UZBEKISTAN
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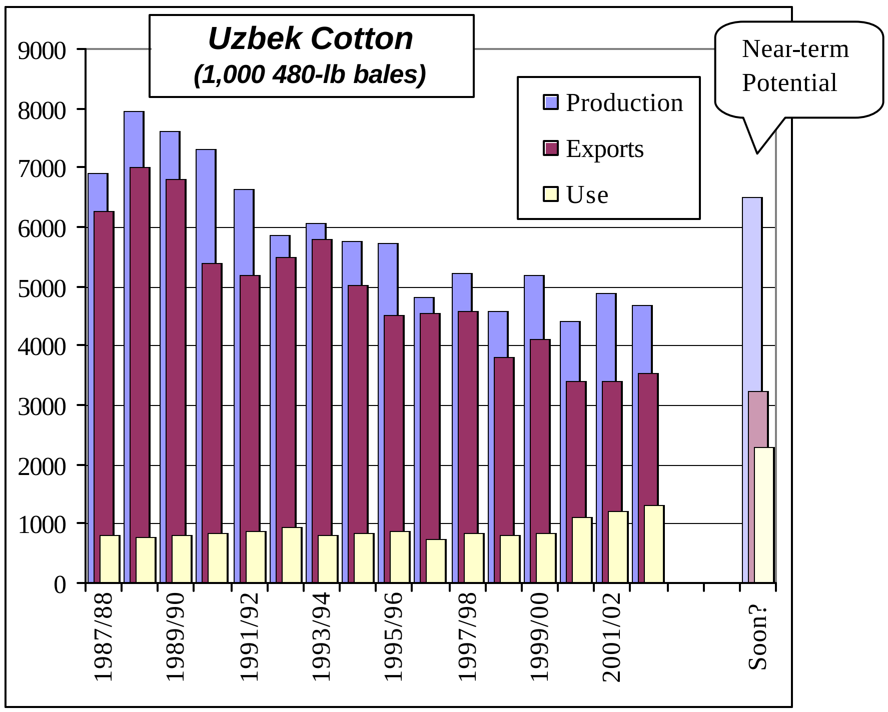
Uzbekistan could remain a top cotton exporter despite increasing domestic consumption as industry liberalization raises possibility of more efficient production

Uzbekistan, the United States' top competitor in international cotton trade, is undergoing important changes that will affect the world cotton market and U.S. cotton exports. Specifically, Uzbekistan's textile industry has seen impressive growth over the past few years, and an ambitious strategy is in place to attract further foreign investment and increase textile exports. Meanwhile, the Government of Uzbekistan is in the process of relaxing its highly centralized control over the cotton industry. An FAS commodity analyst recently traveled to Uzbekistan to investigate these developments.



Uzbekistan's textile industry is indeed strong and displays enormous potential. The 40-percent increase in cotton consumption over the past five years is due primarily to export-oriented foreign investment, attracted by the quality, reliability and low price of inputs (cotton, labor and energy) and by the political and financial support of the government. Major foreign partners have well-established international marketing relationships that virtually assure continued textile exports, and in at least one important case, the foreign partner has signed agreements that will require dramatic increases in textile output over the next few years. Surprisingly, neither investors nor officials are counting on fellow Commonwealth of Independent States (CIS) markets for export growth in the near term, but are looking instead to the European Union and Asia.

Continued rapid growth in the export-oriented textile sector's consumption of Uzbek cotton will come at the expense of less competitive spinning industries elsewhere, which could dampen growth in foreign demand for U.S. cotton. The good news, it would seem, is that Uzbekistan's scheduled transformation from a cotton exporter to a major textile producer (the government expects domestic demand to account for half of cotton production by 2005, up from 25 percent today) would mean less competition for U.S. raw cotton exports in other cotton spinning countries. The transformation plan, based on understandings between the government and the textile industry, assumes that cotton production will remain relatively stable. However, whereas reforms since 1996 have failed to effectively liberalize the cotton industry, current reforms are expected to have far-reaching effects. The cotton procurement and export monopolies are crumbling, and the way Uzbek cotton will be marketed even next season is highly uncertain according to growers, traders, buyers and government officials alike.

It is conceivable that Uzbekistan's cotton production will drop as producers are granted more freedom, and resource constraints, formerly obscured by government subsidies, prove unsupportable in the marketplace. In that case, cotton imports from the United States and elsewhere may be necessary to keep the spinning industry busy.

The opposite outcome appears much more likely. There is enormous potential for increased cotton production in Uzbekistan with existing resources, and even limited liberalization will almost certainly lead to major advances in production and processing efficiency, with higher returns at all stages. In theory, recent reforms make this possible, and the strategies, ambitions and influence of private investors already breaking into the market make it likely. Uzbekistan will likely have a large exportable supply of cotton for a long time, despite growth in domestic consumption. Furthermore, quality control issues are being resolved by a new classing agency, and the growing use of auctions to export cotton is warmly received by international traders. The competitiveness of Uzbek cotton in the international market is improving as a result.

CONSUMPTION

Uzbekistan's domestic cotton consumption is strong and growing. During the last five years, 14 large cotton-spinning mills were brought on line and 2002 saw the establishment of two more. There have been over 30 investment projects in the textile sector, and as a result, cotton consumption has grown by over 40 percent since 1998 to over 250,000 tons (1.2 million 480-lb bales) this year. Earlier reports from private sources suggested that mills were not doing well -- running below capacity and suffering from quality problems. According to government officials and industry representatives, however, business is humming along at an exciting pace and is gaining momentum. The country is reportedly using 84 percent of total capacity.

In July 2002, a new plan was adopted (reinforcing a May 2000 plan) that foresees the re-equipment of 24 existing enterprises and the construction of 14 new complexes by 2005. Domestic consumption should increase to 500,000 tons of cotton fiber by 2005, which would represent 50 percent of current cotton production. The production of knitted garments will be trebled. These targets are not simply wishful thinking; they are anchored in agreements signed between the government of Uzbekistan and foreign investors in the textile sector. Foreign joint ventures account for the bulk of recent textile industry growth. According to the Uzbek Textile Association (Uzbekengilsanoat), since 1994, some $700 million in foreign investment has been attracted into the industry. Seventeen joint ventures, representing Turkish, Korean, European and Japanese interests, account for 30 percent of production and 88 percent of exports.

Kabool Textile

Kabool (S. Korea) is the largest foreign player in Uzbekistan's textile sector. Investment in their four mills totals over $300 million. Seven years ago, Kabool was attracted by low labor costs, government guaranteed discounts on good quality cotton and access to the EU (difficult from Korea). The company consumes almost 100,000 tons of fiber per year and will be increasing its requirement substantially. Three years ago, President Karimov visited Seoul and concluded an agreement with Kabool to modernize 1 million spindles (out of 2 million spindles in

Uzbekistan). Kabool currently is using 400,000 spindles, so they still have the obligation to increase their capacity by 600,000 spindles by 2006. Kabool operates at over 95 percent capacity utilization 360 days/year.

Daewoo Textile
Daewoo (S. Korea) established a spinning mill in Uzbekistan in 1997 and a weaving mill in 1998. Since the beginning, the company has operated 24 hours a day more than 350 days a year without any stoppage. All production is exported to the EU, the United States, Japan and Korea. The spinning mill uses local fiber, and due to improvements in Uzbek cotton, Daewoo is switching from medium yarn counts to fine yarn counts.

Textile Export Competitiveness
Uzbekistan is relying on its foreign partners to sell textile products and sees the key to success as choosing partners that are already well connected, with worldwide marketing systems and export experience. Because of this careful selection strategy, Uzbekistan should not have much trouble finding markets for its products. For example, under the founding agreement of the Japanese-Turkish-Uzbek knitwear factory in Sakhrisabz City, the Turkish partner will buy all of the factory's output for hard currency while the Japanese investment loan is being repaid (12 years).

Factors of Production
Uzbekistan produces large quantities of good cotton. Labor is abundant, well educated and inexpensive at about $30-35/month. Water and electricity are reliable and inexpensive. Communications, banking and legal infrastructure is well developed. As a result of textile industry development in recent years, spare machinery parts are available in Uzbekistan. However, there is concern about the cost of transport to export markets: The country is doubly landlocked, and neighboring countries can charge high transportation fees.

Government Support
Another important factor contributing to Uzbekistan's competitiveness is solid government support, political as well as financial. Higher value-added exports are seen as the way to increase the inflow of foreign currency and resolve many economic and social issues, so cotton processing has become a top economic priority. Textile production provides one-fifth of GNP and employs one-third of the workforce.

Incentives for foreign investors include profit tax and property tax exemptions, as well as deep discounts on local cotton. Direct investments are exempt from income and value added taxes, and investors may use combined forms of payment to purchase existing plant from the government: Hard currency, local currency and technology transfer. The government is eager to address even minor cotton quality problems experienced by foreign investors. Since Kabool first came to Uzbekistan 7 years ago, the discounts on cotton have fallen slightly, but other support is as good as ever. The company has assurances from the government that cotton discounts and other support will continue for many years.

State Involvement
All textile enterprises were converted into shareholding companies by 1995. Uzbekengilsanoat, (formerly Uzbeklegprom, association of textile companies) is now essentially a shareholding company. Its member enterprises have a combined cotton consumption capacity of about 1.1 million bales. The relationship between the association and its members is purely financial; Uzbekengilsanoat does not oversee or seek to influence the operations of the companies in which

it has interest. Textile companies are not required to belong to the association, and mills do not have to have Uzbekengilsanoat's capital in order to join the association. Its services include providing information to member enterprises and providing marketing assistance (by organizing trade shows, for example).

Export Markets

Near-term textile exports are aimed at the EU. With few restrictions on exports to the EU, there is room to increase exports to the region. WTO accession, which it is hoped will occur soon, should improve access to many markets. As a member of the CIS, Uzbekistan has privileged access to these potentially large markets. However, given current economic problems, and a 20 percent VAT on Russia's imports, the CIS is not seen as an important short-term growth market. Russian factories with financing problems import low price/low quality and low volume. Those that do have money buy high quality from the EU. Ironically, Kabool's yarn is sold in Russia indirectly through the EU. Still, Uzbekistan is on course to become the largest textile producer in the former Soviet Union. By contrast, the Russian industry, though it received a boost from the ruble catastrophe in 1998, faces severe financial problems and is burdened with outdated equipment inherited from soviet times. The Russian industry is less vertically integrated and less organized than it used to be, so breaking into the unfinished textiles market should not be too difficult.

Domestic Market

Uzbekengilsanoat officials feel that there is no currently no unmet domestic demand. Of course, as the economy grows, so too should domestic demand for clothing. Domestic garment enterprises enjoy a high degree of protection in the domestic market due to tariffs and import controls.

PRODUCTION

Despite the promising outlook for domestic consumption, it is likely that Uzbekistan will remain an important exporter of raw cotton. Some analysts claim that the potential for Uzbek cotton production growth is weak, given government policy and resource limitations. Government targets are well below production levels experienced during Soviet times, and even so, ecological problems and inefficient use of resources have resulted in lower-than-expected harvests for the past three years. However, important changes have begun to take place that could translate into increased output and higher quality in the very near term.

Potential for greater productivity

Much of Uzbekistan has excellent growing conditions, comparable to California or Australia. Water from melting snow in the mountains is plentiful. Soil is rich, and during the summer, there is little rain and long, sunny days. Recent field trials using best practice techniques yielded 4 tons/Ha of seed cotton. Currently, farms are only getting about 2.2 tons/Ha. This suggests that Uzbekistan could grow the same amount on about half of the 1.4 million Ha currently planted to cotton, or twice the cotton on the same land.

Water Issues

Overall water supplies for irrigation are plentiful. However, over-use in the East has meant short supplies for two or three western regions that, as a result, are not reaching their production targets. Currently, farmers apply for water use and sign an agreement with the local authorities.

There is no charge for water use, but if inspectors find that land has been over-watered, the farmer can be fined. The system is abused, and many farms are using much more water than necessary. Next year, farmers will pay for the water they use based on meters. The idea is to rationalize water usage and increase the availability of water in the Western regions.

Furthermore, a few improvements in the irrigation system itself could lead to greater water efficiency. The irrigation system consists of open, earth-dug canals, with sluice gates that allow water to flow into furrows between rows. The state is responsible for maintaining the irrigation structure, but lack of machinery is a major problem. Soviet era machinery has never been replaced, only repaired. Neglect of drainage ditches has created a salinity problem, so some 50 percent of the land has to be "washed" in winter.

Seed and Other Inputs
Uzbek cotton farmers use relatively high rates of seed – some 60 to 80 kg/Ha versus 15 kg/Ha in Australia and the United States. They face a relatively short planting season, have linty seeds that stick together during handling and planting, salty land in many areas, and lack efficient planting equipment, all of which makes planting risky. There are also problems with the seed distribution system. The Ministry of Agriculture and Water Resources coordinates how much and what variety of seed is needed in which regions, and seed is distributed accordingly to regional authorities. Unfortunately, there have been problems with mixed seed and availability.

The Central Asian Seed Company (CASC) was established in Uzbekistan in 1998, as part of the World Bank project to improve the local cotton seed market. With acid de-linted cotton seed and precision planters, CASC farms have reduced their seeding rates to about 20 kg/Ha. Another important recent development that will lead to lower seeding rates is planting under plastic cover. This allows for earlier crop establishment and protection from weather during the initial growth phase. The practice has raised returns by 25 to 30 percent and over the past two years, the area cultivated under plastic has increased by 144 percent.

Fertilizer and other inputs intended for cotton fields are being diverted to other, more profitable uses, including smuggling across the border. Uzbekistan does not currently plant biotech cotton, but is studying the technology very closely.

Inefficient Ginning
Typically, Uzbek gins have a relatively low outturn ratio (about 32 percent, compared to 35-36 percent in the U.S. and about 40 percent in West Africa), and gin approximately six bales/hour on old soviet equipment (versus 25-35 bales/hour in the U.S.). Presently more than 80 percent of the ginning equipment dates to Soviet times. Cotton is transported five tons at a time in tractor-pulled buggies. Storage areas may be up to 15 Km from the farm, and gins may be 10 km from the storage areas. Huge hills of approximately 300 tons are constructed in storage areas. Because ginning equipment is of poor quality, the hills are necessary to allow the seed to "harden." After maturing, the cotton is transported to a gin where new hills are constructed. Because the handling is so slow, gins could not operate any faster even if they were better equipped. By contrast, the CASC hauls 15 tons at a time in the form of modules and gins 22 bales/hour on modern American equipment. Clearly, adoption of module building and hauling technology (CASC currently has the only such equipment in Uzbekistan) accompanied with gin modernization will lead to faster, cheaper cotton production and will greatly increase processing capacity.

Quality Issues

Lack of quality control and high contamination have been the most serious problems for foreign buyers of Uzbek cotton. Reportedly, one Asian mill was so accustomed to complaining about the quality of shipments that once when a shipment was delayed, the mill actually complained even before receiving the cotton – by habit it would seem. The quality risk involved in buying Uzbek cotton was reflected in lower prices. In contrast to Soviet times when quality was assured by fear, the current marketing system has failed to interest farmers and handlers in quality. Producers are concerned with weight alone; no one asks about quality. This creates situations where wet cotton is delivered to the gin, and where farm labor may intentionally pick the burr along with the cotton. Also, excessive storage and handling deteriorate the quality. Recently, the situation has gotten worse: To increase output, the Klopkoprom is pushing a strategy called "Short Technology," which eliminates certain steps in the ginning process. As a result, the impurity content is rising in gins that have adopted this strategy.

Cotton Procurement

The current marketing structure limits the financial incentives to use resources efficiently. Despite the appearance of reforms in recent years, very little has changed in practice. However, a new decree earlier this year has the cotton industry very excited: Greater ownership is expected to lead to higher quality, higher rewards and more efficient production.

Whereas most cotton farms were state-owned as recently as 1998, there are currently no cotton farms in Uzbekistan wholly owned by the state. There are two parallel systems: Private farms and joint-stock cooperative farms. However, all land is state-owned.

Private farmers sign rental agreements with the local authorities for terms that range from 5 to 50 years. Prospective farmers need a license, and it takes many signatures to obtain one. The crop depends on the "specialization" of the district. For example, if the district is "specialized" in cotton and wheat, the farmer will be expected to grow cotton and wheat, as opposed to horticultural crops. The Tashkent region has 15 districts, 6 specialized in horticulture, 9 in cotton and wheat. The expectation to grow cotton in a cotton district is not viewed as government interference. Most farmers want to grow cotton because there is a regular market and a regular supplier of inputs (they do not have to go to the informal market).

The "Shirkat" or joint-stock cooperative farms maintain the collective farm structure and are owned by the workers, which are similar to tenants in their relationship with the chairman. One shirkat in the Tashkent region has 720 workers and 2500 Ha (1200 planted to cotton, 1200 to wheat). Every year the government asks how much cotton and wheat the farm intends to grow. This particular farm would prefer to grow more wheat at the expense of cotton for several reasons: First, farmers can keep over-quota production, and would prefer to keep wheat for their own use. Also, wheat is harvested in June and July, which leaves time to plant potatoes, carrots, etc. that can be sold in local markets. Furthermore, at state procurement prices, cotton has not been profitable in previous years. Unfortunately, the government imposes a certain level of cotton production on the farm.

Each fall, a farm's economist determines the next season's expected output and necessary inputs. The local farmer association meets and collectively decides who will plant what and who will get what inputs. District plans are submitted to the regional authorities, and regional plans are approved at the national level. Preliminary state procurement prices are announced in the spring; final prices in August. In theory, the price should be the full international price minus the costs of processing, transport and marketing. However, the world price is calculated at the overvalued official exchange rate, and the charges for processing and marketing are high. This year, the state procurement price was around 12 cents/lb. This price is rarely profitable, and there are problems in border regions with labor and cotton crossing the border to fetch higher returns in Kazakhstan.

At the beginning of the season, 50 percent of the procurement value of a farmer's expected production is deposited into his account in a specialized bank. The farmer receives all seed, fertilizer, fuel and lubricant required for the season from state distribution centers. At the beginning of the harvest when the gin sees the first deliveries, the farmer receives the second "tranche" of payment. Finally, after all cotton has been delivered, the balance is settled. If he has harvested more than expected, he receives more money; if he didn't meet the target, the farmer must pay. Farmers that regularly meet their targets are rewarded by the local farmer association with gifts such as automobiles; those that regularly fail to meet their targets are forced out of business.

To understand the way in which cotton is procured by the state, consider the following example: Assume the farm's target/quota is 10,000 tons of cotton. If the farm produces 10,000 tons as expected, he sells 5,000 tons to the state at the procurement price and 5,000 at a "negotiated" price, which can be some 20 percent higher. If 11,000 tons are produced, 5,000 bring the procurement price and 6,000 bring the negotiated price. If only 9,000 tons are produced, however, all 9,000 are sold to the government at the procurement price. Because targets have been unrealistically high, the state has obtained more than 70 percent of production at the procurement price in recent years.

Real changes appear to be on the horizon. Beginning with next season's crop, the farmer will be required to deliver only 50 percent of actual production to the state, and can finance, gin and dispose of the rest as he pleases. The details are not yet in place, and it is likely that in practice, most growers will continue to supply 100 percent of production to the state, as they will continue to obtain inputs from the state. However, the chairman of the aforementioned shirkat was very happy about the development. He said that he will have his own funds, and he will get commercial bank loans, and he will find a way to buy inputs independently of the state. "Perhaps," he muses, "independent buyers can be found to finance inputs in return for a forward contract." He expects that he will still have to go to the same gin to process the cotton as before, but that rather than relinquishing complete control of the cotton and seed, he will pay a ginning fee then reclaim the seed and fiber. He expects cotton to be much more profitable, and as a result, expects that his farm will produce more cotton.

The details of how the new procurement system will work are still unresolved, but one thing is clear: The state cotton monopoly is breaking up. On June 11, 2001, President Karimov signed a decree on "measures to demonopolize and improve management of the cotton ginning industry." Thirteen regional Khlopkoprom associations, consisting of ginneries and servicing enterprises, were carved out of the national association. Cotton ginning plants were turned into open joint stock companies. For the time being, 51 percent of shares will remain in government hands, but the rest is for sale to local and foreign investors. Uzklopkoprom, the national ginning association, was renamed and reorganized by the decree but retains oversight authority and responsibility for market research and development. All the same, control is clearly slipping away from the state.

What sort of system can one expect to replace the monopoly? The CASC model may provide some insight. In 1998, eight collective farms (25,000 acres total) were given permission by the government to work exclusively with CASC, and CASC was given the right to export all of the farms' products, seed as well as fiber. The company provides seed, financing and advice to its farmers. The cotton is transported in modules, which greatly reduces transportation and storage costs. The CASC gins the cotton for a fee and presses it into U.S.-sized bales (larger than standard Uzbek bales) and wraps in polyethylene rather than cotton bagging. Seed is selected and purchased for treatment, technical seed for crushing and gin motes are returned to the farmers, and the fiber is stored on site. While the CASC has obtained the right to sell directly (through agents in Russia and Europe), the price is calculated according to the standard government formula. Profit goes to the producer, who is therefore directly concerned with the world market price and with the quality of his particular cotton. The CASC system has increased the profitability and yields of its producers, and has won the respect and appreciation of Uzbek authorities. One of CASC's producers was approved a private bank loan to purchase equipment. This would have been unheard of only a few years ago. As testament to the appeal of the new system, 114 private farms have requested to join and could do so as soon as next year. CASC has three more gin ventures and two more seed plants in the works.

Two years ago, largely due to pressure from CASC and the World Bank, the government agreed that if private farms are completely financed independently of the state, they may sell their cotton to whomever they want. Private investors need to sell the cotton on behalf of the farmer they finance. The government is satisfied because they get to tax the gin directly, and implicitly through a 50-percent hard currency surrender requirement on exports which the government then converts at a favorable rate. Currently, only CASC, Dagris (French), and a couple others are doing it, but more are coming into the market. One foreign interest recently bought 35 percent of a gin and is currently trying to modernize its equipment.

Convertibility

The inconvertibility of the soum, Uzbekistan's currency, is the biggest barrier to foreign investment, and thus to the creation of competitive input and cotton fiber markets. The official exchange rate is significantly overvalued, which, if the currency were freely convertible, would drain foreign exchange reserves. In order to ensure a supply of hard currency, the state requires exporters to surrender 50 percent of their hard currency earnings at the official exchange rate. In order to restrict the outflow of foreign exchange, the government decides who may purchase foreign exchange through an import licensing system. The situation has led to the development of a very large and liquid black market. Between 1997 and 2000, the exchange rate regime became increasingly complex and distortionary. In 1999, the curb market offered a soum/dollar rate over 400 percent higher than the official rate, and was estimated by the IMF to have accounted for some 35 percent of all foreign exchange purchases that year. However, since 2001, the system has been progressively simplified, and the official exchange rate has been devalued significantly, such that the difference between the official and curb rates is within 25 percent. The government has committed to currency convertibility early next year, and many believe that this will happen. When it does, pent-up foreign investment waiting in the wings is expected to flow in. For example, a trader has sought for two years to invest in Uzbek gins, but has not because of convertibility concerns. Most likely, the implicit tax on exporters created by the surrender requirement will be replaced by a more transparent tax.

The State Export Companies

Almost all export sales are negotiated through three state export agencies: Innovatsia, Uzmarkazimpex and Uzprommashimpex. Sales negotiated with these agencies on a case-by-case basis are neither transparent nor competitive. Originally only one company was involved in cotton trading, but the other two were not busy enough, so the government decided to divide cotton sales among them to keep them all profitable. Now cotton for export is divided evenly among the three. They are given a minimum price range and set terms. The price is the simple average of the A index and the Uzbek component less transportation, with discounts granted in return for pre-payment. For example, in mid November, a $50/ton discount was offered for 50 percent prepayment, $45 for 30 percent prepayment, an $85 discount if purchased ex-warehouse. Within their allotments, the trade agencies buy cotton from the regional ginning branches and sell it to foreigners. After deducting a three-percent commission for exporting services, they surrender the hard currency receipts to the Central Bank at the official exchange rate (an implicit tax). The difference between the national currency receipts and the domestic price of fiber is then transferred to the state budget for state-order cotton and to farms for non-state-order cotton procured by the state.

Last month, an important decree made the three companies independent, responding directly to the Cabinet of Ministers, rather than the Agency for Foreign Economic Relations. The effects of this development remain to be seen. For now, nothing has changed in practice; the companies are still coordinating prices and offer the same terms/discounts. Innovatsia is traveling around, meeting with local authorities and trying to establish relationships. This suggests that there may be competition for procurement. Uzmarkashipex (the biggest) was put on the Liverpool Cotton Association's default list earlier this fall, so major traders are barred from doing business with them. But generally speaking, international traders deal with all three companies because the future is uncertain, and no one wants to find out later that they chose the wrong partner.

Auctions

Now, foreign companies can buy through auction. The first auction, held in September 2001, did not arouse much interest, but traders say that the events have gotten much more interesting. In 2001/02, 12,000 tons of fiber sold on auction, and 30,000-40,000 tons are expected to be sold this year. On November 20, 2002, 8,000 tons of fiber in 16 lots was sold at above starting prices in remarkably competitive bidding between seven buyers. The conditions are 100 percent prepayment, fixation of the starting price based on the A-Index and the inspection of the fiber before and after by SIFAT. Terms are FCA ex warehouse. The greatest advantage to buyers is that sales do not have to be registered, the full price is fixed in the contract, and the time between contract and delivery is shorter. Buying in Uzbekistan has historically been the most risky in the world because the contracts with the agencies were set in the spring, and the price was not fully fixed, (perhaps 1/3 of the price fixed in advance).

One reported problem is that local organizations are not as eager to fill orders handled by the auction agency as they are to move cotton sold the traditional way. The export companies may be resistant because it limits their flexibility. Still, when a trader buys at auction, he is asked which company he would like to contract with, and the company gets the same commission for arranging the sale as if it had been negotiated separately. The government wants to grow the auction volumes in order to eventually get higher prices for cotton. The World Bank has suggested that all of the 50 percent left to farmers should be sold through the auction, and traders feel that the auction will continue to grow in importance.

Classification
Before, Uzbekistan's classing system was very different from that of other major exporting countries. The old methods were labor intensive and only 10 percent of cotton was classed. Too many fiber characteristics resulted in unnecessary discounts, and traders made a fortune re-classing and selling at higher prices. In a 1993 trial using USDA standards, cotton got $150 more per ton. By 1995, new standards were widely adopted similar to U.S. standards. As in the United States, there are five color grades, and trash grades within each color grade. SIFAT (the certification agency) was established in 1999 as part of the World Bank project, and runs an operation very much like the USDA system. Classers are trained on both USDA and Uzbek standards, which are easily comparable. They work in pairs to reduce the likelihood of unintentional and intentional errors. Five percent of cotton classed using HVI equipment in 13 labs across the country is rechecked in the central lab; samples are kept for three months, and a central database is accessible for a fee.

Until this year, technical data was not very concise; sometimes, buyers would reject the cotton at the ports, and prices would have to be reduced in order to move the lots. SIFAT has solved this problem by obtaining a government requirement for 100 percent classing, which means that customs cannot let cotton leave the country unless it has a SIFAT tag. Today, almost no cotton is rejected at the ports, which has resulted in higher prices. Solving this problem was worth $80 million according to SIFAT.

The next step is splitting up lots by grade and staple. Currently, due to warehouse space and infrastructure limitations, lots are created as they come in. The government does not consider mixed lots to be a problem because piles are homogeneous. However, mixed lots have been a problem for merchants. Merchants have to sell mixed lots based on an average, or at the lowest grade in the lot to avoid complaints. The improvement of warehouse infrastructure is therefore a priority: Since 2000, two large, modern cotton "terminals" have been built, one has been commissioned and there are plans for two more.

In conclusion, we should not doubt Uzbekistan's competitiveness in the international textile market, nor should we underestimate the country's potential to increase cotton production and improve the competitiveness of its raw cotton exports. At present, no one knows exactly how the recent reform policies – especially the "farmers' 50 percent" rule and the "independence" of the state cotton export companies – will work in practice. However, it appears that the government of Uzbekistan has finally committed to real steps towards liberalization of the cotton industry. Over the next few years, developments in Uzbekistan will be closely followed.

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