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Kazakhstan Master Plan for Poultry Meat Sector Development till 2020

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Report Highlights:

The Kazakhstan Ministry of Agriculture issued a plan for the development of the poultry meat sector in Kazakhstan through the year 2020. This report contains an unofficial translation of the full plan.

General Information:

The Kazakhstan Ministry of Agriculture issued a plan for the development of the poultry meat sector in Kazakhstan through the year 2020. This report contains an unofficial translation of the plan, as released. The plan reviews the current state of the sector, as of 2012, identifies the conditions necessary for development of the sector, the problems currently impeding the development of the sector and possible solutions.

Unofficial English translation of the above-referenced master plan can be found below:

BEGIN UNOFFICIAL TRANSLATION:

1. Introduction

Poultry meat production consists of industrial production carried out by agricultural enterprises as well as household production. According to the Statistics Agency of the Republic of Kazakhstan, poultry establishments produced 94 percent of 123,100 MT of poultry meat in 2012.

As of 01/01/2013, on the territory of the Republic of Kazakhstan there are:

- **28 poultry plants** for table egg production, total capacity of 2.356 billion eggs in 2012, given that 8 large plants (capacity over 100 million eggs/year) produce about 1.2 billion eggs or 51 percent of the total output.
- **18 poultry plants** for meat production, total capacity of 116,000 MT of poultry meat in 2012, given that 4 large plants (22 percent of the total number of poultry plants) produce approximately 79,000 MT or 71 percent of the total annual production of poultry meat.
- **1 parent stock multiplier farm (JSC Astana Kus)** for production of hatching eggs and day-old broiler chicks.
- **2 broiler parent stock farms** for production of hatching eggs, total of 12.3 million eggs and 4.2 million day-old broiler chicks.
- **1 parent stock farm** for production of **duck** hatching eggs, total of 2.345 million eggs.
- **5 layer parent stock farms** for production of layer hatching eggs, total of 98.8 million eggs and 7,297 day-old chicks.*

*According to the data provided by “Kazakhstan Poultry Producers Union” Association of Legal Entities.

Also, there are two temporarily seized poultry plants including Ruby Rose (broilers) and Cheremshanskaya poultry plant (layers), as well as small, private ostrich and quail farms.

Most of the broiler plants are located in the southern and eastern regions of the republic, while layer farms are located in the northern and in the central part of the republic.

During the period 2005-2012, chicken numbers in the republic constantly grew in every farm category. Statistics on chicken population and production from the recent years demonstrate relatively small

numbers as compared with the corresponding 1990 data. Thus, the 2012 bird population in all farm categories was 58 percent of the 1990 population, and the 2012 poultry meat output was only 61.2 percent of the 1990 levels. Therefore, although there has been considerable progress in the poultry meat production sector in the recent years, dependence on poultry imports remains high.

The main objective of the master plan is to increase poultry meat production in Kazakhstan. According to a recommendation from the United Nations Food and Agriculture Organization (FAO), the poultry meat import share needs to be reduced to 17 percent.

2. The Master Plan goals and objectives

The master plan objective is to support sustainable development of poultry meat production and meet the following targets:

- growth in poultry meat per capita consumption from 18 kg to 21 kg,
- decrease poultry imports to 17 percent.

It is imperative to address a number of key objectives to implement the master plan:

- resolve the current problems:
- provide access to financial instruments;
- create a solid fodder supply system;
- resolve strategic problems:
- make sure that the in-house performance parameters are competitive on the industrial scale and long-term;
- restore the scientific potential to support the industry when it comes to the goal-oriented breeding programs or creation of production infrastructure for professional training;
- implement technological solutions that are recognized and widely-distributed around the world for further assurance of the industry's sustainable development.

3. Current situation analysis and fundamental problems that impede the industry's development

At present, the national poultry meat production industry can be characterized as being in critical shape. Production facilities are not working at full capacity due to a cash flow shortage, and the cost of production is high due to high feed prices.

3.1 Poultry meat supply

There have been some positive dynamics during the 2000-2012 period. The poultry population grew in all farm categories, as well as the number of poultry establishments. The share of poultry plants in the total chicken population is 60 percent. Since the share of private farms is less than one percent of the total number of head, private farm production will not be considered hereinafter.

Although the number of household chickens is less than 40 percent in terms of volume, the main reason for keeping backyard chickens is for eggs. Therefore, the market share of poultry meat produced by

year						
Actual consumption, kg per capita per year	13,5	12,5	11,7	13,9	15,8	18,7
Actual production, kg per capita per year	4,16	4,17	4,93	6,3	6,1	7,3

The actual meat consumption exceeded the therapeutic rate of consumption during 2012. At the same time, imports meet 60 percent of the republic's demand for poultry meat.

Table 4: Poultry meat production and consumption ratio

Year	2007	2008	2009	2010	2011	2012
Output, thousand MT	64,3	65,3	79,4	103	102	123,1
Export, thousand MT	2,94	2,49	0,05	1,44	0,01	1,4
Import, thousand MT	147,1	132,6	109	124,9	159,2	192,2
Consumption, thousand MT	208,5	195,4	188,4	226,5	261,2	313,9
Import share, percent	70,6	67,9	57,9	55,2	60,95	61

3.2 Technology

Today, the operating poultry establishments use old and outdated equipment. At the same time, it should be noted that certain poultry plants are in the process of upgrading and expanding their production assets. KazRos Broiler poultry plant commissioned state-of-the-art operating equipment in 2008. Ust-Kamenogorskaya Poultry Plant upgraded its production facilities and expanded their range of products. Aknar Poultry Plant utilizes Belgium-made equipment.

3.3 Poultry performance

The key performance indicator in the poultry meat industry is feed conversion that determines the amount of feed required to produce 1 kg of poultry meat. When it comes to the performance indicators, Kazakh domestic establishments lag behind their western counterparts. The feed conversion standard that is one of the key efficiency indicators for modern, high-producing foreign crosses, used for domestic production, is at the level of 2.0 – 2.5 kg of feed per 1 kg of broiler live weight. According to the specifications, the declared conversion parameters for certain crosses used are as follows:

Ross 308 – 1.78

Cobb – 1.70

Hubbard – 1.72

Hubro – 1.77

At the same time, there are no intrinsic factors for the Kazakh enterprises that would prevent them from reaching those targets in our production environment. To get to this level, it is imperative that poultry are provided adequate vitamin and mineral additives.

3.4 Production capacity

At present, there is a substantial reserve production capacity in the republic to rear poultry, and to produce and process poultry products. The current situation analysis shows that the maximum production potential of the existing plants in Kazakhstan is about 180,000 MT of poultry meat/year.

Table 5: Production capacity of the backbone poultry meat enterprises

#	Name of Enterprise	Enterprise Production Capacity, MT					Actual output produced in 2012, MT	Meat production ratio, percent
		2011	2012	2013	2014	2015		
Almatinskaya Oblast								
1 1	JSC Alel Agro	26,500	27,000	27,000	28,000	30,000	22,800	23.4
22	LLP Alatau Kus	9,000	9,000	9,000	12,000	12,000	12,579	12.9
23	JSC KazRossBroiler	29,000	29,000	29,000	29,000	29,000	27,900	28.6
	Total	64,500	65,000	65,000	69,000	71,000	63,279	64.9
East Kazakhstan Oblast								
24	LLP Priirtyshskaya broiler poultry plant	8,000	10,000	11,000	12,000	14,000	9,000	9.2
55	LLP Ust-Kamenogorskaya poultry plant	12,000	20,000	25,000	30,000	40,000	16,705	17.1
	Total	20,000	30,000	36,000	42,000	54,000	25,705	26.4
Kostanaiskaya Oblast								
66	JSC Komsomolskaya poultry plant	-	12,000	12,000	12,000	12,000	307	0.3
	Total	-	12,000	12,000	12,000	12,000	307	0.3
Karagandinskaya Oblast								
77	LLP Aknar Poultry Plant	7,000	7,000	7,500	8,000	8,500	6,745	6.9
8 8	LLP Healthy products	-	5,000	5,000	5,000	5,000	-	-
99	LLP «CAPITAL PROJECTS LTD»	-	9,400	9,400	9,400	9,400	-	-
1 10	LLP Broiler Sary-Arka	-	-	-	-	12,000	-	-
	Total	7,000	21,400	21,900	22,400	34,900	6,745	6.9
North Kazakhstan Oblast								
111	LLP Petropavlovskaya broiler plant	-				8,350	1,514	1.6
	Total	-				8,350	1,514	1.6
	TOTAL	91,500	128,400	134,900	145,400	180,250	97,550	100

Most of the growth in poultry meat production has taken place due to increased output among currently existing facilities. The amount of chicken meat produced in households has been gradually decreasing.

There is also a geographical imbalance of poultry meat production, with production concentrated in particular regions. This, combined with poor logistic infrastructure that is not able to connect

production regions with other regions, creates conditions for spot overproduction. In this regard, enterprises must pay attention to developing their distribution network as this can become a constraining factor in increasing sales. This situation can also create conditions for hyper-competition within particular regions. An efficient distribution network facilitates transmission to meet consumer demand and helps iron out irregularities of the spatial distribution of production capacities.

Table 6: Output forecast by regions

Name	Output 2012, MT	Consumption forecast in 2020, MT	Deficit
Southern region	74,000	150,000	-76,000
Western region	1,600	40,000	-38,400
Central region (including Astana)	7,400	40,000	-32,600
Northern region	6,000	30,000	-24,000
Eastern region	34,000	30,000	4,000
Industrial consumption (estimated), thousand MT		110,000	-
Total, MT	123,000	400,000	-277,000

3.5 Imports

As the level of poultry meat consumption grows, import volumes increase as well. At the end of 2012, the republic imported 192,200 MT of poultry meat. The USA is the leading exporter of poultry meat, including 100,000 MT of poultry that were imported within the quota. It should be noted that the cost of poultry meat imported from the USA is lower than the cost of meat manufactured in Kazakhstan, even outside the quota. For instance, 1 ton of poultry meat produced in Kazakhstan costs 2,000 USD, while meat imported from the USA outside the quota costs 1,494 USD.

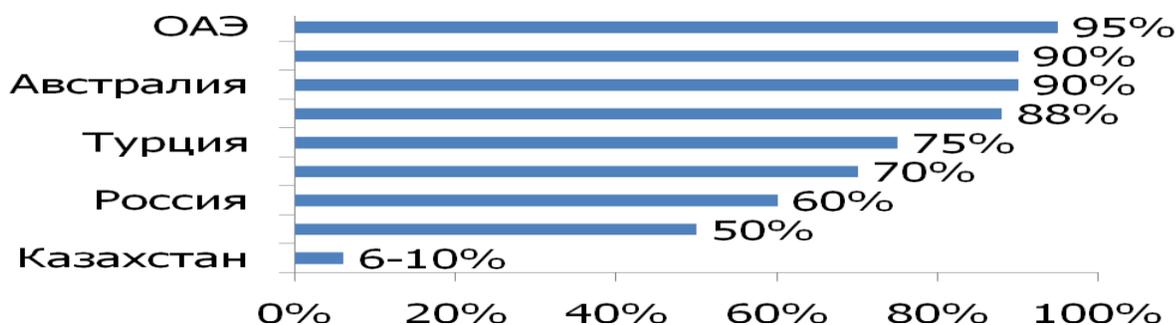
The poultry meat market can be divided into two segments:

- Frozen meat that also includes all of the imported meat;
- Chilled meat.

There is a gradual upsurge in interest from consumers for fresh products, which is a positive factor for protection against dumping, and the need to compete with the cheap imported meat.

Although the demand is growing, the culture of poultry meat consumption in Kazakhstan has not been well-developed. The share of fresh meat in domestic production is not high. In addition, it is critical to have a well-established distribution channel to market such products, due to their short shelf life. This requires certain investment efforts from producers to improve logistics of sales.

Table 7: Structure of chilled poultry meat production by countries



UAE
 Australia
 Turkey
 Russia
 Kazakhstan

3.6 Poultry breeding

Based on the results of 2012, the share of parent stock was 11.8 percent. At present, the meat chicken and layer parent stock is represented by 10 breeder farms in Akmolinskaya, Almatinskaya, East-Kazakhs, Karagandinskaya, Kostanaiskaya, North- Kazakhstan and South-Kazakhstan Oblasts. Currently, poultry producers from Kazakhstan continue to use high-yielding western crosses to produce eggs and meat: meat chicken breeds – Ross-308, Habbard, Cobb 500; layers – Rodonit, Hisex White, Lohmann, and Isabrown. It should be noted that breeders raised by LLT Lohmann-Zhetisu layer farms supply many commercial farms in the country. At the same time, there is no meat chicken breeding industry as such, and Kazakhstan is completely dependent on imports.

The strategic objective for further development of our meat chicken industry is to build new and expand existing 1st and 2nd level multipliers so that Kazakhstan is able to reduce imports of meat hen eggs in the near future. This objective is rationale both from the point of view of the economic considerations and the veterinary safety of domestic poultry plants.

In general, the breeding efforts are designed to improve the breeding and productive qualities of the area specific chicken crosses, as well as adaptation of the western crosses.

3.7 Fodder supply system

Currently, the existing compound feed producers in the Republic do not meet the quality standards required by the poultry plants. With this in mind, most of the plants have installed and are operating their own feed production capacities. This practice is due to both the poor quality at relatively high cost, as well as the different poultry feed formulations at various plants. At present, there are 33 compound feed mills in the Republic of Kazakhstan. At the same time, only two feed mills are classified as compound feed manufacturers in the registry of large and medium enterprises. The core business of the remaining enterprises is production of flour and baked goods.

Table 8: Compound feed production in 2010-2012, MT

Oblast name	Actual production in*	2012	Actual production in**	2012	Producti
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	2010 (MT)	2011 (MT)	2012 (MT)	compar ed to 2010 (percent)	2010 (MT)	2011 (MT)	2012 (MT)	compar ed to 2010 (percent)	on capacity (MT per year)
Akmolinskaya	23 117	33 157	47 134	203,9	82 228	78 391	77 772	94,6	132 300
Aktyubinskaya	-	-	-	-	18962,2	18686	19147,8	101	85 700
Almatinskaya	58 967	69 793	78 100	132,4	151 751	134 608,9	198875, 9	131,1	293 400
West- Kazakhst	14 728	19 229	19 351	131,4	17 100	16 000	13 400	78,4	151 000
Zhambylskaya	4502	4431	4603	102,2	-	-	-	-	-
Karagandinskaya	70 961	86 401	88 995	125,4	77 000	82 600	83 300	108,2	214 000
Kostanaiskaya	290	356	920	317,2	51 259, 3	67 669, 6	68 799, 3	134,2	124 000
Kyzylordinskaya	180	-	180	-	-	-	-	-	-
South- Kazakhstan	-	14 677	16 071	-	83 000	165 000	217 000	261,4	414 400
Pavlodarskaya	15 126	18 523	12 08 7	79,9	15272,2	14420,8	19654,6 9	128,7	183 460
North – Kazakhstan	10925 7	12224 2	17259 3	157,9	64 826	68 820	71 750	110,7	66920
East – Kazakhstan	49 104	41 300	44 572	90,8	48 315	38 714	58 181	120,4	180 000
Astana	10 149	13 355	13 115	129,2	10 396	13 237	13 328	128,2	67 000
Almaty	304	76	-	-	-	-	-	-	-
	35668 5	42354 0	49772 1	139,5	601 147 ,5	679 461 ,3	822 060	136,7	1 912180

Feed mill workload is 26 percent of full capacity. Outdated technologies are part of the reason why feed mills cannot reach their declared output volumes. However, poor feed quality, which is not acceptable for the poultry industry, is also a concern.

3.8 Waste management

Since manure is the source of pathogenic microflora proliferation and poses a risk for people and the environment, it is imperative to ensure that poultry plants adopt novel technologies to process up to 2 million MT of chicken manure per year by 2020. The demand by agricultural producers for good quality organic fertilizers may serve as an additional incentive for the implementation of other related investment programs (horticulture, crop production).

3.9 Regulatory and legal framework

At present, the regulatory framework designed to create conditions for developing the branches of farming, including the poultry industry, incorporates a set of essential laws and regulations such as the Land, Forestry and Water Codes, Laws of the Republic of Kazakhstan “On the State Regulation of the Development of the Agro-Industrial Complex and Rural Territories,” “On Livestock Breeding,” “On

Veterinary Medicine,” etc.

In addition, the state policy of fostering the branches of agriculture, is reflected in the legislative acts of the government’s fiscal policy, particularly the tax code of the Republic of Kazakhstan “On Taxes and Other Obligatory Payments to the Budget” dated December 10, 2008. The code calls for special taxation regulations for enterprises that manufacture agricultural products, including poultry enterprises. This helps to significantly reduce the tax burden on the AIC enterprises.

The Law of the Republic of Kazakhstan “On Veterinary Medicine” from July 10, 2002 defines the governance in the field of the veterinary medicine. The Law is designed to support the veterinary and sanitary safety, as well as the safety of products, animal raw materials, veterinary drugs, feed and feed additives, and to protect the population from diseases common to animals and humans.

The Law of the Republic of Kazakhstan “On the State Regulation of the Development of Agro-Industrial Complex and Rural Territories” from July 8, 2005 defines the governance and social framework to regulate and facilitate the development of the agro-industrial complex and rural territories of the Republic of Kazakhstan.

Resolutions of the Government of Republic of Kazakhstan from January 25, 2013 No. 35 “On Approval of the Rules of Subsidizing the Livestock Breeding Development” and No. 36 “On Approval of the Rules of Subsidies in Support of Improvements in Productivity and Animal Product Quality” determine the procedures to allocate subsidies to the poultry industry from the Central Government budget.

Resolutions of the Government of RK from February 18, 2013 No. 151 “On Approval of Agrobusiness-2020 Program for Development of the Agro-Industrial Complex in the Republic of Kazakhstan in 2013-2020” defines the new approaches to intensification of the industry development.

4. Problems of the industry

To ensure further development of poultry meat production, it is essential to find solutions to a number of important strategic and urgent problems. The analysis of the current situation in the industry helps to classify and define the following list of problems:

- high cost of feed
- shortage of cash flow
- outdated technology and unfinished modernization
- dumping conditions on the part of importers
- high credit rates
- lack of consistent and high quality fodder supply
- lack of qualified personnel

The poor competitive strength of domestic products is related to the high cost of feed ingredients, due to a spike in grain prices. Wheat, soybean meal, and corn are the basic feed ingredients that comprise 60 percent of the feed cost.

In addition to difficulties related to the cost of feed plant ingredients, it should be noted that domestic production of vitamin and mineral additives or premixes does not exist whatsoever. All premixes are purchased from foreign manufacturers, and the associated costs come up to 10 percent of the feed cost.

5. Measures of support

The population of Kazakhstan is expected to grow to 18.7 million people by 2020. At the same time, taking into account the recent outlook and world trends of consumption growth, the poultry meat consumption index is likely to increase to 21 kg/person/year. The current consumption in the republic is 25 kg/person/year and expected to grow up to 32 kg/person/year.

Considering these estimates, by 2020 the Kazakhstan population could consume 336,000 – 400,000 MT of poultry meat annually. Given that on average the industrial enterprises operate at 80 percent of their peak capacity, it may be assumed that the total maximum production capacity must vary between 336,000 and 436,000 MT of poultry products per year. With the level of imports expected by 2020 (about 56,000 MT of poultry meat per year), the planned production output should amount to at least 250,000 MT of poultry meat annually.

Table 9: Planned volumes of poultry meat production

	Projects/ Actions	2013	2014	2015	2016	2017	2018	2019	2020
1	Growth in meat production (thousand MT)								
		135	155	200	210	220	230	240	250
2	Poultry meat imports (thousand MT)								
		118	110	102	95	80	72	65	56

Today, less than 50 percent of poultry meat is used for value-added processing in the republic, and the share of chilled products is about 9 percent of the total sales volumes. This is expected to reach at least 80 percent by 2020.

Table 10: Forecast of the chilled meat share in the total meat production until 2020, thousand MT

Name	2013	2014	2015	2016	2017	2018	2019	2020
Poultry meat production	135	155	200	210	220	230	240	250
including:	126	139	153	165	155	135	97	40
frozen								
chilled	9	16	47	45	65	95	143	210

To increase production capacity and cater to local markets, the meat chicken plants need to upgrade their kill rooms to install lines that meet modern workplace hygiene and environmental requirements. Such upgrades include:

- replacement of outdated refrigeration equipment including the use of modern energy saving and environmentally friendly units;
- refurbishing of finished product rooms designed to expand the product line and apply the advanced consumer packaging technologies;

- modernization of waste treatment plants to minimize the environmental impact associated with the slaughter and cut-up rooms;
- lab equipment upgrade to strengthen quality controls at every stage of raw meat processing and finished product output. This will require specific measures of state support and create conditions for those poultry plants to compete with the imported frozen products in their home regions.

The following new approaches are suggested to improve the subsidy assistance mechanisms in the poultry industry:

- investment subsidies up to 20 percent to support the costs associated with building new poultry plants;
- investment subsidies up to 20 percent of equipment and construction costs for the enterprises planning to expand their production capacities.

In addition, the existing subsidies for poultry breeding and production programs will be extended.

Table 11: Government support for the industry, million tenge

Investments								
Sector	2014	2015	2016	2017	2018	2019	2020	Total
Number of poultry plants built	1	1	1	1	1	1		6
20percent investment subsidies for a poultry plant construction project	1763,0	1763,0	1763,0	1763,0	1763,0	1763,0		10 578,0
Number of poultry plants modernized	0,5	0,5						1,0
20percent investment subsidies for a poultry plant modernization project	2400,0	2400,0						4 800,0
Investment subsidies, million tenge	4163,0	4163,0	1763,0	1763,0	1763,0	1763,0		15 378,0
Credits								
Year	2014	2015	2016	2017	2018	2019	2020	Total
Project loans, million tenge	7053,0	7053,0	7053,0	7053,0	7053,0	7053,0		42318,0
Subsidy assistance 7percent, 3 years, credit rates, million tenge	1481,1	1481,1	1481,1	1481,1	1481,1	1481,1		8886,8
Breeding projects								
Year	2014	2015	2016	2017	2018	2019	2020	Total
Poultry meat production subsidies	10 344,9	10 013,9	10 602,2	10 996,0	11 087,7	13 416,1	16 233,4	82 694,3
Table egg production subsidies	7 175,5	7 390,8	7 536,4	7 590,0	7 524,5	7 307,4	8 279,3	52 803,8
Total for products, million tenge	17520,4	17404,7	18138,6	18586,0	18612,2	20723,4	24512,7	135498,1
Products								
Year	2014	2015	2016	2017	2018	2019	2020	Total
Subsidies to purchase day-old chicks (meat chicken)	99,9	126,0	155,5	168,2	181,3	195,1	211,0	1 137,0
Subsidies to purchase day-old chicks (layers)	46,8	51,7	57,2	64,4	69,4	76,3	83,5	449,3
Subsidies to purchase eggs for parent stock farms	106,6	117,8	132,6	143,0	157,0	172,6	184,7	1 014,3
Total for livestock breeding, million tenge	253	296	345	376	408	444	479	2 600,6

Table 12: Recommended location of broiler plants by regions, thousand MT

Oblast Names	Demand	Planned production capacity by 2020	Import 15percent
«South»			
Almatinskaya	70,0	147,0 (including 1 poultry plant with capacity over 50,000 MT/year)	13,0
South Kazakhstan	54,0		
Zhambylskaya	21,0		
Kyzylordinskaya	15,0		
Total, thousand MT	160,0		
«West»			
Aktyubinskaya	16,0	38,0 (1 poultry plant with capacity upgraded to 50,000 MT/year)	12,0
Atyrauskaya	11,0		
West- Kazakhstan	12,0		
Mangistauskaya	11,0		
Total, thousand MT	50,0		
«North-Center-East»			
Akmolinskaya	30,0	115,0 (including 1 poultry plant with capacity over 50,000 MT/year)	15,0
Karagandinskaya	27,0		
East-Kazakhstan	28,0		
Pavlodarskaya	15,0		
Kostanaiskaya	18,0		
North- Kazakhstan	12,0		
Subtotal, thousand MT	130,0		
Total, thousand MT	340,0	300,0	40,0

6. Expected results

Based on the results of the Master Plan implementation, the domestic demand for poultry meat in the Republic of Kazakhstan will be satisfied. Also, large-scale investments will be provided to build technology intensive production infrastructure in the Republic of Kazakhstan by 2020 to ensure the competitive poultry meat production in the amount of 250,000 MT.

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