Bonded warehouse: a cotton solution

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AS the growth in the garment sector continues, the demand for yarn in both quality and quantity has increased as well. But the local spinning sector is lagging and cotton procurement is a big area of concern.

Because of the long shipment time from origins such as Africa, North America, most local spinners are forced to stick to Indian and Pakistani cotton. However, such cotton lacks quality, contains high moisture and is often contaminated.

The cotton shippers in India and Pakistan only export residual substandard cotton as the top crop is always picked and consumed by their respective local spinners.

These local spinners have the means to only procure cotton, which is subject to 100 inspections—payment upon physical inspection—and not on a description.

This year even though West African cotton offers a far better price and quality than Indian cotton, very few mills are able to capitalise on it. A long shipment time—6 to 10 weeks on average—requires a bloated and difficult working capital.

Instead of one month's worth of cotton, mills have to have three months of working capital tied up just in the cotton procurement pipeline.

It is evident that it is unrealistic for most mills to function in such manner, and often mills are left to negotiate with local cotton and forced to work in local markets rather than the higher paying export demand.

It is an unsustainable operation and our textile mills will face challenges to survive from international competition.

STAR

Local spinners will be able to survive from international competition if they are provided with bonded warehouse facilities.

A possible solution is bonded warehouse facility, a government-provided service that allows merchants to bring and store their products within the sovereign nation's land with the right to re-export it at their discretion.

It provides a revenue stream in storage charges for the government and gives local consumers a purchase advantage by bringing the cotton closer to their requirements and consumption needs.

Bonded warehouses for cotton will allow a merchant to bring cotton and store it in a warehouse within Bangladesh territory, ready to be sold to local spinners. They would also be allowed to re-export cotton from the port to other origins free of export cost.

Such a system is already in use in China which is another large net importer. The warehouses provide a continued revenue source for the government and allow cotton procurement from their doorstep.

It is simply like opening a retail store for the merchants. A similar facility is available via Port Kelang Malaysia, but is used by selected merchants such as Olam and Cargill, at a limited capacity.

If a similar facility is offered in Bangladesh, it will give them a more competitive location, considering the vicinity of other South Asian cotton importing countries such as India and Pakistan.

BENEFITS

Warehouses as such will allow spinners to buy cotton at their doorstep, negating the huge risks of incurring losses due to long shipment times. The time lag between an actual purchase today for a local spinner and collection of said purchases at their mills can vary from two weeks from India, Pakistan to up to 12 weeks for cotton sourced from the USA, West Africa and Latin America. And that's excluding shipment delays.

This lag exposes the spinner to huge market volatility, as cotton prices can fluctuate drastically between purchase and use.

An access to future markets is the only way for the local spinners to hedge such risks.

Bonded warehouses will allow spinners to insure quality prior to purchase. A spinner can draw full sample prior to purchase from the cotton warehouse and insure their purchase quality and deter merchants from selling a lower quality.

Currently, quality is a big factor as once purchase is made, a spinner is at the merchants' mercy. Often a spinner is forced to accept lower quality cotton as the International Cotton Association's means of quality compensation is rigid and biased in favour of the shippers, who still dominate the terms of the trade.

Spinners will also be able to take better decisions related to raw cotton procurement.

It will protect the spinner in a bearish market. In 2010-11, the entire industry suffered a huge loss as cotton prices drastically rose and fell, leaving spinners with expensive cotton whose procurement cost they could not meet, as yarn price had fallen.

It will negate the need for the spinner to hedge their risks as the merchants would bear the hedging risks and market risks and with a limited lead time, the spinner is not exposed as dramatically to cotton price movements.

Insurance is of key concern, and merchants would prefer international insurance be allowed from reputed firms. Warehousing and transport facilities for their cotton should be stored along with monitoring to insure such a venture is not misused.

The writer is a spinner.

Japanese companies doing more firing than hiring

AFP, Tokyo

MORE than half of Japanese who are laid off will still be out of work a year later, an international report said Monday, adding firms must be more flexible if Japan's economy is to improve.

The findings come as Japanese Prime Minister Shinzo Abe embarks on his third year in power, after pledging to awaken the country's long-slumbering economy, in part by cutting red tape.

Around 1.4 percent of workers lose their jobs each year, with older, less educated employees and those on temporary contracts at highest risk of remaining jobless, the Organisation for Economic Co-operation and Development (OECD) said in a report on Japan's labour market.

"A significant fraction of Japanese workers are laid off each year and then face long periods of joblessness before finding work, often at much lower wages," the OECD said.

On average between 2002 and 2013 only 48 percent of those who are retrenched found a new job within 12 months, the report said, adding those who do find employment suffer an average 20 percent cut to their income.

The trend persists for the next three years, and "even four years after the displacement, their earnings are about 15 percent lower than they were," said lead writer and OECD senior economist Paul Swaim, noting the same pattern is observed in other developed countries.

"The costs borne by displaced workers are likely to remain high in many cases... if the employment opportunities available to mid-career job changers remain limited," the report said.

The slow death of the culture of lifetime employment and a greater dependence on part-time or casual employment means Japan's workers, not the firms that employ them, bear almost all the costs of the little flexibility the job market has.

"In Europe there is a word called flexicurity, which means reconciling flexibility with security for the entire workforce," said Swaim.

"It means some mobility between jobs, not meaning becoming permanently poor as a worker," Swaim said.

Deregulating the jobs market is a key plank of Abe's plan to turn around the world's third largest economy, with rigid rules on hiring and firing sometimes blamed for the national flat-footed responses to changing global markets.

Supporters say a more flexible workforce would better allow families to look after children and the growing ranks of elderly, as well as permitting firms to adapt more quickly. But critics say reforms run the risk of taking away job security.

Russian government takes flak as it fails to stem economic crisis

AFP, Moscow

FACED with a crippling recession, Russian authorities are coming in for growing criticism from economic insiders concerned over a lack of clear policies to deal with the crisis.

After a year that saw growth slump and the ruble nosedive on the back of falling oil prices and Western sanctions over Ukraine, officials have predicted that Russia's economy will contract by some five percent in 2015.

As government income shrinks, the overall rate of inflation also looks set to hit around 17 percent by spring.

And -- with the situation hitting the wallets of ordinary Russians -- alarm bells are ringing that the authorities under strongman President Vladimir Putin are floundering in their efforts to find a way out.

"I have read all of the government documents and I did not understand the aim of their economic policies," said Herman Gref, head of Russia's largest lender, Sberbank.

Speaking at an economic forum in Moscow last week, Gref, a former economy minister and member of the Kremlin's marginalised liberal clan, called for a "radical" shift in direction to restore global confidence in Russia's battered economy.

But, for now, these appeals for a sharp change of tack seem to be having little impact.

Taking to the podium at the same event, Prime Minister Dmitry Medvedev promised increased assistance to pensioners and large families and insisted that Moscow had no intention of turning its back on globalisation or plans to transform the economy into a "Western model".

Like Putin before him, however, he failed to announce a single concrete measure or reform, leaving his ministers to debate how best Moscow should be using its roughly $385 billion of reserves or whether the country needs to be tightening its belt.

"This is what I feared: the discussion focused on how much we should be spending and for how long. This is the worst model of economic policy," responded Gref to the Kommersant newspaper.

Over the past month the Russian government has scrambled to put out the growing number of economic firestorms. It has stepped in to bail out struggling banks, supported faltering airlines and unblocked funds for infrastructure projects.

On Friday Medvedev announced a series of "crisis meetings" aimed at tackling the problems battering different sectors of the economy.

But the steps taken so far have left some experts scratching their heads.

Leading business daily Vedemosti this week denounced the "contradictory measures" between supporting some sectors and plans to slash spending for others.

"In a time of crisis, it is better to do nothing than to be all over the place," the paper wrote.

Analysts say that those in power seem to have not yet figured out a way to tackle the growing trouble.

Hindustan Unilever cuts prices as thrifty shoppers hurt volumes

REUTERS, Mumbai

HINDUSTAN Unilever Ltd, the Indian arm of Anglo-Dutch consumer group Unilever, saw a smaller-than-expected rise in quarterly sales volumes as urban shoppers reined in spending in a sluggish economy, sending its shares down more than 5 percent on Monday.

The maker of Dove soap, Sunsilk shampoo and Lipton tea said it aimed to revive demand by bringing down prices on some of its products, passing on to consumers the benefits of lower material costs such as oil.

"We had to stop sales for a few days as we cleared the pipeline to get the fresh prices in stores. Without that, we expect volumes would have been in the range of what was expected," chief financial officer PB Balaji told reporters.

"We don't see market volumes changing in a big way, but there will be some pick up in the future," he said.

Hindustan Unilever is Asia's largest consumer goods maker by market capitalisation and has a large distribution network that goes beyond towns and cities to villages and rural parts, making it a barometer of Indian consumer sentiment.

For the quarter ended Dec. 31, the company posted a 3 percent rise in volumes. Analysts, on average, were expecting growth of about 6 percent.

Hindustan Unilever makes about 60 percent of sales to urban consumers. During the quarter, rural shoppers bought more than their city counterparts, but those purchases were mostly in low-priced small packs and sachets, Balaji said.

The company has been hurt in the last few quarters by weaker consumer demand in Asia's third-largest economy that grew less than 5 percent in the past two fiscal years.

REUTERS/FILE

A man arrives at the Hindustan Unilever Ltd headquarters in Mumbai, India.

The weak volumes are likely to reflect on parent Unilever, which makes more than half of its sales in emerging markets and is set to announce results on Jan. 20.

Hindustan Unilever's standalone net profit for the three months to Dec. 31 rose to 12.52 billion rupees ($202.85 million)from 10.62 billion rupees a year earlier. During the quarter, there was an exceptional gain of 3.97 billion rupees, it said.

Without that gain, which was mostly from a sale of company property, the profit was below analysts' forecast of 10.81 billion rupees, according to Thomson Reuters data.

Hindustan Unilever's shares fell as much as 5.8 percent, their biggest one-day drop since July 2009, before recovering slightly to end down 5.2 percent.

German economy has overcome doldrums: Bundesbank

AFP, Frankfurt

THE German economy, Europe's biggest, has managed to shrug off faster than expected the period of weakness it experienced last year, the German central bank or Bundesbank said on Monday.

"The German economy appears to have overcome the phase of weakness that emerged last spring more quickly than many people expected," the Bundesbank wrote in its latest monthly report.

Among the positive factors contributing to this were the "markedly positive consumer climate -- on the back of the favourable employment and income outlook -- and falling energy prices," the report said.

Business confidence had also improved in December, the Bundesbank said, pointing to the increased industrial output in October and November and a rise in factory orders.

After notching up growth of 0.8 percent in the first quarter of 2014, German gross domestic product (GDP) contracted by 0.1 percent in the second quarter and then expanded by a meagre 0.1 percent in the third quarter.

Fourth-quarter GDP data are not scheduled to be released until mid-February.

Air India to cut costs by $227m to reduce losses

REUTERS, New Delhi

STATE-OWNED carrier Air India is to cut its costs by 14 billion rupees ($227 million), or about 6 percent of its total outlays, in the next financial year after the government asked the loss-making airline to improve its finances.

Air India, which controls close to a fifth of India's domestic air travel market, has been losing money for years and has long been criticised for its high costs. In 2012, the government handed the company a $5.8 billion bailout package.

The airline said in a statement late on Sunday that it would identify "surplus staff", freeze contractual hiring and discontinue flights which are not meeting fuel cost targets, to reduce its variable spending of 140 billion rupees by a tenth.

Uber says it can create 50,000 jobs in Europe

AFP, Berlin

THE car-sharing start-up Uber can create as many as 50,000 jobs in Europe this year as part of a "new partnership" with European cities, its chief executive told a conference in Munich.

"If we can make this partnership happen, we create 50,000 new EU jobs for 2015," Uber CEO Travis Kalanick told the DLD conference, which is being held until Tuesday. Uber could "become huge job generator," he said, without providing any concrete details.

He said the service had already created 7,500 full-time-equivalent jobs in San Francisco, 13,750 in New York, 10,000 in London and 3,750 in Paris.

The fast-growing firm, which helps users summon taxi-like services via their smartphones, has drawn criticism across the world from regulators and established taxi operators. Set up four years ago, it now operates in 250 cities worldwide.

But critics have accused Uber of flouting competition rules and of not carrying out sufficient safety checks on drivers and their vehicles. Uber has been hit with court injunctions in Belgium, France, Germany, the Netherlands and Spain, and has faced protests from taxi firms in major cities, including London.