

KAZAKHSTAN CURRENT CONSTRUCTION TRENDS WEBINAR

TRANSCRIPT

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Australian Government
Australian Trade Commission



TRANSCRIPT

R Tinazzi: Welcome and thank you for joining us for the Kazakhstan current construction trends webinar.

My name is Romina Tinazzi and I'm speaking to you from Austrade in Sydney.

Before we get started, I would just like to take you through a few housekeeping items. In order to reduce background noise all microphones will be muted during the webinar apart from the person speaking. Please note that audio quality might fluctuate during this webinar. At the end of the session the panel will be taking questions. In order to ask a question, you simply type your question in the space provided as shown on our next slide [@0:38].

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I would now like to introduce Natasha Smirnova, Business Development Manager from Austrade in Moscow. Over to you, Natasha.

N Smirnova: Good morning and afternoon, everyone who joined us today. My name is Natasha Smirnova. I am the Business Development Manager of the Austrade office in Moscow.

Today we would like to talk to you about Kazakhstan construction market.

I'll probably give you a short brief on what the Kazakhstan economy is currently having at this stage. Kazakhstan is

the largest of the Central Asian republics and the 9th largest country in the world, covering some 2.7 million square kilometres. It is bordered by Russia to the north, the Caspian Sea to the south-west and Turkmenistan, Uzbekistan and Kyrgyzstan Republic to the south, and China's border to the east.

In 1998 the capital was moved from Almaty to Astana, to the northern city. Kazakhstan is a presidential republic where the power sits almost entirely with the president.

Kazakhstan is Australia's leading trading partner in Central Asia. However, the level of trade between Australia and Kazakhstan remains pretty modest. Two-way merchandise trade in 2014 was only worth A\$22 million. Australian exports to Kazakhstan were worth \$19 million, consisting principally of manufactured goods. Imports from Kazakhstan worth A\$2.3 million consisted mostly of pig iron. Some trade is handled through intermediate markets such as Russia, China and Netherlands.

Australian investment in Kazakhstan totalled \$106 million in 2014. There are several Australian companies active in Kazakhstan and that includes WorleyParsons, Iluka Resources, Warnecke, Ausenco, Jupiter Energy, Gloria Jeans Coffee, Rio Tinto and SMEG.

In addition to this group, Macquarie has an interest in Kazakhstan through its A\$130 million Macquarie Russian GIS infrastructure fund.

Australian Minister for Trade and Investment, Steven Ciobo, then Parliamentary Secretary to the Treasurer, visited Astana to attend the 47th Asian Development Bank annual meeting in May 2014.

Talking about Kazakhstan's economy, it performed strongly over the last decade and was powered by booming mineral

and energy exports and facilities with some economic reform, foreign investment and mostly good harvests.

According to IMF, Kazakhstan sustained an average growth of GDP from 2001 to 2007 and obviously, that slowed down during the global financial crisis. The GDP growth was about 4.4% in 2014. Kazakhstan's nominal GDP per capita exceeds its Central Asian neighbours and is comparable to Russia's.

For historical and obviously geographical reasons, including the natural resources, Kazakhstan's economy is closely tied to Russia, which remains its largest import partner.

Kazakhstan is a member of the Eurasian Economic Union along with Russia, Belorussia, Armenia and Kyrgyzstan.

The major factor that is affecting Kazakhstan's economy is the exchange rate that has fallen sharply over the past few decades, which you can obviously see on the current chart [5:07]. Low oil prices and weakening demand from China and Russia affected export revenues and GDP growth slowed down to 0.9% in 2015. The trade surplus narrowed and household consumption contracted by approx. 2% in 2015.

Despite the pressure on Tenge rates from dropping oil prices, the Kazakh government introduced the floating exchange rate in August 2015. As a result, Tenge devalued 100% in August that year and continues to be extremely volatile now. Right now the Tenge is in free-floating condition and we expect to go for a number of years as such. Kazakhstan's decision after tumbling oil prices and sanctions over the conflict in Ukraine drove the Rouble down and it was obviously one of the major effects that impacted on the Tenge devaluation.

Kazakh government made a number of changes to the currency regulation and president Nazarbayev said that the country's reserves must be saved and exporters will be consulted on selling their foreign currency income to the government.

While most economic indicators for Kazakhstan are tied to both oil prices and dependence on the Russian economy, there are some green shoots. A number of stimulus packages were put in place and thanks to these government measures we expect that GDP growth will continue to happen in Kazakhstan over the period 2017-2022 and the average forecast for 2016 is something like 1.5%.

Government spending was cut by 8% in 2015 but it did not touch the infrastructure investments, which we will talk about later.

The Chinese investment flow remains into Kazakhstan. It's probably also worth mentioning that Kazakhstan became a WTO member in November 2015 which also may assist to attract more FDI into the country's economy.

As mentioned before, there are two stimulus packages put in place, both from the national fund, two years started in 2015: a \$5.4 billion program to support small and medium exporters and the second was \$3 billion on annual basis targeted at infrastructure.

Now let's talk more precisely on what is happening on infrastructure and construction markets.

According to the statistics provided by BMI, Kazakh government continues active implementation of infrastructure projects and to diversify sectors of the national economy and minimise dependence on commodities exports.

Kazakhstan being the largest land-locked country in the world wants to exploit its geographical location between China and Russia, with China's steady demand for natural resources and Russia a rich source of these natural commodities. Comprehensive measures developed by the government are aimed to upgrade the entire transport system, which should significantly improve the quality of Kazakhstan sector by 2020.

The prime and ultimate goal for the Kazakh government is to increase the transport network, spread across the country from north to south and from west to east. Recent Kazakh government investments allocated money for 57 transport infrastructure projects which include road, rail and aviation. Something like \$20.8 billion were put into the construction projects, two of them by 2017. I should admit that Kazakhstan roads have been very poorly managed and according to the global comprehensive report in 2014-15 it has obtained only 3.1 score, which is the worst in the world in terms of the quality of the roads infrastructure in Kazakhstan.

The World Bank ranked the number of projects in Kazakhstan over recent years and one of them supports the implementation of the south-west roads project, the largest infrastructure project in Central Asia and one of the largest single investment loans in the World Bank's history.

The major investment focus is given to upgrade of the railways, modern roads and transport infrastructure. As I mentioned before, the quality of the country's transport network requires serious repair and upgrade and new build. It is planned that 16,000km of roads should be built or refurbished by 2020.

China's economic growth and its tightening connections with Europe have put into demand a construction of new international highway, which is known as Western China-

Western Europe. A land transit time should be reduced by threefold versus current sea transportation routes. It is expected that the volume of cargo shipments through Kazakhstan will be doubled within the next ten years.

Construction of the Khorgos dry port (the one you can see on the right bottom of the slide [@11:44]) began in 2014 and it will operate as a special economic zone. It is bordered with China.

The National Railway Company of Kazakhstan, Temir Zholy, is partnered with the Dubai Port on this particular project.

A new transportation route also connects Aktau seaport on the very western part of the country with the European connection.

Horgos East Gate Logistical Complex is planned to become the largest logistical centre in Central Asia and we believe that these developments should allow Kazakhstan to progress with the new Silk Road project and further capitalise on the geographical location between China and Europe.

Railway infrastructure is also seen as a sector requiring major investment. Many railroads projects are either under construction or have been planned.

It's worth mentioning that in March 2013 SYSTRA, a French company, won the contract for design and construction supervision of the first high speed rail between Astana and Almaty. Unfortunately, at this stage, implementation of the project has been postponed due to the financial crisis.

A new financial establishment, the Asian Infrastructure Investment Bank, which is expected to start its operations later this year, is also becoming the largest infrastructure investor into the region. Many infrastructure projects in

Kazakhstan are to be financed by the Asian Infrastructure Bank in the very near future.

Talking about the major developments driving civil construction, it's worth mentioning Government Infrastructure Development Plan which is aimed to diversify the economy and boost the construction sector. The timescale for this project is between 2014 and 2022. Geographical areas attracting major investments are obvious: Astana being the main political and commercial centre with a fast-growing population and Almaty and the region around the second largest city in Kazakhstan.

Additionally, President Nazarbayev named Shymkent the city in the south of the country and Aktau on the north-west as future urban centres in Kazakhstan. Previously undeveloped regions largely contribute to the growing construction output.

According to Kazakh government report, US\$1.8 billion were invested in housing construction in 2015, despite all the current financial turmoils, whereas major funds out of that \$1.8 billion came from private investors.

Again talking about the significant rise over the years, the dollar exchange rate is now merely 370 Tenge per dollar versus 170 in 2014. A demand for residential property remains very unsatisfied.

Though mortgage conditions become less affordable, the population, especially young families, are ultimately looking for an opportunity to improve their housing facilities. Residential and non-residential construction attract major commercial investment, focusing on developments in Astana as the capital city; besides, Astana will be hosting Expo 2017. Construction budget for Expo 2017 was estimated as \$360 million. Again, major finance is provided by the state.

There are a number of large residential development projects in Astana that include, for example, accommodation for students at Nazarbayev University. Astana's airport will be doubled in size in preparation for Expo. Development includes runways and a new passenger terminal.

Additionally, Abu Dhabi Plaza construction project is part of the capital preparation for Expo.

UAE investors have signed an official agreement with the Kazakh government and multifunctional complex will consist of a number of towers including the tallest building in Central Asia. I'll let our speaker, Bill Parker, talk about this project later on in his presentation.

I'll move now to Almaty, the second largest city in Kazakhstan, which also enjoys massive construction projects. Many sporting venues are being built towards the hosting of the Winter Universiade in 2017 and will include such constructions as ice dome, ice arena and athletes village.

There is an interesting project which I would like to mention, called the Golden City. Estimated value of it is around \$22.5 billion including private investment. G4 stands for Gate, Golden, Growing and Green Cities. Project includes construction of mixed use facilities and Australian company KANNFINCH produced a master plan. At this stage the project is at the planning stage and it is expected that the execution is to happen in 2017-2032.

Almaty new airport has been approved by the president of Kazakhstan, again aiming to enhance Kazakh intentions to become a major transportation hub in Central Asia. Samruk Kazyna Wealth Fund is the main national investor. Additionally funds were allocated for an Almaty airport

upgrade and construction of the new terminal and reconstruction of existing runways.

I've tried to provide you with a very quick snapshot of what is happening with the major construction activities in Kazakhstan and we can talk about those projects and smaller one in greater detail if you wish. I just wanted to draw your attention to the number of events that happen in Kazakhstan. Probably it's best for the newcomers, it's worth considering them, the two largest expos, one in Astana, one in Almaty.

Austrade continues to provide tailored services and visit programs for clients.

Underlining my presentation, we believe that there are certain opportunities for Australian clients in construction and infrastructure sectors, laid down in design construction and cutting edge sustainable technologies for these particular industry niche areas. Obviously, Kazakhstan is looking for new, energy-efficient products and technologies, services resulting in more efficient use of water resources, and some products and technologies in sports and cultural facilities development and management.

Austrade's office in Moscow looks after Kazakhstan market. We try to visit the country pretty often. Last year our STC and BDMs were there at least four times accompanying clients. As Austrade always does in every country it represents, we try to provide information on local business practices and regulatory environment. We would love to help you with market intelligence and business opportunities. As always, we are keen to assist you with identification of potential partners and if you are thinking of visiting the market, we are more than happy to assist you with that.

I think I'm done with my presentation at this stage. I'd be pleased to answer your questions at the end of our session and right now I would like to pass over the microphone to our speaker, Mr William Parker.

W Parker:

Good morning and good afternoon or good evening in Australia, everyone. My name is William Parker, or Bill. I was the project director for the Abu Dhabi Plaza Project that Natasha referred to just previously. I joined that project in August 2013 and completed the design build section of that in 2015. I'm now working back in Dubai.

My company CCC has been operating in Kazakhstan for almost 20 years, primarily in oil and gas and later in buildings. Abu Dhabi Plaza is the first major building project undertaken and with it came the challenges of working through minus 50 degree winters with construction technologies and techniques. To that end, we were working with systems and equipment developed from projects in such fields as Vladivostok, New York and Europe where similar conditions of extreme winters occur.

Abu Dhabi Plaza Project is a US\$1 billion construction development in the capital Astana. It was shown in Natasha's slide. There are five towers. It's being developed by Aldar EuroAsia from the UAE under a joint government agreement between the UAE and the Kazakh governments. The governments are quite close in their co-operation so the project is on what's known as a 'green axis' between The Baiterek, the central monument of the capital city Astana, and the Expo 2017 development.

The project has five towers, two residential towers, two office towers, a hotel and serviced apartment tower. The 78-storey tower is a mixed office and residential building. The towers sit above a four-basement car park and two shopping levels. As it says [23:44], it's a cornerstone of the Expo 2017 program.

The capital of Kazakhstan, Astana, has grown dramatically. As Natasha has mentioned, 20 years ago it was a village of 15,000 people; today it's between 700,000 and 800,000 people and it has had many developments through that period in creating the government, parliament and offices, plus the heart of the new city.

The key initiatives the Kazakh government is undertaking are to encourage foreign companies setting up business to grow, supply or manufacture locally and regionally. An example of that, other than the companies that Natasha mentioned, is that in the northern part of the country there is an Australian beef farming industry which has grown up in conjunction and in joint venture with the Kazakhs.

Secondly, to encourage foreign companies setting up agencies with local partners to trade in goods, materials and equipment for the local market. What we saw in the year and a half or so that I was on site was a lot of European companies which had already set up businesses manufacturing in Kazakhstan; things like gypsum plasterboard, concrete products and so on.

Where do the materials and services come from now? Apart from the home-grown materials, Russia is the major supplier, Turkey is a very major supplier, China is a supplier of manufactured goods, and Europe of specialty goods, e.g. aluminium façade windows and glass are coming from both Europe and Russia; portable buildings, machines and equipment come out of Russia and Turkey and China. So there is a diverse opportunity in supplying the goods that are required to grow this economy.

What are the challenges? Distance. As mentioned earlier, Kazakhstan is the largest landlocked country and it's the next largest country after Australia. Road or rail transport through Russia, Iran, Europe or China are how goods and services come into Kazakhstan and/or through, and the

winter transport is primarily by rail. As Natasha mentioned, the road transport system is not up to managing the full winter delivery of materials and goods, so at the moment it's coming by rail until these new road projects are completed.

There are some freeway systems running north from Astana into Russia, to Yekaterinburg and so on, but coming up from the south the road systems are not so good.

The climate is rather dramatic at times - plus 40 in summer to minus 50 in winter. That, of course, has its issues in terms of the logistics and the suitability of the products that are utilised both in construction and then in their final use.

Home-grown manufacturing is a very important part of what the Kazakh government is trying to do and when we were sourcing products for the project in Astana for Abu Dhabi Plaza all of the products I've listed on this slide [27:48] were available within the country, not necessarily available for a 78-storey tower because the manufacturing has principally been related to lower rise buildings, etc. but certainly plastics, concrete products, aluminium and glass, plasterboard - there is a big factory near Almaty for plasterboard, local brick and block manufacturing and there is a steel plant in Pavlodar not far from Astana.

What's important? All waterproofing materials, the membranes and so on, glass, any manufactured metal products, ceramic tiles and porcelain, quite a lot from Europe and China, flooring materials, timber, carpet, vinyl, coming from Western and Chinese sources.

The government is very conscious of developing their local manufacturing and NADLOC (the National Association for the Development of Local Content) was quite keen to assist us with getting products into the market from their own manufacturing into the project. Where we could, we

managed that process to support local industry. They wished to develop beyond the current industry to produce more local sourced raw materials and products.

Government incentives - the Kazakh government is advertising for the tax breaks and subsidies for development of industry within the country, which Natasha mentioned earlier.

One of the issues with local products is making sure they meet the European standards. At the moment, the current standards are essentially the ex-Soviet or Russian standards.

The currency - one of the challenges for us over the period of the project, which has now been running since mid-2013, has been the rapid devaluation of the Tenge and Natasha has given an even more up to date number of the Tenge at 350 or 360, I think. What has that meant for us? For our imported materials not such a great deal because we're importing from Europe and the Middle East for the project. For local materials, quite a lot of local materials the prices have risen so we have to be wary in managing that.

Local costs - the cost of operating locally has risen in relative terms but given self-sufficiency in foodstuffs and raw materials the impact has been more heavily felt in the imported goods.

Thank you. That is the end of my presentation. [@31:02]

R Tinazzi:

That's the end of the formal part of the presentations today. Now there is an opportunity for our audience to ask any questions. Please feel free to type your questions in the space provided on your control panel, as shown on this screen, and as they come through we'll read them out.

I'll now ask Natasha if she already has any questions that she would like to read out to Bill.

N Smirnova: Yes, I think there is a number of questions I would like to ask. May we have the first question?

R Tinazzi: Natasha, I have put through a question that has arrived from the audience. If any other questions have come through to you you're more than welcome to read them out so we can answer them.

N Smirnova: I can't see the question on my screen. I'm not sure if there is an update.

R Tinazzi: No, they're not on the screen. Do you have them handy?

N Smirnova: This question is for Bill: From your point of view, Bill, what does the Kazakh regulatory system look like where there are Kazakh sustainable development regulations in place?

W Parker: I think the answer to that question is Kazakhstan is very much still in the post-Russian phase of developing their own individual answer to sustainable development. Recently, they inaugurated a green building council in 2014-15. The systems are very much bureaucratic and oriented towards the Russian system of regulation. They are trying to develop that into a more web-based system but it's taking some time.

N Smirnova: Thanks a lot for that. I fully agree with this. From your point of view, do you believe that Kazakh authorities are trying to make their regulatory system corresponding with international standards or do they desire their own standards?

W Parker: I think the answer to that is twofold.

As more international projects are coming on board, both European and American standards and British standards are being incorporated into the requirements. For example, with Abu Dhabi Plaza Project, we had to manage to meet international standards and where they conflicted with or overran the original Russian standards which Kazakhstan

had been operating under we were able to demonstrate that this was a more modern and more suitable approach, and that was accepted both by the government and by local government in the [35:46] and with the systems of managing building control.

N Smirnova: Thank you. I probably have a very interesting question for you. For you as an Australian who operated in Kazakhstan for quite a while, and were involved in a very specific construction activity, what was your understanding or general perception of Australia in Kazakhstan? Do you believe that Australian expertise in this construction and relevant sectors was recognised in the country?

W Parker: I think it's a very interesting question, because the Kazakh has an educational program for the young people which offers young people the chance to study and learn overseas in graduate and post graduate. Many of the young people in Kazakhstan whom we worked with were quite fluent in English, quite educated and aware of Western society.

Australia was still mostly seen, that I could imagine and my perception is as that big land down the south with strange animals and people. When I was in Kazakhstan living there, there were only four of us on the project from Australia. As I mentioned before, I met one of the guys who managed the beef facility up north and I also met another chap, an Australian of Russian origin, working with the World Bank programs.

I don't think there's a huge exposure yet to Australia but when you mention, Natasha, the likes of Orica and the other companies from Australia operating in the oil and gas and chemical sectors, then maybe I'm just not in touch with that part as well; but certainly from construction we're a bit of a novelty, to be honest.

N Smirnova: Thank you. Probably the last question I currently have would be what is your view, if you are to consider being an Australian exporter considering to enter the Kazakh market, what would be your natural steps to setting up business, to entering the market? What would you recommend for an Australian company to do at the very initial stage of entering the market?

W Parker: As I mentioned, Natasha, the gentleman I met who worked as an Australian auditor of World Bank projects made me aware of the ability to enter the market through both World Bank projects and European Redevelopment Bank projects, and as you've now mentioned the newly established Asia Development Bank.

I think these programs provide opportunities because Australia is part of the funding of those programs, in particular World Bank, of course, and I know they've committed to the Asia Development Bank, too.

So these programs would be a good step.

The setting up of a business in Kazakhstan, there is bureaucracy to go through but it can be facilitated through Austrade and other agencies there.

I think a stepping stone has to be worked through those established programs from the banks and/or through the major companies that are already operating, Australian companies that are operating in the region.

N Smirnova: Thank you, Bill. I don't have any more questions.

R Tinazzi: I do have some questions coming through, Natasha. I'll read them out if you don't mind. Some new questions have just arrived as well.

Bill, is there any form of regular supply coming from UAE to Kazakhstan - building materials in particular?

W Parker: There are a number of materials coming through from the UAE but they're specifically ordered from the UAE; for example, we brought the steel structure and some of the aluminium glazing and systems from the UAE. We've purchased other materials coming in from Turkey and from Europe. A lot of our construction equipment came from either the UAE or through Germany and Turkey.

There's a range of delivery channels. The transportation channel can be quite interesting because you either have to come in through the Black Sea and then through rail transport or through the Caspian, or you have the rather interesting road transport up through Iran, or via train through China.

R Tinazzi: Thank you, Bill. The next question I have is: We know that the relationship between Abu Dhabi and Kazakhstan is very strong. Is there any new potential for coming projects?

W Parker: I'm not aware of any specific government projects. I do know that the Abu Dhabi government has something in the oil industry there. I do know that there have been a number of commercial developments that CCC's jv partners NCC have been looking at within Astana. So I think there's an ongoing dialogue in terms of UAE investment and UAE companies working in Kazakhstan.

R Tinazzi: Thank you, Bill. I think I have another question. How easy is it to link through local partners for stocking in Almaty and Astana, for example?

W Parker: Because we were on the receiving end rather than the supply end, in terms of our supply of materials it was quite straightforward. Astana has an inland port and an inland customs service, and that was reasonably efficient. I believe the same is the basis in Almaty.

Through another colleague of mine here in Dubai, he works with a major retailing outfit here and they've been supplying

goods into Almaty for some years and are in the process of setting up their own outlets in Almaty and Astana, but that's more in retail rather than in construction.

R Tinazzi:

Thank you, Bill, for that. Let's see if we have any other questions. No, I think that's all we have for today.

I would like to thank the speaker first of all - thank you, Bill, for your availability today and thank you, Natasha, for organising this, and to our lovely audience who has participated.

I'm just letting you know that the material from this presentation, the recording and the slides, will be available on the Austrade website but we will let you know, let everyone who's registered know, when that's available to view and listen to it later.

Thank you once again for your time today. Have a nice evening.

[END TRANSCRIPT]