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Report Highlights:

As of March 2020, Uzbekistan liberalized the cotton market with a presidential decree. Starting from the 2020 harvest season, State regulation of cotton production, price and mandatory sales plan will be abolished. For the marketing year 2020/21, cotton production area is forecast at about 1 million hectares and production at about 3.1 million bales (about 673,000 MT). In 2019, Uzbekistan grew the first organic cotton certified by a European certification company. It is expected that Uzbekistan's cotton exports will decrease to a minimal level in 2020/21 since domestic use of cotton in yarn production is increasing according to the government strategy.

I. Production

In accordance with the former plan of Government of Uzbekistan (GoU) and the recent liberalization of the cotton market, the cotton production area is forecast to decrease to 1 million hectares for Marketing Year (MY) 2020/21 and the production to about 3.1 million bales, which is about 673,000 metric tons (MT). The intention of the government is to reduce planting in areas where field yields are lower than the country average, such as in highly salinized areas and mountain regions, and to facilitate production of other crops instead, primarily fruits, vegetables and viticulture. The presidential decree published in October 2019 establishing a state strategy called “Strategy for Development of Agriculture of the Republic of Uzbekistan for 2020 – 2030” supports increasing horticulture and viticulture for domestic use and exports as well.

As a major development for the cotton industry of the country, in March 2020, Uzbekistan liberalized cotton market with a presidential decree. Starting from the 2020 harvest season (approx. September - October), Uzbekistan will cancel state regulation of cotton production, price and mandatory sales plan.

Government of Uzbekistan (GoU) canceled state-planned production of cotton and set farmers free to choose what to plant. GoU will not declare a price for raw cotton starting with the harvest of 2020. An indicative price will be published in the media in the beginning of December as a recommendation only. Furthermore, cotton producers will have the right to freely choose the cotton variety they would like to grow, while a certified seed delivery system will be maintained. According to the decree, in the regions where there are no cotton clusters, voluntary cooperation of farms will be organized with the participation of cotton-ginning enterprises. The main tasks of these cooperatives will be the organization of joint use of machines, equipment, vehicles and factories by members of the cooperative.

The cluster structure in cotton production will continue. The decree liberalizing the cotton market of Uzbekistan mentions that a regulation on the organization of cotton-textile production and clusters for effective organization of cotton production will be issued along with another decree for the establishment of cotton production cooperatives and raw cotton processors in the provinces where no cotton-textile clusters exist. These cooperatives will be based on cotton ginneries and voluntary associations of farms.

In addition, according to the decree, starting from March 15, 2020, a new credit mechanism for production and processing of raw cotton will be introduced. Commercial banks, at the expense of the State Agricultural Support Fund, will provide loans to cover the expenses of farms, cotton-textile clusters and cooperatives and seed-growing facilities under the Seed Development Center for production of raw cotton for up to 12 months. In order to provide cotton farmers with seeds, the system for supplying certified seeds (including the current procedure for paying premiums for seed cotton) will be maintained. This responsibility will be gradually reallocated to seed-growing clusters in the structure of the Seed Development Center under the Ministry of Agriculture, as well as cotton-textile clusters. Seed-growing facilities and cotton-textile clusters under Uzpakhtasanoat will supply cotton seeds for the 2020 harvest in order to provide agricultural producers with high-quality seeds adapted to local conditions in time for planting. In coming months, Uzpakhtasanoat, the monopoly which has controlled production quotas and exports of cotton, will be liquidated according to the presidential decree.

The GoU and the European Union (EU) have signed a financial agreement in March 2020. The EU will provide 40 million Euros as budgetary support (grants not loans) to Uzbekistan in order to reform and improve the agricultural sector. This project is aimed at assisting in the implementation of the new state Strategy for the Development of Agriculture for 2020 – 2030, strengthening public services to provide

assistance to farms and agricultural enterprises. The GoU informed the public that they are committed to undertaking a wide range of reforms in the agriculture sector. This includes actions on agriculture land reform, development of new services to advise farmers, improve access to information, knowledge and innovation, reform of training and education systems, digitalization of the sector and investment in agri-logistics infrastructure and services. All of these actions are aimed at improving the competitiveness of agricultural products of Uzbekistan both domestically and in international markets.

As part of the transformation of the agriculture sector, reforms are being introduced to gradually move away from the historical focus on the production of cotton and wheat to encourage the production of other agriculture products in which Uzbekistan has a relative comparative advantage, such as in the production of certain high value horticulture products. Liberalization of cotton production and sales fits into these reforms. Mandatory production of wheat is also decreased 25 percent by the presidential decree at the same time as liberalization of the cotton market.

Privately-run clusters are expected to bring new technologies to many aspects of cotton production, including drip irrigation, machine picking, and modern ginning. Accordingly, the number of modern cotton harvesters will increase through both imports and domestic production. In 2019, drip irrigation was introduced to 9,000 hectares of cotton production fields. Increasing attention will be given to improving seed quality, usage of drip irrigation will save water and prevent soil salinity, an increase in mechanical picking will reduce picking cost, and introduction of modern gins will improve ginning rates and reduce ginning cost. As a result, despite the overall decrease in planting area over time, the government expects that the total lint cotton production will remain at optimum levels to meet the demand for the growing domestic textile industry in the coming years. Clusters can also trade and export cotton as needed.

As of 2020, there are 73 cotton-textile clusters in Uzbekistan, covering about 73 percent of the cotton production in the country. GoU declares that the cluster system increases the yields compared to areas where there are no clusters. Farmers cooperatives will be established in locations where there are no clusters with ginning facilities owned by cooperatives to improve conditions in those areas.

Organic cotton has been grown for the first time in Uzbekistan and certified by a European certification company in 2019.

Ginning

The Government of Uzbekistan renovated the great majority of the ninety-eight government-owned gins during the last few years. Eventually, all gins will operate as part of the cluster / cooperative system. There are also initiatives by the government and newly formed clusters to buy new modern gins with recent technology to improve ginning efficiency.

Seed

Uzbekistan has an extensive cottonseed breeding and research program. Regarding seed varieties, in recent years, about half of the planted seeds are early-ripening types, such as Sultan and Namangan -77, as these varieties have better yields and resistance to various common diseases. About one-third of the rest of the varieties will be mid-ripening, such as Bukara 6, Bukara 8, and Bukhara-102 the rest are new varieties such as Porlock, with improved fiber quality.

II. Consumption

The most important trend in the cotton sector in Uzbekistan is the effort to consume all produced cotton in the country and not export it as raw material. Accordingly, domestic consumption is expected to increase to approximately 3.1 million bales (670,000 MT) during MY 2019/20 and is forecasted to settle at about 3 million bales (655,000 MT) for MY 2020/21.

According to government sources, presently about 500 enterprises are engaged in textile production in Uzbekistan. The Uzbek government is encouraging new partnerships to increase the use of cotton domestically. New textile investments are approved, and new mills are expected to start operation that will increase domestic consumption in the coming years. At the same time, existing mills are increasing their capacity as well. Government officials claim that due to the rapid increase in domestic consumption, Uzbekistan is aiming to utilize all local cotton production domestically as early as MY 2020/21.

As explained above, Uzbekistan is moving forward with the new concept of implementing clusters for cotton and textile production to vertically integrate more of the sector and increase foreign investment. Through the textile clusters concept, the government will support foreign companies through tax and customs benefits, as well as providing land to grow cotton, process cotton, and produce final garments.

Uzbekistan's exports of cotton yarn, textiles, and readymade garments were about US\$ 1.6 billion in 2018 and are estimated to reach about US\$ 2 billion at the end of 2019. To increase the textile exports Uzbekistan opened a textile showroom in New York City in March 2020.

CIS countries were the initial market for Uzbek textiles. Additionally, the Uzbek cotton importing countries from recent years, such as China and Russia, have also now become markets for Uzbek cotton yarn and textile products. A recent agreement signed with the European Union, which went into force in June 2017, reduced the tariff for Uzbek textile goods, which will facilitate Uzbek textile exports to this market as well. An agreement signed between Uzbekistan and Georgia on mutually lowering shipping charges on railways will also facilitate Uzbekistan's utilization of the newly opened railroad connection between Baku, Azerbaijan, through Tbilisi, Georgia, to Kars, Turkey. The new railroad track will facilitate exports of cotton and products, among other goods, from Central Asia, including Uzbekistan, to Turkey and beyond. The new route will significantly shorten shipping time and may help those countries to increase their exports significantly in coming years. All these developments are expected to help to increase Uzbek cotton products exports, hence increase domestic consumption of Uzbekistan cotton.

III. Trade

The rapid increase in domestic consumption has limited the cotton available for exports. Accordingly, MY 2019/20 cotton exports are expected to be about 290,000 bales (which is 63,000 MT). Lower than expected yields in recent years, declining planting area and the increase in domestic consumption has limited the availability of cotton for export. It is forecasted that the exports for 2020/21 will be 90,000 bales (20,000 MT) in accordance with the policy of GoU to stop exports in CY 2020.

China has imported 10,165 MT of cotton from Uzbekistan in the first seven months of the MY 2019/20, which is down about 70 percent compared to the same period of the previous MY which was 32,936 MT. China imported 6,646 MT in the first two months of 2020 which indicates that Uzbekistan did not altogether stop the exports of cotton in the CY 2020 but significantly decreased the amount. Another export destination, for the first six months of the MY 2019/20, was Turkey with 3,390 MT of which

1,109 MT were exported in January 2020 again indicating that the exports of cotton did not halt in CY 2020 but declined a lot. Uzbekistan exported 12,328 MT of cotton lint to Bangladesh in the first seven months of the MY 2019/2020, making Bangladesh the largest purchaser of Uzbek cotton for the period. However, exports to Belarus and the EU 28, including Poland, were close to nothing. These were the countries that traditionally bought cotton from Uzbekistan.

Although China and Turkey imported some cotton in January and February of 2020 from Uzbekistan, it appears that the intention of GoU to discontinue exporting cotton in CY 2020 is close to being realized. Some of the January and February imports which China and Turkey have reported may be the shipments which departed Uzbekistan in the last months of 2019. Iran, a traditional buyer of Uzbek cotton, unfortunately has not been reporting any trade data to the system since April 2019.

In accordance with the GoU strategy of exporting more value-added cotton products instead of raw cotton, export of cotton from Uzbekistan is decreasing while cotton yarn and cotton fabric exports are increasing. Uzbekistan exported 106,295 MT of cotton yarn to China in the first seven months of the MY 2019/20, about 40 percent more than the same period of the previous MY. Similarly, cotton yarn exports to Turkey in the first six months of the MY 2019/20 have increased 207 percent to 47,625 MT. Russia, being one of the traditional buyers of Uzbek yarn, has imported 42,735 MT of cotton yarn in the first six months of the MY 2019/20 which is 9 percent increase compared to the same period of the previous MY. Uzbekistan exported 4,870 MT of cotton yarn to the EU28 which represents a 40 percent increase compared to the same period of the previous MY. Belarus was another destination for cotton yarn from Uzbekistan with 2,248 MT of exports in the first half of the MY 2019/20 representing a 13 percent increase compared to same period of the previous MY. Ukraine purchased 1,594 MT of cotton yarn from Uzbekistan in MY 2019/20 with an increase of 73 percent compared to the previous marketing year. Uzbekistan exported 1,924 MT of cotton yarn to Egypt in the first five months of the 2019/20 MY, which is a 248 percent increase compared to the same period of the previous MY.

Cotton fabric exports of Uzbekistan have also increased to many countries, but there are a few others that decreased the amount that they bought from Uzbekistan. Uzbekistan exported 74.3 million m² of cotton fabrics to Russia in the first six months of the MY 2019-20 which is a 30 percent increase compared to the previous MY's first half. Cotton fabric exports to South Korea reached 2.75 million m² in the first seven months of the MY 2019/20, which is a 11.7 percent increase compared to the same period of the previous MY. In the first half of the same MY, Kazakhstan has bought 10.3 million m² of cotton fabrics from Uzbekistan which is a 43.5 percent increase compared to previous MY. Ukraine has bought 7.75 million m² of cotton fabrics in the first half of the MY 2019/20 representing a 2.3 percent increase compared same period of the previous year. China imported 656,902 meters of cotton fabrics in the first seven months of the MY 2019/20 representing a 4.2 percent decrease compared to the previous MY. Likewise, the imports of cotton fabrics by the EU28 decreased 14 percent to 17.74 million m² in first half of MY 2019/20 compared to the previous MY.

NOTE: Republic of Uzbekistan's data is not included in the Trade Data Monitor¹ (TDM) and no official export numbers for the country (by destination) are available. The trade figures used in this report are obtained from the data reported by importing countries in TDM and also through FAS sources. Each reporting country has different time lags for reporting data, so the latest import data available in TDM varies by country. For example, for this marketing year, some countries have trade figures for the first five months, some for six and some for seven months. Also, for fabric imports, the majority of the countries use square meters, but China use meters as a measurement.

¹ <https://tradedatamonitor.com/>

IV. Production, Supply and Distribution Table (PSD)

Table 3: Production, Supply and Distribution Table, Bales
(thousands of hectares, thousands of 480lb. bales)

Cotton	2018/2019		2019/2020		2020/2021	
Market Begin Year	August 2018		August 2019		August 2020	
Turkey	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,100	1,071	1,050	1,033	0	1,000
Beginning Stocks	1,533	1,438	1,308	1,253	0	1,058
Production	3,275	3,350	3,000	3,170	0	3,089
Imports	0	0	0	0	0	0
Total Supply	4,808	4,788	4,308	4,423	0	4,147
Exports	700	690	250	290	0	90
Use	2,800	2,845	3,000	3,075	0	3,008
Loss	0	0	0	0	0	0
Total Dom. Cons.	2,800	2,845	3,000	3,075	0	3,008
Ending Stocks	1,308	1,253	1,058	1,058	0	1,048
Total Distribution	4,808	4,788	4,308	4,423	0	4,147

Attachments:

No Attachments