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Development of the Meat and Dairy Area of the Processing Industry in the Republic of Kazakhstan under the Modern Conditions

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Abstract:

The article reveals basic tendencies and dynamics of developing the meat and dairy area of the processing industry in the Republic of Kazakhstan. The provision of meat and dairy production with raw materials, dynamics of production, and changes of prices for raw materials, and ready products are analyzed. The meat and dairy production is strategically important for the Republic of Kazakhstan because it is one of those industries that provide the food security of the country. Due to the geographical position and natural and climate conditions, Kazakhstan has a rather high potential for developing this area not only to service the domestic market, but also to expand export. Cattle breeding and meat and milk processing are traditional for the Kazakh population. These types of activity were formed in the ancient times. That is why the development of cattle breeding and meat processing industry is a top priority task for Kazakhstan due to the rooted lifestyle and traditional nutrition. Due to the changing market conditions, under the impact of various factors, meat and milk processing enterprises suffer a crisis because volumes of the national raw materials are limited, production funds are not sufficiently modernized, and imported products are often cheaper. It is possible to successfully solve the existing problems only subject to joint work of agricultural producers, meat and milk processing enterprises and support of state authorities. The authors defined the main problems of the meat and dairy processing industry and showed the ways to solve them.

Keywords: meat; milk; production; cattle breeding; import; agriculture; industry; processing.

JEL Classification: O10; O13

Introduction

The reproduction and processing of agricultural products, and high quality and affordable food production are a top priority task of the state. It is substantiated not only by the need to provide the Kazakh population with food, but also by the opportunity to develop this area as one of the priorities for the country's economy.

The main share in the structure of food production is related to the grain processing industry (19.4%), dairy area (16%), bread and bakery (15.5%), meat processing (13.8%), fruit and vegetable (9.4%), fat and oil (9%), and other industries (16.8%) (Master plan for developing the processing industry in the Republic of Kazakhstan 2013).

The meat industry is a branch of the food industry that processes livestock. Enterprises of the industry manufacture and slaughter livestock, poultry, rabbits and produce meat, sausages, canned meat, semi-finished products, cutlets, dumplings, and pre-cooked food. This sector gives ¼ of the republic's products in the volume of the whole industry. According to its ratio, it is on the top. Along with the production of food, dry animal feeds, valuable medicines (insulin, heparin, linocaine, etc.), as well as glues, gelatin and feather products are produced. Based on the developed livestock breeding, an extensive network of meat and milk enterprises was established

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(Food industry in the Republic of Kazakhstan. Basic areas of development, and their centers. Development dynamics, *n. d.*).

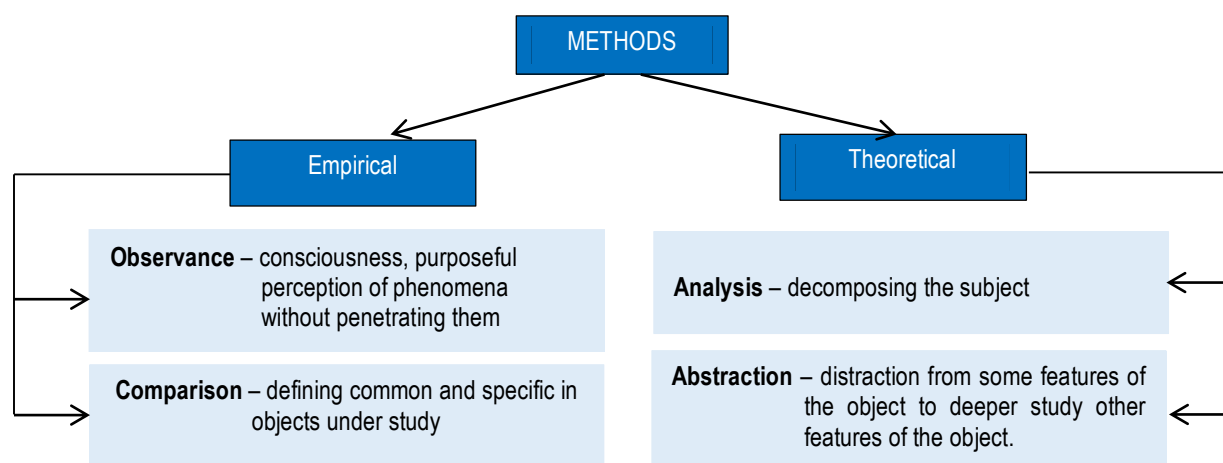
Enterprises specializing in meat processing quite often extend their activities towards processing milk and producing dairy and fermented milk products. The most important part of the country's economy is the agro-industrial complex because the economic potential and the vital agricultural production are concentrated here (Fadeyev 2011).

One of the top priority branches of the agro-industrial complex of Kazakhstan is livestock production. It is primarily due to the national characteristics and traditions of the nomadic people's life historically established in the past. The dairy and meat processing industry of the national economy aims at full meeting the demand of the country's population for meat and dairy products as the main source of nutrition. In each region of Kazakhstan, there are hundreds of both small and medium-sized meat and milk processing enterprises. The majority of them face the problem related to the shortage of raw materials. The state and enterprises take certain steps to solve this problem.

1. Methods

In the scientific literature methods are interpreted as tools, ways of cognizing the object under study. In its turn the methodology combines a set of certain methods. The whole variety of methods of the scientific knowledge is divided into empirical and theoretical. The methods used in this study are shown in Figure 1.

Figure 1. Methods of Scientific Knowledge



3. Results

3.1. Current State of the Meat and Milk Processing Sector

Enterprises specializing in meat and milk processing belong to the processing area of the food industry. They produce a rather diversified range of finished products from meat semi-finished products to sausages and canned meat, dairy and fermented milk products.

An extensive network of meat and milk processing enterprises has been established on the territory of Kazakhstan. Moreover, large enterprises having a full cycle of production from raising livestock to its slaughter and processing operate along with quite small enterprises specializing only in processing both cattle meat and poultry, or specializing only in processing milk.

The efficiency of the activity of such enterprises directly depends on the food market situation, its range and the changing demand that depends on various factors. At the present time agriculture and the meat and dairy processing industries are actively developing. Above all, this is due to the growing demand for meat and dairy products, and the growing requirements to their quality and assortment.

The state actively supported agrarians by introducing various programs, e.g. "Agro-Business -2020", a unified business support and development program "Business Road Map 2020", a livestock breeding cluster, "Sybag" (Fund of Financial Support of Agriculture) program, Program on financing projects on creating slaughterhouses, etc. (Business support programs, *n. d.*).

Table 1 shows the analysis of data provided by the Kazakh Agency on Statistics on the meat and dairy food production for 2013-2016 in physical terms (in tons).

Table 1. Dynamics of Meat and Dairy Food Production in the Republic of Kazakhstan in Physical Terms for 2013-2016

Product	2013	2014	2015	Difference in 2015 as compared to 2014	2016	Difference in 2016 as compared to 2015
Meat, poultry meat and food byproducts, tons	210,268	218,868	334,084	115,216	280,048	-54,036
Sausages and analogous products of meat, byproducts, tons	41,914	41,965	57,714	15,749	57,642	-72
Liquid processed milk and cream, tons	440,347	472,866	453,624	-19,242	499,709	46,085
Butter and dairy spreads (pastes), tons	14,075	18,794	19,470	676	19,634	164
Cheese and curd, tons	22,120	22,211	60,085	37,874	49,384	-10,701
Other dairy products, tons	207,993	208,247	208,844	597	213,934	5,090

Note: Compiled according to the data of the Statistics Agency of the Republic of Kazakhstan (Statistics Agency of the Republic of Kazakhstan, *n. d.*)

During the period under consideration, in 2015 there was an increase in production of almost all types of products, mainly in categories "Meat, poultry and food byproducts" by 1,152,016 tons and "Cheese and curd" by 37,874 tons. The only category of products where the production was reduced in 2015 by 19,242 tons was "Liquid processed milk and cream". Above all, this situation is related to the decrease in the gross milk yield due to reducing the dairy herd livestock in the population's households that make up the main production.

In 2016, as compared to 2015, the volumes of production in some product groups, such as "Meat, poultry and food byproducts", "Sausages and analogous products of meat, byproducts" and "Cheese and curd" were reduced. First of all, it was related to the decrease in the number of meat and milk enterprises that failed to survive tough market conditions by 16%.

Natural and climatic conditions allow Kazakhstan not only to fully provide the domestic market with meat and dairy products but also to establish a high volume of export.

The global financial crisis affected the economy of Kazakhstan. Due to it, the market for meat and dairy products has decreased. It is substantiated by the close interrelation of the meat and dairy production and the development of agriculture in the country. Along with the reduction of the domestic market of meat and dairy products, the export of these products has decreased more than 10 times and the import has increased. Over the recent several years it has been possible to observe a growing tendency to increasing import of meat and dairy products by 60 percent (Shurr 2015).

Table 2 shows analytical information about the volume of production, import and consumption of basic meat and dairy groups for 2015-2016 in physical terms (in tons).

Table 2. Volume of Production, Import and Consumption of Basic Meat and Dairy Groups in the Republic of Kazakhstan for 2015-2016 in Physical Terms (in USD per 1 kg according to the Rate of the National Bank of the Republic of Kazakhstan as on 01.01.2017 being 333 Tenge per USD 1)

Products	Production		Import		Consumption	
	2015	2016	2015	2016	2015	2016
Meat and food byproducts, tons	334,084	280,048	110,000	160,000	348,742	357,643
Sausages and analogous products of meat, meat byproducts or animals' blood, tons	57,714	57,642	14,872	15,424	63,385	64,521
Processed milk and cream, tons	453,624	499,709	172,122	104,859	584,120	590,752
Milk in solid form, tons	19,470	19,634	1,120	857	20,317	20,411
Butter, tons	60,085	49,384	3,274	8,244	59,541	55,847
Cheese and curd, tons	208,844	213,934	75,621	74,217	248,329	251,172
Other dairy products, tons	208,823	212,583	25,784	23,875	211,642	212,564

Note: Compiled according to the data of the Statistics Agency of the Republic of Kazakhstan (Statistics Agency of the Republic of Kazakhstan, *n. d.*)

The above time period is characterized by a significant increase in the import of meat and food byproducts by 45%. This is due to the inability of the domestic market to meet the needs of the country's population. At the same time there is an increase in the consumption of this group up to 357,643 tons in 2016, which is 8,901 tons

more than during the previous year. It is related to the improvement of the demographic situation in the country and the population growth.

One of the main problems of the meat and dairy industry is the insufficiency of raw materials for production. The main source of raw materials is the population's households and peasants' and private farms. A quarter of the raw materials consumed is produced at own plants for breeding animals for slaughter. A rather large volume is imported (Kochubey 2009)

Table 3 shows dynamics of producing certain types of livestock products in the Republic of Kazakhstan as a base of raw materials for the meat and dairy processing industry.

Table 3. Dynamics of producing certain types of livestock products in the Republic of Kazakhstan in all categories of households for 2012-2016, thousand tons

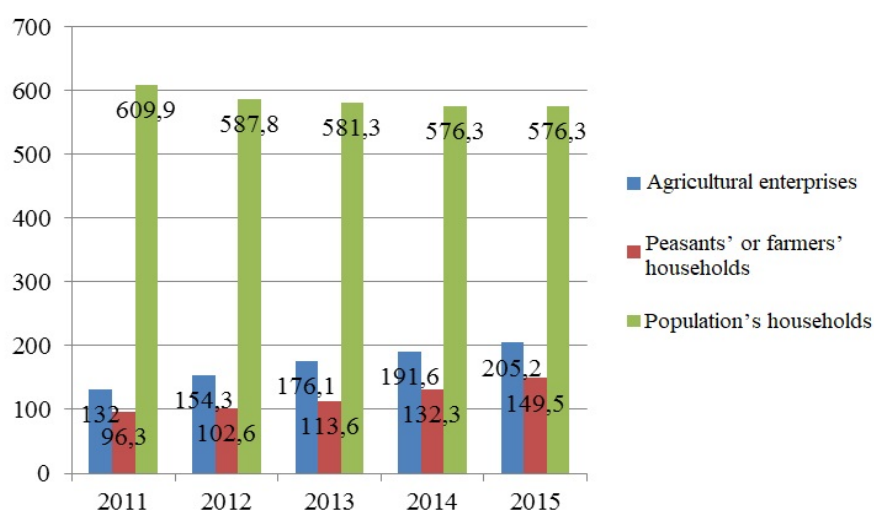
Product	2012	2013	2014	2015	Difference in 2015 as compared to 2014	2016	Difference in 2016 as compared to 2015
Livestock and poultry slaughtered in households or sold for slaughtering (carcass weight basis), thous. tons, including:	844.7	871.0	900.2	931.0	30.8	962	31
Cattle	373.5	383.5	405.5	416.8	11.3	424.2	7.4
Sheep and goats	153.8	156.4	161.9	165.1	3.2	171.8	6.7
Horses	85.1	89.4	92.4	101.4	9	103.5	2.1
Pigs	103.3	99.9	99.8	95.3	-4.5	99.9	4.6
Poultry	123.1	135.8	134.2	146.1	11.9	152.7	6.6
Milk, thous. tons	4,851.6	4,930.3	5,067.9	5,182.4	114.5	5,274.3	91.9
Eggs, mln. items	3,673.4	3,896.0	4,291.2	4,737.0	445.8	5,161.3	424.3

Note: Compiled according to the data of the Statistics Agency of the Republic of Kazakhstan (Statistics Agency of the Republic of Kazakhstan, *n. d.*)

During the period of 2012-2016, livestock production was growing sustainably. In the future there may be an opportunity to completely change over to providing the country's meat processing industry with raw materials.

Figure 2 shows the dynamics of meat raw materials production in the context of the categories of households specializing in the livestock production for the analyzed period of 2011-2015. According to it, among various types of producers of agricultural raw materials for processing meat, above 60 percent of the livestock and poultry slaughter volume falls on the population's households, although the analyzed period also displays dynamics of an increase in the volumes of supplying raw materials to meat processing enterprises by rural enterprises, peasants' and farmers' households.

Figure 2. Dynamics of livestock and poultry slaughter by all categories of Kazakh households for 2011-2015, thous tons



One of the important conditions for the sustainable development of meat and milk processing enterprises is the developed efficient mechanism of price formation. It should be rather flexible for the changing conditions of the

economic situation on the market because the correct price formation is primary in developing any producing enterprise or industry.

Many factors depend on the production cost. These are the economic efficiency of the production process, incentives and wages of workers involved in the production, extended reproduction, as well as general development of the branches of the national economy and the elimination of disproportions in their development (Seydakhmetov, Kukva and Nurgaliyeva 2006).

This mechanism must take into account laws of supply and demand, *i.e.* on the one hand, it has no shortcomings of the system of planned pricing (imbalance of the production and consumption, inconsistency of inter-sectoral interests), and, on the other hand, it has preferences before the spontaneous market pricing mechanism (market prices instability and lack of the economic growth sustainability) (Altaibaeva, Bauer-Kenzhebolatova, Zhaltyrova 2016).

The price for agricultural products, unlike prices in other industries, is formed on the basis of the socially required labor and resources needed for the worst conditions of agricultural production. Under the market economy, the price reflects not only the expenses or the cost of products, but also the conditions for the exchange of goods, demand and supply, market situation, product quality, tax policy, intra-industry and inter-sectoral competition, and product competitiveness (Alshynbay 2008).

The producer's price for industrial products is the price of a unit of the produced industrial output at the time of its release by the enterprise, excluding VAT, excises, other indirect taxes, trade, marketing margins and transport costs related to the movement of products from the producer to the buyer.

Changes in the producers' prices are observed in a selective network of basic enterprises of various forms of ownership, as well as organizational and legal forms. Prices are registered for a certain list of goods. This includes the most representative products that are close to the main quality parameters, used raw materials and production process (Shelomentseva and Davidenko 2013).

Table 4 shows the dynamics of changes in the prices for some types of dairy and meat processing products for 2011-2015.

Table 4. Dynamics of changes in average prices for some types of cattle products and meat and dairy processing products for 2011-2015 (in USD per 1 kg according to the Rate of the National Bank of the Republic of Kazakhstan as on 01.01.2017 being 333 Tenge per USD 1)

Products	2011	2012	2013	2014	2015
Beef	3.25	3.53	3.56	3.55	3.53
Lamb meat	3.13	3.44	3.54	3.54	3.47
Pork	2.51	2.87	2.92	3.14	3.20
Chickens	1.56	1.78	1.64	1.97	1.87
Cooked sausage	3.03	3.27	3.42	3.90	4.05
Semi-smoked sausage	3.58	3.83	4.02	4.56	4.66
Unsalted butter	3.72	3.89	4.09	4.44	4.32
Raw milk, liter	0.34	0.37	0.40	0.42	0.50

Note: Compiled according to the data of the Statistics Agency of the Republic of Kazakhstan (Statistics Agency of the Republic of Kazakhstan, *n. d.*)

Analyzing the price dynamics shown in Table 5, it is necessary to note the steady growth of prices for meat and dairy products from 8 up to 47% for different types of products. At the same time prices for sausages rose by more than 30%, and prices for milk increased by 47%. This fact points at the crisis situation on the market of these products that happened due to various factors, such as the raw materials deficit, the inflation of the national currency, and the insufficiency of capital for the development of enterprises in this sector.

At the present stage the development of meat and dairy production can be characterized by relative stability and sufficient potential for the further development, despite of the existing difficulties. One of the problems is the low level of the technical equipment of meat and dairy production as compared to the modern technologies and equipment that comply with the international level (Galimova 2014).

To further develop the food industry, it is necessary to increase the flow of investments not only in the food industry but also in agriculture as the main supplier of raw materials, thereby substantially increasing the production potential of enterprises engaged in meat and milk processing (Pritvorova and Dzhusupov 2009).

Figure 3 shows the structure of investments in agriculture in general in the Republic of Kazakhstan in 2016. It proves that the burden of investments almost entirely depends on the agrarians themselves, and other sources of financing are extremely small.

Figure 3. Structure of Investments in Agriculture in 2016, in thous. Tenge, %

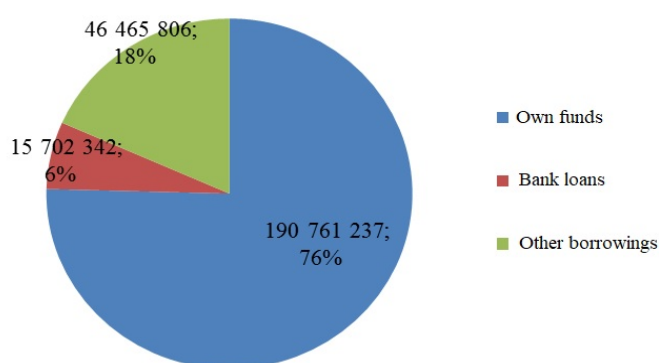


Table 5 shows investments in the agricultural capital stock in Kazakh regions, according to the results for 2016.

Table 5. Volumes of investments in the agricultural capital stock in Kazakh regions for 2016, thous. Tenge

Regions	Own funds	Bank loans	Other borrowings	Investments in the capital stock	Ratio of regions in republican volume of investments in capital stock, in %
Akmolinskiy	33,763,843	5,098,308	12,817,458	51,679,609	20.4
Aktyubinskiy	10,232,978	364,942	1,171,077	11,768,997	4.7
Almatinskiy	13,806,688	4,255,380	10,925,317	28,987,385	11.5
Atyrauskiy	1,671,887	-	3,721	1,675,608	0.7
West-Kazakh	617,425	703,026	101,873	1,422,324	0.6
Zhambylskiy	9,729,119	120,889	3,466,179	13,316,187	5.3
Karagandinskiy	6,908,664	677,024	1,569,252	9,154,940	3.6
Kostanayskiy	32,880,135	756,094	1,688,229	35,324,458	14.0
Kyzylordinskiy	3,141,183	-	681,168	3,822,351	1.5
Sount-Kazakh	7,840,465	924,040	1,920,127	10,684,632	4.2
Pavlodarskiy	10,394,603	149,615	4,823,649	15,367,867	6.1
North-Kazakh	49,060,146	1,820,416	5,901,544	56,782,106	22.3
East-Kazakh	10,529,422	832,608	1,396,212	12,758,242	5.0
Almaty	184,679	-	-	184,679	0.1
In total in Republic of Kazakhstan	190,761,237	15,702,342	46,465,806	252,929,385	100.0

Note: Compiled according to the data of the Statistics Agency of the Republic of Kazakhstan (Statistics Agency of the Republic of Kazakhstan, *n. d.*)

According to the Statistics Agency of the Republic of Kazakhstan, the largest volume of investments in capital stock in agriculture falls on the North-Kazakh Region - above 22%. This fact is stipulated by the agrarian specialization of the region that has favorable natural and climatic conditions that allow farming (Ministry of Agriculture of the Republic of Kazakhstan, *n. d.*).

The Akmolinskiy Region is the second in terms of investments in the capital stock in agriculture - 20.4 percent. This region used not only its own funds for investments but also external sources of investment more than other regions. In this area, the development of agriculture is a top priority. The agricultural sector is developed within the Program for Sustainable Development of the Agro-Industrial Complex and the Program for the Rural Areas Development.

Along with the Almatinskiy and Kostanayskiy Regions, the Pavlodarskiy Region is among top five regions specializing in agriculture. According to the "KazAgro" National Management Holding, there are 259 enterprises specializing in meat processing and 214 enterprises specializing in milk processing ("KazAgro" national management holding, *n. d.*).

The largest enterprises specializing in the meat and dairy food production are "Becker and Co." LLP in Almaty, "Kubley" LLP in Uralsk, "Semipalatinsky Meat Processing Plant" LLP in Semipalatinsk, "Rubikom" LLP, "Akoba" LLP, "Myasnoy Dvor" LLP, with the production in Pavlodar.

There are rather many enterprises. However, the main production falls on sausage products and meat semi-finished products and dairy products. The share of products made by the above enterprises is constantly growing on the domestic market of meat and sausage products. Nevertheless, these enterprises have a lot of problems. The import of meat and dairy products often considerably complicates the work of even such large enterprises. Products that have as high qualitative characteristics as domestic products but are much cheaper are imported from the border territories of other countries.

Summarizing the above, there is the need to support domestic meat and milk producers that are often considered as the city forming enterprises and maintain food security not only in the region where they are located but also in the country as a whole. By assisting in the improvement of the efficiency of meat and milk processing enterprises, and extending their production, new jobs are created and new types of products that can be successfully exported are developed.

4. Discussion

At the present stage of the society development, the meat and dairy area is the largest in the food industry. Its assortment has a product, medical and technical value.

The profitability of meat and milk enterprises depends on many factors, from the breed of animals and the natural and climatic conditions they live under, the requirements for feeding and maintenance, up to the technical equipment of the production, quality control, efficient management and marketing conditions.

The researches carried out in the area of technogenic impact on the physiology showed that the human diet considerably exceeded the energy needs of the population. However, the need in animal proteins is not completely satisfied because of its low content as a result of heat treatment and other influences on meat and dairy raw materials. Therefore, there is a need for constant control and flexibility of the meat and dairy production process and the compliance of the end product with the changing physiological needs of various population groups.

The most important task of the meat and milk processing industry is to improve the quality. It depends not only on the technical characteristics of the production process, but also on agriculture as the sole supplier of raw materials.

The production of high-quality meat and dairy products that meet world standards is one of the top priority tasks. To solve it, it is necessary to develop a set of measures. The efficiency of the industry depends on the further comprehensive automation and mechanization of not only processing, but also agriculture, the introduction of non-waste technologies, the reduction of production costs, and the improvement of staff specialization. Solving problems in the food industry on processing meat and dairy raw materials can be effective only subject to the support from state authorities together with manufacturers (Miller, Miller and Davidenko 2015).

Conclusion

According to the Master plan for developing the processing industry in the Republic of Kazakhstan up to 2020, the following top priority areas for developing this industry were defined:

- processing of milk (production of butter, cheeses, milk powder);
- meat processing (production of sausages, canned meat);
- production of fat-and-oil products (margarine and vegetable oil);
- deep processing of cereals (production of pasta, cereals);
- processing of fruits and vegetables;
- production of sugar;
- primary processing of livestock skin ("Agrobusiness - 2020" program on developing the agro-industrial complex in the Republic of Kazakhstan for 2013 – 2020).

The main problems and ways to solve them in the area of meat and milk production are shown in Table 6.

Table 6. Problems and ways to solve them in the area of meat and milk production

Main problems	Ways to solve them
Low milk quality, irregular milk supply to processing enterprises	Establishing technically equipped milk reception stations in the areas of agricultural units; State investment subsidization for buying milk trucks by processing enterprises
Interruptions in the supply of meat and high cost of raw materials	The increase in the volume of meat raw materials, improvement of the meat purchase system, the use of cattle carriers by meat processing enterprises for the uninterrupted supply of meat, state investment subsidies for equipment and specialized transportation

Main problems	Ways to solve them
Insufficiency of the producers' working capital	Subsidizing credit lines to replenish current assets of the enterprise
Low quality of products that do not comply with international standards	Improving the quality of the ready meat and dairy products by implementing international quality standards, technical reequipment of the production process
Extending the range of ready products	Monitoring the meat products market, the purchasing power of the population and its preferences
Management improvement	Efficient management, systematic improvement of the level of employees' skills, stimulating their remuneration, as well as increasing the staff's interest in scientific developments in the industry.

State support for measures to develop the industry through subsidies, preferential credit conditions and tax remissions for enterprises of the meat and dairy industry are important.

Thus, the creation of comfortable conditions for the development of processing enterprises will help domestic producers to increase export, improve the quality of the product, expand production, create new jobs and enter new markets. In its turn, the development of the food processing industry will help Kazakhstan to create the worthy competition to other partners of the Customs Union.

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