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Kazakhstan, Republic of

Food Processing Ingredients Sector

Report

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Report Highlights:

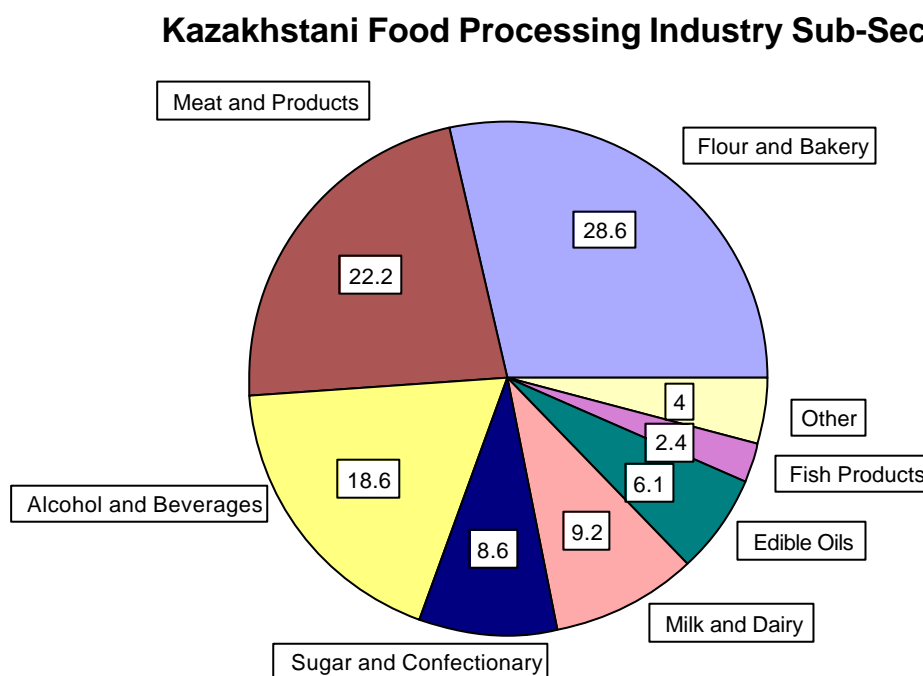
Kazakhstan's food processing sector developed rapidly over the last five years due to rising processed food consumption and significant import substitutions. The growth of consumption will continue as incomes go up and tastes and cooking habits change. Major current constraints to exports of U.S. processed food to Kazakhstan include high transportation cost and custom duties. However, currently opportunities exist for poultry meat, edible oils, confectionary and specialized food additives.

Includes PSD changes: No
Includes Trade Matrix: No
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Ankara [TU1], KZ

Market Summary

The food processing industry is one of the fast growing sectors in Kazakhstan’s economy. After ten years of steady decline, the total output increased by 16.1 percent in 2000. Growth has continued in 2001 and reached \$1.4 billion. Import substitution policies including the a currency devaluation in 1999, introduction of new import customs duties, and tax and legal incentives for local producers all limited potential sales of imported processed foods and created a good environment for the development of the local food processing industry. At the same time, U.S. products and ingredients face stiff competition, high transportation costs and prohibitive import duties in this market.

Kazakhs spent an estimated \$8 billion for food in 2001 of which approximately \$1.8 billion was spent on processed foods. Average per capita income increased by 10.6 percent in 2001 which supported greater consumption and increased demand for processed food products. Annual expenditures on processed food are expected to grow by 3-5 percent annually between 2003-2005.



The food processing industry represents a significant part of Kazakhstan’s total industrial output. In 2001, it reached 14% of total industry output. Of this total, the flour milling and bakery industries represents 29% of the total food processing sector and reflects Kazakhstan’s substantial grain production (16 MMT per year) and high level of bread consumption (150 kg per capita). This is followed by Kazakhstan’s meat processing (22.2 percent), alcohol and beverages (18.6 percent), dairy (9.2 percent), and sugar and confectionary (8.6 percent) sectors.

The privatization of food industry which started in 1995 is almost complete. Currently, about 3700 Kazakhstan's enterprises are registered as food processors. Of this total, 3,320 enterprises (89.7 %) qualify as small business (2-10 employees), 290 (7.8%) as medium-size firms (10-100 employees), and 90 (2.4 %) as large companies (more than 100 employees). However, the large companies produce more than 50% of all food products by volume.

Many large enterprises use outdated equipment installed 30-40 year ago. Nevertheless, all major processing sectors have significant over-capacity. The average utilization rate in the food processing industry increased in 2001 to 40 percent in some industries as flour milling, bakery, alcohol and beverages. Most plants need to be modernized and are seeking investment capital. In addition, their development is limited by the lack of quality raw materials. The average interest rate for a bank loan is about 20 percent.

Table 1. Year 2001 Overview of Processed Food Sector in Kazakhstan

in million USD

Sub-Sector	Production	Imports	Exports	Consumption
Flour and flour-based products	400.0	2.3	43.2	359.1
Vegetable Oils	65.2	55.6	0	120.8
Meat Products	310.1	22.8	0.9	332.0
Milk and Dairy	128.2	30.1	0.5	157.8
Sugar and Confectionary	120.2	120.2	2.5	237.9
Alcohol and Beverages	260.0	4.2	4.7	259.5
Processed Fruits and Vegetables	2.1	8.2	0	10.3
Fish Products	32.9	16.5	6.2	43.2
Other	91.4	105	12	184.4
Total	1410.1	364.9	70.0	1,705.0

Source: Agency Republic of Kazakhstan on Statistics

Kazakhstan's imports of processed food, raw materials and ingredients in 2001 totalled about \$364 million, of which \$264.9 million was processed food a significant decline from 2000. Kazakhstan's most significant imports of food and ingredients included raw and white sugar (33 % of total), edible oils (24 %), chocolate and confectionary products (12 %), dairy products (11.3 %) meat and meat products (9 %), tea (5 %) and juice concentrates(2 %). About 50 percent of food imports are from the Russian Federation and CIS countries. Raw sugar is imported from Brazil and Cuba, crude vegetable oils from Russia and Ukraine and food additives from Germany and Holland. The food processing industry also uses a significant quantity of additives and packaging materials. The value of these materials is estimated at \$300 million.

In 2001 the overall value of food (processed and unprocessed) imported from the United States was only \$20 million, which represented 3.5 % of Kazakhstan's total food imports. Imports from the United States

were dominated by poultry meat (80 % of total), raw and manufactured tobacco (15 %) and extremely small quantities of high-valued products.

After the collapse of the Soviet Union and ensuing economic crisis, Kazakhstan's food-processing industry could not meet domestic demand for foodstuffs. Since 1994 the Government of Kazakhstan has liberalized import policies in order to increase imports to satisfy this demand. As result, various imported food products that were previously not available have become familiar to Kazakh consumers; and newly imported products that have enjoyed good sales are now beginning to be produced in-country by local manufacturers. Condiments and yogurt are now produced by local companies, Tsin-Kaz and Food Master. Imports of processed foods decreased by \$300 million over the last five years and some 45 different types of previously imported products are now produced by local companies.

The following is a summary of the advantages and challenges facing U.S. exports of processed food products and ingredients to Kazakhstan:

Advantages	Challenges
<ul style="list-style-type: none"> - The general image of U.S. products is positive. They are considered safe and of good quality. - Increase personal income and changes in the structure of consumption - Direct foreign investment increase use of imported additives and other components 	<ul style="list-style-type: none"> - Shipping cost are higher from the U.S. - Strong competition on the local market from domestic producers and from CIS and EU - Even though demand is growing, Kazakhstan is still a small market for U.S. products

II. Road Map for Market Entry

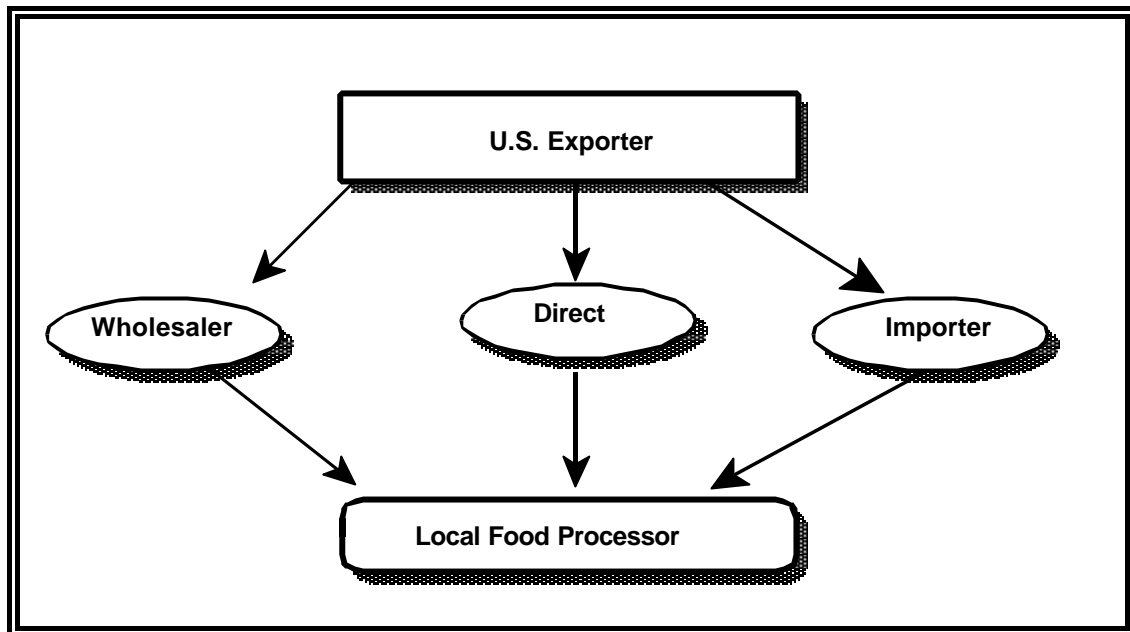
A. Entry Strategy and Market Structure

The largest food processors purchase raw materials and food ingredients directly from foreign exporters. However, small to medium-sized processors often contact importers, and/or wholesalers. Often times, an importer is also a wholesaler. The chart below shows the flow of product through the distribution chain.

U.S. exporters should focus primarily on establishing contacts with larger companies seeking to form a direct relationship with foreign suppliers. Lists of major importers/distributors are available from the FAS office in Almaty, Kazakhstan. Market entry strategies for U.S. products should include:

- Market research in order to evaluate product demand/opportunities.
- Research on the landed cost of a product in order to make price comparisons vis-a-vis competitors.
- Locating an experienced distributor or independent agent with strategic distribution channels to advise on import duties, sanitary and phytosanitary regulations, and labelling requirements.
- Explore the purchasing routines of the larger importers.

U.S. products and ingredients should be heavily promoted and it is very important to educate buyers about



quality standards, grades, and different uses for U.S. ingredients. Promotion through seminars, brochures and other promotional techniques are recommended.

B. Sub-Sector profiles

Total production of processed foods increased by 9.2 percent in 2001. Growth is expected to continue in 2002 by as much as 10 %. The fastest growing area in recent years has been in vegetable oil and margarine production, where growth has been significant. Production of beer and mineral water have increased by twice within last three years and less significant growth in milk and dairy production. The GOK's import substitution program, the increased purchasing power of population as well as additional direct foreign and domestic investments. However, the growth can be limited by insufficient domestic supplies of raw materials for the industry.

Meat Processing

The total output of the meat industry was \$ 310 million in 2001. There are 11 large meat packers, 21 medium sized plants, and about 120 small processing lines that provide a rather wide selection of meat products for the retail and catering sectors. Most large meat processors operate at 10-15 percent of their total capacity due to the lack of raw materials and outdated technologies. A steady reduction of herds and reorganization of large state farms added to exacerbated this problem. In 2001, total meat output in Kazakhstan was 628,800 MT, of which 150,000 MT were processed. Most of the meat was sold at farmers markets and consumed directly. Some meat processors have established their own farms for raising cattle, swine and sheep in order to guarantee both supplies and quality. Small quantities of meat have been imported from processing from Australia (mutton), Brasil and Mongolia (beef) in 2000-2001 but it has been limited due to high transportation costs and customs duties (20 % plus 16 % VAT).

Food Processing Industry Sub-Sectors	Number of Firms	Sales at Producer Price (\$ Million) CY2001	Estimated Annual Growth (%)
Flour & Bakery	2420	438.0	2
Vegetable Oils	58	95.9	10
Meat Products	152	310.1	2
Milk & Dairy Products	133	128.2	12
Sugar & Confectionary	168	195.7	5
Alcohol and Beverages	265	260.0	20
Processed Fruit & Vegetables	47	18.0	2
Fish Foods	35	32.9	10
Snack Foods	42	12.3	5
Dry Goods \$ Condiments	62	65.5	10
Prepared Meals	274	15.1	5
Specialized Food Ingredients	9	25.3	3
Total	3700	1,700	10

Fish Processing

In 2001, Kazakhstan's fish industry output was valued at \$32.9 million. The industry consists from two large fish processing plants located in Aturay (Caspian Sea) and Balkhash (Balkhash Lake) and 33 small processing facilities scattered throughout the country. In 2001, the company Aturaybaluk accounted about 55 % of the total output and 100 % of exports. Black caviar and sturgeon filets are major export items. In 2001, the company produced 35 MT of canned black caviar, 30 MT of which were exported to the United States. Also, Aturaybaaluk produced frozen, smoked fish and fish preserves from Caspian Sea fish species such as sprats, plaice and imported herring. Another large processing plant in Balkhash are using lake's fish species as carp, cat-fish, bream and imported herring and cod for producing salted and smoked fish cuttings. Small processing facilities only smoke and salt frozen fish. In, 2001 total imports of frozen fish for processing were 20,000 MT, 90 % of which was imported from Russia and 6 % from Norway.

Dairy Products

The dairy industry is the leading sector for domestic and foreign investments in the food industry (about 40 percent of total investment). There are 133 dairies in Kazakhstan, but less than 30 are commercially significant. Most raw milk is supplied by smaller farms, since 85% of dairy farms have herds which do not exceed 5 cows. Large milk processors have started to establish their own big dairies to increase quantity and improving quality of raw milk. Raw milk production totalled 3.9 million MT in 2001, of which about 800,000, or 20.5 percent was delivered for processing.

In 2001, the 10 largest companies accounted for 60 percent of the sector's output. Almost all dairies produce similar products of similar price and quality. Some processors have introduced new value-added products, such as low-fat products. They have also expanded their existing product lines to include small packages with longer shelf life under limited refrigeration. Kazakhstan's milk processors imported about 5,000 MT of whole milk powder for adding to the quality of milk products and for improving supplies during the winter. Major exporters are Russia and Estonia, which responsible for about 90 % of total imports. Kazakhstan does not produce condensed milk and milk-based baby foods. All these products are imported. In 2001, Nestle invested about 10 million in the Kosmis company for production dry skimmed milk. The plant will process about 70,000 MT per year.

Flour and Flour-based products

Flour milling and bakery is a largest industry in Kazakhstan. At present, there are 980 mills in Kazakhstan with total capacity about 3.6 million tons per year. Most of them have out of date equipment. Due to the large numbers of mills, capacity utilization of the industry is only about 40 %. However, overcapacity has lead to competition and new investment to improve quality. Kazakhstan is one of the key wheat producers (11-12 million tons per year) and exporter (4-5 million tons per year) in the Central Asia region. In 2001 flour production was 1.5 million MT a decrease from 2000 due to lower bread consumption and exports. Exports of flour have declined to about 170,000 MT in 2001 from 350,000 MT in 2000 due to better wheat production in neighbouring countries.

There are 1,440 bakeries registered in Kazakhstan. About 90 % are very small (3-5 employees). The 16 largest companies are located in major cities accounting for 65 percent of total bread production. Bread production declined from 569,283 MT in 2000 to 512,700 MT in 2001 due to decreased consumption. Pasta and macaroni production increased from 35,600 MT in 2000 to 37,760 MT in 2001. Specialists expect that local production of pasta and macaroni will stabilize at 40,000 MT due to small domestic market and poor quality of products for export.

Alcohol and Beer. Between 1995-2001 about 125 new production facilities were established in Kazakhstan. Local producers controlled 98 % of the market. Total alcohol sales reached \$170 million in 2001, including \$100 million of beer. Beer production increased by 28% during the previous year. Lower cost local production and high custom duties for alcohol (0.6-2 Euro per litre) made alcohol imports unfavourable. Since 1995 imports of alcohol decreased by \$150 million and was only \$4.2million in 2001. Major players on alcohol market are local companies Wimpex (Aktubinsk), Bakhus (Almaty), Arai (Kostany), Semey Sy (Semipalatinsk), Falcon (Almaty), Bastau (Pavlodar) and Turkish company Efes which produced beer in Karaganda.

Non-alcoholic beverages are becoming more dynamic. In 2001 306.7 million litres was produced. Coca-Cola is the leading soft drink manufacturer which is a joint venture between the Turkish Efes and the local company, "Tonus". In 2001, Coca-Cola produced about 30 % of all carbonated drinks in Kazakhstan. The company also imported drinks from Russia. There are a number of small companies producing carbonated drinks, mineral water and fruit and vegetable juices in Kazakhstan. Most of them are using imported flavour additives and colouring ingredients. Annual imports of these ingredients estimated about \$3-4 million.

Company Name (Product Types)	Sales (\$mil)	End-Use Channels	Production Location	Procurement Channels
Flour and flour-based products				
Seimar (poultry, flour, rice, animal feed)	30	Retail and HRI	Almaty	Importers, Direct
Tsesna-Astykh	45	Retail and HRI	Astana	Importers, Direct
Agrocentr-Astana	10	Retail and HRI	Astana	Importers, Direct
Golden Grain	5	Retail and HRI	Petropavlovsk	Importers, Direct
Almatynan	20	Retail and HRI	Almaty	Importers, Direct
MEAT PRODUCTS				
Urdzhar Meat Processing Plant	3	Retail and HRI	Semipalatinsk	Importers, Direct
Petropavlovsk Meat processing plant	2	Retail and HRI	Petropavlovsk	Importers, Direct
Akmola meet processing Plant	4	Retail and HRI	Astana	Importers, Direct
JSC Kulager	3	Retail and HRI	Karaganda	Importers, Direct
ALCOHOL AND BEVERAGES				
Bakhus	22	Retail and HRI	Almaty	Importers, Direct
Semey Sy	8	Retail and HRI	Semipalatinsk	Importers, Direct
Efes Karaganda	4	Retail and HRI	Karaganda	Direct
Arai	12	Retail and HRI	Lisakovsk	Importers, Direct
Shymkentpivo	3	Retail and HRI	Shymkent	Importers, Direct
Coca-Cola Botlers	26	Retail and HRI	Almaty	Direct
SUGAR & CONFECTIONARY				
Sugar Centre	45	Retail and HRI	Jambul	Importers, Direct
Rakhat	15	Retail	Almaty	Importers, Direct
Bayan-Suly	4	Retail and HRI	Kustanay	Importers, Direct
Karaganda Confectionary	8	Retail and HRI	Karaganda	Importers, Direct

JTI	3	Retail and HRI	Shymkent	Direct
MILK & DAIRY				
Food Master	25	Retail and HRI	Nationwide	Direct
Kosmis (Nestle)	8	Retail and HRI	Kustanay	Direct
Milk Union	6	Retail and HRI	Petropavlovsk	Importers, Direct
Adal	2	Retail and HRI	Almaty	Importers, Direct
VEGETABLE OILS				
JSC Shymkentmay	25	Retail and HRI	Shymkent	Importers, Direct
JSC May	18	Retail and HRI	Ust-Kamenogorsk	Importers, Direct
FISH PRODUCTS				
Aturaybalyk	25	Retail and HRI	Aturay	Direct, Importers, Wholesaler
TOBACCO				
Philip Morris Kazakhstan	170	Retail	Almaty	Direct
Gallaher	20	Retail	Almaty	Direct
JTI	15	Retail	Shymkent	Direct

Sugar and Confectionary

Sugar production is concentrate on 6 sugar refinery plants in Almaty and Jambul regions with total capacity at 500,000 MT per year. In 2001, total sugar production has been at 345,500 MT mainly from imported raw cane sugar from Brasil and Cuba. Local production of sugar beet covers only 12 percent of total sugar processing.

In 2001, Kazakhstan produced about 30,000 MT of confectionary products. At the same time, a similar amount was imported with the majority from Russia and Ukraine. Germany and Holland also export to Kazakhstan. Largest confectionary producers in Kazakhstan are Rakhat, Bayan Suly, Konfetu Karagandu, and JTI.

Edible oils.

Kazakhstan has insufficient domestic oilseed production to meet local demand for edible oils. Despite increased production in 2001, vegetable oil imports (crude and refined) remained high and represented 45 percent of total consumption. Total crushing capacity in Kazakhstan is about 120,000 per year. In 2001, two large crushing plants produced about 90 percent of total Kazakhstan's vegetable oils output. The major oilseed crop is sunflower which is grown mostly in eastern Kazakhstan.

C. Sector Trends

Further development of the food processing industry in the next 5-10 years will be stimulated by

- the increased demands of local as well as exports (to neighbouring Central Asian countries) food markets
- increased demand for processed fruit, vegetables, milk, fish, and meat (preserved, frozen and microwavable foods),
- increased demand for convenience products (highly processed, easy to cook, ready to eat),
- further reduction of small local processing and domination by large plants.

Food processed by small plants is generally of lower quality and higher price than larger plants.

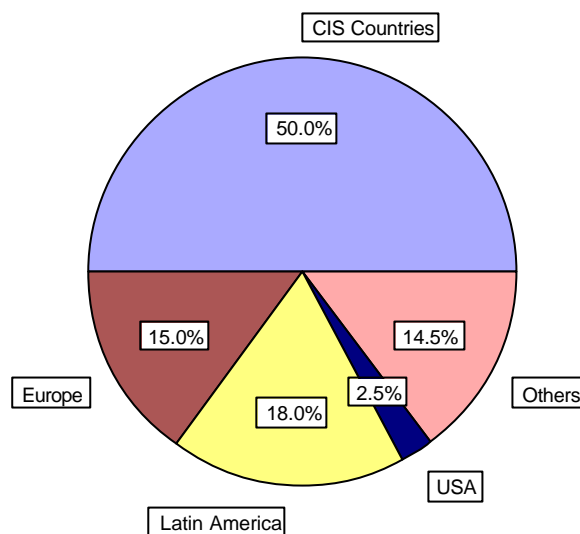
The trend in retail sector is away from open-air markets and small grocery stores towards supermarkets. In 2001, 8 new supermarkets were constructed in Almaty and Astana. Changes in the retail sector have supported changes in the processing sector. Retailers have required diverse range of products, of high quality and with lower prices. This trend has led to new investments and quality improvements within the processing sector. For example, local milk processors expanded their existing product lines to include small packages with longer shelf life under limited refrigeration. Also, some are looking to meet ISO 9000 standards as soon as possible.

The largest direct investment from American companies are in the tobacco industry. Philip Morris and Reynolds Tobacco reconstructed two tobacco manufacturing plants in Almaty and Chimkent and helped develop tobacco production in the southern part of the country. In 1999, Philip Morris company invested another \$300 million for establishing new production facility in Almaty region. In other food processing sub-sectors, American companies have been involved to the construction of one new dairy and two meat processing plants as a partners in joint ventures. However, after completion of the construction they sold their shares to Kazakhstan's partners.

III. Competition

As of 2001, the United States was the fourth largest food exporter to Kazakhstan. Kazakhstan's major imports from the United States are poultry meat (\$20-25 million per year) and tobacco (\$8-10 million). Small quantities of U.S. vegetable oil, rice, tea, coffee, confectionary and condiments were imported to Kazakhstan in 2001. The major competitors Russian and EU suppliers due to shorter shipping distances, established distribution channels, and zero custom duties for the Russian commodities as a member of Customs Union (Russia, Kazakhstan, Belorussia, Kyrgyzstan and Tajikistan). Also, within last few years, many U.S. brands produced in EU countries and in Russia are being sold in Kazakhstan. Many U.S. products are transshipped to Kazakhstan through EU distributors and are not recorded in official statistics as U.S. origin.

Competition for Kazakhstan's Imported Food Market



IV. Best product Prospects

A. Products Present in the Market Which Have Good Sales Potential

Relatively small quantities of U.S. products are used in the food processing sector. Kazakhstan's imports of poultry meat (especially chicken quarters) stabilized within last three years but face strong competition from local producers. Although small quantities of vegetable oil, rice, condiments, dehydrated dried soups and confectionary are imported from the United States, their market share might increase due to increases in population, incomes and greater demand for high quality foods.

Major Food Imports by Kazakhstan, 2001

Type	Share (%) of Food Sector Imports by Kazakhstan
Raw Sugar	22
White Sugar	11
Crude Vegetable Oil	6.5
Sunflower Oil	9.0
Margarine	2.5
Confectionary and Chocolate	12
Milk Products	11.3
Meat Products	8.6
Tea and Coffee	5.8

Alcohol and Beverages	1.6
Others	9.7

V. Post Contact and Further Information

If you have any questions or comments regarding this report or need assistance exporting high value food products to Kazakhstan, please contact the Office of Agricultural Affairs of the U.S. Embassy in Almaty at the following address:

American Embassy
 Furmanov St., 97/99
 Almaty, 48091, Kazakhstan
 Tel: (7-3272) 50-76-16
 Fax: (7-3272) 50-18-94
 E-mail: agalmaty@nursat.kz

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service home page: <http://www.fas.usda.gov>

Appendix 1. Foreign investors operating in processed food sector

Name of Company	Production	Origin
Man	Sugar	Great Britain
Nestle	Dairy	Switzerland
Nakosta	Vegetable oils, mayonnaise, margarine	Switzerland
UIG	Confectionary	Great Britain
Baltic Beverage Holding	Beer	International
Heineken	Beer	Holland
Japan Tobacco International	Tobacco, confectionary	Japan
Efes	Beer, beverages	Turkey
Becker & Co	Meat products	Germany
Rubi Rouse Agricol	Poultry	Lebanon