality and, as a result, they have to be produced and marketed as efficiently as possible.

"This area was believed from earlier times to have one of the largest phosphate rock reserves in the world."
Nahum Galmor, Owner and Pres., Kazphosphate

"The phosphate industry in Kazakhstan started in the1940s with the development of the rock phosphate mines in the area of Karatau, Zhanatas," says Galmor. "This area was believed from earlier times to have one of the largest phosphate rock reserves in the world."

At a later stage, based on these rock phosphate reserves, the yellow phosphorus industry flourished at several sites in the area. The industry was devoted mainly to the Soviet Union and its satellites. But with the breakdown of the Communist empire and the change from a planned economy to a market economy, the phosphate industry in Kazakhstan went into decline.

Joint venture

Kazphosphate has signed a memorandum of understanding with a Chinese company, China Urumqi, to form a joint venture for the production of phosphate fertilizers.

The company will eventually have a production capacity of 1.2 million tons a year.

Nahum Galmor explains the reasoning behind the deal: "They need the fertilizer; we have the phosphate rock and the expertise; so it's only natural that we should create a joint venture."

A persuasive factor for the Chinese company was Kazphosphate's favorable location and the logistical advantages this provided for transporting phosphate rock as well as fertilizers into western China.

Kazphosphate's Karatau and Chulaktau mining complexes are located in the Zhambyl and Shymkent regions of southern Kazakhstan, close to China's western border. These are the only suppliers of raw material for the production of mineral fertilizers in Central Asia.

"It's fortunate that we are so close to the border, and the Chinese realize that," says Galmor. "The alternative for the Chinese would be to produce fertilizer themselves, which might not be cost effective. They don't have sufficient reserves of good phosphate, and they have logistical and cost problems. But the quantities we currently have are not sufficient – the demand is stronger than our current supply capability. This is the reason we agreed upon a joint project.

"This is a very ambitious project, but it is going to happen simply because it is the most natural thing to do."

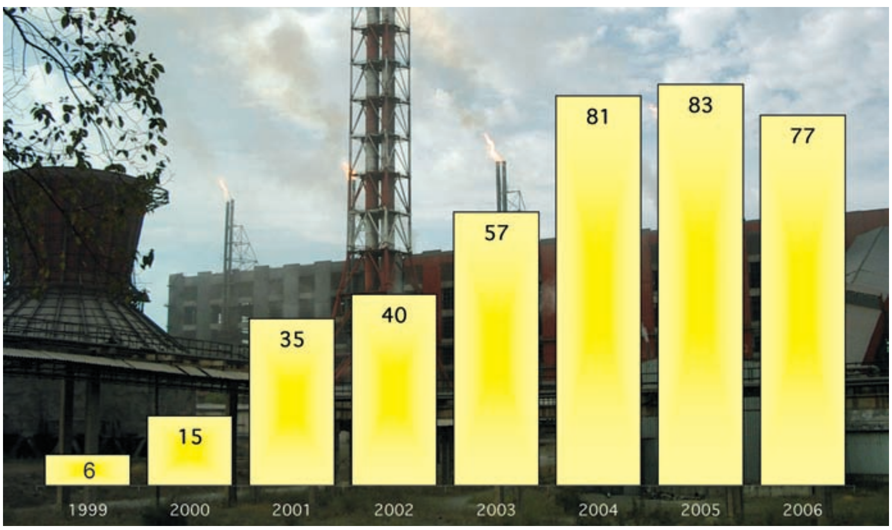
The plan is to expand production in tranches of about 200,000 tons in order to meet the expected market growth. Galmor thinks that the commissioning of the first batch will start at the beginning of next year and then, every two or three years, an additional 200,000 tons will be brought on stream.

China Urumqi has undertaken to sell the full output of the joint venture in China at the average world-market price. This will be in addition to Kazphosphate's existing sales in China. The joint-venture company will have a 10-year contract to receive supplies from Kazphosphate, with the option of extending it another five years.

The phosphate industry is a conservative one, says Galmor. "People who are buying from us want to know that if they sign a contract in 2005 for a specific period, we will not stop it at the end of that period but will be prepared to continue it." ❖

"The loss of a guaranteed budget on one hand and secure markets on the other had a negative impact," says Galmor. "During the second half of the 1990s, the troubled industry experienced numerous changes. Some facilities closed down and were gradually dismantled, and the industry came practically to a standstill. The problem was not only the disappearance of an essential industry, but also the dramatic effect it had on its labor force, which at that time numbered about 10,000, in a region that had lost its main employers and taxpayers."

During its early years, Kazphosphate relied mainly on the sale of rock phosphate to neighboring Uzbekistan for the production of fertilizers. In conjunction, it started to revive the production of yellow phosphorus in Taraz and the nearby fertilizer plant. The significant improvement in the quality of Kazphosphate's yellow phosphorus output started with the functional and commercial integraton of Kazphosphate with Thermphos International, its European sister company.



Elemental phosphorus (P4) production in thousands of tons

"The idea was that if Kazphosphate had commercial and technical cooperation with Thermphos, two things would happen," explains Galmor. "Thermphos could buy product from Kazphosphate, thereby increasing its turnover for internal usage in its downstream production, as well as using its infrastructure to market Kazphosphate's product, giving the guarantee of supply from a reputable European producer. In addition, the Thermphos name provided additional assurance to clients that they could rely on the supply of products from Kazphosphate.

"The result of this functional cooperation between Kazphosphate and Thermphos led to many synergies that exceeded our expectations, and I can safely say that the two companies are now very stable."

Today more than 95 percent of Kazphosphate's production is sold on the international market, mainly to Europe and the former Soviet countries, with nearly 50 percent of it purchased by Thermphos. However, with the exception of the Chinese market, the location of Kazphosphate's mines presents the company with a major logistical problem.

To help overcome this, Kazphosphate has developed its own railway complex, which, in addition to providing intra-plant access, offers rail freightage and transportation to other enterprises located in the industrial area of Taraz. The total extension of tracks is 75 miles in the industrial region of Taraz, and 100 miles in the industrial area of Zanatas. ❖

Challenging task

When Nahum Galmor promised to retain Kazphosphate's entire labor force while transforming the company into a commercially viable enterprise, he knew he was undertaking a challenging but vital task.

"It is not only the fact that we are employing 8,000 people," he says. "You have to remember *where* we are employing them. We are located in the southern part of Kazakhstan, adjacent to the Uzbeki border. This is an area in which we are the biggest industry and the biggest employer.

"Our involvement with the Kazakh economy is not only that we are producing goods worth $160 million, most of which we export. We are also employing a labor force that probably nourishes a quarter of a million people. We are indirectly responsible for their welfare in an area where there is no oil or energy production, so we are fully assuming our social responsibility."

Nahum Galmor, Owner and Pres., Kazphosphate

Initially, he says, the company's relationship with its labor force was unsettled and the workers were restless. "At the beginning they used to demonstrate and have sit-outs in front of the governor's office," he recalls. "But once they were convinced that their salaries would be paid regularly and that they would not be fired, they settled down, and two years ago we established excellent relations with the workers' unions."

Until Kazphosphate took over the business, the workers were paid irregularly and sometimes did not receive their wages for three or four months. "Now they are paid on a monthly basis and their salaries have doubled, and in some cases tripled," says Galmor. "Most important, we told the unions very clearly: 'We will not fire anyone. However, if people leave, the money saved is going into the workforce – not back into the company.'

"Basically, this means that if 500 people leave us and in the process we save $2 million, we don't leave it in the company. Instead, we have created what we call an excellence plan, so that the money goes to the workers."

Now, he says, employees come to work and are motivated. The best are sent to Kazphosphate's sister company, Thermphos, in the Netherlands, to gain experience, and Thermphos sends its specialists to Kazphosphate on a regular basis.

"This is not a one-off," says Galmor. "There is a constant exchange of expertise, experience, tradition and style between the two companies, and we can see the beneficial results." ❖

Worldwide markets

The fundamental objective of Kazphosphate is to be competitive in the international marketplace. "We cannot rely on anybody to save us or to help us," says Nahum Galmor, the company president. "We have to ensure that both our production processes and our prices enable us to operate our business worldwide."

An important aspect of the company strategy is to supply its captive market with yellow phosphorus. Fifty percent is shipped to Thermphos, its sister company, for its downstream activities. But Galmor believes that Kazphosphate's fertilizer production is the most important branch of its activities and the one that offers the greatest prospects for future expansion.

The company has five mines, the biggest of which are in the once prosperous industrial complexes of Zhanatas and Karatau, where the phosphorite deposits are noted for their thickness and quality.

After extraction, the rock phosphate is transported to two production sites, one of which handles the production of technical chemicals such as yellow phosphorus and phosphoric acid, while the other manufactures fertilizer.

Yellow phosphorus is a highly flammable gel, which has to be transported under stringent safety conditions. Kazphosphate provides all the logistical expertise and operates its own transport facilities.

In the past, some rock phosphate was exported to Uzbekistan, Turkmenistan and some small client companies in southern Russia, but in recent years demand from these outlets has fallen. Kazphosphate's strength, says Galmor, is that its production process is a repeated one. "We are doing something very basic, but we are the best in our field."

Occasionally the layers of phosphate offer up other minerals, although not in concentrations that would be commercially exploitable. There have been reports of deposits of good-quality marble, which Kazphosphate might explore with a view to developing, but because of transportation costs, the marble would probably be only for local use.

"During the Soviet era, a huge deposit of talcum of exquisite quality was located and there were proposals to exploit it, but they came to nothing," says Galmor. "Unless we find beautiful diamonds, or something else that attracts our imagination, we will concentrate on phosphates."

To maintain its competitiveness, Kazphosphate is constantly seeking to improve its technology and to utilize international cooperation. It discusses matters such as storage capacities, joint-venture possibilities and exclusivity agreements with several companies on an annual basis.

"The purpose of all these approaches is to guarantee the stability of our production, to maintain our competitiveness and hopefully to help us expand," says Galmor. He believes Kazakhstan's planned entry into the World Trade Organization will be of great benefit to the country and further enhance investment and its export markets. "If you are a professional offering an added value, you can succeed here," he says. ❖

Prosperity in the pipeline

Last year Kazakhstan produced 27 percent more natural gas than the previous year – a total of 25.99 billion cubic meters. A similar rise is expected this year, together with a substantial increase in the country's capacity to export the gas.

"We are investing huge amounts of money in the development of our gas transport system," says Uzakbai Karabalin, chief executive officer of KazMunaigas, the state-owned oil and gas company.

KazTransGas (KTG), a subsidiary of KazMunaigas, distributes gas through more than 6,000 miles of trunk pipelines, and studies are taking place for a gas pipeline to be laid into China.

"Unfortunately," says Serik Sultangaliev, KTG's general director, "the infrastructure we use was inherited from the Soviet Union, and to enable it to use our native Kazakh gas, we had to modernize the infrastructure."

Reconstruction of the Central Asia main gas pipeline requires incremental investment of $3.1 billion over the next 12 years.

Kazakhstan has proven natural gas reserves of about 2 trillion cubic meters.

The country's largest oil production company is Tengizchevroil (TCO), which under its current expansion plans is spending $5 billion on expanding its gas production from 13.5 million tons per year to 25.5 million tons at its two reservoirs, Tengiz and Korolev. Both are thought to be large enough to make at least one further significant expansion economically viable.

Chevron was the first Western oil company to enter Kazakhstan 13 years ago. "The country needed foreign investment and Chevron needed reserves. The match was made in heaven," says Sandy Cornelius, Tengizchevroil's general director. During that time, he adds, companies like TCO have enjoyed safe, reliable production, and contracts have been honored. "As a result, investors are still investing money," he says.

TCO has trained 3,500 Kazakhs in oil industry crafts, has sent 470 abroad on courses and has a list of 37 who have high potential for senior company roles.

TCO initially spent $50 million on community programs and now contributes $8 million annually, providing amenities including gas and water supplies and building clinics and vocational schools.

"Two years ago, 60 percent of the population did not have gas. Now 75 percent does have it," says Cornelius.

The company has also reduced pollution emissions from 10 kilograms per ton to the current 3.97 kilograms per ton while paying increased fees for the pollution it causes.

Kazakhstan's disadvantages are its remoteness from the energy marketplaces of the world and the delays in the expansion of the Caspian Pipeline Consortium's 1,000-mile route from the Tengiz field to Russia's Black Sea port at Noorossiisk. As an alternative, TCO has been using rail routes going north and south. ❖