UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

Regulatory and procedural barriers to trade in Kazakhstan

Needs Assessment

International Trade Centre

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Note

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ECE/TRADE/407

Foreword

The International Trade Center (ITC) and the United Nations Economic Commission for Europe (UNECE) are pleased to present the needs assessment study of regulatory and procedural barriers to trade in the Republic of Kazakhstan. We would also like to express our appreciation to Kazakhstan's Centre for Trade Policy Development under the Ministry of Economic Development, which cooperated with both ITC and UNECE in preparing the study.

Trade can contribute directly to job creation and productive capacity development by stimulating investment and technology transfer. Some countries, including Kazakhstan, do not derive all of these possible benefits owing to their distance from global markets and owing to complex regulatory and procedural measures that inflate transaction costs and undermine competitiveness.

In Kazakhstan, such measures tend to create trade barriers of greater significance than tariffs. This study analyses these barriers in depth. It also makes practical recommendations for the Government to consider, in order to generate more inclusive and diversified economic growth.

ITC carried out a survey of non-tariff measures to ascertain which areas in the domestic business environment could be improved, and identify obstacles faced by companies in foreign markets. It also trained national experts on the implementation of the survey. For its part, the UNECE carried out a survey of regulatory and procedural barriers to trade using a detailed questionnaire that was attached to the ITC survey. The UNECE also carried out face-to-face interviews with relevant State agencies, service providers and trade support institutions using actor-oriented questionnaires based on its evaluation methodology. The UNECE also trained national and regional experts on the use of the evaluation methodology.

This study is especially timely as Kazakhstan's recent advances in regional and multilateral integration promise to create new opportunities for trade. Kazakhstan has been undertaking comprehensive reforms to ensure the successful implementation of its Customs Union with Belarus and the Russian Federation and to achieve complete adherence to the World Trade Organization-administered multilateral trading system.

We hope that the recommendations proposed in this joint report will provide an impetus for further improving the regulatory and procedural framework that governs export and import activities in the Republic of Kazakhstan.

Michael Møller
Acting Executive Secretary
United Nations Economic Commission for Europe

Arancha González
Executive Director
International Trade Centre

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Preface by the Secretariat

The Executive Committee (EXCOM) of the UNECE recommended at its thirty-fourth session in February 2010 that the Committee on Trade carry out three trade needs assessment studies in selected UNECE member countries and/or sub-regional groupings with economies in transition.

These studies focus on procedural and regulatory barriers to trade in goods, with an eye to on-going development efforts in the areas of trade facilitation, technical regulations and standardization policies. The findings of the studies will be used to: assist countries in their efforts to achieve greater regional and global economic integration; inform donors as to where assistance might be required; and strengthen policy discussions within the Committee on Trade and its subsidiary bodies on where additional work is required.

This study summarizes the findings of the second UNECE trade-needs-assessment, which focuses on the Republic of Kazakhstan. The study was conducted in 2011-2012 pursuant to a request by the Government, and is based on a review of trade facilitation and quality assurance development efforts leading up to the establishment of the Customs Union (CU) of Belarus, Kazakhstan and the Russian Federation until 2012, as well as the results of in-depth face-to-face interviews with 57 stakeholders using the UNECE evaluation methodology.

The stakeholders comprise 24 representatives from State agencies, enterprise support institutions, logistics service providers and transport operators, who were approached in 2011 by UNECE regional consultants. The traders were approached in 2012 by a national consulting company, the Institute of Social and Political Research - (ISPR) within the context of a joint UNECE – International Trade Centre (ITC) assessment of non-tariff measures and technical regulations in the Republic of Kazakhstan. The ISPR carried out face-to-face interviews with traders from priority non-resource based sectors identified by the Government using the joint ITC-UNECE questionnaire that combined the ITC Company Survey with a special UNECE annex on trade facilitation. Budgetary constraints meant that the annex on trade facilitation was addressed to 28 only traders. This study draws on the results emerging from the interviews with these traders. The UNECE also conducted follow-up interviews with an additional 5 traders, who were approached by a regional consultant to gain clarity on specific issues and fill in information gaps.

The UNECE trade needs assessment study also includes an in-depth examination of administrative and regulatory procedures underpinning the export of priority food products identified by the Government, using the UNECE Business Process Analysis Methodology. The analysis focused on four products (pasta, flour, biscuits and candies), and the results are provided in Annex 1.

The needs assessment was implemented in close consultation with the Kazakh National Advisory Committee (NAC), which was established from the start of the assessment process to act as the UNECE and ITC counterpart. The NAC brings together representatives from relevant ministries and private sector support institutions under the leadership of the Kazakh Minister for Economic Integration.

This study was prepared by the Trade and Sustainable Land Management Division of the UNECE to serve as a basis for consultations with key stakeholders. It takes into account the comments and recommendations emerging from the 2012 session of the Committee on Trade, and from a national stakeholders workshop, "Stakeholders Meeting on Evaluation of Existing Non-Tariff and Technical Regulations in the Republic of Kazakhstan: Results and Suggestions", which was organized on 14 March 2013 by the Centre

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for Trade Policy Development of the Ministry of Economy and Budget Planning in Astana to solicit feedback from national stakeholders and development partners. The study also takes into account comments received during bilateral meetings and written comments received from the Government after the workshop.

The practical action-oriented recommendations from the assessment provide an important input to the Republic of Kazakhstan's trade development efforts, and to the UNECE's work with the CU of Belarus, Kazakhstan and the Russian Federation.

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Acknowledgments

Part I of this study was undertaken by the United Nations Economic Commission for Europe (UNECE). It was prepared by Ms. Hana Daoudi under the supervision of Mr. Mika Vepsäläinen. The UNECE Secretariat would like to acknowledge the contribution of the following consultants: Gulnara Sultanalieva, who conducted face-to-face interviews with officials and other key stakeholders involved in supporting trade facilitation; Nuritdin Dzhamankulov, who conducted face-to-face interviews with State agencies responsible for Standardization, Quality Assurance, Accreditation and Metrology; and, Oleg Samukhin, who carried out the Business Process Analysis.

Part I was made possible thanks to the financial support of the Russian Federation.

Part II of this study was prepared by The International Trade Center (ITC). ITC is deeply grateful towards the enterprises and experts that agreed to be interviewed and shared their experiences on the issue of trade barriers. This report was authored by Madina Kukenova under the supervision of Olga Solleder. Olga Solleder managed the survey implementation with the help of the ITC non-tariff measures team. The interviews were conducted by a local consulting firm, Institute of Social and Political Research (ISPR) and Madina Kukenova. Gaukhar Balykbaeva, Nina Bezrukova and Yergaly Toleuov greatly supported Madina Kukenova in carrying out additional interviews with companies and stakeholders in Kazakhstan. Anders Aeroe, Mika Vepsäläinen and Hana Daoudi provided helpful comments. Érika Álvarez edited selected parts of the report, Adbellatif Benzakri calculated tables and statistics, while Alina Gilmanova and Samidh Shrestha provided research assistance.

Part II was made possible thanks to the financial support of the Department for International Development (DFID) of the United Kingdom

ECE and ITC would like to acknowledge the contribution of all national stakeholders, who proposed concrete policy recommendations during the "Stakeholders Meeting on Evaluation of Existing Non-Tariff and Technical Regulations in the Republic of Kazakhstan: Results and Suggestions", which was organized on 14 March 2013 by the Centre for Trade Policy Development of the Ministry of Economy and Budget Planning in Astana to solicit feedback on the preliminary findings of the joint study. The ECE and the ITC would also like to extend their gratitude for the Centre for Trade Policy Development, which hosted and organized the Stakeholder Meeting.

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Abbreviations

AEO	Authorized Economic Operator
BPA	Business Process Analysis
CA	Central Asian
CCC	Customs Control Committee
CES	Common Economic Space
CIS	Commonwealth of Independent States
CODEX STAN	Codex Alimentarius – International Food Standards
CTRM	Committee for Technical Regulation and Metrology
CU	Customs Union
DoD	Department of Defence
ENEPO	EU Eastern Neighbourhood: Economic Potential and Future Development
EU	European Union
EXCOM	Executive Committee of the UNECE
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross domestic product
GMP	Good Manufacturing Practice
GOST	CIS interstate regional standards
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
HACCP	Hazard Analysis and Critical Point
HS Code	Harmonized System Commodity Classification Code
HS6	Harmonized Commodity Description and Coding System at the 6-digit level
ICT	Information and communication technology
IEC	International Electrotechnical Commission
ILAC	International Laboratory Accreditation Cooperation
IMF	International Monetary Fund
ISO	International Organization for Standardization
ISPR	Institute of Social and Political Research
ITC	International Trade Centre
KAN	Kazakh Academy of Nutrition
KazInSt	Kazakhstan Institute of Standardization and Metrology
KZT	Kazakh tenge (unit of currency)
MINT	Ministry of Industry and New Technologies
MoEDT	Ministry of Economic Development and Trade

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NAC	National Advisory Committee
NACEKS	National Centre of Expertise and Certification
NTM	Non-Tariff measures
OECD	Organisation for Economic Co-operation and Development
OILM	International Organization of Legal Metrology
PO	Procedural Obstacles
REC	Regional Economic Cooperation Project
RIA	Regulatory impact assessment
SMEs	Small- and medium-sized enterprises
SPS	Sanitary and Phytosanitary
SQAM	Standardization, quality assurance, accreditation and metrology
ST RK	State standards of the Republic of Kazakhstan
STO	Standards of international and regional organizations
TAR	Trans-Asian Railway
TBE	Trade-related business environment
TBT	Agreement on Technical Barriers to Trade
TIR	Transports Internationaux Routiers
TRACECA	Transport Corridor Europe Caucasus Asia
UML	Unified Modelling Language
UN/CEFACT	United Nations Centre for Trade Facilitation and Electronic Business
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
US$	United States dollar
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organization

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Map of Kazakhstan

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Part I

Regulatory and Procedural Barriers to Trade in the Republic of Kazakhstan: Results of UNECE's Needs Assessment

Chapter One

Introduction

1.1 Country background

Stretching over 2.7 million square kilometres, Kazakhstan is the ninth largest country in the world, the second largest country in the Commonwealth of Independent States (CIS) after the Russian Federation, and the largest economy in Central Asia. It also has an impressive income growth record since 2001. Its economy remains heavily reliant on raw materials for income generation, with oil, ferrous and non-ferrous metals, grains, coal and ores accounting for over 80 per cent of total exports in recent years.[1]

This lack of economic diversification has meant a high degree of vulnerability to fluctuations in world commodity prices, with the government intervening during periods of crisis to spur economic activity. This was the case during the recent economic crisis, which brought income growth, as measured by gross domestic product (GDP), down from 8.9 per cent in 2007 to 3.3 per cent in 2008.[2] The economy only bounced back because of the government's stabilization policy, implemented through the National Fund of the Republic of Kazakhstan, which involves the transfer of up to US$8 billion from the oil-related fiscal revenues to the government on an annual basis. The demand generated from these allocations increased real GDP growth to an estimated 7.5 per cent in 2011, and are expected to stimulate an annual growth rate of 6 to 6.5 per cent over the period 2013-2017 (IMF, 2012).[3]

The lack of economic diversification has also meant that any gains from income growth are difficult to sustain, and may even be undermined, by Dutch Disease effects. Each boom in the prices of primary products brings about a decrease in the export competitiveness of non-resource based industries along with an increase in imports, thereby causing the withdrawal of human and financial capital from the non-resource industries and locking the economy in the erosive path dependence on raw materials.

Bringing about much-needed economic diversification has formed the focus of the government's development efforts since the country's independence in the early nineties.[4] A salient feature

[1] A detailed discussion of Kazakhstan's economic performance and the contribution of the trade sector to economic growth is provided in Part 2.

[2] World Bank, World Development Indicators. For a detailed discussion of Kazakhstan's industrial base, see Part 2.

[3] International Monetary Fund (2012) Republic of Kazakhstan Article IV Consultations, Country Report No. 12/164, June.

[4] These efforts are guided by the comprehensive development strategy, "Kazakhstan 2030: Prosperity, Security and Ever Growing Welfare of All the Kazakhstanis" of 1997. Intended to serve as a reference framework for establishing a market-based economy, the strategy stipulates pursuing export-led growth by promoting industries with the best prospects in terms of export competitiveness and contribution to job creation and poverty eradication. Priority sectors identified in the strategy include agriculture, forestry and wood-using industries, light industry and food processing, tourism, building construction, and infrastructure. The implementation of the "Kazakhstan- 2030" is guided

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of these efforts has been an emphasis on trade-led growth within the context of a market-based economy, whereby access to global markets and technology transfer could enable enterprises to achieve economies of scope and scale following a two-track strategy that combines multilateralism with regionalism. The idea being that by capitalizing on historic trade relations with neighbouring countries, regionalism could support learning by doing and serve as a stepping-stone toward phasing out tariff and non-tariff barriers to trade.

Kazakhstan's emphasis on regionalism finds expression in its membership in the Eurasian Economic Commission; the Central Asian Cooperation Organization; the Economic Cooperation Organization; the Shanghai Cooperation Organization; and, since 1994, the Commonwealth of Independent States (CIS) Free Trade Area along with Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Kazakhstan has obtained a most-favoured-nation status from the European Union (EU) through the Partnership and Cooperation Agreement. Most recently, in 2010, Kazakhstan pooled efforts with Belarus and the Russian Federation to establish a Customs Union (CU). Created in 2010, the CU is structured to go beyond the adoption of a common external tariff to involve the reduction of non-tariff barriers, with the aim of consolidating a Eurasian Economic Union by 2015.

These regional trading arrangements are complemented by voluntary compliance with the requirements of the World Trade Organization (WTO)-administered multilateral trading system. At the time of writing, Kazakhstan was finalizing its accession package, having completed bilateral negotiations on market access for goods and services with 30 WTO member states, including Brazil, China, India and the United States of America.

The challenge facing the Kazakh Government is, therefore, how best to harness a positive interface between regionalism and multilateralism to attain the broadest possible benefits in terms of sustained growth and poverty alleviation. Kazakhstan, as all countries of the region, also faces significant food security challenges, given its heavy reliance on food imports. Addressing these challenges is complicated by the landlocked status of Kazakhstan, its remote location, and its comparatively high labour costs relative to other Central Asian countries; all of which act as a disincentive to investments in non-resource based industries. At the same time, the existing infrastructure remains incapable of nurturing the economy's structural transformation. Large cities continue to offer limited possibilities for industries, while small- and medium-sized cities do not have enough roads, electricity, gas, heat, water and so on. The country also remains fragmented by a lack of adequate transport infrastructure, with the North, South, East, West and Central regions functioning as autonomous economies. This territorial fragmentation limits the size of domestic markets, with the consequence of blocking industrial development.

To address these challenges the Government has launched a number of plans for developing the country's infrastructure (see Chapter 3). It is also spearheading the establishment of custom-free areas throughout the country, with a view to improve the economy's competitiveness at the enterprise level. Located near production centres, these areas comprise: free-trade zones, export-processing zones, special economic zones (which are multi-sectoral) and specialised industrial zones (which are sector specific) equipped with modern infrastructure facilities. With the exception of the free-trade zones, intended to support re-exporting activities only, these areas are geared to support the development of enterprises engaged in processing, exporting and re-exporting (in case

by two Strategic Plans for the periods 2001-2010 (first stage), and 2010-2019 (second stage), which provide detailed practical measures for achieving the intended objectives in priority areas. In 2010, the Government launched the "State Programme for Accelerated Industrial and Innovative Development" (SPAIID) for 2010-2014, as an extension to the Government's response programme for the economic crisis. The SPAIID seeks to accelerate industrial development through major investments in traditional resource-based export-orientated industries, and new technology-intensive, high value-added activities with strong exports potentials.

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of the export processing, special economic zones, and specialised industrial zones) as well as those selling to domestic markets (special economic zones, and specialized industrial zones).[5]

The joint UNECE-ITC needs assessment seeks to complement the Kazakh Government's efforts by addressing non-tariff barriers to trade in goods. This study provides the results of UNECE's trade needs assessment, which looks into behind and at-the-border regulatory and procedural barriers that inflate the traders' transaction costs (both time and finance-e wise) using the UNECE evaluation methodology.

1.2 UNECE evaluation methodology

Consistent with the its mandate in the area of trade, the UNECE evaluation methodology focuses on: (i) trade facilitation measures; (ii) quality control systems embodied in standardization policies, technical regulations, quality assurance, accreditation and metrology (SQAM); and (iii) trade-related infrastructure, including transport and logistical support.[6] At the heart of the UNECE evaluation methodology is a set of actor-oriented questionnaires targeting the main stakeholders involved in international trade transactions. Below is a brief discussion of the concepts and analytical framework underpinning the methodology.

1.2.1 Concepts and terminologies

The concept of "trade facilitation" and the terms covered under "SQAM" are to be understood as follows:

- **Trade facilitation** refers to the extent to which import/export procedures, information and documentation requirements are rationalised, harmonized, simplified, streamlined and automated to reduce the costs associated with international trade, and increase overall efficiency and transparency.
- **Standardization policies** refer to policies and regulations concerned with the specific characteristics of products, such as its size, shape, design, functions and performance, or the way it is labelled or packaged before it is placed in the market. A **Standard**[7] refers to a technical specification approved by a recognised national, regional or international standardization body and made available to the public for repeated or continuous application.
- **Technical regulations**[8] are to be understood pursuant to the Agreement on Technical Barriers to Trade (TBT) as a "document which lays down product characteristics or their related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory. It may also include or deal exclusively with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method".
- **Conformity assessment**[9] is to be understood pursuant to the Agreement on TBT, as involving procedures used, directly or indirectly, to determine that relevant requirements in technical regulations or standards are fulfilled.

[5] For further details of Kazakhstan's customs-free areas, see OECD (2010).

[6] The UNECE evaluation methodology is available online at: http://www.unece.org/tradewelcome/trade-needs-assessment-studies.html

[7] The Kazakh definition of a standard is "a document that established the rules, general principles and characteristics for items that require multiple and voluntary technical regulation (in line with Kazakh law 'On technical regulation' № 603-II of 9 November 2004)".

[8] In Kazakhstan, a technical regulation is defined (in the law "On technical regulation" №603- II of 9 November 2004) as "a normative legal act that establishes the necessary requirements for production and or their life-cycle processes that are developed and implemented in conformity with the Kazakh legislation on technical regulation".

[9] In Kazakhstan the term "confirmation of conformity" is used and is defined as a process, the result of which is documentary certificate (conformity declaration or conformity certificate) establishing the conformity of an item with the requirements laid out in technical regulations, standards or conditions of an agreement (according to the Kazakh law "On technical regulation").

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- Related to conformity assessment is **accreditation**[10], which refers to independent evaluation of testing and calibration laboratories, management systems, inspection bodies and so on, to confirm compliance with internationally recognized standards and requirements for risk reduction purposes.
- **Metrology**, often referred to as "weights and measures", is the science of measurement. It involves, among other processes, tool setting and product-verification operations using diverse technologies. Although metrology is perceived as part of conformity assessment systems, it is itself an independent part of a regulatory system. It is therefore important to treat metrology from both perspectives. Metrology is to be distinguished from legal metrology, which focuses on ensuring the quality and credibility of measurements used directly in regulation and in areas of commerce. Legal metrology is also concerned with ensuring due diligence in the treatment of traceability and preventing the misuse of the measurements.

[10] In Kazakhstan, accreditation is defined as "the process of official recognition by an accreditation organ of the competence of the claimant to confirm conformity of items in a given area with the conditions set in technical regulations (according to the Kazakh law "On technical regulation".

1.2.2 Analytical framework

The above-mentioned issues are approached using the UNECE Buy-Ship-Pay reference model on trade facilitation. The model was chosen for its broad conceptualization of international trade transactions as proceeding along a single process in a supply chain, rather than a series of fragmented activities spread across different actors. The model groups international trade transactions under three main operations, which correspond to the business processes undertaken by traders throughout the supply chain. As the title of the model suggests, these operations involve processes associated with buying, shipping, and paying. The term business process to be understood as a chain of logically sequenced activities associated

Figure 1.1 UNECE international supply chain Buy-Ship-Pay reference model

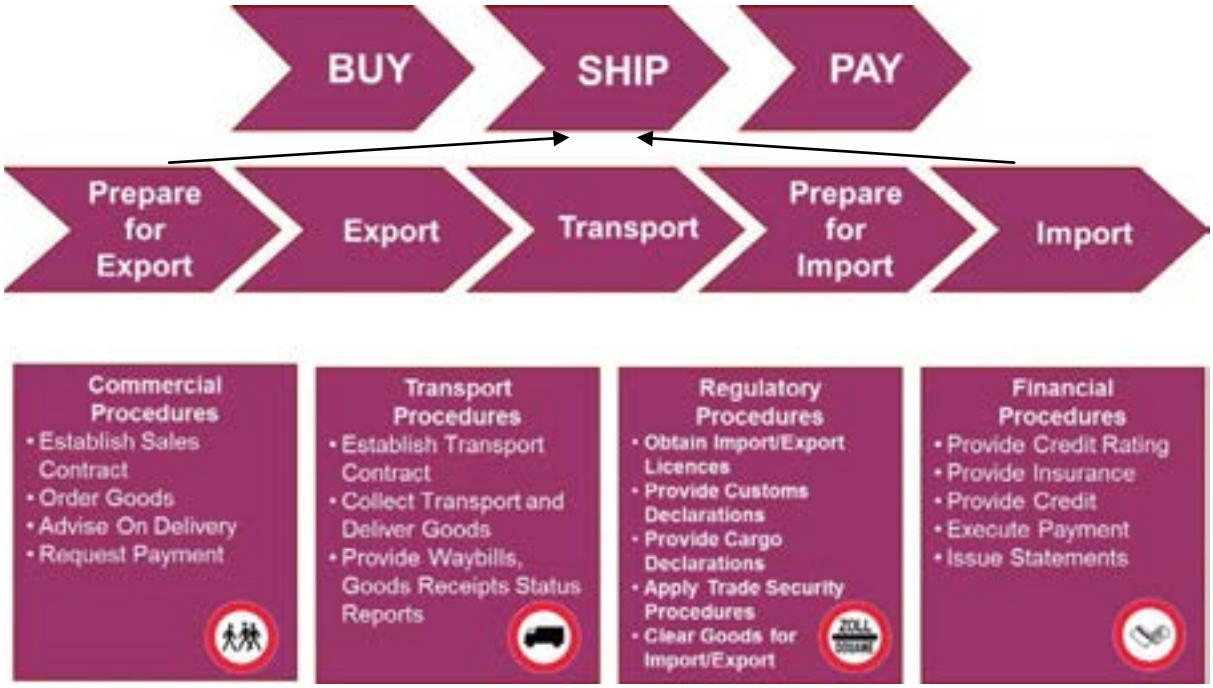

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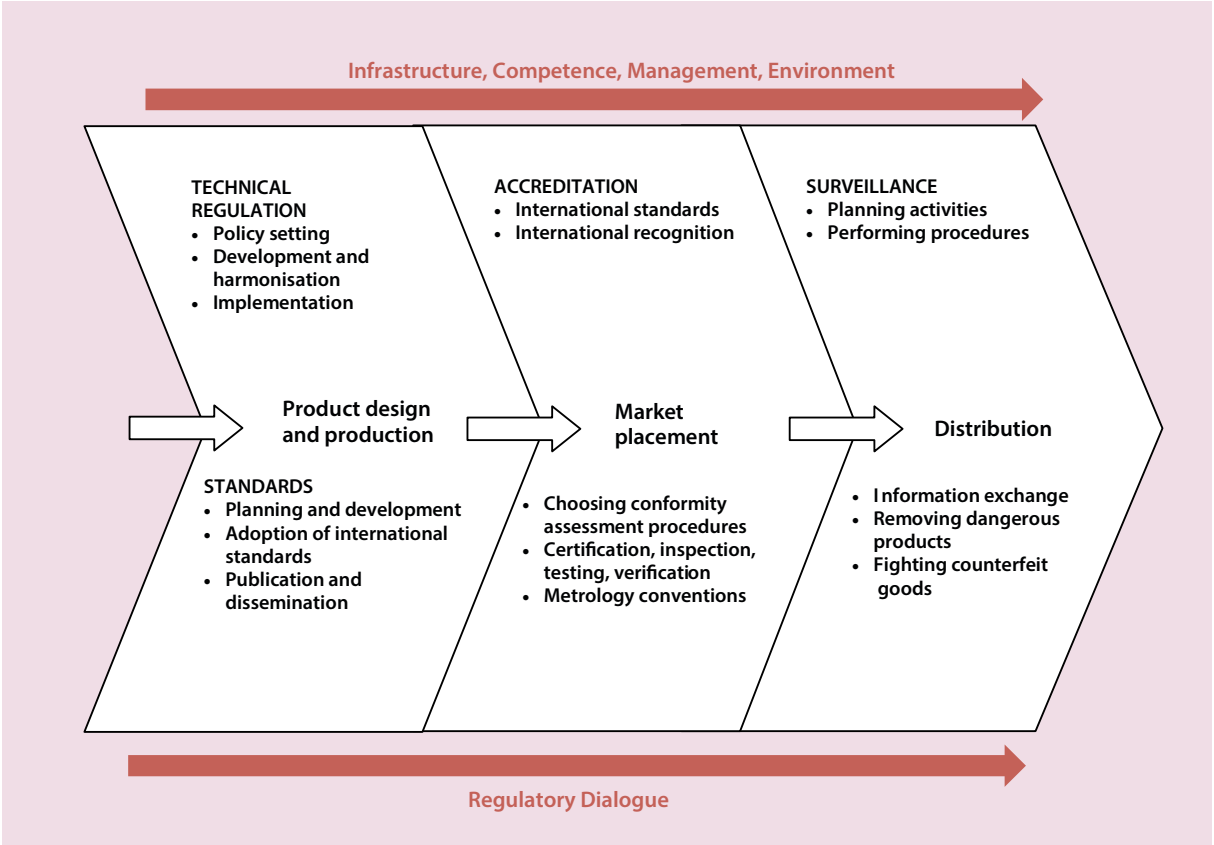
Figure 1.2 Product life cycle and regulatory system processes



with moving goods and related information from buyer to seller to ensure due provision of required services:

- BUY – covering all commercial activities related to the ordering of goods;
- SHIP – covering all of the activities involved in the physical transfer of the goods, including regulatory procedures related to official controls;
- PAY – covering all of the activities involved in payment transactions

As shown in Figure 1.1, the model captures all trade-related business processes, including the establishment of commercial contracts (commercial procedures), the arrangement of inland and cross-border transportation of goods (transport procedures), the export and import formalities to meet regulatory requirements (regulatory procedures), and the payment for purchased goods (financial procedures).

The emphasis is ensuring the overall improvement of the end-to-end value chain. Thus the different actors (including government agencies, intermediaries and traders) are examined in terms of their contribution to increasing the efficiency, transparency and predictability of trade, as opposed to their functional excellence.[11] Similarly, trade documents and procedures are measured against UN-ECE key principles on trade facilitation, including: transparency, communications, consultations and cooperation; simplification, practicability and efficiency; non-discrimination, consistency, predictability and due process; harmonization, standardization and recognition; and modernization and the use of new technology.[12]

[11] For a detailed discussion of this Model, see UNECE Recommendation 18 (UNECE, 2001).

[12] UNECE (2006). Towards an Integrated Strategy for UN/CEFACT, Geneva, Switzerland.

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The evaluation methodology also draws on the product life cycle approach to capture capacity shortfalls and weaknesses in SQAM systems. As shown in Figure 1.2, this approach examines the different regulations and institutions that make up the SQAM system in terms of their contribution to the product life cycle, starting from product design, to placing the product on the market and ending with its eventual distribution. Constraints to an improved SQAM regulatory system are conceptualized as stemming from the quality of infrastructure (i.e. testing laboratories), levels of expertise and knowledge of officials (competence), management methodologies, and the overall regulatory environment.

Yet a third reference framework underpinning the UNECE evaluation methodology is the UNECE/ESCAP Business Process Analysis (BPA) Model.[13] The model uses the Unified Modelling Language (which includes internationally recognized set of standard graphical notations) for capturing the day-to-day activities associated with the core buy, ship, pay processes, with a view to:

- Establish the activities, documents, and information flow in international trade procedures.
- Identify and prioritize problematic areas that cause delays in moving goods from seller to buyer.
- Enable responsiveness through improved measures that address the identified problematic areas (e.g. simplifying processes and data, and eliminating redundancies).

The results of the BPA could serve as a basis for the:

- Analysis of data requirements and data flow
- Development of standardized data
- Design of improved export processes
- Design of a prototype single window entry form
- Design of a prototype single window entry system
- Decisions on infrastructure and logistics services development
- Design of appropriate laws and market support institutions

1.3 Scope of the needs assessment

The UNECE actor-oriented questionnaires were addressed to 57 stakeholders during face-to-face interviews, with a view to assess trade-related procedural and regulatory barriers in non-resource based sectors. The sectors were selected in consultation with NAC based on their contribution to exports and income growth in general. Listed using the Standard International Trade Classification (SITC) Revision 3 (top level), these sector include:

- Food and live animals
- Beverages and tobacco
- Animal and vegetable oils, fats and waxes
- Chemicals
- Manufactured goods classified chiefly by material
- Machinery and transport equipment
- Miscellaneous manufactured articles

The stakeholders who participated in the surveying process represent all the actors involved in supply chain activities, including State officials, transport operators, logistics service providers, market support institutions and traders (both exporters and importers). Transport operators, logistics service providers and market support institutions were selected based on the size and scope of their operations.[14] The following were approached by UNECE regional consultants during face-to-face interviews, which were conducted in 2011.

Government agencies

- Ministry of Industry and New Technologies of Kazakhstan, namely: Committee for Technical Regulations and Metrology (3), Kazakhstan Institute of Standardization and Certification (2), Kazakhstan Institute

[13] The latest version of the joint UNECE/ESCAP Business Process Analysis Model (2012) is available online at: www.unescap.org/unnext/tools/business_process.asp

[14] Only operators with extensive services and broad geographic coverage were interviewed.

of Metrology (3) and the National Centre of Accreditation (2)

- Ministry of Agriculture Committee of State inspection (2)
- Ministry of Transport and Communications (1)
- Ministry Environment Department of Permits and Licences (1)
- Ministry of Finance Customs Control Committee (1)
- National Security Service (1)

Transport operators and logistics service companies:

- Kazak Union of Customs Brokers (1)
- Freight Forwarding Association (1)
- Eurasian Union of Traders (1)
- Customs brokers (1)
- Railway operator (1)

Market support institutions

- National Economic Chamber of Kazakhstan "Atameken Union" (1)
- Border Management Assistance Programme in Central Asia (BOMCA)[15]-Kazakhstan (1)
- Cesna Bank (1)

While the surveying process saw the participation of representatives of key State agencies and trade support institutions, budgetary limitations meant that the Trade Facilitation questionnaire was addressed to 28 traders only. The traders were approached by the ISPR during face-to-face interviews that were conducted during the first half of 2012 using the joint ITC-UNECE questionnaire, which combined the ITC Company Survey[16] and a special UNECE annex on trade facilitation. The annex was addressed to 28 traders, who reported being particularly hampered by non-tariff measures (NTMs) and technical regulations.[17]

The preliminary results emerging from the UNECE Trade Facilitation questionnaire pointed to a number of gaps, particularly in relation to at the border control measures. To address these gaps, follow-up face-to-face interviews were conducted with another 5 traders by the UNECE regional consultant during the second half of 2012. The traders were selected from those sectors that appeared to be particularly affected by NTMs and technical regulations.

In addition, and pursuant to a request by the Kazakh government, UNECE carried out in-depth examination of the business processes underpinning the export of priority food products. The analysis was carried out in 2011 using the Business Process Analysis model, and focused on four products, namely biscuits, pasta, flour and candy, which were identified by the government. Two companies were selected to serve as case studies based on the value of their exports.

The limited number of traders who participated in the assessment means that this study does not provide an exhaustive analysis of non-tariff measures and technical regulations in Kazakhstan. The findings should be interpreted as indicative of the main regulatory and procedural barriers to trade on good. By bringing these barriers to the fore, the study is meant to foster a common understanding among stakeholders of trade barriers stemming from regulatory and procedural measures, such as:

- The quantitative (time/money) and qualitative impact of regulatory and procedural barriers;
- Shortfalls in transport and logistical services, and any potential obstacles to the modernization/development of these services;
- Shortcomings in the country's SQAM infrastructure (internationally accredited testing laboratories, conformity assessment, certification and accreditation bodies, as well as metrology institutions) and related expertise, which create additional costs and delays in export practices;
- Shortfalls in public-private sector consultative mechanisms;

[15] This programme is funded by the European Union and implemented by the United Nations Development Programme (UNDP)

[16] A detailed description of the ITC Company Survey is provided in ITC study.

[17] A detailed discussion of the ITC methodology is provided in the ITC study.

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- Key policy issues with direct bearing on the traders' performance;
- Alternative options for addressing the identified regulatory and procedural barriers
- Capacity-building needs of State agencies, traders, transport sector, logistics service providers.

1.4 Outline of the study

The study is divided into five chapters. The introduction in Chapter 1 is followed by an overview of the traders' profile in Chapter 2. Chapter 3 highlights key procedural and regulatory barriers to trade, while Chapter 4 looks into existing institutional bottlenecks facing State agencies involved in the areas of standardization and technical regulations. The two chapters also identify priority needs, and propose practical, action-oriented recommendations for the Government's consideration. Chapter 5 provides concluding remarks. A thorough examination of procedural and regulatory bottlenecks facing Kazakh enterprises involved in the export of priority food products is provided in Annex1. The main recommendations are provided in Annex II.

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Chapter Two

Traders' Profile

As previously mentioned, the surveying process involved face-to-face interviews with 33 traders. Of these, 28 were approached by ISPR during the first half of 2012 using the ITC-UNECE joint company survey questionnaire. The remaining traders were approached by UNECE consultant during follow-up interviews to gain further insights into pertinent issues, which emerged from the results of the UNECE Trade Facilitation questionnaire. This chapter provides the profile of the 28 companies approached by ISPR to set the context for the detailed discussion of procedural and regulatory barriers in chapters 3 and 4.

2.1 Location and production activities

The surveyed companies are concentrated in the most populated cities; namely, Almaty (the most populated city), Astana (the second most populated city) and Shymkent (the third most populated city). As shown in Figure 2.1, Almaty accommodates most of the enterprises, with a 35 per cent share of surveyed enterprises, while Shymkent accommodates 15 per cent and Astana 10 per cent. The remaining companies are located in, among others, the cities of Pavlador (north-eastern part of Kazakhstan), Kostanai (northern part of Kazakhstan) and Uralsk (north-western Kazakhstan).

Around 43 per cent of the surveyed companies are engaged in production activities. The remaining 57 per cent are trading companies, engaged in export and import activities. As shown in Figure 2.2, most of these companies (around 42 per cent) are engaged in manufacturing activities, with the remainder specialized in the production of food and beverages (25 per cent), machinery and transport equipment (17 per cent) and chemicals (16 per cent).

It is worth noting that 50 per cent of the producing companies are located in export processing zones, reflecting the success of this type of special economic zones in stimulating investments in non-resource based industries (Table 2.1).

2.2 Export-import mix and trade partners

All of the producing companies, which represent 43 per cent of the surveyed companies, are involved in both export and import activities.

Figure 2.1 Breakdown of surveyed enterprises by location

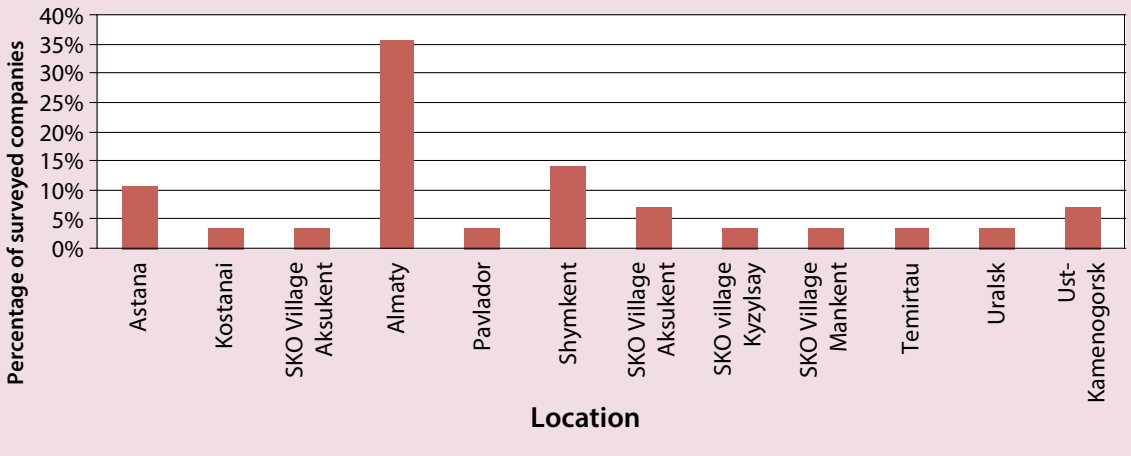
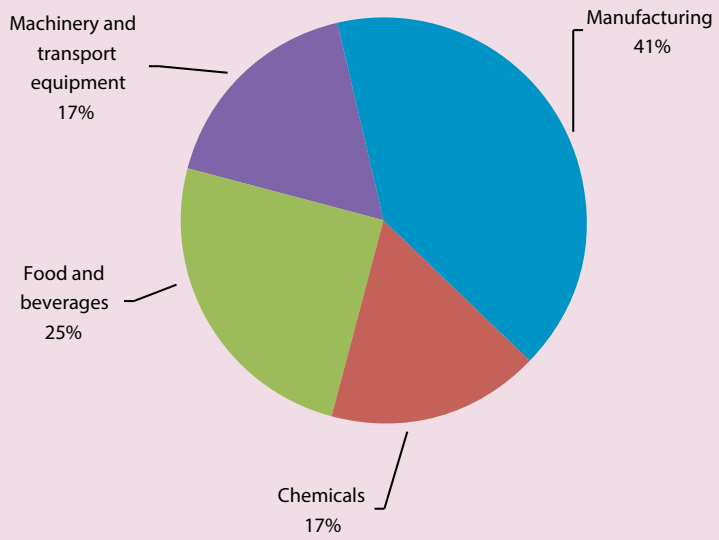


Figure 2.2. Breakdown of producing companies by activity (SITC Rev.3-Top Level)



Another significant segment (39 per cent) are trading companies involved in import activities only. The remaining companies (18 per cent) are trading companies involved in export activities only. Expectedly, the surveyed companies' export bundle mirrors the sectoral specialization of the producing companies. As shown in Figure 2.3, the companies export 40 products, with manufactured goods constituting the largest category (measured in terms of the number of products). Machinery and transport equipment constitute the second largest export category, followed by food and beverages along with chemicals.

Figure 2.3 The surveyed companies' exports by industry (SITC Rev.3-top level)

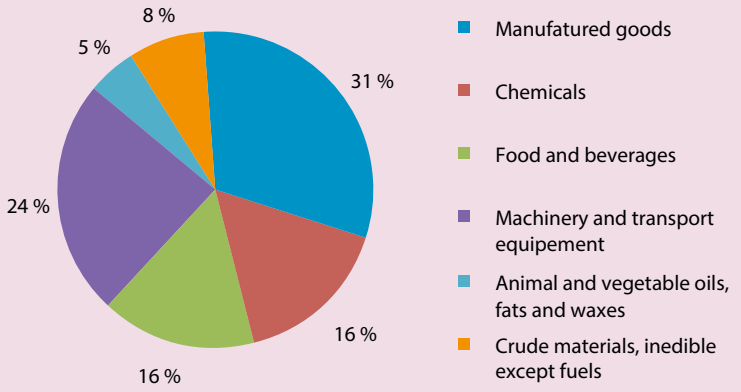


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Table 2.1- Producing companies operating in export processing zones: Location and products

Geographic location	No. of companies	Products
Almaty	1	Pharmaceutical
Astana	1	Wheat
Pavlodar	2	Electrical equipment
Shymkent	1	Cotton cellous and cereals
SKO village Kyzylsay	1	copper alloys
Temirtau	1	rolled metal sheet

The largest segment of exports (around 22 per cent) are destined for Uzbekistan (Figure 2.4). The Russian Federation ranks second (14 per cent), followed by Kyrgyzstan (10 per cent) and Tajikistan (8 per cent).

The companies' export pattern reflects not only the geographical concentration of exports, but also the limited importance of countries outside the CIS region for surveyed companies. The geographical concentration of the companies' exports is further highlighted when examining their export bundle by product and target market. As shown in Table 2.2, barring soft wheat, rye, pumping stations and refined lead, the bulk of the exports are destined to two or three countries.

Figure 2.4 The surveyed companies' target markets

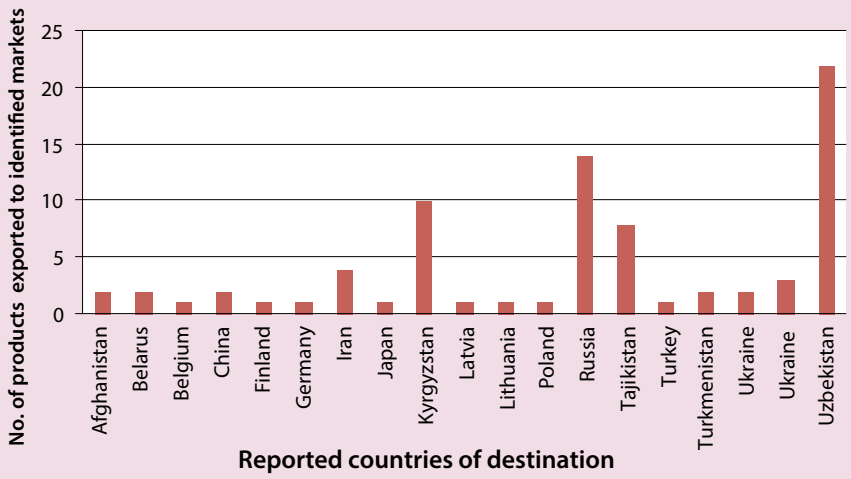

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Table 2.2 - Breakdown of the surveyed companies' exports by product and target market

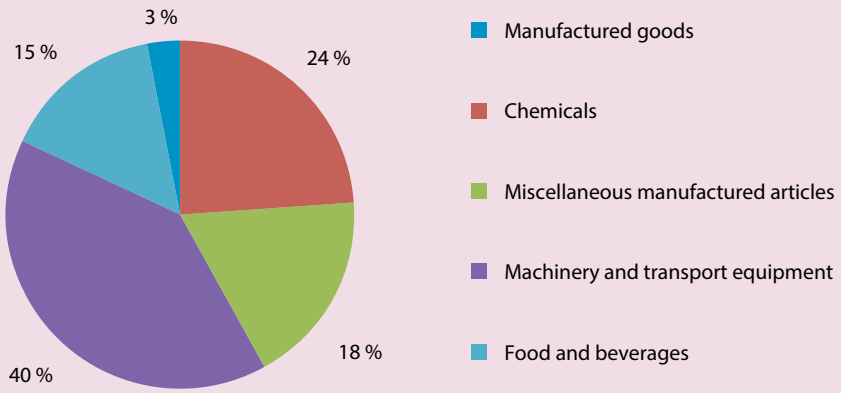
Industry (SITC Rev.3- top level)	Industry (SITC Rev.3- detailed)	Product (HS code abridged)	Reported country of destination					
Manufactured goods	Basic and fabricated metal	Bismuth metal	Belgium					
		Car Lead	Russian Federation	Uzbekistan				
		Refined Lead	Russian Federation	Tajikistan	Ukraine	Uzbekistan		
		Copper matte	China					
		Copper-bearing alloys ingots	Finland	Turkey	Uzbekistan			
		Rolled metal sheet (Flat-rolled products of iron or non-alloy steel)	Uzbekistan					
	Textile yarn, fabrics, made-up articles, n.e.s., and related products	Cotton Husk	Germany	Kyrgyzstan				
		Cotton cellulose	Russian Federation	Ukraine				
		Glass fabrics	Russian Federation					
		Heat, sound insulation material	Poland					
	Rubber manufactures	Rubber chips	Belarus	China	Ukraine			
Chemicals	Chemicals	Soap	Kyrgyzstan	Tajikistan	Uzbekistan			
		Micaceous	Russian Federation					
		Paints and varnishes	Russian Federation					
		Other antibiotics in packages	Kyrgyzstan	Uzbekistan				
		Group Teofilina	Kyrgyzstan	Uzbekistan				
		Prepparaty general	Kyrgyzstan	Uzbekistan				
Food and beverages	Cereal and cereal preparations	Sunflower	Iran	Kyrgyzstan	Uzbekistan			
		Barley food	Uzbekistan					
		wheat class 3-4	Uzbekistan					

Table 2.2 - Breakdown of the surveyed companies' exports by product and target market

Industry (SITC Rev.3- top level)	Industry (SITC Rev.3- detailed)	Product (HS code abridged)	Reported country of destination					
		Wheat	Uzbekistan	Tajikistan				
		Soft wheat and rye	Afghanistan	Iran	Kyrgyzstan	Lithuania	Tajikistan	Uzbekistan
		Flour (samples)	Japan					
		Wheat flour	Afghanistan	Tajikistan	Uzbekistan			
	Vegetables and fruits	Fresh onions	Tajikistan					
	Beverages	Soft drinks (water)	Kyrgyzstan	Tajikistan				
Machinery and transport equipment	Power-generating machinery and equipment	AC (Alternating Current) motors	Uzbekistan					
		Water pump	Russian Federation					
		Piston	Russian Federation					
		Liner, Piston pin spacer for the engine	Russian Federation					
		Bolts	Russian Federation					
		Spacer for pump	Russian Federation					
		Oil pump	Russian Federation					
		Pumping station SNP 500/200	Belarus	Russian Federation	Turkmenistan			
		AC motors up to 37 kW	Uzbekistan					
Animal and vegetable oils, fats and waxes	Fixed vegetable fats and oils, "soft", crude, refined or fractionated	Cottonseed oil	Kyrgyzstan	Uzbekistan				
		Sunflower oil	Tajikistan	Uzbekistan				
Crude materials, inedible except fuels	Oil seed and oleaginous fruits	Cotton seed meal	Iran	Kyrgyzstan	Uzbekistan			
		Safflower seed meal	Iran	Kyrgyzstan	Uzbekistan			
		Sunflower seeds	Iran	Uzbekistan				

On the import side, the surveyed companies bring into the country 33 products. As shown in figure 2.5, machinery and transport equipment constitute the largest import category, with a 40 per cent share (measured in terms of the number of imported products). The second largest category comprises chemicals (with a 24 per cent share), followed by miscellaneous manufactured articles (18 per cent), food and beverages (15 per cent) and manufactured goods (3 per cent).

Figure 2.5 The surveyed companies' imports by industry (SITC Rev.3-top level)



The companies also have a narrow range of sources of supplies. As shown in figure 2.6, the bulk of imports originate from outside the CIS region, with Germany constituting the major supply source, followed by China, the Russian Federation, Turkey, Lithuania and the United States. Other sources of supply include Israel, Poland, Ukraine, Republic of Korea and the United Kingdom. Moreover, and as shown in Table 2.3, over 50 per cent of the imported products originate from one country only.

Figure 2.6 The surveyed companies supply sources

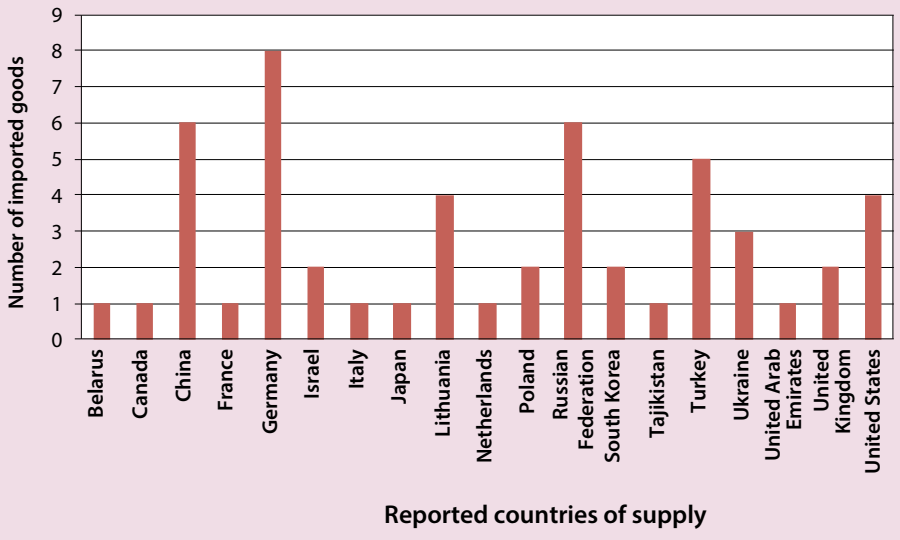


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Table 2.3 - Breakdown of the surveyed companies' imports by product and supply source

Industry (SITC Rev.3-top level) Industry top level	Industry (detailed)	Product (HS code abridged)	Reported country of origin				
Manufactured goods	Basic and fabricated metal	Unalloyed steel tubes	Russian Federation				
Chemicals		Sodium Monchloro Acetate	China	Turkey	United Kingdom		
		Hydrogen peroxide	China				
		Paints	China				
		Surface active agents (other than soap)	Germany	Israel			
		Prepparaty used for beverage	Lithuania				
		Boric salt	Turkey				
		Palm Fatty Acid Distillate	Ukraine				
		Sodium nitrate, packed in 50 kg bags	Ukraine				
Machinery and transport equipment	Power-generating machinery and equipment	Boilers	Russian Federation	Ukraine			
		Air Purifier	Germany				
		Electric Motors	France	Poland	United Kingdom		
		AC (Alternating Current) motors	Russian Federation				
	Road vehicles	Spare parts for cars	Germany	United States of America	China		
		Gear motors	Germany				
		Cars	China	Germany	Republic of Korea	Turkey	United States of America
	Machinery specialized for particular industries	Machinery or equipment for harvesting or threshing crops	Belarus	Republic of Korea			

Table 2.3 - Breakdown of the surveyed companies' imports by product and supply source

Industry (SITC Rev.3-top level) Industry top level	Industry (detailed)	Product (HS code abridged)	Reported country of origin				
		Spare parts for agricultural machinery	China	Germany	United Arab Emirates	United States of America	
		Marine propulsion engine	Germany				
	Other transport equipment	Bicycle	China				
		Helicopters	Germany				
		Yachts	Russian Federation				
Miscellaneous manufactured articles	Professional, scientific and controlling instruments and apparatus, n.e.s	Medical equipment, microscopes	Germany				
	Prefabricated buildings; sanitary, plumbing, heating and lighting fixtures and fittings, n.e.s.	Water Filter	Canada	Israel	Poland	United States of America	
		Sanitary engineering: Sinks, washbasins, console sinks, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary ceramics	China	Turkey			
		Kitchen sinks	Italy				
	Miscellaneous manufactured articles, n.e.s.	Paper Labels	Lithuania				
		Plastic pipes	Turkey				
Food and beverages	Sugars, sugar preparations and honey	Candy ASSORTI, 385 grams	Lithuania				
		Candy PERGALE CHERRY, 350 grams	Lithuania				
	Cereals	Wheat and rye	Japan				
	Miscellaneous edible products and preparations	Mayonnaise	Russian Federation				
	Fruit and vegetables	Fresh onions	Tajikistan				

2.3 Transport modes of choice

Kazakhstan's landlocked status means that traders have to rely on the transport facilities of neighbouring countries to participate in international trade. The most important transit countries for the surveyed traders include: Turkmenistan as the gateway to Iran and Afghanistan; the Russian Federation as a gateway to Europe; and Uzbekistan as a gateway to China, Tajikistan, Turkey and Turkmenistan.

As shown in Table 2.4, rail constitutes the transport mode of choice for exporters, followed by trucks. Air-freight services are only used for transporting light cargo, which is expected given the relatively high costs associated with this transport mode. None of the exporters reported using the port facilities.[18]

Railroads also appear as the importers' transport mode of preference, followed by trucks. As is the case of the exporters, the importers use air freight services on a limited basis and none of them reported using maritime transport (see Table 2.5). It is also worth noting that some of the surveyed traders run their own fleets of trucks and self-operated warehouses for managing the supply chain.

If there is one thing to draw from the surveyed companies' profile, it would be their limited export competitiveness. The companies' exports are concentrated in neighbouring countries, and most of the companies export to one or two countries only. Reversing this condition requires concerted efforts to develop the enterprises' technological capability, including through equipping them with the knowledge and skills required to identify, appraise, utilise and develop technologies and techniques relevant to upscale production activities.

[18] Kazakhstan has only one commercial seaport, the Aktau International Sea Commercial Port, which is located on the eastern shore of the Caspian Sea. The port is mainly used for the transport of oil and is slated for ambitious development plans, which include, among others, building modern logistical centers as well as dry cargo and grain terminals.

Table 2.4 - The surveyed exporters' modes of transport by sector (in per cent)

Product description	Transport mode		
	Air	Rail	Road (trucks)
Rubber chips		3	97
Soft wheat and wheat flour	< 1	99	< 1
Oil pumps, water pumps and bolts.			100
Heat and sound insulation.			100
Sunflower oil, sunflower seeds.		95	5
Soft drinks.		97	3
Glass fibre, paints, electric motors and generators.		70	30
Medicine: Other antibiotics in packages, Group Teofelin, Prepparaty general	10		90
Cotton husk		20	80
Sunflower seeds			100
Refined lead and copper matte.		99	1
Barely and wheat		95	5
Rolled metal sheet (Flat-rolled products of iron or non-alloy steel)		100	
Copper-bearing alloys ingots		100	
Sunflower oil and wheat		100	
Flour Samples	100		

This assessment suggests that efforts to develop the trade sector should be further strengthened by targeted initiatives to reduce regulatory and procedural barriers. The focus should be on both export and import activities, since imports play an important role in facilitating technology transfer and reducing overall production costs. Without such initiatives, the industries will remain awkwardly placed to expand and diversify their trading partners.

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Table 2.5- The surveyed importers' modes of transport by sector (in per cent)

Product description	Transport modes-imports			
	Airborne	Rail	Trucks	Waterborne
Product description				
Harvesting machinery		85		15
Industrial fatty acid		100		
Mixtures of odoriferous substances and mixtures		99	1	
Electric motors		70	30	
Medicine	50		50	
Unalloyed steel tubes		100		
Cotton cellous		50	50	
Mayonnaise		50	50	
Fertilizers	1	99		
Barely and wheat		95	5	
Metal sheet			100	
Palestic pipes	60		40	
Paints		70	30	
Kitchen sinks		8	92	
Metric motors	40	30	30	
Boilers			100	
Dressing materials and platers	80	20		
Air purifiers			100	
Washing powder		60	30	10
Devices for geodelic monitoring	100			
Boats		50	50	

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Chapter Three

Trade Facilitation

With its common borders with China to the east, the Russian Federation to the north, the Caspian Sea to the west, and Kyrgyzstan, Turkmenistan and Uzbekistan to the south, Kazakhstan is strategically located on the transit route between Europe and Asia. Indeed, all of the transport corridors connecting Central Asia to Europe pass through Kazakhstan, including the:

- Northern Corridor of the Trans-Asian Railway (TAR), which links Western Europe to China, Korean Peninsula and Japan through Russia and Kazakhstan via Dostyk – Petropavlovsk section (covering 1,910 km), and Dostyk – Aksu section (covering 2,188 km).
- Southern Corridor of TAR, which links South-Eastern Europe with China and Southeast Asia through Turkey, Iran, and Kazakhstan via Dostyk – Sary-Agach railroad section (1,831 km).
- Central Asian corridor, which links Central Asia via Russia with the EU countries (Sary-Agach – Semiglavy Mar railroad section (2,134 km).
- North-South corridor, which links the Northern Europe countries to the Persian Gulf through Russia and Iran via Diny Nurpeisovoi – Oazis section (806 km), Iletsk – Aktau section (1,389 km), Kirgilda – Aktau section (1,313 km).
- Transport Corridor Europe Caucasus Asia (TRACECA), which links Europe and Asia across the Black Sea, the countries of the South Caucasus, the Caspian Sea and the Central Asian countries via the Aktau – Dostyk section (3,836 km).
- Trade facilitation has been high on the government's agenda since the country's independence, as a critical element for achieving regional and global integration. Kazakhstan participates in 13 of the international conventions on infrastructure, transport, border crossing facilitation maintained under UNECE (Table 3.1), and the government has been deregulating international transport services to attract private operators.

However, the country's remoteness from international markets and land-locked status creates

Table 3.1 - Kazakhstan's participation UNECE Transport Agreements and Conventions[19]

Area	Convention
Infrastructure	• Agreement on Main International Traffic Arteries of 1975 • Agreement on Important International Combined Transport Lines and Related Installations of 1991
Road traffic and road safety	• Road Traffic of 1968 • Road Signs & Signals of 1968
Vehicles	• Vehicles Regulations of 1958
Other Legal Instruments Related to Road Transport	• Work of Crews International Road Transport of 1970 • Contract for the International Carriage of Goods by Road of 1956
Border crossing facilitation	• TIR Convention of 1975 • Customs Container Convention of 1972 • Harmonization of Frontier Controls of Goods of 1982
Dangerous goods and special cargo	• Dangerous Goods by Road of 1957 • Perishable Foodstuffs of 1970

[19] The conventions listed in the table have been ratified by Kazakhstan.

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additional costs, which are difficult to reduce. According to the 2012 World Bank Doing Business Survey, Kazakhstan ranks 176th in the world (out of 183 countries) when it comes to trading across borders. Yet, this low ranking is also the result of heavy trade-related procedural and documentary requirements. The World Bank Business Survey shows that it takes up to 76 days to export goods from Kazakhstan at an average cost of USD 3,310 per container. Importing goods into the country is also a costly undertaking, which can take up to 62 days at a total cost of $3,290 per container. This compares to an average of 11 days and USD 1,085 per container in the Organization for Economic Cooperation and Development region.

Based on the results emerging from the joint UN-ECE business process analysis and the face-to-face interviews with traders state agencies, transport operators and logistics service providers, this chapter highlights key bottlenecks to trade facilitation in Kazakhstan and proposes action-oriented recommendations for the Government's consideration. These bottlenecks stem from the country's overland transport infrastructure (section 3.1), the logistics sector (section 3.2), customs clearance and documentary requirements (section 3.3), border control (section 3.4) and the existing arrangements underpinning the CU between Belarus, Kazakhstan, and the Russian Federation (section 3.5).

The analysis brings forward both the potential complexity of the clearance process and its documentation. It also demonstrates that customs clearance is not the only factor undermining trade facilitation. The transport of goods, handling, delivery, and processing of payments for releasing goods are also challenging.

3.1 Customs clearance and documentary requirements

The Kazakh customs regime has been the subject of comprehensive reforms aimed at the consolidation of a modern system that provides traders with transparent, predictable, and speedy clearance of goods. All the laws that form the basis of Customs regulations have been amended, including: the Customs Code of the Republic of Kazakhstan (2010), and the 1998 Law of the Republic of Kazakhstan on Measures for Protection of Domestic Market from Imports of Goods.

The government has also introduced amendments to a number of laws in 2009 and 2010, as part of a broader effort to comply with the requirements of the CU. These amendments have resulted in:

- Cancelling the requirement for examining the origin of goods completely manufactured in Kazakhstan;[20]
- Limiting the period for issuing a phytosanitary certificate to 5 working days;[21] and,
- Excluding the veterinary certificate requirement from the list of permits;[22]
- Establishing a list of goods subject to veterinary and sanitary-epidemiological inspection, as per the terms of the Customs Union Code.

In addition, the government is in the process of implementing a comprehensive customs modernization effort to ensure compliance with the Revised Kyoto Convention recommendations for simplifying and harmonizing customs procedures. Spearheaded by the Customs Control Committee (CCC), this effort has involved the introduction of:

- A modern management information system for generating information on the arrival of goods and transit shipments;
- Customs Automated Information System (CAIS) for tracking revenues from customs fees and trade taxes, monitoring non-tariff regulations, and managing declarations;
- An automated customs system to enable traders to download and generate (free of charge) electronic customs documents[23],

[20] The Law "On introducing amendments and addenda to some legislative acts of the Republic of Kazakhstan on the activities of Chambers of Commerce".

[21] The Law "On introducing amendments and addenda to some legislative acts of the Republic of Kazakhstan on issues of phytosanitary security"

[22] The Law "On introducing amendments and addenda to some legislative acts of the Republic of Kazakhstan on issues of animal health".

[23] The term electronic document refers to information structured in electronic formats such as the United

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including the customs and transit declarations, which were introduced in 1997 and recently modified to comply with the requirements for establishing a Common Economic Space with Belarus and the Russian Federation.[24]

- Risk management system for customs clearance
- Post-entry point clearance (i.e., after the release of the goods).
- An automated system for generating trade-related statistics.
- Linkages with the e-Government portal.

At the time of writing this report, preparations were underway to establish a single window facility, with a view to fostering coordination between the different government agencies, cutting down further on red tape and achieving migration to a paperless environment.

The results of the UNECE needs assessment suggests that there remains room for further improvement. Most of the traders reported having to submit several documents, the number of which varies depending on the nature of the product and, in some cases, is aggravated by discrepancies between the Kazakh regulations and those implemented in partner countries. Indeed, some respondents said that they submit 2 to 3 documents on average, while others reported having to submit up to 20 documentary requirements.

Moreover, traders reported different periods for obtaining trade documents. For example, the two traders who participated in the business process analysis reported having to submit 5 to 6 documents on average for customs clearance. One respondent said that it takes up to 4 weeks to prepare the documents in question, while the other said that he obtains the documents in 7 working days (Annex I).

Traders also complained about what they described as constantly changing procedures, noted that procedures are often implemented in a selective and arbitrary manner, and singled out certain procedures for being time-consuming. The difficulties associated with the shifting procedures are compounded by the lack of reliable up-to-date information on export-import procedures and regulations. This comes across clearly from the sources of information reported by the survey respondents. While all of the respondents stated that they rely heavily on customs, the majority said that they only obtain information upon written requests. They also stated that the published information on the Customs website is sub-optimal both in terms of clarity and level of detail. Customs aside, the majority reported heavy reliance on buyers and suppliers along with freight forwarders, noting that these sources provide up-to-date information regarding procedures and regulations in Kazakhstan and in partner countries. Trade associations and trade promotion agencies, usually a key source of trade-related information, did not figure in the respondents' list of information sources. Moreover, several traders noted their dissatisfaction with the services provided by customs brokers, explaining that these services are expensive and of low quality.

Furthermore, several traders contested the manner in which existing customs legislation is implemented, particularly in relation to the classification and valuation of goods. The traders' dissatisfaction with the implementation of Customs legislation is echoed at the national level, and finds expression in the number of cases brought before civil courts. As shown in Table 3.6, around 80 per cent of these cases involve appeals of Customs rulings.

The table points to a number of issues. The first relates to the number of cases brought before civil courts over the past few years. This number has assumed an increasing trend following the establishment of the CU, reflecting the specific challenges generated by the CU legislation, and these are discussed in section 3.5. The second issue concerns the traders' recourse to civil courts of justice for settling disputes. This trend is mainly due to weak-

Nations/Electronic Data Interchange for Administration, Commerce and Transport (UN/EDIFACT) and the Extended Mark -up Language (XML). The term is therefore, not to be confused with PDF or word documents.

[24] These requirements are established in CU Commission decision No. 421 of 2010 "On approval of the structure and format of electronic copies of customs declarations".

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Table 3.2 - Number of cases involving appeals of Kazakh Customs rulings (January 2010-November 2012)

Year	No. of cases brought before civil courts	No. of cases involving appeals of Customs ruling	No. of decisions in favour of Customs	No. of decisions in favour of traders	No. of cases under review
2010	543	419	263	59	97
2011	736	589	396	80	113
January-November 2012	822	657	456	87	114

Source: *Kazakh Customs Control Committee.*

nesses in the existing dispute settlement mechanism. Under the existing procedure, disputes are handled by Councils of Experts, which bring together public associations and bodies and operate under the supervision of line ministries. However, the decisions of these councils are not final and binding. Rather, they are issued in the form of recommendations, causing traders to circumvent the dispute settlement procedure altogether in order to save time.

In addition, traders reported their dissatisfaction with the existing advanced rulings procedure. The Customs only provides advanced ruling on the rules of origin and on tariff classification. Only 12 respondents said that they use these services, and the majority noted that obtaining advanced rulings is time consuming, especially because it involves the submission of several documentary requirements. Below is a discussion of the key obstacles identified by the respondents to the UNECE questionnaire on trade facilitation. The obstacles are divided into two groups, with the first reflecting the obstacles reported by exporters and the second by importers. A discussion of the use of electronic documents comes next, leading to proposed recommendations for the government's consideration.

3.1.1 Obstacles reported by exporters

The results of the UNECE questionnaire on trade facilitation suggest that Kazakh exporters are subjected to documentary requirements over and above those associated with customs clearance. [25]

Respondents reported submitting between 2 and 20 documents, the number of which varies depending on the nature of goods, with sunflower seed and rolled metal sheet occupying the top list of products entailing excessive documentary requirements (Table 3.3).

Moreover, some documentary requirements involve the submission of several support documents, with negative consequences on transaction costs.[26] Exporters cited the certificate of origin (COO) as the most difficult to obtain, due to the additional support documents requested by the Chamber of Commerce and Industry through its 16 branches. These support documents include notarized copies of the procurement documents of each product component, the preparation of which varies depending on the nature of the product in question. For example, an exporter of heat and sound insulation materials explained that he usually has to submit up to 15 procurement documents, the preparation of which may take up to 7 working days. In contrast, an exporter of pumping stations said that he usually invests 15 working days to obtain the notarized procurement docu-

[25] Exports Documentation usually includes purchase order from Buyer, Sales Invoice, Packing List, Shipping bill, Bill of Lading or air way bill, Certificate of Origin and any other specific documentation as specified by the buyer, or as required by financial institutions (Letter of Credit terms or as per importing country regulations). Imports Documentation includes: Purchase Order from Buyer, Sales Invoice of supplier, Bill of Entry, Bill of Lading or Air way bill, Packing List, Certificate of Origin, and any other specific documentation required by the buyer, or as required by the financial institution of the exporting country.

[26] A detailed discussion of the procedures associated with obtaining some of these documents in provided in Annex 1.

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Table 3.3 - Exports facing excessive documentary requirements by product and target market

Product description (HS code abridged)	No. of docs	Reported target market						
Sunflower seed	20	Russian Federation						
Rolled metal sheet	20	Uzbekistan						
Heat and sound insulation material	13	Poland						
Rubber chips	10	Belarus	China	Russian Federation	Ukraine			
Soft wheat and Rye	8	Afghanistan	Iran	Kyrgyzstan	Lithuania	Tajikistan	Turkmenistan	Uzbekistan
Soft drinks (water)	8	Kyrgyzstan	Tajikistan	Uzbekistan				
Soap	8	Kyrgyzstan	Tajikistan	Uzbekistan				

ments, though he did not specify the number of documents he has to submit.

For exporters of sunflower seed, obtaining the COO requires submitting a certificate from the Village Council testifying that the product in question is grown in the claimed district or area, along with notarised copies of procurement documents. The procurement documents, which comprise contracts with peasants and tax receipts, take up to 14 working days to obtain. This is especially because the Village Council often rejects the procurement documents submitted by the trader due to discrepancies in the weight measurements of the village scale and the Council's scale. Traders drew attention that the certified capacity of the village scale (i.e., the approved maximum weight limit) is 1 kilogram only, and the exporters, who rely on the village scale to weigh their products for packaging, often exceed this limit.

Respondents also cited export permits among the most difficult to obtain documents.[27] Some reported being held back by the delayed response from the authorities in question. For example, an exporter of copper matte said that it takes up to 15 working days to obtain an export permit, which, in this case, is issued by the Ministry of Industry and New Technologies. Others complained about additional documentary requirements in the form of support documents. For example, an exporter of wheat and rye said that in addition to the export contract, traders are requested to submit certificates testifying that they operate in domestic markets.

For exporters of products with waste content, obtaining permits is complicated by the Kazakhstan's SPS and veterinary requirements, which do not necessarily correspond to those implemented in partner importing countries. For example, an exporter of rubber chips reported significant delays in obtaining a permit for exporting to Ukraine. The respondent in question explained that the Kazakh Ministry of Environment Waste Management Committee classifies rubber chips as waste and, therefore, conditions the issuing of the permit to the submission of up to ten supporting documents. These documentary requirements extend the period of obtaining the export permit to almost 30 working days.

[27] Although Kazakhstan has dismantled the system of export permits, permits remain obligatory for products which can be used for military applications and those with dual use.

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The difficulties associated with obtaining export permits also stem from the procedures and regulations underpinning the issuing of this documentary requirement. First, the products subjected to this requirement are broadly defined, rendering an extensive list that includes common consumer goods such as mobile phones and copying machines.[28] Second, permits are issued following the "one batch, one license system" (i.e., the licence may be used for customs declaration purposes only once within the period of the licence validity), so that exporters have to go through this procedure several times over the course of any given year for the same product.

Yet another challenging documentary requirement for Kazakh exporters is the veterinary certificate, particularly for those exporting sunflower through/to Uzbekistan. Here the difficulties arise from the administrative and regulatory procedures of the Uzbek authorities. The survey respondents said that obtaining the veterinary certificate might take up to 30 working days, due to delays in obtaining the approval of the Uzbek Ministry of Agriculture.

Other non-tariff barriers facing Kazakh exports relate to the absence of clarity over applicable procedures. This problem, which, as shown below, is also common to importers, is caused by what the traders described as constantly changing procedures and regulations. A case in point is the transaction certificate, also referred to as the "transaction passport", which is issued by an authorized Kazakh Bank. Intended to stem capital outflow and money laundering, this certificate ensures traders' compliance with currency regulations for goods valued in excess of the equivalent of USD 50,000.

In January 2012, the government issued a new law, which replaces the transaction passport with contract record numbers.[29] According to the new procedure, traders only need to present the stamp of the servicing Kazakh bank, including the contract register number (CRN). Although the procedures for obtaining the stamp are published on the National Bank's website, exporters seemed to be at loss as to whether the new procedure applies, and reported that they still follow the old procedure, which, as shown in the business process analysis (Annex I), is time consuming. This suggests that the implementation of the new regulation has been slow and/or that traders are not well informed about the new procedure. It is worth noting that the new law maintains the currency-control measures. This means that traders have to register the export contract with the Kazakh bank, pay the registration fee and submit various additional support documents.

The assessment also reveals that Kazakh exporters often accrue additional costs due to abrupt changes in transit countries procedures. A case in point is the procedures governing the export of non-ferrous metals by road via Uzbekistan. As explained by one of the respondents, who exports copper alloy ingots to Turkey, transit through Uzbekistan became an expensive undertaking following Uzbekistan's decision to ban transit of base metal and subject non-ferrous metals to transit licensing requirements. The respondent in question said that he was unaware of the new regulations, and only learnt about them from the Uzbek Customs during the advanced stages of the exporting process. He added that the new procedure proved to be "very long and complex", especially because it required the approval of the Uzbek Ministry of Defence. As such, the trader, who found himself pressed to release his shipment of copper alloy ingots, decided to obtain permission for re-exporting the shipment. He then re-imported the shipment back to Kazakhstan, and transported it by rail to Turkey through the Russian Federation. The company spent an entire week to finalize the procedures associated with this alternative route, and suffered significant financial losses.

[28] As per Resolution No. 104 of the Government of the Republic of Kazakhstan "On approving the List of Goods Subject to Export Control" as of February 2008.

[29] The Law of the Republic of Kazakhstan dated 9 January 2012 No. 531-IV 3PK "On Introducing Amendments to Certain Legislative Acts of the Republic of Kazakhstan in relation to Currency Regulation and Currency Control Issues". The new law, which came into force on 28 January 2012, introduces amendments to the "Currency Regulation and Currency Control" Law of 2005, and National Bank Law of 1995.

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Table 3. 4 - Imports facing excessive documentary requirements by product and supply source

Product description (HS code abridged)	No of documents	Reported supply source			
Sinks and similar sanitary ceramics	8	China	Turkey		
Bicycle	8	China			
Paints	10	China			
Helicopters	8	Germany			
Medical equipment, microscopes	10	Germany			
Air Purifier	8	Germany			
Water Filter	8	Israel	Canada	United States	Poland
Washing powder	8	Israel	Germany		
Kitchen sinks	15	Italy			
Measuring, testing, navigating and control equipment	8	Netherlands	United Kingdom	Japan	
Electric Motors	15	Poland	France	United Kingdom	
Yachts	8	Russia			
Boric salt	8	Turkey			
Plastic pipes	10	Turkey			
Palm Fatty Acid Distillate	8	Ukraine			

3.1.2 Obstacles reported by importers

Just like exporters, importers seem to be subjected to additional documentary requirements over and above those associated with customs clearance.[30] Importers reported having to submit up to 15 documents for clearing goods, thereby inflating costs (time and financial wise).

As shown in Table 3.4, the number of documents varies depending on the nature of goods, with electric motors and kitchen sinks occupying top list of products involving excessive documentary requirements.

Moreover, the importers singled out certain documentary requirements for being difficult to obtain, and described import permits as the most challenging due to red tape. The respondents reported that it takes up to three weeks to obtain this document, which is issued by the Industry and New Technologies (previously the Ministry of Industry and Trade). Some drew attention to complex and time-consuming procedures, and this was the case of traders importing goods of strategic importance. For example, an importer of helicopters explained that to issue the permit, the Ministry of Industry and New Technologies has to submit an official request to the Ministry of Transport and Communications. The latter would communicate its decision to the Committee of National Security, which would then advise the Ministry of Industry and New Technologies as to whether it could issue the import permit. This procedure may take up to 15 days from the day of submission of all document requirements to the Ministry of Industry and New Technologies.

For importers of sanitary engineering products deemed as potentially posing undue risk to public health, obtaining an import permit requires the approval of the Ministry of Environmental Protection Department of Ecological Regulation. As explained by a survey respondent, the said department has to make a formal (statutory) determination as to whether the product in question contains hazardous substances, and then submit its opinion in the form of an official letter to the

[30] Imports documentary requirements usually involve Purchase Order from Buyer, Sales Invoice of supplier, Bill of Entry, Bill of Lading or Air way bill, Packing List, Certificate of Origin, and any other specific documentation required by the buyer, or financial institution or the importing country regulation.

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Ministry of Industry and New technologies that proceeds to issue the import permit. Similarly importers (as well as exporters) of ozone depleting substances noted that obtaining import (export) permits, requires submitting in addition to copies of contracts, agreements, certificate of registration and the certificate of compliance, a notarized copy of an ecological insurance.31 Obtaining this insurance policy, issued by the Ministry of Environmental Protection, is a process in itself, which may take up to 5 working days.

Other difficult to obtain documents cited by respondents include the transit permit. Respondents reported having to submit up to 10 documents, which require separate clearance by up to 5 agencies, so that obtaining the permit may take up to 30 days. For traders importing chemical products obtaining transit permits is complicated by cumbersome administrative procedures. For example, obtaining transit permit for importing sodium sulphite from China for re-export to the Russian Federation may take up to three weeks, as the request has to be first processed by the Ministry of Industry and New Technology, which in turn sends it by Kazak post to the Committee of Science of the Ministry of Education and Science. The latter then submits the request to the Ministry of Transport, which then resends the request and the entire set of documentary requirements to the Ministry of Industry and new Technology for issuing the permit.

Traders also cited the "certified statement declaration", also referred to as the "certification of products", which is required to claim preferential treatment accorded to the imported goods in question under bilateral or regional agreements. The declaration, basically a claim of preferential treatment, provides a testification to the effect that the imported goods are in accordance with the rules of origin stipulated in the agreement. The traders explained that this declaration is only issued in Karaganda, capital of the Karaganda province, and requires the submission of the original copy of the customs declaration.

Traders also singled out certain procedures as being particularly time consuming. In particular, traders importing goods that are subject to quarantine complained about the lengthy imported food requirements (IFR) procedure. According to this procedure, the trader has to provide the Ministry of Agriculture with phytosanitary certificates issued by official state organizations dealing with quarantine or plant protection of the exporting country, which takes 1-2 weeks. The Ministry of Agriculture also may request additional documents describing the production process, where, who and what was processed in the products.

Once it receives the support documents, the Ministry of Agriculture proceeds to issue a quarantine clearance certificate or the import quarantine permit (IQP)[32] for the respective border control agency responsible for the verification of phytosanitary standards. Issuing this certificate takes between 10 to15 days, particularly in view of the number of departments involved including: quarantine and administrative unit of Agriculture (10-15 days), the Laboratory of the Ministry of Agriculture (10-15 days), the Ministry of Agriculture finally authorizes the release of imported goods. This means that completing the IFR procedure may take up to 30 days. Moreover, each batch of products is subjected to physical examination at border crossing checkpoints (see section 3.4).

Traders also reported experiencing significant delays during customs clearance due to incomplete or incorrect documentation. In some cases, such delays are mainly due to the Customs restrictive application of rules of origin. For example, a trader who has been importing the same type of marine propulsion engines from Germany over the last three years reported experiencing significant delays during clearance because the customs raises questions as regard the correctness of the COO issued by the relevant German authority. Other traders said delays were inevitable in cases where the Kazakh government does not recognize

[31] Pursuant to the Rules for Issuing Permits for Import, Export of Ozone Depleting Substances", No. 508 of June 2007.

[32] IQPs are documents specifying the order, conditions of import and selling of products of plant origin that are under quarantine, and are valid for one year from the date of receipt.

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declarations of conformity issued by the exporting country. In such cases, the trader is required to obtain a declaration of conformity (or certificate of conformity from the State Certification Center (KAZMEMST), which is issued following a lengthy process that could take up to 30 working days. This period does not include the time needed for testing the products, which may take up to 60 working days given the limited number of testing laboratories.

Still other traders singled out customs valuation methods as causing significant delays. Several traders drew attention that the tax authorities do not base their estimations on the value of goods reported in the Customs Declaration.[33] Instead, the Kazakh Customs bases its estimates on its own pricing system, even though the trader presents support documents confirming the value of goods (cash, receipts) and the country of origin (certificate of origin).

The problem arises when the Customs estimates do not reflect the actual value of the goods as established in the relevant contractual terms. This was the case of several survey respondents. The importers reported that the Customs estimates usually lead to higher valuation, especially in cases where the goods were obtained at a favourable price. They also reported that proving the actual value of imports only results in additional transaction costs, given the range of additional support documents requested by Customs, which vary by product.

It is worth noting that traders have up to 60 days to prove the value of declared goods, and failing to pay the VAT means that the clearance procedure cannot be completed. In such cases, and at the discretion of the declarant, goods can be: (i) removed immediately from Kazakhstan; (ii) taken to a temporary storage warehouse; (iii) delivered to the customs authorities at the point of destination in accordance with internal customs transit procedures. However, the time and additional costs associated with providing the additional documentation prompts traders to accept the Customs valuation (and avoid proving the value of the declared goods altogether), especially if they are expecting to receive new consignments during the (60 days) grace period.

Traders also complained about treasury's procedure for payment approval, noting that while at the border bank terminals offer efficient services, the treasury is slow in processing payments. Some traders noted that it takes up to 2 days to receive the payment confirmation, so that the release of goods is delayed.

Further complicating the import process are the changing customs regulations. For example, an exporter of cotton cellulose, whose company is located in Shymkent export processing zone, reported losing the benefits associated with preferential agent status when importing by road from China following the Customs decision to relocate the clearance of imports from China to four cities in Kazakhstan. The respondent explained that his company was requested to clear its goods at the Customs post in Almaty, causing significant delays and increases in the production costs.

Other traders stated that they find the classification of customs clearance posts confusing. As of August 2012, customs posts have been organized under four categories, including: Clearance Center, Energy, Special Economic Zone, Production, Airport and Border.[34] In principle, all goods are to be cleared in Clearance Centres, irrespective of the transport mode used, except for chemical and

[33] According to the Kazakh Customs Code, VAT on imports is invoice-based, whereby the amount of VAT is determined based on the total cost of imports, including cost, insurance, and freight value, reported in the special invoice that is provided by the exporter. This value, reported by the importer in the customs declaration, is used as the basis for calculating the amount of VAT. The tax authorities then add the amount of customs duties and excise taxes that must be paid during customs clearance. Code of the Republic of Kazakhstan on Taxes and Other Compulsory Payments to Budget as amended on 1 January 2012, Article 276-8.

[34] Order of the Customs Control Committee No. 459 of 20.08.2012, available online at: http://e.customs.kz/wps/wcm/connect/ru/portal/uchastniku_ved/information/ca/description_ca/prikaz

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other products[35] which should be cleared at the Energy post. Similarly, all goods are to be cleared in the Production Posts, irrespective of the transport mode used. In cases where goods that should be clearance at Energy posts are shipped into a city or a region that is located far away from the nearest Energy Post, then the trader could clear the goods in the nearest Clearance Centre or Production Post. In practice, importers of manufactured goods explained that perishable and consumer goods could not be cleared at Production Posts. Moreover, some Airport posts are located far away from airports, and it is up to the officials to decide as to the specific Production post or Clearance Center that will process and release the goods in question

Another trader, who imports depilatories, perfumery and other cosmetic preparations, stated that in 2011, the government introduced an additional test for electromagnetic radiation, which is time consuming and involves an equivalent US$100 in fees. The trader said that he only learnt about this requirement the last minute, as he proceeded to clear the imported products.

3.1.3 Use of electronic documents

The Kazakh customs has introduced electronic documents (e-docs) as early as 1997, which saw the launching of customs and transit declarations. These documents have been recently modified to ensure harmonization with CU partners, and their use was further promoted with the introduction of a modern e-customs system. Customs officials added that the e-system is also designed to facilitate information sharing among Customs offices and between Customs and other state agencies, noting that it features electronic data interchange (EDI). [36]

However, of the 33 interviewed traders, only 11 reported using e-docs, including invoices, customs declarations and transit declarations. Most of the remaining traders said that they were unaware that these documents exist. Others noted that they do not see any benefit, since customs still requests traders to submit the documents in hard copies. It is worth noting that the Kazakh Customs Code denotes that customs declarations are to be submitted to the customs authority of destination in hard (paper) and soft (electronic) copies. The submission of a hard copy is still required by law, and the submission of an electronic copy is emphasized as a question of "right". Still others drew attention that while they appreciate the importance of switching to e-documents, they are unable to do so due to the lack of funds and/or internal human resources.

Traders who use e-documents prepare and submit their customs declarations using rented or leased software, which in itself suggests the lack of internal IT resources. These traders also complained about the inflexibility of the customs e-docs system, error-rates and the costs associated with updates, which undermine their ability to reap expected benefits.

In particular, some reported that the server in Astana is often "unavailable". Others highlighted interoperability problems,[37] noting that they simply cannot connect to the Customs server given the heterogeneity between IT systems. This problem is further complicated when they receive e-documents from suppliers and freight forwarders, noting that these are "incomprehensible" to the

[35] These goods include: lubricating materials and techniques used for the oil or grease treatment of textile materials, leather, fur or other materials, other than preparations containing as basic constituents, petroleum oils or oils obtained from bituminous minerals, anti-knock, antioxidants, gum inhibitors, thickeners, anti-corrosion agents and other prepared additives, for mineral oils (including gasoline) or for other liquids used for the same purposes as petroleum products, goods coming to the enterprise (organization) of the fuel and energy complex in the subsoil use contracts, and goods under the Commodity Nomenclature of Foreign Trade of the Customs Union.

[36] The term electronic data interchange refers to the electronic transfer from computer to computer of commercial or administrative transactions using a specific standard for structuring the data/information in electronic document formats. Thus organizations might replace administrative documents with appropriate EDI message(s).

[37] Interoperability is said to occur when the different types of computers, networks, operating systems, and applications exchange information in a useful and meaningful manner based on common communications protocols and standards.

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Customs. Yet others explained that they find e-Customs system prone to "computer errors". Still others said that they find the system complicated, and complained about the lack of "online" help desks to respond to their queries.

3.1.4 Proposed recommendations

While Kazakhstan has gone a long way in modernizing its customs administration, the results of the survey point to the need for additional targeted efforts to reduce documentary requirements. Kazakhstan is not the first country to face this challenge; a lesson learnt from previous development experiences. These experiences suggest that the first step would be to assess every documentary requirement not only on its own right but also in relation to the overall flow of information. This also requires rethinking the management information system, with the aim of ensuring that traders submit information only once, so that repetitive keying of the same data is avoided, or at least, reduced to a minimum.

A first step in this direction would be to align trade documents with international standards. In aligning these documents, the Kazakh authorities may wish to consider using the UN/CEFACT Core Component Technical Specification (CCTS), which provides a conceptual framework for modelling document components in an e-business realm and in a technologically independent manner. This exercise is essential for streamlining documentary requirements and ensuring data interoperability among the various parties engaged in trade transactions. Once this exercise is completed, all trade-related procedures should be revised with the aim of phasing out regulatory and administrative procedures that add little value to business processes. In this respect, the UNECE/CEFACT business process analysis model could serve as a reference framework for guiding the revision.

Only after undertaking these steps should the government proceed to establish a single window facility, which allows for the preparation, filing, tracking, storage and seamless flow of all trade documents by enabling all parties involved in trade and transport to lodge standardized information and documents with a single entry. In designing this facility, the government may consider using UNECE/CEFACT Recommendations and Guidelines on Establishing a Single Window, commonly referred to as Recommendation 33.[38] The Recommendation identifies three basic models, which the government could choose from:

1. A Single Authority that receives information, and disseminates this information to all relevant governmental authorities, and coordinates controls in the logistical chain.
2. A Single Automated System for the collection, dissemination and integration of information and data related to trade that crosses the border.
3. An automated Information Transaction System through which a trader can submit electronic trade declarations to the various authorities for processing and approval in a single application. In this approach, approvals are transmitted electronically from governmental authorities to the trader's computer.

As the government proceeds along the above-mentioned lines, it could also consider taking immediate measures to:

- Promote mutual trust and partnership between customs and the trading community;
- Further streamline trade-related procedures;
- Further streamline regulatory and administrative procedures associated with obtaining trade documents;
- Reduce documentary requirements to a minimum;
- Further develop the existing dispute settlement mechanism; and,
- Expand the range of reasonably prices customs brokerage services available for traders.

Table 3.5 provides a set of detailed measures that the government may wish to consider:

[38] The text of the recommendation along with case studies on its implementation are available online at: http://www.unece.org/cefact/single_window/welcome.html

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Table 3.5 - Outstanding needs and recommendations for customs clearance and documentary requirements

Outstanding needs	Recommendations
Promote mutual trust and partnership between customs and the trading community	• Prepare guides and white papers explaining the basic objectives, terms and interpretation of regulations and procedures deemed by the private sector as difficult. Priority should be given to the procedures governing the issuing of trade documents that pose particular difficulties for traders. • Prepare guides explaining the procedures and regulations governing the use of e-documents. • Establish a help desk for disseminating reliable up-to-date border crossing rules and their interpretation. This help desk could be housed in one of the trade support associations, which could maintain an inventory of procedures and rules, disseminate regular updates to its members and to the trading community at large, conduct regular assessments of traders' needs and respond to their inquiries. • Encourage traders to carry out regular self-assessments using a checklist provided by the Customs. • Establish a customs to business partnership programme, whereby traders who pass the Customs audit could then be accorded significant benefits similar to those provided to AEOs.
Further streamlining of trade-related administrative and regulatory procedures	• Establish clear directions for guiding the development of new procedures. Such directions should ensure that new procedures are based on clear cost-benefit analysis; are embedded in laws; are clearly articulated to avoid different interpretations; and, are applied to all traders in a transparent manner. • Revise procedures that result in increasing transaction costs: – Consider exempting special economic zones from the requirement of using the relocated customs t centres for imports from China to major cities. – Consider revising the procedures related to the implementation of the contract record numbers that have replaced the transaction passport, with a view to reducing the documentary requirements associated with implementing currency control. In this respect, the government may wish to consider reducing the number of support documents that the trader needs to submit to register the export contract with a Kazakh bank. • Reconsider the existing categorization of customs posts. Clearance posts should be strategically located within close proximity to transport and logistics facilities. • Improve customs valuation methods drawing on international best practices, as these allow for taking into account the specifications and terms of supply established under contracts/agreements. In so doing, the government may consider drawing on the WTO Valuation Agreement and World Customs Organization (WCO) Valuation Compendium.[39] • Streamline the administrative measures associated with VAT payment approval with a view to reducing the waiting time to one day. In addition, establish a shared, single database of legal and natural persons, so that traders would have to submit (and obtain) only one "taxpayer registration number". • Further develop the procedure for advanced rulings by: – Expanding the scope of this procedure so that it includes the valuation of goods. – Streamlining the administrative procedures associated with implementing this procedure, with a view to reducing the waiting time to one day. In so doing, accord preference to e-business solutions, and ensure that such solutions are structured within the context of a single window arrangement. • Consider introducing pre-arrival clearance • Consider separating the release of goods from clearance based on WCO guidelines.

[39] WCO Valuation Compendium is available online at: http://www.wcoomd.org/en/topics/valuation/instruments-and-tools/val_customs_compendium.aspx

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Outstanding needs	Recommendations
Further streamlining of administrative and regulatory procedures for processing and issuing documentary requirements	• Analyse the administrative and regulatory procedures underpinning the issuing of trade documents with a view to removing unnecessary procedures and trade documents. • Consider replacing the existing paper-based procedures with e-based procedures. Such procedures should be implemented within the context of a single window facility (see below) • As a first step, the government may wish to reduce administrative and regulatory procedures associated with processing and issuing the following documents *Certificates of origin* – Establish a new procedure for guiding the issuance of certificates of origin. In particular, the government may wish to consider: (i) revising its rules of origin, as these appear to be restrictive with respect to some raw materials and products; and (ii) streamlining the administrative procedures to cut down on red tape. In so doing, the government may consider conducting a thorough examination of the procedures and internal rules of all the local branches of the Chamber of Commerce to identify the factors causing discrepancies in the treatment of companies with similar types of goods – Equip Village Councils with modern weighing scales and allow for a certain degree of tolerance in cases where the consignment exceeds the capacity of the weighing scale. *Export permits* – Consider determining the list of goods subject to export control at the ten-digit SITC level. – Reconsider the current one batch, one license system, so that the export permit may be used for several batches within the period of the licence validity and reduce the waiting time to one day. – Streamline the administrative procedures for obtaining export/import permits for ozone depleting substances *Veterinary certificates* Harmonize administrative and regulatory procedures associated with issuing veterinary certificates for sunflower with those applied in partner countries, particularly in Uzbekistan. *Ecological insurance policy* Streamline the administrative procedures for obtaining an ecological insurance policy. • Consider undertaking the following: – Embark on consultations with the Uzbek government to reduce the documentary requirements for obtaining transit permits through Uzbekistan. As both Kazakhstan and Uzbekistan are signatories to the TIR Convention, traders should not be requested to submit additional support documents – Harmonize SPS and veterinary regulations and requirements with main trade partners. – Further develop the existing waste classification system, as envisaged in the Kazakh Environmental Code, with a view to aligning this system with international approaches to reduce hazardous substances in products. Most notable are the Basel Convention on the Control of Trans-boundary Movements of Hazardous Wastes and their Disposal; the Stockholm Convention on Persistent Organic Pollutants; and, the International Atomic Energy Agency (IAEA) Safety Guide on the classification of the whole range of radioactive waste.

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Outstanding needs	Recommendations
Reducing documentary requirements to a minimum	As a first step, the government may wish to consider eliminating the following support documents: – For export permits: (i) the requirement of submitting certificates testifying that traders operate in domestic markets; (ii) for potentially hazardous products, and based on the revised system for the classification of waste products, consider reducing the number of documentary requirements. – For certificates of origin: the requirement of submitting notarized copies of the procurement documents for each product component. • In the medium term, the government may wish to consider revising regulations, as embedded in the Kazakh Customs Code, which establishes the submission of paper-based trade documents as a requirement. • Consider replacing all paper-based documents with e-documents. In the short-term, the government may consider phasing out paper-based documents where e-docs are already available.
Further developing the existing dispute settlement mechanism	• Revise the existing laws so as to vest the Council of Experts with the right to make binding decisions.
Expanding the range of reasonably priced customs brokerage services available to traders	• Establish advanced training programmes for customs brokers on issues related to customs clearance and brokerage services. Such programmes could be hosted and maintained in specialized associations, particularly the Kazakh Association for Customs Brokers.
Establish a single window facility	• Align trade documents to internationally recognized standards. • Based on the above, reduce the number of trade documents to the minimum. Particular emphasis should be given to removing documentary requirements that add little value for guiding decisions and eliminating the duplicate submission of data. • Analyze existing regulatory and administrative procedures underpinning export and import transactions using the UNECE/CEFACT Business Process Analysis Methodology. To ensure in-depth examination, the analysis should be conducted at the product level. In this respect, the government could choose to focus on key exports. • Based on the results of the business process analysis, remove all procedures that add little value to the export-import transactions. • Establish a single window facility using internationally recognized best practices.

3.2 At the border control

Efforts to speed up border control procedures at commercial crossing points have involved implementing the principle of integrated control by delegating certain control functions to Customs. At the time of writing this report, the Kazakh Customs was responsible for carrying out vehicle control, amidst preparations to assume the responsibility for sanitary and quarantine control functions.

Efforts have also involved integrating risk management as a key element in carrying out border control functions.[40] Initially, this involved selective application of simplified customs procedures to bona fide traders and their representatives, and the creation of a unified electronic information database for tracking and detecting violations of customs legislation. Thus, risk management was used on a limited basis, with only those accorded bona fide status[41] benefiting from reduced border control procedures.

This was the case until February 2010, which saw the adoption of the "Law On Approval of the Criteria for Assessing the Risk of Foreign Economic Activity". The Law expands the scope of risk man-

[40] The term risk management is to be understood here in the sense defined by WCO as coordinated activities by administrations to direct and control risk. See, WCO (2010)

[41] As per the terms provided under Chapter 6 of the Code of the Republic of Kazakhstan "On Customs Affairs in the Republic of Kazakhstan", which was adopted on 30 June 2010.

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agement to cover all Kazakh exporters and importers; provides the criteria for ranking traders by risk category (low, medium and high), with risk understood as the potential for non-compliance with Customs laws; accords traders assigned low risk ratings the benefits of reduced border control procedures; and puts the CCC in the driver's seat as the main party for spearheading risk management.[42]

The year 2010 also saw the launching of a risk assessment methodology, which provides a framework for applying selective control so that only consignments deemed risky are taken up for screening and physical examination.[43] The implementation of this methodology has benefited since November 2010 from the introduction of the Selective Control and Risk Management (SCRM) information system, which facilitates the construction of risk profiles using data generated from the customs declaration and other documentary requirements based on predetermined guidelines and indicators established in the methodology and the above-mentioned Law.

In addition, the CCC launched pre-clearance notification and introduced container scanning and spot-checking at the Southern borders, as a first step toward furnishing all border crossing points with state of the art inspection equipment.[44] The rehabilitation of border crossing points will also see the establishment of an Import and Export One Stop Shop facility to streamline vehicle inspection.[45]

[42] The "Law On Approval of the Criteria for Assessing the Risk of Foreign Economic Activity" was approved by the Ministries of Finance and Economy and Budget Planning in February 2010.

[43] See, the "Methodology to Determine the Degree of Selectivity of Action to Prevent and (or) to Minimize Risks", approved by the CCC in May 2010.

[44] Pursuant to the CU Commission Decision, no N688, "Common Model Requirements to Equipping Crossing Points" adopted by the Decision of the CU Commission in June 2011.

[45] As per Government Resolution "On Conception for One Stop Shop for Import-Export Operations", adopted in July 2011.

The needs assessment suggests that there remains room for improvement, as the principle of selective control is yet to be fully implemented by the different border control agencies. Officials from the CCC reported that around 24 per cent of imports and exports are physically inspected. This contrasts with best practices, whereby less than 5 per cent of goods are subjected to this method of border control.[46]

The results of the UNECE trade facilitation questionnaire show that actual incidents of physical inspection are higher than 24 per cent of commercial traffic. As shown in Table 3.6, it is often the case at certain points for Customs to physically inspect all commercial traffic (i.e., 100 per cent of consignments). This suggests that the level of physical inspection reported by the CCC indicates targeted, as opposed to actual, levels. It may also be the case that some customs control points report fewer incidents of physical inspection, pointing to mismanagement.

Moreover, border control is complicated by the involvement of several agencies. The CCC officials stated that border control is carried out by, in addition to Customs, the Border Services of the Committee for National Security and the Ministry of Agriculture. However, in practice, these are not the only agencies involved. As shown in Table 3.7, commercial traffic is sometimes subjected to physical inspection by, among others, railway authorities.[47] Moreover, some agencies carry out physical inspection in an excessive manner (i.e., 100 per cent of the consignments as opposed to sampling), suggesting a lack of proper coordination. Thus, physical inspection seems to be the norm, with negative consequences for transaction costs, especially since most of the crossing points lack adequate equipment. Traders reported that most of the physical checks are done manually, so that delays are quite long.

[46] A case in point is New Zealand's Customs. See, New Zealand Customs Services (2011) "Trade Facilitation Implementation Case Study-Risk Management: New Zealand's Experience", October.

[47] For details on the involvement of the Chamber of Commerce in border control, see the annex.

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Table 3.6 - Breakdown of exports subjected to physical inspection by product and type of control (per cent)

Product (HS abridged)	Type of inspection and agency							
	Customs	Sanitary & expidemiological *(Ministry of Health Protection)* [47]	Phyto-sanitary *(State Plant Quarantine Inspection Authority)*	Fumigation	KazAgreks (Food quality control)	Quarantine *(State Plant Quarantine Inspection Authority)*	Veterinary *(State Plant Quarantine Inspection Authority)*	Railway
Rubber chips	100	100						
Soft wheat and rye	N/A	100	100	100	100	100		
Oil pump	10							
Flour	30							
Heat and sound insulation	100							
sunflower oil and sunflower seed	100							
Soft drinks	5							
Glass finer	100		100					
Medicine								
Water pump	100							
Cotton cellous	100							
Sunflower seed	50		50					
Refined lead, copper matte	100							
Barley and wheat	100							
metal sheet	100							
copper alloys	100	100						100
sunflower oil and wheat	100					100	100	
Paints and varnishes	N/A					100		

[48] To be more specific, this inspection is undertaken by the Department of Committee of State Sanitary-Epidemiological Surveillance of the Ministry of Health Protection.

Table 3.7 - Breakdown of imports subjected to physical inspection by product and type of control (per cent)

Product (HS abridged)	Customs	Sanitary and epidemiological	phytosanitary control	Radiation Commission	Border Services
Harvesting machinery	15				
Flour	70				
Heat and sound insulation.	100				
Industrial fatty acid	100				
Electric motors	100		100		
Unalloyed steel tubes	100				
Cotton callous	100				
Mayonnaise	100				
Fertilizers	100				
Wheat and barely	100				
Metal sheet	N/A				
Copper alloys	N/A				
Plastic pipes	100				
Gear motors	5				
Sunflower oil					
Paints	100				
Kitchen sinks	100	100			
Metric motors	100			100	
Boilers	50	50			50
Dressing materials and platters	100				
Air purifiers	35				
Washing powder	70				
Device for geodetic monitoring	10				
Boats	100				

Exports and imports that are not subjected to physical inspection are requested to submit additional documentary requirements. Respondents reported that nearly all their goods are treated as "risky", with those originating from certain countries, particularly China, Indonesia, Republic of Korea and Kyrgyzstan, assigned the highest ratings. In such cases, traders are obligated, as per the Procedure for Control of Customs Value, to submit additional documents including, among others:[49]

- Price lists of producer of imported goods or its commercial offer
- Information on value of goods in the country of departure: export declaration or its certified translation
- Information on value of goods in terms of article, trade mark, brands, models if these data are not specified in the foreign trade contract (attachment, specification), invoice, accounting documents
- Packing lists
- Accounting records as received
- Reasons for getting discounts for certain shipment of goods and its amount, if such discount is stipulated by foreign trade agreement, but not determined by amount
- Information on loading, unloading, transshipment of goods (if several types of transport were used)

[49] See the Procedure for Control of Customs Value (attachment three). The procedure was approved by the Customs Union Commission under Decision No. 376 of September 20, 2010.

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- Documents proving construction, assembly, maintenance of goods made after importation to the territory of the Customs Union, with respect to the goods like industrial machinery or equipment.

Moreover, and as shown in Annex 1, traders are often delayed by divergent interpretation and application of procedures by border control agencies. In some cases, the application of procedures tend to be particularly taxing. For example, drivers have to leave their vehicles to have their passports checked, which slows the border crossing process.

The need for further developing border control is evident. As a first step, the government may consider taking additional measures to achieve integrated control. This could involve delegating further responsibilities to the Customs. In situations where control requires specialized knowledge and skills, inspection functions could be organized in such a way so that they are carried out jointly and simultaneously by the respective agencies. There is also the need to speed up the rehabilitation of commercial crossing points with modern, non-intrusive scanning equipment, keeping in mind that modern equipment is only a means for detecting risks and do not in themselves reduce risks. Yet another immediate measure would be to remove procedures that add little value to risk management. For example, drivers should not leave their vehicles to have their passports checked, and the number of agencies responsible for carrying out control functions should be reduced.

There is also a need to further develop cross-border risk management. Thus far, efforts seem to be centred on developing risk assessment techniques, which, while essential, are only one component in risk management. Risk assessment comprises a series of technical processes intended to identify and quantify individual risks, and these processes involve risk identification, risk analysis and risk evaluation. Its results form the basis of risk management, which involves the coordinated activities by different government bodies to control risk through the systematic application of management procedures and practices that provide the necessary information that addresses risks identified through risk assessment.[50]

At the same time, risk assessment is based on a narrow set of criteria. The current approach features a narrow focus on risks presenting threats to public revenue. Risks identified by Law are limited to incorrect classification according to the harmonized system, with the consequent misapplication of import and other taxes; tax exemption when not applicable; incorrect country or provider origin; preferential rates abuse; incorrect valuation; untrustworthy behaviour of traders; and, counterfeiting (piracy). Similarly, the risk assessment methodology attaches great importance to the traders' financial viability, as measured by size of their operations, the value of their exports/imports and level of indebtedness to Customs and tax authorities. These criteria along with the manufacturing sector that the trader operates in form the criteria for risk assessment.

This almost exclusive focus on revenue concerns is dictated by the daily problems facing Customs, which relate to curbing the smuggling of goods as well as combating commercial fraud, whereby traders attempt to evade or minimise the payment of duties and taxes. Officials from the CCC reported high incidents of illicit trafficking of prohibited items, particularly drugs, and contraband.[51] As justified as such a focus may be, it means that in practice, individual agencies are left with much discretion to decide as to additional criteria for risk identification and assessment. In addition, the law and the needs assessment methodology do not describe the treatment and follow-up actions for each of risk level, other than stating that traders assigned low risk ratings will benefit from reduced inspection procedures.

There is, therefore, a need to adopt a more comprehensive set. In general, governments risk typology includes, among others:

[50] See WCO (2010) Customs Risk Management Compendium

[51] For example, officials from the CCC stated during the face-to-face interviews that in September 2012 Customs stopped the smuggling of narcotics weighing over 180 kilograms.

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- Political risks to government institutions and overall stability
- Operational risks associated with various agencies of the country being unable to function and provide services, sometimes due to failure of automated systems.
- Compliance risks associated with failure to obey laws or regulations
- Economic risks that increase costs or decrease revenues
- Health and safety risks to the health and safety of a country's citizens
- International risks in regard to international relations
- Risks to critical infrastructure

Striking a balance between the requirements of ensuring unfettered cross-border trade and control could be best achieved by first defining risks not in relation to their sources, but in relation to the entire set of procedures and processes over which Customs authorities exercise their responsibilities. Such an approach is important as it allows for looking into non-financial sources of risk and brings into the spotlight trade facilitation, which is also an important area for which Customs shoulders the responsibility. Viewed from this perspective, risks could be divided under three areas, including effective and efficient collection of revenues; community protection and security and trade facilitation (see Table 3.8).

Table 3.8 - Suggested classification of risks

Risk Areas	Risks
1. Effective and efficient collection of revenue	1.1 Fraud 1.2 Lack of competent staff 1.3 Integrity
2. Community protection and security	2.1 Narcotics 2.2 Weapons of mass destruction 2.3 Intellectual property rights violations 2.4 Environmental health
3 Trade facilitation	3.1 Ineffective procedures 3.2 Lack of coordination with other agencies 3.3 IT Failure

Source: *WCO (2010) Customs Risk Management Compendium.*

This broad definition should form the basis for identifying risk criteria. There is a need to develop additional criteria for, among others, traders, transporters, freight forwarders, Customs brokers, insurance companies and other international supply chain intermediaries. This would allow for selecting transactions for specific checks, according to trader, agent, origin of goods, commodity code, duty rate, routing, value, and so on. Moreover, the risk assessment criteria and associated indicators should cover both proven risks (i.e., risks that have occurred and which the authorities have a record of), and potential risks (i.e., suspected risks, such as the development of a new commodity to which the owner assigns a trade mark then becomes the target of intellectual property rights violations). The World Customs Organization (WCO) produced customs-related risk indicator guides that could be used to improve the risk profiling system.[52]

This broad definition and risk assessment criteria should be established in a risk management policy, specifying the overall objectives and key priorities regarding risk management as well as organizational structures and resources to be applied to the management of risk. The risk management policy should also provide a detailed description of treatment and follow-up actions for each of risk level. This description could be implemented within the context of inspection selectivity programmes, which usually routes goods through different channels of customs control. These routes may include Green lane for goods that do not need further processing and can be released; the Yellow lane for documentary checks; the Red lane for physical checks; and the Blue lane for possible post-clearance audit.[53]

Needless to say, the success of any selective control programme is very much a function of the management information system underpinning it. Border control agencies need to have continu-

[52] See WCO (2010) Risk Management Compendium; and WCO Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework).

[53] This is the case of the selectivity module under the Automated System for Customs Data (ASYCUDA), which was developed by the United Nations Conference on Trade and Development (UNCTAD). Detailed information on this system are available online at: http://www.asycuda.org/

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ous and unfettered access to all the required information on border-crossing operations (data on goods, vehicle and driver), so as to decide on their need to participate in the documentary checks and/or in-depth physical inspection. While the government has introduced an automated system to support selective control, the system does not allow for a single window interface for advance information sharing and reporting, and for ensuring the efficient use of resources. For example, the different government authorities may, for example, programme joint inspections and ensure that reporting is done in such a way so that the results of physical checks can be used for different purposes.

Thus, in short, the government has to further strengthen border control with additional measures to achieve integrated control based on risk management. To ensure proper planning and overall oversight, the government may consider establishing an inter-agency risk management committee. The idea is to centralize oversight in a manner that fosters inter-agency coordination. Typically, the functions of the risk management committee should include:[54]

- Preparation and advice on risk appetite, tolerance and strategy for the senior management team and the Director General;
- Review of risk management reports for high-level risks, in particular those strategic risks which inform long-term decision making;
- Analysis of the risk management process and its effectiveness; and
- Review of organizational internal controls and their effectiveness.

Table 3.9 provides a summary of the recommendations for the government's consideration:

3.3 Issues related to the Customs Union

The needs assessment points to a number of issues related to the Customs Union (CU) of Belarus, Kazakhstan and the Russian Federation. These issues partly stem from the fact that the CU remains in the early implementation stages. Established in January 2010, the CU involves the removal of tariff and non-tariff barriers between the three partner countries. The implementation phase only commenced during the second half of 2010, following the adoption in July 2010 of the Customs Code of the Customs Union, which provides for: (i) application of uniform tariffs; (ii) common customs procedures; (iii) common rules for goods declaration; (iv) common rules for customs duty determination and collection; and (v) common rules for customs clearance and customs control.

Progress to date has involved the abolishment of customs control within the CU territory, including the dismantling of control points along the Russian-Belarusian border in January 2011 and the Kazakh-Russian border in July 2012. In addition, separate agreements and arrangements were concluded to facilitate the harmonization and mutual recognition of documentary requirements. Most notable are:

Unified Customs Tariff Regulations (including, but not limited to, a common commodity classification nomenclature and a customs tariff) provides for the unified customs duties for goods imported into the territory of the CU.

Unified Customs Non-Tariff Regulations of the CU, which allow imposing certain economic limitations on cross-border trade activities within the CU territory, such as quantitative restrictions, exclusive export and/or import rights with respect to certain goods, expert supervision, foreign trade licensing and special foreign trade constraints (including such constraints imposed for the purposes of compliance with certain international sanctions and/or for protection of the legitimate national interests of the member states, such as homeland security and public health).

Agreement on Mutual Administrative Assistance between Customs Authorities, which stipulates, among other things, sharing information about risks of violation of national and CU customs legislation.

A Single List of Products Imported to the CU, which defines products that are subject to mandatory conformity assessment (with issuance of the uniform documents).

[54] See WCO (2010) Customs Risk Management Compendium.

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Table 3.9. - Outstanding needs and recommendations for border control

Outstanding needs	Recommendations
Establishing a comprehensive cross-border risk management system	Expand the application of risk management to include all border control agencies. While Customs may spearhead the implementation of a modern risk management system, all border control agencies need to adopt and implement such a system based on a clear strategy and action-plan. Expand the scope of risk assessment criteria. Establish a risk management policy, with clear definition of administrative structures and resource allocation. Further develop the existing management information system. Establish an inter-agency risk management committee. Kazakhstan could consider implementing the WCO Standards to Secure and Facilitate Global Trade (SAFE Framework), which provides is a holistic approach to balancing supply chain security and trade facilitation. It sets forth principles and standards on advance cargo information, risk management, equipment for non-intrusive inspection, the Authorised Economic Operator (AEO) concept, and on integrating supply chain management into a single coherent instrument.
Simplification, rationalization and standardization of cross-border procedures	Revise decisions on cross-border procedures to ensure greater clarity and precision, provide clear instructions for implementation, and reduce discretion in interpretation by customs officers. Streamline border procedures both for the railways and the border agencies.
Further strengthening of inter-agency coordination at the borders	Improve interface connections between the information systems of the railways and border control agencies within the country. Establish a common approach to risk management across border agencies, based on the internationally recognized principles enshrined in the Kyoto Convention Establish a central body for assuming the task of developing and overseeing the implementation of a common approach to risk management.
Improving inter-agency coordination at the main border crossing points between Kazakhstan and China	Improve the interface connections between the Chinese and Kazakh railway and customs information systems. Simplify the procedures for obtaining transit permits, and reduce the number of documentary requirements. This could be done based on a detailed analysis of the procedure in consultation with the Chinese authorities in order to ensure that the needs and considerations of the relevant authorities in both countries are adequately addressed.

Unified list of goods that are subject to import and export licensing requirements.

Unified list of goods subject to sanitary - epidemiological surveillance

A unified register for intellectual property rights, whereby, pursuant to the CU Code, traders are required to register trade names and trademarks so as to prevent the importation of counterfeit products into the customs territory.

The three partners are in the process of developing the required laws for removing internal non-tariff barriers; a process that may take until 2015. In some cases, the transition periods may only be completed in 2020. As a result, many aspects of customs activities are still carried out based on national regulations and standards, causing uncertainty amongst traders with regard to temporary exceptions.[55] For example, the CU Commission established temporary exceptions to the free movement for certain goods. These goods will continue to be subjected to customs clearance and include:

Goods to which one of the member states applies anti-dumping, compensatory and/or special (i.e., preferential) duty rates

Vehicles imported into a member state when acquired by individuals of another member state for personal use (at present time, this exception is supposed to remain until 1 January 2013)

[55] CU regulations should be introduced into and eventually replace the corresponding national rules and standards currently in effect in each member state. Domestic laws apply if it is expressly provided for by the CU laws or to the extent that has not been regulated.

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Goods subject to export duties in one of the member states, which are exported from this member-state to another member-state in respect of which such export duties are applicable

The exceptions procedure also applies to goods for which customs duties are established at rates lower than the unified customs rates of the Customs Union. In the case of Kazakhstan, this exception applies to a large number of items (409 in total) and is supposed to be applicable until 1 January 2015. Thus, traders have to operate under conditions of shifting procedures, which translate into a high degree of uncertainty. The results of the survey show that uncertainty is aggravated by a lack clarity regarding the application of the new CU laws and procedures.

The results of the survey also suggest that Kazakhstan's ability to exploit the trade potential presented by the CU is undermined by a number of challenges. The first relates to the additional costs associated with the implementation of the CU rules and regulations. Traders reported incidents of repeated certification for imported goods that are not included in the "Single List of Products Imported to the CU". According to the CU legislation, such goods cannot be released when they move from one CU country to another, even if customs clearance has been performed in the country of entry. [56] In practice, this means that such these goods need to be certified again, which increases transaction costs. This was the case of a trader who imports alternating current (AC) motors via the Russian Federation, who reported that he has to certify the product in question more than once.

Similarly, the Unified List of Goods that are Subject to Import and Export Licensing Requirements has resulted in creating additional non-tariff restrictions. This list currently features six categories of goods, which are not allowed to circulate in the CU territory and another 27 categories, which are subjected import/export limitations. The latter includes, among others, precious metals, precious stones, some types of mineral raw material, pharmaceuticals, radio electronic equipment, high-frequency devices, alcoholic products, encryption/cryptographic facilities, and goods with cultural value. As some of these product categories are not included in Kazakhstan's list of products subjected to export/import control, the government had to revise the list, which has been recently expanded to include precious metals. The government had to also develop legal procedures for the issue of licenses and authorizations with respect to prohibited or restricted goods.

In addition, traders noted that the CU requirement of detailed descriptions for products with 10-digit HS code numbers is increasing transaction costs, since they have to pay EUR 20 for each additional page attached to the cargo declaration. They also drew attention to the fact that the Registry of Suppliers from Third Countries tends to be restrictive, and that they experience difficulties in obtaining veterinary import permits. They explained that the CU legislation stipulates that a trader should submit an application, in a standard form, with indications of the country of departure and tracking route. However, it is often the case that their suppliers deviate from the indicated route. In such cases, the shipment is held at a Customs post until the trader obtains a new permit. Moreover, several traders noted that exporters are requested to obtain certificates of origin for every shipment, even if the different shipments consist of the same product(s). For example, if a trader is exporting the same good to 15 countries, he is expected to obtain 15 certificates of origin.

The point was also made that some new documentary requirements, which were meant to facilitate trade, have resulted in increasing transaction costs. This is particularly the case of the Certificate of State Registration of the CU, which replaces the sanitary-epidemiological conclusions (Hygienic Certificate) for some of the products included in the unified list of goods subject to sanitary - epidemiological surveillance (see Box 3.1).

This document, obtained from the Ministry of health, is issued for a single merchandise category

[56] Decision of the Customs Union Commission N0. 319 of 18 June 2010. Available online at: http://www.tsouz.ru/kts/kts17/pages/p6_319.aspx

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Box 3.1 List of Good for which the Certificate of State Registration is required

- Mineral water, bottled potable water, energy drinks, alcoholic production;
- Specialized foodstuffs, including baby food, dietary products, nutritive for athletes, nutraceuticals, raw materials for nutraceuticals, organic products;
- Foodstuffs produced using genetically modified organisms;
- Cosmetics; tools and products of oral hygiene;
- Disinfectants, disinfectants and disinfestations;
- Household chemicals;
- Personal hygiene objects for children and adults;
- Products meant for contact with foodstuffs (except the tableware, table belongings, manufacturing equipment) and others

and it may include only the same products (homogeneous products containing the same ingredients and produced using the same technological process) and is valid for the whole period of the production or product shipment throughout the CU territory. In practice, and according to an importer of chemical products (surface active agents other than soap), obtaining the certificate may take up to two months, in view of the range of documentary requirements. The traders note that much of the delay is caused by the difficulties associated with obtaining the certificate of origin.

Traders also noted that CU arrangements have rendered it more difficult to obtain the status of bona fide traders or Authorized Economic Operators. As per the terms of the CU Code, obtaining this privileged status requires providing a guarantee, referred to as General Security for Customs payments and taxes, in the tune of EUR 150,000,[57] an amount which traders find prohibitive, especially those belonging to the SME sector.

In addition, the clearance of goods within the Customs territory is often complicated by the fact that Kazakh nationals cannot clear their goods in either Belarus of the Russian Federation. This results in additional costs as Kazakh traders have to rely or Russian or Belarusian customs brokers to clear their goods. Similarly obtaining payment confirmation from the tax authorities of CU members is time consuming. Under the rules, the tax authorities should stamp the statement on imports of goods and payment of indirect taxes (the "Statement") as confirmation of payment of indirect taxes within ten business days from the date when a taxpayer submits four copies of the Statement in writing and other supporting documents specified in the Tax Code. Traders described this procedure as time consuming, and some reported having to submit several support documents.

Yet another set of challenges relate to Kazakhstan's readiness/ability to comply with the CU rules and procedures. The previous section showed that Kazakhstan has to address a number of challenges before migrating to a paperless environment, and traders highlighted concerns regarding the CU e-docs requirements, noting that Kazakh customs may not necessarily have the required capacity and experience in managing such declarations. The same applies to risk management, and this challenge is complicated by the fact that the risk management system at the CU level remains work in progress. The CU arrangements stipulate that customs control should follow the principle of selectivity based on a risk management system,[58] and that the three partners should share information about risks of violation of national and CU customs legislation.[59] However, the risk management systems of the three members vary in terms of risk technologies, management techniques, and degree of automation.

[57] See, Article 39 of the CU Code and Article 61 of the Kazakh Customs Code.

[58] As per CU Code.

[59] As per the Agreement on Mutual Administrative Assistance of Customs Authorities.

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Moreover, the definition of what should be shared remains unclear. While the CU Code defines risk as the potential for non-compliance with customs legislation of member countries of the Customs Union, in practice, basic types of infringements and crimes in the field of customs are defined in the national codes of administrative offences and criminal code of each member country. This renders it difficult to arrive at a clear definition of risk criteria and indicators. Moreover, different liabilities for offences in the field of customs could potentially lead to higher incidents of customs violations in member states with less stringent laws.

Experts also drew attention that the Kazakh Adjustment Rules,[60] which were adopted in 2010 within the context of the CU risk increasing the traders' VAT liability. According to the CU Adjustment rules, Custom authorities may adjust the amount of VAT payable on taxable imports if:[61]

- The value of goods has been determined without taking into consideration of the pricing principle provided for in Article 276-8 of the Tax Code of the Republic of Kazakhstan;
- The value of goods specified in a statement or obligations does not comply with the submitted documents of proof;
- It has been determined that the transaction price per unit of goods specified in a statement or obligations deviates from the received minimum price of the goods;
- It has been determined that the costs specified in Sub-Clauses 1) – 3) of Article 276-8 of the Tax Code of the Republic of Kazakhstan have been understated;
- The statement specifies an incorrect currency rate.

The amount of payable VAT is determined by calculating an average price of the good in question using the price of similar goods (and if such goods are unavailable, the price of homogenous goods) imported into the territory of Kazakhstan from other CU members during the last ninety days. If, taking into account the accepted minimum deviation (as defined in the Adjustment Rules), a calculated average price exceeds the price stated in the customs declaration, the Customs may impose additional VAT on the difference between the average price and the one stated by the importer. The problem with this method is that it does not take into account the specifications and terms of supply established under contracts/agreements, thereby running the risk of increasing the traders' tax burden.

Table 3.10 provides a list of needs that the Kazakh government may wish to bring to the attention of the CU Commission:

60 Resolution of the Government of the Republic of Kazakhstan No. 1249 dated November 28, 2010 on Approval of Rules for Taxable Import Volume Adjustment within the Customs Union. The Kazakh Government integrated the Adjustment Rules into the national Customs Code.

61 Rules for Taxable Imported Volume Adjustment within the Customs Union, Clause 5.

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Table 3.10 - Outstanding needs and recommendations for the attention of the Customs Union

Outstanding needs	Recommendations
Improve inter-agency coordination at the borders	• Introduce interface connections between the information systems of the railways and the border agencies (particularly customs) within the CU territory. In so doing, Kazakhstan and its CU partners may consider following the systems adopted within the context of the EU funded Transport Corridor Europe-Caucasus-Asia (TRACECA) initiative. • Establish a common approach to risk management, as explained in section 3.4.
Further simplification, rationalization and standardization of cross-border administrative and regulatory procedures	• Expand the list of products included in the Single List of Products Imported to the CU. • Reduce the number of products included in the Unified List of Goods Subjected to Import and Export Licensing Requirements. • Streamline and simplify the existing procedures for issuing the Certificate of State Registration. • For cargo declarations: Consider reducing the level of description for products with the 10-digit HS code, and revise the pricing policy so as to reduce the cost of additional pages. • Simplify the procedures associated with importing veterinary products • Consider revising the procedures for issuing certificates of origin. One approach would be to require such certificates for each product, as opposed to each shipment. • Consider simplifying the procedures for issuing the payment confirmation, and reduce the waiting time to one day. • Consider regulations that would allow traders to clear goods in their country of residence. • Consider expanding the Registry of Suppliers from Third Countries. • Consider further developing the CU Adjustment rules. In particular, improving customs valuation methods drawing on international best practices, as explained in section 3.3.
Further develop the CU common risk management system	• Consider consolidating the existing systems into a common risk management system, as explained in section 3.4. • Consider revising the terms for granting AEO status for traders operating in the CU territory. It would be useful to avoid setting a threshold for determining financial solvency, as this threshold differs from one industry to another. This approach find roots in international best practices[62] as well as the experiences of other countries.[63]
Strengthening the public-private dialogue and cooperation	• Establish a coordinating committee to conduct regular consultations with the private sector representatives concerning the CU procedures and documentary requirements. • Establish a customs to business partnership programme, as explained in section 3.4.

62 Rules for Taxable Imported Volume Adjustment within the Customs Union, Clause 5.

63 Rules for Taxable Imported Volume Adjustment within the Customs Union, Clause 5.

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3.4 Overland transport infrastructure: rail and road networks

Kazakhstan's overland transport system, including railway and road networks, carries 90 per cent of all cargo in the country. The rail network stretches over 19,293 kilometres (km), of which 14,319 km is available for railway services. These services connect the country with China, Kyrgyzstan, Uzbekistan and the Russian Federation (of the 15 railway border points, 11 are with the Russian Federation; 2 with Uzbekistan; 1 with Kyrgyzstan; and 1 with the People's Republic of China). About 30 per cent (or 4,296 km) of the railway tracks are electrified, and the railway network's inventory of rolling stocks comprised 1,772 locomotives and 107,833 freight wagons at the end of 2011.[64]

The railway system is operated by the state-owned Joint Stock Company (JSC) "Kazakhstan Temir Zholy" (KTZ),[65] and supervised by the Ministry of Transport and Communications.[66] KTZ owns the national railway network and around 40 per cent of the country's stock of freight wagons, which is equivalent to 42,234 wagons (Table 3.11). The remainder (65,599 wagons) is in the hands of private operators, of which only a limited number are Kazakh . Moreover, most the wagons are for bulk transport, reflecting the country's heavy reliance on the export of raw material.

Table 3.11- KTZ inventory of freight wagon by service

Freight wagons by service	Number of cars
Auto	54
Bulk	38,014
Intermodal	4,164
Mineral cargo	2
Total	**42,234**

Source: *Kazakh Ministry of Transport and Communications.*

64 The Agency of Statistics of the Republic of Kazakhstan (2012) Statistical Yearbook-2011.

65 KTZ is 100 per cent owned by the State via the National Welfare Fund "Samruk-Kazyna".

66 As per the terms of "On railway transport" Act of December 2001, the Ministry of Transport and Communications is responsible for the implementation of public policies targeting the railway system, as part of its boarder mandate of coordinating, regulating and controlling the functioning of the country's transport sector.

As for the road network, it stretches over 88,4000 km, with East Kazakhstan, Almaty, Karaganda, and Kotanay regions having the longest networks. Five international roads, around 23,000 km in total, pass through Kazakhstan. These include:

- Almaty— Astana — Kostanai (route M-36) with exit to Chelyabinsk (Russia)
- Almaty — Petropavlovsk with exit to Omsk (Russia)
- Almaty — Semei — Pavlodar (route M-38) with exit to Omsk
- Almaty — Shimkent (route M-39) with exit to Tashkent
- Shimkent — Aktobe — Uralsk (route M-32) with exit to Samara (Russia)

Transport development is guided by the "Programme for Development of Transport Infrastructure of the Republic of Kazakhstan for 2010-2014". The Programme identifies investment programmes for the development of road and railway networks (as well as civil aviation, water transport); stipulates the modernization of the transport sector's institutional setup and legislative framework; and emphasizes capitalizing on the country's potential as a transit country between Europe and Asia.

Consistent with this Programme, the government launched a number of road and rail development projects. Key road development projects involve the construction of the international "Western Europe–Western Republic of China corridor", which starts from Orenburg (Russian Federation) and ends at Korgas (the People Republic of China), passing through five Kazakh oblasts (regions) and involves 2,624 km of roads in Kazakhstan. Moreover, the new roads under construction in Kazakhstan will be of Class I and II and will, therefore, be equipped to carry higher volumes of transit traffic. Other projects involve the renovation of roads, particularly key sections within transit corridors and national roads by 2014 (Table 3.12).

As for railway development, major projects include the construction of the railway link Uzen- Turkmenistan along the international North – South corridor, to connect Kazakhstan with Gulf States and Iran. Yet another project is the Korgas (Kazakhstan) - Zhe-

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Table 3.12 - Key road sections slated for renovation over the period 2010-2014

Road sections within transit corridors	Road sections within national corridors
• Omsk – Pavlodar – Maikapshagai, • Astrakhan – Atyrau – Aktau –Turkmenistan border • Shuchinsk – Kokshetau – Petropavlovsk • Russian border –Uralsk – Aktobe • Astana – Kostanai – Chelyabinsk • Aktobe – Atyrau • Astana –Yereimentau – Shiderty • Kurty – Burylbaital	• Almaty – Ust-Kamenogorsk. • Usharal – Dostyk. • Zhezkazgan – Petropavlovsk. • Kyzylorda – Pavlodar – Uspenka – Russian border. • Beineu – Akzhigit – Uzbekistan border. • Local motor road networks.

Source: *Program of Accelerated Industrial and Innovative Development of the Republic of Kazakhstan for 2010-2014.*

tygen (China) railway link to facilitate cross-border trade with/through China, which has been historically conducted via the Dostyk (Kazakhstan) – Alashankou (China) railway link. These projects form part of a broader effort to re-establish Kazakhstan's strategic position in the complex web of routes along the historic Silk Road linking Asia to Europe via Central Asia, South Asia and the Middle-East.

In addition, efforts are underway to reform Kazakhstan's national railway operator within the context of the "Strategy of JSC NC KTZ Development till 2020", which seeks to bring about functional separation between infrastructure development and services delivery. This separation, commonly referred to as "unbundling of functions",[67] is intended to increase the participation of the private sector (since it allows for discerning those components that could be subcontracted on a competitive basis), and separate the management of passenger services and freight services.

The KTZ development strategy also involves modernizing the company's rolling stock. It stipulates writing off around 54 per cent of its freight cars, 68 per cent of main-line locomotives, as well as 82 per cent of switch engines and passenger cars by 2020 due to the end of service life. The strategy also envisages the acquisition of modern, state-of-art locomotives and freight wagons.

The above-mentioned efforts are underscored by an emphasis on increasing the private sector's participation in the transport sector's development, within the context of public private partnerships (PPPs) arrangements. Achievements to date have involved adopting the 2006 "law on Concessions", which allows for awarding the private sector long-term lease concessions (for up to thirty years) over a range of state-owned assets outside oil and gas extraction.[68] The concessions are based on the build-transfer-operate model (BTO), whereby the title of the facility is transferred to the State immediately upon completion of construction with the understanding the investor will operate the facility during the concession period to recover the capital and earn reasonable profits. In 2008, the Joint Stock Company (JSC) "Kazakhstan Centre of Public-Private Partnership" was created to promote and expand the scope of PPP arrangements.[69]

The assessment suggests that there remains room for further improvement. Traders and representatives of railway and truck operators reported a number of bottlenecks, which stem from the lack of adequate infrastructure facilities, the slow pace

[67] The unbundling involve the separation of, among others, transport and non-transport activities, of transport infrastructure and operations, of different lines of business (passenger versus freight services), functions or regions.

[68] The said Law was meant to provide a legal basis for concession arrangements, which first emerged in 2005. The first concession agreement, granted in July 2005, involved the construction the railway section "Station Shar-Ust-Kamenogorsk". This was followed in December 2005 by the concession agreement for the construction of the interregional electric power transmission for the North Kazakhstan –Aktobe region.

[69] A detailed description of the Kazakhstani Centre of Public-Private Partnership mandate and activities is available on the Center's website at: http://kzppp.kz/en/page/view?id=1. For a crisp discussion of the changes during the early nineties till 2008, see USAID (2008) "Kazakhstan: PPP opportunities in a young country: the challenge is around the corner".

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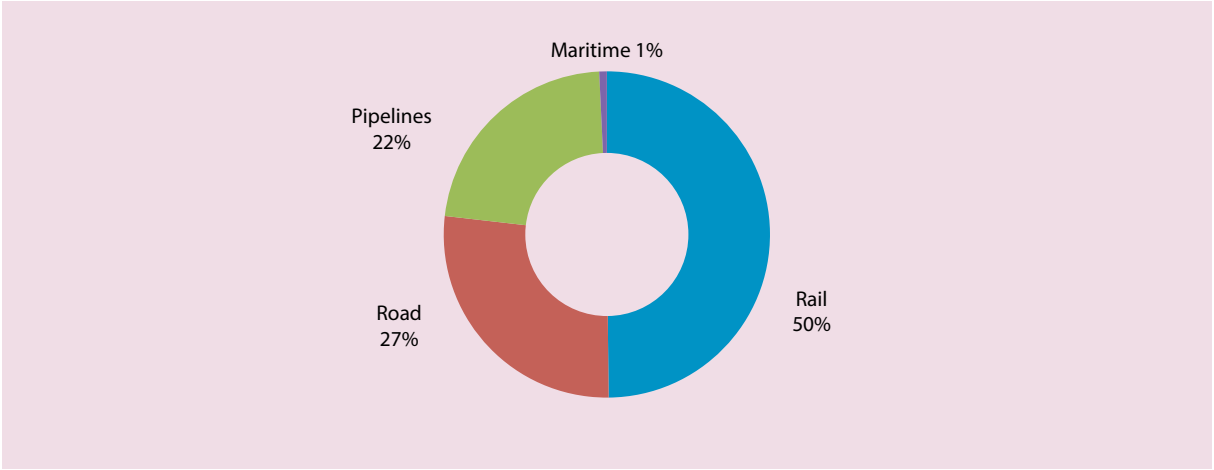
Figure 3.1 Breakdown of Kazakh freight turnover by transport mode



Source: *Agency of Statistics of the Republic of Kazakhstan, Statistical Yearbook 2011.*

of the transport sector's liberalization effort, and the lack of proper legislation and equipment for curbing cargo theft. Below is a discussion of these bottlenecks along with key recommendations for the Government's consideration.

3.4.1 Lack of adequate infrastructure

As previously mentioned, the surveyed traders prefer to transport their exports and imports by rail, and this applies to the entire community of traders. Available statistics show that railways account for around 50 per cent of total freight turnover (or 223.6 out of 446.8 tons-kilometres) at the end of 2011 (see Figure 3.1).

The lower use of road transport is mainly due to a lack of road flexibility. In Kazakhstan, the permissible dimensions for standard road transport are 18.5 m (length), 2.6 m (width) and 4.0 m (height). This measurement includes the cargo and the truck, and the maximum permissible weight is 38 tons. Vehicles require a special permit when transporting oversized cargo and these vehicles are by definition longer, wider, or taller than the above specifications. Obtaining permits for oversized and mass cargo is time consuming, even though the Government has reduced the waiting period for application review from 15 days to 5 days, and increased the validity of such permits from 3 to 6 months.[70]

Yet another reason for the lower use of road transport is the poor quality of the road network for both international and local traffic. The network consists mainly of Class III stretches of local and international road networks that are in need of repair or complete reconstruction. In addition, some rural areas remain poorly connected to major cities, thereby undermining agricultural and industrial development.

The traders' preference for the rail transport does not mean that the railway system is without problems. The system, which was established during the pre-independence period, lacks the required infrastructure, technologies and skilled manpower to meet the traders' increased demand for tailored services, quality, speed, competitive pricing and reliability.[71]

A pressing obstacle reported by all traders is the shortage of cargo containers for transporting goods by trains and by trucks. This problem is mainly because Kazakhstan's exports are bulkier than its imports, so that empty containers are often left in exporting countries waiting for enough cargo to bring back.[72] In some cases,

[70] In accordance with the Government Resolution "On Adoption of Rules for Arranging and Carrying out Shipments of Invisible Oversize and Over mass Cargoes" of August 2011.

[71] The Programme was adopted pursuant to the Government's resolution 1006 of 2010.

[72] For a detailed discussion of how the shortage of rail wagons impact the traders' competitiveness, see the business process analysis (Annex I).

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this problem is also caused by the low stock of rail wagons in importing countries. This is particularly the case of traders exporting wheat to Iran. These reported that grain wagons returned from there after 40 days. With trucks, the lack of cargo containers is also associated with the country's low population density. Trucks often travel long distances, and the probability of having products to send back from sparsely populated areas is low.

The needs assessment also revealed the need to improve the efficiency of rail links and terminals. Traders noted the lack of client-oriented services and the suboptimal quality of available services. Moreover, experts reported that cross-border trade with/through China is hampered by the incompatibility between the Chinese and Kazakh customs and railway information systems, which results significant delays that can reach up to 6-8 days. Still other factors are the differences in track gauge (and thus the need to change locomotives), traction power supply and signalling systems and a general lack of inter-operability, as China uses international gauge tracks while Kazakhstan uses the Russian Federation's standard. In addition, several traders emphasized the necessity of improving trans-loading facilities at the border crossing point of Dostyk.

As Kazakhstan cannot develop a significantly more diversified export mix in the immediate and medium terms, the shortage of cargo containers can be mitigated by increasing the railway system's stock of cargo containers, and improving the efficiency of the rail links and terminals.

3.4.2 Slow pace of the transport sector's liberalization effort

The nature of the transport sector, as a cornerstone for the support of socio-economic development, and the difficulties associated with achieving economies of scale and scope means that any attempt to improve the legal framework governing the transport sector should take into account, among others:

- The existence of natural monopolies;
- The existence of asymmetric information between transport operators and regulators;
- The need for private investment in infrastructure facilities;
- The need to assign risks between operators and government.

This means that reform efforts should emphasize effective regulation and regulatory institutions as opposed to eliminating regulation altogether. While this imperative constitute the premise of the government's Programme for Development of Transport Infrastructure of the Republic of Kazakhstan for 2010-2014, the different state agencies seem to have conflicting preferences as to the appropriate legal framework for supporting the Programme's implementation.

These differences find their strongest expression in the negotiations over the draft law "On introducing amendments and addenda to some legal acts of the Republic of Kazakhstan on the issues of transport". The approval process saw the exclusion of proposed provisions (which were to be added to the Budget Code) for the allocation of funds from the national budget for financing the development and procurement of traction rolling stock (i.e. locomotives). The negotiations also ended with a decision to maintain State control over railroad freight rates, as enshrined in the "Law on Natural Monopolies and Regulated Markets" and implemented by the Natural Monopolies Agency.[73] This means that freight managers will continue to see their competitiveness eroded by the cross subsidy of passenger services, which are often given priority in overall railway development planning. The implication is that freight trains will continue to suffer serious disadvantages, because the rates they charge do not necessarily suffice for covering the infrastructure and maintenance costs associated with their operations.

In addition, the different state agencies are yet to agree on the proposed amendments for further developing PPP arrangements. These changes

[73] The law is available (In Russian) at: http://online.zakon.kz/Document/?doc_id=1009803&sublink=30018

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involve the modification of a number of laws, including, among others, the law on Concessions, the Budget Code and tax Code.[74] The proposed amendments are intended to:

Provide additional guidelines and to further clarifylegal terms

Launch new measures for sharing commercial risks. For example, one of the proposals stipulates that the government should guarantee the consumption of a percentage of the service delivered/ produced by the concessionaire, as this would mitigate the demand risk, facilitate project financing, and increase competition for the tender. Yet another proposal states that the government should set a maximum threshold for income, with the idea of accruing the excess revenues within a special account to cover increased maintenance costs.

Ensure a level playing field for the private and public sectors through clarification of terms and the clarification of procedures for conducting tenders.

Allow for launching other PPP models. For example, the Government could consider Build-Operate-Transfer (BOT) concession agreements, whereby the transfer of facilities occurs at the end of the operational concession period.

The above-mentioned shortfalls suggest the need for boosting the transport sector's liberalization efforts. As the level of local entrepreneurial skills and funding sources are sometimes limited, the pace of regulatory reform must be sequenced. Yet, the government could undertake a number of immediate measures, so that it could eventually limit its involvement to the provision of basic access and utility services, with the private sector owning and providing transport service facilities.

In addition to reforming the legal framework along the lines of the above-mentioned proposals to promote PPP, the government needs to establish generic and sector wide methodological manuals for guiding PPPs; reduce the threshold for participation (which is currently at 20 per cent); guarantee a minimum level of income for the concessionaire and allow for the participation of consortiums of several private sector entities in the PPPs. The government also needs to establish a proper risk assessment methodology for guiding the design of PPP terms and arrangements and involve the private sector in the design and construction of infrastructure facilities, even when these are owned and managed by the public sector. In such cases, private sector can be used in: (i) putting the initial project together; (ii) assembling the necessary partners to complete the scheme; and (iii) procurement and operational management.

At the same time, the government would need to consider abolishing State control over railroad freight rates. This would require establishing a method for guiding pricing policies. Development experiences elsewhere suggest that such methods are not particularly difficult to establish, especially since freight railways do not involve externalities, as compared to, for example, sparse networks of inter-urban passenger railroad links where externality effects (i.e., rural access to medical and other social services) may be large.

3.4.3 Lack of proper legislation and equipment for curbing cargo theft

Several traders reported high incidents of cargo theft at Kazakh railway stations. As explained in the annex, cargo security seals are often unlocked and then put back again by cargo thieves after removing the goods. Traders added that reporting theft incidents is of limited help because it is often not possible to link the theft to a particular railway, and noted that some insurance companies avoid insuring goods transported by railway. Cargo theft is also a common problem to traders who transport their goods by road. Traders explained that their goods are often stolen while in transit, particularly when transported via Uzbekistan. In most cases, the goods are stolen during inspection.

Existing laws on cargo safety denote that the consignor (i.e., the party sending the goods) should take the necessary measures to provide for the cargo's safety, while the railway operators should

[74] The proposed changes are available (in Russian) at: http://kzppp.kz/en/page/view?id=25.

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guarantee the safety of cargoes during transportation.[75] The carrier shoulders the bulk of the responsibility, and is expected to ensure safety of the cargo from the moment of reception till delivery to consignee. The accountability for loss, shortage, damage (spoiling) of cargo, is passed to the consignee the moment the consignment is delivered to its intended destination.[76]

An immediate step to curb cargo theft would be to commit railway operators and carriers to minimum security requirements by considering legislation that would standardize or mandate security systems. There is also a need to intensify the presence of security forces at national railway stations at commercial crossing points. Yet another measure would be to create a central reporting system, whereby traders, insurance companies, law enforcement agencies, carriers and transport operators would be asked to fill out standardized incident reports on a regular basis (i.e., not only cargo theft incidents). Such a centre could help respond not only to specific incidents and for possible recovery of stolen products, but also allow for detecting and reporting to state agencies, transport operators and carriers areas/sectors that are particularly vulnerable to cargo theft.[77] At the regional level, the government should consider entering into cooperation agreements with its immediate neighbours to tighten security measures against cargo theft.

Furthermore, insurance companies should consider reasonable information sharing across cargo community and tailoring policies to reflect the cargo theft problem. For example, companies may implement standard requirements to obtaining a policy or coverage, which commit insured trucking companies, yard owners or carriers to implementing certain strategies or systems. In return, the companies would factor the equipment and strategies that have been implemented by the insured party in question into premium ratings and deductibles.

For their part, traders should invest in modern equipment. Security seals, commonly used to prevent theft, are not effective since they can be easily unlocked. Companies should consider using locking seals, which feature a combination of a lock with seal features built-in, and carriers should use modern systems (i.e. GPS systems) to track products remotely. Table 3.13 provides a summary of the outstanding needs and proposed recommendations.

75 Articles 41 and 33 of Law No. 266 of Republic of Kazakhstan "About railway transportation" adopted on 8 December 2001.

76 Article 76 of the Law of Republic of Kazakhstan No. 266 "About railway transportation", adopted on 8 December 2001.

77 An example of such systems is the one established by Cargonet (www.cargonet.com), which is an American national cargo theft database and secure information sharing system dedicated to cargo theft prevention and recovery.

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Table 3.13 - Outstanding needs and recommendations for the overland transport infrastructure

Outstanding needs	Recommendations
General	
Speeding up the pace of the transport sector's liberalization effort	• Reform the legal framework to promote PPPs • Establish generic and sector wide methodological manuals for guiding PPPs. • Reduce the threshold for participation in PPPs. • Guarantee a minimum level of income for the concessionaire and allow for the participation of consortiums of several private sector entities in the PPPs. • Establish a proper risk assessment methodology for guiding the design of PPP terms and arrangements. • Involve the private sector in the design and construction of infrastructure facilities, even if the facilities in questions are expected to owned and operated by the public sector.
Railway	
Improving the railway capacity at the main border crossing points with China	• Improve the range and quality of services at rail terminals • Align Kazakh customs and railway information systems with international standards (see recommendations under section 3.3 for further details). • Align track gauge, traction power supply and signalling systems with international standards. • Undertake new investments in transloading facilities, particularly at the Dostyk and Korgas border crossing points • Invest in those stretches along the railway route China-Urumqi-Alashankou-Dostyk-Moscow-Brest where trains need to change their undercarriages due to different rail standards
Curbing cargo theft	• Rehabilitate the existing stock of railway freight wagons using modern anti-theft technologies • Introduce modern systems for ensuring secure trade, such as security fences, trembler alarms, forensic markers and modern closed circuit television (CC TV) security cameras • Intensify security presence at major border crossing points. • Revise the existing laws to commit railway operators and carriers to minimum security requirements • Prompt insurance companies to ensure reasonable information sharing • Traders should be assisted to invest in modern equipment. The government may consider establishing special credit facilities for this purpose • Establish appropriate cooperation mechanisms for combating cargo theft with immediate neighbours
Increasing the storage capacity in cities that are located at critical rail nodes	• Give priority to storage facilities in the cities of Karagandy, Shymkent, Aktobe, and Aktay
Improving the quality and supply of rolling stock	• Promote investments in modern rolling stock by attracting local and foreign investment • Promote the establishment of credit schemes for local rolling stock owners, so as to enable them to undertake required investments.
Road	
Improving the capacity of road networks	• Invest in bringing existing networks up to Class I and Class II road quality standards • Build new roads, where needed, to improve in-country and border connectivity
Improving the quality and supply of truck fleets	• Promote investments in modern truck fleets, including foreign investments. • Promote the establishment of credit schemes for local truck/trailer fleet owners, so as to enable them to undertake the required investments. • Consider increasing gross vehicle mass limits, as each extra ton on the vehicle means lower unit costs and this could provide an incentive for truck/trailer owners to invest in modernizing their fleets.

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3.5 Logistical services

Kazakhstan has over 70 enterprises offering logistics services, including express and courier companies, customs brokers and freight forwarders, multimodal transporters, manufacturers and traders. Express and courier companies are mainly representative offices of multinational corporations, which oversee domestic distribution and have warehouses and truck fleets. Locally licensed customs brokers, freight forwarders and multimodal transporters offer services that involve shepherding cargo through customs clearance and sending it by rail or road to its final destination. Several freight forwarders offer integrated solutions. As reported by the survey respondents, such services include: preparing and processing documentary requirements, arranging for storage, arranging for insurance, customs clearance and logistical services. Kazakhstan also has a number of logistics centres and free-trade zones. The two most well-known logistics centres are the High Tech Logistics Centre in Almaty and the DAMU-Almaty industrial logistics centre. The first centre is used for the de-consolidation of imported goods from the Russian Federation and Europe, after which the goods are redistributed within the country or to other parts of Central Asia. The second offers integrated logistics services such as storage, handling, transport, customs clearance, and repacking. Alongside the logistics centers are a number of exhibition complexes for production, warehousing, transportation and the final sale of products. These complexes house facilities for showcasing products for wholesalers and, to a lesser degree, retail customers. The goods exhibited usually originate from China and the Russian Federation, and then are trucked to the complexes, which have warehouses and trucking depots for loading and unloading operations.

The government intends to establish 10 logistical centres by 2015. These centres will be spread throughout the country, including in Special Economic Zones (SEZs), airports and transport stations. Most notable among the logistics centres that will be established in SEZs is the centre located in the "Khorgos - Eastern Gate" SEZ, in the eastern part of the Almaty region at the main border with China. The centre will feature a dry port facility to enable the interim storage of semi-finished goods for manufacturing or merchandise for domestic and regional markets. The government is also considering the establishment of a facility in the vicinity of Shymkent city at the main border with Uzbekistan, as there are considerable delays for vehicles crossing this border.

The needs assessment suggests that the existing logistical services leave much to be desired. The traders described arranging for the transport of goods as particularly difficult, and complained about the lack of adequate warehousing facilities, especially for perishable goods. The traders also reported that they are often hesitant to send cargo in containers, because they lack clarity on the technical and documentation requirements and due to the high costs for shipment.

The problems reported by traders cannot be understood in isolation of the overall conditions of transport services, particularly those related to the multi- modal transport industry. This industry is still in its infancy. Only a few freight forwarders are able to offer integrated (global) multi-modal services. These are mainly foreign companies (to be more specific, the branches of international companies), since the bulk of local forwarders are only familiar with transporting cargoes using conventional rail and truckload methods. Moreover, there is no specific legislation or framework for multi-modal transport. As a result, the rules and regulations for each of the individual modes used must be applied, so that liability regimes are different. The occupation of Multi-modal Transport Operator is not recognized, so that undertaking multi-modal transport under one contract is not possible. Separate contracts need to be concluded for each specific mode, and traders often have to enter into contracts with forwarders in each country along the transport corridor In addition to inflating transport cost, this results in unclear responsibilities and liabilities and opens the door for misusing different legal interpretations.

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The results of the survey also suggest that traders could benefit from advanced training in the area of logistics management. Such training should focus on: enabling companies to develop logistics strategies, identifying the impact of imminent changes in the supply chain and the organizational or functional changes that need to be made to ensure quality and operational efficiency. Indeed, successful experiences show that companies should develop different logistics strategies for specific product lines, specific countries or specific customers. Table 3.14 provides a summary of the outstanding needs and proposed recommendations.

Table 3.14 - Outstanding needs and recommendations for logistical services

Outstanding needs	Recommendations
The limited capacity of logistics service providers	Establish advanced training programmes in logistics, especially in integrated logistics and multi-modal transport, supply chain management, innovative technological applications
The traders' limited experience in logistics management.	Establish advanced training programmes in the area of logistics management, with a special emphasis on the development of logistics strategies.
The lack of integrated multi-modal transport services	Develop the legal framework for allowing multi-modal transport to be carried out under one contract Establish the required insurance and credit schemes for supporting multi-modal transport Develop the capacity of local freight forwarders Further develop Kazakhstan's Freight Forwarders Association with targeted training so that it could assume a lead role in developing the freight forwarding industry Establish advanced training programmes for local freight forwarders, with a special focus on multi-modal transport and International Federation of Freight Forwarders Associations (FIATA) related areas.
The limited use of containers	While developing the multi-modal transport industry would go a long way in addressing this problem, the government should also consider: Developing container terminals Investigating options for lowering the cost of container shipping, such as incentives for the return of outgoing containers in order to have a larger stock of available containers

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Chapter Four

Regulatory and Standardization Policies

Beginning in 2005, Kazakhstan embarked on reforming the legal framework underpinning the Standardization, Quality Assurance, Accreditation and Metrology (SQAM) system. The Kazakhstan Technology Law; the Law on Assurance of Measurement Uniformity; List of Products and Services Subject to Compulsory Certification; the Law on "On Accreditation in the Sphere of Conformity Assessment"; the Law "On Measurement Traceability Assurance", and other supportiing regulations were enacted, with a view to adhering to the requirements of the WTO-administered TBT and SPS agreements.

The entire SQAM system is under the responsibility of the Committee for Technical Regulation and Metrology (CTRM), which reports to the Ministry of Industry and New Technologies and comprises three subordinate bodies: the National Accreditation Centre; Kazakhstan Institute of Standardization and Certification (KazInSt), which is considered to be the national standardization body; and, Kazakhstan Institute of Metrology (KazInMetr).

CTRM is a member of the CIS Interstate Council for Standardization, Metrology and Certification; ; enjoys an observer status at the International Electrotechnical Commission (IEC); and, participates as a full-fledged member in 4 IEC Technical Committees. CTRM has also been a member of the International Organization for Standardization (ISO) since 1994, and Kazakhstan participates as a full-fledged member in the work of 16 ISO Technical Committees, and as an observer in 13 ISO Technical Committees.

At the time of writing this report, CTRM was spearheading the implementation of the mid-term "Program on Technical Regulating and Quality Infrastructure Establishment for the Period of 2010-2014", which was launched in 2010 as part of a broader effort to support innovation. It was also spearheading the implementation of the following CU agreements and decisions:

- Agreement on the Circulation of Products Subject to Mandatory Conformity Assessment on the Customs Territory of the Customs Union.
- Agreement on Mutual Recognition of Accreditation of Certification Bodies and Testing Laboratories (Centers) Performing Conformity Assessment.
- Agreement on Sanitary Measures.
- Agreement on Veterinary-Sanitary Measures.
- Agreement on Plant Quarantine.
- Agreement on Common Technical Regulating Principals in the CU.
- Decision on Common Sanitary Requirements
- Decision on Common Veterinary Requirements
- Decision on the Single List of Products Subject to Mandatory Compliance Evaluation.

This section provides a brief description of Kazakhstan's SQAM system, and highlights the major needs emerging from the UNECE needs assessment. It also makes a number of recommendations for the Kazakh Government's consideration.

4.1 Technical regulations

In Kazakhstan, the Law of the Republic of Kazakhstan "On Technical Regulation", [78] which entered into force in 2005, provides the basic legislation for technical regulations, which covers products,

[78] As defined in the said Law, the term "technical regulating" (техническое регулирование) is to be understood as the legal and normative regulation associated with identification, establishment, application and implementation of mandatory and voluntary requirements for products, services, processes, including conformity assessment, accreditation and public control over compliance with the established requirements. For example, voluntary standardization and certification is an integral part of the system of technical regulating. The term "technical regulation" (технический регламент) is to be understood as the legal document that sets mandatory requirements for products and/or their life cycle processes. This distinction is in line with the definition given in ISO/IEC Guide 2 "Standardization and Related Activities – General Vocabulary".

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processes and services, including design, storage, transportation, sales and disposal of products.

CTRM is considered as the national authorized agency for ensuring, through continuous monitoring, that technical regulations address national requirements and provide for the safety of goods and services available in domestic markets. The Committee also coordinates and provides methodological support for technical development; carries out the analysis and expert assessment of existing technical regulations to ensure their compliance with the public policy in the sphere of technical regulating; and, undertakes regulatory impact assessment (RIA) of draft technical regulations.

The development of individual technical regulations is supervised by relevant line ministries. Each line ministry has a dedicated "Expert Council on Technical Regulating", which prepares draft technical regulations within the context of a participatory approach. Thus, each Council brings together representatives of relevant public authorities; Technical Committees for Standardization; business associations; enterprises and research institutions.

As of January 2012, CTRM has supervised the development of 97 technical regulations that are based on international and regional rules and norms. Most notable among the technical regulations are those related to pressurized equipment, equipment for oil and gas industry, construction and electrical products; all of which are based on the principles of the New EU Approach to technical harmonization and standards. [79]

Since 2011, and just like its CU partners, Kazakhstan has suspended the implementation of its national Programme for technical regulations and standard setting development, and is focusing instead on elaborating part of the common technical regulations for the CU based on internationally recognized and regional rules and norms.[80] Existing national technical regulations for products will be valid until the entry into force of the common technical regulations, and mandatory regulatory requirements will only be established for a limited number of groups of products (66) included in the "Single List of Products" for which compulsory requirements have been established for the Customs Union by the Commission of the CU.[81]

However, enterprises, particularly small and medium-sized enterprises (SMEs), may face difficulties in complying with the common technical regulations to the extent that they are more advanced and require more investment or knowledge for implementation. In terms of sectors, enterprises engaged in the manufacturing of food will be particularly affected, given the various food safety requirements under by the CU technical regulations. Most notable among these requirements are those related to traceability and the Hazard Analysis and Critical Point (HACCP) system, which are guided by the EU Regulation 178/2002/EC. Kazakh manufacturers producing food items of animal origin have been historically denied access to EU markets, because of their failure to comply with the mentioned EU regulatory requirements.

Moreover, the existing system of technical regulations could benefit from further harmonization, particularly in the area of safety requirements. For example, enterprises have to adhere to two sets of safety requirements for food products, baby products, toys, and construction equipment. These include the requirements established under the relevant laws,[82] as well as those established by the Ministry of Health. It is often the case that the safety requirements established by the laws are not necessarily in line with those set by the Ministry of Health.

Table 4.1 provides proposed recommendations for the consideration of the Government.

79 A compendium of Kazakh standards and technical regulations can be found online (http://www.snip.com/index.php?Page=337). Additionally, firms can subscribe to CTRM's online Regulatory Information Service, which publishes monthly updates to technical regulations and standards in use in Kazakhstan

80 The CU partners agreed to adopt common technical regulations for 61 products, which are included in the Single List of Products. As of January 2010, Kazakhstan has elaborated 9 draft common technical regulations for the CU.

81 See Commission decision No. 526 dates of 28 January 2011 and the amendments to the said decision by the Council of the CU under decision No. 102 of 23 November 2012 No 102

82 See the Law on Safety of Food Products; Law on Safety of Toys; and, Law on Safety of Equipment and Machinery.

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Table 4.1 - Outstanding needs and recommendations for for technical regulations

Outstanding needs	Recommendations
The enterprises' limited capacity to comply with the CU common technical regulations	Establish an action plan to enable the enterprises to produce according to the new regulations. The plan needs to be sector-focused, and be based on a needs assessment of the enterprises' production capacity.
The need for further harmonization, particularly in the area of safety requirements	Conduct a systemic review of the legal framework underpinning safety requirements to identify instances of duplication and excessive requirements Consider using UNECE Recommendation L as a reference framework for guiding the consolidation of the legal framework.

4.2 Standardization

Standards development is coordinated and supervised by CTRM in its capacity as the national standardization body based on the law "On Technical Regulation", which also provides the legal framework for standardization. At present, the national register of standards include 66,135 rules and norms. As shown in Table 4.2, these norms and rules represent: State standards of the Republic of Kazakhstan (ST RK); international and regional standards; standards of international and regional organizations (STO); and standards of foreign countries (including national standards and standards of organizations).

Around 70 per cent of the State standards (ST RK) have been harmonized with international norms and rules, so that they are voluntary and are geared toward ensuring the safety of life and health of consumers. This means that state standards no longer dictate requirements to manufacturers on aspects such as the shape or colour of goods as was the case under the old legislation.

Efforts to capitalize on achievements to date are challenged by slow progress in modernizing the national institutional set-up for standardization, which comprises, in addition to CTRM, KazInSt, and 48 sectoral "Technical Committees for Standardization". These Committees are responsible for elaborating draft State standards, and bring together representatives of line Ministries and other public institutions, research and development institutions and enterprises. Another agency is the Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Data Center, which forms part of KazInSt.[83]

However, standard setting remains very much the domain of State agencies. CTRM, which oversees the standardization system:

- Establishes the national plan for the development of State standards
- Approves guiding documents for the development, approval and implementation of State standards.
- Decides on the establishment and composition of Technical Committees for Standardization and coordinates their activities.
- Sets the State standards developed by the Technical Committees for Standardization.
- Defines the application of other categories of standards in Kazakhstan.
- Conducts expert evaluation and analysis of harmonized standards to ensure the fulfilment of technical regulatory requirements.

[83] Created in 2005, the Centre is responsible for interfacing with the WTO Secretariat, the WTO members, the international organizations, providing them with up-to-date information on: (i) the accepted or offered technical regulations (further – TR), standards, the sanitary and phytosanitary measures, changes; (ii) conformity assessment procedure; (iii) membership or participation of the Republic of Kazakhstan in international organizations and international treaties in the areas of standardization, sanitary and phytosanitary measures, conformity assessment, as well as bilateral and multilateral accreditation; and, (iv) sources of projects, technical regulations, sanitary and phytosanitary measures and standards. The Center also publishes all notices on TBT and SPS in the "Bulletin of the Information Centre of TBT / SPS".

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Table 4.2 -. Kazakhstan's system of standards

State standards of Kazakhstan (ST RK) (627)	CIS interstate regional standards (GOST) (19637 items)	National standards of Russia (GOST R) (9593 items)	European standards (EN and others) (9593 items)
IEC Standards (1325 items)	Standards of International Organization of Legal Metrology (OIML) (224 items)	ISO standards (11313 items)	National Standards of Germany (34 items)
National Standards of Great Britain (6297 items)	European Regional Standards (CODEX Alimentarius) (192 items)	USA standards: American petroleum Institute, and American Society for Testing and Materials. (2393 items)	Standards of the Republic of Korea (4970 items)

- Represents the Republic of Kazakhstan in international and regional organizations for standardization.

Thus, contrary to international best practices, national standards are approved by a state agency, and not an independent standardization body. Moreover, KazInSt is subordinate to CTRM. CTRM appoints KazInSt management, and the Institute is financed from the State budget (in addition to fees for standardization). Moreover, KazInSt has limited influence on standardization development, with its functions limited to:

- Providing expert evaluation of draft state Standards and on interstate and CU standards.
- Publication and dissemination of State standards, international and regional standards, and standards of foreign countries and organizations.
- Translating into Russian and review of translated international and regional standards, national standards and standards of organizations of foreign countries.
- Maintaining the register of the state technical regulating system, including record-keeping of standards applied in the Republic of Kazakhstan as well as supervising the activities of the Data Center on TBT and SPS measures and the Public Bank of Technical Regulations and Standards.
- Providing export training services to standardization specialists.
- Concluding agreements with national standardization bodies abroad for the translation (into Russian) and dissemination of their standards.

CTRM also approves the Chairs of the Technical Committees for Standardization, who are elected by Committee members. The predominance of CTRM also means that Kazakhstan has limited access to legal documents on international standards from ISO, IEC and a number of other internationally recognized standards bodies. For example, for ISO, such documents can only be acquired within the context of formal agreements between ISO and relevant national agencies. Kazakh public agencies engaged in standardization cannot enter into such agreements. This is so because they are prohibited by law from entering into agreements (or other forms of cooperation) with non-governmental agencies, if such agreements involve financial obligations (such as payment for ISO publications).

Another drawback to the existing system is the fact that line Ministries and other relevant public authorities have to approve the use of regional and international standards as a reference in Kazakhstan. This means that for Kazakh enterprises' focusing on domestic markets, there is only a limited choice of relevant regional and international standards that they can adopt, which undermines their ability to improve their competitiveness. There is also the need to include specific clauses that reference the use of technical specifications in existing laws, so as to facilitate their use. Sometimes, products manufactured according to a technical specifica-

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Table 4.3 - Outstanding needs and recommendations for standardization

Outstanding needs	Recommendations
The absence of an independent national standardization body	• The establishment of an independent national standardization body. As proposed by international experts, the most efficient way would be to transform KazInSt into an independent governmental agency or into a private sector entity (Joint Stock Company or Limited Liability Company).[84]
Further modernization of the legal framework	• Conduct a systematic review of the legal framework underpinning standardization to ensure greater precision in the division of functions among the different agencies involved. • Modify provisions concerning the application of regional, international and national standards, to enable domestic enterprises that produce according to international standards to compete in domestic markets and to provide improved market access conditions for regional and international enterprises seeking to market their products in Kazakhstan. • Include specific clauses that reference technical specifications in existing laws, so as to facilitate their use.

tion by EU public and private entities are denied access to Kazakhstan. Below are proposed recommendations for the Government's consideration. Table 4.3 provides a summary of the outstanding needs and proposed recommendations.

4.3 Conformity assessment and accreditation

In 2014, conformity assessment is regulated by the Laws: "On Technical Regulating"; Law "On Accreditation in the Sphere of Conformity Assessment"; "On State Control and Surveilance in Kazakhstan and, the technical regulation "On the Procedures of Conformity Assessment". Conformity assessment is also subject to relevant CU agreements and decisions.[85]

The accreditation of certification bodies and testing laboratories is carried out by the National Accreditation Center (NAC) of the Republic of Kazakhstan. NAC became a member of the International Laboratory Accreditation Cooperation (ILAC) in 2010 and, respectively, joined ILAC Mutual Recognition Agreement (MRA), which demonstrates international recognition of the Center and its compliance with the international standard ISO/IEC 17011 "Conformity Assessment- General Requirements for Accreditation Bodies Accrediting Conformity Assessment Bodies". Currently, NAC is actively working towards becoming a member of International Accreditation Forum (IAF) and towards joining the IAF Multilateral Arrangement on Recognition of Certification Bodies (MLA).

At present Kazakhstan has 163 certification bodies, 105 of which are included in the Single Register of Certification Bodies and Testing Laboratories (Centres) of the CU. Kazakhstan also has 644 testing laboratories, 476 of which are included in the Single Register of Certification Bodies and Testing Laboratories (Centres) of the CU. Of the 644 laboratories, 30 per cent are public laboratories and the remaining is privately-owned.[86] The entire conformity assessment system is supervised by CTRM. In particular, CTRM:

- Sets out the procedures for inspecting products that are subject to mandatory conformity assessment; and the procedures for suspending or cancelling conformity certificates and declarations.
- Establishes the forms used for conformity certificates and conformity declarations, as well as for sample collection reports and for product tests.

84 These proposals were submitted to the Government as part of the preparations for the EU funded project, "Development and Implementation of Trade Policies and Regulations". The project was launched in mid-2010 and is expected to be completed in early 2013.

85 Up till 2013, conformity assessment was also regulated by the law "On Mandatory Product Conformity Assessment in the Republic of Kazakhstan". The said law was abolished.

86 At the time of writing this report, the Single Register of Certification Bodies and Testing Laboratories (Centers) of the Customs Union comprised 31 conformity assessment bodies and 42 testing laboratories, dedicated to carrying out a conformity assessment to ensure adherence to the CU technical regulations.

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- Establishes conformity marks and the procedures associated with the use of these marks.
- Coordinates the activities of public authorities, certification bodies and laboratories in the sphere of conformity assessment.
- Organizes the attestation of auditors in the sphere of product certification and management systems.
- Coordinates the state control over the fulfilment of technical regulatory requirements on the part of authorized bodies;
- Maintains the register of conformity assessment documents prepared and issued according to the common CU form.

Around 2,000 product categories are currently subject to mandatory conformity assessment, constituting, according to some respondents, over 70 per cent of the commodities available on domestic markets. For products that are subject to mandatory certification according to the national legislation of the Republic of Kazakhstan, but that are not included in the Single List of Products Subject to Mandatory Conformity Assessment within the Framework of the CU, enterprises (including foreign enterprises selling their products in local markets and national importers) have to acquire a conformity certificate from accredited certification bodies, and this certificate is only valid in Kazakhstan. For the products included in the CU Single List of Products Subject to Mandatory Conformity Assessment, enterprises can choose between Conformity Certificates and Declaration of Conformity based on unified forms and/or certificates of conformity and Declaration of Conformity based on national legislation of the CU member countries.

Moreover, the Kazakh conformity assessment system is complex, given the multitude of mandatory requirements in respect to goods, which are set out in different standards and legal documents (e.g., documents regulating sanitary, environmental, veterinary and other spheres), rather than in in one place. This situation imposes non-tariff administrative barriers

Table 4.4. Outstanding needs and recommendations for conformity assessment and accreditation

Outstanding needs	Recommendations
Further harmonization of existing conformity assessment procedures	• Conduct a systemic review of existing procedures to identify inconsistencies with international norms and rules and instances of duplication • Based on the results of the review, take the necessary measures to simplify, streamline and standardize conformity assessment procedures • Consider introducing electronic conformity certificates, assessment certificates and declarations
Bringing the accreditation system to internationally recognized norms and best practices.	• Consider entering into new mutual recognition agreements (MRAs) with European and other partners
The weak institutional capacities of testing laboratories	• Develop the capacities of testing laboratories based on a cost-benefit analysis, and in consultation with CU partners • Explore options with relevant EU authorities for supporting conformity assessment bodies, which are notified within the framework of the EU and willing to conduct conformity assessment (in the territory of Kazakhstan) of Kazakh exports to the EU. • Assist enterprises to comply with the requirements of obtaining conformity assessment certificates, including by establishing a help desk for providing them practical advice. • Intensify efforts to enable NAC to obtain full membership with IAF.

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to trade, and complicates the implementation of international standards in Kazakhstan.

It should be noted that it is not a common practice among Kazakh enterprises to apply for declarations of conformity, which suggests weak technological capacities. The CTRM is trying to address this by introducing the international standard ISO/IEC 17050 "Conformity Assessment. Supplier's Declaration of Conformity".

Moreover, most of the laboratories have outdated facilities and use outdated testing methods, which undermines their ability to cover all the requirements found in the regulatory documents adopted within the framework of the CU. This may lead to the rejection of the services of Kazakh's testing laboratories. For example, Kazakhstan does not have laboratories that could identify: genetically modified sources; or the quantity of dioxin in food; the quality of colorants; nor evaluate environmental requirements for motor fuel according to EU standards. Table 4.4 provides proposed recommendations for the Government's consideration.

4.4 Metrology

In Kazakhstan, metrology and legal metrology is based on the law "On Measurement Traceability Assurance", which is guided by the IOLM international document D1 "Elements of the Law on Metrology". The structure of the Kazakh metrological service comprises:

- State metrological service, consisting of CTRM and its regional offices as well as KazInMetr, which constitute the national authorized agency for undertaking the calibration of measuring instruments.
- Time and frequency service; service for standard samples and properties of substances and materials; service for standard reference data on physical constants and properties of substances and materials, and services for supporting traceability measures.
- Metrological services of public authorities, individual persons and legal entities;
- Auditors in the area of ensuring traceability measures;
- Consultancy services in the field of traceability assurance.

CTRM MINT is in charge of ensuring traceability measures, and is mandated with the following tasks:

- Coordinating metrological services of the Republic of Kazakhstan;
- Setting out rules of creation, approval, storage, application and comparison of national standard measurement units;
- Maintaining the registry of the state traceability assurance measures;
- Representing Kazakhstan in international and regional metrology organizations;
- Establishing the forms for the certificates used for type approval, certification and verification of measuring instruments;
- Establishing regulatory priorities, sequencing the development of regulations and ensuring the adoption of regulations to ensure the traceability of measures.
- Approving the national standards for measurement units;
- Determining the values that are not included in the international system of units, but which may be approved for use in the Republic of Kazakhstan;
- Organizing scientific research in the area of metrology;
- Establishing the classification of the state unit standards used in the Republic of Kazakhstan;
- Defining the general metrological requirements for means, methods and measurements, including the methods for the verification of measuring instruments;
- Determining priorities for the use, production and maintenance of measuring instruments, organizing the collation of results and the calibration of measuring instruments;
- Organizing and conducting State metrological supervision;

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- Organizing training and retraining of personnel in the area of ensuring measurement traceability;
- Carrying out licensing and accreditation in the area of ensuring measurement traceability, and defining the related list of services to be accredited;
- Establishing the production procedure, storage and application of verification marks.

Kazakhstan has achieved significant progress in the development of its systems of metrology and legal metrology. It is a member of the International Organization of Legislative Metrology (IOLM); General Conference on Weights and Measures; Euro-Asian Cooperation of National Metrological Institutions (COOMET); and the CIS Council for Standardization, Metrology and Certification. Moreover, Kazakhstan was the first among Central Asian countries to publish its CMC (calibration and measurement capabilities) data in the BIPM database of key comparisons and, as of January 2012, thirteen of its measuring instruments were recognized.

By 2013, Kazakhstan had 341 verification laboratories; 32 calibration laboratories; and 5 accredited legal entities that conduct metrological attestations of measurement techniques. Ongoing efforts to further develop metrology and legal metrology involve upgrading 30 national reference standards to bring them up to the accuracy level established by international requirements; improving the current system for maintaining national reference standards; and strengthening KazInMetr's research and development capacity.

"KazInMetr" is accredited in the national system since 22 May 2008 and by the foreign body on accreditation of the Slovak metrological institute (SNAS) since 12 March 2010 to carry out work on measuring instruments calibration. This is why there are conditions in the republic for carrying out the measuring instruments calibration for all interested legal entities,. Calibration certificates are issued following requests

Most recently, the Government has commenced a step-by-step plan to reduce state metrological control over the development of measuring instruments for calibration. In addition, and within the context of the CU, Kazakhstan has also introduced voluntary calibration of measuring instruments. Advanced training on calibration and on the conformity assessment of measuring instruments to relevant requirements are also provided on a regular basis.

There remains room for improvement. KazInMetr issues verification certificates that are not recognized abroad as "calibration certificates" since they lack information required by best international practice, COOMET recommendations or Bureau International des Poids et Mesures (BIPM) standards. Moreover, the certificates are issued only in the Russian language and, therefore, cannot be used outside of Russian speaking countries. In addition, Kazakhstan still uses a verification system controlled by the state and formalized by law, which does not comply with international metrological systems that feature an emphasis on calibration certificates and calibration methods. Another concern is the limited number of calibration laboratories undermines industrial innovation. Industry and manufacturers are unable to develop new ideas, improvements, research, developments and innovations because they cannot obtain, for themselves, equipment that is certified to be calibrated to the levels needed in many advanced areas of research and manufacturing. Therefore, they are deprived of the flexibility to determine the accuracy and reliability (degree of measurement uncertainty) that they need for new and improved products that are currently in the pipeline.

Thus, although KazInMetr's and NAC's technical competence are recognized internationally through MRA, their certificates will not be recognized in other countries and by foreign enterprises due to unknown and non-harmonized procedures, a lack of essential information (e.g. measurement uncertainty) or execution in a language that is not accepted in the export market (e.g. only Russian). Table 4.5 provides proposed recommendations for the Government's consideration.

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Table 4.5 - Outstanding needs and recommendations for metrology

Outstanding needs	Recommendations
The metrological system, including measurement procedures, calibration certificates, language, etc. needs to be harmonized with the international requirements on all levels (KazInMetr, secondary laboratories, production laboratories and industry). Otherwise, recognition by other countries will remain difficult, if not impossible.	Develop an advanced training programme in the areas of metrology and accreditation in cooperation with leading regional and international institutions Establish a depository of key legal documents in the English language Consider the possibility of issuing bi-lingual (Russian/ English) certificates, so that non-Russian speaking partners could determine the procedures and technical specifications used by Kazakh testing and certification laboratories.
Develop the institutional capacities of calibration laboratories	Develop the capacities of calibration laboratories, and consider establishing new ones based on a cost-benefit analysis.

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Chapter Five

Conclusion

This study is a first step in supporting Kazakh trade development efforts. It showed that while Kazakhstan has gone a long way in addressing technical and regulatory barriers to trade, there remains room for improvement. The study identified a number of procedures and regulatory barriers throughout the international supply chain and has proposed practical measures for addressing them. These recommendations can be summarized as follows:

- There is a need to improve overland transport infrastructure, i.e. rail and road networks. Traders and railway representatives and truck operators reported a number of bottlenecks, which could be addressed by: (i) speeding up the pace of the transport sector's liberalization efforts under public-private partnerships; (ii) further developing infrastructure with a special focus on improving the railway capacity at the main border crossing points with China. It would also be important to increase storage capacity in cities that are located at critical rail nodes and to improve the quality and supply of rolling stock. In addition, current legislation should be revised to meet the challenges described in this study.
- Kazakhstan should expand the range of logistical services available to traders. A first step could be to establish a modern legal framework and develop the professional skills required for supporting a multi-modal transport sector.
- Kazakhstan should consider reducing documentary requirements. While Kazakhstan has gone a long way in modernizing customs administration, additional efforts to reduce documentary requirements could still be undertaken. This would also require rethinking the management information system, with the aim of ensuring that traders submit information only once, so that repetitive entering of the same data is avoided, or at least, reduced to a minimum.
- Kazakhstan should improve border controls and, especially coordination between border agencies. The study suggests a number of measures to achieve integrated control based on a comprehensive risk management system, including further strengthening of inter-agency coordination at the borders; and the simplification, rationalization and standardization of cross-border procedures.
- Kazakhstan should further develop its system of standardization, technical regulations and quality control. The Government might wish to consider establishing an independent national standardization body; further harmonizing existing conformity assessment procedures and technical regulations, particularly in the area of safety requirements; and developing the capacities of its calibration laboratories.

Given the broad range of areas that the recommendations address, it would be difficult to implement the proposed measures in a single undertaking. As a follow-up to this assessment, the UNECE is working with the Kazakh National Advisory Committee to develop an implementation plan for the medium and long term that sequences implementation of the recommendations by priority.

In implementing the proposed measures, the government may wish to consider establishing a trade facilitation forum. As shown throughout the study, delays at the main border crossing points are often caused either by the traders' failure to satisfy the documentary requirements or by the specific regulations of other non-Customs border control agencies and State bodies. Yet consultations with the private sector seem to be limited.

A trade facilitation forum would provide a broad mechanism for involving all relevant government and private sector stakeholders, and ensuring continuous discussions before, during and after

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the implementation of new procedures and regulations. Differently put, it would serve as a vehicle both for public/private dialogue and for dialogue between the different private sector stakeholders, whose needs and priorities differ by sector, stage of development and location.

UNECE recommendations on national trade-facilitation bodies provide guidance and practice examples of best practices for developing or consolidating such a broad mechanism.[87] Successful experiences suggest that attention must be given to avoiding (as much as possible) the creation of a new institution. One appropriate approach is to aim for a "Forum on trade facilitation", which brings together all relevant parties in an ad hoc working group format. The forum could be housed in any market-support institution (whether governmental or private sector) that has extensive outreach. It would then need to be mandated with tasks such as:

- Providing a national forum to discuss actions for facilitating formalities, procedures and documentation used in international trade and transport.
- Submitting proposals to the government in relation to trade and transport-related rules and regulations.
- Making recommendations on future logistics investments in infrastructure, ITC and other pertinent areas.
- Increasing awareness of the methods and benefits of transport and trade facilitation.
- Representing Kazakhstan at regional and international forums on trade facilitation.

[87] See Recommendation No. 4: "National Trade Facilitation Bodies" (TRADE/CEFACT/1999/11), and its supporting document: "Creating and efficient environment for trade and transport" (TRADE/CEFACT/2000/8).

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Annex I

Business Process Analysis - Food Products Exportation

A1. Introduction

Pursuant to a request by the Government of Kazakhstan, this annex provides the results of the UNECE's assessment of procedural and regulatory barriers facing priority food exports. The assessment was based on the UNECE BPA described in the first chapter of this report, and focuses on four products, namely: candy and confectionary products, flour, pasta and biscuits, which were identified in consultation with the government.

Two companies were selected to serve as case studies based on the size of their exports.. The first is a major exporter of confectionery products and is headquartered in Almaty, the largest city in Kazakhstan. The company started active export operations in the mid-2000s. The second company is a major exporter of pasta, biscuits and flour, and is located in Petropavlovsk, a small town in the northern parts of Kazakhstan. It started export operations at the beginning of the 2000s. Today the two companies sell more than 20 per cent of their products abroad, and both the volume and share of exports as a per cent of total production are increasing.

The BPA was carried out in early 2012 by a UNECE consultant, who visited the premises of the two companies and conducted extensive interviews with senior as well as middle and lower level management. Consistent with the BPA methodology, the analysis focused on the core business processes associated with the export of the selected products. These processes are shown using the following three diagrams:

- Use-case diagrams
- Business process flowcharts (using the BUY-SHIP-PAY reference model)[88]

Time procedure charts

This annex is divided into six sections. The introduction is followed in section two by a description of the scope of the BPA (i.e. the domain of interest), and the use case diagrams. Section three provides a detailed description of the core business processes of the two companies. This is followed, in sections four and five, by a snapshot of the overall time spent by the two companies to complete their core business processes and the documentary requirements. Each section discusses the major procedural and regulatory bottlenecks and proposes action-oriented recommendations for the government's consideration. The recommendations follow logically from the process diagrams and the analysis, and take into account suggestions made by the interviewees during the fieldwork. The last section provides some reflections on the implementation of the proposed recommendations.

A2. Domain of Interest

A2.1. Product selection

The four food products were identified in consultation with the Kazakh Ministry of Economic Development and Trade. Initially, the Ministry proposed frozen and chilled meat as well as dairy products. However, an examination of Kazakh's trade statistics revealed that these products are not exported in any significant quantity, and that Kazakhstan relies heavily on imports for satisfying local demand for the said products.

[88] The B-S-P Model was developed by UN/CEFACT. Its basic tenets are explained under UNECE Recommendation 18, available online at: http://www.unece.org/cefact/recommendations/rec_index.html

As shown in Table A.1, only lamb (frozen and chilled) has shown non-zero trade, with volumes equivalent to 10 full trucks (211 tons) over a half-year period in 2011. Dairy products exhibit higher export volumes, but these remain well below imports as reflected in the export to import ratios (exports divided by imports).

Moreover, as shown in Table A.2, meat and milk production in Kazakhstan has yet to recover from the economic crisis that befell the country following the disintegration of the Soviet Union. If anything, Kazakhstan has a long way to go before satisfying local demand for the two product groups, which are considered of strategic importance for ensuring food security. In many countries, governments strive to satisfy demand for such products through domestic production before promoting increased exports.

Table A.1. Export/Import ratios and export destinations for key dairy and meat products (January to June 2011)

HS Code	Product	Exported to	Tons	Export/Import Ratio
0204210000	Lamb chilled	Islamic Republic of Iran, Iraq	134	∞
0204410000	Lamb frozen	Islamic Republic of Iran	77	∞
0401201109	Milk (1-3 per cent, packed < 2L)	KGZ, TJ, TKM	117	0.04
0401209109	Milk (3-6 per cent, packed < 2L)	KGZ, TJ,TKM, TJ	133	0.02
0401209900	Milk (3-6 per cent, other)	Sweden	0.4	0.0001
0403109100	Yogurt (<3 per cent)	KGZ, UZ	232	0.43
0403109300	Yogurt (3-6 per cent)	UZ	67	0.14
0403109900	Yogurt (>6 per cent)	KGZ, TJ, UZ	28	∞

Source: Based on Customs Control Committee statistics, e-customs.gov.kz.

Key: *AF - Afghanistan; CAR - Central Asian Republics; DE - Germany; EU - European Union; GE - Georgia; KGZ - Kyrgyzstan; MN - Mongolia; PRC - China (People's Republic of); TJ - Tajikistan; TKM - Turkmenistan; UZ - Uzbekistan*

Table A.2. Meat and Milk Production in Kazakhstan, 1991 – 2010 (Thousand tons)

Product	1991	1995	2000	2005	2008	2009
Meat	1 524.4	984.8	622.6	762.2	874.2	896.3
Milk	5 555.4	4 916.1	3 730.2	4 749.2	5 198.0	5 303.9

Source: *State Statistics.*

In contrast, as shown in Table A.3, pasta, biscuits, flour and candies have good export potential.

Table A.3. Export volumes and destinations for selected product groups (2010)

HS Code	Product	Exported to	Tons	Export/ Import Ratio
1902301000	Pasta, dried	CAR, AF, CAR	2 115	3.5
1902309000	Pasta, other	AF, CAR, GE	4 220	6.0
1101001100	Flour, wheat durum	AF, KG, TJ, UZ	12 558	1 266.0
1101001500	Flour, wheat common	UA, KG, TJ, UZ, MD, AF, MN	681 487	3 266.3
1905311900	Biscuits coated/covered by chocolate	KG, TJ, UZ, AZ, GH, PCR, AF	476	0.2
1905319900	Biscuits, dry sweet	KG, TJ, UZ, MN	367	0.05
1704907100	Candies, not containing cocoa	CIS, DE, MN	1 395	1.36
1806901900	Chocolate candies	AF, CAR, DE, MN, PRC	386	0.21

Source: *Customs Control Committee.*

Key: *AF - Afghanistan; CAR - Central Asian Republics; DE - Germany; EU - European Union; GE - Georgia; GH – Ghana; KGZ - Kyrgyzstan; MN - Mongolia; PRC - China (People's Republic of); TJ - Tajikistan; TKM - Turkmenistan; UA – Ukraine; UZ - Uzbekistan*

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Kazakhstan has been a large producer of grain since the fifties, which saw the allocation of more than 30 million hectares of land in the north of the country for growing grain. Most of the supporting infrastructure for harvesting, storing and milling has been maintained, so that Kazakhstan is very well positioned to compete in regional and international markets.

Estimates by the International Grain Council show Kazakhstan's exports of flour soaring to a new record of 3.5 million tons of equivalent wheat in 2010 (or 56 million hundredweights (cwts) of flour), compared with 2,733,000 tons in 2009 and 2,054,000 in 2008, thereby accounting for 27 per cent of global flour exports. Although Kazakhstan lagged behind its record clearances in 2010 because of increased competition from neighbouring countries, particularly the Russian Federation and Turkey, it continues to hold a dominant position in international markets. With its exports of flour amounting to 3.2 million tons in 2011, Kazakhstan accounts for 26 per cent of global flour exports.

Thus, supporting increased exports of flour and flour-based products is a natural path to follow. In 2010, total exports of pasta amounted to 12.9 thousand tons, up from to 9.2 thousand tons in 2009. These figures represent a modest share of local production, which reached 127.7 thousand tons in 2010, up from 115.5 thousand tons in 2009.[89] At present, Kazakh pasta is exported to Central Asian countries (especially, Afghanistan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) and Georgia.

[89] The figures are from the Ministry of Agriculture and Customs Control Committee.

Biscuits, which have low export volumes, were included in the analysis because they form part of the same value chain as flour and pasta, and are often produced in the same facilities. Moreover, exporters often use the same transport modes for shipping flour, pasta and biscuits.

Candies were included in the analysis, based on the request of the government. Candies produced by Kazakh manufacturers are made of mostly imported raw materials (cocoa, various jams, etc.). Moreover, although the manufacturers use locally produced sugar, this sugar is produced from Brazilian raw sugar.

The Kazakh Ministry of Economic Development and Trade explained that promoting the export of candies would contribute to a number of strategic goals. First, this food-processing industry has a relatively high volume of export trade and a relatively high value-added. Second, it provides a major source of employment for the labour force (particularly Alma-Ata, Karaganda and Kustanay). Third, although most export shipments of candies end up in Central Asian countries, some go to Mongolia, China and even Germany. In the case of Germany, Kazakh candies are mainly imported by Kazakhstani traders who emigrated from Kazakhstan to Germany during the 1990s.

A2.2 Scope of Business Process Analysis

The scope of the analysis was established in discussion with the two exporters selected for the analysis (Table A4).

The export markets of the two companies are divided into two groups. The first includes countries of the Commonwealth of Independent States (CIS), the traditional outlet for the two exporters. These countries have harmonized trade regulation within the context CIS Free Trade Agreement (FTA) and

Table A.4. Scope of the analysis (products, markets, transport, financing)

Products	Export markets		Modes of transport			Trade financing
	CIS FTA	Non-CIS	Rail	Road	Other	
Flour	✓	✓	✓			
Pasta	✓		✓			
Biscuits	✓					
Candies	✓	✓	✓	✓		

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have connected transportation networks. Trade with these countries, therefore, offers important advantages, which come in addition to that fact that, like Kazakhstan, they also use Russian for trade negotiations and contracting.

The second group of countries includes the rest of the world; in this case, only two countries—Germany for export of candies and Afghanistan for large volumes of flour, suggesting modest diversification out of the CIS market.

The analysis focuses on transport by railway and road. Maritime transport is not used by either of the two companies. This should not come as a surprise. The two companies sell products with relatively low value-added and high price elasticity, particularly in Afghanistan, Tajikistan, Uzbekistan and Kyrgyzstan. As such, they rely primarily on the cheapest mode of transport, particularly rail. Only deliveries from Almaty to Bishkek (240 km) and to Germany are transported by road, as this market shows lower price elasticity.

Trade finance was not included. As explained below (under business processes associated with Buy) neither of the two exporters use trade-finance instruments, such as letters of credit (L/C), bank guarantees, and export documentary bills of collection.

Below is a discussion of the results of the analysis, keeping in mind that further BPA studies would be required to ascertain the extent to which the problems identified in this annex are common to other priority export products.

A2.3 Core business processes

Using use-case diagrams, this section highlights the core business processes undertaken by the two exporting companies. A detailed discussion of the sub-business processes is provided in section A.3.

A2.3.1 Confectionery products

The bulk of the confectionary producer's exports are destined for the Russian Federation, and the company is actively seeking to increase exports to China and other neighbouring countries. When exporting to the EU, namely Germany, the first business process involves arranging for road transport. Candies are packed in consumer packaging (plastic, paper, foil), and then in cardboard boxes. The boxes are then packed onto EU standard wooden pallets (120 by 80 cm) and wrapped in a highly stretchable plastic film (see Figure A.1).

Figure A.1. Euro-pallet with stacked cardboard boxes is a standard logistics unit load in international trade

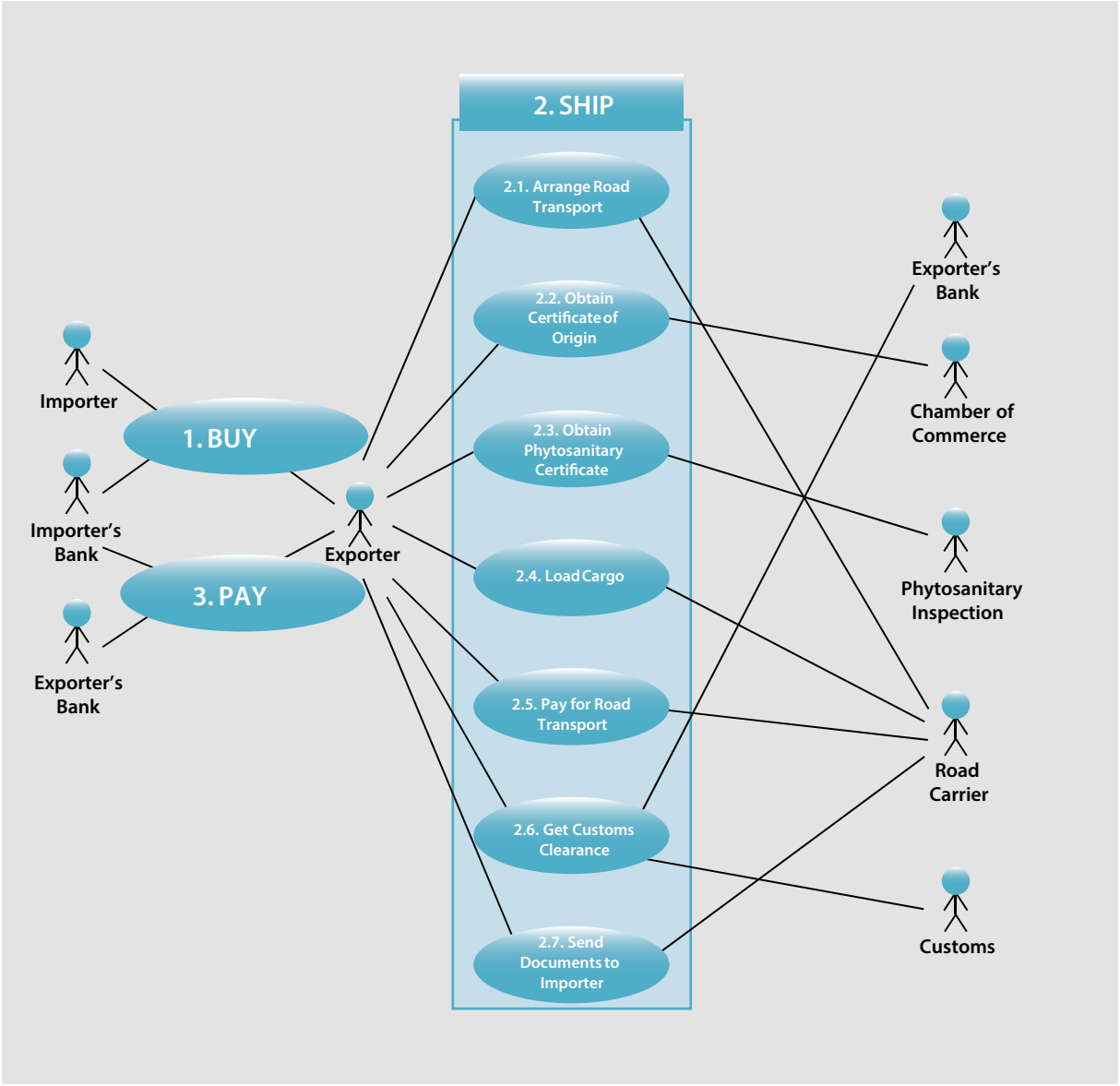
In the EU, wooden pallets and cardboard are subject to phytosanitary control. Thus, the company is required to present the phytosanitary certificate to the EU authorities (see, figure 1, which describes the export of candies to the European Union by truck). Candies shipped to the CIS countries do not need this Certificate[90] (see Figure A.2, which describes the export of candies to the CIS by rail in standard rail cars or in refrigerator cars). [91]

All candies shipped to the EU are transported by truck. Carriers have their own trucks and are responsible for cargo insurance, so exporters do not need to deal with this business process. On the import side, the candy manufacturer imports an assortment of raw materials in large quantities. To minimize brokerage costs, the company has an in-house customs broker, who handles customs clearance procedures. The company does not use the services of customs brokerage companies.

[90] According to the rules of the Customs Union, processed (heated, boiled) and packed food items do not require phytosanitary certification. This means that among the four products examined, candies, pasta and biscuits do not require this certification.

[91] Maximum weight for standard cars is around 30 tons per car, and for refrigerator cars it is around 40-50 tons per car.

Figure A.2. Use-case diagram for exporting confectionery products by road to the EU



In contrast, and as shown in Figure A3, most export shipments to the CIS region are transported by rail, with national rail companies providing the tracks, locomotives and rolling stock (rail cars, fitting platforms, and multimodal containers) for domestic transport operations. For cross border transport operations, exporters may have to rent rail cars from private companies if the national railway company (Kazakh Temir Zholy) is unable to provide the required rolling stock.

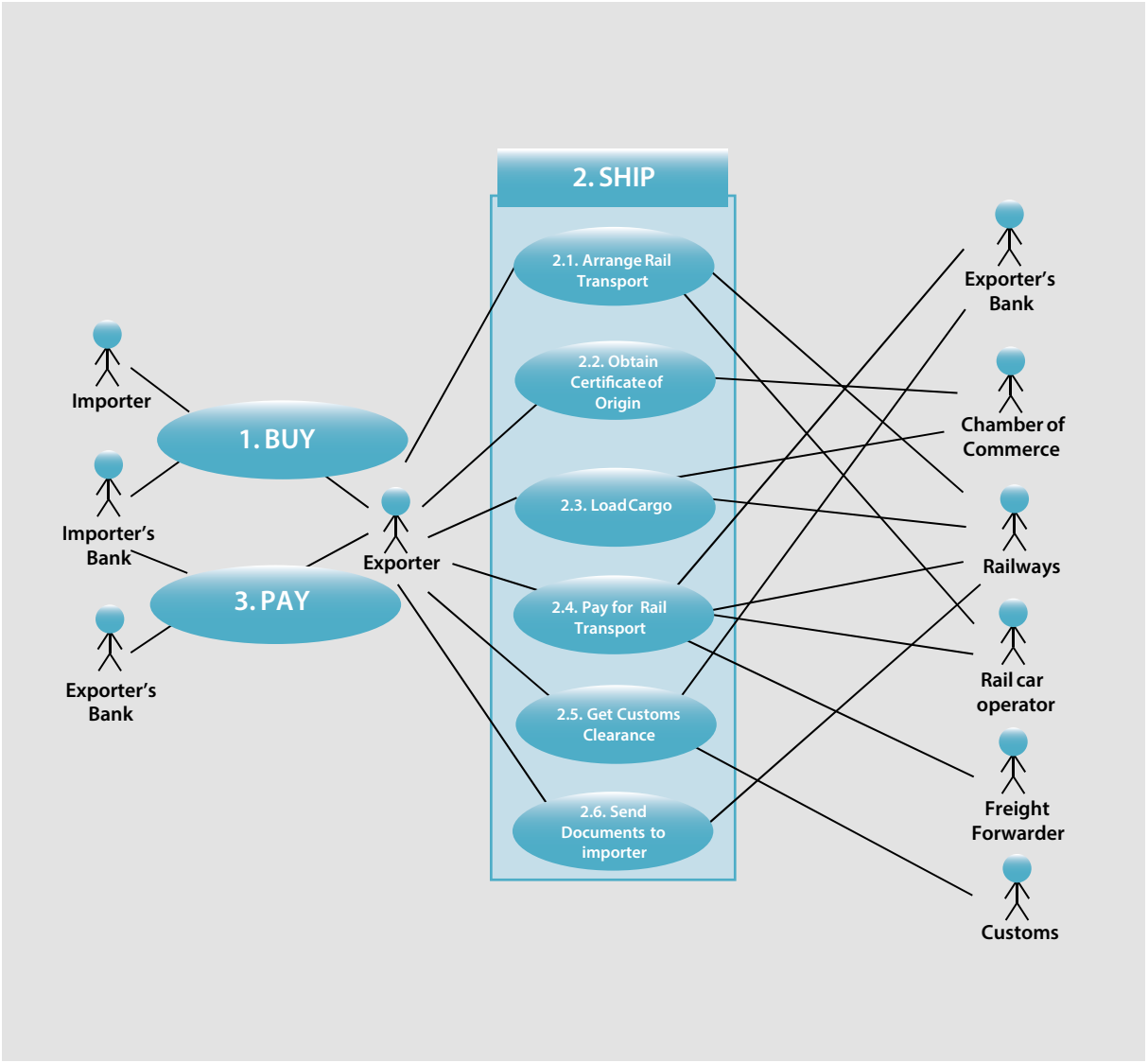
Normally, the company transports goods based on the deliver at place (DAP) terms.[92] If the goods are exported to Uzbekistan and Kyrgyzstan, it pays for rail transport up to the last Kazakh railway station, and the importer pays Uzbek Railways or Kyrgyz Railways for the transport of goods from the border-crossing point to

[92] DAP refers to instances in which the seller delivers goods to an agreed upon destination. The seller assumes all risk until the goods arrive at their destination, and takes care of customs requirements.

its intended destination. If goods are exported to Tajikistan, freight-forwarding companies handle the payment to the transit railways (Uzbek Railways and Turkmen Railways), because neither the exporter nor the importer can pay the transit railways directly.

Processes associated with Load Cargo (for international and domestic deliveries) may involve the Chamber of Commerce in situations where the buyer and the seller are keen on avoiding disputes over the quantity of shipped goods. The Chamber's involvement, therefore, is limited to verifying that all goods are loaded into the rail car according to the commercial invoice and the packing list. The Chamber's inspector provides a written report to the exporter several days after loading and dispatch of the transport. The report from the Chamber of Commerce confirms that the exporter loaded all of the goods included in the invoice and the packing list. The Chamber does not have any liability for shortage of goods. If there is a shortage, the importer makes a claim to the carrier and the exporter.

Figure A.3. Use-case diagram for exporting confectionery products by rail to the Commonwealth of Independent States



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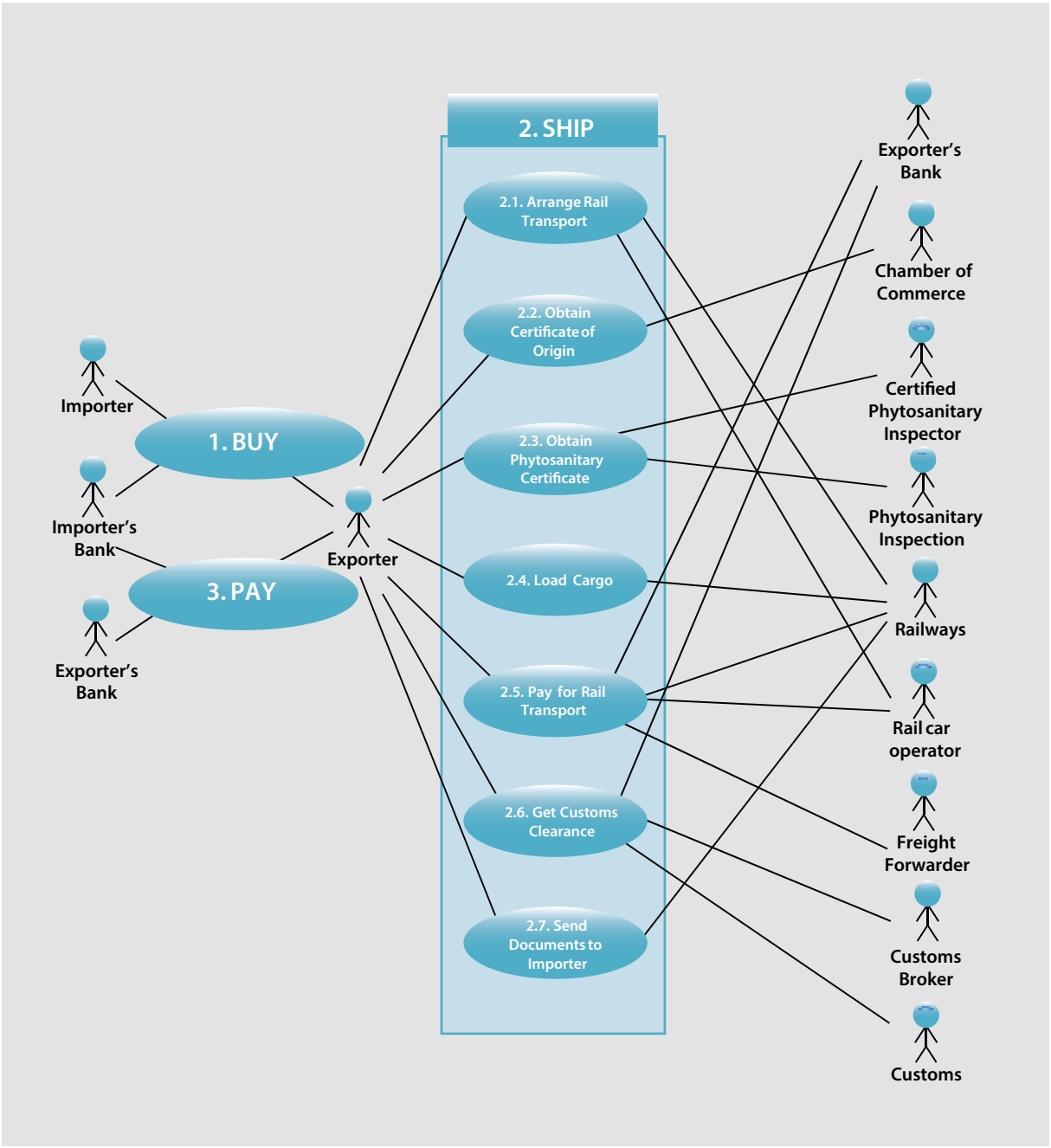
A2.3.2. Flour, pasta and biscuits

As previously mentioned, the business processes associated with the export of flour, pasta and biscuits were examined using, as a case study, the Petropavlovsk production facility, which is one of Kazakhstan's largest flour and pasta producers. This company exports to the CIS countries, mostly to the Central Asian Republics, by rail. The railway station of Petropavlovsk is located in the Northern Kazakhstan oblast, but belongs to the South Ural Railways (part of RZhD – Russian Railways).

Figure A.4. Use-case diagram for exporting flour to CIS countries (mainly Central Asian Republics and Afghanistan) by rail



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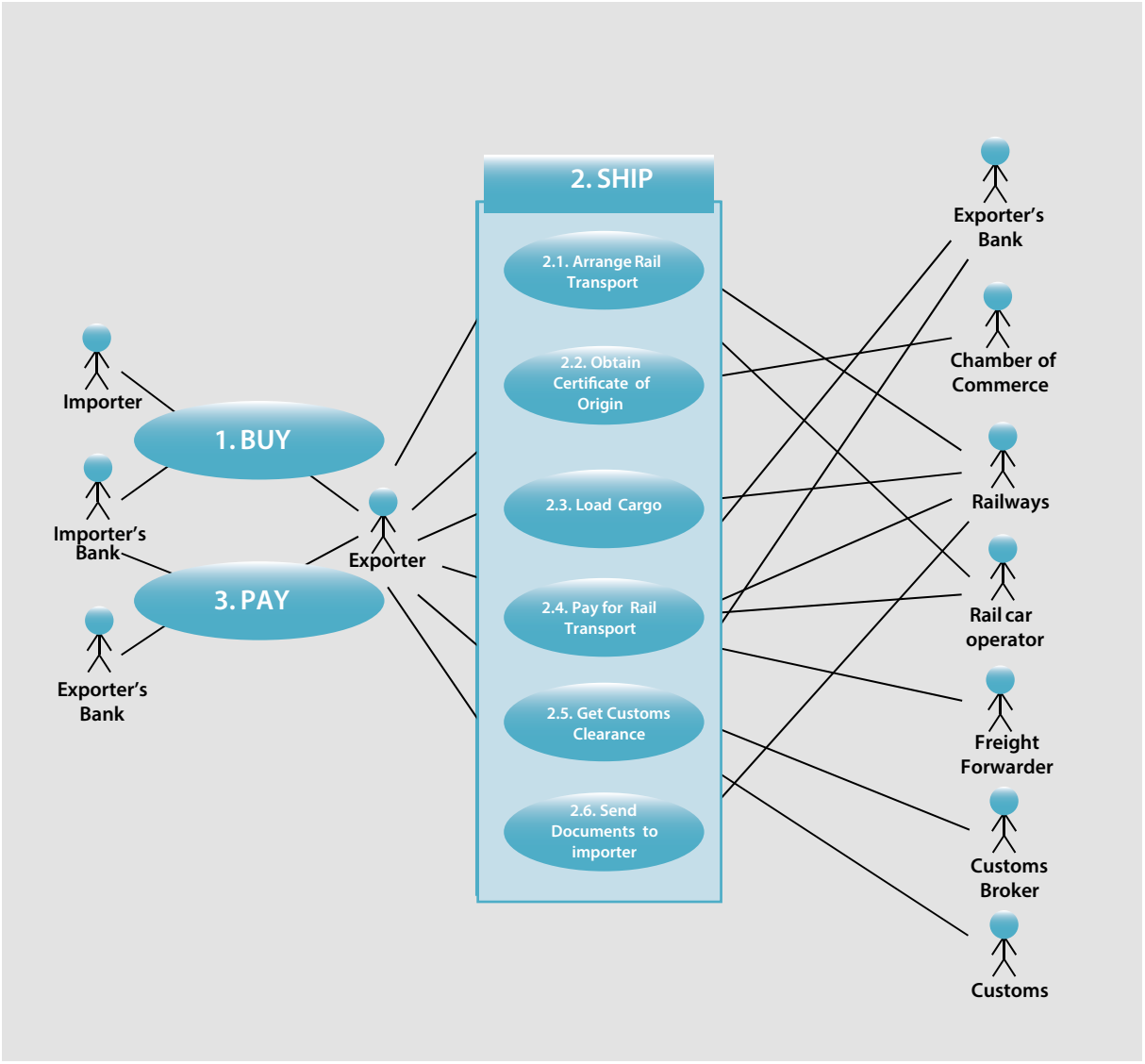
The bulk of the exports are shipped to the Russian Federation and, since 2011, these shipments have not been reported as exports, since the two countries have abolished customs control as per the CU arrangements. Thus, the company does not have to obtain customs declarations (export, import or transit declaration).

Unlike the candy exporter (Figure A.1 and A.2), the exporter of flour, pasta and biscuits uses the services of a customs brokerage company to clear goods. Figure 3 charts business operations associated with exporting flour by rail (with a maximum weight of 60-65 tons per rail car) to CIS countries (mainly the Central Asian Republics and Afghanistan). Business operations associated with the export of pasta and biscuits to CIS countries (mainly the Central Asian Republics) are depicted in Figure A4. The only difference between Figures 3 and 4 is that the export of flour requires obtaining phytosanitary certification. The next section provides a detailed description of each business process.

Figure A.5. Use-case diagram for exporting pasta and biscuits to CIS countries (mostly Central Asian Republics) by rail



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A3. Export Business Processes

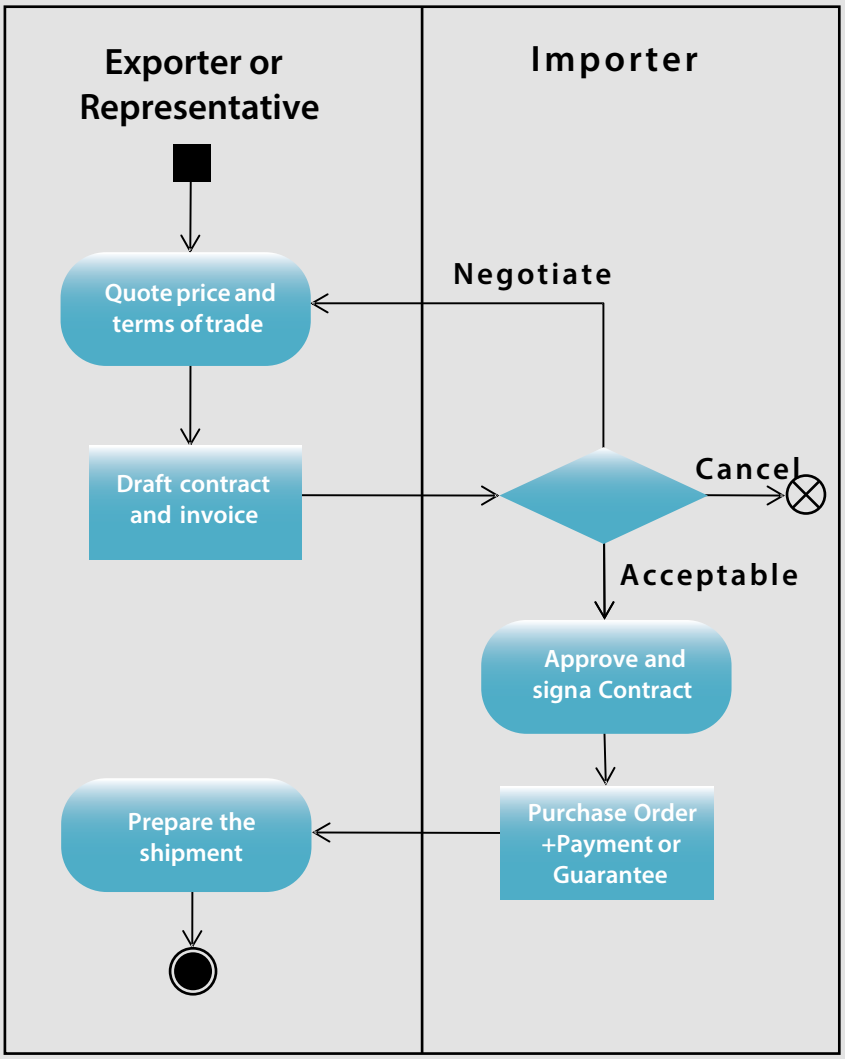
This section depicts export business processes based on the UNECE international supply chain Buy-Ship-Pay reference model, and uses the Unified Modelling Language (UML) notation to chart activity diagrams.

Process 1. BUY

Process 1.1 Negotiations and concluding sales contract

As shown in Figure A.6, the Negotiations and Sales Contract is a relatively standard process and applies to all combinations of products, destinations

Figure A.6. BUY: 1.1. Negotiations and concluding sales contract followed by details of associated steps



and transport examined in this report (4 products – flour, pasta, biscuits, candies; 2 types of destination – CIS market, EU market; and, 2 types of transport – Rail; Road).

Although local banks provide good support for various trade-financing instruments, neither of the two companies use documentary Letters of Credits (L/C) or other tools of trade financing. It is worth noting that when an exporter signs a new sales contract, he needs to obtain a transaction certificate prior to receiving payments and prior to customs clearance. The issued transaction certificate serves as the basis for customs clearance of goods and execution of payment under the sales contract. The procedures associated with obtaining this certificate are discussed later on under Pay (3.1).

Neither of the two companies use trade finance instruments. This comes despite the fact that Letters of Credit (L/Cs), the most commonly used instrument, are available in Kazakhstan and in importing countries at reasonable costs. Rather, the two exporters either require full advance payment from the importer, or split payments into two instalments (an advance payment and the final payment after delivery of goods), because importers are not very familiar with trade financing instruments. While these arrangements address the problem in the short-term, they increase the buyer's financial burden and inflate risks for both the exporter and importer. The Government may wish to address this aspect of the business process analysis, as explained below.

Name of process area	1. Buy
Name of business process	1.1. Negotiating and concluding sales contract
Related laws, rules, and regulations	• Incoterms • Civil Code
Process participants	• Importer • Exporter or Representative
Input and criteria to enter/ begin the business process	• Exporter has a list of potential buyers • Exporter is eligible to market products abroad. Customs Union Decision 168 of 27/01/2010 regulates application of export quotas. Export quota can be potentially applied to flour. There are no restrictions to export of candies, pasta and biscuits • Exporter must a have a valid certificate of conformity for food products (CU Decisions 526, 896, 563, 319, 620, 621, 629)
Activities and associated documentary requirements	• The Exporter prepares a Quotation to inform an importer about quoted price and sales terms. • The Importer reviews the Quotation and determines if the quoted price and sales terms are acceptable. If the quoted price and sales terms are not acceptable, the importer requests the exporter to revise the quoted price and sales terms. • If the quoted price and sales terms are acceptable, the importer confirms the purchase of goods by signing a (Framework) Sales Contract • An additional Purchase Order or an annex to the Sales Contract may be issued to define special conditions for each shipment • The Exporter prepares the delivery of goods accordingly. • The Exporter acknowledges the receipt of Purchase Order and confirms that goods will be delivered according to established conditions and terms by sending importer a Commercial Invoice for full or partial payment for goods
Output criteria to exit the business process	• Importer and exporter have concluded a sales contract • Based on a purchase order, an exporter can accept payments and prepare goods for export.
Average time required to complete this business process	5 days

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Table A.5 Outstanding needs and recommendations for negotiations and concluding sales contract

Outstanding need	Recommendation
Encourage traders to use modern payment methods. The payment methods used by the traders are costly and risky.	• Promote the use of L/C as this would go a long way toward reducing the buyers' financial burden and minimizing risks. This requires consulting traders as to the best possible measures, since the problem stems from the buyers' aversion to modern payment methods.

Process 2. SHIP

Process 2.1. Arrangement of Rail Transport

The need for implementing the proposed security measures at major railway stations, as explained in section 3.1, is further emphasized when considering the Arrangement of Rail transportation. As shown in Figure 6, this business process is the most challenging for exporters. Goods can be stolen from the border railway stations, where trains stop for the documentary checks, for physical inspection and for changing of locomotives. There were a number of cases when seals were opened, goods were taken out, and then seals were put back again.

Traders usually use seals to secure the cargo and it is often the case that seals are broken and then put back again without leaving any trace. This means that if the goods inside the rail car were subject to theft, and there is no evidence that the seal was broken, the railways do not assume responsibility.

Moreover, even if the importer makes a proper claim, it is often not possible to link the theft to a particular railway (for example, if goods travelled from Alma-Ata to Dushanbe via Kazakh railway network, Uzbekistan, Turkmenistan, Uzbekistan again, and, finally, Tajik railway network). Insurance companies, it should be noted, avoid insuring goods transported by railway.

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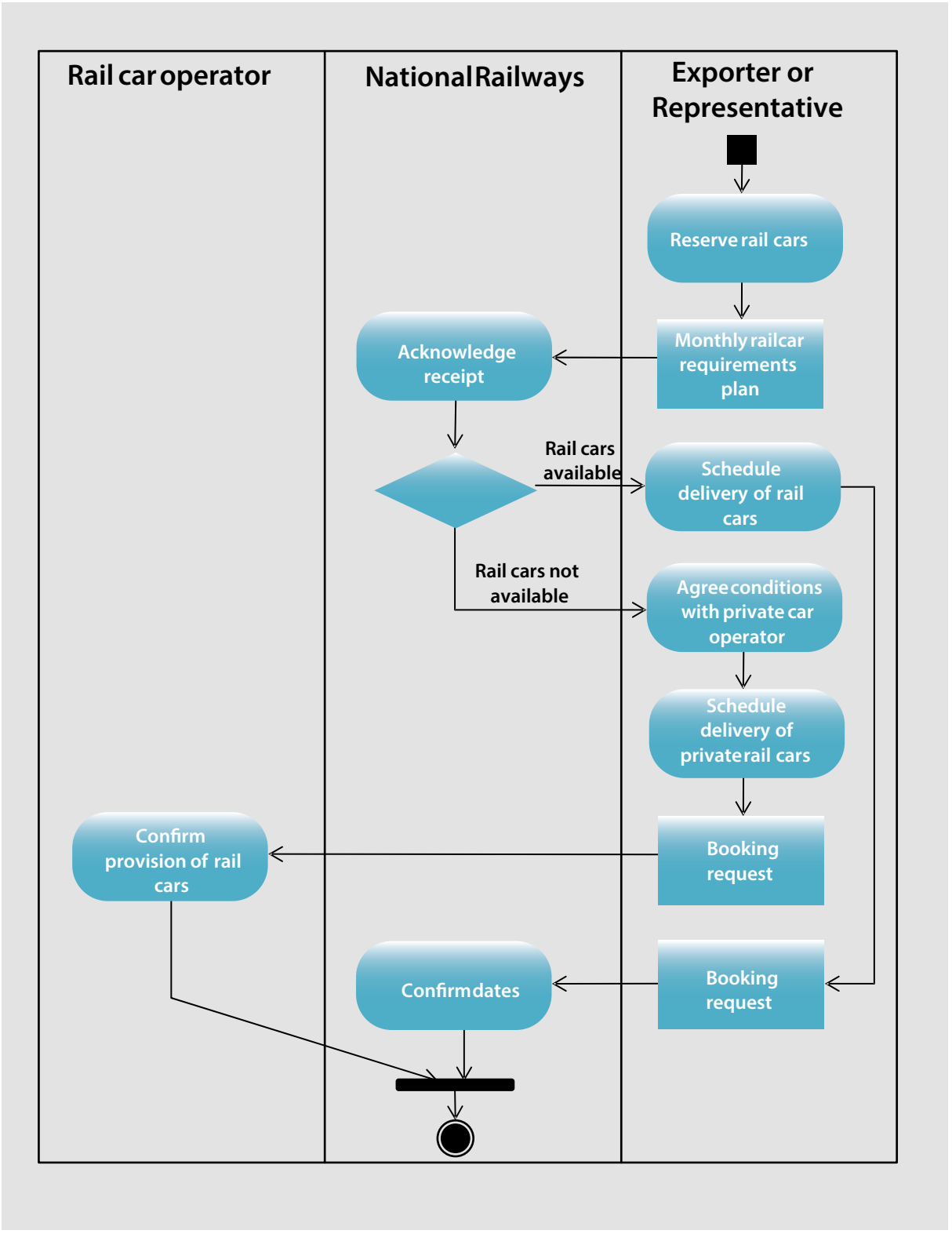
Figure A.7. SHIP: 2.1. Arrange rail transport followed by details of associated steps



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Name of process area	2. Ship
Name of business process	2.1. Arrange Rail Transport
Related laws, rules, and regulations	• Regulation of railways operations (available in Russian only): • A list of commercial stations by office road • Order to approve the "Rules of cargo transportation," • Conventional bans • The organisation of transportation by freight cars, repair of freight cars and inventory accounting of freight cars. • Agreement on International Goods Transport by Rail (SMGS) • Application for SMGS consignment notes • Order No. 554 of the Minister of Transport and Communications of Kazakhstan • Request for transportation (the application form PG-12), Annex 1 • National Transport Code • Agreement on the order of operation, repair, accounting and settlement for the use of freight cars inventory of the park, leased (temporary use), and use on international routes
Process participants	• Carrier - National Railway Company (Kazakh Railways or Russian Railways) • Rail car operating company • Exporter
Input and criteria to enter/ begin the business process	• The Importer and the Exporter have already agreed about delivery of purchased products to a certain destination
Activities and associated documentary requirements	• The Exporter contacts a carrier to reserve rail cars to the designated destinations and pre-schedules a dispatch from the nearest railway station. The reservation is normally done for the whole next month at the beginning of the current month (e.g. all rail cars for February should be reserved by 10th of January). The quantity and dispatch dates are indicative. • The carrier confirms the monthly plan or proposes modifications if they don't have capacity to provide empty rail cars for certain shipments • If the carrier (national railways company) does not have rail cars available for dispatch to the requested destination, rail cars should be reserved through an independent rail car operating company • Several days before each shipment the Exporter makes the final booking request (paper-based) to the railway company. The railway company confirms and stamps the booking request
Output criteria to exit the business process	• Rail transport required to move cargo from the designated pick up location is arranged
Costs and resources	• No out-of-pocket expenses • 2 full time employees deal with all shipments (60-80 rail cars to domestic and international destinations per month)
Average time required to complete this business process	2 days – candies 3-10 days – flour, pasta, biscuits

The traders lamented the shortage in rail cars, which results in increasing transaction costs. Private companies charge higher fees (in comparison to public companies) and companies do not always acknowledge bookings, so that traders have to grab what is available.

The traders also complanied about the high incidents of cargo theft. In order to address this problem, traders explained that they request the Chamber of Commerce (particualrly the regional offices) assistance, especially in cases where the risk of theft (at any point throughout the supply chain) is high and/ or where they do not trust the importers. Upon the request of the exporter, the representatives of the Chamber of Commerce observe the shipment of goods, starting from the loading the cargo till sealing of the rail car or the

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multimodal container. The repressantives take stock of every loaded item, check against the transport documents and invoices, and issue a report to the exporter testifying which confirms the quantity and quality of the shipped goods. If the importer complains about discrepancies between the transport documents and the goods, the exporter would then resort the report by the Chamber of Commerce for verficiation. The importer would also use the report to settle the claim with transport operators or other logistics intermediaries. While this service is provided by the Chamber at the request of the exporter and is deemed important for addressing the problem of theft, it causes delays.

In addition, traders lamented the shortage in rail cars, which results in increasing transaction costs. Private companies charge higher fees (in comparison to public companies) and companies do not always acknowledge bookings, so that traders have to grab what is available. .In addition to the recommendations mentioned in chapter three, the Government may consider reducing the number of agencies involved in border control functions:

Table A.6 Outstanding needs and recommendations for arrangement of rail transport

Outstanding needs	Recommendations
Reducing the number of agencies involved in border control functions.	• The task of verifying outgoing cargo need to be given to other border control agencies within the context of a full-fledged risk management strategy (section 3.3). • Introduce required procedures that result in the verification process being completed at the time of border control with minimal cost to the traders.

Process 2. SHIP

Process 2.2. Obtain the Certificate of Origin

The need to streamline the existing procedures for issuing Certificates of Origin along the lines of the recommendations discussed in section 3.3 is further highlighted when considering the business processes that the two companies have to undergo to fulfill the documentary requirements. As shown in figure 7, the COO is issued by the Chamber of Commerce and Industry. both companies submit the required supporting documents once a year, and these documents, along with site visits by the local branches of the Kazakh Chamber of Commerce, serve as the basis for estimating local content. Thus, the respective branch of Chamber of Commerce only needs to review the documents and issue the Certificate.

Yet, it is often the case that additional verification is needed. Should this be the case, the exporter has to apply for expert examination, which is conducted by the Kazakh Chamber of Commerce's regional branch. In addition,, obtaining a certificate of origin requires several documents; some of which are of little value for guiding decisions. Examples, include the recipes and technical process maps. Moreover, even though the two companies examined in this report are subjected to the same documentary requirements, it usually takes the candies exporter up to three days to obtain the Certificate of Origin, while the exporter of flour, pasta and biscuits obtains it in 3-5 hours.

This discrepancy was attributed by the interviewees to the Chamber's internal rules and procedures. For example, requests can only be processed after being reviewed by authorized personnel, and if the personnel in question are not present, then the entire process is delayed. In addition, the Chamber of Commerce only assumed responsibility for issuing Certificates of Origin in 2009.

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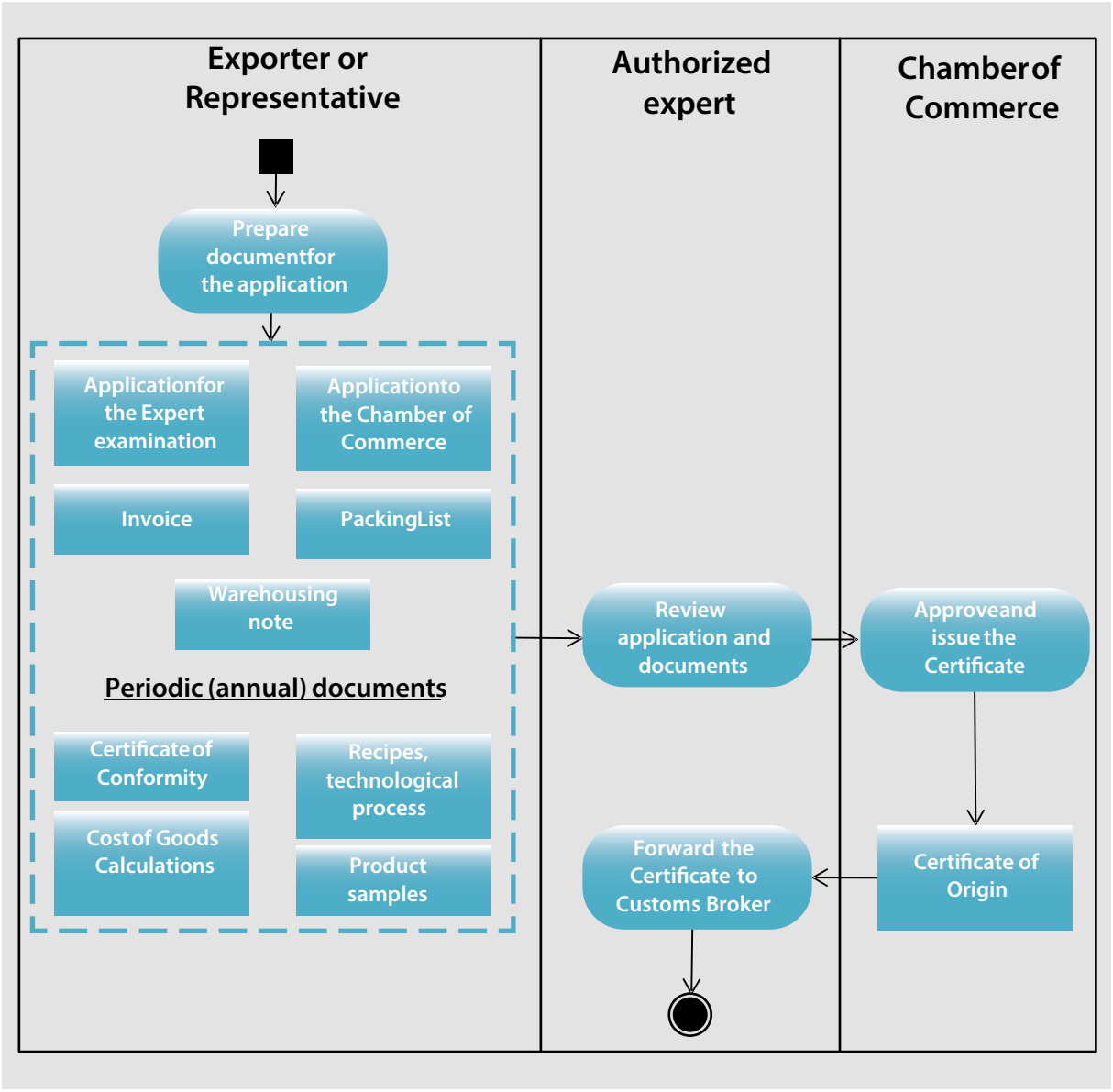
Figure A.8. SHIP: 2.2. Obtain the Certificate of Origin followed by details of associated steps



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Name of process area	2. Ship
Name of business process	2.2. Obtain the Certificate of Origin
Related laws, rules, and regulations	• Kyoto Convention (Revised), Annex K, Chapter 1 • Chapter 7 (Articles 59-63) of the Customs Code of the Customs Union • EU Commission Regulation No 1063/2010 • Rules of origin of goods in the CIS (Yalta, 20.11.2009) • Decision of the CIS on the rules for determining the country of origin (Yalta, 20.11.2009) • CIS Agreement on rules of origin of goods (Yalta, 20.11.2009) • Rules for determining country of origin approved by Government Resolution No 1647 of 22.10.2009 • Order of the Minister of Industry and Trade of RK № 388 of 17.11.2010 approval of the list, confirming the origin of the goods Appendix 13a • EC Regulation No 2454 93 additional. changes to the number 12 97 1602 2000 • Commission Regulation (EC) No 1063 from 18.11.2010 • Council Regulation (EC) No 2008 of 22.07.2008 732 • Rules of the CIS in 2000 from 05.03.2010 • Law of the Republic of Kazakhstan "On making amendments and addenda to some legislative acts of the Republic of Kazakhstan on the activities of chambers of commerce" dated 23 October 2009.
Process participants	• Exporter • The Chamber of Commerce • An authorized expert (by the Chamber of Commerce)
Input and criteria to enter/ begin the business process	• Exporter has already received a confirmation from a carrier (export of candies) or received a rail car in the plant warehouse's rail siding and started loading (export of flour, pasta and biscuits)
Activities and associated documentary requirements	The Exporter submits, on an annual basis, the following documents: • Certificate of Conformity • Cost of goods calculations, with breakdowns by imported and local resources and costs • Recipes • Technical process maps • Product samples For every shipment, the below documents must be submitted: • Documents confirming the legal status of the exporter • The original and a copy of the export contract • The original and a copy of the invoice • The original and a copy of documents confirming the origin of the goods. • The original and a copy of the license for the activity. • The original and a copy of documents for determining sufficient processing of goods. • The filled out application form for obtaining the Certificate of Origin • Packing list • The original and copy of the power of attorney to represent the applicant. The Chamber of Commerce reviews the annually submitted documents and compares them with documents in the application for the Certificate. If local cost content in the exported product exceeds 50 per cent, the Certificate of Origin is issued (ST-1 type for CIS destinations, A-type for the EU and other countries)
Costs and resources	• 7500 KZT (equivalent to around USD 50) per one Certificate (for one full shipment) – fee to the Chamber of Commerce • Company Administrative Staff, shared use.
Output criteria to exit the business process	• The Certificate of Origin is received
Average time required to complete this business process	3 days – candies 3-5 hours – flour, pasta, biscuits

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The analysis highlights the need for simplifying and streamlining administrative and regulatory procedures for issuing the COO. In addition to the recommendations mentioned in section 3.3, the government my consider the below measures:

Table A.7 Outstanding needs and recommendations for obtaining the COO

Outstanding needs	Recommendations
Simplifying and streamlining the procedure for obtaining certificates of origin	• Conduct a thorough examination of the procedures and internal rules of all the local branches of the Chamber of Commerce to identify the bottlenecks responsible behind such discrepancies in the treatment of different companies with similar types of goods. • Establish a new procedure for guiding the issuance of certificates of origin, and make it available to the private sector • Establish clear instructions for implementing the revised procedures • Provide the staff with the needed training for implementing the procedure • Another alternative would be to consider issuing electronic Certificates of Origin.
Streamlining the documentary requirements	• Consider reducing the number of documentary requirements. Particular emphasis should be given to removing from the list those documents that add little value for guiding decisions.

Process 2.3. Obtain the phytosanitary certificate

The phytosanitary certificate is required for flour and cardboard packaging (when exporting to the EU). Obtaining phytosanitary certification for cardboard only requires the submission of the invoice to the Phytosanitary inspection. No other documents are required. This is because the corrugated cardboard used in packaging is produced by a Kazakh company; the facilities of which are also inspected the phytosanitary inspection and, therefore, it has all the records for the producer. Accordingly, the producer only needs to present evidence (i.e., the invoice) that the products are destined for the EU, and usually obtains the certificate within the hour.

The phytosanitary certification for flour requires many more steps (Figure A.9). First, the flour is examined by an independent testing laboratory or by the State Enterprise Phytosanitaria, which is affiliated to the Ministry of Agriculture Committee of Inspections, in its capacity as the authorized State inspector (RGP Phytosanitaria). The exporter then has to get another examination by the city inspection (where the company is based). Once the results of the two examinations are released, the exporter goes to the Oblast (region) phytosanitary inspection to receive the certificate. Yet, even though the exporter has to visit three different state agencies in three different parts of the town, he receives the certificate within a few hours.

The exporter can use either the authorized State inspector, or an independent laboratory for carrying out the first inspection. As such, and as shown in figure 8, he tends to see this step as distinct from the town and oblast phytosanitary inspections, which are responsible for conducting follow-up inspection.

While the trader receives the certificate in a few hours, he still has to visit three different agencies that are located in different parts of the town. For companies that are keen on increasing their exports, this procedure could be taxing. In addition to those provided in section 3.3, the Government may consider the following proposed recommendations:

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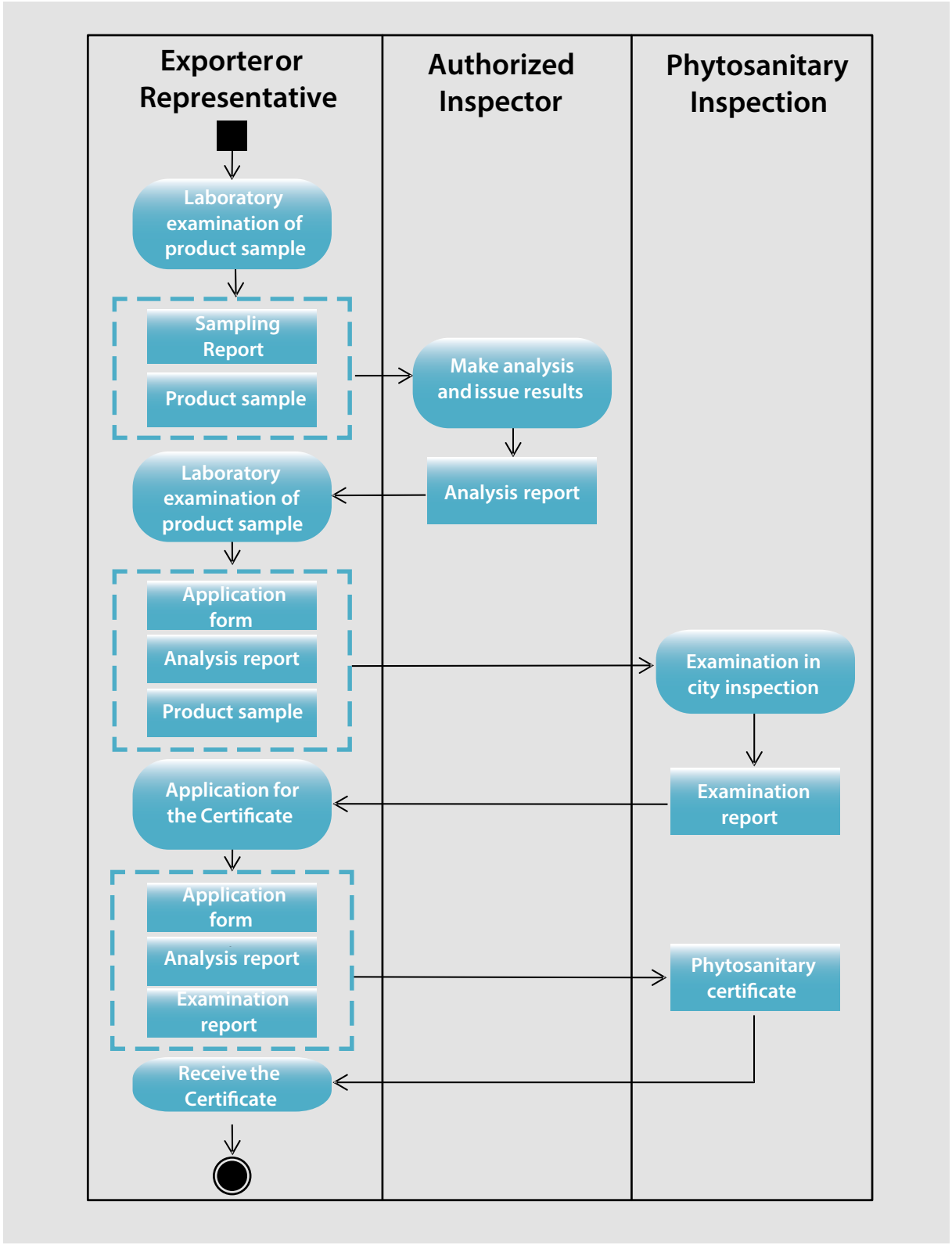
Figure A.9. SHIP: 2.3. Obtain phytosanitary certificate for flour followed by details of associated steps



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Name of process area	2. Ship
Name of business process	2.3. Obtain Phytosanitary Certificate
Related laws, rules, and regulations	• Decision No 30 of 11 December 2009: Customs Union agreement on phytosanitary measures and its annex • Decision No 318 of 18 June 2010 of the Customs Union Commission as amended by Decision No 454 of 18 November 2010: List of products subject to phytosanitary control • Regulation on phytosanitary control at the CU border • Regulation on phytosanitary control in the CU • Summary of Decision No 318 of the Customs Union
Process participants	• Exporter • Authorized inspector (RGP Phytosanitaria) • Phytosanitary inspection (1. city inspection and 2. oblast inspection)
Input and criteria to enter/ begin the business process	• Containers transported by rail have been delivered to the production site, the loading started
Activities and associated documentary requirements	• The Exporter takes a sample of flour (around 1 kg), completes the sampling report and delivers them to the RGP Phytosanitaria (a company chartered and fully owned by the Committee of Agricultural Inspections of the Ministry of Agriculture) • The RGP Phytosanitaria makes necessary checks of flour and issues a protocol of analysis (Analyses card) • The Exporter takes the analysis card from RGP Phytosanitaria and a sample of flour (around 1 kg), fills in the application form and delivers them to the city Phytosanitary inspectorate • The City (Municipal) Phytosanitary inspectorate checks flour and reviews the Analysis card and issues their inspection report • The Exporter fills in an application form and provides the inspection report from the City Phytosanitary Inspectorate and the Analysis card to the Oblast (Region) Chief Phytosanitary Inspector • The Oblast Phytosanitary Inspector issues and signs the Phytosanitary Certificate
Output criteria to exit the business process	• The Phytosanitary Certificate is received
Costs and resources	• 27 KZT (1US$ = 148 KZT) per one ton of flour – to the RGP Phytosanitaria • Company Administrative Staff's time
Average time required to complete this business process	2-3 hours, including transport (RGP Phytosanitaria, city inspection and oblast inspections are located in 3 different places within a town)

Table A.8 Outstanding needs and recommendations for obtaining phytosanitary certificate

Outstanding needs	Recommendations
Simplify and streamline the procedure for obtaining phytosanitary certification for flour	• Consider eliminating one of the three phases. A more simplified procedure could involve lab examination of a product sample, and a paper check by the chief Phytosanitary inspector. These two phases should not require any follow-up by the exporter. This is a clear example where a single window arrangement would be most helpful • As the Phytosanitary inspection checks the production site and finished goods on a regular basis, it could consider waiving laboratory checks, whenever possible.

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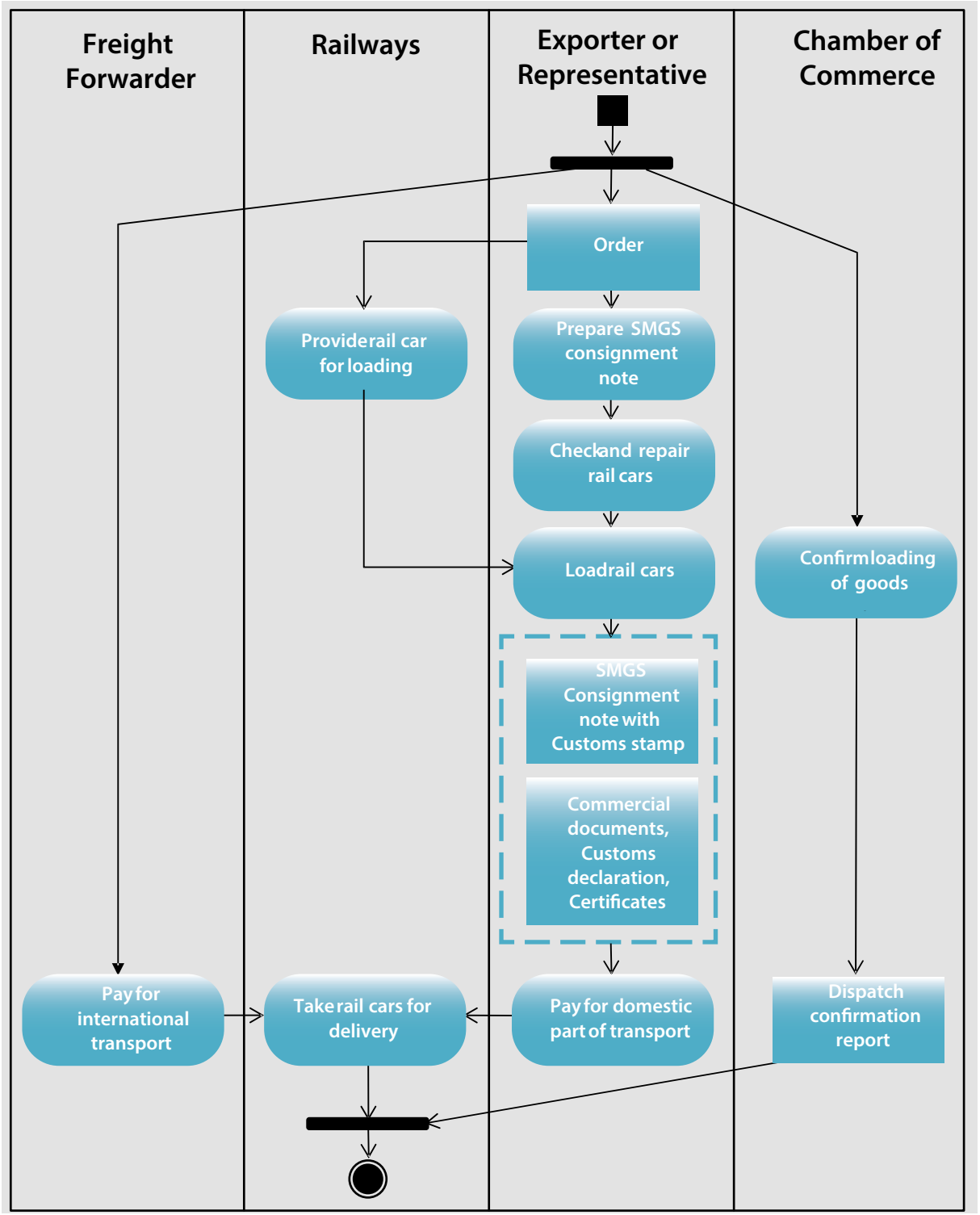
Processes 2.4-2.5: Load transport, Pay for transport, Customs Clearance and Send documents to importer

As shown in Figure A.10, the process of loading transport vehicles and payment for transport, along with sending the documents to the importer is relatively smooth and is usually completed during one business day.

Figure A.10. SHIP: Load transport, Pay for transport, Send documents to importer



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Name of process area	2. Ship
Name of business process	2.4. Load Transport 2.5. Pay for Transport
Related laws, rules, and regulations	• Regulation of railways operations (available in Russian only): • Rules of cargo transportation • A list of commercial stations by address • Order to approve the "Rules of cargo transportation," • Conventional bans • Handling and accounting company-owned freight cars • Agreement on International Goods Transport by Rail • Application of the above mentioned-agreement • Order № 554 of the Minister of Transport and Communications of Kazakhstan • Request for transportation (the application form PG-12), Annex 1 • Request for transportation (the application form PG-12), the application • Agreement on the order of operation, accounting and settlement for the use of freight cars inventory, leased (temporary use), and using international routes
Process participants	• Exporter • National railways (either Kazakh or Russian) • Freight Forwarding Company (optional) • Chamber of Commerce (optional) • Private rail car operating company (optional)
Input and criteria to enter/ begin the business process	• Shipment is ready to be dispatched • Rail car(s) is/are delivered to the product warehouse rail siding
Activities and associated documentary requirements	• The Exporter prepares the railway consignment note (SMGS note is used for the OSZhD rail network). One of the exporters gets blank SMGS forms from the national railways and fills them with a typewriter, the other one uses the e-version of the SMGS blank form, fills in with a computer and prints it out. • Meanwhile, loaders check the rail car and make necessary fixes (remove litter, check and fix floors, walls, sliding doors, locks). After cleaning, the medical sanitary inspector of the plant makes the final check of the rail car and puts the Transport Equipment Sanitary Certificate inside of the rail car. • Loaders begin loading goods from the warehouse. If needed, the Chamber of Commerce can verify that required goods have been loaded. • Concurrently with loading, the SMGS consignment note (4 copies) with other documents required for export customs registration is checked and stamped by Customs • When all documents are received, the exporter scans them for their records and brings them to the loading site and puts them into the rail car. Documents are normally placed inside a flier or an envelope and fixed in the rail car in such a way that the Importer will be able to access the documents immediately after opening the rail car.

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Activities and associated documentary requirements	• The following documents are inserted, and their scanned copies are sent by e-mail: – Commercial Invoice – Consignment note – Export Customs Declaration – Certificate of Origin – Phytosanitary certificate (only for flour or EU shipments of candies) – Certificates of Conformance – Certificate of Quality (for flour only) – Statement of Quality (pasta, flour, candies) – Packing list – Warehousing statement of lading – Internal transport bill • When goods are loaded, the dispatch supervisor locks the door and secures it with a seal (2 copies of the SMGS note with all document originals must be placed inside the rail car) • The SMGS consignment note with the customs stamp is delivered to the railway station, and the Kazakh part of the transportation is paid (normally using a banking card, but direct bank wire or cash are also acceptable) • If the Exporters have to pay the railways of transit countries (under the CPT term of delivery), they should include the code of the freight forwarders, who pay for transit, in the SMGS consignment note (in the form there is a special field for this). If DAP (border) delivery is used, the freight forwarder code is not used. • The Railways take over the rail car from the exporter's rail siding and bring it to the railway station. It can stay in the railway station up to several days before being put into a train to the required destination.
Output criteria to exit the business process	• Goods and documents are inside the rail car • Railways received payment and accepted responsibility for the rail car
Costs and resources	• 10,000-12,000 KZT per one rail car (2000 KZT/hour) – to the Chamber of Commerce for the confirmation of loading (if used) • 2,500 KZT (1 US$ = 148 KZT) – cost of one Transport Equipment Sanitary Certificate. One certificate per rail car is needed. The certificates are provided by SanExpertiza Ltd (a company affiliated with the Ministry of Health) • Company Administrative Staff, shared use • 2-4 loaders per one rail car for 6-8 hours
Average time required to complete this business process	1 day: Up to 2 hours – checking and fixing the rail car 5-6 hours – loading

Table A.9 Outstanding needs and recommendations for load transport and payment processes

Outstanding needs	Recommendations
Physical inspections are complicated	Introduce modern systems for risk profiling and risk management
Payment procedures tend to be demanding for traders with modest exports	Consider allowing payment of customs fees in tenge.

Processes 2.6: Do Export Customs Clearance

Customs clearance is relatively smooth and is usually completed in two hours, and involves the following steps (Figure A.11):

- Collection of all required documents
- Preparation of the Customs Declaration, both electronic and paper version
- Payment of customs fees
- Submission of the Declaration

The problem arises when Customs carry out physical checks of rail cars. In such cases, the rail car is detached from the train, put on a separate rail siding for checks, examined, and if it passes the inspection, attached to the next train. All additional operations with the rail car are paid for by the exporter. There were long discussions between the Kazakh Freight Forwarding Association and Kazakh Customs and Kazakh Railways to the effect that Customs should have a separate budget to pay Kazakh Railways for operations associated with physical checks. But the discussions did not lead to an agreed solution, and Kazakh exporters and importers have to pay for Customs physical checks even if the shipment passes the inspection.

Moreover, both exporters use special deposit cards, which allow them to pay fees at the time of the Declaration submission. But traders with modest, intermittent export activities do not have these cards and pay in cash, as banks require payments in foreign currencies to be made based on the current exchange rate. Thus in addition to the recommendations proposed in section 3.3-3.4, the Government may consider the following measures:

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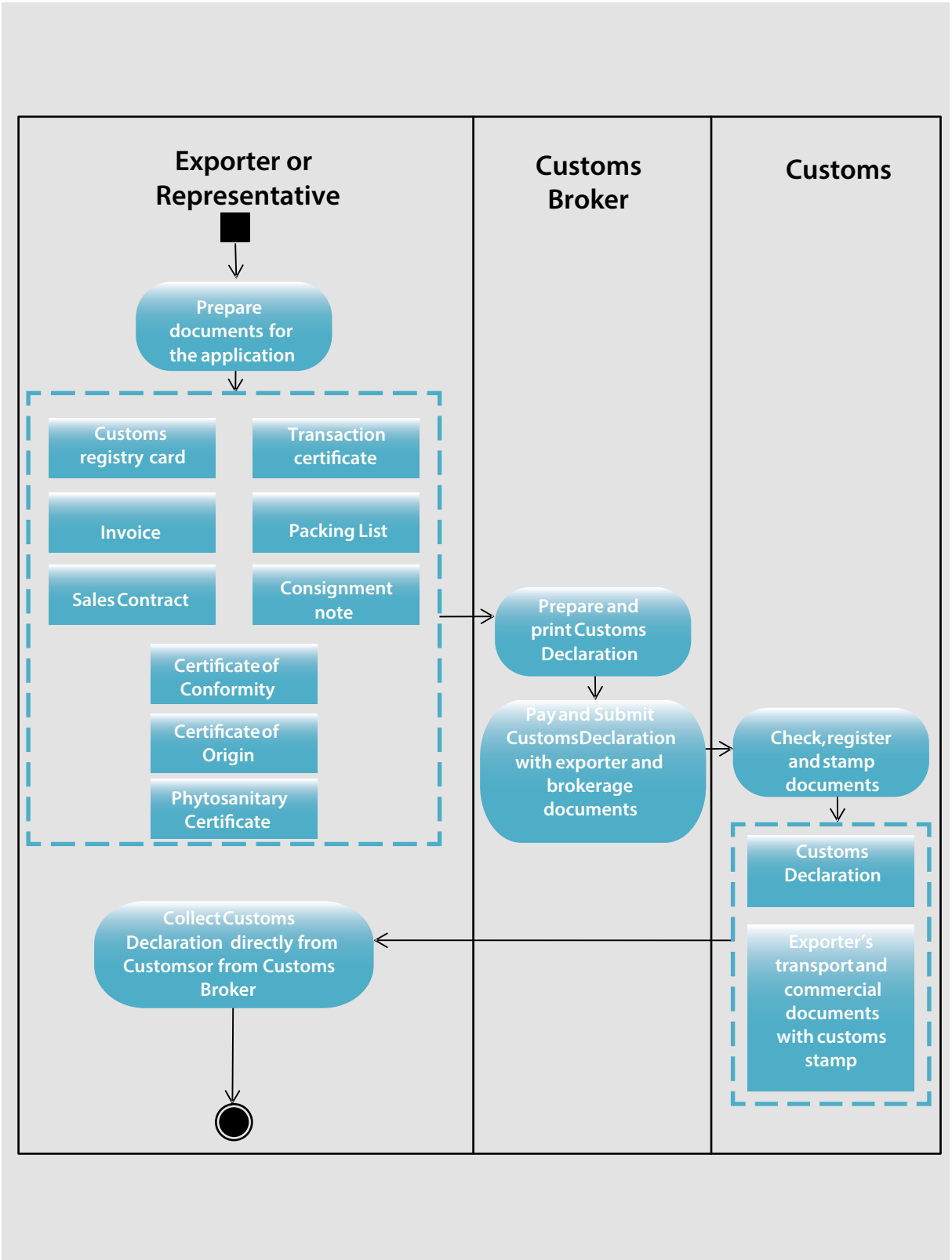
Figure A.11. SHIP: 2.6. Do Export Customs Clearance followed by details of associated steps



Name of process area	2. Ship
Name of business process	2.6. Do Export Customs Clearance
Related laws, rules, and regulations	• The Customs Code of the Customs Union
Process participant	• Exporter • Brokerage company (optional) • Customs
Input and criteria to enter/ begin the business process	• Goods are (or being) loaded into a rail car or in a truck • Certificate of origin, the Phytosanitary certificate (if required), transport documents and commercial documents are received or issued by the Exporter
Activities and associated documentary requirements	• The Exporter or a customs brokerage company prepares the electronic customs declaration in Web-Declarant customs application http://gtd.customs.kz/ (this activity can be done simultaneously with loading of goods and preparation of documents, including the Certificate of Origin and the Phytosanitary Certificate) • When the Export Customs Declaration is ready, it is printed and loaded into the Customs database • Signed and stamped paper-based Export Customs Declaration is submitted to Customs together with other documents and payment for document processing. Additional pages may be required if the Exporter has goods with many HS codes declared. Customs clearance is conducted in Customs Clearance Centers , where one inspector checks all documents and collects payments (so called Single Window control). • The following 12 to 14 documents are required for customs clearance: – Customs declaration – Commercial invoice – Company Customs Registry Card – Sales contract – Brokerage contract – Transaction Certificate – Railway Consignment note – Commercial Invoice – Certificate of Origin – Phytosanitary Certificate – Packing List – Warehousing statement of lading – Plant invoice (optional) – Internal transport note (optional) • Customs inspector opens the electronic version of the declaration (available through customs information system) and compares it with the printed declaration and all supporting documents • If data are correct, the declaration is accepted, registered and stamped by the customs expert. The customs inspector stamps the Consignment Note (railway bill) and other documents upon request of the Exporter (packing list, invoice). These additional documents are usually stamped at the request of the Importers.
Output criteria to exit the business process	• Customs, transport and other documents have been stamped by the customs inspector
Costs and resources	• To Customs – 60 EUR for the first page of the Customs Declaration and 25 EUR for additional pages. • Company Administrative Staff, shared use or a Customs brokerage company – 15,000-20,000 KZT (1US$ = 148 KZT) per one export shipment
Average time required to complete this business process	2 hours: 1 hour to prepare web-declaration and print all documents 1 hour or less – to submit the declaration and supporting documents to customs (This timeframe does not take into account the time spent for obtaining the documentary requirements)

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Process 3. PAY

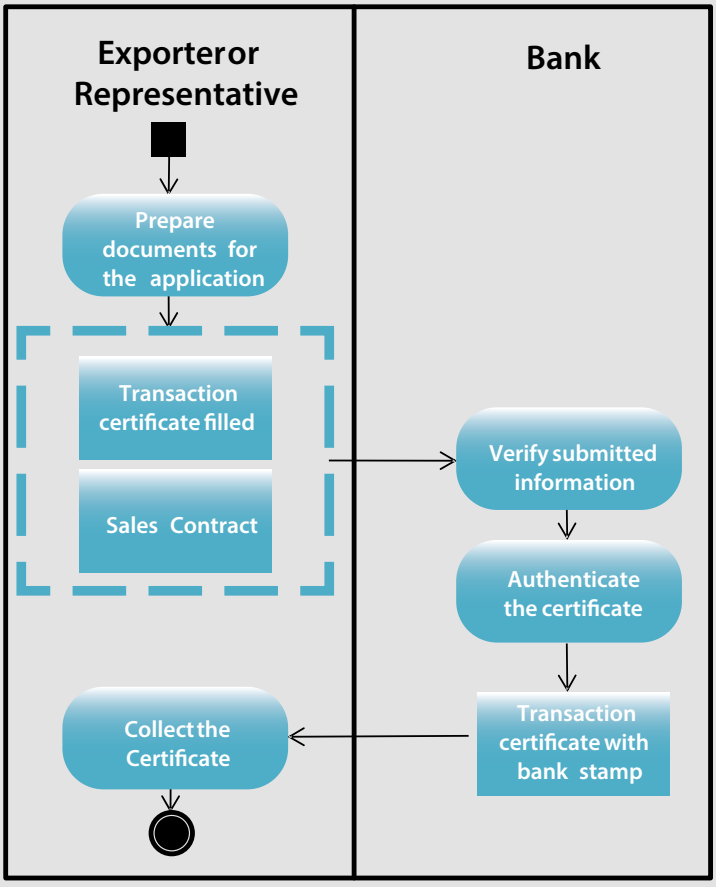
Process 3.1. Opening the Transaction Certificate (Registering International Commercial Transaction)

As shown in figure A.12, the exporter can open a transaction certificate with an authorized Kazakh bank within 2 working days. The exporter must prepare a transaction certificate separately for each foreign trade contract if the value of the goods delivered under the contract as of the date of its execution is equivalent to or exceeds USD 50,000. In situations where the exporter is expecting to receive several purchase orders under the same contract, he does not need to obtain a separate transaction certificate for every single delivery.

The transaction passport should then be presented to the customs authorities who will, in turn, confirm the match between monetary and trade inflows and outflows. As previously mentioned, a simplified currency control law was issued in January 2012, which exempts traders from needing transaction certificates. According to this law, traders have to only register the contract with their servicing banks. The law came into force on 28th January 2012.

Yet, the two exporters could not confirm that the changes had actually come into force and continued to believe that transaction certificates are still required. This suggests that the implementation of the new regulation has been slow and/or that traders are not well informed about the new simplified procedures. This highlights the need for targeted measures to ensure wider

Figure A.12. PAY: 3.1. Opening transaction certificate (Registering International Commercial Transaction) followed by details of associated steps



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Name of process area	3. Pay
Name of business process	3.1. Opening the Transaction Certificate (Registering International Commercial Transaction)
Related laws, rules, and regulations	• Law of the Republic of Kazakhstan dated January 6, 2012 No. 530-IV "On introducing amendments and addenda to some legislative acts of the Republic of Kazakhstan on issues of currency regulation and currency control"
Process participants	• Exporter • Exporter's bank
Input and criteria to enter/ begin the business process	• The exporter signed a new contract with an i mporter
Activities and associated documentary requirements	• The exporter brings the new contract to the exporter's Bank, fills their part of the transaction certificate and pays the fee • The exporter collects the transaction certificate and the contract from the bank after its registration
Output criteria to exit the business process	• Bank registered new commercial agreement • The exporter received the transaction certificate and the contract with the stamp of the exporter's bank
Costs and resources	• 3,000 KZT (1US$ = 148 KZT) • Company Administrative Staff's time.
Average time required to complete this business process	2 Days

dissemination of the new law, along with a clear explanation of its implications and applicability as explained in the detailed recommendations concerning the promotion of mutual trust and partnership between customs and the trading community (Section 3.3).

Table A.10 Outstanding needs and recommendations for opening transaction certificate

Outstanding needs	Recommendations
Lack of clarity on the transaction certificate requirement	• Ensure wider dissemination of the new law, along with a clear explanation of its implications and applicability

Process 3.2. Payment for goods (Proof of Delivery and contract payments)

The payment for goods is usually completed in less than one day, but the transfer of payment from the importer to the exporter's bank may take between 2-3 days. This is because transfers are only executed after the submission of duly completed documents (including export contracts, invoices, consignments, licenses, registration certificates, etc.) by the exporter. This further highlights the need for reducing the number of documentary requirements as explained in section 3.3. There is also a need to simplify the procedures for the transfer of payment, and this should be done on the basis of a detailed BPA.

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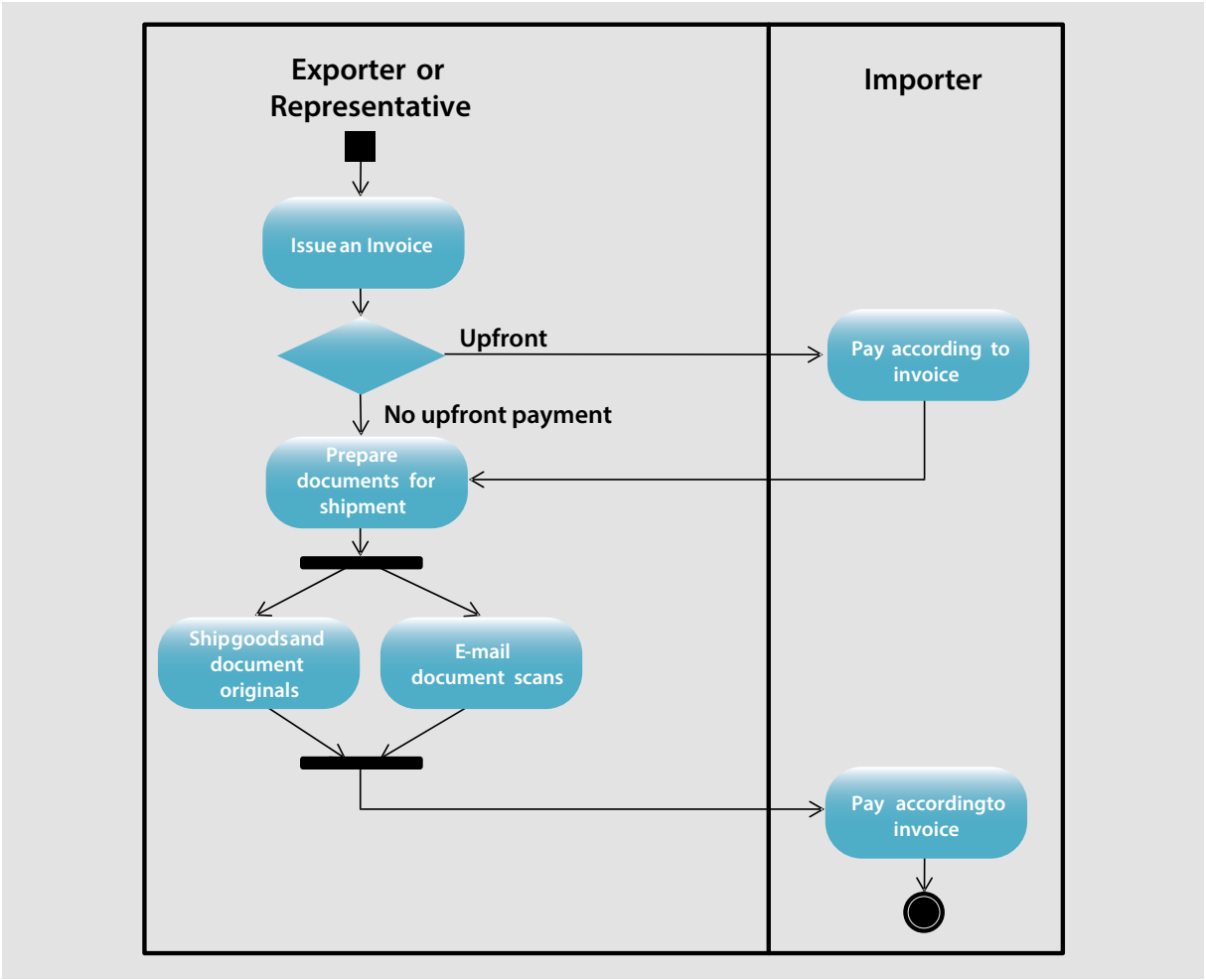
Figure A.13. PAY: 3.2. Proof of Delivery and contract payments followed by details of associated steps



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Name of process area	3. Pay
Name of business process	3. 2. Proof of Delivery and contract payments
Related laws, rules, and regulations	• The Civil Code of the Republic of Kazakhstan
Process participants	• Exporter • Importer
Input and criteria to enter/ begin the business process	• Purchase order from Importer has been received • The transaction certificate has been activated (for new clients)
Activities and associated documentary requirements	• The exporter receives a purchase order from the Importer. The purchase order does not have a standard format: it can be a sales contract – for example for one-off customers, or it can be a framework contract (which defines overall conditions of trade, but does not specify quantities and dates) with annexes to a contract (with quantities and dates fixed) • The exporter prepares and sends a commercial invoice to the importer. In most cases the importer should pay either the full amount for goods and transport or at least 50 per cent upfront • When the payment is confirmed, the exporter starts the sub-activities of the SHIP process • The final invoice is issued when goods have been loaded and shipped to the importer. • The importer pays for goods according to the final invoice. The final invoice (original copy) is normally received with the shipment and paid accordingly after physical delivery of goods, or it can be sent separately, and the final payment can be made on the basis of the proof of dispatch
Output criteria to exit the business process	• Proof of Delivery received • The final payment is received
Costs and resources	• No out-of-pocket costs, except small banking commission • Company administrative staff's time.
Average time required to complete this business process	< 1 day – payment 2-3 days – transferring money from the importer's to the Exporter's bank

Table A.11 Outstanding needs and recommendations for payment of goods

Outstanding needs	Recommendations
Simplifying the procedures for effecting the transfer of payments	• Conduct detailed examination of the business processes underpinning these procedures using the BPA, with a view to phasing out those that are unnecessary.

Process 3.3. Close the Transaction Certificate

As shown in figure A.14, when the exporter and importer decide to close the contract, be it after one or several export shipments, the exporter should provide evidence of all transactions to his/her bank. The exporter's bank then reconciles payments from the buyer and closes the Transaction Certificate. This procedure may take up to 5 or more days to complete. As previously mentioned, the Government exempted exporters from the requirement of drawing a Transaction Certificate at the beginning of 2012.

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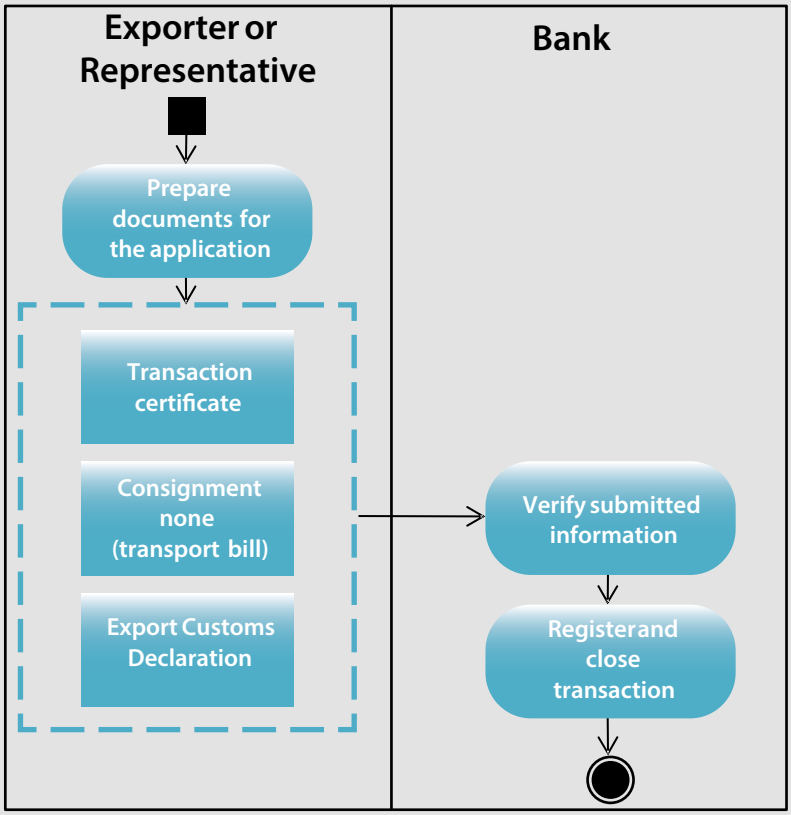
Figure A.14. PAY: 3.3. Close the Transaction Certificate followed by details of associated steps



Name of process area	3. Pay
Name of business process	3.3. Closing the Transaction Certificate (Closing the International Commercial Transaction)
Related laws, rules, and regulations	Law of the Republic of Kazakhstan dated January 6, 2012 No. 530-IV "On introducing amendments and addenda to some legislative acts of the Republic of Kazakhstan on issues of currency regulation and currency control"
Process participants	• Exporter • Exporter's bank
Input and criteria to enter/ begin the business process	• The exporter and the Importer decided to close the commercial deal or make changes to the agreement and sign a new contract
Activities and associated documentary requirements	• The exporter submits the transaction certificate together with export customs declarations and invoices for all shipments made within the contract to the Bank • The bank reconciles data from the bank's records of currency transactions between the exporter and importer with customs declarations and invoices, provided by the exporter
Output criteria to exit the business process	• Bank closed the transaction certificate or provided other form of evidence that the transaction was closed
Costs and resources	• Company administrative staff time.
Average time required to complete this business process	5 Days or more

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A4. Time-Process Charts

Both exporters rely heavily on rail transport to reduce costs. Although rail transport is slow and all the rail companies provide poor service compared to road transport, it has a distinct cost advantage over road transport.

According to one of the exporters, transporting goods in reefer cars from Almaty to Sary-Agach railway station (on the border with Uzbekistan) costs approximately 900 US$ (the distance from Almaty to Sary-Agach is 850 km, and the maximum weight per reefer is between 45 and 53, which means that the trader has to pay an amount equal to 0.02 US$ per tonne per km equal).

Another alternative is to ship goods in a standard rail car. Although the standard rail cars have a capacity of up to 60-65 tons, only 30 tons of candies can be loaded without damage. Cost of transport to Sary-Agach in such a vehicle is 400 $US per load, or 0.015 US$ per tonne per km.

According to DellaTM Freight Exchange Portal (www.della.kz/price/local) the average cost of domestic transport in a 20t truck is 1 US$ per km. This makes the cost of transportation equal to 0.05 US$ per ton per km, which is 3 times more expensive than rail. Unfortunately a 1$/km rule-of-thumb-price for domestic transport (as this price went up and down since at least 2000, but was always a little lower than 1$/km) does not apply for international shipments. If this were the case, many traders would prefer fast door-to-door road transport deliveries to less flexible, but cheaper rail transport.

Indeed, road transport across the borders is much more expensive than domestic road transport, by at least 3 to 5 times. For example, road transport from Almaty to Bishkek, if estimated according to the domestic rate should cost around 250 US$ (250 km times 1US$/km). In reality, traders would have to pay 1,750 US$, or 7 $/km for a 20 ton truck, or 0.35 US$ per ton per km.

The high overland transport costs by road constitute a non-tariff barrier. These high costs are mainly caused by long waiting times at the borders and by unofficial payments that need to be made to controlling authorities on both sides of the border as well as on the roads beyond-the-borders.

A4.1. Candies

The total time required for completing the business processes associated with the export of candies (from order to dispatch) is, on average, 9 days for new importers, and 4-5 days for re-orders, which is a long time.

Transactions with a new (first-time) importer require that both sides negotiate conditions and sign a contract. If the two parties decide to pursue a long-term trading relationship, they can sign a framework contract, which defines conditions of trade, price breaks, but does not fix quantities. Negotiating a contract with a new customer takes on average 5 working days, and the transaction certificate (issued by the exporter's bank) takes another 2 days (sub-process 1.2).

Nonetheless, and as can be seen in the Figure A.15, negotiations with a new importer lengthen the overall business process completion time, because they take 5 days.

Business processes associated with re-orders (repetitive orders) are less demanding in terms of procedures and documentary requirements. The importer sends a simple order with the required quantities of goods to be shipped, and pays according to the invoice. As these procedures can be completed within one business day, the overall process takes 4-5 fewer days than contracting and shipping to a new importer.

Obtaining a Certificate of Origin, which takes 3 days, is the longest business process (barring the transportation). Yet, this procedure does not seem to bother either of the two companies examined in this report, because they use the three days to pick from stock and label the ordered goods. Sometimes, certain items are not in stock and need to be produced. When the company has goods available to ship and accepts an urgent order, they could request the Chamber of Commerce for expedited handling and reduce the time of Getting the Certificate of Origin by one or two days (sub-process 2.2).

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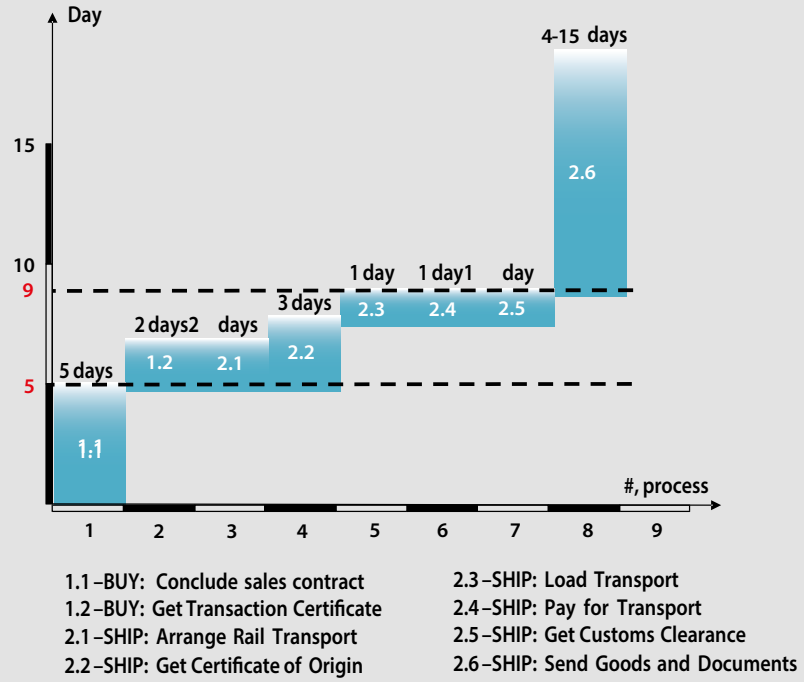
Figure A.15. Time-procedure chart for export of candies



The company has also established creative solutions. For example, one of the interviewed staff said that he prepares Certificates of Origin and Customs Declarations simultaneously, using two authorized companies that belong to the same person to speed up the process. While such a solution addresses the company's concerns, it does not solve the problem. Not to mention that the option used by the company in question may not be available for other exporters.

Once the company obtains the Certificate of origin, and when goods are ready for shipment, Loading (sub-process 2.3), Payment for transport (sub-process 2.4) and Customs clearance (sub-process 2.5) are completed within one business day. Delivery of goods and documents (in the same rail car with the cargo) takes from 4 days (to Bishkek, Kyrgyzstan) to 15 days (to Dushanbe, Tajikistan).

A4.2 Flour, Pasta and Biscuits Export Time Requirements

Arrangement of rail transport for flour, pasta and biscuits can be challenging and time consuming. Figure 15 shows that arrangement of transport can take from 3 to 10 days. This is because Petropavlovsk railway is part of the Russian rail network. It is difficult to obtain rail cars from Russian railways for transporting goods outside of the Russian Federation. Railway cars on offer by private companies are more expensive, and the services of these companies are not reliable.

Under these conditions, the exporter has practically no other options. Moreover, the plant dispatcher (i.e., the actor responsible for arrangement of rail transport) has to visit the nearest railway station several times a day, in order to find out whether any rail cars are available for export shipments. Once the railway station confirms the availability of a certain num-

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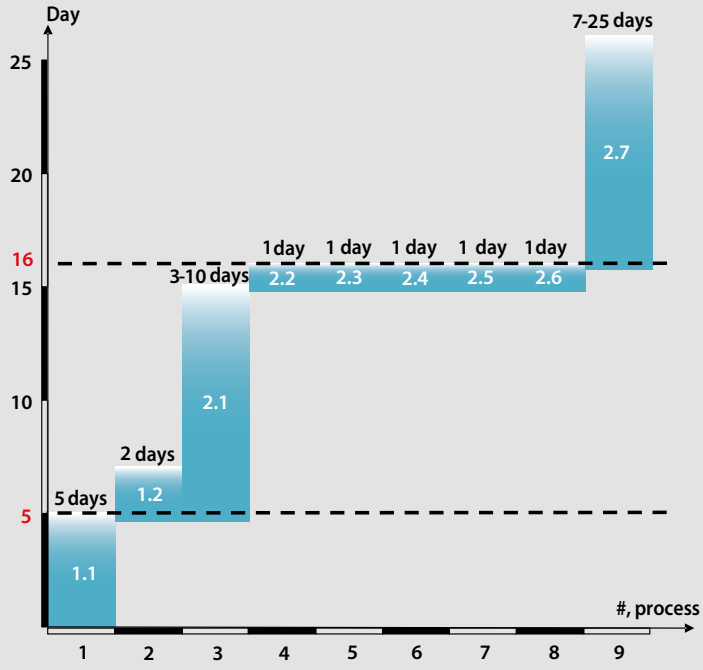
Figure A.16. Time-procedure chart for export of flour, pasta and biscuits



1.1 –BUY: Conclude sales contract
1.2 –SHIP: Get Transaction Certificate
2.1 –SHIP: Arrange Rail Transport
2.2 –SHIP: Get Certificate of Origin
2.3 –SHIP: Get Phytosanitary Certificate
2.4 –SHIP: Load Transport
2.5 –SHIP: Pay for Transport
2.6 –SHIP: Do Customs Clearance
2.7 –SHIP: Deliver Cargo and Documents

ber of rail cars and commits to providing them, the exporter starts the procedures associated with obtaining the remaining required documents for the shipment. When the exporter obtains the rail cars, he loads the goods from stock and completes the remaining export procedures within one business day.

Given such conditions, exporters cannot confirm, with any degree of certainty, the shipment arrival time. There were a number of cases when our two exporters were unable to deliver in time and were, therefore, forced to cancel the orders in question.

A.5 Export documents and customs clearance

Between 6 and 10 supporting documents are required to release pasta, flour, biscuits and candies for export. In particular, the exporter is expected to present six supporting documents if goods do not require phytosanitary control. Goods subjected to phytosanitary control need one more document – the phytosanitary certificate.

Two additional documents are provided by the exporter at the importer's request: Bill of Lading and the Producer's Bill of Transport. These documents help the importer's authorities to sort out export documentary requirements—some of which are issued to the exporter or by the exporter (e.g. Customs Declaration and Commercial Invoice) —from supporting documents issued for the producer (e.g. Certificate of Origin and Certificate of Conformity).

The tenth document is provided to facilitate sales in the importer's country—the Certificate of Quality (for flour) or the Producer's Declaration of Quality.

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Another 14 documents listed in Table A.6 are required for obtaining the Certificate of Origin and the Phytosanitary Certificate.

One more document is added during the Loading process—the Transport equipment sanitary certificate. This document is provided by the Medical Sanitary Inspection of the Ministry of Health, but the inspection of transport is conducted by the exporter. Thus, the number of documentary requirements may reach 26 documents.

The Transaction Certificate aside, neither of the two companies examined complained about excessive document requirements, which shows that they have grown accustomed to such requirements. One of the exporters said that he submits additional documents, which are not required in Kazakhstan, but help importers (Tajikistan, Uzbekistan) clear goods more easily.

The Customs Declaration should be submitted with a confirmation of customs fees payment. The trader pays 60 EUR per declaration, with an additional 25 EUR for each extra page in cases where the trader is exporting products with varied HS codes. If exporters do not submit the Declaration on the day of payment, they would be exposed to exchange rate fluctuations, and would have to pay the outstanding small amounts.

Table A.6. List of documents key and supporting document required for export shipments

Document	Required or owned by	Issued / filled by	Input in process	Comments, Descriptions
1. Key Documents (export and import in the destination country is not possible without them)				
Export Customs Declaration	Customs	Exporter or Broker	SHIP *process*	
Certificate of Origin	Ministry of Industry & New Technologies	Chamber of Commerce	SHIP *process* SHIP: Do Customs Clearance *sub-process*	**ST-1** Certificate for CIS Countries **A**-type Certificate for other international
Certificate of Conformity	Same Ministry	Committee of Technical Regulation and Metrology	SHIP SHIP: Do Customs Clearance	Received for every category of goods once every 2-3 years
Phytosanitary Certificate	Phytosanitary inspection	Phytosanitary inspection	SHIP SHIP: Do Customs Clearance	For Flour or for packaging in the EU shipments
Consignment note	Transport Operator	Exporter	SHIP SHIP: Do Customs Clearance	**SMGS** for Railways **CMR** for Road Transport
Commercial invoice	Exporter	Exporter	SHIP SHIP: Get Certificate of Origin SHIP: Do Customs Clearance	
Packing List	Exporter	Exporter	SHIP SHIP: Get Certificate of Origin SHIP: Do Customs Clearance	
2. Additional documents (to support foreign sales and Import customs clearance)				
Certificate of Quality	Phytosanitary inspection	Phytosanitary inspection	SHIP	Voluntary certification for Flour
Declaration of Quality	Exporter	Exporter	SHIP	Voluntary declaration for Pasta, Biscuits or Candies
Statement of Lading	Exporter	Exporter	SHIP SHIP: Do Customs Clearance	Confirmation from the exporter that goods were loaded into transport. Registered (stamped) in Customs at the Importer's request

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Document	Required or owned by	Issued / filled by	Input in process	Comments, Descriptions
Internal Transportation Bill	Exporter	Producer	SHIP SHIP: Get Certificate of Origin SHIP: Do Customs Clearance	Produced by the Producer for the Exporter. Not required for customs clearance. Registered in customs at request of the Importer (it contains more information about goods than the Consignment note)
3. Inputs to Customs Clearance sub-process				
Customs Brokerage Contract	Brokerage company	Brokerage company and Exporter	SHIP: Do Customs Clearance	A service contract between the Exporter and the Broker
Transaction certificate	Ministry of Finance	Exporter's Bank	SHIP: Do Customs Clearance	Document for currency control. Simplified in 2012
Sales Contract	Exporter	Exporter	SHIP: Do Customs Clearance	
Customs Registry Card	Customs	Customs	SHIP: Do Customs Clearance	ID card issued by Customs for international trade companies
4. Inputs to the Getting the Certificate of Origin (CoO) sub-process				
Application for expert examination	Chamber of Commerce	Exporter	SHIP: Get Certificate of Origin	Request for confirmation of the Origin of goods
Application to the Chamber of Commerce	Chamber of Commerce	Exporter	SHIP: Get Certificate of Origin	For issuing of the Certificate of Origin
Plant invoice	Exporter	Producer	SHIP: Get Certificate of Origin SHIP: Do Customs Clearance	Needed for the CoO because Exporter and Producer are sister companies. Registered in customs and sent to the Importer at the Importer's request
Warehousing note	Chamber of Commerce	Exporter	SHIP: Get Certificate of Origin	Statement that the Exporter has goods in stock. Needed because Exporter and Producer are sister companies (i.e. the Exporter resells goods, produced by a different company)
5. Inputs to Getting Phytosanitary Certificate sub-process				
Sampling Report	Authorized Inspector	Producer	SHIP: Get Phytosanitary Certificate	This statement accompanies a product sample, sent for examination to the authorized inspector
Application for Phytosanitary examination by the City inspectorate	Phytosanitary Inspection	Producer	SHIP: Get Phytosanitary Certificate	For examination and Phytosanitary Inspection Report
Application for Phytosanitary Certificate	Phytosanitary Inspection (Oblast)	Exporter	SHIP: Get Phytosanitary Certificate	For issuing of the Phytosanitary Certificate

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Document	Required or owned by	Issued / filled by	Input in process	Comments, Descriptions
Analysis Report (Analiznaya)	Phytosanitary Inspection	Authorized Inspector	SHIP: Get Phytosanitary Certificate	Produced by the subsidiary entity of the Phytosanitary inspection as an input for the Phytosanitary inspection
Phytosanitary Inspection report	Phytosanitary Inspection	Phytosanitary Inspection	SHIP: Get Phytosanitary Certificate	Produced by the City Phytosanitary inspection for the Oblast Phytosanitary inspection
Production Laboratory Examination Report	Exporter	Exporter	N/A	Required for the Certificate of Quality for Flour
6. Medical Sanitary Documents (not used in key business processes)				
Transport equipment sanitary certificate	Medical Sanitary Inspection through SanExpertiza Ltd	Exporter	N/A	Exporter checks conditions of rail cars, before loading goods and puts the certificate inside of the vehicle

The need to simplify and streamline documentary requirements cannot be over-emphasized, since heavy documentation containing multiple and redundant data can lead to incorrect reporting of information and subsequent difficulty in verifying the accuracy of such information, in addition to increasing transaction costs. Simplifying and streamlining documentary requirements requires, a priori, aligning trade procedures and documents, based on a cost-benefit analysis to eliminate procedures with little value-added. By aligning trade documents, Kazakhstan would be also taking the first step toward automation of trade procedures and introduction of electronic Single Window facilities, where all information and data needs to be submitted only once.

A6. Concluding remarks

The BPA shows that procedures associated with the export of candies, flour, biscuits and pasta could benefit from further simplification, harmonization and streamlining. There is also a need to reduce documentary requirements. Addressing these needs can be best achieved by implementing a Single Window system for export and import procedures. In addition, these case studies highlight the necessity of improving the railway and road infrastructure and modernizing truck fleets and rolling stock.

In choosing the best course of action, the government may consider establishing a task force that brings together representatives of relevant public sector institutions and leading manufacturers involved in the production of pasta, flour, biscuits and candies, as well as other exporters. This is important to ensure responsiveness and to enable the government to take the necessary measures to enable that enterprises reap the expected benefits from new procedures and infrastructure investments.

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Annex II

List of recommendations

Trade facilitation

Customs clearance and documentary requirements

Outstanding needs	Recommendations
Promoting mutual trust and partnership between customs and the trading community	• Prepare guides and white papers explaining the basic objectives, the requirements and the interpretation of regulations and procedures deemed by the private sector to be difficult. Priority should be given to the procedures governing the issuance of trade documents that pose particular difficulties for traders. • Prepare guides explaining the procedures and regulations governing the use of electronic- documents. • Establish a help desk for disseminating reliable up-to-date border crossing rules and their interpretation. This help desk could be housed in one of the trade support associations, which could maintain an inventory of procedures and rules, disseminate regular updates to its members and to the trading community at large, as well as conducting regular assessments of traders' needs and responding to their inquiries. • Encourage traders to carry out regular self-assessments using a checklist provided by the Customs. • Establish a customs to business partnership programme, whereby traders who pass the Customs audit could then be accorded significant benefits similar to those provided to AEOs.
Further streamlining of trade-related administrative and regulatory procedures	• Establish clear instructions to guide the development of new procedures. Such instructions should ensure that new procedures are based on a clear cost-benefit analysis; are documented in published regulations; are clearly articulated to avoid different interpretations; and, are applied to all traders in a transparent manner. • Revise procedures that result in increase transaction costs: – Consider exempting special economic zones from the requirement of using the relocated customs clearance centres for imports from China to major cities. – Consider revising the procedures for the implementation of the contract record numbers that have replaced the transaction passport, with a view to reducing the documentary requirements associated with implementing currency controls. In this respect, the government may wish to consider reducing the number of support documents that the trader needs to submit to register the export contract with a Kazakh bank. Reconsider the existing categorization of customs posts. Clearance posts should be strategically located in close proximity to transport and logistics facilities. • Improve customs valuation methods drawing on international best practices, as these allow the specifications and terms of supply established under contracts/agreements to be taken into account. In so doing, the government may want to take into consideration the WTO Valuation Agreement and World Customs Organization (WCO) Valuation Compendium.[93] • Streamline the administrative measures associated with VAT payment approval with a view to reducing the waiting time to one day. In addition, establish a shared, single database of legal and natural persons, so that traders would have to submit (and obtain) only one "taxpayer registration number".

[93] WCO Valuation Compendium is available online at: http://www.wcoomd.org/en/topics/valuation/instruments-and-tools/val_customs_compendium.aspx

Outstanding needs	Recommendations
Further streamlining of trade-related administrative and regulatory procedures	• Further develop the procedure for advanced rulings by: – Expanding the scope of this procedure so that it includes the valuation of goods. – Streamlining the administrative procedures associated with implementing advanced rulings, with a view to reducing the waiting time to one day. In so doing, accord preference to e-business solutions, and ensure that such solutions are placed within the context of a single window arrangement. • Consider introducing pre-arrival clearance • Consider separating the release of goods from clearance based on WCO guidelines.
Further streamlining of administrative and regulatory procedures for processing and issuing required document	• Analyse the administrative and regulatory procedures underpinning the issuance of trade documents with a view to removing unnecessary procedures and trade documents. • Consider replacing the existing paper-based procedures with electronic procedures. Such procedures should be implemented within the context of a single window facility (see below) – As a first step, the government may wish to reduce administrative and regulatory procedures associated with processing and issuing the following documents *Certificates of origin* – Establish a new procedure for guiding the issuance of certificates of origin. In particular, the government may wish to consider: (i) revising its rules of origin, as these appear to be restrictive with respect to some raw materials and products; and (ii) streamlining the administrative procedures to cut down on red tape. In so doing, the government may consider conducting a thorough examination of the procedures and internal rules of all the local branches of the Chamber of Commerce in order to identify the factors causing discrepancies in the treatment of companies with similar types of goods – Equip Village Councils with modern weighing scales and allow for a certain degree of tolerance in cases where the consignment exceeds the capacity of the weighing scale. *Export permits* – Consider determining the list of goods subject to export control at the ten-digit SITC [94] level. – Reconsider the current one batch, one license system, so that one export permit may be used for several batches within the period of the permit's validity. Also reduce the waiting time to one day for permit issuance. – Streamline the administrative procedures for obtaining export/import permits for ozone depleting substances *Veterinary certificates* – Harmonize administrative and regulatory procedures associated with issuing veterinary certificates applied in partner countries, in particular for sunflower seeds and sunflower products and particularly Uzbekistan. *Ecological insurance policy* Streamline the administrative procedures for obtaining an ecological insurance policy. • Consider taking the following steps: – Embarking on consultations with the Uzbek government to reduce the documentary requirements for obtaining transit permits through Uzbekistan. As both Kazakhstan and Uzbekistan are signatories to the TIR Convention, traders should not be requested to submit additional support documents – Harmonizing SPS and veterinary regulations and requirements with main trading partners. – Further developing the existing waste classification system, as envisaged in the Kazakh Environmental Code, with a view to aligning this system with international approaches to reducing hazardous substances in products. Most notable are the Basel Convention on the Control of Trans-boundary Movements of Hazardous Wastes and their Disposal; the Stockholm Convention on Persistent Organic Pollutants; and, the International Atomic Energy Agency (IAEA) Safety Guide on the classification of the whole range of radioactive waste.

[94] SITC stands for Standard International Trade Classification

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Outstanding needs	Recommendations
Reducing documentary requirements to a minimum	• As a first step, the government may wish to consider eliminating the following support documents: – For export permits: (i) the requirement to submit certificates testifying that traders operate in domestic markets; (ii) for potentially hazardous products, and based on the revised system for the classification of waste products, consider reducing the number of documentary requirements. – For certificates of origin: the requirement to submit notarized copies of the procurement documents for each product component. • In the medium term, the government may wish to consider revising regulations, embedded in the Kazakh Customs Code, which make the submission of paper-based trade documents a requirement. • Consider replacing all paper-based documents with electronic documents. In the short-term, the government may consider phasing out paper-based documents where electronic documents are already available.
Further developing the existing dispute settlement mechanism	• Revise the existing laws in order to vest the Council of Experts with the right to make binding decisions.
Expanding the range of reasonably priced customs brokerage services available to traders	• Establish advanced training programmes for customs brokers on issues related to customs clearance and brokerage services. Such programmes could be hosted and maintained in specialized associations, particularly the Kazakh Association for Customs Brokers.
Establishing a single window facility	• Align trade documents to internationally recognized standards. • Based on the above, reduce the number of trade documents to the minimum. Particular emphasis should be given to removing documentary requirements that add little value for guiding decisions and to eliminate the duplicate submission of data. • Analyze the existing regulatory and administrative procedures underpinning export and import transactions using the UNECE/CEFACT Business Process Analysis Methodology. To ensure in-depth examination, the analysis should be conducted at the product level. In this respect, the government could choose to focus on key exports. • Based on the results of the business process analysis, remove all procedures that add little value to the export-import transactions and related decision-making. • Establish a single window facility using internationally recognized best practices.

At the border control

Outstanding needs	Recommendations
Establishing a comprehensive cross-border risk management system	• Expand the application of risk management to include all border control agencies. While Customs may spearhead the implementation of a modern risk management system, all border control agencies need to adopt and implement such a system based on a clear strategy and action-plan. • Expand the scope of risk assessment criteria to cover areas discussed above. • Establish a risk management policy, with a clear definition of administrative structures and resource allocation. • Further develop the existing management information system. • Establish an inter-agency risk management committee. • Kazakhstan could consider implementing the WCO Standards to Secure and Facilitate Global Trade (SAFE Framework), which provides a holistic approach to balancing supply chain security and trade facilitation. It sets forth principles and standards for advance cargo information, risk management, equipment for non-intrusive inspection, the Authorized Economic Operator (AEO) concept. The SAFE Framework provides a single, coherent instrument for applying all of these principles and standards in an integrated manner to supply chain management.

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Outstanding needs	Recommendations
Simplification, rationalization and standardization of cross-border procedures	• Revise decisions on cross-border procedures to ensure greater clarity and precision, provide clear instructions for implementation, and reduce discretion in interpretation by customs officers. • Streamline border procedures both for the railways and the border agencies.
Further strengthening of inter-agency coordination at the borders	• Improve interface connections between the information systems of the railways and border control agencies within the country. • Establish a common approach to risk management across border agencies, based on the internationally recognized principles enshrined in the Kyoto Convention • Establish a central body for assuming the task of developing and overseeing the implementation of a common approach to risk management.
Improving inter-agency coordination at the main border crossing points between Kazakhstan and China	• Improve the interface connections between the Chinese and Kazakh railway and customs information systems. • Simplify the procedures for obtaining transit permits, and reduce the number of documentary requirements. This could be done based on a detailed analysis of the procedure in consultation with the Chinese authorities in order to ensure that the needs and considerations of the relevant authorities in both countries are adequately addressed.

Issues related to the Customs Union between Belarus, the Republic of Kazakhstan and the Russian Federation

Outstanding needs	Recommendations
Improve inter-agency coordination at the borders	• Introduce interface connections between the information systems of the railways and the border agencies (particularly customs) within the CU territory. In so doing, Kazakhstan and its CU partners may consider following the systems adopted within the context of the EU funded Transport Corridor Europe-Caucasus-Asia (TRACECA) initiative. • Establish a common approach to risk management, as explained in section 3.4.
Further simplification, rationalization and standardization of cross-border administrative and regulatory procedures	• Expand the list of products included in the Single List of Products Imported to the CU. • Reduce the number of products included in the Unified List of Goods Subjected to Import and Export Licensing Requirements. • Streamline and simplify the existing procedures for issuing the Certificate of State Registration. • For cargo declarations: Consider reducing the level of description for products by using the 10-digit HS code (Harmonized System code from WCO), and revise the pricing policy in order to reduce the cost of additional pages. • Simplify the procedures associated with importing veterinary products • Consider revising the procedures for issuing certificates of origin. One approach would be to require such certificates for each product, for a determined period of time, as opposed requiring separate, new certificates for each shipment. • Consider simplifying the procedures for issuing the payment confirmation, and reduce the waiting time to one day. • Consider regulations that would allow traders to clear goods in their country of residence. • Consider expanding the Registry of Suppliers from Third Countries. • Consider further developing the CU Adjustment rules. In particular, improving customs valuation methods drawing on international best practices, as explained in section 3.3.

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Outstanding needs	Recommendations
Further develop the CU common risk management system	• Consider consolidating the existing systems into a common risk management system, as explained in section 3.4. • Consider revising the terms for granting AEO status for traders operating in the CU territory. It would be useful, following – best practices[95] as well as the experiences of other countries[96], to avoid setting a threshold for determining financial solvency, as this threshold differs from one industry to another.
Strengthening the public-private dialogue and cooperation	• Establish a coordinating committee to conduct regular consultations with private sector representatives on the CU procedures and documentary requirements. • Establish a customs to business partnership programme, as explained in section 3.4.

Overland transport infrastructure: rail and road networks

Outstanding needs	Recommendations
General	
Speeding up the pace of the transport sector's liberalization effort	• Reform the legal framework in order to promote Public Private Partnerships (PPPs). • Establish generic and sector wide methodological manuals for guiding PPPs. • Reduce the threshold for participation in PPPs. • Guarantee a minimum level of income for the concessionaire and allow for the participation of consortiums of several private sector entities in PPPs. • Establish a proper risk assessment methodology for guiding the design of PPP terms and arrangements. • Involve the private sector in the design and construction of infrastructure facilities, even if the facilities in questions are expected to be owned and operated by the public sector.
Railway	
Improving railway capacity at the main border crossing points with China	• Improve the range and quality of services at rail terminals • Align Kazakh customs and railway information systems with international standards (see recommendations under section 3.3 for further details). • Align track gauge, traction power supply and signalling systems with international standards. • Undertake new investments in transloading facilities, particularly at the Dostyk and Korgas border crossing points • Invest in those locations along the railway route China-Urumqi-Alashankou-Dostyk-Moscow-Brest where trains need to change their undercarriages due to different rail standards
Curbing cargo theft	• Rehabilitate the existing stock of railway freight wagons by adding modern anti-theft technologies • Introduce modern systems for ensuring secure trade, such as security fences, trembler alarms, forensic markers and modern closed circuit television (CC TV) security cameras • Intensify the security presence at major border crossing points. • Revise the existing laws to commit railway operators and carriers to implementing minimum security requirements • Prompt insurance companies to ensure reasonable information sharing • Provide assistance to traders that want to invest in modern equipment. The government might consider establishing special credit facilities for this purpose • Establish appropriate cooperation mechanisms for combating cargo theft with immediate neighbouring countries.

[95] See WCO SAFE Framework.

[96] See Article 5 a (2) of EU Community Customs Code as established in the EU Regulation (EEC) No 2913/92.

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Outstanding needs	Recommendations
Increasing the storage capacity in cities that are located at critical rail nodes	• Give priority to increasing storage facilities in the cities of Karagandy, Shymkent, Aktobe, and Aktay
Improving the quality and supply of rolling stock	• Promote investments in modern rolling stock by attracting local and foreign investment • Promote the establishment of credit schemes for local rolling stock owners, in order to enable them to undertake required investments.
Road	
Improving the capacity of road networks	• Invest in bringing existing networks up to Class I and Class II road quality standards • Build new roads, where needed, to improve in-country and border connectivity
Improving the quality and supply of truck fleets	• Promote investments in modern truck fleets, including foreign investments. • Promote the establishment of credit schemes for local truck/trailer fleet owners, in order to enable them to undertake the required investments. • Consider increasing gross vehicle mass limits, as each extra ton on the vehicle means lower unit costs and this could provide an incentive for truck/trailer owners to invest in modernizing their fleets.

Logistical services

Outstanding needs	Recommendations
Increasing the limited capacity of logistics service providers	• Establish advanced training programmes in logistics, especially in integrated logistics and multi-modal transport, supply chain management, innovative technological applications
Improving traders' limited experience in logistics management.	• Establish advanced training programmes in the area of logistics management, with a special emphasis on the development of logistics strategies.
Developing integrated multi-modal transport services	• Develop the legal framework for allowing multi-modal transport to be carried out under one contract • Establish the required insurance and credit schemes for supporting multi-modal transport • Develop the capacity of local freight forwarders • Further develop Kazakhstan's Freight Forwarders Association with targeted training so that it could assume a lead role in developing the freight forwarding industry • Establish advanced training programmes for local freight forwarders, with a special focus on multi-modal transport and International Federation of Freight Forwarders Associations (FIATA) related areas.
Increasing the use of containers	• While developing the multi-modal transport industry would go a long way in addressing this problem, the government should also consider: • Developing container terminals • Investigating options for lowering the cost of container shipping, such as incentives for the return of outgoing containers in order to have a larger stock of available containers

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2. Regulatory and Standardization Policies

Technical regulations

Outstanding needs	Recommendations
Increasing the currently limited capacity of enterprises' capacity to comply with the CU common technical regulations	Establish an action plan to enable enterprises to produce according to the new regulations. The plan needs to be sector-focused, and be based on a needs assessment of enterprises' production capacity.
Further harmonizing regulations, particularly in the area of safety requirements	• Conduct a systemic review of the legal framework underpinning safety requirements to identify instances of duplication and excessive requirements • Consider using UNECE Recommendation L as a reference framework for guiding the consolidation of the legal framework.

Standardization

Outstanding needs	Recommendations
Establishing an independent national standardization body	• The establishment of an independent national standardization body. As proposed by international experts, the most efficient way would be to transform KazInSt into an independent governmental agency or into a private sector entity (Joint Stock Company or Limited Liability Company).[97]
Modernizing of the legal framework underlying standardization	• Conduct a systematic review of the legal framework underpinning standardization to ensure greater precision in the division of functions among the different agencies involved. • Modify provisions concerning the application of regional, international and national standards in order to enable domestic enterprises that produce according to international standards to compete in domestic markets and to provide improved market access conditions for regional and international enterprises seeking to market their products in Kazakhstan. • Include specific clauses that reference technical specifications in existing laws, so as to facilitate their use.

Conformity Assessment and accreditation

Outstanding needs	Recommendations
Further harmonizing of existing conformity assessment procedures	Conduct a systemic review of existing procedures in order to identify inconsistencies with international norms and rules as well as instances of duplication Based on the results of the review, take the necessary measures to simplify, streamline and standardize conformity assessment procedures Consider introducing electronic conformity certificates, assessment certificates and declarations
Bringing the laboratory accreditation system up to the level of internationally recognized norms and best practices.	Develop the accreditation system (through, for example, training, modern equipment, twinning with laboratories in other countries) so that it functions according to international standards. In the long term, consider entering into new mutual recognition agreements (MRAs) with European and other partners

[97] These proposals were submitted to the Government as part of the preparations for the EU funded project, "Development and Implementation of Trade Policies and Regulations". The project was launched in mid-2010 and was completed in early 2013.

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Outstanding needs	Recommendations
Improving the institutional capacities of testing laboratories which are currently weak.	• Develop the capacities of testing laboratories based on a cost-benefit analysis, and in consultation with CU partners • Explore options with relevant EU authorities for supporting conformity assessment bodies, which are notified within the framework of the EU and willing to conduct conformity assessment (in the territory of Kazakhstan) of Kazakh exports to the EU. • Assist enterprises to comply with the requirements for obtaining conformity assessment certificates, including by establishing a help desk to provide them with practical advice. • Intensify efforts to enable National Accreditation Center (NAC) to obtain full membership with IAF.

Metrology

Outstanding needs	Recommendations
Harmonizing the metrological system, including measurement procedures, calibration certificates, language, etc. with the international requirements on all levels (KazInMetr, secondary laboratories, production laboratories and industry). Otherwise, recognition by other countries will remain difficult, if not impossible.	• Develop an advanced training programme in the areas of metrology and accreditation in cooperation with leading regional and international institutions • Establish a depository of key legal documents in the English language • Consider the possibility of issuing bi-lingual (Russian/English) certificates, so that non-Russian speaking partners could determine the procedures and technical specifications used by Kazakh testing and certification laboratories.
Developing the institutional capacities of calibration laboratories	• Develop the capacities of calibration laboratories, and consider establishing new ones based on a cost-benefit analysis.

3. Implementation of proposed recommendations

Given the broad range of areas that the recommendations address, it would be difficult to implement the proposed measures in a single undertaking. As a follow-up to this assessment, the UNECE is working with the Kazakh National Advisory Committee to develop an implementation plan for the medium and long term that sequences implementation of the recommendations by priority.

In implementing the proposed measures, the government may wish to consider establishing a trade facilitation forum. As shown throughout the study, delays at the main border crossing points are often caused either by the traders' failure to satisfy the documentary requirements or by the specific regulations of other non-Customs border control agencies and State bodies. Yet, in spite of this, consultations with the private sector seem to be limited. 9394959697

A trade facilitation forum would provide a broad mechanism for involving all relevant government and private sector stakeholders, and ensuring continuous discussions before, during and after the implementation of new procedures and regulations. Differently put, it would serve as a vehicle both for public/private dialogue and for dialogue between the different private sector stakeholders, whose needs and priorities differ by sector, stage of development and location.

A trade facilitation forum could also advice the government on priorities for improving the trading environment.

UNECE recommendations on national trade-facilitation bodies provide guidance and practice examples of best practices for developing or consolidating such a broad mechanism.[98] Successful experiences suggest that attention must be given to avoiding (as much as possible) the creation of a new institution. One appropriate approach is to aim for a "Forum on trade facilitation", which brings

[98] See Recommendation No. 4: "National Trade Facilitation Bodies" (TRADE/CEFACT/1999/11), and its supporting document: "Creating and efficient environment for trade and transport" (TRADE/CEFACT/2000/8).

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together all relevant parties in an ad hoc working group format. The forum could be housed in any market-support institution (whether governmental or private sector) that has extensive outreach. It would then need to be mandated with tasks such as:

- Providing a national forum to discuss actions for facilitating trade by reducing and simplifying formalities, procedures and documentation used in international trade and transport.
- Submitting proposals to the government in relation to trade and transport-related rules and regulations.
- Making recommendations on future investments in logistical infrastructure, ITC and other areas pertinent to the facilitation of trade.
- Increasing awareness of the methods and benefits of transport and trade facilitation.
- Representing Kazakhstan at regional and international forums on trade facilitation.

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Part II

Company Perspectives: Results of the ITC Non-Tariff Measures Survey

Chapter Six

Introduction to non-tariff measures and ITC company survey results in Kazakhstan

With global economic liberalization and a general trend towards tariff elimination, the relative importance of trade barriers resulting from non-tariff measures (NTMs) has risen in recent decades. NTMs cover a wide range of policies, including those aimed at limiting trade and market access (e.g. quantitative restrictions and trade remedies) and those put in place to reach public policy objectives (e.g. sanitary and phytosanitary (SPS) measures, technical requirements and related conformity assessment). Furthermore, importing countries – particularly developed ones – implement regulations in response to consumer demands to know more about the properties and quality of the products they purchase.

Most NTMs with public policy objectives like protecting human health and the environment, a priori do not have protectionist motives. Yet, compliance with these requirements may be too difficult for companies seeking to export, particularly for small and medium-sized enterprises (SMEs) in developing countries. In this context, the analysis of the commercial impact of NTMs is even more relevant, as well as the provision of technical cooperation to developing countries aimed at building government and business capacities.

The International Trade Centre (ITC) is actively engaged in research and co-operation efforts in the field of NTMs. ITC has recently conducted large-scale company surveys in 27 developing countries, with the aim of gathering information and addressing NTMs faced by companies on a day-to-day basis. ITC surveys start by inquiring about the regulatory environment in each country. In those cases in which NTMs represent barriers to trade, in-depth information is gathered identifying whether difficulties stem from the strictness of the requirements specified under the regulation or from procedural obstacles (POs) that may occur while complying with NTMs. Delays, informal payments and excessive paperwork are some of the most common POs. In addition, the survey considers inefficiencies in the trade-related business environment, such as limited transport infrastructure or lack of testing facilities.

6.1 Non-tariff measures

Over several decades, trade liberalization has been used as a development tool based on evidence that benefits accrue to countries actively engaged in world trade. Multilateral, regional and bilateral trade negotiations as well as non-reciprocal concessions have led to a remarkable reduction in global, average tariff protection. With favourable market access conditions, international trade has soared to previously unseen levels, raising overall welfare and standards of living.

Nevertheless, misemployment of non-tariff measures (NTMs) may undermine the impact of falling tariffs. Although the sound use of NTMs to ensure consumer health, environmental protection or national security is legitimate, evidence suggests

that countries are resorting to NTMs as alternative mechanisms to protect domestic industries. NTMs have been negotiated within the General Agreement on Tariffs and Trade and at the World Trade Organization (WTO) since the Tokyo Round (1973–1979) and are increasingly dealt with in regional and bilateral trade agreements. NTMs have gained importance, with many practitioners considering that they have surpassed tariffs in their trade-impeding effect.

Being 'defined by what they are not',[99] NTMs comprise a myriad of policies other than tariff duties. NTMs are complex legal texts, specific to the product and applying country. They are thus more difficult to quantify or compare than tariffs.

NTMs particularly concern exporters and importers in developing and least developed countries (LDCs), who struggle with complex requirements. Firms in these countries often have inadequate domestic trade-related infrastructure and face administrative obstacles. Therefore, NTMs that would not normally be considered as very restrictive can represent major burdens in LDCs. In addition, the lack of export-support services and insufficient access to information on NTMs put pressure on the international competitiveness of firms. Hence, both NTMs applied by partner countries as well as domestic burdens have an impact on market access and keep firms from seizing the opportunities created by globalization.

6.1.1 Non-tariff measures, their classification and other obstacles to trade

Obstacles to trade are a complex and diverse subject. Before going into a detailed analysis, it is worth looking at both their terminology and classification.

The concept of NTM is neutral and does not imply a direction of impact. They are defined as 'policy measures, other than customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both'.[100]

In contrast, the term non-tariff barrier (NTB) implies a negative impact on trade. The Multi-Agency Support Team (MAST) and the Group of Eminent Persons on Non-Tariff Barriers (GNTB) proposed that NTBs be a subset of NTMs with a 'protectionist or discriminatory intent'.[101]

Given that legitimate reasons – including the protection of human, animal and plant health – may lead to NTMs, this report avoids making judgements on intentions. Hence, the term NTM is generally used. By design, the ITC survey only captures NTMs that cause major difficulties for trading companies. NTMs analysed in this report thus refer to 'burdensome NTMs'.

The diversity of NTMs requires a classification system. The ITC survey is based on an international classification developed by MAST, incorporating minor adaptations to the ITC business survey approach.[102] While the actual classification and data collection go into further detail, the following distinctions and terms are used in this report:

- Technical measures refer to product-specific requirements such as tolerance limits of certain substances, labelling standards or transport conditions. They can be subdivided into two major categories:
- Technical requirements – technical barriers to trade (TBT) or sanitary and phytosanitary measures (SPS)
- Conformity assessment, like certification or testing procedures needed to demonstrate compliance with underlying requirements

Non-technical measures comprise the following categories:

- Charges, taxes and other para-tariff measures – in addition to customs duties
- Quantity control measures like non-automatic licences or quotas
- Pre-shipment inspections and other formalities like automatic licenses

Rules of origin

99 Deardorff and Stern (1998).

100 Multi Agency Support Team (2009).

101 Ibid.

102 For further details on MAST NTM classification, see Appendix II.

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- Finance measures like terms of payment or exchange rate regulations
- Price control measures

Apart from the aforementioned measures imposed by the importing country, those applied by the exporting country constitute a separate category. It must be noted that NTMs vary widely even within these broad categories.

In order to provide a richer picture of the problems companies face, the survey also looks at procedural obstacles (POs) and at the trade-related business environment (TBE).[103] POs refer to practical challenges directly related to the implementation of NTMs. For instance, problems caused by the lack of adequate testing facilities to comply with technical measures or excessive paperwork in the administration of licenses. Inefficiencies in the TBE may have similar effects, but occur unrelated to specific NTMs. Examples include delays and costs due to poor infrastructure or inconsistent behaviour of officials at customs or ports.

6.1.2 The importance of company perspectives on non-tariff measures and procedural obstacles

In the literature, different methods have been used to evaluate the effects of NTMs. An early approach employed a concept of incidence with NTM coverage ratios. For example, Laird and Yeats (1990) found a dramatic surge of NTM incidence in developed countries between 1966 and 1986 – a 36 per cent increase for food products and an 82 per cent increase for textiles. Such studies rely on extensive databases mapping NTMs per product and applying country. The largest database of official government-reported NTMs used to be the Trade Analysis and Information System (TRAINS) published by the United Nations Conference on Trade and Development (UNCTAD), but data has been incomplete and updates irregular.

In a multi-agency effort, ITC, UNCTAD and the World Bank are currently collecting data for a new, global NTM database with a focus on TBTs and SPS. The new ITC Market Access Map already features information about NTMs.[104] However, as complete as such a database may be, it will tell little about the impact of NTMs on the business sector nor will it provide information about related POs.

The two main approaches to evaluating the impact of NTMs include quantification techniques and direct assessment.

In the case of quantification techniques, several academic studies have quantitatively estimated the impact of NTMs on either trade quantities or prices. Such studies have either focused on very specific measures and individual countries[105] or have statistically estimated the average impact from large samples of countries and NTMs.[106] Excellent overviews are provided by Deardorff and Stern (1998) as well as by Ferrantino (2006). Such academic articles provide an important insight into the quantitative impacts of NTMs. However, these studies are too specific or too general to deliver a useful picture of NTM protection to the business sector and to national policymakers. Quantitative estimations of the effects of NTMs rarely allow for the isolation of the impact of NTM regulation itself from related POs or inefficiencies in the TBE.

The second approach to evaluating the impact of NTMs is direct assessment through surveys. The Organisation for Economic Co-operation and Development (OECD) compiled the results of 23 business surveys on NTMs previously conducted.[107] Overall, technical measures, additional charges and general customs procedures were identified as the most burdensome trade barriers. It is worth noting that of the 10 categories that were evaluated, quotas and other quantitative restrictions, an important trade policy instrument only a few dec-

[103] For further details on the systematic classification of POs and a list of problems related to the business environment, please refer to Appendix III and Appendix IV respectively.

[104] Market Access Map is available at http://www.macmap.org

[105] Calvin and Krissoff (1998); Yue, Beghin and Jensen (2006).

[106] Disdier, Fontagné and Mimouni (2008); Dean et al. (2009); Kee, Nicita and Olarreaga (2008); Kee, Nicita and Olarreaga (2009).

[107] Organisation for Economic Co-operation and Development (2005).

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ades ago, ranked fifth. While this survey-of-surveys gives a general indication of the business sector's concerns with NTMs, the majority of the surveys covered a restricted set of partner countries and products. In addition, the share of surveys from developing countries was generally low.

The ITC programme on NTMs fills the gap left by the aforementioned studies since it provides detailed qualitative impact analysis and directly addresses key stakeholders. Launched in 2010, it incorporates large-scale company surveys on NTMs, POs and inefficiencies in the TBE. Furthermore, the ITC NTM surveys evaluate all major export sectors and all importing partners. By 2013, ITC aspires to cover 30 developing countries. This report presents results of the survey in Kazakhstan.

The ITC survey allows companies to directly report the most burdensome NTMs and the way in which these impact their business. Exporters and importers deal with NTMs and other obstacles on a day-to-day basis. Therefore, they know best the challenges they face, rendering a business perspective on NTMs indispensable. At the government level, an understanding of companies' key concerns with regard to NTMs, POs and TBEs can help define national strategies geared to overcome obstacles to trade.

The report is structured as follows: Chapter 1 provides a brief overview of Kazakhstan's economy with particular focus on trade and trade policy. Chapter 2 then presents the methodology and implementation of the ITC survey in Kazakhstan. Chapter 3 analyses the results of the survey in three main sections. After aggregate and cross-cutting results in a first section, the following two sections look at challenges faced by exporters and importers in agriculture and manufacturing. Chapter 4 concludes and provides policy options.

6.2 Country context of Kazakhstan

Kazakhstan is one of the most dynamic economies in Central Asia. From 2001 to 2011 the Kazakh economy grew at an annual rate of 8 per cent, making it one of the 10 fastest growing economies in the world. Owing to favourable economic conditions and political stability, the poverty rate decreased significantly, from 46.7 per cent in 2001 to 6.5 per cent in 2010. Nevertheless, the gap between urban and rural living standards remains large. In urban areas the poverty rate is lower than 5 per cent, while in the rural locations it stands at 10 per cent (IMF).

Kazakhstan's export structure concentrates on minerals, which account for 80 per cent of total exports. Industrial products, particularly basic and metal manufactures as well as chemicals, represent 18 per cent of total exports. Agricultural products make up the remaining 2 per cent.

Kazakhstan has been a signatory of the Free Trade Agreement (FTA) with the Commonwealth of Independent States (CIS) since 1994. In 2010, Kazakhstan signed a Customs Union Agreement with the Russian Federation and Belarus. The major implications of the Customs Union (CU) include the adoption of a common external tariff (CET) and a customs code, the elimination of customs clearance within the union, and the harmonization of NTMs. Kazakhstan is pursuing further integration with the Russian Federation and Belarus through the Common Economic Space (CES), which seeks to achieve the free movement of people, goods, services and capital.

Kazakhstan is also at the final stage of negotiations to join the World Trade Organization (WTO). Bilateral negotiations on market access for goods and services have been completed with interested WTO members.

6.3 Non-tariff measure survey methodology and its implementation in Kazakhstan

The NTM survey was officially requested by the Ministry of Economic Development and Trade (MoEDT) of Kazakhstan. In November 2011, ITC and the United Nations Economic Commission for Europe (UNECE) held a stakeholder workshop to adapt their methodologies to the specific needs and interests of Kazakhstan. Between January and October 2012, ITC and UNECE coordinated the implementation of the survey, involving companies,

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private sector associations, export service providers and government institutions regulating export and import flows. Activities were carried out by local partner companies and experts, with the support of the Centre for Trade Policy and Development (CTPD). Survey findings were validated and policy options to address barriers to trade were discussed at the stakeholder workshop in Astana in March 2013. This report presents survey results, inputs from interviews with stakeholders and a policy matrix that could be used for follow up activities.

The implementation of company surveys followed a two-stage process. The first stage consisted of short phone interviews, through which information about company characteristics and burdensome regulations and procedures affecting the companies in the last 12 months was collected. In total, 387 exporting and importing companies were interviewed by phone. The second stage involved in-depth face-to-face interviews with companies reporting barriers to trade and willing to participate. Companies provided detailed information about the regulatory and procedural barriers they encountered for each product and trade partner.

In total, 61 enterprises were interviewed face-to-face in the framework of the ITC NTM survey. Out of these 61 enterprises 28 traders have also filled in trade facilitation questionnaire based on the UNECE methodology. Additionally, 11 interviews were held with business associations. The survey covered Kazakhstan's main export sectors, including metal and basic manufactures, chemicals, non-electric machinery, agriculture and processed food. Clusters of the manufacturing sector such as clothing, wood products and transport equipment received special attention.

6.3.1 Aggregate results

Initial phone screen interviews revealed that 30 per cent of exporters faced burdensome NTMs and other obstacles to trade. Of all countries surveyed by ITC, Hong Kong SARC (23 per cent) is the only economy to have a lower share of affected exporters.

The low percentage of affected firms may be attributed to Kazakhstan export composition. In general, exports of mineral-based manufacturing and non-perishable agri-food products, which account for an important part of total exports, face fewer SPS and technical requirements. Kazakhstan's main trade partners include countries in the Central Asian region, Customs Union members and China, which implement less stringent technical requirements than high income countries.

Further analysis reveals that exporters of agricultural products face more barriers than those exporting manufactures. In total, 36 per cent of surveyed agri-food exporters reported to be affected by burdensome NTMs versus 22 per cent of manufacturing exporters. No significant differences were identified for companies of different sizes. This means that in Kazakhstan SMEs are affected in a similar manner as large firms.

6.3.2 Exports

Basic manufactures make up the largest share of Kazakhstan's exports, followed by chemicals, non-electric machinery and agricultural products (extractive sectors were excluded from the survey). Manufacturing in Kazakhstan mostly consist of mineral-based, semi-processed products, which face fewer regulations than other goods. The Russian Federation and China are the most important export markets for these products. In the case of agricultural goods, exports are mostly composed of grains and non-perishable foods. Due to their geographic proximity and, arguably, easier market access (including less stringent NTMs), agricultural exports are bound for Central Asian markets, Iran and Afghanistan.

Kazakh exporters reported the following NTMs most frequently:

- Technical measures (39 per cent),
- Rules and certificates of origin (19 per cent) and
- Quantity-control measures (8 per cent).

As in other surveyed countries, technical measures were one of the top concerns. Technical measures consist of requirements and related conformity

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assessment. In Kazakhstan, these two types of NTMs were reported in approximately equal proportion (19 per cent and 20 per cent of total cases respectively). Certificates and rules of origin also proved to be an important barrier. Overall, the insufficient level of domestic processing makes it difficult to comply with rules of origin. In addition, companies perceived that the process of obtaining certificates of origin is burdensome due to the high number of different documents that must be submitted.

NTMs applied domestically were mainly composed of mandatory export certifications (43 per cent) and quantitative restrictions (24 per cent). Furthermore, a number of NTMs imposed by partner countries were reported to be burdensome due to the POs associated with them (68 per cent). Most of these barriers occurred in Kazakhstan itself. Time delays were the most common PO, accounting for 29 per cent of total cases. Other important obstacles included the large number of documents that is often required (27 per cent), limited or inappropriate testing facilities (11 per cent) and informal payments (9 per cent).

6.3.3 Partner countries

On average, interviewed exporters encountered burdensome NTMs in two out of three destination markets. According to the survey, Customs Union members and Uzbekistan were the most restrictive export markets. While Uzbekistan imposes administrative barriers to trade and tight foreign currency controls, the trade within Customs Union with Russian Federation and Belarus is subject to strict technical measures. Furthermore, a number of procedural obstacles were encountered within the Customs Union. It must be noted, however, that the transition to the full regulatory framework of the Customs Union has not been completed, and certain measures are reported to be burdensome due to adjustment costs encountered by companies.

6.3.4 Imports

Imports are essential to the Kazakh economy, as all sectors (manufacturing, agriculture and extraction) depend on imported inputs. Kazakhstan is also a net importer of agricultural commodities and consumer goods. Non-electric machinery constitutes the largest share of imports, followed by chemicals, basic manufactures, transport and agriculture.

Technical requirements (21 per cent), conformity assessment (66 per cent) and price controls (6 per cent) were the most burdensome NTMs reported by importers during the NTM survey. Measures related to the transition from national to supra-national regulatory framework (Customs Union) accounted for 65 per cent of all cases affecting imports. Most NTMs associated with the CU had to do with redundant conformity assessment at the national and supra-national levels, raising the costs of compliance for domestic producers.

In 93 per cent of cases, NTMs are perceived to be burdensome due to associated burdensome POs. Most frequently reported POs included excessive paperwork (30 per cent), limited or inappropriate testing facilities (28 per cent), time delays (11 per cent) and the lack of domestic recognition of foreign certificates (10 per cent).

6.3.5 Transit

Major transit routes to Kazakhstan pass through the Russian Federation, China and Uzbekistan. Almost all interviewed companies reported problems in transit countries, mostly inefficiencies in the trade business environment unrelated to NTMs. For example, in China the main problem was the low capacity of the railroad network and the prioritization of domestic shipments over products in transit. In Uzbekistan, companies complained about time delays and inspections of cargo by Uzbek customs officers. In addition, companies reported delays of 5 to 14 days at the Uzbekistan-Tajikistan border.

According to surveyed companies, the transit of imported products through the Russian Federation and Belarus became more difficult following the implementation of CU common veterinary requirements. Companies reported that the number of documents and time spent at the border under-

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going controls has increased. In addition, companies cannot find the official information on what constitutes the mandatory documentary requirements for transit, leaving document verification to the subjective decision of customs officers. This could potentially result in the abuse of administrative power.

6.3.6 Agriculture

As the livelihood of 30 per cent of the population, agriculture is an important sector of the Kazakhstani economy. Agricultural exports grew rapidly between 2000 and 2009, but slowed down in 2010. Since agricultural exports are highly concentrated (wheat and flour account for 59 per cent of agricultural exports), they are vulnerable to shocks. Overall, increases in the production and export of agricultural products represent an opportunity to diversify the economy (into non-oil sectors) and contribute to domestic food security and employment.

In total, surveyed agri-food exporters reported 112 cases of burdensome NTMs. About 87 per cent of the cases refer to regulations applied by partner countries. Reported NTMs include:

- Technical requirements (26 per cent),
- Conformity assessment (21 per cent),
- Quantitative restrictions (14 per cent),
- Financial measures (8 per cent),
- Intellectual property measures (8 per cent) and
- Rules and certificates of origin (7 per cent).

In Kazakhstan, the prevalence of technical requirements was high (relative to conformity assessment). This suggests that complying with partner country technical requirements poses a challenge for agricultural producers.

Agro-based companies were concerned about new technical regulations including production standards introduced at the level of the CU, which will gradually replace national norms. Many companies followed national standards, which are more suitable to local conditions. Regulations and technical standards which do not take into account the peculiarities of local production could have a negative impact on the competitiveness of Kazakh companies and on the agricultural sector as whole, especially in a short run due to the related adjustment costs.

In addition, many complaints had to do with the burdensome mandatory certification required for agro products entering the Russian market. Despite the mutual recognition agreements, Kazakh conformity certificates are not recognized by the Russian authorities. As a result, companies had to obtain additional certification in the Russian Federation. Further investigation is required to identify whether reported non-recognition stemmed from the arbitrary behaviour of officials or transition period to the regulatory framework of the CU. The CU certificate of conformity exists but it only covers a limited number of products.

Furthermore, Kazakh exporters face a number of financial measures, quantitative restrictions, as well as NTMs associated with monopolistic practices and intellectual property, mostly applied by the Russian Federation (42 per cent of all cases) and Uzbekistan (31 per cent). The challenges faced by companies in the Russian market are product-specific. Examples of these include advanced import deposit and licensing for alcoholic beverages, common trademark for confections, discriminatory application of VAT for juices and mandatory national advertisement campaigns for sauces and ketchups. The survey revealed that regulatory and procedural measures restrained the access of Kazakhstani agri-food exports to the Russian market. In the case of Uzbekistan, NTMs are not product-specific but linked to the country's tight foreign currency control. Kazakh companies reported systematic problems converting and repatriating their sales revenue from Uzbekistan to Kazakhstan.

In addition to NTMs applied by importing countries, Kazakh agri-food exporters also dealt with measures imposed by the national authorities such as export licenses, temporary prohibitions and conformity assessment. The main POs associated with domestic NTMs are delays and informal payments.

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Importers of agricultural goods reported 39 cases of NTMs, most of which related to the transition to the regulatory framework of the CU. Many complaints had to do with the implementation of customs controls and with the sanitary and epidemiological supervision of goods in transit. The survey revealed that in a number of cases, goods were blocked at the border or sent back to suppliers due to the lack of coordination between relevant agencies and insufficient information sharing between the public and private sectors.

The introduction of a common register for suppliers of dairy products (Third Country Producer Registry) is perceived as a significant barrier by importers. For a supplier to be part of the registry, production facilities must be physically inspected. Several interviewed companies had to switch to new suppliers due to their former one not being part of the registry. Disruption of long established business relationships had a negative impact on the competitiveness of Kazakhstani producers as it substantially limited the choice of suppliers and increased the costs of importing.

When dealing with conformity assessment, Kazakh importers view mandatory assessment of imported products and a state product registration requirement as duplicating and unnecessarily increasing compliance costs. Most consumer and industrial goods, that are subject to the state product registration at the CU level, are still required to have conformity assessment certificate (national requirement). If these goods have foreign conformity assessment certificates, they still have to get national Kazakh certificate as Kazakhstan does not recognize any foreign certificates (except for those of the CU). The CU conformity certificates are recognized but they are applicable to only a limited number of products.

The state product registration requirement was introduced at the beginning of 2012 and covers a broad range of consumer and industrial products. Registration is product, firm and country-specific. The POs associated with this measure include excessive documentation, time delays and insufficient testing capacities in laboratories.

Overall, delays, the lack of recognition of domestic certificates, arbitrary behaviour of officials and high fees were the most common POs encountered in partner countries; while delays, excessive paperwork, inappropriate facilities of testing laboratories and unofficial payments comprised the majority of POs reported at the national level.

6.3.7 Manufacturing

In the case of manufacturing, exports are composed of metal manufacturing, basic manufacturing and chemicals (including pharmaceuticals). Regional trade is particularly important for a landlocked country like Kazakhstan, due to the lower costs of transport and transit. A large share of manufacturing exports is destined to two neighbouring countries, China and the Russian Federation.

During phone screen interviews, 27 per cent of manufacturing companies reported burdensome NTMs. The 36 companies which were interviewed face-to-face reported 126 cases of trade barriers. Overall, 41 per cent of cases are associated with measures applied by partner countries and 59 per cent are related to domestic regulations.

Importers of manufactures reported the following proportion of burdensome NTMs:

- Rules and certificates of origin (56 per cent),
- Conformity assessment (27 per cent),
- Technical requirements (11 per cent) and
- Restriction on post sales services (4 per cent).

In comparison to other countries in which the survey has been carried out, in Kazakhstan exporters of manufactures have greater trouble dealing with rules and certificates of origin (56 per cent versus an average of 19 per cent in other countries). Kazakh importers also have fewer problems with technical measures (38 per cent versus 47 per cent on average in other countries). When complying with rules of origin, the insufficient level of domestic value addition is a recurring challenge for domestic manufacturers, particularly for producers of non-electric machinery and furniture. In con-

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trast, for clothing producers certificates of origin were problematic due to the amount of paperwork needed to obtain them.

Manufacturers also complained of excessive conformity assessment mandated by the national authorities. National legislation requires that certain products undergo conformity assessment, including those designed and manufactured according to importing country specifications. Non-electric machinery companies suggest that goods that are built specifically for exports based on the customer specifications (and not sold domestically) can be exempt from domestic conformity assessment. Clothing and pharmaceutical producers also complained about the mandatory certification required for both imported intermediate inputs and final products, since these increase the costs of production and thus the price of the final goods.

In total, the 23 importers of manufactures who were interviewed face-to-face reported 66 cases of burdensome NTMs. Importers were most affected by conformity assessment (68 per cent), technical requirements (17 per cent) and price control measures (8 per cent). In contrast to importers of agricultural products, importers of manufactures have more problems dealing with conformity assessment than with technical requirements.

Reported technical requirements had to do with authorization and registration requirements imposed to protect national security and the environment. Conformity assessment cases may be divided into two groups, those relating to state product registration requirements enforced at the Customs Union level (73 per cent) and certification requirements enforced at the national level (27 per cent).

Most manufacturing firms associated burdensome NTMs to the lack of a trade-conducive business environment in Kazakhstan. For example, certificates of origin require excessive paperwork and often entail dealing with arbitrary behaviour on the part of officials. In addition, domestic conformity certificates are also challenging due to the lack of appropriate testing facilities, to ensuing delays and to a lack of recognition of domestic certificates abroad and foreign certificates in Kazakhstan.

The excessive number of government agencies involved in the granting of licences and authorizations and their lack of coordination result in excessive paperwork and time delays for many importers. For instance, a number of importing companies complained about customs officers deciding whether special authorization registration is required solely based on the product's Harmonized System code, without acknowledging its description. This necessitates further paperwork and delays customs clearances.

In general, technical measures introduced at the CU level have strained Kazakh testing laboratories and other agencies involved in the mandatory conformity assessment of imported goods. Many importers of manufactures complained about existing capacities and laboratory equipment, which does not suffice to meet the increasing demand for tests.

6.4 Conclusions and policy options

NTM survey with enterprises, systemic analysis of the legal framework and economic data, reconfirmed during the stakeholder meeting with the public and private sectors, point to two root causes of barriers to trade. First, Kazakhstan experience capacity shortfalls in infrastructure (especially railroad transport) and in State agencies regulating trade. Second, some drawbacks exist in the legal framework. The analysis of the legal framework represents a moving target as Kazakhstan's regulations are currently undergoing transition following the establishment of the CU with Belarus and the Russian Federation, and to Kazakhstan's efforts to join the WTO.

Due to this transition process, companies reported difficulties stemming from both national and CU-level regulations and practices. Consequently, results and policy options outlined below are divided into two blocks – those pertinent at the CU-level and at the domestic level.

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6.4.1 Policies that can be pursued at the Customs Union level

Accelerate integration efforts in the CU

Kazakhstan's geographic position binds its export success to the success of the regional integration. CU is a notable step toward deeper regional integration, but its benefits depend on how efficient three CU governments will be in eliminating the non-tariff barriers and streamlining NTMs at the national level, CU level, and in relations to third countries. The last point is particularly relevant for Kazakhstan given its high dependence on imported inputs. The integration processes at the CU level are ongoing, with special efforts required for reducing trade costs within the union and finalizing unified customs arrangements, especially those related to technical regulations and the use of electronic trade documents.

Promote mutual recognition of standards and harmonization of technical regulations

Regarding technical regulations, currently only a limited number of products benefits from the common CU conformity certificate recognized by three member countries. The expansion of the list of products covered by the CU conformity certificate is recommended.

Furthermore, Kazakh importers underscored the duplication of conformity assessment procedures. For instance, some goods require state product registration enforced at the supra-national level as well as domestic conformity assessment enforced by Kazakhstan at the national level. Both requirements are aimed at ensuring product quality. There is a scope for streamlining conformity assessment requirements and removing duplicating national requirements. Survey participants have also suggested mutual recognition of national laboratory tests.

Furthermore, mutual recognition agreements between CU and the third countries can promote trade by reducing compliance costs without risks to the safety of consumers and environment.

Introduce unified electronic procedures

Regarding electronic procedures, a notable example from the company surveys is an insufficient coordination for CU veterinary and SPS requirements. Ideally, all procedures should be electronically integrated and shared by all relevant agencies (the Ministry of Trade, Ministry of Agriculture, Ministry of Health, Ministry of Ecology, the Sanitary Epidemiological Station and customs posts within the CU). This is a long-term process requiring significant investment in infrastructure and institutional capacity building both at national and CU level, but it could significantly reduce trading costs for agricultural products. Overall, there is a scope for reducing documentary requirements and removing unnecessary procedures.

Kazakh companies are at permanent disadvantage because their remote location leads to higher transportation costs. This cannot be changed. Yet there exist policies that can significantly reduce other trade related costs. For example, companies should have access to high-quality trade-related services (e.g. product testing) at reasonable price. Most notably, a reduction of trade costs can be made possible through implementation of the Single Window Facility (that is currently being considered by the government).

Consider cumulative rules of origin resulting in CU certificates of origin

Rules and certificate of origin were repeatedly reported among burdensome regulations. The problems and, consequently, solutions lay at two levels. First problem is of procedural nature, as application for a certificate of origin is tight to a large number of other documents. Some of these documents appear to be redundant, so there is a scope streamlining the requirements and reducing time spent on obtaining certificates of origin. Furthermore, currently a certificate of origin is required for each shipment even if the goods are the same. They can therefore be extended to cover all shipments of the same product within the same contract.

Second problem is structural, and is particularly relevant for Kazakh producers which require a

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large share of imported inputs. As a result, the products do not have enough value to qualify for preferential treatment. Yet, Kazakhstan, Belarus and Russia are all members of the CIS FTA and can negotiate an application of a CU certificate of origin, whereby Kazakh products, produced with Russian or Belarusian inputs would still qualify for duty-free market access to the CIS countries (one of primary markets for Kazakhstan). A feasibility study, assessing costs and benefits of CU cumulative rules of origin is therefore recommended.

Ensure that members adhere to the CU regulations

Despite simpler customs clearance procedures within CU countries and progress made in harmonizing the regulatory framework, interviewed companies report a number of trade barriers imposed by the Russian Federation on entry of Kazakh goods. Kazakh exporters described in detail a number of cases where quantitative restrictions, financial measures and burdensome NTMs associated with monopolistic practices and intellectual property rights were applied by the Russian Federation on a unilateral basis, alongside with unfair business practices imposed by the private sector in Russia. Ways to bring these measures to compliance need to be identified at the CU level.

Accelerate VAT refund procedures

A significant number of companies complained about the administration of VAT refunds on trade transactions within the CU. For instance, Kazakh importers have to pay the VAT on products imported from the Russian Federation twice because Russian producers include VAT in the invoice prices to avoid lengthy and complicated VAT refund procedures. This is a business-to-business problem, but if VAT refund could be easier, the Kazakh companies would have more leverage in insisting on invoices net of VAT.

6.4.2 Domestic policies related to the transition to the CU regulatory framework

Improve private sector involvement in design and negotiations of CU technical regulations

Interviewed companies believe a more intensive involvement of the private sector is required in the processes of designing and adopting supranational technical regulations (which govern both domestic production and trade). Companies feel that certain regulations do not reflect their current technical capacities and may lead to a significant decline in Kazakhstan's production. Active dialogue and collaboration between authorities and the private sector should be sought in the process of developing technical regulations of the CU. Furthermore, an impact assessment of forthcoming technical regulations can provide an unbiased estimation on the winners and loser of the new requirements. Such impact assessment can give negotiating power to Kazakhstan, in cases where the results prove that Kazakh companies are disproportionately affected (as frequently expressed by Kazakh companies during the survey, but not asserted through a careful analysis which would require a dedicated study).

Mitigate costs and impact related to the transition to CU regulatory framework

Mandatory product certification and registration aim at ensuring the quality of imported products and the safety of consumers, animals and plants. While the legitimacy and necessity of import controls are undisputable, the greater scope and intensity of conformity assessments that took place following the establishment of the CU raised the costs of importing intermediate products and, as expressed by the surveyed companies, had a negative impact on domestic manufacturing. An effort at the national level can be made to mitigate the potential negative impact of the transition from national to CU regulations. For example, decreasing the taxes for local manufacturing producers adopting new technical regulations could be a way to compensate for higher costs of compliance and to offset their adjustment costs.

Improve access to NTM-related information and enhance capacity building at the company-level

Survey confirmed that companies lack access to information on new NTMs and on procedures applied within the CU and by other foreign markets. In addition, companies are not familiar with NTMs applied at the national level by the CU partners.

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Companies need to factor in technical market access requirements at the early stages of production and market selection strategy. Companies postponing these considerations risk to miss profitable export markets or to face unexpected costs. Meeting new technical standards and conformity assessments may require additional investment in production technologies and in human capital.

Similarly, information on newly introduced NTMs (at the national or CU level) must be disseminated and explained in advance. It is recommended that KAZNEX and sector associations implement a systematic and extended capacity building programmes for companies. Furthermore, exporters' associations could provide hands-on information and training, which public agencies are less capable of supplying. The expertise of business sector associations in specialized sectors and their close relations with enterprises can make them an essential hub for information dissemination. It is especially important to improve advance information dissemination as soon as possible, as currently Kazakhstan is undergoing changes in regulatory environment related to its membership in the CU and its bid for the WTO membership.

6.4.3 Policies that can be implemented domestically

Streamline and simplify domestically applied exports certification

According to the surveyed companies and discussion at the stakeholder meeting, the current domestic regulations of exports can and should be simplified and streamlined.

Product quality and certification need to be driven by international norm and best practices, and take into account requirements of the major importing partners. The Committee of Technical Regulation and Metrology (CTRM), the National Centre of Expertise and Standardization and other certification bodies in Kazakhstan should consider their role as trade facilitators and provide high quality services to exporters. Imposing higher requirements than export markets would reduce the competitiveness of firms in these markets.

Most companies also complained about the short duration of serial conformity certificates. Extending their validity will reduce the administrative burden and costs of compliance for manufacturing companies.

Improve technical equipment of testing laboratories

Companies complained about the inappropriate technical infrastructure of testing laboratories and the delays associated with analyses. Time delays are arguably inevitable to the extent that laboratory tests inherently take time. Nevertheless, investments in modern equipment and human resources may reduce significantly the time required to perform laboratory analyses. According to the companies, the strain on the laboratories has recently increased with entering into force of the CU regulatory framework.

Strengthen the role of regions and decentralization

Surveyed companies reported lengthy delays and excessive paper work due to a lack of trade-related infrastructure in various regions of Kazakhstan. The centralized system currently in place often requires products to be shipped to the capital, hindering the regions' export potential. In addition to strengthening institutions and infrastructure, efforts in the direction of decentralization should be made. This will not only benefit the regions, but also alleviate bottlenecks in the capital.

Decrease red tape and improve efficiency of domestic trade related institutions

Procedural obstacles reported by the private sector in Kazakhstan involved unofficial payments and delays, arguably with the aim of soliciting "speed-up" contributions. An anonymous complaint service can be put in place e.g. through an online trade barrier reporting system. The success of such systems largely depends on the follow up activities and reaction of competent authorities to submitted reports.

Furthermore, the red tape can be reduced by making online services widely available to producers. These services can automatically track the time spent on delivering the requested documents. A

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good example of such approach is the registration of medical products at the National Centre of Expertise of Drugs, Medical Supplies and Medical Equipment, which is already in place in Kazakhstan. The entire process is anonymous and the required time for product registration is communicated to companies in advance.

Improve the capacity of customs and training of customs officials

Following the establishment of the CU, many Russian companies requested customs clearance in Kazakhstan due to a favourable difference in the VAT schedule between the countries (12 per cent in Kazakhstan versus 18 per cent in the Russian Federation). The existing customs infrastructure is not able to accommodate the increasing trade flows coming through the customs posts in Kazakhstan, which resulted in increased delays at the border. Investment aimed at increasing capacities of customs is therefore necessary.

Furthermore, companies reporter arbitrary product classification by customs officers, resulting in unfavourable conditions or high duties. It is, therefore, suggested, to improve the training of customs officials, especially with regard to product classification and valuation.

Enhance transport infrastructure

The final issue, transport infrastructure and costs (especially for rail roads), is one of the most important to interviewed companies. Companies repeatedly complained about the poor quality of existing rolling stock (wagons) and the lack of thermo wagons designed to transport perishable food products. Investment into railroad infrastructure is critical for keeping Kazakh companies competitive despite their remote and landlocked location. It is also necessary to ensure the quality of exports, especially of perishable goods.

Furthermore, surveyed companies criticized the difficulty of ordering rolling stock (wagons) from Kaztemirtrans (National Railroads of Kazakhstan) and the lengthy process of establishing the transport route through transit countries. Kazakh companies must have itineraries match and approved before the goods can start moving by the railroad transport. It is recommended to improve coordination between inter-government agencies involved in the process of matching itineraries, for example by setting a minimum response time for the companies.

In conclusion, the Kazakh government can promote trade by streamlining NTMs, removing trade barriers and ensuring that companies have access to competitively priced trade-related services. Some of the recommended policies can be implemented only at the CU level, because Kazakhstan, like other members of the CU, is no longer has an independent national trade policy. Other policies, especially those related to domestic trade facilitation and business environment, are subject only to the goodwill of the government and on the priority it places on the promotion of trade of non-extractive sectors.

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Chapter Seven

Country context of Kazakhstan

7.1 Snapshot of the Kazakh economy

The Republic of Kazakhstan is one of the most dynamic economies in the Central Asian region. With a per capita gross domestic product (GDP) of US$ 11,000 in 2011, Kazakhstan is classified as an upper middle-income country. From 2001 to 2011 Kazakhstan's economy grew on average of 8 per cent annually. According to the International Monetary Fund (IMF), during the last decade Kazakhstan was one of the 10 fastest-growing economies in the world.

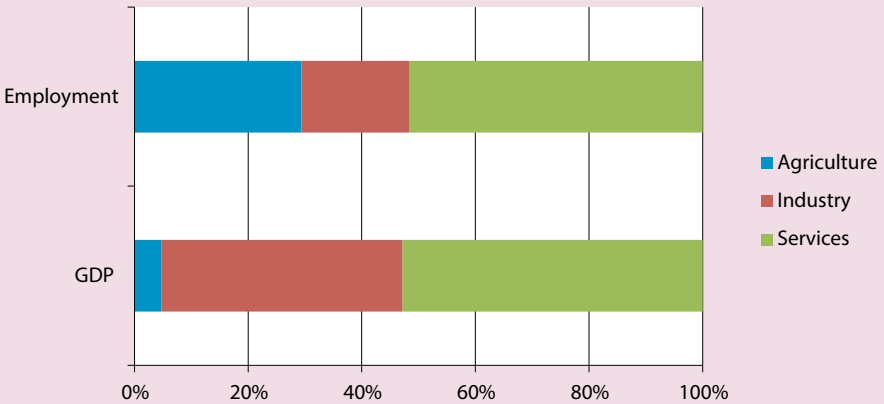
Kazakhstan is the biggest landlocked country in the world, with an area of about 2,717,300 square kilometres. The country borders Turkmenistan, Uzbekistan, and Kyrgyzstan to the south, the Russian Federation to the north and China to the east.

According to the World Bank, 60 per cent of the population lives in cities and 40 per cent in rural areas. Due to favourable economic conditions and political stability, the poverty rate declined significantly over the last decade, from 46.7 per cent in 2001 to 6.5 per cent in 2010. Nevertheless, inequality between urban and rural areas is large. In the countryside, the poverty rate reaches 10 per cent, while in urban areas it is below 5 per cent.

Kazakhstan's economy relies heavily on extractive industries, particularly the oil sector. Oil and fuel products account for 68 per cent of total exports and for over 25 per cent of GDP. Agriculture only accounts for 5 per cent of GDP, nevertheless nearly 30 per cent of the labour force works in this sector. Industry makes up a large share of GDP, 43 per cent, with the manufacturing sector alone accounting for 13 per cent. The remaining 52 per cent may be attributed to the services sector. (Figure 7.1)

According to the World Bank's Doing Business Report, trading across Kazakhstan borders is not an easy endeavour as reflected by the country's latest ranking coming in 182nd out of 185 countries. This low ranking reflects high trading costs, time delays associated with exporting and importing activities as well as excessive paperwork. High trading costs are partially attributed to transportation costs resulting from being land-locked and remote with respect to its major markets. In addition, geographic disadvantages are magnified by cumbersome bureaucratic procedures which companies

Figure 7.1. Sector's contributions to GDP and employment, 2009



Source: *World Bank, WDI, 2009*

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must deal with when trading across borders. In comparison to other countries in the region, logistic services perform relatively well, but the quality of transport infrastructure and its coverage represent bottlenecks to trade (Table 7.1).

Table 7.1. Quality of transport and communications infrastructure

Indicator	Kazakhstan	CIS countries (average)
Overall Rank	182/186	
Time to export (days)	81	41
Time to import (days)	69	46
Export cost per container (US$)	4685	3292
Import cost per container(US$)	4665	3677

Source: *World Bank, Doing Business, 2012.*

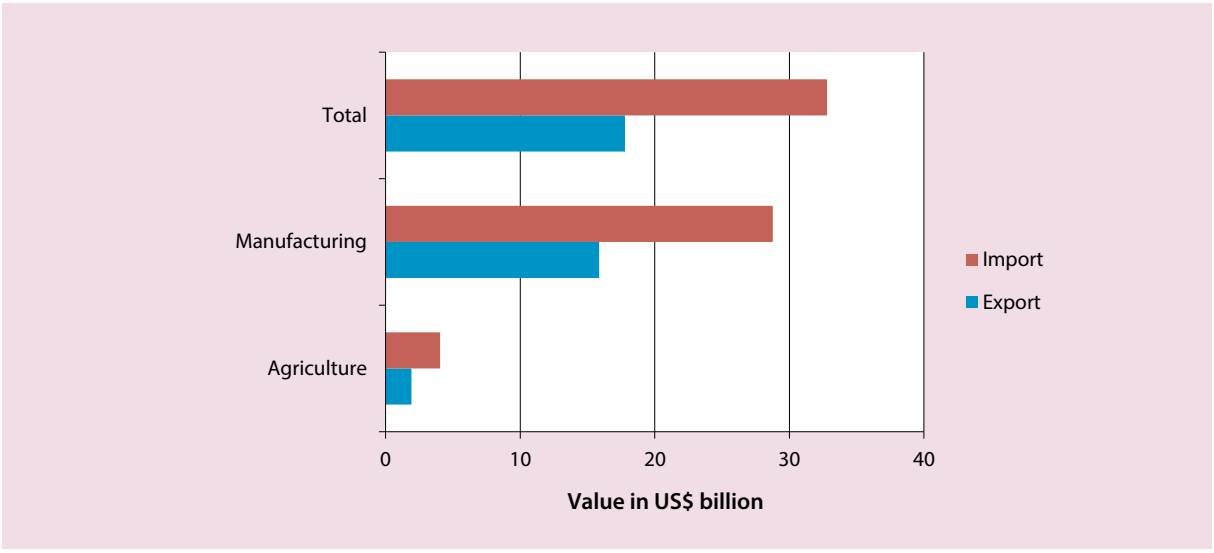
7.2 Aggregate trade patterns

Kazakhstan's export is highly concentrated on a few products with fuel and oil products and raw metals accounting for more than 75 per cent of total exports. Given the scope of this survey, we exclude these sectors from our analysis. The total value and the industrial composition of Kazakhstan's trade flows after exclusion of these products are shown in Figure 7.2 and Figure 7.3.

When excluding products from extractive industries, manufactures turn out to have the largest share in Kazakhstan's export flows. Metals, other basic manufactures and non-electric machinery account for more than 67 per cent of total export value. Chemicals make up about 20 per cent of the country's exports, with natural uranium and its compounds as well as aluminium oxide, two inorganic products, accounting for 75 per cent of the sector's export revenue. Agricultural products represent 17 per cent of total exports, with wheat and flour accounting for 89 per cent of agricultural export revenue.

Import mostly consists of manufactured goods. Non-electric machinery accounts for 15 per cent of total imports, followed by metals and other basic manufactures (14 per cent), chemicals (14 per cent), transport equipment (13 per cent), agriculture (12 per cent) and miscellaneous manufacturing (11 per cent).

Figure 7.2. Export and import by sector, 2011



Source: *ITC calculations based on Trade Map data. Values exclude products from extractive industries.*

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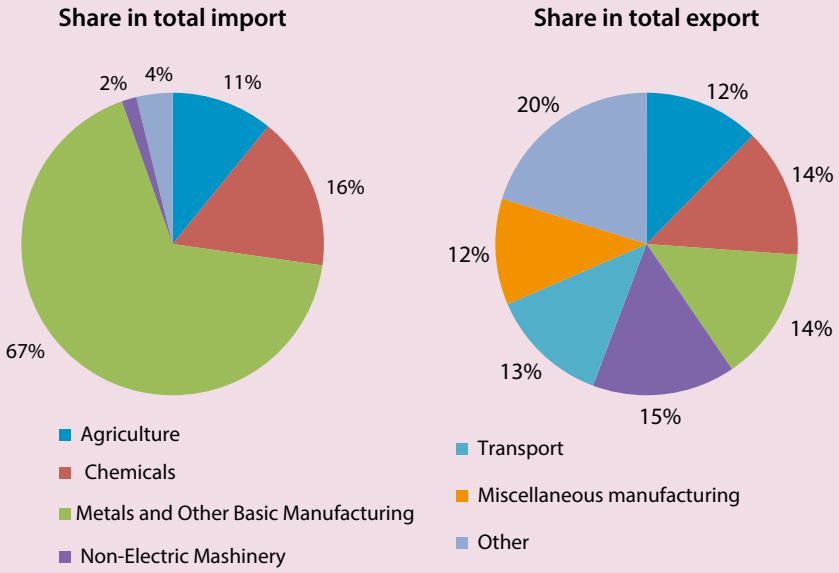
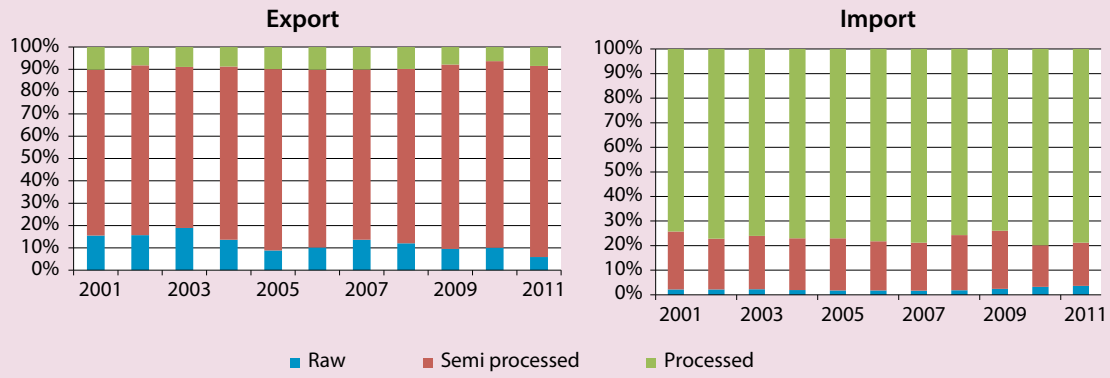
Figure 7.3. Sectoral composition of trade, 2011



Source: *ITC calculations based on Trade Map data. Values exclude products from extractive industries.*

Figure 7.4. Composition of trade by level of processing, 2001-2011



Source: *ITC calculations based on Trade Map data. Values exclude products from extractive industries.*

Even when excluding minerals, Kazakhstan's exports show high concentration. For example, 126 products of a universe of 5,237 products[108] account for 95 per cent of Kazakhstan's non-mineral exports (Table 7.2). To visualize the trend of export concentration, Figure 7.5 presents Herfindahl-Hirschman indices (HHI)[109] which are computed with and without products of extractive industries for the period 2000-2011. The overall Herfindahl index is upward sloping, implying an increase in overall concentration of exports while the index computed excluding products of extractive industries remains flat over the whole period of consideration suggesting an absence of diversification in the non-extractive industries.

In terms of geographic trade patterns, the Russian Federation and China are Kazakhstan's main trad-

[108] At the 6-digit level of the Harmonized Coding System.

[109] HHI index is a sum of squared shares of each export flow normalized to range from 0 to 1. Increase in the index implies increase in the concentration of exports and therefore decrease in export diversification.

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Table 7.2. Product diversification of exports

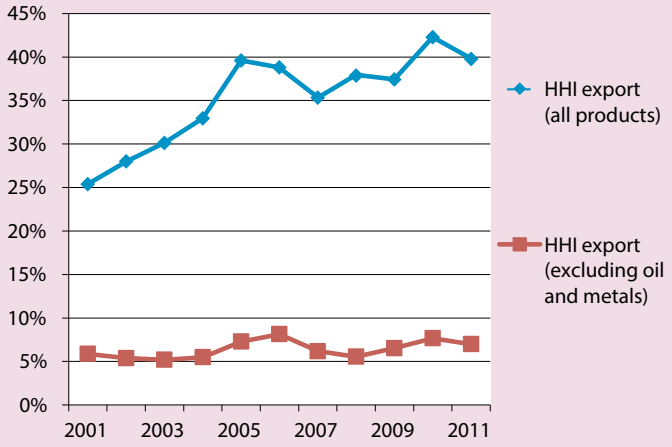
Export sector	Product chapters accounting for 95 per cent of exports *	
	HS 2-digit	HS 6-digit
Agriculture	13	22
Manufacturing	28	104

Source: *ITC calculations based on Trade Map data, 2011. Values exclude products from extractive industries.*

** The Harmonized System (HS) classifies about 5,300 products at the 6-digit level, and 99 chapters at the 2-digit level.*

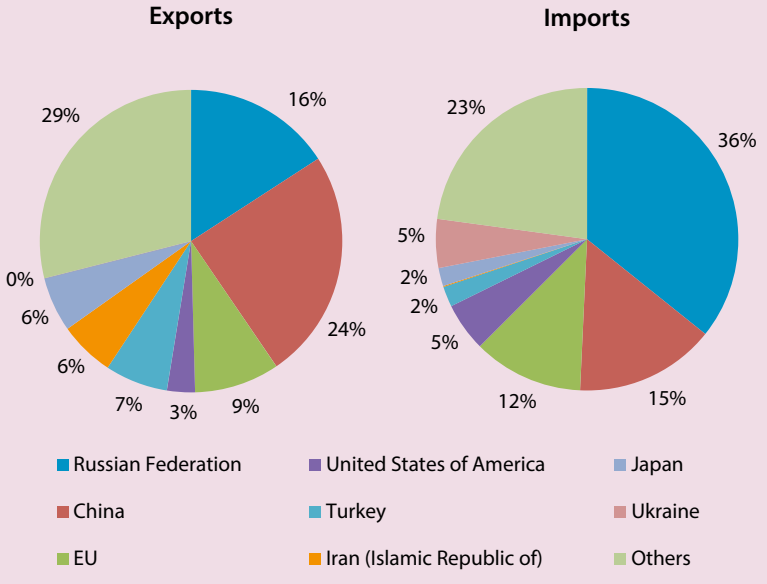
ing partners. Together, they receive 41 per cent of Kazakhstan exports and account for 51 per cent of imports. Exports to Iran, Uzbekistan, and Turkey represent 16 per cent of total exports. The share of these countries has grown over time, thus contributing to higher geographical diversification of exports. The European Union (EU) market represents 9 per cent of Kazakhstan's total exports; while imports originating from the EU account for 12 per cent of total imports value (Figure 7.6).

Figure 7.5. Herfindahl-Hirschman Index for Kazakhstan, 2001-2011



Source: *ITC calculations based on Trade Map data, 2011.*

Figure 7.6. Composition of trade by partner country, 2011



Source: *ITC calculations based on Trade Map data, 2011. Values exclude products from extractive industries.*

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7.3 Main trade routes

The vastness of the country and its low population density make Kazakhstan's economy very dependent on domestic transport infrastructure. Its landlocked situation and remoteness from major markets remain major barriers to trade. According to the Asian Development Bank, transportation costs in Kazakhstan represent 8 per cent to 10 per cent of the product's final cost, while transportation costs in other developing countries on average amount from 4 per cent to 4.5 per cent of the final cost.

Railways and auto tracks are the most important means of transport in Kazakhstan. Almost 80 per cent of goods are delivered via railroads and highways.

For international trade, Kazakhstan relies heavily on the transport network of neighbouring countries like the Russian Federation, Uzbekistan and China.

The proximity of fast-growing economies such as China, the Russian Federation, India and Turkey provides Kazakhstan with the possibility of accessing intermediate goods at competitive prices and becoming a transit country.

Five international transport corridors currently pass through the territory of Kazakhstan:

- The Northern Corridor of the Trans-Asian Railway Main (TARM): going to Western Europe, China, the Korean Peninsula and Japan via the Russian Federation and Kazakhstan (Dostyk – Aktogai-Sayak-Mointy-Astana-Petropavlovsk).
- TARM's Southern Corridor: connecting South-Eastern Europe, China and South-Eastern Asia via Turkey, Iran, Central Asian states and Kazakhstan (Dostyk-Aktogai-Almaty-Shu-Arys-Saryagash).
- TRACECA: connecting Eastern Europe and Central Asia via the Black Sea, the Caucasus and the Caspian Sea (Dostyk-Almaty-Aktau).
- North-South: going to Northern Europe and the Gulf States via the Russian Federation and Iran, with Kazakhstan playing a role in the sea port of Aktau, the Ural regions of the Russian Federation and Aktau-Atyrau.
- Central Asian corridor, linking Central Asia via Russia with the EU countries (Sary-Agach – Semiglavy Mar railroad section (2,134 km)

In order to capitalize on its strategic position and develop its transit potential, Kazakhstan intends to bring the existing railway network in line with international safety and speed standards and build new railway lines based on the business sector and population's needs. Road infrastructure development currently focuses on the main international transit corridors going to China, the Russian Federation and Central Asian countries.[110] In addition, Kazakhstan aims to establish five international and twelve regional transport and logistics centres. According to the latest State Programme of Accelerated Industrial Development, by 2015 the government expects passenger and freight traffic to increase by 150 per cent to 200 per cent, public road and rail transport by 150 per cent and air traffic by 600 per cent.[111]

7.4 Trade policy and tariff market access

Until recently, Kazakhstan leaned towards a liberal trade regime. Over the 1990s, Kazakhstan's government pursued an import-friendly policy setting low tariff rates for products that could not be produced locally at a competitive price. While this scheme was beneficial for many producers, allowing them to acquire high-quality modern equipment at competitive prices, it had a negative impact on traditional industries including textiles, clothing and leather. By 2012, the production and exports of these products virtually disappeared.

In terms of regional trade integration, Kazakhstan has been part of several Free Trade Agreements within Commonwealth of Independent States (CIS) since 1994.

[110] More information about the development of the transport infrastructure of Kazakhstan can be found in in the first volume of the report.

[111] The state program of accelerated industrial development, 2010-2015.

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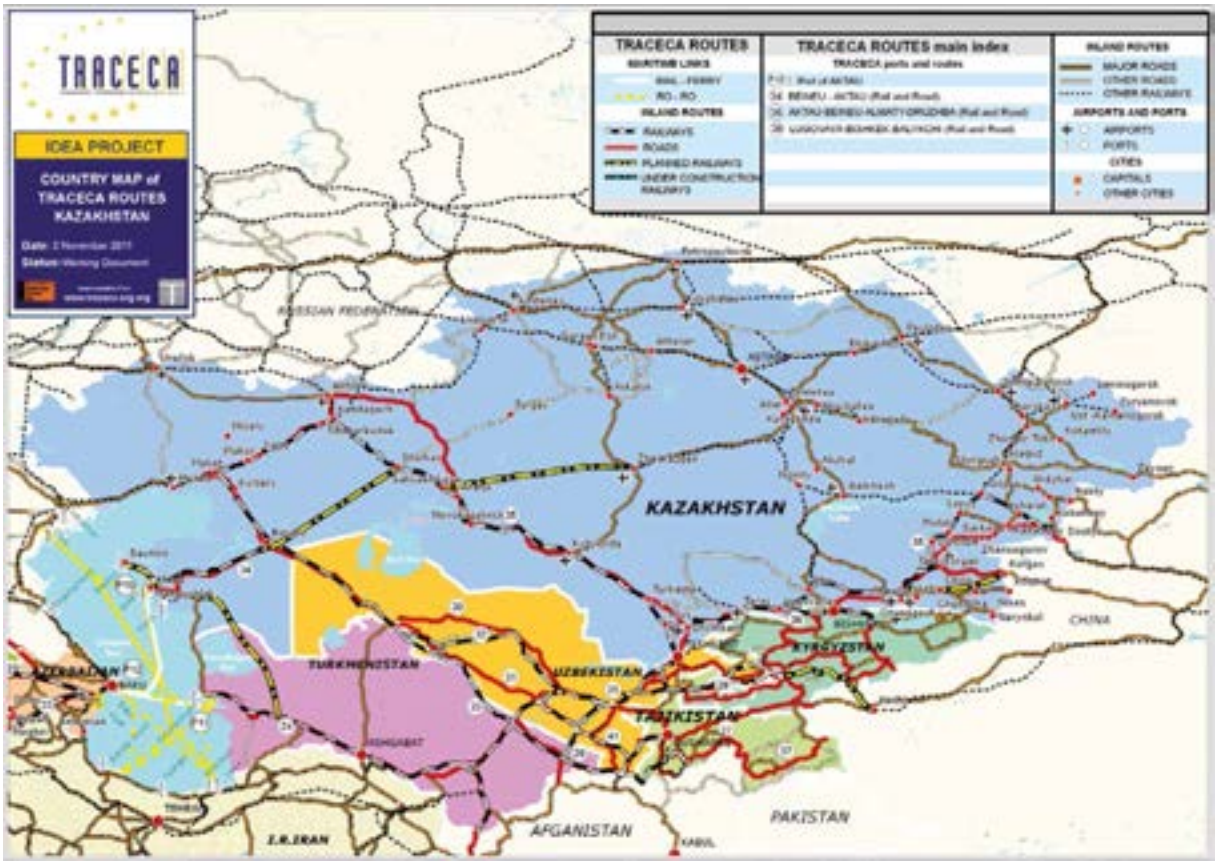
Figure 7.7. Transport infrastructure in Kazakhstan



Source: *The official site of Traceca (Accessed on March 6, 2013 at http://www.traceca-org.org/en/countries/kazakhstan/map/).*

Figure 7.8. Reciprocal Trade Agreements of Kazakhstan

Source: *ITC illustration based on Market Access Map data, 2011.*

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The Customs Union (CU) agreement between the Russian Federation, Kazakhstan and Belarus entered into force in 2010 and led to the adaptation of a common external tariff (CET) and a customs code, the elimination of customs clearance for internal trade, and the harmonization of non-tariff measures (NTMs) applied by the parties.

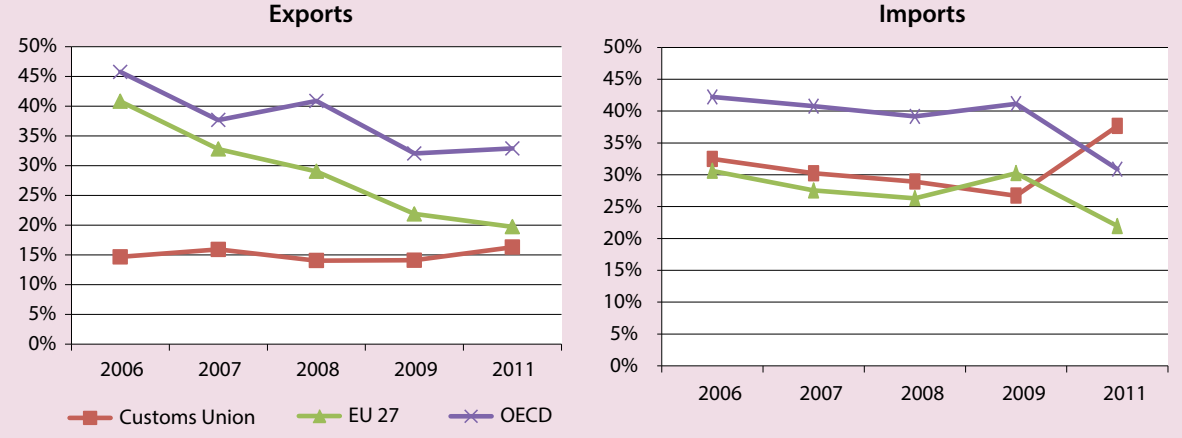
The CET affected over 11,000 tariff lines, the application of CET increased Kazakhstan's trade-weighted average protection by more than 70 per cent, from 6.7 per cent to 11.5 per cent (World Bank, 2012). The sectors experiencing the highest tariff increase were transport, electronic equipment and industries sourcing intermediate inputs from technologically-advanced countries. This drastic increase in tariffs affected not only the cost of imports, but also their geographic diversification. Since 2009, Kazakhstan's imports have shifted from traditional partners towards the Russian Federation and Belarus. The import share of the CU countries increased from 28 per cent to 38 per cent, while that of developed countries decreased by 25 per cent (Figure 7.8). Yet, Kazakhstan's exports to the Russian Federation and Belarus mostly comprised of semi-processed products of metals and basic manufacturing industries did not increase significantly after 2010. It is worth noting that the Russian Federation's industrial demand for these products is stable and not expected to rise significantly in the near future. As it will be shown in subsequent sections of this report, consumer goods exports of Kazakhstan, such as food products, flour, grain and spirits destined to the Russian Federation not only face competition from Russian producers, but also non-tariff barriers that still remains between both countries.

Kazakhstan is at the final stage of the negotiations for the accession to the World Trade Organization (WTO). To date, the country has completed bilateral negotiations on market access for goods and services with all WTO members interested in having access to the Kazakhstan market. While the accession to the WTO will imply a decrease in import tariff rates, they will most probably remain higher than the level prior to the entry in to force of the CU.

7.5 National trade and development strategies

The development of the energy sector has been a government priority since the early years of independence. Over the last twenty years, export revenue from mineral products has allowed the country to achieve high economic growth and overcome many social and macroeconomic challenges. Nevertheless, at the beginning of 2000,

Figure 7.9. Evolution of trade shares by selected groups of partner countries, 2011



Source: *ITC calculations based on Trade Map data, 2011. Values include trade in products of extractive industries.*

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the Dutch disease symptoms became apparent. To counteract Kazakhstan's dependence on the energy sector, the government implemented several strategic schemes aimed at promoting technologically-intensive sectors and diversifying the economy.

The first attempt to fight the Dutch disease relied on the strategy to increase the level of industrial innovation from 2003 to 2015. The program targeted export diversification through the development of non-oil, technological sectors such as biochemistry and space technologies. Several institutions were established to support various innovative projects in these sectors and invest in high valued-added companies. In addition, twelve technological parks were also set up close to Kazakhstan's scientific and industrial centres.

Despite high expectations, the techno-parks do not seem to be performing their role as promoters of innovative technological products. A recent survey conducted by scientists from the Eurasian National University and University College London shows that the majority of companies located in these techno parks operate in low technological sectors. This is mainly attributed to the manufacturing sector's low demand for high technology products. It is worth noting that the Kazakhstan manufacturing sector specializes on the production of low value-added products and lacks qualified scientific personnel.

Inspired by the model of accelerated modernization implemented in Korea, the government put forward a new industrial development strategy in 2005. The strategy included a programme entitled "30 Corporate Leaders" seeking to create large conglomerates with a highly diversified production. These conglomerates were to become the engines of growth and key to diversifying the economy. Nevertheless, the programme did not bring the expected results. Kazakhstan's efforts show that replicating what has been done in other countries without taking into account the domestic context may not lead to tangible results. In the case of Kazakhstan, more in-depth analysis of national conditions would have shown that resources might have had a greater impact had they been invested in industries with feasible export potential like raw agricultural products, food processing and non-electric machinery.

In contrast with earlier development plans, "The State Program for Accelerated Industrial and Innovative Development, 2010-2014" targets traditional sectors in which Kazakhstan has a comparative advantage. These sectors include livestock, fruit and vegetable production, food processing, metallurgy, finished metals manufacturing, construction, oil refining and chemical industries.

In order to stimulate the export of non-primary industries, the government created a national export promotion agency, KAZNEX INVEST. This agency engages in various activities including the promotion of companies' export capacities, the organization of trade events with the objective of attracting foreign direct investment (FDI) and formulating trade facilitation recommendations.

7.6 National and international trade promotion initiatives

Several national and international organizations have been involved in developing trade policy guidance.

KAZNEX, the export promotion agency, provides support to actual and potential exporters. The agency organizes seminars and workshops on trade financing, customs procedures and logistics, and assists companies in finding foreign partners to ensure the geographic expansion of their sales and to invest in their production. KAZNEX also undertakes analytical studies to identify potential markets for specific products, consolidates domestic trade data, collects and disseminates information on regulation and on the business environment in Kazakhstan's most important trade partners.

Various international organisations including the United Nations Economic Commission for

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Europe (UNECE), the Organisation for Economic Co-operation and Development (OECD), the World Bank (WB), the World Trade Organization (WTO), and the United States Agency for International Development (USAID), among others, are active in Kazakhstan. These agencies are in charge of assessing the trade potential of certain regions and sectors and implementing projects to stimulate their development and improve the business environment. International organizations also elaborate strategic documents to attract FDI and strengthen the capacities of small and medium enterprises (SME).

The OECD recently launched the Kazakhstan Regional Competitiveness Project, which focuses on promoting economic development and diversification in three pivot regions of the country. The project envisages carrying out trade potential assessments for these regions, elaborating an investment strategy, linking FDI to SMEs, and formulating recommendations with regards to the implementation of investment promotion strategies in other regions.

The OECD is also implementing the Regulations for Competitiveness Project, which aims to identify the weaknesses in public and private sectors relationships. The project envisages coming up with policy recommendations to render the regulatory framework and trade environment more business-friendly. The project is implemented in close collaboration with five government entities including the Ministries of Agriculture, Education and Science, Environmental Protection, and that of Industry and New Technologies.

USAID is also implementing the Regional Economic Cooperation Project (REC), which seeks to facilitate trade in Central Asia and Afghanistan within the region and with large trading partners, such as the United States Department of Defence (DOD). The project will evaluate the trade potential of Kazakhstan and Uzbek business-network connections and strengthen the capacities of trade promotion agencies and business associations. In addition, the REC will also prepare practical guides for local firms on how to export and sell to DOD through its prime vendors.

Over the last five years, several studies assessed the Kazakhstan trade environment. In 2008, KAZNEX surveyed 200 exporting companies to identify why chemical, food processing and machine building industries were not able to develop their export capacities. The survey revealed that the marketing services, transport and financing costs, burdensome taxation and cumbersome customs clearance procedures prevented exports from growing.

That same year, the Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GIZ) analysed exporting and importing procedures in Kazakhstan and recommended the implementation of trade simplification measures and quantified them in terms of cost savings.

Furthermore, the European Commission's Eastern Neighbourhood: Economic Potential and Future Development Organization (ENEPO) examined non-tariff barriers in five CIS countries. While the study did not focus specifically on Kazakhstan, it provided comparative data and details about NTMs and trade restrictions in CIS countries.

The WB also carried out an in-depth analysis of Kazakhstan's trade policy with special attention on the country's accession to the WTO and on the creation of a customs union with the Russian Federation and Belarus. The WB also collected data on existing non-tariff measures and built up a comprehensive database in order to analyse the restrictiveness of the current NTM structure and present recommendations for improvement.

In 2011 the Ministry of Trade and Economic Development of the Republic of Kazakhstan requested ITC to undertake a large scale business survey on the experience of enterprises dealing with regulatory and procedural obstacles related to NTMs.

This study differs from those carried out in the past since the data and information on NTMs

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and other trade barriers comes directly from companies.

While the KAZNEX survey mentioned above focused on trade barriers faced by exporters of specific industries, this survey covers all non-extractive export and import sectors. This is particularly relevant given the fact that the Customs Union rendered regulation and compliance more complex and challenging.

Finally, the survey undertaken by ITC also collects information about procedural obstacles (POs) associated with NTMs, thus widening the scope of the analysis and providing a more accurate picture of trade barriers existing at the domestic and CU levels. While implementation of the CU has been challenging for the private sector and public institutions, the future economic benefits largely depend on whether member countries will be able to eliminate non-tariff barriers and create a business environment benefiting all relevant industries.

This report summarizes the results of ITC's NTMs survey, focusing on both national and CU trade barriers. These results will be compared to the other of projects mentioned above.

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Chapter Eight

NTM survey methodology and implementation in Kazakhstan

8.1 Survey implementation and sampling methodology

As part of its programme on NTMs, ITC conducted a large-scale company survey on NTMs and other obstacles to trade in cooperation with local partners. This study seeks to increase transparency and better understand the trade impediments faced by the Kazakhstan business sector.

This chapter provides information on the country-specific survey implementation, sampling methodology, survey sample characteristics and analytical approach adopted. More detailed information can be found in the appendices. Appendix I describes the global methodology, identical for all surveyed countries. Appendix II and III contain the NTMs and procedural obstacles classification, which provide the taxonomy for arranging reported measures into an organized hierarchical system. Appendix IV contains business environment issues covered in the survey. Interviewed experts and stakeholders are listed in Appendix V.

8.1.1 Timeline and main counterparts

The implementation of the ITC survey on NTMs was requested and supported by the Ministry of Economic Development and Trade (MoEDT) of Kazakhstan through the Centre for Trade Policy Development (CTPD). In October 2011, ITC validated the design of the survey with the Ministry and other stakeholders. The survey itself took place between January and October 2012.To promote local capacity building, the Institute of Social and Political Research (ISPR), a local consulting company, was selected through a tender to conduct the survey in the Astana region. ITC delivered five-day training on NTMs survey methodology and questionnaires to project managers and interviewers in January 2012. The trained interviewers carried out phone and face-to-face interviews with Kazakhstan exporting and importing firms between January and October 2012.

In October 2012, an ITC consultant conducted further interviews with companies, associations and other stakeholders in the Almaty region, including the Union of Producers of Food and Processing industries of Kazakhstan, the Association of Light Industry Enterprises of the Republic of Kazakhstan, the Union of Industrialists and Employers of Almaty, the Association of Customs Brokers of Kazakhstan, the Association of Non-Alcoholic Beverages Producers, the Union of Wine Producers of Kazakhstan, the Association of Furniture and Wood Processing Industries of Kazakhstan, the Union of Milk Producers, and the Association for Support and Development of Pharmaceutical Activities in Kazakhstan. Furthermore, the ITC consultant interviewed two government agencies involved in the process of ensuring the safety of goods and services in Kazakhstan, the National Centre of Expertise and Certification (NACEKS) and Kazakh Academy of Nutrition (KAN).

8.1.2 Survey process and modalities

The NTM survey process encompasses two stages of interviews with exporting and importing companies, a brief screen phone interview (see section 8.2) and detailed face-to-face interviews with companies facing obstacles to trade and willing to participate (see section 8.3).

ITC, in cooperation with local partners, compiled a business registry that allowed the polling company to contact interviewed companies. Overall, 387 phone interviews were conducted followed by in-depth interviews with 61 companies (Figure 8.1).

Interviews were conducted in Russian based on generic questionnaires provided by ITC, adjusted to satisfy local requirements. In most cases, survey respondents were general managers or the person in charge of overviewing the export and import processes.

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Figure 8.1. NTM survey in Kazakhstan

Source: *ITC survey on NTMs in Kazakhstan, 2012.*

8.1.3 Business registry and sample frame

The survey methodology covers all export sectors accounting for at least 2 per cent of a country's total export value excluding extractive industries. [112] In Kazakhstan, five sectors were then examined, including fresh food and raw agro-based products; processed food and agro-based products; metals and other basic manufacturing; non-electric machinery and chemicals. Further consultations with national stakeholders allowed identifying additional sectors and products to be included in the survey. In particular, stakeholders pointed to the importance of clothing, wood, leather, textile and transport equipment which were added to the company sample.

The survey methodology also covers all import sectors representing at least 2 per cent of Kazakhstan's import value. According to ITC's classification almost all sectors with the exception of clothing, textile and leather manufactures made up at least 2 per cent of total imports of Kazakhstan.

Based on this information, a business registry was created from various sources such as the ISPR's in-house database; KAZNEX, the national agency for the promotion of exports and investment; as

[112] Based on a classification designed by ITC, composed of two agricultural and eleven manufacturing sectors (see Appendix I). Minerals, petroleum and arms are excluded. A detailed list of the products (in SITC Rev 2 product classification) composing the sectors, as classified by ITC, is available upon request.

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well as databases provided by COMPASS, an international business register, and the WTO. The databases diverged in terms of information and by number of companies covered. Obtaining contact details and information about the sector each of company was particularly challenging.

With this information, ITC was able to match companies in the selected export and import sectors with their contact information. The completed database provided to ISPR contained the details of 4671 companies. Although during initial interviews, many phone numbers turned out to be outdated or wrong, the compiled business registry constitutes the most comprehensive source of business information available in Kazakhstan.

8.2 Phone screening: coverage and representativeness

Of the 1,181 companies contacted, 387 agreed to participate in phone screen (PS) interviews --178 exporters, 126 companies that both export and import, and 83 importing firms. Phone interviews focus on key information, including the company's main export and import sectors, size and whether they were affected by burdensome regulations or procedures in the last 12 months. The survey was implemented from January 2012 to October 2012. Overall, 131 trading companies reported to be affected by trade impediments and were asked to participate in subsequent face-to-face interviews.

8.2.1. Sectoral composition of the interviewed companies

The majority of phone interviews were conducted with companies exporting processed agro-based products (32.6 per cent), followed by those exporting metal and other basic manufacturing (12 per cent), fresh food and raw agro-based products (12.5 per cent), chemicals (8.9 per cent) and non-electric machinery (4.9 per cent). Thus, a greater number of phone interviews were undertaken with exporters of agro-based products and non-electric machinery. This was not random given that agriculture and non-electric machinery were important sectors of Kazakhstan economy during Soviet Union time. These sectors represent also a priority in the State Program for Accelerated Industrial and Innovative Development for 2010-2014.

Phone interviews also covered enterprises from other sectors including clothing, leather and textiles, wood and transport equipment. While the current share of these sectors in the Kazakhstan export portfolio is rather small, their development would be beneficial in terms of employment and trade diversification.

For each sector deemed important after carrying out additional interviews, the sample captured the trade flows for at least one exporter and one sector association. The low number of enterprises interviewed is attributed to the fact that very few exporting companies operate within these sectors.

In the case of imports, the enterprises that were interviewed belonged to the chemical sector (24.9 per cent), followed by that of metals and other basic manufacturing (17 per cent), and processed food (16.6 per cent), and non-electric machinery (15 per cent). Together, these sectors represented 48 per cent of Kazakhstan's imports in 2011. Remaining interviews were uniformly distributed among importers of electronic components, transport equipment, wood and raw agro-based products, thus, covering all Kazakhstan import sectors, excluding mineral and arms.

8.2.2 Size and other characteristics of companies participating in phone interviews

Phone interviews allowed for the collection of important information on company characteristics such as size, operational age, foreign ownership and sector affiliation. Firms were further classified as either "producing" or "forwarding" companies and as "exporting" or "importing".

Producers made up 62 per cent of the companies participating in the PS interviews. The share of producing companies in the group of exporters amounted to 78 per cent of all interviewed companies. Overall, about 21 per cent of interviewed firms were sole importers, 46 per cent sole exporters, while 33 per cent engaged in both activities (Figure 8.3).

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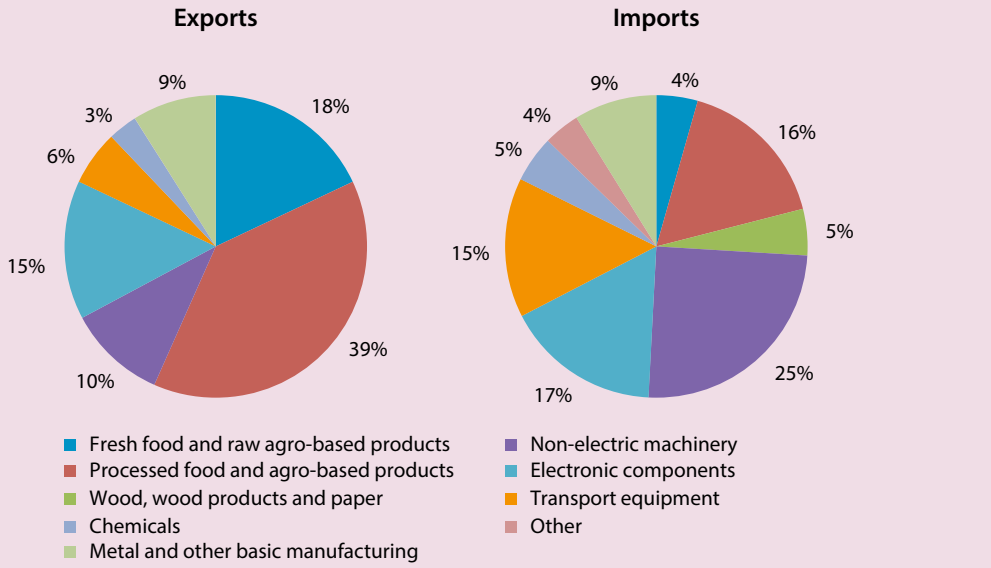
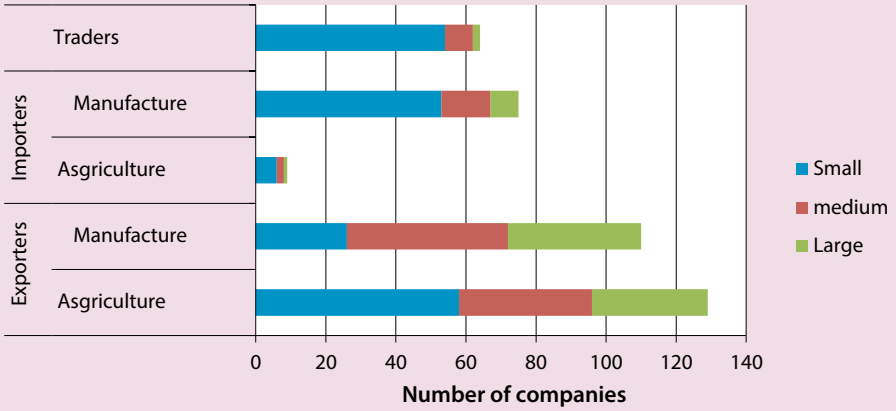
Figure 8.2. Sectoral composition of interviewed companies



Source: *ITC calculations based on Trade Map data. Values exclude products from extractive industries.*

Figure 8.3. Characteristics of companies interviewed



Source: *ITC survey on NTMs in Kazakhstan, 2012.*

The definition of SMEs used for the study is based on the law of the Republic of Kazakhstan "on private entrepreneurship". This law classifies enterprises with less than 50 employees as small and those with 50 to 250 workers as medium-sized. Overall, small enterprises represented 49 per cent of all companies participating in the PS interviews, while medium-sized and large companies accounted for 28 per cent and 23 per cent, respectively.

8.2.3 Regions

The PS interview phase was designed to cover all regions of Kazakhstan, with a greater number taking place in locations with a high concentration of exporting firms. Accordingly, most phone interviews were conducted around Almaty, the biggest business centre in Kazakhstan (Figure 8.4, Figure 8.5, and Figure 8.6). Upon the request from the Ministry of Trade and Economic Development

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Figure 8.4. Geographic distribution of companies

Source: *Business registers (Committee for Standards, Metrology and Certification).*

Figure 8.5. Geographic distribution of exporting companies

Source: *National Export and Investment Agency "KAZNEX INVEST".*

Figure 8.6. Geographic distribution of phone interviews

Source: *ITC survey on NTMs in Kazakhstan, 2012.*

(MoEDT), the cities of Kostanay and Pavlodar received also specific attention due to their strategic location in the proximity of the Russian Federation. The share of these two regions in the total number of PS interviews represented about 14 per cent.

8.3 Face-to-face interviews

Overall, 61 face-to-face interviews were carried out to get detailed information about the company's trade flows. These interviews usually took between 60 and 80 minutes. Eleven additional interviews with public and private organizations were also conducted.

According to KAZNEX about 300 producers also exported products from non-extractive industries. The survey revealed that 131 companies were affected by trade impediments. Of these companies, 61 or 47 per cent participated in face-to-face interviews. This is a high percentage given the low number of exporting firms in Kazakhstan.

The sectors and size of enterprises covered during the face-to-face interviews is directly related to the results of phone screen interviews. Face-to-face interviews covered the agro-food sector, chemicals, metals and basic manufacturing, non-electric machinery and clothing. In terms of company size, the distribution of face-to-face interviews closely resembles that of the phone screen interviews. SMEs represented 72 per cent of all interviewed firms, while large companies 28 per cent (Table 8.1).

Other company characteristics captured during the face-to-face interviews include the firm's operational age, ownership structure and share of exports in its annual turnover. Most of the companies interviewed reported being in operation for over five years (84 per cent); 14 per cent between one and five years; and only a few for less than a year. The majority of companies were fully or majority-owned by Kazakh citizens (72 per cent and 9 per cent respectively). Furthermore, 68 per cent of exporters reported that at most 10 per cent of their turnover was associated with exports; compared to 14 per cent which said that over 70 per cent of their profit came from their exports. In other words, most exporting companies mainly serve the domestic market (Figure 8.7).

Table 8.1. Company size, definition and participation in the NTM survey

Company size		Number of employees	Phone interviews		Number of face-to-face interviews	Share in face-to-face interviews
			Interviewed companies	Companies facing burdensome regulations		
Small	SMEs	1- 50	196	73	30	49 per cent
Medium-sized		50-250	108	28	14	23 per cent
Large		250+	96	83	17	28 per cent
Total			387	131	61	

Source: *ITC survey on NTMs in Kazakhstan, 2012.*

8.4 Captured data and evaluation approach

During the face-to-face interviews, firms were asked to provide information about their exports and imports by product at the Harmonized System (HS) 6-digit level. Companies also specified the destination countries for their exports and the countries of origin for their imports. For the purpose of the survey, each pair of product and partner country reported is referred to as a 'product-partner trade flow'.

For each product-partner trade flow, company representatives were asked to provide detailed information on the NTMs and procedural obstacles (POs) they encountered. The interviewers then classified the reported NTM following the taxonomy presented in Appendix II as well as the

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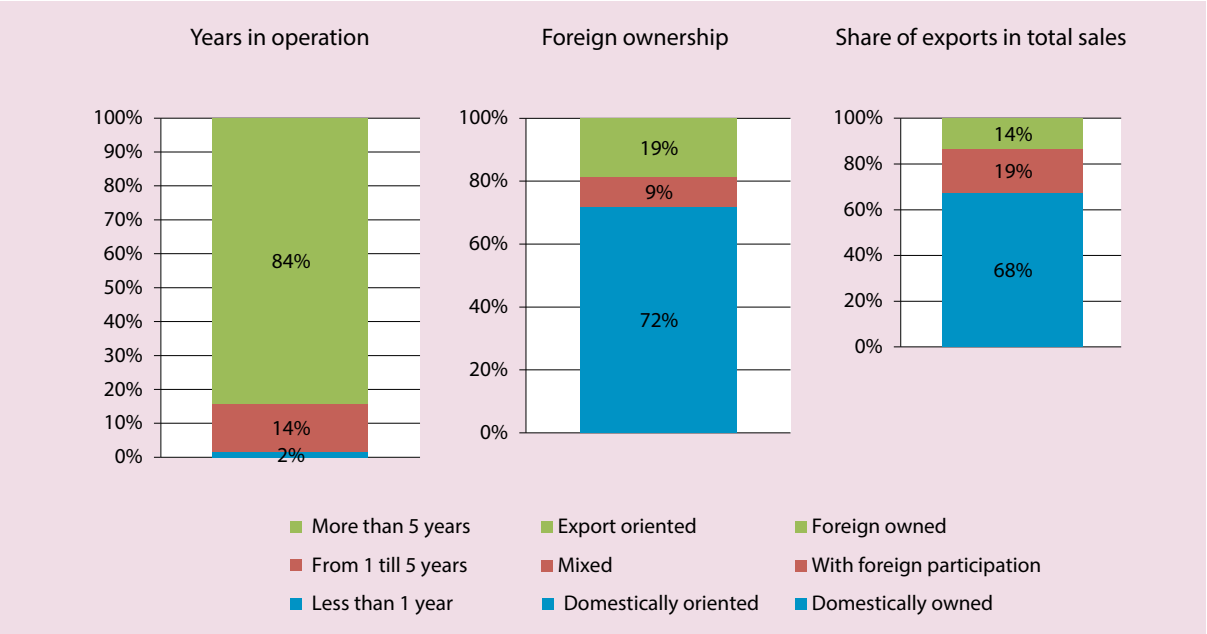
Figure 8.7. Characteristics of companies interviewed face-to-face, share of companies by categories



Source: *ITC survey on NTMs in Kazakhstan, 2012.*

country applying the measure. Company representatives were asked whether NTMs were burdensome because requirements were too strict or because POs associated with the NTM posed a challenge.

The final phase of the data analysis consisted in calculating frequency and coverage statistics along several dimensions, including product and sector, main NTMs category (e.g. technical measures, quantity control measures), and company characteristics (e.g. size).

Most frequency and coverage statistics are based on 'cases'. A case is the most disaggregated unit of analysis. Every company participating in a face-to-face interview reports at least one case of a burdensome NTM and, if relevant, procedural obstacles and challenges associated to the trade-related business environment.

An NTM 'case' is defined by the type of measure, the country applying it, the product affected by it and the company reporting the measure. If three products were affected by the very same NTM applied by the same partner country and reported by one company, results would include three cases. If two different companies reported the same problem, this would count as two cases.

Differences exist depending on whether an NTM is applied by the exporting or importing country. In a scenario where several importing partner countries apply the same type of measure to Kazakhstan's exports, several cases are recorded. The details of each case, including the actual name of the regulation and its strictness may vary as norms mandated by different countries are likely to differ.

By contrast, when a product exported by one company to several countries faces an NTM applied by the exporting country, this is recorded as one NTM case since it is considered to be a single policy. Following the same logic, companies importing a good from different countries facing an NTM imposed by the Kazakhstan authorities will also be counted as a single case.

It is worth noting that difficulties dealing with NTMs are associated to companies' characteristics. For example, large companies tend to have more

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experience trading than SMEs, as well as more human and financial resources. In addition, SMEs are particularly affected by fixed costs arising from NTMs and related procedures. Nevertheless, large companies export more products to a greater number of markets, meaning that they are more likely to face NTMs and POs during their transactions. In contrast, SMEs tend to export fewer products to less restricted markets, thus reducing the likelihood that their trade flows encounter burdensome barriers to trade. In the case of Kazakhstan, 37.2 per cent of SMEs and 36.1 per cent of large companies reported NTMs. Thus, the share of affected companies amongst firms of different sizes was very similar. Nevertheless, the impact of burdensome NTMs on SMEs is likely to be greater since large companies can compensate for difficulties in one market by trading with other established partners.

Companies with a greater number of export and import trade flows face a higher number of burdensome NTMs and POs than those that solely export or import. It is worth noting that cases of POs are counted in a similar manner to those of NTMs except for the fact that the agency where the obstacle takes place is also recorded. Interviewed companies also provided information about inefficiencies in the trade-related business environment (TBEs) encountered in Kazakhstan, as well as in partner and transit countries.

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Chapter Nine

Survey results: Companies' experiences with NTMs

This chapter analyses the findings highlighting the NTMs survey undertaken in Kazakhstan. It presents aggregate results, focusing on the most affected sectors, major problems and their location. A more specific analysis of the challenges reported by exporting and importing companies in the agricultural and manufacturing sectors follows.

9.1 Aggregate results and cross-cutting issues

This section looks at the survey results from an aggregate perspective and discusses the cross-cutting issues faced by trading companies in Kazakhstan. The first part deals with overall affectedness, and examines the types of companies reporting barriers to trade. The third part presents the NTMs reported by exporters as well as the markets where they were encountered. NTMs and other obstacles affecting Kazakh importers are then examined. Finally, cross-cutting procedural obstacles (POs) and inefficiencies in the trade-related business environment (TBEs) in Kazakhstan and transit countries are analysed.

9.1.1 Cross-country comparison and sector-specific results

The survey revealed that 30.1 per cent of companies engaged in exporting activities were affected by NTMs or other trade-related problems. Comparison of 27 countries surveyed by ITC, in terms of the number of affected firms, suggest that percentage of companies affected by NTMs correlates with the level of economic development in the country (see Figure 9.1). High and upper-middle income countries have a lower proportion of affected firms than low and low-middle income ones.

Hong Kong SARC and Kazakhstan have the highest income per capita in the group of surveyed companies. As expected, they also have the lowest share of affected exporters. Low income Sub-Saharan countries such as Malawi, Rwanda and Kenya reported the highest share of affected exporters.

Nevertheless, economic development is not the sole factor accounting for the rate of affectedness across countries. For example, the rate of affectedness of Uruguay is 56 per cent is higher than it would be expected based on their income level. In contrast, low and low middle income countries such as Burkina Faso and Egypt have relatively low ratio of affected firms (63 per cent, 37 per cent). The empirical literature on NTMs indicates that the sensitivity of exports to NTMs is primarily determined by its product composition and its geographic exposure. It is also important to stress that survey results can be influenced by cultural differences and companies' willingness to participate and speak about problems.

Survey results in Kazakhstan confirmed that NTMs are sector specific. Overall, manufacturing exports seem to be less affected by NTMs than agricultural ones. It is worth noting that agricultural products are more tightly controlled to protect the health and well-being of consumers and the environment. In Kazakhstan, the share of affected exporters in the agricultural sector stood at 37 per cent, while that of manufacturing represented 31 per cent. In comparison, 60 per cent and 51 per cent of exporters in the agricultural and manufacturing sectors, respectively, were affected by NTMs in other surveyed countries.

The relatively low share of affected manufacturing firms in Kazakhstan can be primarily attributed to the composition of their export portfolio, which is composed mostly of semi-processed products of metals and basic materials, chemicals (non-organic minerals) and non-electric machinery industries. These products are usually supplied by large companies, have high demand in the market, and face low trade barriers. In general, these companies are financially less constrained and hence have a different perception about trade barriers compared to SMEs that populate the clothing, textiles or agri-food sectors.

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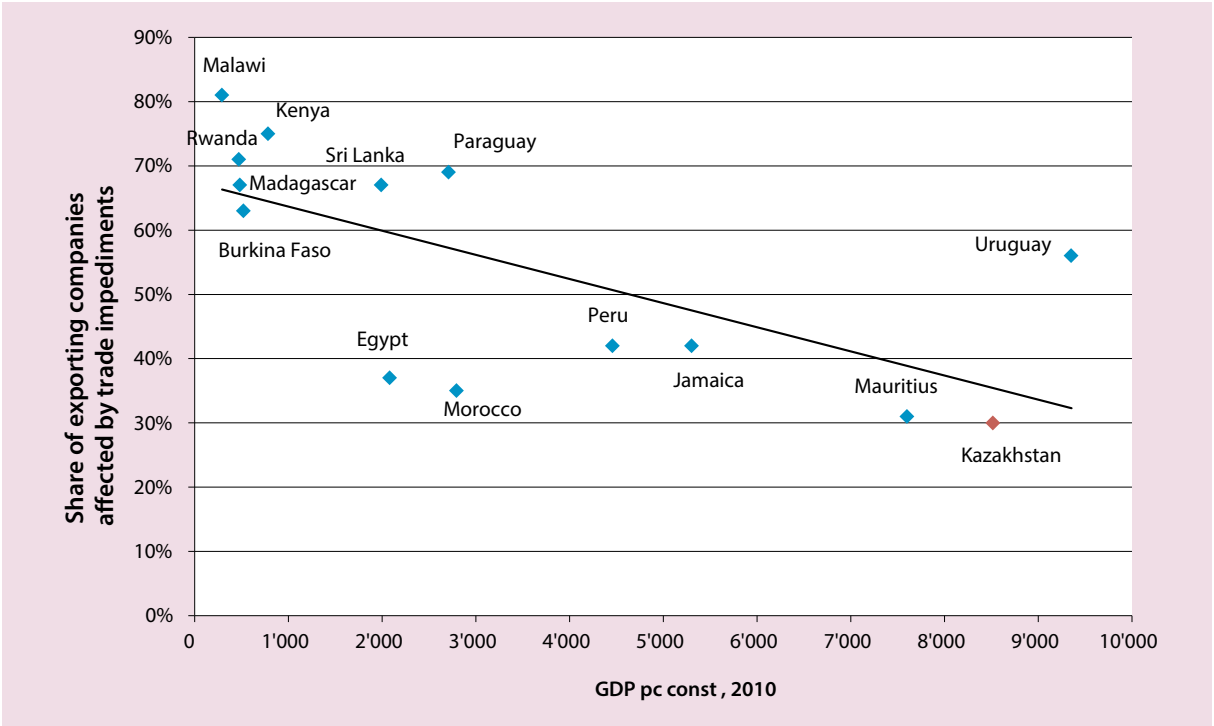
The low share of affected firms in agri-food sectors can be explained by the high proportion of companies specializing in exports of non-perishable products such as wheat, flour, non-alcoholic beverages and confectionery products. These products face fewer SPS measures than fresh vegetables and fruits or dairy products. In addition, a significant proportion of Kazakhstan agri-food exports goes to neighbouring countries like Uzbekistan, Tajikistan, Kyrgyzstan, Afghanistan and Turkmenistan which have less stringent phytosanitary requirements.

Overall, exporters of raw agricultural products and processed food were the most affected (36 per cent), followed by those exporting non-electric machinery (27 per cent), chemicals (26 per cent), metals and basic manufacturing (13 per cent). In the case of importers, 41 per cent of companies trading in non-electric machinery faced barriers to trade, followed by agri-food sectors (39 per cent) and chemicals (29 per cent). Importers of metals and basic manufacturing were the least affected (Table 9.1).

9.1.2 Affected companies

Size and other characteristics are expected to play a significant role in a company's ability to deal with NTMs. Large companies have more experience trading than SMEs and dispose of more human and financial resources. Overall, fixed costs arising from NTMs are expected to be more problematic for SMEs. Nevertheless, large companies export more products to a greater number of markets, meaning that they are more likely to face NTMs and POs during their transactions. In contrast, SMEs tend to export fewer products to less restricted markets, thus reducing the likelihood that their trade flows encounter burdensome barriers to trade. A more diversified large company can compensate for difficulties in some markets with other established business partners. In Kazakhstan, there is no significant difference in affected rates between companies of various the sizes with 37 per cent and 36 per cent of SME and large companies affected respectively.

Figure 9.1. Share of companies affected by NTMs and GDP per capita



Source: *Surveys on NTMs, 2009-2012, World Development Indicators for GDP data.*

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Table 9.1. NTM survey results by sub-sector

Подотрасль	Importers			Exporters		
	Phone-screen interviews	Companies affected by NTMs	Share	Phone-screen interviews	Companies affected by NTMs	Share
Fresh and processed food and raw agro-based products	38	15	39%	129	46	36%
Chemicals	45	13	29%	27	7	26%
Metal and other basic manufacturing	30	6	20%	38	5	13%
Non-electric machinery	27	11	41%	15	4	27%
Other manufacturing	43	15	35%	31	8	26%
Forwarders*	26	3	12%	64	21	33%
Итого	209	63	30%	304	91	30%

Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

**The term "forwarders" is used throughout the report to indicated companies providing export services or exporting products that they buy domestically. These companies generally operate in multiple sectors.*

Note: *Companies engaged in both exporting and importing activities are included both as exporters and as importers.*

Table 9.2 suggests that companies with that both export and import are more likely to face a burdensome NTM or PO. While only 28 per cent of only exporting and 37 per cent of pure importing firms reported barriers, 40 per cent of those who export and import did so.

Kazakh importers are more frequently affected by NTMs and related POs than exporters (37 per cent vs. 28 per cent). This result reflects the recent introduction of technical regulations in the CU countries designed to exercise tighter control on imports of a broad range of consumer and industrial products.

Export-oriented companies (with more than 70 per cent sales abroad, see Figure 9.2) reported around one NTM case per company referring to problems with certificates of origin, export licensing and registration, and pre-shipment inspection for imports. Thus, while the problems experienced by export-oriented companies are similar to the average interviewed companies, there is a negative correlation between the share of exports in total sales and number of experienced trade barriers.

9.1.3 *Major challenges with NTMs when exporting*

Major challenges with NTMs encountered by companies exporting goods are summarized in the sections below.

9.1.4 *Most common NTMs affecting exports*

Face-to-face interviews with 44 exporting companies show that they encounter burdensome NTMs not only abroad, but also in Kazakhstan. The survey

Table 9.2. Share of affected companies, by size and activity (phone interviews)

Size	Exports	Imports	Both imports and exports	Total
Small	31 per cent	43 per cent	44 per cent	37 per cent
Medium	28 per cent	19 per cent	26 per cent	26 per cent
Large	20 per cent	33 per cent	49 per cent	36 per cent
Total	28 per cent	37 per cent	40 per cent	34 per cent

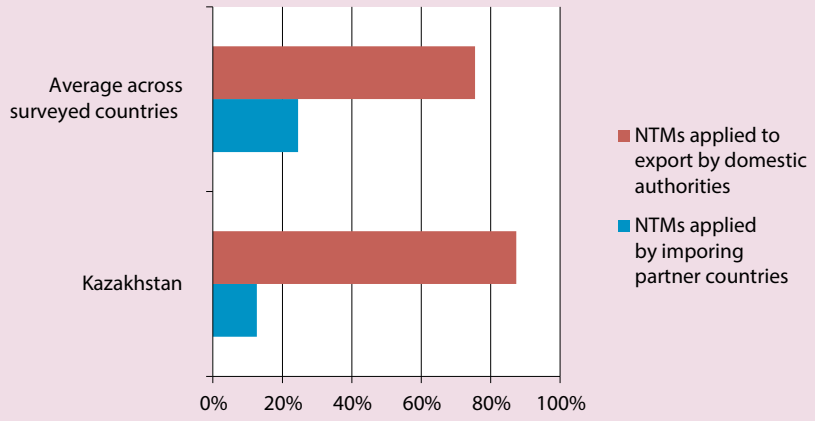
Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

Note that the shares do not sum up to 1; they are computed by dividing the number of affected companies in each group by the total number of companies in each group.

registered 145 NTM cases applied by importing partner countries and 21 cases of applied by Kazakhstan.

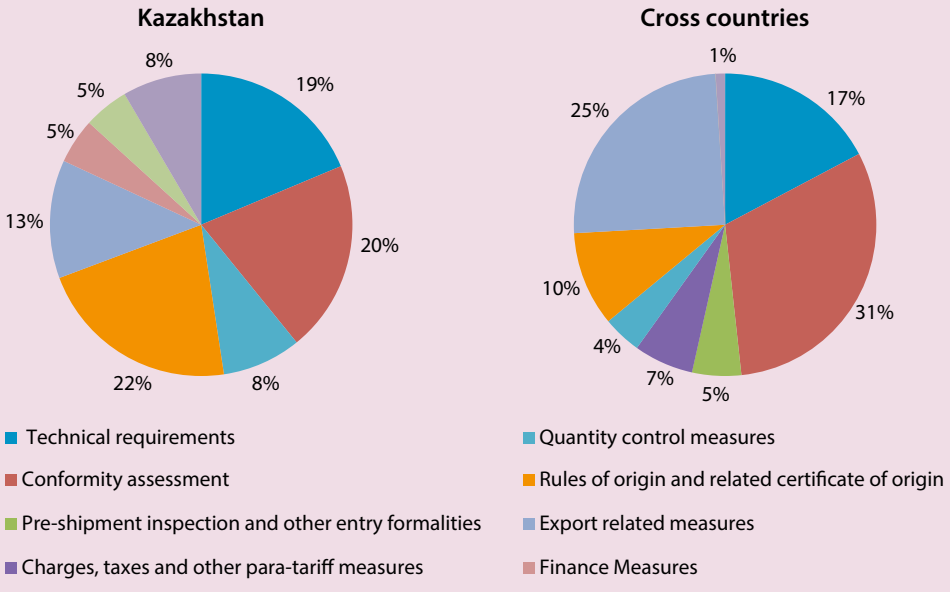
In comparison to other surveyed countries, Kazakhstan has a relatively high share of NTM cases applied by importing countries and low share of domestically applied NTMs (Figure 9.2). This result is partly driven by supra-national regulations affecting Kazakh imports and exports. The NTM cases related to new CU regulations applied at supra-national level were classified as NTMs applied by importing countries, and cases linked to the countries importing the product in focus (Belarus or the Russian Federation)

Figure 9.2. Burdensome NTMs affecting exports, comparison with other countries



Source: *ITC Survey on NTMs in Kazakhstan, 2012. Cross country averages always refer to 11 surveyed countries, inlcudig Burkina Faso, Egypt, Jamaica, Kenya, Madagascar, Mauritius, Morocco, Paraguay, Peru, Rwanda and Uruguay.*

Figure 9.3. Burdensome NTMs affecting exports by type of measure, comparison with other surveyed countries



Source: *ITC NTM Surveys, 2009-2012.*

Note: *Other include pre-shipment inspection and other entry formalities; charges, taxes and other para-tariff measures; anti-competitive measures; distribution restrictions; restriction of post-sales service.*

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As in many other surveyed countries, exporters in Kazakhstan report more cases of burdensome conformity assessment compared to challenges with technical requirements (Figure 9.3), indicating that Kazakh exporters face difficulties in demonstrating compliance with the technical requirements of the partner countries. Furthermore, Kazakhstan appeared to be characterized by a high share of complaints related to rule of origin, quantitative restrictions, intellectual property rights and financial measures.

While certificate of origin is required by importing countries, it is administrated domestically. Several companies complain about the extensive documentation requirements and necessity to apply for new certificate for each shipment. Additionally, many companies complain about the insufficient level of domestic processing which prevent them to obtain the certificate of origin, as many industries rely on imported inputs.

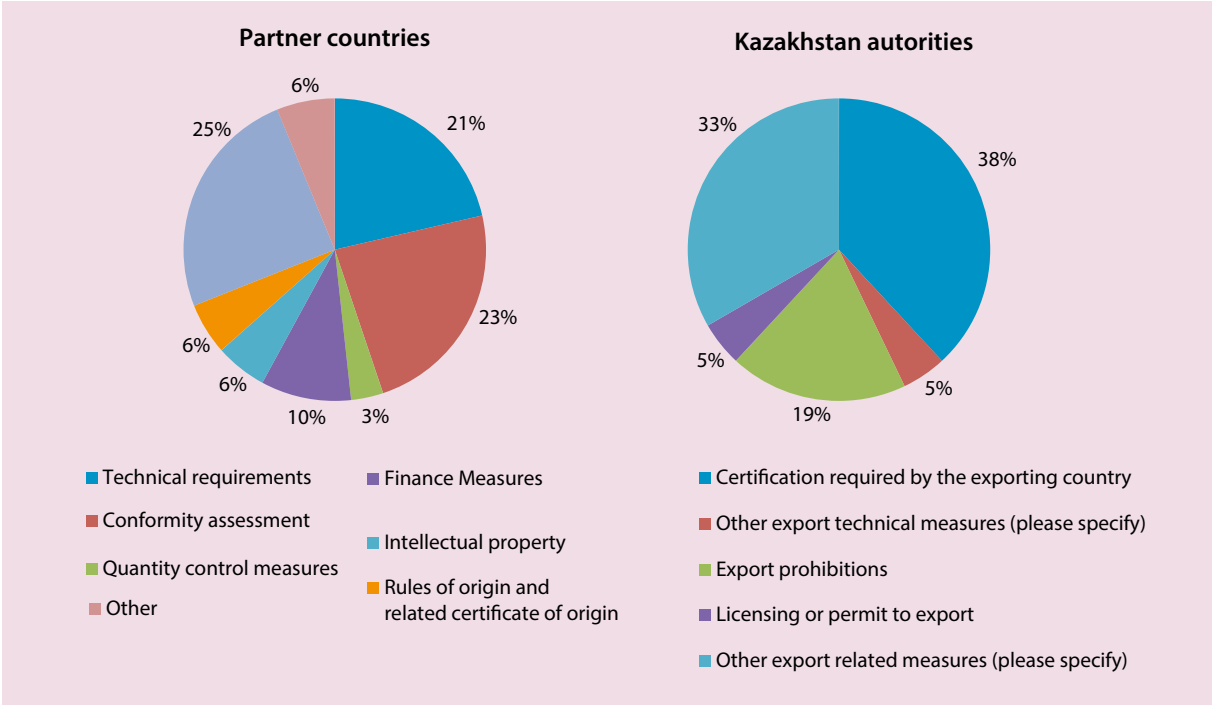
In contrast to burdensome NTMs applied by partner countries, the domestic issues are concentrated and primarily related to three types of NTMs: export certification, export prohibition and export licenses and permit to export (Figure 9.4).

Note: "Other" includes pre-shipment inspection and other entry formalities; charges, taxes and other para-tariff measures; anti-competitive measures; distribution restrictions; restriction of post-sales services.

9.1.5 Frequently reported partner countries

On average, 52 per cent of the interviewed companies face burdensome NTMs applied by an importing country. Overall, Kazakh exporters encountered the highest number of burdensome NTMs in CIS countries (43.7 per cent) with the Russian Federation, Uzbekistan and Belarus accounting for the majority of NTM cases in the CIS region (Table 9.3). However, a large number of NTM cases do not necessarily imply restrictive import policies, since it captures the overall exposure of Kazakh exporters to these markets. Thus, a large number of NTM cases are expected to be reported in the countries with highest incidence of exports.

Figure 9.4. Burdensome NTMs affecting exports applied by partner countries and by domestic authorities



Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

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To visualize this fact, the number of affected firms is plotted against the total number of firms exporting to partner markets in Figure 9.5. The countries situated above the fitted line are perceived by Kazakh exporters as countries having high level of NTM protection. Two largest regional importers of Kazakh goods, the Russian Federation and Uzbekistan, are perceived as being the most restrictive.

Belarus and the Russian Federation are situated above the fitted line suggesting that exporters perceive them as difficult markets. However, one should be careful in the interpretation of these results, as they could be partially attributed to the fact that these countries (as well as Uzbekistan) are the main transit countries for Kazakhstan trades. Therefore a high number of reported cases can be explained by the fact that these countries attracted reports both as importing countries and transit countries.

Excluding the CIS group, the average share of affected companies is 39 per cent, with no reports of burdensome NTMs related to China and Germany, the two largest markets outside of CIS group.

9.1.6 *Most common NTMs affecting imports*

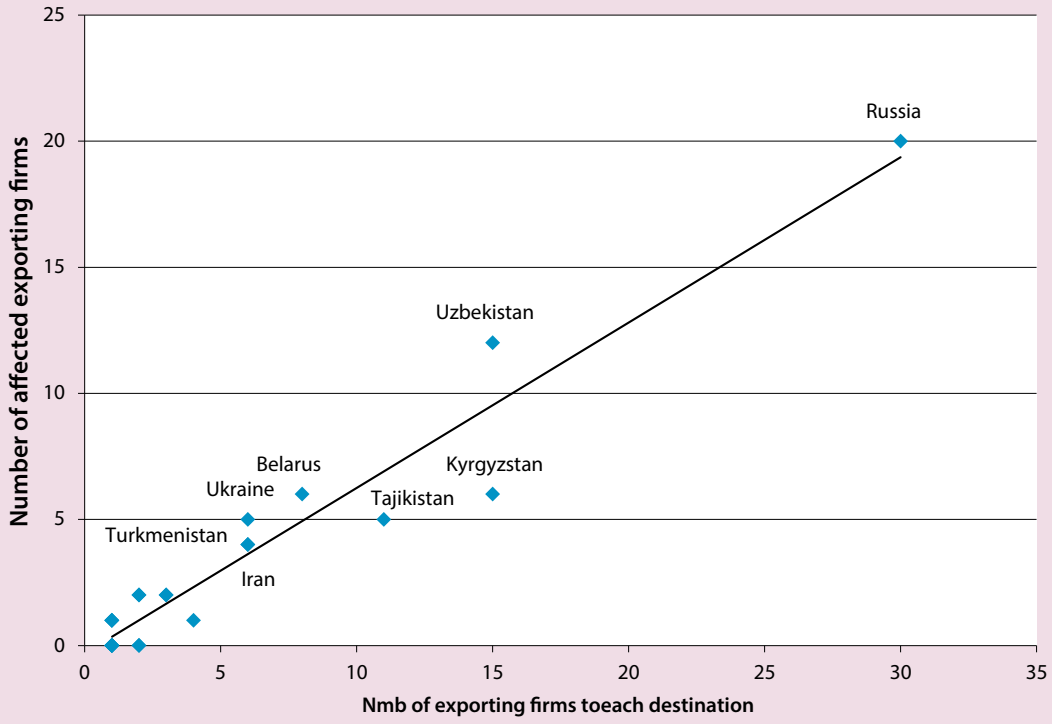
The 39 importing companies interviewed face-to-face reported 111 cases of burdensome NTMs. Conformity assessment and technical requirements account for 66 per cent and 21 per cent of the reported NTMs affecting imports. Price control measures and pre-shipment inspection represents 6 per cent and 4 per cent of the reported cases.

'The state product registration is done in two steps. The first step -verification of documents and laboratory tests take place in Almaty, the second-official registration in Astana. On average, the whole procedure takes about two months!'

Kazakh producer of non-alcohol beverages

The high proportion of the complaints refers to administration of NTMs introduced at the CU level. For example, 100 per cent of burdensome techni-

Figure 9.5. The overall restrictiveness of destination markets, by number of affected firms



Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

Table 9.3. Number of NTMs applied by partner countries

Selected countries and country groups	Kazakhstan's exports value		Companies surveyed in face-to-face interviews*				
			Number of companies			Number of NTM cases	
	Value in 2010, (US$ '000)	Share in total	that exports to this destination*	affected by NTMs by this exports destination	Share of affected companies	applied by this country	Share
Azerbaijan	222 658	1.3	3	1	33.3	1	0.7
Belarus	78 584	0.4	8	5	62.5	13	9.0
Kyrgyzstan	369 802	2.1	15	3	20.0	3	2.1
Russian Federation	2 823 018	15.9	30	19	63.3	76	52.4
Tajikistan	288 236	1.6	11	4	36.4	6	4.1
Uzbekistan	620 309	3.5	15	7	46.7	18	12.4
Subtotal CIS countries	4 402 607	4.1	82	39	43.7	117	13.4
Iran (Islamic Republic of)	1 052 231	5.9	6	2	33.3	2	1.4
Turkmenistan	99 796	0.6	6	3	50.0	11	7.6
China	4 389 490	24.7	1	0	0.0	0	0.0
Ukraine	176 961	1.0	6	3	50.0	6	4.1
Germany	1 207 154	6.8	2	0	0.0	0	0.0
Afghanistan	195 291	1.1	4	1	25.0	1	0.7
Turkey	1 196 311	6.7	3	1	33.3	1	0.7
Georgia	61 266	0.3	2	1	50.0	3	2.1
Japan	1 043 869	5.9	2	1	50.0	1	0.7
Other countries	3 067 616	17.1	10	3	100.0	0	0.0
Subtotal rest of the world	13 395 331	4.0	42	15	39.2	28.0	1.7
Total	**17 797 938**	**5.8**	**124**	**54**	**40.8**	**145.0**	**5.9**

Sources: *ITC Survey on NTMs in Kazakhstan, 2012; ITC Trade Map.*

** Companies exporting to several destinations were counted once for every destination. Therefore, the sub-totals and the grand total of interviewed companies in this table are higher than the total number of companies interviewed. The last column represents an average share of the captured countries in the sample.*

cal requirements and 70 per cent of burdensome conformity assessment measures are attributed to administration of new sanitary and phytosanitary (SPS) and veterinary requirements by the CU countries. For instance, the state product registration requirement enforced in the beginning of 2012 accounts for 46 per cent of the total reported burdensome NTM cases on the importing side.[113]

Mandatory certification of imported products enforced at the national level is the second most frequently cited burdensome type of conformity assessment after the state product registration.

[113] The discussion with the Committee of the State Sanitary and Epidemiological Surveillance revealed that the administration of the state product registration has improved since its introduction. For instance, since February 2013 the regional subdivisions of the Committee are responsible for the whole registration process, which should substantially decrease the time delay. As it concerns duplication with mandatory certification requirement, the Committee pointed out that the state product registration is a one-time measure and laboratory tests for the state product registration are more detailed since they are designed to control the product's safety.

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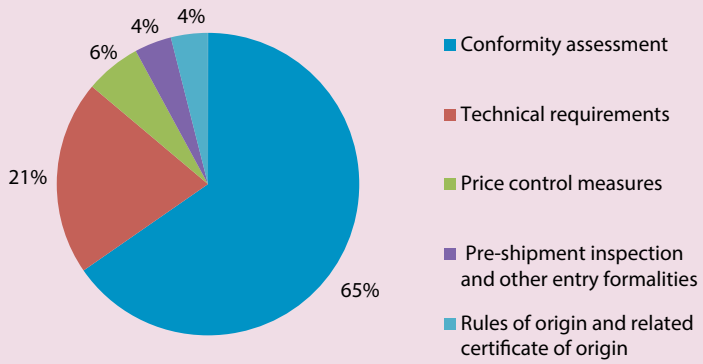
Figure 9.6. Non-tariff measures applied by Kazakhstan affecting imports



Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

Note: *"Other" includes charges, taxes and other para-tariff measures; quantity control measures; rules of origin and related certificate of origin.*

Box 1. State product registration

The large share of the conformity assessment problems reported by importing companies is related to the state product registration requirement (Decree of CU Commission 299, 28/06/2010). Prior to the establishement of the CU, the state product registration requirement covered only a limited number of products such as baby food and food additives. The state product registration enforced at the CU level covers a broader range of products such as: cosmetics products, soft drinks and alcoholic beverages, household products, personal care items, baby food, paints, varnish, equipment and other technical means intended for use in water supply and chemicals products.

The state product registration must be done only once before arrival of the product to the CU countries (The product is entered into State register). The state product registration is linked to the country of origin. Hence, if an importer wants to buy the same product from the same manufacturer but produced in another country it needs to apply for a new registration.

Companies are required to provide technical documentations from producers, including packages, labels, protocols (tests), scientific reports and expert reports. Some products (baby food, food additives, GMO products, biologically active food supplements, mineral water, drinking water, bottled in containers, disinfection and disinfestation materials, materials and articles in contact with water, and food products, specialty foods, organic products) need to pass through laboratory analysis which must be done at the accredited laboratories. All technical documents must also be translated into Russian or Kazakh language and be notarized.

The package of documents must be submitted to the subdivisions of the Committee of the State Sanitary and Epidemiological Surveillance of the Ministry of Health or few other accredited agencies responsible for the state product registration. After verification of the documents and laboratory analysis, the application is sent to the Committee of the State Sanitary and Epidemiological Surveillance in Astana for final registration.

Companies complained that products which already possess the certificate of state product registration are still required to apply for the certificate for customs clearance. According to companies, the state product registration requirement does not replace the mandatory certification for imported products enforced at the national level. Companies still need to confirm foreign conformity certificates at the national certification agencies.

Source: Department of the Committee of State Sanitary and Epidemiological Surveillance of the Ministry of Health of the Republic of Kazakhstan based in Almaty (accessed on March 6, 2013 at http://www.dgsen-almaty.kz/faq/?lang=ru&p=80)

Since Kazakhstan does not recognize foreign certificates, including the national conformity certificates of the CU partners, importers must apply for recognition of the foreign certificate or get the conformity certificate according to the national legislature of Kazakhstan.

9.1.7 Frequently reported certification and registration requirements

Frequently reported certification and registration requirements are listed in Table 9.4 including their coverage and the regulation stipulat-

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ing the requirements. The legislation is at the national and CU level, in some intances resulting in overlapping and duplicating requirements. For example, companies are required by the CU regulations to register their product and by national regulations to undergo a compulsory conformity assessment. Both requirements are in place ensure the safety of the products and both fall under conformity assessment measures.

Table 9.4. References to frequently reported certification and registration requirements

Level	CU or national requirement stemming from CU regulation	National requirements
Company	**Register of third party suppliers** Definition: Imports of animals and animal based products to the CU are allowed only to establishments included into the register of third country suppliers Coverage: imported animal and animal based products **Register of the CU establishments.** Definition: Production and sale of animals and animal based products on the territory of the CU are allowed only to CU establishments included into the register Coverage**:** animal and animal based products Source: Decision of the CU Commission N 317 , 18/10/2010	
Product	**State product registration** Definition: Products that imported to or produced first time on the territory of the CU are subject to the state product registration Product coverage: cosmetics products, soft drinks and alcoholic beverages, household products, personal care items, baby food, paints, varnishes, equipment and other technical means intended for use in water supply, chemicals products, GMO food products Source: Decision of the CU Commission N 299, 28/05/2010 Licenses and authorization Definition: Imports and exports of some products are subject to restriction (bans and licenses) Product coverage: Ozone depleting substances, plant protection substances, hazardous wastes, mineralogy and paleontology collection, rare species of fauna and flora, wild-growing drug raw materials, precious metals, narcotic and poisonous substances, pharmaceuticals, high frequency equipment , alcoholic beverages, ethyl alcohol, cryptographic tools, cultural valuables, service and civilian weapons, human organs and tissues and subsoil. Source: Decision of the EAC Commission N 134, 16/08/2013 **Mandatory conformity assessment with the issuance of common document (certificates or declaration)** Definition: Products that produced on or imported to the territory of the CU are subject to mandatory conformity assessment Product coverage: all manufactured products (including processed food) Source: Decision of the CU Commission N 629, 07/04/2011	**Mandatory conformity assessment (certificates or declaration)** Definition: Products that are produced on or imported to Kazakhstan are subject to mandatory conformity assessment according to the national legislation unless they possess the CU certificates or declaration of conformity Product coverage: all manufactured products (including processed food) Source: Resolution of the Government of the Republic of Kazakhstan on 20.05 2005 № 367
Shipment	Phytosanitary certificate Description: an international document issued by exporting countries authorities confirming the phytosanitary condition of the goods. Product coverage: fresh vegetable, fruits and plants. Source: The Law of the Republic of Kazakhstan on February 11, 1999 N 344 **Veterinary certificate** Description: an international document issued by the exporting country authorities confirming the veterinary safety of the goods Product coverage: product of animal origin and product intended to feed Source: Resolution of the Government of the Republic of Kazakhstan 22.09.2012 № 1230, The Law of the Republic of Kazakhstan from 10.07.2002 N 339-II **Import veterinary certificate (authorization)** Description: a documents authorizing imports of products of animal origin to the territory of the CU/ Kazakhstan Product coverage: product of animal origin and product intended to feed animals Documents: Resolution of the Government of the Republic of Kazakhstan on October 30, 2009 № 1730	

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9.1.8 Procedural obstacles and inefficiencies of the trade-related business environment

While NTMs are mandatory regulations introduced by the government of a country, POs are related to the manner in which a regulation is applied or implemented. An inefficient trade-related business environment can cause similar problems also without being directly related to specific NTMs. In general, POs and TBE-related problems can take place in the home country and in partner countries.

The survey revealed that the majority of the procedural obstacles faced by interviewed companies are domestic accounting for 81 per cent of the reported 288 cases. About 15 per cent of procedural challenges are encountered in partner countries and the remaining 4 per cent in transit countries. Procedural obstacles faced in Kazakhstan were related to 89 export and 145 import cases, while the procedural obstacles faced in partner countries were related to 43 export cases. Finally, procedural obstacles in transit countries affected 4 exports and 7 import cases. The types of domestic procedural obstacles are presented in Figure 9.3. On the exporting side, delays are the most frequently cited obstacles accounting for 29 per cent of the reported cases. A large number of document requirements represent the second largest share of reported procedural obstacles (27 per cent) followed by limited or inappropriate testing facilities (11 per cent) and informal payments to obtain certificates of regulations (9 per cent).

Similarly, 30 per cent of the procedural obstacles reported by importers referred to a large number of document requirement, 28 per cent to limited or inappropriate facility for testing, 11 per cent to the time delays and 10 per cent to foreign certificates not being recognized in Kazakhstan.

More specifically, large numbers of required documents are the most often cited obstacle encountered by exporting companies when dealing with regional chambers of commerce in charge of certificates of origin. Companies report that up to 18 different documents are required for the certificate of origin to be issued. In addition to the standard documents; such as contracts, invoices for raw materials, technological documentations, calculations of the per unit cost and certification of local content from a certified agency which are necessary to verify local content; various supplementary documents; such as conformity certificate, export license, phytosanitary certificate and contract on rent of storage spaces are also required. The exporting companies have to refer to other agencies to get these supplementary documents. Depending on the product type, the number of pages per application package can range from 50 to 300 pages and the companies are required to provide a new certificate of origin for each shipment. In general, small companies are more affected by this regulation since they effectuate several deliveries per contract and have limited human resources to devote to the preparation of the required package of documents.

9.1.9 Domestic challenges

On the exporting side, delays are the most frequently cited obstacles accounting for 29 per cent of the reported cases. A large number of required documents represent the second largest share of reported procedural obstacles (27 per cent) followed by limited or inappropriate testing facilities (11 per cent) and informal payments to obtain certificates of regulations (9 per cent).

> 'Each shipment must be accompanied by a phytosanitary certificate, which is valid for one month, while it takes 15 days to obtain it.'
>
> *Kazakh producer of beverages*

Similarly, 30 per cent of the procedural obstacles reported by importers referred to a large number of required documents, 28 per cent - to a limited or inappropriate facility for testing, 11 per cent - to the time delays and 10 per cent - to the lack of domestic recognition of foreign certificates.

More specifically, a large number of required documents are the most often cited obstacle encountered by exporting companies when dealing with regional chambers of commerce in charge of

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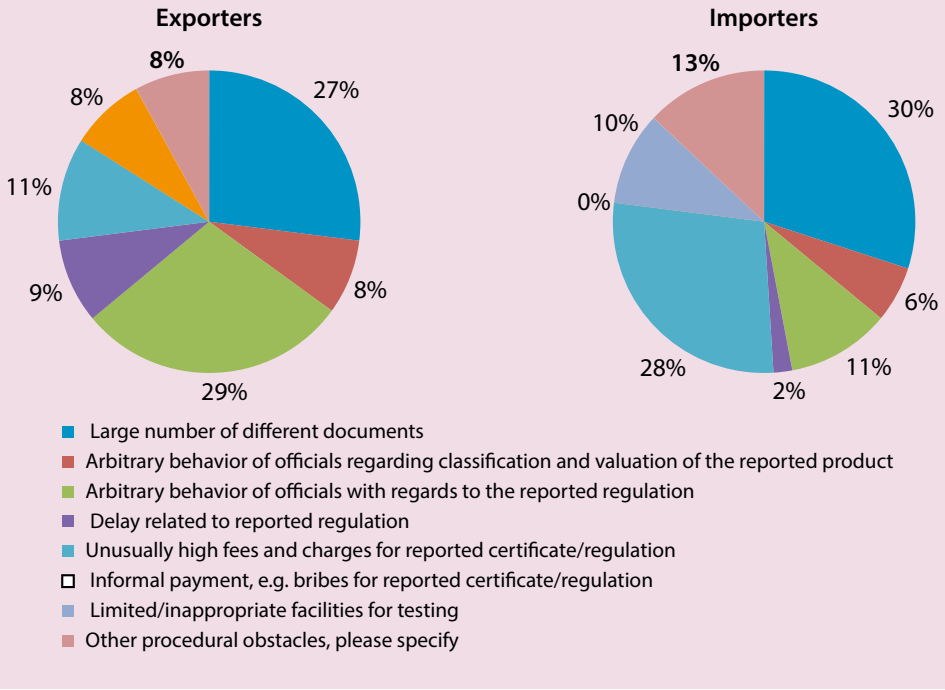
certificates of origin. Companies report that up to 18 different documents are required to issue the certificate of origin. In addition to the standard documents necessary to verify local content such as contracts, invoices for raw materials, technological documentations, calculations of the cost per unit and certification of local content from a certified agency, various supplementary documents are required to complete the application package such as conformity certificate, export license, phytosanitary certificate and contract on rent of storage spaces, etc. To get these supplementary documents company must contact other agencies. Depending on the product type, the number of pages per application package can range from 50 to 300 pages. In addition, companies are required to provide a new certificate of origin for each shipment of the same product. In general, small companies are more affected by this regulation since have limited human resources to devote to the preparation of the required package of documents.

The second most frequently cited problem is related to the administration of rules of origin. It is concerned with perceived arbitrary behaviour of officials regarding the computation of the local content of the product. Many exporting companies report that difficulties in obtaining the certificate of origin seriously restrain their sales in the Central Asian region.

Short validity of the certificate and large number of required documents are reported in relation to domestic certificate of conformity requirements. While the certificate of conformity is required for domestic sale, it is also included in the list of required documents for the issuance of the certificate of origin. The exporters, hence, have to obtain the domestic conformity certificate for the certificate of origin to be issued, even if the certificates

Figure 9.7. Procedural obstacles faced domestically by exporters and importers



Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

** "Other procedural obstacles" includes arbitrary behaviour of officials with regards to the reported regulation; unusually high fees and charges for reported certificate/regulation; other limited/inappropriate facilities, related to reported certificate/regulation; too short deadlines set for completion of requirements.*

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Box 2. Certificate of origin, number of required documents (CT1)

The list of documents required for obtaining a certificate of origin

1) Application

2) The certificate of state registration, statistical card, Charter, the card of participant of external economic activity

3) The contract for the export of goods

4) Invoice (invoice)

5) Contracts on the acquisition of raw materials, products and so forth.

6) Payment documents (invoice, receipt, consumables, cash orders, money orders, passport transactions, invoices)

7) Technology product documentation, description of technological process

8) Calculation per unit of finished product (for manufacturers)

9) A license, permission to export products (if applicable)

10) Phytosanitary certificate (for agricultural products)

11) Veterinary certificate (for agricultural products)

12) Certificate of conformity (manufacturing products)

13) Export exchange certificate (if applicable)

14) Warehouse certificate with indication of name, quantity of products and storage location

15) A contract for the rental of warehouse (state act of land use)

16) Act of the examination of the origin of the goods (made by the expert handwriting)

17) Certificate from local municipality of possession of a land (for agricultural products)

18) Power of attorney for registration of certificate of origin with the right of signature, a copy of the identity card

The documents listed must be submitted in 2 copies (original and copy) the original returned to the declarant after verification.

Source: Decree of the Ministry of Industry and Trade of 11.03.2009 N 59, "On approval of rules for determining the country of origin of the goods and the issuance of a certificate of origin" (accessed on March 6, 2013 at http://www.pavlodar.com/zakon/?dok=04380&uro=17003)

are not recognized in the importing countries and the company does not sell at the domestic market. Furthermore, delays in obtaining veterinary and phytosanitary certificates issued by the regional veterinary and phytosanitary inspections is a common procedural obstacle reported by exporters.

'The turnover greatly increased since the formation of the CU, the lack of staff and physical infrastructure in the customs posts, increase the waiting time at the border of Kazakhstan'

Kazakh producer of non-alcohol beverage

In case of imports, the main procedural challenges are associated with conformity assessment requirements for importing products. Inappropriate testing facilities, time delays and large number of required documents are the most frequent POs related to the state product registration requirement, while lack of recognition of foreign certificates and a large number of required documents were related to the mandatory certification requirement.

Finally, importers faced the most number of POs with arbitrary behaviour of officials and having to pay informal payment to custom officials when the products were being classified and valuated (see Table 9.5), as well as delays at the border.[114]

[114] According to the Customs control committee, the border control is currently undergoing important changes which will significantly reduce waiting time at the border. The Customs is going to take over the responsibilities of veterinary, sanitary and transport inspections for the border control. Thus, instead of going through 5 different agencies (veterinary, phyto-sanitary, transport, customs, and border control), companies will pass only two: customs and border control itself. The Customs is going to expand its staff with the specialists from sanitary, phyto-sanitary and transport inspection.

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Box 3. The costs of state product registration

The administration of the state product registration has created confusion among companies since its entry into force in the beginning of 2012. The majority of the surveyed companies were not aware of this regulation and did not apply for the state product registration before the arrival of shipments, which led to a large number of shipments being blocked at the custom ports because of the missing certificate.

These companies were required to apply for the state product registration to unblocked shipments. Due to high demand for the laboratory analysis, the companies experienced around 3 months of delays, inspite of many testing laboratories working overtime during the first quarter of 2012. In addition, many companies complained that technical capabilities of some testing laboratories were not sufficient to perform specific tests required for the state product registration and, hence, the samples had to be sent laboratories in Astana or Almaty for analysis. After obtaining the required certificates, the state product registration required another 30 days.

The companies also reported that the customs officers relied on the HS codes rather than the product description and frequently requested the certificate of the state product registration when it was not necessary. As a result, many companies were obliged to ask subdivisions of the Committee of State Registration to provide official letters to prove that the imported products were excluded from the scope of the regulation.

Survey results show that private sectors incurred significant costs associated with procedural obstacles which could have been avoided if sufficient efforts were put in place to inform related parties about the new regulation. An example of the estimated costs of the state product registration borne by one surveyed company is given below.

One of the surveyed companies imported 5 tons of malt, as raw material for production, which arrived at the beginning of 2012. In absence of the state product registration, the shipment was blocked at the customs in the airport. The storage costs at the temporary storage premises of the airport customs was about US$ 0.13 per kg. The company was able to move the shipment to its own storage premise only after a month and half using letter from the Committee of State Registration attesting that the application has been submitted and the certificate of state registration will be issued in due time.

For the period the shipment was placed in the airport premise the company had to pay a storage cost of US$ 19500 (30 working days x US$ 0.13 per kilo x 5000 kilos). In addition, the translation cost of technical documents to Russian and the preparation of application amounted to approximately US$ 500, while the laboratory analysis for food products cost about US$ 340. Overall, the estimated cost of product registration to the company amounted to in excess of US$ 20,000.

This amount does not include the loss the company had to bear due halt in production and costs associated with other customs clearance and product registrations procedures.

Source: Costs of laboratory analyses is accessed on May 5, 2013 at http://foodinnovation.ru/articles/3237.html

Table 9.5. Domestic institutions reported in relations to procedural obstacles

Kazakh agency involved in POs	Type of POs	Numbers of POs
Accredited testing laboratories (centres) of the Republic of Kazakhstan	Limited/inappropriate facilities for testing (35)	35
	Other problems with international recognition, e.g. lack of recognition of national certificates (15)	15
Certification agencies	Limited/inappropriate facilities for testing	16
Chambers of Commerce	Large number of different documents	18
	Arbitrary behaviour of officials regarding classification and valuation of the reported product	6
	Delay related to reported regulation	2
	Other procedural obstacles	7
Committee of the State Sanitary and Epidemiological Surveillance and its regional representatives (State Product Registration)	Large number of different documents	44
	Delay related to reported regulation	16

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Kazakh agency involved in POs	Type of POs	Numbers of POs
Customs of Kazakhstan	Large number of different documents	4
	Arbitrary behaviour of officials with regards to the reported regulation	3
	Arbitrary behaviour of officials regarding classification and valuation of the reported product	9
	Delay related to reported regulation	8
	Deadlines set for completion of requirements are too short	1
	Informal payment	9
	Other procedural obstacles	6
Inspection laboratory of the Kazakh customs	Delay related to reported regulation	1
Kazakh Ministry of Health	Delay related to reported regulation	1
	Facilities lacking international accreditation/recognition	6
Metrology Department of National Centre of Expertise and Certification ("NACEKS")	Unusually high fees and charges for reported certificate/ regulation	1
	Deadlines set for completion of requirements are too short	1
Ministry of Agriculture	Delay related to reported regulation	2
	Deadlines set for completion of requirements are too short	1
Ministry of Economic Development and Trade	Delay related to reported regulation	1
National Centre of expertise of Drugs and Medical equipment	Large number of different documents	1
	Arbitrary behaviour of officials with regard to the reported regulation	2
Sanitary and Epidemiological Inspection of Kazakhstan or its regional representatives	Other limited/inappropriate facilities, related to reported certificate/regulation	2
	Delay related to reported regulation	2
State inspection for quarantine of plants	Informal payment	2
Tax Committee under the Ministry of Finance of the Republic of Kazakhstan	Delay related to reported regulation	1
	Other procedural obstacles	1
The National Security Committee of the Republic of Kazakhstan	Delay related to reported regulation	2
Veterinary Control committee of the Ministry of Agriculture (Single Register of Suppliers of the CU)	Arbitrary behaviour of officials with regard to the reported regulation	2
	Delay related to reported regulation	1
Ministry of Ecology and Natural Resources of Kazakhstan	Large number of different documents	1
	Arbitrary behaviour of officials regarding classification and valuation of the reported product	1
	Delay related to reported regulation	1

Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

** This table refers to the number of times an institution was mentioned in relation to POs/TBE. Since an interviewed company can refer to more than one institution for each 'case' of PO/TBE, the numbers differ from the total of reported 'cases'.*

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9.1.10 Transit countries

As a landlocked country, Kazakhstan relies intensively on transport infrastructure of transit countries. The three major transit countries for Kazakhstan are the Russian Federation, China and Uzbekistan.

Discussions about the trade business environment in transit countries with companies reveal that almost all exporting and importing countries experience procedural challenges in at least one of the transit countries, but not necessary related to NTMs. For instance, substantial delays experienced by companies trading via China were due to the insufficient railroad network capacity and priority given to Chinese shipments over foreign transits.

> At the border of Uzbekistan, the shipment was delayed for several days. The fruits and vegetables got spoiled before reaching their final destination.'
>
> *Kazakh producer of non-alcohol beverage*

In contrast, companies trading via the Russian Federation and Uzbekistan are frequently challenged by POs related to implementation of NTMs. When transiting via Uzbekistan companies often complain about the time delay and inspections of cargo carried out by the Uzbek customs officers. In addition, they also point out a lack of transparency regarding specific regulation governing transit via Uzbekistan, high railway tariffs for the transit of freight cars and short validity of the permits for transit tracks required for each shipment. A few companies report that the tense political relationship between Uzbekistan and Tajikistan, can often lead to substantial delays ranging from 5 to 14 days at the border. [115]

The most frequent PO faced by Kazakh exporters during the transit of their goods through the Russian territory is a perceived arbitrary behaviour of Russian authorities with respect to the regulations.

[115] At the stakeholder seminar discussing this report, "Atameken" (the largest business association in Kazakhstan) stressed that trade barriers faced by Kazakh companies along the transit routes are more difficult to overcome than those faced domestically. The representative of "Atameken" called for a regional study which would analyse trade barriers along the transit routes.

Since the accession of Kazakhstan to the CU, part of the customs clearance procedure takes place at the Belarusian and the Russian borders. Companies report the border control time and the number of required documents for transit goods through Russia and Belarus has increased substantially. Companies also express concern that they cannot find the official information on what constitutes the mandatory documentary requirements for transit. Problems with transit can results in blocking the shipments at the customs post or even sending them back to suppliers.

9.1.11 Partner countries

Figure 9.8 shows the breakdown of the procedural obstacles experienced by the interviewed exporting companies in the partner country markets. About two-third of the reported cases are related to a lack of recognition of the national/foreign certificates (44 per cent) and delays related to the regulations (23 per cent). Arbitrary behaviour of the officials and high fees or charges for reported certificates account for 12 per cent and 7 per cent of the reported cases respectively. As in the case of NTMs, the majority of the procedural obstacles are reported for Russian market (59 per cent) followed by Uzbekistan (16 per cent) and Belarus (6 per cent).

Lack of recognition of the domestic certificates is the most frequent procedural challenge in Russian and Belarusian markets. As CU conformity certificate scheme covers only a limited number of products, Kazakh exporters must obtain national certificates of conformity of the CU countries for other products.

In addition, agro-based producers must apply to the CU producers register and get the state product registration for their products to be able to export to the CU market. These procedures are often associated with delays and high fees and charges.

Companies exporting to Uzbekistan and other countries are more concerned about delays and arbitrary behaviour of the officials with respect to the implementation regulations.

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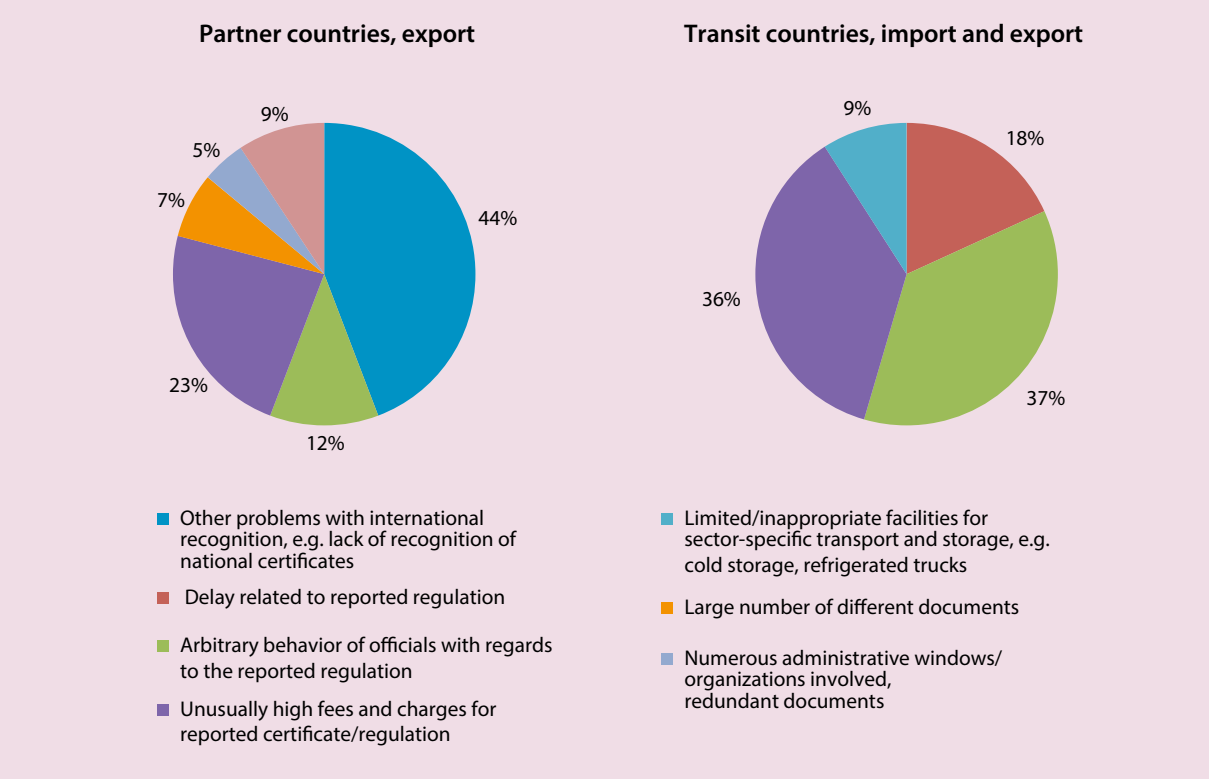
Figure 9.8. Procedural obstacles in transit and partner countries



Source: ITC Survey on NTMs in Kazakhstan, 2012.

Note: "Other" includes large number of different documents; information on selected regulation not adequately published and disseminated; arbitrary behaviour of officials regarding classification and valuation of the reported product; too short deadlines set for completion of requirements.

9.1.12. Inefficient trade related business environment

This section describes general challenges related to the business environment that companies encounter while trading.[116] The results are drawn from the information provided by interviewed companies and the Association of Customs Brokers.

During the survey, companies were asked various questions related to the different facets of the trade-related business environment such as the institutions, logistics and transportation infrastructure, and information technology and business regulation in Kazakhstan, partner and transit countries. These problems faced by surveyed companies are shown in Figure 9.9.

> 'The main problem is the lack of railway platforms. We are forced to transport the products by autoroads, which is very expensive.'
> 'The prices for railway transportation and rental rates of platform are also high. Railway tariffs are expressed in Swiss francs thus we never know how much we will pay at the end in Kazakh tenge.'
>
> *Kazakh importer of chicken meat*

The types of problems faced by companies seem to be similar in both domestic and foreign markets. Four of the top five obstacles faced domestically are similar to the top five challenges that companies face in partner and transit countries. These problems include: limited transportation system, lack of human resources in the trade-related institutions, high transportation cost, time delays and corruption.

[116] More detailed discussion can be found in the section 3 of the first part of this study.

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The companies expressed concern about the inadequate numbers of the rail road cars available to transport the goods. Furthermore, the available cars were in a poor state, and sometimes required repairs and sanitary cleaning at the company's expense. In addition, Kaztemirtrans, the main provider of railroad cars, does not possess cars with special facilities such as cooling and heating (e.g. thermo 918 cars). The companies have to rent this type of cars from Russian and Ukrainian rail road cars providers.

The surveyed companies also criticize the procedure of ordering the rolling stocks from Kaztemirtrans and lengthy procedure of transport route matching through the territory of transit countries. For instance, despite timely and proper request for railroad cars, the delivery of cars is often delayed due to insufficient stocks and priority given to shipments under the government program of grain exports.

'The rolling stock and its supply leave much to be desired. They are in bad state, we have to carry out repairs and sanitary cleaning of cars at our own expenses. There are no cars of type Thermo 918 which are used for food transportations in the inventory of Kaztemirtrans.'

Kazakh producer of confectionery

While railroad tariffs in Kazakhstan remain the lowest in the region, tariffs for transportation and rent of railroad cars has increased on several occasions in the last two years. In 2012 alone the railroad transportation tariff went up by 15 per cent, while the tariff for railroad cars rent increased by 65 per cent.[117]

In addition to the cost, payment procedures for railroad cars are also a problem to the Kazakh companies. Prior to 2012, the prepayment for railroad cars was required two or three days before the delivery of the railroad cars. An advance payment is now required one month prior transportation, substantially limiting companies' operational flexibility.

[117] The data are sourced from the Kazakh Grain Portal (http://www.kazakh-zerno.kz/index.php?option=com_content&task=view&id=74940&Itemid=108) and a national newspaper (http://kazpravda.kz/c/1333358090).

Poor quality of services provided by customs and other institutions involved in issuing of the authorization documents and certificates raised criticism from private sector. According to the interviewed companies there is a lack of skilled workforce in the public agencies as well as the poor coordination among the different agencies involved in the process of verification and issuance of the documents. This often leads to delays, unnecessary paperwork and increase in administration costs. Furthermore, frequent delays related to the submission of electronic customs declaration was reported due to the problems with the IT server handling customs declarations.[118]

The companies also point out that the existing customs infrastructure in Kazakhstan is a bottleneck. The Kazakh customs is unable to accommodate the increasing trade flows, which can be mainly attributed to the increasing transit of Russian trade through Kazakhstan. The companies reported waiting times easily amount to three days.

Many companies also faced various issues related to goods in transit. When importing from the EU, the customs clearance procedure becomes more complicated and lengthy as it occurs twice at the external border of the CU with the EU and at the internal border of Kazakhstan.

'Before the CU, all problems could be solved in Kazakhstan. Now we have to go to Belarus or the Russian Federation.'

Kazakh producers of confectionary

According to the Association of Customs Brokers, the Customs Code of the CU does not specify all the required documents for transit and the full set of documents required for transit cargo is left to the discretion of customs officers. This has created space for arbitrary actions and corruption at the customs.

[118] In the follow-up discussion, a representative of the Customs control committee admitted that capacity of the server that is used to handle electronic declarations may not be sufficient, nevertheless, increasing capacity of the server implies new investment and at the moment there are a few other projects that should be implemented first.

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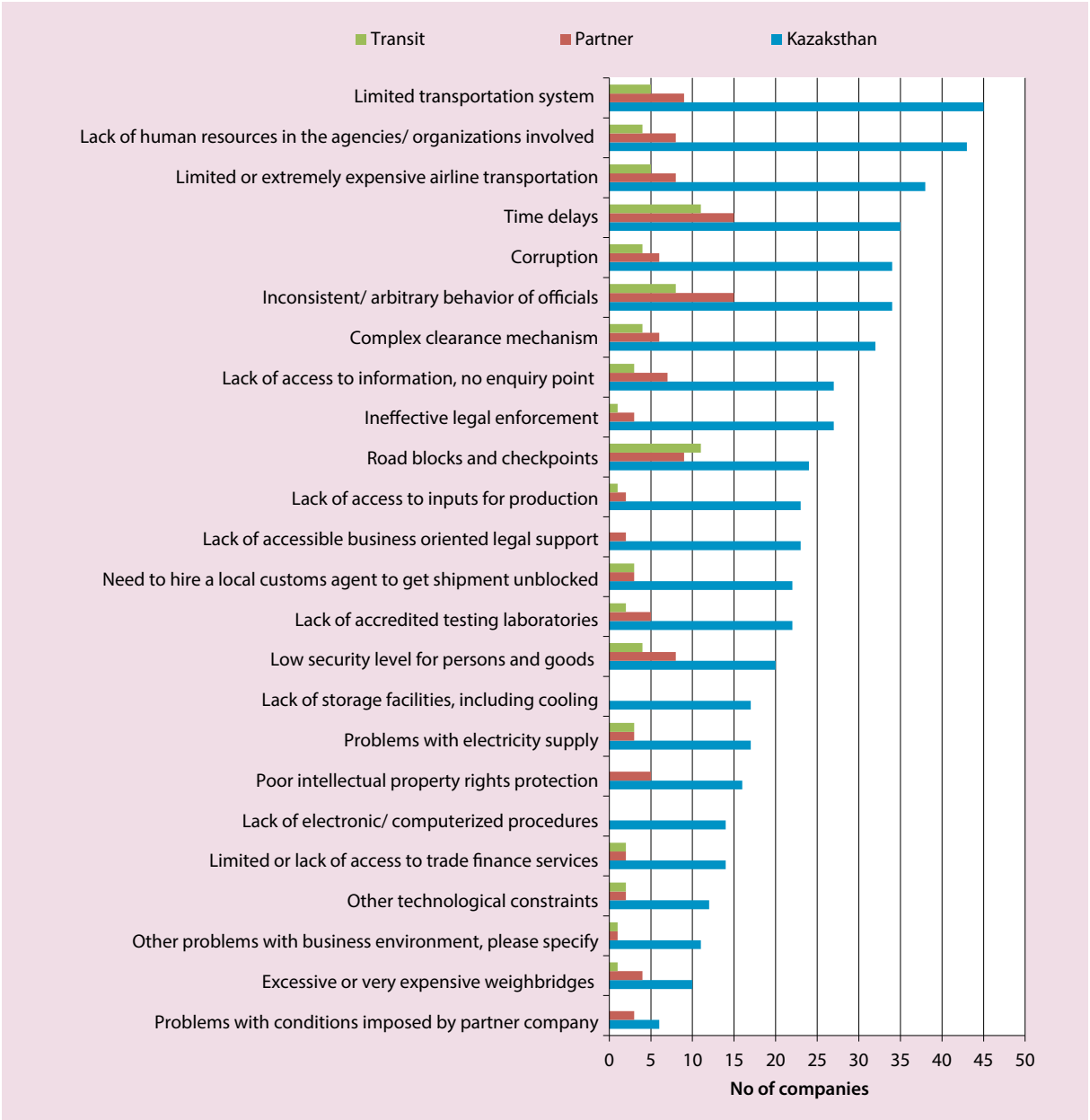
The Association of Customs Brokers estimates that the economic costs of customs clearance in Kazakhstan amounts to US$3.5 billion per year which correspond to 10 per cent of value of total imports in 2011. The costs associated with mistakes and arbitrary behaviour of customs officers in transit and partner countries is entirely borne by the private sector and there is no compensation mechanism of the incurred damage.

Due to the increasing administrative burden associated with customs clearance procedures, the prices of the brokerage and logistics services have also gone up by 15 per cent. Rising expenses associated with transportation, tariffs and customs clearance have push the c.i.f. price of goods by up to 40 per cent. An example of the calculation of the price mark-up by one of the surveyed companies importing vegetable oil is presented below:

Figure 9.9. Business environment issues in Kazakhstan and partner countries



Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

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The estimated transport cost is about 25 per cent of the invoice price. The VAT is 12 per cent and it is computed on the sum of the invoice price, transportation costs, customs duties and tariff payment while the tariff applied to vegetable oil is about 15 per cent.

*((invoice price) * 1.25 (transportation cost) + 85 Euro (customs duty)) * 1.15 * 1.12 --> invoice price * 1.61*

The bottleneck related to customs clearance at the external (land) border of the CU could be avoided using airline transportation which, however, remains unaffordable for most Kazakh companies and does not make economic sense for most of the goods.

According to the companies delays at the Uzbek border occur frequently, where waiting time can easily exceed 12 days affecting both transit and direct cargo. As a result, companies supplying products to Tajikistan and Afghanistan have to work out well in advance alternative transportation routes to avoid downtime at border crossing points. Food processing companies, in particularly, were concerned about the delays as the qualities of their products depends crucially on the storage temperature and delivery time. In addition, transit goods are subject to frequent inspections from Uzbek customs officers. The companies also experience frequent loss and damage of goods.

To sum up, delays in red type stem from a lack of adequate technical equipment and qualified staff, multiple documentation requirements, lack of coordination among customs authorities. The competitiveness of domestic producers that source 80 per cent of their inputs from abroad (including 20 per cent from the Customs Union) is negatively affected by high transportation costs. Increasing costs of business operations associated with inefficient business environment has created additional burden for companies that already suffer from low profit and increased competition from Russia and Belarus.

9.2 Agricultural products

This sub-chapter discusses obstacles to trade faced by companies in the agricultural sector. The results are based on 141 phone interviews and 31 in-depth face-to-face interviews with exporters and importers of agricultural products.

The first section presents a brief introduction to the agriculture sector; the second section discusses the main cross-cutting burdensome NTMs and POs faced by Kazakh agri-food companies. The third and fourth sections analyse the NTMs applied by destination countries and domestic authorities to the agri-food exports as well as the associated various procedural challenges. Section five treats NTMs and POs that encounter importers of agricultural products domestically.

While all agro-food exporters face similar impediments, the same measure can affect companies at different levels of intensity depending on the specificity of the products and the structures of the respective sub-industries. Alternatively, while the nature of NTMs is similar across products, they may vary substantially in detail. A limited number of NTMs only apply to specific products.

The sixth section sheds light on specific NTMs and POs encountered by companies operating in three important agro-based industries: wheat, dairy and meat, and beverage. The last section summarizes and provides policy options.

9.2.1 The role of the agricultural sector

Background information

During the Soviet era, agriculture was an important part of the Kazak economy. Kazakhstan exported approximately 10 million ton of wheat, 300,000 ton of meat, 25,000 ton of milk and 150 million eggs per year to the other republics of the Soviet Union in the 1980s. The agricultural sector during this time benefited from various government support schemes including transport and fuel subsidies. Although these schemes were not specifically designed for the agricultural sector, they helped farm workers more than other producers.

The 1990s has seen a drastic reversal of the government agricultural policies. Following price liberalization the prices of key inputs increased,

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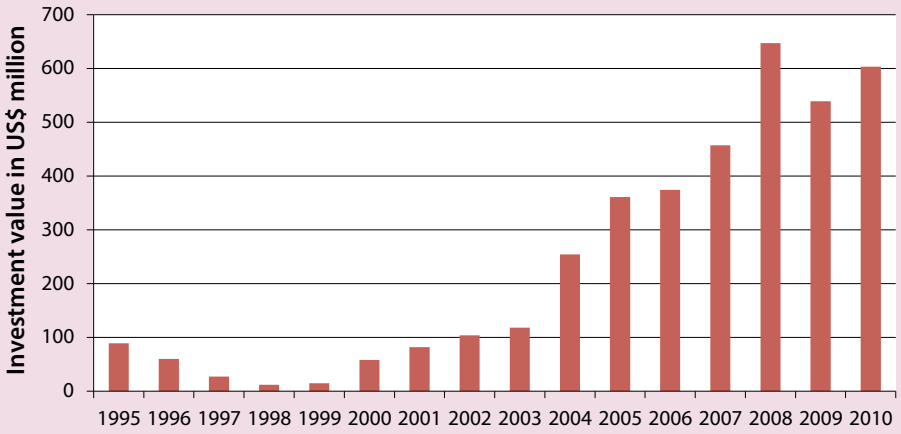
Figure 9.10. Capital investment in agriculture, 1995 – 2010

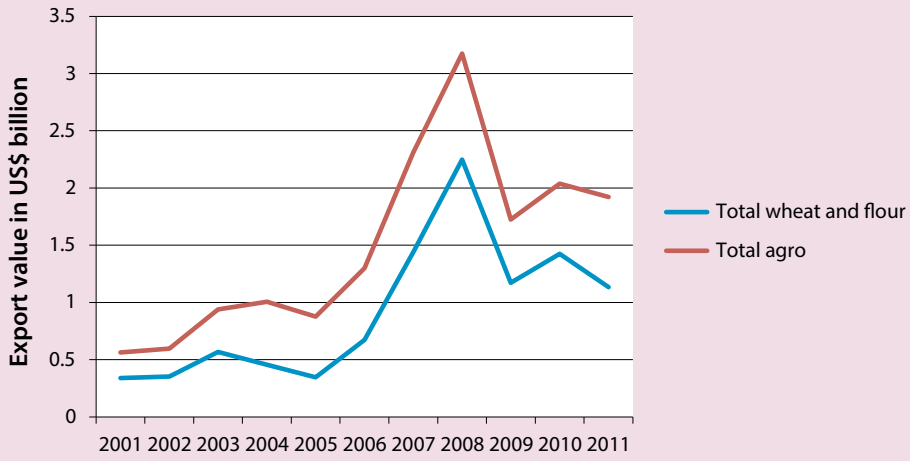


Source: *Longmire & Moldashev, 1999*

the budget allocated for agriculture subsidies dropped dramatically and disappeared totally in 1995. As prices of the main agricultural products were controlled by the government and they were sluggish to adjust to new reality. As a result, many collectively owned farms went bankrupt and subsequently privatized. By 1997, the area of arable land for grain production had shrunk from 35 million to 15 million hectares, while the number of livestock decreased from 17.4 million to 6.3 million.

Since beginning of the 2000s, Kazakhstan has started to channel substantial support to the agricultural sector (see Figure 9.10). Over the last seven years the number of credits given to the agricultural sector has increased by more than 2.7 times. In addition, the government has introduced subsidized loans to the agricultural sector through state owned financial institutions. Most of the government's investment to revitalize the sector was targeted towards the development of the wheat production.

Figure 9.11. Development of export of grain crops and their products, 2001 – 2011



Source: *ITC calculations based on Trade Map data.*

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Wheat remains the main source of exports revenue of the agricultural sector. Significant investment in wheat production has had a positive spill over effect on other crops. For example, the product of oil seed plants increased by 2.7 times over the period 1999-2009.

Increasing production and exports of alternative grain products and oilseed plants such as sunflower, raps and linseed is considered a priority in the Program of Accelerated Industrial Development for 2010-2014. The government also intends to make substantial investment in the expansion of processing and storage facilities for crops along with the improvement of export logistics infrastructure.

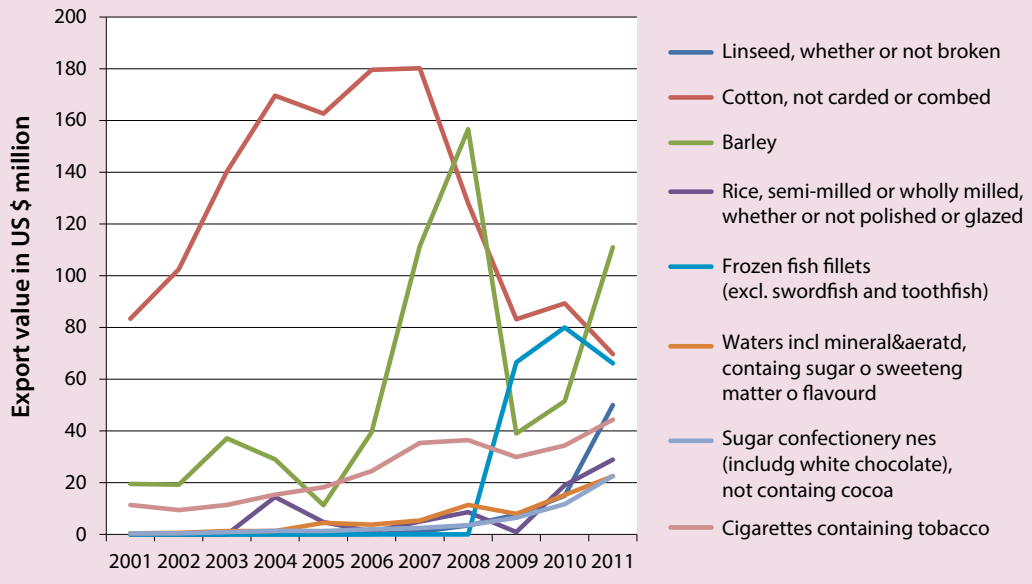
The livestock sector has continuously been ignored by the Kazakh policymakers. The government has only recently decided to intensify the support to the livestock sector by subsidizing the purchase of foreign pedigree cattle and the production of high-quality feeds.

Agricultural production accounted for about 5 per cent of GDP and 11 per cent of non-oil non-metal exports in 2011. The average annual growth of the agricultural exports over the last decade was 13.8 per cent.

Agricultural exports from Kazakhstan are very concentrated in a few products. Wheat and flour alone account for 59 per cent of agricultural exports. They are the main determinants of the overall exports performance of agri-food sector. In the last three years the exports growth of wheat and flour slowed down due to increasing regional competition and transportation cost.

Apart from wheat, products such as barley, cotton, linseed, rice and durum wheat are the main exported grain products. Although they jointly represented only 18 per cent of total agri-food exports in 2011, all these commodities achieved extraordinary growth over the last decade. Barley and rice exports grew at an average annual rate of 54 per cent and 17 per cent respectively, while the export of linseed increased by 14 times in the last four years. This exceptional growth pattern can be explained by a modest level of initial exports. Cotton export grew fairly stead-

Figure 9.12. Development of export of major agro-based products (except grains and related products), 2001 – 2011



Source: *ITC calculations based on Trade Map data.*

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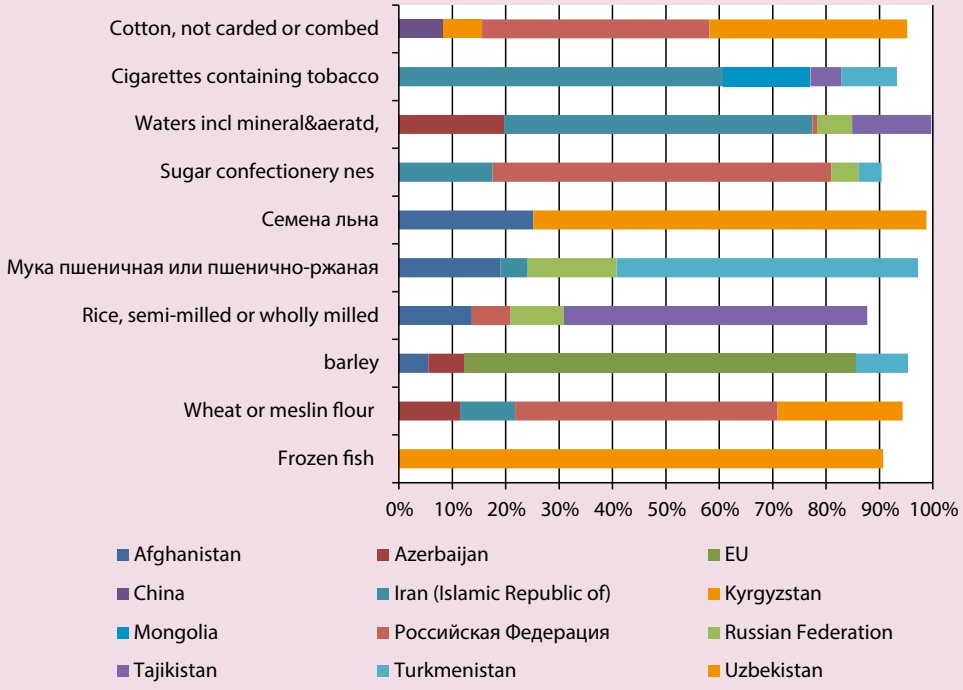
Figure 9.13. Selected agro-based products by destination countries, 2011 (share per cent)



Source: *ITC calculations based on Trade Map data.*
Note: *Bars that do not reach 100 per cent indicate that products are traded with other partners.*

ily with an average annual rate of 13.8 per cent reaching US$180 million in 2007, but in 2011 decreased then fell to the level of 2001 in 2011 (Figure 9.12).

In addition to the grain crops, frozen fish (3.5 per cent), cigarettes containing tobacco (2.3 per cent), non-alcoholic drinks (1.2 per cent) and sugar confectionary (1.2 per cent) represent the top 10 agricultural export products of Kazakhstan. Despite small exports share, these items together grew on average at 28 per cent a year over the last decade. These products not only represent an important potential for exports diversification but they also have a higher valued added and their prices are less volatile than prices of raw commodities.

The destination markets of the top ten agricultural products are shown in Figure 9.13. Most of reported products are destined to the neighbourhood markets with a few exceptions. In particular, frozen fish, linseed and cotton are mainly exported to the EU countries, Russia, China and Moldova. The share of the EU developed countries in the exports of these products varies from 39 per cent to 90 per cent.

Since 2008, Kazakhstan has been a net importer of agricultural products. The major suppliers of agro-food to Kazakhstan are the Russian Federation (40 per cent), Ukraine (9 per cent) and Uzbekistan (9 per cent). The top 10 imported products and their main source countries are shown in Figure 9.14. Most of the products are sourced from the Russian Federation and Ukraine, except for black tea imported from Kenya and India, cane sugar from Brazil and frozen poultry from the USA.

9.2.2 Overall results

Among 138 surveyed companies engaged in agri-food products trading, 37 per cent (51 companies) reported impediments to trade. Subsequently, 32 of these affected companies[119] were interviewed in detailed face about the problems they faced.

[119] Among these 32 companies, 19 were exporters, 6 importers and 7 companies engaged in both activities.

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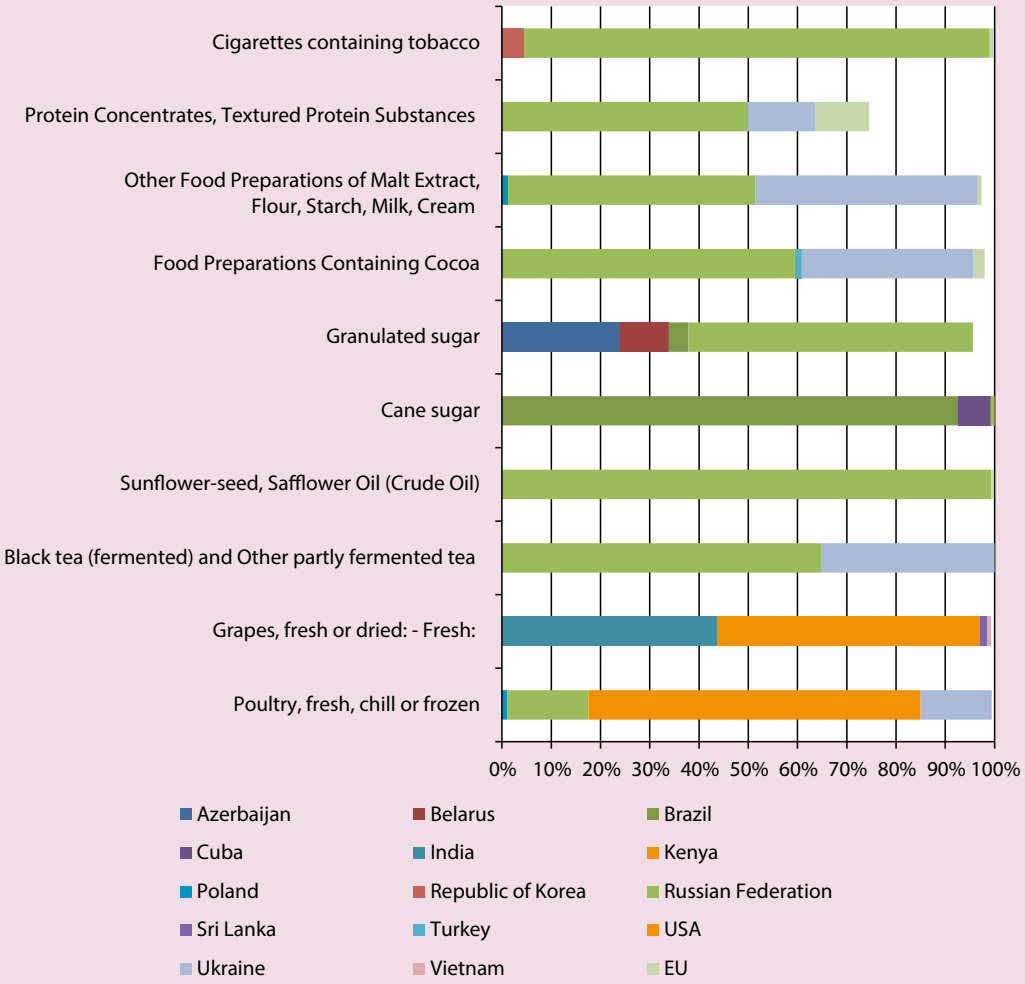
Figure 9.14. Selected agro-based products by origin countries, 2011 (share per cent)



Source: *ITC calculations based on Trade Map data.*

Note: *Bars that do not reach 100 per cent indicate that products are traded with other partners.*

Among the 151 reported burdensome NTMs, [120] 62 per cent are applied by partner countries, 35 per cent applied by Kazakhstan and 3 per cent applied by transit countries. On the exporting side, about 88 per cent of all the reported burdensome NTMs are occurring in partner and transit countries. The share of products affected by NTMs applied by partner countries accounts for 43 per cent of Kazakhstan's total agri-food exports.

9.2.3 *Exporters' experiences with regulations in partner countries*

Major export products and the NTMs applied by partner countries are presented in Table 9.6. A large number of reported NTM cases faced in partner countries are related to technical measures (45) and quantitative restrictions (14).

[120] In total 151 burdensome NTMs were reported by agro-based companies, among them 109 cases are referred to agro-based exports and 42 to agro-based imports.

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Table 9.6. Export of agro-food products: burdensome NTMs applied by partner countries

Sub sector description	Exports to the world		Number of reported NTM cases							
	Exports value in 2011, US$ '000*	Share in sector's export value (per cent)	Technical requirements	Conformity assessment	Quantity control measures	Finance Measures	Intellectual property	Rules of origin and related certificates	Others	Sub total
			A	B	E	F	N	O	**	
Milk, butter, cheese and other dairy products; eggs and eggs products	15 408	1	5	4					3	12
Vegetables, fruit and nuts, fresh or dried	17 201	1	9							9
Wheat and meslin, unmilled	609 424	32			2			1	2	5
Oil-seeds and oleaginous fruits	36 985	2						1		1
Confectionery and other food preparations	90 876	5	5	7		2	8	1	4	27
Cereal preparations and preparations of flour or starch of fruits or vegetables	27 379	1		4						4
Fruit juices and non-alcoholic beverages	30 009	2	2	4		3		4	6	19
Alcoholic beverages	3 395		2		12	3			1	18
Essential oils, perfume and flavour materials	158		2	1						3
Other agricultural products	1 123 268	58								0
Sub-Total	1 921 494	100	25	20	14	8	8	7	16	98
			BEL(2), GEO (3), RUS(15), TLS (2), UKR(3)	RUS (20)	AFG (1), BEL(4), IRN (1), RUS(8)	RUS (2) UZB (6)	RUS (8)	AZE (1), KGZ (2), RUS(1), TJK (1), TLS (1), USB(1)	***	

Sources: *ITC Survey on NTMs in Kazakhstan, 2012; ITC Trade Map.*

*** Pre-shipment inspection and special authorization because of food borne risks, disease and pests' risks.*

**** Uzbekistan, the Russian Federation, Tajikistan, India and Lithuania.*

Table 9.7. Export of agro-food products: NTMs applied by partner countries and reasons making them burdensome

NTM Chapter	Number of NTM cases		Procedural obstacles and inefficient business environment making NTMs difficult	Number of procedural obstacle cases		
	with PO	without PO		in home country	in partner country	in transit country
Technical regulations (A)	20	5	Arbitrary behaviour of officials with regards to the reported regulation		3	
			Delay related to reported regulation	9	6	
			Limited/inappropriate facilities for testing	2		
			Facilities lacking international accreditation/recognition	4		
Conformity assessment (B)	20		Large number of different documents	3		
			Delay related to reported regulation	3		
			Limited/inappropriate facilities for testing	1		
			Other problems with international recognition, e.g. lack of recognition of national certificates		16	
Pre-shipment inspection and other formalities (C)	2		Arbitrary behaviour of officials with regards to the reported regulation		1	1
Charges, taxes and other para-tariff measures (D)		4				
Quantity control measures (E)		14				
Finance Measures (F)		8				
Anti-competitive measures (H)	1	3	Delay related to reported regulation			1
Distribution restrictions (J)	3		Large number of different documents		1	
			Information on selected regulation is not adequately published and disseminated		1	
			Arbitrary behaviour of officials with regards to the reported regulation		1	
			Unusually high fees and charges for reported certificate/regulation		2	
Intellectual property (N)		8				
Rules of origin (O)	7		Large number of different documents	2		
			Delay related to reported regulation	1		
			Deadlines set for completion of requirements are too short		1	
			Other procedural obstacles	4		
Special authorization because of food borne risks, disease and pests risks (AK1)	1	1	Numerous administrative windows and organizations involved, redundant documents			
Other pre-shipment inspection and other entry formalities (CZ0)	1		Numerous administrative windows and organizations involved, redundant documents			
Total	**55**	**43**		**29**	**32**	**2**

Sources: *ITC Survey on NTMs in Kazakhstan, 2012; ITC Trade Map.*

The NTMs and associated POs applied by partner countries for agro-food exports are shown in Table 9.7. The NTMs with POs represent 55 per cent of the reported NTMs (53 out of 96 reported cases). POs that take place in partner countries account for 60 per cent of reported cases.

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Financial measures, intellectual property and rule of origin constitute 23 additional cases.

The majority of the reported NTM cases are for confectionery products (24), followed by non-alcoholic beverages (19), alcoholic (18), dairy products (12), and fresh vegetables and fruits (9). While the export share of these products is not large, they are still important because of their valued added and their potential to diversify Kazakhstan's agri-food export portfolio. Wheat and meslin, oil seeds and cereal preparation seem to be less affected by NTMs applied by partner countries. Only three cases of burdensome NTMs were reported for wheat and meslin; four for cereal preparation and one case for oilseeds.

9.2.4 Technical requirements and certification

Technical measures can be subdivided into two broad categories: technical requirements and conformity assessment. The first stipulates product-specific properties that a product needs to comply with, e.g. minimum chemical residual levels or fumigation requirements, while the second provides a proof of compliance with the underlying technical requirement, e.g. by means of certificates or inspections. Usually, exporters deal with both components of the technical measures. Nevertheless, conformity assessment is perceived more problematic by exporters than technical requirements per se.

'The regulations of different regions in the Russian Federation are not harmonized; each region has its own regulation in addition to the Federal.'

'It is almost impossible to recognise the certificate of conformity of Kazakhstan in the Russian Federation!'

Kazakh producers of confectionary

In general, based on ITC surveys in other developing countries, conformity assessment accounts for roughly 60 per cent of the burdensome technical measures.

In contrast, conformity assessment makes up a relatively lower share (44 per cent) of technical measure issues faced by Kazak exporters in partner countries. This suggests that Kazakh agri-food producers face more difficulties in adjusting their production technology and processes to the technical requirements of the partner countries rather than in obtaining certification per se.

Further analysis at a more disaggregate level reveals that raw and fresh agro-food exporters are more affected by technical requirements, while processed food exporters by conformity assessment. [121]

The majority of reported burdensome technical requirements cases are encountered in Russian market (15 out of 25). This result reflects both stringent national technical regulations of the Russian Federation as well as new SPS and veterinary requirements of the CU that Kazakh agro-food companies serving Russian market face.

The harmonisation of standards and regulation among the CU countries will lead to a gradual replacement of national technical regulations and related conformity assessments for a common CU regulation. Fixed costs associated with compliance with new and sometimes more stringent technical regulations may potentially impose a heavy burden on agri-food producers.

'The Russian authorities required the laboratory tests to be conducted in the Russian Institute of Nutrition. The tests undertaken in Kazakhstan laboratories were not accepted. The dispatching of the samples from Kazakhstan to Russia amounted to about $5,000. The whole procedure took 4 months.'

Kazakh food producer

Other regional destinations appear relatively less restrictive in terms of technical import regulations. Only a few cases of burdensome technical regulations are reported for four other markets: Georgia (2 cases), Belarus (3 cases), Turkmenistan (2 cases) and Ukraine (3 cases).

Multiple cases of burdensome certification requirements are encountered in Russian market

[121] A more detailed discussion about concrete measures affecting the different product categories will be presented in subsequent sections of this chapter.

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(Figure 9.15). While the members of the CU have signed an agreement on mutual accreditation of testing laboratories, many interviewed companies reported that they still need to apply for Russian conformity certificates from Russian laboratories.

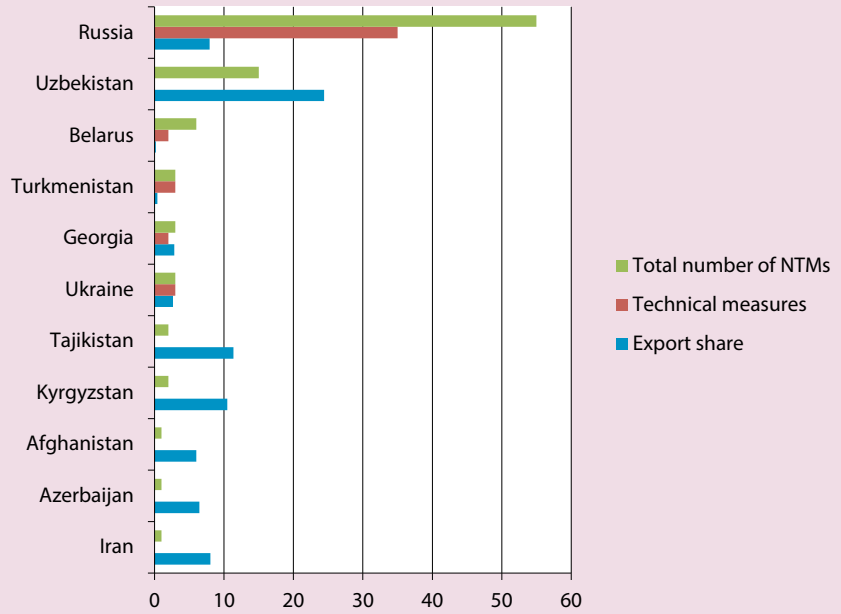
About 80 per cent of technical measures and all conformity assessment requirements are accompanied with procedural obstacles. The main procedural obstacle associated with compliance to technical regulations is time delays, while the major procedural challenge associated with conformity assessment requirement is the lack of recognition of domestic certificates. Almost 69 per cent of POs associated with technical requirements take place domestically, while the corresponding share for conformity assessment measures is only 48.7 per cent.

In general one can expect the effect of NTMs to be more severe on SMEs, as they are technologically less advanced and financially more constraint compared to large companies. However in case of Kazakhstan, large exporters appear to be slightly more affected by technical measures applied by partner countries than SMEs: 38 per cent of large companies reported burdensome technical regulations applied by partner countries, compared to 33 per cent of SMEs. This may be partly explained by fact that large companies and SMEs do not target the same markets (SMEs frequently serving only regional markets which have less stringent technical requirements than high income countries). In addition, large companies usually serve more markets and a broader portfolio of products which are more likely to include SPS sensitive products.

9.2.5 Financial measures, quantitative restrictions, intellectual properties and rules of origin

Around 25 per cent of the NTMs cases applied by partner countries are related to quantity control measures, financial measures, intellectual properties and rules of origin. Quantitative restrictions encompass various measures restraining quantity of imports of goods starting from licenses and quotas to prohibitions and exports restraint arrange-

Figure 9.15. Shares of agro-based exports and burdensome technical measures applied by main partners, per cent



Sources: *ITC Survey on NTMs in Kazakhstan, 2012; ITC Trade Map.*
Note: *Countries are sorted by the total number of reported NTM cases.*

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ments. Financial measures refer to measures that regulate access to and cost of foreign exchange for imports. Intellectual property measures cover patents, trademarks, industrial design, copyrights and trade secrets while rules of origin set up criteria to determine a country of origin of a product which allows importing countries to assess the eligibility of a product for preferential treatment within bilateral or regional trade agreements.

'Recently, our products were blocked at the border of Uzbekistan for 2 weeks. The boxes were inspected by Uzbek customers during 3 days which impacted the quality of the products.'

Kazakh producer of confectionery

Quantity control measures constitute the largest number of non-technical measures applied by partner countries. Majority of the reported cases refer to licenses combined with special authorization to imports of alcoholic beverages to the Russian Federation and Belarus.

Burdensome financial measures faced by Kazakh companies comprise of advance import security deposit and regulation on foreign exchange allocation applied by the Russian Federation and Uzbekistan respectively. Uzbekistan applied a very restrictive exchange rate policy as it required all foreign currency operations to be done via authorization of the Central Bank of Uzbekistan. Many interviewed companies complain that they were not able to convert and to repatriate sales revenue from Uzbekistan for several months.

Similar to the case of quantitative restrictions, the advanced import deposits applied by Russian authorities regulated exports of alcoholic beverages to the Russian market. The surveyed companies report that the required advance import deposit (a requirement put in place to ensure due payment of excise tax) is exaggerated as it exceeds their revenue from excise tax threefold.

Kazakh exporters also faced problems related to use of common trademarks which restrained the

Table 9.8. Export of agro-food products: burdensome NTMs applied by Kazakh authorities

Sub-sector description	Export to the world		Number of reported NTM cases				
	Export value in 2011, US $000	Share in sector's export value (per cent)	Certification required by the exporting country	Exports prohibitions	Licensing or permit to export	Other exports related measures	Sub-total
			PA2	PB1	PB3	PZ0	
Fish, dried, salted or in brine; smoked fish; flours, meals and pellets of fish, fit for human consumption	3 203	0.2	1				1
Wheat and meslin, unfilled	609 424	32	2		1		3
Meal and flour of wheat and flour of meslin	551 210	29	2				2
Vegetables, fresh or dried; Crude vegetable materials	31 248	2		4			4
Non-alcoholic beverages, n.e.s.	28 782	1				1	1
Feeding stuff for animals (not including unmilled cereals)	46 818	2	3				3
Other agricultural products	650 809	34					
Sub-total	**1 921 494**		**8**	**4**	**1**	**1**	**14**

Source: *ITC Survey on NTMs in Kazakhstan, 2012. ITC Trade Map.*

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export of confectionary to Russian market. After gaining independence, both Kazakh and Russian confectionary producers obtained the right to manufacture and sale products using retrospective trademarks of the USSR on their domestic markets. Nevertheless, there is no agreement regulating trades of such products between the countries.

The above non-technical measures applied by partner countries are problematic to the Kazakh exporters not because of the related POs but because they find the regulations too stringent to comply with, which is causing a serious barrier for exports of agri-food products.

While the certificate of origin is demanded by importing countries, it is issued domestically. The challenges tied to the rules of origin represent 7.5 per cent of the reported NTM cases and is relevant to 6 of the 12 export destinations. Almost all POs attributed to the rules of origin occur domestically (87.5 per cent). Obtaining the certificate of origin is perceived particularly difficult due to excessive number of documents required and time delays associated with preparation of the application package.

9.2.6 *Exporters' experiences with regulations in Kazakhstan*

Kazakhstan agricultural exports do not seem to be seriously restrained by NTMs applied by Kazakh authorities. Only two types of burdensome measures were reported by the surveyed companies: conformity assessment and quantity control measures. The reported burdensome conformity assessment measures consist of phytosanitary and veterinary certificates required to export raw agro-based products. The exporters experienced difficulties because of the delays in obtaining the certificate and having pay bribes to the officials (Table 9.9).

Two cases of quantity control measures refer to exports licensing and temporary export prohibition. Quantitative restrictions on export of key products essential for domestic consumption are frequently imposed by Kazakhstan to avoid shortages or increase in prices. The list of products subject to quantitative restrictions includes diverse agricultural commodities such as meat, milk, various grain crops, and flours of different grains, soya, oil seeds and vegetable oils (Decision No 168, of the CU Commission). Despite harmonisation of non-tariff regulations, each CU member can still apply quantity control measures unilaterally to regulate its exports with non-CU countries.

> 'The annual calibration of equipment costs 3,300 dollars. The equipments of the calibration labaratories are less precise than our own. Why then we need to do it?'
>
> *Kazakh pharmaceutical producer and exporter*

In 2010 Kazakhstan banned the export of oil seeds and buckwheat while the export of vegetable oil, buckwheat and oil seeds was banned in 2011. These actions were motivated by concern of possible shortage of these products in the domestic market. For instance, between 2010 and 2011, export of oilseed increased by 5 times while the export of oil increased twofold. This was accompanied by a significant increase in the price of these products in the domestic market. In contrast to oilseed and vegetable oils, the internal demand for buckwheat was covered by the country's reserve of buckwheat in 2011.[122] The survey reveals that the quantitative restrictions are sometimes imposed also on the products that have large surpluses at the domestic market.

In addition to temporary exports prohibition, Kazakhstan applies non-automatic licensing scheme to control wheat exports. Although this regulation was abandoned in the beginning of 2012, it was reflected in the survey because it covers part of 2011.

Overall, 5 out of 26 agri-food exporters were reported to be affected by quantity control measures imposed by Kazakhstan. The reported cases constitute 2 per cent of the total number of NTMs cases applied by Kazakhstan on agri-food exports.

[122] According to the Ministry of Agriculture, the stock of the buckwheat at the end of 2011 was about 30 thousand tons, while annual consumption of buckwheat barely reaches 11 thousand tons.

Table 9.9. Export of agricultural products: NTMs applied by Kazakhstan and reasons making them burdensome

NTM Chapter	Number of NTM cases		Procedural obstacle	Number of procedural obstacle cases		
	with PO	without PO		in home country	in partner country	Sub-total
Certification required by the exporting country (PA2)	8		Delay related to reported regulation	3	5	1
			Informal payment	2		
Exports prohibitions (PB1)	1	3	Delay related to reported regulation	1		
Licensing or permit to export (PB3)	1		Delay related to reported regulation	1		
Other exports related measures (PZ0)	1		Informal payment	1		
Total	11	3		8	5	1

Source: ITC Survey on NTMs in Kazakhstan, 2012.

The main PO associated with quantitative restrictions measures is time delay. According to the surveyed companies, the delay associated with obtaining licenses from the Ministry of Agriculture spans from 7 to 30 days.

9.2.7 Companies' experiences with regulations affecting imports

Among 17 surveyed importers of agri-food products 13 (76 per cent) faced impediments related to domestic NTMs. A total of 39 cases was reported which constitute 26 per cent of total bNTMs reported by agri-food companies. The burdensome NTMs applied by Kazakhstan along with affected products are reported in Table 9.10. Technical requirements (28 per cent), conformity assessment (62 per cent) and pre-shipment inspection (5 per cent) are the most cited burdensome NTMs applied Kazakh authorities on agro-food imports.

A large number of NTM cases are attributed to administration of new SPS and veterinary requirements. Companies complain that verification of accompanying documents at the CU border has become very cumbersome. Notably, shipments are often blocked at the CU border due to a lack of coordination between the agencies issuing import authorisation and border control posts.

According to the companies, both paper and electronic versions of import veterinary certificates must be sent to all customs posts along the route, including transit. Companies complain that presence of paper copy of the mentioned certificate does not guarantee that a shipment will not be sent back to a manufacturer due to the absence of an electronic copy of the document in the customs databases (which they cannot control as it is entered in the database by the competent authorities).

The burdensome conformity assessments refer to two measures: a state product registration requirement (62 per cent) and product certification (38 per cent). The first measure entered into force in the beginning of 2012 in the CU countries. Alcoholic and non-alcoholic beverages, agri-food products that were produced using genetically modified (transgenic) organisms and special biologically active additives are among the products subject to mandatory product registration requirement.

Product certification requirement covers a broad group of products, and exists at both CU (supranational) level and national levels. Both Kazakhstan and CU have a list of products which require mandatory certification. These two lists include a

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Table 9.10. Import of agricultural products: burdensome NTMs applied by Kazakh authorities

Product Description	Import value in 2011, US $000	Share (per cent)	Technical requirements	Conformity assessment	Pre-shipment inspection and other entry formalities	Quantity control measures	Price control measures	Total
			A	B	C	E	G	
Other meat and edible meat offal, fresh, chilled or frozen	212 973	5				1		1
Milk, butter, cheese and other dairy products; eggs and eggs products	347 560	8	3					2
Vegetables, fresh or dried; Crude vegetable materials	277 667	6	8	7	2			9
Confectionery and other food preparations	662 921	16		6			1	7
Fruit juices	47 459	1		1				1
Alcoholic beverages	177 624	4		2				2
Essential oils, perfume and flavour materials	35 629	0		7				7
Other agricultural products	2 283 028	56						
Sub-total	4 044 861	100	11	24	2	1	1	39
Total			**CHN(1), MYS (4), TUR (4), UKR(2)**	**EU (22), MYS (2)**	**CHN(2)**	**USA(1)**	**EU(1)**	

Source: *ITC Survey on NTMs in Kazakhstan, 2012; ITC Trade Map.*

** Value of total import of agricultural products in 2010 is US$ 321,009,000.*

large set of products and are not harmonized between domestic and CU level.

Products subject to the mandatory conformity assessment of the CU benefit from the single conformity certificate which is valid for all territory of the CU. The mandatory conformity assessment of products not included in the single list is done through the recognition of foreign certificates in the presence of an agreement between the importing country and Kazakhstan, or by certification of the products according to the national regulations of the Republic of Kazakhstan. Product certification is usually done upon the arrival of shipment. After customs clearance, importing companies must send an application for certification or for recognition of the foreign certificate to NACEKS or other private certification agency that is accredited to certification a given product.

The most common causes of difficulty related to conformity assessment procedures are large number of required documents (45 per cent), limited and inappropriate facilities for testing (32 per cent) and lack of recognition of the foreign certificate (23 per cent). Finally, few cases of burdensome reference pricing, post shipment inspection and quantity control measures were reported. The main procedural obstacles associated with these measures are informal payment and delays (Table 9.11).

Technical requirements primarily refer to the registration/authorization requirements related to food safety and regulation concerning storage and transportation conditions. In 2011, the CU members adopted a new regulation on sanitary and epidemiological supervision of goods and vehicles crossing the border of the Customs Union and moving across and in the territory of the

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Table 9.11. Import of agricultural products: NTMs applied and reasons making them burdensome

NTM Chapter	Number of NTM cases		Procedural obstacle	Number of procedural obstacle cases		
	with PO	without PO		in home country	in partner country	Sub-total
Technical requirements (A)	8	3	Arbitrary behaviour of officials with regards to the reported regulation	5	3	8
			Other procedural obstacles	4		4
Conformity assessment (B)	24		Large number of different documents	17		17
			Limited/inappropriate facilities for testing	10		10
			Other limited/inappropriate facilities, related to reported certificate/ regulation	2		2
			Other problems with international recognition, e.g. lack of recognition of national certificates	9		9
Pre-shipment inspection and other entry formalities (C)	2		Informal payment	2		2
Quantity control measures (E)	1		Delay related to reported regulation	1		1
			too short deadlines set for completion of requirements	1		1
Price control measures (G)	1		Informal payment	1		1
Total	36	3		52	3	55

Source: ITC Survey on NTMs in Kazakhstan, 2012.

CU (Customs Union Commission Decision 299 of 28 May 2010). Certain agro-based products (e.g. dairy products and vegetable oil) are subject of this regulation. To authorize a transit of these goods through the territory of the CU countries a veterinary certificate, issued by the veterinary control committee of the Ministry of Agriculture, is required and is entered into the common customs database of the CU. In addition, all organizations and individuals engaged in the production, processing, and storage of these products must be registered in the single register of suppliers in order to export their products in the CU countries. Due to this registration requirement many dairy product importers had to find new suppliers as former suppliers were not yet listed in the single register of third country suppliers.

The most common obstacles associated with the technical regulations are arbitrary behaviour of the officials with respect to regulations and time delays. Importing companies must ensure that the paper copies of the above mentioned authorization are sent to the customs office along whole itinerary of transit. One company reports that in spite of presence of paper copy of the mentioned veterinary certificate, the goods were sent back to the manufacturer because of the electronic version of the veterinary certificate was not in the database.

The NTM cases related to conformity assessments are related to product registration requirement (62 per cent) and a product certification (38 per cent). The first measure entered in force in the beginning of 2012 in the CU countries. Product registration is specific to the country of origin. Hence, if a company seeks to import a product which is already registered by a manufacturer from another country it needs to pass through a new process of registration. Any modification in the product and its package also require a new registration. Hence, a product registration could potentially limit the choice of the

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available products on the market as many small importers would focus on products already registered, in order to avoid a new registration process. The most common procedural obstacles associated with the product registration requirement are time delay and lack of technical capacities of accredited laboratories.

9.2.8 Analysis of important sub-sectors

Wheat

Wheat and dairy are sectors with export potential, and possibility for export diversification. Given the importance of these sub-sectors, they have a dedicated section in this report.

Domestic market of wheat is represented by small farmers, large vertically integrated holdings and trading companies. While large vertically integrated holdings export directly, small farmers rely on trading companies for channelling their products to external markets.

Both merchants and exporting producers are represented in the sample of interviewed companies. In order to get a deeper insight on the domestic wheat market, the additional interview was also

Box 4. Background information on wheat

The mass production of wheat began in 1954 with implementation of the government program on the agricultural land development in the territory of Kazakh Socialistic Republic of the USSR. Over the six year period 25.5 million of hectares of the land was developed which constituted about 61 per cent of the total arable land available for grain production in the territory of former USSR, making Kazakhstan the main supplier of wheat in the USSR.

After the collapse of the USSR, Kazakhstan remained a major player in the regional grain market. However, the remoteness of Kazakhstan from Europe as well as increasing competition from the Russian Federation and Ukraine substantially limited the export potential of Kazakh wheat in the European market.

Limited export opportunities of wheat in the west forced Kazakhstan to focus on serving the nearby markets of Central Asian countries such as Iran and Afghanistan. These days, almost half of Kazakhstan's wheat exports go to Uzbekistan and Tajikistan, where exports have been at an average annual rate of 13 per cent between 2001 and 2010.

In 2012, Kazakhstan exported more than 770 thousands tons of wheat to Iran. The volume of export to Iran is expected to increase with the decrease of transport costs which are expected to go down by more than 300 per cent (from US$135 to US$41 per ton) with a completion of a railroad from Kazakhstan to Iran through Turkmenistan. This "new corridor" will also allow Kazakhstan to access Turkish market and the Persian Gulf region.

Another promising market for Kazakhstan wheat producers is China. According to the Department of Agriculture ofte United States, in the last five years, the annual consumption of grain in the country was between 105 and 122 million tons per year. In 2012, Kazakhstan traders exported about 167 thousands tons of wheat to China; this volume is expected to increase to 500 thousands tons with completion of the project "Zhetygen-Korgas", a new 293 km long railroad connecting Kazakhstan with China.

Between 1998 and 2009 Kazakhstan increased the capacity of mill plants, allowing Kazakhstan to start exporting flour. Over the last decade the export of flour has increased by more than 9 times. During the same time, Kazakhstan diversified grain production by increasing production of alternative grain products such as barley, durum and wheat. In addition, to support the government's plan of rebuilding the livestock industry, Kazakhstan plans to increase the production of fodder.

From early 2000, the government made substantial investment in the agricultural sector, in particular, the grain sector as a major export sector of the economy. The government supports the grain sector in the form of subsidized loans, various export promotion programs and subsidies for railroad tariffs.

Volatile prices and high dependence of the yield of grain crops on weather conditions were main reasons behind creation of the state owned enterprise "Prodcorporation", whose initial goal was to guarantee the country's food security and to stabilize the prices of grain on the domestic market. Over time, the role of "Prodcorporation" evolved and now it has becomes the main grain operator in Kazakhstan. In addition to storage and renewal of the government stock of wheat, it is engaged in production, domestic sale and exporting activities. The role and the involvement of "Prodcorporation" in the grain market increased with a "Law on Wheat" (2010) which requires famers with the area of arable land of more than 500 hectares to sell 20 per cent of the crop to "Prodcorporation".

Source: Pommeret, R. Rebuilding of Kazakhstan's Agriculture, Central Asia Caucasus Analyst, 7 February 2007

The Program of Accelerated Industrial Development for 2010-2014.

Oshakbaev, R. Economics of grain export in Kazakhstan: Analysis and perspectives of wheat export.The Regional Office for Europe and Central Asia of the Food and Agriculture.

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conducted with a representative of "Prodcorporation".

The major NTMs faced by wheat exporters domestically are phytosanitary certificates and exports authorization/exports licenses. Time delay is the main procedural obstacle associated with these measures. The companies report significant delay in obtaining phytosanitary certificate from the regional sanitary epidemiological stations. In particular, the delay associated with obtaining phytosanitary certificate can amount to 10 days. As for authorizations/exports licenses from the Ministry of Agriculture, the reported delay varies from 10 to 30 days. Kazakhstan abandoned exports licenses in the beginning of 2012, which significantly decreases the administrative burden for wheat exporters.

The main NTM challenged wheat traders in transit countries is transit authorization from the government authorities of transit countries. The exporters complained about lack of transparency and discriminatory nature of access to railroad infrastructure in transit countries. The delays are particularly severe in Uzbekistan and Turkmenistan that can last more than two weeks.

In case of regulations applied by partner countries, only two cases of burdensome NTM are reported by wheat traders. One of the cases is related to rules of origin. According to the surveyed wheat exporter the documentary requirements for wheat exports was changed recently and now an exporter must provide a new certificate of origin for each shipment of wheat. The company was not aware about this change until its shipments were blocked at the border. The other burdensome case was provoked by post shipment inspection of the goods effectuated at the Uzbek customs. The surveyed company reported lack of transparency and arbitrary behaviour of customs officials associated with post shipment inspection.

All surveyed wheat traders agree that high costs of transportation and delays are main impediments for wheat exports.

Dairy and meat products

According to the Ministry of Agriculture, there are 258 meat processing enterprises currently in operation with a total capacity of 296,000 tons per year. The meat processing industry can be divided into two groups of companies depending on the level of processing. The first group consists of primary slaughter facilities generally characterized by obsolete equipment incompatible with international veterinary and hygiene standards. The second group of companies is represented by small and medium scale sausage and fresh meat factories, as well as, big factories supplying packed fresh meat and sausage to retail shops. They are market oriented enterprises with growing turnover and improved technology.

In the dairy industry, 195 companies are currently operating out of which 46 are medium or large size enterprises. These companies have a cumulative annual production capacity of 1.2 million tons of milk, 294.4 thousand tons of cream and 11 thousand tons of cheese. Nevertheless, according the milk producers' association (called "Milk Union") the industry capacity utilisation barely reaches 30 per cent due to high costs of production as well as increasing competition from the Russian Federation, Belarus and Ukraine. Because of high seasonality of raw milk, processing companies rely heavily on powdered milk in production of dairy products.

'Due to delay in allocation of quota on chicken meat, we have to utilize annual quantity of quota in six months. Otherwise next year our quota will be reduced.'

An importer of chicken meat

The following discussion is based on face-to-face interviews with three dairy producers, two fishery and poultry traders and interviews with specialists from the milk and the meat unions. While majority of burdensome NTMs affecting trade in dairy products encountered in the Russian market, many of them are enforced at the CU level. NTMs faced by dairy companies include technical requirements (69 per cent), conformity assessment (23 per cent) and inspection (8 per cent). About 30 per cent of the reported burdensome technical requirement refers to a new technical regulation on dairy products, another 44 per cent refer to the CU register of third country suppliers and

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Box 5. Background information on dairy and meat products

Livestock was a key economic activity of the Kazakh people for centuries. During the soviet era, Kazakhstan became the main producer of meat and wool. The livestock industry was run by large collectively and state owned farms which specialized in industrial production of meat, milk and wool. In early 1990s, the number of livestock constituted 9 million heads of cattle and 36 million heads of sheep.

The radical transition of Kazakhstan economy from a command to a market economy had a negative impact on the livestock sector. Reduction of government support and disruption of economic ties led many large collectively and state owned farms to bankruptcy. Privatization of these farms resulted in creation of myriads of small privately owned entities. While organization of vertically integrated grain holdings allowed the grain sector to remain profitable and continue industrial production geographically dispersed, small private farms in the livestock industry were not able to ensure industrial processing of meat and dairy products.

Over the period 1990-2000, production of meat dropped by 58 per cent; milk by 31 per cent, and wool by 78 per cent. Since 2000, the livestock sector has started to slowly recover. Between 2000 and 2009, the number of cattle increased from 4 to 6 million and the number of sheep rose from 10 to 18 million. Nevertheless, the level of processing of dairy and meat products remains very low. In 2010, the level of industrial processing for meat and milk was 15 per cent and 7.8 per cent respectively, while in 1990 these numbers were 71 per cent and 61 per cent.

The main reasons for low level of processing are a lack of infrastructure and economies of scale (in case of small holders). Outdated technology of feeding and low level of mechanization in animal husbandry and, more importantly, shortage of animal forage resulted in low productivity and high seasonality effect in the production of meat and milk. High geographic dispersion of private farms complicates the process of procurement and traceability of the products and increases the cost of processing. As a result, domestic food market is highly dependent on imports, with particularly high proportion of imports in the dairy industry.

In the last few years, the state has strengthened the support to the livestock sector by subsidizing the purchase of pedigree cattle abroad and production of high-quality feeds, but existing compensation scheme favour primarily large players with little or no benefits for small farms. Many specialists say that this program will give the desired effect only if sufficient efforts will be given for restoring pasture and forage field as together with ensuring proper veterinary control in the small farms.

Source: *RFCA rating, Analysis of Livestock industry.*

Figure 9.16. Evolution of trade in meat and dairy products

Source: *ITC calculations based on Trade Map data.*

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22 per cent refer to transit authorization requirement. The burdensome conformity assessment cases include product registration and mandatory certification in almost equal proportion. Specific NTMs that regulate trade of dairy products will be discussed in the following section.

NTMs related to common SPS requirements

Common register of the CU producers and third countries' suppliers

According to new veterinary and sanitary requirement of the CU, all dairy producers who want to export their products to the CU must be registered in to the common register of suppliers. To be registered, production facilities of the enterprises must be inspected and certified. The accreditation of the production facilities is done for each product. For instance, one of the surveyed companies reported that it still needs to submit new application for inspection of its production facilities to produce cheese, even though it is already in the register of the CU producers as a producer of yoghourt.[123] According to the interviewed companies, in an ideal situation, the procedure takes about half of the year: 4 months to get expert opinion on production facilities process and 2 months for analysis of documents. However, in reality it takes more time, since the planning of physical inspection is done one year in advance.

From the importing side, the surveyed companies complain that they had to urgently replace their long term suppliers because the latter were not registered in the CU register of dairy producers.[124] Disruption of long established business connections negatively affected domestic producers as they had to find new suppliers from the list of registered suppliers. The interviewed importers of dairy products think that the common register of the third country suppliers unnecessary restricts their choice of business partners. It does not allow them to test, find and switch easily to new suppliers which will be detrimental for their competitiveness in the long run.

The register of third country suppliers substantially limits the choice of suppliers and increases the costs of importing for domestic producers. Introduction of the CU register of producers creates an additional barrier to export to the Russian market for domestic producers.

A new technical standard on milk and dairy products

Product registration

Similarly, many dairy producers that import various ingredients for their production (ferments) from abroad had to apply for a certificate of state registration for these products. The dairy producers complain about time delays and large number of documents associated with the state product registration. The pile of the documents required for government registration could easily reach 300 pages (technical documentations, declaration from producers, laboratory analysis), must be translated in Russian and submitted in 2 copies to the agencies accredited for state product registration. Companies must pay about US$300 for laboratory analysis and wait about one month (officially declared time) to register the product in the Ministry of Health in Astana. Many small producers prefer to choose products which are already registered in order to avoid the costs of registration (see Box 6).

Conformity certificate

As already mentioned, mandatory conformity assessment exists at the national and supranational level. They overlap but the requirements are not the same.

Companies serving the Russian market can provide either the conformity certificate of the Russian Federation or the CU conformity certificate for products that are covered by both national and

[123] The discussion with the veterinary control specialists from the Ministry of Agriculture revealed that this information is not quite right. The attestation of physical facilities of enterprises is done by broad product categories, thus, the company that produces yoghurt does not need to apply for another to produce another dairy product.

[124] The problem arose because Kazakhstan never had such a register while the Russian Federation and Belarus had the common register of the third country producers before formation of the CU. The initial register was formed from the established business partners of Russian and Belarusian companies.

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Box 6. Milk wars

Harmonization of technical regulations with the CU partners can be very challenging for food processing companies of Kazakhstan. The national and enterprise standards may not necessarily meet new technical requirements imposed at the CU level. Moving from the national and enterprises standards which were adapted to the local conditions to new ones may negatively impact competitiveness of domestic enterprises already suffering from high production costs. At the same time, consumer interests need to be taken into account. Thus, it is challenging to find the right balance between the interests of domestic producers, domestic consumers and competing industries from the CU.

Some interviewed companies and stakeholders expressed concerns about new technical regulation on milk and dairy products. While the sanitary norms of technical regulation receive unanimous support from all parties, requirements on labelling provoked a lot of criticism from domestic dairy producers. The new technical regulation on milk requires labelling of liquid milk reconstituted from powdered milk as "milk drink". On the one hand, consumers will benefit as they will be able to distinguish raw milk from reconstituted milk. On the other hand, due to structural problems in the livestock industry, more than 50 per cent of the liquid milk processed in Kazakhstan use concentrated milk during the production. High seasonality of raw milk production forces domestic producers rely heavily on powdered milk in the winter season.

If new regulation enters into force, domestic producers have to either suspend production in the winter season or label their milk production as a "milk drink" which, according to them, will induce consumers to switch to the imported homogenised milk from Belarus and the Russian Federation. Domestic dairy producers raise a concern that this regulation will destroy domestic dairy industry and have long lasting negative impact on development of livestock industry.

The Russian counterparts, on the contrary, believe that the absence of such labelling would mislead consumers about the quality of purchased products. They believe that the introduction of the new technical regulation will lead to consolidation of the dairy industry of Kazakhstan which will increase productivity and competitiveness of domestic companies. Curiously, the regulation under consideration does not subject other dairy products such as yogurt, sour cream, cottage cheese to a similar labelling requirement.

Source: *Details on the technical regulation under consideration is from the information portal ZAKON.KZ, 12/09/2012 (http://www.zakon.kz/4512961-po-proektu-tekhreglamenta-ts-na-moloko.html)*

the CU mandatory assessment requirement. Given that the price of the national conformity certificate of the Russian Federation is cheaper than the CU conformity certificate, many surveyed companies apply for the national conformity certificate of the Russian Federation. [125] In addition, they perceive that it is easier to get the CU conformity certificate on the basis of already having the Russian national conformity certificate.

In terms of format of the CU conformity certificate, according to the surveyed companies, the CU conformity certificate is done at more disaggregated product level than the Kazakh national conformity certificate which implies more paperwork for the certification agencies and higher costs for producers.[126]

From the importing side, the companies complain that conformity assessment procedure (both according to the national legislation and the CU) became more complicated with formation of the CU. While, importing companies could apply for certification of imported products after customs clearance before, the conformity certificate now is included in the list of required documents for customs clearance, hence, requiring the certification before arrival of shipments.

Veterinary certificates

The surveyed companies report that the process of administration of transit of imported goods through territory of the Russian Federation and Belarus has become more complicated after implementation of the common veterinary requirements.

While only a few documents were requested for transit of imported goods through Russian territory before, now the number of requested documents has significantly increased as part of border control process takes place at the external border of the CU. Also, since companies cannot find the official information on what constitutes the mandatory documentary requirements for transit,

[125] Surveyed dairy companies do not export to Belarus.

[126] For instance, the interviewed company says that the Kazakh national conformity certificate is issued for a product category (at HS4 level which is more aggregated than HS6 level) while the CU conformity certificate is at HS6 product group level.

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companies must be prepared to provide additional documentation to ensure that their shipments safely pass through all customs posts along the transit route. Many surveyed companies confess that they prefer to send whole package of documents necessary for domestic clearance to ensure that their shipment is not blocked in the Russian Federation or Belarus.

Also, transmission of authorisation documents between the customs posts and the veterinary authorities of the CU is largely criticised by the interviewed companies. According to the companies, the domestic import veterinary certificate often arrives with the significant time delay to the CU posts resulting in the shipment being blocked at the border.

NTMs applied by the Russian Federation at the national level (non-CU)

Labelling

A number of surveyed exporters complain that the authorities in the Russian Federation apply the labelling requirement discriminatively, by enforcing it for exporting companies but not for domestic producers. The companies exporting their products to Russian market complain about unfair labelling requirements imposed by the Russian authorities. For example, one large exporter of butter and sauce was required to change the labels on their products while the labels of many Russian producers barely satisfy the requirements on labelling. Modification of packaging and labels is

Box 7. Export of meat: myth or reality?

The formation of the CU with the Russian federation and Belarus was seen by Kazakh policy makers as a chance to re-establish Kazakhstan's lost position as a main supplier of beef meat to these markets. Since independence the meat exports of Kazakhstan to these markets has decreased significantly. For instance, over period 2000-2009 the meat exports to the Russian Federation has dropped by 55 times.

The adaptation of the tariff quota (for outside exporters) by the CU countries may help Kazakh meat producers to regain their share in the Russian meat market. Nevertheless, the current tariff quota adapted by the Russian Federation is not restrictive. Moreover, the plan of Kazakh government to reach the exports level of 1990 (60 thousand tons) in 2016 is considered by many industry players as unrealistic. This is because of low level of industrial production and low quality control which likely would not meet Russian safety standards.

According to experts, the Russian Federation sets high safety standards for meat products which include monitoring of residues. For example, in 2009, the Russian Federation banned products from Argentina, Brazil, Lithuania and Germany due to detection of harmful substances. Moreover, while the Russian meat demand is big it is now entirely satisfied by locally produced meat and by cheap and high quality frozen meat imported from Australia and Canada.

Many experts believe that the government's target cannot be achieved in the short run given that the current cattle population in Kazakhstan is 12 times smaller than it was in 1990 and that the majority of livestocks is owned by small farmers.

In order to achieve the government plan, small scale production of meat must be replaced by large scale industrial production which implies a creation of a network of large interconnected enterprises of fodder producers, feedlots, breeding farms (pedigree farms) and farms.

Experts estimate that Kazakhstan needs 30 feedlots which can accommodate between 150 to 300 thousand cattle annually. At the moment only 6 feedlots exist which were created mostly through private funding. Low productivity of the domestic livestock calls for improvement of its genetic pool. According to experts, about 72 thousand heads of the best pedigree cattle must be brought in Kazakhstan in the next five years to implement ambitious plan of the government.

Over the period of 1991-2009, the amount of land used for production of fodder decreased from 11 million hectares to 2.5 million hectares. In order to achieve the target level of exports, Kazakhstan must increase production of fodder by 400 per cent in the next three years.

Finally, significant capital investment is needed to renovate the existing production facilities of meat processing enterprises. According to industry experts about 80 per cent of the existing meat slaughter units are characterized by obsolete equipment which is incompatible with international veterinary and hygiene standards. It is clear that small farmers that own 80 per cent of the all livestock in Kazakhstan and existing meat processing facilities could not implement this ambitious export development plan without intensive support from government.

Source: *RFCA rating, Analysis of Livestock industry.*

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important to ensure consumer safety and is often required by domestic authorities. However, excessive and discretionary application of such a regulation makes it a tool for unfair competition against foreign companies.

Certification

In order to export dairy products to the Russian Federation, companies need to obtain for the certificate of conformity of the Russian Federation or the CU conformity certificate. While Kazakhstan has certification agencies and laboratories accredited by the CU, many dairy exporters apply for certification of their products in the Russian Federation in order to avoid various bureaucratic obstacles which they encountered in the past when obtaining the domestic certificates. [127] In fact there is no mutual recognition of the domestic certificates within the CU, and the list of products subject to mandatory conformity assessment of the CU which receive the single CU conformity certificate does not include all products. One of the surveyed companies reported that to certify its products it sent the samples to the Russian Institute of Nutrition. As the samples cannot be sent by post or by airplane, the company had to rent a special truck with refrigerator to transport samples to Moscow. After the analysis had been completed, it took 4 months to obtain certificates for its products. The costs incurred by the company for the entire process, including preparation of the application package and transport costs, amounted to US$5000.

Monopolistic measures

Many companies report various administrative and financial barriers that they encountered trying to enter the Russian market. For example, Russian authorities demand a launch of a national wide advertisement campaign which requires significant upfront payment in order to put the products on the shelves of Russian supermarkets.

[127] It is not clear if the laboratories and certification agencies which are accredited to do the state product registration of the CU can produce the analysis and certification according to Russian national technical requirement and that their certificates and analysis will be accepted by Russian authorities.

In addition many companies complain that each federal district of the Russian Federation may stipulate specific requirements that companies can know in advance. The surveyed companies denounce general reluctance of Russian authorities to open Russian market to Kazakh producers of dairy and meat products.

Beverages Industry

The analysis of the NTMs faced by the beverage industry is based upon the 11 face-to-face interviews with beverages companies and one in-depth interview with the Union of Wine Producers. In total, 6 soft drink producers, 3 domestic producers of wine and brandy, 1 producer of vodka and 1 importer of luxury wine brand from Europe were interviewed.

'The estimated time to enter into alcoholic market is 9 months, this is the time required for registration and other formalities.'

An importer of wines

All surveyed companies face challenges associated with NTMs. Majority of the reported cases are related to rules of origin (33 per cent), technical requirement (17 per cent), and financial measures (25 per cent). The remaining problems are related to para-tariff measures, conformity assessment and distributional restriction.

Among 44 NTM cases reported by beverage companies, 38 cases were experienced by exporters. The reported NTM problems are product specific and are encountered in specific market. Due to the current socio-economic condition, Kazakhstan exports alcoholic and soft beverages to the Russian Federation and only soft drinks to Central Asian countries, resulting in a clear geographic pattern.

Export of alcoholic drinks to the Russian Federation

Quantitative restrictions and financial measures

The major part of the problem experienced by the alcoholic producers is related to the financial and quantity control measures introduced by the

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Box 8. Background Information on beverage industry

The beverage industry is a growing segment of the food processing sector of Kazakhstan, accounting for 17 per cent of its total output. The reform of 1990s and the structural problems persisted afterward in agricultural sector had a negative impact on the beverage industry. Nevertheless, the negative shock did not last long. Already by the end of the 1990s, production of beverages showed an upward trend. This trend is supported by the increasing local demand for soft drinks, new investment and consolidation of domestic manufacturers that expanded their product ranges and increased the production capacities.

The beverage industry in Kazakhstan mostly serves the domestic market. About 99 per cent of vodka, 99.7 per cent of the wine, beer 99.4 per cent, 96.3 per cent of mineral water and soft drinks are consumed locally in 2010. Over the last 5 years the beverage industry grew at 3.3 per cent annually, nevertheless this number hides a large heterogeneity of growth rates of its sub sectors. While the volume of production of soft drinks and beer increased by 1.2 times and 1.4 times over the period, the volume of production of brandy and wine deceased by 1.6 times and 2.4 times respectively.

This is due to increasing competition from abroad in the segment of strong alcoholic drinks, lack of domestically produced inputs and increasing costs of the imported intermediate inputs in the wine segment. In addition, the domestic tax policy put the domestic producers of alcohol in disadvantageous position with respect to the importers.

According to the Kazakhstan Association of Alcoholic Drink Producers and Distributors ("KAZALCO"), Kazakhstan does not have a mechanism to regulate and restrict the activities of importers. Moreover, due to the current domestic tax policy domestic producers of alcoholic drinks find themselves in much worse position than importers. For example, a licence for production of the alcoholic drinks in Kazakhstan costs about 865500 KZT (US$5740), while one time import licence costs 12000 KZT (US$80). It is worthwile to notice that one time import license does not have restriction on the quantity of the imported products and is valid for one year.

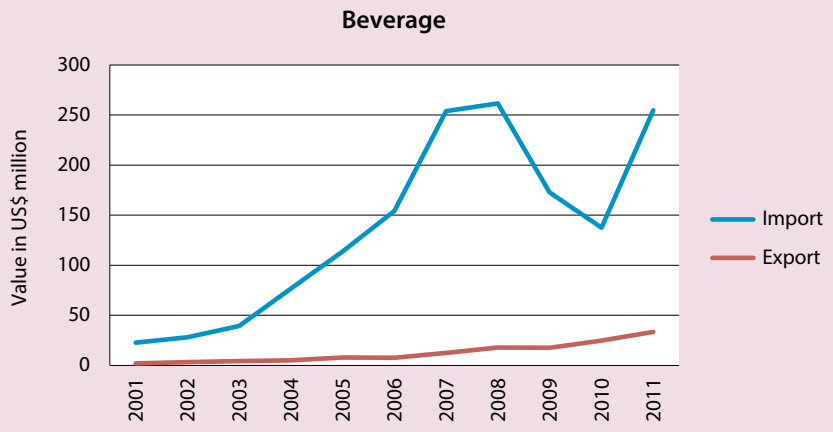
Kazakh legislation bans advertisement of alcoholic drinks. But Russian and Ukrainian manufacturers of vodka circumvent Kazakh law by using Russian cable TV swarmed with commercials. A recent study of restaurants and hotels reveals that 79 per cent of hotel guests and 78 per cent of visitors of restaurants prefer Russian vodka. According to KAZALCO, this is a result of successful advertisement campaigns that forms the image of the Russian and Ukrainian vodka as a premium product in the mind of Kazakh consumers.

According to the Union of Wine Producers the main problem of wine industry are lack of domestic inputs and increasing costs of the imported combined with a heavy tax burden and increasing competition from abroad. Decreasing production and sales of the domestic wine is accompanied by a significant increase in imports. According of the Union of Wine Producers, in the last 5 years, wine imports increased by 1.7 times. As a result, the share of imported wine in domestic consumption increased from 15 per cent in 2006 to 41 per cent in 2010.

The increase in the quantity of imported wine is partially explained by the increasing demand for "high quality" wine. For instance, over the period of 2006-2010 the import of wine from European countries and the USA increased by 2.5 while the price of the wine imported from these markets in general 2 or 3 more times expensive than the wines produced domestically or imported from Georgia and Moldova. The increase in the quantity of imported wines takes place also in medium price segment, where low and medium price products from Moldova and Georgia compete tightly with the domestic ones. According to the Union of Wine Producers, unregulated imports of alcoholic drinks, increased tax burden and production costs will put domestic wine industry at the edge of extinction without adequate actions from the part of government. In the last 5 years, the exports of soft beverages increased by 3.8 times in comparison with 2006. The major destination markets for the beverages are Kyrgyzstan (58 per cent), Azerbaijan (20 per cent) and Turkmenistan (15 per cent).

Source: *The news.kz. Beverage market, 8 July, 2011 (accessed on March 6, 2013 at http://thenews.kz/2011/07/08/863171.html)*

Figure 9.17. Evolution of trade in beverages



Source: *ITC calculations based on Trade Map data.*

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Russian Federation (83 per cent). Russian alcohol market is tightly regulated and inaccessible for small companies. For example, the excise duty imposed by the Russian Federation is about US$5.33 per unit of pure alcohol, while two month import license costs about US$ 6,000. Moreover, import licenses are granted to companies with a charter capital of at least US$ 300,000. Finally, companies must open a security deposit covering three times the excise tax revenue from delivered goods. This disproportionally high upfront investment prevents majority of Kazakh beverages producers to enter Russian market.

'The Advance import deposit exceeds by 2 times the value of shipment. What risk Russia wants to reduce by requiring a security deposit from Kazakh producers, nobody can answer...'

Kazakh producer of alcohol beverage

State Product Registration

Alcoholic beverages are subject to state product registration by the Russian Federation. In order to export to the Russian Federation, producers must get certificates of state product registration for their products, for which producers must provide technical documentations and laboratories analysis to the regional subdivisions of the Committee. The expected time required for obtaining the certificate of the product registration is 3 months. [128]

Conformity certificate

While both alcoholic and non-alcoholic drinks are subject to mandatory conformity assessment in Kazakhstan and the Russian Federation, the national conformity certificate of Kazakhstan is not recognized by the Russian Federation. In fact, these products are not included in the list of the products subject to mandatory conformity assessment in the CU. Hence, domestic producers are required to pass through an additional certification process in the Russian Federation.

[128] For further information please refer to the Box 1 of this chapter. Additional discussion can be also found in the chapter 4 of the first volume of this study.

VAT

Despite the formal agreement that rates of indirect taxes in mutual trade should not exceed the rate levied on domestic products, the VAT levied on juice for infants imported from Kazakhstan is 8 per cent higher than VAT for similar products produced in the Russian Federation. In the Russian Federation, the products designated for children are taxed at 10 per cent while the rest at 18 per cent. This has increases the price of the juice from Kazakhstan for the final consumers. The Russian authorities used two different product classification systems for tax purpose: internal classification for domestic products and HS classification for imported products. Despite active support and involvement of Kaznex Invest, Russian authorities have been constantly postponing the revision of the current procedure.

Export of non-alcoholic beverages to CA countries

Rule of origin

The producers of nectars face problems associated with rules of origin. The level of processing for nectars is judged insufficient by regional chambers of commerce which restrain the exports of nectars to Central Asian CIS countries (CA CIS). According to the surveyed companies, the market of nectars is growing and, due to the geographic position of Kazakhstan, Kazakh producers have relatively lower costs of transportation. Still, the companies were not able to obtain tariff preferences due to the absence of certificate of origin and were compelled to stop exporting nectars to these markets.

SPS requirements

Two cases associated with technical measures are required by partner countries, but perceived to be burdensome due to the transportation conditions of the products and take place in Kazakhstan. The wood pallets that are used for transportation must be fumigated. The companies report a delay of two weeks due to fumigations requirement.

Another issue is related to the regulation on temporary import/ export items. According to the regulation, the serial number of pallets must be

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reflected in the customs declaration. The surveyed companies complain about the cumbersome and time consuming process of manual registration and tracking of pallets. Each shipment may include thousands of pallets.

Financial measures

The financial measures reported by the soft drink exporters are related to the tight exchange rate policy of Uzbekistan. As in the case of other exporters, the surveyed soft drink companies face difficulties with conversion of the sales revenues. Tight exchange control policy pursued by the government of Uzbekistan significantly limits the exports expansion of soft drinks in this country.

State monopoly

According to the surveyed companies, the market of alcoholic drinks in Belarus is currently closed for Kazakh producers. The exclusive rights on imports of alcohol drinks are granted to limited number of state-owned and domestic enterprises. In 2012, only 29 companies obtained exclusive right to imports alcoholics drinks to Belarus.

9.2.9 Summary and policy options

Sector-wide issues and policy options

Agriculture is an important sector of Kazakhstan's economy, providing livelihood for 30 per cent of the population. Agricultural exports grew rapidly between 2000 and 2009, but slowed down in 2010. Kazakh agricultural exports are vulnerable to demand shocks, particularly due to a high product concentration (the share of wheat and flour that account together for 59 per cent of agricultural exports). Successful development of agricultural production and exports represent an opportunity for

Box 9. Will Kazakh companies ever export alcohol to Russia?

According to the Kaznex and the Association of Alcohol Producers and Distributors, "KAZALCO", Russian authorities prevents the imports of Kazakh alcohol, violating the commitments made by the members of the CU to promote free movement of goods and non-use of any trade restrictions. Kokshetauminvody is the only Kazakh exporter able to get a license to import alcoholic beverages in the Russian Federation. According to the Chairman of "Kokshetauminvody" Askar Aliyev, the process took about one year and half and was done with active involvement of Kazakhstan authorities.

"The Russian Federation keeps the market for its domestic players "- says Mr Aliyev.He adds, "Only the certification of our production facilities and storage premises in the Russian Federation took a year and cost a lot of money. Our licence application was rejected 3 times with very vague explanations such as "other reasons". In order to import to the Russian Federation, companies must have US$300,000 of charter capital, which is not affordable for individual producer."

According to Mr. Aliev, the required import deposit is another barrier to entry Russian market. The amount of the advance import deposit required is several times higher than the VAT and excise taxes revenue from the sales.

"In the absence of any of required documents, Russian authorities extended the official delay by additional 60 days. We have been waiting for excise stamps for 60 days already". Mr Aliev adds, "Everyone in the Russian authority creates additional reasons to refuse the license, and their reasons did not have anything in common with the current Russian legislation on alcohol production and sales. Russian authorities send a clear message that Russian alcohol market is reserved for domestic players only and that they find the way to prevent imports and avoid the CU rules."

"If you ask how many Kazakh companies (except "Kokshetauminvody") who applied for licenses actually got them, the answer is: nobody. The imports to Belarus are authorized to a few companies selected by the president, while Russian authorities apply their own tacit rules to prevent foreigners."

As for Kazakhstan it has a welcome-to-all regime. Kazakh authorities give licenses to all companies who are willing to serve Kazakh market without thinking of the danger they are representing for domestic producers. Kazakhstan abandoned all restrictions on quantity and quality of imported alcohol while Russian creates additional ones.

It is not surprising that Kazakhstan's alcohol exports to Russia, does not exceed 1 per cent of the national production while imports of Russian vodka to the Kazakh market reached 15-16 per cent of the domestic production of 8.9 million litters per year.

Source: *Kursiv KZ, author Svetlana Isaeva, 12 May 2011 (accessed on March 6, 2013 at http://www.zakon.kz/214597-rossija-prepjatstvuet-jeksportu.html)*

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diversification into non-oil sectors and contributes to domestic food security and domestic employment.

When asked about impediments to trade, 39.6 per cent of companies reported difficulties related to exports or imports. During in-depth interviews it became apparent that many problems go deeper then trade related issues, stemming from structural issues that seriously impair productive capacities of farms and agri-food manufacturers. These structural problems are a bigger concern for companies than trade regulation since they also affect their domestic operations and sales.

In the agricultural sector, 93 out of 108 interviewed companies are affected by burdensome NTMs and related procedural obstacles. The most frequently mentioned impediment to trade stems from technical measures (48.4 per cent of all reported cases). The second frequently mentioned type of NTMs is quantitative restrictions (15 per cent of all reported cases in agricultural exports), followed by financial measures, intellectual property and rules of origin.

Technical measures have two components: the technical requirement itself (e.g. maximum residue limits of pesticides), and conformity assessment (e.g. certification) to provide proof of the compliance with the underlying requirement. In the case of Kazakh agro-exporters, 44 per cent of reported cases of technical measures refer to conformity assessment which is lower than average of other countries surveyed by ITC (62.7 per cent). Majority of reported cases of burdensome technical requirements are encountered in Russian market or related to the CU technical requirement (15 out of 25 cases). According to the interviewed companies, the Russian Federation imposes overly stringent technical requirements which not only affect Kazakhstan's exports to the Russian Federation but put at risk the domestic sales which should also comply with the technical requirements of the CU.

A notable example is the technical regulation on milk currently being under consideration at the CU level, but already steering concerns among Kazakh dairy producers. They expect that if the technical regulation on milk enters into force, their business will be impaired because they have to use imported powdered milk (reconstituted milk) due to high seasonality and low quality of domestic raw milk. Nevertheless, the problem is not in the technology of production of milk per se, but in the inputs of production. In order to solve this problem, significant investment is needed for the development of a modern system of procurement from small farms to processing factories, including investment in in-house refrigerator facilities (cooling tanks) for small farms, modernization of truck fleet and acquisition of modern chilled tankers that could ensure timely collection of milk, as well as introduction of veterinary management and quality control system. The new regulation will provide transparency for consumers, but can impact the entire lifestock industry in Kazakhstan. An impact assessment needs to be undertaken before accepting the new technical standards on milk.

While compliance to technical standards was a main concern of dairy producers, other agri-food exporters were more concerned by the lack of recognition of domestic certificates in the Russian Federation. Despite the agreement on mutual recognition of accreditation of certification bodies and testing laboratories, many agri-food exporters still have to apply for certification of its products in the Russian Federation. Thus, more efforts must be put in promoting harmonization of conformity assessment procedures and increasing the scope of the products subject to the uniform certification requirement among the CU countries. The survey was undertaken in the midst of the transition period from the national to CU regulations, which can partly explain the problems reported by Kazakh companies exporting and importing within the CU market.

Other regional destinations appear relatively less restrictive in terms of technical regulations. At the same time the share of NTM cases related to rules of origin, financial and quantitative restriction measures is relatively high. While financial measures and quantitative restriction affect the companies exporting to specific destinations (the Russian Federation and Uzbekistan) independently of the exported product, the difficulties associated with rules of origin are product specific. Due to a lack of

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intermediate goods available in domestic markets, producing companies rely heavily on imported intermediate products this is a particularly true for beverage industry. Due to insufficient level of local content some of their products cannot receive tariff preference when exporting to CIS countries. The insufficient level of processing is a production rather than trade issue, which cannot be solved in the short run. The development of agricultural production would require government interventions for rehabilitation of fruits orchards and vegetables plantations, creation of storage facilities and processing factories.

At the domestic regulatory level, exporters reported challenges with domestically mandated exports licenses, temporary prohibition of exports and exports related conformity assessment. Oftentimes exports conformity assessment in addition to partner countries' requirements is redundant. This is particularly the case if exporters need to obtain technical certificates from the accredited private sector facilities to replace domestic certificates, which are not recognised outside of Kazakhstan.

The licensing scheme was applied in Kazakhstan to regulate wheat exports. This measure was abandoned in the beginning of 2012; nevertheless the survey captures a few cases associated with this regulation. The majority of surveyed companies complain about the time delay associated with obtaining exports licenses. Thus, the main obstacle lies in the delays to obtain the license, not in a quantitative restrictiveness of the licensing itself. The temporary exports restriction is used to avoid a possible deficit of the products in the domestic market in year of weak harvest and increasing demand for the products in neighbourhood markets. For example, in 2010, temporary exports prohibition on vegetable oils was applied due to significant increase in the exports of vegetable oils accompanied by the raising domestic prices. In contrast, the temporary ban introduced in 2011 for exports of buckwheat was unnecessary since the stock of the product was more than sufficient to cover the local demand for buckwheat. Therefore, the rationale for temporary exports prohibition on food products should be reassessed.

On importing side, the large share of the reported cases is attributed to NTMs applied within the CU framework. The majority of the complaints, in fact, refer not to NTMs per se but to the associated POs. For example, a lot of POs are generated with implementation of customs control and sanitary and epidemiological supervision of transit goods. While, these procedures were done mostly on the territory of Kazakhstan before, they now take place twice: at the external border of the CU (at the border of the Russian Federation or Belarus) and in Kazakhstan, which increases the time and the costs associated with importing goods. Companies complain that they spend too much time to ensure that all required documents are sent to the right customs posts in the Russian Federation and Belarus. Due to lack of coordination between the agencies (customs, the Veterinary control committee that issues authorization for transit) there are increasing numbers of the cases when goods were sent back to suppliers even though authorization to transit and all other required documents were obtained from the domestic agencies. Therefore, more efforts must be deployed to ensure proper coordination and information sharing between involved domestic and the CU partner agencies.

An introduction of a common register of third country suppliers generates many complaints from importers of dairy products. According to the surveyed companies the entry to the register is a time consuming process since it requires a physical inspection of the production facilities of enterprises. Thus, the register limits the choice of suppliers to those enterprises that already included to the register.

The NTM cases associate with conformity assessment relate to two regulatory requirements: the state product registration requirement and certification according to the national or the CU requirements. Kazakhstan does not recognize foreign certificate of conformity except for the conformity certificate of the Customs Union which covers limited number of products. Therefore, importing companies need to confirm foreign certificates at domestic certification agencies.

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The POs associated with recognition of foreign certificates are their costs and the time delay. More generally, the mandatory conformity assessment requirement covers almost all consumer and industrial products. The recognition of foreign certificate of conformity as well as decreasing the scope of the mandatory conformity assessment may significantly decrease the time and the costs of the regulations.

The state product registration requirement (certificate of government registration) was introduced in the beginning of the 2012 and covers a broad range of consumer and industrial products. The product registration is product, firm, and country specific. Any minor modification in the product design and packaging could call for a new registration. Majority of the affected companies complain about delays, a large number of required documents and inappropriate facilities of testing laboratories.

The time delay is due to the laboratory tests that inherently take some time and the fact that formal product registration is undertaken in centralized manner by the Committee for State Registration. Thus, after examination of the dossier, the regional agencies responsible for state registration send the complete files for registration to Astana. Therefore, significant time reduction can be achieved through creating an integrated database and delegation of the product registration to the regional agencies.

A large number of required documents are the most common procedural obstacles associated with domestic certification procedure independently whether they are related to conformity assessment or rule of origin. The number of required documents varies from 18 for certificate of origin to 11 for certificate of product registration (product registration requirement). The actual number of the submitted documents can be much higher for the state product registration (since it requires submission of technical standards used for production as well as various laboratory tests). Therefore, revision and retention of only essential documents can significantly facilitate the process and reduce the fixed costs of registration.

High costs incurred by private players due to introduction of new CU regulations can be avoided if the information was disseminated properly and timely among private players. More efforts should be made to explain the private sector in advance the purpose of newly introduce measures and the modality of their administration. [129]

Finally, the modernization and increasing capacity of testing laboratories may substantially decrease the costs associated with testing and facilitate the implementation of international standards in Kazakhstan.

9.3 Manufacturing

This chapter describes the NTMs and POs affecting the manufacturing sector. The results are based on 246 phone interviews and 47 subsequent in-depth face-to-face interviews with exporters and importers of manufacturing products experience barriers to trade. Additional interviews with experts from private sector associations were conducted to widen the scope of the analysis. Given a high dependency of Kazakhstan economy on imported intermediate goods, special attention is given to the analysis of difficulties faced by companies importing manufactured (intermediate) products. While there are many similarities in the types of NTMs and POs faced by different manufacturing companies, the severity of the impacts varies depending on the products and structure of the industry. Hence, pharmaceuticals, non-electric machinery and clothing, sectors important to employment and export diversification, are analysed in detail in separate subsections.

The chapter is organized as follows: the first section presents briefly the manufacturing sector in Kazakhstan. The second section highlights the main cross-cutting burdensome NTMs and POs

[129] During the stakeholder workshop, a representatives of the private sector admitted that companies are often unaware about new regulations and that government agencies often give ambiguous or incomplete information. Companies highlighted that it is important to have a single, up-to-the-date and easily accessible source of information about all documents necessary for exports and imports.

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faced by manufacturing exporters. The third section discusses the obstacles companies face when importing manufacturing products. Finally, the last section summarizes the results and outlines the policy options.

9.3.1 The role of the manufacturing sector

Background information

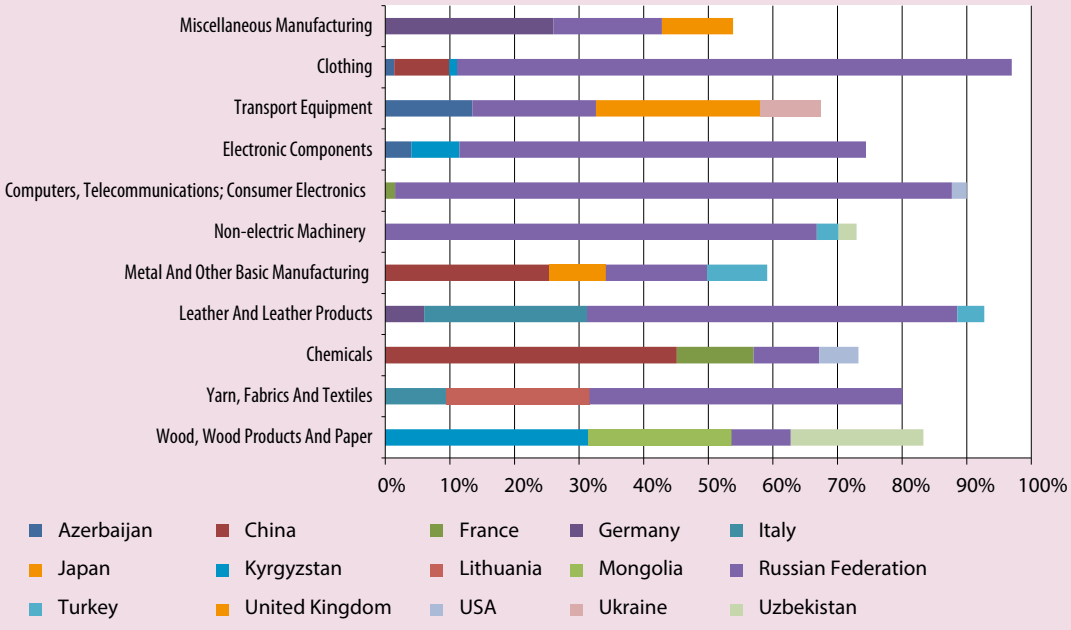
The manufacturing sector in Kazakhstan began its rapid development following a massive relocation of factories and workers from the western parts of the USSR during World War II. From a rural economy with underdeveloped industrial structure Kazakhstan soon became one of the largest industrial centres of the Soviet Union. By the end of the Soviet era, Kazakhstan was one of the most industrialized regions of the Soviet Union with strong development in ferrous and non-ferrous metals, petroleum, chemical and non-electric machinery. Along with the development of mineral intensive sectors, Kazakhstan promoted the development of agro-based industries such as textiles, knitwear, leather and fur as well as footwear and clothing, whose cumulative share in the country GDP was 25 per cent during the early nineties. [130]

Privatization in the manufacturing sector during the nineties led to a disruption of the economic ties between enterprises, leading to a drop in industrial outputs and in the number of enterprises. As macroeconomic stability was the main priority of the government at the time, the government focused on the development of sectors that could bring immediate economic benefits. This led to the oil and gas sector becoming the engine of the development of the Kazakh economy.

Between 1991 and 2000, the number of industrial enterprises decreased from nearly 20,000 to around 14,500. The production of major products, except oil products dropped significantly. For example the production of iron ore dropped by 83 per cent, coal by 55 per cent, steel by 69 per

[130] Sources on the background information on manufacturing: Saparbaev, B. (2007) Industrial development of Kazakhstan in the second half of the XX – beginning of the XXI centuries (in Russian); Sheretov, S. (2003) Modern History of Kazakhstan: 1985-2002 (in Russian).

Figure 9.18. Exports composition and destinations of manufactured goods, 2011



Source: *ITC calculations based on Trade Map data.*
Note: *Bars that do not reach 100 per cent indicate that products are traded with other partners.*

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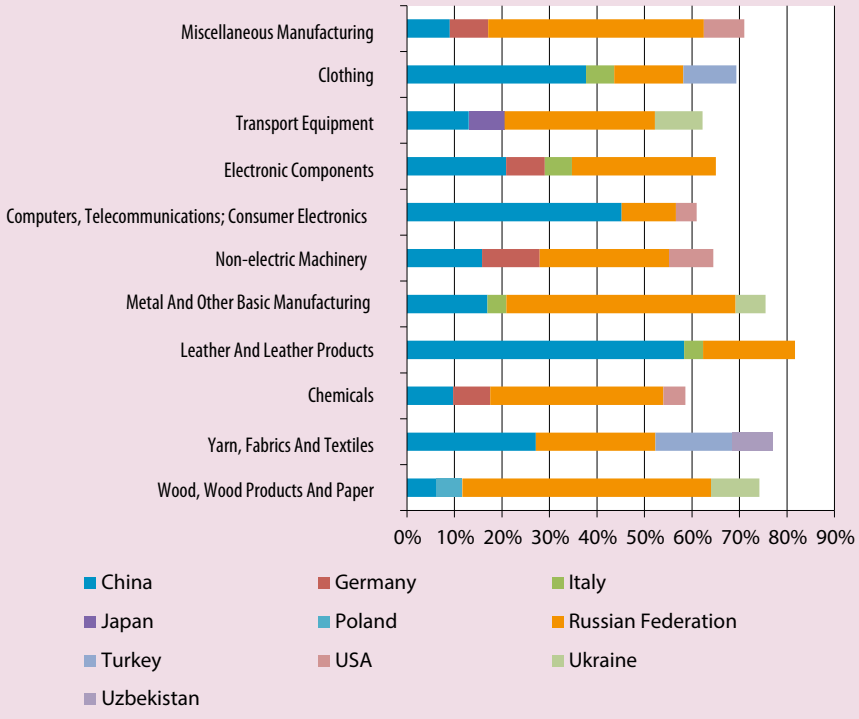
cent, fertilizers by 11 per cent, tractors by 95 per cent and textiles by 94 per cent.

While the successful development of the mineral extraction industries has allowed Kazakhstan to smooth the process of transition and avoid social and macroeconomic turmoil, the crowding out effect of extractive industries on the manufacturing sectors has become noticeable since 2000. In spite of favourable macroeconomic conditions, the number of manufacturing enterprises continued to decrease, with 11,252 enterprises by the end of 2010.

High-end technology-intensive manufacturing sub-sectors shrank the most. As a result, manufacturing, in aggregate, experienced a shift towards low-tech, energy-intensive and environmentally unfriendly industries. During the early 2000s, almost 96 per cent of the manufactured products was characterized by low technology products (construction, steel, shipbuilding, metal, light, woodworking, pulp and paper), and only 4 per cent by high technology products. The State Programme of Industrial and Innovation Development pursued by Kazakhstan since 2003 did not bring about the desired change toward high-technology production and exports.

Manufacturing exports of Kazakhstan consist mainly of metals, basic materials and chemicals. Metals and basic materials accounts for 75 per cent of the manufacturing exports with an annual growth of 18.7 per cent over the last decade. Chemical sector has been the fastest growing export sector with an annual average growth rate of 28 per cent since 2001 and accounting for 18 per cent of manufacturing exports in 2011. Non-electric machinery and transport represent 2 per cent and 1 per cent of the Kazakhstan's manufacturing exports. A large share of manufacturing exports is destined for two neighbouring countries: China and the Russian Federation, together accounting for 44 per cent of manufacturing exports. Other important destinations for manufacturing exports are Germany, Turkey and Japan, together account-

Figure 9.19. Import composition and origins of manufactured goods, 2011



Source: *ITC calculations based on Trade Map data.*
Note: *Bars that do not reach 100 per cent indicate that products are traded with other partners.*

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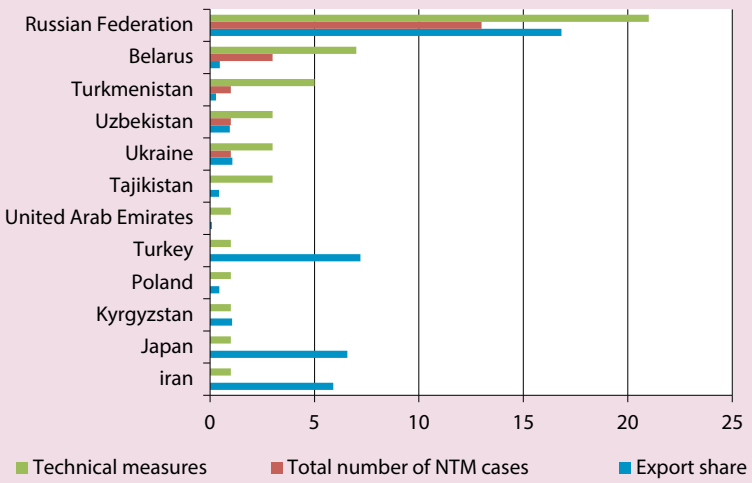
Figure 9.20. Shares of manufacturing exports and burdensome technical measures applied by main partners (per cent)



Sources: *ITC Survey on NTMs in Kazakhstan, 2012; ITC Trade Map*

Note: *The countries are sorted by the total number of NTM cases.*

ing for 21 per cent of the manufacturing exports in 2011 (Figure 9.18).

Imports of manufactured products are vital for the economy of Kazakhstan as it relies on imports for both consumption and production. For example, the domestic agricultural sector depends on crucial inputs such as fertilizers, other chemicals for crop protection, transport equipment and non-electrical machinery. Food processing sector imports modern production equipment and a wide range of food ingredients. Basic manufacturing, non-electric machinery and transportation rely heavily upon imported intermediate inputs. Finally, all business operations based on information and communication technology (i.e. computers, telecommunications equipment and consumer electronics) account for 13 per cent of Kazakhstan's manufacturing imports (Figure 9.19).

Regional trade is of high importance for a landlocked country like Kazakhstan because of relatively lower transport costs. The Russian Federation and China, two most industrialized countries in the region, supplies large quantities of manufactured products, particularly chemicals, transport equipment, machinery, and basic manufactured goods.

The Russian Federation and China supplied 35 per cent and 17 per cent of Kazakhstan's total manufacturing imports, respectively, in 2011. With the formation of the Customs Union and the imposition of common external tariffs, the share of the Russian imports in Kazakhstan's imports has risen. Average tariffs have increased from 6.2 per cent to 10.6 per cent putting a strong inflationary pressure on domestic prices. While, the rise in prices was mitigated by importing cheap products from China prior the formation of the CU, the new tariff structure has resulted in failure to stop significant increase in domestic prices. The costs of imported goods from China increased on average by 20 per cent which affected negatively small and medium enterprises that intensively source intermediate goods and equipment from China.

Due to high transportation costs, imports from the EU countries and the United States tend to be focused on high-value goods from the chemicals and machinery sectors. Similarly, imports from Japan comprise mainly of transport vehicles. The

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import of manufacturing goods amounted to US$ 28.7 billion compared to US$ 4.04 billion of agricultural imports in 2011.

9.3.2 Overall results

Out of the 185 the interviewed manufacturing companies, 27 per cent (50 companies) reported to be affected by burdensome NTMs. Subsequently, 41 companies participated in an in-depth face-to-face interview. Among these 41 companies, 7 were exporters, 9 importers and 15 companies were engaged in both activities. These companies reported a total of 126 cases of burdensome NTMs, 39 per cent of which were applied by partner countries and 58 per cent applied by Kazakhstan (to regulate its export and import). The remaining 3 per cent of the cases were applied by transit countries.

9.3.3 Companies' experiences with regulations affecting exports

Sixteen companies exporting manufactured products were interviewed face-to-face, capturing a total of 102 export flows by product and destination. The majority of the cases refer to the rules of origin (48 per cent), followed by product certification (23 per cent), domestically applied export regulations (12 per cent) and technical requirements (10 per cent).

'A common server is based in Astana and is very often out of service, preventing the customs brokers to send the declaration.'

Kazakh producer of soft beverage

The reported NTMs are product specific. Medical products seem to be more affected by technical regulations and conformity assessment procedures while other products are more affected by rules of origin and conformity assessment. The rules of origin affect almost all manufacturing products, reflecting both difficulties in obtaining a certificate of origin due to insufficient processing level and excessive paperwork associated with the issuance of the certificate. Similar to the case of the agricultural exporters, the major export destinations of the surveyed companies are the Russian Federation and Central Asian countries.

The CU related NTMs accounts for 47 per cent of the NTMs affecting exports. The most predominant NTMs after rules of origin are mandatory conformity assessment measures affecting equally exporters and importers of manufacturing products.

Almost all reported NTMs are accompanied by POs. The most common POs encountered by manufacturing exporters are limited and inappropriate facilities for testing, time delays, large number of required documents and arbitrary behaviour of officials with respect to the reported regulations.

Rules of Origin

'For each shipment we provide a 150 pages file, 18 different documents are required for certificate of origin…'
'Official delay to get the certificate of origin is 4 days, but in reality it takes around 10 days. There are too many documents that need to be provided….'

Kazakh exporter of clothes

The rules of origin are the major NTM encountered outside of the CU market and are also the most burdensome. This is due to two major reasons: the first relates to the domestic administration of the rules of origin which is associated with various procedural obstacles. The second refers to the structural problem of the manufacturing sector in Kazakhstan - insufficient level of domestic processing.

Given that domestic inputs account only for 20 per cent to 30 per cent of the total value of manufacturing products produced in Kazakhstan, many manufacturing companies face difficulties in obtaining a certificate of origin.

In the context of this survey, companies from non-electric machinery industries and furniture manufacture seem to be particularly affected. The products of these industries are characterized by high value imported components, exceeding the maximum threshold of 60 per cent to qualify for trade preferences. Due to the difficulties in obtaining a certificate of origin, Kazakh exporters cannot benefit from preferential tariff rates in the Central Asian CIS countries which negatively impact competitiveness of their products and seriously impede the trade expansion to these markets.

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In contrast, exporters of clothes are more concerned about domestic procedural obstacles related to the measure. In particular, they criticize the excessive documentary requirement associated with the certificate of origin and the requirement to provide a new certificate of origin for each shipment.

According to the surveyed companies, 18 different documents are needed to fill the application for a certificate of origin. The procedure takes between 5 to 10 working days after all required documents are submitted. Around the same time is needed to collect the required documents.

The necessity to obtain a new certificate of origin for each shipment makes the situation even more complicated. The majority of the surveyed manufacturing companies perform several shipments within the same contractual agreement, which implies that they have to go through the same procedure several times per contract. Thus, excessive paperwork and duplication of the procedure for each delivery of goods makes the rules of origin challenging for the SMEs active in the clothing industry of Kazakhstan.

Certificate of Conformity

Mandatory conformity assessment, which is required practically on all manufacturing products, is the second most frequent NTM reported by manufacturing exporters. It is enforced at both national and supranational levels, which significantly complicates its administration and confuses the private sector. In addition, it covers both final goods and imported intermediate inputs.

'In Kazakhstan the serial conformity certificate is issued for one year while in Russia - for three years. It would nice to have the conformity certificate of longer duration…'

Kazakh exporter of clothes

Box 10. The dangers of over-stringent technical regulations

Based on the discussion with the government and representatives of the private sector in Kazakhstan, it is known that Russia's Ministry of Health is preparing a regulation on Volatile Organic Compounds (VOC) emissions for particle board plates used by the furniture industry. VOCs are widely used as solvents in glues that enter the manufacturing of household furniture, carpets, paints and varnishes. They are known to be greenhouse gases and ozone-depleting substances, and suspected to be allergens and carcinogens if exceed maximum allowed level. The regulations on VOCs are therefore necessary, but should not be overly stringent and should be done in consultations with stakeholders and in accordance with international norms or norms based on scientific research.

For example, EU members started regulating VOCs in the 1980s, and disparate levels of regulation were consolidated in Council Directive 1999/13/EC on the limitation of emissions of known as the VOC Solvents Emissions Directive. Product-level tolerance limits on VOCs are set by EN120 at 8 mg of formaldehyde for a hundred-gram wood-particle plate, equivalent to 0.124 mg/m3 of air or 0.1 ppm under standard testing conditions set out in standard 717/1. There is no specific emissions level for furniture itself.

According to information gathered by the private sector in Kazakhstan, the new regulation considered by Russia's Ministry of Health, scheduled to enter in force CU-wide in 2014, would set this level at 0.01 mg/m3, or about one twelth of the maximum tolerance limit required by the EU. This would be an unrealistic level both in terms of what is needed to protect human health and the environment and in terms of compatibility with local production capabilities in all three member states.

The case illustrates several dangers of a regulatory process that is not subject to a regulatory impact assessment:

- Providing a convenient non-tariff barrier that can be activated at will;
- It may be triggered by upstream interests promoting the use of massive wood rather than wood plates; this may not necessarily be a bad thing from an environmental point of view but should be a reasoned decision;
- It may be simply a way of putting all producers and importers in a state of permanent violation of rules, facilitating the extraction of irregular payments upon inspections.

An unrealistic MTL may end up being enforced only at the border and in a discretionary manner. It is quite possible that none of these consequences is intended, but their mere possibility illustrates the dangers of regulations being designed with insufficient use of existing checks and balances.

Sources: *World Bank, Kazakhstan: Taking Advantage of Trade and Openness for Development, July 10, 2012. Mebel Professional http://www.promebel.com/ru/headings/?articleID=623*

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All manufacturing companies apply for a serial (valid for several shipments of the same goods) certificate of conformity for their products, which significantly facilitates their operations. The serial conformity certificate is valid for one year. The validity of the serial certificate can be extended to 3 years, if a company possesses an ISO 9001 management certificate.

Many manufacturing exporters view the domestic certificates of conformity as a costly formality as, in many instances, the domestic certificate of conformity is not recognized by the partner countries[131] or is not required at all (e.g. voluntary certification). Moreover, many companies pass the conformity assessment procedure twice, once for the imported intermediate inputs and then for the final goods. Many surveyed companies complain about the insufficient technical capacity of the agencies and the costs of the conformity certificates.

Technical requirements

Similar to the case of agri-food producers, but to a lesser extent, manufacturing producers are also concern about the new technical regulations of the CU. Some of the surveyed companies use Kazakh national standards and/or enterprise standards that differ from the recently developed technical standards of the CU. In order to produce and exports in the territories of the CU, manufacturing companies must adjust their technological process to the new technical requirements. The costs

[131] The national conformity certificates are not recognized outside of Kazakhstan while the CU conformity certificates are valid for the CU market only and cover a limited number of products.

Table 9.12. Export of manufactured products: burdensome NTMs applied by partner or transit countries

Sub-sector description	Exports to the world		Number of reported NTM cases						
	Exports value in 2011, $'000	Share in sector's export value (per cent)	Technical requirements	Conformity assessment	Charges, taxes and other para-tariff measures	Quantity control measures	Restriction of post-sales services	Rules of origin and related certificates	Total
			A	B	D	E	K	O	
Chemicals	17 552	0.1	3	4				1	8
Wood products	1 419	0						3	3
Textiles	1 432	0						1	1
Basic manufactures	3 201 817	20				1		2	2
Clothing	15 601	0		1				8	9
Non-electronic machinery	75 082	0	2	6			2	14	24
Electronic components	1 101	0	1	1	1				3
Transport equipment	15 184	0.1		2					2
Miscellaneous manufacturing	12 547 256	79							
Sub-Total	15 876 444	100	6	14	1	1	2	29	53
Total			**BLR(2), RUS(2) TKM (2)**	**BLR (1), RUS(11), UKR(1), UZB(1)**	**RUS(1)**		**TKM (2)**	*	

Source: ITC Survey on NTMs in Kazakhstan, 2012.

** "Rules of origin" includes Belarus(4), Iran (Islamic Republic of)(1), Japan(1), Kyrgyzstan(1), Poland(1), Russian Federation(7), Tajikistan(4), United Arab Emirates(1), Turkey(1), Turkmenistan(4), Ukraine(2), Uzbekistan(2).*

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associated with the adjustment of the production process combined with the increasing costs of the intermediate goods due to the new tariff schedule impact negatively competitiveness of the manufacturing producers facing increasing competition from large manufacturing producers of the Russian Federation and Belarus.

VAT administration

While export and import procedures have been significantly simplified between the CU countries, the domestic VAT policies of the CU countries still significantly complicate the trade between the CU countries. According to the surveyed companies,

Table 9.13. Export of manufactured products: NTMs applied by partner or transit countries reasons making them burdensome

NTM Chapter	Number of NTM cases		Procedural obstacles and inefficient business environment making NTMs difficult	Number of procedural obstacle cases		
	with PO	without PO		in home country	in partner country	in transit country
Technical requirements (A)	6		Large number of different documents	1		
			Arbitrary behaviour of officials with regards to the reported regulation	1		
			Unusually high fees and charges for reported certificate/regulation	1		
			Facilities lacking international accreditation/ recognition	2		
			Arbitrary behaviour of officials regarding classification and valuation of the reported product		1	
			Delay related to reported regulation		1	
Conformity assessment (B)	13	1	Large number of different documents	1		
			Delay related to reported regulation	3		
			Limited/inappropriate facilities for testing	6		
			Facilities lacking international accreditation/ recognition	1		
			Other problems with international recognition, e.g. lack of recognition of national certificates		3	
Charges, taxes and other para-tariff measures(D)		1				
Quantity control measures (E)	1		Information on selected regulation is not adequately published and disseminated			1
Restriction of post-sales services (K)	2		Limited/inappropriate facilities for sector-specific transport and storage		2	
Rules of origin and related certificate of origin (O)	29		Large number of different documents	16		
			Arbitrary behaviour of officials regarding classification and valuation of the reported product	6		
			Arbitrary behaviour of officials with regards to the reported regulation	1		
			Delay related to reported regulation	1		
			Unusually high fees and charges for reported certificate/regulation		1	
			Informal payment	2		
			Other procedural obstacles	3		
Total	51	2		45	8	1

Source: ITC Survey on NTMs in Kazakhstan, 2012.

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complicated VAT administration in the Russian Federation and Kazakhstan has a negative impact on their sales.

In particular, the surveyed importers complain that their Russian suppliers include VAT to the invoice price because claiming back the VAT is a problem. This situation is a business to business problem. On the other hand, the surveyed exporters complain that the time for collection of the documents from the importing side is too short, [132] while the retrospective VAT claim is a long and burdensome procedure.

Government procurement policy

Many companies complain that the government procurement tenders in Kazakhstan are not transparent enough and the allocations of the contracts are done in an arbitrary way with significant delays. The surveyed companies mention numerous cases when government contracts were allocated to foreign companies through domestic entities

[132] The VAT for the transactions within the CU is paid by importers in their domestic markets. The exporters shall obtain the proof that importers paid the VAT. The time delay which was set to collect required documentation from importers is too short.

Table 9.14. Export of manufactured products: burdensome NTMs applied by Kazakh authorities

Sub-sector description	Exports value in 2011, $'000	Share in sector's export value	Other exports technical measures	Other exports related measures	Total
			PA9.	PZ0.	
Chemicals	42 444	0	1	3	4
Basic manufactures	1 330 975	8		3	3
Miscellaneous manufacturing	13 172 050	83			
Sub-Total	15 876 444	100	1	6	7
Total			**UKR(1)**	**KGZ (3), RUS(2), UZB(1)**	

Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

Table 9.15. Export of manufactured products: NTMs applied by Kazakhstan and reasons making them burdensome

Measure description	Number of NTM cases		Procedural obstacle and inefficient business environment making NTMs difficult	Number of procedural obstacle cases		
	with PO	without PO		in home	in partner country	in transit country
Other exports technical measures (PA9)	1		Arbitrary behaviour of officials regarding classification and valuation of the reported product	1		
Other exports related measures (PZ0)	3	3	Delay related to reported regulation	3		
			Informal payment	3		
Total	4	3		7	0	

Source: ITC Survey on NTMs in Kazakhstan, 2012.

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that bid but do not actually produce. Furthermore, many government contracts have duration of only one year, which prevents companies from engaging in long term production plans.

9.3.4 *Importers' experiences with regulations in Kazakhstan*

Twenty three face-to-face interviews with importing firms captured 66 burdensome NTM cases. Domestic and the CU enforced NTMs constituted 90 per cent of the reported burdensome NTMs. In 62 of these cases the importers faced difficulties because of the related procedural obstacles. The most frequently reported NTMs are: conformity assessment (68 per cent), technical requirement (17 per cent) and price control measures (8 per cent). In comparison to agricultural importers, manufacturing importers face more problems with conformity assessment than with technical requirements.

All reported technical requirements are related to authorization and registration requirements for national security and environmental reasons (11 cases). Conformity assessment cases are split into two groups, the state product registration requirements enforced at the CU level and the certification requirements enforced at the national level. Finally, price controls measures are related to application of the reference prices by Kazakh customs to determine tariffs due (5). The NTMs enforced at the CU level constitute 65 per cent of the total reported NTMs affecting manufacturing imports. The procedural obstacles associated with the NTMs are presented in Table 9.17. The most challenging POs are large number of required documents (29), limited/inappropriate facilities for testing (32), time delays (15), lack of recognition of foreign certificates (6) and arbitrary behaviour of officials (9).

State Product Registration

The state product registration requirement covers a broad range of products including manufacturing goods such as cosmetic products, household products, products in direct contact with food, personal care items for children and adults, clothing for children (first layer), devices, and other technical means for use in drinking water supply, products of oral hygiene, products made on the basis of potentially dangerous chemical and biological substances potentially dangerous to humans (except medicines).

This requirement entered in force on 1 January 2012. The NTM survey identified various POs related to this regulation. Many surveyed companies complained about the lack of the information regarding this measure. The state product registration must be done prior to the arrival of the goods. Since, the majority of the surveyed companies were not aware of this regulation, they were not able to proceed with the customs clearance and the goods that needed to be registered were put in temporary storage premises at the customs. Companies were then obliged to apply for a state product registration. Given that many companies were in a similar situation there was a significant inflow of application to the subdivisions of the Committee for the state registration and other agencies responsible for the state registration. Laboratories undertaking expertise and laboratory analyses for product registration were overcrowded by the demands for laboratory tests. Moreover, the technical capacities of many laboratories were not sufficient to perform specific tests required for the product registration. In the beginning of 2012, the time delay associated with the registration was around 2-3 months, and the companies were required to pay storage cost at the temporary premises.

'Our goods were shipped on plastic pallets. The customs officer asked to provide a certificate that pallets are not made of wood. We come across such a problem every day!'

Kazakh producer of pharmacopeia products

Only after a product is registered, a company can import the product by providing a copy of the certificate of the state registration. Thus, after an initial wave of product registrations in the beginning of 2012 the situation settled down. While the time associated with product registration has decreased considerably; a significant deadweight loss could have been reduced if the information

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was properly disseminated among companies. It would have also reduced workload of the certification agencies and testing laboratories during the first wave of registration.

A few manufacturing importers also report additional procedural obstacle associated with the product registration. For example, importers of pumps and boilers complain that customs officer look mostly at HS codes rather than description of the products at the clearance. As a result companies have difficulties in convincing customs officers that their products do not need a state product registration. They have to ask subdivisions of the Committee of the State Registration to issue documents certifying that the products they are imported are not subject to the state registration requirement, which takes additional 2 days.

Certificate of Conformity

The mandatory conformity certification covers a broad range of consumer and intermediate goods. It exists at national and supranational levels. The majority of products available in the market are subject to either the CU conformity assessment or the domestic conformity assessment of the CU countries.

For the products associated from third countries (non-CU members), the conformity assessment can be undertaken through the recognition of a foreign certificate in the presence of an agreement between the importing country and Kazakhstan, or by the certification of the product in compliance with the regulations of the Republic of Kazakhstan. Currently two schemes of conformity certification exits: a product certification (by shipment or by product) and a serial product certification (certification of the production process, valid for 12 months).

Before the CU, product certification was usually done upon arrival of the shipment. After customs clearance, importing companies had to send the application for certification or recognition of the foreign certificate to a certification agency accredited to perform the conformity assessment for a given type of product. The certification takes 5 to 10 days and usually consists of inspection of the accompanying technical documentations and laboratory analysis. In addition to the application from, companies must also submit previous effectuated tests or laboratory analysis, previously certificates for products or raw materials used in the production, components, and systems of quality management.

'Most laboratories do not possess technical base to test cosmetic products. Moreover, the products were produced in the U.S. and sold over the world. Nevertheless, we are obliged to apply for the state product registration and to request the certificate of conformity…'

Kazakh cosmetics product importer

The new CU regulations specify the product certification to be done before the arrival of products. The domestic conformity certificates/ the CU conformity certificates are included in the list of the documents for customs clearance.

While the serial conformity certificate exists also for imported products, most importers apply for certification of each shipment which is less expensive.

Many surveyed manufacturing companies report that their intermediate inputs are subject to domestic mandatory conformity assessment. As a result, they have to pass through product certification twice, once for the intermediate goods and once for the final product, leading to an increase in price of the. Many companies complain that they have to send their products for certification abroad since the local accredited agencies do not possess the capacity to verify compliance with international standards like for example EN 1149-EN340/03.

Import Authorization and Registration Requirements

A few manufacturing importers report problems with the special import authorizations and registration requirements. A recent CU regulation stipulates a non-automatic licensing scheme for products that can present a potential danger for national security, human health or environment. The list of products subject to licensing and spe-

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Table 9.16. Imports of manufactured products: NTMs applied by Kazakhstan

Measure description	Number of NTM cases		Procedural obstacles and inefficient business environment making NTMs difficult	Number of procedural obstacle cases		
	NTM has PO	NTM Without PO		in home country	in partner country	in transit country
Technical requirements (A)	9	2	Large number of different documents	1		
			Arbitrary behaviour of officials regarding classification and valuation of the reported product	2		
			Delay related to reported regulation	5		
			Informal payment	1		
			Limited/inappropriate facilities for testing	2		
Conformity assessment (B)	44	1	Large number of different documents	25		
			Arbitrary behaviour of officials regarding classification and valuation of the reported product	2		
			Delay related to reported regulation	9		
			Deadlines set for completion of requirements are too short	2		
			Limited/inappropriate facilities for testing	30		
			Other problems with international recognition	6		
Pre-shipment inspection and other entry formalities (C)	2		Other procedural obstacles, please specify	2		
Charges, taxes and other para-tariff measures (D)	2		Delay related to reported regulation	1		
			Other procedural obstacles	1		
Price control measures (G)	5		Large number of different documents	3		
			Arbitrary behaviour of officials regarding classification and valuation of the reported product	5		
Rules of origin and related certificate of origin (O)		1				
Total	62	4		97	0	0

Sources: *ITC Survey on NTMs in Kazakhstan, 2012; ITC Trade Map.*

** "Conformity assessment" includes: Austria(1), CHN(8), EU(23), Indonesia(1), Israel(2), Republic of Korea(1), Mexico(1), RUS(2), Turkey(2), Ukraine(2), USA(2)*

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Table 9.17. Imports of manufactured products: NTMs applied by Kazakhstan and reasons making them burdensome

Measure description	Number of NTM cases		Procedural obstacles and inefficient business environment making NTMs difficult	Number of procedural obstacle cases		
	NTM has PO	NTM Without PO		in home country	in partner country	in transit country
Technical requirements (A)	9	2	Large number of different documents	1		
			Arbitrary behaviour of officials regarding classification and valuation of the reported product	2		
			Delay related to reported regulation	5		
			Informal payment	1		
			Limited/inappropriate facilities for testing	2		
Conformity assessment (B)	44	1	Large number of different documents	25		
			Arbitrary behaviour of officials regarding classification and valuation of the reported product	2		
			Delay related to reported regulation	9		
			Deadlines set for completion of requirements are too short	2		
			Limited/inappropriate facilities for testing	30		
			Other problems with international recognition	6		
Pre-shipment inspection and other entry formalities (C)	2		Other procedural obstacles, please specify	2		
Charges, taxes and other para-tariff measures (D)	2		Delay related to reported regulation	1		
			Other procedural obstacles	1		
Price control measures (G)	5		Large number of different documents	3		
			Arbitrary behaviour of officials regarding classification and valuation of the reported product	5		
Rules of origin and related certificate of origin (O)		1				
Total	**62**	**4**		**97**	**0**	**0**

Source: *ITC Survey on NTMs in Kazakhstan, 2012.*

cial authorization includes various manufacturing products such as radio electronic equipment, products containing ozone depleting substances, encryption (cryptographic) tools or products containing encryption tools, special technical devices intended for surreptitious collection of information.

The authorization/registration of such products are undertaken by different government agencies, such as the Ministry of Ecology for ozone depleting substances and the goods containing ozone depleting substances, the Committee of National Security for special technical devices used for surreptitious collection of information, the Ministry of

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Emergency Situations of the Republic of Kazakhstan for fire extinguishers and high pressure devises. The delays associated with the registration/ authorization of these products could be extensive and unpredictable and vary from one week to one month.

In addition, companies complained that the decisions of customs officers whether the special authorizations are required for documentary controls, are often based on the HS code rather than on the HS code together with product description. Thus, companies had to contact the agencies responsible for the authorisation documents although it was not necessary.

9.3.5 Analysis of important sub-sectors

Pharmaceutical

The following description is based on the face-to-face interviews with representatives of several exporting pharmaceutical companies and the Association of Pharmaceutical Distributors. The surveyed companies operate in different market segments and are quite different in terms of size and production pattern.

The Kazakhstan pharmaceutical producers can be divided into two groups. The first group consists of foreign owned companies producing generic drugs. Most of these companies are subsidiaries of large pharmaceutical companies that heavily source intermediate inputs from the parent companies. These companies possess modern production and marketing know-how from their parent companies and some of them already have or are ready to apply international standards of production (ISO, GMP).

The second group is a small group of local producers specialized in production of plant based products like special tisanes, balsams, ointments and pomades. These companies are characterized by relatively simple technology of production and rely heavily on domestically produced intermediate inputs (e.g. medical plants).

As in the case of other manufacturing sectors, the main destination markets of pharmaceutical companies are Central Asian countries, the Russian Federation and Belarus. The regulations of medical products have not yet harmonized among the CU countries which significantly complicates the exports of pharmaceutical products to Belarus and Russian Federation.

For instance, due to the double product registration requirement (for Kazakhstan and the Russian Federation), one of the surveyed companies finds itself in a bureaucratic trap. According to one company it could not export to the Russian Federation because its product had similar name to another product that is already sold on the Russian market. To be able to enter the Russian market, the company had to modified the name of the product slightly and go through the product registration process in the Russian Federation. When preparing documents for exports, the company was not able to receive a conformity certificate and a certificate of origin because the product did not have the state product registration of Kazakhstan. The explanation from the company that the product was designed to be sold in the Russian Federation, and it is marketed under the different name in Kazakhstan did not convince the Kazakhstan customs. So in order to export its product the company had to go through another new registration process in Kazakhstan.

According to the company, the process of registration takes about 9 months and costs about US$ 1000, which is financially bearable only if it can keep the packaging, marking and labelling format as requested by Russian authorities. But if the product is registered in Kazakhstan, the packaging, marking and labelling of the product must comply with the Kazakh regulations.

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Box 11. Background Information on Chemicals and Pharmaceuticals

Chemicals is one of the most dynamically growing sectors in Kazakhstan, growing on average at 28 per cent annually since 2001 and accounting for 18 per cent of manufacturing exports in 2011.

While Kazakhstan specializes in exporting natural compounds such as natural compound of uranium, phosphorus and chromium hydroxides, the government wants to diversify chemical production towards more complex products such as pharmaceuticals and fertilizers. Promotion of the domestic pharmaceutical industry was one of the objectives outlined in the State Program of Forced Industrial-Innovative Development of Kazakhstan for 2010 - 2014 years.

The pharmaceutical production in the Republic of Kazakhstan was valued at US$ 84.7 million in 2009 representing 0.4 per cent of manufacturing output. The import of medicines in Kazakhstan is valued at US$ 816.9 million, and exports at US$ 17.8 million. While the share of pharmaceutical exports remains small, the exports pharmaceuticals grew on average at 12 per cent per year.

The pharmaceutical industry in Kazakhstan is characterized by a large proportion of imported products. More than 90 per cent of the medicines available in the domestic market are imported from abroad. There are about 100 distributors of medical products and medical equipment operating in Kazakhstan, most of which are subsidiaries of foreign companies. There are 79 domestic producers of medicines and medical products, the cumulative share of the six largest producers account for 90 per cent of all domestic production.

In contrast to the Russian Federation and Belarus, Kazakhstan maintains an import friendly regime for pharmaceutical products; there is no VAT and tariffs on medicines and medical equipment. The association of pharmaceutical distributors expressed concern about the future increase in tariff rates on medical products lobbied by the Russian Federation which raise the costs of medical products not produced in Kazakhstan.

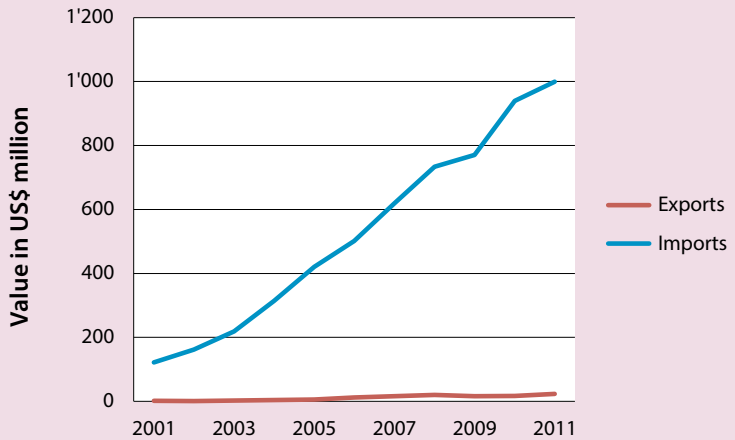
As for NTMs, the Association of Pharmaceutical Distributors pointed out that Kazakhstan possesses more progressive and straightforward system of pharmaceutical regulation than Belarus and the Russian Federation. As a consequence, the registration of the medical products takes less time while still remaining sufficiently rigorous. According to the same association, harmonization of technical regulations of pharmaceutical industry with those of the Russian Federation and Belarus must be managed very cautiously in order not to get back to the outdated bureaucratic system of pharmaceutical regulations which are still prevalent in the Russian Federation and Belarus.

According to the Business Monitor International (BMI) pharmaceutical market of Kazakhstan is the most accessible, transparent, and from the legislative point of view, progressive in Central Asia.

While domestic sale is limited by a relatively small population size, in the longer run, the pharmaceutical industry of Kazakhstan can capitalize on the favourable business environment and the geographic location of the country to serve neighbouring states, such as Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan, all of which have growing populations and lack domestic production capacities.

Source: *based on the information provided at the site of the Pharmaceutical markets of Eastern Europe (accessed on March 6, 2013 at http://cispharma.blogspot.ch)*

Figure 9.21. Pharmaceutical trade evolution, 2001-2011



Source: *ITC calculations based on Trade Map data.*

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Hence, even if a product can pass through Kazakhstan customs it cannot be sold in the Russian Federation since its technical characteristics do not comply with the technical requirements of the Russian Federation. From the point of view of the company, this problem occurs because Kazakh pharmaceutical regulation was primarily designed to regulate imports of pharmaceuticals. It does not accommodate growing exports flows to the neighbourhood countries. Geographic expansion of Kazakh pharmaceuticals calls for modification of the existing regulations to accommodate such cases.

In addition, the surveyed companies complained about the double certification requirement faced domestically. Mandatory conformity assessment exists for both the intermediate imported inputs and for the final products. The mandatory certification of imported intermediate inputs in the presence of the mandatory certification of the final products is perceived by the producers to be redundant as it increases the costs of production without necessarily improving safety of the final goods.

The surveyed companies also use serial conformity certificate which imply the inspection of production facilities and supervision of production process. The reported annual costs for the serial conformity certificate vary depending on the product types from US$ 264,000 to US$ 300,000.

Furthermore, the surveyed drugs producers complained about the mandatory calibration of the measurement equipment to be done annually. From their point of view, this requirement does not make any sense since the measurement equipment used by the calibrating laboratories are often less precise than those of the companies.

Finally, the surveyed companies expressed concerns about the future Good Manufacturing Practice (GMP) certification requirements stipulated at the state program of accelerated industrial development for pharmaceutical subsector. According to the program, all pharmaceutical producers must get a GMP certification by 2015. Yet, at the moment there is still no certification body in Kazakhstan able to perform GMP certification.

While the surveyed generic drugs producers do not worry about future GMP certification, as their parent companies already possess it, the domestic producers of plant-based medical products are concerned about the costs of such certification for their products.

In the EU, the regulation of plant-based and homeopathic products (pharmacopeia) is much softer than the regulation of drugs. Requirement to get a GMP certificate for the production of plant-based products imposes heavy and unnecessary burden for the domestic producers of pharmacopeia products. Moreover, while GMP certification will be important in the future, international expansion of the domestic pharmaceutical products is limited to the neighbourhood regions that have weaker requirements than those imposed by GMP standards.

Clothing Industry

The analysis of NTMs faced by clothes exporters is based on face-to-face interviews with a few clothing producers and an in depth interview with the Light Industry Association representing of 85 domestic manufacturers.

According to the Light Industry Association the clothing manufacturers in Kazakhstan focus on domestic sales rather than export expansion. Nevertheless, there are several successful exporters who manage to sell their products not only to the Russian Federation and Ukraine but also in the EU market. These companies operate in a niche segment where competition from the Chinese and Kyrgyz producers is less intense; they specialize in the production of small and exclusive lines of well-designed clothes for boutiques. In spite of the increasing tariff rates on imported materials they continue to source inputs from their suppliers in Italy and Turkey as quality matters more than costs for their products.

When asked about burdensome NTMs, the companies specify rules of origin, excessive conformity assessment and lack of the government contracts to be the main problems. Given their small size, the companies effectuate 5 or 6 shipments per a contract. For each shipment they are required to provide a new certificate of origin. While the de-

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lays associated with issuing a certificate of origin is 5 days, the collection of documents can take one additional week.

Mandatory certification requirement exists for both imported textile and for the final products. The double conformity certification increases the costs of the final goods without bringing a real benefit in terms of safety to final consumers.

Furthermore, companies wish to have higher transparency on allocation of government tenders and assurances that tenders aimed at local production are actually allocated to companies based in Kazakhstan. For example, the Kazakh national team's outfit for the 2012 summer Olympic Games was made in China, as the tender was won by a domestic dress designer but subcontracted to a Chinese clothing company. Similar situation was also reported for the Asian Olympic Games where the tender for sewing clothing was closed 2 years in advance without informing domestic producers.

With further development of the Customs Union, Russian and Belarusian producers will have access to government tenders of Kazakhstan which will have negative impact on the domestic producers of clothing that have high production costs due to high transportation costs and external CU tariff on textile.

Box 12. Background Information on clothing industry

The clothing, leather and textile industries were important subsectors of Kazakhstan's economy accounting for 15 per cent of the manufacturing value added in 1990.

At the time of independence, there were approximately 1000 companies operating in the textile and clothing industries. These companies were an important source of domestic employment. For example, three main textile and leather factories namely Alma-Ata Cotton Mill (AHBK), Kustanai worsted mills and Dzhambul footwear factory employed more than 12,000 workers. After independence, most of these businesses were ruined due to shrinking supplies of raw materials, high interest rates of loans, heavy tax burden and, more importantly, uncontrolled cheap import flows.

According to the producers's association (Light Industry Association) uncontrolled imports from China was one of the main factors contributing to the decline of clothing industry. Before 2010, there was a simplified import allowing private person to import two tons of goods by paying a fixed rate of 0.6 euro per kilogram.(Decree of Government of the Republic of Kazakhstan dated March 9, 2005 № 217). The large and uncontrolled imports from China led to an increase in the share of the informal economy up to 95 per cent of the total market turnover at that time.

The share of the light industry* in total industrial output dropped from 15.8 per cent in 1990 to 2.3 per cent in 2000. Currently, the share of light industry in total manufacturing output is about 0.1 per cent. According to the association, 91 companies are currently operating in the Kazakh light industry, with clothing industry accounting for the largest share. The products of the domestic textile and apparel industries account only for 8 per cent of the domestic consumption, down to less than 1 per cent for domestically produced shoes.

According to the association, out of the 30 thousand tons of raw wool produced in Kazakhstan only 2 tons goes to the domestic processing, while the rest is exported to Turkey, the Russian Federation and China. The situation is even worse for skins, where most of them are exported in raw form. The increasing protection due to high tariffs does not help the domestic light industry. Production of textile and leather cannot be revived without substantial investment in production facilities, logistics infrastructure and more importantly without the rebuilding of the agricultural sector.

As for clothing industry, increasing tariff rates on tissues and fabric accessories raised the costs of domestic producers who source intermediate inputs from China and Turkey. The increasing tariff rate on the finished clothing and shoes do not shield Kazakhstan clothing companies from tight competition. According to the Light Industry Association more than 50 per cent of the garments currently sold in Kazakhstan are made in Kyrgyz Republic which has tariff preferences with Kazakhstan; zero tariff rates on imported textiles and accessories and preferential tax treatment of clothing manufacturers. Moreover, the domestic enterprises face increasing competition from Russian companies which receive government subsidies on electricity and production of children clothing. While majority of the interviewed clothing producers benefit from the state loans, they need much more than cheap financing.

According to the Light Industry Association, the clothing industry has potential for growth and export expansion, if proper industrial policy will be put in place. The short term actions may include decreasing tax burden for domestic enterprises as well as tightening control on informal imports from Kyrgyz Republic. Nevertheless, the success of the clothing industry in the long run is linked to the rebuilding its production base-textile and leather industries.

Source: *Based on the interviews and materials provided by the Light Industry Association.*

** The term "light industry" refers to manufacturing with low capital-intensity and hight transportability, e.g. cloting (as opposed to "heavy industry" including chemicals, metal and oil refining, industrial machinery production).*

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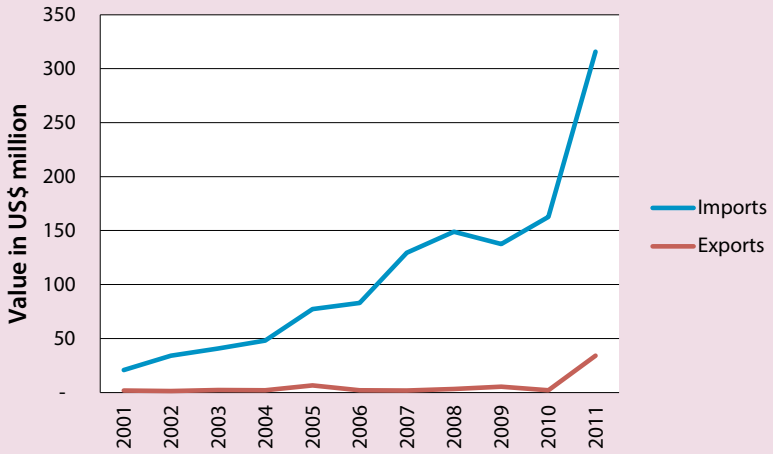
Figure 9.22. Clothing trade evolution, 2001-2011



Source: *ITC calculations based on Trade Map data.*

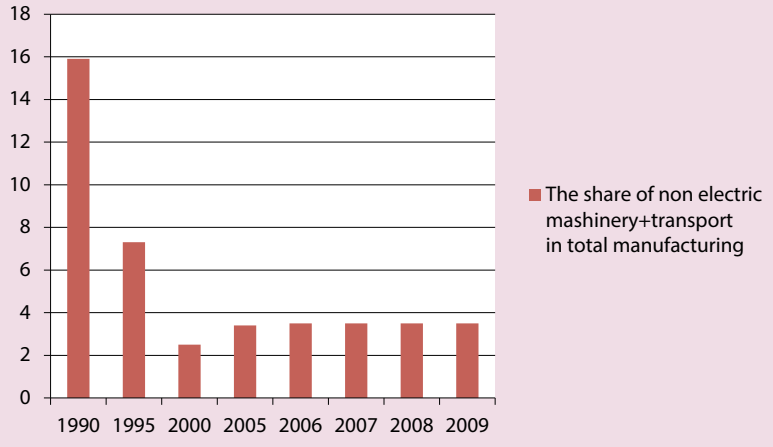
Non-electric machinery industry

The following analysis of trade barriers is based on 5 face-to-face interviews with enterprises operating in the non-electric machinery and the Association of Industrial Producers and Employers of Almaty.

The main problems include rules of origin and certificate of conformity. The local production of non-electric machinery is characterized by a high proportion of imported intermediate inputs which accounts for more than 60 per cent of the cost of final goods.

The surveyed companies primarily source intermediate inputs from China and the Russian Federation. They do not report any burdensome NTMs on their intermediate input imports except for inefficient VAT administration in the Russian Federation which increases their costs. The surveyed companies mainly service the neighbourhood markets of

Figure 9.23. Share of non-electric machinery and transport in manufacturing GDP (per cent)



Source: *E. Rustenova, 2010*

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Box 13. Background Information on non-electric machinery

Non-electric machinery was one of the most important manufacturing subsectors of Kazakhstan.

Among 2000 enterprises that operated in the Kazakh machine building sector in 1990, about 1070 can be classified as metals and basic manufacturing and 930 as non-electric machinery. There were very few producers of electronic equipment and transport. Hasty privatization, poor management and lack of investment in main capital almost ruined non-electric machinery industry, whose share in manufacturing production fell from 15.9 per cent in 1990 to less than 3.5 per cent in 2009.

Among the 930 companies operating in these sectors in 1990, only 120 were operational in 2011. During the same period, the share of the depreciated assets used in production amounted to 80 per cent. Employment fell from 350,000 to less than 80,000, indicating a significant loss of skilled personnel through emigration or switch to the oil sector. Majority of the enterprises working in the non-electric machinery sector switched to production of components, repair activities and assembling of imported components.

Despite the high demand for non-electric machinery products generated by rapidly growing oil, gas sector, agriculture and transport sector, the domestic non-electric machinery industry does not have a significant role in the Kazakh economy. This is due to high proportions of depreciated assets in the main capital of enterprises, their overall technological backwardness, and lack of skilled and financial resources. The demand for nonelectric machinery is almost entirely satisfy by imports which exceeds domestic production by six fold. For example, only 1 per cent oil and gas equipment is supplied by domestic enterprises through the procurement program of KazMunaiGas.

In order to promote development of domestic machinery, the government aims to create new modern production facilities with high value added. Several projects were already operational, for example a few production plants assembling auto cars and tractors from imported components. The government also plans to construct additional production facilities for assembling electric locomotives, combines, agricultural machines, auto cars and road construction equipment and increase the domestic content to 30 per cent in the final product.

According to the government, successful realization of the state program will double the production of non-electric machinery already by 2014. Nevertheless, the qualitative and quantitative changes in the structure of production and exports of goods remain to be seen. The development of domestic non-electric machinery sector was one of the priorities stipulated in the state program of accelerated industrialized development. The program intends to modernize existing enterprises.

Source: Sergey Poltavskiy "Shine and poverty of Kazakhstan", news agency "Respublika KZ", 05/12/2012.

Central Asia and the Russian Federation. In order to export to these markets, the surveyed companies need to provide a certificate of origin which is required for each shipment. According to the companies, it takes about two weeks to prepare a full file of the documents and 5 days to get a certificate of origin from the Chambers of Commerce.

However, due to insufficient level of processing some companies fail to get a certificate of origin. A few companies specify that they do not engage in official exporting because of the difficulties in obtaining official papers. They occasionally sell a few of products to individuals who then transport the goods from Kazakhstan to other market. These transactions are of very small quantity.

Similar to clothing manufacturers, non-electric machinery producers are more concerned with ensuring their existing sales rather than expansion to a new market. The government is the largest domestic buyers of non-electric machinery. The surveyed companies believe that they will benefit more from government contacts if such contracts were allocated in a predictive and transparent manner.

Furthermore, the interviewed companies complained about the double VAT payment that they face when importing intermediate goods from the Russian Federation. According to the current legislation, an exporter must invoice the net price to an importer, while the importer pays the domestic VAT (national) at the domestic customs and sends the confirmation of payment to the exporter. An exporter company can have VAT refunded if it collects the required documents within 180 days from the transaction date. A company will pay the full VAT on its exports revenue if it does not manage to collect the required package of documents on time.

To avoid lengthy procedure and potential risk of not managing to collect the necessary documents on time, Russian producers include VAT in the invoice price of the goods, forcing Kazakh importer

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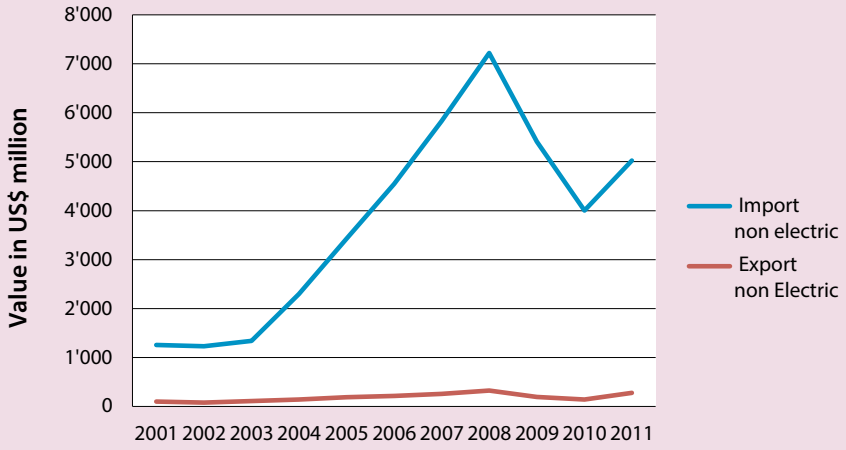
Figure 9.24. Trade evolution of non-electric machinery, 2001-2011



Source: *ITC calculations based on Trade Map data.*

to pay VAT. Due to geographic location of Kazakhstan and high external tariffs of the CU, Kazakh importers do not have much choice of suppliers. Thus, domestic Kazakh manufacturers face double taxation on their imports: 18 per cent of Russian VAT and 12 per cent of Kazakhstan VAT, which negatively impact their competitiveness in domestic and foreign markets. This is a business-to-business problem not related to government regulations.

9.3.6 Summary and policy options

Sector-wide issues and policy options

The exports of manufactured goods from Kazakhstan are small and concentrated on the regional markets of the CU and CIS countries. In these markets exporters encounter few burdensome NTMs, yet they face many infrastructural and procedural challenges such as delays and arbitrary behaviour of officials. In contrast to agricultural exporters, manufacturing exporters face more challenges with the certificates of origin than technical measures imposed by partner countries. The technical measures represent 32 per cent of the NTMs reported by exporters while rules and certificates of origin accounts for 48 per cent.

Majority of the burdensome NTMs and POs are related to domestic regulations and authorities. A large number of required documents and arbitrary behaviour of officials regarding the classification are the main concerns related to administration of rules and certificates of origin. Lack of appropriate testing facilities, time delays and lack of recognition of domestic or foreign certificates are most common procedural challenges associated with obtaining domestic conformity certificates.

Imports of manufactured products are essential for the Kazakh economy. Since 2000 Kazakhstan had maintained relatively low tariff rate for major manufacturing imports. The situation however has reversed since the beginning of 2010 when the CU members adopted common external tariffs which increased the level of protection from 6.72 per cent to 11.51 per cent (World Bank, 2012). High tariff rates and burdensome NTMs negatively impact the competitiveness of domestic manufacturing producers which are dependent on imported inputs.

Similar to agricultural products, the most frequent NTMs faced by manufacturing importers are conformity assessment and technical requirements. The conformity assessment accounts for 68 per cent of the reported NTMs while technical requirements account for 17 per cent of reported cases. Manufacturing importers find it more difficult to demonstrate conformity than to ensure that their products are compliant with technical requirements. Price control measures represent 7 per cent of cases reported by manufacturing importers.

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Regulations aimed at preserving national health and the environments are legitimate and indisputable. The NTM survey was conducting during the transition period where national measures coexist with CU measures. The existing capacity and equipment of laboratories do not meet the increasing demand for laboratory tests. Therefore, special efforts must be deplored to increase technical capacities of agencies and laboratories involved in conformity assessment.

Companies feel that certain conformity assessments requirements are excessive, for example when both inputs and final products are tested. Furthermore, mutual recognition of domestic certificates and laboratory tests within CU should be promoted, alongside with improved information sharing among national agencies, supranational agencies and the private sector. Multiple government agencies involved in the process of licensing and authorization and the lack of coordination between them, leads to excessive paper work and time delays for manufacturing importers. Finally, double payment of VAT (business-to-business problem with Russian producers) increases the price of inputs and, hence, reduces the competitiveness of Kazakh producers.

Insufficient level of domestic processing prevents the expansion of manufacturing exports to CIS region while excessive paper work related to its administration increases the costs for domestic exporters. Thus, a revision and reduction of the required number of documents might be necessary to simplify the procedure of obtaining the certificate of origin. Alternatively, a certificate of origin covering the entire contract (as oppose to each shipment) could reduce the amount of paperwork. As for the issue of insufficient processing level, increasing integration with the Russian Federation and Belarus may call for creation of a unified certificate of origin for the CU countries with cumulative rules of origin (where value added inside the CU is summed up), since all CU countries are granted tariff preferences within the CIS agreement.

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Chapter Ten

Conclusions and policy options

NTMs can both promote and inhibit trade. Regulations imposed for legitimate public policy objectives can still have trade-impeding effects. First, NTMs can be misused for protectionist reasons, e.g. by setting more stringent requirements than necessary to achieve public policy objectives. Second, companies can experience difficulties complying with NTMs, either due to companies' capacities or due to procedural obstacles. As a result, the welfare change induced by NTMs is difficult to unravel. ITC evaluates the impact of NTMs by directly surveying exporting and importing enterprises. In order to understand how NTMs affect businesses, the survey also analyses procedural obstacles associated with NTMs and inefficiencies in the trade-related business environment.

Kazakhstan has a fairly low share of affected companies in comparison with other countries in which the survey was carried out. This result can be attributed either to a high capacity of companies to comply with NTMs or to the fact that Kazakh exports are destined to markets with less stringent regulations and that the country's export portfolio is mostly composed of mineral-based manufactures and non-perishable agro-based goods. As in the case of other countries, companies most frequently experienced difficulties with technical requirements, conformity assessment, and rules and certificate of origins.

The results of the company survey on NTMs, interviews with business associations and stakeholders from the public sector, alongside with a systemic analysis of the legal framework and economic data, point to several root causes of reported problems. First, Kazakhstan experience capacity shortfalls in infrastructure (especially railroad transport) and in State agencies regulating trade (resulting in procedural obstacles). Second, some drawbacks exist in the legal framework and in difficulties associated with the transition of Kazakhstan from national regulations to (supra-national) Customs Union regulations, as companies have to absorb adjustment costs. Third, companies report a number of supply side constraints, affecting companies at the production level and consequently impacting their exports.

The results of the survey presented in this report have been discussed in the framework of a stakeholder workshop held in Astana in March 2013. The workshop brought together representatives of the public and private sector to validate the survey findings and to elaborate concrete and realistic policy options. The matrix below presents these options starting with those that address most frequently reported problems, and thus likely to benefit a large number of companies and have the highest impact. [133]

[133] The implementation of suggested options comes at a cost which would need to be taken into account when selecting priority activities. The cost-benefit analysis of policy options is out of scope of this report (aimed at identification of burdensome NTM diagnostic report as it requires a thorough analysis based on a dedicated methodology.

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Table 10.1. Matrix of sector specific recommendations

Activity	NTMs, POs, problems with infrastructure and business environment	Affected products / sectors	Recommendations	Agencies
Import, export	Insufficient railroad transportation system within Kazakhstan and CU, high transportation costs and a lack of harmonized transport policy within CU. High renting costs, low quality and insufficient supply of rolling stock (wagons). Complex process of ordering rolling stock. The procedure to match transport routes through transit countries, including CU members (mandatory procedure), is long and complicated.	All sectors	Increase the capacity of railroad transportation system. Accelerate the harmonization of transportation policies within the CU. Renovate existing rolling stock and acquire modern thermo wagons to transport food products. Streamline and simplify the process of ordering stock at Kaztemirtrans. Speed up the process of matching transport routes within the CU. Improve coordination between inter-government agencies involved in the process of matching itineraries, for example by limiting the amount of time agencies are allowed to take to approve itineraries.	Ministry of Transport, Kazakhstan Temir Zholy, Kaztemitrans
Import, export, production	A weak role of the private sector in designing supra-national regulations. Lack of impact evaluation of the new CU regulations that replace Kazakhstan's national regulations and that can potentially harm Kazakh producers. -Example: technical requirement for milk currently under negotiations.	All sectors	Improve private sector involvement in design and negotiations of CU technical regulations. While developing technical regulations at the CU level, ensure that they achieve public policy objectives with least trade distorting impact (for example technical requirements should not be more stringent than international norms and scientifically established thresholds). Undertake impact assessment for those negotiated technical regulations that according to companies can seriously impact their productive and trading activities). If an assessment of a CU regulation shows a significant negative impact on certain sectors in Kazakhstan, but it is nonetheless enacted, mitigate the impact by, for example, reducing taxes to allow companies to compensate higher compliance costs and adjustment expenses.	Ministry of Economy and Budget Planning, KAZNEX INVEST, CTPD
Import, export (transit)	Complicated document verification at the border of the CU (transit though Russian and Belarusian territories). Delays, arbitrary behaviour of customs officials: customs officers require additional documents under transit country legislation (Russian Federation and Belarus).	All sectors	Streamline and simplify procedures to verify documents for goods in transit. Communicate to Kazakh companies which documents are required for transit through Russian and Belarusian territory.	Customs Control Committee
Import, export	Lack of access to competitively priced high-quality business services.	All sectors	Ensure availability of high quality services, with priority for business services for exporters from non-extractive sectors.	

Activity	NTMs, POs, problems with infrastructure and business environment	Affected products / sectors	Recommendations	Agencies
Import, export, production	Duplication of mandatory conformity assessment at the national and CU levels. Some products are not eligible for the CU conformity certificate. Domestic mandatory conformity certificates are not recognized outside the CU. Pre-shipment sample inspections and final consignment inspections are sometimes required by Kazakhstan in addition to certification issued by partner countries.	Manufacturing products (clothing, pharmaceutical) All products	Remove Kazakhstan's domestic conformity assessment requirement for goods that are already subject to the state product registration enforced at the supra-national level. Foster harmonisation of technical regulations at the CU level, for example expand the list of products covered by the CU conformity certificate. Develop mutual recognition of national laboratory tests with CU. Negotiate mutual recognition agreements between the CU and its major trading partners. Recognition of certification from CIS, the CU and internationally accredited institutions should be accepted in place of pre-shipment sample inspections requirement.	The Committee of Technical Regulation and Metrology
Import, export	Inefficient infrastructure and related delays at Customs: - Insufficient capacity of customs ports - The server that handles electronic customs declarations is often out of service Lack of training of Customs officials.	All sectors	Improve and expand the capacity of Kazakhstan's customs posts, especially on the eastern border to accommodate increasing trade flows. Expand the existing policy, whereby customs allows cargo of importers with positive trading history to enter the market on a provisional basis, while inspections are performed on a sample. Improve the training of customs officials, especially with regard to product classification and valuation.	Customs Control Committee
Import, export	Lack of full harmonisation of procedures at the CU level, lack of electronic procedures. -An insufficient coordination related to the CU veterinary and SPS requirements.	All sectors Agriculture	Introduce unified electronic procedures within the CU with the ultimate view of implementing the Single Window Facility. Integrate electronically all procedures related to the CU veterinary and SPS requirements, instantaneous access by all competent authorities, provide necessary infrastructure and institutional capacity building at national and CU level.	Ministry of Economy and Budget Planning, Ministry of Agriculture, Ministry of Health, Ministry of Ecology, Ministry of Defence and Ministry of Emergency Situation
Import, export, production	Red tape and inefficiency of domestic institutions.	All sectors	Decrease red tape and improve efficiency of domestic trade related institutions, for example by implementing an anonymous complaint service e.g. through an online trade barrier reporting system. Track time spent on delivering the requested documents by State agencies, reduce maximum allowed processing time. Train staff in State agencies regulating trade – with the aim of increasing their professional skills and understanding their role as business facilitators (and not only regulators and controllers). Strengthen regional institution and transfer authority to the regions.	Phyto-sanitary inspections and veterinary inspections under Ministry of Agriculture, certification agencies accredited by the Committee of Technical Regulation and Metrology, Customs Control Committee

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Activity	NTMs, POs, problems with infrastructure and business environment	Affected products / sectors	Recommendations	Agencies
Import, export	Companies lack information on new NTMs and on procedures applied within the CU (and consequently enacted at the national level), and on market access conditions in partner countries.	All sectors	Improve access to NTM-related information (domestic, CU and partner countries) and enhance capacity building at the company level. Ensure that information on negotiated and newly introduced CU regulations is disseminated to companies (e.g. through business associations).	Ministry of Economy and Budget Planning, KAZNEX INVEST, CTPD
Export	Complex and duplicating export inspection and certification requirements (mandatory domestic regulation) -Short validity time of the serial conformity certificate.	All sectors	Streamline and simplify domestically applied exports certification requirements. Extend validity of serial conformity certificates.	Ministry of Agriculture, Committee of Technical Regulation and Metrology
Export	Obtaining CIS certificate of origin CT1 (required by CIS, issued in Kazakhstan) is cumbersome: -Large number of documents required. -Requirement to get a new certificate of origin for each shipment within the same contract. Low level of local value-added that prevents local companies from obtaining the certificate of origin.	All sectors Non-electric machinery, furniture	CU can negotiate with CIS countries the following: -A reduction in the number of documents required for application to the certificate of origin. -An increase the validity of certificates of origin so that they cover all shipments within the same contract. As each CU member has preferential market access to CIS, CU can evaluate costs and benefits of cumulative rules of origin and common CU certificate of origin.	Ministry of Industry and New Technology, Ministry of Economy and Budget Planning
Import, export	Difficulties refunding the VAT on trade within the CU. Higher VAT imposed by Russia on juices for infants imported from Kazakhstan as they are classified as a different product category.	All sectors Juices for infants	Use the application principle when dealing with the VAT (import companies promise to pay the VAT, export companies do not need a confirmation from the import side about the payment of the VAT in order to apply for a refund). In general, accelerate the harmonisation of technical regulation within CU and development of common standards. In particular, negotiate with Russian authorities the specific case of the discriminatory application of the VAT on juices for infants.	Ministry of Finance, Tax committee Ministry of Industry and New Technology

Activity	NTMs, POs, problems with infrastructure and business environment	Affected products / sectors	Recommendations	Agencies
Export	Temporary export bans on essential products for domestic consumptions, even on those that are produced with large surplus.	Agricultural products (buckwheat, oilseeds)	Reduce the application of temporary bans on exports of products that are produced in the quantities exceeding the domestic consumption needs.	Ministry of Economy and Budget Planning
Export	Restrictions on the use of retrospective brand names (used in the Soviet Union); difficulties with intellectual property rights related to exports to the Russian Federation.	Confectionery products	Launch negotiations with Russia on the mutual use of retrospective brand names for confectionery products.	Ministry of Industry and New Technology, Ministry of Economy and Budget Planning
Export	Lack of legal framework for production and export of products packaged and labelled according to the requirements of the destination markets (under different names than those locally produced and marketed).	Pharmaceutical products	Modify current regulations in order to accommodate for the production of medicine for export purposes, whose name, labelling and packaging correspond to the requirements of destination markets.	Committee for the Control of Medical and Pharmaceutical Activity under the Ministry of Health, Ministry of Industry and New Technology
Import, export	Lack of common CU policy on alcoholic beverages. Stringent deposit requirements imposed by Russia on Kazakh exporters of alcoholic beverages.	Alcoholic beverages	Launch negotiations with the Russian Federal Service for Alcohol Market Regulation to facilitate access to the Russian alcohol market for Kazakh producers.	Committee of the State Control over the production and distribution of alcohol, Ministry of Economy and Budget Planning
Import	State product registration for specific products is burdensome: -The capacities of testing laboratories do not suffice -Requirement to register a product from the same manufacturer twice if it is produced in a country different from the country of initial registration.	Soft drinks and alcoholic beverages, household products, personal care items, baby food, paints, varnish, equipment and other technical goods intended for use in water supply and chemicals products.	Increase the capacities of testing laboratories. Amend the state product registration by not requiring registration of the same goods produced by the same manufacturer but in different countries.	Ministry of Health, Committee of State Sanitary and Epidemiological Surveillance

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Activity	NTMs, POs, problems with infrastructure and business environment	Affected products / sectors	Recommendations	Agencies
Import	Long and complicated procedures to include third-country suppliers into the CU register of third country suppliers. This involves either the physical inspection of third country supplier production facilities or a government guarantee for a third-country supplier. Suppliers of Kazakh companies are generally not included in the register because it did not exist in Kazakhstan prior to its entry to the CU.	Agricultural products (meat, dairy, fodder for livestock etc.)	Speed up and simplify the process of adding third-country suppliers with long-term relations with Kazakh producers, essential for domestic production, which do not appear in the register. Simplify the procedure to include third country suppliers into the register.	Ministry of Agriculture.
Import	Influx of counterfactual pharmaceutical products from the Russia, which do not satisfy Kazakhstan's technical regulations on pharmaceutical products.	Pharmaceutical products	Exercise a tighter control on imported products from the Russian Federation and Belarus for goods without common CU technical requirements in place.	Committee for the Control of Medical and Pharmaceutical Activity under the Ministry of Health.
Import	Import quotas and licences on meat. Delays in allocating import quotas. Quota volume is too small, hurting domestic meat processors.	Meat (beef, poultry)	Simplify and rationalize national procedures for the issuance of licenses and the allocation of import quotas. Renegotiate within the CU framework the allocation of Kazakh import quotas for meat.	Ministry of Economy and Budget Planning
Import	A compulsory State Registry and the certification of each unit of precious metals and stones (Decision 134, provision 6, 02/10/2012) is burdensome due to: - Short notice on the new regulation - Lack of testing facilities (only one laboratory in Kazakhstan carries out laboratory analyses for precious metals and stones).	Precious metals and stones	Disseminate information about new regulations in advance. Increase the number of testing laboratories.	Ministry of Industry and New Technology, Committee of Technical Regulation and Metrology

Appendix I

Global methodology of the non-tariff measure surveys

Non-tariff measure surveys

From 2008 to 2012,[134] the International Trade Centre (ITC) completed large-scale company-level surveys on burdensome non-tariff measures and other barriers to trade (NTM surveys hereafter) in 27 developing and least-developed countries on all continents. The IT Programme on NTMs, including company-level NTM surveys, is scheduled to continue in 2013-2016.The main objective of the NTM survey is to capture how businesses perceive burdensome NTMs and other obstacles to trade at a most detailed level – by product and partner country.

All surveys are based on a global methodology consisting of a core part and a country-specific part. The core part of the NTM survey methodology, described in this appendix is identical in all survey countries, enabling cross-country analyses and comparison. The country-specific part allows flexibility in addressing the requirements and needs of each participating country. The country-specific aspects and the particularities of the survey implementation in Kazakhstan are covered in chapter 2 of this report.

Scope and coverage of the non-tariff measure surveys

The objective of the NTM survey requires a representative sample allowing for the extrapolation of the survey result to the country level. To achieve this objective, the NTM survey covers at least 90 per cent of the total export value of each participating country (excluding minerals and arms). The economy is divided into 13 sectors, and all sectors with more than a 2 per cent share in total exports are included in the survey.

The NTM survey sectors are defined as follows:

1. Fresh food and raw agro-based products
2. Processed food and agro-based products
3. Wood, wood products and paper
4. Yarn, fabrics and textiles
5. Chemicals
6. Leather
7. Metal and other basic manufacturing
8. Non-electric machinery
9. Computers, telecommunications; consumer electronics
10. Electronic components
11. Transport equipment
12. Clothing
13. Miscellaneous manufacturing

Companies trading arms and minerals are excluded. The export of minerals is generally not subject to trade barriers due to a high demand, and the

[134] The work started back in 2006, when the Secretary-General of UNCTAD (United Nations Commission on Trade and Development) established the Group of Eminent Persons on Non-Tariff Barriers (GNTB). The main purpose of GNTB is to discuss definition, classification, collection and quantification of non-tariff barriers – to identify data requirements, and consequently advance understanding of NTMs and their impact on trade. To carry out the technical work of the GNTB, a Multi-Agency Support Team (MAST) was also set up. Since then, the ITC is advancing the work on NTMs in three directions. First, ITC has contributed to the international classification of non-tariff measures (NTM classification) that was finalized in October 2009. Second, ITC undertakes NTM Surveys in developing countries using the NTM classification. Third, ITC, UNCTAD and the World Bank jointly collect and catalogue official regulations on NTMs applied by importing markets (developed and developing). This provides a complete picture of NTMs as official regulations serve as a baseline for the analysis, and the surveys identify the impact of the measures on enterprises, and consequently, on international trade.

specificities of trade undertaken by large multinational companies. The export of arms is out of the scope of ITC activities.

The NTM surveys are undertaken among companies exporting and importing goods. Companies trading services are excluded, as a survey on NTMs in services would require a different approach and methodology. Yet, the NTM survey includes companies specialized in the export-import process and services, such as agents, brokers, forwarding companies (referred to as 'trading agents' for brevity). These companies can be viewed as service companies, as they provide trade logistics services. The answers provided by trading agents are in most cases analysed separately from the answers of the companies that export their own products.

The NTM surveys cover legally registered companies of all sizes and types of ownership. Depending on country size and geography, one or several geographic regions with high concentrations of economic activities (high number of firms) are included in the sample.

Two-step approach

The representatives of the surveyed companies, generally export/import specialists or senior-level managers, are asked to report trade-related problems experienced by their companies in the preceding year and representing a serious impediment for their operations. To identify companies that experience burdensome NTMs, the survey process consists of phone screens with all companies in the sample (step1) and face-to-face interviews undertaken only with the companies that reported difficulties with NTMs during the phone screens (step 2).

Step 1: Phone screens

The first step includes short phone screen interviews. Phone screens consist of questions identifying the main sector of activity of the companies and the direction of trade (export or import). The respondents are then asked whether their companies have experienced burdensome NTMs. If a company does not report any issues with NTMs, the phone screen is terminated. Companies that report difficulties with NTMs are invited to participate in an in-depth face-to-face interview, and the time and place for this interview is scheduled before terminating the phone screen.

Step 2: Face-to-face interviews

The second-step interviews are required to obtain all the details of burdensome NTMs and other obstacles at the product and partner country level. These interviews are conducted face-to-face due to the complexity of the issues related to NTMs. Face-to-face interactions with experienced interviewers helps to ensure that respondents correctly understand the purpose and the coverage of the survey, and accurately classify their responses in accordance with predefined categories.

The questionnaire used to structure face-to-face interviews consists of three main parts. The first part covers the characteristics of the companies, e.g. number of employees and share of exports in total sales, whether the company exports their own products or represents a trading agent providing export services to domestic producers.

The second part is dedicated to exporting and importing activities of the company, with all trade products and partner countries recorded. During this process, the interviewer also identifies all products affected by burdensome regulations and countries applying these regulations.

During the third part of the interview, each problem is recorded in detail. A trained interviewer helps respondents identify the relevant government-imposed regulations, affected products (6-digit level of the Harmonized System), the partner country exporting or importing these products, and the country applying the regulation (it can be partner, transit or home country).

Each burdensome measure (regulation) is classified according to the NTM classification, an international taxonomy of NTMs, consisting of over 200 specific measures grouped into 16 categories (see Appendix II). The NTM classification is the core of the survey, making it possible to apply a uniform and systematic approach to recording and analysing burdensome NTMs in countries with very idiosyncratic trade policies and approaches to NTMs.

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The face-to-face questionnaire captures not only the type of burdensome NTMs, but also the nature of the problem (so called procedural obstacles explaining why measures represent an impediment, see Appendix III), the place where each obstacle takes place, and the agencies involved, if any. For example an importing country can require the fumigation of containers (NTM applied by the partner country), but fumigation facilities are expensive in the exporting country, resulting in a significant increase in export costs for the company (POs located in the home country).

The companies can also report generic problems not related to any regulation, but affecting their exports or imports, such as corruption or lack of infrastructure. These issues are captured at the company level during face-to-face interviews and are referred to as problems related to business environment and a lack of trade facilitation (see Appendix IV). Capturing trade barriers not related to specific NTMs provides an important element for a comprehensive analysis of NTMs, and allows ranking of the NTM related problems among all trade barriers faced by interviewed companies.

Open-ended discussions

During the surveys of companies and preparation of the report, open-ended discussions are held with national experts and stakeholders, for example trade support institutions and sector/export associations. These discussions provide further insights, quality check and validation of the survey results. The participants review the main findings of the NTM survey and help to explain the reasons for the prevalence of the certain issues and their possible solutions. The open-ended discussions are carried out by the survey company, a report writer or contributor or a partner in another local organization or university.

Stakeholder workshop

The findings of each NTM survey are presented and discussed during a stakeholder workshop. The workshop brings together government officials, experts, companies, donors, non-governmental organizations (NGOs) and academics. It fosters a dialogue on NTM issues and helps identify possible solutions to the problems experienced by exporting and importing companies.

Local survey company

Both phone screens and face-to-face interviews are carried out by a local partner selected through a competitive bidding procedure. The partner is most often a company specializing in surveys. Generally, the NTM surveys are undertaken in local languages. The phone screens are recorded either by a Computer Assisted Telephone Interview system, computer spread sheets, or on paper. The face-to-face interviews are initially captured using paper-based interviewer-led questionnaires that are then digitalized by the partner company using a spread sheet-based system developed by ITC.

Confidentiality

The NTM survey is confidential. Confidentiality of the data is paramount to ensure the greatest degree of participation, integrity and confidence in the quality of the data. The paper-based and electronically captured data is transmitted to ITC at the end of the survey.

Sampling technique

The selection of companies for the phone screen interviews of the NTM survey is based on the stratified random sampling. In a stratified random sample, all population units are first clustered into homogeneous groups ('strata'), according to some predefined characteristics, chosen to be related to the major variables being studied. In the case of the NTM surveys, companies are stratified by sector, as the type and incidence of NTMs are often product-specific. Then simple random samples are selected within each sector.

The NTM surveys aim to be representative at the country level. A sufficiently large number of enterprises should be interviewed within each export sector to ensure that the share of enterprises experiencing burdensome NTMs is estimated correctly and can be extrapolated to the entire sector. To achieve this objective, a sample size for the phone

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screens with exporting companies is determined independently for each export sector. [135]

For importing companies, the sample size is defined at the country level. The sample size for importing companies can be smaller than the sample size for exporters, mainly for two reasons. First, the interviewed exporting companies are often import intermediaries and provide reports on their experiences with NTMs as both exporters and importers. Second, problems experienced by importing companies are generally linked to domestic regulations required by their home country. Even with a small sample size for importing companies, the effort is made to obtain a representative sample by import sectors and the size of the companies.

Exporting companies have difficulties with both domestic regulations and regulations applied by partner countries that import their products. Although the sample size is not stratified by company export destinations, a large sample size permits a good selection of reports related to various export markets (regulations applied by partner countries). By design, large trading partner are mentioned more often during the survey, simply because it is more likely that the randomly selected company would be exporting to one of the major importing countries.

The sample size for face-to-face interviews depends on the results of the phone screen interviews aiming at interviewing all companies that reported on the phone that they had experienced burdensome NTMs. Some attrition of the face-to-face sample is possible if companies experience NTMs but are unwilling to participate in in-depth discussion

Average sample size

Based on the results of the NTM surveys in 27 countries, the number of successfully completed phone screens can range from 150 to 1,000, with subsequent 150 to 400 face-to-face interviews with exporting and importing companies. The number of phone screens is mainly driven by the size and the structure of the economy, availability and quality of the business register and the response rate. The sample size for the face-to-face interviews depends on the number of affected companies and their willingness to participate in the face-to-face interviews.

Survey data analysis

The analysis of the survey data consists of constructing frequency and coverage statistics along several dimensions, including product and sector, NTMs and their main NTM categories (e.g. technical measures, quantity control measures), and various characteristics of the surveyed companies (e.g. size and degree of foreign ownership).

The frequency and coverage statistics are based on 'cases'. A case is the most disaggregated data unit of the survey. By construction, each company participating in a face-to-face interview reports at least one case of burdensome NTMs, and, if relevant, related procedural obstacles.

Each case of each company consists of one NTM (a government-mandated regulation, for example sanitary and phytosanitary [SPS] certificate), one product affected by this NTM, and partner country

[135] The sample size depends on the number of exporting companies per sector and on the assumptions regarding the share of exporting companies that are affected by NTMs in the actual population of this sector. The calculation of a sample size will be based on the equation below (developed by Cochran, 1963) to yield a representative sample for proportions in large populations (based on the assumption of normal distribution).

$$n_o = \frac{t^2 * p(1-p)}{d^2}$$

Where

n_o: Sample size for large populations

t: t-value for selected margin of error (d). In the case of the NTM survey 95 per cent confidence interval is accepted, so t-value is 1.96.

p: The estimated proportion of an attribute that is present in the population. In the case of the NTM survey, it is a proportion of companies that experience burdensome NTMs. As this proportion is not known prior to the survey, the most conservative estimate leading to a large sample size is employed, that is p=0.5.

d: Acceptable margin of error for the proportion being estimated. In other words, a margin of error that the researcher is willing to accept. In the case of NTM survey d=0.1.

Source: Cochran, W. G. 1963. Sampling Techniques, 2nd Ed., New York: John Wiley and Sons, Inc.

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applying the reported NTM. For example, if there are three products affected by the very same NTM applied by the same partner country and reported by one company, the results would include 3 cases. If two different companies report the same problem, it would be counted as two cases.

The scenario where several partner countries apply the same type of measure is recorded as several cases. The details of each case (e.g. the name of the government regulations and its strictness) can vary as regulations mandated by different countries are likely to differ. However, if the home country of the interviewed companies applies an NTM to a product exported by a company to several countries, the scenario will be recorded as a single NTM case. Furthermore, when an interviewed company both exports and imports, and reports cases related to both activities, it is included in the analysis two times: once for the analysis of exports and once for the analysis of imports. The distinction is summarized in the table below.

Cases of POs are counted in the same way as NTM cases. Poblems with procedural environment (POs) are linked to the problems with regulatory environment (NTMs) explaining why the reported regulation represents a burden for a company. For example pre-shipment inspection is burdensome because it takes very long time. Whenever information is available, PO cases also include agencies related to the report PO.

Reported problems not related to the specific regulations (referred to as problems with business environment) are counted at the company level by country where problems take place (home country, partner country or transit country, see Annex IV).

Enhancing local capacities

The NTM surveys enhance national capacities by transmitting skills and knowledge to a local partner company. ITC does not implement the surveys, but guides and supports a local survey company and experts in doing this.

Before the start of the NTM survey, the local partner company, including project managers and interviewers are fully trained on the different aspects of the NTMs, the international NTM classification, and the ITC NTM survey methodology. ITC representatives stay in the country for the launch of the survey and initial interviews, and remain in contact with the local partner during the entire duration of the survey, usually around six months, to ensure a high quality of survey implementation. ITC experts closely follow the work of the partner company, providing a regular feedback on the quality of the captured data (including classification of NTMs) and the general development of the survey, helping the local partner to overcome any possible problems.

Furthermore, ITC helps to construct a business register (list of exporting and importing companies with contact details) which remain at disposal of the survey company and national stakeholders. The business register is a critical part of any

Dimensions of an NTM case

Dimensions \ Country applying the measure	Home country (where survey is conducted)	Partner countries (where goods are exported to or imported from) and transit countries
Reporting company	X	X
Affected product (HS 6-digit code or national tariff line)	X	X
Applied NTM (measure-level code from the NTM classification)	X	X
Trade flow (export or import)	X	X
Partner country applying the measure		X

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company-level survey, but unfortunately it is often unavailable, even in the advanced developing countries. ITC puts much time, effort and resources into constructing a national business register of exporting and importing companies. The initial information is obtained with the help of national authorities and other stakeholders (e.g. sectoral associations). In cases where it is not available from government sources or a sectoral association, ITC purchases information from third companies and in certain cases digitalizes it from paper sources. The information from various sources is then processed and merged into a comprehensive list of exporting and importing companies, used or the survey and shared with stakeholders.

So, upon completion of the NTM survey, the local partner company is fully capable of independently implementing a follow-up survey or other company-level surveys, as the local partner is equipped with the business register and trained on the survey, trade and NTM-related issues.

Caveats

The utmost effort is made to ensure the representativeness and the high quality of the survey results, yet several caveats must be kept in mind.

First, the NTM surveys generate perception data, as the respondents are asked to report burdensome regulations representing a serious impediment to their exports or imports. The respondents may have different scales for judging what constitutes an impediment. The differences may further intensify when the results of the surveys are compared across countries, stemming from cultural, political, social, economic and linguistic differences. Furthermore, some inconsistency may be possible among interviewers (e.g. related to matching reported measures against the codes of the NTM classification) due to the complex and idiosyncratic nature of NTMs.

Second, in many countries a systematic business register covering all sectors is not available or not complete. As a result, it may be difficult to ensure random sampling within each sector, and a sufficient rate of participation in smaller sectors. Whenever this is the case, the survey limitations are explicitly provided in the corresponding report.

Finally, certain NTM issues are not likely to be known by the exporting and importing companies. For example, exporters may not know the demand-side constraints behind the borders, e.g. 'Buy domestic' campaigns. Furthermore, the scope of the survey is limited to legally operating companies, and does not include unrecorded trade, e.g. shuttle traders.

In conclusion, The NTM survey results serve as a diagnostic tool for identifying and solving predominant problems. This can be realized at the national or international level. The survey findings can also serve as a basis for designing projects to address the problems identified and for supporting fundraising activities.

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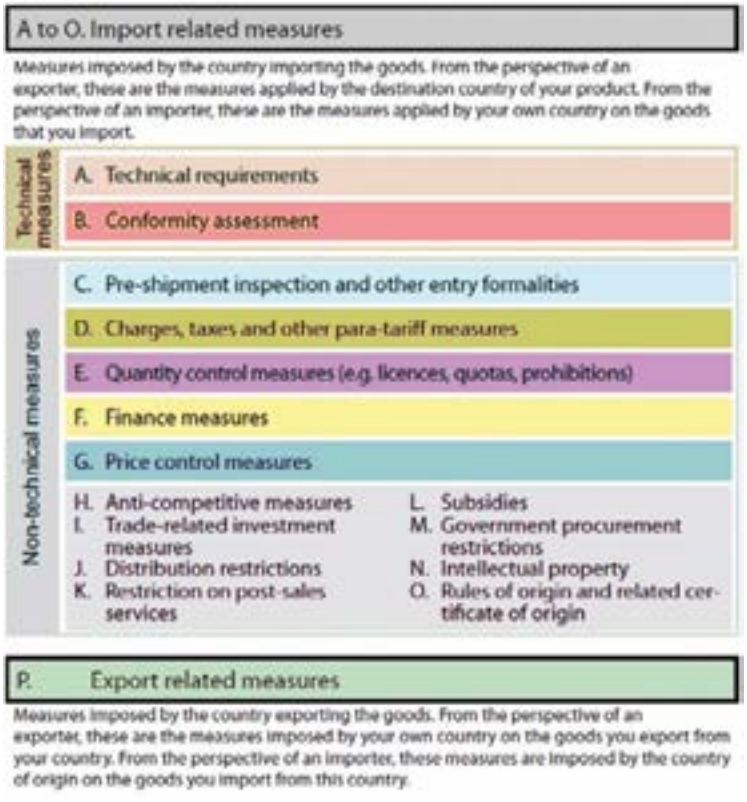
Appendix II

Non-tariff measure classification

Importing countries are very idiosyncratic in the ways they apply non-tariff measures. This called for an international taxonomy of NTMs, which was prepared by a group of technical experts from eight international organizations, including the Food and Agriculture Organization, the International Monetary Fund, the International Trade Centre, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Industrial Development Organization, the World Bank and the World Trade Organization. It was finalized in November 2009 and is used to collect, classify, analyse and disseminate information on NTMs received from official sources, e.g. government regulations. For the purpose of the large-scale company surveys on NTMs, ITC uses a simplified version of this international classification.

The NTM classification for surveys differentiates measures according to 16 chapters (denoted by alphabetical letters, see figure above), each comprising sub-chapters (denoted by two letters) and

The structure of the NTM classification for ITC surveys



Source: *International Trade Centre, MAST NTM classification adapted for ITC surveys, January 2012.*

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the individual measures (denoted by two letters and a number). The following sketches the content of each of the 16 chapters.

Chapter A, on technical regulations, refers to product-related requirements. They are legally binding and set by the importing country. They define the product characteristics, technical specifications of a product or the production process and post-production treatment and comprise the applicable administrative provisions, with which compliance is mandatory. Technical requirements include sanitary and phytosanitary measures, which are generally implemented to protect human, animal and plant life and health.

Chapter B, on conformity assessment, refers to measures determining whether a product or a process complies with the technical requirements specified under chapter A. Conformity assessments include control, inspection and approval procedures – such as testing, inspection, certification and traceability – which confirm and control that a product fulfils the technical requirements and mandatory standards imposed by the importing country, for example to safeguard the health and safety of consumers.

Chapter C, on pre-shipment inspection and other formalities, refers to the practice of checking, consigning, monitoring and controlling the shipment of goods before or at entry into the destination country.

Chapter D, on charges, taxes and other para-tariff measures, refers to measures other than tariffs that increase the cost of imports in a similar manner, i.e. by a fixed percentage or by a fixed amount. They are also known as para-tariff measures. Customs surcharges and general sales taxes are examples.

Chapter E, on licences, quotas, prohibitions and other quantity control measures, includes measures that restrain the quantity of goods that can be imported, regardless of whether they come from different sources or from one specific supplier. These measures can take the form of restrictive licensing, fixing of a predetermined quota, or through prohibitions.

Chapter F, on finance measures, refers to measures that are intended to regulate the access to and cost of foreign exchange for imports and define the terms of payment. They may increase import costs in the same manner as tariff measures.

Chapter G, on price control measures, includes measures implemented to control the prices of imported articles in order to: support the domestic price of certain products when the import price of these goods is lower; establish the domestic price of certain products because of price fluctuation in domestic markets, or price instability in a foreign market; and counteract the damage resulting from the occurrence of 'unfair' foreign trade practices.

Chapter H, on anti-competitive measures, refers to measures that are intended to grant exclusive or special preferences or privileges to one or more limited groups of economic operators.

Chapter I, on trade-related investment measures, refers to measures that restrict investment by requesting local content, or requesting that investment be related to export to balance imports.

Chapter J, on distribution restrictions, refers to restrictive measures related to the internal distribution of imported products.

Chapter K, on restrictions on post-sales services, refers to measures restricting the provision of post-sales services in the importing country by producers of exported goods.

Chapter L, on subsidies, includes measures related to financial contributions by a government or government body to a production structure, be it a particular industry or company, such as direct or potential transfer of funds (e.g. grants, loans, equity infusions), payments to a funding mechanism and income or price support.

Chapter M, on government procurement restrictions, refers to measures controlling the purchase of goods by government agencies, generally by preferring national providers.

Chapter N, on intellectual property, refers to measures related to intellectual property rights in trade. Intellectual property legislation covers patents,

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trademarks, industrial designs, lay-out designs of integrated circuits, copyright, geographical indications and trade secrets.

Chapter O, on rules of origin, covers laws, regulations and administrative determinations of general application applied by the governments of importing countries to determine the country of origin of goods.

Chapter P, on export-related measures, encompasses all measures that countries apply to their exports. It includes export taxes, export quotas or export prohibitions, among others.

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Appendix III

Procedural obstacles

List of procedural obstacles related to compliance with non-tariff measures and the manner in which regulations are implemented

A.	Administrative burdens	A1. Large number of different documents *(please specify number of documents)* A2. Documentation is difficult to fill out A3. Difficulties with translation of documents from or into other languages *(please specify language)* A4. Large number of checks *(e.g. inspections, checkpoints, weigh bridges - please specify the number and type of the checks)* A5. Numerous administrative windows/organizations involved *(please specify number / type of involved windows/organizations)*
B.	Information/transparency issues	B1. Information is not adequately published and disseminated B2. No due notice for changes in procedure B3. Regulations change frequently B4. Requirements and processes differ from information published
C.	Inconsistent or discriminatory behaviour of officials	C1. Inconsistent classification of products C2. Inconsistent or arbitrary behaviour of officials
D.	Time constraints	D1. Delay in administrative procedures (please specify number of days) D2. Delay during transportation *(please specify number of days)* D3. Deadlines set for completion of requirements are too short (*please specify required time*)
E.	Payment	E1. Unusually high fees and charges *(please specify amount)* E2. Informal payment, e.g. bribes *(please specify amount)* E3. Need to hire a local customs agent to get shipment unblocked
F.	Infrastructural challenges	F1. Limited/inappropriate facilities *(e.g. storage, cooling, testing, fumigation – please specify)* F2. Inaccessible/limited transportation system *(e.g. poor roads, road blocks – please specify)* F3. Technological constraints, e.g. information and communications technology *(please specify)*
G.	Security	G1. Low security level for persons and goods
H.	Legal constraints	H1. No advance binding ruling procedure H2. No dispute settlement procedure H3. No recourse to independent appeal procedure H4. Poor intellectual property rights protection, e.g. breach of copyright, patents, trademarks, etc. H5. Lack of recognition, e.g. of national certificates
I.	Other	I1. Other obstacles (*please specify*)

Appendix IV

Business environment and trade facilitation

List of problems with business environment and a lack of trade facilitation

	Problems with business environment and a lack of trade facilitation	In home country	In partner countries	In transit countries
1.	Lack of access to inputs for production	❑	❑	❑
2.	Time delays	❑	❑	❑
3.	Corruption, e.g. bribes	❑	❑	❑
4.	Inconsistent/arbitrary behavior of officials	❑	❑	❑
5.	Lack of (well trained) human resources in the agencies/organizations involved	❑	❑	❑
6.	Need to hire a local customs agent to get shipment unblocked	❑	❑	❑
7.	Complex clearance mechanism, e.g. in customs	❑	❑	❑
8.	Limited transportation system, e.g. poor road, railways and ports *(please specify in the comments)*	❑	❑	❑
9.	Limited or extremely expensive airline transportation	❑	❑	❑
10.	Road blocks and checkpoints	❑	❑	❑
11.	Excessive or very expensive weighbridges	❑	❑	❑
12.	Low security level for persons and goods	❑	❑	❑
13.	Lack of storage facilities, including cooling	❑	❑	❑
14.	Lack of accredited testing laboratories	❑	❑	❑
15.	Problems with electricity supply, e.g. electricity cuts	❑	❑	❑
16.	Lack of electronic/computerized procedures	❑	❑	❑
17.	Other technological constraints, e.g. limited access to information and communication technologies	❑	❑	❑
18.	Lack of access to information, no enquiry point	❑	❑	❑
19.	Ineffective legal enforcement, e.g. contract enforcement, dispute settlement	❑	❑	❑
20.	Lack of accessible business oriented legal support	❑	❑	❑
21.	Limited or lack of access to trade finance services	❑	❑	❑
23.	Poor intellectual property rights protection e.g. breach of copyright, patents, trademarks	❑	❑	❑
23.	Problems with conditions imposed by partner company, e.g. related to letter of credit	❑	❑	❑
24.	Other problems with business environment, *please specify:*_____	❑	❑	❑

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Appendix V

Experts and stakeholders interviewed

Experts and stakeholders who participated in the open-end discussions on non-tariff measures and related obstacles

In addition to NTM survey interviews with companies, interviews with representatives of the following associations and institutions were undertaken by ITC in May and June 2011:

- Union of producers of Food and Processing industries of Kazakhstan
- Association of Light Industry Enterprises of the Republic of Kazakhstan
- Union of Industrialists and Employers of Almaty, Association of Customs Brokers of Kazakhstan
- Association of Non-Alcoholic Beverages Producers,
- Union of Wine Producers of Kazakhstan
- Association of Furniture and Wood Processing Industries of Kazakhstan
- Union of Milk Producers
- Association for Support and Development of Pharmaceutical Activities in Kazakhstan
- National Centre of Expertise and Certification
- Kazakh Academy of Nutrition
- Almaty Technological University, Professor Uzakov Yasin.

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