

WORLD TRADE ORGANIZATION

RESTRICTED

WT/ACC/SPEC/KAZ/4/Add.2

22 September 2000

(00-3799)

**Working Party on the
Accession of Kazakhstan**

Original: English

ACCESSION OF KAZAKSTAN

Explanatory Note to the Offer on Tariffs for Goods

Addendum

The Ministry of the Economy of the Republic of Kazakhstan has submitted the following explanatory note concerning the offer on goods which has been reproduced hereunder.

This note explains the formation of the offer on market access. This paper includes a brief analysis of the economic situation in the country in general and a more detailed analysis of the current situations in the major economic sectors, as well as the list of the presented offers on binding of customs duties in respect of agricultural products and other types of goods.

Offer Formulation

The Republic of Kazakhstan presents its offers on market access for goods in a manner consistent with the WTO requirements and divided into two larger groups:

- Agricultural Products; and
- Other Goods.

The first and the second columns of the submitted offers are titled as “Codes and Appellations of Agricultural Products” and “Other Goods” that include 9,864 lines. The codes and appellations of goods correspond with the effective Kazakstani Nomenclature of Goods involved in foreign economic activities which is based on the Harmonised System of Appellations of Goods and Codes.

The third column of the offers titled as the “Initial Binding Level” lays down the threshold, at which the Republic of Kazakhstan offers to bind its MFN rates of customs import tariffs from 1 January the year following the year of accession to the WTO.

The fourth column of the offers titled as the “Final Binding Level” lays down the level, at which the Republic of Kazakhstan offers to bind its MFN rates of customs import tariffs at the end of the transition period.

The fifth column of the offers titled as the “Transitional Period” determines the duration of the transition period, in the course of which the initial binding level will be reduced to the final binding level.

Agricultural Products

At the macroeconomic level, the agricultural sector is viewed as one of the major industries of the economy of Kazakhstan with a tremendous production and export potential. The destiny of

thousands of enterprises engaged in raw material processing, transportation, warehousing, and sale of agricultural products are dependent on the successful work of the sector. The domestic solvent demand is to a greater extent generated in the agricultural sector and other related sectors. Returns received on one Tenge invested in this sector are multifold.

Traditionally, Kazakhstan was always an agro-industrial country. The development of new virgin lands turned Kazakhstan in one of the largest producers of grain and meat in the territory of the former Soviet Union. During the same period of time, the industries and productions that supplied the agricultural sector with necessary products and goods and processed agricultural produce saw a steady development. Such developments resulted in the creation of the objective material prerequisites and laid down the groundwork for the formation of the agricultural and industrial complex of Kazakhstan as a leading part of its economy.

The following was noticed as a result of the undertaken analysis of the current situation in the area of production of agricultural products.

This sector accounted for 34 per cent of the GDP in 1990 which was the highest among the other material industries. The most advanced were grain production and cattle breeding. However, its share fell by 2.5 to reach only 8.4 per cent in the total GDP within the few recent years of reforms (see Table 1).

Table 1: Dynamics of the Major Indicators of the Agricultural Sector of the Republic of Kazakhstan

	(in %)					
	1991	1993	1995	1996	1997	1998
Gross agricultural production in percent to the annual average for 1986-1990	104.3	103.9	68.1	61.7	64.2	52.0
Agricultural gross added value in per cent to GDP	29.4	16.4	12.3	12.2	11.0	8.4
Workforce engaged in agriculture in percent to the total population actively engaged in the economy of the country	43.6	43.6	44	44	44	44
Production of the major agricultural produce items:						
grain in net weight after processing, million tons	12	21.6	9.5	11.2	12.3	6.4
cattle and poultry in live weight, thousand tons	2,573	2,231	1,774	1,541	1,346	1,206

The cattle livestock was 3,999 heads in 1999 which is in line with the same indicator for 1940, whereas the grain production reached the levels accomplished in 1958. All these influenced the industrial production: meat (at the level of 1946), textile (at the level of 1959), cotton fibre (at the level of 1960), cooked meats (at the level of 1940), mineral fertilizers (at the level of 1950).

The export potential of the agricultural sector fell significantly. In 1998, the total export of grain was a mere 2.5 million tons, whereas Kazakhstan was able to export from 10 to 12 million tons in its best years.

Accordingly, the revenues of agricultural enterprises and the rural population contracted. If in 1985, the average wage of a rural worker was 91 per cent of the average wage of an industrial worker, it fell to 31 per cent in 1998 to equal 3.8 thousand Tenge per month. This is practically sufficient for only one person to live on. Whereas the family coefficient in the rural areas is 4.2. The gap between

income made by the most well-off and the most poor grew from four to eleven times according to the official statistics. If in 1996, the income that fell below the living minimum was made by 35 per cent of the rural population, it rose to reach 43 per cent in 1999. At the same time, over 15 per cent of the rural workforce is classified unemployed according to the official statistics. The issue of unemployment is particularly acute in towns and industrial communities, and rural areas where enterprises are the major pivots of life.

Problems in the agricultural sector produce a certain impact on the development of the majority of the other sectors, such as industries, transport, construction and social welfare. In particular, the drop in the industrial production related to the agricultural sector has been observed recently to proportionally correlate with the contraction of the agricultural production.

The abandoned state of the arable lands, progressive aggravation of the epizootic situation in the cattle breeding, outdated machinery as well as insolvency of the majority of agricultural enterprises caused the Government to annul 50 per cent of the major debt of agricultural producers in the amount of 26.2 billion Tenge for 1996 or US\$389.3 million.

The aggregate measures used to support the production of grain of cereal crops, potatoes, corn, sugar beets, fruit, cattle and sheep breeding was 4.0 billion Tenge or US\$53.6 million in 1996, 1997 and 1998.

On the whole, the aggregate measures of agricultural support for 1996 were 33845.3 million Tenge, for 1997 - 80002.4 million Tenge, for 1998 - 95678.2 million Tenge.

The decline in the total production of agricultural produce and food products in the industrial sectors exacerbates and puts at stake the food security of this country. The total consumption of food products reduced twofold within the years of reforms. The share of imported food products as known officially (butter, margarine, canned meat, cooked meats) exceeds 40-60 per cent in terms of consumption.

Low quality remains to be a major problem in the basic processing industries, and low solvency demand - in the food industry. A major impediment in the area of production of beverages and confectionery is sale of illegally imported and counterfeit products that promote unfair competition and undermine the goodwill of the national domestic producers. The tendencies that emerged and were characteristic of the reforms still could be observed in the agricultural sector of this country in 1998.

The decline in the volume of production of all types of products was 18.9 per cent as contrasted with the year of 1997, including the grain production - 48 per cent, cattle and poultry slaughtering - 10 per cent, wool - 29 per cent, and potatoes - 14 per cent.

Given budget deficit, the only way to cover expenditures and spending is to reduce the production costs. The food industry, being one of the end-users' and having a high rate on capital returns, may become a source to revive the economy of this country, create new jobs, transfer of capital from trade into industries and, consequently, into agriculture.

Therefore, the current hard situation in the agricultural sector observed at the moment, the appearance of the conditions necessary for rehabilitation of production and its normal operation and sustainability, the export potential of the agricultural sector and formation of the premises, enabling the Republic of Kazakhstan to participate in the world trade system, require:

- to ensure the level of sufficient tariff protection, particularly in respect of those groups of goods that are crucial for the food security of the country and for the growth and increase of the efficiency of the agricultural production in this country;

- to use Special Safeguard Measures in respect of certain goods of Groups of Goods 02, 04, 15, 16, 17 in case of necessity in accordance with Article 5 of the Agricultural Agreement; and
- to provide for measures of domestic support and export subsidies.

Other Goods

The costly social and economic system of the former Soviet Union handed down a chronic budgetary deficit that used to be covered by additional monetary emissions. Such measures did not lead to hyperinflation under the planned system of pricing; however, now, inflation is coming down with all its strength on the existing enterprises, businesses and population with price liberalization and severance of the former economic ties being propitious for such developments.

Certain negative phenomena in this economy broadened the budgetary deficit. The problem of the growing budgetary deficit is becoming particularly acute under the conditions of unfavorable competition in the world markets. This was inherited from the former Soviet division of labor that caused the member national economies to become narrowly specialized with this national economy specializing in certain types of exported goods, primarily raw materials. The geographic location of Kazakhstan does not provide favorable conditions for keeping certain products competitive. Therefore, the Government is forced to provide tariff holidays to certain industrial enterprises on railroad and other types of transportation to reduce the impact of transportation costs on the competitiveness of domestic products and goods.

The economic reforms began in Kazakhstan at the time of political instability and economic crises. This resulted in a dramatic decline in the production of goods and services in all sectors of this economy (Table 2).

Table 2: Dynamics of the Major Indicators in the Republic of Kazakhstan

	1990	1995	1996	1997	1998
GDP in Real Terms to the previous year	x	91.8	100.5	101.7	98.2
GDP in real terms to 1990	100	61.4	61.7	62.7	61.6
Industrial Share in GDP	20.5	23.5	21.2	21.4	23.8
Number of Industrial Enterprises	19,796	17,924	17,156	15,791	13,676
Industrial Production in percent to the previous year	99.2	91.8	100.3	104	97.6
in percent to 1990	100	48	48.2	50.1	48.9
Number of Industrial Workers in percent to 1990	100	75.5	67.4	59.2	55.7
Price Index of Industrial Goods in percent to the previous year	104.4	240	123.8	115.5	100.8

The most rapid drop was noted in the processing industries - light, chemical and petrochemical industries, machinery building and metal processing, construction material industry (Table 3).

Uneven contraction in production in the sectors as well as varied dynamics of the prices for their products have resulted in a number of significant changes in the industrial structure of Kazakhstan for the last years. The shares of the industries related to oil extraction and processing, gas processing, products of the ferrous and non-ferrous metallurgy increased (Table 3).

Table 3: Industrial Structure of the Republic of Kazakhstan

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Industry, Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Electric Power	5.3	5.0	9.3	17.7	18.9	16.1	15.2	13.5	16.7
Fuel Industry	10.2	7.5	19.5	15.4	21.9	25.0	20.0	27.1	21.1
Including:									
Oil and Gas	4.1	4.4	12.6	9.9	13.0	16.8	14.2	17.7	17.7
Coal Mining	6.1	2.9	6.9	5.5	8.9	8.2	5.8	9.4	3.4
Ferrous Metals	6.1	5.5	10.7	10.0	11.9	15.1	10.7	12.0	10.0
Non-Ferrous Metals	9.5	8.6	17.0	12.7	12.0	11.8	11.8	13.7	13.4
Machinery Building and Metal Processing	15.9	11.0	8.5	10.2	7.3	7.4	7.1	5.0	3.6
Chemical and Petrochemical	6.3	6.0	7.6	3.7	3.7	3.8	3.6	2.1	1.6
Construction Material Industry	5.6	4.8	6.4	5.5	4.1	3.7	2.9	2.2	2.3
Light Industry	15.6	17.0	6.4	5.9	3.8	2.4	2.4	2.1	1.9
Other Industrial Productions	25.5	34.6	14.6	18.9	16.4	14.7	26.3	22.3	28.1

A decline in investments in fixed assets in the whole economy of this country was seen in 1990-1998. High rates on short-term credit resources and lack of long-term credits due to high risks in the real sector facilitated the outflow of investments from the production sector into the sector of trade and investments made in state securities.

Lack of investments in the industrial sectors on the whole and their primary use for the purpose of development of the mining sector caused technological retardation in all processing industries. An analysis of use of production capacities shows their insufficient use, in particular by processing enterprises. The average use of the available production capacities is only 56.4 per cent in the metallurgy sector, oil transporting - only 43.7 per cent, food product production - only 25.6 per cent, textile and clothing sectors - only 21.7 per cent. Less than 10 per cent of the capacities were used in the machinery building, chemical industry, wood production and wood item production, paper, cardboard producing industries and publishing.

The production potential of the industrial sectors is hurdled from growing by lack of turnover capital, a drop in the production of agricultural raw materials, low solvent demand of the population, pressure from the legal and shadow imports.

For instance, the low solvent demand forces the population to buy cheaper and low-quality of industrial goods. Under such conditions, industrial consumer goods produced in Kazakhstan are not able to compete with cheap goods imported from other countries, where their production is subsidized by governments. The capacity of the Kazakstani market of non - food products is two times smaller than that of the production market, and it comprised US\$1.5 billion in 1997 and US\$1.6 billion in 1998. Light industry products (49 per cent), furniture and consumer items (16 per cent) account for the biggest share in the market. The volume of produced non - food products produced domestically accounts for (US\$150-200 million), and the non-food market is saturated for more than 90 per cent because of imported products.

Statistically registered importation of non-food consumer products accounts for US\$600-700 million a year. The rest products, which accounts for almost US\$2 billion is imported through the shuttle import and by way of smuggling. Clothes and footwear (24 per cent), motor cars (22 per cent), radio and television appliances (18 per cent), furniture (eight per cent), soap and detergent (six per cent) dominate among registered imports.

Export of non-food (industrial) consumer products does not exceed US\$100 million a year. Almost all products are exported to the CIS countries.

The basic reason of the reduction of the domestic production of the light industry products consists in decreasing of their competitiveness in comparison with the products, which are imported by way shuttling.

The situation in the light industry is still deteriorating. In comparison with the other branches of industry, the production slump in this industry was a most significant one for the last five years (Table 4).

Table 4: Light Industry Production Volume

Indicator	MU ¹	1993	1994	1995	1996	1997	1998	1999
Light Industry Products in Current Prices	billion Tenge	1.3	12.9	16.5	17.5	17.2	13.1	17.98
In US\$	million dollars	503.9	360.7	270.8	260.1	228.1	167	150.3
In Prices for 1993	billion Tenge	1.3	0.7	0.3	0.4	0.3	0.3	0.3
Fabric	million square meters	188.1	107.1	31.1	28.4	19.6	12.7	12.5
Carpets and Articles Thereof	million square meters	1.4	0.7	0.2	0.2	0.2	0.17	0.15
Leg-Wear Garment	million pairs	71.5	41.0	11.5	6.0	4.0	2.4	0.89
Cattle Leather	thousand square decimeters	276.6	72.4	18.9	16.4	3.8	3.6	1.7
Footwear	million pairs	16.2	7.8	2.1	1.5	1.1	1.1	0.8

The problems of raw material supply of the light industry, inability of its products to compete with the imported goods resulted practically in a full collapse of the industry. Currently, its share in the volume of products of the whole industry is 1.8 per cent and, over the years of reforming, it has reduced by 10.7.

The undertaken reforms and measures aimed at financial and economic rehabilitation of insolvent enterprises, toughening of the requirements to insolvent enterprises, their bankruptcy and liquidation could not stop the process of deterioration of the financial position of such enterprises.

More than a half (51 per cent) of the enterprises and organizations that submitted financial reports came to the end of 1999 with negative financial results. Their total losses came down to 31.4

¹ MU- Measurement Unit.

billion Tenge, including the mining industry, where the share of loss-making enterprises and amount of losses reached respectively 48.3 per cent or 4.2 billion Tenge, the processing industry - 50 per cent and 9.3 billion Tenge, power production and distribution, gas and water supply - 60 per cent and 8.8 billion Tenge, transport and communications - 65.4 per cent and 5 billion Tenge. The number of loss-operating enterprises by region ranges from 20.3 per cent in the Atyrau Oblast to 69 per cent in the Akmola Oblast. As of the end of 1999, enterprises and organizations in the Karagandinskaya Oblast made losses of 6 billion Tenge, in the Kostanaiskaya Oblast - 1.4 billion Tenge, in the Akmolinskaya Oblast - 1.3 billion Tenge, in the Aktubinskaya Oblast - 1.1 billion Tenge, in the Jambylskaya Oblast - 1 billion Tenge, in the Northern Kazakstanskaya Oblast - 813 million Tenge, and the Almaty Oblast - 356 million Tenge.

The typical problems of many big Kazakstani enterprises are as follows:

- low liquidity of products due to low competitiveness, because of higher prices in comparison with the prices for similar products produced in other countries, both in the domestic and foreign markets;
- insufficient measures on the protection of the domestic market - import of subsidized goods or goods sold at dumping prices, which are analogues to goods produced by domestic producers;
- restrained financial and economic situation of the majority of enterprises, lack of turnover funds and investments in the development of production; and
- high transportation costs that reduce the competitiveness of domestic goods.

The rampant extensive development of the mining industries with a major purpose to export raw materials contributes another disrupting element to the current high instability caused by a growing dependence on changes and developments in the world markets.

The results of the work of industrial enterprises showed that Kazakhstan, being a part of the world economy, can be influenced by the impact of the world "price shocks". Thus, as a result of the price fall at the world markets, the volumes of production of export oriented products have sharply decreased. First of all, this is influenced the oil and gas sector and non-ferrous metallurgy. The biggest losses have been incurred by such metallurgical giants as JSC "Ispat- Karmet", JSC "Ferrocrom", open JSC "Kazztink", JSC "Kazakhmys".

The machine building industry takes the special place in the development of economy of any country, because this branch of industry is of a bigger prospective in the terms of production development up to the fourth and the fifth limits.

The financial position of enterprises of machine building complex during the last several years was very tight due to non-adjustment of economy to new market conditions at the time of economic reforms as well as due to the loss of traditional consumer markets. The machine building branch of the industry has been formed taken into account regional specific of the needs of the former Soviet Union, and it was not oriented to meet the needs of the economy in basic types of machines and equipment, that was the reason of the "one-sided" development of the branch of industry.

The Government of the Republic intends to implement the policy of support and stimulation of production in the machine building industry in order to use the available production capacities and meet the needs of oil, energy and agricultural sectors and other related branches of the industry in equipment and spare parts.

After the collapse of the former Soviet Union, Kazakhstan depends from the import of pharmaceuticals, that, in combination with financial deficit, which arose at the stage of transition to the market economy and due to the breakdown of economic ties between CIS countries, resulted in significant deterioration of supply of the population with pharmaceuticals. According to USAID

report, the cost of pharmaceuticals in Kazakhstan in comparison with 1993 was increased by 154. The absence of a highly developed domestic pharmaceutical production appeared to become a significant social problem.

The pharmaceutical industry of the Republic is characterized by production of substances of plant and animal origin, as well as the simplest pharmaceutical forms: tinctures, extracts, liniments, mixtures and others. Production of modern ready made pharmaceutical forms such as pills has been recently initiated.

Products such as: oil, gas and a limited number of products of ferrous and non-ferrous metallurgy are the only basic source of financial and currency receipts to the economy of Kazakhstan. Revenues from export of these products forms a revenue article of the republican budget in great extent

Developed in the former Soviet Union, the Kazakstani oil refinery was conceived from the technical and economic stand point as part of the oil sector of the whole economy of the former Soviet Union. That is why production of kerosene (aviation gasoline), winter diesel fuel, lubricants is not enough developed.

Crises at world oil market considerably worsened the position in the oil and gas sector. It has influenced the financial stability of the country, because the revenues of the oil sector of Kazakhstan comprise 30 per cent of the receipts to the budget.

The process of integration to the world economy is slow due to the absence of possibilities to offer wide assortment of goods of top quality for foreign buyers as well as due to insufficient use of the potential of the country to develop trade with other countries.

Thus, we can define three big categories in our offers.

The first category of goods includes textile and light industry products (clothing, footwear, etc.). As stated above, the light industry and production of consumer goods in this Republic remains crisis-stricken. In respect of goods of the this category, we offer to bind the rates of import customs duties at a relatively high level to ensure the adequate protection for domestic producers. It should also be noted that the rates of import customs tariffs for textile, clothing, footwear, leather, Indian rubber, transport equipment, fish and sea products in the WTO member countries that account for a larger share of the world trade in such goods changed insignificantly after the Uruguay Round and remain relatively high.

As to the second category of goods that includes bigger part of tariff lines, we offer to bind the tariffs at a lower level. This includes mineral raw materials, products of the ferrous metallurgy, chemical and wood processing industry, equipment, pharmaceutical products and others.

The third category of goods (natural gas, tires, carpets, etc.) relate to domestic production that are the starting bases for the development of certain sub-sectors and enterprises, producing such goods, are among the major urban development factors. We offer to leave such tariffs unbound. These tariffs account for 2.5 per cent of the total number of tariff lines.

During the transition period, the state cannot completely relieve itself of the burden of responsibility for the producing sectors of the economy. Therefore, it is necessary to develop a system of state measures to include measures aimed at rehabilitation of the industries and diversification of their production.

The state works towards a gradual growth of the share of added value in the total volume of exported products, substitution of exports of raw materials with better processed products.

This will also allow to solve the problem of growing unemployment and income of the population, to increase the solvent demand.

The period of transition should also be viewed as a period of preparation to integrate the economy of Kazakhstan into the world market and to allow businesses to acquire necessary skills to strive and survive in open markets.
