



Kazakhstan: Mining Equipment

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Summary

- Kazakhstan is one of the world's mineral-rich countries, possessing world-class deposits of minerals and raw materials, including coal and ferrous and non-ferrous metals.
- Kazakhstan's mining sector is responsible for over 30% of export earnings, over 16% of GDP, and 19% of industrial employment.
- Kazakhstan's mining industry is forecast to grow on average 9.2% annually from 2008-2011, with the industry value reaching \$4.83 billion in 2011.

Industry Overview & Market Demand

Kazakhstan is endowed with a wide range of mineral resources -- including coal, and ferrous and non-ferrous metals. Because of this mineral wealth, it has a large mining sector with over 230 enterprises producing or processing coal, iron and steel, copper, lead, zinc, manganese, gold, aluminum, titanium sponge, uranium, barites and many others. The sector is responsible for over 30% of export earnings, over 16% of GDP (*one source estimated this as high as 27%*), and 19% of industrial employment.

Kazakhstan produced 95 million tons of coal in 2007, ranking it 9th in the world in terms of production. The country is the 8th largest in iron ore reserves with 12.5 billion tons. The nation ranks second, globally, in manganese ore reserves, which are estimated at 600 million tons. Kazakhstan boasts 30% of worldwide chromite ore deposits. The country is also a significant producer of beryllium, tantalum, barite, and cadmium among the CIS. The country's current reserves of copper are estimated at 36mn tons. Further, it ranks second globally in manganese ore reserves, which are estimated at 600mn tones. Kazakhstan also hosts 30% of the worldwide chromite ore deposits, as well as 95% of the total chromium reserves within the Commonwealth of Independent States (CIS). Kazakhstan is paying particular attention to developing its gold mining (ranked 10th globally) and uranium mining (25% of world reserves) as commodity prices rise, and is seeking to attract foreign investment in order to expand current production. Overall, Kazakhstan's mining industry is forecasted to grow annually on average 9.2% over the next three years, with the industry value reaching \$4.8 billion in 2011.

Once an industry in disarray following the break-up of Soviet Union, Kazakh mining witnessed widespread technological upgrade and privatization in the 1990s. This has been additionally fueled in the past few years by soaring international metal prices, rapidly expanding demand from China and India, and streamlined procedures for obtaining permits and foreign investment. From a technological standpoint the industry still lags significantly behind more developed countries, as evidenced by the numerous mine accidents that continue to occur.

As global prices continue to rise, there are discussions in Kazakhstan to introduce an export duty on metals, following a trend that the government started in the oil and gas sector. New amendments to the tax code could result in the reduction of some corporate taxes, including corporate income tax and VAT, but it is unclear if there will be a reduction in the final tax burden for mines and metal manufacturers. Further, there are some concerns regarding the revised Mining Law of 2005 which stipulates that mining fees charged by the government would increase proportionally with the rise in annual mining volumes. The law also authorizes the government to purchase the mining rights of not only a mining company, but also of companies that have direct or indirect decision powers over mining operations.

Much of the technology and management practices of this industry date from the 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, most have ceased their operations. The investors claimed that lack of transparency, poor financial incentives, unclear and arbitrary laws that 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.

Kazakhstan Mining Equipment Market

	2006	2007	2008 (estimate)
Total Market Size	798	915	968
Total Local Production	78	88	92
Total Exports	4	5	6
Total Imports	724	832	880
Imports from the U.S.	65	70	76

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

Best Prospects

Taking into consideration the price increase for non-ferrous metals, gold, and uranium and the growing demand for coal, Kazakhstan's mining industry is developing rapidly. Currently, Kazakhstan is an attractive market for U.S. mining equipment/machinery exporters. American companies can provide needed products and services to the Kazakhstani mining companies, such as bulldozers, drilling equipment, explosives, trucks, drill rigs, trams, cranes, crushing and pulverizing machinery, dredges, hydraulic excavators, quarrying machinery and equipment, elevators, conveyors for underground equipment, compressors, hammer mills, special trucks, etc. Also replacement parts for mining equipment are needed. Among the best sales prospects for services are diamond drilling contractors and people 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. Opportunities may also lie in the gold mining and the post-processing of base and precious metals. American companies that can 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 and products, which may minimize the impact on the environment, will also have great demand in Kazakhstan. Explosives also present interesting export opportunities in the region. Kazakhstani producers have experienced several mining accidents over the last five year, resulting in multiple fatalities, which may also result in growing demand for safety and ventilation equipment, compressed air and gas equipment, generators, pumps and valves.

More than half of Kazakhstan's mining, processing, and smelting enterprises 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. Kazakhstan mining machinery demand will grow 9% through the end of next year. Gains will be driven by an upswing in prices for copper, silver and gold and by strong demand for coal. U.S. mining equipment and services suppliers should target major players in the mining sector, such as Kazakhmys, Eurasian Natural Resources (ENRC), TNK Kazchrome, KazakhGold Group, ShalkiyaZinc, KazAtomProm and others.

Key Suppliers

Kazakhstan has a very small, domestic mining equipment manufacturing industry. The majority of mining equipment in Kazakhstan has historically been supplied from Russia. After the break-up of the former Soviet Union, the majority of mining equipment has been supplied by distributors or subsidiaries of large international manufacturers. Manufacturers from the U.S, Russia, Japan, Korea, Sweden, Germany, the United Kingdom and recently China supply Kazakhstan's demand for mining equipment. Some of the large foreign companies in Kazakhstan's mining equipment industry are Caterpillar (USA) via its regional distributor Turkish Company Borusan Makina, Komatsu (Japan), Atlas Copco (Sweden), ThyssenKrupp AG (Germany) and others.

Prospective Buyers

Principal end-users of mining equipment and services are major Kazakhstani state-owned and private mining companies.

[Kazakhmys Corporation](#)

[Kazakhmys PLC](#) is the largest copper producer in Kazakhstan and one of the leading copper producers in the world. Kazakhmys is a fully integrated copper producer, from mining ore to the production of finished copper cathode and rod. The group produces significant volumes of other metals as by-products, including zinc, silver and gold. Existing operations include nineteen open pit and underground mines, nine concentrators, two copper smelting and refining complexes, a copper rod plant, a zinc plant and a precious metals refinery. Production is backed by a captive power supply and significant rail infrastructure. Kazakhmys also owns MKM, a copper products fabrication company in Germany, and has gold and petroleum divisions with assets in Kazakhstan and Central Asia. The group's strategic aim is to diversify and participate in the development of the significant natural resource opportunities in Central Asia. The company is also the first from Kazakhstan to achieve a primary listing on the Main Market. The shares of Kazakhmys have been listed on the London Stock Exchange since October 2005. Kazakhmys' corporate headquarters are situated in London and the company has approximately 66,000 employees worldwide. However, the bulk of the company's operations take place in Kazakhstan.

[Bogatyr Access Komir](#)

Bogatyr Access Komir is the largest coal mining company in Kazakhstan. The coal is mined the open way. The company extracted about 70% of all coal from the large Ekibastuz basin. In 2007, BAK extracted and shipped to 48 million tons of coal.

[KazAtomProm Corporation](#)

The national atomic company [KazAtomProm](#) is the national operator for the import and export of uranium and other double-use materials. 100% of its shares are owned by the government. The company is involved in the exploration works; mining and production of natural uranium and uranium products; production of beryllium products; production of tantalum, niobium products and hydrofluoric acid. Currently the firm employs over 19,000 people. Total annual turnover is over \$300 million.

[Eurasian Natural Resources Corporation \(ENRC\)](#)

[Eurasian Natural Resources Corporation](#) (ENRC Group) is a diversified natural resources group with integrated mining, processing, energy and logistical operations. ENRC contains the Kazakh assets of Kazchrome, Aluminium of Kazakhstan, Kazakhstan Aluminium Smelter, Zhairam GOK, SSGPO iron ore plant and Eurasian Energy Corporation, as well as ENRC Logistics and ENRC Marketing & Sales. ENRC is the world's largest producer of ferrochrome on a chrome content basis. ENRC Group also holds a quarter of the world's reserves of chromium and supplies two-fifths of the world's gallium, a metal used in semiconductors. ENRC is one of Kazakhstan's largest companies, accounting for about four percent of gross domestic product in 2007. The company's main assets are located in Kazakhstan and are

predominantly focused on the production of ferro alloys, iron ore and aluminum. ENRC is listed on the London Stock Exchange.

[KazakhGold Group](#)

[KazakhGold Group](#) Limited is the largest gold mining company in Kazakhstan with three principal operating mines, Aksu, Bestobe and Zholymbet, and an additional eight properties acquired in 2005. KazakhGold is listed on the London Stock Exchange. Currently, KazakhGold Group employs about 3,200 people. It is headquartered in Stepnogorsk, to the north of the capital Astana.

Market Entry

The best way to enter the Kazakhstan market is to establish a local presence, which is a crucial component of doing business in Kazakhstan for contacts or after-sales service. Representatives in the mining sector emphasize that it is not enough to work through a local distributor. 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 companies in Kazakhstan are sensitive to pricing and contract financing terms. That is why when entering the market it is necessary to balance sales opportunities with the risk of non-payment. It is advisable to start transactions on a full prepayment basis. Generally, payment terms for construction equipment and materials are between 30-60 days. A trading relationship should be developed over time. Project financing opportunities offered by a U.S. company will increase the likelihood and potential amount of transactions.

U.S. companies in Kazakhstan use a combination of marketing methods including distributing or 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. Distribution channels still require extensive training/service support, and project financing such as leasing schemes for equipment.

Market Issues & Obstacles

State procurement is regulated by a new Law on State Procurement that came into force on January 1, 2008. Kazakhstan's state procurement regulations apply to ministries, state agencies and companies and enterprises wherein the state holds more than 50% of the shares (which impacts several main mining assets and companies).

State owned companies have preferences for local vendors. Only Kazakhstani companies, according to legislation, can participate in tenders announced by state owned companies. US companies interested in selling mining equipment to Kazakhstan state owned companies should work through a local distributor or locally registered representative office. A typical entry strategy includes the establishment of a joint venture with a local partner and local registration as a vendor.

Import duty tariffs for mining equipment and spare parts are 10%. Some mining equipment, for instance crushing machines, are exempt from Kazakhstan import duties.

Trade Events

Mining World Central Asia Exhibition 2008

Sept 17-19, 2008

Atakent International Exhibition Center, Almaty

Organizer: ITECA

www.miningworld.kz

U.S. Catalog Show at Mining World Central Asia Exhibition 2008 and Equipment Road Show

Sept 17-19, 2008

The Commercial Service office in Almaty is hosting a U.S. Catalog Show at the Mining World Central Asia Exhibition 2008 and Equipment Road Show, a unique event that will 1) promote US firms at our U.S. catalog booth at the largest mining trade show in Central Asia (<http://www.miningworld.kz/en/2008/>), and 2) promote these same products during a road show to some of Kazakhstan's largest mining centers. Participants will be able to gauge interest in their product while also creating brand recognition. Regional outreach trips will include having CS Almaty staff making product presentations to mining experts and engineers in the field. For more information, visit our website at: http://www.buyusa.gov/kazakhstan/en/trade_events_by_almaty_office.html

MinTech – 2009

May 20-22, 2009

Ust-Kamenogorsk (Eastern Kazakhstan)

Organizer: KAZEXPO International Exhibition Company

<http://www.kazexpo.kz/mintech/eng/index.htm>

MinTek Kazakhstan

June 24-26, 2009

Karagandy

Organizer: TNT Productions, Inc.

<http://www.tntexpo.com>

Mining World Central Asia Exhibition 2009

Sept 16-19, 2009

Atakent International Exhibition Center, Almaty

Organizer: ITECA

www.miningworld.kz

Resources & Key Contacts

- Eurasian Natural Resources Corporation (ENRC) - www.enrc.com/
- KazAtomProm Corporation - www.kazatomprom.kz/
- KazakhGold Group - www.kazakhgold.com/
- Kazakhmys - www.kazakhmys.com
- Kazakhstan mining portal- <http://www.mining.kz/>
- Mining World Central Asia Expo - www.miningworld.kz/en/2008/

For More Information

The U.S. Commercial Service in Almaty, Kazakhstan can be contacted via e-mail at:

Azhar.Kadrzhanova@mail.doc.gov; Phone: 7 (727) 250-4850, Fax: 7 (727) 250-4967 or visit our website:

www.buyusa.gov/kazakhstan.

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