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Competition in the Food Supply Chain – Contribution from Kazakhstan

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Competition in the Food Supply Chain

- Contribution from Kazakhstan -

1. Introduction

1. The food supply chain is a key component of the economic structure of the Republic of Kazakhstan, encompassing a wide range of participants, including producers, processors, distributors, wholesalers, and retailers. The effective functioning of this chain is essential to ensuring price stability and the availability of goods for the population.

2. In the context of globalisation and shifting consumer preferences, it is crucial to assess how competition mechanisms function and to examine the legislative and practical approaches available for their regulation.

3. A critical task remains to provide equal opportunities for all participants in the supply chain while maintaining a balance between the interests of consumers, producers, and the state. This will enhance food sustainability and reduce reliance on imported goods.

2. The Role of Authorised Bodies

4. In the context of price volatility, the Agency for Protection and Development of Competition of the Republic of Kazakhstan monitors prices for essential goods using data from open sources as well as information from government agencies, including statistical data. It analyses the state of competition in commodity markets and identifies issues such as negative price trends, artificial shortages of goods, and violations by market entities.

5. To minimise undue pressure on private entrepreneurship, the Agency actively employs soft law instruments. A common practice is issuing notifications about potential violations of competition law by market entities, government agencies, or organisations vested with regulatory functions by the state. For instance, since the beginning of 2024, six notifications have been issued in the food market, compared to 58 notifications in 2023. If the prescribed requirements in the notifications are not met, investigations are conducted into potential violations of competition protection laws in the Republic of Kazakhstan.

6. The Agency also collaborates in interdepartmental commissions to identify unproductive intermediaries in the goods distribution chain alongside relevant state and local executive bodies.

7. Effective regulation is achieved through cooperation between the antimonopoly authority and authorised state bodies, such as the Ministry of Trade and Integration, the Ministry of Agriculture, and local executive bodies. These entities employ both direct and indirect regulatory instruments, as well as measures for state support and price stabilization. **Key areas of collaboration include:**

- Developing roadmaps for competition development that define strategies and actions to improve the competitive environment;
- Conducting interdepartmental inspections to eliminate unproductive intermediaries, streamline supply chain links, and increase transparency.

8. Direct state price regulation is implemented by establishing threshold values and maximum retail prices for **19 goods included in the List of Socially Significant Food Products**, approved by the Ministry of Trade and Integration of the Republic of Kazakhstan *(flour, wheat bread made from first-grade flour (tinned), pasta (sold by weight), buckwheat groats (ground buckwheat, sold by weight), polished rice (round grain, sold by weight), potatoes, table carrots, onions, white cabbage, granulated sugar, sunflower oil, beef (shoulder blade and brisket with bones), chicken meat (thigh and drumstick with adjacent meat), pasteurized milk (2.5% fat, flexible packaging), kefir (2.5% fat, flexible packaging), butter (unsalted, at least 72.5% fat, without fillers or vegetable fats), chicken eggs (category I), edible table salt (excluding "Extra"), cottage cheese (5–9% fat)).*

3. Regulatory Trends and Approaches

9. The legislation of the Republic of Kazakhstan provides for several price stabilisation tools, including setting thresholds, maximum permissible retail prices, trade allowances (15%), the formation and use of stabilisation fund reserves, revolving loans, subsidies, and the introduction of restrictions, prohibitions, quotas, and customs duties.

- **Setting Maximum Trade Mark-Ups for Socially Significant Food Products.** This control tool, aimed at limiting trade mark-ups on goods from the socially significant food products list, has shown limited effectiveness due to challenges in enforcement and low coverage of trade activities.
- **Setting Threshold Prices for Socially Significant Food Products.** Although prices in some regions exceed the established thresholds by more than 15%, local authorities (akimats) often fail to apply this price control mechanism promptly.
- **Stabilisation Funds and Revolving Schemes.** Price stabilisation for socially significant food products is implemented through two primary mechanisms: stabilisation funds and preferential revolving loans provided to entrepreneurs via Social and Entrepreneurial Corporations (SECs). These institutions operate across all regions to support socio-economic development. However, stabilisation funds have largely failed to achieve their primary goal of price stabilisation, with limited impact on the food market. To address this, since 2019, **a "revolving loan" mechanism** has been introduced to offer more effective support.
- **Government Support.** Financial subsidies are allocated to the agro-industrial complex as part of government support measures. However, increased financing has not always translated into improved outcomes in the sector. Subsidies often sustain existing producers rather than stimulate growth or expand capacity, failing to achieve long-term food security objectives or enhance sector competitiveness.

10. While these measures help mitigate price volatility in the short term, they present significant drawbacks. Government price regulation for socially significant food products often focuses exclusively on price mechanisms, addressing only immediate objectives. This approach negatively affects manufacturers, reducing their competitiveness and forcing some to exit the market. Key challenges include:

- **Unpredictability for Businesses.** Companies struggle to plan their activities due to uncertainty about state price interventions, hindering long-term strategies and investments.

- **Market Competition Restrictions.** Companies benefiting from government support gain an unfair advantage over new entrants, limiting market development and innovation.

11. As a result, changes are required to reduce uncertainty for market players and establish predictable economic policies.

12. In recent years, Kazakhstan has shifted from strict state control to more flexible regulatory methods, incorporating information systems and digital platforms to monitor goods movement, pricing, and intermediaries. This approach enhances supply chain transparency and aligns with modern market practices.

13. The transition from direct government price regulation to flexible methods, such as self-regulation and digital technology adoption, offers new opportunities for sectoral growth. To ensure sustainable development and improve living standards, continued efforts are needed to refine the regulatory framework, eliminate unproductive intermediaries, and promote supply chain transparency.

14. Since 2024, Kazakhstan has initiated **a gradual phase-out of state price regulation** for socially significant food products markets, reflecting a move towards a freer market system. In the first phase, amendments to the legislation "On Regulation of Trade Activities" and the Business Code have been introduced to remove provisions for setting threshold and maximum retail prices. These changes are set to take effect by the end of 2025.

15. While reducing direct government intervention in price-setting for essential goods, oversight of trade mark-up limits will remain. These reforms aim to establish a predictable economic policy framework, reduce market uncertainty, and foster competition.

4. Reforming the Subsidy System

16. Starting in 2022, the Agency’s responsibilities were expanded to include the evaluation of state support measures, including subsidies. This change was introduced to enable comprehensive oversight of state support measures, ensuring a more efficient allocation of public funds and preventing preferential treatment of individual recipients.

17. It is important to note that providing government support inherently distorts market competition. The lack of transparency in determining the conditions for entrepreneurs to access state support exacerbates its negative impact on competition, potentially creating significant market imbalances.

18. A lack of transparency in the provision of state support for private enterprises, insufficient oversight of subsidy use, and the issuance of subsidies to the same individuals or affiliated companies lead to restricted competition, lobbying for specific interests, and the infringement of other market participants' rights.

19. Under its expanded mandate, the Agency has identified several issues in the actions of state bodies responsible for regulating market activities. These include uneven subsidy distribution, a focus on supporting large businesses, and limited access for new market entrants. As a result, the Agency has concluded that the relevant authorities fail to take sufficient measures to foster competition and often create conditions that restrict it. The Agency’s expanded competence to oversee and coordinate new state support measures is therefore timely, aimed at mitigating such risks.

4.1. Key Issues and Proposed Reforms:

4.1.1. Inefficiencies in Agro-Industrial Complex Subsidies.

20. Historically, subsidies in the agro-industrial complex have been spread across numerous areas without clear performance indicators, diluting their impact. While subsidies have supported existing producers, they have not effectively stimulated increases in production capacity, market entry of new players, or competitiveness.

21. To address these shortcomings, **the Agency has proposed a fundamentally new approach to subsidy allocation,** focusing on measurable outcomes, such as increased production and improved domestic market supply. This includes developing indicative metrics to evaluate results and foster competition within the sector.

22. Currently, the Ministry of Agriculture of the Republic of Kazakhstan has revised the Subsidy Rules to incorporate counter-obligations for subsidy recipients. Agricultural producers are now required to demonstrate tangible results from government support, such as increased production volumes and the achievement of specified targets. This initiative is designed to enhance the competitiveness of the agro-industrial complex and drive overall industry development.

23. Compliance with these counter-obligations is expected to yield significant benefits, including increased gross agricultural output and strengthened food independence for Kazakhstan. This shift represents a critical step toward creating a healthy competitive environment where subsidies truly contribute to the growth and development of the sector.

4.1.2. Limited Access for Small Farmers.

24. The second major issue in the agricultural sector is the existing subsidy mechanism, which disproportionately benefits large farmers while small farmers face barriers to financial instruments. High loan interest rates and excessive collateral requirements restrict small farms' competitiveness.

25. To address this imbalance, Presidential Decree No. 542, dated May 8, 2024, "On Measures to Liberalize the Economy," outlines **a phased transition from commodity-specific subsidies to concessional lending by 2028.** In response, the Ministry of Agriculture has developed a step-by-step plan, including:

- amending subsidy rules to phase out commodity-specific subsidies;
- redirecting the resulting financial resources toward a concessional lending program;
- enhancing financial accessibility for agricultural producers;
- stimulating economic development through effective financial instruments

26. The transition to concessional lending is designed to improve access to financial tools for all farmers, particularly small-scale producers, fostering a more inclusive and competitive agricultural sector. By addressing both inefficiencies in subsidy allocation and barriers to financial access, these reforms aim to support sustainable economic growth, enhance competitiveness, and ensure long-term food security in Kazakhstan.

5. Retail and its transformation

27. In the retail trade of food products in the Republic of Kazakhstan, small enterprises dominate, accounting for 70% of the market (shopping markets and convenience stores), while large and medium-sized enterprises, such as retail chains and large retail facilities, hold a 30% share.

28. The food retail sector has experienced notable changes in recent years, including a decline in the number of retail outlets and a 10% reduction in retail space. For example, in 2022, 269 domestic trade entities operated with a total retail area of 1.112 million square meters, compared to 281 entities with 1.128 million square meters in 2021. Food products represent 35.6% of total retail trade, while non-food products account for 64.4%. Between 2021 and 2023, sales of food products declined by 5.4%, whereas sales of non-food products increased by 6.6%.

29. The retail market in Kazakhstan is served by both international and local players. International retailers include **METRO Cash & Carry** (Germany) and **SPAR**, while key local players include **Magnum Cash@Carry**, **Small**, **Anvar**, and **Astykzhan**.

30. Despite growth in regional networks and increased market concentration, the sector has also seen the exit of major players, including foreign retailers. For instance, the French chain **Carrefour** and the Turkish chain **Ramstore** have exited the market, indicating that some international retailers face challenges adapting to Kazakhstan's economic and market conditions.

5.1. Economic Concentration and Market Dynamics

31. The number of retail spaces larger than 2,000 square meters has not grown significantly. Such large spaces are concentrated in major cities, and many large retail chains have shifted their focus from large shopping malls to more compact, convenient "at-home" store formats. To optimize costs and accelerate market entry, large retailers increasingly acquire existing, well-established facilities rather than developing new ones, ensuring a steady customer base and competitive market positioning.

32. For example, the Magnum retail chain initially operated as a discount store with a limited product range but transitioned to supermarket formats with a wider selection in 2012. By 2017, the chain began acquiring regional competitors. As of 2022, Magnum operated 200 stores across 12 cities, and by 2023, it had expanded to 234 branches, becoming Kazakhstan's largest retail chain with significant revenue growth.

33. While economic concentration can strengthen market positions, it requires antimonopoly oversight to safeguard competition. Last year, Magnum obtained consent from the antimonopoly authority under specific obligations to prevent abuse of its dominant position and ensure fair conditions for all suppliers.

5.1.1. Barriers to Market Entry

34. The main barriers to entering Kazakhstan's retail market include:

- **Economic Barriers.** Decreased purchasing power and rising consumer prices.
- **Administrative Barriers.** Challenges in obtaining land and navigating regulatory processes.
- **Price Regulation.** Policies such as trade mark-ups and price caps for socially significant food products.

5.1.2. Initiatives to Enhance Competition and Transparency

35. To foster competition and enhance market transparency, the antimonopoly authority has proposed several measures to the trade regulation body, including:

- **A "Price Platform" Application.** Facilitating price comparisons across retail outlets.
- **Promotion of "Hard Discounters".** Stores offering low prices by minimising staff and design costs, with a focus on self-service.
- **Adoption of "No-Frills" Models.** Simplified warehouse-style sales systems that eliminate unnecessary expenses like storage, lighting, and advertising.
- **Digitisation of Unorganized Trade.** Integrating markets and bazaars into digital systems.

36. In this context, the Ministry of Trade and Integration of Kazakhstan has developed the **Derekhub** information system. Retail chains are required to continuously provide data on prices and suppliers. This system enhances the ability to identify and assess cases where retailers raise prices, ensuring that such actions are justified.

37. These measures aim to create a fairer, more transparent retail environment, supporting both market participants and consumers.

5.2. Interaction Between Retail Chains and Suppliers

38. Producers play a crucial role in the development of food products, yet industrial enterprises often face challenges in promoting their goods to consumers through retail chains. **Key barriers to accessing retail chains include:**

- Restricted access for new manufacturers, particularly those with lesser-known brands.
- Imposition of marketing service requirements, obliging suppliers to provide discounts.
- Returns of unsold products after their expiration date.
- Imposition of "retro bonuses" for activities such as introducing new products, providing shelf space, or placing advertising equipment.

39. The antimonopoly authority frequently receives complaints regarding the restrictive practices imposed by retail chains on manufacturers and suppliers.

40. Retail chains primarily generate profits through trade mark-ups on goods sold. However, a significant portion of their income now comes from services provided to manufacturers, such as product promotion, advertising, company-sponsored events, and selling shelf space (referred to as "network entry bonuses"). These costs force suppliers to increase their prices, which ultimately impacts the final cost of food products for consumers.

41. While retail chains position themselves as entities selling food products, the reality is that much of their profit is derived from manufacturers and suppliers through fees for these "services."

42. To address these issues, the antimonopoly authority has developed systemic measures to reform trade practices. These include:

- Establishing behavioral rules for retail chains.

- Improving legislation to eliminate inconsistencies.
- Strengthening control over services provided by retail chains to manufacturers and suppliers.

43. These measures aim to ensure a fairer and more balanced relationship between retail chains and suppliers.

5.3. Civilized Trade

44. The Agency also faces challenges in accurately determining the market position of retail chains within the retail market. A large portion of Kazakhstan's food retail market consists of convenience stores and bazaars, many of which operate within the shadow economy. Their activities are often unaccounted for, making it difficult to determine the true market share of large retail chains.

45. This lack of transparency complicates the analysis of market concentration and hinders the development of effective antitrust measures. Accurate data is essential for understanding the competitive environment and ensuring fair conditions for all market participants.

46. To address this issue, steps are being taken to promote more formalized and transparent trade in markets and small shops. Legalising and increasing the transparency of their operations will provide better data on market structure, contributing to the creation of a fair and competitive environment.

5.4. Modernization of Markets and Bazaars

47. Kazakhstan is actively working to modernize its markets and bazaars to improve their efficiency, safety, and convenience for consumers. **Key initiatives include:**

- **Development of indoor bazaars.** This enhances trading conditions and improves the shopping experience for customers.
- **Mandatory use of cash registers.** All transactions are recorded, ensuring compliance with tax regulations and increasing transparency.
- **Digitalisation of trade processes.** Entrepreneurs can now check the availability of retail spaces, rental prices, and conclude lease agreements online. Payments are facilitated via the website using QR codes, eliminating opportunities for extortion by market administrators.
- **Transparency in pricing.** Markets are required to display price lists for services and market maps on stands or banners.
- **Support for domestic producers.** Market administrations are providing free spaces for organizing farmers' markets, enabling domestic producers to showcase and sell their goods.
- These measures are designed to create a more competitive, transparent, and consumer-friendly market environment. By enhancing transparency and digitalising operations, the government aims to foster fair trade practices, support domestic producers, and improve the quality of services in Kazakhstan's markets and bazaars.