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Uzbekistan, Republic of

Cotton and Products

Annual

2005

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Report Highlights:

Due to cooler weather this spring cotton sowing has been delayed throughout Uzbekistan. Lint production is expected to decline to 1.07 MMT in MY 2005/06, although a great deal will depend on weather conditions during harvest. Exports are expected to decline slightly to 790 TMT in MY 2005/06 after rebounding last year.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Weather conditions have delayed cotton planting in most of Uzbekistan this spring, which could affect overall production in 2005. Although the Uzbek government's target for seed cotton production remains unchanged at 3.6 MMT, most private sector representatives believe that production will be in the area of 3.3 MMT. As a result, lint cotton production will decline from the preceding year. Uzbek cotton exports are expected to decrease slightly with Russia remaining the traditional market for Uzbek cotton. The European Union and Asia are also becoming important markets for Uzbekistan.

Most observers agree it is becoming increasingly difficult to attain state targets due to poor seed quality, poor farming practices, the absence of production incentives, as well as frequent water shortages. Nonetheless, the Government of Uzbekistan (GOU) is expected to keep cotton area unchanged.

Domestic consumption is expected to remain unchanged in MY 2005/06, although it is forecast to increase slowly each year by 5 percent as most of the newly constructed textile plants reach their full production capacity.

Despite close to 15 years of independence, the government of Uzbekistan (GOU) still maintains tight control over all aspects of production including plant area, production targets, prices, inputs, procurement and marketing the majority of the cotton in Uzbekistan.

The cotton ginning industry is one area of the country's economy where new investments are needed but have not improved in spite of the government's efforts. The main reason seems to be the government's poor and inadequate policy in guaranteeing the investors' rights.

The spinning and weaving industries continue to invest heavily into new equipment as well as to renovate existing equipment due to improving profitability over the past three years. The domestic demand is getting stronger with a marginal increase over the last year, and the stronger export demand, especially in cotton yarn are responsible for the current market surge. Looking to 2005 the textile industry knows it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than rely on low-value yarn based exports, if it wants to remain competitive in the global market.

Currently, there are 39 joint ventures established in the textile industry with partners from Germany, South Korea, Japan, Switzerland, and Turkey. As of 2004, foreign investment in textile industry reached USD 848 million and is projected to reach USD 944 million in 2005. The main products produced and exported by textile mills are cotton yarn and gray fabrics.

Production

Near normal snowfall and close to normal winter rains have enhanced surface and ground water supply availability for cotton production. Cooler and cloudy weather in the higher elevations, however, has slowed the snowmelt process, thus far delaying the availability of water for irrigation in some areas. In addition, an unusually cool temperature during the part of April delayed cotton planting approximately for 10 days in almost all the regions of the country. As of April 13, cotton sowing had been completed on 240,000 hectares, which is 20 percent less than last year during the same period. Still, farmers and specialists are optimistic that the expected warm weather for the next two weeks will allow them to finish cotton sowing on time. The Uzbek government announced that planned area would be 1.391 million hectares including 168,400 hectares under plastic. The state production target for seed cotton remains at 3.6 MMT. Cotton lint production is forecast at 1.07 MMT. Production of Extra-Long Staple cotton is not significant in Uzbekistan.

Independent representatives, currently, do not expect any quality deterioration of the new crop. However, because of 10-day delay in cotton sowing, the cotton quality may be affected by late maturation and the threat of Mid-Autumn rains.

Table 1: Cotton Production, Supply and Demand

Uzbekistan, Republic of Cotton							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2003		08/2004		08/2005	MM/YYYY
Area Planted	0	1359000	0	1391000	0	1391000	(HECTARE S)
Area Harvested	1400000	1359000	1415000	1390000	0	1391000	(HECTARE S)
Beginning Stocks	216202	166770	195518	134110	277166	153110	(MT)
Production	892679	892680	1099519	1114000	0	1070000	(MT)
Imports	1089	0	0	0	0	0	(MT)
MY Imp. from U.S.	0	0	0	0	0	0	(MT)
TOTAL SUPPLY	1109970	1059450	1295037	1248110	277166	1223110	(MT)
Exports	642293	642290	729384	810000	0	790000	(MT)
USE Dom. Consumption	272159	283050	288487	285000	0	290000	(MT)
Loss Dom. Consumption	0	0	0	0	0	0	(MT)
TOTAL Dom. Consumption	272159	283050	288487	285000	0	290000	(MT)
Ending Stocks	195518	134110	277166	153110	0	143110	(MT)
TOTAL DISTRIBUTION	1109970	1059450	1295037	1248110	0	1223110	(MT)

Uzbek farmers use a variety of high yielding, early maturing cotton varieties. In 2005 Bukhara-6, Bukhara-8, An-Bayavut-2, Namangan-77, Akdarya-2). Each variety has unique characteristics for maturity, yield, and most importantly, disease-resistant characteristics. They are all sown in different regions depending on soil conditions. Cotton experts reportedly value An-Bayavut-2 and it is sown in 3-4 regions, including such big cotton

growing regions as Syrdarya and Djizakh. Except for Bukhara-8, which is relatively new, most varieties were developed 10-15 years ago.

Labor is becoming a factor particularly for harvests. There are reports of Uzbeks traveling to Kazakhstan and the Kyrgyz Republic during the harvest, to pick up cotton, because they are paid almost 2-3 times more than in Uzbekistan. There are unconfirmed reports of small volumes of handpicked cotton being smuggled to neighboring countries where they are sold for higher prices.

Table 2: FY04/05 Cotton Seed Area and Production by Area

REGION	Area (Ha)	Production (MT)
Karakalpakstan Republic	80,000	141,000
Andijan region	112,600	310,000
Bukhara region	121,000	400,000
Djizakh region	105,500	225,000
Kashkadarya region	169,600	420,000
Navoi region	39,400	120,000
Namangan region	94,000	270,000
Samarkand region	103,400	225,000
Surkhandarya region	125,600	380,000
Syrdarya region	115,300	249,000
Tashkent region	108,000	280,000
Fergana region	120,600	320,000
Khorezm region	96,000	260,000
TOTAL	1,391,000	3,600,000

Production Policy

Despite close to 15 years of independence, the government of Uzbekistan (GOU) still maintains tight control over all aspects of production including plant area, production targets, prices, inputs, procurement and marketing the majority of the cotton in Uzbekistan.

Cotton has traditionally been the primary cash crop in Uzbekistan. It is a significant source of employment and foreign exchange. However, Uzbekistan has not been able to reach its cotton production target for the past several years for a number of reasons, including weather, inadequate production incentives (i.e. prices), inadequate and low-quality inputs and deteriorating infrastructure, especially irrigation. Not to mention, the lack of a free market.

Uzbekistan is planning to increase area sown using faster-maturing varieties. During the last three years, the government initiated a major program to reform the cotton sector, aimed mainly at improving fiber quality. The reforms are focused on three areas: First, the replacement of inferior cotton varieties, particularly those with a high micronaire, with better varieties. In connection with this, the government established a new State Inspection Service on March 31, 2005, which will control production and utilization of cottonseed; second, the government is seeking to modernize ginning plants by attracting foreign investment. Presently, more than 80 percent of the nation's ginning equipment dates to the Soviet era and needs to be replaced; third, in December 2002 the government adopted a decree that allows farmers to sell up to 50 percent of their cotton output either domestically or abroad. However, as of today, there is still no concrete mechanism developed to allow this process to begin, and thus the government keeps a monopoly on cotton marketing.

The cotton ginning industry is one area of the country's economy where new investments are needed but have not improved in spite of the government's efforts. The main reason seems to be the government's poor and inadequate policy in guaranteeing the investors' rights. As of today, there are only 2 investors in the Ginning industry. One is the Central Asian Seed Company (USA) and Dagrís (France). Each of them built a ginning plant and is involved in cottonseed as well as lint production. Both reportedly had difficulties with the Uzbek government for a long time before they received the right to market their own lint.

The GOU does provide some special privileges and preferences for the textile industry:

Until Jan 1, 2009, any company with foreign investments specializing in production of garments and apparel and hosiery products are exempted from all types of taxes and duties, except for VAT. Those companies included in the investment program and re-equipping, are exempt from customs duties on imports of equipment and spare parts. Those companies importing chemicals, dyes, and other materials not produced in Uzbekistan. Finally, those exporting companies, which have fully integrated production from fiber processing to yarn and fabric production, and production of clothes and garments are given an additional 5% discount on imported inputs.

MY 2005/06 seed cotton procurement price will be reportedly increased to Sums 300,000 per ton (Sums 1086=\$1.00), which is about 25 percent higher than the average seed cotton prices (Sums 225,000) paid to farmers last year.

Consumption

The government has often stated that it would like to consume more of Uzbekistan's cotton production domestically, but it has had only limited success. The State Cotton Ginning Association "Uzkhlopkopromsbyt" is a 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 are either roller 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 still sold either to the trading companies of the Agency of Foreign Economic Relations (AFER) for export and partially allocated to the Republican Commodity exchange that organizes cotton lint sales for domestic consumers

The spinning and weaving industries continue to invest heavily into new equipment as well as to renovate existing equipment due to improving profitability over the past three years. The

domestic demand is getting stronger with a marginal increase over the last year, and the stronger export demand, especially in cotton yarn are responsible for the current market surge. Looking to 2005 the textile industry knows it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than to rely mainly on low-value yarn based exports, if it wants to remain competitive in the global market.

Table 1: Uzbek Textile production 2003-04 (Calendar years)

Product type	2003	2004	2005 Forecast
Cotton yarn (tons)	171800	152400	230,000
Stockinet (tons)	4000	4300	5000
Fabrics (mln.sq.m)	415	300,8	400
Knitted products (mln piece)	21,2	29,6	33,0
Hosiery products (mln pairs)	13,4	17,5	21,0

Source: State Joint-Stock Company "O'zbekyengilsanoat"

Currently, there are 39 joint ventures established in the textile industry with partners from Germany, South Korea, Japan, Switzerland, and Turkey. As of 2004, foreign investment in textile industry reached USD 848 million and is projected to reach USD 944 million in 2005. The main products produced and exported by textile mills are cotton yarn and gray fabrics. The industry is expanding production of value-added products such as shirts and other garments for the export market. The GOU adopted a new program (2005-2008) to develop the textile industry. The main goal is to increase the volume of domestic cotton lint processing up to 50 percent through modernization and technical improvement of existing enterprises. The stated objective is for 94 investments projects to be implemented by 2008 and to attract investment worth more than USD 1.2 billion.

Trade

Uzbekistan's cotton exports increased in MY 2004/05 to 810 TMT after several years of declines. Farmers were able to reach the government's 3.6 MMT target for seed cotton and due to favorable weather conditions, harvest 98 percent of the crop. The preliminary export forecast for MY 05/06 is 790,000 MT, assuming normal weather for the remainder of the growing season. The GOU still controls of both state-order cotton and over-quota free cotton through the trading companies associated with the Agency for Foreign Economic Relations (AFER). AFER coordinates sales, export prices and shipments of all cotton. Russia remains the traditional buyer, although Europe and the Asia are also important markets.

Most cotton is sold to international shippers through negotiated sales. In addition, for the past three years about 30,000 tons of cotton was allocated annually by the state for export through the Commodity Exchange "Uzauctionsavdo". However, this organization was recently liquidated. And now reportedly the Republican Commodity Exchange will be allocated 100,000 tons of cotton lint from the new crop for export.

The average export price for Uzbek cotton based on last exports sales was USD 1170 on FOB Black or Baltic Sea ports or port of Bandar-Abbas.

Table 1: Export Trade Matrix

Uzbekistan, Republic of Cotton			
Time Period	Aug/July	Units:	Aug/March
Exports for:	2003	MT	2004
U.S.	0	U.S.	0
Others		Others	
Russia	157000	Russia	125000
South Korea	66000	Taiwan	8600
France	37000	Germany	32000
Taiwan	12000	Poland	17000
Vietnam	9000	China	108000
Poland	34000	Korea	41000
Spain	2500		
Romania	14000		
China	148000		
Total for Others	479500		331600
Others not Listed	330500		218400
Grand Total	810000		550000

Stocks

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