

WORKING PAPER

Uzbekistan's Cotton Sector: Financial Flows and Distribution of Resources

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EXECUTIVE SUMMARY

Cotton in Uzbekistan is an export crop and one of the country's main strategic resources. But the cotton sector is of interest not only for the role it plays in Uzbekistan's economy. Over the last ten years Uzbekistan has been harshly criticized by the international community for its use of forced adult and child labor in the cotton harvest, a practice that has existed since Stalinist times and grown in scale since then.

The cotton sector is one of the most centralized in Uzbekistan's economy. It is still controlled by an administrative command system of management (a highly centralized system in which decisions are made by the government and enforced by various forms of coercion). Since independence in 1991, the Uzbek government has passed at least 55 laws, decrees and resolutions concerning agricultural land yet retained state ownership and final decision-making authority. With one of the earliest privatization reforms, the government abolished state farms to relieve itself of the financial burden of paying the large state agricultural workforce.¹ It then introduced a system of land leasing under which farmers rent land from the government and must fulfill terms of the agreement or lose their right to farm the land. Each year the government issues mandatory targets for cotton and grain production to local governments, who in turn assign quotas to individual agricultural producers. For failure to fulfill their targets, local hokims risk losing their positions and farmers are subject to a range of economic and administrative sanctions, including criminal prosecution and the reallocation of the land they farmed to other farmers. In other words, cotton production is forced on Uzbek farmers.

Farmers must sell their crops to the government at government-established procurement prices, which are artificially low. The government also controls agricultural input suppliers and banks that facilitate financing, all of which operate as monopolies. In the middle of this economic press, cotton farmers are largely unable to make enough profit on cotton production to allow them to save, invest or even pay a fair wage to farm

¹ Deniz Kandiyoti, *Agrarian Reform, Gender and Land Rights in Uzbekistan*, United Nations Research Institute for Social Development, Social Policy and Development Programme Paper Number 11, June 2002.

workers. The government's goal is to spend as little as possible on labor so as to maximize its profits from cotton revenues, which are concentrated in the hands of the central government. Thus, every year the government mobilizes the population *en masse* for up to two months in order to harvest cotton. These draconian methods do not increase the efficiency of cotton production. Under the current system, yields in Uzbekistan have trended downward.

Despite low performance indicators and the obvious social, ecological, and political costs, the current model of cotton production is maintained by all institutions of state control and enforcement, including law enforcement agencies and the state prosecutor. To understand the reasons for this, it is essential to examine the financial flows in and around the sector and to expose the interests and the real benefits received by different beneficiaries and participants in the process, starting first and foremost with the government.

This paper considers the role and involvement of the government in establishing prices, setting quotas, organizing the supply of inputs, and the system of sales, processing and export of cotton and its by-products. It also examines the financial channels of movement, distribution, and redistribution of funds and credit. To provide thorough coverage of these themes, we attempted to estimate or calculate direct, indirect, and hidden costs and benefits from the production of cotton within the framework of the existing model and also to reveal who profits from the export of cotton.

Our data and analysis suggest the profits are appropriated not simply by the government, but by a single government fund, the *Selkhozfond* of the Ministry of Finance, an entity which lacks transparency and is only accountable to a narrow circle within the national leadership. The Uzbek government has developed a two-layer system of state resource management (we refer to it as a system of two “pockets”): one connected to the state budget and the other off the books and completely hidden from the public. An analysis of available data shows that the state budget receives practically nothing from cotton export earnings or from the sale of cotton except for taxes on land use, which are negligible as compared with

receipts from the value added tax (VAT), which go to the *Selkhozfond*, not to the state budget. The central government also derives a direct benefit from the difference between the official and unofficial exchange rates for the Uzbek soum, siphoning foreign currency earnings from cotton exports into its own pockets and paying farmers and associated industries in soum at the official, artificially inflated exchange rate.

The report also notes the negative effects of the current model on the efficiency of nearly every sector involved in the production, processing, and marketing of cotton, which artificially inflate overall cotton production costs. The share of these added costs is much higher, and the share of payment to farmers is much lower than in other cotton producing countries largely due to the fact that the related sectors are controlled by monopolies that lack economic incentives to conserve resources and boost productivity.

The consequences of stagnation in the institutional development of the cotton production sector are stagnating yields and low profitability of farms, a persistent resort to forced labor, a chronic credit-debt cycle for most farmers and most input suppliers, low production efficiency and a lack of incentives to undertake value-added manufacturing of cotton domestically, leading to the underdevelopment of the textile sector and light industry, and ultimately maintaining the country's status as a raw material supplier for the world market.

We propose the following reforms in the cotton industry and related sectors of the economy:

- Abolish the system of mandatory production quotas;
- Transform the system of cotton sales from the exclusive state procurement of cotton to a system based on market prices and competition;
- Grant farmers the right to choose what crops to plant and refuse government orders concerning farming decisions;
- De-monopolize input suppliers, value-added industries, and cotton exporting;

- Eliminate the dual system of credit and banking operations and establish and implement transparency requirements in the entire banking sector;
- Establish transparency and accountability of revenues and expenditures in all government structures involved in cotton production and sales, including the *Selkhozfond* and the Ministry of Agriculture and Water Resources;
- Undertake an inventory of agricultural land and, based on the results, create an updated land registry and adjust taxation accordingly; and
- End the use of forced labor, which impedes sales of Uzbek cotton and investment in the textile sector.

This list of measures is essential but not exhaustive. It does not include measures for the long-overdue reform of the economic system as a whole. Nor does it include reforms to align labor laws with international standards and enforce them. A more complete program of reform of Uzbekistan's cotton sector and its link to economic reforms as a whole should result from discussions with all affected parties, including farmers, independent experts, and other civil society groups.

It is our hope that this report will encourage development agencies, investors, and companies to ensure that projects in Uzbekistan's agricultural sector benefit the Uzbek people. Each agency and firm has both internal policies and legal duties to maintain financial accountability and to avoid and remediate negative human rights impacts of their operations. The Uzbek government has publicly stated plans to mechanize the cotton harvest,² a plan for which they will inevitably seek financing from international financial institutions and development agencies as well as investment from global firms, such as LS Mtron Ltd., which signed a \$500 million agreement with the Uzbek government in 2013.³ It is vital for each agency and firm to account for the findings of this paper when considering projects, including support for the purchase of equipment to mechanize

² "Mirziyoev: In 2016 you will see the tractor!" *UzNews*, October 18, 2013, <http://www.uznews.net/ru/economy/24087-mirziyev-v-2016-godu-vy-uvide-v-pole-traktor>

³ "South Korean firm to mechanize Uzbek cotton production," *Fibre2Fashion*, December 24, 2013, http://www.fibre2fashion.com/news/textile-news/uzbekistan/newsdetails.aspx?news_id=157604

cotton harvesting. Projects that lack preconditions that hold the Uzbek government to reforming the current system and ending the related forced-labor system will perpetuate these abuses, and in the process could place companies in legal jeopardy for aiding and abetting these practices.

Most of the information used in the preparation of this report came from government institutions in Uzbekistan and was provided by insiders interested in pursuing long-overdue reforms to the country's cotton sector. Moved by feelings of patriotism, these insiders saw no way to change the status quo other than to use this report to stimulate discussion among stakeholders of a program of reforms in this sector. Their goal is to replace the current system of coercion with a model of cotton production that is based on economic incentives, including decent wages and working conditions to attract hired labor, which would eliminate the need for state-orchestrated forced labor and contribute to the socioeconomic development of the country.

List of Terms

Hokimiat—local administration on the oblast (provincial or regional) level

Hokim—head of the oblast or regional administration

Mardikors—seasonal or day laborers

MTP—machinery service points

Oblast—regional (provincial) administrative territorial division

SJSC—State Joint-stock Company

Soum—Uzbek currency

VAT—Value Added Tax

List of Company Names

Agrotechservice—a limited liability corporation that provides agricultural mechanization services

Khlopkoprom Association, also known as *Uzkhlopkoprom* (or *Uzpakhtasanoat* in Uzbek)—a state-controlled association responsible for raw cotton procurement and ginning

Khlopkoprom TSAs (or *Khlopkoprom*)—territorial stock associations, *Khlopkoprom*'s territorial divisions

Maslozhirpischeprom—association of cooking oil producers

Selkhozfond—fund housed in the Ministry of Finance responsible for payments for agricultural production, purchasing and sales

Uzagromashservice Association—a state company providing agricultural mechanization services (mainly machinery)

Uzagrostrakh (or *Uzagrosugurta* in Uzbek)—a state joint-stock company that is a monopoly agency for farm insurance

Uzbekenergo—a state joint-stock company that supervises and operates the energy and coal industries

Uzbekneftegaz—a national holding company supervising and operating oil and gas extraction (and supply) facilities, supplies fuel and lubricants

Uzdonmakhsulot—a state joint-stock company that supplies cotton seeds

UzEx—commodities exchange of Uzbekistan

Uzkhimprom (or *Uzkimyosanoat* in Uzbek), known also as *Khimprom*—a state joint-stock company that supplies fertilizers and other agricultural chemicals

Uzlegprom—a state joint-stock company that produces cotton yarn, fabric, knitwear, and textile products

Uznefteprodukt (or *Uzneftmakhsulot* in Uzbek)—a joint-stock company that supplies petroleum products and lubricants

Uzprommashimpex, *Uzmarkazimpex*, and *Uzinterimpex*—three state joint-stock foreign trade companies that have a monopoly on the export of cotton to global markets; these companies, were created under the Ministry of Foreign Economic Relations and Trade and are under the control of the central government

Uzsel'khozkhimiya (or *Uzkishlokkimie* in Uzbek)—a subsidiary of *Khimprom*, which supplies farmers with mineral fertilizers and agro chemicals

Uzselkhozmashtleasing—a joint-stock company that leases agricultural equipment to farmers

Uzvneshtrans—a limited liability company and joint venture that controls transportation of cotton and other goods abroad

Foreword

In 2007, BBC's *Newsnight* aired a documentary on the government of Uzbekistan's annual mass mobilization of hundreds of thousands of the country's citizens to pick cotton, the "white gold" that is one of the major sources of hard currency income for the authorities in Tashkent. The documentary,⁴ which asked the provocative question "Was the shirt on your back made using forced child labor?" introduced the Western audience to this unprecedented state-sponsored use of forced labor, justly considered to be a form of modern-day slavery.

In its 2012 *Global Estimate of Forced Labour*⁵, the International Labour Organization estimated that almost 21 million people were forced to labor around the globe, some 2.2 million of them by their own governments. This figure gives us a good perspective for judging the scale of the crime of government-organized forced labor in Uzbekistan, where each year the government mobilizes many hundreds of thousands, and in some years more than a million, of its own citizens to engage in the back-breaking work of picking cotton.

Large scale cultivation of cotton in the arid conditions of Central Asia creates a number of problems. One look at before and after pictures of the Aral Sea makes the ecological consequences strikingly clear. Cotton is a water hog in a region where water is an increasingly precious resource and as a result, a major source of friction among regional states.

Why, on top of these problems, does the government of Uzbekistan impose tremendous social and economic costs on its own citizens by forcing them to pick cotton? In the context of the hyper-authoritarian system of government in Uzbekistan the answers are two: because the government can and because it profits handsomely from doing so.

This paper—whose main author is a former official of the government of Uzbekistan writing under the pseudonym of Bakhodyr Muradov—provides important new insights into the mechanisms by which a small circle of senior officials of President Islam Karimov's government realize this profit. It lays out the scheme under which the government requires farmers to meet production quotas, sets purchase prices for raw cotton, controls each step in processing the cotton and selling it abroad, and reaps a huge profit from the difference between world and domestic prices, which it maintains at artificially low levels. These profits are syphoned into a special account, the Selkhozfond of the Ministry of Finance, a totally non-transparent entity accountable to only a narrow circle within the leadership. The paper estimates that in 2012 the government's profit from the sale of cotton was almost \$264 million, when calculated using the artificially-low official exchange rate, or over \$641 million at the more realistic black market rate.

The paper also adds significantly to our knowledge of the costs of the cotton production system beyond the obvious social consequences of the mass use of forced labor. These costs include: exploding indebtedness of the country's farmers, whose declining incomes result in

⁴ "Child Labour and the High Street," *Newsnight* - BBC Two, October 30, 2007, http://news.bbc.co.uk/2/hi/uk_news/7068096.stm

⁵ *ILO Global Estimate of Forced Labour*, International Labour Office; Special Action Programme to Combat Forced Labour, Geneva: 2012, http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---declaration/documents/publication/wcms_182004.pdf

lower tax revenues to the state budget and thus a decrease in the amount of money the government has available to provide social services; lost production of goods and services; declining fertility of agricultural land; a lowering of the quality of education, health care, and other social services; increased corruption; and ecological degradation.

The paper concludes with a number of concise recommendations, making clear that the only way to end the scourge of forced labor in Uzbekistan is through a root-and-branch dismantling of the current state-controlled cotton production system in favor of a system driven by market forces. To this end, the authors' key recommendations include allowing farmers to determine what crops they will plant, allowing markets—rather than the state—to determine prices and de-monopolizing agricultural service industries—such as seed and fertilizer suppliers and cotton gins.

These reforms would be enormously beneficial to the nation as a whole. But they would come at a cost to the small circle that calls the shots in Tashkent, robbing them of a major hard currency slush fund they can use for whatever state or pecuniary purposes they prefer, with no public oversight. This contradiction defines the scope of the task of those who hope to see the end of the use of forced labor in Uzbekistan and points out how important it is for outside players—the ILO, the United States, the EU, and major international financial institutions—both to increase the pressure they are putting on the government of Uzbekistan to reform the cotton production system and to offer assistance both in planning and financing a major reform of the current system.

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Introduction

Uzbekistan is an agro-industrialized country. As of 2012, 63.8 percent of the population lived in rural areas.⁶ Industries related to the cotton sector, including the chain of cotton production and processing, make up approximately 25 percent of Uzbekistan's GDP. These industries include farming—19.1 percent, (light) textile industry—2.1 percent, chemical industries for the production of agro chemicals and fertilizers—0.5 percent, and petroleum products—0.5 percent.⁷

Cotton is one of Uzbekistan's major exports and constitutes a major source of hard currency for the state. Uzbekistan is the world's sixth largest producer of cotton and fourth largest exporter, accounting for 5 percent of global production of cotton fiber. Uzbekistan exports approximately one million tons⁸ of cotton fiber annually, bringing in revenues of over \$1 billion, depending on the world market, comprising, according to official data, 11 percent of total export earnings. About one-third of cotton produced is processed domestically, some of which is then exported as textile products.⁹

The cotton sector consumes considerable resources:

- 1.4 million hectares of land, or 36-37 percent of all agricultural land, is used to grow cotton.
- Of the 53.1 billion cubic meters of water consumed annually, 92 percent goes to agricultural needs, the lion's share of which is consumed by the cotton sector.
- Agricultural production and processing of agricultural products employs 30-35 percent of the working population, more than half in the cotton sector. This does not include people forced to harvest cotton each year.
- The cotton sector consumes a significant portion of the mineral fertilizers, such as ammonium nitrate, ammonium sulphate and urea, produced by the chemical industry and 290,000 tons of diesel fuel, or more than 30 percent of domestic consumption, as well as other resources.

The cotton sector is one of the most centralized of all sectors of Uzbekistan's economy. It is still controlled by an administrative command system of management, despite de-collectivization and the legal conversion of the majority of collective and state farms into private farms, which numbered 66,000 by the beginning of 2013.¹⁰ Although legally the farms are private, in fact the farmers rent land from the government and are not free to make decisions about the use of the land allotted to them, to choose the crops they plant, or to select suppliers of inputs or buyers for their products. Each year the local authorities and farmers receive mandatory quotas for cotton and grain production. For failure to meet the quotas, local hokims risk losing their jobs and farmers are subject to a range of economic and administrative sanctions, including criminal prosecution. In other words, Uzbek farmers are

⁶ Uzbekistan country profile, UN Data: A World of Information, <http://data.un.org/CountryProfile.aspx?crName=UZBEKISTAN>.

⁷ Non-public data obtained from government structures and government-controlled companies in Uzbekistan dealing with the economy.

⁸ Cotton Fact Sheet Uzbekistan, ICAC: 2011, https://www.icac.org/econ_stats/country_fact_sheets/fact_sheet_uzbekistan_2011.pdf.

⁹ 12-uz, 20.06.2013, <http://www.12uz.com/ru/news/show/economy/14603/>.

¹⁰ *Gazeta.uz*, March 6, 2013, <http://www.gazeta.uz/2013/03/06/farmers/>.

forced by the state to grow cotton on land they use on long-term lease conditions.

Since the procurement price for cotton is set by the government and is kept artificially low, while prices for inputs for farmers are set by monopolies, cotton farmers are, by and large, unable to make enough profit from cotton production to save money, make investments, or offer fair wages to attract farm workers. In such conditions, every year the government resorts to mass, coercive mobilization of the population for up to two months to harvest cotton. The government's strategy is to spend as little as possible on labor so as to maximize its profits from cotton revenues, which are concentrated in the hands of the central government. These draconian methods do not result in increased efficiency of cotton production. The yield from cotton farms in Uzbekistan is one of the lowest among the world's main cotton producing countries.

From the standpoint of efficient resource allocation, cotton production in Uzbekistan remains on a relatively low level as compared with other cotton producing countries. Cotton yields in Uzbekistan average 738 kilograms/hectare, which is substantially lower than in other major cotton producing countries. According to the U.S. Department of Agriculture, productivity in Uzbekistan's cotton sector began to drop in the 1980s,¹¹ in large part as the result of intensive land use, failure to adhere to agronomic norms of crop rotation, failure to leave land fallow, and the overuse of chemicals, all of which led to soil degradation and salinization.¹²

Despite low performance indicators and the obvious social, ecological, and political costs, the current model of cotton production continues to be used by the state, including by law enforcement agencies and the state prosecutor. They closely monitor whether farmers meet their quotas, ensure that farmers do not grow cash crops on land that is to be dedicated to cotton under terms of the long-term lease, and audit farmers' books to make sure they pay state-controlled creditors and input suppliers on time. These agencies very rarely use their authority to ensure that suppliers and cotton buyers make good on their obligations to farmers.

To understand the reasons for this state of affairs, it is essential to examine the financial flows that have been established in and around the sector and to expose the interests and the real benefits received by different participants in the system, starting first and foremost with the government.

A comprehensive and multifaceted analysis must take into account the diverse nature of the cotton sector, which is not limited to the cultivation of cotton and extraction of its by-products, such as cotton fiber, cottonseed oil, etc. The participants in the sector include:

- 1) suppliers of production inputs, including: the state joint-stock company *Uzkhimprom*, which produces mineral fertilizers and crop protection chemicals; the national oil and gas holding company *Uzbekneftegaz*, which supplies fuel; agro-universities and research institutes; seed producers; agricultural equipment producers; leasing companies; banks; firms providing mechanization services; agencies responsible for

¹¹ Stephen MacDonald, *Economic Policy and Cotton in Uzbekistan*, USDA, October 2012, p.2.

¹² Here it should be acknowledged that due to their high cost, the use of agrochemicals has declined in the post-Soviet period. See also on this subject: *Fertilizer Use by Crop in Uzbekistan, Land and Plant Nutrition Management Service Land and Water Development Division*, Rome: Food and Agriculture Organization of the United Nations, 2003.

- irrigation, and soil amelioration;
- 2) cotton farmers;
 - 3) cotton processing enterprises: *Khlopkoprom* (or *Khlopkoprom*), the state-controlled¹³ agency supervising and operating cotton procurement and cotton gins; companies involved in the processing of seeds and production of cottonseed oil; and textile and knitting industries;
 - 4) Trading companies and companies providing transportation services.

Stages of Cotton Production and Procurement

To follow the process of cotton production and procurement, it is necessary to understand all the main participants, including governmental, partly-governmental, and private organizations involved in the process of growing, harvesting, processing, and marketing cotton. These stakeholders are listed below in Table 1.

Table 1. List of stakeholders and parties involved in the process of cotton production and sale and their roles.

Nº	Organization	Mandate and role
<i>Regulatory agencies</i>		
1.	President	Sets overall policies for the cotton sector, including the volume and varieties of raw cotton grown
2.	Prime Minister	Personally responsible for agriculture, including the cotton sector; personally conducts conference calls with local authorities, including oblast and district hokimiats, during virtually all phases of agricultural work
3.	Cabinet of Ministers	Approves the legal framework and coordinates the activities of relevant ministries, departments and major monopoly enterprises that supply inputs to farmers and the overall processes of growing and ginning cotton
4.	Ministry of Finance	In consultation with <i>Khlopkoprom</i> and through the <i>Selkhozfond</i> , establishes pricing policy, supplies credit for the production of cotton fiber, and collects the final profit from its sale on foreign and domestic markets
5.	Ministry of Foreign Economic Relations and Trade	Establishes export policy and oversees Uzbek cotton trading companies and relations with foreign countries and companies
6.	Ministry of Agriculture and Water Resources	Develops and approves production standards, oversees agro-services and the main water supply
7.	State Tax Committee	Collects taxes and mandatory payments

¹³ The state controls 51 percent of *Khlopkoprom*'s shares.

Monopoly Input Suppliers		
8.	<i>Agrobank</i>	Channels loans to farmers
9.	<i>Uzagromashservice</i>	Rents agricultural equipment, such as tractors
10.	<i>Uzkimyosanoat</i>	Sells mineral fertilizers, pesticides, defoliants, etc.
11.	<i>Uzbekenergo</i>	Delivers electricity
12.	<i>Uzbekneftegaz</i>	Supplies fuel and lubricants
13.	<i>Uzagrotechservice</i>	Services farming equipment
14.	<i>Uzselkhoz mashleasing</i>	Establishes and manages leases for agricultural land
Raw Cotton Producers		
15.	Farmers	Grow raw cotton
Cotton Processors		
16.	<i>Khlopkoprom</i> (or <i>Khlopkoprom</i> , or <i>Uzpakhtasanoat</i>)	Procures cotton and manages gins, which conduct initial processing of raw cotton-separation of cotton fiber and seeds at cotton gins
17.	<i>Uzlegprom</i>	Manufactures cotton yarn, fabric, knitwear, and textile products
18.	Food Industry Association	Extracts cottonseed oil
Enterprises and organizations that sell cotton fiber		
19.	Uzbek cotton trading companies <i>Uzprommashimpex</i> , <i>Uzmarkazimpex</i> , and <i>Uzinterimpex</i>	Sell cotton for export and domestic consumption on behalf of <i>Khlopkoprom</i>
Financial Entities		
20.	<i>Selkhozfond</i> (Full name: The Fund for Payments for Agricultural Production Purchased for Public Use)	A department of the Ministry of Finance, allocates funds and ensures payments to cotton producers; accumulates net profits from cotton export
21.	<i>Uzagrosugurta</i> (or <i>Uzagrostrah</i> in Russian)	Sells insurance to cotton producers
Other		
22.	Hokimiyats (local government administrations) and their departments (Farm Committees and neighborhood (Mahalla) committees)	Ensure the mobilization of the local population to work the cotton harvest and that farmers meet their production quotas
23.	State agencies, government enterprises, and private companies	Provide physical labor by sending their employees to harvest cotton
24.	Law enforcement organs, including the police, prosecutor, and even the State Security Agency	Enforce state orders to farmers to fulfill government-established cotton production quotas; enforce the forced mobilization of labor during the harvest, and prevent leaks of information about forced labor
25.	Ministry of Higher and Specialized Secondary Education; Ministry of National Education	Organizes the mobilization of students and teachers to harvest cotton

Note: The mandate and role of each of the entities listed above is described with regards to its participation in the cotton sector.

Below, in Table 2, we describe the seasonal cycle of cotton production and sale.

Table 2. Stages and timing of the production of raw cotton

Nº	Stage	Time period
1.	Set production targets	January
2.	<i>Khlopkoprom</i> TSAs contract with farmers to meet	January-February

	production requirements	
3.	Disbursements of advances through credit (up to 60 percent of the expected value of the cotton farmers will produce) for the production of raw cotton	By April 1: 25 percent, by July 1: 25 percent, and by September 1: the remaining 10 percent
4.	Cotton growing	March-September
5.	Setting the procurement price for raw cotton	10 days before the cotton harvest commences - mid August
6.	Cotton harvesting	August-November
7.	Sale of raw cotton to <i>Khlopkoprom</i> TSAs ¹⁴ and its delivery to cotton gins for initial processing	Marketing and sales occur simultaneously with the cotton harvest; initial processing takes place by July of the following year
8.	Sale of cotton fiber for export or domestic manufacture	Year round until the next crop— from September of the current year to September of the following year
9.	Financial transactions between <i>Khlopkoprom</i> and foreign trade companies (as the final step of stage 8)	As cotton fiber is delivered to the foreign trade companies-owned cotton terminals and sales of cotton fiber for export are made and hard currency payments received
10.	<i>Khlopkoprom</i> TSAs makes final payments to farmers for the supply of raw cotton	As <i>Khlopkoprom</i> receives final payments from foreign trade companies

Next we will provide a fuller description of each stage in the process.

Determination of Production Targets

Planning of raw cotton production is a centralized process. At the beginning of each year (in January or February), the president of Uzbekistan issues a decree on the varieties of cotton to be planted by region in the coming year. The decree is based on the land cadaster (land survey) which is at least 25-years-old. It also sets mandatory production targets for each region. Table 1 of the Appendix shows the distribution of acreage planted with cotton and the amounts harvested in 2005, 2010, and 2012. These data show that, from 2005 through 2012, the area planted with cotton declined by 105,000 hectares, a reduction of 7.6 percent. The reasons for this reduction are as follows:¹⁵

- 1) Densely populated areas with good agricultural land—the Tashkent region and the Fergana, Namangan, and Andijan regions in the Fergana Valley—needed new residential buildings and increased food production to supply their growing populations.
- 2) Since the Fergana Valley is a densely populated and historically volatile region, the government seeks to reduce tensions there by reducing the amount of land required to be planted with cotton, which, as this paper will demonstrate, is not profitable for farmers.
- 3) Reductions in other regions were largely due to soil degradation, particularly salinization, which has reduced the capacity to cultivate cotton there. The process of soil degradation is a consequence of intensive land use and failure to rotate crops.

¹⁴ Cotton gins are owned by *Khlopkoprom* TSAs.

¹⁵ Previously, in the early 1990s, the government reduced the total area of land allocated for cotton production and, accordingly, increased the amount of land used to grow grain. The quota for land used to grow cotton was set at 35 percent of all irrigated land. The decision was taken with a view to achieving grain self-sufficiency in the country, which has not been achieved.

Rotation and resting land are essential processes to maintain soil fertility and, if managed effectively, could increase yields. But the government has always prioritized obtaining hard currency immediately over maintaining the quality and productivity of the land.

Table 2 of the Appendix presents the placement of varieties of cotton and demonstrates the increased use of early maturing varieties, which can be harvested before the onset of unfavorable weather conditions in late autumn. The time cotton is harvested determines the procurement price: the earlier cotton is delivered to gins, the higher its price. In Uzbekistan, 95 percent of all cotton grown is comprised of medium-staple upland varieties with a fiber length of 32-33 mm, used primarily for the manufacture of printed cotton, calico, and satin.

After the presidential decree on the distribution of varieties is issued, the hokim in each region decides how to plan production in the region and distribute responsibilities to the region's farmers. Varietal placement is based on the yield potential of the land, which is indicated by its bonitet score (the assessment of the soil's quality), a composite soil fertility index, as well as other parameters. The bonitet score is set by the local offices of the Ministry of Agriculture and Water Resources and the State Committee for Land Resources, Survey, and Cartography.

At this stage, the local authorities face competing demands. They must fulfill the cotton production plan and other production plans issued from the national government, for the supply of grain and produce, such as melons. Given limited quality, irrigated land and no state-supported agriculture extension services, local authorities tend to order cotton cultivation on low-yield lands, with a bonitet score below 60 and yields of less than 2400 kg/hectare. Such low-yield land is especially prevalent in the Republic of Karakalpakstan (an autonomous region in northwest Uzbekistan) and the Syrdaryo and Jizzakh regions.

In Uzbekistan, 630,000 hectares, or 45 percent of all land used for cotton production, is low-yield land. The government distributes subsidies to farmers growing cotton on low-yield land. In 2012, the government spent 160 billion soum (\$84.9 million at the official exchange rate or \$62 million at the unofficial rate) on such subsidies, up from 135 billion soum in 2011. However, the central government compensates itself for these expenses by paying low procurement prices to farmers and pocketing the substantial difference between this and global market prices. In other words, the government benefits from under-market payments to farmers and market-level sales to domestic and global buyers.

Even at the stage of distribution of varieties there are serious problems in the process. The survey of land resources was conducted during Soviet times, rendering it outdated by at least 25 years. During that time the level of fertility of the land has changed significantly, and some land is no longer used for agriculture. Due to the lack of resources, the Ministry of Agriculture has not conducted a complete, updated land survey. Instead, the ministry formally updates the old data every five years by making rough estimations. Reduced land fertility presents problems for meeting production targets. However, local authorities also have an incentive to show decreased fertility of the lands under their jurisdictions, because they can use a low land fertility score, artificial or not, to obtain subsidies, which they can appropriate (embezzle).

Clan networks permeate the government, and there is not a legal mechanism to regulate conflicts of interest. Therefore, farmers with connections to the leadership of their oblasts and districts receive more favorable conditions for cotton cultivation—better land, better access to water, a lower bonitet fertility score, and, as a result, a smaller mandatory production quota.

Contracting

The next step is contracting producers. This stage occurs in February. Table 3 lists the sequence of steps in signing and registering agreements between farmers on the one hand and *Khlopkoprom*'s regional territorial stock associations (TSAs) and input suppliers on the other. *Khlopkoprom* is under total government control¹⁶ and, in fact, represents the government's interests in relations with the farmers and local administrations.

Khlopkoprom provides advice to the government on pricing policies and the amount of cotton fiber to be produced. The Ministry of Finance, represented by the *Selkhozfond*, endorses and issues procurement prices, determines production targets and allocates corresponding funding out of the income received from cotton exports. Its territorial subdivisions, the TSAs, are formally autonomous and interact directly with farmers local authorities.

Table 3. Timeline of the contracting process between farmers and *Khlopkoprom* TSAs

Steps	Activity	Deadlines
Step 1	<i>Khlopkoprom</i> 's territorial divisions (TSAs) and suppliers prepare contracts with farmers for signature	One month prior to the beginning of agricultural activities in early February
Step 2	District hokim facilitates the signing of contracts between farmers and <i>Khlopkoprom</i> TSAs that set annual production quotas, but not yet the procurement price (see Appendix 3 for a scanned copy of the contract approved by the Ministry of Finance and used for all cotton producing farmers)	10 -15 days prior to the cotton harvest
Step 3	Contracts are retained by the contracting parties	For 3 years after the fulfillment of all contractual obligations

The contracting process begins in January and concludes in February of the year stipulated in the contract. The 13 *Khlopkoprom* TSAs manage the contracting process. The Prosecutor's Office tightly monitors every stage of the process in accordance with part 4 of Presidential Decree No.PP-456 of August 29, 2006, to ensure the contract process goes "smoothly" for the authorities.¹⁷

Conspicuously, *Khlopkoprom* leaves the procurement price out of contracts with farmers, who therefore do not know what price they will receive for their cotton when they are required to sign the contract. The cotton procurement price is not set until August. The process of concluding agreements is a formality, and farmers simply do not have a choice other than to sign them. If they refuse, they risk losing the lease to farm the land, despite the fact that the

¹⁶ The state owns 51 percent of its shares, but it is unclear who owns the remaining 49 percent.

¹⁷ The form and content of a model contracting agreement were established by Cabinet of Ministers Decree No. 383 of September 4, 2003, "On measures to improve contractual relations and responsibility for fulfilling the obligations of the parties in agricultural production," and the Regulation "On the procedure of credit for the costs of agricultural enterprises producing cotton and grain for state needs," registered by the Ministry of Justice of the Republic of Uzbekistan No. 1675 of April 14, 2007.

land has been allotted to them via long-term lease, and additional sanctions, including criminal charges under various pretexts. This puts farmers in the extremely precarious position of being obligated to fulfill government orders without knowing the financial terms in advance.

Allocation of Advances

Contractually obligated to deliver cotton quotas to the state for an unknown price, farmers must then secure loans to access agricultural inputs. Farmers' only collateral for the loans is their future crops. They use the loans to sign contracts with suppliers of seeds, fuel, fertilizers, pesticides, machinery, tractors, and related services.

The allocation of financial resources and the issuing of payments are centralized in the national government body known as the Fund for Payments for Agricultural Production Purchased for Public Use (hereinafter: *Selkhozfond*). The *Selkhozfond* is a sub-department of the Ministry of Finance, and its leadership reports directly to the finance minister. All financial flows for cotton cultivation go through the *Selkhozfond*. The funds used to finance cotton production are from income from the sale of cotton on the world market.

Although revenues from cotton exports and domestic sales are controlled by the state, the revenues and expenditures of the *Selkhozfond* are not included in the state budget. Since all financial operations connected to the cultivation and sale of cotton are carried out through the *Selkhozfond*, they are thus hidden from the public. The income portion of the state budget reports on tax payments (see a copy of state budget for 2013 in the Appendix 4) and does not show any direct revenues coming from cotton exports.

The central government's control of the financial flows related to the cotton sector is so complete that even Uzbekistan's parliament does not have oversight of the cotton finances, as required by law (art. 29 of the law "On the Budget System"). This includes a portion of the taxes from the cotton sector that is transferred directly to the *Selkhozfond* without being credited to the state budget as revenue. The *Selkhozfond* is one of the least transparent institutions of public finance in the country.

The movement of resources in the cycle of the production and sale of cotton is as follows:

- 1) The *Selkhozfond* transfers payments to *Khlopkoprom's* territorial divisions via authorized banks;
- 2) *Khlopkoprom's* territorial divisions act as the *Selkhozfond's* commercial agents and make advance and final payments to farmers for raw cotton through cotton gins and designated banks;
- 3) Farmers settle their debts with suppliers and service organizations, as well as with creditors;
- 4) Suppliers and service organizations (*Khlopkoprom*, *Uzbekneftegaz*, *Uzkhimprom*, *Uzbekenergo*, *Uzagromashservice*, etc.) make VAT payments (outside the budget) to *Selkhozfond*;
- 5) After the sale of cotton fiber on external and domestic markets, foreign trade companies (*Uzprommashimpex*, *Uzmarkazimpex*, and *Uzinterimpex*) transfer the export revenue, in hard currency, to *Selkhozfond's* accounts in Central Bank, but

before doing that they deduct from this amount the payments to be made to *Khlopkoprom* in Uzbek soums according to the official exchange rate and local prices.

The *Selkhozfond* receives the revenue from both export and the domestic sales of cotton, guarantees advances, pays farmers, and carries out final accounting with them through *Khlopkoprom*'s territorial divisions and local banks. The majority of farmers use *Agrobank*.

Banks issue payments to suppliers on farmers' behalf, rather than lending money directly to the farmers. Farms present signed contracts and documentation confirming the supply of goods or services to their banks for payment from their loan accounts. The banks verify all documentation and make transfers from special loan accounts directly to suppliers.

The only collateral farmers have is the value of their future harvests, so they sign contracts establishing it as collateral for the loans. The loan agreements stipulate that payments received by farmers for supplying raw cotton to *Khlopkoprom*'s territorial divisions must first be used to repay the banks before they may be used for any other purpose. Apart from that, farms must pay loan insurance. The majority of insurance is provided by the State Joint-stock Insurance Company (JSC) *Uzagrostrakh*, a monopoly agency for farm insurance.

The movement of money between *Selkhozfond*, the banks, input and service providers, farmers, *Khlopkoprom*'s gins and the trading companies *Uzprommashimpex*, *Uzmarkazimpex*, and *Uzinterimpex*—occurs only on paper. Real “live” money never leaves the *Selkhozfond* (or rather its accounts at the central bank). To a significant degree, this is just an imitation of financial transactions—a process strongly reminiscent of the workings of the planning and financial systems under the Soviet Union.

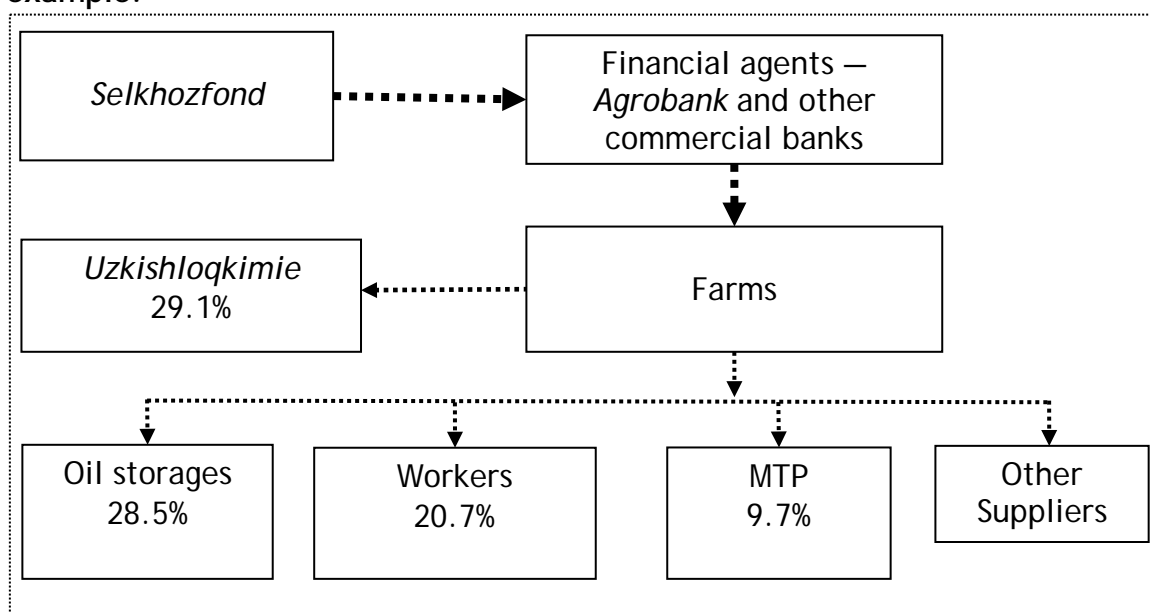
The government uses these phantom transactions, paper statements settling mutual debts, even though such transactions are prohibited in the private sector. The rationale for the prohibition is that paper transactions create opportunities for corruption. In analogous private sector transactions, real resources are moved around. The irony is that the government characterizes the cotton sector as private while demonstrating it is not through the use of the kind of paper transactions it bans in the private sector.

To maintain these two types of financial transactions—real market transactions in the private sector and highly centralized and completely separate transactions in the government-controlled sectors such as cotton and wheat production—banks maintain special accounts for different types of payments. Commercial banks in Uzbekistan work in both spheres—as agents of market transactions and as agents of the Ministry of Finance, depending on which clients they are serving and the sources of the funds. It goes without saying that this duality creates opportunities for manipulation, and in fact there have been many criminal investigations of employees in the banking sector and their clients. This problem of contradictory sets of rules in the financing and credit systems is characteristic of the entire economy of Uzbekistan, not only the cotton sector.

After signing a supply contract, farmers turn to commercial banks—acting in their capacity as branches of the *Selkhozfond*—to receive loans for expenses related to cotton cultivation. The amount of credit is established at approximately 60 percent of the expected value of each

farmer's crop at the state's procurement price, based on prices from previous years.¹⁸ The *Selkhozfond* allocates funds to commercial banks to issue loans to farmers at 1 percent interest per year. Commercial banks add a margin of 2 percent and lend to farmers at 3 percent interest per year. Loans are given strictly for costs related to cotton cultivation for a period of 18 months, without the option to extend them or to use the loan for other purposes.

Figure 1. Movement of funds after concluding a conditional contracting agreement for 1 ton of raw cotton using the harvest of 2012 as an example.



Farmers do not receive credits from the banks all at once, but in phases: the first 25 percent by April 1, an additional 25 percent by July 1, and the remaining 10 percent by September 1.¹⁹ The conditions under which these loans can be used are highly restrictive. Farmers are not free to use these loans according to their own considerations. The loans are disbursed to a number of special sub-accounts, each of which is designated for payment of a specific, strictly defined type and destination, for instance, to pay to laborers, for fuel, seeds and other inputs. This strictly centralized system was largely inherited from the Soviet system of centralized state planning and public finance.²⁰ The loans disbursed for cotton production clearly do not fully meet the international financial standards.

Setting the Price

Every year, 10 days before the start of the cotton harvest, the Ministry of Finance, represented by the *Selkhozfond*, sets the procurement price per ton of raw cotton. In setting the price, the ministry uses as a baseline the previous year's procurement prices indexed for inflation. Yet even indexed for inflation these prices do not reflect farmers' actual costs. The low price guarantees a profit to the government at the expense of for the producers and processors.

It goes without saying that these prices are not negotiated with farmers. They are established

¹⁸ The real value is not known in advance as the purchase price is only established in August.

¹⁹ By September 1 the state procurement price has been established.

²⁰ For more on the Soviet system of banking and loan allocation see: Marc Lieberman, *Banking in the Former Soviet Union*, <http://faculty.vassar.edu/kennett/Lieberman.htm>

by a directive from the Finance Ministry down through the regional *Khopkopro*m TSAs to the farmers. Farmers have no choice but to fulfill their quotas and accept the state's price. To ensure the fulfillment of quotas and compliance with prices, the entire apparatus of state authority is mobilized, including local hokimiats, the police, and the prosecutor. The state uses its full administrative power and leverage, including intimidation, extraordinary taxes, criminal charges and even physical abuse, to ensure that farmers fulfil their quotas.

Table 4 compares the state procurement price in 2012 with the estimated production costs for cotton, calculated according to technological standards²¹ approved by the government.²² This comparison shows that if farmers complied with technological standards they lost a minimum of 194,500 soum per ton of harvested raw cotton, or \$96 at the official and 74 percent at the unofficial exchange rates.

There is an inherent contradiction in the government's position—its pricing policy is not in accordance with the technological standards it requires the farmers to follow in the production of cotton. The farmers do not receive sufficient resources to be able to meet the technological standards required by the government.

Additionally, farmers often face additional expenses in the form of bribes demanded by hokimiats and inspection commissions, including mandatory “charitable” donations to support sporting and other public events. While these off-the-books payments are not recorded, they necessarily are included in any calculation of the actual costs of cotton cultivation to the farmer.

Table 4. Comparison of the government procurement price for raw cotton and production expenses, calculated according to the Standard Technical Chart based on the 2012 cotton production season.

№	Item	Procurement price established by the Ministry of Finance		Estimated purchase price according to the Technological Chart (according to our calculation)			
		Soum/Ton	percent	Soum/ton	percent	Difference with the Ministry of Finance purchase price (in soum) (e - c)	Difference with the Ministry of Finance purchase price (percent)
a	b	c	d	e	f	g	h
1.	Labor costs including social tax:	381 273	47.6	460 891	46.3	79 617	20.9
2.	Mineral fertilizers and plant protection	140 446	17.5	140 446	14.1	0	0.0

²¹ These standards are designed by cotton industry specialists and agricultural scientists and economists reporting to the Ministry of Agriculture and stipulate the amount of each input farmers should use, including fuel, seeds, fertilizers, etc, per ha and how much these inputs should cost the farmers.

²² The latest set of standards was approved by the Ministry of Agriculture of the Republic of Uzbekistan in 2011.

3.	Fuel and lubricants	117 490	14.7	137 436	13.8	19 946	17.0
4.	Seeds	29 715	3.7	29 715	3.0	0	0.0
5.	Mechanization services	46 939	5.9	46 939	4.7	0	0.0
6.	Additional expenses	57 500	7.2	116 886	11.7	59 386	103.3
7.	Total cost	773 363	96.5	932 312	93.6	158 949	20.6
8.	Estimated profit margin for farms (as planned by the government)	27 841	3.5	63 397	6.4	35 556	127.7
9.	Purchase price	801 204	100.0	995 709	100.0	194 505	24.3

Note: calculations used costs for mineral fertilizers as shown by the Ministry of Finance.

The government uses forced labor of public sector employees and students, as well as resources extracted from private enterprises (more on this below) to reduce farmers' labor costs. But that is not enough to make cotton a profitable crop.

Farmers can only cover the losses incurred in growing cotton and raise some funds for living by cultivating other, profitable crops on the land they are required to sow with cotton, yet they risk criminal or administrative sanctions by doing so. To make up for their losses in cotton, farmers often grow other crops immediately after the cotton harvest, which negatively affects the fertility and long-term productivity of the soil. Furthermore, to compensate for losses incurred by growing cotton and to ensure working capital for future harvests, farmers offset a portion of their losses by increasing the price of other crops they bring to market, which contributes to the growth of inflation in the country and lowers household living standards, as food is a major portion of household expenditures.

The profit margins established by the Ministry of Finance—6.8 percent of the purchase price in 2011 and 3.5 percent in 2012 are also insufficient because farmers must also use part of this “profit” to pay taxes and make other mandatory payments, including:

- Average land tax payment of 6 percent of the established land value,
- 1.6 percent of gross profits to the Pension Fund,
- 1.4 percent of gross profits to the Road Fund, and
- 0.5 percent of gross profits to the Fund for Reconstruction, Capital Repair, and Equipment for Educational and Medical Institutions.

As a result, a projected profit margin of 3.5 percent or 6.8 percent is insufficient even to cover taxes and other mandatory payments.

Moreover, taxes must be paid in the current year, but by law farmers receive the final 20 percent of the payment for their crop only after the processing of raw cotton is completed in the year following the harvest. They receive this last tranche only in August of the year after

the cotton harvest. As a result, the farmer loses “real income due to inflation, which independent estimates put at approximately 20 percent per year in recent years.”²³

What this all means is the state planning process and regulatory framework assumes and guarantees the unprofitability of farms cultivating cotton. Yet the farmers’ situation is even worse than the legal framework that the cotton industry establishes.

When farmers are left without sufficient funds to fulfill their tax obligations, as they often are in the current system, the government penalizes them with a fine that only increases their debts to the state, loan, and input suppliers. Conversely, Uzbek cotton trading companies and *Khlopkoprom*’s territorial divisions bear no consequences for late payments to farmers.

Farmers have no recourse but to accept this sad state of affairs or stop farming. The government, through the Ministry of Finance, *Klopkoprom*, local hokimiyats, state-controlled banks, and the Ministry of Foreign Economic Relations, Investment, and Trade, controls the entire process of cotton production and sale and exploits farmers and citizens to maximize margins of return. This process is even referred to in Uzbekistan with the refrain “Cotton is state policy,” meaning in Uzbekistan no one is permitted to question, examine, or evaluate the effectiveness of the process or the balance of costs and benefits from the cultivation and export of cotton, for fear of reprisals by the authorities.

Accordingly, increasing numbers of farmers are simply abandoning their unprofitable farms, often in favor of emigrating for work abroad as migrant laborers.²⁴ In at least one region, authorities are reportedly coercing school directors into taking over abandoned farms, raising the likelihood that staff and students of these schools will be required to labor on these farms.²⁵

The Harvest of Raw Cotton

During the harvest season, farmers’ main expenses are wage payments to harvest workers. These payments are made from special accounts (23210 and 23220), which the farmer does not have the right to use for other purposes. Wages for harvest work are also set by the government and are insufficient to attract adult workers, who rationally prefer to work for higher wages abroad. For example, they can harvest cotton in Kazakhstan for two- to three-times higher pay. Farmers in Kazakhstan also receive a much higher price for their cotton than do their counterparts in Uzbekistan. In 2010, the procurement price for raw cotton in Kazakhstan was not less than 100 tenge (the equivalent of 1800 Uzbek soum) per kilogram, while in Uzbekistan it was 588 soum, less than one-third of the price just across the border. In 2012 the procurement price for raw cotton in Kazakhstan fell to 65 tenge/kg (or 1235 soum/kg), which was still 50 percent more than in Uzbekistan (where the price was 801

²³ Uzmtronom.com, October 10, 2013,

http://www.uzmetronom.com/2013/10/10/uzbekistan_dvuznachnye_cifry_infljicii.html

²⁴ The International Organization of Migration states that up to 27 percent of Uzbeks are labor migrants. See:

<http://www.iom.int/cms/en/sites/iom/home/where-we-work/europa/south-eastern-europe-eastern-eur/kazakhstan.html>

²⁵ Uznews.net, April 16, 2014, <http://www.uznews.net/ru/economy/25934-v-uzbekistane-direktorov-shkol-zastavlajut-stat-fermerami>

soum/kg).²⁶ In addition, farmers in Kazakhstan pay lower taxes than farmers in Uzbekistan, and also receive government subsidies.

Overall, in considering the real costs of cotton cultivation, it should be noted that expenditures for mechanization are relatively low and, accordingly, costs for manual labor are relatively high. This is due to the fact that almost all cotton is harvested manually. Manual harvesting affects every other element related to the cost of cotton cultivation. The government keeps labor costs low by mobilizing forced labor but is not able to depress the costs of agricultural inputs, such as mineral fertilizers and fuel, which are managed inefficiently by monopolies.

Therefore, in an effort to compensate for the lack of incentives for the adult population to pick cotton, the government uses coercion to mobilize the population to harvest cotton. The practice of using children and adults to weed the fields during the spring growing season has also been fairly widespread. Paradoxically, the practice of forced labor in Uzbekistan occurs in the context of a national labor surplus. In the early 2000s, the dissolution of *shirkats* (state-controlled collective farms), creation of the farm leasing system in their place, and absence of other industries to absorb labor created significant unemployment, which led to a massive labor migration to cities in Uzbekistan and abroad, primarily to Russia and Kazakhstan. The government response to the resulting labor shortage in rural areas was to mobilize public-sector employees and students from urban areas to harvest cotton. Theoretically, citizens sent to harvest cotton are supposed to be contracted for and paid by the farmers. In reality, however, farmers have very little agency. Contracts are virtually never signed, and the regional hokims control the mobilization of laborers for the harvest.

After a decade of international organizations protesting the use of forced labor and child labor to harvest cotton, the government began in 2012 to demand that organizations and enterprises of all types send workers to the fields at their own cost, to compensate for cutbacks in the number of children under age 15 mobilized to work during the harvest.²⁷ Public-sector institutions and private businesses are supposed to continue to pay the salaries of their employees while they pick cotton. Some citizens who do not want to pick cotton can hire *mardikors* [local day laborers] to pick cotton in their stead but must pay them out of their own pockets, usually at rates higher than the government's low official rate for picking cotton. For example, for the 2012 harvest the government rate for cotton harvesting was 180 soum/kg. But many *mardikors* hired by urban dwellers would only pick cotton for a rate of around 250 soum/kg, an indicator of what they believed was a real minimum wage. Thus, while lower-income groups are coerced to subsidize the state's cotton sector with their labor, middle-class groups are coerced to subsidize the state by subcontracting out this forced work at a higher wage than that offered by the state.

In calculating the real costs of cotton, it is essential to take into account the expenses of farmers and their input suppliers, the financial costs to the population as a whole, and the

²⁶ Calculated according to the black market exchange rate, as these operations are carried out unofficially and payments made in cash.

²⁷ For more on the practice of corruption and money extortion during the harvest season see: *A Systemic Problem: State-Sponsored Forced Labour in Uzbekistan's Cotton Sector Continues in 2012*, Uzbek-German Forum for Human Rights and Cotton Campaign, 2013, pp. 33-34, http://uzbekgermanforum.org/wp-content/uploads/2013/07/SystemicProblem-ForcedLabour_Uzbekistan_Cotton_Continues.pdf.

opportunity costs from the use of forced labor. We have attempted to evaluate these costs, both direct and indirect. The direct costs include out of pocket expenses, such as paying for transportation to the cotton fields or hiring *mardikors* (local day laborers) to work in their stead if they do not want work the harvest or if they are unable to harvest the quotas themselves. Indirect costs include:

- the loss or disruption in essential services, such as medical care and education, since medical personal and teachers are mobilized for the cotton harvest and
- reduced productivity in other spheres due to the fact that essential workers and specialists in practically all sectors of the economy are sent to work in the fields.

The primary beneficiary of this system is the government. The *mardikors* marginally benefit from the opportunity for work created by public- and private-sector workers who are mobilized to pick cotton but prefer to outsource rather than do it themselves.

While in previous years it was mainly students and public-sector employees forced to harvest cotton, in 2012 and 2013 when the practice of mobilizing schoolchildren under age 15 was reduced, the government began to increase pressure on private enterprises to also provide people to pick cotton in order to compensate for the labor deficit. That is, the scale of forced labor of adults increased dramatically to include practically all categories of employees, from public-sector organizations and the private sector. In 2012 and in 2013, pressure was widely leveraged on private business to force them to supply labor to harvest cotton. Even major industrial companies were affected, such as the Uzbek-American joint venture General Motors (GM) Uzbekistan, which operates automobile plants in Tashkent and Andijan oblasts, whose workers were recruited to harvest cotton.²⁸

We suggest that the indirect losses are equal in value to the value of the goods and services not produced or provided during the cotton season as a result of employees being mobilized to harvest cotton instead of performing their usual jobs. This value can be equated to the amount of wages that workers mobilized to pick cotton should have received for doing their usual jobs during the period of the cotton harvest. The real losses may be larger still, considering that workers can produce goods or services of greater value than the cost of their labor as well as the fact that their absence from their workplace can negatively affect the productivity and quality of the work of the remaining employees not mobilized to pick cotton. Our estimation of the quantitative value of indirect losses the population incurs due to the use of forced labor is based on the assumption that during their work in cotton fields and absence at their main working places they failed to produce services and commodities the value of which as a minimum equals to the salary they receive for the same period.

According to official statistics, there were 12,523,000 people employed in the formal economy, including public institutions, in 2013.²⁹ It would be fair to suggest that approximately one third of this number,³⁰ say four million people, were subject to compulsory mobilization for

²⁸ *Uzbekistan: Forced Labor Widespread in Cotton Harvest*, Human Rights Watch, January 26, 2013.

²⁹ Uz24.Uz, March 19, 2014, <http://www.uz24.uz/society/chislennosty-naseleniya-uzbekistana-uvlichilasy-na-4951-tis.-chelovek>.

³⁰ This is based on observations that suggest the universal character of mobilization for cotton wherein the authorities make no exclusion to any category of organizations and enterprises.

cotton, and we know that most adults worked at least 10 days in the cotton field on a rotational basis that year. According to observations, an average monthly salary in Tashkent in 2013 was 400-600 thousand soums,³¹ or \$150-\$210 depending on the exchange rate, official or unofficial. Per 10 days, the period each employee is normally forced to pick cotton, salary would be \$50-70. In total, this would amount to 560 billion soums on a national scale, or \$211-\$291 million, depending on the exchange rate (see our calculation in Table 5). This represents the minimum overall loss to the population and to the economy as a whole resulting from the forced labor of adults. It does not include the loss to the population of the forced labor of the children in the same year. More exact calculations could only be carried out given greater access to employment statistics, including the number of people mobilized to harvest cotton, their wages, and other indicators. The alternative estimation of indirect costs is presented in the Appendix 5 and shows comparable results.

Table 5. Indirect losses to the population and economy as a result of forced labor of adults in the 2013 harvest of raw cotton

		US\$ (official exchange rate - 1,913 soums/\$)	US\$ (unofficial exchange rate - 2,639 soums/\$)
Number of employees across the country*	12.5 mln		
Estimated number of employees mobilized for cotton	4 mln		
Monthly salary per person*	400,000 soums	\$209	\$152
Salary per 10 days	133,333 soums	\$70	\$51
Total salaries for all employees mobilized for 10 days	560 bln soums	\$291 mln	\$211 mln

* See aforementioned sources.

Raw Cotton Procurement and Primary Processing

As noted above, the delivery of raw cotton to cotton gins begins immediately after the start of the harvest, as farmers do not have the ability to store cotton. In fact, they are forbidden to do so under the threat of criminal sanction, probably to prevent them from selling it privately.³² The state prosecutor opens criminal cases immediately against farmers found storing cotton. Therefore, farmers deliver cotton to the gins at the end of each day during the harvest season. The cotton gins determine the grade of the cotton as it is delivered. This is a key moment for farmers, because their payments depend on the cotton's grade.

The government has established a fairly differentiated system of pricing depending on the category and sort of cotton, and this system is updated every year. Table 6 shows the prices per ton for 2012, varying according to sort and class, from 211,700 soums to 1,428,720 soums per

³¹ See: Fergananews.com, March 13, 2013, <http://www.fergananews.com/articles/7654>; Uznews.net, January 24, 2013, <http://www.uznews.net/ru/economy/21829-islam-karimov-inflacija-v-uzbekistane-%E2%80%993-7>.

³² There have been reports about smuggling of cotton harvested in Uzbekistan to neighboring Kazakhstan and Kyrgyzstan where procurement rates significantly higher. See for instance: Rastet kontrabanda khlopka v Uzbekistane, DeutscheWelle, October 29, 2008, <http://dw.de/p/Fjww>

ton. Since Uzbekistan primarily grows cotton of medium length fiber of Class 2 (specifically Grade IV, Grade 2, Type 1, according to the established certification system), prices theoretically range from 211,700 soum to 888,530 soum. In practice, the gins use a simpler system of six price levels and pay farmers at lower rates than the official levels. Farmers reported that in 2012 their cotton was purchased at the following prices:

Grade I, class 1:	885,530 soum (in practice they were paid 885,285 soum)
Grade I, class 2:	865,700 soum (in practice they were paid 862,621 soum)
Grade II, class 1:	812,180 soum (in practice they were paid 809,216 soum)
Grade III, class 1:	711,470 soum (in practice they were paid 708,878 soum)
Grade IV, class 1:	529,540 soum (in practice they were paid 527,614 soum)
Grade V, class 3:	220,100 soum (in practice they were paid 219,301 soum)

Furthermore, the actual prices paid to the farmers depend not on the quality of the cotton but on the time of its harvest, based on the assumption that early harvest cotton is drier and of better quality. The gins pay the highest prices only for cotton from the first week of the harvest season. For each subsequent week of the harvest, there is a steady reduction in price, and the gins significantly decrease prices significantly after the first rain. Since cotton gins, under the umbrella of *Khopkopro*, are monopoly buyers of cotton, farmers have no choice of buyers, and gins, acting on behalf of *Selkhozfond*, set prices unilaterally, within the limits set by the state.

Table 6. Purchase prices for raw cotton in soum/ton for the 2012 season

Raw cotton grade	Classes of raw cotton	Types of cotton fiber								
		Long fiber grades					Medium fiber grades			
		1a	1b	1	2	3	4	5	6	
		43	42	41	40	39-38	37-36	35	34	33

ПАХТА ХОМ-АШЁСИННИГ ХАРИД НАРХЛАРИ (O'z DSt 615: 1994)

1 тоннага сўмларда

Пахта хом-ашёсининг саноат навлари	Пахта хом-ашёсининг синфлари	Пахта толасининг типлари/кодлари								
		Узун толали пахта навлари					Урта толали пахта навлари			
		1a	1b	1	2	3	4	5	6	
		43	42	41	40	39-38	37-36	35	34	33
I	1	1 428 720	1 306 010	1 244 650	1 095 650	990 460	888 530	876 520	865 120	854 600
	2	1 392 160	1 272 580	1 212 800	1 067 600	965 110	865 780	854 080	842 980	832 730
	3	1 113 990	1 018 310	970 470	854 280	772 270	692 790	683 430	674 540	666 340
II	1	1 305 960	1 193 790	1 137 710	1 001 510	905 360	812 180	801 204	790 790	781 170
	2	1 197 570	1 094 710	1 043 280	918 380	830 220	744 770	734 700	725 150	716 340
	3	1 100 930	1 006 370	959 090	844 270	763 220	684 670	675 420	666 640	658 530
III	1	1 144 020	1 045 760	996 630	877 320	793 100	711 470	701 860	692 730	684 310
	2	1 017 350	929 970	886 280	780 170	705 280	632 690	624 140	616 020	608 530
	3	719 590	657 780	626 880	551 830	498 850	447 510	441 460	435 720	430 430
IV	1	851 490	778 350	741 790	652 980	590 300	529 540	522 390	515 590	509 330
	2	660 820	604 060	575 680	506 760	458 110	410 960	405 410	400 140	395 270
	3	505 410	462 000	440 290	387 580	350 380	314 310	310 070	306 040	302 310
V	3	353 920	323 520	308 320	271 410	245 350	220 100	217 130	214 300	211 700

Farmers can influence the situation only by paying bribes to the inspectors at the gins, or if gin officials are relatives or acquaintances. The pricing arrangement also creates opportunities for cotton gins to manipulate prices or to redistribute profits in their own favor within the limits of the government's established procurement price.³³

Here and following, we use the average procurement price for 2012 of 670,753 soum/ton (or \$254-\$350 depending on which exchange rate is used). Since the output of cotton fiber is about one third the weight of raw cotton, the procurement price per ton of cotton fiber on average amounts to 2,012,260 soum per ton, or \$760-\$1050 depending on the exchange rate used (Table 7).

Table 7. Mean purchase price for raw cotton and cotton fiber per ton.

Raw Cotton Grade	Soum/ton	US\$/ton (official exchange rate - 1,913 soum/\$)	US\$/ton (unofficial exchange rate - 2,639 soum/\$)
Grade I, class 1:	885,530	\$463	\$336
Grade I, class 2	865,700	\$453	\$328
Grade II, class 1	812,180	\$425	\$308
Grade III, class 1	711,470	\$372	\$270
Grade IV, class 1	529,540	\$277	\$201
Grade V, class 3	220,100	\$115	\$83
Mean price of raw cotton	670,753	\$351	\$254
Average price of cotton fiber	2,012,260	\$1,052	\$763

The dollar equivalent of the procurement price is significant for at least two reasons. First, the exchange rate of the Uzbek soum to the U.S. dollar is unstable and is re-evaluated monthly. This is important to take into account because cotton is an export crop, and farmers have a legitimate right to profit in accordance with global market prices. By our estimates, over the course of 2013 the value of the Uzbek soum against the U.S. dollar depreciated by 9-10 percent.

Estimates of the inflation rate vary widely. According to official government data, inflation in 2012 was 7 percent.³⁴ According to the International Monetary Fund it was 12.9 percent,³⁵ while specialists from government structures who provided material for this report estimated inflation to be around 20 percent, and Uzmtronom.com, an independent news-website, with a reference to local economists estimated it to be no less than 30 percent.³⁶

With a steady drop in the exchange rate of the soum to foreign currencies and the attendant growth in inflation, every delay or postponement of payments to farmers significantly reduces their real income. Given depreciation, inflation growth, monopsony purchasing, and

³³ Former farmer Mamurjon Azimov described how cotton gins take advantage of this opportunity to manipulate profits and prices on Azattyq Radio, 03.11.2010, http://rus.azattyq.org/content/cotton_Uzbekistan/2208357.html.

³⁴ Mezon.Uz, May 1, 2013, <http://www.mezion.uz/analytics/economics/4888-inflyatsiya-i-tsenyi-v-uzbekistane-2012-inflyatsiya-7-i-neznachitelnyiy-rost-tsen-na-ryinke-neprodovolstvennyih-tovarov>.

³⁵ News Briefing Central Asia, 21 December 2012, <http://iwpr.net/report-news/imf-predicts-high-inflation-uzbekistan> (Russian version [here](#))

³⁶ Uzmtronom.com, October 10, 2013,

http://www.uzmtronom.com/2013/10/10/uzbekistan_dvuznachnye_cifry_infljicii.html

monopoly sales, those who produce cotton lose, and those who control its export win. And it is the central government that controls exports. Hence, the government has no interest in lowering inflation or in preventing instability in the exchange rate of the Uzbek soum.

Additionally, given the continuing lack of a freely convertible currency, there is a substantial difference between the official exchange rate established by the Central Bank and black market rates. Table 8 shows sample exchange rates of the Uzbek soum to the U.S. dollar in 2012 and in March 2013, when final payments were made to farmers for their 2012 cotton. The table includes the Central Bank rate, the exchange rates of the National Bank of Foreign Economic Activity, and black market rates. The latter are 40 percent higher than the Central Bank rates.³⁷

The ability to exchange soum to foreign currency in Uzbekistan remains extremely limited, both for individuals as well as legal entities, businesses, and organizations. For this reason, a black market for currency flourishes. Interestingly, the government is not only aware of current black market exchange rates, but allows it to function so as to avoid the country's foreign currency reserves bleeding away at the low, official exchange rate. In some situations, certain goods and services are offered only for foreign currency, for example airline tickets for international flights³⁸ or the sale of cars produced in Uzbekistan.³⁹ This pushes individual consumers to the black market and companies in need of foreign currency to various illegal schemes, including offshore and quasi-offshore operations. For example, some form shell companies and open accounts in countries such as Latvia or the United Arab Emirates.

Table 8. Soum to dollar exchange rates during 2012 *

Dates	Central bank exchange rate	Official exchange rate of the National Bank		Unofficial exchange rate (on average exceeding the Central Bank rate by 40 percent)
		Purchase (+1.5 percent)	Sale (+1.9 percent)	
December 25-31, 2012	1,984	2,014	2,022	2,778
September 4-10, 2012	1,926	1,955	1,963	2,696
June 12-18, 2012	1,878	1,906	1,914	2,629
March 20-26, 2012	1,839	1,867	1,874	2,575
January 3-9, 2012	1,796	1,450	1,830	2,515
Average for 2012	1,885	1,913	1,921	2,639
January 1-7, 2013	1,985	2,015	2,023	2,780
August 27-September 9, 2013	2,125	2,156	2,165	2,974

* Source: <http://www.goldenpages.uz/kurs/#.UrRZILT42UM> (official rate); http://www.uznews.net/news_single.php?lng=ru&cid=2&nid=22874; http://www.uznews.net/news_single.php?lng=ru&cid=2&nid=23324 (unofficial rate).

³⁷ Because we do not have data documenting the unofficial exchange rates for specific dates in 2012, we rely on observations and anecdotal data from sources within Uzbekistan that indicate that black market rates, as a rule, exceed Central Bank rates by 35-40 percent.

³⁸ See, for example: Gazeta.uz, July 11, 2013, <http://www.gazeta.uz/2013/07/11/air/>

³⁹ See: Fergananeews.com, May 29, 2013, <http://www.fergananeews.com/news/20701>

Therefore, in establishing the dollar equivalent of the procurement price for cotton fiber we must take into account the date of loan disbursements and final payments to farmers as well as the difference between the official and unofficial rates of exchange. Table 9 gives two conversions of soum payments according to different exchange rates.

Table 9. Dollar equivalents at different stages of disbursements of loans and final payments to farmers for delivered cotton (data from 2012)

Stages of payments to farmers	Percent of purchase price	Soum / ton	Central Bank rate (Soum / USD)	Purchase price value in USD	Unofficial rate (Soum/ USD)	Purchase price value in USD
Credit, end of March	25	503,065	1,843	\$273	2,575	\$195
Credit, end of June	25	503,065	1,885	\$267	2,629	\$191
Credit, end of August	10	201,226	1,921	\$105	2,696	\$75
Payment after delivery of raw cotton	30	603,678	1,985	\$304	2,780	\$217
Final payment, end of August 2013	10	201,226	2,125	\$95	2,974	\$68
TOTAL	100	2 012,260		\$1,043		\$746

Other than the procurement price, *Khlopkoprom* charges the foreign trade companies (*Uzprommashimpex*, *Uzmarkazimpex*, and *Uzinterimpex*) for the acquisition, processing, storage, and transport of cotton to cotton storage facilities. According to internal sources, the value of costs added by *Khlopkoprom* amounted to 603,400 soum per ton of cotton fiber in 2012. *Khlopkoprom* received this amount from the foreign trade companies' export earnings. Based on the estimated harvest of 1.1 million tons (the approximate amount produced by *Khlopkoprom* enterprises in 2012), this amounts to 663.74 billion soum. This is \$326.2 million at the official Central Bank rate for March 2013,⁴⁰ or \$232.97 million at the unofficial rate.

Table 10. Cost expenses added by *Khlopkoprom*

Volume of cotton fiber	Soum	USD CBU [official rate]	USD Unofficial rate
<i>Khlopkoprom</i> , 1 ton	603.4 thousand	\$297	\$212
<i>Khlopkoprom</i> , 1.1 million tons	663.7 trillion	\$326 million	\$233 million

Sale of Cotton Fiber for Export and the Domestic Market

Procedures for the sale of cotton fiber are regulated by Presidential Decree No. PP-456 of August 29, 2006, "On streamlining the mechanisms for the sale and payments for cotton fiber." From 2008 through 2012, on average of 70-75 percent of the cotton fiber produced in Uzbekistan was sold for export, while the rest was sold on the domestic market to the textile industry. Quotas for the export of cotton are allocated annually by the government between

⁴⁰ According to our data, payments by Uzbek cotton trading companies to *Khlopkoprom* in 2012 were made on or after these dates, that is the sale of cotton to Uzbek cotton trading companies occurred within 120 days after processing.

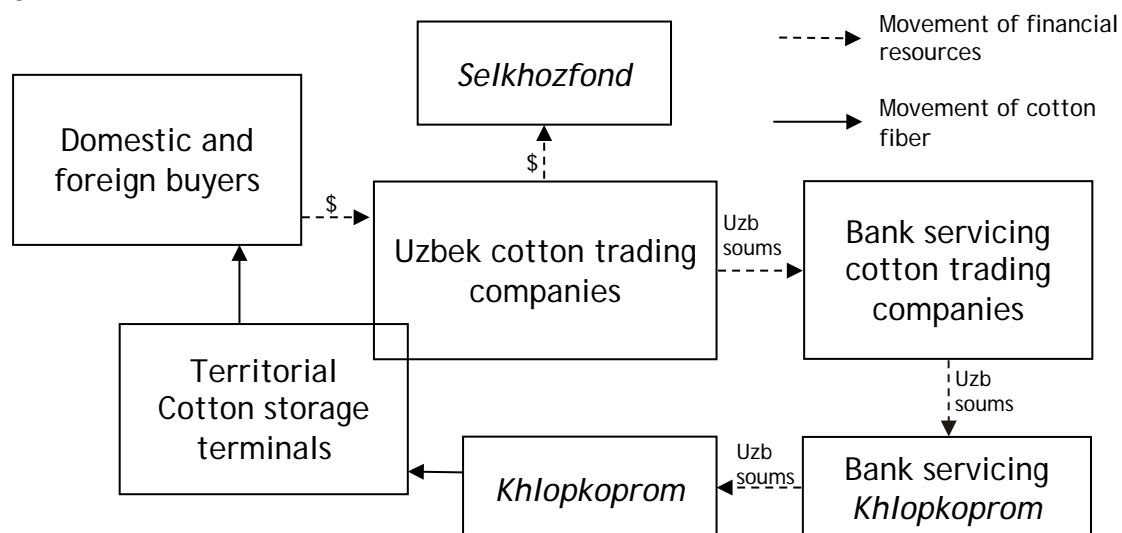
the three authorized foreign trade companies that are licensed to sell cotton abroad. The three foreign trade companies were created under the Ministry of Foreign Economic Relations and Trade. They are the *Uzprommashimpex*, *Uzmarkazimpex*, and *Uzinterimpex*, all accountable to the ministry and the Cabinet of Ministers.

These three companies also coordinate with the Uzbek Commodity Exchange (UzEx) to sell cotton on the domestic market in the same manner, for foreign currency, including to firms majority owned by foreign investors, which form a significant share of the domestic market. Annually, *Khlopkoprom's* 13 territorial divisions participate as suppliers in the sale of cotton fiber. Legally, they are considered the seller, but in reality the three Uzbek cotton trading companies sell all cotton fiber and receive a commission from *Khlopkoprom's* divisions. By regulation, the sale of cotton fiber by the foreign trade companies occurs within 120 days after processing. The sale of cotton fiber is shown in schematic form in Figure 2, below.

For domestic sales, *Khlopkoprom's* territorial divisions establish contracts, including commissions, with the foreign trade companies. UzEx, through whose trade platforms the sales occur, does not receive a commission. The foreign trade companies receive the entire commission from all sales.

Cotton fiber is sent to the external market through cotton storage terminals spread across the country, with a total storage capacity of 380,000 tons of cotton fiber.⁴¹

Figure 2. Sale of cotton fiber.



Cotton fiber is sent to the external market through cotton storage terminals spread across the country, with a total storage capacity of 380,000 tons of cotton fiber.⁴²

The sequence of foreign trade operations occurs as follows:

1. The foreign trade companies (*Uzprommashimpex*, *Uzmarkazimpex*, and *Uzinterimpex*) and *Khlopkoprom* TSAs conclude agreements for the delivery of cotton

⁴¹ Uzreport.com, 17.10.2013, http://news.uzreport.uz/news_4_r_112562.html

⁴² Uzreport.com, 17.10.2013, http://news.uzreport.uz/news_4_r_112562.html

- fiber specifying the amount, type, and shipping terms.
2. Foreign trade companies contract with foreign buyers or Uzbekistan-based enterprises to supply cotton fiber.
 3. Foreign trade companies provide their banks (issuing banks) with applications for irrevocable letters of credit.
 4. Funds in the amount of the cotton fiber purchased are transferred in hard currency by the buyer within the first 10 days of the month of delivery to the letter of credit account of the foreign trade company. After this, the funds are converted to Uzbek soum, and further movement of funds within the country occurs in soum. This step is one of the least transparent in the chain. The bank account of the foreign trade company records a conversion of foreign currency to soum prior to the actual receipt of foreign currency from the buyer. The conversion is based on the value of the amount of cotton to be sold, according to the internal procurement price and *Khlopkoprom's* costs. Yet the price the buyer pays to the foreign trade company is more, because it is set according to international market rates for cotton. So the foreign trade company's bank account never records the actual amount received by the foreign trade company from the buyer. As for the hard currency income from the buyer, it goes, after the trading companies having withheld their own costs, to *Selkhozfond*.
 5. The bank of the foreign trade company (bank issuer) notifies the bank servicing *Khlopkoprom's* relevant territorial division that a line of credit has been opened for the territorial joint-stock association *Khlopkoprom*.
 6. The bank servicing *Khlopkoprom's* relevant territorial divisions (the seller's bank) opens a separate escrow [deposit] account for letters of credit for its clients, one of the territorial divisions of *Khlopkoprom*.
 7. The territorial division delivers the cotton from the gin to the cotton terminals that belong to the foreign trade companies.
 8. The foreign trade companies ship cotton fiber to the foreign buyers or to the Uzbekistan-based enterprises, according to the terms of the contract.
 9. On the second day following shipment, *Khlopkoprom's* territorial division provides documentation to the servicing bank confirming shipment and satisfaction of all terms of the agreement for opening a letter of credit indicating the amount of funds to be paid by the letter of credit.
 10. Following confirmation that the documentation is correct, the bank servicing *Khlopkoprom's* territorial division issues a request to the bank servicing the foreign trade company (the issuing bank) for the transfer of funds. In accordance with the request, the issuing bank transfers the funds. Note, the amount of funds is not determined by the amount of profit from export but by the internal prices and payments set by the *Selkhozfond*. Yet the producers do not even receive this money in full. Most of it is paid to suppliers, creditors, and the government to make tax payments. The producers come last.
 11. The bank servicing *Khlopkoprom's* territorial division transfers funds from a separate escrow account by letter of credit to the territorial division's escrow [deposit] account.
 12. The territorial division transfers funds to the escrow accounts of the cotton gins, which, in turn, must make payments to farmers if any payments are due after covering their debts.

Revenues of the foreign trade companies from the sale of cotton fiber depend on prices on the global market, specifically the current values of the Cotton Outlook Index (Cotlook Indices) and the futures quotes of the New York Mercantile Exchange. At the same time, the foreign trade companies withhold a certain amount as commissions and to cover their expenses connected to the sale of cotton for export. These costs are shown in Table 11.

Table 11. Maximum estimated costs [taken out of export earnings] of foreign trade companies' sale of cotton fiber

Nº	Expense	Unit of measure	Assumptions			
1.	Price of cotton fiber on the global market, calculated per pound	US\$/pound	\$0.83	\$0.90	\$0.95	\$1.00
2.	Price of cotton fiber on the global market, calculated per ton	US\$/ton	\$1,818.80	\$1,984.14	\$2,094.37	\$2,204.60
3.	Total transaction cost charged by the Uzbek cotton trading company for the sale of cotton fiber, including:	US\$/ton	\$251.36	\$254.51	\$256.61	\$258.72
3.1.	Customs procedures	US\$/ton	\$1.50	\$1.50	\$1.50	\$1.50
3.2.	Insurance for the transportation from the gin to the terminal	US\$/ton	\$5.46	\$5.97	\$6.32	\$6.66
3.3.	Insurance for the transportation from the terminal to the Uzbek border	US\$/ton	\$5.61	\$6.14	\$6.50	\$6.85
3.4.	Bank interest	US\$/ton	\$4.73	\$5.15	\$5.44	\$5.73
3.5.	Uzbek Foreign Transport (Uzvneshtrans) commissions	US\$/ton	\$1.20	\$1.20	\$1.20	\$1.20
3.6.	Certification and weighing costs	US\$/ton	\$9.32	\$9.32	\$9.32	\$9.32
3.7.	Terminal services	US\$/ton	\$9.38	\$9.38	\$9.38	\$9.38
3.8.	Declaration	US\$/ton	\$0.19	\$0.19	\$0.19	\$0.19
3.9.	Transport within Uzbekistan from the terminal to the border ⁴³	US\$/ton	\$18.47	\$18.47	\$18.47	\$18.47
3.10.	Cost of the freight vessel	US\$/ton	\$42.00	\$42.00	\$42.00	\$42.00
3.11.	Transport from the Uzbek border to transit ports	US\$/ton	\$75.04	\$75.04	\$75.04	\$75.04
3.12.	Administrative costs of the foreign trade company ⁴⁴	US\$/ton	\$18.46	\$20.14	\$21.26	\$22.38
3.13.	Estimated size of the discount ⁴⁵ off the global market price	US\$/ton	\$60.00	\$60.00	\$60.00	\$60.00
	Cost of sales (as percent of total)		14 %	13 %	12 %	12 %

⁴³ It is clear that these expenses are paid in local currency, which creates the opportunity to manipulate the difference between the black market and official exchange rates.

⁴⁴ This means that administrative costs of all three companies amount to \$18.5 million, assuming annual sales of one million tons of cotton fiber.

⁴⁵ This discount suggests that the government is prepared in advance for the purchase of cotton fiber at a lower than the global market price of \$60 per ton independent of global predictions.

Thus the total amount of the foreign trade companies' costs and fees amounts to \$251.30 per ton given a global market price of 82.5 cents per pound,⁴⁶ or 14 percent of the global market price. As laid out in the tables above, these costs and fees include: 1) logistical services—storage and transport of raw cotton; 2) costs of sale; and 3) administrative, financial and insurance services. But some of these services are provided by monopoly enterprises and, in light of their lack of transparency and the lack of a law on government procurement, it is difficult to evaluate the degree of validity of the established prices.

On the domestic market, around 110 enterprises participate as direct buyers, including both those foreign companies operating in the textile industry of Uzbekistan and domestic textile producers. The latter are members of the state joint-stock company *Uzlegprom* (in Uzbek: *Uzbekengilsanoat*), which produces cotton yarn and supplies it for export and to other domestic enterprises in the textile and garment manufacturing industries, which include about 4,000 enterprises.

As noted above, sales to joint enterprises and foreign subsidiaries on the domestic market also occur in hard currency through UzEx at global market prices. The foreign trade companies do not invoice for some of their costs, for example transportation services. But there is one important detail—sales to domestic buyers are subject to VAT (value added tax). As compensation, the government gives local textile companies (including those operated by foreign investors) a 15 percent discount on the price of cotton fiber, tax exemptions and customs incentives.⁴⁷

The low price set for raw cotton, in combination with monopoly prices for inputs, does not allow farmers to profit or save. But the government understands that it is possible to profit on the difference between the domestic and global market prices, as well as on inflation and the difference between the official and black market exchange rates. Therefore the burden of paying the VAT falls to *Khlokoprom* and the foreign trade companies, so that this difference is under the control of the central government.

Final Balance by Industry

In Table 12, we provide a breakdown by industry showing where the profit from cotton exports is concentrated. Calculations are provided in two versions, one using the official exchange rate and the other the unofficial rate. We are inclined to believe that the version using the unofficial exchange rate, which shows a government profit of more than \$641 million, more accurately reflects the real situation. In reality, the government is guided by the unofficial exchange rate and in some cases even sells certain types of goods and services for hard currency, for example raw cotton to domestic purchasers. Even if one uses the official exchange rate, the government profit is \$264 million.

⁴⁶ Prices for cotton fiber were quoted at this price in the first half of 2013.

⁴⁷ Ministry of Foreign Economic Relations, Trade and Investment, Uzinfoinvest Agency, http://www.uzinfoinvest.uz/eng/investment_opportunities/by_industry/light_industry/, (last visited September 15, 2011.)

This figure does not take into account the fact that the state-controlled *Uzneftegaz* which, as a monopoly, sets highly overvalued fuel prices. The price per one liter of diesel fuel has reached in Uzbekistan 6 thousand soum, or \$2 according to the market exchange rate, compared to \$0.55 per liter in the neighboring Kyrgyzstan. Some local observers claim that fuel accounts for 60 percent of the cotton-production costs to farmers, which in turn is revenue to the government.⁴⁸

In this case the balance is presented from the standpoint of the interests of the central government, where assets are profits from the sale of cotton to domestic and foreign buyers as well as taxes, and liabilities are the cost of the production and sale of cotton. A more detailed explanation of the costs and revenues follows:

1. Payments to farmers in accordance to the procurement price. This aspect was discussed above.
2. Costs added to payments to farmers. These include:
 - a. Expenses and profit of *Khlopkoprom* enterprises. This aspect was also examined above. However it should be noted that since *Khlopkoprom* TSA must pay VAT, there is no or little profit for *Khlopkoprom*. At the same time, the costs added by *Khlopkoprom* in the form of its expenses are relatively high and add to the burden of the overall cost of cotton production.
 - b. Expenses and profit of foreign trade companies. In the previous two sections we also noted the outsized costs as a consequence of the fact that these companies operate as monopolies and lack transparency and oversight over their activities.
 - c. Government expenses on land-improvement work [amelioration], valued at 199.9 billion soum annually, a third of which benefits the cotton sector.⁴⁹ These expenses are linked to improvements of irrigated land, maintenance of the main canals, and providing water for agricultural needs.
 - d. The government assumes the costs of electricity associated with irrigation pumps, at a cost of 249.8 billion soum annually. The costs are due to the arid climate, insufficient water resources in agricultural regions, and inefficient irrigation infrastructure. The main sources of water are the Amudarya and Syrdarya rivers. The water level in these rivers is lower than agricultural fields, so water for irrigation is pumped by electric pumps. Pumping stations consume 7.5 billion kilowatts/hour of electricity annually, which equals 15 percent of annual output in Uzbekistan. Such high costs make cotton an energy-intensive crop—more than 7,000 kilowatt/hours of electricity are required to produce a single ton of raw cotton. As in the case with soil amelioration, the Ministry of Agriculture and Water Resources is responsible for maintaining the pumps.

⁴⁸ Uzmetronom.com, April 14, 2014, http://www.uzmetronom.com/2014/04/14/cvetet_urjuk_pod_grokhhot_dnejj.html

⁴⁹ The remaining two thirds benefits the grain and food crop sectors.

Revenues of the *Selkhozfond* include:⁵⁰

1. Proceeds from sales of cotton fiber for export and on the domestic market.
2. Taxes:
 - a. Taxes paid by farmers. These are 3,5 percent of total income earned from raw cotton.
 - b. Value added tax [VAT], discussed above.

Given the lack of transparency of the activities of the *Selkhozfond*, how the net income from the export of raw cotton is spent remains completely unknown.

The fairly low share of revenue from exports that goes to pay farmers is striking. Table 13 compares the share of domestic procurement in the United States and Uzbekistan in sales at global prices for the last 14 years. Data for 1999-2011 are taken from USDA reports, and data for 2012 are from our own research. On average, farmers in the United States receive 79 percent of the global market price while Uzbek farmers receive 49 percent calculated at the official exchange rate and only 37 percent at the unofficial rate. This means that the share of costs of the cultivation, harvest, and sale of cotton added by *Khlopkoprom*, foreign trade companies, and water utility enterprises (hereinafter we refer to this portion of costs as “added costs”⁵¹), calculated at procurement prices, is 51 percent at the official exchange rate and 63 percent at the unofficial rate in Uzbekistan, as compared to just 21 percent in the United States.

⁵⁰ We reiterate that although the *Selkhozfond* is a government structure, payments to its account are not payments made to the state budget.

⁵¹ We note again that in Uzbekistan this part of the cost includes the value [cost] added by *Khlopkoprom* and Uzbek cotton trading companies as well as the government's expenses for land improvements and the supply of electricity for irrigation pumps.

Table 12. Cotton production balance by industry according to the official and unofficial exchange rates, data for the 2012 season

Indicator		According to the exchange rate set by the Central Bank, data for the 2012 season				According to the unofficial exchange rate, data for the 2012 season			
		Calculated for 1 ton, in soum	Calculated for 1 ton, in USD	Calculated for 1.1 million tons, in soum	Calculated for 1.1 million tons, in USD	Calculated for 1 ton, in soum	Calculated for 1 ton, in USD	Calculated for 1.1 million tons, in soum	Calculated for 1.1 million tons, in USD
A	Procurement price for raw cotton, average value for the 2012 season	670,753				670,753			
B	Procurement price for cotton fiber, average value for the 2012 season	2,012,260	\$1,040		\$1,144,119,885	2,012,260	\$744		\$818,400,000
C	Global price for cotton fiber (75 U.S. cents/pound) ⁵²		\$1,653		\$1,818,300,000		\$1,653		\$1,818,300,000
D	Difference between domestic [internal] procurement price and global price (B-C)		\$613		\$674,300,000		\$909		\$999,900000
E	Other cost components, including:								
F	Share in cost of foreign trade companies		\$251		\$276,496,000		\$251		\$276,496,000
G	Share in cost of Khlopkoprom		\$297		\$326,154,149		\$212		\$232,967,249
H	Subsidies to farmers cultivating cotton on low-yield lands, in soum			160,000,000,000	\$84,880,637			160,000,000,000	\$61,967,467

⁵² We take a slightly discounted price against 82.5 U.S. cents per pound as an average figure observed in 2012. The discount takes into account that fact that domestically it is being sold at a cheaper price. At the moment of completing this paper, as of April 19, 2014, the futures prices was 90 U.S. cents/pound. Source: http://www.bbc.co.uk/news/business/market_data/commodities/11706/default.stm

I	Land improvement work [amelioration] (one third of the 199.9 bln soum allocated for agriculture)			66,630,000,000	\$35,349,248			66,630,000,000	\$25,806,868
J	Electricity costs for water pumps ⁵³ (one third of 749.4 bln soum)			249,800,000,000	\$132,519,894			249,800,000,000	\$96,746,708
K	TOTAL costs added to the purchase price (F+G+H+I+J)				\$855,399,928				\$693,984,292
L	Total cost (B+K)				\$1,999,519,812				\$1,512,384,292
M	Taxes paid by farmers (3.5 percent)				\$45,764,795				\$32,736,000
N	VAT (L*0.2)				\$399,903,962				\$302,476,858
O	Total taxes ⁵⁴ (M+N)				\$445,668,758				\$335,212,858
P	Pure profit of the central government as represented by the Selkhozfond and the Central Bank (C-L+O)				\$264,448,946				\$641,128,566

⁵³ Water for irrigation is pumped from the Amudarya and Syrdarya rivers [basins], which are lower than the level of agricultural lands.

⁵⁴ This does not include all taxes, such as taxes on profit, income tax on salaries, or payments to non-budget funds such as for social insurance, etc.

Table 13. Comparison of the Uzbek and American cotton sectors in terms of procurement and global prices for raw cotton.⁵⁵

Source	Production year and sale	Government purchase prices		Prices for cotton fiber paid to farmers in the USA	Global price USD/pound	Share of global price		
		According to the official exchange rate	According to the unofficial exchange rate			Uzbekistan official exchange rate	Uzbekistan unofficial exchange rate	USA
USDA	1999/00	\$29.4	\$7.2	45	\$0.53	56%	14%	85%
USDA	2000/01	\$22.3	\$8.2	49.8	\$0.57	39%	14%	87%
USDA	2001/02	\$17.8	\$8.4	29.8	\$0.42	43%	20%	71%
USDA	2002/03	\$19.5	\$15.5	44.5	\$0.56	35%	28%	80%
USDA	2003/04	\$27.9	\$27.7	61.8	\$0.69	40%	40%	89%
USDA	2004/05	\$29.8	\$29.9	41.6	\$0.54	56%	56%	78%
USDA	2005/06	\$30.5	\$30.8	47.7	\$0.56	54%	55%	85%
USDA	2006/07	\$34.9	\$34.2	46.5	\$0.59	59%	58%	79%
USDA	2007/08	\$38.6	\$37.1	59.3	\$0.73	53%	51%	81%
USDA	2008/09	\$43.4	\$37.9	47.8	\$0.61	71%	62%	78%
USDA	2009/10	\$42.0	\$30.7	62.9	\$0.78	54%	40%	81%
USDA	2010/11	\$50.2	\$35.3	81.5	\$1.65	30%	21%	49%
USDA	2011/12	\$38.0	\$25.8	90.5	\$1.04	37%	25%	87%
Our data	2012/13	\$47.1	\$33.7	N/A	\$0.83	57%	43%	N/A
Average share of purchase price		\$33.7	\$25.9		\$0.72	49%	37%	79%
Additional expenses	2012/13	\$35.4	\$48.8			41%	58%	N/A
Added cost of additional expenses						51%	63%	21%

The high proportion of added costs in Uzbekistan is largely explained by the prevalence of monopoly structures and agencies providing amelioration work, irrigation, processing, transport, and marketing services for the production of cotton fiber, which makes their work non-transparent and inefficient. Mechanisms of market competition in these sub-structures are simply nonexistent.

We offer several examples of the inefficiency of these sub-structures of cotton production. The government, in its resolution of July 5, 2013 “On Measures for the Phased Upgrade of the Water Pumping Equipment of the Organizations of the Ministry of Agriculture and Water

⁵⁵ Calculated according to USDA data (for 1999-2011) 55 and according to our research (for 2012).

Resources of the Republic of Uzbekistan during the period from 2014-2018,” noted that the complete inventory by the Ministry of Agriculture and Water Resources and other agencies of pumping stations’ equipment revealed that:

- 3,944 (81 percent) of electric pumping stations are outdated and obsolete and need to be upgraded with modern, energy-saving equipment;
- 1,297 (32.9 percent) require updating as a priority for 2014-2018;
- the excess consumption of electricity by obsolete and outdated electric pumping stations comprises 10-15 percent as compared with modern, energy-saving equipment.⁵⁶

It should be noted that the deterioration of infrastructure as a whole is a serious problem for Uzbekistan, and the subject of a 2011 report by the International Crisis Group.⁵⁷ A more effective use of resources would require transparency and accountability. Since Soviet times, water resources have continued to be mismanaged and wasted in Uzbekistan.

Monopolies also rule the supply sector, where there is also no competition. According to data from 2011,⁵⁸ only 9 percent of mineral fertilizer was sold through market mechanisms—the Uzbek Republican Commodities Exchange [UzEx]. The remainder was sold directly to the state at monopoly prices or exported by non-transparent means. The state joint-stock company *Uzkhimprom* has built only one new factory in the last 20 years for the production of potassium (mineral) fertilizer; all the modernization announced in the late 2000s was limited to the replacement of outdated equipment.⁵⁹

It is important to note that the prevalence of monopolies is not the only reason for the high level of added costs in Uzbekistan’s cotton sector. As a result of the cotton monoculture, the inefficient use of agricultural land and the failure to observe agricultural norms for crop rotation, land quality has significantly deteriorated in recent years, a fact acknowledged by the government. The Presidential Decree of October 29, 2007 “On Measures to Improve the System of Ameliorative Improvements for Agricultural Lands,” notes that “more than half of irrigated land has some degree of salinity, with more than 16 percent of irrigated farms in unsatisfactory condition.”⁶⁰ As a consequence of this kind of predatory use of land resources, it is necessary to invest significant resources on ameliorative improvements to the soil condition and subsidies to farmers who are allocated low-yield lands with a high percentage of saline soil.

Furthermore, the system of financial operations is extremely rigid and complex, partly because it is based on two different systems, combining elements of the market with a hyper-centralized system of quotas regulated by administrative measures. What is left is a non-transparent and highly unbalanced system of settlements and payments in the cotton sector.

⁵⁶ Collected Legislation of the Republic of Uzbekistan, 2013, № 23, art. 305, http://lex.uz/Pages/GetAct.aspx?lact_id=2181964.

⁵⁷ *Central Asia: Decay and Decline*, ICG Asia Report, №201, 3.02.2011, <http://www.crisisgroup.org/en/regions/asia/central-asia/201-central-asia-decay-and-decline.aspx>.

⁵⁸ Resolution of the President of the Republic of Uzbekistan №PP-1503, March 16, 2011, “On Measures to Provide the Agricultural Sector with Mineral Fertilizers in 2011.”

⁵⁹ *Economic Growth and Innovation in Uzbekistan*, Institute of Forecasting and Macroeconomic Research and the UN Development Program, Tashkent 2010.

⁶⁰ Ministry of Foreign Affairs, October 31, 2007, http://mfa.uz/rus/dokumenti/ukazi_postanovleniya/311007r_1.mgr.

Prepayment for inputs supplied by monopoly enterprises is much higher and the final settlement period much shorter than for raw cotton purchased by the monopolies. Prepayment for electricity is 60 percent, and for fertilizers 30 percent, and the period of final payment is 60 days.⁶¹ At the same time, payment for raw cotton supplied to domestic purchasers occurs within 120 days, and for export not less than 3-4 months. Moreover, as we have noted, raw cotton is sold for hard currency, even to domestic purchasers. In light of the lack of convertibility and a normal currency market in Uzbekistan, textile enterprises must wait for long periods in response to their requests to convert currency, which further delays the movement of funds.

Therefore farmers and other participants in the chain of production and sale of cotton are often in debt. A domino effect is created such that farmers go into debt and after them their suppliers, and so on down the chain. As a result, transactions are slowed down and the shortage of working capital increases. Tables 14 and 15 provide data on the size of accounts payable and receivable for certain enterprises involved in the cotton sector.

The high payables of the enterprises of the Association *Khlopkoprom* arise because of high taxes and deferred payments for cotton fiber. *Khlopkoprom*, in turn, cannot pay farmers on time. The high debts of the enterprises of *Uzbeklegprom* are connected with the complex conditions of the sale of cotton fiber and the difficulty converting soum to hard currency to buy cotton fiber, and the high level of payables of the Association of Cooking Oil Producers, which process cotton seeds into cooking oil, are due to the procedure of calculating VAT at *Khlopkoprom*. This chain of debts and delays influences the level of payables and receivables of the suppliers to farmers—*Uzkhimprom* and *Uzbekneftegaz*. The tax payment system also promotes the growth of indebtedness—3.5 percent of proceeds go to paying turnover tax and the unified land tax during the current year, but farmers only receive final payment for raw cotton the year following delivery. Aside from taxes, farmers must also pay interest on credit, comprising 1.8 percent of revenue, which also contributes to the problem of non-payment.

Table 14. Debts payable to the input suppliers by the following entities in the cotton sector (For 1 Quarter)

	Total in billions of soum			
	2009	2010	2011	2012
GDP	49,375.6	62,388.3	77,866.1	96,589.8
Total accounts payable [debt] in the whole economy	21,511.3	25,847.5	34,559.0	42,411.4
Total accounts payable [debt] in the whole economy as percentage of GDP	43.6	41.4	44.4	43.9
Accounts payable in the cotton sector	15,438.6	18,715.5	24,925.2	33,137.5
Accounts payable in the cotton sector as percentage of GDP	31.3	30.0	32.0	34.3

⁶¹ Resolution of the Cabinet of Ministers of the Republic of Uzbekistan №57, February 5, 2004, "On the Further Introduction of Market Mechanisms for the Sale of Highly Liquid Products, Commodities, and Materials."

Share of the cotton sector of the accounts payable of the whole economy, percent	71.8	72.4	72.1	78.1
Including:				
Uzbekneftegaz	8,390.7	10,050.4	14,385.4	21,678.2
Uzbekenergo	4,049.0	5,035.6	6,164.1	6,834.5
Uzkhimprom	855.8	1,203.9	1,496.9	1,684.5
Khlopkoprom	1,476.3	1,427.3	1,357.1	1,426.9
Uzdonmakhsulot	212.4	338.3	513.2	475.0
Uzbeklegprom	251.4	286.7	580.5	412.0
Assoc. Maslozhirpischeprom	203.0	373.2	428.0	626.3

Notes: 1) Accounts payable refers to the debts of the enterprises indicated above to their suppliers/creditors. 2) Accounts payable is shown only for enterprises and the portion of their activity related to the cotton sector. For example, the debts of *Khimprom* [Chemical Industries] are shown only for its enterprises that produce fertilizers. Source: State Statistics Committee of the Republic of Uzbekistan.

Table 15. Accounts receivable by the following entities in the cotton sector (for 1 quarter)

	Total in billions of soum			
	2009 Γ	2010 Γ	2011 Γ	2012 Γ
GDP	49,375.6	62,388.3	77,866.1	96,589.8
Total receivables in the whole economy	17,526.7	23,724.6	31,783.1	36,225.9
Total receivables in the whole economy as percentage of GDP	35.5	38.0	40.8	37.5
Accounts receivable in the cotton sector	13,931.9	18,891.9	25,617.3	30,044.0
Accounts receivable in the cotton sector as percentage of GDP	28.2	30.3	32.9	31.1
Share of the cotton sector of the accounts receivable of the whole economy, percent	79.5	79.6	80.6	82.9
Including				
Uzbekneftegaz	7,940.6	11,125.6	16,522.8	19,653.4
Uzbekenergo	4,353.5	5,643.6	6,853.8	7,866.5
Uzkhimprom	759.8	1,038.2	1,122.7	1,493.2
Khlopkoprom Association	502.0	506.8	377.7	341.7
Uzdonmakhsulot	241.2	392.9	509.5	467.8
Uzbeklegprom	71.2	105.4	147.5	146.2
Assoc. Maslozhirpischeprom	63.7	79.4	83.3	75.3

Notes: 1) Accounts receivable refer to the debt owed to the enterprises indicated above by buyers. 2) Accounts receivable is shown only for enterprises and the portion of their activity related to the cotton sector. For example, the receivables of *Khimprom* [Chemical Industries] are shown only for its enterprises that produce fertilizers.

As of January 2, 2013, farms owed 777 billion soum in taxes. In our opinion, the root of the problem lies in the artificially created system of underpaying farmers through the setting of low, government-mandated procurement prices, as a result of which they become the source of debt to suppliers and creditors. If they are unable to make payments, this is reflected further along the entire chain. In this way, the system, which has been created to ensure that profits from cotton exports are under the control of the opaque *Selkhozfond*, starves the state budget and, therefore, the government's social programs.

Concerns over the *Selkhozfond's* Lack of Transparency

Our analysis of the current model of cotton production and revenue management suggests that the key institution that orchestrates the circulation of cotton finances and accumulates the net profits in Uzbekistan is the *Selkhozfond*, in full the Fund for Payments for Agricultural Production Purchased for Public Use, which has the status of a department of the Ministry of Finance. We have serious concerns about the fund's lack of transparency and accountability.

The legislation regulating the status and functions of the fund is available to the public.⁶² The fund was created by presidential decree on December 31, 1998,⁶³ in order to facilitate public procurement of raw cotton and cotton fiber from farmers and cotton gins and to oversee export revenues from the sale of this cotton. This decree stipulates that the fund's resources are formed out of advance payments from futures contracts with foreign buyers and funds coming from extra-budget sources. By "funds coming from extra-budget sources" it was likely meant VAT receipts that are accumulated in the *Selkhozfond's* extra-budgetary accounts in the Central Bank. According to the decree, *Agrobank* and *Khlopkoprom* act as the *Selkhozfond's* financial and commercial agents.

However, little is known about how the *Selkhozfond* functions in reality or how decisions are made. The Finance Ministry's website contains a diagram of the ministry's structure showing the fund along with other ministerial departments. The website indicates that the fund is chaired by Mr. Sh.F.Umurov,⁶⁴ about whom personally there is almost no information in publicly available sources. There is also almost no other information available about the fund's activities.

As we noted above, the *Selkhozfond* plays a key role in regulating the process of distribution of cotton revenues in Uzbekistan. Despite that, there is very little transparency regarding the amount of cotton export revenues accumulated in the *Selkhozfond's* accounts or how they are being used. The status of this fund and its significance can be compared with the oil and gas

⁶² О создании Фонда для расчетов за сельскохозяйственную продукцию, закупаемую для государственных нужд, Decree of the President of the Republic of Uzbekistan, № УП-2165, December 31, 1998, http://www.lex.uz/pages/GetAct.aspx?lact_id=354560&ONDATE=31.12.1998%02000#586569. Its version updated in 2005 is posted here: http://www.lex.uz/pages/GetAct.aspx?lact_id=354560.

⁶³ Ibid.

⁶⁴ <https://www.mf.uz/struktura.html>; from other sources it was possible to figure out the full name of the Fund's chair - Umurov, Shukrullo Fazliddinovich.

funds operating in oil and gas rich countries. As an example, in Norway such a fund was created in 1990 as a sovereign wealth fund (a state-owned entity funded by revenues from commodity exports) accumulating surplus oil revenues for the purposes of saving for the nation's future and diversifying its economy. In 2006, it was renamed into The Government Pension Fund of Norway and in August 2014 was estimated to be worth nearly \$900 bln.⁶⁵ This fund is highly transparent. Each year it presents an annual report on its activity, its investments, its revenues, and their uses.⁶⁶ Nothing comparable is provided by Uzbekistan's *Selkhozfond*.

The application to the *Selkhozfond* of all internationally adopted transparency requirements and best practices for sovereign wealth funds would promote good governance and be in the clear interest of Uzbek society. Alternatively, it could be abolished as part of a transition to market mechanisms wherein the role of the state would be not to pump resources out of the cotton sector, but to provide assistance to producers and mitigate the excesses of market forces.

Consequences of the Current Model of Cotton Production

The current model of cotton production in Uzbekistan is having a significant social, ecological, and economic impact. In the social category there are at least four main consequences:

- Farmers' low incomes negatively affect the economy and well-being of villages, as a result of which a significant part of the rural population has been forced to migrate to the cities or to other countries to make a living.⁶⁷
- Efforts by the government to lower the cost of cotton production while making no attempt to reform the cotton sector and related industries by breaking up monopolies and monopsonies puts the burden of cost-cutting on the farmers and the rest of the population through the massive mobilization of forced labor. In other words, the government lowers its costs by shifting them to the people who they coerce to pick cotton for free or at well below market rates and who increasingly are forced to pay out of their own pockets for food, transportation, and the cost of day laborers at market rates.
- By forcing workers to pick cotton rather than do their normal jobs, the system negatively affects the quality of education, health care, and other social services, thereby lowering the quality of life of the population. This degradation contributes to the massive migration of labor out of villages throughout Uzbekistan. We have calculated that the cumulative damage to the population and to private business in

⁶⁵ SWFI, <http://www.swfinstitute.org/fund-rankings/> (accessed on September 1, 2014).

⁶⁶ See, for instance, the Government Pension Fund's annual report for 2013: <http://www.regjeringen.no/en/dep/fin/selected-topics/the-government-pension-fund.html?id=1441>

⁶⁷ According to the Russian Federal Immigration Agency, in 2012 there were 2.3 million labor migrants from Uzbekistan in Russia, <http://www.profi-forex.org/novosti-rossii/entry1008148789.html>.

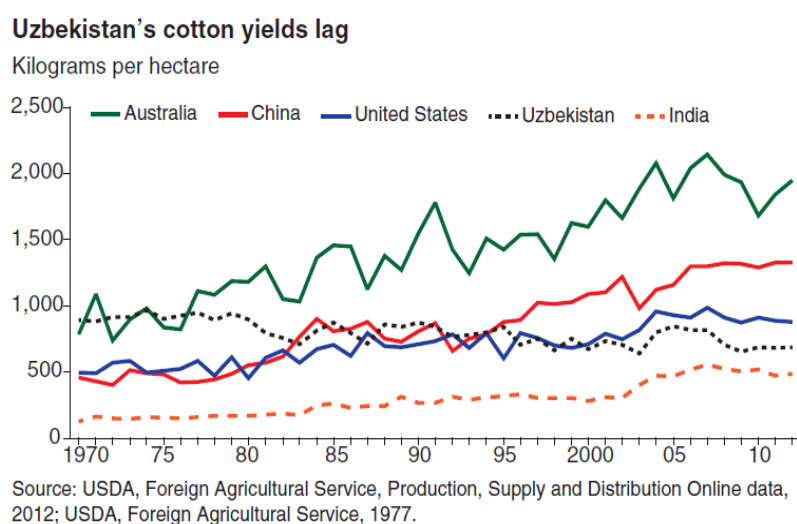
the form of lost services or profits because of forced labor of adults amounts to \$211–\$291 million every year, depending on whether the amount is calculated according to the official or unofficial exchange rate.

- The opaque system of management and financing, as well as the prevalence of monopolies and monopsonies create favorable conditions for corruption and money laundering. The public is not aware of how the net profit from cotton exports is spent, which makes the government and public finances unaccountable to the people. Not even Parliament or other government institutions have access to this information.

The primary ecological consequence of the system of cotton production is the degradation and salinization of the soil and the Aral Sea environmental disaster. The Amydarya River no longer reaches this lake due to the extensive use of water from the river's basin to irrigate cotton fields. As a result, the lake has almost disappeared. Preserving the administratively-supported monoculture of cotton and the attendant extensive and intensive use of land and water resources for its cultivation has led to significant tracts of land becoming unfit for agriculture.

The economic consequences of Uzbekistan's cotton industry are numerous. First and foremost, are the falling yields of the cotton sector in Uzbekistan. As shown in Figure 3, yields began to drop especially sharply at the beginning of the 1990s, having already fallen below Australian levels in the 1970s. Beginning in 1995, yields fell behind those of China and, from 2003-2004, behind those of the United States.⁶⁸ This lag is undoubtedly linked to the deterioration of soil fertility and the salinization of the soil caused by violations of agro-technical norms and lack of funds for farmers to invest in technological upgrades [retooling].

Figure 3. Comparison of cotton yields by country (1970-2012)



Another economic consequence is the continuing high cost of producing cotton fiber in Uzbekistan, because of deteriorating soil, costs of water supply management, and the

⁶⁸ Stephen MacDonald, *Economic Policy and Cotton in Uzbekistan*, USDA, October 2012, p. 2.

artificially high cost of inputs due to monopoly pricing. This leads to lower profitability of farms and thus a lowering of the tax base and tax revenues to the state budget, which should not be confused with payments to the *Selkhozfond*. As we have noted, the lion's share of taxes from participants in the cotton production chain goes not to the state budget but directly to the *Selkhozfond*, after which its use is unknown.

Conclusion

The current system of managing cotton production allows the government to receive significant annual net income and significant hard currency revenues. But this comes at a high price to society and the socioeconomic development of the country.

From a financial standpoint, the government has developed a “two-trunk” economy. One “trunk” is the state budget. It is not transparent or accessible to the people. Its parameters and numbers are not available in any legal regulatory document accessible to the public. In the best case, only the overall amount of the budget is published. Certain categories of expenses are given to the press as percent of growth or percent of GDP. Absolute budget numbers are never provided.

The second “trunk” is finances concentrated in the *Selkhozfond* and under its control. Revenue from cotton exports are not reflected as budget revenues in the form of direct income from exports, as taxes (as we have noted, VAT payments go to the *Selkhozfond*, not the budget), or returns from the difference between the official and unofficial exchange rates for the Uzbek soum. Therefore, the entire social sphere financed by the budget receives practically nothing from the export of cotton. How the government allocates the net profit from exports remains a complete secret. The majority of income received passes through numerous quasi-fiscal mechanisms and channels. This system gives rise to a significant gap between what falls to the government and the returns to the population, farmers, and the private sector as a whole.

Missed opportunities should also be taken into account, both social and economic, including; social services not received, income not earned by private businesses, farms in particular, and missed investment opportunities. The existing model of managing cotton production and financial flows conserves the country's status as a supplier of raw materials to the global market, preventing its development of an economy with a high added value.

To keep the system afloat, the government has slowed the development of markets and supports a high level of monopolization and non-transparent schemes for the movement of financial resources in the economy. Inefficient monopolies as well as opaque and convoluted financing schemes increase losses of financial resources, create numerous possibilities for abuse, and, as a result, reduce revenues to the government budget and inhibit the growth of the overall economy. In spite of these difficulties, losses, and pressures in the system, the government chooses not to reform but to adopt ever more stringent administrative and

repressive measures that only exacerbate the problems. The result is a vicious cycle that may only be broken by undertaking a wide range of reforms.

In our view, reforms must be implemented in the following areas:

- End the quota system as the cornerstone of the administrative-command system of the cotton sector. Cease direct government management of the sector and focus government efforts on the creation and adjustment of regulatory mechanisms.
- Convert the current state-controlled and highly centralized procurement of cotton to a system based on market prices and competition, replacing government procurement prices with market prices agreed upon by the parties directly involved. This requires permitting farmers to organize and represent their interests in negotiating prices.
- Grant farmers the right to refuse government orders concerning farming decisions, including to refuse to grow cotton and wheat;
- De-monopolization of agricultural support industries, including input suppliers (seeds, fertilizers, agro-chemicals, electricity, machine and tractor services, credit, etc.) as well as purchasers and processors of raw cotton and sellers of raw and processed cotton to domestic consumers.
- Eliminate the dual system of credit and banking operations and establish and implement transparency requirements in the entire banking sector. This includes replacing the system of special accounts with a system that operates in accordance with international standards on banking and finance.
- Ensure greater transparency and accountability of the Ministry of Finance and Ministry of Agriculture and Water Resources, and in particular for the portion of expenses related to amelioration [land improvements] and electric water pumps for irrigation.
- Ensure that VAT is paid by the participants of cotton production into the state budget, not to the *Selkhozfond*.
- Either eliminate the *Selkhozfond* or transform it into a sovereign wealth fund to which internationally recognized norms of transparency and accountability would be applied.
- Conduct a complete survey of the condition of agricultural land to create an updated inventory and use the results to guide the optimization of the tax system for participants in the chain of cotton production—cultivation, production, processing, and sale—to distribute the tax burden equitably along the chain.
- End the use of forced labor, which impedes sales of Uzbek cotton and investment in the textile sector. As long as forced labor continues in the cotton sector, companies that purchase Uzbek cotton cannot import their product into the United States, where the Tariff Act of 1930 prohibits the importation of products made wholly or in part with forced labor.⁶⁹

Undoubtedly, these reforms of the cotton sector and related industries require reforms on the macroeconomic level, in particular, the introduction of a freely-convertible Uzbek currency or, at the very least, a more liberal currency system, without which the barriers to the development of the textile and light industries will remain, and the difference between the

⁶⁹ In 2013, the United States Customs and Border Protection began to hold shipments of cotton from Uzbekistan in its enforcement of the Tariff Act, which prohibits the entry of items produced with forced labor into the United States.

official and unofficial exchange rates will remain high, preserving unfavorable conditions for direct producers.

It is also necessary to reform the banking system, to release banks from fulfilling non-core functions of administrative regulation as they do in the case of so-called special accounts and the strict limitations on working with them.

Changes must also touch upon the agricultural sector as a whole. First, there is a need for greater institutional development, which will create the conditions for market mechanisms and competition for all sectors connected with agricultural production. This will increase their efficiency of and, accordingly, profits for direct producers and the rural population. Institutional changes must also be directed toward combating corruption and the hidden redistribution of resources to benefit elites connected to the government. It is essential to adopt a law on public procurement that would regulate procurement by enterprises with more than 50 percent government ownership and ensure the transparency of all operations.

Directly supporting these reforms should be part of any development or investment project in Uzbekistan's agricultural sector, including support for the purchase of equipment to mechanize cotton harvesting. Whether led by the World Bank, European Commission, or a private company, any such project faces high risks of perpetuating the benefits system outlined in this paper and related use of forced labor and, thereby subjecting the companies involved to legal liability for aiding and abetting these practices. To successfully implement development projects in the Uzbek agricultural sector, it is vital to precondition loans or investments on the Uzbek government implementing such reforms and to conduct initial and ongoing independent assessments of progress on them. Without such requirements, well-intentioned projects will perpetuate the system that is driving farmers into poverty and continuing forced labor.

Notably, this list of reforms is only the minimum that should be undertaken to change the status quo for the better. We hope that this report will help stimulate debate on the prospects for reform of the cotton sector in Uzbekistan and will help draw to the discussion the best intellectual resources of the country and of international experts.

Appendices

Appendix 1

Table 1. Distribution of cotton acreage and harvest for 2005-2012

	2005					2010					2012				
	Acreage planted		Raw cotton produced		Average yield	Acreage planted		Raw cotton produced		Average yield	Acreage planted		Raw cotton produced		Average yield
	Total (thousands of hectares)	Percentage	Total (thousands of tons)	percentage		Total (thousands of hectares)	percentage	Total (thousands of tons)	Percentage		Total (thousands of hectares)	Percentage	Total (thousands of tons)	Percentage	
Republic of Karakalpakstan	100.0	7.2	185.0	5.1	18.5	94.7	7.2	180.0	5.3	19.0	94.7	7.4	190.0	5.7	20.1
<i>Regions [oblasts]:</i>															
Andijan	107.0	7.7	310.0	8.6	29.0	99.6	7.6	283.0	8.3	28.4	93.4	7.3	266.0	7.9	28.5
Bukhara	115.4	8.3	360.0	10.0	31.2	109.6	8.3	342.0	10.1	31.2	109.6	8.5	342.0	10.2	31.2
Jizzakh	106.4	7.6	234.0	6.5	22.0	101.8	7.7	224.0	6.6	22.0	101.8	7.9	229.0	6.8	22.5
Kashkadarya	164.0	11.8	426.0	11.8	26.0	160.4	12.2	417.0	12.3	26.0	160.4	12.5	417.0	12.4	26.0
Navoi	39.4	2.8	110.0	3.1	27.9	35.8	2.7	100.0	2.9	27.9	35.8	2.8	100.0	3.0	27.9
Namangan	94.2	6.8	261.0	7.3	27.7	86.6	6.6	240.0	7.1	27.7	82.6	6.4	230.0	6.9	27.8
Samarkand	103.4	7.4	248.0	6.9	24.0	99.2	7.5	238.0	7.0	24.0	91.5	7.1	223.0	6.7	24.4
Sukhandarya	123.0	8.8	345.0	9.6	28.0	119.6	9.1	335.0	9.9	28.0	119.6	9.3	335.0	10.0	28.0
Syrdarya	115.3	8.3	248.0	6.9	21.5	110.7	8.4	238.0	7.0	21.5	110.7	8.6	243.0	7.3	22.0
Tashkent	108.0	7.8	275.0	7.6	25.5	100.2	7.6	255.0	7.5	25.4	91.5	7.1	237.0	7.1	25.9
Fergana	115.3	8.3	323.0	9.0	28.0	103.6	7.9	290.0	8.5	28.0	100.1	7.8	280.0	8.4	28.0
Khorezm	100.0	7.2	275.0	7.6	27.5	93.8	7.1	258.0	7.6	27.5	93.8	7.3	258.0	7.7	27.5
Total for the country	1 391.4	100.0	3 600.0	100.0	25.9	1 315.6	100.0	3 400.0	100.0	25.8	1 285.5	100.0	3 350.0	100.0	26.1

* Source: 1) Cabinet of Ministers of the Republic of Uzbekistan Resolution №4, January 5, 2005

2) Cabinet of Ministers of the Republic of Uzbekistan Resolution № PP-1288, February 23, 2010

3) Cabinet of Ministers of the Republic of Uzbekistan Resolution № PP-1713, February 24, 2012

Appendix 2

Table 2. Allocation of cotton quality grades by acreage

	Total acreage planted (thousands of hectares)	Varieties:			
		With early ripening	With medium ripening	Envisaging better yields	New grades
2012	1 285,5	714,5	469,9	33,1	68,0
Share of total acreage (as percentage)	100,0	55,6	36,6	2,6	5,3
2010	1 315,6	659,6	545,9	45,9	64,2
Share of total acreage (as age)	100,0	50,1	41,5	3,5	4,9
2005	1 391,4	642,9	636,7	67,7	44,1
Share of total acreage (as age)	100,0	46,2	45,8	4,9	3,2

* Source: 1) Cabinet of Ministers of the Republic of Uzbekistan Resolution №4, January 5, 2005
 2) Cabinet of Ministers of the Republic of Uzbekistan Resolution № PP-1288, February 23, 2010
 3) Cabinet of Ministers of the Republic of Uzbekistan Resolution № PP-1713, February 24, 2012

Table 3. Gross harvest of raw cotton in the Republic of Uzbekistan

Year	Planted acreage, thousands of hectares	Gross harvest of raw cotton, thousands of tons	Average yield, in tons/hectare
1997	1 513,1	3 645,6	2,41
2000	1 444,5	3 002,4	2,08
2005	1 472,3	3 728,4	2,53
2008	1 425,0	3 400,5	2,39
2009	1 347,1	3 401,9	2,53
2010	1 342,5	3 442,8	2,56
2011	1 329,2	3 483,5	2,62
2012	1 308,2	3 405,5	2,60

Appendix 3

A copy of the procurement contract

Адлия вазирлигидан 2005 йил 23
ноябр №12/2496 - сон хати билан
тасдиқланган.

**ПАХТА ХОМ АШЁСИ ВА УРУГЛИК ПАХТА ХАРИД КИЛИШ БУЙИЧА
КОНТРАКТАЦИЯ ШАРТНОМАСИ**

« _____ » 200__ йил _____ - сон _____ тумани.
АХМ « _____ » фермер хужалиги

(бундан буён «Хужалик» деб юритилади) номидан Низом асосида фаолият курсатувчи раҳбари _____ бир томондан ва _____ (бундан буён «Тайёрловчи» деб юритилади) номидан Низом асосида фаолият курсатувчи раҳбари _____ иккинчи томонда ушбу шартномани қуйидагилар ҳақида туздилар:

1. ШАРТНОМА МАЗМУНИ

1.1. «Хужалик» мазкур шартноманинг 1.2 ва 1.4-бандларида курсатилган микдордаги пахта хом-ашёси ва уруглик пахтани «Тайёрловчи» га қайта ишлаш ёки сотиш учун бериш, «Тайёрловчи» эса ушбу маҳсулотни келишилган муддатларда муайян нарх буйича ҳақини тулаб харид қилиш мажбуриятини уз зиммасига олади.

1.2. «Хужалик» 2006 йилнинг бизнес-режасига асосан 18,5 гектар майдондан _____ навли, 48,0 тонна пахта хом-ашёсини, шу жумладан, уруглик учун _____ тонна пахтани етказиб беради. Етиштирилган пахта хом-ашёси толасининг амалда ишлаб чиқарилганидан 50 фоизи давлат эҳтиёжи учун харид қилинади. Хужалик эҳтиёрида қоладиган пахта хом-ашёсининг толасини сотиш амалдаги қонунийликда белгиланган тартибда амалга оширилади.

1.3. «Хужалик» томонидан етиштирилган пахта хом-ашёси ва уруглик пахта учун «Тайёрловчи» томонидан ушбу шартноманинг 3.2-бандида курсатилган тартибда ҳисоб китоблар амалга оширилади.

1.4. «Хужалик» уруглик пахтани қуйидаги микдор ва муддатда етказиб беради:

Селекция нави номи	Репродукция	Уруглик пахта хом ашёси микдори (тонна)	Уруглик пахта топиришнинг сунги муддатлари

Об-хаво шароитлардан келиб чиққан ҳолда, уруглик пахтани етказиб беришда навлар буйича микдорий узгаришлар киритилиши мумкин. Уруглик пахта хом-ашёсини сифати Уз Р.СТ -642-95 талабларига жавоб бериши шарт.

2. ТАРАФЛАРНИНГ ХУКУКЛАРИ ВА МАЖБУРИЯТЛАРИ

2.1. «Хужалик» нинг ҳуқуқлари

- Ушбу шартноманинг 2.4-бандида курсатилган уруглик билан таъминлашни «Тайёрловчи» дан талаб қилишга;
- Мазкур шартнома бажарилиши учун зарур бўлган амалдаги давлат стандартлари ва бошқа меъёрий ҳужжатлар билан таъминлашни талаб қилишга;
- Маҳсулотни топириш, сифатини аниқлаш юзасидан «ПК-17» шаклини, пахта хом-ашёсини қайта ишлаш натижасида олинган маҳсулотлар тугрисидаги «28-ХЛ» шаклини тулдиринида қатнашишга;
- Маҳсулотни ташиш буйича транспорт харажатларини қоплашни «Тайёрловчи» дан талаб қилишга;
- «Тайёрловчи» томонидан уруглик материаллари уз вақтида етказиб берилмаганда, шунингдек, терим пуллари ва якуний ҳисоб-китоблар уз вақтида амалга оширилмаганда етказилган зарарларни қоплашни ундан талаб қилишга ҳақлидир;

2.2. «Хужалик» нинг мажбуриятлари

- мазкур шартноманинг 1.4 бандида белгиланган микдордаги уругликни «Тайёрловчи» дан қабул қилиб олиш;
- шартномада курсатилган маҳсулотни «Тайёрловчи» билан келишилган манзилга топириш-қабул қилиш жадвалига асосан 2006 йил « 1 » декабрғача етказиб бериш;
- топириладиган маҳсулотнинг сифати ва нави стандартлар, техник шартлар ва мазкур шартномада белгиланган мажбурий шартларга мос келишини таъминлаш;
- «Тайёрловчи» дан олган уругликдан мақсадли фойдаланиш;
- агар «Хужалик» шартноманинг 1.2-бандида курсатилган мажбуриятларни узрли сабабларга кура бажара олмаса, 2006йил 1-декабрғача «Тайёрловчи» га сабабларни тасдиқловчи ҳужжатларни тақдим этиш;
- шартномавий мажбуриятлар бажарилмаган ҳолатларда «Тайёрловчи» га туланган маблағлар буйича қарздорликни қоплаш;
- вилт ва бошқа қасалликларга чалинмаган, яхши ривожланган гузалардан уруглик пахта хом ашёсини давлат стандартлари талаблари асосида териб олиш, қоплаш ва топириш;

3) «Тайёрловчи» га топширилган пахта хом-ашёсини тозалаш ва куритиш учун амалдаги тарифлар асосида ҳақ тулаш.

2.3. «Тайёрловчи» нинг ҳуқуқлари:

а) Топширадиган маҳсулотнинг сифати ва нави стандартлар, техник шартлар ва мазкур шартномада белгиланган мажбурий шартларга мос келишини «Хужалик» дан талаб қилишига;

б) «Хужалик» дан ушбу шартномада курсатилган маҳсулотни келишилган жадвалга асосан уз вақтида қабул қилиш, жойига топширишни талаб қилишига;

в) етказиб берилган сифати давлат стандартлари талабларига мувофиқ келмайдиган уруғлик пахта тегишли сифат ва стандарт талабларига жавоб берадиган ҳолатта келтириш учун «Хужалик» га қайтаришга ёки техник пахта ҳисобига қабул қилишга.

г) «Хужалик» дан топширилган пахта хом-ашёсини тозалаш ва куритиш учун амалдаги тарифлар асосида ҳақ тулашни талаб қилишга;

д) «Хужалик» дан ушбу шартномага мувофиқ аввал бунақ (аванс) ҳисобидан олинган уруғликнинг ҳақини топширилган пахта хом-ашёси ҳақи ҳисобидан узиб боришни талаб қилишга ҳақлидир.

2.4 «Тайёрловчи» нинг мажбуриятлари:

а) «Хужалик» га экиш учун ушбу шартномада курсатилган экин тури уруғлигидан _____ нав
_____ авлод _____ тоннани, _____ авлод _____ тоннани, _____ авлод _____ тоннани, _____ авлод _____ тоннани 2006 йилнинг 15 апрел кунигача ёки шу муддатгача «Хужалик» томонидан берилган буюртманомала курсатилган муддатда ва микдорда етказиб бериш;

б) «Хужалик» томонидан етказиб келинган пахта хом-ашёсини ва уруғлик пахтани қабул қилиш. Сифатини аниқлаш ва ушбу шартномада белгиланган муддат ва тартибда маҳсулот учун тегишли ҳақини тулаш;

в) «Хужалик» ни ушбу шартномани бажариш учун зарур булган амалдаги тегишли давлат стандартлари ва бошқа метёрий ҳужжатлар билан таъминлаш;

г) «Хужалик» томонидан етказиб берилган маҳсулотга тулов ёки товар транспорт ҳужжатини маҳсулотни қабул қилингандан кейин 1 кун муддатда расмийлаштириб бериш;

д) Маҳсулот тайёрлов масканига «Хужалик» нинг транспорт воситасида ташилганда «Хужалик» га транспорт ҳақини ҳақиний вази буйича тулик масофа учун тулаш;

е) пахта терими бошлангунга қадар «Хужалик» ни зарур микдордаги шолча, этак ва йиғим-терим мавсуми учун керакли материаллар билан таъминлаш;

ё) Элита-уруғчилик ҳужжаликларини уруғлик пахта хом-ашёсини қоплаш ва тайёрловчига етказиб бериш учун бир қопга 60 кг ҳисобида қанор-қоп билан таъминлаш;

3. ШАРТНОМАНИНГ БАЖАРИЛИШИ

3.1 Мажбуриятлар мазкур шартнома шартлари ва қонуни ҳужжатлари талабларига мувофиқ зарур тарзда бажарилиши керак.

Агар тарафлар уз зиммаларига олган барча мажбуриятлар бажарилишини таъминласа шартнома бажарилган деб ҳисобланади.

3.2 Ушбу шартномада курсатилган микдордаги маҳсулотни қабул қилиш буйича яқуний харажатлар тузилган сана «Хужалик» томонидан шартнома буйича мажбуриятлар бажарилган сана ҳисобланади.

Яқуний ҳисоб-китобларнинг тулов ҳужжатидаги банк муассасаси штампда курсатилган сана маҳсулотга ҳақ тулаш буйича «Тайёрловчи» томонидан мажбуриятлар бажарилган сана ҳисобланади.

3.3 Маҳсулот «Тайёрловчи» нинг _____ га манзилдаги тайёрлов масканидаги «Тайёрловчи» нинг ёки «Хужалик» нинг транспортда (кераклисини тагига қизиб қуйилсин) етказиб берилади.

3.4 Уруғлик ва экиш материаллари ушбу шартноманин 2.4 бандида курсатилган муддат ва микдорларда, мазкур шартномада курсатилган давр мобайнида амалга оширилади.

Буюртманомала уруғликнинг тегишли туркумларини етказиб беришнинг муқаллабланган санасидан қанда 5 кун олдин чопар орқали, почта орқали ёки бошқача тарзда берилади. Буюртманомани чопар орқали қабул қилишда «Тайёрловчи» нинг ходими «Хужалик» да қоладиган нусхада санани курсатган ҳолда у қабул қилинганлиги тугрисида белги қояди.

«Хужалик» илгари берилган буюртманомани бекор қилишга ёхуд уруғликнинг тегишли туркумларини етказиб бериш санасини узгартиришга ҳақлидир, бу ҳақда «Тайёрловчи» ни буюртманомала курсатилган сана бошланишидан қанда бир кун олдин хабардор қилади.

4. МАХСУЛОТ БАХОСИ ВА ҲИСОБ-КИТОБЛАР ТАРТИБИ

4.1. Белгиланган тартибда 2006 йил пахта хом-ашёсига харид нархлари тасдиқлангунга қадар 2005 йил пахта хом-ашёсининг нархлари тулов ҳисобида қўлланилади. Давлат харид нархлари узгарган ҳолларда, Ушбу шартномада белгиланган нархларга тегишли узгартиришлар киритилади ва «Тайёрловчи» янги нарх буйича ҳисоб-китоб қилади.

4.2. Пахта хом-ашёсининг харид баҳоси 1 (бир) тоннаси учун уртача 225,0 миң сумдан ҳисобланади.

Уруғлик пахта учун уруғликнинг унвчанлиги биринчи классга мувофиқ булганда харид нархига қуйидаги микдорда устама ҳақ туланади:

Элита чигит учун - 100 %

1-репродукцияли чигит учун (P-1)- 75 %

2-репродукцияли чигит учун (P-2)- 50 %

3-репродукцияли чигит учун (P-3)- 25 %

Уруғлик чигитлар утувчанлиги буйича иккинчи классга мансуб бўлса, устама хаки тегишли равишда икки барабарига камаяди.

Шартноманинг умумий суммаси _____ сумни ташкил этади.

4.3. «Хужалик» га етказиб берган махсулоти кийматининг 80% лиги ҳисобдан терим учун юборилган пуллар ва бошқа харажатлар чегирилганидан қолган қисми 2006 йил 31-декабрга қадар тулаб берилади.

Етказиб берилган махсулотнинг 20% ли қиймати буйича яқуний ҳисоб-китоблар қайта ишлаш натижаларига кура тузилган яқуний далолатномага мувофиқ 2007 йилнинг «1» 09. кунигача амалга оширилади. Етказиб берилган уруғлик пахта учун ҳақни «Тайёрловчи» уруғлик тозаланиб, саралангандан кейин, лекин 2007 йил «1» 09дан кечиктирмасдан тулик тулаб берилади.

4.4. Етказиб берилган махсулотлар учун пул утказиш йули билан нақд пулсиз ҳисоб-китоб қилинади.

4.5. Махсулотни транспортда ташини ва тушириши буйича барча харажатлар «Тайёрловчи» ҳисобидан амалга оширилади. Махсулот «Хужалик» нинг транспорти билан етказиб берилган тақдирда «Тайёрловчи» транспортда ташини харажатларини унга ҳақиқий вазн буйича тулик масофага қоплайди.

4.6. «Хужалик» экиш учун уруғликни бунак ҳисобига олади ёки сотиб олади (керакхиси қоядирлади). Ушбу шартнома буйича олинган уруғлик баҳоси _____ сумни ташкил этади.

5. ТАРАФЛАРНИНГ ЖАВОБГАРЛИГА ВА НИЗОЛАРНИ ХАЛ ҚИЛИШ ТАРТИБИ

5.1. Махсулотни мазкур шартномада белгиланган асортиментда ва турлар буйича, муддатларда қабул қилиниши рад этилишининг ҳар бир ҳолати учун «Тайёрловчи» «Хужалик» га белгиланган устамалар туланиши ҳисобга олинмаган ҳолда амалда шаклланган уртача нархдан келиб чиқиб қабул қилинмаган махсулот кийматининг 25 % миқдоридан жарима тулайди. Бундан ташқари, махсулотни қабул қилиш рад этилганлиги натижасида «Хужалик» томонидан қурилган, жарима билан қопланмаган зарарларни қоплайди.

5.2. Шартномада белгиланган миқдорда ва асортиментда, турлар буйича муддатларда махсулот топширишдан асоссиз бош торганлиги учун «Хужалик» «Тайёрловчи» га топширилмаган махсулот кийматини 25 % миқдордан жарима тулайди. Жарима харид нархига белгиланган устамалар туланиши ҳисобга олинмаган ҳолда утган даврда (ой, йил, чораги, йил) махсулотнинг амалда шаклланган уртача нархдан келиб чиқиб ҳисобланади. Бундан ташқари, махсулот тулик етказиб бермаганлик натижасида юзага келган ва жарима билан қопланмаган зарарни ҳам қоплайди.

5.3. Мазкур шартномага мувофиқ топширилган (юқлаб жунатилган) пахта хом ашёси, уруғлик пахта ҳақини тулашдан асоссиз буйин товлаганлиги учун «Тайёрловчи» «Хужалик» га узи тулашдан буйин товлаган сумманинг 15 % миқдоридан жарима тулайди. Жаримадан ташқари «Тайёрловчи» «Хужалик» га муддати утказиб юборилган ҳар бир кун учун муддати утказиб юборилган тулов суммасини 0,4% миқдоридан, бироқ муддати утказиб юборилган тулов суммасининг 50% дан ортиқ бўлмаган миқдордан пеня тулайди.

5.4. Товар-транспорт ҳужжатини расмийлаштириш рад этилганлиги ёки нотугри расмийлаштирилганлиги учун айбдор томон бошқа томонга ҳар бир товар-транспорт ҳужжати учун энг кам ойлик иш ҳақининг бир баробари миқдоридан жарима тулайди.

5.5. «Хужалик» ни мазкур шартномада белгиланган миқдорда ва муддатларда стандарт ва техник шартлар талабларига жавоб берадиган уруғлик ва ураб-жойлаш материаллар билан таъминламаганлиги учун «Тайёрловчи» «Хужалик» га махсулот етказиб бериш пайтида амалда булган уруғлик, идиш, ураб-жойлаш материаллари кийматининг икки баробари миқдоридан жарима тулайди. Бундан ташқари, «Хужалик» ни ушбу материаллар билан таъминламаганлик натижасида қурган жарима билан қопланмаган зарарларини ҳам қоплайди.

5.6. «Тайёрловчи» томонидан махсулот сифати, миқдори нотугри аниқланиши, уларнинг киймати нотугри белгиланиши қоллари аниқланган тақдирда «Тайёрловчи» махсулот сифатини, шунингдек, уларнинг миқдорини ҳисобга олган ҳолда қайта ҳисоб-китоб қиллади ҳамда ушбу ҳисобланган суммадан ташқари «Хужалик» га нотугри ҳисобланган сумманинг 20 % миқдордан жарима тулайди.

5.7. «Хужалик» томонидан мазкур шартнома бажармаганлиги ёки зарур даражада бажармаганлиги учун «Хужалик» ни жавобгарликка тортишда «Хужалик» томонидан мазкур шартнома буйича шартнома мажбуриятларнинг бажарилмаслигида (зарур тарзда бажарилмаслигида) айбдор булган хизмат курсатувчи ташкилотларнинг жавобгарлиги ҳам қуриб чиқилади. Хизмат курсатувчи ташкилотларнинг айби билан мазкур шартноманинг «Хужалик» томонидан бажарилмаслиги (зарур тарзда бажарилмаслиги) натижасида етказилган зарар белгиланган тартибда ушбу ташкилотлар томонидан қопланади.

6. ФОРС-МАЖОР ВА ЖАВОБГАРЛИҚДАН ОЗОД ЭТИШ

6.1. Тарафлардан бири шартномани енгиб бўлмайдиган куч, яъни фавқулодда ва муайян шароитларда олдини олиб бўлмайдиган вазиятлар (зиқила, қургоччилик, сув тошқини, ёнғин, сел, дул, жала ва бошқа табиий офатлар) (туфайли бажармаган ёки лозим даражада бажармаганлигини форс-мажор ҳолатини) исеботласа, жавобгар бўлмайди. Шунингдек табиий офатлар ва бошқа ноқулай шарт-шароитлар оқибатида ёки «Тайёрловчи» нинг айбли ҳаракати (ҳаракатсизлиги) натижасида мажбуриятлар бажарилмаганда «Хужалик» ни жавобгарликдан озод қилиш учун туман кишлок ва сув ҳужалиги бўлимининг ҳулосаси ҳам асос бўлади.

7. ШАРТНОМАНИНГ АМАЛ ҚИЛИШИ

7.1. Мазкур шартнома тарафлар томонидан имзоланган пайдан бошлаб кучга қиради, туман кишлок ва сув ҳужалиги бўлимини томонидан руйхатдан утказилгандан кейин ижро қилинади. Мазкур шартнома 3 (уч) кун мобайнида «Тайёрловчи» томонидан туман кишлок сув ҳужалигига руйхатдан утказиш учун тақдим этилади ва шартноманинг

барча нусхалари туман кишлок ва сув хужалиги булими ходими томонидан имзоланади, имзо муҳр билан тасдиқланади.

7.2. Тарафлар уртасидаги муносабатлар улар томонидан мазкур шартноманинг барча шартлари бажарилган ва ҳисоб-китоб тулик тугалланган тақдирда тухтатилади.

8. НИЗОЛАРНИ ХАЛ ЭТИШ ТАРТИБИ

8.1. Келишмовчиликлар ва низоли масалалар келиб чиққан тақдирда тарафлар, қоидага қура уларни судга ҳал этиш юзасидан мустақил ёхуд туман кишлок ва сув хужалиги булими иштирокида чора-тадбирлар курадилар.

8.2. Тарафлар узаро келишолмаган тақдирда низолар хужалик суди томонидан ҳал қилинади.

9. ЯКУНИЙ ҚОИДАЛАР

9.1. Мазкур шартнома тарафларнинг келишувига қура ёки бир тараф шартнома шартларини жиддий равишда бузган тақдирда, иккинчи тарафларнинг талаби бўйича суд тартибида бекор қилиниши мумкин.

9.2. Мазкур шартномага ҳар қандай узгартириш ва қушимчалар улар ёзма шаклда амалга оширилиши ва тарафларнинг ваколатли вакиллари томонидан имзоланиши шарт билан ҳақиқий ҳисобланади.

9.3. Мазкур шартнома тарафларнинг ҳар бири ҳамда кишлок ва сув хужалиги булими учун бир нусхадан – уч нусхада тузилади. Шартноманинг барча нусхалари тенг юридик қучга эгадир.

9.4. Мазкур шартнома, унга узгартиришлар (қушимчалар) «Хужалик» жойлашган жойдаги туман кишлок ва сув хужалиги булимида руйхатдан утказилгандан кейин бажарилиши керак.

10. ҚУШИМЧАЛАР ВА ИЛОВАЛАР

ТАРАФЛАРНИНГ МАНЗИЛИ ВА БАНК РЕКВИЗИТЛАРИ

«Хужалик»

«Тайёрловчи»

Банк реквизитлари

[Redacted bank details for «Хужалик»]

[Redacted bank details for «Тайёрловчи»]

2005 йил « » да рақами билан

туман кишлок ва сув хужалиги булимида
«РУЙХАТДАН УТКАЗИЛДИ»

М.У (имзо, лавозими, Ф.И.О.)

Юристинг хулосаси: Мен ушбу шартнома лойиҳаси амалдаги Ўзбекистон Республикасининг «Фуқародик кодекси», «Хужалик юритувчи субъектлар фаолиятининг шартномавий ҳуқуқ базаси» тугрисидаги қонуннинг 21-моддаси асосида урганиб чиқиб, ушбу шартномани қорхона раҳбари Г.Қазақов имзолаш ҳуқуқига эга эканлигини ҳамда пахта хом-ашёсини олувчининг ва пахта хом-ашёси етказиб берувчининг банк реквизитлари тугрилигини, шартнома лойиҳасини қонунчилик ҳужжатларига мос келганлигини аниқладим.

Шу сабабли ушбу шартномани имзолаш мумкин деб ҳисоблайман.

Ҳуқуқшунос:

(имзо, лавозими, Ф.И.О.)

барча нусхалари туман кишлок ва сув хужалиги булими ходими томонидан имзоланади, имзо муҳр билан тасдиқланади.

7.2. Тарафлар уртасидаги муносабатлар улар томонидан мазкур шартноманинг барча шартлари бажарилган ва ҳисоб-китоб тулик тугалланган тақдирда тухтатилади.

8. НИЗОЛАРНИ ХАЛ ЭТИШ ТАРТИБИ

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8.2. Тарафлар узаро келишолмаган тақдирда низолар хужалик суди томонидан ҳал қилинади.

9. ЯКУНИЙ ҚОИДАЛАР

9.1. Мазкур шартнома тарафларнинг келишувига қура ёки бир тараф шартнома шартларини жиддий равишда бузган тақдирда, иккинчи тарафларнинг талаби бўйича суд тартибида бекор қилиниши мумкин.

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9.3. Мазкур шартнома тарафларнинг ҳар бири ҳамда кишлок ва сув хужалиги булими учун бир нусхадан – уч нусхада тузилади. Шартноманинг барча нусхалари тенг юридик қучга эгадир.

9.4. Мазкур шартнома, унга узгартиришлар (қушимчалар) «Хужалик» жойлашган жойдаги туман кишлок ва сув хужалиги булимида руйхатдан утказилгандан кейин бажарилиши керак.

10. ҚУШИМЧАЛАР ВА ИЛОВАЛАР

ТАРАФЛАРНИНГ МАНЗИЛИ ВА БАНК РЕКВИЗИТЛАРИ

«Хужалик»

«Тайёрловчи»

Банк реквизитлари

[Redacted bank details for «Хужалик»]

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2005 йил « » да рақами билан

туман кишлок ва сув хужалиги булимида
«РУЙХАТДАН УТҚАЗИЛДИ»

М.У (имзо, лавозими, Ф.И.О.)

Юристинг хулосаси: Мен ушбу шартнома лойиҳаси амалдаги Ўзбекистон Республикасининг «Фуқародик кодекси», «Хужалик юритувчи субъектлар фаолиятининг шартномавий ҳуқуқ базаси» тугрисидаги қонуннинг 21-моддаси асосида урганиб чиқиб, ушбу шартномани қорхона раҳбари Г.Қазақов имзолаш ҳуқуқига эга эканлигини ҳамда пахта хом-ашёсини олувчининг ва пахта хом-ашёси етказиб берувчининг банк реквизитлари тугрилигини, шартнома лойиҳасини қонунчилик ҳужжатларига мос келганлигини аниқладим.

Шу сабабли ушбу шартномани имзолаш мумкин деб ҳисоблайман.

Ҳуқуқшунос:

(имзо, лавозими, Ф.И.О.)

Translation:

Approved by the letter of the Justice Minister,
registration No 12/2496, November 23, 2005

Contract for the purchase of raw cotton and cotton seed

" ____ " _____ 200__ year _____ number _____ (name of the district omitted) district. This agreement has been entered into by two parties: the acting legal head manager, who represents the farm " ____ " (hereinafter referred to as "the farm") _____ and the acting legal head manager of the Joint-stock Company "....." (name of the farm omitted) (henceforth referred to as "the procurer"), (name omitted) _____, and concerns the following:

1. CONTENT OF THE CONTRACT

1.1. "The farm" is responsible for providing "the procurer", for the purposes of processing or sale, with raw cotton and cotton seed in the amounts indicated in paragraphs 1.2. and 1.4. of the above contract; "the procurer" takes on the responsibility of buying these products at a set price within a specified timeframe.

1.2. "The farm", according to the business plan for 2006, delivers 18.5 tons of raw cotton from an area of ____ square hectares, including 48.0 tons of cotton for seeds of __ variety. 50 percent of all the cotton grown is bought for public use after processing. The sale of the raw cotton that remains on the farms is carried out in a specific manner within the existing legal framework.

1.3. "The procurer" pays for the raw cotton and seeds grown by "the farm" in the manner specified in paragraph 3.2. of this contract.

1.4. "The farm" delivers seed cotton in the following amounts and timeframe:

Variety name	Reproduction	Amount of raw cotton seed,(ton)	Deadline for submitting cotton seed

Quantitative changes may be made by specific varieties, taking weather conditions into account. The quality of raw cotton must meet the requirements of -642-95 Uz R.ST.

2. RIGHTS AND OBLIGATIONS OF THE PARTIES**2.1. Rights of "the farm"**

- a) demand that "the procurer" provides seeds, referred to in paragraph 2.4. of this contract:
- b) demand to provide the documents that detail national standards and other normative documents in order to comply with this contract:
- c) participate in submitting the products, filling out form "PK -17" in order to determine

quality, as well as form "28-HL" on products obtained from the processing of raw cotton:

- g) demand that "the procurer" cover travel costs for the transportation of products:
- d) in cases when "the procurer" does not deliver the seeds in time or when the payments for the collection and final reports are not made in a timely fashion, "the farm" has the right to demand coverage of losses.

2.2. Responsibilities of "the farm"

- a) receive from "the procurer" the seeds in the amount, indicated in paragraph 1.2. of this contract:
- b) deliver, together with "the procurer", the products specified in the contract, to an agreed-upon address, according to the submission – receipt schedule by "1" of December, 2006:
- a) ensure that the quality and variety of products submitted meets the standards, technical conditions and requirements, specified in this contract:
- d) it is advisable to use the seeds obtained from "the procurer":
- d) provide "the procurer" with documents, by December 1, 2006, confirming the good reasons why "the farm" is not able to fulfill its obligations, specified in paragraph 1.2. of the contract:
- e) in cases of failure to meet contractual obligations, cover the debt to "the procurer":
- g) in accordance with state standards, harvest, cover and submit raw cotton seed from well-developed cotton plants, not affected by wilt (a fungal virus that affects cotton plants) and other diseases:
- h) pay "the procurer" for cleaning and drying the raw cotton according to tariffs set.

2.3. Rights of "the procurer":

- a) has the right to demand from "the farm" that the quality and variety of products meets the standards, technical conditions and requirements specified in this contract:
- b) demand that "the farm" accepts and submits products in a timely manner at the place specified in this contract and following the agreed-upon schedule:
- c) return or take on the technical account "the farm" that submits cotton seed that does not meet state quality standards for seed cotton, in order to bring the quality of cotton seed to the level of compliance with state standards:
- d) demand "the farm" to pay for cleaning and drying of raw cotton submitted on the basis of tariffs set: d) has the right to demand from "the farm" that it pays back for the seeds taken earlier for prepayment in accordance with this agreement, from the amount it receives for raw cotton submitted.

2.4. Responsibilities of "the procurer":

- a) by April 15, 2006 or before, to supply "the farm" within a specified timeframe and in the specified amount, according to the registered letter provided by "the farm", __ variety, ____family types of seeds specified in this contract, for the purposes of sowing:
- b) receive the raw cotton and cotton seed delivered by "the farm". Determine the quality and make payments for products received on time and in the manner specified in this contract:
- c) in order to comply with this contract, provide "the farm" with documents on national practical standards and other normative documents:
- d) after the receipt of the products, in the course of one day, prepare a document for the transportation of the goods delivered and pay "the farm" for the products delivered:

e) in cases when the products are delivered to “the procurer” using the vehicles that belong to “the farm”, pay “the farm” fully for the transportation, according to the weight of the product and the distance covered:

e) prior to the start of the cotton season, provide “the farm” with “sholcha” (small floor rugs), aprons and other necessary materials for cotton harvesting, in the amount necessary:

e) Based on the calculation that each bag can hold 60 kg of cotton, provide “the farm” with large bags to be filled with raw cotton seed and to be delivered to “the procurer”:

3. EXECUTION OF THE CONTRACT

3.1. The responsibilities must be carried out in accordance with the terms of the contract, the legal documents, and in the required manner.

The agreement shall be deemed satisfied if the parties will ensure the fulfilment of all responsibilities undertaken.

3.2. The date when the final documents are prepared, based on the receipt of products in the amount specified in this contract, is considered to be the date on which all of the responsibilities of “the farm” are contractually fulfilled.

The date listed in the stamp of the bank, issuing the payment document for the final payment is considered to be the date on which the responsibilities on the part of “the procurer” for payments are fulfilled.

3.3. The products are delivered to the procurement station of “the procurer” at the following address _____, using the vehicles of “the procurer” or of “the farm” (underline the option that applies).

3.4. Seeds and materials are delivered in the period of time specified in this contract, in time and amount specified in paragraph 2.4. of this contract or in time and amount specified in the registered letter, prepared on the basis of the contract:

The registered letter, on the delivery of specific varieties of seeds requested, is to be delivered at least five days before the date set, by means of mail, messenger or other. When accepting the delivered letter, an employee of “the procurer” records the date, which confirms the receipt of the letter on the copy intended for “the farm”.

“The farm” is allowed to terminate the previously issued registered letter or change the number of seed varieties requested for delivery. “The farm” shall notify “the procurer” at least one day in advance of the day, specified on the registered letter.

4. PRICE OF PRODUCTS AND PAYMENT PROCEDURE

4.1. Until the purchase prices of raw cotton for 2006 are approved, the purchase prices of 2005 are to be used when calculating payments. In cases when the government procurement prices change, the contract is to be amended in accordance with the set prices and “the procurer” is paid at the new price.

4.2. The purchase price of one (1) ton of raw cotton is in average⁷⁰ 225,000 soum.

If the seeds used to grow seed cotton are of first class, an additional amount is added on to the

⁷⁰ ...meaning “not a final price.”

purchase price to be paid in the following manner:

For elite seeds of the cotton plant – 100 percent

For seeds of 1-reproduction (R-1) -75 percent

For seeds of 2-reproduction (R-2) -50 percent

For seeds of 3-reproduction (R-3) -25 percent

If the cotton seeds belong to the second class, the additional price is reduced by one half.

The total amount of the contract is _____ soum.

4.3. Money and other expenses associated with harvesting cotton, considered at the rate of 80 percent from the cost of the products delivered by “the procurer” as well as the remaining part withheld shall all be paid out by December 31, 2006. The Final settlement of the 20 percent portion of the cost of delivered products, is made before the "1" of September, 2007 on the basis of processing, in accordance with the final letter of recommendation drafted. “The procurer” makes the full payment for the cotton seed delivered after cleaning and sorting of seeds, but no later than "1" of September, 2007.

4.4. Payment for products delivered is made by means of a bank transfer (non-cash payment).

4.5. All costs associated with the transportation of goods and the unloading process are covered by "the procurer". In the cases when products are delivered using the vehicles of “the farm”, “the procurer” has to fully reimburse “the farm” the costs of transportation based on the actual weight of the products.

4.6. "The farm" obtains the seeds for sowing as an advance or purchases them. The price of seeds received, according to this contract, is ___ soum.

5. CONFLICT RESOLUTION AND BRINGING PARTIES TO ACCOUNT

5.1. For every case of refusal to receive products, based on the sort and variety specified in this contract, "the procurer", based on the established average price and not taking into account certain allowances, will pay “the farm” a fine in the amount of 25 percent from the cost of products that were not unaccepted. In addition to the fine, “the procurer” will compensate for the losses “the farm” had incurred as a result of the refusal.

5.2. In the case of unjustified refusal to submit products in accordance with the variety, sort and in the right amount specified in this contract, "the farm" will pay “the procurer” a fine in the amount of 25 percent of the cost of products not submitted. The fine is set without taking into account certain allowances that are added to the purchase price, and is based on the average prices of products in the time passed (month, quarter of a year, year). In addition to the fine, “the farm” will compensate for the losses incurred as a result of not having the full amount of products.

5.3. For an unjustified refusal to pay for the received (uploaded), according to the contract , raw cotton and cotton seed, "the procurer" will pay “the farm” a fine equal to 15 percent of the amount “the procurer” had refused to pay. In addition to the fine, “the procurer” will pay for each day the payment is past due 0.4 percent of the overdue amount, but it should not exceed 50 percent of the total amount owed.

5.4. In the case of refusal to register or improper registration of the commodity transportation documents, the guilty party will pay the other party a penalty in the amount of one part of the minimum monthly salary for each commodity transportation document.

5.5. For failure to provide "the farms" with seeds and packaging materials that meet the standards and specifications, and in the right quantity as set in the contract, "the procurer" will pay a fine in the amount of two parts of the cost of the seeds provided, containers and packaging materials, during the delivery of the products. In addition to the fine, as a direct result of failure to provide "the farm" with these materials, "the procurer" will also cover the losses of "the farm".

5.6. In cases when it is detected that "the procurer" has incorrectly calculated the quantity and the quality of products received, establishing an incorrect total value, "the procurer" will recalculate, taking into account the right quantity as well as quality of products, and in addition to paying the right amount will also pay "the farm" a fine of 20 percent of the amount incorrectly calculated.

5.7. In cases of "the farm's" failure to comply with the contract or to comply with it to the right degree, "the farm" will be brought to justice; the responsibility of service providers will also be considered in cases of non-compliance (not performed to the extent necessary) with contractual obligations as set forth in the contract. Losses incurred through the fault of the service providers, which resulted in "the farm's" failure to fulfil its obligations as set forth in the contract (not fulfilled to the extent necessary), will be covered by the service providers in a specific order.

6. FORCE MAJEURE AND RELEASE FROM LIABILITY

6.1. If one of the parties proves that the failure to fulfil (failure to fulfil to the extent necessary) contractual obligations can be attributed to force majeure, extraordinary and unforeseen circumstances, forces of nature (earthquake, drought, flood, fire, landslides, heavy rains and other natural phenomena), the party is freed from liability. Also, if the obligations are not met as a result of natural phenomena and other unforeseen circumstances or actions (inactions) of "the procurer", "the farm" can be freed from liability based on the conclusions of the district, village and Department of Water Resources.

7. EXECUTION OF THE CONTRACT

7.1. This agreement shall enter into force upon both parties signing it, will begin to be executed after the registration in the district, village and the Department of Water Resources. "The procurer" has 3 days to bring the contract to the region, the village and the Water Resources Department for registration and all copies of the contract are signed and stamped by the employees of the district, the village and the Department of Water Resources.

7.2. If parties meet all the conditions of the contract and complete all the payments, the contractual relations between the parties terminate.

8. CONFLICT RESOLUTION PROCEDURE

8.1. In cases of disagreement or conflict between parties, the parties, as a rule, must independently or with the assistance of the district, village and the Water Resources Department take measures to address them without resorting to the court.

8.2. If the parties cannot agree between themselves, the conflict is to be resolved in the commercial court.

9. FINAL RULES

9.1. In cases when parties reach an agreement, or if one of the parties has significantly violated the terms of the contract, at the request of the second party, the contract is annulled in court.

9.2. Any changes or additions to this agreement, when put down in writing, shall be considered valid, provided that the document has been signed by authorized representatives of both parties.

9.3. Each of the parties, as well as the village and the Department of Water Resources receive three copies of the contract. All copies of the contract have identical legal force.

9.4. This contract, its changes (amendments) should enter into force after their registration in the district, the village and the Department of Water Resources, at the location of "the farm".

10. ADDITIONS AND APPENDICES

Addresses of the parties and bank details

"The farm "

"The procurer"

".....", 2005 Registration number: _____

"Registered"

By the region, the village and the Department of Water Resources

Lawyer's Conclusion: After reviewing the draft of this contract, drawn up on the basis of Article 21 of the Law on "Contractual and regulatory framework of commercially-active actors", " Civil Code ", I have found that the Head Manager of the enterprise (name omitted) has the right to sign this contract, that the bank details of those to receive raw cotton and those to supply raw cotton are correct, and that the draft contract corresponds to legal documents.

Lawyer: (signature, position, name)

..... (name omitted).

Appendix 4

The implementation of state budget of the Republic of Uzbekistan in 2013⁷¹ИСПОЛНЕНИЕ ГОСУДАРСТВЕННОГО БЮДЖЕТА
РЕСПУБЛИКИ УЗБЕКИСТАН
за 2013 год

млрд. сум

Показатели	2013 год			
	1 квартал	1 полугодие	9 месяцев	год (предварительно)
I. ДОХОДЫ (БЕЗ ЦЕЛЕВЫХ ФОНДОВ) - ВСЕГО	5 369,6	12 241,7	18 603,3	26 223,2
1. Прямые налоги	1 486,0	3 124,4	4 667,9	6 353,7
1.1 Налог на прибыль юридических лиц	262,1	557,6	788,4	1 038,8
1.2 Отчисления в Государственный бюджет от единого налогового платежа для предприятий торговли и общественного питания	175,5	394,2	604,0	832,6
1.3 Отчисления в Государственный бюджет от единого налогового платежа, включая микрофирмы и малые предприятия	179,9	351,7	543,6	755,0
1.4 Налог на доходы физических лиц	612,6	1 294,2	1 961,8	2 717,3
1.5 Фиксированный налог по отдельным видам предпринимательской деятельности	94,6	199,0	302,7	415,6
1.6 Налог на благоустройство и развитие социальной инфраструктуры	161,3	327,6	467,3	594,4
2. Косвенные налоги	2 531,3	6 132,0	9 199,9	13 398,6
2.1 Налог на добавленную стоимость	1 523,8	3 410,5	5 196,9	7 552,5
2.2 Акцизный налог	639,8	1 943,6	2 789,3	4 168,2
2.3 Таможенная пошлина	222,9	468,5	731,5	1 007,4
2.4 Налог с физических лиц на потребление бензина, дизельного топлива и газа для транспортных средств	144,7	309,4	482,2	670,5
3. Ресурсные платежи и налог на имущество	825,3	1 814,2	2 821,5	3 888,2
3.1 Налог на имущество	222,1	459,0	707,3	1 011,6
3.2 Земельный налог	104,2	243,7	404,1	583,4
3.3 Налог за пользование недрами	473,1	1 060,7	1 634,8	2 190,9
3.4 Налог за пользование водными ресурсами	25,9	50,8	75,3	102,4
4. Прочие доходы	527,0	1 171,2	1 914,0	2 582,7
II. РАСХОДЫ (БЕЗ ЦЕЛЕВЫХ ФОНДОВ) - ВСЕГО	5 282,9	12 173,0	18 440,9	25 833,7
1. Расходы на социальную сферу и социальную поддержку населения - всего	3 126,6	7 412,1	11 007,3	15 167,8
из них:				
1.1 Просвещение	1 875,6	4 381,0	6 326,7	8 803,3
1.2 Здравоохранение	740,9	1 750,7	2 664,3	3 709,9
1.3 Культура и спорт	55,0	121,8	194,4	287,4
1.4 Наука	22,9	62,3	101,9	164,7
1.5 Социальное обеспечение	22,2	48,7	75,8	106,4
1.6 Социальные пособия семьям, включая иждивущих детей	403,5	807,7	1 210,1	1 611,3
1.7 Кредитная линия на софинансирование Программы строительства индивидуального жилья в сельской местности	-	205,2	373,1	374,7
2. Средства и гранты на развитие ННО, НПО и институтов гражданского общества	0,8	2,7	5,5	7,0
3. Расходы на экономику	424,6	1 173,4	1 892,3	2 756,7
4. Расходы на финансирование централизованных инвестиций	236,6	615,2	985,9	1 439,5
5. Содержание органов государственной власти, управления и судов и органов самоуправления граждан	233,4	513,0	813,6	1 150,7
6. Прочие расходы	1 261,0	2 456,7	3 736,3	5 312,1
Дефицит (-), профицит (+) Госбюджета	86,7	68,7	162,4	389,5

⁷¹ Source: <https://www.mf.uz/media/file/state-budget/1/2013-4.pdf>

Appendix 5

Alternative methods of calculation of the indirect costs the population incur due to the compulsory mobilization for cotton harvest

The alternative estimation is based on the following assumptions:

- The annual production target for raw cotton is 3.5 mln tons.
- Almost all cotton is harvested manually. The amount of cotton harvested by machinery is negligible.
- Over last two years, in 2012 and 2013, the school kids of the age up to 14 years old were released from forced labor in cotton fields.
- In the previous years, they had to work in cotton fields 45 days in average each season
- In 2012 and 2013 the government had to compensate for the loss of school children as the main labour force for harvesting cotton by dramatically increasing the number of adults and university students mobilized for harvest. The number of mobilized high school (colleges and lyceums) students remained unchanged—most of them have been and still are subject to forced labor.
- According to the Uzbek-German Forum for Human Rights, not less than 1.4 million high school and university students are being mobilized for cotton harvest each year.⁷²
- While the high school and university students would stay in the cotton fields for the whole season, 45 days in average, the employees of organizations and enterprises have been mobilized on a rotation base, for 10 days each round.
- Although the daily norm of picking cotton for each pickers has varied between 50–70kg, in reality productivity has been 30 kg in average.
- Taking into account the above assumption, we made the following calculations:

National production target, kg	3,500,000,000
No of high school and university students mobilized for cotton harvest	1,400,000
No of days the students work in the cotton fields	50
Daily productivity per person, kg	30
The volume of cotton the students would pick over a harvest season, kg	2,100,000,000
Remaining cotton	1,400,000,000
10 days productivity (adults), kg	300
No of adults required to pick 1.4 mln tons	4,666,667

Thus, we come to the comparable estimation of the number of adults the government mobilized in 2012 and 2013.

⁷² "Cotton — It's Not a Plant, It's Politics:" *The System of Forced Labour in Uzbekistan's Cotton Sector*, Berlin: Uzbek-German Forum for Human Rights, 2012, p. 35.

Author/Editor Biographies

Alisher Ilkhamov

Alisher Ilkhamov is a program manager working at the Open Society Foundations' Eurasia Program on the issue of forced labor in the cotton industry of Uzbekistan and Turkmenistan. Since 2013, he has also been working on issues related to grand corruption in the region of Eurasia. From 2001-2004, Ilkhamov worked as the executive director of the OSI Assistance Foundation –Uzbekistan. Before joining the Open Society Foundations, he directed a private opinion research company in Uzbekistan.

Ilkhamov is the author of more than 60 publications on the issues of nationalism, nation-state building, and social development. He is a member of the International Board of Central Asian Survey, a leading academic journal on the region of Central Asia.

Matt Fischer-Daly

Matt Fischer-Daly is the Coordinator of the [Cotton Campaign](#), a global coalition of human rights, labor, investor and business organizations coalesced to end forced labor of children and adults in the cotton sector of Uzbekistan. Based at the International Labor Rights Forum, a member of the Cotton Campaign, Fischer-Daly has worked since 2012 to coordinate the coalition's advocacy with governments, companies, investors, and international organizations to use their leverage with the government of Uzbekistan to end systematic human rights violations.

Previously, he was at Social Accountability International (SAI), working with partners in Central America to promote labor rights in the agricultural sector and developing voluntary labor standards. Prior to SAI, Fischer-Daly conducted research on structural adjustment programs with the Development Group for Alternative Policies and worked with the local education Library Project of Guatemala. He has an MA in international economic policy from the School of International Service of American University and a BA in political science and Spanish literature from the University of Michigan.

Jeff Goldstein

Jeff Goldstein is the senior policy analyst for Eurasia at the Open Society Foundations. Based in Washington, D.C., he is responsible for providing advocacy support for the organization's programs in the former Soviet Union and Mongolia.

Prior to working at the Foundations, Goldstein was senior program manager for Central Asia and the Caucasus at Freedom House. In this capacity he sought to improve human rights through legislation and policy protections.

Goldstein, a 25-year veteran of the U.S. Foreign Service, served in the American embassies in Warsaw, Seoul, Moscow, and Tallinn, and in several positions in Washington D.C. Throughout his tenure, Goldstein has played a significant role in human rights promotion.

He served as the U.S. Embassy liaison to the Solidarity Movement during the latter stages of Martial Law in Poland, and as the embassy officer responsible for working with the political opposition, student and labor movements in Korea during a period of rapid democratization.

Goldstein also has a background in conflict resolution, having served on U.S. teams negotiating with North Korea on nuclear and missile proliferation issues, and also as Deputy to the U.S. Special Envoy working to help resolve “frozen conflicts” in the Caucasus and Moldova. He received his MA in international relations from Yale University and a BA in political science from the University of California, Los Angeles.

FOR MORE INFORMATION ON OUR WORK ON FORCED LABOR AND TRANSPARENCY OF EXPORT REVENUES IN THE COTTON INDUSTRY OF UZBEKISTAN, PLEASE CONTACT:

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