Textile production in Kazakhstan

Industry teaser

August 2020

Important notice

Our work is not an audit and was not performed in accordance with audit or accounting standards and practices adopted in Kazakhstan or other jurisdictions, and therefore, it cannot be relied upon as if it had been performed in accordance with these standards and practices. We have made every effort to perform a detailed analysis of all information freely available.

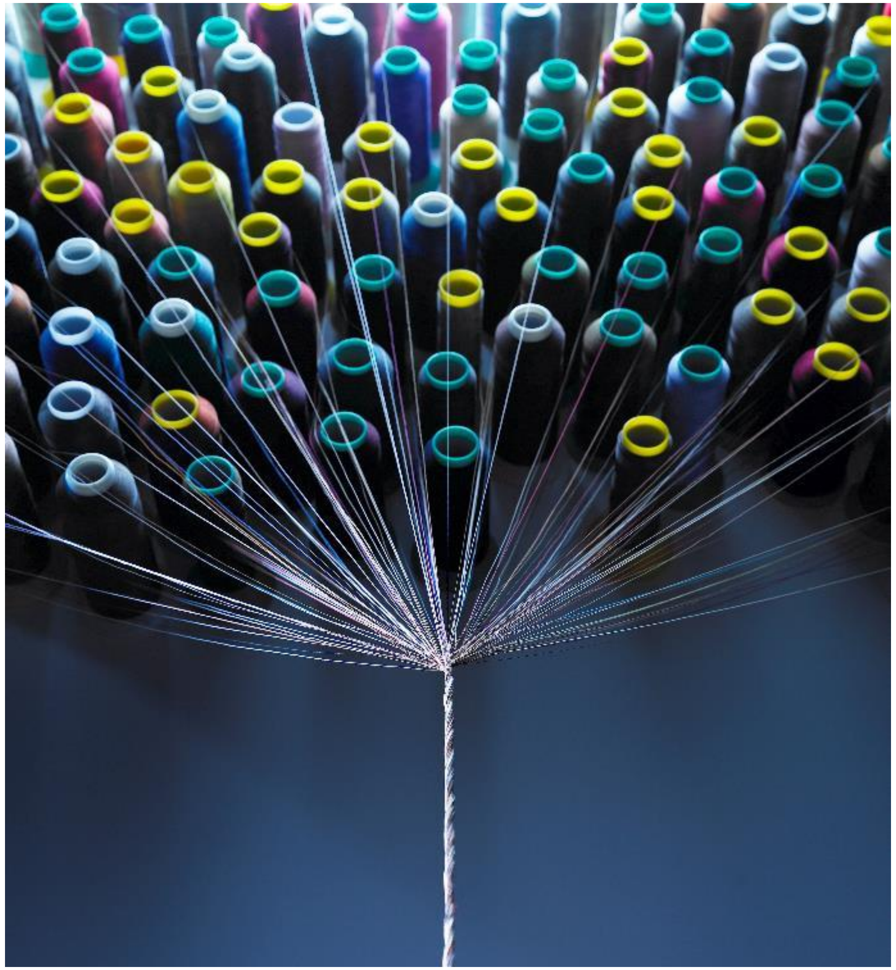
This report is not an evaluation in accordance with local or international standards. Any value analysis presented in this report are provided solely for information purposes.

The information in this report may contain forecast statements. By their nature, forecast statements involve risks and uncertainties as they relate to events and depend on circumstances that may or may not occur in the future.

This document does not consider the probable impact of COVID-19 on sales, production, the supply chain or any other business aspect that may have a negative impact on the Company's performance. The recipient should take into consideration the most extensive impact of COVID-19 on the Company's financial position due to its negative impact on the Republic of Kazakhstan and the global economy and major financial markets.

Industry teaser – textile production

Content



Industry teaser – textile production

Background

According to the Global Research & Data Services, a stable demand for textile products (clothing) is reported in Kazakhstan – an annual average of US$ 800 mln for 2014-2019. In 2019, demand amounted to US$ 763 mln, which is 3.9% higher compared to the previous year. In the next 5 years, annual demand is expected to stabilize at US$ 811 mln. At the same time, half of cotton fiber output is exported, which indicates insufficient processing of domestic raw materials.

With a fairly rich raw material base available, the country is highly import-dependent in relation to products with higher added value. According to analytical studies, the global demand for light industry products is increasing by 2.2% annually, while the sewing industry in Kazakhstan only covers 7% of the domestic demand.

The industry is characterized by a relatively low capital intensity and represents one of the fastest growing and most attractive markets. It can take its rightful place in the global market in the traditional mid-segment in terms of price and quality of products. Kazakhstan has favorable factors for the development of its own light textile industry, to satisfy domestic demand and further develop exports:

- geographical position. The country is located close to both the regions that are significant suppliers of raw cotton (Turkmenistan, Uzbekistan, Tajikistan), and global consumer markets (EU, China, Russia);
- raw materials and resource base. In terms of wool production, Kazakhstan has its own significant raw material base. Sheep headcount reaches about 16 mln units. The livestock includes fine-fleece sheep, from which fine and semi-fine wool is obtained. Considerable labor resources are available for the development of light industry in the regions where cotton is grown;
- governmental support. The government has taken significant steps for the development of the textile industry. In particular, a legislative base has been created with the adoption of laws on special economic zones in Kazakhstan, on a free economic zone and on the cotton industry development.

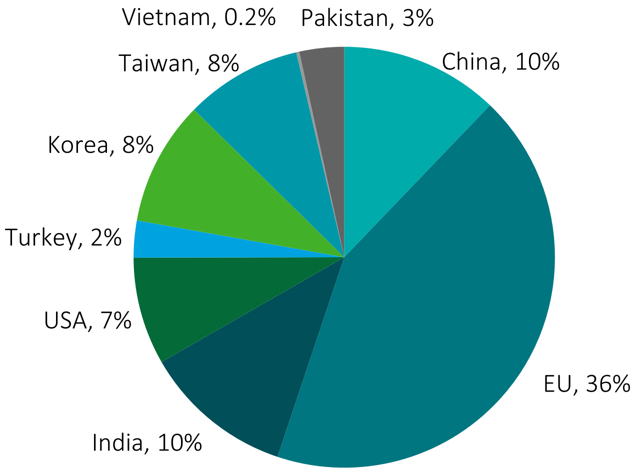
Given the current condition of the industry (high demand, large imports, the availability of raw materials, favorable geographical position), the textile industry of Kazakhstan looks a promising investment area. The supportive measures taken by the government allow creating a favorable investment climate for this industry

Global market overview of the textile industry

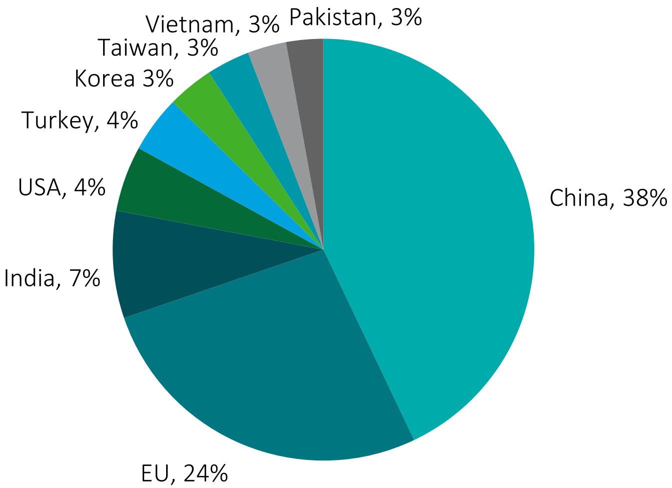
Global market overview of the textile industry

Global trends in textile exports

Structure of global export by country, 2010



Structure of global export by country, 2018



An analysis of the dynamics of world textile exports by country over the past 10 years shows a significant increase in the share of China. In 2010, China only accounted for 10% of the total, while in 2018 its share reached 38%. Over the same period, the share of the EU countries decreased from 36% to 24%, India - from 10% to 7%, the USA - from 7% to 4%, South Korea and Taiwan - from 8% to 3%

Notably, the market of China and the EU showed a greater increase in exports in 2018 versus the global average, 7.9% and 6.9% respectively. In 2018, the United States remained the fourth largest textile exporter in the world with a 4.4% share.

Source: WTO

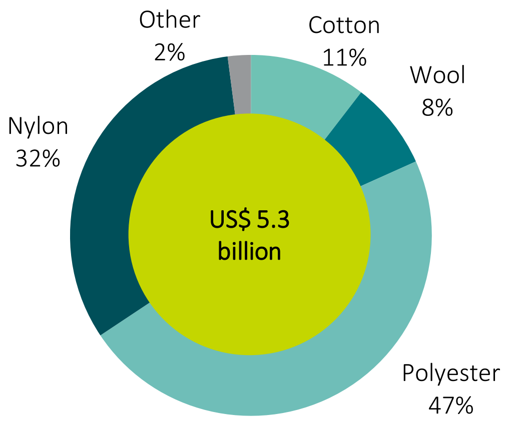
Top exporting countries also include countries such as Korea, Taiwan, Vietnam, and Pakistan. However, for all these countries, with the exception of Vietnam, the share of total world textile exports has decreased in recent years.

The share of Vietnam increased from 0.2% in 2010 to 2.6% in 2018. At the end of 2017, over 8,770 textile and sewing companies were operating in Vietnam, providing employment for about 2.8 mln people.

Global market overview of the textile industry

Dynamics and structure of the textile market by type of materials

Structure of the textile market by type of materials, 2018



The global textile market was valued at US$ 5.3 billion in 2018 and is expected to reach US$ 8 billion by 2026, with an average annual growth rate of 5.2% (CAGR).

The structure of the global textile industry market is dominated (80%) by artificial fiber materials - polyester and nylon. Natural fibers (cotton and wool) account for 19%.

Over 2019-2026, the highest CAGR of 5.7% is expected in the nylon production sector.

Dynamics and structure of the textile market by type of materials

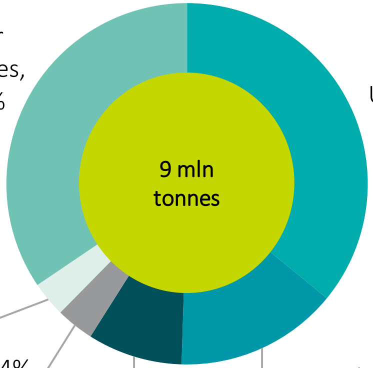
US$ millions	2018	2019	2020	2021	2022	2023	2024	2025	2026	CAGR (2019-2026)
Polyester	2,526	2,645	2,770	2,904	3,045	3,195	3,355	3,525	3,706	4.90%
Nylon	1,721	1,815	1,915	2,021	2,134	2,255	2,384	2,523	2,671	5.70%
Cotton	556	585	615	647	681	717	756	797	842	5.30%
Wool	419	439	462	485	510	537	565	595	628	5.20%
Other	110	115	120	125	130	136	143	149	156	4.50%
Total sales	5,332	5,598	5,881	6,181	6,500	6,840	7,202	7,589	8,002	5.20%

Source: Global Recycled Textile Market, Opportunity Analysis and Industry Forecast, 2019-2026

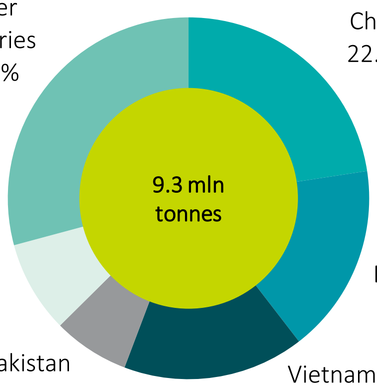
Global market overview of the textile industry

Export and import of cotton by country. Consumption dynamics

Structure of cotton export by country, 2018/2019 season



Structure of cotton import by country, 2018/2019 season



Source: Monthly Economic Letter by Cotton Incorporated, May 2020, EIU

Cotton consumption dynamics

million tonnes	2016/17	2017/18	2018/19	2019/20
China	8.28	8.50	8.25	8.08
India	5.15	5.42	5.40	5.53
Pakistan	2.15	2.35	2.36	2.36
Turkey	1.46	1.48	1.56	1.59
Bangladesh	1.41	1.66	1.58	1.60
Vietnam	1.17	1.51	1.51	1.53
Brazil	0.69	0.68	0.73	0.73
USA	0.71	0.77	0.71	0.73
Indonesia	0.70	0.78	0.70	0.71
Uzbekistan	0.37	0.46	0.63	0.64
Thailand	0.26	0.25	0.24	0.24
Other	2.46	2.49	2.48	2.48
Global total	24.79	26.35	26.13	26.22
Change, %	2.70%	6.30%	-0.80%	0.30%

** Years ending 31 July*

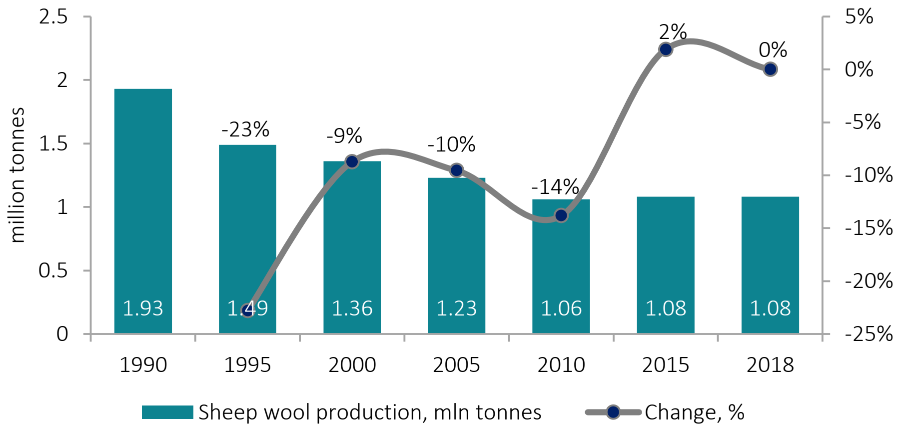
Geopolitical uncertainty, slowdown in economic growth of China, which is the leader in cotton consumption, downturn of global trade growth to 1.5% in 2019 (versus 3.7% in 2018) led to a decrease in cotton consumption all over the world. Trade war between China and the USA affected the behavior of customers, resulted in suppressed business activity and worsened the indicators of global trade. As part of the trade war, China introduced a 25% tariff on cotton imports from the USA in mid-2018 which resulted in disruption of supply chains. Still, a number of positive factors is expected to support recovery of the trade growth up to 2.3% in 2020.

The monetary policy ongoing from mid-2019 in the USA, China and EU is believed to lead to increased economic activity worldwide (EIU). Also, there are prerequisites that stimulate cotton exports from other countries as an alternative. A further spread of COVID-19 is one the impeding factors, as it can lead to a slowdown in trade activity between countries, disruption of supply chains and decreased purchasing power of the population, in addition to other factors that can significantly affect further development of the business.

Global market overview of the textile industry

Wool production

Dynamics of sheep wool production in the world

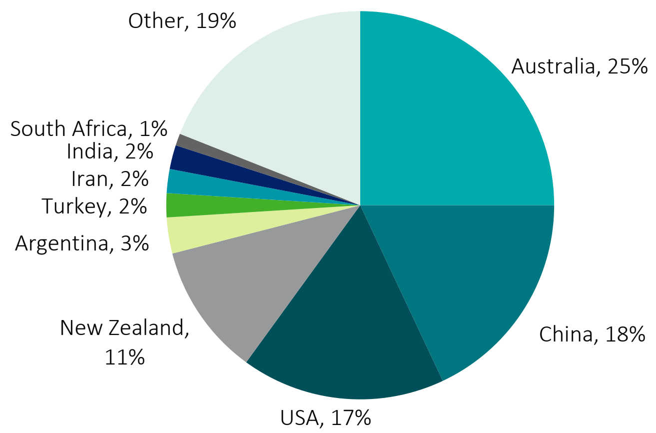


World production of sheep wool fell by 44%, from 1.93 mln tonnes in 1990 to 1.08 mln tonnes in 2018. The reasons for the decline in wool production are as follows:

- high cost of natural wool production;
- successful entry into the market of chemical fibers with similar properties;
- plowing of pasture lands and sowing of grazing and technical crops;
- adverse weather conditions, including drought and forest fires, particularly in Australia; declining demand for wool.

However, sheep wool remains an important raw material for the textile industry. There is a high demand for wool products in the world, especially in countries that suffer cold climate.

Structure of wool production by country, 2018



Australia is a leader in the production of wool in the world market with a share of about 25% of the global output in 2018, due to big population of sheep raised.

China produces about 18% of wool, which is used as a raw material for the local textile and clothing industry. China is the world's largest exporter of finished clothing.

The USA is also among the top 3 wool producing countries, with output gradually declining since the mid-1940s. The decline in production is the result of the growing popularity of synthetic fibers. Most part of the American wool is sold unprocessed.

Source: Textile Exchange, marketpublishers.ru

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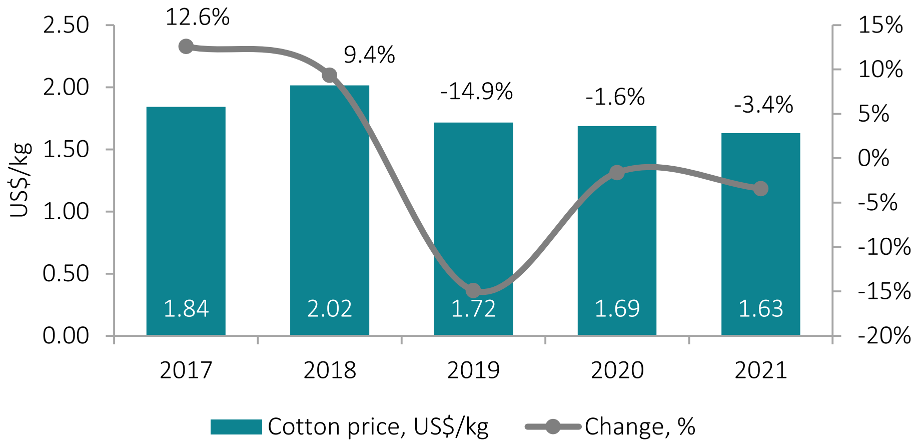
Global market overview of the textile industry

Index A Cotton Price

Cotton price dynamics, Cotlook A Index, US$ per kilo



In 2019, the average annual price was US$ 1.7/kg, 15% lower than in 2018. The fall in prices followed a decrease in demand for cotton. According to the EIU forecast, prices will continue to decline in the near future under the influence of increasing world stocks and the existing positive balance between supply and demand for cotton.

New opportunities of export to China

China's shift to nearly double duty-free cotton fiber import quotas, totaling 1.69 mln tonnes, should help offset the impact of tariffs on US cotton imports. As a result, cotton imports to China are expected to increase, mainly from neighboring countries such as India, but also from more distant suppliers such as Brazil.

The current situation favors realization of Kazakhstan's potential for export by increasing its own cotton production.

Description of Cotloock A и NY Nearby indices

Index A has been published by the Cotlook trading group since the 1960s and is considered a representative of the "world cotton price". The index is based on daily surveys of cotton traders and describes the average export prices offered by international cotton traders for shipment to factories in the Far East, where most of the world's cotton goes to yarn. Index A is established for cotton classified as Middling 1-3/32. The index is calculated as the arithmetic average of the current day's five cheapest quotes from the sixteen cotton varieties selected for the index.

NY Nearby Index is the price of American cotton. Tough the index refers to American cotton, the futures market in New York is used to hedge cotton grown in other countries. Therefore, international cotton prices are positively correlated.

Index A is usually higher than NY Nearby for two reasons:

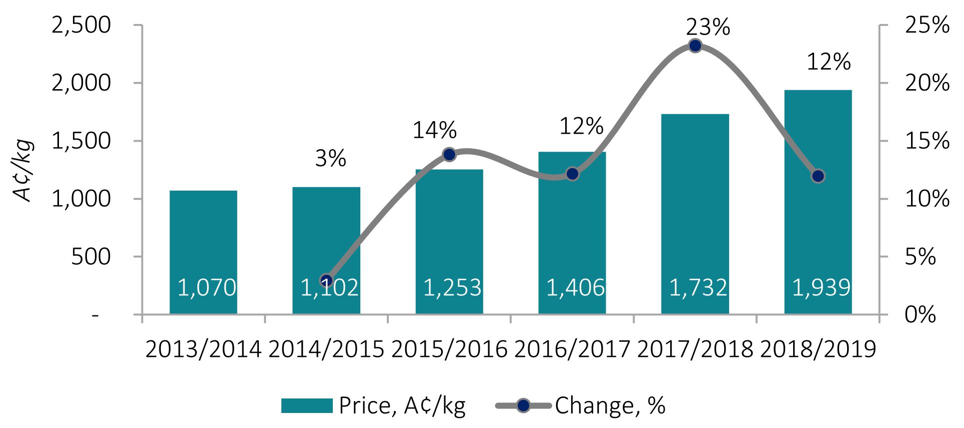
- the quality of index A cotton is slightly higher than that of cotton represented by New York futures;
- Index A prices include delivery costs to the Far East.

Source: EIU; Monthly Economic Letter by Cotton Incorporated, May 2020

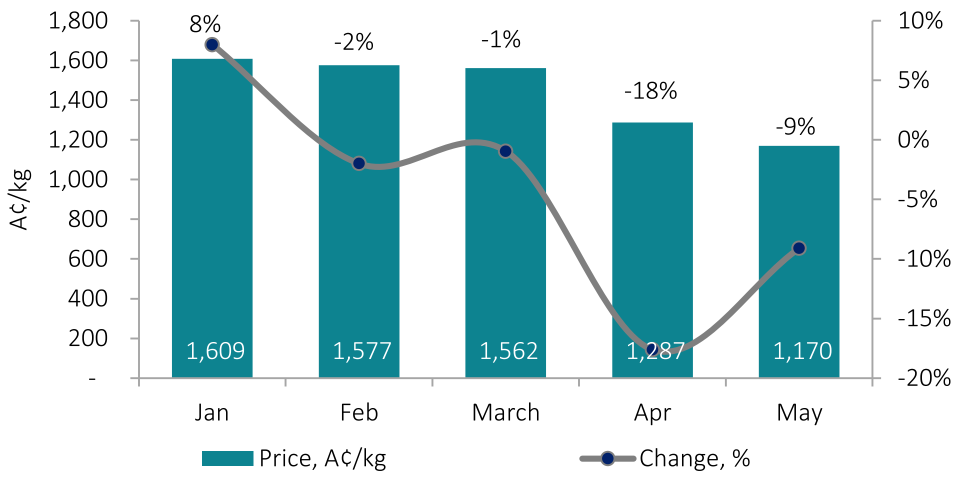
Global market overview of the textile industry

Wool prices - AWEX EMI

Dynamics of AWEX EMI, A¢/kg



AWEX EMI monthly dynamics in 2020, A¢/kg



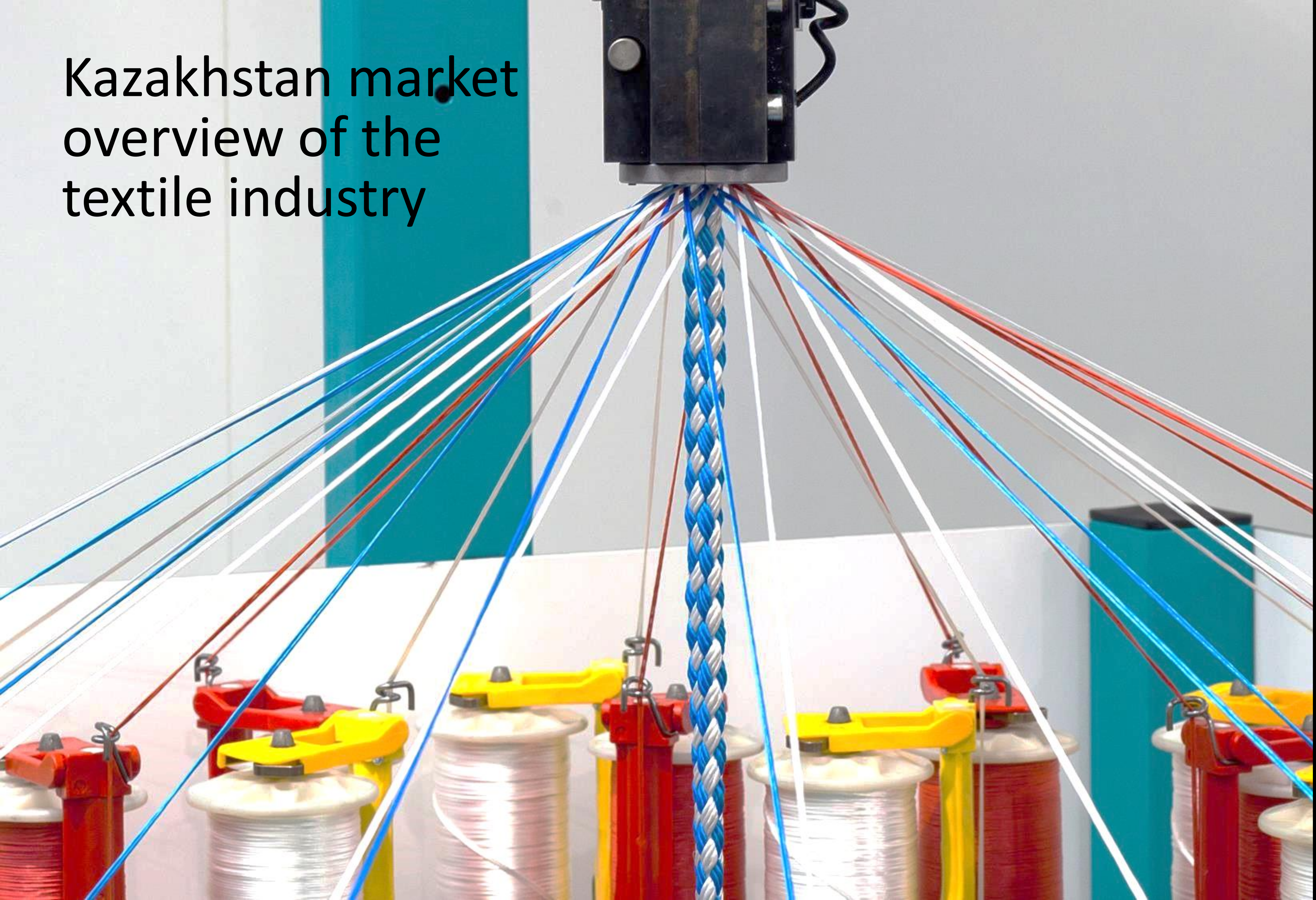
** A¢ – Australian cent*

The Australian Wool Exchange Eastern Market Indicator (AWEX EMI) is a major indicator in the wool market. The indicator is based on fixed baskets of various types of wool calculated after each day of sales. Some AWEX indicators are used as the basis for trading in the derivatives market.

Measures to limit supplies and the economic slowdown in countries resultant from the spread of COVID-19 significantly reduced consumer demand for wool products. Accordingly, a decrease in demand and an increase in excess stock of wool have led to lower prices.

Source: Australian Government, Department of Agriculture, AWEX

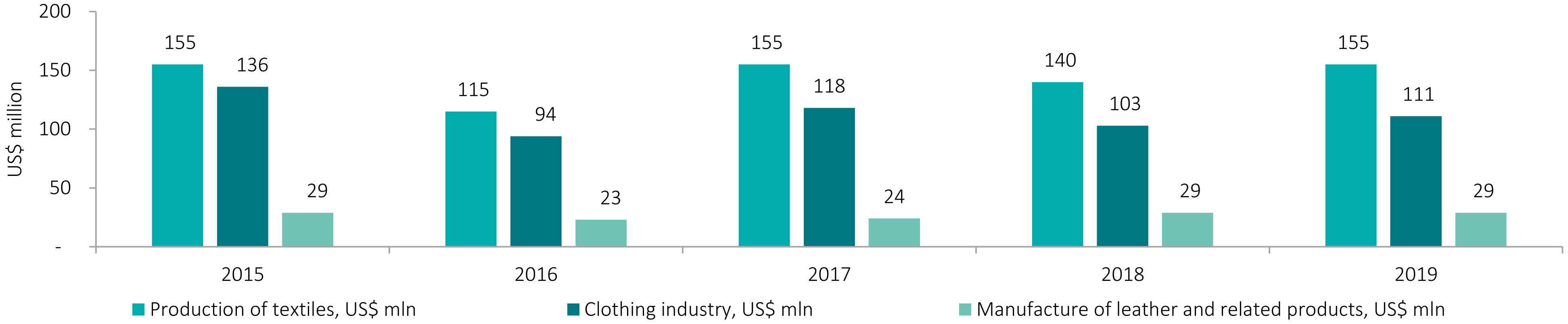
Kazakhstan market overview of the textile industry



Kazakhstan market overview of the textile industry

Textile industry in Kazakhstan

Dynamics of light industries by sectors in Kazakhstan, US$ millions



Light industry is represented by three manufacturing sectors In Kazakhstan's state classifier of the economic activity types: production of textiles, manufacture of clothing and production of leather and related products.

In 2019, the production volume of light industry amounted to U$ 295 mln in monetary terms. Over five years, light industry production decreased by 8% in US$ terms and increased by 1.5 times in KZT terms. This difference is explained by a change in the exchange rate from KZT 221/US$ in 2015 to KZT 382/US$ in 2019.

Among light industries, textile and leather production demonstrated unchanged volumes, while clothing production was shrinking.

Textile products constitute most part of production in the light industry with an average share of 51% for the period of 2015-2019.

In 2019, the volume of textile production amounted to US$ 155 mln, same as in 2015. Decline in production in 2016 and 2018 was due to a decrease in consumer activity of the population and a rise in the cost of imported raw materials. As a result, the number of textile manufacturers has decreased in Kazakhstan over the years.

The structure of textiles is very diverse. The sample includes products measured in different units (tonnes, thousand pieces, thousand pairs, thousand square meters, thousand US dollars), therefore, the data on the total tonnage are considered irrelevant.

Source: Kazakhstan Statistics Committee

Kazakhstan market overview of the textile industry
Textile industry in Kazakhstan

Dynamics of textile industry in Kazakhstan

Indicator	2015	2016	2017	2018	2019
Cotton, tonnes	58,913	53,751	67,881	69,140	72,177
Textile products, except clothing, for household, thousand pieces	4,900	5,537	6,186	20,693	22,635
including bedclothes, thousand pieces	2,459	3,037	3,601	5,574	7,474
Cotton fabric, thousand m^2	24,694	25,405	24,566	24,269	14,078
Materials and products from non-woven materials, except clothing, thousand m^2	2,348	no data	no data	4,291	4,930
Felt, US$ thousands	2,081	1,426	1,383	1,056	1,020
Felted shoes, thousand pairs	105	114	99	49	53

The structure of the textile industry in Kazakhstan consists of cotton, fabrics, textiles, materials, felt and shoes.

The dynamics by product is diverse. Over 5 years, the production of textiles for households increased 4.6 times, non-woven materials and products – 2.1 times, cotton – 1.2 times.

At the same time, production of cotton fabrics decreased 1.6 times, felt – 1.8 times, felted shoes – 1.5 times.

Number and structure of existing enterprises in the textile industry, units

Size	Total number of entities	Foreign entities	Private entities, including:	with participation of state	Joint ventures
				(without foreign participation)	(with foreign participation)
Total	346	20	326	1	13
Small	333	18	315	-	12
Medium	6	1	5	1	1
Big	7	1	6	-	-

As at 1 May 2020, 346 enterprises were involved in the production of textile products, indicating a 15.3% increase compared to 1 May 2019.

The structure of existing enterprises includes 7 large, 6 medium and 333 small enterprises. Small enterprises account for 96% and are represented by small peasant farms, artels and ateliers.

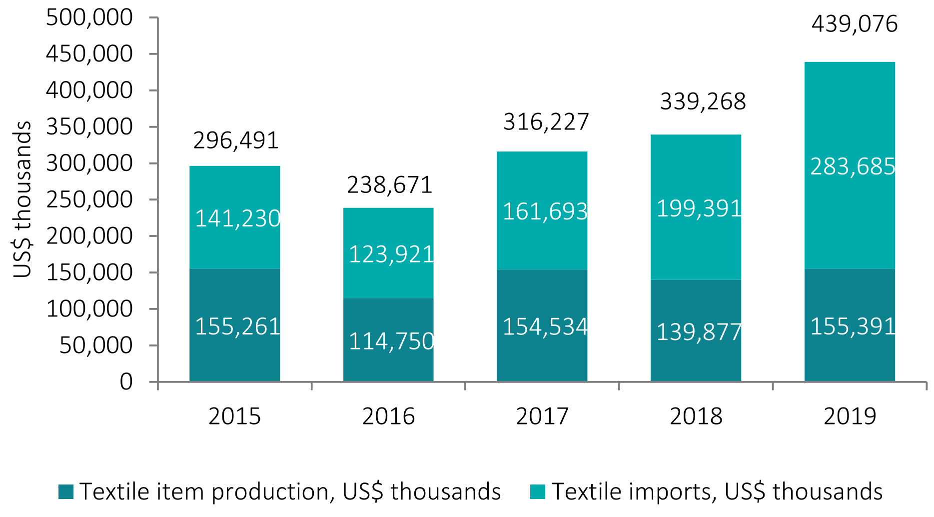
In terms of ownership, private enterprises have the largest share (94%) in the industry, 6% are foreign enterprises, joint ventures (with foreign participation) account for 4%. There are no state enterprises in the sector.

Source: Kazakhstan Statistics Committee

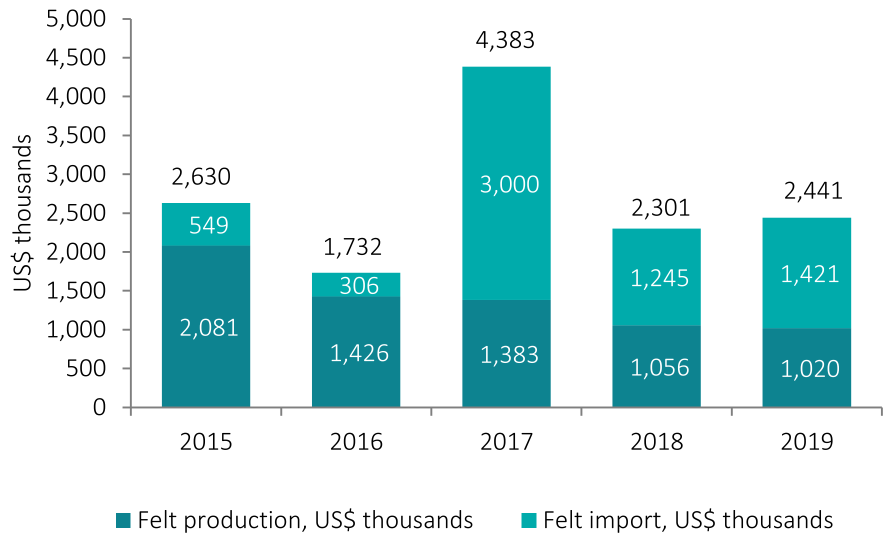
Kazakhstan textile industry market overview

Textile item consumption

Changes in Kazakhstan textile industry consumption, US$ thousands



Changes in felt consumption in Kazakhstan, US$ thousands



The figure above presents textile item consumption (production and imports), with the exception of felt boots and footwear. Average textile item consumption is US$ 325 million. Production trends have been positive since 2017 due to the increase in household imports. The same group of goods registered its highest import growth in 2018-2019.
On the whole, imports exceed domestic production, on average by 55% and 45% in 2015 – 2019. In 2019, textile item consumption reached its highest level in the last five years of US$ 439 million.

The figure above presents felt consumption (production and imports). Average felt consumption amounts to US$ 2.6 million. On the whole, domestic production exceeds imports, on average by 56% and 44% in 2015 – 2019. However, since 2017, the trend has changed and imports began to exceed domestic production.
Likewise, in 2017, felt consumption reached its highest level in the last five years of US$ 4.3 million. However, after that, consumption fell to US$ 2.3-2.4 million.

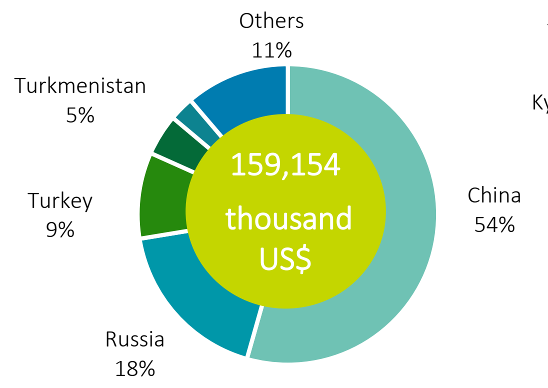
Source: Kazakhstan Statistics Committee, TradeMap.org

Kazakhstan textile industry market overview

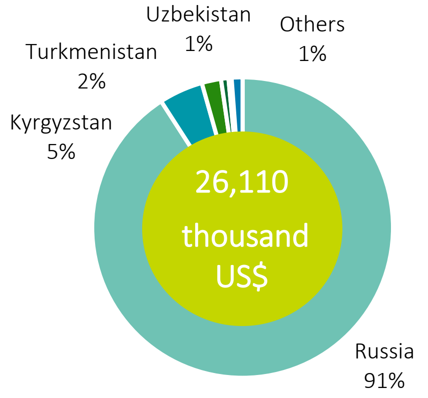
Textile item imports and exports

Household textile items

Structure of imports into Kazakhstan in 2019, %

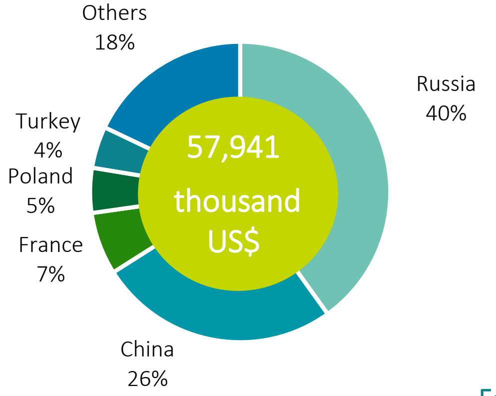


Structure of exports into Kazakhstan in 2019, %

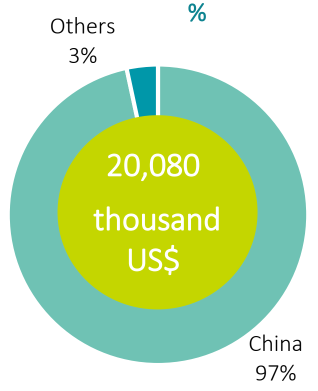


Non-woven materials and items

Structure of imports into Kazakhstan in 2019, %

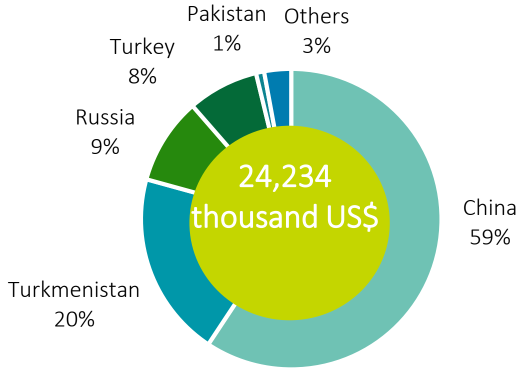


Structure of exports into Kazakhstan in 2019, %

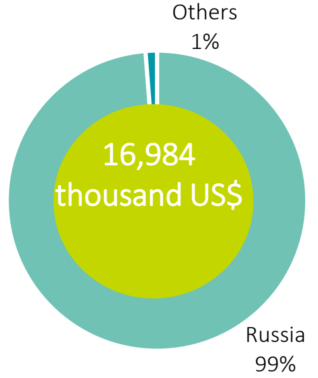


Bed line

Structure of imports into Kazakhstan in 2019, %

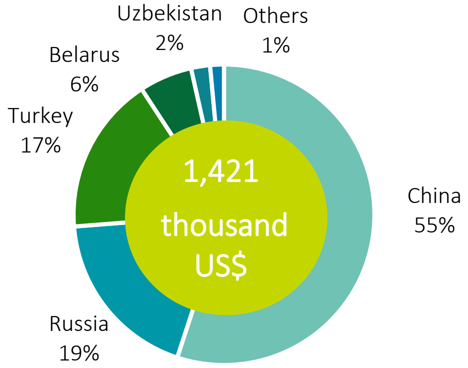


Structure of exports into Kazakhstan in 2019, %



Felt

Structure of imports into Kazakhstan in 2019, %



Structure of exports into Kazakhstan in 2019, %

Source: TradeMap.org

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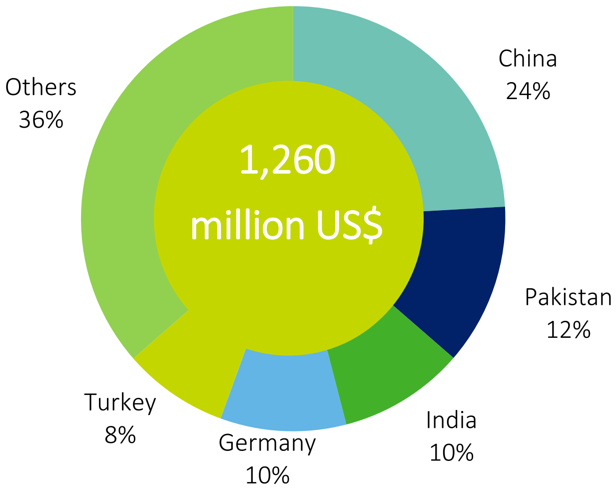
Kazakhstan textile industry market overview

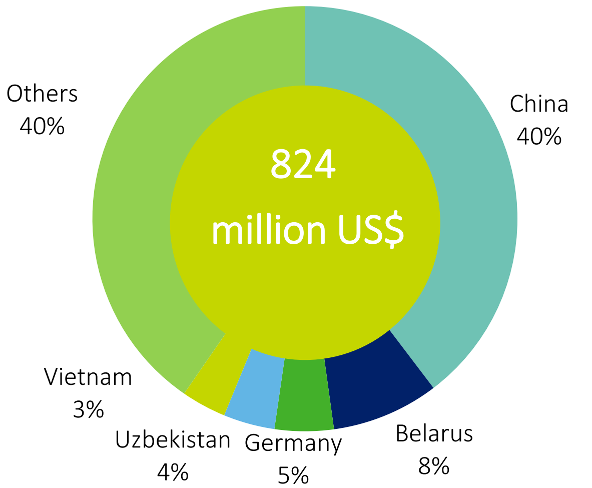
Potential sales markets: Italy and Russia

Structure of household textile item imports in Italy in 2019



Household textile item imports into Italy amounted to US$ 1,260 million in 2019. China accounts for the greatest volume of exports (24%). China's competitive advantage in the textile industry is mostly linked to the work force available and the existence of natural resources. China is the largest producer of cotton, fabric, yarn and natural fibres in the world due to the special status of its agricultural industry and the resources available. Kazakhstan does not supply household textile items to Italy, but has the potential to increase sales should it have arrangements in place with customers.

Structure of household textile item imports in Russia in 2019

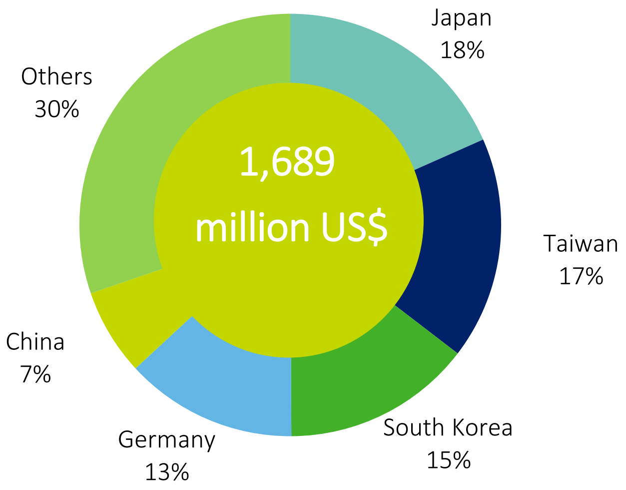


Household textile item imports into Russia amounted to US$ 824 million in 2019. China accounts for the greatest volume of exports (24%), followed by Belarus (8%) and Germany (5%). Belarus exports the majority of its household textile items to Russia, hence its large share. In turn, Kazakhstan's share of household textile item imports into Russia is 0.04% or US$ 352 thousand, which testifies to the opportunity to increase export potential.

Source: TradeMap.org

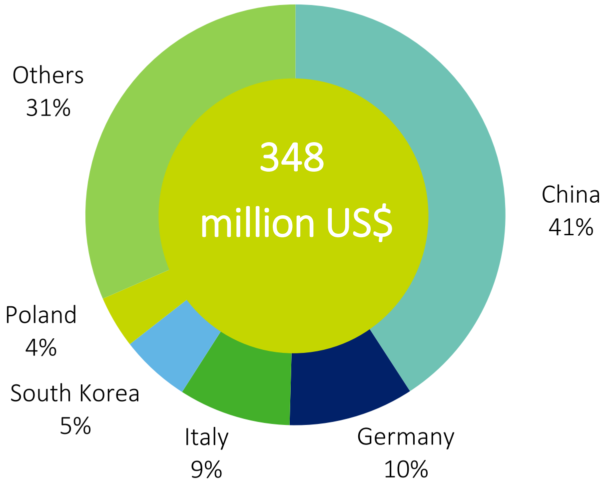
Kazakhstan textile industry market overview
Potential sales markets: China and Turkey

Structure of imports of non-woven materials and items made from non-woven materials in China in 2019



Imports of non-woven materials and items made from non-woven materials into China amounted to US$ 1,689 million in 2019. Japan accounts for the greatest share of exports (18%). Japan is a leading textile producer thanks to its research and technology in the area. Kazakhstan's share in the import of non-woven materials and items made from non-woven materials is 1.1% or US$ 19,404 thousand. Thus, Kazakhstan has the potential to increase sales should it have arrangements in place with customers.

Structure of imports of non-woven materials and items made from non-woven materials in Turkey in 2019

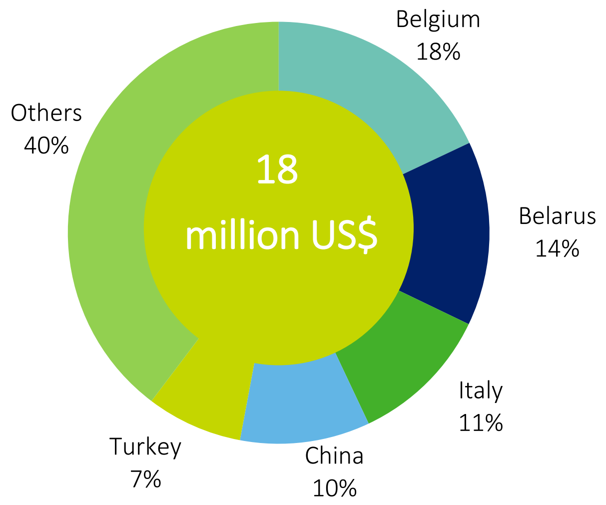


Imports of non-woven materials and items made from non-woven materials into Turkey amounted to US$ 348 million in 2019. China accounts for the greatest share of exporters (41%) and is the largest producer of cotton, fabric, yarn and natural fibre in the world due to the special status of its agricultural industry and the resources available, followed by Germany (10%) and Italy (9%). Kazakhstan does not export non-woven materials and items made from non-woven materials to Turkey, but still has the potential to increases its sales should it have arrangements in place with customers.

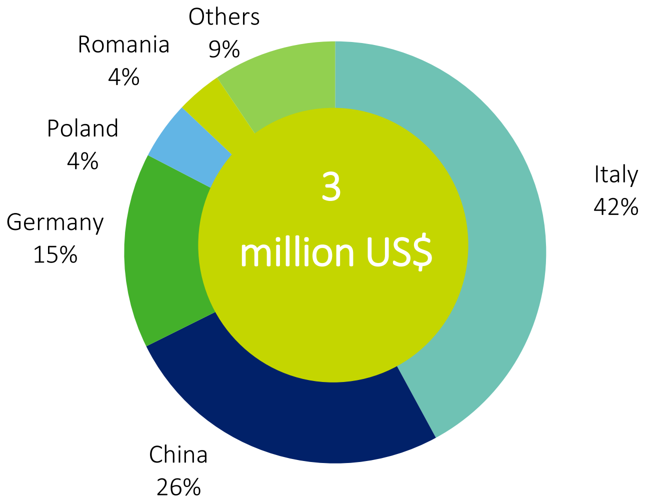
Source: TradeMap.org

Kazakhstan textile industry market overview
Potential sales markets: Russia and Ukraine

Structure of felt imports into Russia in 2019



Structure of felt imports into Ukraine in 2019



Imports of felt into Russia amounted to US$ 18 million in 2019. Belgium makes up the largest share of exports (18%) and is one of the largest global producers in the textile industry.

In turn, Kazakhstan's share of felt imports into Russia is estimated to be 0.27% or US$ 49 thousand, which testifies to the opportunity to increase export potential. Geographical proximity to Russia and the use of the advantages of the EAEU create preconditions for Kazakhstan to take a more significant share in the structure of imports of felt to the Russian Federation.

Imports of felt into Ukraine amounted to US$ 3 million in 2019. Italy makes up the greatest share of exports (42%), and is one of the largest global producers in the textile industry.

In turn, Kazakhstan's share of felt imports into Ukraine is estimated to be 0.03% or US$ 1 thousand, which testifies to the opportunity to increase export potential.

Source: TradeMap.org

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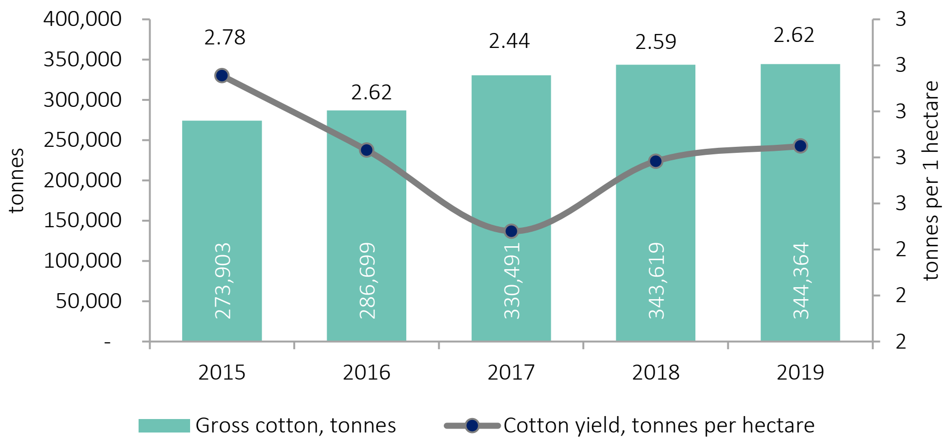
Cotton production market

Kazakhstan market overview of the textile industry

Cotton picking and production

Dynamics of raw cotton picking in Kazakhstan, tonnes

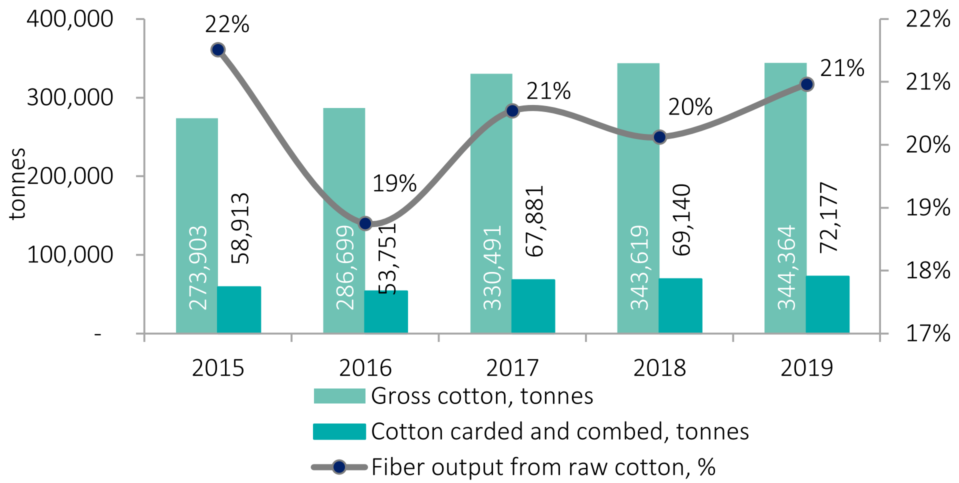


Cottonseed production is one of the major directions of the textile industry development in Kazakhstan. The gross harvest of raw cotton averaged 315.8 thousand tonnes for the period of 2015-2019.

The yield of raw cotton is usually 2.5-2.7 tonnes/ha with this indicator coming to 4 tonnes/ha in the best farms. It should be noted that the yield of raw cotton in Kazakhstan decreased from 2.72 tonnes to 2.62 tonnes per hectare in 2015-2019.

Three types of farms are normally involved in picking cotton - agricultural enterprises, private entrepreneurs and peasant farms, with the largest share (about 94.5%) attributed to private entrepreneurs and peasant farms. Households have not harvested cotton since 2015.

Fiber yield from raw cotton, %



Harvested cotton is then sent to ginneries, where the fiber is obtained. Cotton fiber is the main raw material for textile industry, knitwear sector and other light industries.

Raw cotton actually contains about 30–40% fiber and 60–70% seed by weight (some impurities account for).

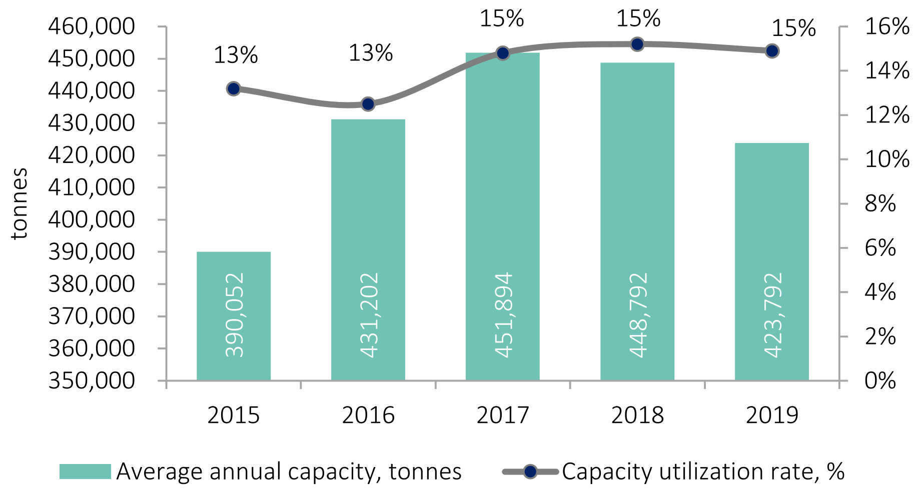
In Kazakhstan, the average gross yield of raw cotton is 315.8 thousand tonnes, while the cotton fiber production is 64 thousand tonnes. The average yield of fiber from raw cotton in Kazakhstan is 20%, which is 30-40% below the industry average of other countries in Central Asia.

Source: Kazakhstan Statistics Committee

Kazakhstan market overview of the textile industry

Cotton processing and production facilities

Dynamics of capacity utilization of cotton plants, %



Over 2015-2019, the average annual planned capacity of all cotton processing plants amounted to 429 thousand tonnes. However, the actual capacity utilization was only 14% on average. Such a low load is due to a shortage of cotton raw materials, which leads to intense competition between plants for raw materials.

At 100% capacity utilised, domestic enterprises are capable of producing up to 270 thousand tonnes of cotton, while current production does not exceed 70 thousand tonnes.

The table on the right shows the top 8 large cotton processing enterprises in the country.

Top-8 major cotton processing enterprises in Kazakhstan

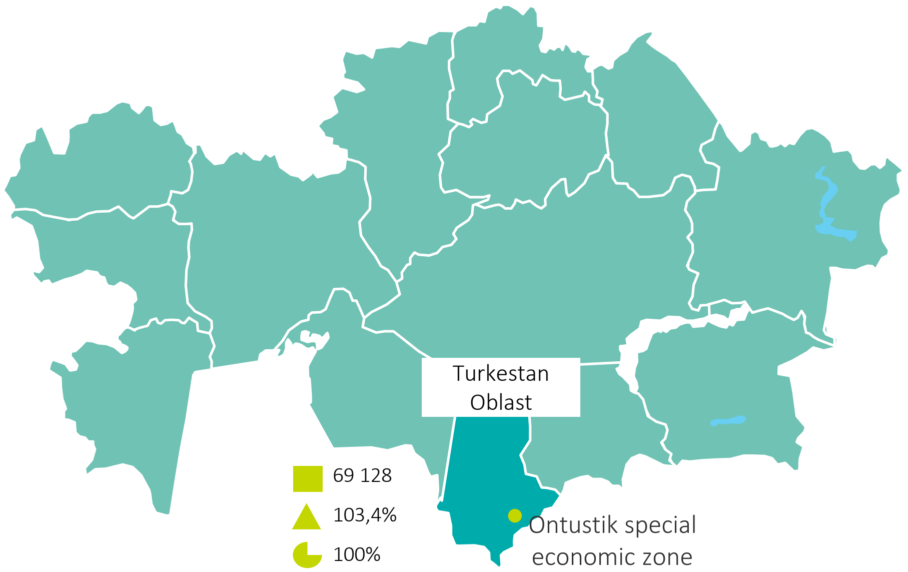
Company	Description	Location
Myrzakent LLP	Cotton processing plant	Turkestan Oblast, Maktaaral district
Uzyn-ata Makta LLP	Natural gas cotton mill	Turkestan Oblast, Tulkubas district
Kontal LLP	Cotton production and processing	Turkestan Oblast, Maktaaral district
Ak-Altyn Corporation LLP	Fiber, yarn and thread production	Turkestan Oblast, Maktaaral district
JSC Cotton Contract Corporation	Cotton processing plant	Turkestan Oblast, Maktaaral district
Khansuar Invest Company LLP	Processing of raw cotton	Turkestan Oblast, Maktaaral district
Bagara Makta LLP	Primary processing of raw cotton	Turkestan Oblast, Maktaaral district
South Textiline KZ LLP	Spinning and weaving mill, cotton growing, processing	Turkestan Oblast, Enbekshi district

Source: Kazakhstan Statistics Committee

Kazakhstan market overview of the textile industry

Location of cotton production

Cotton processing by region, tonnes



Total, tonnes 69,128 Annual growth 103,4% Share 100%

Turkestan Oblast is the only cotton producing region in Kazakhstan. Growing, picking, and processing of cotton are all practiced in Turkestan Oblast.

There are 18 cotton processing plants in the region. Some enterprises (Azala Cotton LLP, Khlopkoprom-Cellulose LLP) are located in the Ontustik special economic zone.

Advantages of Ontustik special economic zone

- Proximity to raw material resources (cotton)
- Investment preferences
- Free lease of land
- Developed infrastructure
- Support offered to the residents of special economic zone
- Competence Center for Light Industry

Ontustik special economic zone was created in 2005 to accelerate the development of the region and create highly efficient, high-tech and competitive industries.

Residents of special economic zone enjoy special customs and tax treatment, access to a simplified procedure for attracting foreign specialists, state support and full support for their projects on a "one-stop-shop" basis.

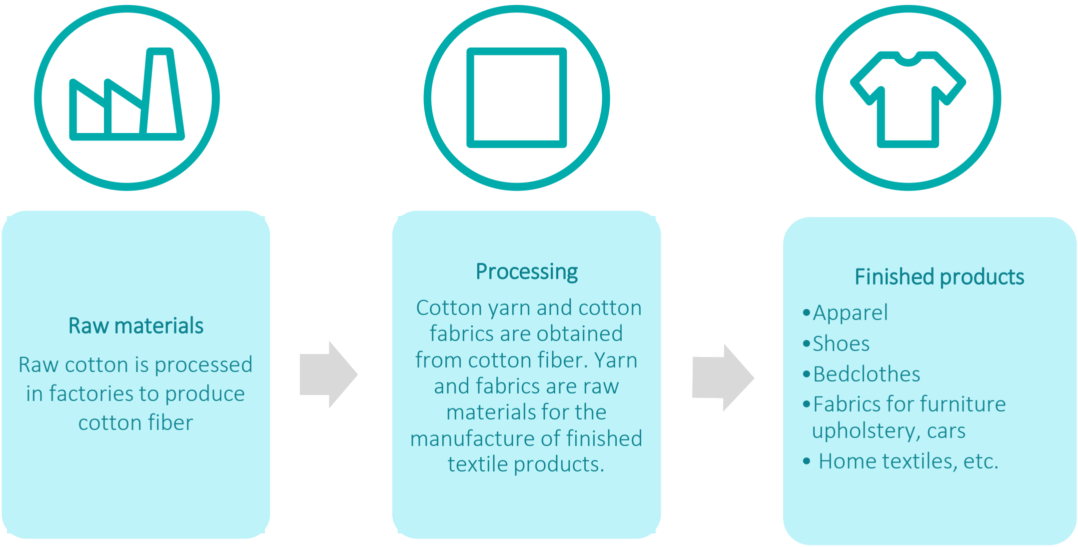
Source: Kazakhstan Statistics Committee

Kazakhstan market overview of the textile industry

Cotton and products

Raw Cotton Production Chain					
In natural terms	2015	2016	2017	2018	2019
Cotton harvest, tonnes	273,903	286,699	330,491	343,619	344,364
Cotton fiber, tonnes	58,913	53,751	67,881	69,140	72,177
Cotton yarn, tonnes	10,805	6,474	4,112	4,710	4,411
Cotton fabrics, thousand m^2	24,694	25,405	24,566	24,269	14,078

Industry Value Chain



Source: Kazakhstan Statistics Committee

By the end of 2019, Kazakhstan picked 344 thousand tonnes of cotton, obtained 72 thousand tonnes of cotton fiber, 4 thousand tonnes of yarn and 14 mln m^2 of fabrics.

Fabrics and yarn, in turn, are raw materials for the manufacture of finished textile products.

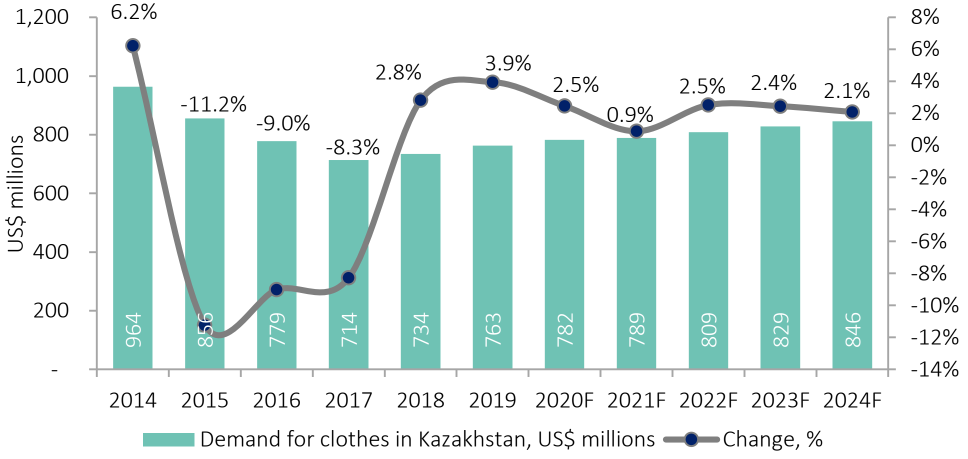
Finished textile products are: clothing, shoes, bedclothes, fabrics for upholstery of furniture and cars, home textiles and more

Almost all of finished textile products are primary goods, so the demand for them is quite stable and insensitive to changes in market conditions.

Kazakhstan market overview of the textile industry

Demand for finished textile products

Dynamics of demand for clothes, US$ millions



There is a stable demand for clothes In Kazakhstan – US$ 800 mln on average over the period of 2014-2019. In 2019, demand amounted to US$ 763 mln, 3.9% higher than the previous year (Global Research & Data Services).

The agency forecasts, that over the next 5 years demand will stabilize at US$D 811 mln with the annual growth decreasing to 2.1%..

In 2019, retail trade in specialized clothing and footwear stores increased by 14% in value terms (Euromonitor International). Sales reached KZT 1,191 billion in 2019.

The table on the right shows some of the largest manufacturers of finished textile products in Kazakhstan.

Large manufacturers of finished textile products in Kazakhstan

Company	Description	Location
Glassman LLP	manufacture of outerwear	Almaty Oblast
Arlan 777 LLP	manufacture of outerwear	Almaty Oblast
TF Azhar LLP	manufacture of outerwear	Almaty Oblast
Mediatex-N LLP	manufacture of hats	Almaty Oblast
Texti Market LLP	manufacture of knitted and crocheted items	Almaty Oblast
KazVoentorgSnabSbyt	workwear manufacture	city of Almaty
Elem-BT LLP	hosiery	city of Shymkent
AGF Group	sewing factory for home textiles	city of Shymkent Ontustik special economic zone
ShTF Turkestan LLP	workwear manufacture	Turkestan Oblast

Source: Global Research & Data Services, Euromonitor International

Kazakhstan market overview of the textile industry

Resource and sales dynamics

Dynamics of resources and use of cotton fiber

tonnes	2015	2016	2017	2018	2019
Resources	**58,916**	**53,751**	**67,881**	**69,140**	**72,177**
Production	58,913	53,751	67,881	69,140	72,177
Import	3	-	-	-	-
Sales	**58,916**	**53,751**	**67,881**	**69,140**	**72,177**
Export	-	93	-	61	236
Sales on domestic market	58,916	53,659	67,881	69,079	71,941

The average volume of cotton fiber resources in the country amounted to 64 thousand tonnes for the period of 2015-2019. About 99% of the resources come from own production, imports are quite insignificant.

In general, production volumes have shown a positive trend over the past 5 years, but still have not reached the level of 2007. This is largely due to a decrease in purchase prices for raw cotton by processing enterprises. The government introduced a subsidy system to support farmers. The farmers could receive subsidies upon delivery of their cotton to processing plants. However, due to difficulties of transporting raw cotton, the farmers used to sell the harvested cotton (almost 46%) to traders that forwarded it for processing. Therefore, the farmers did not receive subsidies as they did not meet the conditions. A year before the adoption of the law on subsidies, cotton growing had reached its highest indicators. After that, a decline was noted in the industry: yields fell and investments decreased. In 2019 the law was changed and now farmers are able to receive subsidies both when transferring cotton to the processing facility and selling it to traders.

Dynamics of resources and use of cotton fabrics

thousand m^2	2015	2016	2017	2018	2019
Resources	**74,981**	**74,141**	**114,078**	**181,396**	**188,409**
Production	24,694	25,405	24,566	24,269	14,078
Import	50,287	48,736	89,513	157,127	174,331
Sales	**74,981**	**74,141**	**114,078**	**181,396**	**188,409**
Export	20,853	20,366	21,532	21,455	13,948
Sales on domestic market	54,128	53,775	92,547	159,941	174,461

Cotton fabric resources in the country amounted to 126 thousand m^2 on average for the period of 2015-2019. Domestic production only provides about 22% of the resources, so imports have much larger share. Hence, cotton fabrics are mostly imported products.

Speaking of the use of resources, one can note a tendency to sell the entire volume of local production (about 87%) for export, while domestic demand is covered by imports.

The annual domestic consumption of cotton fabrics was 107 thousand m^2 on average for the period of 2015-2019, while the average export volumes were 19 thousand m^2 for the period.

Fabrics are the raw material for the production of finished textile products in all subsectors.

Thus, Kazakhstan produces cotton fiber and uses it in the domestic market, while the produced cotton fabrics mostly go for export.

Source: Kazakhstan Statistics Committee

Kazakhstan market overview of the textile industry

Production chain. Foreign trade structure. Findings

Cotton production chain and foreign trade volume in 2019

Indicator	2019
Harvest	
Raw cotton, tonnes	
- Production (picking, tonnes	344,364
Primary processing (average fiber yield 33-35%)	
Cotton fiber <u>not</u> carded or combed, tonnes	
-Production (estimate), tonnes	~ 65,462
-Export, tonnes	65,462
-Import, tonnes	2,244
Cotton fiber carded or combed, tonnes	
-Production, tonnes	72,177
-Export, tonnes	236
-Import, tonnes	0
Interim processing	
Cotton yarn, tonnes	
-Production, tonnes	4,411
*-Export, tonnes**	5,887
-Import, tonnes	2,654
Cotton fabrics, thousand m^2	
-Production, thousand m^2	14,078
-Export, thousand m^2	13,948
-Import, thousand m^2	174,331

** Exports may exceed production due to various factors: 1) inaccuracy of using different sources; 2) export can go from stocks; 3) other factors. In this case, the difference is permissible for the purpose of presenting the structure of counterparty countries.*

The table on the left shows the balance of cotton production, imports and exports in Kazakhstan in 2019. The raw cotton harvest was 344,364 tonnes. The yield of cotton fiber from raw cotton is 33-35% (industry average). The rest falls on seeds (56-68%) and other components.

As our estimates show, approximately equal shares of cotton fiber obtained in primary processing are exported (65,462 tonnes) and go for further use in domestic production (72,177 tonnes).

The fact that half of the volume of initial processing product (fiber) goes for export indicates insufficient utilization of domestic raw materials.

Cotton fiber used in domestic production is also used for the production of cotton yarn (4,411 tonnes) and cotton fabric (14,078 tonnes).

In the structure of foreign trade of yarn, exports prevail, For cotton fabrics to the contrary, imports largely prevail with insignificant exports.

As follows from all of the above, the cotton industry is highly import-dependent in relation to products with higher added value, while quite sufficient raw material base is available in the country.

The next slide shows the structure of foreign trade of the presented products in the context of counterparty countries.

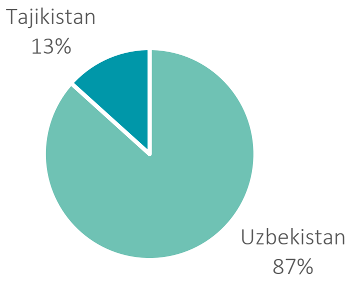
Source: Trademap, Kazakhstan Statistics Committee, Deloitte analysis

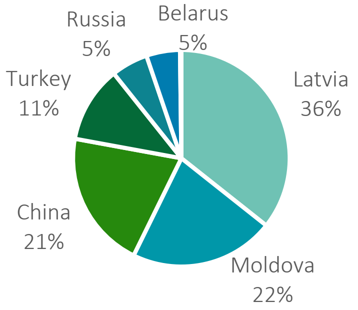
Kazakhstan market overview of the textile industry

Production chain. Foreign trade structure. Year 2019

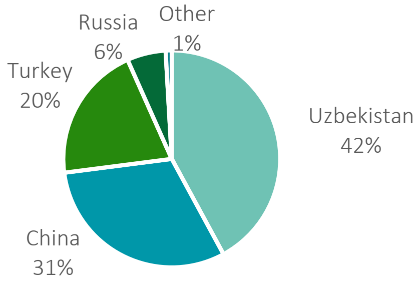
Import in 2019 / Export in 2019

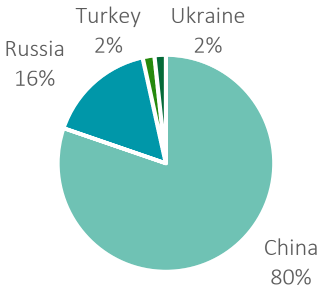
Foreign trade structure – cotton fiber not carded or combed



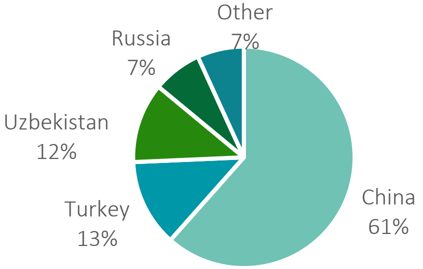


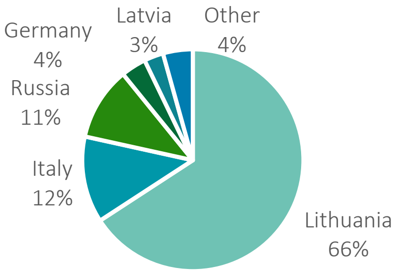
Foreign trade structure – cotton yarn





Foreign trade structure – cotton fabric





Source: Trademap, Kazakhstan Statistics Committee, Deloitte analysis

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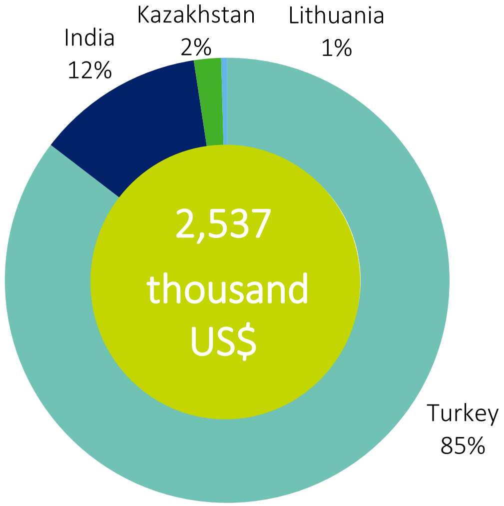
Kazakhstan textile industry market overview

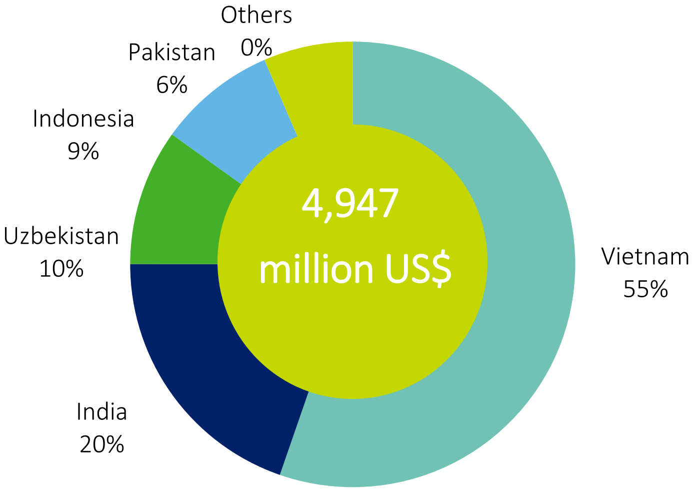
Potential sales markets: Latvia and China

Structure of cotton fibre (non-carded or uncombed) imports into Latvia in 2019



Cotton fibre (non-carded or uncombed) imports into Latvia in 2019 amounted to US$ 2,537 thousand in 2019. Turkey accounts for the greatest share of suppliers (85%). An important role in Turkey's textile industry development is the ability to grow cotton and flax in the country. Turkey is one of the leaders in terms of exports to the EU, second only to China. In turn, Kazakhstan's share of cotton fibre (non-carded or uncombed) imports into Latvia is estimated to be 2% or US$ 50 thousand, which testifies to the opportunity to increase its export potential.

Structure of cotton yarn imports into China in 2019



Cotton yarn imports into China amounted to US$ 4,947 million in 2019. The largest exporter is Vietnam (47%) due to its large work force. At the same time, raw materials used to manufacture cotton yarn is imported from the USA.

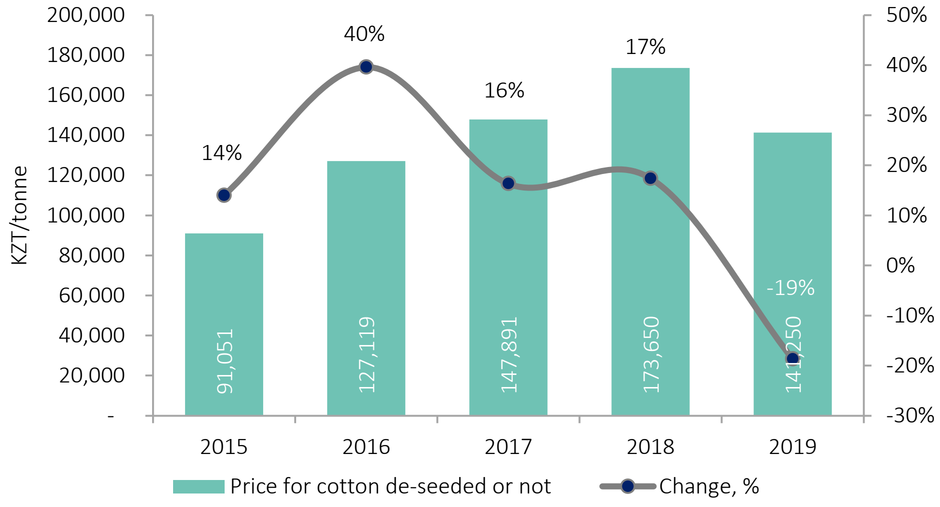
Kazakhstan's share imports of household textile items into China are estimated to be 0.17% or US$ 8,564 thousand, which testifies to the opportunity to increase its export potential.

Source: Trademap

Kazakhstan market overview of the textile industry

Average annual prices of cotton producers

Dynamics of average annual producer prices for cotton de-seeded or not, KZT/tonne (VAT excl.)



The graph above shows the average purchase prices of cotton processing companies for cotton in Turkestan Oblast. Prices are being established from September to December, during the harvest season. There are differences in prices depending on the type of cotton.

Over 2015-2019, producer prices for cotton de-seeded or not, averaged KZT 136,192 per tonne (KZT 136/kg), according to the Kazakhstan Statistics Committee.

Current changes and cotton pricing in Kazakhstan

Purchase prices for cotton processing plants in Kazakhstan are determined based on the world cotton price situation.

Over the period of 2015-2018, world cotton prices were on an upward trend due to bad weather conditions in the largest producing countries. For example, storms in the Gulf of Mexico and drought in the southern states of the USA caused significant damage to crops. Investors feared a shortage in the market. In 2019, the world price decreased due to the drop in global demand for cotton fiber.

As shown in the graph on the left, a similar dynamics of prices was observed in Kazakhstan. Purchase prices for cotton increased In the period from 2015 to 2018, and then decreased in 2019. So, purchase prices in Kazakhstan correlate with the changing world price index.

Still, in 2018, an issue of establishing a single purchase price for all cotton processing plants in Turkestan Oblast was discussed (Forbes) with the aim to stabilize domestic prices for cotton. According to the regional akimat, this measure should have led to growing competition in the industry and, as a consequence, to an increase in the average purchase price for cotton while maintaining a certain balance with the world index of prices for cotton fiber.

It was decided that cotton processing plants annually establish a single purchase price (with world quotations in mind). At the same time, the managers of the factories must come to an agreement on the setting of a price that is beneficial for both the factories and farmers.

The government uses various mechanisms to subsidize the industry. Since 2007, the government has provided subsidies of KZT 12 thousand to farmers per tonne of cotton sold to processing plants.

Source: Kazakhstan Statistics Committee, Forbes

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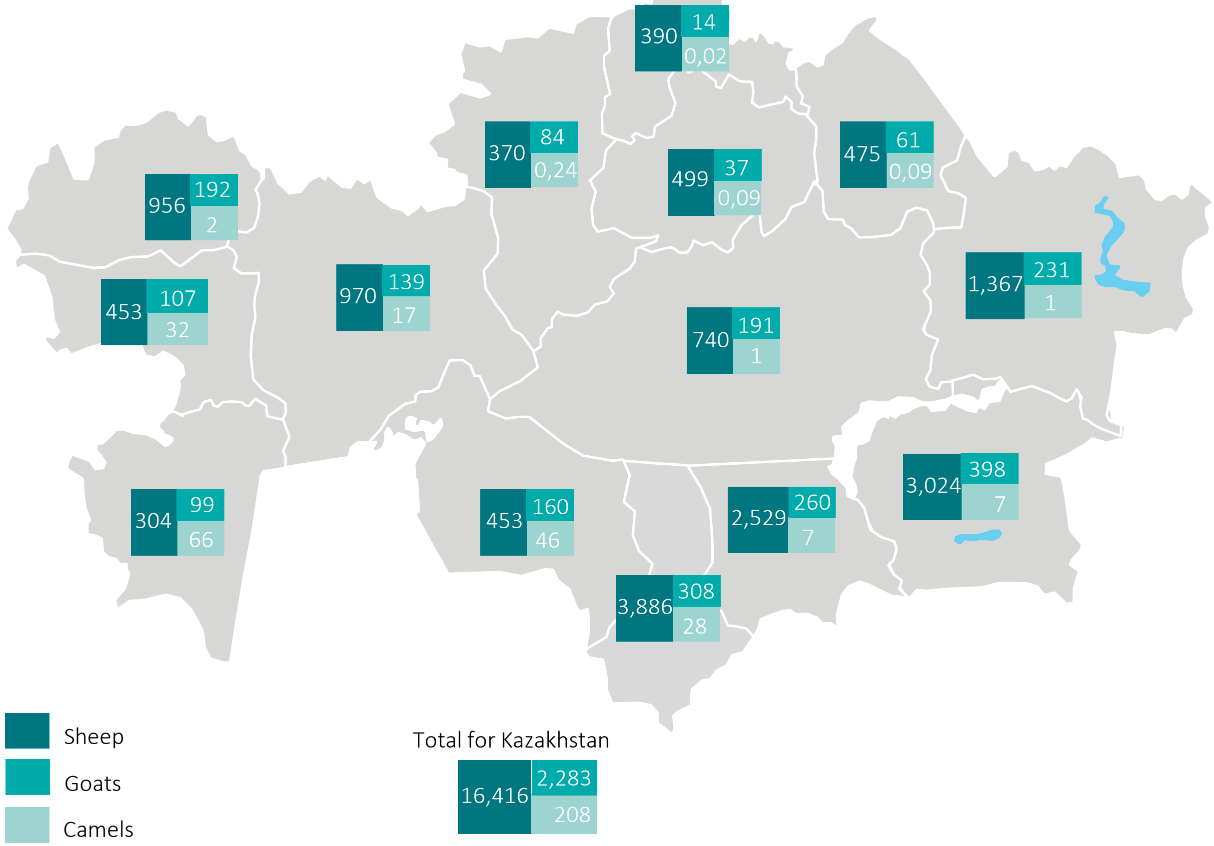
Livestock in Kazakhstan

Livestock population in Kazakhstan by region in 2019, thousand heads



Source: Kazakhstan Statistics Committee

Wool is one of the important directions for the textile industry development. Historically, wool in Kazakhstan is produced in three types: sheep wool, goat hair and camel hair.

In 2019, the sheep population in Kazakhstan amounted to 16 mln heads, goats - 2 mln heads and camels - 0.2 mln heads.

The most common sheep breeding regions are Turkestan Oblast (23%), Almaty Oblast (18%), Zhambyl Oblast (15%) and East Kazakhstan Oblast (8%).

The most common goat breeding regions are Almaty Oblast (17%), Turkestan Oblast (13%), Zhambyl Oblast (11%) and East Kazakhstan Oblast (10%).

The most common camel breeding regions are Mangistau Oblast (32%), Kyzylorda Oblast (22%), Atyrau Oblast (15%) and Turkestan Oblast (13%).

In general, Turkestan Oblast accounts for 22% of animal heads, Almaty Oblast - 18%, and Zhambyl Oblast - 15%. These regions account for a greater volume of shearing, production and processing of wool.

Kazakhstan market overview of the textile industry

Production and primary processing of wool

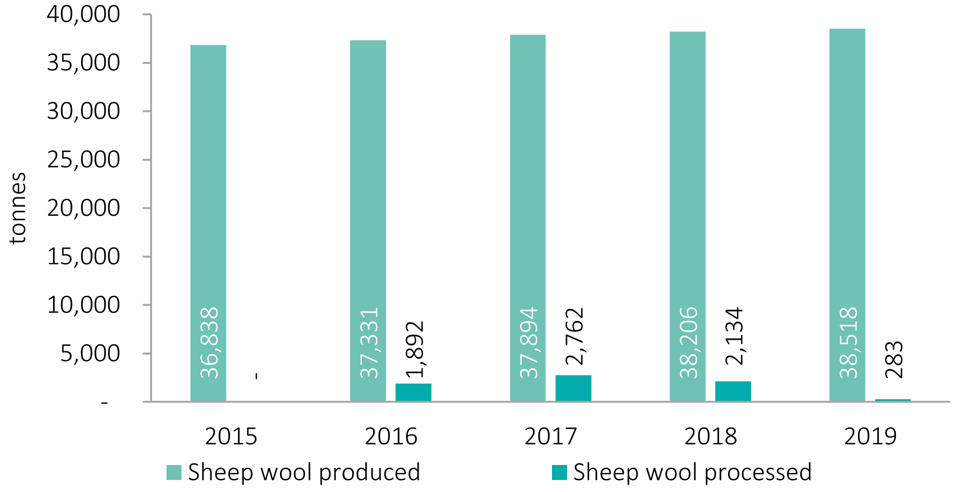
Dynamics of wool production in physical terms

tonnes	2015	2016	2017	2018	2019
All types of wool produced	38,025	38,518	38,980	39,166	39,492
Sheep wool	36,838	37,331	37,894	38,206	38,518
Goat hair	667	614	585	475	494
Camel wool	521	574	501	485	481

Over the past 5 years, the annual volume of wool production in Kazakhstan averaged 38 thousand tonnes (39.5 thousand tonnes in 2019). The average growth rate of wool production was 0.8%.

The largest share (97%) of total production is sheep wool. This is due to the large number of sheep in Kazakhstan. The wool of goats and camels accounts for less than 3% of the total output. Most of the animals are bred on household farms, a smaller part - by agricultural enterprises.

Dynamics of production and processing of sheep wool, tonnes



Sheep wool production for the period of 2015-2019 remained stable at 37 thousand tonnes with an average annual growth rate of 0.9%. In 2019, the volume of sheep wool production amounted to 38.5 thousand tonnes.

The volume of sheep wool processing averaged 2 thousand tonnes for the period of 2016-2019. The yield of processed wool averaged about 6%, while it normally reaches 40-45% in developed countries. The content of impurities in wool depends on the type of wool, as well as on animals' living conditions and is usually 40-42%; in the lower grade wool it reaches 70-75%.

Source: Kazakhstan Statistics Committee

Kazakhstan market overview of the textile industry

Sheep wool production

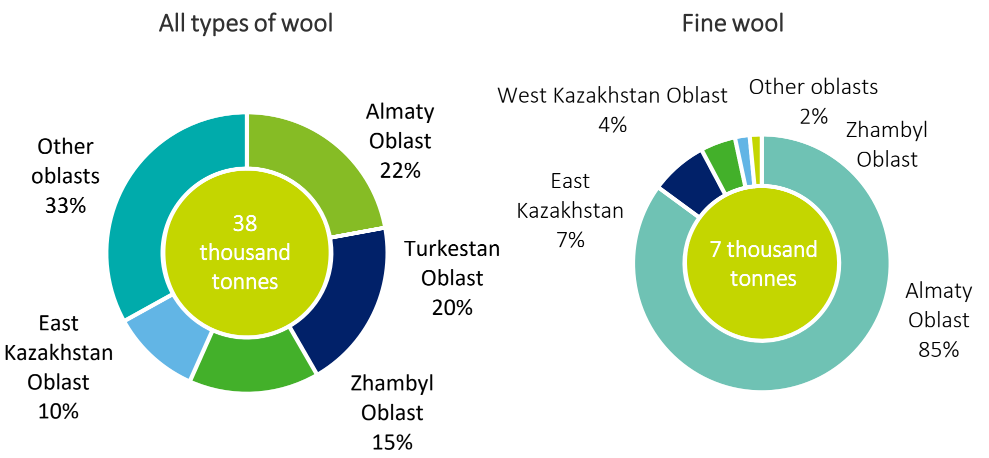
Dynamics of production of sheep wool by types

tonnes	2015	2016	2017	2018	2019
Cast wool	20,197	20,476	20,640	20,622	21,155
Fine wool	7,145	7,285	7,335	7,274	6,811
Half-bred wool	5,299	5,348	5,514	5,660	5,871
Down wool	4,197	4,222	4,405	4,650	4,682
Total	36,838	37,331	37,894	38,206	38,518

Among all types of sheep wool, the production of cast wool dominates: on average 20 thousand tonnes or 55% of the total volume. The annual production of fine and half-bred wool is 12 thousand tonnes or 33% of the total.

This is due to the domination of the population of mixed breeds of sheep used mainly or exclusively for meat production. Accordingly, the share of cast wool in the total shear increases annually, while the volume of fine and half-bred wool is shrinking.

Structure of sheep wool production by oblast in 2019



The intensity of sheep wool production is very different by country region, with more than 2/3 of the total production concentrated in the south and southeast regions.

The concentration of fine-wool sheep breeding is even higher: about 90% of all fine wool is sheared in the south and southeast, and 85% of its production is concentrated exclusively in Almaty Oblast, which is recognized as historically established place of fine-wool sheep breeding.

In accordance with the Order of the Minister of Agriculture of the Republic of Kazakhstan dated March 15, 2019 No. 108 "On approval of the Rules for subsidizing the development of livestock breeding, increasing the productivity and quality of livestock products" subsidies for processed fine and semi-fine sheep's wool were discontinued.

Source: Kazakhstan Statistics Committee

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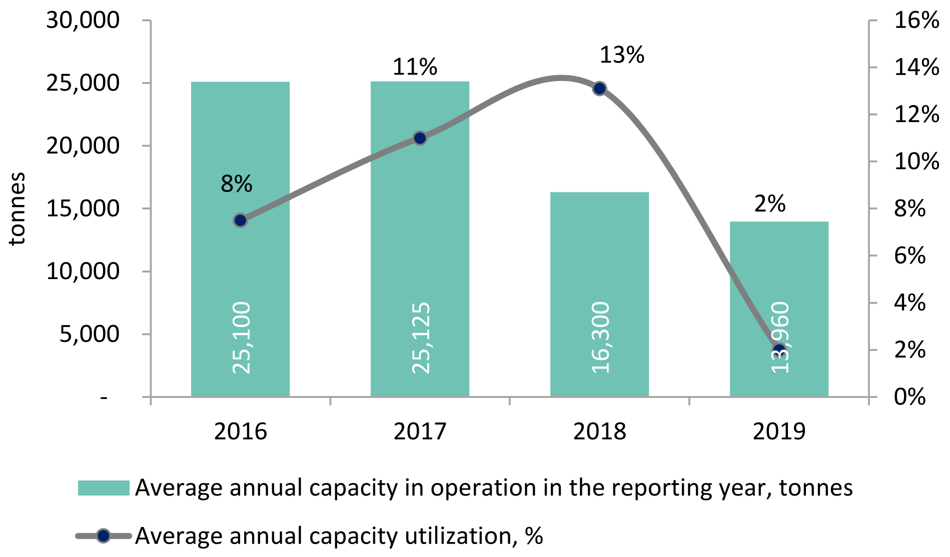
Primary wool processing, production facilities

Dynamics of capacity utilization at processing plants



Clip is further processed in factories. Over 2016-2019, the average annual capacity of the processing plants was 20 thousand tonnes. However, capacity utilization only averaged 8%. Data for 2014-2015 is unavailable.

The table on the right shows the largest processing plants in the country. As seen from the table, the production is mainly concentrated in the southern regions of the country. The list also includes the western and eastern regions where camels and sheep are bred.

Source: Kazakhstan Statistics Committee

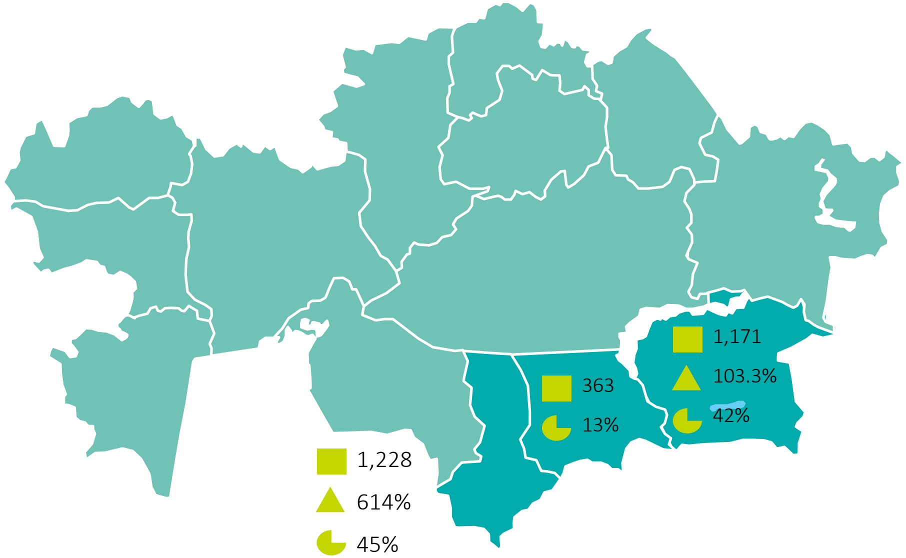
Major wool processing plants in Kazakhstan

Company	End product	Location
Primary processing		
Tazaz Zhibek Zhun LLP	degreased wool	Zhambyl Oblast, Taraz
POSh Factory LLP	degreased wool	Zhambyl Oblast, Taraz
JSC Kazruno	degreased wool	East Kazakhstan Oblast, Semei
JSC Kazruno	degreased wool	Almaty Oblast, Kordai
Biyazy SPK	degreased wool, felt	Turkestan Oblast, Kazygurt district
ShKPOSh LLP	degreased wool	city of Shymkent
Tauchik LLP	degreased wool	Mangistau Oblast, settlement of Tauchik
POSh Runo LLP	degreased wool	West Kazakhstan Oblast, Uralsk
Ontustik Keyes LLP	degreased wool	city of Shymkent

Kazakhstan market overview of the textile industry

Location of production facilities for the primary processing of sheep wool

Processing of sheep wool by region in 2017, tonnes



Kazakhstan:
Total, tonnes 2,762 Annual growth 145.93% Share 100%

For 2019, the volume of sheep wool processing in official statistics is indicated only for Shymkent. The most complete data are available in 2017, which were reflected on the map above.

Almaty, Zhambyl and Turkestan oblasts are the main regions of sheep wool processing in Kazakhstan. In 2017, the volume of processed wool reached 2,762 tonnes, of which Turkestan Oblast accounted for 45%, Almaty Oblast for 42% and Zhambyl Oblast for 13%. The largest increase (sixfold) in processing volumes was reported in Turkestan Oblast. The growth in Almaty Oblast was 3%.

Source: Kazakhstan Statistics Committee

Sheep wool processing by region

tonnes	2016	2017	2018	2019
Almaty Oblast	1,134	1,171	930	x
Zhambyl Oblast	x	363	x	-
Turkestan Oblast	200	1,228	-	-
Shymkent city	-	-	-	260
Total for Kazakhstan	1,892	2,762	2,134	283

Wool processing stages

Primary processing
Sheep fleece
Sheep fleece makes yarn

Deep processing
Yarn is a raw material for making ready-made textile accessories

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- Cotton production
- Wool production
Summary
Abbreviations

Kazakhstan market overview of the textile industry

Enterprises for deep processing of wool

Felt and textile factories in Kazakhstan

Company	End product	Location
Felt factories		
Felt Factory LLP	felt; felt boots	Akmola Oblast, Kokshetau
Rosa VVK	felt; felt boots; blankets	East Kazakhstan Oblast, Semei
Ayaz LLP	felt; felt boots	West Kazakhstan Oblast, Uralsk
Shveinik LLP	felt	West Kazakhstan Oblast, Uralsk
Kostanay felted shoe factory LLP	felt; felt boots	Kostanai Oblast, city of Kostanai
Petropavlovsk felted shoe factory LLP	felt; felt boots	North Kazakhstan Oblast, Petropavlovsk
Textile factories		
Kostanay spinning and knitting factory LLP	knitwear, yarn, batting	Kostanai Oblast, city of Kostanai
JSC Kargaly	wool, apparel, quilts	Almaty Oblast, settlement of Fabrichnoe
Murager	down wool	East Kazakhstan Oblast, Semei
Kiyal LLP	work clothes, jersey	Aktobe Oblast, city of Aktobe
Shymkent-Kashemir LLP	apparel and other finished products	Shymkent, Ontustik special economic zone
Caspiy Lana Atyrau LLP	yarn, woolen blankets	Atyrau Oblast, city of Atyrau

Deep processing of wool in Kazakhstan is represented by the following main directions: production of felt, weaving and production of knitwear.

The Kazakhstan felt industry mainly produces felt and felted footwear from cast wool. Weaving mills use down wool, fine wool or half-bred wool for the production of quilts, clothing and semi-finished products such as yarn or fabric.

Location of the facilities involved in the deep processing of wool is diverse, all country regions more or less equally participate.

However, the production capacity of the factories is different. Among the largest industries are Shymkent-Kashemir LLP, Kostanay spinning and knitting factory LLP and JSC Kargaly. The total production capacity of these factories is estimated at 150-200 thousand tonnes per year.

The rest factories have approximately equal smaller production capacity estimated at 70-100 thousand tonnes per year.

Kazakhstan market overview of the textile industry

Supply and use balance, structure of imports of woolen fabrics

Dynamics of resources and use of fabric from carded and combed wool or from coarse animal hair or horse hair

thousand m²	2015	2016	2017	2018	2019
Resources	**530**	**547**	**289**	**454**	**302**
Production	0	118	33	0	0
Import	530	429	257	454	302
Use	**530**	**547**	**289**	**454**	**302**
Export	0	0	0	0	0
Domestic sales	530	547	289	454	302

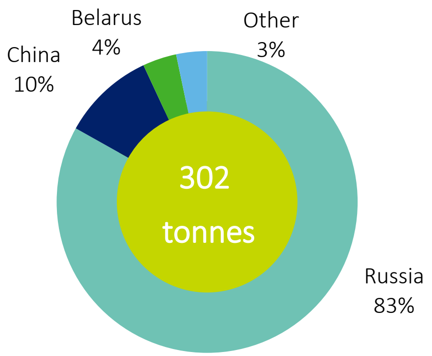
Over 2015-2019, the average resources of fabrics from carded and combed wool or animal hair or horse hair in the country amounted to 424 thousand m^2 (the Kazakhstan Statistics Committee). About 93% of resources are provided by imports, with volumes of domestic production being much less.

The low production of woolen fabrics is due to the small share of fine wool production, which is a raw material for the production of woolen fabrics. As mentioned above, the share of fine and half-bred sheep's wool is on average 33% of the total production of sheep wool.

Woolen fabrics, in turn, are used to produce suits, coats and other clothing. Thus, domestic raw materials - fine wool - are not enough for the production of wool textile products in Kazakhstan. The development of fine-wool sheep breeding in the country would make it possible to satisfy domestic demand and access foreign markets.

Data on the balance of resources and use for other woolen products is unavailable due to the lack of reliable statistical data.

Structure of imports of fabric from carded and combed wool or from coarse animal hair or horse hair by country-exporter



In 2019, Russia (83%) and China (10%) (TradeMap) were the main exporters of carded and combed wool or animal hair or horse hair. A small share of 4% is taken by Belarus. Other countries (Turkey, Italy, Uzbekistan and Ukraine) account for 3%.

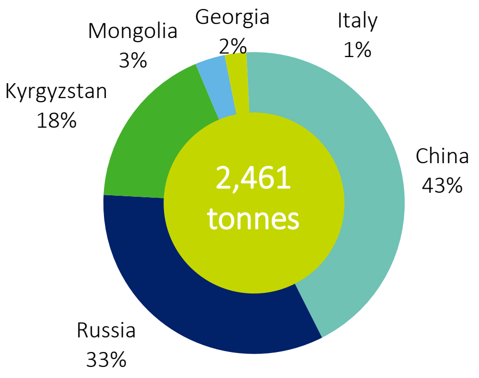
Kazakhstan does not export fabrics from carded and combed wool or coarse animal hair or horse hair.

Source: Kazakhstan Statistics Committee, TradeMap.org

Kazakhstan market overview of the textile industry

Wool exports and imports

Export of wool, fine or coarse hair of animals both subject and not subject to carding or combing in 2019, tonnes

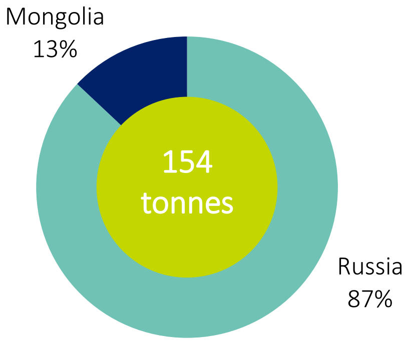


Kazakhstan was an exporter of wool and fine or coarse animal hair, both subject and not subject to carding or combing.

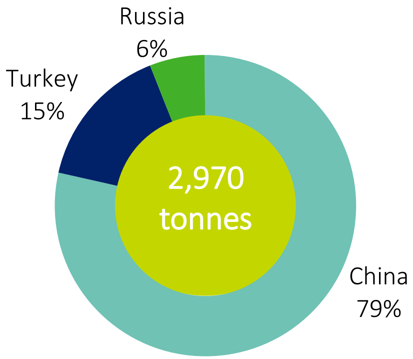
China, Russia, Mongolia and Kyrgyzstan are the main importers of primary raw materials. Key markets for wool in 2019 were China (43%), Russia (33%), Kyrgyzstan (18%) and Mongolia (3%). At the same time, imports of the same products from Russia (87%) and Mongolia (13%) only amounted to 154 tonnes.

There is no export of wool yarn. The import of woolen yarn amounted to only 2,970 tonnes. The major exporters were China (79%), Turkey (15%) and Russia (6%).

Import of wool, fine or coarse hair of animals both subject and not subject to carding or combing in 2019, tonnes



Import of woolen yarn to Kazakhstan in 2019, tonnes

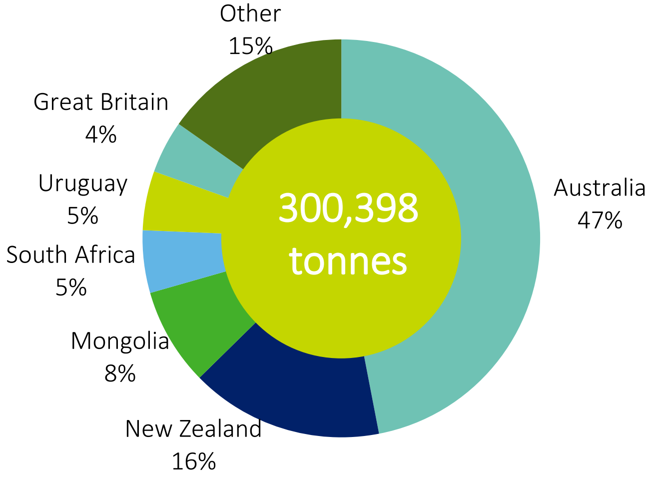


Source: TradeMap.org

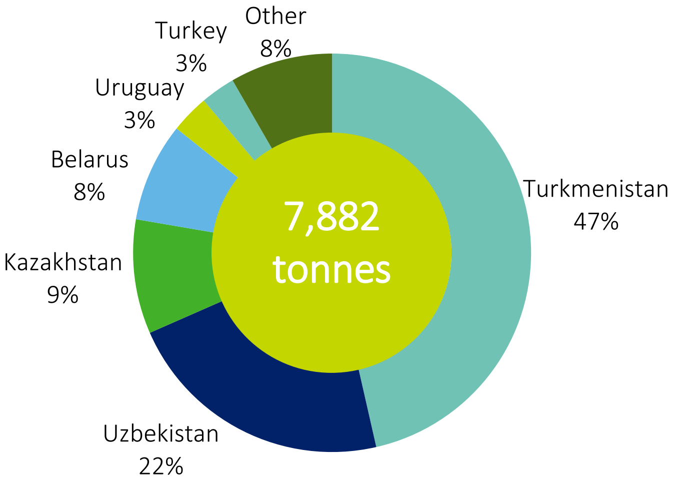
Kazakhstan market overview of the textile industry

Potential sales markets: China and Russia

Imports of wool, fine or coarse hair of animals both subject and not subject to carding or combing to China by country in 2019, tonnes



Imports of wool, fine or coarse hair of animals both subject and not subject to carding or combing to Russia by country in 2019, tonnes



China imports of wool and fine or coarse animal hair both subject and not subject to carding or combing totaled 300,398 tonnes in 2019.

Australia has the largest share among exporters (47%). Australian merino sheep (a breed of fine-wool sheep) differ from other sheep breeds in their high quality worsted (combed) wool consisting of thin (15–25 µm) soft fibers. Today, merino is still considered to have the finest and softest wool among sheep. The share of Kazakhstan in China's wool imports is 0.35%.

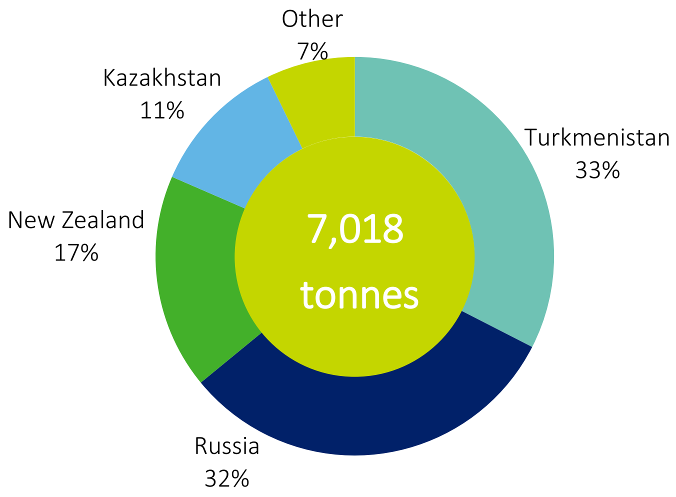
The imports of wool and fine or coarse animal hair both subject and not subject to carding or combing to Russia amounted to 7,882 tonnes in 2019.

The largest share among the exporters belongs to Turkmenistan (47%) and Uzbekistan (22%). The share of Kazakhstan in Russia's imports is 9%. Due to its favorable geographic location, Kazakhstan has the opportunity to increase exports to Russia replacing the exports from neighboring countries.

Source: TradeMap.org

Kazakhstan market overview of the textile industry
Potential sales markets

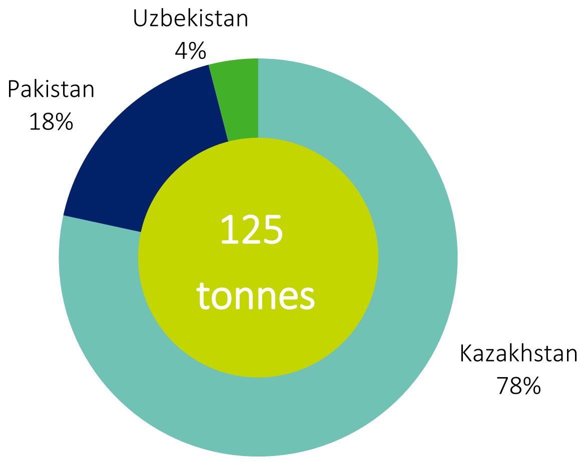
Imports of wool, fine or coarse hair of animals both subject and not subject to carding or combing to Mongolia by country in 2019, tonnes



Mongolia imports of wool and fine or coarse animal hair both subject and not subject to carding or combing totaled 7,018 tonnes in 2019.

The largest exporters are Turkmenistan (33%), Russia (32%) and New Zealand (17%). The share of Kazakhstan in Mongolia wool imports is estimated at 11%, which indicates the potential for increasing exports from Kazakhstan to Mongolia.

Imports of wool, fine or coarse hair of animals both subject and not subject to carding or combing to Kyrgyzstan by country in 2019, tonnes



Kyrgyzstan represents a consumer market with limited capacity. The total imports of wool and fine or coarse animal hair both subject and not subject to carding or combing reached 125 tonnes in 2019.

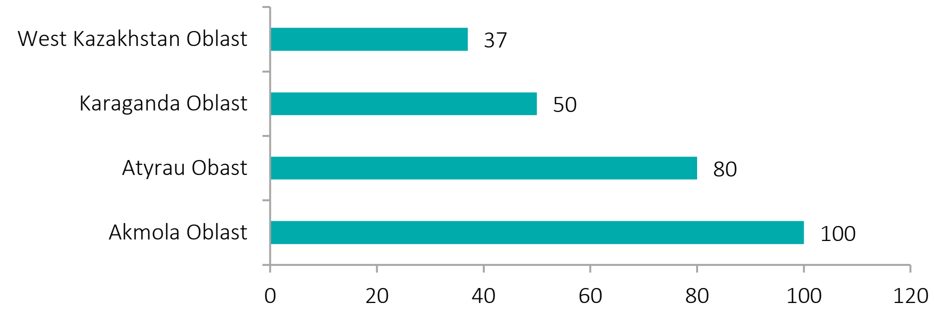
Kazakhstan is the largest exporter (78%) of the subject products to Kyrgyzstan. Pakistan takes 18% and Uzbekistan 4%.

Source: TradeMap.org

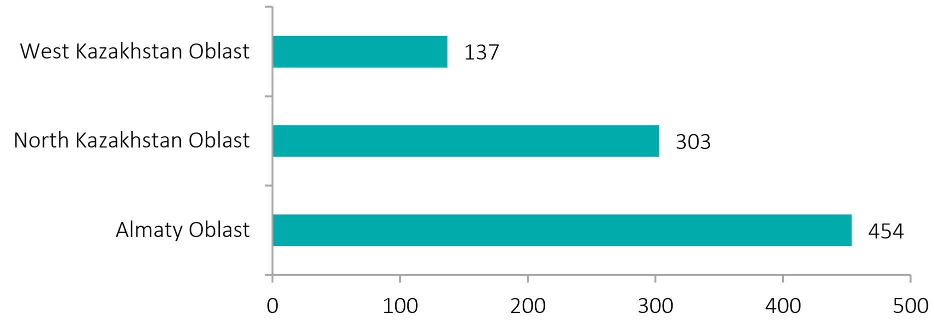
Kazakhstan market overview of the textile industry

Average annual prices in the markets in cities and regional centers of Kazakhstan

Retail prices for cast wool in the regions of Kazakhstan, KZT per kilo



Retail prices for fine and half-bred wool in the regions of Kazakhstan, KZT per kilo



Average annual prices for wool in Kazakhstan vary greatly depending on the region and the type of wool (the Kazakhstan Statistics Committee). The lowest average price was set for cast wool, the highest for fine and half-bred wool. Among the regions, the highest prices were reported in Almaty Oblast and the lowest ones in West Kazakhstan Oblast.

The average price for unwashed cast wool (including washed with a fleece) sheared from a live sheep is 67 KZT/kg. The highest price for cast wool (KZT 100/kg) is established in Akmola Oblast, while West Kazakhstan Oblast enjoys the lowest price (KZT 37/kg). The average price for unwashed fine wool and half-bred wool (including fleece washed) sheared from a live sheep is KZT 298/kg. Almaty Oblast reports the highest price for fine wool (KZT 454/kg), West Kazakhstan Oblast has the lowest one (KZT 137/kg).

The market value in the domestic market of Kazakhstan is 2-3 times lower than the price for wool of similar fineness and quality in Australia and other developed sheep markets (FAO UN). It is explained by the fact that the cost of labor at all stages of the value added chain in Kazakhstan is significantly lower in comparison with other countries.

Another reason for such low prices for wool in Kazakhstan is the establishment of low purchase prices by trading companies. Chinese entrepreneurs are the main traders in the wool market in Kazakhstan. The wool they buy is sold to factories in western China. In general, trade links between wool producers and wool buyers (Chinese companies) are irregular.

Wool is often purchased in small quantities mixed in bales; buyers prefer to pay the minimum price due to the risks arising from irregular supplies (which can be eliminated by increasing the volume of supplies). A premium price for better quality products is usually not offered when purchasing cast wool and down wool, and rarely offered when purchasing fine or half-bred wool.

Thus, the prices for wool supplied to China are fixed and set in the local market by the purchasing party. Prices are not set on an exchange like in Australia and other developed sheep markets.

Source: Kazakhstan Statistics Committee, FAO UN

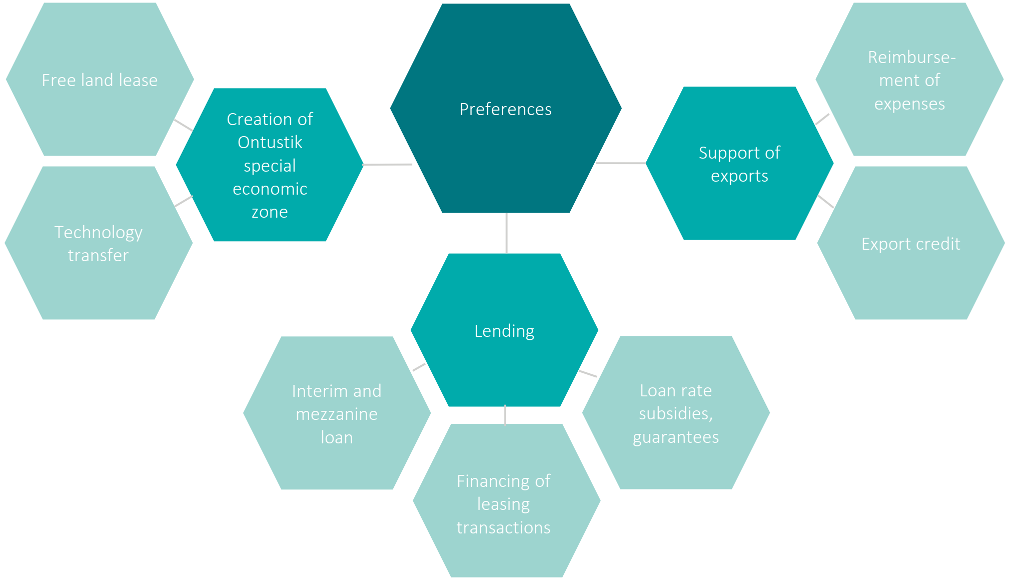
Kazakhstan market overview of the textile industry

State support for priority investment projects

Role of the state in the industry development

The state takes comprehensive and systematic measures to support enterprises in the light and textile industries. The government has worked out a roadmap program for the development of light industry for 2019-2021. The Program incorporates 52 measures to provide enterprises with raw materials, combat illegal trade in goods, increase the share of local content and set economic incentives, as well as systemic support measures.

Preferences



Support institutions:

- JSC National Managing Holding "Baiterek": financial support of priority sectors of the economy, small and medium-sized businesses, export operations
- JSC Development Bank of Kazakhstan: a wide range of lending for investment projects and current operations, financing of leasing transactions, provision of guarantees
- JSC Entrepreneurship Development Fund "Damu": lending, subsidizing, guaranteeing loans
- JSC National Agency for Technological Development: innovative grants, project financing, venture funds, business incubation, technology transfer
- JSC Export Credit Insurance Corporation "Kazakh Export": mechanisms to support the entry of Kazakh manufacturing products to foreign markets
- JSC Kazakhstan Center for Industry and Export “QazIndustry”: reimbursement of costs for the development and/or examination of a comprehensive plan of an industrial and innovative project;
- JSC Foreign Trade Chamber of Kazakhstan: assistance in the export of Kazakh products;
- Ontustik Special economic zone: creation of conditions for the development of the textile and clothing industry, participants-investors are exempt from paying corporate income tax, property and land tax, customs duties for a period until 2030.
- In the cotton sector, subsidies are provided to farmers in the amount of KZT 12 thousand per ton of cotton sold to cotton processing plants. In accordance with the Order of the Minister of Agriculture of the Republic of Kazakhstan dated March 15, 2019 No. 108 "On approval of the Rules for subsidizing the development of livestock breeding, increasing the productivity and quality of livestock products" subsidies for processed fine and semi-fine sheep's wool were discontinued.

Kazakhstan market overview of the textile industry

Support for the industry through the Economy of Simple Things Program

- The goal of the Economy of Simple Things Program is to saturate the domestic market with domestic goods, raise the competitiveness of the manufacturing industry, and, above all, release a wide range of consumer goods.
- The credit facility is made available to business projects implemented in priority sectors of the economy in accordance with the approved list of goods for credit financing of priority projects, which includes the food industry. Within the Program framework, the state subsidizes the interest rate on a bank loan through banks.
- The Project operator is Damu JSC. According to the Ministry of National Economy, since the start of the Program as at 9 September 2019, 209 projects have been approved for the amount of KZT 139.6 billion. Out of 209 approved projects, 154 received loans for expansion and modernization, and 55 are startups.
- According to Atameken National Chamber of Entrepreneurs, the approved projects include the production of consumer goods such as clothing (jackets, suits, blouses, shoes, overalls, etc.), food products (pasta, bakery products, meat and sausages, dairy products, confectionery, etc.), chemicals (fertilizers) and building materials (bricks, cement), as well as service facilities (construction of kindergartens, preschool institutions, sanatoriums, hotels, rehabilitation centers, recreational compounds).

Program conditions	
Participants	private business entities (small, medium and large business)
Loan interest rate	15% per annum
Subsidy size	up to 9% of the nominal interest rate
Purpose of projects	investments and replenishment of working capital; replenishment of working capital is allowed on a renewable basis
Maximum amount for one borrower	unlimited
Subsidy period	for investments - 10 years, without further prolongation of the subsidy period
	to replenish working capital - 3 years, without further prolongation of the subsidy period
Loan refinancing	not provided
Active loans	loans issued by banks after the entry into force of the governmental resolution dated 11 December 2018 No. 820 are allowed

Source: official website of the Prime Minister of the Republic of Kazakhstan

Summary

Summary
Competitive advantages

Rich resource base

- Sheep population in Kazakhstan reaches about 16 million heads, their wool is used for the production of textiles. The population includes fine-wooled sheep as the source of fine and half-bred wool.

Advantage of geographic position

- The proximity of potential cotton producers - Uzbekistan, Tajikistan and Turkmenistan.
- Kazakhstan is geographically advantageously located in relation to the capacious sales markets of the CIS countries and Eastern Europe.
- The raw material base and processing factories are compactly located in the southern regions (Almaty, Turkestan and Zhambyl oblasts).
- The Western Europe - Western China Highway passes through the southern regions of Kazakhstan.

Attractive investment climate

- The law of Kazakhstan on the development of the cotton industry was adopted.
- Ontustik special economic zone was established.
- There are significant tax and customs preferences, production infrastructure has been built.
- Preferential economic conditions.

Developed infrastructure

- Modern laboratories are being created to assess the quality of cotton fiber bale by bale.
- Cotton Research Institute was opened.
- Work is underway to organize transport and logistics centers.
- JSC Cotton Contract Corporation has put a new cotton ginning plant into operation.

Access to labor resources

- Kazakhstan has human capital in the field of animal husbandry, as well as knowledge and professional skills in related areas such as animal husbandry, veterinary medicine, automation and mechanization, production management
- The southern regions of the country are the most densely populated regions with cheap labor.

Abbreviations

List of abbreviations

AWEX EMI	the Australian Wool Exchange Eastern Market Indicator
F	forecast (in tables or graphs)
mln	million