

Advancement of the Leather Industry in Bangladesh

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The Future

Emphasis Needed on Finished Products

By Syed Manzur Elahi

THE tanning of leather is perhaps the second oldest profession of the world. Man being omnivorous has always consumed meat resulting in a continuous flow of its by-product, i. e. raw hides and skins. Unfortunately, raw hides and skin not being a pleasant product, consumes a lot of strong chemicals in the tanning process. Also the mechanical and handling process is quite labour intensive. So Leather Industry is exposed to high pollution and high labour costs.

Let me explain here what we mean by leather. After an animal is slaughtered, the skin (i. e. from goat and sheep) and hide (i. e. from cow and buffalo) is immediately salted. This is called raw or wet-salted hides and skins. This is the first stage an always referred to as hides or skins. It is still not leather. The hides/skins then go through very simple mechanical and chemical process and are called wet-blue leather. This process has high pollution costs but is not very labour intensive if we use the latest technology. The next process, i. e. wetblue to crust, involves high capital costs in that many machineries are needed, as well as being labour intensive. Also the chemical process is quite complicated and some amount of technology is needed. The final stage, i. e. from crust to finished leather is both capital and labour intensive and also involves a high degree of technology transfer.

Bangladeshi leather businessmen.

Instead of discouraging export of wetblue through tariff measures, the government reduced the export duty from 15% to 5% on wetblue exports and thereby encouraged the export of wetblue from the country. India and Italy benefited the most from this wrong policy of the government. Finally the government, following the footsteps of India, Indonesia, Pakistan and other Third World countries gave a three-year notice to the wetblue tanners in that wetblue export would be banned from 1. July 1990.

Most of the wetblue tanners adopted wrong business policies by competing against each other in raw purchase market. Instead of making profit, the wetblue tanners accumulated losses due to unhealthy competition. Therefore no capital formation took place amongst the wetblue tanners who hence could not modernize their tanneries to finished leather. However, with help from the government, over 40 tanneries modernized and today the production capacity of these modern tanneries is more than the availability of raw material.

It is interesting to note that wetblue tanneries are mistaking the public and government by saying that (a) production capacity of modern tanneries is less than availability of raw hides and skins and

leather because the leather goods industry is doing well. But in Bangladesh some quarters are contemplating lifting the ban on wetblue exports. Instead of going forward, we are planning a backward trip. As regarding raw hides and skins being smuggled across the border, this cannot be true because the "border trade" is governed by laws of economics. If the tanners in Bangladesh offer higher price than Indian tanners then we would have an in-flow rather than out-flow and vice versa.

The future of leather industry is good provided (a) government policy is towards finished leather and leather goods and not backward leather

(b) duty free import of raw/pickled/wetblue leather without going through the cumbersome method of bonded warehouse and back-to-back L/C.

Raw/pickled/wetblue leather are not consumer products like textiles. They cannot be sold in the open market. They are truly industrial raw material which must go through manufacturing process. Behind the phenomenal growth of export of finished leather and leather goods in India and Pakistan is the encouraging government policy of

(a) banning wetblue leather (b) duty free import of raw/pickled/wetblue leather and

(c) incentives like cash and export performance licence which are saleable at a premium.

As explained before plenty of raw materials are available in the development countries due



Shoes: Lucrative market abroad.



Wet-blue Exports Threaten Industry

By Syed ZH Faisal

ITS only years ago that the modern leather industry was initiated. Prior to this initiation, the concept of developing leather industry in Bangladesh was originally evolved in 1976 during the holding of National Export Fair/76 at Cox's Bazar in Chittagong. A K Khan Leather Ltd, Zaman Rahman Ltd and Monty Tannery Ltd of Chittagong arranged for exhibition of some crust and finished leather at the fair and through this exhibition General Ziaur Rahman was apprised of the idea of processing raw leather available in the country into crust/finished leather and earning increased amount of foreign exchange through its export. It may be mentioned that then wet-blue leather used to be exported from the country in increased quantity and crust/finished leather, in very small quantity.

With crust/finished leather assuming a brighter export prospect than wet-blue, the government embarked on endeavours to develop the leather industry with modern technology in view of processing the raw leather available in the country into crust/finished leather. As the works on developing the leather industry gradually progressed in this light, the government in 1977, took a number of practical measures towards its growth and development.

Mentionable among the measures were — enhancing duty on wet-blue leather export and side by side financing the modernisation of the growing leather industry in the country including cooperation to the leather manufacturing enterprises in the country with government plan and patronage. Because, unless the export of wet-blue leather was discouraged, nobody would show any enthusiasm towards industrialisation in this sector. Hence the wet-blue export was brought down by imposing enhance tax and various facilities were created in the field of industrialisation.

Thereafter, in 1987, in keeping with the trend of development in leather industry, the government, after three-day discussion and exchange of views with all quarters involved in the leather sector, decided to ban export of wet-blue leather from July 1, 1990 and simultaneously took plan to extend all help towards modernisation to the wet-blue leather manufacturing enterprises in the country. Later the government also issued a press note on 21-6-90 through the Ministry of Industries announcing ban on wet-blue leather export from July 1990 and explaining its reasons. However, the government, in accordance with the adopted programme, has provided all the help so that the wet-blue manufacturing tanneries can turn into crust/finished leather manufacturing industries through modernisation, balancing, restructuring and

extension (BMRE). Besides, to encourage crust/finished leather export, tax rebate and refund have also been arranged.

With the opportunity provided under the plan and measures adopted by the government, a number of leather industries have already been set up in the country. Establishment of these industries has cost about 300 crore Taka in local and foreign currencies and required expensive technology. This industry is gradually expanding. Of late a number of such industrial enterprises are coming up in joint venture with foreign entrepreneurs. Built up with modern technology, these industrial enterprises chiefly produce crust/finished leather. However, some of these have already achieved efficiency in producing leather products. The present annual capacity of the crust/finished and finished goods manufacturing units is about 230 m. sq. ft. but the availability in the country against is only 150 m. sq. ft. leather.

In spite of this some traders in the country, falling in the trap of foreign instigation, are trying their best to resume export of banned wet-blue leather and some officials in the government are collaborating with them. Unless this vicious circle is contained, the leather industry, built with modern technology and at a cost of crores of Taka will simply face ruination for want of raw material, rendering thousands of workers and employees jobless and depriving the country of foreign exchange earning worth crores of Taka. Moreover, crores of Taka loaned out by the banks towards development of the leather industry will remain unrealised.

The world is marching ahead; mark of modernisation is apparent everywhere. It's agonising to think that we would drift back in the race, due to wet-blue export. In spite of the considerable advance we have made in the field. Moreover, prior to a nod to wet-blue export, in deviation of the policy, the government should give a thought to the fact that how painful would be the condition of those who came forward to implement the government announced policy investing crores of Taka and advancing the sector this far. Frequent change of policy does not augur well for any sector not to speak of industry. In this case the sole basis of government plan, patronage and assurance was raw leather. And when in the name of wet-blue export the raw leather of the country would find its way out abroad, the progress so far achieved in this sector would simply diminish exposing a narrow dimension of the so-called broad industrial policy announced with so much of drum-beat.

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In a Cycle of Problems

By A K M Rahmat Ullah

THE leather industry, although still at the third position in national export earning, its prospects for multiplying the income are vividly apparent. It may be mentioned that as the future of the leather sector appeared bright and promising, the government of late president Ziaur Rahman in 1977 took up modernisation plans for the industry with a view to earning increased amount of foreign currency. Later in 1987, the government, on discussion with all quarters concerned and on the basis of their opinion, decided to ban export of wet-blue leather from July, 1990.

In the light of that decision, the government extended all-out cooperation to the wet-blue manufacturing tanneries as well as to other new entrepreneurs in transforming the leather industry into a crust/finished leather producing industry through balancing, modernisation, restructuring and extension (BMRE) during the three years from 1987 to 1990, and issued a press note through the Ministry of Industries on 21-6-90, banning wet-blue export from July, 1990.

Thus the extent of development the leather industry has achieved today is all because of government plans and patronage. Some quarters have been active since the beginning to impede the progress of the leather industry and, because of both local and foreign conspiracies, the leather industry now appears problem-ridden. Many of those entrepreneurs who, in accordance with the government declared policy, built up industries investing crores of Taka towards modernisation and extension of the leather sector are now drifting in dismay.

The capacity of crust/finished leather industries set up in the country at present is about 230 million square feet but the availability of leather against it in the country is only 150 million square feet. This statistics easily prove that the decision to ban export of wet-blue leather was a timely and just step. It's a settled issue. Yet talks and speculation on it have assumed an unending proportion. It is clear that stoppage of wet-blue export has already led to setting up of a number of industries with modern technology investing about three hundred crore Taka under individual and joint ventures. Resumption of export of wet-blue leather will simply lead to closure of these industries for want of raw material, rendering thousands of workers-employees jobless and

depriving the country of crores of Taka in foreign exchange. In spite of the fact some quarters in the government are specially trying to drive home the point of resuming export of wet-blue leather. Their effort is pushing the country's leather industry toward ruination and discouraging the foreign entrepreneurs who came forward for joint venture in this sector.

It may be mentioned here that for on the spot verification of wet-blue leather stock, the Export Promotion Bureau of late has constituted a committee with Investment Board, Bangladesh Leather Institute and Tanners' Association and the committee has also submitted a report showing the present stock of wet-blue leather at 35.96 million square feet. It is a matter of grave concern that no representative from Bangladesh Finished Leather Exporters' Association was included in the above wet-blue stock verification committee constituted at the instruction of the ministry and that the committee stated quantity or stock of wet-blue leather is imaginary and fabricated. It deserves a proper investigation. Any step taken to resume export of wet-blue, basing on this false report, will put the crust/finished leather and leather goods manufacturing enterprises, set up at a cost of crores of Taka, in dire want of raw material.

It takes time to make any industry optimally productive and viable. Leather industry is not an exception. Yet a considerable progress has taken place within a very short period in the leather sector. Any change at this stage in the government policy that is keeping the sword of resuming the wet-blue leather export hanging, the progress so far achieved will simply go in vain and we will trail behind in the world market race.

It is often said that banning of wet-blue leather export has dismissed the earning. This is not true. Following the Gulf war the price of leather in the world market has fallen by 30-40 per cent and due to this unusual fall export targets of our competitor-neighbours, India and Pakistan, also could not be achieved. It means, when the price is low in the world market, nobody is going to sell leather, incurring loss. Besides, internal political turmoil and labour discontent from the middle of 1990 till the fall of the then government in December '90 and the devastating cyclone of April 29, 1991 lashing Bangladesh had also deterred achievement of leather export target during

the last financial year. Had the conditions been normal the export of leather could have well crossed the target.

India, our major competitor in the world market, banned export of wet-blue leather fifteen years ago, and has been encouraging crust and finished leather and leather goods manufacturing enterprises through provision of various facilities including cash incentive at state level. Meanwhile they have stopped export of crust leather and are contemplating to ban export of finished leather, too. Moreover, to boost the export trade they have taken steps to heavily devalue their local currency. Similarly, leather industry in countries like Pakistan, Indonesia, Sri Lanka are also receiving considerable government patronage. But, we being their competitor, are deprived of such facilities and now our progress so far achieved is also at stake.

It won't be out of context to mention here that the hub of leather industry, Hazaribagh area, is beset with various road, sewerage and water supply problems that badly deter communication as well as production.

Besides the above difficulties, the recently announced VAT system being applicable on export-oriented leather industry is further slowing down and impeding its production and export. All involved with leather industry are facing wanton difficulties including the loss of time in following the system. It caters no logic to impose VAT formalities including daily job work on the hundred percent export-oriented leather industry, when there is no VAT and Income Tax on export. The main objective of introducing the VAT system was to check tax evasion. How does the question of evading the tax arise where there is no tax at all! Yet those involved with the leather industry are compelled to abide by the system. As a result production at the industries is going down and expediting export with time is not becoming practicable.

Therefore, the leather industry being totally export-oriented, exemption of VAT system on it is an imperative for its rapid growth and development; and in the national interest, all should come forward in removing the obstacles in its way to progress so that the rising leather sector can achieve further success and expansion.

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Leather jackets: The future lies in manufacturing.

Up to the sixties, Leather Industry was dominated by USA, UK, France, Germany and Italy. Third World countries were suppliers of raw hides or wetblue leather. In the seventies, the stringent pollution measures adopted by all these countries except Italy. Not to mention high labour costs, led to the closure of most of the tanneries in these countries. The raw hides and skins and wetblue leather then flowed into the Far-East, i. e. Japan, South Korea, Taiwan, Hong Kong and Singapore. However, Italy somehow held on to this industry by sheer ingenuity in producing very sophisticated and expensive leather. During the eighties, the same dual problem of pollution and labour cost caught up with the Far-Eastern countries and the raw hides and skins and wetblue leather flowed into India, Thailand and, to some extent, Pakistan. The export figures of finished leather in these countries increased by over 1000% during the eighties. Bangladesh unfortunately was left behind. The reasons are:

(a) Wrong government policy till July 1990
(b) Bad business methods of

(b) value-added of crust leather in terms of foreign exchange is less than wetblue.

Both of these statements are totally wrong. It is very easy to survey the production capacity of the modern tanneries because all the tanneries are in one area, i. e. Hazaribagh, Dhaka. As regarding value added, the answer is very simple. On their same logic the value added on wet-blue leather in terms of foreign exchange is much less than in raw hides and skins. So why not allow the export of raw hides and skins? India, Pakistan, Indonesia and all the Third World countries have very rightly banned/discouraged (vide high export duty) wetblue because you must have a starting point. Today by banning wetblue you start rust export, which generates employment. Tomorrow by banning crust leather you start finished leather export, again generating employment. The next day by banning finished leather you export leather goods generating further employment. India and Pakistan, who banned wetblue years ago are now contemplating banning the export of finished

to high pollution and high labour costs. If government policy is correct as per my suggestions above, then Bangladesh can take advantage of this situation and increase their export earnings from export of leather by at least ten times, as has happened in India and Pakistan. If government policy is not conducive then Bangladesh will miss the boat, as is happening in other sectors.

In conclusion, I would like to reiterate that sweat shop and obnoxious export oriented industries travelled from developed countries to the Far-East and are now travelling to developing countries because the Far-Eastern countries are now developed. India, Pakistan, Thailand, Indonesia have been successful in catching this slow and reaping tremendous benefits. Unfortunately till today, Bangladesh has no such leather policy and will be deprived of this great benefit in foreign exchange earnings and employment.

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Some Policy Points to Ponder

By Dr M A Ahmed

The Government declared "Leather and Leather Products" as the export product of the year 1978-79 and 1979-80 to give emphasis on policy decisions and formed a National Committee in 1979 to review the leather industry and to suggest strategy for its development. The Committee, after an extensive survey of the leather sector and long deliberations, submitted a comprehensive report in March 1980 with specific recommendations for gradual transformation of the leather industry from wet blue to crust and finished leather and finally to leather product export. The major recommendations of the National Committee were:

- Creation of appropriate infrastructures, including Balancing, Modernisation, Rehabilitation and Expansion (BMRE) of the existing tanneries required for the production of crust/ finished leather and

leather products of international standards for export.

- Allocation of funds to provide long-term loans at a low rate or interest for development of leather industry.

- Imposition of export restriction quota on wet blue at the rate of 10% per year for gradual elimination of wet blue export.

- Increase in export duty year to year to discourage wet blue export.

- Extension of cash subsidy at the rate of 9%, 12% and 15%, and export performance licence (XPL) at the rate of 20%, 30% and 40% for the export of crust leather, finished leather and leather products respectively to cover the risk of export marketing of fashion oriented new products.

- Extension of long-term Bank loan for capital investment at a debt-equity ratio of 80:20.

- Reduction of import duty

on importation of capital machinery.

- Extension of working capital at a low rate of interest.

- Reduction in duty on imported leather chemicals and machinery spares.

- Return of duties and taxes in actual, paid for importation of leather chemicals and extension freight subsidy at the rate of 15% of FOB value or 50% of the freight paid (Whichever is less) for air-lifting of crust/ finished leather and leather products.

- Simplification of customs and administrative formalities to enable the shippers to maintain export delivery schedule of the fashion oriented leather and leather products.

- Utilisation of export potentials of small and cottage level footwear and leather goods industries organising their production and export

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