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Required Report - public distribution

Date: 3/17/2010

GAIN Report Number: uz1001

Uzbekistan - Republic of

Cotton and Products Annual

Cotton and products Annual Report

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Report Highlights:

Due to the late harvest resulting in lower yields, Uzbekistan's MY 2009/10 final cotton lint production is forecast at 4.1 million bales. The export forecast has been lowered to 3.8 million bales. MY2010/11 official targets for planted area and seed cotton production remain unchanged from last year.

Executive Summary:

Due to the late harvest and lower yields, Uzbekistan's MY2009/10 final lint production is forecast at 4.1 million bales. Estimated exports for MY2009/10 have been lowered to 3.8 million bales. MY2010/11 mass cotton sowing is projected to start as usual in the beginning of April and continue thru end of the month in case of favorable weather conditions. MY2010/11 state targets for planted area and seed cotton production remain unchanged at 1.315 million hectares and 3.4 MMT respectively.

Over the last several years it has become increasingly difficult for producers to attain 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 of the global economic crisis and drop in world cotton consumption over last two years, local mills continue efforts to increase their capacities. Domestic consumption is estimated at the level of 1.1 million bales in MY2009/10 and in MY2010/11 it is forecast to increase to 1.25 million bales.

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 or plan, mainly to State Joint-Stock Company "Ozengilsanoat" which then distributes cotton to domestic millers according to sales contracts. The local textile mills can buy cotton also 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 mostly old gins. The spinning and weaving industries continue to invest heavily in new equipment as well as to renovate existing equipment due to improving profitability over the past years. Domestic demand has been getting stronger with a marginal increase over the past three years, so also is export demand, especially in cotton yarn. However the worldwide crisis hurt the domestic textile industry, and since late 2008 textile production fell, and now little by little it is reviving. 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 a shrinking global market.

Currently, there are more than 42 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2009, foreign investments in the textile industry exceeded USD 1.0 billion. The main products produced and exported by textile mills are cotton yarn, gray fabrics and some textile garments.

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

Commodities:

Production:

MY2009/10 wet spring and cooler conditions especially prior to planting and in the final stage of crop maturity resulted in about three weeks delay in starting the mass harvest. In some regions, like Tashkent, Jizzakh, Syrdarya, Samarkand and Bukhara the monthly precipitation levels exceeded the norm by 250-300 percent; this excessive wetness required replanting, and delayed cotton sowing in some districts of these regions by almost two months. Heavy rains reportedly damaged 30-40 percent of the total plant area, and in some regions the still continued replanting thru mid of June. Secondly, as observers claim, low temperatures during summer vegetation also damaged yields. Consequently, MY2009/10 lint production is forecast at 4.1 million bales.

MY2010/11 mass cotton sowing is projected to start as usual in the beginning of April and continue thru the end of the month assuming favorable weather. The MY2010/11 state targets for planted area and seed cotton production remain unchanged at 1.315 million hectares and 3.4 MMT respectively.

Consumption:

The government has often stated that it would like to process more of Uzbekistan's cotton production domestically, but it has had only limited success. Less than 25 percent of all cotton is still consumed domestically. Effective ginning capacity is estimated to be well below the 6.0 MMT of installed capacity due to equipment problems. Taking into account these and other production problems the government recently announced a modernization and reconstruction program for some cotton gins during 2007-2011. According to this program, the government is planning to modernize 41 cotton gins and close 30 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 remain under centralized state control. All cotton lint is still sold either to the trading companies of the Ministry of Foreign Economic Relations, Investments and Trade (MFERIT) for export and partially allocated to the Republican Commodity exchange that organizes cotton lint sales for domestic consumers.

Prior to the world economic slump, the spinning and weaving industries had been investing heavily in new equipment and renovation of existing equipment, as domestic and export demand grew, especially for cotton yarn. As global markets have contracted, the textile industry more than ever 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.

Currently, there are more than 42 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2009, foreign investment in the textile industry exceeded USD 1.0 billion. Cotton yarn production was projected to grow 55,000 tons, stockinet by 20,000 tons, fabrics by 6.0 million square meters, and knitted products by 7.9 million pieces. However, these production goals are very difficult to reach due to continued slack global demand. Nevertheless, the local spinning industry are optimistic about textile production and export growth. Uzbekistan's MY2009/10 domestic lint consumption is forecast to increase slightly to 1.15 million bales and MY2010/11 domestic lint consumption is forecast at 1.2 million bales.

Trade:

Exports of cotton are projected to continue declining slowly. Post forecasts MY2009/10 lint exports at 3.8 million bales. MY2010/11 exports are forecast to decrease to 3.7 million bales. After the last

International Uzbek Cotton Fair, the officials of the Ministry of Foreign Economic Relations, Investments and Trade (MFERIT) announced that during the Fair contracts for exporting about 1.0 million tons of lint were signed, of that reportedly 0.4 MMT were from 2009 crop. The Fair once again showed that Uzbekistan remains a primary supplier of cotton to Asia, with Bangladesh, China and South Korea the major markets for Uzbek cotton.

At the same time, a well-established local system of logistics, consisting of 23 specialized cotton terminals with a storage capacity of 400,000 tons, as well as a good transportation infrastructure and shipment corridors, facilitate timely deliveries of Uzbek cotton to buyers.

Stocks:

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

Policy:

The Government's overall cotton policy is still aimed at maintaining stable production, improving quality and fiber characteristics, according to the speeches of Government officials during the 5th International Uzbek Cotton Fair last October.

As of today all state farms have been privatized and reorganized into private farms. In spite of implementing 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. However, for the past several years, Uzbekistan has been experiencing serious problems in cotton production for a number of reasons, including weather, inadequate production incentives (i.e. prices), inadequate and low-quality inputs and deteriorating infrastructure, especially irrigation.

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. About 80-85 percent of all produced lint is of higher grades, strict and good middling, and the lower grade volumes have decreased.

The cotton ginning industry nevertheless is one of several sectors of the country's economy where new investments are needed.

