

SUBSIDISING AGRICULTURE IN EAEU

V. Shelomentseva^{*,1}, A. Narynbayeva², L. Frezoger¹, M. Bayandin¹, Z. Smagulova¹, S. Bepalyy¹

¹Professor, Innovative University of Eurasia, Republic Kazakhstan

²Associated Professor Innovative University of Eurasia, Republic Kazakhstan

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ABSTRACT

The article considers the topical issues of the agricultural sector financial support to include the kinds of subsidies and their allotment. The roles of subsidies in the development of the agricultural sector of Kazakhstan have also been defined. State support is a part of the agricultural policy equalising the aftermath of the unequal commodity exchange of the agriculture with other sectors and ensuring the efficient agricultural production as a whole.

State support of the agricultural business in the EAEU was analysed and the concept of improvement of this support by unification of existing principles, procedures and mechanisms to ensure fair competition of the producers (by subsidies) was substantiated. Unification of state administration in the EAEU would create equal economic conditions for agricultural producers, boost production and protect the producers' interests in the internal and external markets. Moreover, it would solve the problem of food supply as well as the other EAEU development problems.

According to the developed countries' experience, a comprehensive support of the agriculture by the state provides for the proper efficiency and competitiveness of agricultural production in combination with other measures. It would strengthen Kazakhstan's position in the Eurasian agricultural market.

Keywords: agriculture, agricultural production, state financial support, subsidising, subsidizing, integration, EAEU member states.

Author Correspondence, e-mail: author@gmail.com

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INTRODUCTION

Subsidising agriculture is one of the most important aspect of the state financial support. Money allotted by the state to the agricultural sector through devoted funds should be used as efficiently as possible and strictly purposefully.

The modern approaches to subsidising Kazakhstan agriculture have some deficiencies to be corrected in order to make business entities more efficient:

- Low subsidies to costs ratio – much lower than in agriculturally developed countries, which places domestic products unfavourably compared to imported ones.
- Subsidising does not stimulate agricultural producers to raise production and sales (subsidies are given by 1 ha of crops or per capita).
- The existing subsidy-allotment rules are complicated by excessive bureaucracy, which is why the producers receive it late.

However, recently there has been a positive dynamics in production and consumption of the most important nutrition product. Their range broadens and their quality improves.

The state supports cattle breeding and agriculture by subsidies, loans, tax credits as well as with informational and marketing resources [1, 2, 3].

Thus, agriculture is supported by subsidies to improve yield and quality. Producers buy fuel and lubricants at privileged prices during spring and harvesting works. There are subsidies for priority croppers and the costs of growing crops in sheltered ground are partially remunerated.

Traditionally, the states subsidises fertiliser purchases (save for organic ones) as well of herbicides, biological agents and preparations protecting agricultural crops from pests and blight. Also, the cost of planting and growing (to include restoration) of perennial fruit planting is compensated to include vine, as well as the expertise of raw and loose cotton. The same is true in respect of seed raising.

Livestock breeding is subsidised as well. Farmers are compensated against the cost of selection and breeding aimed to improve qualities of the livestock. Processing enterprises are financed to acquire agricultural products for advanced processing. [4, 5].

Along with the aforesaid, there are some general instrument of support to include financial restructuring, investment financing, lower interests and loan insurance.

MATERIALS AND METHODS

The study is centered around the agricultural business of all forms of ownership in Kazakhstan, Belorussia and Russia. The theory of state financial support of the agricultural

business under integration was studied with comparative analysis and generalisation. Logical method was used to reveal peculiarities and qualities of these processes and phenomena. Synthetic method and statistical analysis were used to quantify the current agricultural business development, reveal topical problems and define the ways to move forward.

FINDINGS

In *Kazakhstan*, subsidies are allocated by regional agricultural administration. The analysis shows their amount growing year by year for all of their kinds and forms. In 2015, total agricultural subsidies increased by 7.2% to 2010. The direct state support (yellow basket) increased by 3.1 times while the indirect one (green basket) decreased by 3.6 times (see Table 1).

Table 1. Financial Support of Agriculture in Kazakhstan (mln tenges).

Y	Units	State Support Figures		
		Total	including	
			Direct State Support ("yellow basket")	Indirect Support ("green basket")
2010	mln tenges	144,141	40,368	103,773
	%	100	28.0	72.0
2011	mln tenges	111,227	42,325	68,902
	%	100	38.1	61.9
2012	mln tenges	111,078	48,292	62,786
	%	100	43.5	56.5
2013	mln tenges	129,816	54,500	75,316
	%	100	42	58
2014	mln tenges	137,847	122,881	14,966
	%	100	89.1	10.9
2015	mln tenges	154,548	126,140	28,408
	%	100	81.6	18.4

In 2015, the straight state financial support reached 42.3% for crop farming, 39.2% for cattle breeding, 18.5% for other sectors and 81.5% for all agriculture. The share of direct state support in the agricultural gross product was 4.3% making 10% for crop farming and 6% for

crop farming and cattle breeding on average. [6] The source of subsidies changed as well. In 2010, the share of Republican budget subsidies was 96.8% while that of the local ones was only 3.2%. In 2015, these figures were 18.4% and 81.6% respectively.

In 2015, the share of subsidies in gross products of all agricultural businesses was 2.6% making 4.4% for agricultural organizations. Subsidies to agricultural organizations increased by 27.8% in 2015 compared to 2014: by 13.1% for crop farming, by 53,2% for cattle breeding and by 20.9% for peasant households.

The share of subsidies to agricultural organisations in agricultural gross product reached 4.3% in 2015 to include 2.9% for crop framing, 12.9% for cattle raising, 4.8% for agricultural businesses including 2.9% for their crop framing and 16.0% for cattle raising production, 3.9% for peasant households including 2.7% for their crop farming and 10% for their cattle raising production. [7].

Shares of subsidies for different kinds of production is normatively different for different regions of Kazakhstan. Subsidies to improve all kinds of cattle production amounted to 21,137 mln tenges having been increased by 12.1% to the level of 2014, to include 3,813 mln tenges (88.9%) for beef, 1,230 mln tenges (31.7%) for pork, 70 mln tenges (25%) for shubat (chal), 6,752 mln tenges (30.2%) for poultry, 1,547 mln tenges (41.2%) for coarse and succulent forage. [8].

Subsidies to buy fuel and lubricants as well as other goods and supplies are:

- 100% for cereals (save for rice and corn grown for grain) paid upon completion of sowing campaign by 1 ha at the basic norm;
- 100% paid upon completion of sowing campaign by 1 ha at the basic norm for sugar beet, oil-bearing crop, rice, corn grown for grain and silage, sunflower grown for silage, cotton, cucurbits crop (save for those grown in protected ground), fodder crop to include perennial leguminous crops, first, second and third year grass, fruits, vine and potato;
- 50% of the basic norm to agricultural producers having less than 50 ha under cotton and less than 200 ha under rice provided, that they are not members of a rural consumer cooperative;
- 50% separately for each kind of vegetable crops grown in sheltered ground depending on greenhouse type according to the standard costs;
- per 1 ha of perennial grass sown for tinning hayfields and pastures where only old-aged perennial grass is plowed according to the standard subsidy rate;

For cucurbits in the open ground, potato, sugar beet and cotton grown with industrial trickle irrigation, the standard subsidy rate increases. Such systems must have pumps, cyclone

separators, fertiliser injector, filters, pressure-relief valve, water metre and piping with drippers.

Subsidies are allotted only for priority crops on tilled soil as well as for perennial grass sown to cultivation of hayfields and pastures within optimal terms.

Subsidies partially compensating the costs of planting and raising perennial fruits and vine are applicable to the areas over 5 ha equipped with industrial trickling irrigation systems (except for Aport variety apples, which may be gardened without such systems).

Subsidies depend on the planting system, kind of perennial plants, their age, number of transplants per 1 ha.

To reduce the cost of selection aimed to improve the quality of beef cattle dairy stock, subsidies are 12 ths tenges a year per head.

Subsidies to reduce the cost of day-old chicks and brooding eggs bought from domestic poultry plants containing grand parental and parental forms are within 50% or 275 tenges per head of a pedigree chick, within 15 tenges per head of a laying chick and within 19 tenges per egg.

The high capital intensity and slow payback along with the inelastic consumer demand make agricultural performance low, which is why the state shall guarantee the medium income of farmers through subsidies and investments. [9,10].

Subsidising aims to raise agricultural efficiency: crop yields and livestock productivity, amounts of production and processing, products payoff and quality to make the producers receive their minimal income and ensure food security.

There are shortcomings in subsidising purchases of fuel, lubricants and other materials for sowing and harvesting:

- ✓ it is inefficient because money is allotted per 1 ha of crops and not per units of products that are not granted, which is against the cost-benefit principle;
- ✓ terms of application and the method of acceptance of crops by various commissions are complicated by bureaucratic procedures making the producers reject the support of the government;
- ✓ the existing method of paying per area does not stimulate production.

The development of the agriculture is financed directly from the state budget. The analysis of influence of state subsidies on agricultural performance showed, that funds allotter per 1 ha of crops reduce costs by 4% for potato raised with traditional watering, by 6% for potato raised with trickling irrigation, by 3.4% for vegetables in open ground watered through furrows and

by 4.5% with trickling irrigation, by 4-5% for crops in sheltered ground (in greenhouses used all year round) and by 12% with autumn and spring servicing.

Subsidies bring the cost of production down by 5.5% for traditional potato, by 10.4% for potato with trickling irrigation, by 7.5% for open-ground vegetables and by 10% for trickling irrigation ones.

The analysis shows, that the share of costs covered by subsidies is decreasing by 2% at ordinary and by 3% at increased norm for cereals, by 10% for corn, by 13% for rice, by 4% for forage crops, by 12% for oil plants, by 34% for sugar beet, by 6% for cucurbits, by 11% for cotton and by 5% for potato.

Subsidising would enable producers to better equip their enterprises, to use more productive technologies and breeds. Obviously, the existing subsidising method is far from perfect and is being changed accordingly. Agricultural procurement, processing and servicing cooperatives will be supported by the government financially and otherwise.

Financial support is leasing agricultural machinery and equipment, investment in acquisition of the same, subsidising interest payable on agricultural loans and lease, subsidising internal audit of cooperatives as well as simplification of both, lending and leasing through NUH KazAgro in which the initial repayment installment is paid by investments and loans are given to enable cooperatives lend to their members.

Financial rehabilitation of agricultural businesses will be carried out according to previously assumed obligations. Moreover, the rules of interest-rate subsidising will be changed. Agricultural businesses with repayment arrears over 90 calendar days will be excluded from the rehabilitation programme immediately.

Subsidising interest rates on lease and money loans (save for working capital facilities) did not involve any fast inflow of investments from the banking sector.

Since 2017, interest-rate subsidies for loans and leases extended for over 2 years (save for working capital facilities) are replaced with subsidising of investment costs while subsidies for up to 1 year working capital facilities remain. Saved money will be used to finance investments of agricultural businesses.

Thus, in 2017-2021, 1,692 bln tenges will be spent for agricultural development from the state and local budgets in Kazakhstan. The share of sowing and harvesting campaigns (mostly, of leguminous crops and cereals) is 6.1%, protected ground vegetable farming – 0.7%, perennial fruits and vine – 0.1%, mineral fertilisers – 4.3%, seed production – 1.8%, pesticides and biological agents – 7.8%, lending for sowing and harvesting of all crops – 18.6%.

Crop-raising subsidies will reach 40.2%, the cost of cattle breeding development – 24.1%, processed products: sunflower seed, sugar beet – 4.1%, milk – 0.9%, agricultural business rehabilitation interest-rate subsidies approved in 2013-2015 – 6.2%, partial compensation of agricultural businesses' investment – 14.7% (see Table 2).

Table 2. Projected State Support of Agriculture in Kazakhstan 2017 – 2021

Indicator	2017	2018	2019	2020	2021
Total state support to gross output, %	9.1	9.7	10.2	10.5	11.2
Direct state support to gross output, %	4.5	5.0	5.4	5.5	6.1
Indirect state support (green basket)	4.6	4.7	4.8	5.0	5.1
State support threshold (yellow basket), %	8.5	8.5	8.5	8.5	8.5

According to the State Agricultural Development Programme 2017-2021 (by Decree of the President of Kazakhstan No. 420 of 14 February 2017), total state support of the agriculture will increase by 2.1% in 2021 compared to 2017. The direct support will rise by 1.6%, the indirect one – by 0.5%. [11,12,13,14]

The main goals by EAEU countries are modernisation and diversification, boosting competitiveness, switching mutual trade from resources to processed goods. For the member countries' agricultural sectors to integrate, a coordinated (unified) policy shall be carried out to define the optimal quantities and kinds of products and services required to satisfy basic needs. It shall effectively realise the resource base of the countries to optimise industrial and agricultural production volumes, saturate the EAEU market, increase agricultural exports.

In Belorussia, the state financial support to gross agricultural output ratio is 2.8 times as large as in Russia and 2 times as large as in Kazakhstan. The direct state support is by 7.9 higher than in Russia and by 1.3 higher than in Kazakhstan (see Table 3).

Table 3. Comparison of State Support Volumes in EAEU in 2015

Indicator	Belorussia	Russia	Kazakhstan
Gross agricultural output, \$ mln	8,409	83,040	12,397
Total state support of agriculture, \$ mln	1,000	3,591	729
Direct state support, \$ mln	530	2715	593.6
Total state support of agriculture to gross output, %	11.9	4.3	5.9
Direct state support of agriculture to gross output, %	6.3	3.3	4.8
Total state support of agriculture, %, including:	100	100	100
A. State support not influencing trade (green basket)	47.0	25.2	18.6
B. State support influencing mutual trade (yellow basket)	53.0	74.8	81.4
Note: Taken from statistical data published in respective EAEU countries.			

The highest agricultural sales prices are in Russia, the most expensive loans and heavy taxes are in Belorussia, and the cheapest economic resources are in Kazakhstan. As a result, the volumes and ways of state support differ considerably in these countries. Generally, a set of regulations of the state support would create favourable conditions for mutual trade in agricultural products whilst reducing of some kinds of this support would create a more competitive environment. The agricultural situation is heavily influenced by the international market. It is worth noting, that the prices for alimentary products are higher than abroad due to the goods deficit. Buyers compete for supply making the prices rise. In Kazakhstan, they are 42% higher than in Belorussia and 29% higher than in Russia.

Foreign exchange (devaluation) losses made in 2015 compared to 2014 \$4,912 mln in Belorussia, \$21,359 mln in Russia and \$2,944 mln in Kazakhstan. Total state support of agricultural producers reduced by \$594 mln in Belorussia, by \$2,871 mln in Russia and by \$362 mln in Kazakhstan. The direct state support reduced by \$310 mln in Belorussia, while in Russia and Kazakhstan it increased by \$858 mln and \$327.6 mln respectively. Reducing state support is the recent world trend driven by rising alimentary products prices and partially by the countries' agricultural policies. As the relative levels of support shrink, its methods change as well. Particular products are supported much less while production restriction programmes are paid more attention to, for example, where compensations are tied to fixed areas and harvests or fixed livestock numbers.

One of the most important indicator of state support is financing of agricultural prices from the budget. It shows the relation of all pricing subsidies to producers' prices.

The share of direct support, the "yellow basket", makes 74% in Canada, 79% in Japan, 87% in Korea, 91% in Norway, 91% in Turkey, 40% in USA, 88% in Russia, 7% in Belorussia and 68% in Kazakhstan.

In Russia, agricultural production is supported in the following ways:

- 20% of refinancing rate is compensated to beef cattle producers for 1 year;
- 5% of federal budget refinancing rate and 100% of regional budget refinancing rate is compensated to individuals keeping ancillary farms for 8 years;
- 20% of federal budget refinancing rate is compensated to individuals keeping ancillary farms and various agricultural businesses for 10 years;
- the cost of agricultural production implements under financing agreements is compensated in the amount of 20-50% to all enterprises and farms;
- 50% of cattle breeding equipment and 30% of self-propelled machines quarterly repair and service costs (without VAT);
- state support of non-profit gardening and planting unions in the amount of 70 thousand roubles for each line of work as well as 50% of actual costs (without VAT) – for engineering support and utilities, 50% of actual costs (without VAT) – for road construction and repair, 80% of same costs – for public roads capital repair;
- 85% of rural areas development for social engineering purposes (actual costs of works without VAT);
- partial compensation of acquisition of breeding animals – 20%.
- acquisition of imported pedigree bulls – 400 thousand roubles per conventional head to dairy producers; etc.

In Belorussia the state support is direct as well as indirect:

1. Direct support is financing from republican and/or local budgets:
 - financing current operation including direct payments per product units, area units or cattle head;
 - compensation against losses of agricultural producers due to the higher prices for industrial products and services used by them, where the full or partial compensation of raw material prices and regulation of agricultural sale prices can not compensate this price disparity;
 - individual state support as provided by effective legislation.
2. Indirect financing includes:

- tax allowances or favourable tax treatment provided by law;
- restructuring (deferring payments to banks, suppliers and the budget) save for restructuring as individual state support;
- regulating prices for agricultural product and raw materials as provided by law;
- purchasing and processing agricultural products and raw materials for state needs as provided by law;
- extending loans on favourable terms to fulfil governmental programmes including those for current operation over 10% of the products' gross value. [15, 16]

Subsidising agriculture by EAEU governments per product units does not allow to place the subsidies in the “yellow basket” regulated by WTO rules. That is why subsidies shall be calculated proceeding from product volumes per basic areas under crops and average crop yield, livestock and its productivity over recent 3 years. The basic area is the area under crops and the livestock shall be regulated and controlled by the Ministry of Agriculture of the Republic of Kazakhstan.

Subsidies thus determined does not stimulate producers in the current year and are not related to price regulation. They are not included in the “yellow basket”. It is expedient to subsidise crop raising by halves: 50% before the beginning of the year and 50% as the products are received. In cattle breeding this shall depend upon the level of production. Purchase prices for products sold to the state reserve and market fund providing for profitability of the most important products shall be subsidised up to 30%. Agricultural machinery shall be subsidised as well: tractors – by 35%, grain harvesters – by 40%, other machines – by 30% of their value, spare parts – by 10% of the cost of their production, delivery and storage.

Measures without any distorting effect on trade are as follows: scientific researches – 9.3% in Belorussia, 2.6% in Kazakhstan; pest and disease management – 2.9% in Belorussia, 3.6% in Russia, 13.5% in Kazakhstan; general and special training – 34% in Belorussia, 31.8% in Russia; infrastructural services – 13% in Belorussia, 47.8% in Russia, 23.2% in Kazakhstan; investment promotion – 53.8% in Kazakhstan; environmental protection – 33.4% in Belorussia.

Measures having a distorting effect on the mutual trade or the “yellow basket” are financing debts – 23.3% in Belorussia, 60% in Russia, 10.9% in Kazakhstan; budget compensation for energy resources – 27.1% in Kazakhstan; budget compensation for fertilisers, seeds and plant-protection products – 9.3% in Belorussia, 11.6% in Russia, 9.5% in Kazakhstan.

Subsidies tied to particular products are: for crop raising – 57.2% in Belorussia, 20.8% in Russia; for cattle breeding – 42.8% in Belorussia, 79.2% in Russia, 100% in Kazakhstan.

In Russia, trade-distorting measures are dominated by debt financing (58%), in Belorussian – by other support (31%), in Kazakhstan – by cattle breeding subsidies (36%) and energy resources compensations (35%). [17]

Russia subsidises flax and vine production, sheep and goat breeding, reindeer farming. Belorussia promotes flax, potato and cereals production as well as dairy cattle breeding. Kazakhstan considerably supports cattle breeding.

Most of the supportive measures (without distorting effect on trade) are financed from federal budget. In Kazakhstan the republican budget bears 90% of all such costs, their share in Russia being 76%. In Belorussia, agriculture is considerably financed from local budgets (36%).

Such measures as scientific research, general and special training, consulting, marketing, state food reserves to ensure food security, structural changes by stimulating investment are fully financed out of the central budgets.

Kazakhstan supports crop raising and cattle breeding fully out of the republican budget. In Russia, particular products (except for reindeer breeding) are supported out of the federal budget. In Belorussia, all this is mostly supported locally.

In Belorussia and Kazakhstan, trade-distorting measures are taken for the account of local budgets. They compensate energy resources, mineral fertilisers, seeds etc.

Belorussia finances insurance compensations, budget payment deferrals and privileged provision of goods and services fully out of the republican budget.

In Kazakhstan, debt financing costs, livestock breeding, elite seed production and insurance compensations are subsidised. In Russia, subsidies cover insurance compensations and debt financing. According to the data provided by EAEU countries, their relevant obligations are being met. There are, however, considerable structural differences emphasised by the member states. In Kazakhstan, 1 ha of crops receives \$87 of state financing, while in Belorussia it gets \$471 and \$78 in Russia. Thus, Belorussia outperforms Kazakhstan by 5.4 times and Russia – by 6 times.

Unified state support is one of the most important lines of the agricultural development. It takes a new method of planning of the allowable level of state support in the EAEU countries. [18, 19]

Russia has the highest sale prices, the dearest loans and the heaviest tax load are in Belorussia, while economic resources are the cheapest in Kazakhstan. As a result, the volumes and ways of the state support differ considerably in the EAEU member countries. Generally, a set of regulations of the state support would create favourable conditions for

mutual trade in agricultural products whilst reducing of some kinds of this support would create a more competitive environment.

DISCUSSION

Theoretical and methodic problems of subsidising system development in Kazakhstan were raised by K. Abuov, T. Yespolov, K. Iskhakov, G. Kaliyev, Zh. Sundetov and other economists. Some aspects of state and market regulation of development of business organisation forms in modern agriculture are shown in the works of I. Ushachiov, Ye. Zlobin, A. Kirilenko, Ye. Kuznetsova and others. Their solution to the problem of development of the agricultural business is heavier subsidising of agricultural businesses. However, since the problems are complex and multifaceted, the scientific literature lacks any clear methodology of integration of agricultural systems under decentralised state administration, inefficient state support and bad state regulation of the agricultural sector.

The mechanisms of state regulation of integrational processes, appraisal of economic efficiency and priorities as well as the ways to subsidise agricultural producers are to be explored further.

CONCLUSION

Thus, the analysis shows that in order to create equal business conditions for all agricultural producers in the EAEU, unified state support methods shall be improved in respect of pricing, insurance, subsidising and investment. The main goal is to use available recourses to increase competitive agricultural production.

This would require interaction of the governments especially on that matter as well as forecasting, indicative planning, state financial support of agricultural production and processing, agricultural market regulation, unified standards for agricultural production and exchange, development of the agricultural export, investment growth and integrated informational support. [20, 21]

The introduction of the unified administration mechanism at the EAEU level would put agricultural businesses of all the member countries in equal economic conditions, improve their performance, solve the problem of food supply and other developmental problems in the EAEU countries.

RECOMMENDATIONS

Today, the development and substantiation of most expedient forms and mechanisms of the agro-industrial integration is one of the key lines of research of the agrarian and economic profiles of virtually all countries of the world. The experience amassed in EAEU can be used to make the state financial support of agricultural producers by governmental and local authorities more efficient in other countries.

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