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Uzbekistan, Republic of

Cotton and Products

Annual

2002

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Report Highlights:

Uzbekistan's MY 2002/03 cotton crop is not off to a good start due to continued heavy rainfall during sowing which is expected to necessitate extensive replanting. In addition, the continuing drought is expected to limit irrigation supplies during the growing season. As a result, MY 2002/03 production is forecast at 1.0 million metric tons (MMT) and exports are forecast at 750,000 MT. The government is continuing to improve the quality of medium staple varieties.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Islamabad [PK1], UZ

PRODUCTION

Cotton is the major crop in Uzbekistan and an important source of employment and foreign exchange. Cotton is grown in a crescent from the Fergana Valley, extending south along the Tien Shan Mountains to Samarkand and Bukhara, and then west along the Amu Darya River. The planting season extends from March through May. Harvest begins in mid-August and continues through October. Almost all of the crop is flood irrigated.

MY 2001/02 cotton production again fell short of the target due to the continued drought, which resulted in acute shortages of irrigation water in several cotton growing regions. According to official statistics, Uzbek farmers harvested 3.27 MMT of seed cotton in MY 2001/02, which produced 1.015 MMT of lint. For MY 2002/03, the official target area and seed cotton production was decreased to 1.388 million hectares and 3.75 MMT, respectively. According to the Uzbek Ministry of Agriculture and Water Resources, cotton planted under plastic increased to 300,000 hectares in MY 2002/03, compared to 222,000 hectares last year.

Table 1: Cotton Production, Supply and Demand

Country	Uzbekistan, Republic of					
Commodity	Cotton					
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		08/2000		08/2001		08/2002
Area Planted	0	1440000	0	1400000	0	1388000
Area Harvested	1415000	1415000	1430000	1400000	0	1388000
Beginning Stocks	182455	182455	161771	161771	166771	166771
Production	957997	957997	1066860	1015000	0	1000000
Imports	1088	1089	1088	0	0	0
TOTAL SUPPLY	1141540	1141541	1229719	1176771	166771	1166771
Exports	740270	740270	707611	760000	0	750000
USE Dom. Consumption	239499	239500	261272	250000	0	250000
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	239499	239500	261272	250000	0	250000
Ending Stocks	161771	161771	260836	166771	0	166771
TOTAL DISTRIBUTION	1141540	1141541	1229719	1176771	0	1166771

This year's rainy spring will delay planting significantly. According to meteorological sources, Uzbekistan received twice the normal precipitation in April. As a result, as of May 10 farmers in the Tashkent, Syrdarya, Djizzakh, Kashkadarya, Surkhandarya and Khorezm regions reportedly still had to replant about 120,000 hectares, whereas planting usually is completed in these regions by May 1. If heavy rains continue in May, farmers may need to replant additional areas, which will further delay the crop. Officials also are concerned that production may suffer due to continuing irrigation shortages, particularly in the western cotton-growing areas of Karakalpakstan and Khorezm. Recent meteorological data indicates river flows and reservoir levels are below normal despite the higher-than-average precipitation of the past two months and are expected to remain so due to below normal snowfall in the catchment areas.

Table 2: FY02/03 Cotton Area and Targeted Seed Cotton Production by Region

REGION	Area (Ha)	Production (MT)
Karakalpakstan Republic	80,000	186,000
Andijan region	107,600	310,000
Bukhara region	128,200	400,000
Djizakh region	105,500	250,000
Kashkadarya region	164,000	420,000
Navoi region	43,000	120,000
Namangan region	94,000	270,000
Samarkand region	110,000	250,000
Surkhandarya region	120,000	380,000
Syrdarya region	115,300	264,000
Tashkent region	110,000	280,000
Fergana region	115,300	340,000
Khorezm region	95,000	280,000
TOTAL	1,387,900	3,750,000

Production Policy

Following independence, the government embarked on a policy of wheat self-sufficiency by shifting land out of cotton and into wheat. Until 2000, the policy was to maintain cotton area at 1.5 million hectares and production at 4.0 MMT of seed cotton (equivalent to 1.2 MMT of lint). Increased cotton production was to occur as a result of increased yields, rather than area. Uzbekistan, however, has not been able to reach its cotton production target for the past several years for a number of reasons, including weather problems, inadequate production incentives, inadequate and low-quality inputs (especially seeds) and a deteriorating infrastructure, especially irrigation. Although Uzbekistan now is nearly self-sufficient in wheat, beginning in 2002 the government will further reduce targeted cotton area and production to 1.38 million hectares and 3.75 MMT, respectively in order to increase wheat production. Sources believe this shift is largely in response to chronic irrigation shortages and other problems that have hampered cotton production for the past several years.

The government now plans to initiate a major program to reform the cotton sector, aimed mainly at improving fiber quality. According to the Uzbek Cotton Ginning Association, the aim of the reforms is focused on three areas. First, the government plans to replace inferior cotton varieties, particularly those with a high micronaire, with better quality varieties. Currently, only about 20 percent of cotton area is considered to consist of higher-quality varieties. Secondly, the government seeks to modernize Uzbekistan's 145 ginning plants by attracting foreign investment. Presently, more than 80 percent of the nation's ginning equipment dates back to the Soviet

era and needs to be replaced with better-quality equipment. Finally, the government looks to develop a system of accurate and timely market information so farmers can better react to market conditions and can better service buyers' specific cotton needs. Officials indicate the government's plan is to attract foreign investment and technology to improve seed production and marketing.

Despite the appearance of reform, the state continues to play a major role in cotton production and marketing. The state determines area, sets production targets and prices, supplies inputs and procures and markets the bulk of the crop. Most of the agricultural budget reportedly is spent on irrigation. The government launched a system to charge for irrigation in 1997, but in reality it does not work well and the system continues to deteriorate.

The MY 2002/03 state order is reportedly expected to decrease from 30 percent to 20 percent. Producers who fill their quota may market over-quota production, generally at a higher price than the state order price. However, because individual quotas are set unrealistically high, production generally does not exceed the quota so that the state continues to procure and market virtually all of the crop.

A few months ago, the government approved preliminary MY 2002/03 procurement prices for long staple cotton are as follows: 1st grade, 1st class, Type 1a is set at soums 250,740 per MT, Type 1b is soums 193,640 per MT, Type 1 is soums 181,520 per MT, Type 2 is soums 163,420 per MT and Type 3 is soums 145,240 per MT. Seed cotton prices depend on the grade, class and type of cotton lint. The government will establish procurement prices both for medium and long staple seed cotton around August 10 at the start of the harvest (currently \$1= soums 717.34 at the official rate or soums 1390.00 at the unofficial rate).

CONSUMPTION

The State Cotton Ginning Association (UZKHLOPKOPROM) is the joint-stock company (51 percent state owned) that procures and gins all state-order cotton. About 90 percent of Uzbekistan's gins are saw gins and the remainder is either roller gins or combination gins. In addition to Uzkhlopkoprom's 127 gins, the Ministry of Agriculture and Water Resources operates another 18 gins, mainly on their elite seed farms. Effective ginning capacity is estimated to be well below the 6.0 MMT of installed capacity due to equipment problems.

All cotton lint is sold either to the Ministry of Foreign Economic Relations (MFER) for export or to Uzbeklegprom, the association of joint-stock textile enterprises. Current domestic consumption is estimated at 250,000 MT and is forecast to remain almost at the same level in MY 2002/03. Observers expect consumption to increase gradually over the next several years as several joint-venture South Korean and Turkish textile mills come on line. South Korean "Kabool Textiles Company" is one of the most active foreign investors in Uzbekistan's textile industry. South Korean investors already have constructed several textile mills and plan to construct additional ones in the future. These mills will produce mainly yarn for export.

The government hopes to expand domestic consumption and estimates the overall capital investment required by the textile industry between now and 2005 at more than \$1.2 billion to increase the quality and expand the range of production. Officials forecast that by 2005, yarn production will increase by 78,850 MT, greige goods by 45 million square meters (MM²) and finished cloth by 65.5 MM². Currently, the total production capacity of all operating textile mills equals to 130,000 tons of yarn and 500 MM² of different fabrics.

STOCKS

There are no official or reliable data on stocks. Stock numbers in this report are calculated as a residual.

TRADE

Uzbekistan's cotton exports have declined considerably over the past several years due to decreased production. MY 2001/02 cotton exports are estimated at 760,000 MT. The export forecast for MY 2002/03 is 750,000 MT, assuming normal weather for the remainder of the growing season. The GOU still controls the export of both state-order cotton and over-quota free cotton through the trade agencies of the Ministry of Foreign Economic Relations (MFER), which coordinates sales, prices and shipments.

Most cotton is sold to international shippers through negotiated sales although recently MFER has launched several small auctions with limited success. The government also continues to trade some cotton on a government-to-government basis, mainly to Russia.

The government still is in the process of changing its cotton grading system to approximate the U.S. system in order to eliminate a major source of contract disputes. Several years ago, the government established the National Cotton Certification Center (SIFAT), as part of a World Bank project. SIFAT has purchased 16 HIV labs, and is installing these labs in each cotton-producing region.

The government also is interested in working with international cotton traders and other entities to invest in the cotton sector, including production, ginning, warehousing and transport. Officials believe greater cooperation and partnerships in the industry will enhance Uzbekistan's ability to produce and market its cotton. Observers, however, indicate that the government will need to undertake some very basic legal and economic reforms, including currency convertibility, transparency and sanctity of contracts, as a prerequisite to significant investments. Currently, there are three foreign investors in cotton industry, one American and two French companies. The American company, the Central Asian American Seed Company, invested more than \$10 million in cotton seed production. They are working in cooperation with several cotton farms in the Syrdarya region by providing production credit and ginning the output in its own gin. Recently, after long and hard negotiations with the GOU, the company has been granted permission to market its lint independent of MFER.

Table 3: Cotton Exports

Export Trade Matrix			
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Country	Uzbekistan		
Commodity	Cotton	Units:	Metric tons
Time period	Aug00-Jul01		Aug01-May02
Exports for:	2000		2001
U.S.	0	U.S.	0
Others		Others	
Russia	200000	Russia	170000
South Korea	62270	South Korea	58000
Germany	28000	Germany	19000
France	40000	France	37000
Poland	38000	Poland	35000
Turkey	10000	Turkey	14000
Italy	30000	Italy	24000
Vietnam	22000	Vietnam	18000
Brazil	12000	China	15000
Taiwan	25000	Brazil	8000
Indonesia	13000	Taiwan	9000
Portugal	8000	Portugal	7000
Thailand	12000	Thailand	7000
Total for Others	500270		421000
Others not Listed	240000		239000
Grand Total	740270		660000

Note: Precise official data is not available. Because most of Uzbekistan's cotton is sold to international cotton shippers, rather than end-users, it is difficult to determine destination. The above data is based on information from trade and other sources and is considered relatively reliable.