

## Highlights

Fourteen out of fifteen border patrol staff at Arkangergen unit were found dead on 30 May. They were murdered execution style, bodies stocked and burnt. The perpetrators and their motives remain unclear. Kazakhstani authorities immediately rejected the notion that people from neighbouring China could have perpetrated such a crime despite the fact that the border patrol unit usually dealt with the illegal crossings of Chinese citizens. President Nazarbayev called this incident an 'act of terror' and ordered everyone to take appropriate measures<sup>1</sup>. Days later, one of the surviving guards, 19-year-old Vyacheslav Chelakh, turned himself in taking the blame for all the murders. Chelakh cited internal conflicts within the unit as leading him to conduct these atrocities<sup>2</sup>. While Chelakh's mental condition is being appraised by experts, most people do not believe he could have committed this act. Taking into consideration farcical trials in Zhanaozen (please see the previous brief), 25% of the public did not believe Chelakh's confessions -broadcast on TV- and 11.6% were undecided<sup>3</sup>. The director of the Frontier Service and several other officials have already resigned due to the incident. The trial is underway.

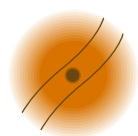
## Internal Affairs

Kazakhstan continues to experience growing social tensions since the Zhanaozen events, when, after a massacre of protestors at the square of this oil town, the government complied with all workers' requirements fully. Thirteen protests took place around the country in May alone<sup>4</sup>, mostly organized by workers and labour unions at extraction sites.

In the wake of recent labour attestation attempts resulting in performance-based bonuses and a salary loss of nearly 30% for most workers, the management of KazakhMys (11th largest copper producer in the world) met with severe resistance.

Protests began on 5 May at Annenskiy mine when about 80 workers refused to leave the mine after the night shift<sup>5</sup>. They claimed that the company had set artificially high criteria for a bonus and had not provided adequate conditions for workers to extract the necessary amount of copper. Miners asked for a 30% salary raise. By 7 May, 250 miners coming to their shifts underground and over 2,000 ground workers joined the strike<sup>6</sup>. The size of the strike at Annenskiy mine carries significant implications for the entire production process at KazakhMys. Annenskiy is one of the six underground mines at KazakhMys that supplies 70% of copper ore<sup>7</sup>. The strike prompted the management of KazakhMys to act immediately and it agreed to raise salaries by 20% for the majority of workers and reward specialists with 30% remuneration increase<sup>8</sup>. In addition, the management immediately declared protest as a labour dispute and refused to prosecute miners for the unsanctioned strike. These placatory measures improved short-term conditions and restored production process but the long-term stability at KazakhMys is far from achievable. Labour activists announced that KazakhMys is attempting to merge Annenskiy mine with East-Zheskazgan mine to prevent similar protests in the future<sup>9</sup>. In practice it will also mean that Annenskiy's labour union will cease to exist and be merged with the more compliant colleagues.

Another significant strike took place at ArcelorMittal in Temirtau, Karaganda region. Dismayed by the multiple rejections of local authorities to conduct a sanctioned strike, over 1,000 people (some sources cite 3,000) gathered in the city park to demand a 30% salary increase<sup>10</sup>. The management of ArcelorMittal said this increase was unfeasible and instead agreed to prorate salaries to the official inflation rate in 2011, which was set at 7.4%<sup>11</sup>. At the end of the strike the workers managed to obtain a 10% salary raise, but their labour union failed to rustle up the support of more than 50% of the workforce for the



proposed changes. Lack of support may cause another strike for salary revisions in October when and if commodity markets stabilize. Negotiations on concerted efforts are underway with coal miners and metallurgists for a joint strike and salary revisions. Long-term prospects of stability are therefore hanging in the balance for the largest steel producer in the world.

In addition to the strikes organized by labour unions at large extraction companies, farmers and transport workers joined a series of public actions against local government decisions. For example, farmers from Sairamshy village in southern Kazakhstan protested against the privatization of the sole water source in their region<sup>12</sup>. They recalled that similar actions caused flooding in Kyzylagash in 2010, when a public dam was privatized. In addition, residents of Besoba district in Karaganda went on strike after the newly constructed apartment building collapsed<sup>13</sup>. City officials proposed fortifying other buildings to ensure they escape a similar fate but after the strike, local officials agreed to destroy buildings in the entire district and supply residents with alternative housing. The chief supervisor of the State Committee that certified the quality of construction was arrested. Road construction workers at Western Europe-Western China highway went on strike to claim better working conditions and higher pay.

The trend represents a dangerous spiralling tendency that mirrors the inability of officials to address people's needs appropriately. Solutions to specific problems are found only after a significant public protest takes place but systemic reforms are not conducted. As a result, we should expect a growing number of strikes and public protests in the near future.

## Foreign and international policy

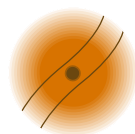
On 22 May, the government opened the fifth Astana Economic Forum, a highly praised international annual event. The forum attracted 12 Nobel Prize winners and over 100 thinkers, politicians and business representatives, and consisted of 40 events. Eurasian Business Congress was one of the highlights

of the Forum<sup>14</sup>. The Congress is designed to facilitate business dialogue among Custom Union members (the agreement went into force in January 2012). Representatives of financial-industrial groups and entrepreneurs from Kazakhstan, Belarus and Russia, as well as representatives of Ukrainian business discussed coordination of efforts.

Specifically, representatives of Kazakhstan and Belarus business associations called economic actors to participate more actively in government macro-programs. Unequal distribution of information and lack of clear regulations were cited as the main problems that impede development of stronger regional cooperation. As a result, Congress adopted an Initiative Group staffed by members of each Custom Union member (Kazakhstan, Russia and Belarus) to discuss common problems and provide a concerted position of business in dialogue with the government. The group will be responsible for information sharing and facilitation of payments within the Union. All the members supported the proposal for the slow withdrawal of the dollar from mutual payments and the introduction of local currencies in business transactions.<sup>15</sup>

Besides the Eurasian Business Congress, the VII Innovation Congress took place under the auspices of the V Astana Economic Forum with the motto 'Innovative Business is a Way towards Competitive Economy'<sup>16</sup>. The government of Kazakhstan reported that the panel 'Development of Innovative Entrepreneurship' attracted over 300 experts. More than 30 innovative projects from the local Kazakhstani community were displayed at the Congress exhibit. The Forum also addressed issues of crowd sourcing, the role of resources in economic development that are popular with Kazakhstani government.

Events of such international calibre show that the government wants to be recognized as an innovative and business-friendly regime. Implementing the construction of a competitive market economy relies on foreign experts who bring in know-how and best practices from all over the world. In addition, events such as the Forum allow the local business community to tap into the world of ideas and to



adopt and adapt them in business operation. Lastly, the Forum is in the interest of foreign investors, who identify potential projects and partners.

## Economy and business enterprise

The long-troubled BTA Bank obtained permission to conduct restructuring plans from the Almaty Specialized Financial Court on 8 May. Its troubles began in 2009 when the global financial crisis created a shortage of liquidity. The troubles exacerbated further when former BTA chairman Mukhtar Ablyazov protested against the nationalization of the Bank and left Kazakhstan to escape persecution. Nationalization took place in 2010 with the state holding Samruk-Kazyna owning more than 80% of the Bank<sup>17</sup>. Despite these measures the Bank went into default in January 2012 and missed its first coupon payment. Although many investors expected Kazakhstan's government to bail it out for the second time, BTA managers declared plans to restructure its debt despite the fact that the Bank had \$0.6 billion to pay investors in the third quarter of 2011.<sup>18</sup>

The court decision opens up possibilities for the Steering Committee to conduct due diligence procedures of the Bank and to examine the proposed business plan. The total debt eligible for restructuring is \$5.3 billion<sup>19</sup>. However, the process is aggravated by the fact that not all the investors agreed to restructure their debt. Other investors filed 'notice of acceleration' demanding an early payment for \$5.2 billion of 'recovery units' through BNY Mellon Corporate Trustee Service Limited<sup>20</sup>. This claim raises the total sum of BTA's financial obligations to \$9.9 billion.<sup>21</sup>

Under these circumstances, the government, namely Samruk-Kazyna, will most probably use the legal norm that freezes additional claims for payments during the entire process of the restructuring. However, the Bank will be liable to satisfy the claim once it reaches an agreement with the Steering Committee. In case of no payment to either investor after the restructuring process, Samruk-Kazyna may be forced to announce bankruptcy and terminate the Bank. The government already expressed its desire to leave BTA after the second restructuring.<sup>22</sup>

<sup>1</sup>KazInform (2012), 'President Nazarbayev Comments 'act of Terror' at Arkankergen Border Outpost', 1 June 2012, available at [www.inform.kz/eng/article/2468796](http://www.inform.kz/eng/article/2468796), accessed on 24 June 2012.

<sup>2</sup>TengriNews (2012), 'Kazakh Guard Blames 'Conflicts' for Massacre: Official', 8 June 2012, available at [en.tengrinews.kz/crime/Kazakh-guard-blames-conflicts-for-massacre-official-10619/](http://en.tengrinews.kz/crime/Kazakh-guard-blames-conflicts-for-massacre-official-10619/), accessed on 24 June 2012.

<sup>3</sup>Interfax-Kazakhstan citing Kazakhstani Institute of Parliamentarism (2012), 'Arkankergen Tragedy Brought to Light Security Agencies' Inability to Conduct Information Work-Analyst', archive, available at [www.interfax.kz/?lang=en&int\\_id=expert\\_opinion&news\\_id=1054](http://www.interfax.kz/?lang=en&int_id=expert_opinion&news_id=1054), accessed on 24 June 2012.

<sup>4</sup>Institute of Political Decisions (2012), 'Trends: May 2012', 6 June, Almaty: KIPR, available at [www.ipr.kz/print/analytics/6/1/194/ajax](http://www.ipr.kz/print/analytics/6/1/194/ajax), accessed on 3 July 2012.

<sup>5</sup>Mariya Gordeyeva (2012), 'Kazakh Workers Start Copper Mine Sit-In', Almaty: Reuters, May 5, available at <http://www.reuters.com/article/2012/05/05/kazakhstan-strike-idUSL5E8G50SV20120505>, accessed on 3 July 2012.

<sup>6</sup>Margarita Assenova (2012), 'Copper Miners' Strike Ends Swiftly, but Long-Term Problems Remain', Eurasian Daily Monitor, #9(89), Washington DC: Jamestown Foundation. Available at [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[swords\]=8fd5893941d69d0be3f378576261ae3e&tx\\_ttnews\[any\\_of\\_the\\_words\]=fundraising&tx\\_ttnews\[tt\\_news\]=39357&tx\\_ttnews\[backPid\]=7&cHash=d687f980132e3e1c958e517ca3f64092](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[swords]=8fd5893941d69d0be3f378576261ae3e&tx_ttnews[any_of_the_words]=fundraising&tx_ttnews[tt_news]=39357&tx_ttnews[backPid]=7&cHash=d687f980132e3e1c958e517ca3f64092), accessed on 3 July 2012.

<sup>7</sup>Mariya Gordeyeva (2012), 'Kazakh Workers Start Copper Mine Sit-In'...

<sup>8</sup>Mariya Gordeyeva (2012), 'Kazakh Workers Start Copper Mine Sit-In'...

<sup>9</sup>Newline.kz (2012), 'Merger of Annensky Mines with East-Zhetskazal Mine Will not Lead to Job Cuts - KazakhMys', Almaty: Checkpoint Central Asia, available at [www.newline.kz/index/php#14](http://www.newline.kz/index/php#14), accessed on 3 July 2012.

<sup>10</sup>Kazakhstan Business Newswire (2012), 'ArcelorMittal Temirtau Workers Rally for 30% Wage Increase', 21 May. The article is available at <http://www.universalnewswires.com/centralasia/kazakhstan/business/viewstory.aspx?id=12045>, accessed on 3 July 2012.

<sup>11</sup>Ilya Matveev (2012), 'ArcelorMittal Workers in Kazakhstan Take to the Streets', Geneva: International Metalworkers' Federation, available at <http://www.imfmetal.org/index.cfm?c=30013&l=2>, accessed on 3 July 2012.

<sup>12</sup>Institute of Political Decisions (2012), 'Trends: May 2012', 6 June, Almaty: KIPR, available at [www.ipr.kz/print/analytics/6/1/194/ajax](http://www.ipr.kz/print/analytics/6/1/194/ajax), accessed on 3 July 2012.

<sup>13</sup>Institute of Political Decisions (2012), 'Trends: May 2012', June 6, Almaty: KIPR, available at [www.ipr.kz/print/analytics/6/1/194/ajax](http://www.ipr.kz/print/analytics/6/1/194/ajax), accessed on 3 July 2012.

<sup>14</sup>PRNewswire (2012), 'Fifth Astana Economic Forum', Astana: United Business Media, 5 June, available at [www.prnewswire.com/news-releases/fifth-astana-economic-forum-157149655.html](http://www.prnewswire.com/news-releases/fifth-astana-economic-forum-157149655.html), accessed on 5 July 2012.

<sup>15</sup>Stepan Lemeshev (2012), 'To Forecast and Slate Further Actions', Kazakhstanskaya Pravda, 25 May 2012, available at [www.kazpravda.kz/c/1337941519](http://www.kazpravda.kz/c/1337941519), accessed on 5 July 2012.

<sup>16</sup>Stepan Lemeshev (2012), 'To Forecast and Slate Further Actions'...

<sup>17</sup>TengriNews (2012), 'Samruk to Consider Exiting BTA Following the 2nd Debt Restructuring', 16 May 2012, available at [en.tengrinews.kz/finance/Samruk-to-consider-exiting-BTA-following-the-2nd-debt-restructuring-9965/](http://en.tengrinews.kz/finance/Samruk-to-consider-exiting-BTA-following-the-2nd-debt-restructuring-9965/), accessed on 5 July 2012.

<sup>18</sup>Nariman Gizitdinov (2012), 'Kazakh BTA Bank Recovery Unit Holders Seek Early Payment', New York: Bloomberg, available at [www.bloomberg.com/news/2012-05-03/kazakh-bta-bank-recovery-unit-holders-seek-early-payment-2-.html](http://www.bloomberg.com/news/2012-05-03/kazakh-bta-bank-recovery-unit-holders-seek-early-payment-2-.html), accessed on 5 July 2012. Also Kamshat Zhumagulova (2012), 'BTA Na Starte s \$9.9 mlrd Dolgov', Kursiv #18, page 9, 11 May, available at [www.kursiv.kz](http://www.kursiv.kz)

<sup>19</sup>Bakai Madybaev (2012), 'BTA Applied to Court for Restructuring, RNs Accelerated', Almaty: Halyk Finance, 4 May 2012, available at [www.halykfinance.kz/en/site/index/research/news:80603](http://www.halykfinance.kz/en/site/index/research/news:80603), accessed on 5 July 2012.

<sup>20</sup>Kamshat Zhumagulova (2012), 'BTA Na Starte s \$9.9 mlrd Dolgov', Kursiv #18, page 9, 11 May, available at [www.kursiv.kz](http://www.kursiv.kz)

<sup>21</sup>Bakai Madybaev (2012), 'BTA Applied to Court for Restructuring, RNs Accelerated'...

<sup>22</sup>TengriNews (2012), 'Samruk to Consider Exiting BTA Following the 2nd Debt Restructuring'...

The opinions expressed here are those of the authors and do not necessarily reflect the positions of the Central Asia Observatory (CAO). The institutions that constitute the CAO are not responsible for the use of these contents.

