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# GAIN Report

Global Agricultural Information Network

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## **Uzbekistan - Republic of**

### **Cotton and Products Annual**

#### **2014 Uzbekistan Cotton and Products Annual**

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**Report Highlights:**

Uzbekistan's marketing year (MY) 2013/14 final lint production is estimated at 4.45 million bales, with exports decreasing to 2.9 million bales. MY2014/15 mass cotton sowing is expected to be delayed by a couple weeks due to a rainy April forecast, with ample winter moisture boosting water available for irrigation. Post preliminarily forecasts MY2014/15 lint production at 4.35 million bales, with lint exports at 3 million bales.

**Executive Summary:**

Uzbekistan's marketing year (MY) 2013/14 final lint production is estimated at 4.45 million bales.

MY2013/14 exports are forecast to decrease to 2.9 million bales. Due to a preliminary wet rainy weather forecast for April, MY2014/15 mass cotton sowing might start two weeks later, switching from mid to late April. State targets for MY2014/15 planted area and seed cotton production reportedly remain at same level as in FY2013/14, and set at 1.285 million hectares and 3.35 MMT respectively.

Over the last several years it has become increasingly difficult for producers to achieve State targets due to poor farming practices and the absence of appropriate production incentives. Official production reports generally match the production targets, regardless of actual yields.

Despite the global economic crisis and relative drop in world cotton consumption over last 5-6 years, local mills continue efforts to increase their capacities. Domestic consumption is estimated at 1.5 million bales in MY2013/14 and in MY2014/15 it is forecast to remain unchanged.

The government of Uzbekistan still maintains tight control over all aspects of cotton production, including area planted, production targets, prices, inputs, procurement and marketing nearly all the cotton in Uzbekistan. Domestic supplies are allocated according to the government's quota mainly to State Joint-Stock Company "Ozengilsanoat" which then distributes cotton to domestic millers according to sales contracts. The local textile mills can also buy cotton through the Commodity Exchange.

Despite the Government's efforts in recent years, Uzbekistan's cotton ginning industry still needs more investment in order to modernize its old gins. The spinning and weaving industries continue to invest heavily in new equipment as well as renovating existing equipment thanks to improved profitability over the past years. Domestic demand has been getting stronger with a marginal increase over the past six years; as is export demand, especially in cotton yarn. Nowadays, the textile industry understands it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than rely on exports of low-value yarn, if it wants to remain competitive in a shrinking global market.

Currently, there are more than 50 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2014, foreign investments in the textile industry exceeded USD 2.0 billion. The main products produced and exported by textile mills remain cotton yarn, gray fabrics and some textile garments.

As in the past few years, China, Bangladesh and Russia are still the major buyers of Uzbek raw cotton.

**Commodities:**

Cotton

**Production:**

In the past two years the cotton planted area slightly decreased compared to MY2012/13 due to switching some cotton land to grain and fruit orchards. However, higher yields resulted in a slight increase in production, mainly attributed to utilization of more early-maturing and high yield cotton varieties. There was also less loss from the last harvest partly due to high mobilization of additional labor resources. Problems with irrigation water supplies, especially in some southern regions, reportedly threatened growers during the summer vegetation period. But still, there were not any major plant disease or insect outbreaks reported. Based on the above mentioned factors, Post estimates MY2013/14 lint production at 4.45 million bales. The last season was characterized by favorable weather in spring which allowed farmers to start and finish cotton sowing in time. Also, better precipitation (even higher than normal at some point) during the winter guaranteed adequate supplies of irrigation water in major cotton growing regions. Taking into account all of the above factors, as well as harvest results, MY2012/13 lint production is estimated at 4.5 million bales.

Due to preliminary wet rainy weather forecast in April, MY2014/15 mass cotton sowing might start two weeks later, switching from mid to late April. State targets for MY2014/15 planted area and seed cotton production reportedly remain at same level as in FY2013/14, and set at 1.285 million hectares and 3.35 MMT respectively.

In some regions where they use the method of sowing under plastic, planting can start earlier in the first week of April, if weather conditions permit. In this new season, so far, the weather conditions were adequate enough with a snowy winter, which was higher than normal levels, especially the whole month of January and the first half of February. Reportedly, this should provide at least close to normal or even higher level of water available for irrigation. Based on prior sowing conditions, Post preliminarily forecasts MY2014/15 lint production at 4.35 million bales.

**Table 1. MY2014/15 cotton plant area and production targets by region**

Regions	Plant Area (ha)	Production (t)
Karakalpakstan	94700	190000
Andijon	93400	266000
Bukhara	109600	342000

Djizakh	101800	229000
Kashkadarya	160400	417000
Navoi	35800	100000
Namangan	82600	230000
Samarkand	91500	223000
Surkhandarya	119600	335000
Syrdarya	110700	243000
Tashkent	91500	237000
Ferghana	100100	280000
Khorezm	93800	258000
Republic Total	1285500	3350000

### **Consumption:**

The government has often stated that it would like to process more of Uzbekistan's cotton production domestically, but it has never been a quick process and it has always depended on the pace of local textile industry development. Nowadays around 30 percent of all cotton is consumed domestically. Effective ginning capacity is estimated to be well below the 6.0 MMT of installed capacity due to equipment problems. Seven years ago, GOU launched a modernization and reconstruction program that ran between 2007 and 2012 for the majority of cotton gins. Due to this program, as of today the government has already modernized more than 50 cotton gins and closed 25 old cotton gins in big cities, in particular those gins with old equipment and with the lowest efficiency.

There are absolutely no changes in the mechanism of cotton exports which still remains under centralized state control. All cotton lint is sold either to the trading companies of the Ministry of Foreign Economic Relations, Investments and Trade (MFERIT) for export or is partially allocated to the Republican Commodity exchange which organizes cotton lint sales for domestic consumers.

Uzbekistan's MY2013/14 domestic lint consumption is estimated at 1.5 million bales and MY2014/15 domestic consumption is forecast to remain at the same level as FY2013/14.

### **Textile Industry Development**

In the past 5 years, Uzbekistan's spinning and weaving industries have been investing heavily in new equipment and renovation of existing equipment, as domestic and export demand grew, especially for cotton yarn. Nowadays, many local textile mills are trying hard to widen their production assortment in order to expand to high value added products. Currently, there are more than 50 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2013, total foreign investments in the textile industry exceeded USD 2.0 billion. The main products produced and exported by textile mills remain cotton yarn (320,000 tons), gray fabrics (225 million sq. meters), knitted fabrics (55,000 tons), knitted garments (179 million units) and hosiery (45 million pairs).

Despite existing economic problems, the local spinning industry is optimistic about textile production and export growth. In 2013, 252 enterprises of light industry exported textile products worth of USD827 million, which is for 17% higher than in 2012. Compared with 2012 levels, in 2013 export volumes of knitted linen have increased 2.2-fold, cotton yarn by 28.7 per cent, fabrics by 27.7% and knitted garments by 23%. Currently, Uzbekistan exports its textile products to 48 countries, including new exports markets such as Tunisia, Nigeria, Kenya, Sri Lanka, Estonia and few others.

**Table 2. Structure of Uzbekistan Textile Industry (2013)**

<b>Total Number of Textile Mills (including)</b>		300
Textile spinning mills	130	
Textile Weaving mills	134	
Silk Producing mills	36	
<b>Capacity</b>		
Cotton Yarn manufacturing Capacity		390,000 tons
Cotton Fabrics Manufacturing Capacity		300 million sq meters
Knitted Linen Manufacturing Capacity		90,000 tons
Half-Woolen Yarn		5,000 tons
Conventional sewing threads		222 million spools
Knitted Wear Manufacturing Capacity		190 million units
Hosiery Manufacturing Capacity		82 million pairs
Raw Silk (threads)		2,500 tons
<b>Raw Material Requirements</b>		
Raw Cotton	Up to 360,000 tons(if 100%) capacity is utilized	
Other raw materials used	Polyester, viscose, cotton waste, synthetic and filament yarn, all kinds of cotton & knit fabrics	

**Picture 1. Map location of Uzbekistan’s 300 textile mills by regions**



Main incentives and benefits for textile producers proved by GOU:

- producers of hosiery & ready garment are exempted from all taxes (except VAT);
- textile exporters (more than 80% to be exported) are exempted from property tax (3,5%).
- 100% exemption of custom payments on importing technological equipment;
- 100% exemption from custom payments on importing raw materials not produced in Uzbekistan (synthetic fiber, fabric, etc.);
- 15% discount from world cotton price, additional 5% discount subject of production of finished goods;
- Special rules to finance the cotton lint purchases by 15% cash payment and remaining 85% payable in 90 days, covered by bank guarantee;
- Zero rating VAT (20%) on textile exports.
- Up to January 1, 2016, exemption from paying import and customs duties on chemicals, dye-stuff, accessories and fittings, as well as other auxiliary materials that are imported to the Republic for production purposes, but are not manufactured domestically;

**Trade:**

Exports of cotton are projected to continue declining slowly. Post forecasts MY2013/14 lint exports at 2.9 million bales. MY2014/15 exports are preliminarily forecast at the same level of 3.0 million bales. During the last 9<sup>th</sup> International Uzbek Cotton and Textile Fair, GOU officials announced that export contracts for over 600,000 tons (2.75 million bales) of cotton lint were signed during the fair. Most of these contracts, as usual, are reportedly memoranda of intent, and not finalized sales. The fair once again showed that Uzbekistan currently remains a primary supplier of cotton to Asia, with Bangladesh, China, and Russia as the major markets.

A local system of logistics consisting of 23 specialized cotton terminals with a storage capacity of 400,000 tons (1.8 million bales), as well as a transportation infrastructure with shipment corridors, will facilitate deliveries of Uzbek cotton to buyers.

**Stocks:**

There are no official sources of information on stock volumes, so the numbers indicated in the report are rough estimates.

**Policy:**

The Government's overall cotton policy is still aimed at maintaining stable production and improving quality and fiber characteristics, according to the speeches of Government officials during the 9<sup>th</sup> International Uzbek Cotton Fair held in October 2013.

As of today, all state farms have been privatized and reorganized into private farms. Despite implemented structural reforms in the agricultural sector, the government still maintains tight control over all aspects of production including area planted, production targets, prices, inputs, procurement and marketing of nearly all of the cotton in Uzbekistan.

Cotton has been the cash crop in Uzbekistan for generations and a significant source of employment and foreign exchange. Each year Uzbekistan is planting a greater percentage of the acreage with faster-maturing varieties. The government initiated a major program to reform the cotton sector since 2008, largely aimed at improving fiber quality. For the new cotton season, reportedly 10 percent of all cotton seeds targeted for sowing will be newly developed breeds, 35 percent mid-season varieties and 55 percent early ripening breeds.

The local ginning industry has made some improvement in their ginning technology, as a result of which the ginned lint has less trash content than in the past, which is acknowledged by many international traders. About 85 percent of all produced lint is of higher grades, strict and good-middling, and the lower grade volumes have decreased. With the aim of further modernizing the ginning industry, GOU started purchasing new linters. Within the next few years it plans to purchase over 200 new linters, which will replace the old ones in use in 35 cotton gins. The cotton ginning industry nevertheless is one of several sectors of the country's economy where new investments are needed.

**Production, Supply and Demand Data Statistics:**

**Table 3. Production, Supply and Demand Data Statistics:**

<b>Cotton Uzbekistan</b>	<b>2012/2013</b>		<b>2013/2014</b>		<b>2014/2015</b>	
	<b>Market Year Begin: Aug 2012</b>		<b>Market Year Begin: Aug 2013</b>		<b>Market Year Begin: Aug 2014</b>	
	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>	<b>USDA Official</b>	<b>New Post</b>
<b>Area Planted</b>	0	1,330	0	1,285		1,285
<b>Area Harvested</b>	1,315	1,310	1,285	1,285		1,285
<b>Beginning Stocks</b>	1,498	1,498	1,348	1,458		1,508
<b>Production</b>	4,500	4,500	4,250	4,450		4,350
<b>Imports</b>	0	0	0	0		0
<b>MY Imports from U.S.</b>	0	0	0	0		0
<b>Total Supply</b>	5,998	5,998	5,598	5,908		5,858
<b>Exports</b>	3,200	3,100	2,700	2,900		3,000
<b>Use</b>	1,450	1,440	1,550	1,500		1,500
<b>Loss</b>	0	0	0	0		0
<b>Total Dom. Cons.</b>	1,450	1,440	1,550	1,500		1,500
<b>Ending Stocks</b>	1,348	1,458	1,348	1,508		1,358
<b>Total Distribution</b>	5,998	5,998	5,598	5,908		5,858
1000 HA, 1000 480 lb. Bales, PERCENT, KG/HA						