

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 3/29/2011

Uzbekistan - Republic of

Cotton and Products Annual

Uzbekistan Cotton and Products Annual 2011

Approved By:

Rachel Nelson

Prepared By:

Nizam Yuldashbaev

Report Highlights:

The Uzbekistan MY 2010/11 cotton lint production and export forecast has been increased to 4.93 million bales and 3.45 million bales, respectively. Official targets for MY2011/12 planted area and seed cotton production remain unchanged at 1.34 million ha and 3.4 MMT.

Executive Summary:

Due to favorable weather conditions which resulted in a good crop, Uzbekistan's MY2010/11 final lint production estimate was increased to 4.93 million bales. Lint exports for MY2010/11 are estimated at 3.45 million bales. MY2011/12 mass cotton sowing is expected to start as usual in the beginning of April and continue through the end of the month, assuming favorable weather conditions. MY2011/12 state targets for planted area and seed cotton production remain unchanged at 1.34 million hectares and 3.4 MMT, respectively.

Despite the recent 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 1.5 million bales in MY2010/11 and in MY2011/12 it is forecast to increase to 1.6 million bales.

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

Despite Government efforts to modernize in recent years, Uzbekistan's cotton ginning industry still consists of predominantly 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. Both domestic and export demand, particularly for cotton yarn, has marginally increased in the past three years. However the worldwide economic crisis hurt the domestic textile industry, and in late 2008 textile production dropped. Recently, however, it has been reviving. The textile mills are trying to pursue quality improvements and production diversification to include more value-added products, rather than continuing with low-value yarn based exports. Most mills now understand that they need to be extremely competitive in order to remain in the shrinking global market.

Currently, there are more than 43 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2010, foreign investments in the textile industry exceeded USD 1.1 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.

Production:

In MY2010/11 favorable weather conditions allowed farmers to start and complete cotton sowing almost on time and a smooth vegetation process resulted in an overall better crop than in MY2009/10. There was no major replanting needed and the cotton harvest started as planned in most regions. Good average temperatures during the summer vegetation period in major cotton growing regions also

resulted in better yields. Taking into account all these factors, the MY2010/11 lint production estimate for Uzbekistan has been increased to 4.93 million bales.

MY2011/12 mass cotton sowing is projected to start as usual in the beginning of April and continue through the end of the month, assuming weather is favorable. The MY2011/12 state targets for planted area and seed cotton production remain unchanged at 1.34 million hectares and 3.4 MMT, respectively.

As in previous years, in MY2011/12 farmers are reportedly planning to continue using such cotton varieties as “Bukhoro-6”, “C-6524”, “Namangan-77”, “An Boyovut-2”, “Bukhoro-8”, “Bukhoro-102” and a few others. These varieties are characterized by their early-ripening, good yields, resistance to various common diseases and enjoy of high demand in the world market.

Production 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 6th International Uzbek Cotton Fair last October. During the fair, the Prime Minister officially declared a Government plan to increase domestic cotton consumption up to 70 percent by 2015.

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

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 and sees strict and good middling. Volumes of lower grade lint have decreased. The cotton ginning industry nevertheless is one of several sectors of the country's economy where new investments are needed.

Consumption:

The government has often stated that it would like more of Uzbekistan's cotton production to be processed domestically, but it has had only limited success. Less than 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. Taking into account these and other production problems, the government launched a modernization and reconstruction program for some cotton gins during 2007-2011. Under this program, the government now is working on modernization 41 cotton gins and has closed some old cotton gins in large cities, in particular those gins with old equipment and with the lowest efficiency.

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

Prior to the world economic crisis, 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 rely on low-value yarn based exports, if it wants to remain competitive.

Currently, there are 240 textile manufacturers in the country. Among them 42 joint ventures were 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 billion. The local spinning industry is optimistic about textile production and export growth. Uzbekistan's MY2010/11 domestic lint consumption is estimated to at an increased 1.5 million bales and MY2011/12 is preliminarily forecast at 1.6 million bales.

A few months ago the Bangladesh Commerce Minister led a team of government officials and local industry leaders to Uzbekistan. The Bangladesh business delegation was represented by the Bangladesh Textile Mills Association (BJMA) and the Bangladesh Cotton Association, which discussed the possibility of direct investments from Bangladesh in Uzbekistan cotton production and textile manufacturing. As a result of these negotiations, Uzbekistan reportedly agreed to provide a secured supply of 200,000 tons of raw cotton to Bangladesh every year.

In addition, the Uzbek Minister of Foreign Economic Relations Investments and Trade (MFERIT) encouraged the Bangladesh business delegation to make investments in the spinning industry of Uzbekistan. In exchange, the GOU would allow Bangladesh investors to produce about 200,000 MT of yarn, of which half could be brought back to Bangladesh and half could be exported to CIS countries. The GOU guaranteed that Bangladesh investors would receive a favorable treatment including a 15 per cent discount in raw cotton prices and a seven-year tax holiday.

Trade:

Exports of cotton are projected to continue declining although slowly. Post forecasts MY2010/11 lint exports at 3.45 million bales. MY2011/12 exports are preliminarily forecast at the level of 3.5 million bales. After the last International Uzbek Cotton Fair, the officials of MFERIT announced that during the fair contracts for exporting about 650,000 tons of lint were signed. In addition, reportedly contracts worth more than USD 500 million were signed to export the products of domestic textile enterprises, including more than USD100 million for the supply of finished textile products. The fair once again showed that Uzbekistan remains a primary supplier of cotton to Asia, with Bangladesh, China, South Korea and Russia still the major markets for Uzbek cotton.

After the Fair, seeking new channels for exporting cotton, the Uzbek Trading Company within MFERIT signed a MOU with Tianjin Cotton Exchange Market (from China) to create a joint venture on spot sales of Uzbek cotton through a free trade zone in Tianjin. Both parties are planning sales of up to 100,000 tons of lint from Uzbekistan to China annually.

In addition, the Uzbekistan government has reportedly agreed to provide one million cotton bales to Pakistan by June 30, 2011 on the A index. Reports indicate that the Uzbek government has amended its law for Pakistan so that the previous condition of 80 percent advance cash has been withdrawn.

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 stock volumes, so the numbers indicated in this report are estimates.

Production, Supply and Demand Data Statistics:

Table 1. Cotton Production, Supply and Demand

Cotton Uzbekistan	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Aug 2009		Market Year Begin: Aug 2010		Market Year Begin: Aug 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	1,315	0	1,340		1,340
Area Harvested	1,300	1,300	1,300	1,330		1,340
Beginning Stocks	1,948	1,948	948	1,098		1,078
Production	3,900	4,100	4,650	4,930		4,840
Imports	0	0	0	0		0
MY Imports from U.S.	0	0	0	0		0
Total Supply	5,848	6,048	5,598	6,028		5,918
Exports	3,800	3,800	3,500	3,450		3,500
Use	1,100	1,150	1,250	1,500		1,600
Loss	0	0	0	0		0
Total Dom. Cons.	1,100	1,150	1,250	1,500		1,600
Ending Stocks	948	1,098	848	1,078		818
Total Distribution	5,848	6,048	5,598	6,028		5,918

1000 HA, 1000 480 lb. Bales

Table 2. MY2010/11 Seed cotton production by region

Regions	State target (ton)	Actual production (ton)
Karakalpakstan	180,000	188,003
Andijon	283,000	293,080
Bukhara	342,000	351,157

Djizakh	224,000	224,270
Kashkadarya	417,000	434,723
Navoi	100,000	104,466
Namangan	240,000	240,413
Samarkand	238,000	243,112
Surkhondarya	335,000	343,625
Syrdarya	238,000	233,538
Tashkent	255,000	255,271
Ferghana	290,000	290,185
Khorezm	258,000	261,342
Total Republic	3,400,000	3,463,185

Table 3. Uzbek textile production statistics

Commodity	CY 2009	CY 2010
Cotton yarn (thousand tons)	145.5	185.8
Knitwear articles (million pcs)	33.9	50.5
Knitted fabric (tons)	11,000.2	21052.0
Hosiery (thousand pcs)	89.0	154.0
Cotton fabrics (million sq meters)	82.0	83.6