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Introduction

This presentation reviews the agriculture industry in Kazakhstan and Agribusiness 2020 - the government’s strategic plan for the agribusiness to 2020. We look in detail at the growth agenda of a number of important industry sectors included in this plan - beef, dairy, food processing and veterinary services - which we believe are of particular interest to German agribusinesses. In the final section we highlight some specific market entry opportunities for German firms.

Kazakhstan is the ninth largest country in the world by area - 2,724,900 km². There is considerable potential for greater land utilisation for agriculture thereby reducing the current high level of food imports and creating more indigenous agri-businesses.

The Kazakh state is by far the largest stakeholder in agriculture. It acts as regulator, policymaker, landowner, and the main financier. It is also the owner of a network of state agencies, quasi commercial enterprises and academic institutions involved in agricultural production, certification, licensing and research.

In contrast there are few large-scale private agribusinesses in Kazakhstan. These firms mainly operate in grain production and distribution and milk production. Much of the private sector is small-scale and fragmented, consisting of local cooperatives and individual, part-time farmers.

The agriculture industry has multiple, systemic problems, many of them a legacy of the collapse of the Soviet Union in 1991 and its centrally planned economy. These include poor profitability, lack of capital investment, inadequate state support or affordable finance from commercial banks, degraded infrastructure and poor management.

Combined they have significantly constrained the growth of a commercially focused agriculture industry. The industry is often uncompetitive on price, quality or choice leading to many segments being dominated by imports from food ingredients to farm machinery. Lack of funding has hit the industry’s ability to modernise to rapidly comply with international standards and consumer trends and attract the industry talent it needs to transform.

The Agribusiness 2020 strategy aims to tackle all of these issues, envisaging massive state intervention to provide the necessary investment in the absence of sufficient private sector funding.
Kazakhstan: Agricultural use by regions

Area: 2,724,900 km²
Population (2015): 17.5 million
Population forecast for 2020: 19 million

Natural topography:
- Plains
  - Forest-Steppe
  - North Steppe subzone
  - South Steppe subzone
  - Semidesert
  - North Desert subzone
  - South Desert subzone
- Mountains
  - Forest-Steppe
  - Steppe
  - Semi-Desert
  - Desert

Agricultural use:
- Meat, Dairy & Cattle
- Horse Herds breeding
- Sheep breeding
- Camel breeding
- Horse breeding
- Pig breeding
- Cereals
- Melons
- Rice
- Cotton
- Apples

Source: Ministry of Agriculture
## Kazakhstan: Key economic indicators

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<tr>
<td>National GDP</td>
<td>101,2</td>
<td>102,1</td>
<td>103,6</td>
<td>102,9</td>
<td>103,0</td>
<td>103,1</td>
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<tr>
<td>Main export countries</td>
<td>Italy 18%; China 12%; Netherlands 11%; Russia 10%; France 6% (May 2016)</td>
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<td>Main source of imports</td>
<td>Russia 34%; China 17%; Germany 7%; USA 4%; Italy 4% (May 2016)</td>
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<tr>
<td>Population</td>
<td>17.5m</td>
<td>17.8m</td>
<td>18.1m</td>
<td>18.4m</td>
<td>18.7m</td>
<td>19.0m</td>
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<tr>
<td>Population - EEU</td>
<td>182.7m</td>
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**Eurasian Economic Union (EEU):**

- Armenia
- Belarus
- Kazakhstan
- Kyrgyzstan
- Russia

[Agribusiness in Kazakhstan. Opportunities for German exporters.
July 2016 | Strategic Solutions, LLP | Almaty, Kazakhstan](http://www.tradingeconomics.com/kazakhstan/imports)

[http://www.tradingeconomics.com/kazakhstan/exports](http://www.tradingeconomics.com/kazakhstan/exports)

Agribusiness 2020, developed in 2012, is the Kazakh state’s strategy for creating an indigenous, diversified and innovative agriculture industry, capable of developing export markets. It aims to reverse decades of decline in competitiveness and productivity following the collapse of the USSR in 1991.

Between 2013-2020 the state will invest **KZT 3 trillion ($19.4 billion)** in direct aid and subsidies.

The strategy’s main aims are:

- Agriculture to represent 10% of GDP by 2020, currently around 5% (World Bank);
- Reduction in the indebtedness of agricultural enterprises by i) restructuring KZT300 billion ($1.9bn) in existing debt by 2015 and ii) providing subsidised loans at discounted rates underwritten by the state;
- A 12% reduction in cases of infectious diseases affecting livestock by 2020 vs 2012 figures;
- Increase food safety laboratory inspections of food processors to 40% of their total output.
- Increase land available for agricultural use to 6.8 million hectares by 2020
- Increase the share state services accessible online to agriculture enterprises to 62% of all state services by 2015
### Sector review: Dairy

#### CHALLENGES:

Two decades of underinvestment in dairy farm infrastructure: milk production facilities, collection and storage facilities; transport; breeding and disease prevention.

Lack of access to adequate capital investment by the state and sufficient affordable credit from banks means the industry has been unable to modernise, diversify or innovate.

Majority of existing equipment and infrastructure is worn out and no longer fit for purpose leading to:

- Poor productivity rates of farms and livestock breeding;
- Poor product quality and inability to comply with international standards;
- Poor animal health and reproduction rates;
- Lack of animal traceability, from farm to fork.

#### STRATEGY:

Substantial expansion in dairy production to 2020:

- Construction of 2,000 new small-scale dairy farms to produce an extra 680,000 tonnes of milk annually by 2020. These farms will be divided into four herd sizes with 500 new farms for each herd category (24, 50, 100 and 200 cows).
- Construction of 20 new farms with a herd size of 1,200 producing 158,400 tonnes of milk a year by 2020.
- Construction of new milk production facilities to service dairy herds of sizes of 24, 50, 100 and 200 cows.
- Investment in existing dairy facilities’ infrastructure - power supply, canalization etc.
- Develop a national dairy breeding programme to reduce the level of imported livestock, utilising state of the art technology and science.
- Improve the reproduction rates of bulls and provide the necessary supporting infrastructure: veterinary services, animal medicines and vaccines and increased funding of research centres.
- Expand the number of dairy breeds in the national herd and improve milk productivity rates per cow.
- Introduce greater online reporting to facilitate animal traceability including a national animal identification and tagging scheme.
- Improve the nutritional quality of feedstock to the dairy herd and increase domestic feedstock production capacity.
- Small and medium farms should be able to source cattle in the domestic market rather than imports.
CHALLENGES:

- Tapping into the export potential of the beef sector. While Kazakhstan is ranked fifth in the world based on the size of its available grazing land (69% of its total territory), it remains a major importer of processed beef from Russia – 43% of sausages and 41% of meat conserves in 2012.

- Lack of adequate scale or commercial focus. Many rural households keep cattle for personal use or small scale production.

- Like the dairy sector, the beef industry has seen:
  - Two decades of underinvestment in equipment, processing facilities, distribution and warehousing;
  - Lack of adequate financing from the state and private sector has held back the introduction of new technology and work practices and innovation.

- Reproduction rates and breeding methods are below international norms.

- Insufficient systems for herd tagging and traceability.

STRATEGY:

**Substantial expansion of the domestic beef industry:**

- Constructing dedicated farms for breeding pure bred cattle (capable of breeding 200-500 bulls, cows and heifers annually);
- Constructing dedicated farms for breeding long horn cattle (capable of breeding 100-2,000 bulls, cows and heifers annually);
- Constructing a network of cattle feeding stations capable of feeding 1,000 cattle or more at one time and serving herd sizes of 30-50,000;
- Investing in developing a domestic meat processing sector capable of processing in excess of 200,000 annually. These facilities would produce fresh and frozen beef for export;
- Building the necessary infrastructure to support industry expansion - a dedicated transport and logistics system to move live and frozen meat, building modern storage facilities;
- Increase the long horn beef herd for domestic consumption to 20% of the total dairy herd (up to 300,000 by 2020);
- Increase the long horn beef herd for export to 1.5 million by 2020 equivalent to 40-50% of all beef exports;
- Put in place high-tech infrastructure to facilitate the growth of domestic feedstock industry producers, covering production, warehousing and distribution;
- Establish specialist farms to cultivate feedstock and improve the nutritional quality of feedstock formulations;
- Create an extensive network of national cattle marts utilising modern technology for pricing, traceability and certification.
**CHALLENGES:**

- The levels of processed food production in many sectors of agriculture are far below potential and there continues to be a high level of imports – see Appendix. The total value of the processed food market was $5.5bn in 2012 of which $2.9bn were imports.

- The sector is systematically uncompetitive:
  - Insufficient product quality, limited choice and uncompetitive pricing versus imports;
  - Outdated and worn out production facilities;
  - High energy and facility servicing costs;
  - Lack of automated processes;
  - Weaknesses in distribution and logistics, particularly the availability of suitable warehousing and refrigeration;
  - Inability of the packaging sector to adequately meet demand.

**STRATEGY:**

**By 2020:**

- Double the output of processed food products on 2012 levels;
- Segment priorities for food processing are: milk, meat, cooking oil including margarine and butter, grain including pastas, fruit & vegetables, sugar and animal byproducts (skins, wool);
- Double the level of processed food exports on 2012 levels while reducing food imports by 15% on 2012 levels;
- Build 10 new meat processing plants creating an additional daily output capacity of 200 tonnes by 2020.

- Modernize existing facilities and equipment in the meat processing sector through state subsidies loans and leases.

- Construct new frozen and live meat transport facilities including wagons, logistics hubs and storage.
Sector review: Veterinary services

CHALLENGES:

- A veterinary regulatory and compliance regime that is largely out of date.

- The absence of a national veterinary system to ensure that the same veterinary standards and practices apply nationally.

- Lack of rigorous veterinary control of the dispensing of animal medicines and diagnostic methodologies across the country.

- Low level of professional qualifications of veterinary staff which have not kept abreast of international best practice.

- A weak traceability system for animal identification and monitoring animal health and compliance with existing veterinary animal health requirements. Compliance is made more complicated as most animals are kept in small scale, domestic settings.

STRATEGY:

- Position Kazakhstan as the leader in veterinary science in Central Asia by 2020.

- Establish a state veterinary agency to strengthen disease prevention and animal traceability.

- Reform the legislative regime for veterinary services to comply with WOAH international standards. Implement the international standards of the EU, WB, UN FAO and WOAH.

- Strengthen coordination with interested international agencies and public organizations to modernise veterinary services in Kazakhstan.

- Introduce a national animal identification system to ensure animal traceability.

- Develop a national plan for the control, prevention and elimination of infectious animal diseases. Strengthen oversight by veterinary inspectors internally and at state borders.

- Implement a veterinary risk management system to monitor and evaluate risks to animal health in Kazakhstan and from imports.

- Modernise the IT system to create a single portal for veterinary services to ensure animal traceability and facilitate access to information on animals throughout their entire lifecycle.

- Modernise and upgrade veterinary equipment including laboratories and testing facilities, warehouses and facilities for disposing of infected animals.

- Construction of new testing and diagnostic laboratories.
### Agribusiness opportunities summary

#### INFRASTRUCTURE
- Farm construction
- Meat processing plant construction
- Fruit & vegetable plant construction
- Warehouse construction
- Veterinary diagnostic centres and laboratory
- Slaughterhouse construction
- Logistics hubs
- Modernising and expanding national network of cattle marts

#### TECHNOLOGY
- National animal & food traceability systems (including registration & tagging)
- Food safety and quality testing and assurance
- National veterinary compliance portal and knowledge hub for farmers
- Application of biotechnology to animal insemination, breeding disease prevention and control

#### PRODUCTS AND SERVICES
- Indigenous production of a range of dairy, meat, fruit and vegetable products
- Creation of a food marketing and quality assurance agency
- Farm to fork branding - developing a Kazakh food brand identity

#### INNOVATION – R&D
- Purebred breeding to diversify the existing breed profile within the national dairy and beef herd
- Industry research & development through state institutes, industry research centres and universities.
- Joint ventures between public bodies, domestic and international private sector investors and funds to support breakthrough innovation
- Training, education and accreditation of farmers, officials and researchers to comply with international standards
Conclusions

- Kazakhstan’s agriculture industry needs wholesale modernisation and investment. While the Kazakh state has finally acknowledged that only it can provide the necessary finance, infrastructure and regulatory supports to achieve this, it is unlikely such large scale change can be completed, even by 2020.

- Improving the competitiveness and innovation in agriculture will require the active involvement of the private sector. The state cannot transform the industry alone. Private investors have to a large extent shied away from committing the considerable levels of capital investment the industry requires because other industries offer better prospects of stable, short-term returns.

- The changing nature of food retailing, where there is a notable rise in hypermarkets and supermarkets in all of Kazakhstan’s major cities, may encourage more indigenous firms into the food processing sector.

- Kazakhstan’s geographical position with Russia and China as neighbours is important. It offers opportunities to develop export markets in these markets and extend further into market already identified in the Agribusiness 2020 strategy that include Korea and the Middle East.

- The long term objective of brining large tracts of unfarmed land into agricultural use will significantly enhance Kazakhstan’s capacity to meet domestic and export demand in key sectors like beef, sheep and dairy.

- For foreign firms we believe the greatest opportunities lie in knowledge and technology transfer in food processing, food safety, transport logistics and animal health. The ambitious state building programme for new farms, slaughterhouses and logistics and warehousing centres are areas where German firms excel.

- There will be certain niches where imported food products will be in demand but the Kazakh state’s emphasis on import substitution aimed at creating indigenous food producers, suggests foreign firms should consider concluding joint ventures to help build and operate these new producers. In doing so foreign investors stand to benefit from generous tax incentives and a favourable investment regime to repatriate profits.
Appendix - Share of food imports in Kazakhstan

In the second phase of the agriculture strategy, from 2016-2020, the main objective is to invest in domestic food processing thereby reducing import levels. While somewhat out of date, the figures below gives some indication of the high level of food imports in 2012.

Source: Ministry of Agriculture: Food processing master plan