

# COTTON CLUSTERS AND THE DESPAIR OF UZBEK FARMERS: LAND CONFISCATIONS, BLANK CONTRACTS AND FAILED PAYMENTS

UGF



*Farmer Ilkhomjon Abdurakhmonov and his farm workers, Mingbuloq district, Namangan region*

## Executive summary

The privatization of Uzbekistan's cotton sector has led to the establishment of so-called "cotton textile clusters" throughout the country designed to increase the added value in the cotton industry by boosting textile production and bringing together production, processing and manufacturing. That is being done under the control of private entities which enter into contractual agreements with farmers.

In 2019, 75 clusters were operational which accounted for 73% of the total cotton harvest. Reports from farmers as early as 2018 revealed a lack of transparency, failure of clusters to make payments to farmers and unfair contractual arrangements which left farmers unable to fulfill the state set quota, in debt and at risk of having their land confiscated. Unscrupulous cluster operators, often working closely with hokimiyats (district authorities) have had a disastrous effect on many farmers and a wider impact on local economies.

There is no competition between clusters, as only one cluster is allowed to operate in one district to which farmers are obliged to deliver their entire cotton crop.

Uzbek-German Forum for Human Rights (UGF) investigated 12 clusters in 12 districts of 9 regions and interviewed 15 farmers to gain more insight into how the privatization of the cotton sector via the establishment of clusters is impacting Uzbek farmers. Of these 12 clusters, findings show that most of them are clearly violating their contractual obligations. Furthermore, there is cause for concern that local authorities are allowing unscrupulous cluster operators to conduct their business with impunity and in some cases aiding and abetting unfair conditions designed to benefit private companies at the expense of farmers.

On February 20, 2020, 77 of Furkat district's 154 farmers in the Ferghana region wrote to the Government of Uzbekistan and the presidential office calling for the closure of the cotton cluster Bulut Textile LLC. A copy of the letter is available at UGF. Bulut Textile LLC cluster was established in March 2019 through a resolution of the Cabinet of Ministers of Uzbekistan and concluded contracts with farmers in the Furkat district for the cultivation of 1.66 million tons of cotton.

In their letter, the farmers state that they were forced to sign a blank contract form, in which the amount of cotton they had to deliver to the cluster was added later. The farmers also complain of a lack of transparency and fairness in the weighing of the cotton they harvested in 2019, leaving them unable to verify that their payment was correct. In addition, the farmers claim that the fertilizers provided by the cluster were twice the market price, that the cluster was in breach of its obligation to supply mineral fertilizers on time, and that it delayed the advance payment of a loan paid by the government to grow products. As a result, many farmers failed to fulfill the contractual amount, "causing significant damage to the financial situation of the farmers and the economy of the entire district".

Despite the fact that the cluster did not pay for the 2019 cotton crop, farmers wrote that "with the collusion of unscrupulous machinery and transport park managers, farmers were forced to sign a contract to supply cotton in 2020 for the cluster, again not in a standard contract form, but on a blank sheet of paper." The farmers have called for an investigation into Bulut Textile LLC, the transfer of outstanding payments to farmers and accountability for abuses.

The problems described by these 77 farmers reflect a similar pattern in the relationship between other clusters and farmers across the country. Land has been transferred to clusters with no regard for the long-term leases of between 30 and 49 years that farmers had with hokimiyats and without compensation from the state for the unilateral termination of their land leases. In cases where farmers were able to reclaim their right to lease their land through the courts, the local hokimiyat refused to implement the court's decision, acting solely in the interests of the cluster.

Confiscation of farmers' land across the country in favor of private clusters began in January 2019, when Prime Minister of Uzbekistan issued a decree on the latest redistribution of land, the third in the last 10 years. The latest incident of the confiscation of land belonging to 47 farmers in the Turkul district in Karakalpakstan confirms the disregard of local authorities for rural livelihoods and violates Article 13 of the Uzbek law on farming which stipulates that land can only be confiscated by a court decision.

In his letter to the presidential administration, one farmer, Rustambek Mambetjanov, wrote that by order of the Turkul district hokim on January 31, 2019, he received a land lease for 49 years. "It was an abandoned piece of land unsuitable for cultivation. I brought it into better condition by spending UZS 9.5 million (approximately \$996 US) of my personal money that I borrowed from relatives," the farmer wrote. On February 4, 2020, he learned that the land had been given to the new Agro Turkul Cluster and that the farmer would not be reimbursed for his expenses. The farmer's letter and decision of the hokimiyat is available at UGF.

Given that there is only one cotton cluster per district, farmers have no choice over whom they can sell their cotton to. Cluster operators are therefore in the powerful position of being able to dictate the price of cotton paid to farmers, agricultural inputs and production targets.

Nine out of the 12 clusters surveyed by UGF have been found to be in breach of their contractual obligations, such as delaying payment of 60% of advance government loans to farmers, late delivery of mineral fertilizers or machinery and delayed payments for cotton.

Prices for fertilizers, diesel and machinery are not negotiated before contracts are signed and, according to the farmers, are set by the cluster at an inflated price. Farmers often find out the price of these inputs only at the end of the cotton season, after the cluster has concluded its final calculations for the harvest. UGF's findings show that these nine clusters surveyed regularly failed to make timely payments to farmers for the cotton they delivered. According to the contracts, payment for cotton had to be made by the end of 2019, but as of March 2020, several clusters had not paid farmers for the 2019 harvest and some had not even received payment for the 2018 harvest.

In a speech to the Uzbek Parliament, President Mirziyoyev said that "up to 20% of clusters are susceptible to corruption due to lack of local control ...". But so far there has been no information that any legal action was taken against these 20%. Furthermore, analysis of complaints made by farmers in the 12 districts investigated by UGF reveal a recurring trend far and beyond 20%.

In a recent interview with Kun.uz, Ilkhom Khaydarov, Chairman of the Uzbek Textile Association, acknowledged that there had been problems with some clusters and that a new law was being developed to address them. A new law however is not needed to address the fact that existing laws, including those which prohibit the use of forced labor, are not being implemented. The issue seems to be the absence of rule of law rather than the need to create new ones.

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## Individual case studies

The following cases illustrate the recurring patterns in relationships between clusters, hokimiyats and farmers:

### Digital Prime Textile, Balikchi district, Andijan region

30 farmers claim they did not receive payment for the 2019 cotton harvest. In an interview with Radio Ozodlik, farmer Munojat Khamdamova said that a group of farmers travelled to Tashkent in January and told the Ministry of Agriculture about payments the clusters had failed to make to them. The ministry promised to solve the problem but nothing has changed as of February 25, 2020. A representative of the cluster told Ozodlik that he did not know when the cluster would be able to make the payments.

### Textile Finance Khorezm , Shavat district, Khorezm region

A group of farmers informed Radio Ozodlik on 20 February, 2020 that the district hokimiyat and cluster were forcing them to sign a cotton cultivation agreement based on the “interests of the cluster only”. They complained of “unfair insurance conditions, inflated prices for fertilizer and diesel and a monopoly of the cluster in the district which leaves farmers no right to choose which cluster to work with”. One farmer, who asked not to be named, told Ozodlik that due to overpriced products and despite fulfilling the target, he was left in debt to the cluster.

Another farmer from the Shavat district said the cluster had established its own insurance company and retained UZS 30 million (approximately \$3,000 US) from farmers last year. But farmers who were unable to fulfill the plan because of circumstances outside their control, received no compensation from the insurance. The farmer said that the terms of the contract included an obligation on behalf of the farmer to pay the salaries of the cluster’s agronomist, business manager and other employees. This amounts to 0.4% of the farmer’s income based on his cotton target under the contract. The cluster demanded signing of the contract and gave assurance that the terms would not be changed. The farmer also claimed that the contract stipulated that farmers were forbidden from signing a contract with another cluster in the neighboring district. “We have been deliberately driven into a dead end,” the farmer said.

“The head of the Shavat district agriculture department, Bekzod Bekjanov, together with the cluster operator, dictates the conditions and sets the number of hectares to be planted and the amount of cotton the farmer should grow without taking the fertility of the land into account. The cluster refuses to set a fixed price for the fertilizers and diesel they supply us with. I was forced under pressure to sign a blank power of attorney. They can then specify any price”, the farmer said.

The farmers had already had problems with this cluster during the 2018 cotton harvest. On February 5, 2019, the Economic Court fined 87 farmers for failing to implement the state set cotton quota in favor of the Textile Finance Khorezm cluster. The farmers alleged that there was insufficient water for their fields as the district lies far from water canals with the result that the cotton did not ripen. The lack of irrigation was reported by the farmers in writing in July 2018 to all relevant organizations. A copy of the letter is available at UGF. On February 5, the Economic Court delivered a verdict within 30 minutes, without taking evidence from the farmers and ordered each of them to pay compensation to the cluster.

Another farmer told how he had only been able to get water for five hectares of land in five days. He wrote to the hokimiyat, the cluster, the water department and the prosecutor's office explaining that he could not irrigate his fields due to lack of access to water. "Now the court has decided that I must pay the cluster," the farmer said. The farmer sent photos of several post office receipts showing the recipients of his letters complaining about water shortages.

Textile Finance Khorezm is the owner of the textile enterprise Shovot Textile.

#### **Real Trans Logistic, Uchkuprik district, Fergana region**

187 farmers in the Uchkuprik district did not receive payment from Real Trans Logistic for cotton they had grown. During 2019, the cluster manager changed four times and failed to provide farmers with fertilizer and diesel on time so that they were forced to borrow money to prepare the land for cotton planting. Real Trans Logistic claimed that it was unable to make the payments because the company had not yet sold its products. According to farmers, Real Trans Logistic owes them a total of UZS 26 billion (approximately \$2.7 million US).

"Nearly all clusters have a problem selling their products", the chairman of the Fergana region Farmers Council told Ozodlik. "The price for yarn and thread has fallen because the clusters began selling it simultaneously." Real Trans Logistic produces thread at the Ko'kcha Textile Ltd. factory in Tashkent.

#### **Bahodir Logon Textile Cluster, Yazavan district, Ferghana region**

48 of Yazavan district's 119 farmers wrote to the Prime Minister complaining that the Bahodir Logon Textile cluster had not paid them for cotton they had grown in 2019. They claim that the cotton cluster withheld UZS 100,000 (approximately \$10 US) from each ton upon delivery for cleaning, and deducted 8% of the cotton's weight for moisture, which is considerably higher than the standard 3%. Furthermore, Bahodir Logon promised to pay an extra UZS 200 to cotton pickers, but then reclaimed it from payments to farmers. A copy of the letter from the farmers is available at UGF.

### **SofTEX, Ulugnor district, Andijan region**

Dozens of farmers have not received payment of UZS 753 million (approximately \$78,600 US) for cotton they delivered during the 2019 cotton harvest. Farmers complain that they are now unable to pay their taxes due to late payment by the clusters which will result in a 4% penalty of what they owe the tax authorities.

In an interview with Ozodlik in December 2019, another farmer who was contracted by the same cluster complained that according to the contract, SofTEX should have paid 60% of the government loan in advance, but paid only 20%, retaining the rest for fuel and fertilizer at an inflated price. The farmer had to pay for all other expenses out of his own pocket from the income he made from grain. The farmer delivered 265 tons of cotton to the cluster (65 tons over and above the stipulated plan) and was to receive payment of UZS 620 million (approximately \$64,700 US). However, as the cluster deducted UZS 400 million for fuel and fertilizer, the farmer was left with only UZS 200 million (approximately \$21,800 US).

SofTEX is the owner of the spinning plant, Vodiy Sanoat Fahri.

### **ABC Akkurgan Agrocluster, Akkurgan district, Tashkent region**

The cluster has contracted 300 farmers in the district who claim they have not received payment for both the 2018 and 2019 cotton harvests. Within two years, there have been three different cluster directors and farmers are not able to identify the relevant office or contact person. Although farmers receive their tasks from the cluster via the district hokimiyat, it too was unable to inform farmers of the address of the cluster. As ABC Akkurgan has not paid for the second consecutive year, farmers are concerned that they may not be able to plant for the 2020 cotton harvest due to lack of funds.

“ABC Akkurgan owes farmers UZS 18 billion (approximately \$1.88 million US)”, an employee of Tashkent Oblast Khokimiyat told Ozodlik. “The prosecutor’s office also knows this; farmers have written dozens of complaints to the president’s virtual reception and the Ministry of Justice, but no one is taking responsibility for the cluster. Contracts with farmers do not give any contact details of the cluster.”

On February 6, 2020, farmers reported to Ozodlik that instead of payment, the cluster had offered to pay them in cotton oil and sesame seeds at an inflated price. One farmer calculated that on that basis, he would lose 30-40% of his income.

### **Korea Samarkand MHL, Akdarya district, Samarkand region**

126 farmers who have signed a contract with the only cluster in the district did not receive payment for the 2019 cotton harvest. According to an employee of the Akdarya district hokimiyat, Korea Samarkand MHL owes farmers UZS 7 billion (approximately \$730,000 US). A representative of the cluster said that they were unable to pay because of a lack of buyers for its yarn and yarn products. The hokimiyat told farmers that the cluster would close, but it was unclear who would be responsible for paying the farmers’ debts and when they would receive payment.

### **Guzor Textile Impex, Mirishkor district, Kashkadarya region**

The cluster filed a court order to impose fines on 300 farmers who they claimed did not deliver the agreed cotton amount. Farmers who appealed to Ozodlik said that they were unable to fulfill the cotton plan because the cluster had failed to pay the advance loan on time and fertilizers were delivered late. As a result, the cotton planting was delayed and the resulting yield of all farmers in the district was 20-25 quintal per hectare (instead of the usual 40-45 quintal per hectare). The farmers delivered all the cotton they had managed to grow but did not receive payment because the cluster claimed that the farmers had not met their targets as specified in the contract.

Another farmer, Mirkomil Toshev, told Ozodlik that according to the contract, the cluster was supposed to pay farmers 60% in advance in January 2019 for sowing cotton for harvest the same year, but transferred only 20%. The cluster has also yet to pay for the 2018 cotton harvest. The cluster only delivered mineral fertilizers at the end of August 2019, when it was too late and the cotton bolls had already started to open. Toshev only managed to fulfill 40% of his quota which he handed over to the cluster. Now the cluster is refusing to pay for the cotton, claiming it is a fine for failing to deliver the quota. The farmer firmly believes it is the fault of the cluster that the harvest failed.

Farmers in the district are now unable to prepare the fields for the 2020 cotton harvest because of a lack of funds. A representative of Guzor Textile Impex told Ozodlik that the cluster went to court because under clause 5.2 of the agreement, the cluster is obliged to pay a fine of 20% of the amount of the failed cotton plan and that the fine is therefore being withheld from payments to farmers.

### **Silverleaf BMB Agro Trade Group, Pakhtakor district, Jizzak region**

In November 2018, the cluster received 2,000 hectares of fertile land confiscated from farmers in the Pakhtakor district. One month earlier, farmers had planted grain on 921 hectares of land and the cluster promised to reimburse the farmers for seeds and cultivation of their fields. The fields were plowed and the farmers were left without a grain crop. However, the cluster did not reimburse the costs.

In early 2019, 34 farmers borrowed UZS 586 million (approximately \$61,233 US) worth of seeds for sowing grain from the government-owned grain company, Jizzaxdonmaxsulotlari. In addition, farmers owe the bank a UZS 504 million loan for cultivating the fields. In total, the cluster owes farmers UZS 1.756 billion (approximately \$184,000 US).

Farmers also said that they trusted the American-owned cluster Silverleaf. According to Shukrullo Boboyev, the hokim of the Pakhtakor district, the farmers should wait as the cluster is not yet fully operational. "They are investing \$344 million US and will pay soon. We must not scare the investors as they are our 'guests' and we must not forget that."

According to Silverleaf's website, the company aims to make Uzbekistan a top three textile supplier of American clothing. Silverleaf Capital Partners (USA) is led by its President Dan Peterson.



Farmers from Pakhtakor district, Jizzak region, @Kun.uz

### **Art Soft Tex, Mingbuloq district, Namangan region**

On December 15, 2019, farmer Ilkhomjon Abdurakhmonov and his 24 farm workers issued a video appeal. Abdurakhmonov started his farm in 2006. In 2019, his farm had 255 hectares of land and employed 24 workers. The farm was very successful and had several of its own machines and other equipment. The farmer had always fulfilled 100% of the state quota for grain and cotton over the years. On October 18, 2019, Nurshod Khudaiberdiyev, the district hokim, issued an order to confiscate the farmer's land resulting in the destruction of the farm.

It was alleged that the land was seized because the farmer had tried to sell surplus cotton in October 2019 although it was not specified to whom the farmer wanted to sell the surplus. The farmer said that police officers stopped two tractor trailers carrying cotton on the road on October 14. The cotton was seized and sent to the local cotton collection point and handed over to the local cluster free of charge. The farmer was not paid for the cotton and received no documentation of the seizure.

The farmer claims that he did not want to sell the surplus cotton to the cluster as by that time the cluster owed him UZS 175 million (approximately \$18,300 US). According to the contract, the cluster was obliged to pay salaries to the workers. However, the cluster had not transferred money to the farm's account since August 2019, leaving workers without salaries for three months. The farmer said that he decided to sell the surplus cotton

because he needed income to pay his workers. On November 19, the farmer filed a complaint against the administrative court to overturn the hokim's decision to seize his land. In the video published on December 15, 2019, 24 workers of this farm confirm the farmer's claims. They allege that the surplus cotton was grown on infertile land, that the farmer spent personal funds to improve it and therefore had the right to sell the cotton which was grown with his own money.

### **TCT cluster, Kuyichirchik district, Tashkent region**

On April 12, 2019, in accordance with a government resolution, the Kuyichirchik district hokimiyat issued an order to seize 380 hectares of land from farmer Akmalhoja Tursunkhonov. His successful farm "Guliston Agro Fayz" was destroyed in one day. Tursunkhonov filed a complaint with the regional court, which upheld the hokim's decision. The farmer then asked the Supreme Court to overturn the hokim's decision and on November 8, 2019, the Supreme Court ordered the land to be returned to the farmer. However, the hokimiyat and the prosecutor's office of Kuyichirchik district refused to execute the court decision and filed a complaint with the Supreme Court Plenum. The farmer has a 30-year lease agreement with the district hokimiyat which was concluded on January 28, 2018. Tursunkhonov said in an interview with a local website on February 11, 2020, that the Supreme Court's decision to return the land had not been implemented.

On May 19, 2019, Haydarali Islomov, another farmer from the Kuyichirchik district in the Tashkent region, told human rights activists that despite a land lease agreement for 30 years, which was concluded in April 2018, his land was unexpectedly transferred to a local cluster for the cultivation of cotton in March 2019.

Islomov told human rights defenders Yelena Urlaeva and Malokhat Eshonkulova that in 2020 he concluded an agreement with a Turkish company to supply 100 tons of dill and 60 tons of beans for export valued at UZS 130 million (approximately \$13,500 US). At the end of March, after he had completed sowing and invested UZS 67 million (approximately \$7,000 US) of his own money, he was told that the hokimiyat had transferred his land to a cluster.

The farmer appealed to the economic court, demanding that the land be returned, and his expenses compensated. He lost the case in the first instance and filed an appeal which was to be considered on May 2. However, on April 30, a tractor arrived and plowed the field, destroying the entire crop of dill. "On May 2, an appeal hearing was to take place, but they did not even wait for the court decision and plowed the field on April 30 and planted cotton," said Islomov.

The TCT cluster was established by Paraglide Limited, registered in the UK and Petromaruz Capital, registered in Russia. Uzbek entrepreneur Rahmatov Murtaza owns 27% of shares in Petromaruz Capital.