

THE EFFECTS OF PRIVATE STANDARDS ON KAZAKHSTAN'S AGRI-FOOD SYSTEM

An NCEEER Working Paper by

Kelley Cormier
Post-Doctoral Scholar



**National Council for Eurasian
and East European Research**
University of Washington
Box 353650
Seattle, WA 98195
info@nceeer.org
<http://www.nceeer.org/>



TITLE VIII PROGRAM

Project Information*

Principal Investigator: Kelley Cormier
NCEEER Contract Number: 823-01h
Date: October 21, 2010

Copyright Information

Individual researchers retain the copyright on their work products derived from research funded through a contract or grant from the National Council for Eurasian and East European Research (NCEEER). However, the NCEEER and the United States Government have the right to duplicate and disseminate, in written and electronic form, reports submitted to NCEEER to fulfill Contract or Grant Agreements either (a) for NCEEER's own internal use, or (b) for use by the United States Government, and as follows: (1) for further dissemination to domestic, international, and foreign governments, entities and/or individuals to serve official United States Government purposes or (2) for dissemination in accordance with the Freedom of Information Act or other law or policy of the United States Government granting the public access to documents held by the United States Government. Neither NCEEER nor the United States Government nor any recipient of this Report may use it for commercial sale.

* The work leading to this report was supported in part by contract or grant funds provided by the National Council for Eurasian and East European Research, funds which were made available by the U.S. Department of State under Title VIII (The Soviet-East European Research and Training Act of 1983, as amended). The analysis and interpretations contained herein are those of the author.

Executive Summary

This paper uses theory from the literature on the globalization of international grades and standards for food to examine how these standards might impact agricultural producers of fruit and vegetables in Kazakhstan. The analysis shows how private adoption of international standards by a sub-set of the food processing sector is influencing the nature and structure of commercial contracting among food processor managers and suppliers of raw materials. Findings suggest that food processors who want to adopt private standards and enforce them among their suppliers have a couple of options. First, they can advance seeds and other inputs to suppliers to enable them to grow the desired varieties. Second, they can try to acquire land in order to vertically integrate and control more of the supply chain themselves.

Introduction

On February 6, 1996, the Government of Kazakhstan applied for accession to the World Trade Organization. Since then it has refined its application through multilateral and bilateral negotiations with the Working Party. In June 2005, the first draft of the Working Party Report was submitted that documented the substance of negotiations and outlined Kazakhstan's specific commitments (Ceysenns 2006). This report emphasized the status of commitments related to agriculture, including those pertaining to sanitary and phytosanitary measures, which are designed to safeguard food.

An analysis of this 2005 report (Ceysenns 2006) indicated that while Kazakhstan has made modifications based on recommendations for improving general trade issues, such as lowering customs tariffs, many other issues specific to legislation on animal and plant health, food safety and food marketing require further work. According to this analysis, language on risk assessment and international standards needs to be improved and a science-based approach needs to be emphasized. In the meantime, Kazakhstan is still committed to providing equal weight to its Soviet period government standards, or GOSTs, which regulate its food products, and international standards. The current practice assigns and marks products with GOST numbers, unless they did not exist during the Soviet period, and then a "Technical Requirement" (TU) number is assigned (Yerubayev 2007).

Because of the public health implications of poorly implemented standards that pertain to the quality and safety of food products, how standards are enforced is important. Article 13 of the *Law on State Regulation of Agriculture* stipulates that the state implements sanitary and phytosanitary control according to the law and with the aim to ensure conformity of agricultural produce and international quality and safety requirements. Article 6 outlines how food safety

standards are set by veterinary and sanitary-epidemiological authorities and “according to general standard setting procedures by the Authorized Organ for Standardization, Metrology and Certification” (Ceysenns 2006). In general, the quality of Kazakhstan’s food products is low. Factors affecting low quality compared to products traded on the international market include lack of technical knowledge, outdated technology, poor testing capacity, obsolete laboratory equipment, and limited quality control systems (Jumabayeva 2006).

This paper focuses on Kazakhstan in an effort to assess the level of influence of international grades and standards for food on the emerging market-oriented economies in Central Asia. This paper makes a contribution to three theoretical debates within the emerging scholarship on globalization of international grades and standards. First, it contributes to the debate about how standards for food are diffused. Some research cites the interplay between public (government-driven) and private (industry-driven) standards. Where public standards seem to be insufficient, private standards fill the perceived void. Some scholars make the case for how supermarkets are leading the charge for more stringent standards. Other research suggests that in developing countries, international development organizations are at the forefront of communicating and promoting global standards. Using the experiences of fruit and vegetable processors and farmers in Kazakhstan, I explore the relevance of these theories in a post-Soviet context.

Second, this research will contribute to the debate that asks whether standards are barriers or catalysts of trade in developing countries. Research has shown how the rise in globalization of food standards has often excluded small-scale firms and farms, resulting in a deleterious effect on developing countries, in particular. The cited reasons for exclusion include the high cost of innovation, lack of inputs, and lack of credit. Other research shows how standards enable market

participation of small-scale firms and farms, which would otherwise be on the periphery of these global supply chains.

Finally, I will test received theory about the effectiveness of formal contracts for reducing transaction costs. Recent scholarship argues that diffusion of standards by supermarkets and international development organizations is often accompanied by a “tightening” of vertical relationships within a supply chain. This tightening occurs when contracts are used to specify the terms of commercial relationships. Contract terms correspond to product standards that are required of downstream customers, such as supermarkets. In circumstances characterized by uncertainty, when contracts do not allow flexibility for accommodating the multitude of contingencies that continue to occur in a transition economy, contracts can increase the costs of transacting.

The main question this paper asks is what drives the process of private adoption of standards in Central Asia. Part of the explanation is related to the way food processing companies and supermarkets¹ and food processors, which are expanding into Central Asia, are requiring standards that match international standards. Through the private sector, grades and standards are becoming diffused in Central Asia, despite a lack of direct “exposure” to these standards.

The Diffusion of Standards

While standards for food are formally diffused throughout a market via government regulatory bodies, private industry, including food retailers and food processors, plays an increasingly important role in the diffusion of standards for food. I described above how

¹ I use the term “supermarkets” to refer to a variety of food retail enterprises: hypermarkets, neighborhood grocery stores, and convenience stores.

Kazakhstan food processing companies are producing canned goods according to product guidelines that existed during the Soviet period. Reardon et al. (2001) calls these and other state-sanctioned standards “public grades and standards.” Scholars of Latin America (Post 2004; Reardon et al. 2001) have observed that while public grades and standards remained in countries, independent firms increasingly adopted private grades and standards. Adoption of private standards can enable local agribusinesses to more easily enter new markets (Frohberg et al. 2006; Buzby and Mitchell 2006).

Reardon et al. (2001: 423-424) note that grades and standards have adopted new roles in agricultural markets and are increasingly being used “as strategic tools for market penetration, system coordination, quality and safety assurance, brand complementing, and product niche definition.” Post (2004) found that in Argentina and the Dominican Republic, private industry puts pressure on regulators to adopt standards that facilitate exports. A study that used several cases in Latin America showed how supermarkets, in particular, induced changes in standards, and thus in agrifood systems (Reardon et al. 2004). Central Asian agribusinesses are beginning to position themselves to enter the domestic and global retail markets following a period of instability in the agriculture sector when newly private buyers and sellers were learning to cope with a transformation of economic rules and roles. These businesses are some of the least exposed to globalization pressures.

“Export-led development” in Central Asia is becoming a priority of international development organizations. Part of the new orientation of development assistance activities towards exports is designed to increase the exposure of developing countries to global markets. International development organizations try to address the lack of exposure to globalization by encouraging agribusiness companies to adopt international grades and standards (Cocks et al.

2005; Swinnen 2005).

In 2005, during a conference in Bishkek organized by the International Trade Institute, I observed the potential for this industry-driven approach in Kyrgyzstan. Consultants advised agribusinesses not to wait for the government to demand certain standards. Rather, agribusinesses were encouraged to innovate in order to be in a position to take advantage of possible trading opportunities in Europe and elsewhere around the globe. International grades and standards are promoted as part of a development strategy that includes accession to the World Trade Organization and greater access to global markets.

Standards as Barriers and Catalysts to Trade

Once standards have been diffused, if not via government regulatory channels then through private industry or international development organizations, companies in developing countries with reputations for poor quality products can begin to repair their reputations. Reardon et al. (2001) observe that branding can improve a product's reputation. This use of labeling to improve reputation can also build trust with customers (Northen and Henson 1999).

In Kyrgyzstan, food processing companies signal their involvement, and thus their adherence to higher standards, through packaging that indicates their membership in the Association of Fruit and Vegetable Processors of Kyrgyzstan² (Cormier 2007a). Soviet canned goods had a reputation in Kyrgyzstan for being of poor quality and marketable only to residents of remote Siberian cities or military bases. Packaging allows food processing companies to distance themselves from that legacy. But packaging can deceive. There is no regulation dictating what is included on a label, so symbols with no relevance to the domestic market, such

² The Association of Fruit and Vegetable Processors of Kyrgyzstan is an initiative of Helvetas, a development organization funded by the Swiss Association for International Cooperation.

as the now-universal symbol to recycle, appear.

The capacity of Central Asian food processors to produce canned goods that are competitive with canned goods manufactured in European countries is increasing. At the same time, Central Asian food processors have access to less expensive raw materials that allow them to produce a similar product for less than competitors. The barriers to actually sharing shelf space with these competing goods include: 1) a reputation of being a low quality producer of canned goods, 2) lack of certification to signal comparable quality, and 3) lack of foreign business partners.

Unlike companies in Central and Eastern Europe (CEE), which are benefiting from increasing levels of foreign direct investment (Cocks et al. 2005), Central Asian food processing companies experience minimal foreign direct investment. The poorest farmers can be excluded from entering contractual relationships with processors who have more stringent specifications for raw materials. By implication this means that the poorest farmers may experience heightened barriers for entering national or international markets. Reardon et al. (2001: 431) state that, “the poorer the country, the greater the proportion of those excluded from the above grades and standards strategies.”

Contracts as Transaction Cost-Minimizers

Structural transformation in agrifood sectors tends to result in “tighter” relationships along a supply chain (the notable exception being decollectivization and agricultural privatization, which broke up agrifood sectors in the CEE and former Soviet Union). These relationships are bound most often by contracts, which define the nature and structure of commercial agreements. While contracting can enable market opportunities for small-scale

farmers, research suggests that changes in the standards demanded can have deleterious effects particularly on the poorest farmers (Little 1994; Watts 1994; Bain et al. 2005).

In the economics literature, contracts are considered instrumental in “getting the incentives right” so that transaction costs, such as the costs of information, negotiation, and enforcement, are reduced, enabling more efficient transactions. Research indicates that transaction costs have risen as a result of changes in quality, size, and delivery standards, which are introduced through contracts (Pingali et al. 2005). At the same time, some scholars show how contractual relationships between supermarkets and processors or farmers can reduce the costs of transacting (Reardon and Swinnen 2004; Reardon et al. 2004).

My own research on contracting in Kyrgyzstan shows how contracts are indeed used as a means for reducing the costs of transacting between farmers and food processors (Cormier 2007a). However, when new standards are introduced via contracts (often at the urging of international development organizations), costs of transacting can increase if farmers realize only later in the season what the terms actually require of them. These mid-season surprises that contracts can yield do not lead to the long-term stable relationships that contracts were designed to enable.

Research Methodology

This analysis of how standards for food quality are diffused among the buyers and sellers in Kazakhstan’s fruit and vegetable sector is based on data I collected in interviews with fruit and vegetable farmers, food processors, and other agriculture sector stakeholders in Taldykorgan and South Kazakhstan Oblasts. I chose to study the fruit and vegetable sector, because of its growing importance in agriculture sector development. In 2005, the Government of Kazakhstan made the

fruit and vegetable sub-sector one of seven strategic industry clusters within a plan to diversify the oil-based economy (Ministry of Agriculture of the Republic of Kazakhstan 2004).

This sub-sector experienced a sharp contraction after independence from the Soviet Union in 1991, and is only just beginning to recover. In 2005, only 10 fruit and vegetable processing enterprises remained—all located in southern Kazakhstan—the region most suited to fruit and vegetable production. The labor surplus that exists in southern Kazakhstan, combined with high levels of poverty in the region, offers justification for exploring the coping strategies of buyers and sellers in the agriculture sector there. Furthermore, the fruit and vegetable sub-sector has the potential to employ thousands of individual farmers in long-term contractual relationships with food processors.

Since agricultural land was privatized, several new medium and large sized processing enterprises have opened. All of these enterprises must obtain their raw products through contractual negotiation with thousands of independent suppliers or create new supplier-processor arrangements, such as vertical integration³. These relationships have yet to become stable (Neubert et al. 2005).

Diffusion of Standards in Kazakhstan's Fruit and Vegetable Sector

The Government of Kazakhstan has begun to focus on quality management systems of its manufacturers—a critical area that it needs to address to be a contender for accession to the WTO. By 2005, foreign certification bodies had certified one-third of the 200 companies that had received certification against ISO 9001⁴. Food processors represented only three of those

³ Vertical integration refers to an arrangement of firms that brings one or two consecutive stages in production or distribution under the management or ownership of one firm.

⁴ ISO 9001 refers to a global quality management standard that was developed by the International Standardization Organization.

companies that were certified. Awareness of HACCP⁵ certification has been increasing and a few food processing companies have been pursuing HACCP certification on a voluntary basis.

Early on in my field research it became apparent that Kazakhstani officials and private citizens were looking forward to joining the ranks of their immediate neighbors to the south when they achieved membership in the World Trade Organization (WTO). Proving that manufactured goods could meet international standards and were thus viable for export under international trade law was part of the preparation process. While the government established committees to address issues of product quality⁶, the onus to adopt international quality standards was on the manufacturers.

One local certification consultant told me that companies would apply to his company and others to be audited to determine whether or not they met ISO standards. If the audit revealed that a company did not yet meet ISO standards, the private consultant would deliver advice about how to achieve compliance, and the company would apply for an audit again when it felt it had addressed all concerns. Increasingly, company managers were taking seriously certification of quality based on international standards. Other companies still maintained that GOST standards were good enough if not better.

Manufacturers of processed foods in Kazakhstan are aware of the promise that prospective membership in the WTO brings. Entrepreneurial owners of food processing companies who want to pursue courses of action that position their companies to exploit WTO opportunities are supported by government programs such as the Business Advisory Services (BAS) that the European Bank for Reconstruction and Development (EBRD) funds. BAS assists

⁵ Hazard Analysis Critical Control Point (HACCP) is an approach used in the food industry to safeguard against physical, chemical, and biological hazards.

companies who voluntarily want to meet international sanitary and phytosanitary (SPS) standards, and need to be certified in order to be eligible for international trade.

Coping with Upstream Sellers

Despite legitimate certifications and the best of intentions, food-processing companies cannot consistently meet globally accepted SPS standards if they cannot manage the upstream supply of raw materials. In other words, if a supplier of a food processing company is not able to meet that company's expectations for quality, that company will not be able to satisfy its customers' quality expectations—diminishing the investment in certification. This phenomenon is not foreign to agribusinesses in post-Soviet economies.

The increasing demands of supermarkets are translating into increased demands of food processors on upstream suppliers such as small-scale producers. Food-processing companies in Kazakhstan are adopting two primary coping strategies to address the challenges of meeting quality standards: 1) vertical integration and/or 2) formation of flexible contracts.

A food processing company in Taldykorgan Oblast represents an illustrative case of how food processors vertically integrate in order to cope with the uncertainty of forming contracts with multiple small-scale producers. The manager of this food processing company in Taldykorgan Oblast was able to sub-lease land on which he planned to produce the vegetables that he needed for his processing company. He believed that vertically integrating his business would enable him to control the quality of raw materials his canned fruit and vegetable products required. "This year I will take the place of the farmer. I will do everything." In this way, he was planning to enforce private standards.

⁶ The issue of how or whether the government enforces product quality is beyond the scope of this paper. Notably, one processor told me that the laboratory at the bazaar designed to inspect food quality had a reputation for delivering a

He admitted that he was planning on employing some of the same small-scale farmers with whom he had previously signed contracts. He believed that they welcomed the promise of steady wage income, and he was looking forward to not wondering if the harvest would come to him or go to the bazaar. This processor also noted that he foresaw hiring migrants coming from Uzbekistan and Kyrgyzstan.⁷ “Kazakhs are not good at cultivating anyway.”⁸

Food processing companies are also engaging in flexible contracting arrangements in order to accommodate a myriad of contingencies that can occur and cope with the uncertainty of contracting small-scale producers. One way for a food processor to engage in flexible contracting is to advance suppliers seeds and other inputs in an effort to facilitate the adoption of private standards. Findings suggest that, according to food processors and suppliers, reasons for evolving contractual terms include weather changes, pests, and market volatility. While this approach to commercial transactions may appear ad hoc it represents coping strategies amid an insecurity of expectations among buyers and sellers.

Coping with Downstream Buyers

Countries experiencing the “third wave” of the globalization of supermarkets phenomenon⁹, which includes Russia and China, have only recently been exposed to the pressures of globalization. In developing countries¹⁰, this “supermarket revolution” has been driven by foreign direct investment. Kazakhstan has experienced limited foreign direct investment and has largely been left outside this most recent wave of the globalization of

favorable inspection for 500 Tenge (1 USD = approximately 135 Tenge).

⁷Journalistic articles suggest that there are a number of problems associated with migrant agricultural labor to Kazakhstan such as non-payment by employers, confiscation of documents, and intolerable working conditions, but an investigation into these is beyond the scope of this study.

⁸ I heard the same thing from processors and farmers during field research in Kyrgyzstan. They would explain that the Uzbeks were best at farming. In northern Kyrgyzstan, I heard that southern Kyrgyz and Uzbeks were better farmers.

⁹ Thomas Reardon has documented in rich detail the process by which supermarkets enter and impact markets in developing countries.

supermarkets.

Pomfret (2009) notes that global supermarkets are not prominent in Kazakhstan.¹¹ With the exception of the Turkish company, Ramstore, which entered the market in 2000, by 2007 the only food retailer competitors were local chain grocery stores, such as Stolichni, Dasterkhan, and Gros, which were located primarily in Almaty and Astana. Since 2007, other local grocery stores have entered the market in order to, as one journalist put it, “mak[e] a land grab in an attempt to sow up the market before those international chains arrive (Nuttall May 6, 2010).” These local supermarket chains are learning from foreign supermarket chains and have an interest to increase their quality of goods and services so as to be prepared to compete with current and future competition.

My research in Kazakhstan suggests that these local chains have begun to have an impact on agricultural marketing channels. Although the predominant brands of canned fruits and vegetables on local grocery shelves are from Central and Eastern European countries such as Hungary and Bulgaria, locally produced products share shelf space. Furthermore, the managers of food processing companies with whom I spoke expressed a belief that supermarkets represent an important market. When food processors see supermarkets as a potential market, their quality standards may change, and be transferred—or diffused—to their suppliers.

Fresh fruits and vegetables are the last category of products for which supermarkets have contracted with individual suppliers. Kazakhstan’s experience is consistent with this observed phenomenon in other countries whereby first processed foods, then semi-processed foods (i.e. dairy products), and then fresh fruits and vegetables are obtained through contracts by domestic

¹⁰ This body of literature has classified countries of the former Soviet Union as developing countries.

¹¹ A 2000 study of dairy marketing in Kazakhstan showed limited bargaining power of local supermarkets, but noted, “If trends in Europe and North America spread to the Almaty region, expect the bargaining power of supermarkets to increase relative to other members of the marketing chain (Esenova and Dobson 2000: 14).”

retailers (Reardon and Gulati 2008). I did not obtain any evidence to suggest that supermarkets had begun to impact the market for fresh fruit and vegetables.

From Private to International Standards: Voluntary Adoption

During field research on the evolution of commercial practices in Kyrgyzstan's agriculture sector, I observed how managers of food processing companies had begun to incorporate private quality standards into the contracts that they formed with suppliers of raw materials. When I began field research in Kazakhstan in 2007, I hypothesized that I would observe the same behaviors among the food processors I was planning to encounter. One exceptional case of a food processing company manager who went to great lengths to position her company to supply local supermarkets demonstrates the process by which supermarkets and then food processing companies can catalyze a local economy to accept food regulatory policies that originate from beyond Kazakhstan's borders.

The manager, Khalisa, of the canned goods processing company, "Yuzhnii,"¹² in Taldykorgan Oblast initiated the process for being ISO-certified in advance of any legislation that required her to do so. The promise of expanding her products' presence on local store shelves motivated her to explore what her options were. State organizations assisted her with navigating the process of obtaining certification.

Khalisa got her start in food processing in the 1990s, when she worked with a juice processing company, turning Brazil and Israeli concentrate into boxed juice. After leaving the company she and a colleague decided to experiment with processing dehydrated vegetables, because they heard that there was demand for such a product in Russia. She explained that this

¹² The manager attached a lot of sentiment to this name. She noted, "The title of my company is supposed to reflect my love of the region and the warmth and the products here. I gave birth to this."

company did not take off, because experimentation yielded a product that they simply did not like.

In 2002, they decided to start a canning company. She explained the systematic way she and her colleague arrived at the decision to develop a food processing company in Taldykorgan Oblast:

We looked around Almaty. We saw processing companies that were not working and grandmothers who were conserving their own fruits and vegetables. We also understood that Almaty was one of the fastest growing cities in Central Asia. Statistics showed that more women were working outside the home and that the north did not have enough fruits and vegetables.

Having decided to become a business owner, Khalisa got a degree in business administration. She and her colleague began to promote the idea that they were thinking of starting a company that would produce “grandmother-style” canned goods, and were encouraged by a positive response.

We explored locations. Some were too far in the mountains; some were too close to the city; some were too small; some had old equipment. When we found this place, we saw that the equipment was old, but had been working, rather than sitting idle all those years after the dissolution of the Soviet Union. This seemed like a good deal to us.

After some turnover in management, Khalisa became the director and full owner, and six years later proudly shared her company’s history that built her confidence and influenced her decision to become ISO certified. She described in great detail how she took old recipes and improved them, reducing the amount of vinegar and increasing the amount of sugar. She spoke with pride about the high quality and superior taste of her products. Her marketing strategy was to sell her products for less than her competitors at supermarkets or other retailers.

Before a large food wholesaler approached her, expressing interest in distributing her products, Khalisa described spending her first year going “from corner store to corner store

selling three or five jars at a time, but it was miserable—a lot of work for a little money.” Khalisa expressed some discomfort with the idea that the wholesaler can earn more on her products than she does, but at the same time she believed that this procurement method of large food retailers was what enabled her to access the market in the first place.

In 2002, Yuzhnii was one of the first small canning companies on the market, and experienced its share of downstream challenges related to negotiating with suppliers. In the company’s first year of operation, private farmers heard about Yuzhnii and took fruits and vegetables to sell without a contract.

We would just have a “gentlemen’s arrangement.” Farmers would come and ask what we were taking; we would tell them, and then go from there. Gradually we began to discuss what kinds of varieties I wanted in winter, and in that way we would plan for the season. At the end of the season, they would see their result. They would see how much I gave them: one million Tenge, half a million Tenge. They experienced what it felt like to have a continual supply of income. I was a partner with them, who would continually accept their cucumbers, for example.

Many of these farmers were still supplying her company with fruits and vegetables two and three years later. These long-term suppliers became so comfortable with her that when “times became more difficult, people started to come to me for money in the winter, and I would give them small loans. It was agreed that they would give me the equivalent from their first harvest.” In this way, Khalisa began to give advances to suppliers so that they could purchase inputs for the following season. These advances for inputs were later formalized in written contracts.

Experiences with other suppliers have required more negotiation and often end up being short-term. Some farmers, with whom Khalisa had no prior relationship, would come to her at the beginning of the season and say, “If I have a good harvest, will you buy from me?” At which time:

I say yes, and tell them to come around when they have something to sell, at which time I inspect what they have and make a decision. This is already another type of arrangement without defining a price. My suppliers know that I will take for 20 to 30 Tenge per kilogram cheaper than at the bazaar.

Khalisa explained that she can tell which farmers who come without a contract, are coming straight from the bazaar.

I know they come from the bazaar, because they have these big eyes, and they ask, “Can you please buy these tomatoes or cucumbers from us?” Sometimes I agree to buy them, but only for a much lower price. They take the money, and I know that I will never see them again. They don’t need me and I don’t need them.

Yuzhnii developed a reputation among area farmers for having specific quality standards. She described how during the first years, farmers would often try to sell her the “large tomatoes that sat longer on the vine,” and which would command a higher price at the bazaar. She would turn them away, explaining that she had no use for that quality.

They learned that my demands meant that they needed to perform quality control in their fields. Sometimes the farmers would come and explain that they couldn’t harvest the tomatoes in time and only had large ones to sell. I explain to them that I cannot take them, because I refuse to transfer their problem to my customers.

Khalisa maintained specific requirements that pertained to the varieties of tomatoes and cucumbers called for in her recipes. “The farmers want to plant varieties that will yield large vegetables, because these are profitable at the bazaar, but I have different requirements.” Her standards included variety, size, the color, and moisture. She presented the contract form that she used, which contained several clauses that specified in great detail the characteristics she was looking for.

When Khalisa needed more raw materials, she would know whom to call. Such suppliers were reliable and would come right over with the necessary materials, which she would pay for with a premium. The purpose behind this practice was to prevent having to stall operations. “We do our best to maintain our connections with our suppliers. Earlier they planted what they

wanted. Now they ask me what I want. They grow what I need. Now, I know that if there isn't any kind of cataclysm, I will have the raw materials that I need." Part of Khalisa's approach to maintaining stable, long-term relationships is providing advances on seeds, fertilizer, and plastic covers.

Khalisa provided further evidence of her track record for taking initiative: "We have worked hard to solve problems related to equipment, water, electricity, and land." Her most recent innovation was an attempt to acquire land with which to supply her company with raw materials, foregoing the need to negotiate contracts with the majority of her past suppliers. "If we owned our own land, we could prepare it for productive cultivation. If we had to rent it for only a year, can you imagine what will happen when we have to give it up in a year? What that would do for the business?" In the summer of 2008, she learned that she would be able to lease a few hectares from the Oblast' Land Fund.

In the summer of 2008, the processing company won a grant from the Oblast' Agriculture Department for expanding the company. With their award they planned to improve the factory and retrofit the equipment. One of the reasons Khalisa believed her company won the project was because it indicated that within a year it would be certified. The equipment would also match international sanitary and phytosanitary standards. Khalisa commented, "We had spoken about this for a long time, but to have the kind of equipment that was needed was expensive. All the same, it was shameful to me. We met not long ago with the Kazakhstan Center for Quality."

Khalisa's meeting with a consultant at the Kazakhstan Center for Quality was instrumental in putting her on track to be certified by fall 2008. A consultant made a visit to see the company not long after she initiated the process. Khalisa explained that an added stimulus was that her company qualified for a government program that will return 15% of the cost of

becoming certified, if the company obtains its certification.

When I spoke with her, Khalisa was looking forward to the next visit by the consultant for the purposes of developing a work plan for qualifying for ISO certification. She expected that an audit would occur within four months. “We are encouraged, because when the consultant first came and he saw all of my files, he was surprised to see that I had everything in order. There is so much information already prepared. We are warning farmers that they are going to be certified and that they will have to adjust to support this transition.”

Food-processing companies in Taldykorgan Oblast’ were more motivated to enforce post-Soviet quality standards among their suppliers than were processors in Shymkent Oblast’. The manager of Yuzhnii stands out among the processors with whom I spoke, because she could articulate her specifications. In Shymkent, the processors I spoke with were still producing tomato and cucumber canned goods using Soviet-era recipes, factories and equipment, and packaging¹³. Their clients were mainly government-sponsored, such as orphanages, hospitals, and schools. For these reasons, the quality demands placed on suppliers were much less specific. In contrast, Yuzhnii’s manager has a vision for the future that includes increased shelf space on local food retailers’ shelves. She believes that the name of her company will speak for itself and have universal appeal.

Conclusion

International grades and standards for food are reshaping the food sector of the emerging market-oriented economy of Kazakhstan in unexpected ways. My research in Kazakhstan suggests that local supermarket chains have an impact on agricultural marketing channels,

¹³ Packaging here refers to the ubiquitous one- and three-liter jars with the fixed metal lids.

because of the important new market they represent for fruit and vegetable processing companies. This paper contributes to the debate about how standards for food are diffused by outlining the process by which food processors negotiate upstream and downstream linkages.

I have shown that food processors are a driving factor in the diffusion of international standards because of their interest in accessing local food retail markets. By association local supermarkets also can be a source of diffusion of international food standards. The large-scale penetration of international supermarket chains on the global market and an emerging consumer market is not a prerequisite for the diffusion of global grades and standards for food.

Local supermarket chains in Kazakhstan scrambled to establish themselves and build a customer base in advance of an anticipated entry by international supermarkets similar to what occurred in Russia and China. In order to prepare themselves to compete against future and existing supermarket entrants, they promote the adoption of international standards for product and service quality. In Kazakhstan, food processors' adoption of private standards contributes to this process.

These emerging demands have implications for upstream suppliers—the small-scale agricultural producers with whom processors source their raw materials. Suppliers must meet new requirements regarding crop variety, size, and color demanded by processors, or find other buyers for their fruits and vegetables. Food processors who want to adopt private standards and enforce them among their suppliers have a couple of options. First, they can advance seeds and other inputs to suppliers to enable them to grow the desired varieties. Second, they can try to acquire land in order to vertically integrate and control more of the supply chain themselves. New expectations of processors reduce producers' flexibility because these new preferences are not the same as those favored in the retail market of the bazaar.

I have shown that, in an effort to increase quality, processors have begun to integrate their supply chain through more specific contracts and more robust relations with suppliers. This tighter integration of the supply chain is reducing transaction costs and uncertainty. These findings are consistent with recent scholarship that argues that diffusion of standards by supermarkets and international development organizations is often accompanied by a “tightening” of vertical relationships within a supply chain.

References

- Bain, Carmen, B. James Deaton, and Lawrence Busch. 2005. "Reshaping the Agrifood System: The Role of Standards, Standard Makers, and Third-Party Certifiers." In *Agricultural Governance: Globalization and the New Politics of Regulation*, eds. Vaughan Higgins and Geoffrey Lawrence. London and New York: Routledge.
- Buzby, Jean and Lorraine Mitchell. 2006. "Private, National, and International Food-Safety Standards." *Journal of Food Distribution Research*, 37(1), March.
- Cocks, Jack, Hamish Gow and Randall Westgren. 2005. "Public Facilitation of Small Farmer Access to International Food Marketing Channels: An Empirical Analysis of the USDA Market Assistance Program in Armenia." Selected Paper for the AAEA Annual Meetings, Providence, Rhode Island.
- Cormier, Kelley. 2007. "The Nature and Structure of Contracts in Kyrgyzstan's Agricultural Sector: A Framework for Understanding Institutional Change." Dissertation.
- Cormier, Kelley. 2007. "Grievance Practices in Post-Soviet Kyrgyz Agriculture." *Law & Social Inquiry*, 32(2), Spring.
- Dries, L., Reardon, Thomas and Johann F.M. Swinnen. 2004. "The Rapid Rise of Supermarkets in Central and Eastern Europe: Implications for the Agrifood Sector and Rural Development." *Development Policy Review*, 22(9): 525-56.
- Esenova, Saulesh and W.D. Dobson. 2000. "Changing Patterns of Livestock, Meat, and Dairy Marketing in Post-Communist Kazakhstan." *Babcock Institute Discussion Paper*, No. 2000-1, University of Wisconsin-Madison.
- Friedmann, Harriet and Phil McMichael. 1989. "Agriculture and the State System: the Rise and Decline of National Agricultures, 1870 to the Present." *Sociologia Ruralis*, 29(2).
- Frohberg, Klaus, Ulrike Grote and Etti Winter. 2006. "EU Food Safety Standards, Traceability and Other Regulations: A Growing Trade Barrier to Developing Countries' Exports?" Invited paper for the panel session, "Food Safety Standards and Agri-food Exports from Developing Countries", at the 26th Conference of the International Association of Agricultural Economists, Queensland, Australia, August 12-18, 2006.
- Jumabayeva, Anara. 2006. "Agricultural Policy Assessment Report," Joint Economic Research Program, World Bank and the Government of Kazakhstan, FAO of the United Nations, Rome.
- Little, Peter. 1994. "Contract Farming and the Development Question." In *Living under Contract: Contract Farming and Agrarian Transformation in Sub-Saharan Africa*, eds. Peter Little and Michael Watts. University of Wisconsin Press.

Lorentz, Harri. 2006. "Food Supply Chains in Ukraine and Kazakhstan." Electronic Publications of Pan-European Institute, <http://www.tse.fi/pei/pub>.

Ministry of Agriculture of the Republic of Kazakhstan. 2004. "Production and Processing of Vegetables, Berry Crops, and Potatoes in 2004 and 2005." January.

Neubert, David. 2005. "Fruit and Vegetable Cluster Development Options for Kazakhstan." Report prepared for the Ministry of Economy and Budgets of the Republic of Kazakhstan.

Northen, J., S. Hensen. 1999. "Communicating Credence Attributes in the Supply Chain: the Role of Trust and Effects on Firms' Transactions Costs." Paper presented at the IAMA World Food and Agribusiness Forum, June 13-14, Florence.

Nuttall, Clare. 2010. "Analysis: Kazakh Supermarket Chains Stake Their Claim." Silk Road Intelligencer, <http://silkroadintelligencer.com>, May 6, 2010.

Peine, Emelie and Philip McMichael. 2005. "Globalization and Global Governance." In *Agricultural Governance: Globalization and the New Politics of Regulation*, eds. Vaughan Higgins and Geoffrey Lawrence. London and New York: Routledge.

Pingali, Prabhu, Yasmeeen Khwaja and Madelon Meijer. 2005. "Commercializing Small Farms: Reducing Transaction Costs." ESA Working Paper No. 05-08, The Food and Agriculture Organization of the United Nations, October.

Pomfret, Richard. 2008. "Kazakhstan," Chapter 6. In *Distortions to Agricultural Incentives in Europe's Transition Economies*, eds. Kym Anderson and Johan Swinnen. The World Bank: Washington, D.C.

Post, Diahanna. 2004. "Diffusion of International Food Safety Standards: Developing Country Experience." Working Paper 58, Centre on Regulation and Competition, Institute for Development Policy and Management, University of Manchester, UK.

Reardon, Thomas and Ashok Gulati. 2008. "The Rise of Supermarkets and Their Development Implications," IFPRI Discussion Paper 00752, February.

Reardon, Thomas and Johann F.M. Swinnen. 2004. "Agrifood Sector Liberalization and the Rise of Supermarkets in Former State-Controlled Economies: A Comparative Overview." *Development Policy Review*, 22(5): 515-23.

Reardon, Thomas, Peter Timmer and Julio Berdegue. 2004. "The Rapid Rise of Supermarkets in Developing Countries: Induced Organizational, Institutional, and Technological Change in Agrifood Systems." *Journal of Agricultural and Development Economics*, 1(2): 168-183.

Reardon, Thomas et al. 2001. "Global Change in Agrifood Grades and Standards: Agribusiness Strategic Responses in Developing Countries." *International Food and Agribusiness Management Review*, 2(3/4): 421-435.

Roudoi, Andrei, Zeitlin, Julia Zislin, Bruce Bolnick. 2006. "Kazakhstan Regional Disparities: Economic Performance by Oblast'." United States Agency for International Development.

Swinnen, Johann F.M. 2005. "When the Market Comes to You—Or Not: The Dynamics of Vertical Co-ordination in Agro-Food Chains in Europe and Central Asia." Report, The World Bank, Washington.

Watts, Michael. 1994. "Epilogue: Contracting, Social Labor, and Agrarian Transitions." In *Living under Contract: Contract Farming and Agrarian Transformation in Sub-Saharan Africa*, eds. Peter Little and Michael Watts. University of Wisconsin Press.

Yerubayev, Beibit. 2007. "Overview of Kazakhstan's Food Processing Sector," *BISNIS*, U.S. Commercial Service, March.