

# Trade and investment

Economic ties in the energy sector and beyond

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Over twenty-five years of diplomatic relations, the UK and Kazakhstan have built up robust and enduring trade and investment ties. As H.E. President Nursultan Nazarbayev wrote in an article in November 2015:

*"We have never forgotten that Britain was amongst the first countries to recognise our independence. We value the major role as well that British companies, big and small, have played in helping modernise our economy and drive our prosperity."*

The governments of the UK and Kazakhstan signed an official Agreement for the Promotion and Protection of Investments, in November 1995. An early example of cooperation between the two governments was the creation of Air Astana, which was incorporated in late 2001 with the government of the Republic of Kazakhstan holding a 51 per cent share and BAE Systems PLC holding 49 per cent.

The inaugural event was attended by President Nursultan Nazarbayev and Sir Richard Evans, then Chairman of BAE Systems, and the airline's maiden flight took place on the 15th May 2002. The joint shareholders remain committed partners in the airline, with the government holding its controlling share through the Samruk-Kazyna National Welfare Fund, and BAE Systems PLC retaining 49 per cent. Air Astana currently operates a fleet of 31 western aircraft, with an average age of 8 years, and operates

over 60 domestic and international routes.

The UK is currently one of Kazakhstan's top ten trade partners in terms of turnover, and one of the six largest investors in the country. Since 1991, foreign direct investment (FDI) from the UK into Kazakhstan has totalled more than US\$25 billion, and between 2005 and the first quarter of 2017 that figure was US\$12.3 million, representing almost 5 per cent of all foreign investments. Trade between the two countries between January and April 2017 was valued at over US\$ 420 million, an increase of 21 per cent over the same period the previous year.

Today, there are more than 800 legal entities, branches and representative offices with British participation registered in Kazakhstan, with over 500 British companies actively operating in the country. Royal Dutch Shell and EY are included in the Council of Foreign Investors under the President of Kazakhstan, and British companies represented in the Kazakh market include Rolls Royce, Rio Tinto, BAE Systems, AstraZeneca, GlaxoSmithKline, PwC, KPMG, Wood Group, William Hare, WorleyParsons and Petrofac. Also represented in the legal and financial services sector are branches of Baker & McKenzie, Norton Rose Fulbright, White & Case, Reed Smith, Michael Wilson & Partners, Dentons, Dechert and Morgan Lewis.

Many of the UK companies operating in Kazakhstan are involved in the energy sector. Kazakhstan holds ninth

place in the world in terms of its proven oil reserves, and in 1992 the Republic of Kazakhstan signed an agreement with British Gas and the Italian company Agip on the development of the Karachaganak oil and gas field. This was the beginning of international cooperation between Kazakhstan and European countries in the oil sector, with Royal Dutch Shell playing a key part in developments in the Caspian Sea, where the company has had a presence for over a century.

As the then UK Ambassador to Kazakhstan, Dr Carolyn Browne, commented in November 2014:

*"Our role is by no means only that of investor. There are also over a hundred UK companies working in the energy sector in Kazakhstan, playing vital roles and providing key skills in the supply chains of all the major developments in this country. They bring with them the technical skills and expertise learnt in the harsh conditions of the North Sea. A lot of this experience has directly translated across to operating in Kazakhstan, dealing with deep reservoirs under high pressure with hydrogen sulphide present."*

Appropriately enough, the first Kazakh-British Oil and Gas Forum was held in the UK's oil centre Aberdeen, Scotland, in September 2011, with around a hundred British companies and twenty-three companies from Kazakhstan attending. Aimed at assisting domestic producers in establishing cooperation, exchange of experience, expansion and the creation of new industries, the second Forum took place in Astana in March 2012. At the third Kazakh-British Oil and Gas Supply Chain Engagement Forum held in Atyrau in October 2013 over 20 British companies and 94 from Kazakhstan were present.

The ongoing Forums are part of a unique programme sponsored by Shell Kazakhstan and the DIT in cooperation with the National Agency for Local Content Development. This collaboration was recently singled out for praise by Rt Hon Greg Hands



MP, Minister for Trade and Investment, during his visit to EXPO 2017, as "hugely productive".

The focus on energy is being redressed. In July 2013 David Cameron became the first serving British Prime Minister to visit Kazakhstan, accompanied by a business delegation of 33 small and large UK companies from a wide range of sectors, including high-tech manufacturing, education, architecture and financial services, as well as energy. Landing first in the oil capital of Atyrau on the Caspian Sea, the Prime Minister was greeted by President Nursultan Nazarbayev before the two jointly opened the Bolashak on-shore oil and gas facility that operates with involvement from Royal Dutch Shell.

Moving on to Astana, the President and the Prime Minister welcomed the signing of the first strategic agreement between Kazakhstan and the UK, with Cameron commenting:

*"Today we've agreed to open a new chapter in our relationship. The strategic partnership agreement that we've just signed will take our relationship to a new level, a relationship based on strong economic ties, on closer cooperation on security and defence, and on increasing links between our people."*

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David Cameron



Air Astana: flying the flag for UK-Kazakhstan cooperation



Photograph courtesy of Royal Dutch Shell

Top: Rupert Goodman DL, Rt Hon David Cameron and H.E. Nursultan Nazarbayev  
Left: Processing facility at Kazakhstan Karachaganak gas and condensate

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Rt Hon Greg Hands MP

Deals worth more than US\$1 billion across a range of industries were signed during the historic visit.

In November 2015, President Nursultan Nazarbayev landed in London for a State Visit which included meetings with H.M. the Queen, Prime Minister David Cameron, and heads of leading British firms. The visit led to agreements worth more than US\$5 billion across fields such as pharmaceuticals, aviation and financial services, as well as energy.

This reflected a widening of economic ties. In May 2015, Kazakhstan's Ambassador to the United Kingdom, Erzhan Kazykhanov, noted:

*"Closer ties regarding technology and innovation will help us meet the goals and objectives of the Kazakhstan 2050 Strategy and the Nurly Zhol economic programme. We are working to shift the focus of cooperation between Kazakhstan and the United Kingdom away from the extractive sector towards industrial production, engineering, the high-tech sector and the expansion of the green economy."*

That was a message echoed this year by Rt Hon Greg Hands MP, Minister for Trade and Investment, during his visit to EXPO 2017:

*"As a long-standing trading partner of Kazakhstan, UK businesses can offer unrivalled expertise and innovation in a vast range of sectors which can support our Kazakh partners ... Innovative technologies are key to developing any sector and the UK has been at the forefront of new discoveries from energy to health."*

Hands also pointed out that the British government has been instrumental in helping UK companies secure over US\$7.8 billion in contracts in Kazakhstan since 2011-2012 alone, with over fifty new partnerships created between the UK and Kazakh companies during this period.

Kazakh business is represented in the UK by branches of the Samruk-Kazyna national welfare fund, Kazmortransflot UK Ltd, and Air Astana. Kazakh companies listed on the London Stock

Exchange include KazMunaiGas, HalykBank, Kcell, and Kazkommertsbank, Nostrum Oil & Gas, KAZ Minerals, Goldbridges and Chagala Group. Eight mining companies – Steppe Cement, Tau Capital, Roxi Petroleum, Central Asia Metals, Jupiter Energy, Kemin Resources – are listed on AIM (the London Stock Exchange's international market for smaller, growing companies), and Kazakhstan's JSC Kazakhstan Aluminium Smelter has been a member of the London Metal Exchange since 2009.

President Nazarbayev is known to be an admirer of the workings of the City of London and in May 2015 Kazakhstan's Ambassador to the United Kingdom, H.E. Erzhan Kazykhanov, commented:

*"We are actively working to develop the domestic financial system ... We are particularly interested in the history of the City of London's financial sector and how it developed its unique status in the world of finance and its related legislation."*

The Ambassador referred to the President's long-term vision of establishing a financial centre in Astana with a special status aimed at developing the financial services sector and attracting foreign investment. In November 2015, a key step was taken towards this goal with the signing of a landmark Memorandum of Understanding (MoU) between The CityUK, the EBRD and the National Bank of Kazakhstan, at a meeting of the UK-Kazakhstan Intergovernmental Commission attended by Prime Minister David Cameron and President Nursultan Nazarbayev. Chris Cummins, Chief Executive of The CityUK, commented at the time:

*"As Kazakhstan's economy continues to diversify, the UK's financial and related professional services industry has the expertise to help it grow... As the leading global financial centre, London and the UK can help to establish and develop Kazakhstan's capital, Astana, as an international financial centre."*



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The Astana International Finance Centre (AIFC) Authority was established on 28 December 2015. President Nazarbayev stated:

*"I signed a decree on the establishment of the Astana International Financial Centre. It will be based on the principles of English law, with a preferential tax regime and an independent financial court."*

To be housed at EXPO 2017, the AIFC aims to be fully functional by 1 January 2018, and as AIFC Governor Kairat Kelimbetov explains:

*"What makes the AIFC different from previous attempts is its strong institutional framework. Unprecedented in our regional case with an independent jurisdiction based on the principles of common law, flexible regulation, tax incentives, even English as the main working language – we needed a new platform to implement all of these."*

The Governor continued: *"The Astana International Exchange (AIX) will serve as a platform for the large privatisation programme of the state-owned companies. We are talking about largest companies in the Samruk Kazyna Sovereign Wealth Fund, starting with Kazakhstan's national oil and gas company, railways operator, postal operation, air carrier, power producer, mining company and uranium producer; the world's largest, by the way. Global asset managers will be competing for access to local sovereign funds. We see the increasing demand for Islamic financial instruments."*

This last is one of many areas where the UK continues to work alongside its Kazakh partners. Back in February 2014 representatives of the National Bank of Kazakhstan, Ministry of Finance, Ministry of Industry and New Technologies along with other senior public servants made a three-day trip to the UK to learn from the UK's experience as the first-ever Western centre for Islamic Finance and establish a partnership between Britain and Kazakhstan in the sector.

Since then the momentum for cooperation has been maintained, and in April 2017 the London Stock Exchange held a Kazakhstan Privatisation/SWF Samruk-Kazyna Day. This was followed by a Capital Markets day in Astana in July, where Dauren Tasmagambetov, Director of Asset Restructuring and Privatisation at Samruk-Kazyna, the Kazakh Sovereign Wealth Fund, delivered a welcome update on the privatisation programme.

Alongside these developments other bilateral structures have been put in place between the UK and Kazakhstan. The first meeting of the UK-Kazakh Intergovernmental Commission (IGC) on Trade-Economic, Scientific-Technical and Cultural Cooperation took place in Astana on November 5 2014, after its official launch in London in October 2013. On February 24, 2015, the Business Council made up of JSC Samruk-Kazyna and UKTI and the British Chamber of Commerce Representative Office in Kazakhstan was successfully launched in London. The first meeting of the Business Council was held on the sidelines of the official visit of President Nazarbayev to London on 3rd November 2015, when the second

meeting of the IGC also took place.

The work of the Commission included discussions on bilateral cooperation, including the "New Silk Road" initiative, EXPO-2017 and the establishment of the AIFC. A package of commercial agreements and contracts valued at US\$1.3 billion were signed. At the third meeting of the IGC in London, November 2016 one inter-governmental and seven commercial agreements worth a further US\$1.3 billion was agreed. During Rt Hon Greg Hands's visit to EXPO 2017 this year, an additional US\$1.4 billion was made available in support to UK companies exporting to Kazakhstan and Kazakh buyers of UK goods and services.

One example of the importance of the Silk Road initiative came in May this year, when the first container train set off from the London Gateway terminal in Essex bound for Yiwu City in China. Completing the trip in less than 20 days, compared to 36 to 38 days by sea, the train's journey was made possible by passing across a large tract of Kazakhstan. As Executive Director of the train's operator Kazakhstan Temir Zholy National Company (KTZ) Karl Gheysen commented:

*"Freight trains travelling between China and Europe make trade and economic ties stronger and create opportunities of developing surface transport between China and Western Europe via the territory of Kazakhstan."*

The new route means that the UK and Kazakhstan are becoming ever closer in terms of connectivity as well as trade and investment. And not just over land but in space. In May 2013 the UK Space Agency and Kazcosmos, the Kazakh Space Agency, signed an agreement outlining a range of collaborative space activities, including training engineers from Kazakhstan on the design and operation of satellites. And in June 2016, British European Space Agency astronaut Tim Peake, the first Briton to serve a mission on the International Space Station, returned to earth at the Baikonur Cosmodrome in Kazakhstan.

We are actively working to develop the domestic financial system. We are particularly interested in the history of the City of London's financial sector

H.E. Erzhan Kazykhanov

Baikonur Cosmodrome



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