

UDC 631.338.5
IRSTI 06.52.42

**PRICE PARITY IN AGRICULTURE AND CONSUMER PRICES FOR FOOD ON
MARKET OF KAZAKHSTAN**

**ҚАЗАҚСТАН НАРЫҒЫНДАҒЫ АЗЫҚ-ТҮЛІКТІҢ ТҰТЫНУ БАҒАСЫНЫҢ ЖӘНЕ
АУЫЛ ШАРУАШЫЛЫҒЫНДАҒЫ БАҒА ТЕҢСІЗДІГІ**

**ПАРИТЕТ ЦЕН В СЕЛЬСКОМ ХОЗЯЙСТВЕ И ПОТРЕБИТЕЛЬСКИЕ ЦЕНЫ НА
ПРОДОВОЛЬСТВИЕ НА РЫНКЕ КАЗАХСТАНА**

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The essence of price parity, including in agricultural sector, has been considered. The analysis of price dynamics for agricultural products and prices of purchase of agricultural production means and services has been presented. The methodology and principles of market pricing have been presented. The mechanism of price formation of agricultural products has been presented. Measures to protect domestic grain market and grain products have been proposed. The principles of pricing in agriculture of the EAEU countries have been revealed. On the basis of target price, the guaranteed prices and collateral rates - fixed and set by the State, have been determined. The role and objectives of the State procurement and commodity interventions as the basis for price regulation of agricultural product market have been presented. The authors state that during formation of guaranteed (purchase, collateral) prices, it is necessary to take into account the inflation level and to level wages in agriculture and other spheres of production.

Мақалада аграрлық сектордағы баға теңсіздігінің мәні қарастырылған. Ауыл шаруашылығы өнімдері бағасының динамикасына және ауыл шаруашылығы қызметі үшін және өндіріс құралдарын сатып алу бағаларына талдау жасалған. Нарықтық баға белгілеудің қағидалары мен әдістемесі ұсынылған. Ауылшаруашылығы өнімдеріне бағаны қалыптастыру тетігі көрсетілген. Ішкі астық және астық өнімдері нарығын қорғау шаралары ұсынылған. ЕАЭО елдерінің ауыл шаруашылығындағы баға белгілеу негізі айқындалған. Мақсатты баға негізінде - тіркелген және мемлекетпен бекітілген кепілдендірілген бағалар және кепілдік бағалары анықталған. Ауылшаруашылығы өнімдері нарығын бағалық реттеу негізі ретінде мемлекеттік сатып алу және тауарлық араласудың міндеттері мен ролі көрсетілген. Авторлар кепілдік (сатып алу, кепілдендірілген) бағаларын қалыптастыру кезінде инфляция деңгейін және ауыл шаруашылығында және өндірістің басқа салаларындағы жалақы деңгейін нақтылауды ескеру керектігін белгілейді.

Рассматривается сущность паритета цен, в том числе в аграрном секторе. Дан анализ динамики цен на сельхозпродукцию и цен приобретения средств производства и услуг для сельского хозяйства. Представлены методология и принципы рыночного ценообразования. Показан механизм формирования цен на сельскохозяйственную продукцию. Предложены меры для защиты внутреннего рынка зерна и зернопродуктов. Раскрываются основы ценооб-

разования в сельском хозяйстве стран ЕАЭС. На базе целевой цены определяются гарантированные цены и залоговые ставки – фиксированные и устанавливающиеся государством. Показаны роль и задачи государственных закупочных и товарных интервенций как основы ценового регулирования рынка сельхозпродукции. Авторы констатируют, что при формировании гарантированных (закупочных, залоговых) цен необходимо учитывать уровень инфляции и выровнять уровень оплаты труда в сельском хозяйстве и других сфер производства.

Key words: agriculture, price parity, pricing, target, guaranteed, collateral prices, State procurement interventions, subsidies.

Негізгі сөздер: ауыл шаруашылығы, бағалар теңсіздігі, баға белгілеу, мақсатты, кепілдендірілген, кепілдік бағалары, мемлекеттік сатып алудың араласуы, субсидиялар.

Ключевые слова: сельское хозяйство, паритет цен, ценообразование, целевые, гарантированные, залоговые цены, государственные закупочные интервенции, субсидии.

Introduction

Pricing in AIC is based on the conformity of procurement prices for agricultural products, that is, the socially needed production and sale costs, taking into account the level and dynamics of world prices. The most important function of the price is regulation of agricultural incomes. In agricultural production of the EAEU countries, the main disadvantage of pricing processes - is price disparity. The prices for industrial resources consumed by agriculture grow faster than for agricultural products, which has a negative impact on provision of material and technical resources, and reduces the profitability of agricultural producers. In this regard, it is needed to implement a set of measures to improve the pricing effectiveness, which enables sustainable development of agricultural sector. In the EAEU countries, the Law "On price parity of agricultural and industrial products (services) used in agriculture and compensation for losses due to its violation" should be adopted, taking into account the determination of guaranteed prices for the most important types of food products, in which formation the inflation level should be taken into account and it is needed to level/// wages in agriculture and other spheres of production. This will facilitate agricultural producers to develop expanded reproduction [1].

Research objects and methods

The research object includes the methods of step-by-step unification of prices for agricultural products, development of a mechanism of optimizing price relations in AIC of the EAEU member States.

The foreign experience of the USA and the European Union in the sphere of price regulation of agri-industrial production and budget-financial

measures aimed to ensure stable functioning of commodity markets was used as theoretical-methodological research basis.

Various economic research methods such as comparative analysis, forecasting the development of the effective pricing mechanism in agricultural sector, unification of the models of financial regulation of the EAEU member countries were used in preparing the paper.

Results and discussion

The practice of economic relations parity is based on two concepts: equilibrium and relative parity. The equilibrium parity of agriculture with other branches has such status of interbranch relations, in which the industry profitability rate and average national economy rate coincide; the equality of the average wage in agriculture and the average wage in national economy in terms of relative intensity and complexity of labor; current depreciation rates correspond to national economic standards, and the level of depreciation of fixed assets does not significantly differ from the average in national economy.

However, in agricultural sector of the republic, in terms of a complete price liberalization and lack of inter-branch exchange of products (for example, agricultural raw materials - light and food industries, agricultural machinery building - agriculture etc.), there is no parity of economic relations between sectors of national economy.

The conducted analysis of agricultural products prices and prices of purchase of production means and services for agriculture shows that the ratio of these prices is not in favor of agriculture. The price index for agricultural products exceeds the price index for production means and services purchased by agricultural producers.

Depending on the factor taken as the basis for price formation, there are different methodological approaches to pricing.

The pricing methodology includes the following: the concept of pricing (ensuring the product competitiveness, production profitability, consumer benefits); classification of prices; pricing structure; price functions; pricing principles; pricing methods and methodology; pricing management.

The principles of market pricing include the following: the reflection of supply and demand on market; price movement towards the equilibrium market price, as well as compensation of full costs and obtaining average return rate by each normally functioning enterprise; reflection of socially-needed expenses and product consumer cost through prices; specific and target prices [2].

The State should regulate prices of agricultural products and food products, using a number of its functions: methodological and methodical guidance on setting and use of prices and tariffs, determination of pricing order; development and introduction of economic methods to support parity between prices of agricultural products, industry and other sectors. A flexible price mechanism should include the following actions [3]:

- set minimum guaranteed purchase (collateral) prices for the purchase of agricultural products, their regulation at the State and regional levels;

- introduce surcharges to purchase prices for high-quality and environmentally friendly products, which are differentiated at the regional level;

- develop collateral prices for collateral transactions, which are intensively undertaken in case of difficulties in sales. This enables the formation of a reserve fund of basic agricultural products, launches target prices (upper limit) or surcharges to reach the target price in conditions when market prices decline goes to the level which does not provide the farmers with subsistence level (the State either purchases these products at target prices, or pays the commodity producers the difference between target and sales price).

The level of target price of agricultural products is determined in view of cost return (including the average revenue rate on

commodity producer's capital, estimated land rent) and obtaining a certain revenue and land rent [4]. The target prices (upper limit) of agricultural products, taking into account natural features serve as a basis for set guaranteed prices, collateral rates of futures and forward transactions, as well as grants and compensations to agricultural producers. They reflect the price parity for industrial and agricultural products; coverage of expenses due to tax levy and other payments; payment of interest on loans; obtaining profit sufficient for extended reproduction (figure).

In order to justify the value of purchase price minimum level for a particular period, it is necessary not only to analyze cost dynamics level, but also market price movement for the preceding period.

As for the sales prices of fruit and vegetable products and potatoes as well as livestock products (meat, milk, eggs), they annually grow smoothly by 10-15%.

Based on the above arguments and forecast (estimated) level of production unit cost at the current level of crop yield capacity and livestock productivity, we estimated the minimum level of guaranteed purchase (sale) prices of agricultural producers for 2017. We consider the introduction of a specific volume of strategically important and socially significant types of agricultural products on guaranteed (collateral) prices to be the most acceptable for the republic.

Herewith, it should be taken into account that the State, allocating considerable funds for supporting incomes of agricultural producers through the mechanisms of preferential lending, subsidies, tax incentives, etc., should subsequently provide centralized purchase of a specific volume of produced goods [5].

In this case, subsidies should be paid per unit of commercial product, but only if market prices fall below guaranteed (collateral) prices set by the State. These subsidies will be price compensatory payments for the quoted volume of product purchase.

It is also necessary to link the crop insurance sizes with yield volume and, thus, to switch from cost rates insurance per crop area unit to cost insurance of the future (planned) yield (fig.1).

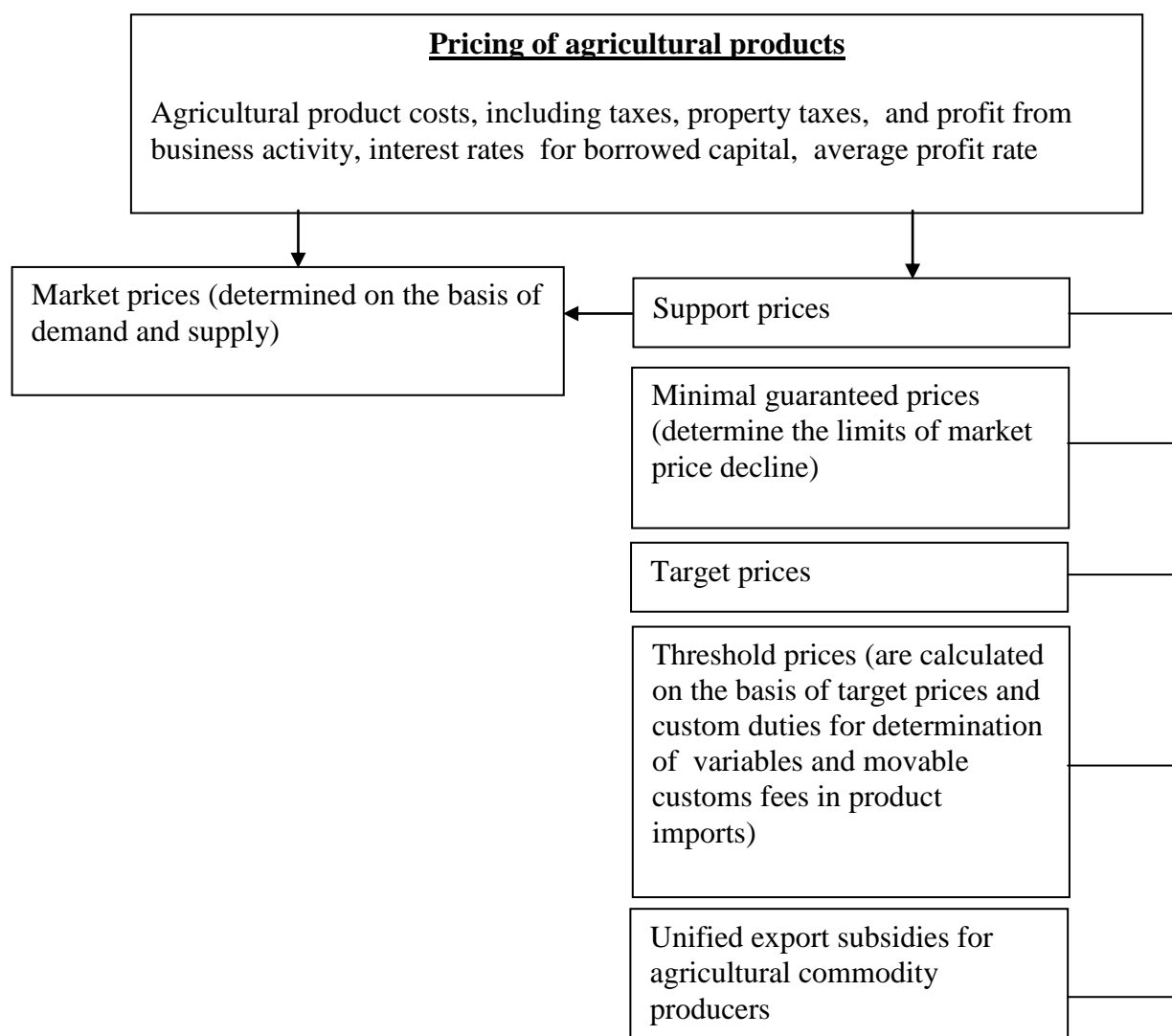


Figure 1 – Price formation for agricultural products

JSC "NC" Food Corporation" and JSC "Mal Onimderi" are functioning in the republic for organizing State purchases of agricultural products. Very important new benchmark for them is the fulfillment of the functions of commodity-lending corporations, grain pools and other public commercial cooperative entities that operate in foreign countries and conduct the purchase of agricultural products.

In this regard, JSC "NC "Food Corporation", which purchases grain on various effective schemes of financing (lending) grain production has accumulated a fairly large experience. In our opinion, it is only needed to expand the scope of activity of this organization, to increase its current financial capabilities (lending resources), and thereby to increase the

volume of State procurement of grain to 4.0-5.0 mln t (in gross yield 17- 18 mln tons).

The volume of annual State purchases of grain should make up 30-35% of the total commercial grain intended for sale on domestic and foreign markets, which will help stabilize prices on domestic grain market. And most important, farmers (especially on small farms) will have a guaranteed sale and know the approximate selling price of their products at the beginning of the year (before the beginning of the sowing season).

To protect the domestic grain and grain products market, which suffer from an overabundance of grain in high-yielding years, it is necessary to practice more widely (as it is customary in grain exporting countries) the collateral transactions when collateral (lending)

bank rates or commodity- lending corporations serve as guaranteed prices. In case of non-repayment of the loan by farmers, grain becomes the property of the pledgee.

Such important issue as organization of procurement at guaranteed prices and stimulation of production of such deficit products on domestic product market as oilseeds and fruits and vegetables, sugar beet and cotton, should be addressed. It is expedient to carry out their procurement under contracts (marketing agreements) through procurement and processing enterprises, and allocate loans to them. Herewith, the volume of centralized purchases should be at least 30-35% of their commodity production. With regard to livestock products, the most part of which (80-90%) is produced in households of population, in order to stimulate the increased product marketability, it is necessary to organize its centralized purchase by JSC "Mal onimderi" through processing enterprises and rural consumer cooperatives which are currently established on site.

The basis of pricing in agriculture of the EAEU is the alignment of procurement prices for agricultural products, i.e. to socially needed production and sale costs, taking into account the level and dynamics of world prices.

When monetary funds are allocated for increasing product prices and resource cost reduction, they are redistributed in favor of buyers of products and sellers of resources. If subsidies for fertilizers were allocated for agricultural producers, then fertilizer sellers raise prices and earn about 75% of subsidies, agricultural producers - 25%. When processors reduce purchase prices, then agricultural producers lose additional resources.

In the EAEU countries, it is advisable to use the experience of the USA and the EU, in which the ratio of world prices to domestic prices is equal to one. This led to the fact that domestic and foreign prices are identical for producers and consumers of agricultural products.

The issues of State regulation of prices of agricultural products and basic types of material and technical resources -are the most important tools of the State policy. Currently, an important task is to introduce marginal extra charge on the main types of industrial products and services and marginal prices of energy resources, which should be protected against sharp fluctuations in world prices, and national currency exchange rate.

In determining price parity of agricultural, industrial products and services, the land should be taken into account as an economic object, as well as seasonality of production, the dependence of the results on natural factors, the uneven receipt of produce, especially crop production.

The State procurement organization which represents the lower limit of guaranteed prices of agricultural products should be the primary buyer of the main types of agricultural products and the only seller on the external market, while the commodity producer will receive a net profit due to the difference between the collateral rate and the world price.

The guaranteed prices and collateral rates – fixed and set by the State are determined on the basis of the target price.

The use of guaranteed prices and collateral transactions is an effective measure that facilitate formation of the State food resources, support the commodity producers' incomes and regulate market conditions for the main product types.

The mechanism of price regulation action lies in maintaining equilibrium on food market. The regulation of producers' incomes and their formation sources is based on comparing State prices with market prices.

The State, allocating considerable funds to support the income of agricultural producers, should actively involve mechanisms of preferential lending, subsidizing, tax benefits, and centralized purchase of a certain product volume. This makes it possible to simultaneously move away from the currently used cost subsidizing and increase the effectiveness of public financial support in general.

The basis of the economic mechanism in AIC- is the model of price relations. Their coordination largely determines the effectiveness of agricultural production. The price subsystem of the economic mechanism consists of the greater part of the cash inflow. Therefore, price stability plays a significant role in the financial and economic status of economic entities.

Market prices are the core of price relations in market conditions. The national legislation on pricing in the EAEU countries is different. In Russia, a market stabilization mechanism using intervention and collateral prices was introduced [3]. Belarus has established the legal framework for the State policy in the field of pricing, the scope of application of free and regulated pricing, rights, duties and responsibilities of pricing subjects.

The basic pricing principles are the combination of free and regulated prices (tariffs) for goods (services) at a level that covers economically justified costs and profit of the business entities, taking into account subsidies and other government support measures for expanded reproduction.

In Kazakhstan, free pricing is combined with State control when using transparent prices.

In Belarus, economic structures that use purchasing prices have been preserved. In Kazakhstan, the pricing structure is maintained at a relatively high level due to high requirements to control over the correctness of setting transfer prices. The prices for industrial production means are considerably ahead of the price growth of regulated agricultural products.

Average prices of producers of agricultural products are one of the most important characteristics of competitiveness on domestic and foreign markets. Belarus has advantages on wheat, potatoes, beef, pork, and milk. Producers in Belarus are most competitive by almost every type of agricultural products. Among the producers of food industry in beef production, the highest price is in Kyrgyzstan, as for pork, poultry meat - in Armenia, and lamb - in Kazakhstan.

In agriculture of the EAEU countries, the main disadvantage of pricing processes is the price disparity. The growth of prices for industrial resources consumed by agriculture is faster than for agricultural products and has a negative impact on material and technical supply, and undermines the productive capacity of agricultural producers.

The price disparity can be called the main financial problem of agricultural production. Because of the lack of effective measures to regulate prices on material -technical resources market and due to their proximity to world prices, when domestic prices for agricultural products are 1.5-2 times lower than world prices, production costs growth rates are ahead of the sale prices growth rates.

In overcoming the current situation, the following areas are foreseen: the development and implementation of a set of measures to improve the efficiency of the pricing system that ensure sustainable agricultural development; introduction of identical mechanisms of guaranteed prices and government interventions on food market in the EAEU countries. The State obligations to buy commodity surpluses, carry out

procurement and commodity interventions should become the guarantee of price observance.

The basis of pricing in AIC lies in the conformity of procurement prices for agricultural products, i.e. socially needed production and sale costs, taking into account the level and dynamics of the world prices. The regulation of agricultural income remains the most important price function.

Price regulation of agricultural market is formed by State procurement and commodity interventions. The objective of commodity interventions -is to create a lowering price trend by selling products from the intervention fund in terms of its shortage on market.

In Belarus and Kazakhstan, public procurement are undertaken on a permanent nature, in Russia - only in case of price reduction.

Thus, the State regulation can influence on prices in the EAEU countries based on legislative, administrative and budgetary financial measures aimed to ensure the stable functioning of commodity markets [6].

The economic mechanism of the EAEC countries in the sphere of price regulation should be oriented to the successful experience of Belarus in the temporary regulation of prices of socially important food products; Kazakhstan - on setting high purchase prices of wheat; Russia – on procurement and commodity interventions.

In the EAEU countries, it is also advisable to use the experience of the USA and the EU, in which the ratio of world prices with domestic prices is equal to one. This shows that domestic and foreign prices are identical for producers and consumers of agricultural products.

It is difficult to overestimate the importance of guaranteed prices and collateral transactions. They facilitate the formation of the State food resources, the support of the commodity producer's incomes and regulation of market conditions by main product types [7].

The mechanism of government procurement interventions for agricultural products is introduced when prices fall below the minimum estimated prices. For this purpose, the purchases of products from agricultural producers or collateral operations are undertaken, including at the exchange auctions.

Conclusion

1. In the field of pricing in the EAEU countries, it is required to undertake a step-by-step unification of prices of agricultural products, development of a mechanism of optimizing price relations in AIC. It is important to implement the

following measures: the application of procurement and commodity interventions of long-term storage products (grain, meat, milk processing products, etc.) at reasonable intervention prices, use of market prices and product sale costs. In case of market prices decline, this will increase the average selling price and profitability level. So, the incentive to increase production will be involved; the effect of partial cost compensation of mixed fodder, mineral fertilizers, plant protection products, petroleum products, purchase of agricultural machinery and animals by using leasing will start. In the solution of the problem of price disparity, minimization of production cost is of great importance.

2. It is important to adopt a set of State regulation measures in order to ensure market equilibrium prices in three forms: market, aimed at development of production and market infrastructure, a network of wholesale markets; program, support-oriented activities that promote the development of cooperation and integration in agro-industrial production; protectionist, which foresees the selective principle of supporting effectively functioning of market entities. The relevant task -is to introduce two concepts into practice of economic relations parity - equilibrium and relative parity.

3. Target prices (upper limit) of agricultural products - the basis for setting guaranteed

prices, collateral rates in futures and forward transactions.

4. In the EAEU countries, it is necessary to organize procurement at guaranteed prices and stimulate by contracts at least 40%.

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