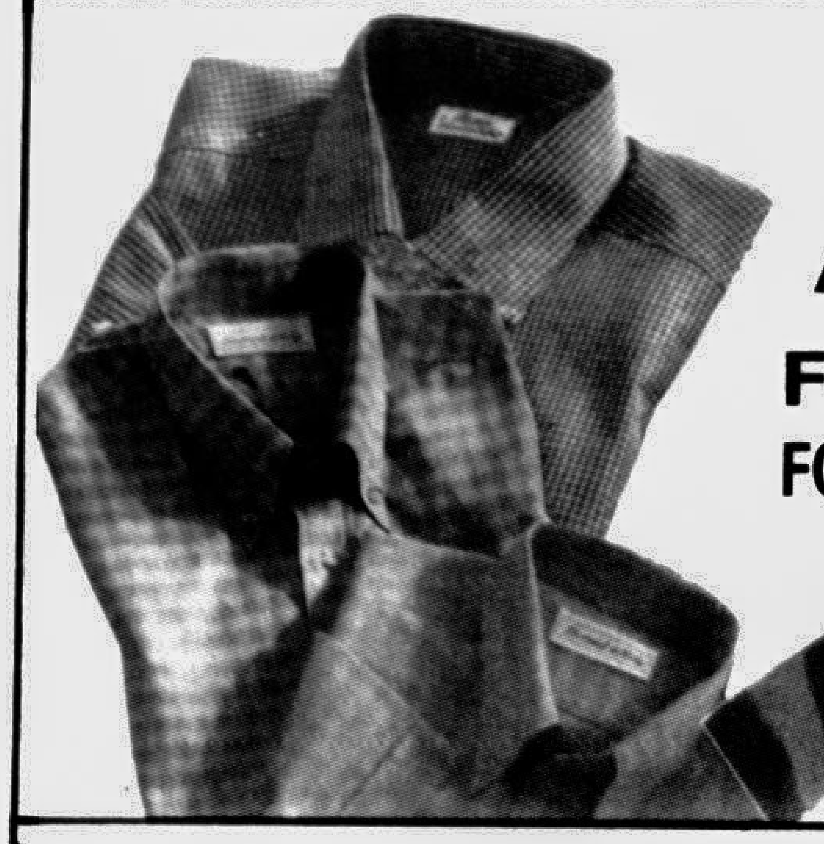
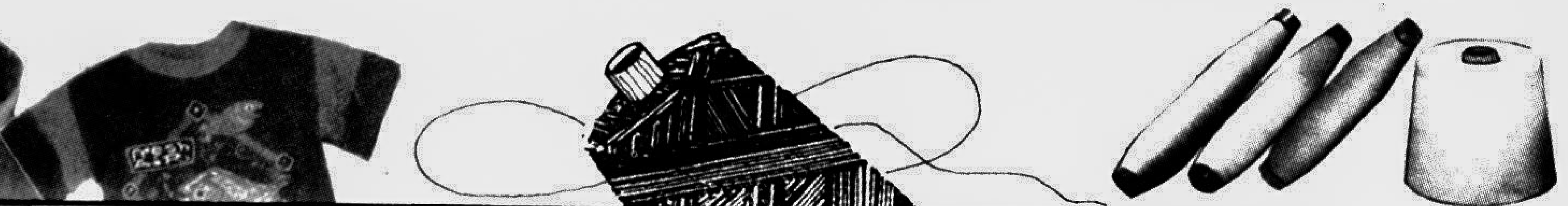


AN OPEN LETTER

FROM ALL ASSOCIATIONS OF TEXTILE INDUSTRY

FOR PUBLIC INFORMATION & ACTION TO BE TAKEN BY THE GOVERNMENT



Textile industry is at present the most potential sector, capable of generating new employment and creating scope for foreign exchange earning. Laudable ambition of the government to increase per capita income to $500 from the present level of $200 by the year 2005, is only feasible through the development of textile industries. ***This sector attained excellent growth and there was overall development and renewed investment interest as it was declared a Thrust Sector by the government and because of provision of certain special facilities.*** Textile sector is presently contributing significantly towards increase of the GDP. This sector, as a whole, provides direct employment to 2.75 million people which include 1.25 million female workers. It is the source of direct & indirect employment for a total of 10 million people. On the otherhand, overall textile sector is now the highest foreign exchange earner.

Textile Policy '95 has specified a programme and additional requirement of 242 spinning mills, 475 weaving mills and 475 dyeing -finishing mills by the year 2005, to attain self-sufficiency in textile. In various seminars, the government has been assuring tax-free environment and all other opportunities to attract local and foreign direct investment in the existing investment-shy atmosphere. But knowing that the investment will be non-viable due to change in government policy through imposition of 2.5% duty on textile machineries and 2.5% infra-structure surcharge on all imports, new entrepreneurs will no longer be interested in this sector.

Planned de-nationalisation of public sector textile mills will be hampered due to imposition of this fresh duty and surcharge. Textile mills earmarked for off-loading are mostly equipped with 25-30 years old, obsolete machineries. These mills can not be made viable without carrying out massive BMRE. As such, sudden imposition of duty and infrastructure surcharge will discourage the prospective buyers of these spinning/weaving mills. The associations feel that the government's de-nationalisation programme will be self-defeating.

Banks and financial institutions are failing to provide sufficient working capitals to the existing textile mills, due to liquidity crisis. As a result of which, textile mills are not being able to utilise their full production capacities. According to the statistics, there are appreciable numbers of spinning, weaving, dyeing-finishing, knitting, towel and garment mills awaiting financing. Entrepreneurs will not be able to provide the additional financing required to meet the duty on textile machineries, infra-structure development surcharge and also additional funds required to meet the 50:50 debt-equity specified for new project loans. Implementation of the new ventures will become doubtful and the running textile mills are likely to face closure due to their inability to cover the additional financing required for importing raw materials on regular basis.

Bangladesh ready-made garment sector has reached an enviable position due to quota regime and GSP facilities. Use of Bangladeshi yarn is one of the principal condition for export of knitwear to EU. Local spinning mills have attained the capacity to supply a fair share of the requirement of the export-oriented knitwear industries. With imposition of fresh taxes and surcharges, the knitwear export will suffer due to spinning mills becoming non-viable and subsequently the knitwear sub-sector will be crippled. Once the quota restrictions are withdrawn in post-2005 era, neighbouring countries which are now restricted due to quota regime, will become competitors of Bangladesh and easy availability of yarn and fabric from these sources will be at stake. The associations feel that unless overall development of the textile sector is immediately undertaken, including withdrawing all types of duties, taxes and surcharges, planned earning of foreign exchange by the country will be in jeopardy.
On the other hand, imposition of tax on the export earning of the garment sector is discouraging new investment in these ventures. Bangladeshi exporters are facing uneven competition as the neighboring, competing countries have made export-earnings tax-free. On top of it, even though the garment-exporters are registered at zero-tax rate, they are being charged compulsory VAT on insurance premiums, C&F agents' commission, telephone & electricity bills and various charges at the ports. Such VAT undoubtedly increase the total overhead expenditure of the exporters and pose serious threat in price competition in the world market. Un-co-ordinated realisation of various bank charges at high rates under the same head, have become a hindrance not only to further growth of the garments industry but is frustrating the overall economic development.

The government has planned to ensure establishing of linkage industries by the year 2005, to ensure availability of required raw materials for the textile industry, after withdrawal of quota regime and other restrictions. But no entrepreneur will be interested realising that investment will be non-viable due to imposition of fresh taxes and surcharge. Imposition of such fresh tax/surcharge not only will make it impossible to increase GDP and protect the interest of local industries but the survival of the existing industries will be in jeopardy. ***The expectation of denationalisation expressed in the budget will be completely frustrated as BMRE required to make the listed mills with very old machineries viable will no longer be profitable due to imposition of tax and surcharge.*** The existing industries will turn into sick organisations as these mills will not be able to absorb the destructive taxes and surcharge levied by the budget. All such entrepreneurs will have to become bank defaulters and the banks will ultimately be effected.

There are five hundred specialised textile & powerloom industries with upto 40 looms producing various types of fabrics using locally produced yarn. Some of these mills have gone out of operation for very valid reasons. The government undertook a 'rehabilitation scheme' in 1994 to rehabilitate the specialised textile and powerloom projects. Even after lapse of 2 1/2 years, the banks are refusing to implement the scheme due to their own liquidity problem. They are readying to initiate arbitrary and harassing actions by interpreting the law in their own way. Such efforts should be nipped in the interest of the country. The incumbent progressive government has repeatedly announced its intention to rehabilitate all sick industries, particularly the specialised textile and powerloom sector. At present, about 40 of these mills have re-started their production and have obtained quota allotment after registering with EPB. All arrangements have been completed to export the products of the allotted quota. All out help from the banking sector is the prime need to implement these initiatives to earn foreign exchange. It will not be possible to export the locally produced fabrics like pocketing/interling fabric due to increase in the price of yarn and other materials. Users of locally produced fabrics for exportable garments and backward linkage industries need to be provided with incentives in the form of exemption from additional taxes and deduction of advanced income tax at source.

Universal imposition of surcharge on textile raw materials like cotton, all types of synthetic fibres, various dyes and chemicals for dyeing-printing and illogical tax/duties on other items, VAT, deduction of AIT and payment of License Fee will increase the overall price of cloth and ***it is likely to go beyond the purchasing power of the public. Unnatural increase of price of exportable textile will force it out of competition. Consequently, Bangladesh textile mills will have to finally shut down their operation.***

Traditionally, all yarn produced by the spinning mills of the country are distributed wholesale by the members of 'Bangladesh Yarn Merchants Association'. If a spinning mill is forced out of operation, the agent who invests a large capital for retail distribution of yarn, will be hard hit. ***Weavers will be frustrated if the price of yarn goes up due to imposition of tax/surcharge on yarn and other accessories. Cost of handloom fabric will go up and they will be unable to compete with smuggled cloth.*** Consequently export of handloom fabric faces the risk of being abandoned. On the other hand, price of fishing nets will also go up due to increase in price of yarn and fishing nets will be beyond the purchasing ability of the fisherman. In the near future, fishing nets may also have to be imported from neighbouring countries.

The government has been kind enough to completely exempt the textile sector from VAT since its introduction in 1991. But 15% VAT has been kept operative on the hosiery industry. Hosiery industry has been ruined as the products produced by small hosiery entrepreneurs have been kept under VAT because the Notification dated 6.7.91 of National Board of Revenue has left out the HS Code numbers from 60.01 to 62.14. As all other textile products except hosiery have been exempted from VAT, natural justice and logic demand that VAT be withdrawn from hosiery products also. Besides, as the price of yarn will go up due to Infrastructure Surcharge, hosiery products will go beyond the purchasing capability of the common mass and such products are likely to be smuggled in from the neighbouring countries.

Dyeing-Printing & Finishing mills, another potential sub-sector of textiles, was progressing rapidly in line with the government's Textile Policy and was contributing an handsome amount to government revenue for importing various dyes and chemicals to keep their production going. But unchecked, large scale smuggling is forcing many such factories to shut down their production. Moreover Infrastructure Surcharge on dyes & chemicals and fresh tax on dyeing-finishing machineries will increase the price of their products and running mills will also have to close down due to incompetitive product prices.

Certain non-traditional items like Ladies headscarves, Socks, Gloves, Handbags, Handkerchieves and Caps are being exported to European Communities and other countries in large numbers. If the price of yarn goes up due to Infrastructure Surcharge, then such exports can not be sustained due to overall price increase.

The associations are apprehensive of harassment of genuine industrialists by misusing the Banking Act, Bankruptcy Act and Bank Defaulters Act etc., as these laws have been promulgated in an uncoordinated method and individually. Application of special laws by bye-passing the existing laws of the country is violation of human rights. We feel that various textile establishments have turned into sick organisations and industrialists have become defaulters on account of frequent shift of government policies. We specially appeal to the government to rehabilitate such sick establishments immediately, by means of identifying these mills.

The potential textile sector is facing ruination due to all-encompassing smuggling activities and various other problems, and the entrepreneurs have reached the limit of tolerance. All the associations expect that the government will initiate immediate steps to solve the problems of the textile industry. We are placing the actual situation of the textile sector for information of the concerned authorities and the general public. ***We want to declare in unequivocal terms that all the associations of the textile industry are absolutely united. We are determined to take united action, as required, to solve the problems of this industry.***

The associations strongly urge the government to withdraw all types of tax/duty/VAT and infrastructure surcharge on import of raw materials, machineries and spare parts for all sub-sectors of the textile industry in order to save the textile sector from total ruination, to attain self-sufficiency by the year 2005 by establishing effective forward/ backward linkage industries and to keep the sector free from all types of duties/taxes/surcharge till the year 2005.

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