

ЭКОНОМИКА

TURKISH MODEL AND COOPERATION POSSIBILITIES FOR CREATING ADDED VALUE IN KAZAKH GOLD PRODUCTION

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INTRODUCTION

Developing the cooperation of Kazak gold industry with Turkish gem and gold industry, which has a considerable status in world gold market, will lead to an increased potential that will spread to the region.

Such a cooperation shall bring the processing of the gold mined in Kazakhstan increasing added value as well as development of trade between the two countries and increased labor. Through this process, experienced Turkish gem industry is exemplary, creating a great opportunity for mutual cooperation.

1. TURKIC REPUBLICS' GOLD POTENTIAL

Central Asia Turkic Republics are considered to be major gold mining countries of the world. In 2005, among the first twenty gold producing countries, South Africa leads with 428 tons, followed by United States with 355 tons and Australia with 296 tons. Ozbekhistan, with its 86 tons of production in both 2005 and 2006 has taken the 9th place where Kirghizistan has been 18th with 22 tons of gold production. Among the Central Asia Turkish Republics, Ozbekhistan, Kazakhstan, and Kirghizistan's gold production holds 75% of Commonwealth of Independent States. 126 tons of gold was produced in the region. Although Turkish Republics has a very strong position in the supply of Gold in the world, they do not hold great power in the gold market.

Gold produced in Turkish Republics are processed in local refineries and mostly put in inventories without to investments. It is estimated that this Gold Stock reaches the levels of approximately 400-500 tons.

Despite the great gold trading potential, local demand and jewelry industry is underdeveloped in these countries. Gold produced is not introduced into the economy which leads to weakness of price setting influence of these countries. In addition to that the absence of an organized trade market and the shallow financial

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infrastructure have made it almost impossible to diversify the financial tools as well as integration of the gold markets in these countries in the international markets.

2006 evaluation for gold suppliers of the region is as follows;

Due to the change of production levels of Zarafsan-Newmont Gold Mining Joint Venture, Uzbekistan's gold production has decreased in the past years, stabilizing at approximately 95 tons per year between 1999 and 2006. Zarafsan-Newmont has produced 65 tons per year in the government owned Muruntau mine since 2000.

Zarafsan-Newmont Company's gold production in 1999 almost doubled while in 2006 declined by 8% due to the reduction in the quality of the gold produced. Although gold production figures are treated as government secret, Navai Mining and Minerals, operator of Muruntau in Kyzyl Kum Desert, have declared that the quality of gold produced was better than the previous year and will start the implementation of bio-oxidation plan which will increase the production in the Uchkuduk Region.

Kirghizistan has increased its gold production by 9% to 22 tons in the last year. Kumtor Gold Mine, country's largest, set in Tien Shan mountains, has increased its production by 1.8 tons from 1999 to 2006. 66% owned by government, the production has been back to the pre-planned levels after the problems in 1999. Kirghiz Government has declared that despite the five-fold increase in the production of gold in the past five years, they have been unsuccessful in implementing the program designed to develop the industry. Gold production of government owned mines has decreased, for which Gold Fields Mineral Services estimates that the yearly production shall decrease by 1 ton when compared to last year.

Kazakhstan's gold production is continuing to recover at 14 tons in 2006. The increase is mainly due to the increase in gold production in addition to the production of gold as a byproduct by the copper, lead, and zinc producers. Altyn Almas company which manages the gold public privileges, has declared that gold production from base metals in 2007 is just around three tons.

2. KAZAKHSTAN ECONOMY

Kazakhstan owns one-fifth of all plantable soil in ex Soviet Union and is a major agricultural producer and exporter. In addition to this, the country has great mineral resources as well as capacity to process these resources. 90% of Central Asia Turkic Republics chrome production, 50% of copper, lead, tungsten, and zinc production, 20% of coal production, and 7% of gold production belongs to this country. Also the industrial infrastructure in metallurgy, machinery and equipment for heavy industry, petrochemistry, processing of agricultural goods and textiles is quite developed.

Agriculture is still the leading sector regarding to the employment figures, with a share of 20-25%. Wheat is the number one agricultural good produced. Unfortunately varying harvests and reforms lacking research and planning have been the main reason of the standstill in the sector.

Kazakhstan is one of the best countries with respect to the volume and variety of its mineral and raw material resources. Its underground wealth is estimated to total over 2 billion USD. 57.6% of the country's industrial production is comprised of mineral and natural resources complexes. The distribution with regards to the types of minerals is as follows; oil and natural gas 20.2%, ferro metals 8.6%, and non-iron metals 11.6%.

2.1. Kazakhstan Gold production

All gold products produced from Kazak raw material are offered for trade in the primary market where Kazak Securities Exchange and Ministry of Finance has priority in buying and selling. Gold can be traded in the secondary market including international markets. Banks holding licenses and other legal entities are able to carry out transactions in the primary market. According to IMF data gold and cash reserves stand at 2.833 million USD in May 2006. Kazakhstan's gold production figures between 1997-2006 are as follows:

Years	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gold Production (Tons)	10,9	8,9	9,6	12,2	14,7	14	13	15	17	22,6

Kazakhstan is the third largest country among the Commonwealth of Independent States in regards to gold mine resources and gold production. 35% of this gold is byproduct of copper and polimetal production. Currently gold production sector in Kazakhstan is going through a stagnation period when the resources are taken into account. Due to the heavy investment required for the gold mining technology, it is difficult to find companies interested in gold mining which leads to the non operation of a gold mine that has 20 tons of gold.

Kazak gold reserves are declared to be 1.5 billion USD with a decline of 3% on March 15,2001. The main reasons behind this decrease are the interest payments on external debt and the decline of gold prices in the world markets.

The country's largest gold producer is Kazak Askam, which used to be owned by the State. Renamed Balhaş Metallurji Zavodu Company, it has realized 10 tons of gold and 902 tons of silver production in the last three years as well as opening a jewellery department within the factory.

2.2. Issues on Gold Production

After declaring its independency, Kazakhstan is going through a fast change with regard to its economy and culture. However, due to its shortcomings, especially in communication tools, many difficulties arise in import and export transactions. In addition to this, many delays occur in customs and delivery of goods.

Delivery of goods to Kazakhstan requires the control of SGS Supervision Company. However, this company requires notice 7-10 days prior to the delivery

which makes the control problematic when customer demands are of short notice. Also unnecessary delays in customs management and other troubles caused at the customs have negative impact on the exports.

Since the declaration of its independency, Kazakhstan is going through major changes in terms of legal structure parallel to the economic changes. Due to this process in legal structure, tax laws have been altered in 1992 aiming for a reduction in the budget deficit by adding new taxes and increasing most of the tax rates. As a result, budget deficit has decreased partially.

In 1998, laws were improved aiming to increase foreign direct investment. Tax and Customs laws were changed targeting to show more respect for the contracts signed by foreign investors. Especially contracts for the operation of rich oil and natural gas resources in Northern Caspian Sea and in Karacaganak were kept under consideration while the laws were being reformed. In addition to this, changes were made to the tax laws regarding the restoration of incentives given by the reduction of direct taxes. These incentives are given to the investors based on the guidelines for foreign investors that are in effect when the investment was first made.

3. TURKISH JEWELLERY INDUSTRY

Turkish jewellery sector has the capacity to process approximately 400 tons of gold and 300 tons of silver per year. About 500,000 people are employed in the sector which produces 200 tons of jewellery of which 50 tons is exported per year. Turkey takes the fifth place in gold import in the world.

Sector is comprised of approximately 10,000 ateliers where 100,000 people are employed. Stores are mainly in the big cities (with İstanbul leading) and touristic towns in the Aegean and the Mediterranean. The industry has 50,000 retail stores and approximately 15 large companies with modern technology. International recognition of the brands is low with a low rate of branding. İstanbul Gold Exchange, where transactions for gold, silver, and platinum takes place, has started its operations in 1995.

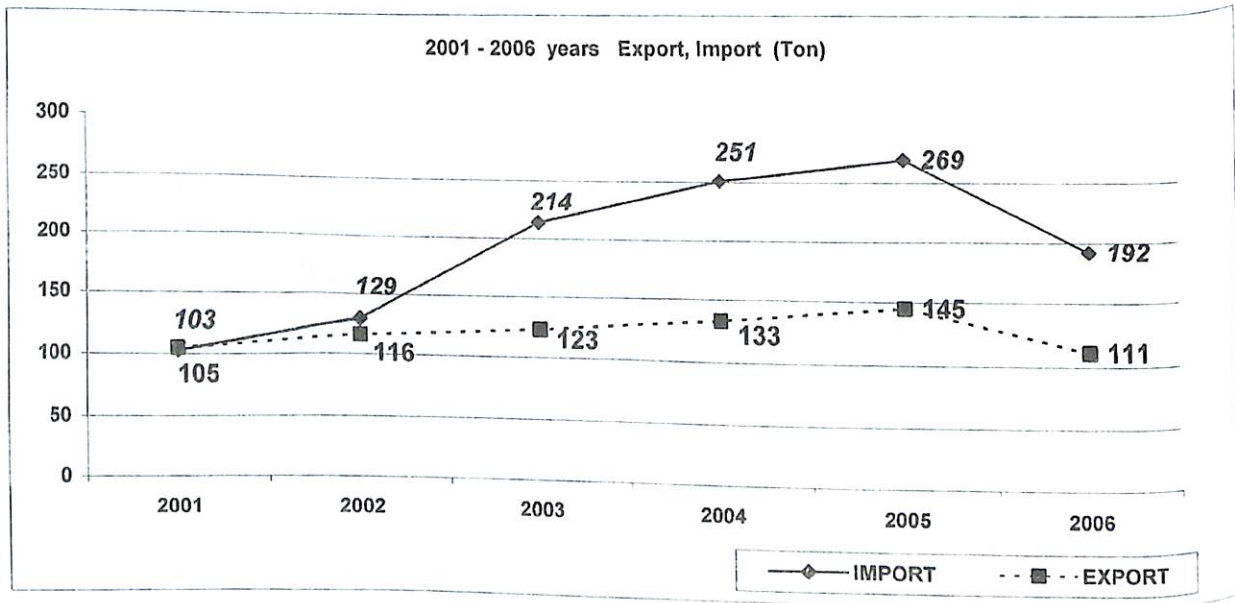
Gold Supply and Demand in Turkey (2001-2006)

SUPPLY-DEMAND (ton)	2001	2002	2003	2004	2005	2006
Bullion Import	103	129	214	251	269	192
Temporary Import	9	14	12	13	12	8
Jewellery Import	5	6	6	7	12	12
Return on Scrap	89	61	55	60	62	64
TOTAL	206	210	287	331	355	276

DEMAND						
Jewellery Export	42	50	53	60	68	45
Suitcase Trade	22	23	17	12	15	13
Tourist sales	41	43	53	61	62	53
Local Sales	49	59	99	130	138	102
Republic Gold	26	29	47	47	52	55
Small Bullion	1	0	1	2	2	2
Bullion Export	25	6	17	20	20	6
TOTAL SUPPLY	206	210	287	332	355	276

Resource: World Gold Council Turkey Office 2007

The financial size of Turkish Jewellery sector is leveled at 278 tons per year between 2001 and 2006 that adds up to a monetary size of 5.6 billion USD. Export / Import Ratio is 58%.



Resource: World Gold Council Turkey Office 2007

4. CONCLUSION

The target is a joint cooperation in gold markets of both countries aiming to develop industrial cooperation between Turkey and Kazakhstan. Specifically, the areas listed below should have priority in forming of such a cooperation;

- Reorganization of Gold Markets
- Forming of Gold Exchange
- Gem Production
- Refining Transactions
- Jewellery Sector
- Production Technology
- Sectoral Employment
- Investment Instruments Based on Gold
- Gold Banking
- New Markets

Istanbul Gold Exchange can ensure the storage covering the insurance costs of Kazakh gold at the Istanbul Gold Exchange clearinghouse and have it sold domestically or internationally to Middle East countries and India. Dubai Free Trade Zone is the most important trade center in the Middle East. Demand of India, world's largest gold producer, is met from Dubai. However, lack of a organized exchange leads to illegal gold trade where the price of gold per ounce is approximately 30-40 USD above the international prices. Attracting this volume of trade to Istanbul Gold Exchange where the prices are leveled at world prices shall increase the trade volume between Turkey and Turkic Republics, enabling these countries to have power in pricing strategies in the world markets.

In order to integrate Kazakhstan's closed gold markets to international markets, consultancy can be supplied if demanded. Price movements in Turkish Gold Market can be transmitted real time to the world by the help of electronic information instruments. At the same time international market fluctuations affect our Gold Exchange real time. If the financial institutions in Turkic Republics become members of Istanbul Gold Exchange (IGE), they can benefit from the integration into the world markets through IGE. The first concrete step that can be taken in this process is the application of banks or other companies in the sector that operate in central Asia, such as Kazakhstan-Ziraat International Bank, established in Kazakhstan, to the treasury undersecretaryship for the membership rights in Istanbul Gold Exchange. There are no legal obstacles for such applications and memberships.

Turkey has considerable experience in starting up the procedures to have Kazakh gold exported. Therefore, cooperation among relevant companies and entities should be initiated for the formation of a strategic plan in order to transform gold production in Kazakhstan to jewellery production, creating added value in the sector.

Resources

- Gold Fields Mineral Services "Gold 2007" Publication
- Republic of Kazakhstan Statistical Agency Publications,
- The Economist Intelligence Unit, Kazakhstan Country Report, 2005,
- IMF Kazakhstan Report 2006,

- CIA-The World Factbook 2005-Kazakhstan,
- T.C. Prime Ministry TİKA Publications
- İstanbul Gold Exchange Publications

Özet

Türk Kuyumculuk sektörü, yıllık 400 ton altın ve 300 ton gümüş işleme kapasitesine sahiptir. Bu işlem Türkiyedeki 10.000 atölye de yaklaşık 500.000 kişi tarafından yapılmakta ve yaklaşık 50.000 satış noktasında işlenmiş bu mücevherler satılmaktadır. İşlenmiş altının 50 tonu ihraç edilmektedir. Aynı zamanda Türkiye, dünyanın 5. altın ithalatçısı ülkesidir.

Orta Asya ülkeleri arasında yüksek altın üretimi yapan ülkelerden biride Kazakistandır. Bu nedenle Kazakistan Türkiyenin tecrübesinden faydalanarak kendi altınına çok yüksek bir katma değer katabılır.

Резюме

Түрік өнеркәсібіндегі құйма секторы, жылына 400 тонна алтын және 300 тонна күміс шығара алу дәрежесіне ие. Бұл жұмыс Түркияда 10.000 кәсіпорында, шамамен 500.000 жұмысшы күшімен жасалады. Жасалынған алтынның 50 тоннасы экспортқа жіберіледі. Бүгінгі күнде Түркия алтын экспорттау бойынша 5- орында тұрады.

Орта Азияда алтын жасау бойынша жоғары көрсеткіште келе жатқан Қазақстан болып саналады. Соған байланысты Қазақстан Түркияның тәжірибесінен пайдаланса, өз алтынының бағасын және де өсіре алады.

Резюме

Турция способна выпускать каждый год 400 тонн золота и 300 тонн серебра. Для этого в Турции работают 10.000 заводов, и количество рабочих составляет около 500.000. Приготовленные 50 тонн золота отправляются на экспорт. Сегодня Турция зашла в пятерочку по экспорту золота.

В средней Азии Казахстан лидирует по изготовлению золота. Если Казахстан будет пользоваться практикой Турции он может повысить свой цены в мировом рынке.