



DHAKA, THURSDAY, JUNE 16, 2011, E-MAIL: business@thedailystar.net

Caught in price swings

Sector leaders say low-priced yarn and fabrics pour into Bangladesh

REFAYET ULLAH MIRDHA

IT seems that Bangladesh is caught in the game of international business of cotton and yarn.

Cotton prices fluctuated between 50-60 cents for more than 15 years. Over the last two years, however, the prices went in only one direction -- up. A net importer of key textile raw material, Bangladesh imported cotton at higher rates as demand soared. Yarn was sold at \$7 per kg in March.

On top of that, India, the second largest producer of cotton, banned exports of the item. With all these factors coming into play, the spectre of dumping has surfaced in the textile sector, as low-priced yarn started pouring into Bangladesh, industry insiders claimed.

Also, imports of woven fabrics by garment makers increased by 88.34 percent and knitwear fabrics by 32.35 percent during the January-March period, compared with the same period last year, data showed.

According to Bangladesh Textile Mills Association, the volume of unsold yarn has reached two lakh tonnes worth Tk 8,000 crore since January.

As a result, the total investment of Tk 30,000 crore in the spinning, weaving, dyeing, printing and finishing sub-sectors will be at stake if the government does not take immediate steps to help the sector, industry leaders said.

Bangladesh produces eight lakh tonnes of yarn a year from raw cotton imported mainly from the US, India, Uzbekistan, Pakistan and some African countries.

As China has reduced purchase of cotton and India plans to withdraw the export ban, the prices of cotton and yarn have started declining.

Local spinners say they are incurring losses as demand for yarn is



People work at a garment factory of Hamid Fabrics at Narsingdi.

should strengthen Bangladesh Tariff Commission so that the state-run agency can take measures to protect the local industry by discouraging imports of cheap goods.

Recently, Turkey imposed 17 percent duty on import of garment items from developing countries as a temporary measure to protect its local industry. As a least developed country and an exporter to Turkey, Bangladesh now will have to pay 17 percent duty, which was zero percent earlier.

The tariff commission should be empowered and deploy an adequate number of capable manpower to conduct research for taking measures at a time when such business practices take place, experts said.

They say for settling any trade dispute regarding dumping case, the World Trade Organisation is the highest body, but for Bangladesh settling such issue at the WTO level is time-consuming and expensive.

In this case, there should be an arrangement so that individuals or industries can lodge complaints easily. The WTO rules for the LDCS in this regard should be simplified, experts said.

"Dumping does not take place in any business overnight," said Zaid Bakht, research director of Bangladesh Institute of Development Studies.

"If India had wanted to dump low-priced fabrics into our textile industry, it might have happened a lot earlier, because Bangladesh's textile industry is very old," he said.

But he said the sales of local fabrics might decline to some extent because of the latest move by the EU.

Finance Minister AMA Muhith in a meeting yesterday with the leaders of three textile, garment and knitters said there might have scope for dumping in the sector for price fluctuations of raw materials on the international market.

reefat@thedailystar.net

Local spinners say they are incurring losses as demand for yarn is going down. They bought cotton at higher prices when the market was overheated, but now global cotton prices have declined significantly

going down. They bought cotton at higher prices when the market was overheated, but now global cotton prices have declined significantly.

Bangladeshi importers bought cotton \$2.20 per pound, when the prices of the textile raw material were high on the global market.

Over the last three months, the prices have been declining. Now, the spinners face trouble as unsold yarn and fabrics are piling up by the day.

Yarn prices slipped to \$5 per kg in June from \$7 per kg in March.

The spinners say their stockpiling is increasing as local garment makers prefer to imported yarns and fabrics rather than buying from local sources at higher prices. They complain India is selling yarn at low prices because it

has a comparative advantage in cotton and yarn business globally.

India has its own technologies and machinery with a large workforce and can sell yarn and fabrics at lower costs, whereas Bangladesh does not have the comparative advantage in cotton and machinery.

Bangladesh depends on imports of cotton and machinery to be competitive globally, although the country has advantage in labour costs.

The relaxation of the rules of origin by the European Union in January also contributed to making the situation worse for primary textile. The local garment-makers tend to import fabrics more than buying from local suppliers, as clothes made of imported fabrics are now duty-free.

They now import fabrics from China and India at lower prices. The two stages generalised system of preferences shielded the local fabrics for decades as the garment-makers are bound to purchase fabrics from the local spinners for getting duty-waiver from the EU.

To protect the local fabrics industry, the government has proposed to increase duty on import of fabrics to 45 percent from the existing 20 percent in the proposed budget.

Experts suggested the government strengthen market monitoring system. If any country tries to dump the local industry with raw materials, the government should have the preparation in place, they said.

They also said the government

What govt does to prevent dumping...

REFAYET ULLAH MIRDHA

RECENTLY, entrepreneurs are saying that they are losing competitiveness for dumping price of fabrics and yarn by India. The Daily Star talked with Chairman of Bangladesh Tariff Commission (BTC) Dr Mozibur Rahman on the matter and other tariff related issues of Bangladesh.

1) Recently, industry insiders are saying India is selling yarn and fabrics at dumping prices in Bangladesh. Is it true? What is the observation of the BTC?

We have taken the issue of yarn and fabrics with highest consideration. A meeting chaired by DG of the WTO Cell was held in this connection. We have collected information regarding this issue. Soon we are going to organise a meeting with the stakeholders.

The Trade Remedies Division of Bangladesh Tariff Commission is responsible for protecting the interest of local industries by preventing unfair trade. If any foreign product is exported to Bangladesh at less than its factory price, it is dumping and injurious to local industries and is considered as unfair trade. In this situation, anti-dumping duties can be imposed to protect local industries from such injury. If we find that sufficient prima facie evidence of dumping of yarn, injury to the domestic industry and causal links between the dumping and injury exist, then we will initiate an investigation into the alleged dumping, and consequent injury to the domestic industry to determine the existence, degree and effect of any alleged

dumping and to recommend the amount of antidumping duty, which, if levied, would be adequate to remove the injury to the domestic industry.

2) Do you think the government should increase duty on import of fabrics to protect the local primary textile sector (PTS), as industry people say sale of fabrics from the PTS is declining for relaxation of Rules of Origin?

The government has already increased the duty on import of fabrics to protect the local PTS. In the current budget, supplementary duty on woven fabric is increased from 20 percent to 45 percent.

3) What are the major trade remedial measures of Bangladesh to protect the local industries?

Apart from dumping, some of the countries also resort to subsidisation of their exports to other countries. Export subsidies, under the WTO agreement, are treated as unfair trade practice and such subsidies are actionable by way of levy of anti-subsidy or countervailing duty. There is one more trade remedial measure called "safeguards" which are applied as an emergency measure in response to surge in imports of a particular item.

For the sake of fair trade, countervailing measures can be adopted in case of export of any product to Bangladesh at subsidised prices, which knock out similar local product from competition in the domestic market forcing the local industry to shrink operation or close. Moreover, if the import of any good is in such quantity that causes injury to local industries, safeguard measures can be invoked.

4) How does the BTC work in the



Dr Mozibur Rahman

process of taking anti-dumping measures?

The Trade Remedies Division of the BTC is authorised to receive and examine petitions from local industries for recommending appropriate anti-dumping measures as per the relevant agreements of the World Trade Organisation (WTO). Its responsibility involves conducting investigations to establish whether the allegations of such unfair trade practices are true, whether local industries have actually suffered injuries and if there is any causal link between such unfair trade practices and the injury suffered by the local industries. The pertinent WTO agreements require the domestic authorities to frame local rules for undertaking such activities in consonance with WTO provisions. The Trade Remedies Division has completed the exhaustive preparations for performing this task in accordance with the WTO agreements.

According to WTO anti-dumping

agreement and relevant Bangladeshi acts and rules, the basic requirements for imposition of anti-dumping duties are as follows:

1. Requirements for initiation decision (application must include evidence of dumping, injury and causal link between dumping and injury), 2. examination of the evidence, 3. rejection of an application, 4. de minimis dumping, 5. negligible imports, 6. initiation of investigation, 7. notice of initiation, 8. information gathering, 9. confidentiality rules, 10. preliminary determination, 11. provisional measures, 12. condition for application, 13. verification of information, 14. final duty, 15. duration of final duty, 16. review of duties.

5. Does the BTC take initiatives by itself to take anti-dumping measures to protect any local industry if any individual entrepreneur or a company does not lodge the complaints? Generally, the designated authority initiates the proceedings for anti-dumping action on the basis of a petition received from the domestic industry alleging dumping of certain goods and the injury caused to it by such dumping. However, rule 5(4) of the anti-dumping rules provides for suo-motu initiation of anti-dumping proceedings by the designated authority on the basis of information received from the Collector of Customs appointed under the Customs Act, 1962. In such circumstances, the authority initiates the anti-dumping investigation on its own without any complaint/petition filed in this regard, provided the authority is satisfied that sufficient evidence exists as to the existence of dumping, injury

and causal link between the dumped imports and the alleged injury. It is further clarified that after initiation, the suo-motu investigation follows the same procedure as the one based on a petition as mentioned in the anti-dumping rules. But in practice, usually the domestic industry applies for the initiation of an anti-dumping investigation and Bangladesh is no exception.

6) Can you cite examples of anti-dumping measures by the BTC? Bangladesh could never initiate a case for anti-dumping measures due to difficulties faced by the domestic industry in collecting information required for initiation. Experience suggests whenever the industries concerned were asked to furnish information required for initiation of dumping cases, they mostly failed to provide it. Thus there are serious difficulties in completing an application for initiation. If a Bangladeshi exporter encounters any of the problems covered by anti-dumping agreement, the Trade Remedies Wing offers him advice and assistance on how to overcome the situation. Meanwhile, a few importing countries have imposed anti-dumping duty on some Bangladeshi export items. Other importing countries contemplated to impose similar duty on some of other export items. The Trade Remedies Wing is advising the related exporters on how to resolve the problem that has already affected or threaten to affect export earning. I would like to give an example of the Lead Acid Battery case.

reefat@thedailystar.net

If any foreign product is exported to Bangladesh at less than its factory price, it is dumping and injurious to local industries and is considered as unfair trade. In this situation, anti-dumping duties can be imposed to protect local industries from such injury