



INTERNATIONAL TEXTILE MANUFACTURERS FEDERATION
FÉDÉRATION INTERNATIONALE DES INDUSTRIES TEXTILES
INTERNATIONALE VEREINIGUNG DER TEXTILINDUSTRIE

Spinners Committee

Travel Report

Uzbekistan

October 11 - 16, 2004

The ITMF Spinners Committee visited Uzbekistan by invitation of Mr. Nasriddin E. Najimov, First Deputy Chairman of the Agency for Foreign Economic Relations. This was the second time the Committee visited the country, the first dating back to 1993. During their week-long stay, Committee members met with

- Agency for Foreign Economic Relations
- Uzbeklightindustry Association
- Ministry of Agriculture
- Uz cottonindustry Association
- SIFAT - cotton quality control
- Uzprommashimpex, Uzmarkasimpex, Usinterimpex - the three cotton trading companies
- Uzvneshtrans - the logistics agency
- Wakefield Inspection Services.

The programme included visits to cotton fields and gins in the Tashkent area, as well as textile factories.

The Committee would like to put on record its appreciation to ICT of Milan and especially to Mr. Enrico Berri, President of the company, Mr. Giovanni Cerimedo, Director and Mr. Makhmud Mirkhodjaev, Head of the ICT Representation Office in Tashkent for the excellent preparation of the programme and the care they have taken in its execution.

Participants

Ziad Bashir	Guhl Ahmed	Pakistan
Walter Bieri	Bühler Quality Yarns	USA
Andrew Macdonald (Chairman)	Santista Textil	Brazil
Walter Simeoni	Frame Textile Group	South Africa
Herwig Strolz	Director General	ITMF



Profile of Uzbekistan

Latitude:	approx. 38°/46° North
Climate:	severe winters, scorching summers
Main rivers:	Sirdarya (Southeast) - Amudarya (West)
Neighbouring Nations:	Kazakhstan, Turkmenistan, Tajikistan, Kyrgyzstan, Afghanistan Uzbekistan has no access to the sea
Surface:	approx. 450,000 square kilometres
Population:	approx. 25,000,000 inhabitants 70% in the rural areas
Territory:	divided into 12 provinces and the autonomous Republic of Karakalpakistan
Natural resources:	cotton, gold, gas, oil
Currency:	Som (approx. 1,039 Som to the USD in September 2004)
GNP 2003:	USD 59 billion

The Committee was impressed by the visual developments in the capital Tashkent. The city shows a feeling of progress compared to the last visit when the atmosphere and general aspect of the city and its people were still showing the marks of Soviet domination.

Since the time of the first visit, cotton production in Uzbekistan which had suffered a steep decline in the early Nineties, has stabilized and is expected to reach 1,1 million tons in 2004/05, down from 1,7 million in 1988/89. However this does represent an increase over the previous season by 180.000 tons, mainly as a result of good weather conditions. The latter will naturally be one of the main factors responsible for changes in output in the coming years as the area under cotton, currently 1,4 million hectares, is expected to remain stable. Upland cotton covers about 98.5% of the harvested area, and ELS cotton 1.5%. Over 90% of the cotton is hand picked.



The Committee visited cotton fields close to Tashkent and appreciated the traditional manner of cotton harvesting by hand. The plants looked healthy, but are spaced close together, showing a relatively high seed usage, estimated at 60-80 kg/hectare. The average farm size is from 10 to 50 hectares.

In the 13 cotton growing regions of the country there are 128 gins, (10 equipped with roller gins,) nearly all of them being state owned and dating back to the Soviet times. 32% ginning outturn is relatively low ginning approximately six bales/hour. The cotton is transported by carts pulled by tractors, and stored in huge mounds, sometimes as much as 300 tons.

These cotton gins are ample in their layout, requiring considerable transportation from one section of the gin to another by means of air tubes. The set up includes the traditional enormous rotating driers to handle the generally high moisture content of the cotton.



However the Central Asian Seed Company (CASC), established by the World Bank with the objective of improving the local seed, is using more modern American equipment transporting the cotton in the form of modules and ginning up to 22 bales per hour. The gin is 2 stands of Consolidated 164 12" saws

Samples are drawn at the gins for classing purposes. In 1995, new standards similar to the USDA's were adopted with 5 colour grades and trash grades within the colour grades. In 1999 a certification agency by the name of SIFAT – the word meaning quality in the Uzbek language - was established as part of a World Bank project which operates along USDA lines and has today 13 HVI equipped laboratories (one for each region) totalling 29 HVI lines. Today no cotton can be exported without a SIFAT inspection tag.

After baling, cotton is transported to one of 18 terminals from where it is moved, mostly by rail, through the state organization Uzneshtrans, to the ports (Bandar Abbas in Iran, Riga in Latvia etc.) or final destinations in China, the Ukraine etc. Uzneshtrans subcontracts transportation from the Uzbek border onwards, and storage at the ports to private operators



The international buyers may inspect and approve the cotton at the terminals prior to shipment, whereas until recently cotton was inspected at the ports. The new system has been introduced in an attempt to streamline the procedure. Even so delays continue to occur despite the modern fork lift trucks and efficient loading system that the Committee inspected.

The marketing of cotton has been entrusted by the government to 3 state-owned foreign trade agencies, namely "Uzinterimpex", "Uzirommashimpex" and "Uzmarkazimpex" which have been given autonomy in developing their marketing strategies on the basis of world prices and using modern marketing techniques. The selling terms being set by the Government are equal for all three. The agencies determine from which regions cotton is to be loaded and shipped, and to which regional terminal, where the cotton is available for inspection.

A large number of international cotton merchants are actively participating in marketing the Uzbek cotton crop internationally. The principle destination remains Russia and East Europe, but exports to China, India and Pakistan are rising.

The export prices are based on Cotton Outlook Index for Uzbek cotton as adjusted for quality and shipment date, with discounts for freight or other marketing considerations. To assist the local domestic spinning industry, companies can currently purchase cotton at a 15% discount to the export price. This has been greater under special circumstances and the discount is 20% for yarn for apparel products destined for export. Sales conditions are subject to be varied at any time according to crop development, commitments, market conditions etc.

Under the present Government programme, domestic spinning capacity is expected to expand to eventually consume 50% of total production by 2006. In 2004/05 mill consumption of cotton in Uzbekistan is estimated to reach 260.000 tons, an increase of 40% compared to 1999/2000. At the present level it remains however still far below the target previously announced by the Government. At whatever speed new spinning capacity will eventually come on-stream, the residual volume for export is expected to go down in the longer term.

Since the late Nineties, a total of 70 joint venture mills have been set up and more investment projects are in the pipeline. Foreign participation accounts for the larger part of investment in the textile industry, partners representing Korean, Turkish, European and Japanese interests. They account for over 30% of production and 90% of exports. The Committee visited Chinoz To'Qimachi, a joint venture of Uzbek, Turkish and Japanese interests, the Turkish partner being Bursel Textile SA of Maslak-Istanbul and the Japanese Mitsubishi. The Committee also visited Kabool Uzbek Co. Ltd, a Korean joint venture.

Chino To'Qimachi

The company was started in 2001 as an Uzbek-Turkish-Japanese joint venture. The Uzbek Government provided the land and the Turkish and Japanese partners the credits for construction and machinery. The lay out and construction work was carried out by one of Bursel's sister companies. The spinning machinery is from Toyota, 30,000 spindles, and the management of the mills lies in the hands of Bursel. Credits and repayment are guaranteed by the Government.



The company was initially limited to spinning 6.000 tons of combed yarn 30 ne, all for export. Later 28 circular knitting machines were added, and at the beginning of 2005 a new dye-house will start operation in the Tashkent area with a capacity of 30 tons daily.

All knit fabrics are exported in grey form only, their end-use being for underwear and t-shirts. Exports are trucked to the free zone of Mersin in Turkey, from where they are distributed by Bursel. The main export destinations are Europe and the USA. Delivery times by truck to Mersin takes about 10 days plus another week to Europe (3 days to Italy). The comber noils are sold mostly locally.

The company employs 528 workers in 3 40 hour shifts, and is working 24 hours a day, 7 days a week, 358 days a year. Training is in-house by 20 Turkish specialists.

At the beginning of the harvesting season cotton is bought in advance for forward delivery, thereafter purchases are generally concluded on a spot basis. 15% of the price is paid on

contract conclusion, the balance within 2 months of delivery. They purchase the cotton provisionally at the price ruling on the day of the contract; however this is later adjusted to the price prevailing on the day of delivery. They carry 30-60 days stock. As with all other joint venture companies, Chinoz pays for the cotton in US Dollars. The venture is profitable, but requires more stability in the sector to encourage greater growth.

Kabool Uzbek Co. Ltd

The Company was set up on 1998 as a joint venture with South Korea – 70% being owned by Korea and 30% by the Uzbek Government – the company today operates a total of 226.000 spindles and 108 Picanol air jet looms, running at 630 rpm, with 95% efficiency. They employ about 2.500 people in the 2 mills working 4 shifts.

Average yarn count spun is Ne 24 (ranging from Ne 10 to 40), both for weaving and knitting, 40% being combed and mostly exported to Europe (63%) and the USA (30%) at prices ranging from US\$ 1.70 (Ne 10) to \$ 2.60 (Ne 40) FOB. The carded yarn is destined to in-house weaving. They quality is within 25% Uster standard.

They currently are consuming 35,000 tons of cotton with a potential for increasing to 45,000 tons.

They sell their production through Kabool Textil, Frankfurt and the destination is 63% to Europe and 10% to USA. The total turnover of the company stands at around US\$ 80 million.

Both companies made an excellent impression on the committee not only as far as the management is concerned but also in regard to the machinery, cleanliness and quality of the yarn being produced.

There are 24 cotton oil crushing units in the country.

Observations and Recommendations

Cotton seed

The Committee would recommend a concentrated effort on improving seed varieties. The use of seed is currently 4 to 5 times higher than in other cotton growing countries such as Australia or the USA. The Committee understands that remedial action has been taken with the establishment in 1998 of the Central Asian Seed Company (CASC). Seeding rates in CASC farms have been reduced by up to 70%. This together with the use of plastic covers during the initial growing phase has raised return by up to 30%. During such a program, seed mixture must be avoided at all cost. Mixed varieties are one of the major problems quality spinners face after contamination.

On production

There would seem to be enough room for increasing production through the use of best practice techniques within the cotton pipeline. Higher yields would ensure a continued availability of cotton for export despite rising domestic consumption.

Other factors influencing production are connected with the liberalization of the cotton industry. Current measures granting more freedom to producers could work in both directions, either a drop in production due to resource constraints formerly obscured by Government subsidies, or a rise in output as a result of higher processing efficiency throughout the cotton pipeline.

On contamination

The biennial ITMF Cotton Contamination Survey has shown a continuous degradation of Uzbek cotton in terms of cleanliness throughout the Nineties. Particular attention must be paid to avoiding the contamination of cotton with plastic material, especially polypropylene, the source of which often arises from the picking bags being made of such material. In the cotton fields visited, the Committee sighted cotton pickers using frayed polypropylene bags.

On water management

Clearly much effort is required to rationalize water usage through better management of the irrigation system. This would reduce the rising salinity problem and would make more water available to the Western growing regions, thereby increasing production overall. Although water supply for irrigation is said to be plentiful, the Western growing regions are not reaching their production targets because of over-watering of the growing areas in the East. The rationalization of the water usage would be greatly helped by a better maintenance of the irrigation structure most of which still dates from the Soviet era. Moreover the neglect of drainage ditches has resulted in a salinity problem, farmers depending on the winter rains for "washing" part of it away

On ginning

The poor ginning compared to international standards is due to outdated equipment which urgently requires modernization. However in order to improve productivity and quality, new ginning equipment alone will not be sufficient, since gins operating at higher speeds must be accompanied by a streamlining of the whole handling system, from storage in the fields to the way cotton is transported to the gins, with particular attention being paid to a possible adoption of the module transportation technique. Likewise the extremely low yields at the gin compared with countries such as West Africa (40%), represents a serious impediment to greater efficiency of the whole production pipeline. Further upstream, even if the ginning industry were modernized, there still remains the problem of serious bottlenecks in the bale handling system, which would have to be overcome for gins to operate at higher speeds.

The Committee stresses though that whatever will happen to the modernization of ginning machinery, particular attention should be paid in future to the fibre parameters now required to be measured by the industry, and ensure that the cotton produced has a low nep count and reduced short-fibre content, both being closely related to the manner in which cotton is ginned.

On cotton classing

The gradual overhauling of the classing system since 1995 has been a success for which the authorities and the state certification agency SIFAT have to be complemented. With the adoption of 100% HVI classing, Uzbekistan has complied with an early recommendation of the ITMF Spinners Committee and has thus made an important step in improving the level of quality assurance.

On the cotton marketing system

The Committee believes that the competitive position of Uzbek cotton would be improved if the cotton marketing system would become more dynamic. Basing prices on an Index that cannot be hedged, detracts the value of the cotton. Basing prices either on international futures markets or the establishment of a futures market in Uzbekistan would be the way forward. Many countries especially in Europe have abandoned Uzbek cotton because of the way it is traded, which eliminates the flexibility required today to ensure the best price by hedging or other strategies. The system of fixing prices in small portions on a weekly basis in an attempt to obtain the best average price is in fact a disadvantage compared to operating in the options market which would ensure that the grower always receives the best price possible, and that cotton flows to the international markets smoothly.

On preservation of the environment

Leading textile distributors in the industrialized countries are paying increasing attention to the manner in which countries from whom they are buying, are protecting the environment throughout the pipeline from the raw material to the finished textile product. The Committee would like to point out that with the growth of the textile industry in Uzbekistan, more attention will have to be paid to the preservation of the environment.

On textile industrialization.

Undoubtedly, the fact that Uzbekistan is land locked increases the costs and risks of exports. This will have a meaningful effect on any future growth. So in order to achieve the target set out, - exporting 50% of cotton production in the form of textiles - will have to be based on where the competitive strength of Uzbekistan mostly lies. The most successful newcomers in the international textile arena have been those that have built their textile complex around the clothing industry, this being the most labour-intensive part in the textile manufacturing pipeline. It is there, where the developing countries are particularly competitive due to low wage levels. Countries which have invested more in textiles than in clothing have consistently shown lower growth rate in international trade.

The Committee recommends that emphasis be placed on quality assurance to be based on a "pull" scenario rather than a "push" marketing strategy. Also the formation of a consolidated export department to create the expertise required in the international textile arena.

Conclusion

No doubt Uzbekistan's international textile market has great potential, provided the problems of cotton production can be contained, quality upheld and the environment respected. Over the next few years developments will be closely followed.