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## **Uzbekistan - Republic of**

### **Cotton and Products Update**

#### **Uzbekistan Cotton and Products Update 2017**

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**Report Highlights:**

Uzbek cotton production for MY 2017/18 estimated at about 3.7 million bales (800,000 MT). Uzbekistan continues to take steps to increase cotton quality by improving seed quality along with farming and ginning practices. Domestic cotton consumption is increasing significantly in recent years with new textile investments, and MY 2017/18 domestic cotton consumption is projected to be about 2.3 million bales (500,000 MT). Cotton exports during the year are expected to be about 1.37 Million bales (300,000 MT). Bangladesh and China continue to be the main export markets for Uzbek cotton. A new electronic platform for cotton selling will be introduced in 2018.

# Uzbekistan Cotton and Products Update Report 2017

## Production

The MY 2017/18 Uzbek seed cotton crop estimate is about 3.7 million 480 pound bales (equivalent to 800,000 MT lint cotton), which is lower than early season estimates. Cooler weather at the beginning of the summer, pest attacks in various regions, and lack of water contributed to lower than expected yields, despite the favorable weather conditions for picking during the month of October that extended the picking period.

The government of Uzbekistan (GOU) is reducing cotton planting area to open up fields for vegetable, fruit, and nut production, especially in areas where water is scarce and cotton yields are low. Accordingly, starting from MY 2016/17, cotton planted area will be reduced a total of 185,500 hectares in the following five years. Cotton planting area was reduced 30,500 hectares in MY 2016/17 to 1.25 million hectares and further reduced by 50,000 hectares in MY 2017/18 to 1.2 million hectares.

The majority of Uzbek cotton is picked by hand, but in recent years machine picking is gradually increasing. The GOU's goal is to have eighty percent of the cotton harvest picked by machine by the year 2020. It is reported that presently there are about 2,000 locally made harvesters used in addition to internationally-produced harvesters to collect cotton in Uzbekistan.

The GOU is also working on restoration of irrigation pump stations and canals in cooperation with World Bank and Asian Development Bank. There are various other government projects to reclaim land and improve planting conditions. Modern irrigation systems, such as drip irrigation and laser-leveling of fields, are also encouraged for higher field yields and water conservation.

After the fall of the Soviet Union, the GOU had aimed at becoming self-sufficient in wheat production. Now they are further expanding from cotton and wheat, and the government is encouraging farmers to plant fruits and vegetables. In water-rich areas, rice planting is also encouraged by officials. In the long run, the cotton planting area is expected to decline, and production is expected to remain about the same as seed quality and farming practices improve. Low precipitation and soil salinity are among the major issues that influence cotton yields in Uzbekistan. According to sources, about half of the irrigated land is affected by high salinity that reduces yields. Award winning scientists are working on improving cotton seed quality, and private firms are also working on this topic as well.

Uzbekistan is also doing the necessary ground work with the assistance of international agencies to improve their good agricultural practices. Currently they do not produce any cotton under the Better Cotton Initiative but are taking primary steps to produce it in the future.

## Consumption

The most important recent trend in the cotton sector in Uzbekistan is the rapid and continued growth in domestic consumption. According to industry sources, about fifty-five percent of locally produced cotton is consumed domestically. MY 2016/17 domestic consumption is estimated to be about 2.06 million bales (450,000 MT) which expected to increase to 2.3 million bales (500,000 MT) during MY 2017/18. The textile industry plays an important role in Uzbekistan's economy. It employs one third of the industrial workforce and its share of industrial output is twenty-six percent.

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. Many new textile investments are approved and that will increase domestic consumption gradually in the coming years. Accordingly, the Uzbek government plans to invest about US\$1 billion between 2015 and 2019 to modernize and diversify the textile industry and additional US\$ 2.2 billion will be invested until 2022 to increase domestic textile production. At the same time new investments are coming in, existing mills are increasing their capacity as well. Industry sources estimate that about half of the domestic consumption is by the top twenty mills.

Uzbekistan's exports of cotton yarn, textiles, and readymade garments were about US\$1.1 billion in 2016 and are estimated to reach US\$1.3 billion by the end of 2017. Presently Uzbek textiles are mostly exported to CIS countries. A recent agreement signed with the European Union reduced the import tax for Uzbek textile goods from twelve to six percent, which will facilitate Uzbek textile exports to this market in the future as well.

Uzbekistan hosted the 76<sup>th</sup> Plenary Meeting of the International Cotton Advisory Council in Tashkent in October 2017. The growth in textile and milling investment was on display at this year's ICAC meeting and concurrent Uzbek Cotton and Textile Fair with many milling and textile companies exhibiting.

Uzbekistan has recently been discussing the concept of implementing clusters for cotton/textile production to vertically integrate more of the sector and increase foreign investment. Through the textile clusters concept, the government would support foreign companies through tax and customs benefits, as well as providing land to grow cotton, process cotton, and produce final garments. A few clusters have already been established by foreign companies and this could be expanded in the future.

### **Trade**

The Uzbek government is getting ready to change the way cotton is marketed. Final plans have not been announced, but in general they are planning on moving away from sales through Uzpakhtaexport, towards using a new electronic platform to sell cotton. Local and possibly foreign cotton may also be sold through the new platform. The new platform is said to be ready to operate in 2018. Also, a newly opened rail connection between Baku, Azerbaijan and Kars, Turkey may 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 in the coming years.

In the recent past, Uzbekistan exported the majority of its lint cotton production, but the availability of cotton for export is gradually decreasing due to the rapid increase in domestic consumption. Accordingly, MY 2016/17 exports are expected to be about 1.45 million bales (315,000 MT) and MY 2017/18 about 1.37 million bales (300,000 MT). According to industry sources, with the given speed of investment in the textile business, Uzbekistan may be able to consume almost all of its cotton production domestically as early as the year 2020.

Bangladesh is the main market for Uzbek cotton, followed by China. The combined purchases by these two countries constitute about eighty percent of total Uzbek cotton exports. A few years ago, the Uzbekistan and Bangladesh governments signed an MOU to supply about 200,000 MT of Uzbek cotton annually to Bangladesh, though the total amount of exports fluctuated year to year, based on market

conditions and availability. This year though, MY 2016/17 Uzbek cotton exports to Bangladesh are estimated at about 200,000 MT.

In MY 2016/17 exports to China were about 69,000 MT, which is down from 137,000 MT of MY 2015/16 and 192,000 MT of MY 2014/15. Iran was one of the leading importers of Uzbek cotton in MY 2016/17, with total imports reaching 30,000 MT, up from 11,000 MT last marketing year.

Turkey imported about 2,600 MT of Uzbek cotton in MY 2016/17, compared to 17,000 MT in MY 2015/16. Russian imports declined to 1,600 MT in MY 2016/17 from 9,700 MT a year ago.

As a result of the increase in spinning mill investments, Uzbekistan has started to increase its cotton yarn exports. Accordingly, during MY 2016/17 some of the Uzbek cotton yarn export destinations were as follows; China 94,000 MT, Turkey 30,300 MT, Iran 4,300 MT, Poland 3,150 MT, South Korea 2,000 MT, and Portugal 1,600 MT. Over half of Uzbekistan's textile products exports are cotton yarn, over a quarter are garments (including terry products and carpets), and fabrics make up fifteen percent. Textile products exports were \$1.1 billion in 2016.

#### PSD Uzbekistan Cotton (1000 hectares and 480 lb Bales)

Cotton	2015/2016		2016/2017		2017/2018	
Market Begin Year	Aug 2015		Aug 2016		Aug 2017	
Uzbekistan	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	0	0	0	0	0
Area Harvested	1285	1285	1180	1250	1180	1200
Beginning Stocks	1148	1260	848	860	1223	1015
Production	3800	3900	3725	3670	3700	3700
Imports	0	0	0	0	0	0
MY Imports from U.S.	0	0	0		0	0
Total Supply	4948	5160	4573	4530	4923	4715
Exports	2300	2500	1300	1450	1200	1375
Use	1800	1800	2050	2065	2300	2300
Loss	0	0	0	0	0	0
Total Dom. Cons.	1800	1800	2050	2065	2300	2300
Ending Stocks	848	860	1223	1015	1423	1040
Total Distribution	4948	5160	4573	4530	4923	4715