

Formation of government grain purchases in Kazakhstan

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Abstract. The article discusses the issues of governmental purchases of grain, conducting of public procurement and commodity interventions. The mechanism of undertaking grain interventions by establishing grain intervention funds to support the stability of income of agricultural commodity producers has been revealed. It has been revealed that grain intervention funds regardless of the place of their locations are public property.

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Introduction

Increased production of agricultural products and foodstuff in the developed and developing countries is constrained by limited land resources suitable for agriculture, which is associated with increase of level of urbanization, and the need to preserve forests and water resources.

According to the FAO, global demand in wheat in 2020 will increase by 40 % that will result in the need to increase the volume of its production in the world from 600 to 800 million ton [1].

Areas of agricultural land in the world are increasing, but pace of growth is slowing down, increasing of arable land areas lags behind the expansion of farmland. Over the past 30 years, their share increased from 33.13 % to 35.71 of all land, and the proportion of arable land - from 10.41 to 11.03 %. In these terms, the need for ensuring living standards of population is increasing, in almost achieved stabilization of arable lands, which inevitably aggravate issues of agricultural productivity and intensity of agricultural labor and threatens to the food security of many countries [2].

Such situation sets tasks to main grain regions of Kazakhstan not only to restore the industry's potential after the recession of 90s, but, in view of trends emerging in the global market, significantly increase production volumes and expand exports [3].

Methodology

Grain procurement organization is focused on financial support to rural producers by specific allocation of funds from national budget for the purchase of seeds, fuel and lubricants, fertilizers, herbicides, spare parts for agricultural machinery on the basis of contract on grain supply by producers.

The main part

According to the UN FAO experts, the state of international food security is determined by two indicators: the volume of the world grain stocks which transfers to the next crop yield (the level of transfer stocks which corresponds to 60 days of consumption, or 17% of total consumption) is considered to be secure; the level of its production in average per capita (extremely low level of bread resources, when there is a real threat of hunger - is 200-250 kg of grain per year per capita).

Over the past 7 years, the level of grain production per capita in Kazakhstan was in average 1040 kg, food processing -267 kg. It should be noted that in the country not all processed products are consumed, part of it is exported as flour, pasta, etc.

JSC "Food Contract Corporation" is defined as the State Agency of management of public grain resources which has 100% State capital, and annually provides State grain purchases with annual capacity of 2 million tons [4]. It has offices in 10 regional centers of the country, as well as overseas offices in the UK (London), Russian Federation (Moscow), People's Republic of China (Beijing), Islamic Republic of Iran (Tehran), in the Republic of Azerbaijan (Baku).

Guaranteed formation of State grain reserves is a reliable mechanism of ensuring the country's needs in grain and grain products, and support for domestic producers. One of the main sources of grain commodity resources formation for food purposes is public procurement carried out by Food Corporation.

In recent years the conditions of grain purchases for State resources have improved. The tariffs (prices) for storage, cleaning and drying of grain at terminal elevators and grain accepting companies are regulated. Since 2001 purchase of

grain is carried out at grain accepting companies that have licenses for grain storage and selected by JSC "Food Contract Corporation" on a competitive basis in two periods (Tranche 1 - in spring, and the second - in autumn), investment volume of grain production has increased more than 10 times and is 99 billion Tenge.

Funding of the purchases is carried out in two stages, in the spring-summer and autumn- winter periods, while on spring- summer period about 60 % of the funds is spent. Along with the purchase of grain for government resources, the Corporation provides commercial procurement within 1.0-1.5 million tons of grain by attracting domestic and foreign loans.

For the formation of food fund for population, State procurement should be based on scientifically justified consumption rates (SJCR). The main indicator is the level of consumption of bread and cereal products per capita per year. So, for 2012 this figure in the Republic of Kazakhstan amounted to 116.7 kg, in Russia - 118 kg, U.S.- 113 kg, France - 80 kg and Germany -79 kg .

In 2012 the actual consumption of bread and bread products in the country amounted to 124 kg, which in calculation to grain is equivalent to 176 kg per capita, in national consumption rate- 166 kg. Consumption rate set by WHO is 120.5 kg (based on flour) [5].

Thus, the level of self-sufficiency of population in food grains exceeds the demand by 6-7 times.

Despite the fact that the mechanisms of public procurement are improved every year, and depending on prevailing economic situation, they are corrected, grain market of the country has not yet developed a system of targeted regulation of grain procurement and sales. As practice shows, the existing mechanism of grain purchases and financing system in the country does not reach the main goal-provision of government support for the agricultural producers and incentives to farmers for increasing grain commodity resources.

For example, the situation on grain market in current conditions became favorable for grain sellers, especially for grain exporters. Decline in world grain supply, unfavorable forecasts for crops in major grain-producing countries , including Russia , in particular the lack of grain in the Altay region , where 12 % of the total volume of Russian flour is processed, has resulted in the explosive growth of grain prices. The current price situation can be viewed in two ways: on the one hand , as positive , because market prices have risen sharply in the primary market up to 200-220 USD, versus 120-125 USD. Besides having big export potential (up to 4-5

mln. t) Kazakhstan is in advantageous position on international market.

However, on the other hand, trading companies, in anticipation of immediate benefit, rushed to the foreign market. As a result, market situation is repeated when in a rush for profit all food grain was shipped for export, which has led to threats to national food security. Almost in all regions of the country, flour mills experienced tension in provision of raw materials for processing, grain milling companies were forced to buy grain at 220-250 USD per ton.

Increase in grain prices caused an increase in the chain of wholesale and retail prices of flour, bread and bakery products. Unable to resist the push of prices, many small and medium-sized bakeries have closed or temporarily suspended their activities, leading to a disruption in the provision of bread in large cities.

The experts explain the main causes of such unfavorable situation by the reduction of global grain supply and as a consequence, the increase of prices on the world market to 280-300 USA versus 170-180 USA in previous years, an increase in electricity tariffs and splash of prices for oil and oil products, and also rise in price of agricultural machinery, mainly harvesting combines, the price of which has risen by 70-120% depending on the brand.

The development of bioenergy industries, which use grain for production of biofuel (bioethanol and biodiesel) has greatly influenced on the reduction of global grain supply. World demand for biomass as energy resource has been increasing and this industry in the countries of European Union and the United States has now become a top priority and is rapidly growing. In the U.S., for example, due to the rapid growth in the number of specialized bioenergy plants since 2001, the amount of grain used for bioethanol production has increased 3 times. Experts predict annual grain volume, allocated for this purpose in the U.S. will be 100 mln. tons, or about half of their export resources .

The main reason for the situation with deficit of grain for domestic consumption in Kazakhstan is the non-transparent market, lack of the objective monitoring of balance between grain export and flour mills' needs in different regions of the country. This situation allows regional authorities to artificially raise gross harvest indices and respectively, of export potential of grain, in order to justify the unrestricted export of grain outside the country.

Wrong tactic of purchasing and commodity interventions resulted in the increase of prices for grain and flour for domestic consumers - grain processing companies and bakeries. Instead of regulating current situation, JSC "Food Corporation",

carried out grain exports, and got involved in the pricing race together with domestic exporters and foreign importers of Kazakhstan grain.

Instability of correlation between demand and supply linked with the alternation of good yield and low yield years, determines spontaneous and uncontrollable nature of pricing in grain industry and unfavorable price shifts. Trends in global grain market development show that in low yield years, there are big problems with maintenance of profitability of farms and implementation of reproduction in grain industry. In contrast, in the years of high grain yields, it becomes necessary to allocate budget for the purchase of grain surplus by the State in order to stabilize market prices.

To avoid the shortage of grain in the country, it is proposed to form future food fund through purchase of grain to the State resources in the amounts, which fully satisfy the needs of population in food grain.

The volume of public procurement for domestic consumption should reach 2.5-2.6 mln. tons of grain with the prospect of expanding its product range by legumes, cereals. In addition, using budgetary funds the strategic and mobilization public reserves should be formed, which are the important means to ensure a reliable supply of grain and grain processed products of special consumers: army, special groups and closed institutions, and establishment of insurance reserves for emergency cases. According to calculations, the amount of public reserves may be formed within 3-5% of the total production volume (450-700 thous.tons). Taking into account this fact, it is proposed to conduct guaranteed procurement of public grain resources, at a rate of 3.0-3.3 mln. tons.

In situation when grain volume decreases below a set level, there should be a special trade regime, regulating grain balance between domestic needs and export. Regulatory mechanism includes administrative measures - such as ban on export, licensing of grain exports, establishing quotas, and economic measures, in particular the purchase of total required volume of grain at fixed prices with further reimbursement to producers of the difference between procurement and sales market prices existing on domestic market [6].

One of the ways of regulating grain and cereal market could be the introduction of grain monopoly on purchase and sale of grain through the establishing of regional trade and procurement corporation in form of JSC with a predominant share of the State in their charter capital. The trade - purchasing corporations as shareholders can include agricultural producers - deliverers of grain located in

this area, elevators, BRC, processing plants, bakeries and other interested grain market stakeholders.

Activities of trading and purchasing associations formed on the initiative and with participation of regional authorities should be aimed to maintain optimal price correlation between technologically interconnected and at the same time independently functioning enterprises, regulation of interregional supplies to stabilize domestic grain market.

In contrast to the activity of "Food Corporation", grain purchased for internal purposes is strictly accounted in food funds of each region, and sold only to regional processing companies [7]. The principal document defining legal and price correlations are the contract between enterprises and organizations which are involved in trade and procurement corporation. The contract shall stipulate the terms and conditions of supply of grain, bargain prices, quality, incentives of supplies, conditions of advances grain purchases.

In purchasing grain the Board of Trade-Procurement Corporation sets the level of initial payment and ensures these payments to farmers. The initial price paid to farmers immediately after delivery of grain to the elevator, usually is set lower than export (market) price of grain in that period. After sale of grain to the processing enterprises, trading - purchasing corporation makes final payment to farmers by paying them the difference between the amount initially paid and actual sale prices depending on the quantity and quality of grain.

For procurement and sale of grain, in the structure of trade and purchasing corporations there should be formed a network of line elevators and processing enterprises. Availability of necessary tanks and equipment will allow them to form a homogeneous grain trade stocks, corresponding to the requirements of grain processing enterprises on their qualitative characteristics.

Unstable price situation on grain market requires active involvement of the State, through the implementation of public procurement and commodity interventions. The role of intervention mechanism is to prevent fall of market prices below the minimum level, by withdrawing relative surplus products from market, create an increasing price trend that would enhance creating of higher level of market prices. The task of the commodity interventions is to create a price reduction trend by selling grain from the intervention fund in conditions of its deficit on market. Such mechanism is used primarily in the European Economic Community in regulation of markets of agricultural raw materials and food [8]. The U.S. and EU are losing their market share, while the share of Russia, Ukraine and

Kazakhstan will increase twice, the share of "Black Sea coastal States", which traditionally are considered such countries as Russia, Ukraine and Kazakhstan on the world grain market will be 11%, share of the U.S. and EU - 46%. In the new year, mainly due to the return of Russia to the market, the share of the "three" will increase to 20%, the U.S. and the EU - will drop to 37%. According to forecasts, the potential of Russian wheat export is estimated at 10 million tons, Ukraine and Kazakhstan - 16 million tons. Implementation of grain interventions will require the creation of grain intervention funds which will maintain stability of the income of agricultural producers. Intervention grains fund stocks regardless of their locations are State property and should be accounted by the Ministry of Agriculture of the Republic.

State agents may be paid a commission of 1 % of grain cost on purchase price during purchase interventions and 1 % of grain cost on selling price during trade interventions. Grain purchased for intervention fund is placed for safekeeping in elevators selected on a competitive basis, regardless of the form of ownership in accordance with the agreements concluded with them by the Ministry of Agriculture of the Republic of Kazakhstan.

The Contracts should foresee the liability of organizations engaged in stockpiling grain intervention fund, for their quantitative and qualitative security, accounting and reporting.

Grain purchased in the course of purchasing interventions, is accepted and arranged in accordance with legal and technical documentation that defines the procedure of accepting, storage and use of this product. Purchasing and trade interventions should be carried out by conducting tenders on commodity stock exchanges, authorized to carry out such trades, or on a competitive basis.

Government procurement and trade interventions are carried out at prices within a range of price levels for grain, approved by the Government of the Republic of Kazakhstan: purchasing interventions - in the range between minimum price level, reaching which it stops; commodity interventions - in the range between the maximum price level, at reaching which the commodity intervention begins, and the price level at which it stops.

Costs of formation, placement, storage and use of grain intervention fund, as well as organizing interventions and payment of commission are financed by funds provided by the law on national budget for specific year.

The need to form public funds grain is caused by a number of external and internal factors [9]. The first reasons are related to the fact that grain

is the basis of food security of the country and without its reserves the State cannot pursue an independent foreign grain policy. Internal factors that contribute to the need of creating public grain funds are associated with the following: grain supplies and grain processed products for special users; implementing measures of social protection of vulnerable people; creation of insurance stocks in case of emergencies; formation of intervention fund to smooth annual fluctuations in grain production; creation of exchange fund of grain seed.

State regulation of prices for important types of goods and services to some extent is implemented in all countries [10], including the direct regulation of prices in certain sectors of economy. Mainly prices in agriculture, infrastructure sectors - power, transport, communications, road construction are regulated. In agriculture, guaranteed minimum prices for basic products are maintained, which are combined with public procurement of surplus production, which leads to maintaining prices at an acceptable level for agricultural producers.

Conclusion

In the Republic of Kazakhstan in recent years, market-oriented reform is aimed to the formation of socially oriented economy in the country. However, there are still unresolved issues which are directly related to the formation and development of grain potential, including, first of all, stimulating quality of produced grain, price regulation, market infrastructure development, improvement of economic relations. Weak link in the industries of grain product complex is a system of procurement. The article identifies the causes and provides recommendations on improvement the mechanism of public grain purchases.

Conclusions

1. Guaranteed formation of public grain reserves is a reliable mechanism of ensuring the country's needs in grain and grain products, and supporting of domestic producers.
2. Unstable price situation on grain market requires active State intervention through conducting State purchase and commodity interventions.
3. Government procurement and trade interventions are conducted by prices that are within a range of price levels for grain, approved by the Government of the Republic of Kazakhstan.
4. The guaranteed minimum prices for primary types of products are maintained in agriculture, which are combined with government purchases of surplus production, which leads to maintaining of prices at an acceptable level for agricultural producers.

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