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Kazakhstan - Republic of

Grain and Feed Update

Kazakh Wheat Production Up Sharply, But Increase in Exports Expected to Be More Limited

Post:

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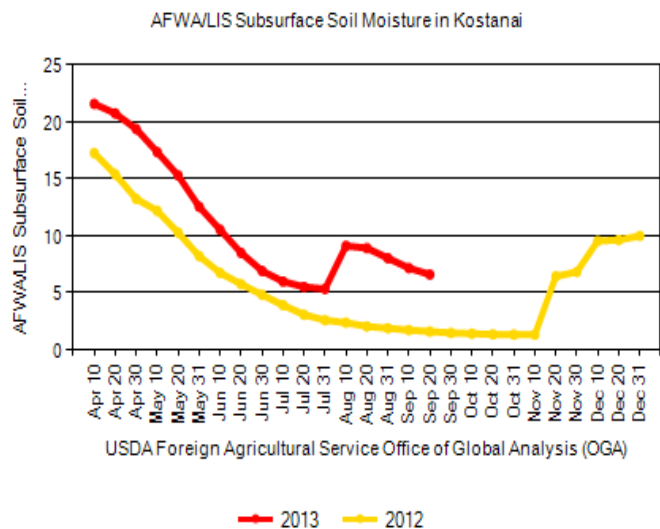
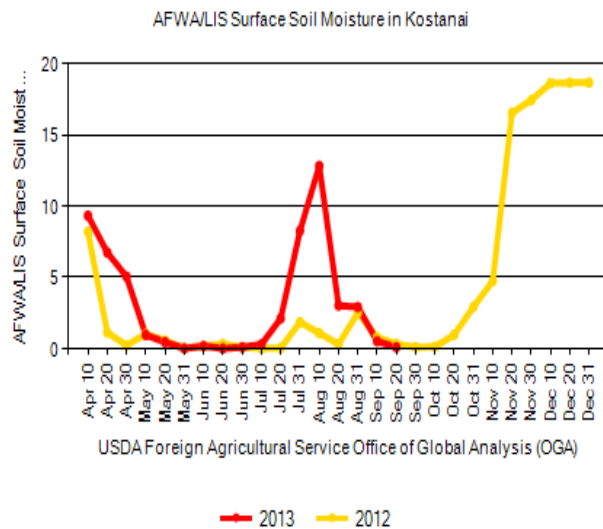
Report Highlights:

Kazakhstan's 2013 grain harvest this year is sharply higher than last year, with the FAS/Astana estimate for wheat production at 16 million metric tons (MMT), up from last year's 9.8 MMT. FAS/Astana estimates wheat exports in the 2013/14 marketing year at 8.0 MMT, up 1.5 MMT from last year but still far below the levels of 2011/12 (where they reached nearly 12 MMT). Smaller wheat export volumes to Russia, strong competition from other exporters, and high transportation costs are all expected to limit further increases in exports this marketing year.

Production

Kazakhstan's 2013 grain harvest this year is sharply higher than last year, with the FAS/Astana estimate for wheat production at 16 million metric tons (MMT), up from last year's 9.8 MMT. The most recent estimate for all grain production from the Kazakh Ministry of Agriculture (of which wheat typically accounts for 80 percent) was raised to 18.5 MMT from a previous forecast of 16.3 MMT.

The growing season in Kazakhstan began with excellent moisture levels due to plentiful snowfall levels and early spring rains. However, this situation quickly deteriorated as the almost complete lack of rain in May – June put the crop in severe danger and caused subsurface soil moisture levels in some key regions to fall to levels near those during the 2012 drought. Very timely rains in July and August, however, improved the situation and helped ensure a crop slightly above the 5-year average of 15.7 MMT. (See charts below).



Harvesting is nearing completion in Northern Kazakhstan, and as of September 30th, 83.7 percent of the planted area had been harvested, with significantly higher yields. The harvest is delayed by about 2 weeks this year, and as of this date last year 97.2 percent of the crop had already been harvested. Yields in Kostanai region, which was the hardest hit of the main wheat areas in last year's drought, have increased the most and are 69 percent higher than last year, with yields in Akmola up 45 percent so far, and yields in North Kazakhstan up 17 percent.

region	sown area, 000 ha		harvested area, 000 ha		harvested, 000 ha				harvested, 000 tons		Yield centner/ha	
	2012	2013	2012	2013	2012		2013		2012	2013	2001 2	201 3
					000 ha	%	000 ha	%				
AKMOLA	4343.8	4248.4	4117.9	4234.2	4117.9	100.0	3417.6	80.7	3452.0	4155.8	8.4	12.2
AKTOBE	578.5	490.9	331.9	426.9	331.9	100.0	376.8	88.3	94.7	215.3	2.9	5.7
ALMATY	451.9	445.1	434.8	445.1	377.7	86.9	386.9	86.9	726.3	809.4	19.2	20.9
ZHAMBYL	228.3	229.5	199.2	223.5	199.2	100.0	223.5	100.0	191.2	414.4	9.6	18.5
WEST KAZ	407.9	354.7	240.7	323.2	240.7	100.0	309.1	95.7	129.8	201.1	5.4	6.5
KARAGANDA	665.2	669.7	624.8	665.0	602.2	96.4	450.1	67.7	428.7	564.0	7.1	12.5
KOSTANAY	4345.6	4400.8	4345.6	4400.8	4345.6	100.0	4009.1	91.1	2803.1	4444.0	6.5	11.1
KYZYLORDA	83.7	79.1	83.6	79.1	58.2	69.6	55.0	69.5	226.8	230.5	39.0	41.9
PAVLODAR	560.8	601.6	460.5	601.3	443.3	96.3	455.5	75.8	222.2	592.8	5.0	13.0
NORTH KAZ	3838.0	3573.6	3838.0	3573.6	3591.6	93.6	2820.6	78.9	4468.0	4078.5	12.4	14.5
SOUTH KAZ	186.5	216.6	186.5	216.6	164.4	88.2	204.6	94.5	209.4	426.0	12.7	20.8
EAST KAZ	543.1	559.1	527.8	559.1	485.3	91.9	478.3	85.5	560.8	819.9	11.6	17.1
TOTAL	16233.3	15869.1	15391.3	15748.4	14958.0	97.2	13187.1	83.7	13513.0	16951.7	9.0	12.9

Data Source: Kazakhstan Ministry of Agriculture as of September 30, 2013 in bunker weight

Map of Key Grain Growing Areas



Data Source: Kazakhstan Ministry of Agriculture (in bunker weight)

Consumption

Feed and food use are both expected to be up this year as a result of the larger crop. Although flour production is expected to be up slightly, the Minister of Agriculture, Assylzhan Mamytkov, recently reported that Kazakhstan has a significant excess of milling capacity, and he estimated that 60 percent of existing mills have “excessive milling capacity.” He stated that although the Ministry of Agriculture has not financed any mills since 2009, he bemoaned the fact that the Government Entrepreneurship Development Fund has been financing new mills. He called for a shift of milling companies into new products such as starch, molasses and other products. As key flour buyers in Central Asia continue to expand their own milling capacity and shift from buying flour to wheat, this problem of overcapacity could increase.

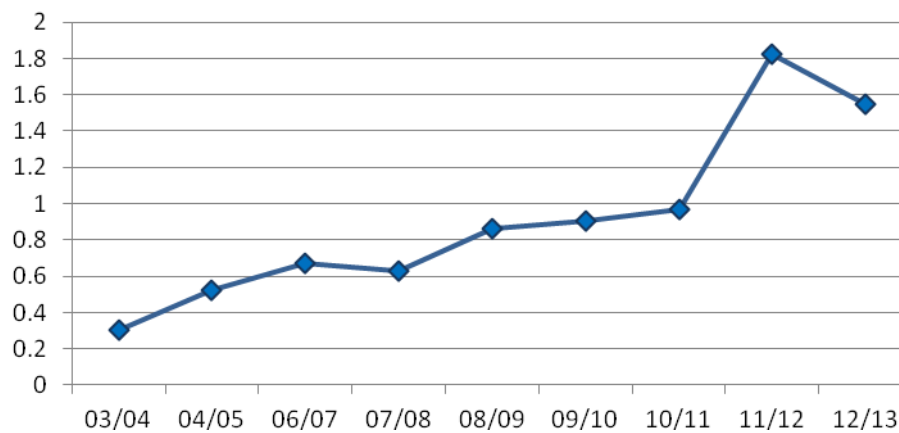
According to the Union of Flour Producers of Kazakhstan, in 2012 flour production increased by 4.5 percent to slightly over 4 MMT. Kostanai region (one of the key wheat producing regions) has typically been the largest flour producer, in recent years accounting for 27 percent of the national total, followed by South Kazakhstan (not a growing region but much closer to key flour buyers) at 20 percent.

Trade

FAS/Astana estimates wheat exports in the 2013/14 marketing year at 8.0 MMT, up 1.5 MMT from last year but still far below the levels of 2011/12 (where they reached nearly 12 MMT). Although shipments to the South (Central Asia) may continue to increase (see graph below), there are a number of factors which are expected to limit any larger increase in total Kazakh exports this year. These include:

- Smaller wheat exports to Russia: Last year Russia experienced a severe drought in Siberia, and as a result Russia became a very substantial purchaser of Kazakh wheat. However, with an average to above-average crop being harvested currently in Siberia, this demand for imports is disappearing.
- Strong competition from other wheat exporters: Black sea wheat suppliers such as Ukraine and Russia all have larger crops this year, and this is creating stronger competition for traditional Mediterranean buyers that could impede the ability of Kazakhstan to increase sales to these markets. Although wheat quality problems in Russia (as evidenced by expanding price spreads by wheat class) could open the door for Kazakh wheat, there are some concerns that Kazakh wheat could also have quality issues due to the wet weather before harvest.
- Lack of export subsidies: While in previous years of large harvests, the Kazakh Government has provided transportation subsidies (up to \$40 per metric ton for grain going through Russia or to China) this year there have been no announcements of any such subsidies, and with Kazakhstan trying to join the WTO, the future of these types of subsidies are very much in question. Higher transportation costs of transporting Kazakh grain will likely make the grain less competitive compared to previous years.

Kazakh Wheat Grain Exports to Central Asia Have Grown in Recent Years (MMT)



Data Source: Kazakh Customs (Includes Uzbekistan, Tajikistan and Kyrgyzstan).

Logistical/Transportation Difficulties

Kazakhstan's landlocked status and far distance from key markets has consistently been an obstacle for exports of Kazakh wheat. Although transportation subsidies have been used as a short-term policy to try and address this problem, the Government of Kazakhstan has been implementing two longer term strategies to alleviate this. The first is a strategy of diversification of crop land away from wheat and into feed grains and oilseeds. The Government has been trying to encourage this shift, in conjunction with a policy of increasing livestock and poultry production, so that more of the crops produced can be consumed locally and not need to be exported. The second strategy is investment in infrastructure projects, through the State-Owned Food Contract Corporation (FCC) to diversify export routes for Kazakh wheat, and especially develop export flows South (through Iran), to China, and via the Caspian Sea. In addition to operating the Kazakh grain terminal at Aktau (with a capacity of approximately 600,000 tons), the Food Contracting Corporation has invested or is planning on investing in the following projects (please see www.fcc.kz for more information):

Past Investments

- A joint venture with Azerbaijan for a grain terminal in Baku, Azerbaijan
- A joint venture with Azerbaijan for a large flour mill complex in Baku, Azerbaijan
- A joint venture with Iran on a grain terminal at the port of Amir Abad. This terminal was completed in 2010 with the FCC's stated purpose "the further development of the transport infrastructure of Kazakh grain to Caspian regional markets and further to world markets in order to support the development of the grain industry in Kazakhstan"

Planned Investments

- Construction of a grain terminal in South Kazakhstan with 200,000-ton-capacity to increase Kazakh grain exports to the "South". This project is estimated to be implemented in 2015-18.
- Construction of a grain terminal on the Kazakh-Chinese border near Almaty with 50,000-ton-capacity to increase Kazakh grain exports in the direction of China. This project is estimated for implementation in 2016-17.

--Construction of a new terminal on the Caspian Sea in Kuryk with 50,000-ton-capacity to increase Kazakh exports in the direction of “Caspian countries and Black Sea countries”. This project is estimated for implementation in 2017-18.

In addition to these projects, back in 2004 the Kazakh Government invested in a joint venture with Latvia for a grain terminal in Ventspils on the Baltic Sea. Also, earlier this year it was announced that Kazakh Companies agreed to build a grain terminal in the Ukrainian port of Kerch.

Kazakhstan has also invested heavily in a Kazakhstan-Turkmenistan-Iran railway link to help facilitate greater exports of grain to and via Iran by rail (which currently must pass through Uzbekistan or must be shipped via the Caspian Sea). It is reported that the Kazakh and Turkmen portions of this link are already completed, but the Iranian portion is still under construction.

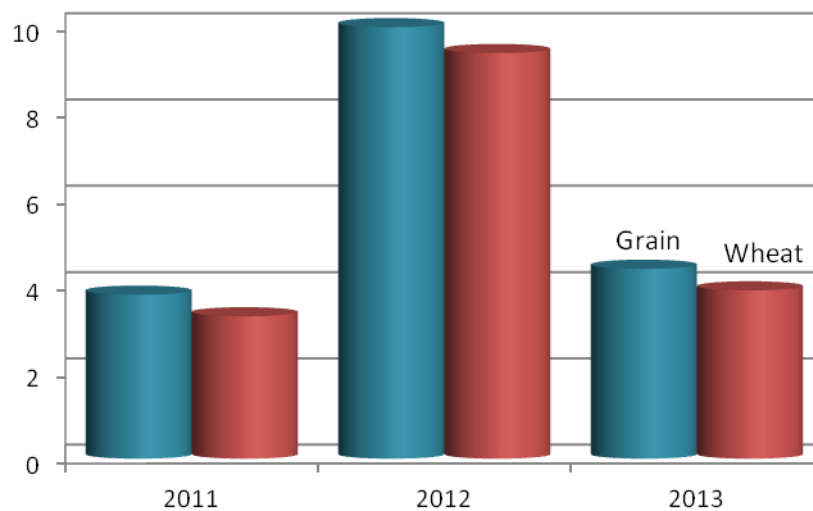
At a meeting of the Kazakh grain industry at the beginning of September, a joint venture was announced between the Kazakh rail company KazTemirTrans and the huge Russian railroad company RusAgroTrans. It was announced that this joint venture would be called JV “Astyk Trans” and would begin operation on October 1, 2013. On the Ministry of Agriculture’s website, it was reported that this joint venture should help provide Kazakh exporters with lower transportation costs and help solve logistical problems and shortages of rail grain cars. The companies have both agreed to provide 3,000 rail cars for this joint venture, with the final goal being a stock of 10,000 cars. Part of the stated justification for the joint venture is that harvest seasons in Russia and Kazakhstan are at different times and shipping volumes for grain also peak at separate times so by cooperating it should remove some of the rail wagon shortages that have occurred in both countries in recent years. RusAgroTrans stated they believe this joint venture will ship half of Kazakhstan grain harvest (of 18-19 MMT) in a typical year, including 3.5 million metric tons of shipments internally in Kazakhstan, and the rest for export.

Stocks

According to the State Statistics Service, Kazakhstan grain stocks as of September 1, 2013 were at 4.4 MMT of grain, including, including 3.9 MMT of wheat. These volumes are less than half of last year’s stock levels of 10 MMT of grain and 9.4 MMT of wheat. This is as a result of a poor crop last year.

Stocks of Grain/Wheat Sharply Lower

(As of Sept 1, Million Metric Tons)



Data Source: Kazakh Statistical Service

The Minister of Agriculture recently announced that the country had 214 licensed grain elevators, with a combined capacity of 13.9 MMT. The estimated capacity of agricultural producers is 10.7 MMT for a combined total of 24.6 MMT, which the Minister stated could easily handle the estimated crop of 18.5 MMT. Of these elevators, the Ministry estimated that as of September 20th, 94 percent had passed inspection and were in a condition to begin receiving grain.

Prices

The price of domestic wheat in Kazakhstan has continued to fall as a result of the positive crop outlook and impending harvest. From early July to mid-September, 3rd class wheat prices near the Russian border have fallen \$55 per ton to \$190 per ton, and barley prices at the Caspian port of Aktau have fallen \$30 per ton to \$220 per ton.

PSD

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