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## Challenges of anti-Russia sanctions for metals and mining enterprises in Kazakhstan

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**Relevance.** The new challenges for Kazakhstan's economy have emerged in the aftermath of current geopolitical tensions, especially after Kazakhstani businesses have found themselves under the threat of the US and EU secondary sanctions. The industries of the export-oriented metals and mining sector were hit the hardest. Kazakhstani enterprises in their attempts to navigate the sometimes contradictory trends in world trade responded in a variety of ambivalent ways. This situation clearly requires more research. While the lack of large data volumes makes qualitative diagnostics and scenario-based forecasting extremely difficult, the proposed approach may prove to be a viable solution.

**Research objective.** This study aims to identify and describe the main models of behaviour demonstrated by Kazakhstani companies that seek to manage the risk of secondary sanctions and mitigate their export losses.

**Data and methods.** To study the responses of Kazakhstani companies to the risk of secondary sanctions, the case study method was used, which provides us with a broader view on the companies of different sizes and territorial presence. The cases are then systematized to identify the key types of corporate responses to secondary sanctions. The study relies on the observations and data gathered from the documentations of Kazakhstani companies, media publications, reviews, the List of Items Prohibited for Export and Import in Russia and the Republic of Belarus Pursuant to Sanctions, and the normative legal acts of the Republic of Kazakhstan.

**Results.** The study has brought to light the models of behaviour demonstrated by large enterprises and junior companies in Kazakhstan's metals and mining industry. Seeking to minimize the risk of secondary sanctions, Kazakhstani enterprises choose different behaviour models. A comprehensive in-depth content-analysis has revealed the basic trends in the development of Kazakhstan's metals and mining sector.

**Conclusions.** The analysis of the resulting portfolio of cases has shown differences in the responses of large companies affiliated with TNCs and small and medium-sized juniors. The study also brought to light the sanctions' negative impact on the development of Kazakhstan's economy.

**KEYWORDS**

sanctions, metals and mining sector, restrictions, companies, new challenges, target markets, exports, state regulation, secondary sanctions

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## Проблемы антироссийских санкций в отношении металлургических и горнодобывающих предприятий Казахстана

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Рудненский индустриальный институт, Рудный, Казахстан; ✉ [bogkoll@rii.kz](mailto:bogkoll@rii.kz), [bozhkoll70@gmail.com](mailto:bozhkoll70@gmail.com)**АННОТАЦИЯ**

**Актуальность.** Новые вызовы для казахстанской экономики возникли в связи с текущей геополитической напряженностью, особенно после того, как казахстанский бизнес оказался под угрозой вторичных санкций США и ЕС. Больше всего пострадали отрасли экспортоориентированной металлургии и горнодобывающего сектора. В этих условиях казахстанские предприятия демонстрируют высокую степень неопределённости, пытаются учесть разнонаправленную динамику мировых товарных рынков. Эта ситуация явно требует дополнительных исследований. Хотя отсутствие больших объемов данных делает качественную диагностику и прогнозирование на основе сценариев чрезвычайно сложными, предлагаемый подход может оказаться жизнеспособным решением.

**КЛЮЧЕВЫЕ СЛОВА**

санкции, горно-металлургическая отрасль, ограничения, компании, новые вызовы, рынки сбыта, экспорт, государственное регулирование, вторичные санкции

**Цель исследования.** Данное исследование направлено на выявление и описание основных моделей поведения казахстанских компаний, стремящихся управлять рисками вторичных санкций и минимизировать свои экспортные потери.

**Данные и методы.** Для изучения реакции казахстанских компаний на риск вторичных санкций был использован метод кейс-стади, который дает нам более широкое представление о компаниях разного размера и территориального присутствия. Затем кейсы систематизируются для выявления основных типов реакции корпораций на вторичные санкции. Исследование опирается на наблюдения, документы казахстанских компаний, статьи в прессе, обзоры, а также Сервис проверки санкционных товаров, запрещённых для экспорта и импорта в Россию и Беларусь, НПА Республики Казахстан.

**Результаты.** В ходе исследования выявлены модели поведения крупных предприятий и молодых компаний горно-металлургической отрасли Казахстана. Стремясь минимизировать риск вторичных санкций, казахстанские предприятия выбирают разные модели поведения. Комплексный глубокий контент-анализ позволил выявить основные тенденции развития горно-металлургического комплекса Казахстана.

**Выводы.** Анализ полученного портфеля кейсов показал различия в реакциях крупного бизнеса и юниорских компаний ГМО. Исследование также выявило негативное влияние санкций на развитие экономики Казахстана.

#### ДЛЯ ЦИТИРОВАНИЯ

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## 哈萨克斯坦冶金与采矿公司的反制裁问题

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#### 摘要

**现实性:** 当前的地缘政治紧张局势给哈萨克斯坦经济带来了新的挑战, 尤其是在哈萨克斯坦企业受到美国和欧盟二次制裁的威胁之后。以出口为导向的冶金和采矿业受到的冲击最大。在这种环境下, 哈萨克斯坦企业表现出高度的不确定性, 并试图考虑到全球商品市场的多向动态。这种情况显然需要进一步研究。尽管缺乏大量的数据使得高质量诊断和情景预测极其困难, 但文章所提出的方法可能被证明是一种可行的解决方案。

**研究目标:** 本研究旨在识别和描述哈萨克公司寻求管理二级制裁风险和尽量减少出口损失的主要行为模式。

**数据和方法:** 为了研究哈萨克斯坦公司对二级制裁风险的反应, 文章使用了案例研究方法, 这让我们对不同地域和规模的公司有了更深入的了解。然后这些案例被系统化, 以确定公司对二级制裁的主要反应类型。该研究基于观察法, 哈萨克斯坦公司文件、新闻报道、调查, 俄罗斯和白俄罗斯出口与进口的制裁货物名单, 以及哈萨克斯坦共和国的国家行动计划都为文章提供了研究基础。

**研究结果:** 该研究揭示了哈萨克斯坦采矿和冶金行业的大型企业和年轻公司的行为模式。为了尽量减少二次制裁的风险, 哈萨克斯坦企业选择了不同的行为模式。通过全面深入的内容分析, 可以确定哈萨克斯坦采矿和冶金综合体发展的主要趋势。

**结论:** 案例组合的分析表明, 大型企业和初级中小企业的反应存在差异。该研究还揭示了制裁对哈萨克斯坦经济发展的负面影响。

#### 关键词

制裁、采矿和金属、限制、公司、新挑战、销售市场、出口、政府监管、二次制裁

#### 致谢

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### Introduction

For businesses in Kazakhstan, especially for those that have long-standing commercial ties with Russia, one of the major concerns now is to avoid the risk of falling under the EU or US secondary sanctions. To avoid any potential penalties, companies opt for overcompliance, that is, take more extensive actions than strictly neces-

sary, including severing financial and economic ties with their trade partners from the sanctioned country. The current situation is fraught with other political risks for Kazakhstan. These risks, however, are minimized by the ongoing modernization reforms of the country's political system.

As a result of the Republican Referendum on constitutional amendments held in June 2022,

56 amendments to 33 articles of the Constitution were approved. The changes to the Constitution signal that the transition from the super-presidential model to the presidential republic will be finally completed. The amendments also signify the devolution of powers to the regional or local level; increased political participation; revision of the role and status of the Parliament; modernization of electoral law and electoral process; and strengthening of the mechanisms for protecting the constitutional rights of citizens. The amendments provide for the reorganization of the Constitutional Court. The President is prohibited from having an affiliation with any political party during his or her tenure; his or her relatives are prohibited from holding government and quasi-government positions. The amendments are intended to stimulate the decentralization of powers by making akimats and maslikhats more politically and economically independent from the head of state and central government.

The constitutional amendments mean the creation of the Second Republic and are expected to pave the way for a radical change of the entire paradigm of national development, which was announced by Kassym-Jomart Tokaev at the celebration of the 30<sup>th</sup> anniversary of Kazakhstan's police<sup>1</sup>.

The constitutional amendments in fact transform the relationship between the government and citizens of Kazakhstan and introduce significant adjustments to the legislative process. In the nearest future, the laws will be adopted on the level of the Mazhilis (the lower house of the Parliament) and then passed over to the Senate (the upper house), which can either approve or reject them. In general, this practice corresponds to the international standards. There is reason to hope that the above-described liberalization reforms will significantly reduce the risk of social and political unrest in the country.

The level of uncertainty in the country is much higher regarding the effects of the sanctions. A proactive approach is needed in order to manage this situation effectively. Historically, exports of oil and metals provided over 80% of the country's hard-currency income. In his interview to TV channel "Rossiya 24", the President of Kazakhstan Kassym-Jomart Tokayev said: "Sanctions are sanctions, they should not be violated,

particularly because we are getting warnings that any attempt to bust the sanctions will lead to the so-called secondary sanctions from the West targeting our economy"<sup>2</sup>.

Kazakhstan already faced EU restrictions following a lengthy dispute with Moldovan entrepreneur Anatolie Stati. As a result, assets of the Kazakhstan National Fund and shares of KMG B.V. Kashagan were frozen in the West, which led to a shrinkage of liquid assets of Kazakhstan's government and the country's GDP growth fell from 45% in 2016 to 22% in 2017. Moreover, this situation also negatively affected the country's oil sector<sup>3</sup>.

Secondary sanctions are measures administered or enforced against legal entities engaging in commercial activity involving a party under primary sanctions. The application of sanctions by the US government is regulated by the Countering America's Adversaries Through Sanctions Act (CAATSA), which came into force in 2018. According to this law, non-US persons (foreign persons and foreign financial institutions) may be subject to sanctions if they engage in the dealings with Russian legal and physical persons targeted by the primary sanctions.

While being subject to penalties is unlikely to severely destabilize the economy of Kazakhstan, the secondary sanctions may have serious implications for certain companies and projects. Faced with the risk of doing business with Russia, companies demonstrate a variety of behaviours and strategies: they have to halt their business with their long-term partners, rebuild their supply and logistics chains, and search for new markets for their products.

Thus, the main focus of this study is on the ways Kazakhstani enterprises are dealing with the situation at hand, in particular the models of behaviour these companies adopt under the threat of secondary sanctions and the key factors that dominate their decision-making.

This aim determines the following research objectives:

- to analyze the trade structure of Kazakhstan-Russia exports and imports in the period prior to the introduction of sanctions;

<sup>1</sup> Official Web-Site of the President of the Republic of Kazakhstan. <https://www.akorda.kz/ru/prezident-prinyal-uchastie-v-torzhestvennom-meropriyatii-po-sluchayu-30-letiya-kazhstanskoy-policii-235228> (Accessed: 01.07.2022)

<sup>2</sup> Tadaev G. (2022). Tokaev Has Promised to Comply with the Western Sanctions against Russia. <https://www.rbc.ru/politics/15/06/2022/62a9badd9a79473847ccadb6?yclid=I4pyynyfi2512114905> (Accessed: 04.07.2022)

<sup>3</sup> Ishekenova B. (2018). Kazakhstan vs. Stati: A Billion-Dollar Dispute. <https://lsm.kz/stati> (Accessed: 01.07.2022)

- to identify the role played by the state in the development of one of the key export-oriented segments in Kazakhstan's economy;
- to construct a portfolio of cases of Kazakhstani enterprises and conduct content-analysis of their models of behaviour when faced with the risk of secondary sanctions.

### Theoretical framework

In the contemporary research literature, the effects of sanctions are discussed from different viewpoints and angles. A group of scholars (Bapat & Kwon, 2009; Drezner, 2003; Drury, 1998; Morgan & Schwebach, 1997; Whang and Kim, 2015) subscribe to the view that by inflicting pain on the people of the target country, sanctions could foment popular anger against the country's leadership and thus pressure them into changing the state policy and make them more willing to negotiate meaningful concessions. Alfred-Maurice de Zayas (2022), Kramarenko (2022), and Kortunova (2022) discuss the "collateral damage" of sanctions and financial blockades.

A view shared by a number of scholars (Bapat et al., 2013; Cox & Drury, 2006; Jeong & Peksen, 2019; Lektzian & Souva, 2003) is that the effectiveness of sanctions correlates with the level of democratic development in a target country. In other words, in comparison with an authoritarian state, a mature democracy is much more capable of minimizing the negative impact of sanctions. Democratic leaders are more interested in mobilizing a larger amount of resources during the sanction episode as they are aware of the fact that exogenous shocks negatively affect the level of trust citizens have in their leaders, resulting in the latter's electoral defeat (Bueno de Mesquita, 1999).

Peterson (2013) examined how sanction threats affected the sender's reputation by looking at US sanction threats spanning 1971–2000 and concluded that "the target is less likely to acquiesce when the United States recently backed down from a sanction threat".

Bapat and Kwon (2015) demonstrated that imposing sanctions creates a strategic dilemma for sanctioning states because the restrictions on the economic transactions with targeted states may undermine their companies' competitiveness. Bapat and Kwon's model indicates that sanctions are more likely to succeed when the sender's firm retains a moderate share of the target's market relative to its foreign competitors. The model also demonstrates, however, that sanctions are

likely to be imposed only when the conditions do not favor their success.

Ang and Peksen (2007), Drury and Li (2006), Li and Drury (2004), Morgan et al. (2014) discuss a broad spectre of questions regarding the effectiveness of economic sanctions and their role in overcoming major foreign-policy crises. Shokhin (2022) offers a somewhat different perspective on the topic: he explores the possibility that sanctions will stimulate import substitution and technological development of the targeted country. Jin Mun Jeong (2019) proposes a typology of sanctions based on the effects that different types of sanctions have on the duration of sanction episodes. Morgan, Bapat, and Kobayashi (2014) believe that multilateral economic sanctions are more effective than unilateral as they have a potential to produce a broader spectrum of effects.

Gress (2018), Travnickova et al. (2015) focus on sanctions in the form of nontariff barriers to trade operations, their impact on exports and imports and the specifics of secondary sanctions.

Morozov (2021) considers other sanctions regimes and secondary sanctions by looking at the cases of Princeton University, American company BitPay, Inc. and American animal health company Zoetis (New Jersey). Voinikov (2022) discusses the political and legal aspects of the possible EU visa sanctions against Russian citizens with an emphasis on targeted measures.

An earlier study by Kazakhstani scholars analyzes the impact of sanctions on the integration processes within the Eurasian Economic Union, the possible threats to the import/export transactions between the member states, scenarios of further development of the Union's foreign trade with EU countries, and Russia's countersanctions (Khitakhunov et al, 2016). Sukharev and Voronchikhina (2021) demonstrate the differences between the national models of economic growth by analyzing the EAEU members' responses to the crises of 2009 and 2015, arguing that these differences are largely determined by the specific economic policies the countries adopt. Aituar (2022) makes a special emphasis on the impact of anti-Russia sanctions on Kazakhstan's economy.

As this literature review shows, there is a considerable body of research dealing with the economic aspect of sanctions, especially their effect on countries' economic development. Despite the vast body of research on sanctions and their effects, little is written about secondary sanctions and on companies' responses. Other perceived

research gaps are the development of specific industry segments under sanctions pressure and the impact of sanctions on Kazakhstan's economy. The lack of large data volumes impedes empirical research and creates difficulties for scenario-based forecasting of national economic development. The threat of secondary sanctions and the divergent dynamics of the world trade markets complicate the picture even more.

### Data and methods

In recent years, the case study method has become an increasingly popular tool among qualitative researchers, especially in studies dealing with complex organizational problems. One of the advantages of this method is that it can generate an in-depth, multi-faceted understanding of the processes or phenomena of interest. The case study method is defined as a method of empirical inquiry into contemporary phenomena in their real-life setting in situations where the boundaries between the phenomenon and context are blurred and where multiple sources of evidence are employed (Khachatryan, 2018).

The case study method allows for detailed analysis of the chronology, causes and consequences of events. Moreover, this approach encourages researchers to develop or reconsider their initial conceptual framework, enabling them to come to robust conclusions in the end (Miles & Matthew, 2014).

This research uses the case study method to examine the responses of Kazakhstani companies to the risk of secondary sanctions.

The choice of this method was determined by the following:

- the complexity of the problem in question, which requires a comprehensive and in-depth content analysis;
- a wide range of behaviours of companies of different sizes and territorial scope, which need to be analyzed and systematized;
- the need to gain a better understanding of the strategies and behaviour models of Kazakhstani enterprises in the absence of large quantitative data sets.

It should be noted that by its nature, the case study method is not linear, meaning that unlike the methodology where the chosen tools and data collection protocols remain unchanged, it implies an iterative research procedure where data collection is performed simultaneously with analysis and adjustment of the following stages.

The study was conducted in the following three logically related stages:

At the first stage, the focus was made on the trade structure of Kazakhstan-Russia imports and exports in the period prior to the adoption of economic sanctions;

At the second stage, the emphasis was made on the role of the state in the development of the mining sector;

At the third stage, a portfolio of cases was constructed reflecting the responses of Kazakhstani enterprises to the sanctions.

The sources of data are observations, documents of Kazakhstani companies, media publications, and reviews. The study relies on the official data of the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan; List of Items Prohibited for Export and Import in Russia and the Republic of Belarus Pursuant to Sanctions; legal acts of the Republic of Kazakhstan regulating industrial development; and policy documents issued by the national and regional governments of Kazakhstan.

### Research polygon

As a polygon for this study, transnational corporations (TNCs) and juniors companies in the metals and mining sector of Kazakhstan were chosen. The choice of enterprises in this segment was determined by the following considerations:

First, the metals and mining sector ranks second in Kazakhstan's economy in terms of production volume and the number of enterprises. The total reserves of iron ore exceed 35 billion tons; 29.2 billion tons are in the state balance sheet, including 17.1 billion tons of ore in  $A+B+C_1+C_2$  categories. In the CIS, Kazakhstan ranks third after Russia and Ukraine in terms of the amount of iron ore reserves<sup>4</sup>;

Second, the metals and mining industry is highly vulnerable to the fluctuations of the global financial and trade markets: in the first quarter of 2022, the manufacturing and extractive industry demonstrated a 6.5 and 6.1% growth respectively, but in the second quarter the indicators in both industries went down. The World Steel Association forecast that in 2021 the steel demand would grow by 2.7% and in 2022, by only 0.4%<sup>5</sup>;

<sup>4</sup> Nurbek S. (2021). Atlas of Emerging Jobs and Competencies in Kazakhstan: Metals and Mining Sector. [https://www.kazenergy.com/upload/document/atlas/gmk\\_ru.pdf](https://www.kazenergy.com/upload/document/atlas/gmk_ru.pdf) (Accessed: 06.07.2022)

<sup>5</sup> Distorted World. Russian and World Steel Markets: 26 June – 3 July 2022. <https://www.metalinfo.ru/ru/news/138446> (Accessed: 07.07.2022)

Third, the metals and mining industry has strong traditions but also suffers from considerable inertia. Moreover, companies in this segment need to keep up with the latest technology trends due to the high level of competition on the international level;

Fourth, large mining and metallurgical enterprises of Kazakhstan are mostly located in monotowns and have a huge impact on the socio-economic development of these territories. A drop in production, curtailed operations or shutdowns of these businesses will exacerbate regional disparities, which present a serious problem for the development of Kazakhstan's economy (Kireyeva et al., 2022);

Fifth, the development of this sector is subject to state regulation. Kazakhstan has been quite successful in attracting foreign investment to its extractive industries, especially large-scale oil extraction projects and basic processing of raw materials. Direct foreign investment to Kazakhstan is much higher in comparison with other countries with a similar economic structure. It should, however, be noted that over 40% of investment is concentrated in the extractives sector<sup>6</sup>.

### Transnational corporations

TNCs make an excellent polygon for research because such companies usually have a long history and a wide network of branches and subsidiaries, which means that they have already accumulated a large amount of data re-

<sup>6</sup> Macroeconomic Overview. of Kazakhstan, June 2022. <https://www.aerc.org.kz> (Accessed: 05.07.2022)

sulting from multiyear observations. Being international in terms of their policies and vision, a TNC can pursue coordinated policies and realize general strategies through its single center for strategic decision-making.

What makes TNCs particularly worthy of interest is that their capital movement is relatively independent from what is happening within the national boundaries. TNCs' long-standing presence in Kazakhstan makes them major players in the country's economy.

One of such companies is **Eurasian Resources Group (ERG)**, a leading diversified natural resources producer. In its current form, ERG was established in 2013 after it acquired the Eurasian Natural Resources Corporation, which was delisted from the London Stock Exchange and Kazakhstan Stock Exchange. ERG is operating across 15 countries of the world on 4 continents. The company's product portfolio comprises such divisions as ferroalloys, iron ore, alumina and aluminium, other non-ferrous metals, energy, and logistics.

The company's production indicators demonstrate its strong operational performance. In 2020, despite the pandemic, the company managed to prevent a significant decline in its operational efficiency and enhanced its production potential in the majority of divisions (Table 1).

In 2020, Standard & Poor's Global Ratings raised its corporate credit ratings on ERG to "B-/B" level while the outlook was stable, which demonstrated the company's improved financial performance and stability.

Table 1

Dynamics of ERG's key production indicators in 2019–2020

Key host countries	Divisions		Production volumes, ths tons		
	name	specialization	2019	2020	Relative deviation, %
Kazakhstan	Ferroalloys	Ferroalloys	1 639	1 653	100.8
Kazakhstan, Brazil	Iron ore	Iron ore concentrate and pellets	13 195	13 114	99.3
Kazakhstan	Alumina and aluminium	Alumina	1 393	1 383	99.2
		Aluminium	263	265	100.7
Democratic Republic of Congo (DRC), Zambia	Other non-ferrous metals	Metallic copper	59	80	136
		Copper concentrate	83	103	124
		Cobalt metal	1.5	0.1	6.7
		Cobalt hydroxide	7	17	2.5 times
Kazakhstan	Energy	Coal	27 503	28 871	102.8
		Energy production, GWh	14 460	14 793	102.3
Kazakhstan	Logistics	Volume of freight, ths tons	53 836	53 076	98.6

Source: Compiled by the author by using the data from: Ensuring Sustainable Development in a Difficult Time. Eurasian Resources Group S.à r.l.: Sustainable Development Report 2020. <https://www.erg.kz/ru/news/2344> (Accessed: 05.07.2022)

Another TNC of interest to this study is **ArcelorMittal**, which was formed in 2006 from the merger of Luxembourg company Arcelor and Mittal Steel owned by Indian businessman Lakshmi Mittal. The company's headquarters are in Luxembourg. The group's structure comprises 6 operation segments: Flat Carbon Americas, Flat Carbon Europe, Long Carbon Americas and Europe, Asia, Africa and CIS (AACIS), Distribution Solutions, and Mining. Each enterprise belongs to one of these segments. The company operates on four continents, covers all of the key steel markets, from emerging to mature. About 35% of steel is produced in America; 47%, in Europe; and 18% in other regions, including Kazakhstan, South Africa and Ukraine<sup>7</sup>. The company's iron ore mining operations are located in the United States, Canada, Mexico, Brazil, Liberia, Bosnia, Ukraine and Kazakhstan. The company is now also developing mining projects in Australia, Mauritania, Mozambique, Senegal, and South Africa.

In 2020, due to the COVID-19 pandemic restrictions, steel production declined in all of the company's divisions (see Table 2).

Table 2

#### Dynamics of ArcelorMittal's key performance indicators

Key host countries	Steel production, ths tons		
	2019	2020	Relative deviation, %
North America	21897	17813	81.3
Brazil	11001	9539	86.7
Europe	43913	34003	77.4
CIS and Africa	12997	10172	78.3

Source: Compiled by the author by using the data from: 2020 Annual Financial Report of Arcelor Mittal Group. [https://bf.arsagera.ru/arcelormittal\\_mt/itogi\\_2020\\_g/?ysclid=1574ch9s7235975622](https://bf.arsagera.ru/arcelormittal_mt/itogi_2020_g/?ysclid=1574ch9s7235975622) (Accessed: 06.07.2022)

#### Junior companies

Kazakhstan holds much promise for businesses operating in the sphere of subsurface and mineral resources use, metal manufacturing and high-value manufacturing.

Junior companies or simply juniors are commonly understood as companies engaging in early stage exploration projects (small companies and start-ups). Over 50 to 65% of all the new deposits in the world were discovered and explored by junior companies. Modern juniors can be rough-

ly divided into three main groups depending on the stages of the mining project – exploration, development, and production. Each stage is determined by the yield-risk balance of the project.

It should be noted that an important trend in the non-ferrous metals industry is that enterprises plan their manufacturing and marketing activities in coordination with their clients. These enterprises supply not only materials but also the appropriately sized products tailored to the needs of specific clients, which makes the establishment and maintenance of close relationships with clients is one of the priorities in the creation of junior companies.

The Strategy for the Developing of the Mining Industry in the Republic of Kazakhstan until 2030 explains that one of the main conditions for economic stabilization and growth is active pursuit of foreign capital, increase in the number of juniors for geological exploration, and creation of new enterprises and 'small metallurgy' (the production of metal products at machine-building enterprises (non-ferrous, precious, rare and rare earth metals)).

## Results and discussion

### 1. Kazakhstan-Russia exports and imports in the pre-sanction period

Quite obviously, in their export and import transactions, Russia and Kazakhstan pursued their own goals determined by the national and regional agenda. Each country, however, had its own priorities and interests: for example, while the Russian side was predominantly interested in Kazakhstan's raw materials, Kazakhstan was in need of modern technologies, machinery and equipment.

As Table 3 illustrates, in the pre-sanction period, the structure of Russia's imports from Kazakhstan was dominated by mineral products, metals and metal products (51.7%), chemicals (12.8%), and energy products (9.3%).

Russia was one of the main markets for Kazakhstan's metals & mining industry. External demand was mainly oriented towards low added-value production due to the exporter's need to ensure stable development of its own metals and mining sector and related industries.

Kazakhstani enterprises and organizations bought products made of ferrous and non-ferrous metals, reactors, atomic piles, equipment and machinery, polymers, metal structures, rail

<sup>7</sup> BlogForum. Fundamental Analytics (2021). [https://bf.arsagera.ru/arcelormittal\\_mt/itogi\\_2020\\_g/?ysclid=1574ch9s7235975622](https://bf.arsagera.ru/arcelormittal_mt/itogi_2020_g/?ysclid=1574ch9s7235975622) (Accessed: 06.07.2022)

locomotives and land transport vehicles. In some product categories, the imports were dominated by the equipment imported by the Russian investors to develop mineral deposits, including the Caspian shelf. The analysis of the composition and structure of imports show that industrial and consumer goods are represented in equal measure. Unfortunately, technological equipment and manufacturing machinery remain somewhat underrepresented.

It should be noted that in Kazakhstan, Russian companies have been mainly competing with Asian and American manufacturers. In the pharmaceuticals market, Russia's main rival is India; in the car market, Japan, Korea, the USA, and Chi-

na; in the confectionery market, Turkey. Specific market segments more and more get dominated by China and Korea. Many markets see the growing presence of Chinese manufacturers offering quality products at a reasonable price.

Analysis of Kazakhstan's imports has shown the country's vast potential in the creation of joint ventures. This is especially true of ferrous metals production, manufacturing of metal structures, plastics, and chemicals.

The economic sanctions against Russia, however, brought significant changes to the structure of imports/exports between the two countries. Kazakhstani enterprises responded to the challenge differently.

Table 3

**Commodity structure of Kazakhstan-Russia exports and imports prior to the imposition of economic sanctions**

Goods exported by Kazakhstan	Share in total exports, %	Goods imported by Kazakhstan	Share in total imports, %
Ores, concentrates, and metals: iron ore, chrome ore, manganese ore, zinc ore, precious metals, rolled metal, alumina, zinc	51.7	Products made of ferrous and non-ferrous metals, ferrous metals, metal structures	14.3
Mineral fuel, oil and products of their distillation	9.3	Ores, slag and ash	12.0
Cement and lime	2.1	Reactors, atomic piles, equipment and machinery	9.7
Inorganic chemicals, organic chemical compounds	12.8	Organic chemical compounds, inorganic chemicals	1.9
Vehicles	1.0	Electrical machinery, tools and optical equipment	7.2
Rail locomotives and associated transport equipment	2.0	Rail locomotives and land transport vehicles	8.4
Agricultural products and food	5.0	Aircraft and spacecraft	1.3
Cotton	0.2	Textiles, footwear and leather goods	4.0
Pharmaceutical products	0.9	Pharmaceutical products	1.2
Fertilizers	0.4	Fertilizers	0.8
Plastics and plastic products	1.2	Polymers and polymer products	4.4
Other	13.4	Wood, wooden products and furniture	3.3
		Rubber and rubber products	1.9
		Ceramic products	1.0
		Pulp and paper	2.1
		Glass and glassware	0.8
		Tobacco and tobacco substitutes	1.4
		Grains and grain products	2.0
		Alcoholic and non-alcoholic beverages	1.0
		Sugar, sugar confectionery, and other sugar preparations	1.3
		Other food products	7.5
		Soap and detergents	1.5
Other	11		

Source: Compiled by the author by using the data from: International Trade of the Republic of Kazakhstan. Statistical Yearbook. 277 p. (In Kazakh and Russian). <https://stat.gov.kz/edition/publication/collection> (Accessed: 01.07.2022)



## 2. *The role of the state in the development of the metals and mining sector in Kazakhstan*

Taking into account the fact that some companies and industrial sectors struggle to manage their risks under the threat of secondary sanctions, they should be provided with sufficient risk management advice and assistance.

In this situation, the state needs to coordinate companies' efforts to adapt to the new reality and avoid being hit by secondary sanctions. The government, business and expert communities need to work together to devise specific measures that could help companies overcome the negative consequences of the sanctions imposed by the USA, UK, EU and other parties as well as to minimize the adverse effects of overcompliance.

For several years, the metals and mining industry in Kazakhstan was subject to state regulation. The national government sought to increase the sector's competitiveness and create a favourable legal and business climate.

The State Program of Industrial and Innovative Development of the Republic of Kazakhstan for 2010–2014 adopted in February 2010 became the main strategic document in the sphere of economic development for the following five years.

The aim of the second stage of industrialization was to stimulate diversification and make the manufacturing sector more competitive. The State Program of Industrial and Innovative Development for 2015–2019 set 14 priority sectors with a high potential for development in 6 industries, including ferrous and non-ferrous metallurgy. Thus the state signaled to businesses and foreign investors which priority industry niches will be supported in the first place and which thus will hold the most promise. The second program also listed over 100 tools the government was planning to use to support economic activity.

The third program for 2020–2025 was largely aimed at ensuring the transition from disparate tools of state support to a single comprehensive system of measures. It also described the reciprocal obligations of industrial enterprises and set for them the task to enter global value chains by attracting foreign investors.

The State Geological Exploration Program for 2021–2025 is aimed at ensuring geological exploration of Kazakhstan's territory, replenishing the mineral resource base, and attracting investors to the industry. It is expected that the development of geological exploration will generate a multiplier effect through the influx of

highly skilled workers and technologies and rapid development of service providers.

To reduce the geological and operational risks, Tau-Ken Samruk offers comprehensive one-window assistance to exploration-oriented junior companies, which includes financial, expert, and marketing support.

To make Kazakhstan's small metallurgy more attractive for investors, Astana International Financial Centre (AIFC) organized a special online exchange platform. Moreover, the transparency of the procedures that will enable mining companies to enter the AIFC stock market was ensured and there were introduced mechanisms for settling disputes between landowners and mining companies in the International Arbitration Centre or the AIFC Court. The regulation of the junior market is mostly aimed at ensuring compliance with the international reporting standards and with the feasibility study requirements in the sphere of geological exploration and mining.

## 3. *Portfolio of cases of enterprises operating in the metals and mining sector of Kazakhstan*

The following analysis encompasses the cases of the enterprises from Kazakhstan's metals and mining industry by making a special focus on these companies' strategies to reduce sanctions risk exposure and their corresponding behaviour models.

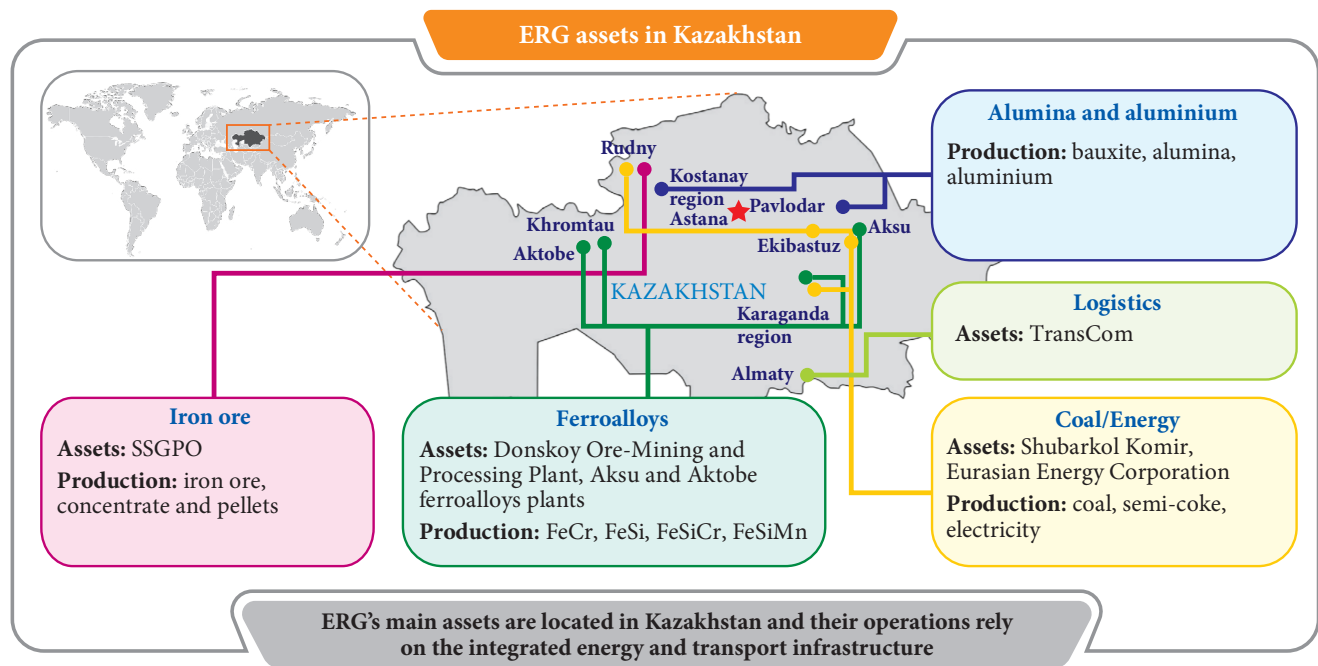
The case of **ERG** is a good illustration of the overcompliance strategy.

In Kazakhstan, ERG has the following manufacturing assets: TNC Kazchrome JSC, Sokolov-Sarybai Mining Production Association (SSGPO) JSC, Aluminium of Kazakhstan JSC, Kazakhstan Aluminium Smelter JSC, Eurasian Energy Corporation JSC, Shubarkol Komir JSC, Transportation Group TransCom LLP, 3-Energoortalyk JSC, and ERG Service, LLP (Fig. 1).

The Sokolov-Sarybai Mining Production Association (SSGPO), one of the giants of Kazakhstan's mining industry, specializes on iron ore mining and beneficiation. The facility manufactures over 13,114 thousand tons of iron-ore concentrate and pellets<sup>8</sup>.

The SSGPO's main clients are Russia's Magnitogorsk Iron and Steel Works (MMK), Arcelor-Mittal Temirtau Steelworks, and Chinese companies. Previously, the company's strategy provided

<sup>8</sup> Ensuring Sustainable Development in a Difficult Time/ Eurasian Resources Group S.à r.l.: Sustainable Development Report 2020. <https://www.erg.kz/ru/news/2344> (Accessed: 05.07.2022)



**Figure 1.** ERG's assets in Kazakhstan

Source: Ensuring Sustainable Development in a Difficult Time. Eurasian Resources Group S.à r.l.: Sustainable Development Report 2020. 120 p. <https://www.erg.kz/ru/news/2344> (Accessed: 05.07.2022)

for the possibility to diversify its target markets of iron ore, for example, to enter the Iranian and Turkish markets. MMK has been the SSGPO's most long-standing customer, their partnership going back over 70 years, and its manufacturing process heavily relies on the SSGPO's production.

It should be noted that the changing situation in the iron ore market has had a huge impact on this sector. For example, in 2005, in the Russian market, iron ore production exceeded demand nearly twofold, which led to a crisis that could bring damage to the production chains.

After the Russian Federation lifted the import duty on iron ore, MKK tried to negotiate a substantial price reduction, by 40% at the minimum. After the request was declined by the SSGPO, the management of the Russian plant took decision to stop sourcing from Kazakhstan and look for a better deal elsewhere. The alternative suppliers were Russian enterprises Karelsky Okatysh JSC and Stoilensky Mining and Beneficiation Plant (SGOK), Ukrainian enterprises Central Iron Ore Enrichment Works (CGOK) and Ferrexpo Poltava Mining (Poltava GOK)<sup>9</sup>.

The situation repeated itself in 2008, when the management of MKK informed the SSGPO about

<sup>9</sup> Metallurgical Bulletin (2005). <https://www.metalbulletin.ru/publications/1743/> (Accessed: 25.06.2022)

its intention to cut the amount of ore sourced from the latter, which had a destabilizing effect on the Kazakhstani company's operations. Only after the conclusion of a 4-year contract for the supply of more than 30 million tons of iron ore to MKK in 2016, the SSGPO managed to stabilize its exports.

On average, the iron ore supplies from Kazakhstan met about 70% of MKK's needs. It was, therefore, a justified decision to introduce a unified customs tariff framework and non-tariff regulation measures, particularly in the light of such factors as supplier-customer geographical proximity (the distance is about 300 km). Thus, during the episode of the US sanctions against Iran's metals and mining industry (Executive Order 13871), the SSGPO managed to ensure a market for its products.

In the first half of 2020, China's imports of iron ore rose to 445.3 million tons, which is 5.1% higher compared with the same period in 2019. China's mega infrastructure projects and booming construction industry have created a large iron ore demand. In the first half of 2020, iron ore prices on the Dalian Commodity Exchange increased to \$89,98/ton (on average by \$2,87/ton compared with the same period in 2019)<sup>10</sup>.

<sup>10</sup> China increased iron ore imports from Kazakhstan (2022). <https://kz.kursiv.media/2020-06-12/kitay-narastil-import-zheleznoy-rudy-iz-kazakhstana/> (Accessed: 28.06.2022)

There are, however, significant constraints to iron ore exports from Kazakhstan to China caused by the limited capacity of the railways as well as the limited freight traffic capacity of the mountain pass Dzungarian Gate.

In 2021, the supplies from Kazakhstan to Russian metallurgical enterprises, including MKK, dropped when the pandemic restrictions forced Russian car manufacturers to halt their operations, causing a decline in steelmakers’ production.

The dipping exports of iron ore to Russian metallurgical factories were compensated by the growing exports to Chinese manufacturers, which explains the slight decrease in Kazakhstan’s exports.

In the first half of 2022, after the beginning of Russia’s special military operation in Ukraine, ERG’s management decided to terminate its contracts with MKK to avoid secondary sanctions. In this case, it may be said that ERG literally followed the request to suspend “all transactions of a certain type with a specific person, group, sector or country”.

Thus, since 2005, the SSGPO has repeatedly faced problems with its target markets. The lack of a viable market diversification strategy has im-

peded the company’s efficient adaptation to the sanctions-induced situation. In light of the fact that the exports to MKK accounted for over 25% of the iron ore that the SSGPO produced while the exports to China are limited by the capacity of railways, the company is now struggling to find alternative markets for its production, which has become a particularly challenging task after the decrease in world steel demand.

A high degree of uncertainty due to sanction-induced problems is also faced by companies from the **ArcelorMittal** Group.

ArcelorMittal ranks second largest ferrous metals company after ERG in Kazakhstan and owns the following production assets: ArcelorMittal Temirtau Steel Works, ArcelorMittal Temirtau Coal Division, Iron Ore Division (LLP “Orken”), ArcelorMittal Tubular Products Aktau, Power Networks LLP, “EnergoUgol” Production Division (Fig. 2).

ArcelorMittal Temirtau Steel Works’s production capacity is 6–6.5 million tons of steel a year. The factory specializes on manufacturing flat and long steel products, including polymer, aluminium and zinc coated products.

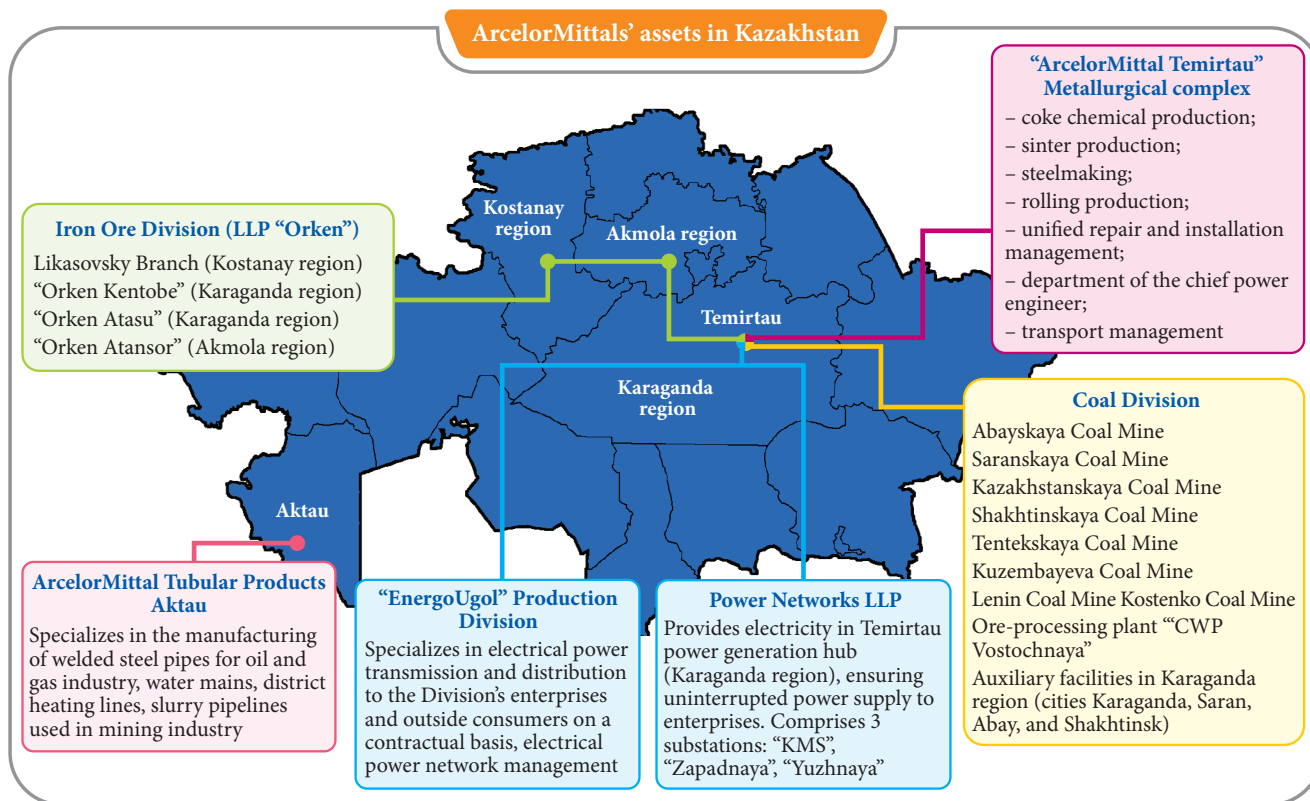


Figure 2. ArcelorMittal’s assets in Kazakhstan

Source: Compiled by the author based on ArcelorMittal Temirtau: Sustainable Development Report 2020. [https://www.arcelormittal.kz/reports/CR/csr\\_2020.pdf](https://www.arcelormittal.kz/reports/CR/csr_2020.pdf) (Accessed: 05.07.2022)

Previously almost the total volume of the facility's output (98%) was exported to 65 countries of the world. The main export destinations were China, Russia, Turkey, the USA, and Iran. Due to the US sanctions, however, the company suffered lost one of its key markets: ArcelorMittal halted all trade with Iran after President Trump issued Executive Order on May 8, 2019<sup>11</sup>, imposing sanctions on the physical and legal persons operating in Iran's iron and steel industry as well as in aluminium and copper industry. Two thirds of all the secondary sanctions imposed by the USA encompassed organizations that had ties with Iran.

The secondary sanctions included the following:

1) blocking the assets of legal entities from the Iranian sector of ferrous metallurgy, aluminium and copper production;

2) blocking sanctions against third-country persons engaging in or facilitating "significant transactions" involving this sector of the Iranian economy as well as physical persons and legal entities exporting Iranian iron, steel, copper and aluminium to third-country markets;

3) the imposition of blocking sanctions on physical persons and legal entities providing material and/or technical assistance to identified targets, technology transfer and supply of goods and services to person listed in item 1;

4) sanctions against legal entities directly or indirectly controlled by the sanctioned persons listed in item 1<sup>12</sup>.

As a result, ArcelorMittal completely lost this market and several hundred million dollars of net profit. Before that, the annual exports of hot-rolled steel coils from Kazakhstan to Iran exceeded 1 billion ton.

In 2021, ArcelorMittal Temirtau Steel Works produced 3.4 million tons of steel, out of which 2.6 million was exported (76.5%), including 1.6 million tons (61.5%) of steel exported to Russia. Hot-rolled steel accounted for over 50% of sales to Russia: 60% of products were sold to Siberia and Russia and 27%, to the central regions and the Volga region. After the introduction of

the sanctions in May 2022, ArcelorMittal halted all exports to Russia.

In June 2022, the company resumed its steel sales to Russia at dumping prices. Exports of flat products intensified on 10 June 2022. In the second half of June, the company shipped 77 thousand tons of steel, including 50 thousand tons of hot-rolled steel (71%) and 15 thousand tons of coated rolled steel (21%). It is estimated, however, that due to the differences in prices in the Russian and world markets, ArcelorMittal is unlikely to continue its exports to Russia because world markets, in the absence of Russian production, will become more attractive<sup>13</sup>.

ArcelorMittal Temirtau Steel Works, which already has some prior negative experience of losing its market in Iran under the threat of secondary sanctions, now demonstrates considerable ambivalence in its decision-making. In the current situation, the risks of losing target markets exceed the risks of being subjected to secondary sanctions, which is why the company decided not to halt its supplies to Russia altogether.

Junior companies operating in Kazakhstan demonstrate more consistent behaviour strategies in their responses to the anti-Russian sanctions.

There are over 500 junior companies currently operating in Kazakhstan. By experts' estimates, these companies account for 600 to 800 billion tenge of investment and 10–15 thousand jobs<sup>14</sup>.

*Central Asia Metals PLC* is a junior mining company which in recent years has been rapidly expanding its production. In Kazakhstan, Central Asia Metals launched the solvent extraction–electrowinning copper recovery plant in 2012 at the Kounrad mine site, 15 km north of the city of Balkhash. This facility recovers copper from waste dumps that originated from the Kounrad open-pit copper mine. Recently not only has the company expanded its production at the Kounrad mine but it has also increased its stake in Copper Bay project in Chile from 50% to 75%<sup>15</sup>.

Junior company *Discovery Ventures Kazakhstan* specializes on exploration of gold, copper,

<sup>11</sup> Morozov V. (2021). Overview of International Sanction Policy (2019, August). <https://russiancouncil.ru/analytics-and-comments/columns/sanctions/obzor-mezhdunarodnoy-sanktsionnoy-politiki-avgust-2019/> (Accessed: 11.06.2022)

<sup>12</sup> Timofeev I., Morozov V., Sokolshchik Y. (2020). Sanctions against Russia: a Look into the Year 2020. <https://russiancouncil.ru/activity/publications/sanktsii-protiv-rossii-vzglyad-v-2020-g/> (Accessed: 21.06.2022)

<sup>13</sup> Zeynullin Ye. (2020). ArcelorMittal Rolled to Russia. <https://www.kommersant.ru/doc/5446717> (Accessed: 0.07.2022)

<sup>14</sup> Nurzhanov G. (2021). Junior Companies Should be Supported. <https://kapital.kz/economic/99563/galym-nurzhanov-yuniorskiye-kompanii-nuzhno-podderzivat.html> (Accessed: 21.06.2022)

<sup>15</sup> Cataloxy (2022). <https://dzhezkazganskaya-oblast.cataloxy-kz.ru/firms/balhash/centralasiametals.com.htm> (Accessed: 6.07.2022)

zinc and accompanying metals. It is expected that the minerals exploration project will be completed in 6 years. The total contract area is about 1,500 sq.km.<sup>16</sup>

Mining and processing plant “Massalsky GOK LLP” realizes the project “Construction of a Mining and Metallurgical Complex on the Basis of Massalskoye Iron Ore Deposit in Akmola Region”. Massalskoye deposit is located in Zharkain district of Akmola region, 16 km east of Priishimskaaya railway station of Yessil-Arkalyk railway, in the north-western part of Central Kazakhstan. The total operational reserves of ore in C1 and C2 categories (included in the state balance sheet by the Protocol No. 1327-13-Y of 02.09.2013 of the State Material Reserves Committee of the Ministry of National Economy of the Republic of Kazakhstan) amount to 729,156,000 tons with an average iron content of 15.82%<sup>17</sup>.

*Northern Katpar LLP* specializes in combined exploration and production of tungsten-molybdenum ores at Northern Katpar and Upper Kairakty fields<sup>18</sup>.

*Kemin Resources Limited* specializes in exploration and mining of molybdenum, copper, lithium and tungsten at the Drozhilovskoye and Smirnovskoe deposits in Kostanay region. Both of these projects hold a large potential for the development of non-ferrous metals industry in Kazakhstan<sup>19</sup>.

Content-analysis has shown that when dealing with the threat of secondary sanctions, junior companies are more resilient than larger companies. Juniors are oriented at the early stages of mining projects (exploration and development) and their main asset is usually the mining license. Juniors are not involved in import/export transactions and, therefore, they are more adaptive and can respond more promptly to changes in the market. Juniors are more flexible in their decision-making, they have relatively low administra-

tion costs, and are able to maximize the efficiency of their small working capital, technologies and human resources.

These companies’ resilience can also be explained by the effective state support aimed at stimulating the development of the metals and mining sector and reproduction of the country’s mineral reserve base.

## Conclusions

The metals and mining sector in Kazakhstan has proven to be quite vulnerable to the fluctuations in the global financial and trade markets. The market of ferrous metals, which is one of the key elements of industrial production, followed the dynamics of world economy. The unstable economic and political environment, fraught with contradictory trends, in particular the shocks triggered by the sanctions, has had a disruptive effect on the supply and demand balance.

Continuing sanctions pressure together with fractured supply chains are now the main threats to Kazakhstan’s foreign trade.

The risks Kazakhstani enterprises face in connection with the secondary sanctions include banks and other lending institutions’ denial of service, prohibition of US dollar transactions, and foreign counterparts ending or suspending their dealings.

Disruptions of the long-standing logistics and supply chains caused due to overcompliance may result in shrinking production volumes/supplies, lower corporate profits and, therefore, reductions in the tax base and possible job cuts.

Affiliates of TNCs in Kazakhstan demonstrated various and sometimes ambivalent responses to the risk of secondary sanctions. For example, during the active phase of the US sanctions against Iran, the SSGPO managed to ensure a virtually guaranteed sale market for its products by signing a long-term contract with MKK. Meanwhile, ArcelorMittal totally lost its market in Iran after suspending all its trade relations with Iranian partners.

In 2022, large metals and mining companies operating in Kazakhstan initially demonstrated fairly uniform responses to the anti-Russia sanctions by suspending their exports to Russia. In June 2022, ArcelorMittal resumed its supplies to Russian pipe manufacturing plants.

In the future, there is likelihood that there will be a growing demand for metal products from almost all of the industries in Kazakhstan,

<sup>16</sup> Kудайберген К. (2020). Tau-Ken Samruk, JSC in Partnership with a Junior Company Start Geological Exploration in Three Areas in Kazakhstan. <https://www.vnedra.ru/novosti/ao-tau-ken-samruk-somestno-s-yuniorsoj-kompaniej-nachinayut-geologorazvedku-v-treh-oblastyah-kazahstana-12392/> (Accessed: 08.07.2022)

<sup>17</sup> Information website Masalsky Mining and Processing Plant LLP. <http://mgok.kz/ru/o-kompanii/> (Accessed: 03.07.2022)

<sup>18</sup> Information website of National Mining Company “Tau-Ken Samruk” JSC. <https://tkz.kz/subsidiaries/too-severnyj-katpar/> (Accessed: 01.07.2022)

<sup>19</sup> Information website Kemin Resources Limited. <https://keminresources.com/about-us/company.html> (Accessed: 09.07.2022)

which means that there will be a rise in domestic demand for metal products. The development of heavy engineering, the energy sector, and construction industry will contribute to the further increase in the capacity of the domestic market of ferrous metals. In the short- and mid-term, Kazakhstani mining companies will have to intensify their search for alternative markets.

The significant state support for the metals and mining industry failed to help the Kazakhstani enterprises affiliated with TNCs ensure stable operations under the threat of secondary sanctions. On the contrary, the state measures and program aimed at supporting juniors enabled the SMEs in this sector to stay afloat and, by experts' estimates, it will be possible to prevent a significant slump in this sector.

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