



Benefit from new EU rules

REFAYET ULLAH MIRDHA

THE experts' prediction of a rise in export of garment products from Bangladesh to Eurozone is likely to come true with the relaxation of the rules of origin (RoO) by 27 countries in the zone.

Garment trade with the EU increased in volume, value and number of certificate issuance by the state-owned Export Promotion Bureau (EPB) in the first two months of 2011.

The EU relaxed its RoO for the least developed countries (LDCs) from January 1. Being one of the 49 LDCs, Bangladesh also enjoys the zero-duty facility.

The biggest change is that single-stage processing (manufactured from fabric) will be allowed in many cases, instead of two-stage processing (manufactured from yarn).

It means most apparel items from all LDCs will get duty-free access, no matter where the raw materials are originated. The standard import duty for readymade garments in the EU is 12 percent.

The Generalised System of Preferences (GSP) is a trade arrangement allowing reduced or zero-tariff on imports from developing countries; and the RoO determines whether the imported goods really do originate in the countries covered by the GSP.

The EPB issued around 41,542 GSP certificates for the EU-27 countries in January and February, up from 34,957 in the corresponding period of last year from Dhaka office.

During January and February, the country exported 42.34 crore pieces of garment items compared with 34.83 crore pieces of items in the corresponding period of last year.

In the January-February period, earnings from EU-27 countries were \$1.58 billion compared with \$812.66 million for the same period last year,



Workers make fabrics at a factory of Hamid Fabrics in Narsingdi.

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data revealed.

But, the experts' predictions about the backward linkage industry are yet to be materialised.

Fabric business in domestic market has become more competitive for the relaxation of RoO under the GSP, although the overall export of apparel items to Eurozone increased for the segment.

Now, fabric manufacturers are investing more in quality improvement and diversified products to remain competitive in the open market, industry people said.

Many thought that the country's fabric business will also flourish with the increase of the garment business, as they predicted that the exporters will purchase local fabrics to cope with a short lead-time.

But, practically, it did not happen at least in the first two months of the current year when the new rules came into effect.

Industry insiders said sales of denim and knitwear fabrics are still going well, while sales of woven wear fabrics are affected to an extent.

Zillul Hye Razi, trade adviser with the Delegation of the European Union

to Bangladesh, said the scenario is still in a premature stage as only three months have passed since the beginning of the relaxed process.

"Bangladesh faces problems with gas and power supply to the industrial units. Many units cannot use their full production capacities for inadequate supply of energy," Razi said. Some of the other countries also have the advantage of own cotton and yarn, he adds.

"In many cases, manufacturers cannot supply woven fabrics in shorter lead-time for inefficient production system," said David Hasanat, managing director of Viyellatex Group, one of the leading garment groups in Bangladesh.

As a result, garment exporters prefer to purchase fabrics, especially woven fabrics, from China and other competing countries, as the exporters are gaining the zero-duty facility even for imported fabrics.

Moreover, both China and India have their own raw cotton and yarn. As a result, the two countries can sell fabrics at reduced rate, Hasanat adds.

At present, garment exporters can purchase more than 80 percent of knitwear fabrics from the domestic

market, whereas for the woven garment sector it is nearly 40 percent.

The knitters can supply more for strong local backward linkage industry, but the woven fabrics sub-sector is still struggling to establish such a strong industry.

Efficiency in woven fabrics production also did not rise, industry insiders said.

The industry people are improving the production capacity and diversifying the product ranges to stay in competition, manufacturers said.

The overall export of the garment business is going well as more buyers continue to shift from China and new buyers are coming to purchase the clothing items at cheaper rates supported by cheap labour cost here.

"People were less interested to invest in manufacturing woven fabrics for higher capital, higher technicalities and shortage of efficient workforce," said Shakhawat Hossain, chairman of Paramount Textiles, one of the leading fabrics makers.

"Both the sales and prices of fabrics have been affected to some extent for the EU's latest move. But, we have increased the quantity and quality to keep the business afloat because the

market is open now," Hossain said.

In fabrics business, both China and India, two major competitors of Bangladesh, have advantages of raw cotton and yarn, he said. As a result, they can sell fabrics at lower prices to the garment manufacturers, he added.

Bangladesh is now facing an uneven competition, he said. So far, sales of denim and knitwear fabrics have not been affected for the EU's move, he said.

Still, garment export from Bangladesh is increasing mainly for the shift of a significant number of international buyers from China to Bangladesh.

Moreover, export of garment items to some new destinations like Japan, South Africa, Spain, Brazil, Mexico, Australia, New Zealand, Portugal and Canada is increasing for the higher demand for items from Bangladesh.

Anwar-Ul-Alam Chowdhury Parvez, managing director of Evince Group, said local woven garment manufacturers still import fabrics from Chinese manufacturers to get the benefits of low costs.

He said buyers are also paying higher prices for high-priced raw materials, resulting in a rise in total export in terms of dollars.

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Hamid Fabrics to go public

REFAYET ULLAH MIRDHA

HAMID Fabrics Ltd, a concern of Mahin Group, plans to go public to raise a fund of Tk 150 crore to implement its expansion plan as it is experiencing a surge in demand of its products from buyers' end.

The Narsingdi-based fabrics manufacturing factory will raise the fund to set up a yarn-dyeing unit having a capacity of producing 15 million yards of fabrics annually.

Construction of the new unit will start in Narsingdi in July or August, said Abdullah Al-Mahmud Mahin, managing director of Mahin Group.

Mahin said the group will float 4.2 crore ordinary shares at a face value of Tk 10 each and Tk 26 as premium per share. The Securities and Exchange Commission has already given the approval for private placement at Tk 36 per share on March. NDB is the issue manager of the company.

"We will go for private placement as soon as possible as the regulatory body has permitted us for it," Mahin added.

be Tk 125 crore and the group has a plan to pay off from the rest of the money that they receive from the market, Mahin said in an interview recently. The annual turnover from proposed project is expected to be around Tk 290 crore, he said.

"We strongly feel that a 50,000-spindle spinning facility worth around Tk 150-175 crore should be introduced soon after the yarn-dyeing project. This will enable Hamid Fabrics to be more self-sufficient."

The group's total turnover was Tk 350 crore in 2010-11 with a workforce of 2,000 people, he said.

Wal-Mart, H and M, s. Oliver, Zara, M and S, Tesco, Uniqlo, Carrefour, Esprit, Gap, Next, Nike, Levis and Tommy Hilfiger are the major buyers for fabrics of Mahin Group.

"Gas pressure is not a problem in my plant. I haven't faced any gas crisis until now," he said. Currently, Hamid Fabrics has two units: weaving and dyeing and finishing. Moreover, the group also owns Hamid Weaving Knit Ltd and Mahin Apparels Ltd.

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AMRAN HOSSAIN

Mahin Group Managing Director Abdullah Al-Mahmud Mahin at work.

Mahin Group Managing Director Abdullah Al-Mahmud Mahin: "Gas pressure is not a problem in my plant. I haven't faced any gas crisis until now."

Correction

A report headlined "dampening jute products" published on March 29 inadvertently mentioned Ershadul Haque as the owner of Prokritee. Actually, he is an employee of the organisation. We regret the mistake.