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# Kazakhstan - Republic of

# Grain and Feed Annual

# Grain and Feed Annual 2015

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**Report Highlights:**
FAS/Astana forecasts Kazakhstan wheat production in 2015 at 12.5 MMT, down slightly from 2014 production of 12.9 MMT, as wheat sown area is expected to fall, reducing harvested area. Kazakh wheat exports are forecast to remain flat in MY 2015/2016 at 6.0 MMT.
FAS/Astana forecasts Kazakhstan barley production in 2015 at 2.7 MMT, only slightly higher than in 2014 (2.6 MMT).

**Production**

2015 Production

FAS/Astana forecasts Kazakhstan wheat production in 2015 at 12.5 MMT, down slightly from 2014 production of 12.9 MMT, as wheat sown area is expected to fall, reducing harvested area. However, a return to trend yields in 2015 and 2014 (2013 yields were below trend) would allow for a small increase in production from last year in spite of lower sown area.

FAS/Astana forecasts Kazakhstan barley production at 2.7 MMT in 2015, only slightly higher than in 2014 (2.6 MMT). This slightly higher production is expected because of higher sown and harvested area.

The trend of land shifting from wheat to other grains and oilseeds is expected to continue in 2015, and the government has a long term plan to encourage this diversification. The primary reasons given for this shift are: 1) the difficulty in getting wheat to export markets due to Kazakhstan's landlocked status, and 2) the desire to increase domestic consumption of grain in Kazakhstan. This increased consumption is primarily for feeding, as the Government of Kazakhstan has set a goal to turn Kazakhstan into an exporter of meat products. The Kazakh Ministry of Agriculture recently estimated that for 2015, wheat sown area will fall to 12.2 million hectares, compared to 12.8 million in 2014; oilseed area will increase to 2.2 million hectares compared to 2.0 million hectares in 2014; and feed crops will increase to 3.7 million hectares from 3.4 million hectares in 2014.

In order to support this diversification strategy, subsidies for "priority" crops such as oilseeds and feed grains (including barley) increased in 2014 at the expense of subsides for wheat. As a result, subsidies for barley, corn for grain, rapeseed, soybeans, pasture grasses, and corn for silage rose dramatically in 2014 (see table below).

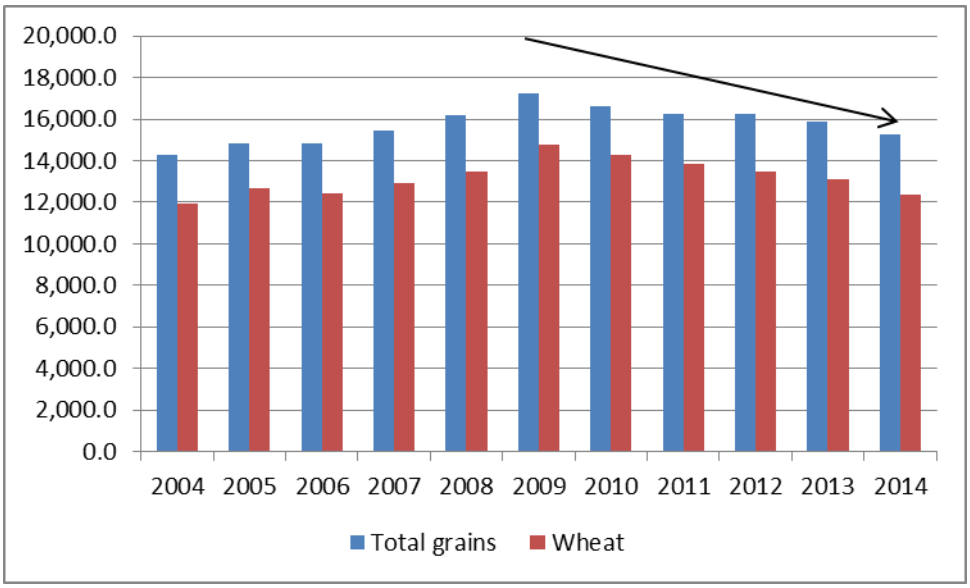
**Subsidies for priority crops in tenge/hectare**

| Crop | 2013 subsidy | 2014 subsidy by regions | | |
|---|---|---|---|---|
| | | Kostanay region | Akmola region | North-Kaz region |
| Barley | 727 | 2,000 | 650 | 2,500 |
| Rapeseed | 4,172 | 11,000 | 7,000 | 12,000 |
| Soybeans | 3,276 | 6,000 | 7,000 | 5,000 |
| Pasture grasses | 2,500 | 9,000 | 6,000 | 10,000 |
| Corn for silage | 2,200 | 10,000 | 6,500 | 10,000 |

Source: Kazakh Ministry of Agriculture

Since the 2009 bumper crop, wheat area has decreased 2.4 million hectares (17%) as a result of the ongoing strategy of crop diversification (please, see chart below).

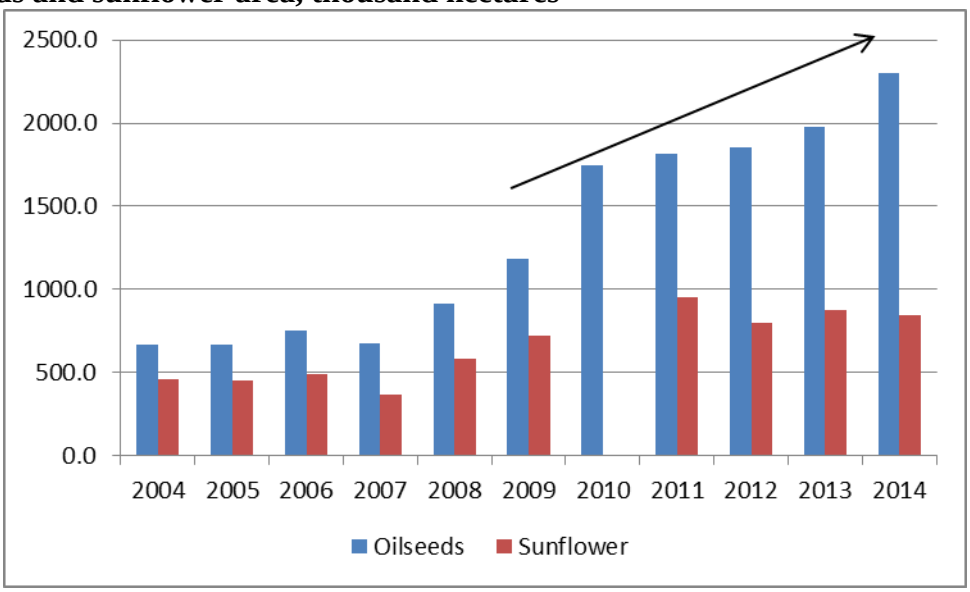
**Chart. Grain and Wheat area, million hectares**




Source: Kazakhstan Statistics

Unlike wheat area, the acreage sown with oilseeds nearly doubled between 2009 and 2014, and continues to grow.

**Chart. Oilseeds and sunflower area, thousand hectares**




Source: Kazakhstan Statistics

Generally, Kazakhstan has experienced an overall trend of increasing yields – see the following chart, "Grains Yields." In order to encourage positive advancements in yields, the Government of Kazakhstan has implemented a number of programs to provide strong support to farmers with subsidized inputs and machinery, which help farmers manage sowing and harvesting in a timely manner. Various Kazakh Government agencies employ different national strategies allowing agricultural producers in Kazakhstan to obtain different subsidies and preferences.

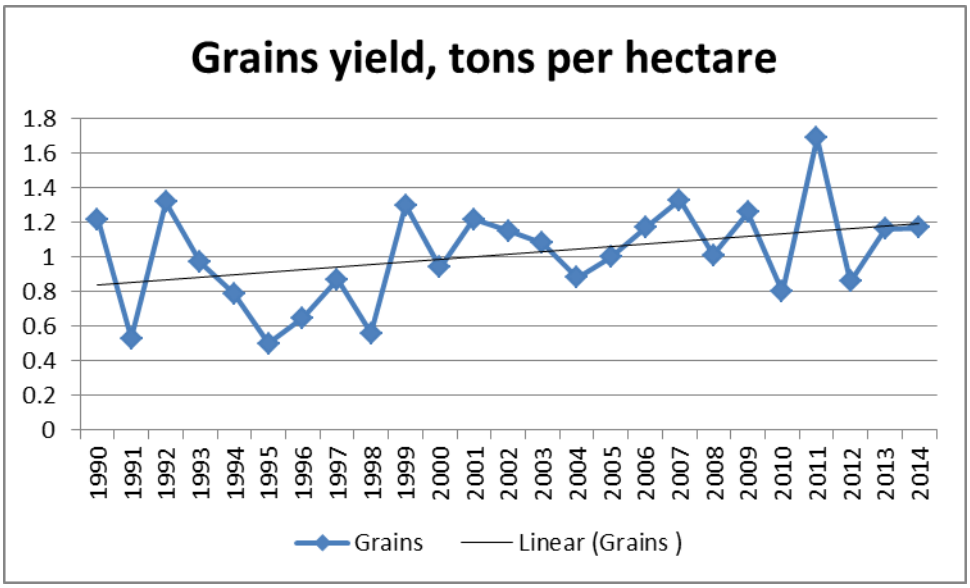
According to Article 10 of the Kazakh Grain Law, the following support measures exist for grain producers and grain operators:

1. Subsidized elite seeds
2. Machinery and equipment leasing
3. Grain purchase to state stocks on market prices
4. Loans for grain processing organizations to purchase wheat
5. Compensation of costs to grain operators shipping grain as humanitarian aid
6. Seeds supply to grain producers from state stocks (if needed)
7. Funding of scientific programs on soil conservation
8. Assistance for the application of new technologies on grain production and storage
9. Supply of forage grain (if needed)
10. State system of grain warehouse receipts
11. Subsidies for the purchase of mineral fertilizers and diesel fuel
12. Provision of supply of diesel fuel supply on domestic market
13. Training agricultural specialists at Government costs
14. Service on crops quality testing
15. Antidumping measures to protect grain producers

Many farmers confirm that the extensive Government support and the high subsidy rates for non-wheat crops drive their planting decisions. More and more farmers are learning how to plant rapeseeds, flax, and sunflower, all of which show higher economic effectiveness than wheat. For instance, during the period 2009 to 2014, for farms in the Kostanay region, for every dollar of investment in wheat profit earned was 49%, while for sunflower profit earned was 90% and for flax it was 107%.

The Government of Kazakhstan has also initiated conservation programs. The Kazakh Ministry of Agriculture reports that during the last 25 years farm lands with high humus content decreased from 1.6 million hectares to 255,500 hectares. The majority of farm lands in Kazakhstan (73%) have low humus content. The largest reserves of soil with high humus content are in the North-Kazakhstan region (117,500 hectares), in the Akmola region (61,500 hectares) and in the East-Kazakhstan region (34,200 hectares). Since the 1990's, soil fertility has been decreasing, further reducing yields. During the period 1976 to 1980, the average yield was 1.36 tons per hectare with minerals application, while the average five year yield was 1.21 tons per hectare. From 1990 until 2000, mineral fertilizer application decreased 61 times, to 11,500 tons of active ingredients or 0.71 kilogram of active ingredient per hectare. As of today, mineral fertilizer application reached 4.75 kilograms of active ingredient per hectare, which still only meets 12% of the need. Insufficient mineral fertilizer application, as well as, smaller area for permanent grasses, poor crop rotation and wheat as a mono-culture, are all factors which have affected soil fertility and decreased yields. To solve these problems the Ministry of Agriculture amended the Land Code to institute more severe repercussions if soil fertility decreases significantly with weeds and quarantine plantings, or if land is withdrawn from production for more than three years.

**Chart. Grains yields, tons per hectare**

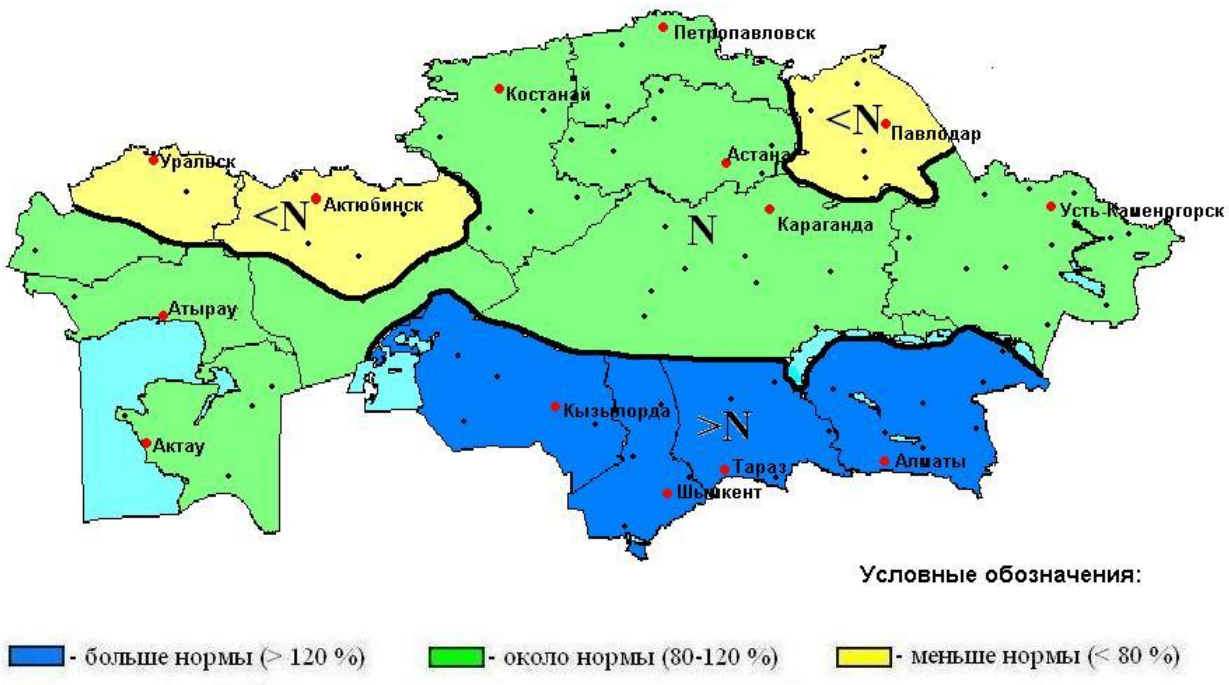


Source: Kazakh Statistics Agency

Although still a month before spring planting begins, the official Kazakh weather service, Kazhydromet, is forecasting that by the beginning of the sowing season in the Kostanay, North-Kazakhstan and Akmola regions, precipitation numbers will be at the "normal" level of 80 to 120 percent. The best planting time for Northern Kazakhstan, which includes the three major grain producing regions (Kostanay, North-Kazakhstan and Akmola), is generally around May 15-2, although the ideal planting periods varies every year depending on weather conditions.

**Map. Expected precipitation levels in May 2015, green – normal (80-120%), yellow-less than normal (<80%), blue – above the normal (>120%).**

Ожидаемые отклонения от нормы количества осадков
в мае 2015 года




In 2011-12 the Kazakh Government drafted the law "On state regulation of genetic engineering activities", the very first legal act, which regulated biotechnology in Kazakhstan. However, as of today, it still remains a draft in the Parliament of Kazakhstan. For more information, please, see Kazakhstan Biotechnology Update 2014 report.

At a recent conference in Astana, the Minister of Agriculture raised the importance of organic agriculture in Kazakhstan as a great potential for Kazakhstani producers. However there is no legislation in place, to regulate organic production in Kazakhstan.

**Consumption**

Food, seed, and industrial (FSI) consumption for wheat is expected to remain unchanged in marketing year (MY) 2015/2016 at 4.8 MMT. Although flour consumption is expected to grow along with population growth, seed use is forecast to continue to fall as planted area shifts away from wheat. The only bioethanol plant in Northern Kazakhstan was unable to successfully market bioethanol and filed for bankruptcy. As of today, the plant is under financial rehabilitation with no industrial processing. Therefore, fuels/industrial production is not a significant consumer of grain in Kazakhstan. Other industrial use (primarily for spirits production) is expected to remain steady.

Feed use of wheat in MY 2015/2016 is forecast to be flat. Although wheat remains the most fed grain in Kazakhstan for livestock, most of the increase in feeding in future years is expected to be in barley and other feed grains and grasses, due to the government's strategy to increase area to these crops.
Feed use of barley in MY 2015/2016 forecast at 2 MMT, higher from 1.6 MMT in MY 2014/2015 as more and more barley is used for feeding in livestock industry.

As of March 1, 2015, 80% of wheat is used for food consumption, 14% for seeds and 5% for feed. Barley consumption includes 34% for food, 22% for seeds and 43.5% for feed. A year ago wheat consumption was nearly identical to the 2015 data, showing 82% for food, 13% for seeds and 4% for feed; while barley consumption was 33% for food, 15% for seeds and 51% for feeding.

**Chart. Wheat consumption as of March 1. 2015**

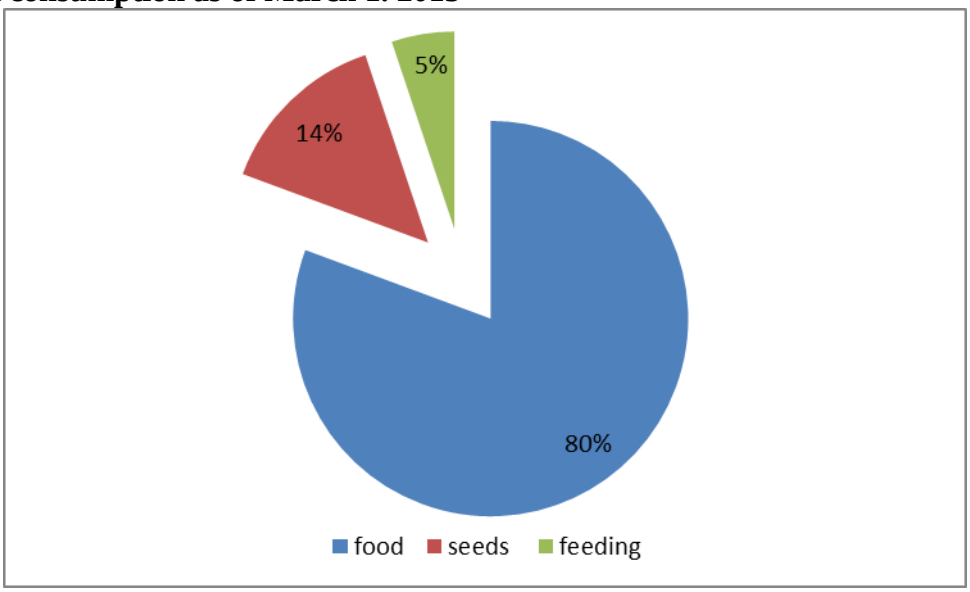
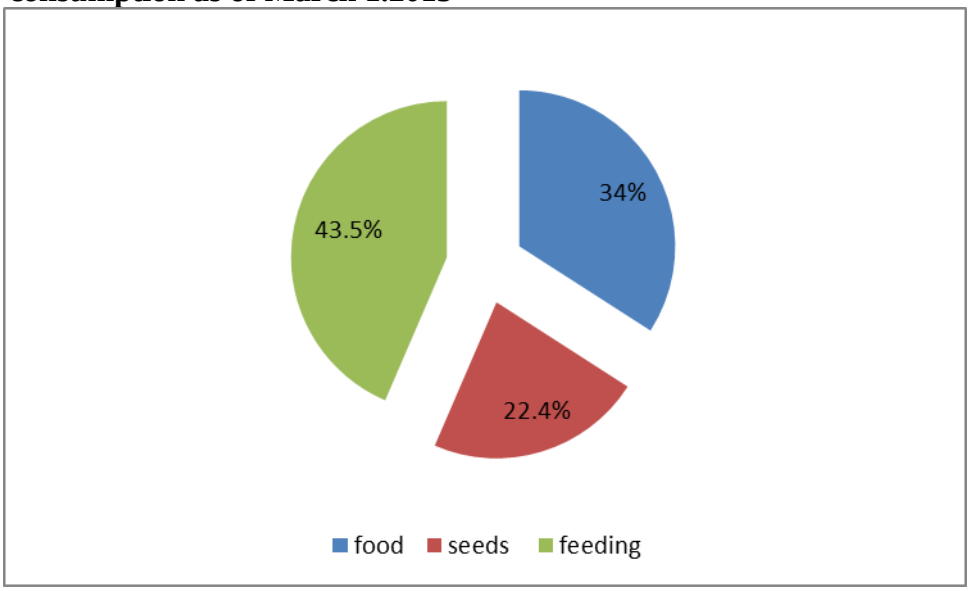



**Chart. Barley consumption as of March 1.2015**




*Flour mill industry update*

Industry sources indicate that Kazakhstan's mills currently operate at approximately 50 percent of its capacity, estimated at 10-11 MMT of grain processing per year. This number exceeds Kazakhstan's

average exports of grain at 8-8.5 MMT, nearly all of Kazakhstan's flour exports go to Central Asian countries – Uzbekistan, Kyrgyzstan, Tajikistan, Turkmenistan and Afghanistan. A recent survey conducted in Tajikistan showed that consumers would prefer to buy an extra bag of flour if their incomes were to double – demonstrating the importance of bread within these markets. Kazakhstan's flour export destinations remain principally in the traditional Central Asian countries and Russia, with its extensive retail system. Countries with membership in the EAEU (Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan are able to trade with no border restrictions. Kazakhstan's exports are not competitive outside the Central Asia region, such as Northern Africa.

During the period 2006 to 2008, Kazakhstan updated its domestic flour standards, implementing stricter standards for flour quality. Currently, the Russian standards for flour are lower than the standards enforced by Kazakhstan. Moreover, the flour produced by Kazakhstani millers for export generally exceeds the Kazakhstani standards in order to meet exports contractual requirements. As a result the highest grade of Russian flour (0.55 ash content) is equal to the 1st grade of Kazakhstani flour (0.57 ash content). Uzbek bakeries prefer the good gluten content of Kazakhstani wheat because it becomes sticky in the oven, allowing for good volume in the baked product. While Kazakhstan is able to produce durum wheat, there is only a very small demand in Kazakhstan's traditional markets because of the relatively high cost of durum. Generally pasta produced in Kazakhstan is made of Kazakh soft wheat.

Since September 2014, the Afghanistan/Central Asia Regional Food Fortification Initiative was started in Kazakhstan. The main goal of the program is to improve processes, regulations and monitoring of wheat flour and edible oil fortification, in order to address ongoing micronutrient deficiency in the region. A flour industry expert noted that flour fortification has no impact on the quality of the flour for the average consumer in the region as consumers don't care if the flour is fortified or not. As a result, consumers won't pay more for fortified flour. But the fortification process is expensive for the mills. For instance, the average size mill that produces 250 tons of flour per day would need to spend $90,000 to $120,000 on fortification supplies for one year. Health care experts claim that for every $1 spent on fortification, the public sector saves $10 in health care costs. As a result, Kazakhstan has implemented a program to assist millers with the cost of implementing fortification. However, the fortification cost reimbursement program in Kazakhstan requires a long administrative process through the Ministry of Health. In 2014, this program allocated funding to fortify up to approximately 2.5 MMT of flour.

**Stocks**

The Kazakhstan Statistical Agency reported on March 1, 2015 that the Kazakhstani grain stocks were at the same level as in 2014. Stocks of wheat were at 9.2 MMT, also at the same level of 9.2 MMT on March 1, 2014. Barley stocks dropped to 1.0 MMT in 2015, compared with 1.2 MMT in 2014, according to the Kazakhstan Statistical Agency. As a result, Post forecast a decrease in barley stocks in 2015. This downward movement in barley stocks is largely attributable to an increase in Kazakhstan's exports of barley.

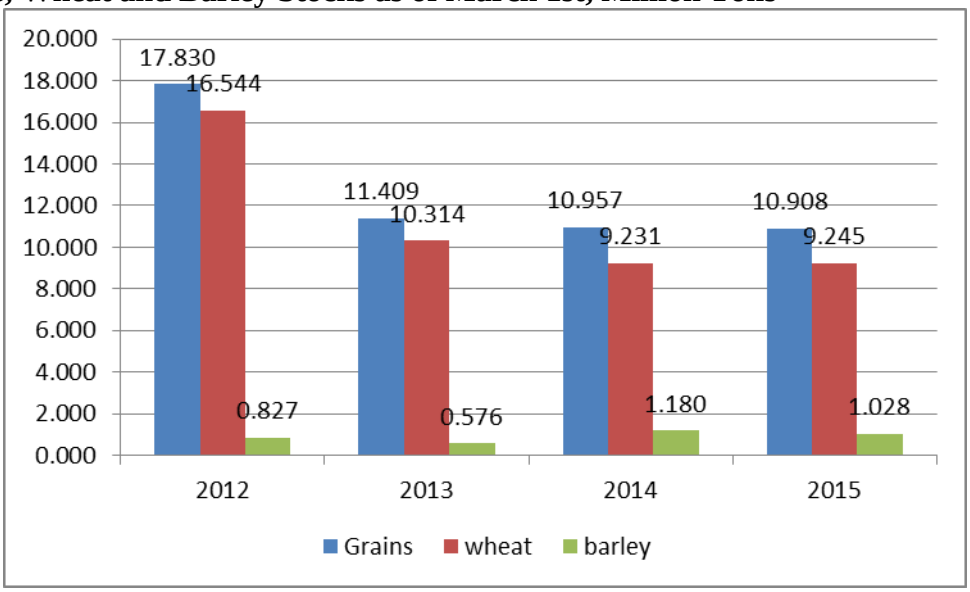
**Table. Grain Stocks as of March 1st**

| | (1,000 MT) | | | |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| Wheat | 16,544 | 10,314 | 9,231 | 9,245 |
| Corn | 28 | 30 | 43 | 101 |
| Rice | 94 | 116 | 121 | 149 |
| Barley | 827 | 576 | 1,180 | 1,028 |

| | | | | |
|---|---|---|---|---|
| Rye | 17 | 9 | 22 | 40 |
| Oat | 124 | 87 | 166 | 148 |
| Buckwheat | 21 | 27 | 56 | 28 |
| Millet | 24 | 19 | 28 | 10 |
| Mixed Grains | 65 | 168 | n/a | 110 |
| Total Grains | 17,830 | 11 409 | 10,957 | 10,908 |

Source: Kazakhstan Statistical Agency

**Chart. Grains, Wheat and Barley Stocks as of March 1st, Million Tons**




Source: Kazakhstan Statistical Agency

Kazakhstan Statistics Agency shows that on-farm stocks for wheat comprise 16% of national stocks and on-farm stocks of barley comprise 30% of national stocks.

In 2015, the Government of Kazakhstan plans to introduce an electronic system for issuing grain warehouse receipts. The current system of receipts issuance results in illegal issuance of receipts for non-existing volumes and facilitates fraudulent reporting of elevator stocks.

Also for the first time, in 2015 the Government grain operator, the Food Contracting Corporation, will purchase and hold feed crops as a reserve in case of a potential shortage of feedstuff.

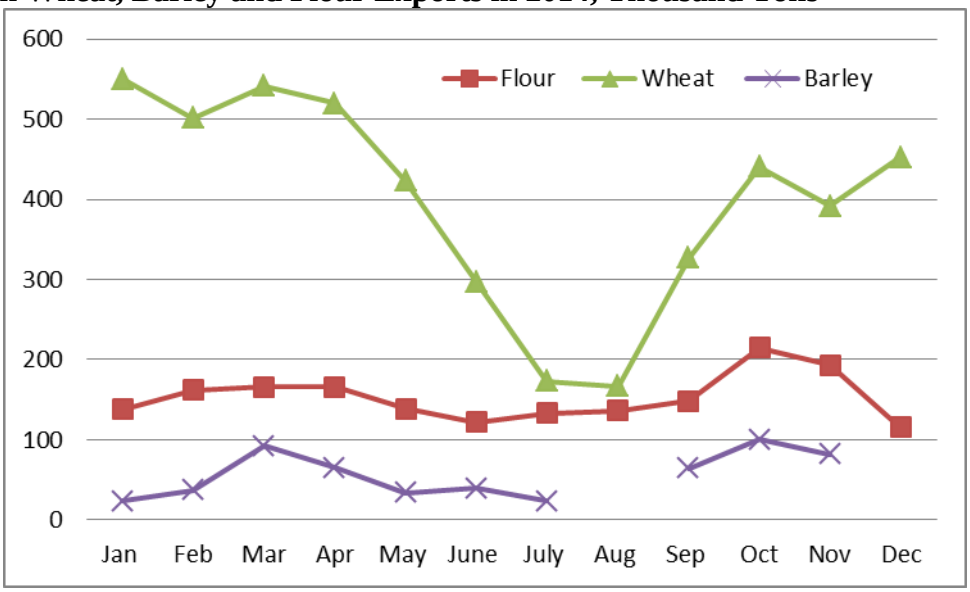
**Trade**

Kazakh wheat exports are forecast flat in MY 2015/2016 to 6.0 MMT, from the same level in MY 2014/2015, as a result of tighter exportable supplies. The difficulty and high costs of getting Kazakh wheat to external markets will continue to constrain exports, and the lion's share of these exports are expected to continue to be sold to nearby regional buyers. Traders explain that grain exports are constrained in Iran and Central Asian countries for the following reasons:

- Currently Iran imports wheat from many different markets, both within and outside Central Asia. Kazakhstan is the 9th largest wheat importer into Iran.
- Because shipments from Kazakhstan to Iran are currently minimal, use of the new railway connection between Kazakhstan, Turkmenistan and Iran has been limited;
- Additionally, the railway administrations of all three countries need to come to an agreement on their regulations, not likely until the second half of 2015; and
- Exports to Uzbekistan are uncertain because of the current political situation with the upcoming presidential elections and the question of continuance of food prices controls by the Government.

Kazakh barley exports are forecast flat in MY 2015/2016 to 0.5 MMT, the same level as in MY 2014/2015, as a result of increased barley production and stable demand from Central Asian countries.

**Chart. Kazakh Wheat, Barley and Flour Exports in 2014, Thousand Tons**




Source: Kazakhstan Railway Data

In 2014, 68% of wheat exports were made to Central Asian counties and 18% to Iran.

**Table. Wheat exports by countries in 2014, MT**

| Country | Volume, MT |
|---|---|
| Azerbaijan | 439,522.27 |
| Kyrgyzstan | 461,057.34 |
| Tajikistan | 744,766.29 |
| Uzbekistan | 953,492.10 |
| Afghanistan | 36,518.88 |

| | |
|---|---|
| Georgia | 29,450.00 |
| Iran | 696,638.84 |
| China | 213,958.13 |
| Poland | 15,745.00 |
| Turkey | 67,216.01 |
| Sweden | 58,226.83 |
| Belgium | 150.00 |
| Germany | 66,298.38 |
| Italy | 21,733.20 |
| Finland | 270.00 |
| Lithuania | 1,070.00 |
| Netherland | 40.00 |
| Norway | 6,000.00 |
| UAE | 13,193.90 |
| Sudan | 54,570.49 |

Source: Kazakh Customs Data

Wheat flour exports in 2014 equaled 1.8 million tons with 99% of Kazakh exports going to Central Asian countries:

| Country | Volume, MT |
|---|---|
| Azerbaijan | 204.0 |
| Kyrgyzstan | 51,412.6 |
| Tajikistan | 181,244.5 |
| Turkmenistan | 54,605.1 |
| Uzbekistan | 897,969.8 |
| Moldova | 1,239.0 |
| Afghanistan | 634,985.1 |
| Georgia | 170.7 |
| Mongolia | 5,427.2 |
| China | 810.0 |
| UAE | 40.0 |
| Netherland | 20.0 |

Source: Kazakh Customs Data

During 2014 barley exports equaled 628,200 MT with 74% of Kazakhstan's exports going to Iran.

**Table. Barley exports by countries in 2014, MT**

| Country | Volume, MT |
|---|---|
| Iran | 468,943.36 |
| Jordan | 71,656.05 |
| Uzbekistan | 34,734.78 |
| Libya | 12,558.84 |
| Tajikistan | 11,153.0 |
| Azerbaijan | 10,347.42 |

| | |
|---|---|
| Afghanistan | 9,314.12 |
| Saudi Arabia | 3,939.22 |
| Kyrgyzstan | 3,252.47 |
| Israel | 1,300.00 |
| Georgia | 1,000.00 |

Source: Kazakh Customs Data

*Wheat Imports from Russia:*

According to industry analysts, in MY 2014/15 Kazakhstan increased imports of wheat from Russia, although these imports have not been reported in officially registered trade between Russia and Kazakhstan. Kazakhstan is a member of the Eurasian Economic Union[1] and shipments to Kazakhstan are not subject to customs control or export duty. For the same reason, some shipments between Russia and Kazakhstan are not registered in official customs data. According to official data of the EAEU, from July 2014 through January 2015, Russia exported to Kazakhstan 40,200 MT of grain, including 3,800 MT of wheat. However, Russian industry analysts estimate that from July 2014 through January 2015, Russia shipped to Kazakhstan between 0.4 MMT to 0.5 MMT of grain, and that Russia's total exports to Kazakhstan in MY 2014/15 may reach 0.6 MMT to 0.8 MMT. Most of this grain was shipped along the border between Kazakhstan and Siberian Russia by truck. Rusagrotrans, Russia's major grain railway transportation company estimated that from July 2014 through January 2015, 0.4 MMT of grain were shipped to Kazakhstan by truck and 67,000 MT by train. After many years as a grain exporter, Kazakhstan for the first time has become a net importer of Russian grain for the following reasons:

- The grain crop in Kazakhstan in 2014 is 17.2 MMT, 1.0 MMT lower than last year; and
- The Kazakh tenge to U.S. dollar exchange rate from November 2014 through January 2015, was higher than the ruble to dollar exchange rate.

FAS/Astana estimates Kazakh imports from Russia in MY 2014/15 at 400,000 MT for the following reasons:

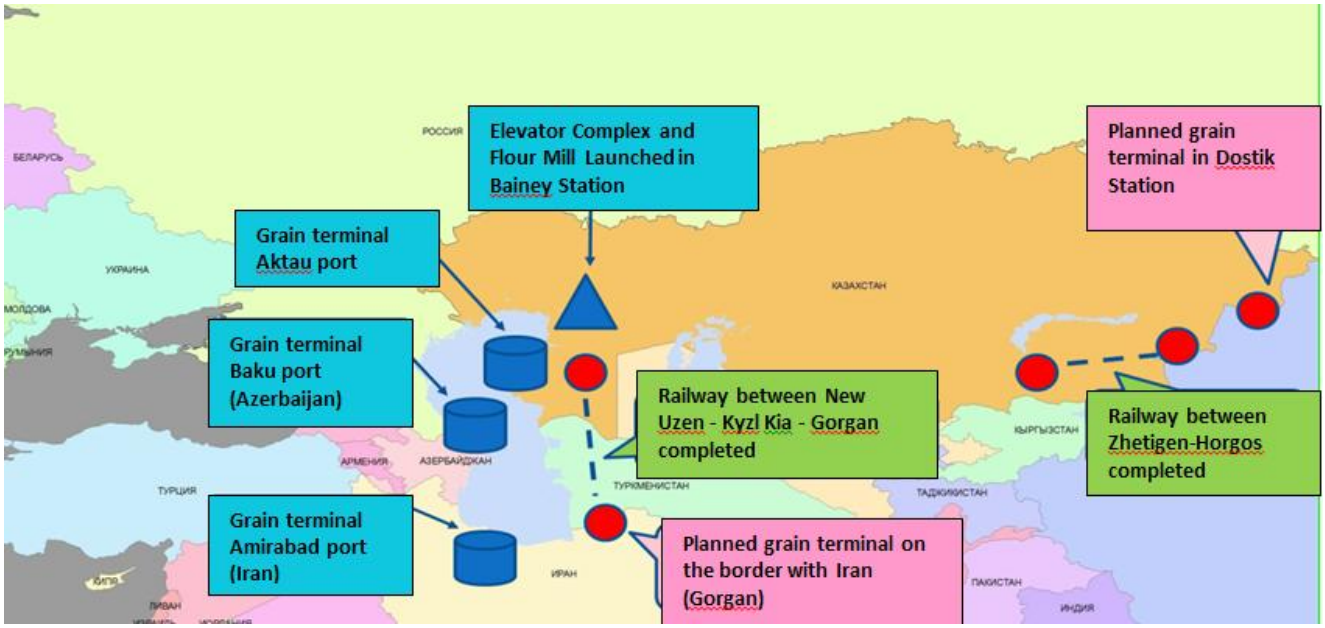
- Truck shipments were done illegally during December, January and February, when the exchange rate was 1 Ruble for 2.7-2.8 Tenge, making Russian wheat cheaper compared to the Kazakhstani price; and
- In March 2015, when the Tenge to Ruble exchange rate exceeded 3.0, prices in Russia and Kazakhstan equalized and shipments stopped.

**Development of Export Infrastructure Projects**

The Ministry of Agriculture continues to have a strategy for the building of an export infrastructure to support grain and flour shipments. The Ministry reported on the progress of these infrastructure projects, and explained that grain terminals in the ports of Aktau (Kazakhstan), Baku (Azerbaijan), and Amirabad (Iran) are already functioning (wholly or partially financed by the Food Contracting Corporation). In addition, in order to increase grain exports to Central Asia, Afghanistan and Iran, an elevator complex and flour mill were built in Beineu station, in Southern Kazakhstan (please see map below). The Ministry also reported that two new railroad links were completed, one between South

[1] The Eurasian Economic Union (EAEU) unites Russia, Kazakhstan, Belarus and Armenia. More on the Eurasian Economic Union see FAS/Moscow GAIN Report on Customs Union.

Kazakhstan and the Turkmenistan-Iranian border, and the other between East Kazakhstan and the Chinese border. They also announced future plans for the eventual construction of grain terminals on both the Iranian and on the Chinese borders.




Source: Ministry of Agriculture Master Plan for Grain

One of the key grain traders in Kazakhstan is JSC Food Contracting Corporation (FCC). It is a 100% subsidiary of the National Management Holding, KazAgro, which is in turn is held 100% by the Ministry of Agriculture. The FCC's mission is to implement functions of the state on the grain market. FCC fulfills its functions through a) grain purchases on the local market to provide food security; b) grain exports and grain exports infrastructure development and c) corporate governance and asset management.

Every year the FCC purchases wheat and barley at set prices on the local market (according to Kazakh Law on Grain) for the national stocks holding. These purchases send a clear signal to other market players on the FCC's market strategy. Usually the FCC makes its proposal to the Ministry of Agriculture on the price and volume it intends to offer for wheat and barley, based on all analysis of international markets. A relevant decree is signed by the Prime-Minister (Government Decree No 1277 dated December 5.2014, and presented in "Price" section of this report).

The FCC, as an agent of management of state grain stocks (article 6-2 of Kazakh Law on Grain), is in charge of both state and commercial stocks:

| | State stocks | Commercial stocks |
|---|---|---|
| Operations | ○ Maintain state grain stocks by purchasing grain on local market every year;<br>○ Refresh state stocks of food | ○ Purchase grain for commercial stocks on the local market every year;<br>○ Support local grain producers through forward purchases of grain (spring and summer |

| | | |
|---|---|---|
| | grain annually;<br>○ Store state grain stocks in both owned and rented grain elevators; and<br>○ Conduct sales of state grain reserves. | financing of grain production);<br>○ Export commercial stocks to main markets; and<br>○ Participate in expanding the infrastructure for storage and export of grain. |

The FCC has nine regional offices in the country (Akmola, Kostanay, North-Kazakhstan, Aktobe, East-Kazakhstan, West-Kazakhstan, Karaganda, Pavlodar, South-Kazakhstan), and representative offices in China and Russia.

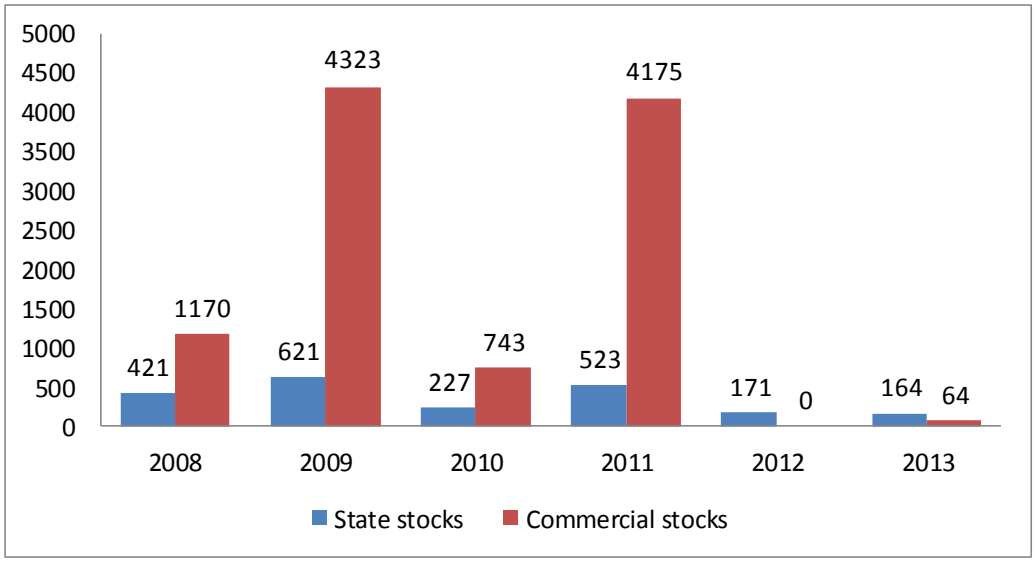
The FCC maintains the following facilities: AkBiday grain terminal in port Aktau on the Caspian Sea - temporary storage capacity of 22,500 MT of grain and 600,000 MT of transshipment capacity per year, Astyk Koimalary – a network of grain storage facilities with total storage capacity of about 561.3 thousand tons of grain and flour mill processing capacity of more than 120 tons of wheat per day; KazAstykTrans – railway transportation operator, and Kazakhstan Maktasy (Kazakhstani Cotton) – cotton operator.

**Table. Construction of new grain storages, Tons**

| Fact 2010-2012 | Fact 2013 | Plan 2015-2020 | Total 2010-2020 |
|---|---|---|---|
| 268,000 | 77,500 | 1.059,000 | 1.404,500 |

The FCC's purchases for spring-summer financing include: grain purchases of both state and commercial stocks through spring-summer financing under the guarantees of the second-tier banks of the Republic of Kazakhstan (STB) or Social-Enterpreneural Corporations (SEC).

**Chart. FCC grain purchases, Thousand Tons**




Source: KazAgro JSC

When purchasing grain into the state resources by spring-summer financing, preliminary partial payments are made in the spring-summer period for the grain to be supplied in the future (after harvest). In the spring-summer period, when concluding the contract between the Corporation and agricultural producer, the supplying volume of grain is fixed. The purchase prices are set by the Government in the period of the grain supply. After the supply of grain, in case, if the purchase prices exceed the preliminary payment amount, the Corporation makes an additional payment for the grain supplies. If the purchase price is less than the amount of the preliminary payment, grain producers reimburse the excess amount. The fulfilment of obligations is carried out only through the supply of grain.

Until 2012, the Food Contracting Corporation was operated as a state monopoly with non-transparent decision making and no consultations with farmers. In January 23, 2013 the Government of Kazakhstan initiated the creation of the United Grain Holding (UGH). The UGH was established on June 21, 2013, as a joint cooperation (Contract) between the Food Corporation JSC and Union of Farmers of Kazakhstan, in the form of a simple partnership. Participation in the UGH is open and voluntary and any member of the grain market has the right to join the UGH and/or withdraw their membership. The UGH members have equal rights, as well as retain their legal and economic independence. Participation in the holding does not involve contribution by its members of financial deposits, assets or other fees.

The joint cooperation within the UGH is confined on the production of grain, its subsequent sales in domestic and foreign markets and distribution of the revenues among the members of the UGH. UGH membership provides the following financial, marketing and profit benefits:

- Priority access of the grain producers - members of the UGH, to the programs of the Corporation for financing of spring sowing and harvest;
- Guaranteed purchase of grain from the grain producers - members of the UGH, in the autumn season;
- Sales of grain of the UGH members on the open market, both in the domestic market and for export;
- Distribution of income from the joint cooperation within the UGH between members of the UGH, who supplied grain to the Corporation.

At the time of reporting, 110 grain producers from 7 regions of Kazakhstan are members of UGH. The members tend to be small and medium-sized farms with acreage from 200 to 20,000 ha. The vast majorities, or about 80%, are small farms with acreage of up to 5,000 ha. Today, the total sown area of UGH grain producers is about 440,000 hectares.

In the two years since the establishment of UGH, grain farmers have become involved in discussions for purchasing price setting. However farmers are still unhappy with its performance, since UGH is unable to act as a legal company and FCC continues to hold profits on grain sales. Kazakh farmers have proposed establishment of a system similar to the Canadian Wheat Board. This discussion continues between the Farmers Union of Kazakhstan and the Ministry of Agriculture.

The FCC operates as a grain trader and cooperates with grain operators of other countries, like COFCO in China.

**Table. FCC grain exports, Tons**

| | 2013 | 2014 |
|---|---|---|
| Iran | 111,000 | 430,500 |
| Caspian region, Russian Federation | 35,000 | - |
| Central Asia | 14,000 | 8,000 |
| China | 10,000 | 45,000 |
| Total | 170,000 | 483,500 |

During the bumper harvest of 2009 and 2012, when farmers faced difficulty in marketing their produce, FCC procured 4.3 MMT and 4.2 MMT of grain, respectively, and helped farmers avoid losses.

*Prices*

The Government of Kazakhstan set up the following purchase prices (Government Decree 1277 dated December 5.2014):

1. For state commercial stocks: soft wheat (Triticum aestivum L.) 3d class ST RK 1046-2008 at 42,000 tenge per ton (for both VAT and non-VAT businesses);
2. For state stocks of forage grain: barley class 2 GOST 28672-90 at 28,000 tenge per ton (for both VAT and non-VAT businesses);
3. For state stocks of seeds: seeds of soft wheat and barley by reproductions and classes of seeds standards per below table:

| | Reproduction 1 | | Reproduction 2 | | Reproduction 3 | |
|---|---|---|---|---|---|---|
| | Class 1 | Class 2 | Class 1 | Class 2 | Class 1 | Class 2 |
| Wheat | 56,059 | 53,714 | 51,107 | 48,333 | 44,625 | 42,333 |
| Barley | 54,375 | 44,500 | 42,625 | 40,250 | 40,000 | 38,000 |

In 2014, the Government set prices for soft wheat and barley 150% higher than in 2013 (see table below). The main reason for this increase was explained by the Minister of Agriculture as a support to farmers to compensate losses during the difficult harvesting in the fall of 2014. However, the higher price set for wheat and barley made Kazakh wheat less competitive in export markets.

**Table. Government set prices, tenge per ton**

| Crop | 2012 | 2013 | 2014 |
|---|---|---|---|
| Soft wheat (Triticum aestivum L.) class 3 | 40,000 | 28,000 | 42,000 |
| Soft wheat (Triticum aestivum L.) class 4 | 36,000 | - | - |
| Barley class 2 GOST 28672-90 | 32,000 | 20,000 | 28,000 |

Grain export prices in Kazakhstan have shown an increase of 13 to 16% over the past few months, with prices for 3rd class wheat at the Russian border at $220 per MT, and prices for barley at the Caspian port of Aktau around $225 per MT.

**Chart. Wheat and Barley prices in 2014, $/MT DAP Petropavlovsk rail station**

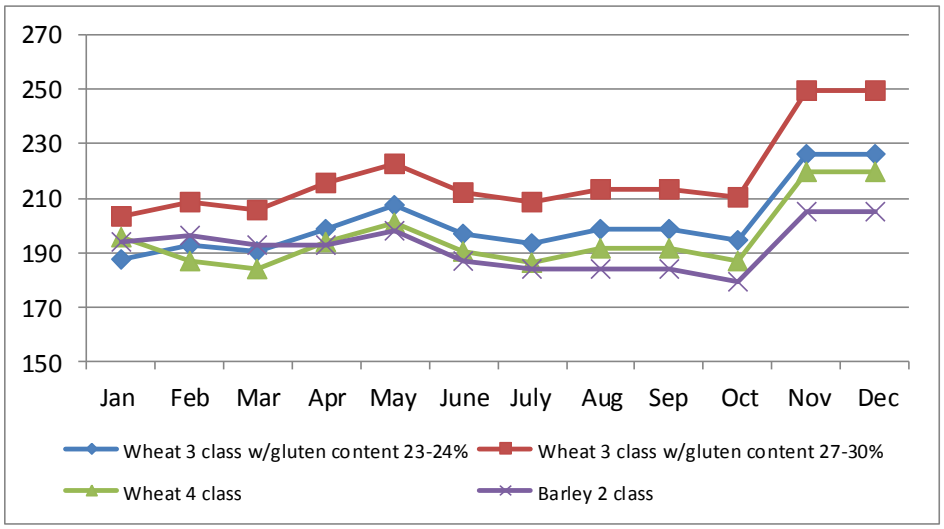
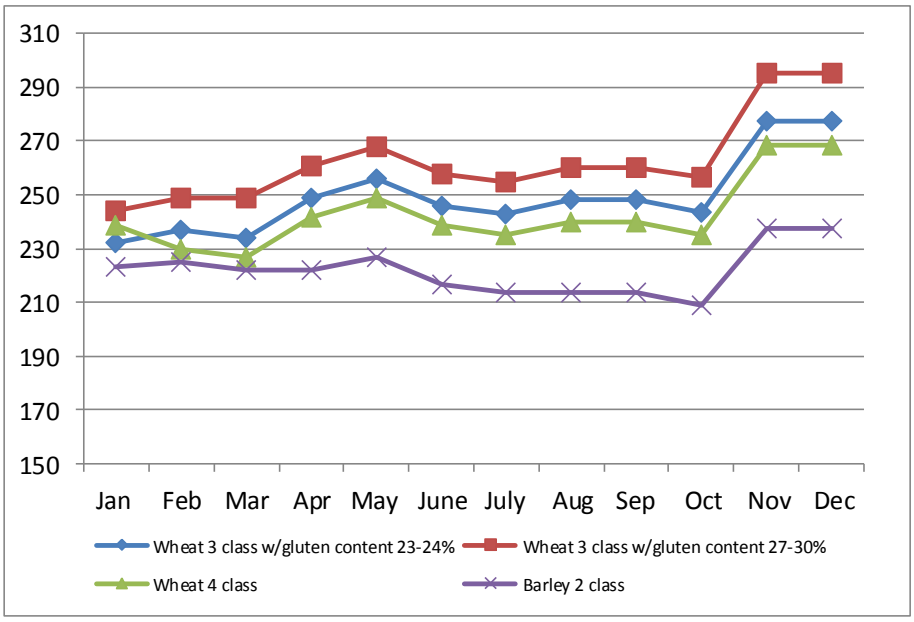



**Chart. Wheat and Barley prices in 2014 at Aktau port on Caspian Sea, $/MT FOB**




Source: Kazakh Zerno

## PSD Tables

| Wheat Kazakhstan | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| | Market Year Begin: Sep 2013 | | Market Year Begin: Sep 2014 | | Market Year Begin: Sep 2015 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| **Area Harvested** | 12,954 | 12,954 | 11,923 | 12,750 | | 12,200 |
| **Beginning Stocks** | 2,935 | 2,935 | 1,988 | 1,988 | | 2,584 |
| **Production** | 13,941 | 13,941 | 12,996 | 12,996 | | 12,500 |
| **MY Imports** | 12 | 12 | 400 | 400 | | 400 |
| **TY Imports** | 12 | 12 | 400 | 400 | | 400 |
| **TY Imp. from U.S.** | 0 | 0 | 0 | 0 | | 0 |
| **Total Supply** | 16,888 | 16,888 | 15,384 | 15,384 | | 15,484 |
| **MY Exports** | 8,100 | 8,100 | 6,000 | 6,000 | | 6,000 |
| **TY Exports** | 8,000 | 8,000 | 6,000 | 6,000 | | 6,000 |
| **Feed and Residual** | 2,000 | 2,000 | 2,000 | 2,000 | | 2,000 |
| **FSI Consumption** | 4,800 | 4,800 | 4,800 | 4,800 | | 4,800 |
| **Total Consumption** | 6,800 | 6,800 | 6,800 | 6,800 | | 6,800 |
| **Ending Stocks** | 1,988 | 1,988 | 2,584 | 2,584 | | 2,684 |
| **Total Distribution** | 16,888 | 16,888 | 15,384 | 15,384 | | 15,484 |
| | | | | | | |
| 1000 HA, 1000 MT, MT/HA | | | | | | |

| Barley Kazakhstan | 2013/2014 | | 2014/2015 | | 2015/2016 | |
|---|---|---|---|---|---|---|
| | Market Year Begin: Jul 2013 | | Market Year Begin: Jul 2014 | | Market Year Begin: Jul 2015 | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| **Area Harvested** | 1,837 | 1,837 | 1,909 | 2,000 | | 2,200 |
| **Beginning Stocks** | 158 | 158 | 197 | 207 | | 417 |
| **Production** | 2,539 | 2,539 | 2,412 | 2,600 | | 2,700 |
| **MY Imports** | 0 | 10 | 10 | 10 | | 10 |
| **TY Imports** | 0 | 10 | 10 | 10 | | 10 |
| **TY Imp. from U.S.** | 0 | 0 | 0 | 0 | | 0 |
| **Total Supply** | 2,697 | 2,707 | 2,619 | 2,817 | | 3,127 |
| **MY Exports** | 500 | 500 | 500 | 500 | | 500 |
| **TY Exports** | 575 | 575 | 500 | 500 | | 500 |
| **Feed and Residual** | 1,700 | 1,700 | 1,600 | 1,600 | | 2,000 |
| **FSI Consumption** | 300 | 300 | 300 | 300 | | 300 |
| **Total Consumption** | 2,500 | 2,500 | 2,400 | 2,400 | | 2,800 |
| **Ending Stocks** | 197 | 207 | 219 | 417 | | 327 |
| **Total Distribution** | 2,697 | 2,707 | 2,619 | 2,817 | | 3,127 |
| | | | | | | |
| 1000 HA, 1000 MT, MT/HA | | | | | | |