Rawhide trade at a standstill

Supply piles up as traders and tanners are locked in discord over prices

SUMAN SAHA

TRADERS are sitting on a huge pile of rawhide following Eid-ul-Azha, due to the reluctance of tanners to accept the prices they are demanding.

"We have almost kept our purchase of rawhide from the traders on halt due to the higher prices they are demanding," said Md Shaheen Ahmed, chairman of Bangladesh Tanners Association (BTA), yesterday.

Earlier on October 11, the tanneries, in a bid to prevent traders from gaining a windfall at their expense, jointly announced the purchase rates for rawhides during Eid-ul-Azha, which are: Tk 85-95 for per square feet of salted cowhide in Dhaka and Tk 75-80 elsewhere, Tk 50-55 for goatskin and Tk 40-45 for buffalo skin.

"We will buy hides only at these prices at the factory level. We will not pay any higher than the declared rates," Belal Hossain, outgoing chairman of Bangladesh Finished Leather, Leathergoods and Footwear Exporters' Association, said at a press conference to announce the rates.

Industry operators said if the tanners concede to the traders' demand they would lose their cost advantage on leather and leather products in the international market.

Ahmed of the BTA said the price would go up by $0.20 per square foot if the tanners buy at the current prices.

Md Saiful Islam, senior vice-president of Leathergoods & Footwear Manufacturers & Exporter Association of Bangladesh, said rawhide is now selling at $1.20-1.25 per square foot in India and Pakistan, while the Bangladeshi seasonal traders have bought at $1.5 per square foot.

"It will affect the export of leather and leather goods. Besides, the country is already under the spotlight of the international buyers as the tanners are yet to relocate their environmentally hazardous production units from Hazaribagh to Savar," Saiful said.

The higher rawhide price will come as a new setback for the export of value-added leather products, he added.

Meanwhile, the traders are terming the tanners' hardball stance a tactic to pocket high margins.

"There is ample demand for Bangladeshi leather and leather products on the international front due to its better quality. They [tannery owners] want us to accept prices below the rate at which we bought them from the grassroots during Eid, just so they can make higher profits," said one trader preferring not to be named.

Traders, including seasonal ones, have bought the rawhides at higher price as the rate fixed by the tanners was much lower than the market rate then, said Ali Hossain, chairman of Bangladesh Hide and Skin Merchants Association.

In the run-up to Eid-ul-Azha, tannery owners were buying good quality cowhide at Tk 100-105 per square foot, he added.

On the other hand, the supply of rawhide this Eid is up from last year's 5-5.5 million pieces to 6.5-7 million pieces, "as politicians spent more on slaughtering sacrificial animals in their constituencies to win hearts of voters ahead of the upcoming election," said the BTA chairman.

But, Mohammad Abu Taher, the newly-elected chairman of Bangladesh Finished Leather, Leathergoods and Footwear Exporters' Association, expects rawhide collection to pick up in the coming days as a salted cowhide can be preserved for over three months.

More than 42 percent of the country's rawhide supply comes during Eid-ul-Azha, around 10 percent each during Eid-ul-Fitr and Shab-e-Barat, 2 percent during Kali Puja and the rest round the year, according to the Department of Livestock. The tanners process over 250 million square feet of leather every year.

Export earnings from leather, leather products and footwear surged 36 percent to $314 million in the July-September quarter of the current fiscal year, from $230 million in the same period a year ago, according to Export Promotion Bureau.

The leather industry exported leather, leather products and footwear worth $980.67 million in fiscal 2012-13, up from previous year's $765.03 million.

HIGHLIGHTS

- Rawhide supply will be 6.5-7m pieces this Eid-ul-Azha, up from 5-5.5m pieces last year
- Tanners so far bought about 20 percent of the rawhide
- Rawhide worth around Tk 2,000cr was traded this Eid
- Tanners process more than 250m sq ft of leather every year
- Exports of leather, leather products and footwear were worth $980.67m in FY 2012-13, up from $765.03m in the previous year

CITY BANK

Rubel Aziz, chairman of City Bank, attends the launch of City Bank American Express Platinum Credit Card at a ceremony in Dhaka yesterday. K Mahmood Sattar, managing director of the bank, and Pranav Barthwal, vice president for global merchant services and partner card services at American Express, were also present.

City Bank comes up with platinum credit card

STAR BUSINESS DESK

CITY Bank and American Express yesterday launched City Bank American Express Platinum Credit Card, which will bring with it a whole array of services and benefits for the affluent and high net worth individual (HNI) customers in Bangladesh.

The card offers tailor-made benefits to suit the lifestyle requirements of high spenders in the country, the bank said in a statement.

The benefits include complimentary companion return ticket to Bangkok on Bangkok Airways, complimentary priority pass membership with unlimited access to 600 VIP airport lounges worldwide.

The cardholders will also enjoy unlimited access to City Bank international and domestic airport lounge, and meet and greet privileges at Hazrat Shahjalal International Airport in Dhaka, according to the statement.

They will also enjoy a unique fine dining experience with the diners dine free programme, across 10 premium restaurants in Bangladesh, and will receive access to City Airmile Rewardz, a unique travel loyalty programme that will allow them to purchase air tickets from more than 150 airlines and book hotels of their choice for destinations across the world.

"City Bank has always been committed to providing truly enjoyable experiences to its customers through all of its products and services, and with the launch of City Bank American Express Platinum Credit Card, we are further strengthening this commitment," City Bank Chairman Rubel Aziz said at the launch.

"Bangladesh is a fast growing market with huge potential, especially in the affluent and HNI customer segment," said Pranav Barthwal, vice president for global merchant services and partner card services for India and area countries at American Express.

"This launch is a key milestone in our long term growth strategy with City Bank and we are delighted that they recognise the value of the platinum credit card and share our vision of offering a card with superior product offerings powered by enhanced rewards, on American Express-branded cards."

"The privileges offered by the card, as well as the various programmes and benefits, reflect our commitment to providing only the best to our cardmembers and to complementing their lifestyles," said Aziz.

City Bank Managing Director K Mahmood Sattar, Additional Managing Directors Sohail RK Hussain, Faruq M Ahmed, Deputy Managing Director Mashrur Arefin, Head of Cards Majharul Islam; and Rupali Sharma, director and head for partner services at American Express, were also present.

BANGLADESH'S CLOTHING INDUSTRY

Bursting at the seams

STAR

Members of Sammilito Garments Shromik Federation, a garment workers body, form a human chain along with four other such bodies in the site of the collapsed Rana Plaza, where 1,135 people died, to mark the passing of six months of the accident in Savar on Thursday.

THE ECONOMIST

AFTER the Rana Plaza clothing factory near Dhaka collapsed in April, killing at least 1,100 people, the big Western clothing companies that have their garments run up in Bangladesh came under pressure to intervene more forcefully to improve safety and working conditions in the workshops they buy from. Two groups of retailers and fashion brands, one mainly North American and one mainly European, have begun implementing new monitoring schemes. On October 24th Primark, a big British retailer, said it would extend for another three months the aid it is giving to families affected by the disaster, while it works on a long-term compensation scheme.

Meanwhile, the tragedies continue: earlier this month ten people died when another factory in the Bangladeshi capital, used by big foreign clothes retailers, went up in flames. Nevertheless, it has become clearer since Rana Plaza that the clothing firms have little option but to continue sending work to Bangladesh. It will remain Asia's primary production base outside China for cheap clobber, with exports on track to rise by a fifth, to $24 billion, in the current fiscal year. The country's clothing industry has the advantage of scale: it has 5,000 factories, compared with 2,500 in Indonesia and 2,000 in Vietnam. Its labour costs less than any of its Asian rivals': even a near tripling in the minimum wage, to $100 a month, as garment workers are demanding from the government, would not change this. And unlike clothes put together in China, India and Sri Lanka, those stitched in Bangladesh enjoy duty-free access to the European Union.

Such is the growth in demand for cheap wear that Bangladesh's clothing industry is forecast to quadruple in size over the next 20 years. It already employs 4m, mostly women, in a country with 31m households. Unless productivity rises sharply, millions more women will be drawn from their homes into the workplace, a drastic change in a conservative society.

Although output is booming, profitability has slumped. In the past five years the price of the average garment has fallen by 12 percent in local currency terms. In that period the factory owners' return on investment has plunged from an average of 50 to 20 percent, estimates Forrest Cookson, an American economist and expert on the Bangladeshi economy. That still sounds good but capital is costly. To get money from domestic banks, palms have to be greased, so textile firms in effect borrow at around 18 percent.

So, despite the prospect of years of further growth to come, some local factory owners are talking of selling up. A recent surge in Bangladeshis buying homes abroad is perhaps a sign that some of the families that control the clothing business are preparing an exit. Others are getting money out by underinvoicing foreign sales and keeping the difference abroad.

If the government forces the factory owners to increase pay (an election is coming, so it may well do so), they will be even less willing and able to invest in making their premises less hazardous. The most promising way to make the country's clothing industry both safer and more profitable is to boost productivity and output at the larger and generally better-run factories, and drive the smaller, dodgier ones out of business.

This, broadly, is the objective of Tau Investment Management, a New York–based firm which seeks "capitalist solutions to capitalism's failures". It wants to inject up to $50m in each of a number of big factories, to sort out their safety, environmental, labour and efficiency problems. It hopes foreign clothes firms will flock to these high-quality suppliers, leaving the rest to wither away. A commendable idea, but a risky and expensive one.

India eyes $15b rollover of subsidy costs into next budget

REUTERS, *New Delhi*

INDIAN Finance Minister P Chidambaram is finding it harder and harder to meet the government's budget promises and may sweep as much as $15 billion in subsidy costs into next year's accounts to ensure he hits fiscal targets ahead of national elections, ministry officials say.

Chidambaram insists that the fiscal deficit target of 4.8 percent of GDP for the year to March 31, 2014, is a red line that will not be breached. The worst economic downturn since 1991 and a fall in the rupee to a record low have undermined budget assumptions for some months.

But finance ministry officials said the window to raise domestic fuel prices sharply, which would cut subsidies, is closing with state and national elections drawing closer, so shifting some costs into the 2014/15 budget is inevitable.

"It's a given," said one official, who declined to be identified.

The worst-case scenario as of now is that $15 billion in costs will have to be rolled over into next year's budget, the ministry officials said. This assumes that there will be no substantial increase in domestic fuel prices to offset the ballooning subsidies.

By rolling over some costs, Chidambaram can tell voters in the run up to the elections, which must be held by May, that the government met its deficit target. But equally, he will be shackling the next government with costs that could blunt its ability to stimulate an economic recovery.

"Whatever we need to do, we will do. But the fiscal deficit target will be met," said a finance ministry official. "No one should be in doubt about that."

Meeting the target is important also to stave off the ire of ratings agencies as India's credit status sits just one notch above junk. A loss of its investment grade rating would probably increase the government's borrowing costs.

Last year, Chidambaram narrowed the budget deficit by 1 percentage point to 4.9 percent of GDP by pushing nearly $15 billion in subsidy costs into this year's budget and cutting more than $16 billion in planned spending, two ministry officials said.

REUTERS

India's Finance Minister P Chidambaram speaks during an interview with Reuters in New Delhi on October 7.

This year, he could rollover a similar amount in subsidies, the officials said. This will be in addition to spending cuts of $3.2 billion or more that officials are already predicting for the year.

The amount will be partly determined by the success of an auction of telecom spectrum, expected in January. The budget had pencilled in $2 billion for the sale.

But the most critical factor will be whether Chidambaram can gather government support to raise domestic fuel prices to offset ballooning subsidy costs. Some policymakers see that as politically unpalatable ahead of state elections in December, leaving a small window after those votes before the country moves into national elections.

A finance ministry spokesman, D.S. Malik, said it was "too early to say anything at this stage" on how much the rollover would be.

Chidambaram had planned to cap the subsidies for the likes of fuel and food at 2 percent of GDP, or about $38 billion. But finance ministry officials said it could cost as much as 2.9 percent of GDP, or $55 billion, this fiscal year.

Chidambaram had said earlier this month that the jump in subsidy spending must be tackled sooner rather than later to help stabilise an economy shaken this year by the rupee's slump and a record current account deficit. India imports nearly 80 percent of its oil needs and the rupee drop made government fuel subsidies more costly.

Finance ministry officials in September called for an increase in diesel prices of close to 10 percent to offset the pressure on the subsidy bill.

But Prime Minister Manmohan Singh has shied away from raising fuel prices for fear it could upset voters and cost his Congress party the elections.

At the same time, international oil prices have remained stubbornly high and although the rupee has climbed up from its record low, it remains historically weak.

A new law to provide cheap grains to millions of people has increased procurement and storage costs, inflating food subsidies by around 10 percent. Adding to Chidambaram's headache, the fertiliser ministry has asked for a 50 percent hike in its budgeted subsidy.

"The budget will simply collapse, if we continue to provide subsidies on this scale," said a finance ministry official. "There is no alternative to a 3-5 rupees increase in diesel prices."

It is not unusual for the government to rollover some costs into the following year's budget, although they are not publicly revealed. However, subsidy spending has massively overshot budgeted estimates for the last three fiscal years forcing up the amount of cost that the government rolls over.