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GAIN Report

Global Agricultural Information Network

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Kazakhstan - Republic of

Grain and Feed Annual 2012

Large Wheat Stocks Expected to Continue to Support Kazakh Exports

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Report Highlights:

In 2012, Kazakh wheat production is forecast to fall from the record crop of 2011 as a result of expected lower area and a return to more average yields. Nevertheless as a result of huge stocks and steady demand, exports are only expected to fall slightly and remain at a high level. Although Kazakhstan will remain one of the world's largest flour exporters, the share of flour in total wheat exports is expected to continue to decline.

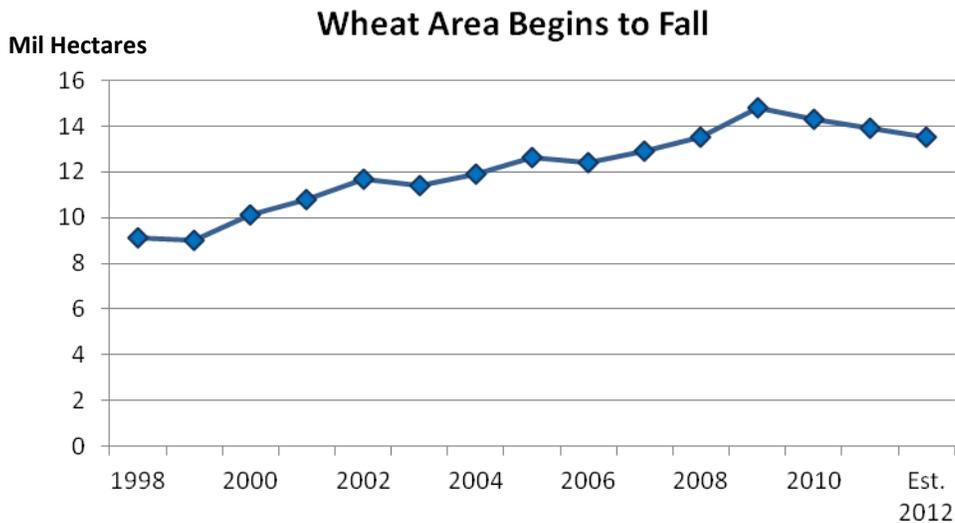
Executive Summary:

Production

Kazakhstan wheat production in 2012 is forecast by FAS/Astana at 15 million metric tons, a significant drop from last year's record 22.7 million metric tons crop. This forecast is very preliminary as nearly all wheat produced in Kazakhstan is spring wheat, and planting of this crop will not even begin for more than a month. This forecast assumes a decrease to trend yields as well as a slight decline in area from last year. Production of barley is also expected to fall to 2.1 million metric tons from last year's production of 2.6 million metric tons.

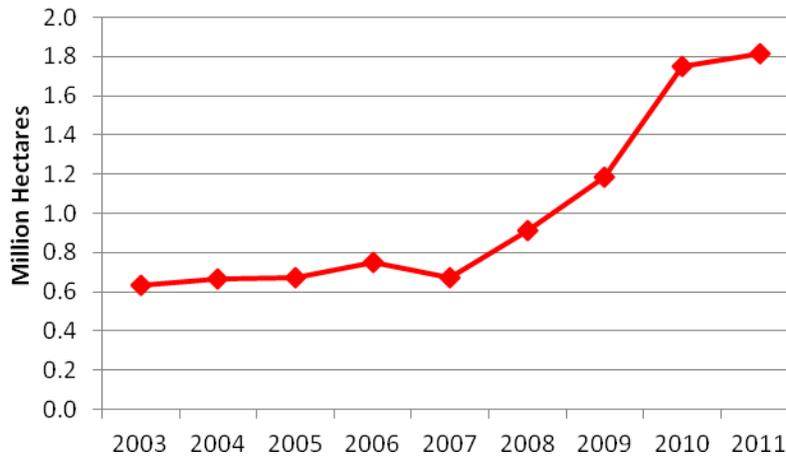
Area

Wheat area in Kazakhstan is forecast to shrink for the 3rd straight year to 13.5 million hectares, after reaching a post-Soviet peak of 14.8 million hectares in 2009. According to preliminary data by Kazakh regional departments of agriculture, in 2012 overall crop area is expected to remain at 21.2 million hectares (the same level as in 2011) and overall spring sowing is expected at 18.5 million hectares, which is 0.2 million (or 0.9%) less than in 2011. Grain area is forecast by the Ministry of Agriculture at 16.3 million hectares which is up slightly from last year as a slightly lower wheat area is expected to be replaced by increased area sown to feed grains.



The Ministry of Agriculture is trying to encourage the diversification of crop area away from wheat in Kazakhstan, especially as in most places wheat is planted monoculture. The long term strategy of the government is by 2020 to have wheat comprise just 52% of total area sown to all crops, down from the current level of 65% percent (and as high as 80% in some northern provinces). The reason for encouraging this decline in area is to improve agronomic practices of crop rotation, and provide more feed grains and oilseeds to the expanding livestock and poultry industries. The shifting of wheat into other crops is primarily occurring in better-financed farms owned and operated by large agroholdings, who have the financial means to pay for more expensive seeds, inputs, and machineries needed to switch into these other crops. The growth in oilseeds area in Kazakhstan has grown dramatically in recent years, although the base remains low.

Oilseed Area in Kazakhstan Continues to Grow



Yield

Yields for Kazakh wheat are expected to fall from last year's dramatic record, and the forecast assumes near trend yields. The grain crop is still over a month from even being planted, but KazHydroMet – the National Weather Forecasting Agency – has forecasted current and projected soil moisture levels for spring sowing. They mentioned that winter precipitation was below normal in Northern Kazakhstan (and farmers have reported below average snow cover), while it was above normal in West and South Kazakhstan. Despite this, their forecast for soil moisture at the start of sowing is for satisfactory levels in North Kazakhstan, Akmola and Kostanay region, with less favorable conditions expected in Western regions.

The adoption of moisture saving technologies (such as minimum-till) remains relatively low, although growth has occurred and the Ministry of Agriculture reports that area which is sown using these technologies has grown from 5 million hectares in 2007, to 11.7 in 2011.

State Support

The Government of Kazakhstan continues to provide support to farmers through a variety of means, including discounted fuel, and sowing and harvesting loans. The Ministry reports that farmers are fully supplied with spring wheat seeds and pulses for the 2012 sowing campaign, with 2.1 million tons of seed. As of February 1, 2012 it was reported that 73% of agricultural machinery is ready for spring field works. For fuel, the same distribution scheme of diesel fuel for farmers was announced for 2012 as was carried out in 2011.

The State Modernization Commission under the Government also approved sowing and harvesting work funding by purchasing food wheat and barley under a guarantee of Social-entrepreneurship corporations, in which they take farmers liquid assets as collateral, with a calculation of 6,000 tenge (\$40.5) per 1 sown hectare. The Federal budget has a total amount of up to 14 billion tenge (\$94.5 million) for this program. Overall funding for agriculture in 2012 by KazAgro was announced at 80 billion tenge (\$540 million), just slightly above the 78 billion tenge in 2011.

Farmers have also been able to get better access to credit and financing as a result of the grain

warehouse receipts program in Kazakhstan, and the volume of credit from these receipts has grown from almost zero in 2004 to 225.9 billion tenge (\$1.5 billion) in 2011 according to the Ministry of Agriculture.

Consumption

Consumption of wheat is expected to remain largely unchanged in 2012/13, although feed and residual use is expected to fall as last year's huge crop resulted in higher losses than are typical.

Food consumption of wheat is expected to remain steady as population growth is slow and bread consumption is already at high levels. According to the Flour Millers Association of Kazakhstan, the total number of flour mills has sharply declined in the last 10 years as consolidation has taken place, and while there were 2,300 mills in 2000, by 2010 this had fallen to just 383. The total capacity of mills in Kazakhstan is estimated at over 12 million tons of flour although overall production is just 50% of capacity with domestic demand estimated by the Association at 2.6 million tons, and exports at 3.5 million tons. The location of mills in the country is spread out, and while the key wheat growing region of Kostanay is the largest flour producer (27% of the total), second place is South Kazakhstan region (20% of the total) which is far from growing areas and is closer to Almaty and key Central Asian buyers.

Although overall flour consumption is largely stagnant, a consumer survey from the Flour Millers Association has shown that quality and health have become more important motivations for consumers, and as a result sales of the highest grade of flour has increased. In addition, the number of consumers baking their own bread has decreased and the share purchased in markets has continued to grow.

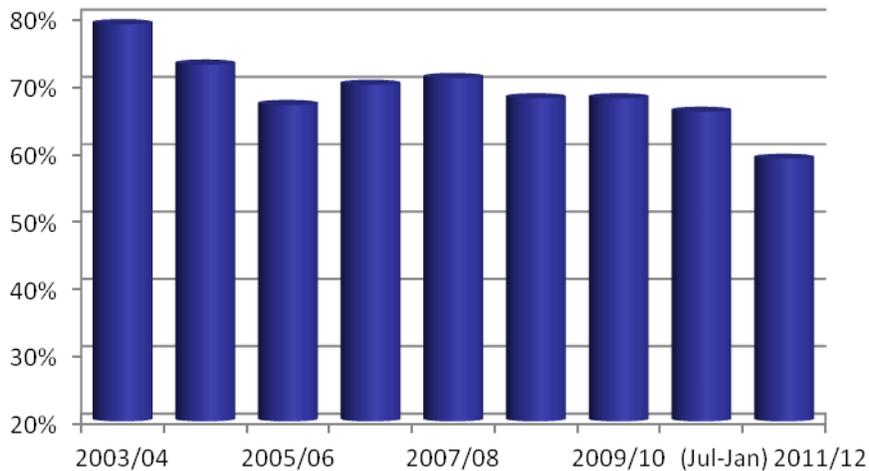
Government procurement is expected to continue, and in order to continue to support the domestic market, the Food Contracting Corporation plans to increase the purchasing price of wheat at the beginning of April 2012 from 21,000 tenge, EXW (\$143) to 23,000 tenge, EXW (\$156), which is higher than current market price.

Trade

Wheat (including flour) exports in the 2012/13 marketing year (July/June) are expected to fall only slightly to 8.5 million metric tons from the record of 9.0 million in 2011/12. Although production is forecast to fall, Kazakh currently has huge stocks of wheat and as a result exportable supplies are expected to remain ample. In addition, large carry-in stocks should result in exports during the months before the new harvest (July and August 2012) being significantly larger than in typical years. Barley exports are also forecast to decline from last year from 700,000 metric tons to 400,000 on lower production.

Central Asia is expected to remain a key market for Kazakhstan (so far in 2011/12 over 50% of Kazakh wheat/flour exports have gone to Uzbekistan, Kyrgyzstan and Tajikistan). However, these countries have been constructing mills and there has been a slow but steady shift from importing flour to importing wheat (see chart below).

Share of Flour in Kazakh Wheat Exports to Uzbekistan, Kyrgyzstan and Tajikistan



In the 2011/12 marketing year, the Kazakh government provided transportation subsidies in order to encourage exports. In late 2011, the Government approved a \$40/ton transportation subsidy (with a total budget allocation of 5 billion tenge or about \$34 million) for grain transported to certain export points and this funding was quickly used up. Traders and the Grain Union appealed for more subsidies in order to ensure large exports. Then in March 2012, the Government announced plans in to subsidize transportation costs at 4,000 tenge per ton (\$27). It was not announced what would be the overall budget for these subsidies. Also, the Government announced that starting from March 2012 the subsidies will be applied only for exports through Azov, Black and Baltic Seas ports, and China, and exports to other destinations such as Azerbaijan, Belarus and Georgia would no longer be subsidized. With Kazakhstan eager to join the WTO with a stated goal to conclude talks by the end of 2012, WTO accession would certainly affect the long-term outlook for the use of such subsidies.

Logistics continue to be a huge problem for exporting Kazakhstan grain. The Food Contracting Corporation (the Government grain operator) has started to implement a number infrastructure projects to help with grain transportation and exports including:

- Constructing a railway grain terminal at the Chinese border
- Constructing a railway grain terminal on the border between Turkmenistan and Iran (it was reported that the railway line to the Turkmen border for this trade route is completed but the construction on the Turkmen side is behind schedule and only 20% completed)
- Constructing a sea port at the Kuryk settlement on the Caspian Sea
- Extending the transshipment capacity of the grain terminal on the Caspian Sea

Despite these efforts, as the director of the Food Contracting Corporation explained at a recent grain conference, upgrading port terminals will have little affect without more railway wagons to transport the grain (and upgrading Caspian terminals will have little affect without more vessels for shipping). There have been a number of reports in the press and from the Government about securing more railway wagons to ease the shortage on the domestic market.

From January 1, 2012 grain export licenses are no longer required. According to the Ministry of

Agriculture, the decision was taken after multiple requests from entrepreneurs and smaller traders. Grain export licensing had been introduced in Kazakhstan in August 2007. To obtain the license farmers were required to submit a package of documents and wait ten days for the authority's decision.

The Ministry of Agriculture has announced that it plans to create a national grain company as ordered by the President in his January 2012 annual address. According to the Ministry, the new company will be established as public-private and will procure, store and export grain to establish a brand of Kazakh grain in the world. In addition, it will carry out grain swap transactions and develop the infrastructure needed for the storage and transportation of grain. This single national grain company is planned to be established on the basis of merging the current JSC "Food Contracting Corporation" (which is the Government grain operator) with large private grain companies. Currently the FCC is in charge of food security, regulating the domestic grain market, investment activity and grain exports. FCC owns two grain storages in Akmola region and three grain storages in North-Kazakhstan region, has representative office in Russia and China, owns Aktau Grain terminal on the Caspian Sea, has a subsidiary on cotton purchasing and cotton exports, and has regional offices country-wide.

Stocks

With the record crop of 2011, 2012/13 carry-in stocks are expected to be very large, and there is significant concern that if there is another large crop in 2012, storage facilities will be inadequate to store the grain. The Food Contracting Corporation estimates the need for grain storage during an average harvest year at 16 million tons, however they also estimate the available storage capacity in Kazakhstan at only 13.8 million tons, with a deficit of 2.2 million tons. In order to rectify this situation, the Government of Kazakhstan is heavily financing the building and renovation of storage facilities. Additionally, in order to free up storage space FCC announced sales of 2 million tons of wheat from the harvests of 2007-2011 for both domestic market and exports. Also, to ease overloaded elevators in the North of the country, the Government moved 0.5 MMT of grain to East and West regions, where storage facilities are less full. Despite these efforts, the Grain Union of Kazakhstan has stated that large scale exports are vital to free up storage space, and has called on the Government to increase the export transportation subsidy for the rest of the year.

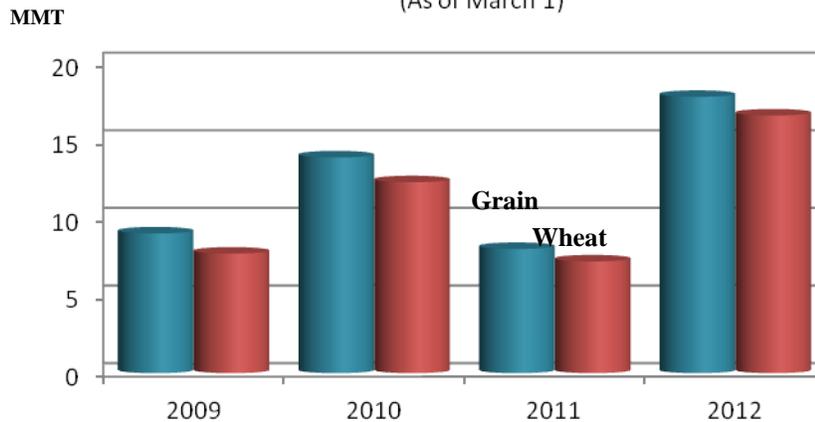
The Kazakhstan Statistical Service reported grain ending stocks as of March 1, 2012 at 17.8 million metric tons (of which wheat is 16.5) compared to 8.0 million metric tons (and 7.2 of wheat) at the same time last year.

Prices

Kazakh export prices have continued to strengthen in recent months, and the price of 3rd class wheat at Petropavlovsk near the Russian border has increased \$35 from the beginning of 2012 until March 15, 2011 from \$140/metric ton to \$175/metric ton. For FOB at the port of Aktau, the price has increased \$55 from \$174 to \$229 for wheat, and \$26 from \$198 to \$224 per metric ton for barley.

Huge Stocks of Grain/Wheat

(As of March 1)



Wheat Kazakhstan	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Jul 2010		Market Year Begin: Jul 2011		Market Year Begin: Jul 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	14,262	14,262	13,849	13,849		13,500
Beginning Stocks	5,001	4,911	2,927	2,899		7,656
Production	9,638	9,700	22,732	22,732		15,000
MY Imports	7	7	25	25		10
TY Imports	7	7	25	25		10
TY Imp. from U.S.	0	0	0	0		0
Total Supply	14,646	14,618	25,684	25,656		22,666
MY Exports	5,519	5,519	9,000	9,000		8,500
TY Exports	5,519	5,519	9,000	9,000		8,500
Feed and Residual	1,900	1,900	4,000	4,000		3,500
FSI Consumption	4,300	4,300	5,000	5,000		5,000
Total Consumption	6,200	6,200	9,000	9,000		8,500
Ending Stocks	2,927	2,899	7,684	7,656		5,666
Total Distribution	14,646	14,618	25,684	25,656		22,666

1000 HA, 1000 MT, MT/HA

Barley Kazakhstan	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Jul 2010		Market Year Begin: Jul 2011		Market Year Begin: Jul 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,580	1,580	1,550	1,515		1,650
Beginning Stocks	464	564	274	111		299
Production	1,313	1,313	2,593	2,593		2,100
MY Imports	55	55	20	20		20
TY Imports	55	55	20	20		20
TY Imp. from U.S.	0	0	0	0		0
Total Supply	1,832	1,932	2,887	2,724		2,419
MY Exports	233	233	550	700		400
TY Exports	224	223	550	700		400
Feed and Residual	1,000	1,250	1,500	1,400		1,500
FSI Consumption	325	325	325	325		325
Total Consumption	1,325	1,575	1,825	1,725		1,825
Ending Stocks	274	111	512	299		194
Total Distribution	1,832	1,919	2,887	2,724		2,419