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The Daily Star BUSINESS

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Directive to retrench add sugar mill workers

Commerce and Industries Minister Tofail Ahmed has said it is impossible for the government to run the sugar mills year-after-year by incurring huge losses, says UNB.

Interest of the employees-workers is as important as the interest of consumers and commoners," the Industries Minister said while addressing the biennial conference of Bangladesh Sugar Mills Workers-Employees Federation at BCIC auditorium in the city on Thursday.

He urged all concerned to turn the sugar mills into profitable concerns through stopping extra expenditure and improvement of management system.

The minister directed BSFC to take steps to retrench additional workers in every sugar mill. He, however, said workers, who go on voluntary retirement, would get full benefit according to recommendations of Mannan Committee.

Referring to task force report on sugar industries, Tofail said the government would implement the recommendations on short, medium and long-term basis.

He said the workers would get all facilities from July 1997 after announcement of the wage commission report.

The function was addressed, among others, by State Minister for Primary and Mass Education, Saifur Rahman MP, BSFC Chairman AS Salauddin Ahmed, president of the federation Mohiul Islam and general secretary Ataur Rahman.

Chinese rice export may rise this year

BEIJING, July 30: China may become a net rice exporter this year thanks to its consecutive bumper harvests in the past years and a slight over supply of paddy crops on the domestic market, according to today's China Daily, reports Xinhua.

But experts predicted that demand for rice may shrink this year since major international rice exporters have increased their production and the rice prices on international market are also dropping.

According to sources with the information center under the Ministry of Agriculture, China's grain exports reached nearly 9.06 million tons last year, and China's rice exports hit a record 3.75 million tons.

Economists say that an over supply of rice and rice products on the domestic market is prompting Chinese rice trading companies to sell overseas.

In contrast, China's rice imports from Thailand, Australia and Vietnam amounted to 244,000 tons in 1998, down 25.3 per cent from the previous year. This year, the central government has accelerated the reforms of the country's grain distribution system by letting the market regulate the price of low-grade early rice, a major crop produced in areas south of Yangtze River.

However, experts say that it is very hard for Chinese grain to get a good price on both international and domestic market this year, and the prospect of Chinese grain export is still unclear owing to the current situation in the country's foreign trade.

HK stock, futures exchanges reach merger deal

HONG KONG, July 30: Hong Kong's stock and futures exchanges reached a preliminary agreement today on the terms of a merger, after coming under pressure from the government, says AFP.

The agreement between the two councils of the Stock Exchange of Hong Kong (SEHK) and the Hong Kong Futures Exchange (HKFE) will be put to the members of the exchanges for approval in September, a government statement said.

Under the proposal, the exchanges and their respective clearing houses will be merged to form a new publicly listed entity called Hong Kong Exchanges and Clearing (HKEX), it said.

The stock exchange will hold 70 per cent of the equity in the new company and the futures exchange will hold 30 per cent.

SEHK and HKFE shareholders will be offered shares in the HKEX and the opportunity to receive cash in place of some or all of the shares in HKEX to which they are entitled subject to conditions, the statement said.

Current SEHK and HKFE shareholders will also be able to transfer their eligibility to trading rights, once only, for a period of 10 years.

The HKEX has agreed that no new eligibility to trading rights will be granted for two years from the date that the proposals become effective.

In the third and fourth year, no new eligibility to trading rights will be granted by HKEX for less than three million Hong Kong dollars (\$389,610 US) for the cash market and 1.5 million Hong Kong dollars for the futures market.

Frozen food exporters tell The Daily Star

Output cost cuts only way to recoup losses

By Inam Ahmed and Monjur Mahmud

As the plummeting trend in shrimp prices in the global market continues, there seems to be little hope for the country's frozen food exporters to recoup their losses, unless they drastically cut their production costs.

Although it sounds like an easy solution, the reality may spell different and tough for them. Most frozen food plants now-a-days run at only 30 per cent capacity, a level which can never make any industry viable.

But where does crux of the problem lie? Why cannot the plants utilise their unused capacities?

The answer is more of basics. The plants have been set up without taking the supply of raw material into consideration. Plants mushroomed as the pioneering exporters made fortunes.

But the absence of backward linkage resulted in the closure of 80 plants out of the 123 existing ones. The rest of the units are processing only 30,000 metric tons (MT) of shrimps, while their installed capacity is 90,000 MT.

On the other hand, as prices of shrimp slumped from about \$9 per pound (each pound containing around eight to 12 pieces) last year to around \$6, frozen food exports suffered in dollar terms, falling short of target by about 23 per cent in the first 11 months of the year.

Now, exporters are demanding government actions to see the sector thriving. Many of their demands have remained unmet for a long time.

Against this backdrop, The Daily Star recently invited the members of the Bangladesh Frozen Food Exporters Association (BFEEA) at a discussion on the issues at its conference room.

Because of lower productivity per hectare, shrimp production cost is higher, said Kazi Shahnewaz, President of BFEEA.

The farmers cultivate shrimps by using traditional methods, which results in an average yield of 250 kg per hectare in Bangladesh, while it is 2000 kg per hectare in Thailand and 1000 kg to 1500 kg in India, he added.

The farmers do not know about modern technology and are also unwilling to go for improved shrimp culture. They also do not give us long-term lease of their land and are disinterested in investing in shrimp culture, thinking the return on investment would be low, said Golam Mostafa, former president of BFEEA.

"That's why we asked the government to provide us with 100 acres of khas land for shrimp culture on a pilot basis. Our proposal was approved by the BNP government and the AL

government also agreed to the idea. But we haven't yet received the khas lands."

"To launch modern shrimp cultivation and increase our productivity and capacity utilisation, we need long-term land leases."

Due to higher production costs, the exporters have to spend a major portion of their export earnings on shrimp procurement, Mostafa said. "As a result, we cannot maintain our profitability when prices go down in international markets."

This is exactly what happened when prices went downhill last year, he said. "When we bought shrimps for our plants, the market was good and our costing was reasonable. But as prices slid to \$6 a pound, we found our books going red."

But then the sleeping South-east Asian tigers woke up breaking the spell of long slumber, as their currencies were devalued heavily because of the regional crisis. The former BFEEA leader said: "We have strong rivals in countries like Indonesia, Thailand, Malaysia as those they have devalued their currencies heavily over the years."

"When prices go down in the international market, Bangladeshi exporters lose their competitive edge because they cannot lower their shrimp purchasing costs."

"But the factory owners are compelled to continue their exports even at below-production costs to minimise losses," he said.

"A container of shrimps costs between \$250,000 to \$300,000. Despite knowing that prices will increase in the next couple of months, we cannot hold on to our stocks due to our capital crunch," said Golam Mostafa.

So, how do the exporters predict price rises?

There is a peak time for shrimps. For example, tiger shrimps have to be hauled up during monsoon. The importers are also well aware of this and they offer lower prices during this period. But the peak season will end after two months and then there will be the pressure for Christmas sales in October. These factors naturally push prices up. It needs a huge capital to weather the pressure and survive during these two months without exporting.

Mostafa said: "We operate with bank money and the banks do not want to take risks by lending more and helping us hold on to our stocks. They want us to clear the stocks before applying for more funds."

"But look at Thailand. They have developed a cash-against-document system under which the exporters get loans even without exporting items. We have also called for same sort of

arrangement from the nationalised commercial banks (NCBs), but they just shrugged them off."

Apart from these, exporters are fighting against high interest rates, high electricity tariff, natural disasters and political unrest.

When the European Union imposed a ban on Bangladeshi shrimps, the factory owners faced huge financial losses. Their factories were closed and yet they had to count bank interests.

Then they took more loans to upgrade their plants with a view to meeting the EU standards, which took two to four months. Even during this period, no offers came from the government or anybody else to suspend their interests."

But during the ban period, the exporters could hardly sell their stocks in the domestic market.

"We cannot sell our products in the domestic market as this is very small and people cannot afford the costly shrimps," said Shahnewaz.

So, the exporters had no other options but to keep their refrigerators running for nothing.

The exporters also lament the peak-hour electricity charges. The peak hour rate is Tk seven a unit and the usual 15 per cent VAT is also there.

"Our plants do not have any

peak or off-peak hours. We have to keep them running every second of the day, or else the products would perish. So, the high peak-hour rate should not be imposed on us since we have no options left."

Even at such abnormally-high power rates, we hardly default on our payments. We can assure you that 98 per cent of our electricity bills are paid because we cannot afford power disconnection."

Shrimp exporters now claim they have a much better case than many other sectors to get some sort of subsidy or incentives to get their plants on foot again.

"We are 40 factories running with only Tk 300 crore working capital and earning around Tk 1500 crore a year. Isn't this outstanding? Look at the leather sector, they have about Tk 800 crore non-performing loans," Mostafa said.

Md Rezaul Hoque, Managing Director of Modern Seafood Industries Ltd, Kazi Belayet Hossain, Managing Director of Sobi Fish Processing Industries Ltd, MA Sattar, Managing Director of Bionic Fish Processing Ltd and Bionic Seafood Exports Ltd, Anisur Rahman, Director of Bangladesh Seafood Industries Ltd and International Seafood Ltd, AKM Mursheed Hossain, Director of Mahi Fish Processing Ltd, took part in the discussion.



Leaders of Bangladesh Frozen Foods Exporters Association (BFEEA) at a discussion with The Daily Star recently.

— Star photo

Cash crunch remains the big hurdle Shrimp exporters see a ray of hope in processing

By Inam Ahmed and Monjur Mahmud

When the going gets tough, the tough gets going. This has also proved to be true for the country's shrimp exporters.

When the market crashed and exports wailed over their losses, some smart entrepreneurs looked for product diversification and value addition to win even a bigger chunk of the global market.

Today, there are seven frozen food plants which are exporting processed shrimps instead of sending the same as raw. They pack shrimps in small poly packs and cook them before exporting to different European and US markets.

The process fetches them 30 per cent higher prices. "If the government extends policy supports to the exporters, it will be possible to add 30 per cent more value," said MA Sattar, a leading exporter and Managing Director of Bionic

Fish Processing Ltd and Bionic Seafood Exports Ltd.

But this transformation process of plants for adding value to products require quite a handsome amount, at least Tk 15 crore per unit. And most exporters are unable as well as unwilling to throw in such amounts as, according to them, "the risk factors prevail over profit motives".

Moreover, it requires enough time to market value added products after completing BMRE of a factory, but an exporter has to start paying interest from the day he opens L/C, which is pretty discouraging for them.

Citing an example, Sattar said that an exporter who is selling his goods worth US \$10 can easily bag three more dollars by exporting value-added products.

As seven firms have already started producing finished products and resumed their exports, he hoped that they would help increase the country's export earnings significantly from the sector.

The exporters need policy support to raise exports and expand their businesses as they are currently faced with different problems.

The decision of a meeting presided over by the deputy governor of the central bank on keeping 15 per cent of the credit against stockpiled goods in the bloc accounts was yet to be implemented.

The government should take immediate action for implementing these.

"We have appealed to the finance minister to provide 15 per cent cash subsidy for those who exported shrimps during the July '97 to December '98 period."

At present, the local companies are exporting raw shrimps to different countries including those in the European Union and USA.

Exporters said that they needed bank loans at lower interest rates to expand their businesses and import machinery for value added products.

The frozen food exporters have already appealed to the finance minister to provide them with loans at the bank rate for BMRE of their factories, including establishment of plants for value-added products.

With a view to see an increase in the export earnings, the factory owners should be encouraged to go for exporting value-added products. They need bank loans at lower interest rates to set up plants, the exporters observed.

A delve into the frozen food sector

Around 80 factories have been closed down over the past 10 years and conditions of the rest are not healthy either, because they have huge loan liabilities.

Frozen food export, the second highest foreign exchange earner after readymade garment, faced a setback due to last year's devastating flood and fall in prices in the international markets.

The contribution of the sector, particularly shrimp, which has rapidly grown since the early 1980s in southern Bangladesh, is the highest foreign-earning sector which adds 100 per cent local value addition.

Of the total amount the frozen food sector earned in the last financial year, more than 87 per cent came from the export of shrimps.

Despite the tumble due to floods last year, exports during July '98 to May '99 of the last financial year fetched US \$246 million, which is 23.35 per cent lower than its target and 8.35 per cent less than the corresponding period of the 1997-98 financial year.

Talking about the current season, he said that production of shrimps this year was good. "The exporters would, at least, be able to achieve the target, though growth may be insignificant."

Export earnings from the sector can be increased to Tk 5,000 within a couple of years if the government formulates an appropriate policy and implement the same properly.

World shrimp production

Countries	Tons	Area cultivated (In hectares)
Thailand	220,000	90,000
Ecuador	100,000	125,000
Indonesia	80,000	300,000
China	70,000	130,000
India	60,000	80,000
Vietnam	50,000	225,000
Bangladesh	30,000	130,000
Mexico	12,000	14,000
Colombia	11,000	3,000
Honduras	10,000	11,000

Export of Frozen Foods

Years	Quantity in Million Lbs	Value in Million US\$
1991-92	44.32	130.52
1992-93	48.35	165.34
1993-94	55.51	210.52
1994-95	78.36	305.64
1995-96	75.07	313.69
1996-97	76.05	320.73
1997-98	60.85	293.48
1998-99	57.52	268.28

Major frozen foods markets

Countries	Value in %
USA	31.78 %
Belgium	16.22 %
UK	11.26 %
The Netherlands	8.59 %
Germany	6.86 %
Japan	9.76 %
Others	15.52 %

Shrimp Production in Bangladesh at a glance

- Quantity of production (M. tons) 30,000
- Harvest in production 137,966
- Kilogram per hectare 231/kg
- Number of hatchery eight
- Numbers of fish processing plant 123
- Capacity of processing (M. tons/day) 1,187
- Average unit capacity 9.65
- Value-added producing firms seven
- Total Processing plant 123
- Sick Industry over 60
- EU approved 34 (6+11+10+7)

Employment generated by shrimp farming in selected countries

Countries	Employment
Thailand	150,000
Philippines	65,580
Indonesia	287,354
Bangladesh	500,000
China	1,000,000
Sri Lanka	40,000
Malaysia	3,700
Ecuador	221,000
Honduras	25,000
Mexico	41,748

Problems

- Interest and penal interest imposed on plants by the banks.
- Liquidity problem of working capital.
- Price falls in international markets.
- Stockpiles of processed shrimps in stores.
- Acute shortage of freezers of containers at ports.
- Absence of carrying vessels at Mongla Port hampering cargo movement and causing delay in shipment.
- Non-implementation of government decisions regarding the allotment of 100 acres of khas lands to plant owners.
- Non-construction of shrimp-landing centre as per HACCP concept in the Khulna and Chittagong regions.

Needs

- Financial support.
- Allotment of khas lands
- Massive publicity by the government and other organisations involved
- Arranging and participating in international frozen foods fairs to popularise products

Tea Assoc seeks more govt assistance

CHITTAGONG, July 30: Chairman of the Tea Association of Bangladesh AQI Chowdhury yesterday sought cooperation of the government for the overall development of tea gardens of the country with a view to increasing tea production, reports BSS.

Addressing the 39th annual general meeting of the association held here yesterday he expressed the fear that tea production would be 20 per cent less during the current year on account of the drought at the beginning of the year.

Chowdhury said that Bangladesh produced 55.97 million kgs of tea in 1998, which was 10.79 per cent higher than the previous year. He also said that the internal demand for tea in Bangladesh was 3.81 million kgs, which was 15 per cent more than the previous year.

The Tea Association chairman appealed to the government to grant 99-year lease to tea gardens, improve road communications, supply fertilisers, power and gas and help rehabilitate sick tea gardens. He also called for improving the law and order situation in and around tea gardens.

Chowdhury expressed his gratitude to the government and other agencies for extending help and cooperation to the tea garden owners.

China to finalise proposals for WTO talks with US

HONG KONG, July 30: China's top leaders will finalise proposals to restart talks with the United States on Beijing's ascension to the World Trade Organisation (WTO), the Hong Kong Standard reported today, reports AFP.

Chinese senior leaders will decide on the proposals during their annual summer retreat in the beach resort of Beidaihe, the daily said citing diplomatic sources.

The leadership has given the green light for the package proposed by Premier Zhu Rongji during his February visit to the United States to be the framework of the WTO negotiations, the sources said.

Zhu made several key concessions including the opening of the lucrative telecommunications and agricultural sectors.

The bilateral WTO talks ground to a halt after the May 7 accidental NATO bombing of China's embassy in Belgrade plunged ties to a new low.

The United States is still awaiting Beijing's decision to move ahead on the WTO issue.

British economy back on track

LONDON, July 30: Britain's economy leapt decisively back into life in the second quarter, growing by 0.5 per cent over the first three months of the year and banishing all thoughts of recession, official figures showed today, says Reuters.

The Office for National Statistics said the economy grew by 1.2 per cent compared with the same quarter last year.

The buoyant service sector led the way, up an annual 2.4 per cent, but hard-pressed industry also contributed.

US approves Oxy trip to Libya

WASHINGTON, July 30: The Clinton Administration approved a request for Occidental Petroleum OXY.N to visit Libya and check on assets the company was forced to abandon in the mid-1980s, a government source told Reuters yesterday, reports Reuters.

The travel licence for Occidental executives was approved last week by the Treasury Department's Office of Foreign Assets Control, the source said.

The licence comes at a time when US oil firms have had to sit on the sidelines while European oil companies begin to make overtures for investing in Libya. Earlier this month, Britain resumed diplomatic relations with the North African country.

Libya plans to revise its petroleum laws and launch an international oil licensing round early next year.

But a group of US senators is pressuring Treasury to deny licences to American oil firms wanting to go to Libya.

US firms should not be allowed to go to Libya, because the country is listed as terrorist state and UN sanctions against Libya remain in place, the senators said.

"It is premature to allow American companies to survey assets and perform seismic testing in Libya with an eye toward investing," the lawmakers said in letter on Tuesday to Treasury Secretary Lawrence Summers.

The letter was signed by eight senators including Democrats Edward Kennedy of Massachusetts, Charles Schumer of New York and Barbara Boxer of California, and Republicans Sam Brownback of Kansas and Gordon Smith of Washington.

A Treasury spokeswoman confirmed a licence was issued to a US oil company, but would not say if it was Occidental.

Agrani Bank floats industrial bond

The nationalised Agrani Bank has floated a bond to raise Tk 500 crore as part of a government programme to finance new industrial ventures, reports BSS.

This is the first step of our plan to raise the capital for industrialization. We will expand the programme after assessment of the success of the project and hope to raise the amount to Tk 2,000 crore by next year," Finance Minister Shah A M S Kibria told the launching ceremony of the bank bond in the city on Wednesday.

He added that one fourth of the Tk 500 crore would be directly invested by the Agrani Bank while others would use the rest of the capital for lending money for industries on a long-term basis.

"I call upon all including industrialists to avail the attractive package for their own

profit and benefit of the country," he said.

Commerce and Industries Minister Tofail Ahmed was present on the occasion as the special guest, while Bangladesh Bank Governor Dr. Farashuddin. Additional Secretary of Finance Ministry Golam Rahman, Agrani Bank's Chairman Mohammad Matir Rahman and its acting Managing Director Rabul Hossain also spoke on the occasion.

Three categories of the Taka denominated Agrani Industrial Bond worth Tk 50,000, Tk 100,000 and Tk 500,000 will be available in 84 branches of the bank.

The bank said the source of money would not be asked and there would be no limitations on the amount of investment.

Officials said apart from the Agrani Bank, Sonali Bank

would float the dollar bonds worth 100 million US dollars for expatriate Bangladeshis in the Middle East and elsewhere, a bank official said, adding the bank would be marketed next month through the American Express Bank.

The step followed a prolonged liquidity crunch in most local banks blamed on a huge amount of bad debt and low rates of savings. The finance minister said compared to neighbouring India and Pakistan the savings rate in Bangladesh is lower, which has been a major constraint of investment causing a "vicious cycle low income-low savings-low investment-low income," he said.

The national savings rate has stagnated below 12 per cent of the country's 34 billion dollar gross domestic product.

Kibria said the banks did not have enough capital for term investment, which warranted the need for floating the bonds, the first ever of types in the country.

He advised the bankers to lay a special emphasis on agro processing and export-oriented units in view of low risk involvement and better profit.

Tofail Ahmed said there was an impressive image of Bangladesh abroad in terms of investment opportunities as the rate of return here was one of the highest in the world.

The commerce minister hoped that the floating of the bond would help develop new industrial units in the country. The business community had