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## **Report Name:** Cotton and Products Update

**Country:** Uzbekistan - Republic of

**Post:** Tashkent

**Report Category:** Cotton and Products

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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 is abolished. The effects of this will be more visible in the upcoming seasons. The cotton production area is estimated as 980,000 hectares for Marketing Year (MY) 2020/21 and the production is about 3.1 million bales (about 670,000 MT). It is expected that Uzbekistan's cotton exports will be kept to minimal levels due to the government policy to increase value-added yarn and fabric production and develop the domestic textile industry.

## I. Production

In accordance with the former plan of the Government of Uzbekistan (GoU) and the recent liberalization of the cotton market, the cotton production area is estimated as 980,000 hectares for Marketing Year (MY) 2020/21 and the production at about 3.1 million bales, which is about 670,000 metric tons (MT). According to available market sources, weather was as expected and most of the areas were less affected by pests, including cotton bollworm, compared to the previous season. Sardoba reservoir dam in Syrdarya region, south of Tashkent, collapsed in May 2020. The tragic event flooded more than 35,000 hectares of agricultural land, which was mostly used for cotton. In addition to agricultural land and agriculture infrastructure in the area, houses, roads, energy, communication, and water systems infrastructure was affected by the flood.

Reductions in the cotton production area are in line with the agricultural production strategy of GoU. 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 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 its cotton market with a presidential decree. Starting from the 2020 harvest season (approx. September - October), Uzbekistan canceled state regulation of cotton production, prices, and mandatory sales plan.

GoU officially canceled state production quotas of cotton and let farmers choose which crops 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, although a certified seed delivery system will be maintained. According to the decree, in the regions where there are no cotton clusters, voluntary cooperatives 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 machines, equipment, vehicles, and factories by members of the cooperative.

The cluster structure in cotton production will continue. GoU, via regional and district administrations, are taking measures to provide cooperatives and cotton-growing farms with seeds, mineral fertilizers, fuels and lubricants, and other material and technical resources. Cooperatives aim to introduce effective techniques for the production, reception, selection, storage and processing of cotton and will work on exports of finished products. The privileges established by relevant decisions of the GoU in relation to cotton-textile industries and clusters will also cover these voluntary cooperatives. The success of these reform measures in the 2020 cotton harvest has been mixed, with GoU stepping in to direct much of the activity, despite officially liberalizing the sector.

In addition, according to the decree, starting from March 15, 2020, a new credit mechanism for production and processing of raw cotton has been 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 the 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.

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 the production of certain high value horticulture products. The liberalization of cotton production and sales fits into these reforms. Mandatory production of wheat was also decreased 25 percent by the presidential decree at the same time as liberalization of the cotton market.

Market sources indicate that smaller actors in the cotton market will be affected by the liberalization of cotton production/the market; larger and financially more sound actors are likely to survive the process. Some mergers could be expected. A temporary decline in the production amount might be observed in the transition process if a perception of market instability occurs.

The GoU and the European Union (EU) signed a financial agreement in March 2020. The EU will provide 40 million Euros as budgetary support (grants, not loans) to Uzbekistan 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.

In July 2020, GoU signed a loan agreement of 500 million USD with the World Bank for the implementation of a project to modernize agriculture in Uzbekistan. The goal is to increase labor productivity in the agriculture industry, increase agricultural exports, further modernize and diversify production in order to reduce the share of cotton and wheat in agriculture and increase output of high value-added products, including fruit and vegetable and livestock products.

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. Despite these announcement, actual implementation of innovative technologies, improved information, and extension services and training remains minimal.

The GoU intends for privately-run clusters 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 should 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, the usage of drip irrigation to save water and prevent soil salinity, an increase in mechanical picking to reduce picking cost, and introduction of modern gins to 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 results in increased 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.

GoU announced that extra loans will be allocated for cotton-textile clusters and other economic entities for the purchase of domestically produced cotton pickers. Additionally, an agricultural machinery company in Turkey announced in 2020 that they were able to produce first Turkish-produced cotton pickers with 85 percent local content and made an agreement to export the first batch of production to Uzbekistan. Uzbekistan aims to use more machinery in cotton picking to eliminate using hand picking as finding affordable labor is becoming difficult and as the GoU faced intense international scrutiny and received ultimatums regarding its forced cotton labor programs. GoU also aims to improve the image of Uzbek cotton/textiles in international markets by this transition.

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

## **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. Domestic consumption is forecasted to be at about 2.75 million bales (600,000 MT) for MY 2020/21, considering some amount of cotton exports are expected, despite the efforts to zero cotton lint exports, and some possible COVID19 effects in the winter of 2020.

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 operations 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. Although this aim will not be completely reached in this timeframe, Uzbekistan has done a good job, so far, of consuming almost all of its cotton domestically and exporting yarn and fabric instead. Uzbekistan will likely continue to export a small amount of raw cotton in years to come since exporting is not legally banned.

As explained above, Uzbekistan is moving forward with the 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 ready-made garments were about US\$ 1.6 billion in 2018 and are estimated to reach about US\$ 2 billion at the end of 2020, somewhat less than expected by GoU, as COVID19 affected sales. GoU has targeted reaching US\$ 20 billion worth of textile/ready-to-wear exports by year 2030. To increase textile exports, Uzbekistan opened a textile showroom in New York City in March 2020. GoU and Uzbek textile production companies have continued efforts to increase the familiarity and sales of Uzbek textile products in the U.S. and EU.

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 and onward to Turkish and European markets. The new railroad 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 estimated to be about 290,000 bales (which is 63,000 MT). Lower than expected yields in recent years, declining planting area, along with the increase in domestic consumption has limited the availability of cotton for export. Post forecasts that the exports for 2020/21 will be 230,000 bales (50,000 MT) in accordance with the policy of GoU to decrease raw cotton exports levels as low as possible.

While Uzbekistan has been aiming to finish the exports of raw cotton by the end of CY 2020, available sources indicate that Uzbekistan exported 18,335 MT of cotton to Bangladesh during MY 2019/20. Meanwhile, Turkey imported 13,129 MT of Uzbek cotton during MY 2019/20. A bit more than half of this amount was exported to Turkey between January-July 2020. This amount was a considerable increase of exports to Turkey compared to the 2018/19 MY. Although the increase is quite high; the actual amount is not that significant considering the total that Uzbekistan produces, and the amount Turkey imports from the rest of the world. Uzbekistan exported 6,418 MT of cotton to Turkey in the first two months of MY 2020/21.

Meanwhile, China imported 13,014 MT of cotton from Uzbekistan during MY 2019/20, representing an 84 percent decrease compared to MY 2018/19. China did not buy any cotton from Uzbekistan in the first two months of MY 2020/21, as Uzbekistan is phases out exporting cotton. Russia imported 776 MT of cotton for MY 2019/20 and 215 MT for the first two months of the MY 2020/21. Kazakhstan imported only 605 MT during MY 2019/20 and none in the first two months of MY 2020/21. Uzbekistan exported 207 MY of cotton to India in MY 2019/20 and nothing in the first two months of 2020/21. The EU-28 including Poland, Belarus, and Indonesia, traditional buyers of raw Uzbek cotton, also imported almost nothing in MY 2019/20 and nothing in MY 2020/21. GoU's policy of drastically reducing exports seems to be working so far.

In accordance with the GoU policy of cutting raw cotton exports and increasing the exports of value-added cotton products, both cotton yarn and cotton fabric exports of the country are increasing, despite the COVID-19 pandemic around the globe creating an unstable market for clothing and textile products. Uzbekistan exported 176,615 MT of cotton yarn to China during MY 2019/20 which represents a 13 percent increase compared to previous MY. China imported 29,523 MT cotton yarn from Uzbekistan for the first two months of MY 2020/21. Turkey has also increased imports of cotton yarn from Uzbekistan with 93,338 MT in MY 2019/20, representing a 98 percent increase compared to MY 2018/19. Uzbekistan exported 16,018 MT of yarn to Turkey during the first two months of MY 2020/21. Russia's cotton yarn imports were 92,733 MT in MY 2019/20, which is a 12 percent increase when compared to the previous MY. EU-28 has also been a good customer of Uzbek cotton yarn, importing 11,445 MT with an increase of 55 percent compared to MY 2018/19. Uzbekistan exported 2,365 MT of yarn to the EU in the first two months of the MT 2020/21. Egypt, a textile producing and

exporting country, also increased the imports of cotton yarn from Uzbekistan, reaching 4,180 MT, a 69 percent increase, looking at the last MY. Belarus, Ukraine, and Morocco have imported 3,822 MT (a three percent decrease), 3,028 MT (a 29 percent increase) and 1,339 MT (a 65 percent increase) of yarn from Uzbekistan, respectively, during MY 2019/20.

Russia, traditionally being the buyer of Uzbek cotton and cotton products, is the largest importer of Uzbek cotton fabrics. Uzbekistan exported 158.2 million m<sup>2</sup> of cotton fabrics to Russia in MY 2019/20, which is a 27 percent increase compared to the previous MY. In the first two months of MY 2020/21, Russia imported 28.6 million m<sup>2</sup> of Uzbek cotton fabrics. In MY 2019/20, Uzbekistan exported 47.7 m<sup>2</sup> of cotton fabrics to the EU-28, representing a 25 percent increase compared to last MY. Kazakhstan imported 29 million m<sup>2</sup> of Uzbek cotton fabrics, 175 percent more than MY 2018/19. Kazakhstan also bought 5.3 million m<sup>2</sup> of Uzbek cotton fabrics in the first two months of the MY 2020/21. Ukraine purchased 17.8 million m<sup>2</sup> of cotton fabrics from Uzbekistan, which is a 17 percent increase compared to last MY. South Korea imported 4.4 million m<sup>2</sup> cotton fabrics during MY 2019/20 from Uzbekistan, which is a 14 percent decrease compared to last MY. The coronavirus negatively affected exports to South Korea, as the country did not import any cotton fabric in March 2020. Uzbekistan exported one million meters<sup>1</sup> of cotton fabrics to China, which is a five percent increase compared to the previous MY. Belarus imported 521,000 m<sup>2</sup> cotton fabrics during MY 2019/20 from Uzbekistan, 5 percent less than the last MY. Uzbekistan also exported cotton fabrics for the first time to Japan and the U.S., 145,000 m<sup>2</sup> and 1400 m<sup>2</sup> respectively.

**NOTE:** The Republic of Uzbekistan's data is not included in the Trade Data Monitor<sup>2</sup> (TDM) system 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.

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<sup>1</sup> China reports in meters not in m<sup>2</sup> like most other countries.

<sup>2</sup> <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 Planted	0	0	0	0	0	0
Area Harvested	1,100	1,071	1,010	1,033	975	980
Beginning Stocks	1,433	1,438	1,158	1,253	1,358	1,058
Production	3,275	3,350	3,500	3,170	3,450	3,080
Imports	0	0	0	0	0	0
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	4,708	4,788	4,658	4,423	4,808	4,138
Exports	750	690	300	290	300	230
Use	2,800	2,845	3,000	3,075	3,150	2,750
Loss	0	0	0	0	0	0
Total Dom. Cons.	2,800	2,845	3,000	3,075	3,150	2,750
Ending Stocks	1,158	1,253	1,358	1,058	1,358	1,158
Total Distribution	4,708	4,788	4,658	4,423	4,808	4,138

Source: USDA forecasts, FAS Istanbul Forecasts

#### Attachments:

No Attachments