

THE REPORT ON MINING

FOR UNCSD 18

(Republic of Kazakhstan)

1. BACKGROUND.

The Republic of Kazakhstan is a large Central Asian country with the territory exceeding 2.7 (two point seven) mln. square kilometers and population over 16 mln. people. It borders Russia, China, Uzbekistan and Kyrgyzstan.

Kazakhstan's subsoil is rich in many types of mineral resources. Prospected reserves allowed building strong oil-and-gas, uranium and coal extractive industries, developing extracting and processing industries in ferrous, non-ferrous and precious metals, various types of non-metal mineral resources. The mining and smelting complex is formed of more than 200 mining and processing plants exporting their produce to the European countries, to the United States, to China, South Korea, Singapore, Malaysia, and to other countries.

The industrial produce of the Kazakhstani raw material complex accounts for 44% of the total industrial outputs, with 39% falling to the share of oil-and-gas industry and 5% to extracting industries, other than oil and gas.

A priority direction of investments in Kazakhstan are projects of hydrocarbon subsoil resources use, monetary investments in prospecting and development of oil fields make more than 70% of the total. A smaller share of investments goes to solid mineral resources. It's necessary to note, that investments to the uranium industry have soared since 2006, being insignificant at the beginning of 2000s.

The priority in the future development of the natural resource industry in Kazakhstan is being given to a deeper processing of raw materials and production of output with a high added cost. In other words investment will be favoured not only into the mining industry but also, and to a greater extent, in processing.

2. THE ISSUES RELATED TO MINING

• ENVIRONMENT

Today, Kazakhstan is facing the pressing environment protection issues relating, in particular, to mining industry. The Ministry of Environment Protection is state body responsible for waste management in the country. An effective implementation of waste management strategies by the Ministry in long-term and mid-term periods, as well as compliance with the Concept of Environmental Safety of the Republic of Kazakhstan for 2004-2015, began after the Kazakhstan Environmental Code was adopted in 2007. The Ministry is collecting hazardous waste profile sheets from users of natural resources, preparing baseline information for the State Waste Inventory, and works to identify derelict waste. Cost accounting and in-process controls are being introduced everywhere to prevent and minimize waste generation, collect, recycle, handle, neutralize, store, and dispose of waste. Interaction with local

executive bodies and other agencies is enhanced to establish an effective waste market in the country.

Broad environmental strategies for the mining and mineral sector are set out in the National Environmental Action Plan (NEAP), the Caspian Environmental Programme and the Environment and Natural Resources strategic plan to 2030. These documents describe projects for the sustainable management and protection of the country's mineral resources. General policy directions are provided in the strategic plan. Among the priorities identified are the improvement of the monitoring system in oil and gas-producing regions, the development of a new approach for monitoring, the status of underground resources and new measures to reduce air pollution from the non-ferrous metals industry. Other priorities are the introduction of cleaner technologies in the mining industry and the development of sustainable techniques for minerals exploitation.

Regulations of environment impact assessment (EIA) of planned economic and other activity while elaboration of preplan, preproject and project documentation adopted by the Ministry of Environment Protection on February 28, 2004. 5-th point of this normative legislative document sets principle of obligatory public participation in the framework of environment impact assessment procedure. However in most cases local population being aware of the problem, do not get a move with initiative, probably, because of they do not know anything about their rights for secure environment, either do not know how to implement those rights.

In Kazakhstan large enterprises should establish an environmental management system that conforms to ISO 14001 or similar international standards.

The contract system provides for the establishment of a fund to finance activities associated with mine closure. According to Contract between a Mining (Exploration) company and Government company the established fund to be filled during mining (exploration) process is used for rehabilitation of mining (exploration) site. The fund volume, its use and other issues related to rehabilitation process are subject for discussion between Company and Government.

National Ministry of Environment Protection as the state body responsible for environmental problems is member of some UN structures and deals with environmental issues including ones in mining industry.

• ECONOMIC

Mining sector plays the essential role in economy of Kazakhstan. The government has established a basic framework to attract foreign direct investment into its resource-rich oil and mineral sector. Banking reforms and pension reform followed, together with the unbundling and partial privatization of the electricity sector.

State balance of mineral resources with proved reserves and cadastre of mineral deposits aiming to evaluate country's mineral resource potential and to manage these resources were created according to governmental regulation. All information on mineral resources - correspond automate information system (IMS) of

collection, systematization, storage, treatment and imagery of the spatially. At this moment that IMS operate and composed of several functional modules.

Licensing system for exploration and mining in the country was changed with contracting procedure between a company and the state. According to the basic "Law on Subsoil and Subsoil Resources Use" there are several types of contracts including ones for exploration, mining and underground construction.

Taxes and special payments of subsoil users in Kazakhstan are as follows.

There are two models of taxation:

1. The first model provides for payment by the user of mineral resources of all types of taxes and other mandatory payments established by the Tax Code, with the exception of the Kazakhstan's share under the production sharing arrangement;

2. The second model provides for payment (transfer) by the subsoil user the Republic of Kazakhstan's share under a production sharing arrangement, as well as payment of all types of taxes and other mandatory payments established by the Tax Code, with the exception of: the rent tax on exported crude oil, gas condensate; the royalty; the excise tax on crude oil and gas condensate; the excess profits tax; the land tax; the property tax.

Tax rates- the system of subsoil users' withdrawals is as follows:

1. The tax on excess profit (called the 'special tax of subsurface users') - from 0 to 60 per cent;

2. Special payments applied to subsurface users:

The Republic of Kazakhstan share under production sharing - is set in the contract; A royalty - for crude oil and gas condensate is from 2 to 6 per cent; for solid minerals, including gold, silver, platinum, and other precious metals and precious stones - is set by the Republic of Kazakhstan government.

Bonuses: there are two types of them- signing bonus and commercial discovery bonus.

A signing bonus - the final amount of a signing bonus is established by the commission as a result of a competition of investment programs for obtaining subsurface usage right and is set in a contract taking into account the economic value of the deposits (territories) being turned over for mining operations, but it must not be less than the initial amounts.

A commercial discovery bonus - the amount of a commercial discovery bonus shall be determined in accordance with volume of recoverable (proved) reserve, the calculation base, and the rate.

An additional payment of a subsoil user doing business under a production sharing arrangement - in case that state returns in a tax period are less than 10 per cent before the reimbursement of invested funds, and less than 40 per cent in following periods of the cost of gross value of extracted production received by the subsoil user in the tax period, the respective difference is paid by the subsoil user.

In order to effective utilize resource revenue during high commodity price periods it is totally cumulated in the Fund of National Prosperity (co- called stabilization fund) in Kazakhstan. During current time of economic recessions the

Fund capital is used for investment of projects in sphere of economic diversification. The Fund of National Prosperity is governed by the Kazakhstani Government and President and is not subject for public debates.

To do better management of mining and metal sectors Kazakhstan needs for ecologically friendly mining and cleaner production technologies as well as for new investments in deep processing of raw materials and production of commodities with high added value.

• SOCIAL

Analysis of the social relationship between subsoil users, local population and sustainable development in Kazakhstan is drawing on public participation in environment impact assessment, legal issues (including dispute settlement) and development of local population (including kazakhstani or local content).

Kazakhstan has ratified the Aarhus Convention in 2000. There are either projects on enlargement of Kazakhstan informational space, or participation in public hearings, or experience on protection environmental rights in court suits almost in every non-governmental organization that has been working since 2000. Public participation in EIA is one of the terms for implementation of Aarhus Convention.

One of the tools for providing public participation in development environmental policy is public participation in procedure of environmental outcomes assessment while elaboration of preplan, preproject and project documentation, held by the subsoil resources users. Very important point of the descriptions is a principle of obligatory public participation in EIA, according to it, access to information on EIA is provided and public hearings on EIA materials are organized. Another tool is public environmental expertise of state programs and plans under elaboration that can be held voluntarily by expert commissions formed by the initiative of particular groups of population, public associations and scientific organizations. The regulations underline “one of the forms of public participation in procedure of consideration programs’ EIA is public environmental expertise that can be held in accordance with norms of the “Ecological Code” of the Republic of Kazakhstan.

Presently in Kazakhstan environmental non-governmental organizations (NGOs) are active in environmental decision-making, in comparison, with the population that suffer from the problem most of all. In most cases Kazakhstan population does not participate in public hearings. May be, there are several reasons, one of them is complexity for the population to understand technical documents, which author of EIA documentation prepared for the public hearings. As a result, local population does not see their important role in decision-making on planned activity that may have a negative environment impact. This circumstance gives a possibility to executor of planned activity to make public participation minimal at initial stages of project implementation. According to recommendations for the public of some experts it is necessary to implement informing and education of public representatives and government officials on Aarhus Conventions provisions more

efficiently with active involvement of state structures at national and oblast (regional) levels, international organizations, environmental NGOs to this process.

Mining projects providing local population with job, constructing different infrastructure objects establish rising standard of living for the people. Presently the Government pays a lot of attention to kazakhstani (or local) content. Kazakhstani content includes use in percent of local labor, commodities, services etc. by companies- subsoil resources users. Now this content is over 10% and will increase to 50% in nearest future.

Agreement on promotion of the UN Global Compact in the sphere of social, labor relations was signed between the Ministry of Labor and Social Defence of Kazakhstan and large companies including ones in mining sector of the republic. To establish social responsibility of companies is main goal of the document. Annually best socially oriented companies have been awarded by prize on the “Paryz” (“Duty” in Kazakh) competition for social responsibility of business.

As conclusion, it is necessary to summarize that issues relating to contribution of mining (and metal) to sustainable development belong to responsibility of different ministries in Kazakhstan. For instance, Ministry of Industry and New Technologies (including its Committee of Geology and Subsoil Resources Use) is responsible for mining and metal sectors, including rational and complex use of mineral resources. All environmental issues are monitored and solved by the Ministry of Environment Protection. Social problems are sphere of activity of the Ministry of Labor and Social Defence. The ministries may be a member of corresponding international organizations and sign international agreements. Although we tried to request and obtain all information on Mining, Minerals and Sustainable development from the responsible state bodies, it was difficult to do it in detail and summarize along sustainable development statements.