The leather sector is struggling to make its mark in the global market despite having the guarantee of an abundance of the key raw material and workers. PHOTO: STAR/FILE

Leather sector wasting opportunities

For lack of LWG certification

JAGARAN CHAKMA

Bangladesh's garment sector has become the world's second largest exporter only on the basis of cheap labour and the domestic supply of an insignificant amount of raw materials.

On the other hand, the leather sector is struggling to make its mark in the global market despite having the guarantee of an abundance of the key raw material and workers.

One may argue that the value addition in the apparel industry is much lower than that in the leather sector.

But countries rich in key raw materials usually have a much higher value addition and thus higher earnings. That has not happened in the case of the leather sector of Bangladesh.

As a result, the leather sector cannot ensure value addition of over 65 percent whereas there is potential to reach 90 percent.

Industry people say as long as animals were sacrificed during the Eid festivals, the generation of rawhide, meaning the raw materials, is guaranteed.

But manufacturers cannot ensure maximum value addition as demand has not yet been created locally for high-value products.

The value addition falls to 30 percent for products made for export markets owing to a lack of certification from Leather Working Group (LWG), a global multi-stakeholder community committed to a responsible and transparent leather supply chain.

"We have the main raw materials but cannot use them for the export market in absence of LWG certificates," said Md Mizanur Rahman, a professor and director of the Institute of Leather Engineering and Technology of the University of Dhaka.

There is scope to ensure 85 percent to 90 percent value addition through quality tanning and manufacturing of high-end products, he said.

According to him, there are huge prospects for the leather sector to grab a significant piece of the global leather and leather goods market by using local rawhides and improving value addition.

The leather sector cannot ensure value addition of over 65 percent whereas there is potential to reach 90 percent

"However, we will have to comply with global standards in the tannery industry," Rahman added.

Bangladesh has 200 tanneries and 223 leather and leather product manufacturers but only five tanneries are certified by the LWG -- Apex Tannery, Riff Leather, SAF Industries, Superex Leather, and ABC Leather.

As a result, Bangladesh is not doing well in the international market. Shipments fell 1.74 percent year-on-year to $1.22 billion in fiscal year 2022-23 that ended on June 30.

Rahman believes that the local leather sector has the potential to increase exports to $5 billion to $7 billion by using locally available leather to cater to the global market worth $300 billion.

However, Bangladesh's share of the global leather market is less than 0.5 percent, he said.

Bangladesh accounts for about 3.5 percent of the total rawhide produced globally but cannot use much of the material for making exportable products, he added.

According to Bangladesh Tannery Association, the tannery industry is capable of producing 300 million square feet of leather each year.

Of the total production of finished leather, only 20 percent can be used for the domestic market. The rest has to be exported as there is no scope to use the material for manufacturing export products in absence of the LWG certification.

However, exporters allege that harassment by customs officials, tax collectors and other government agencies reduces the scope for value addition.

"The value addition for leather footwear for the domestic market declined to 65 percent from 85 percent over the past year due to declining demand for high-end products," said Dilip Kajuri, chief financial officer of Apex Footwear Limited.

"As people's disposable income has reduced due to inflationary pressure, they do not want to purchase costly products," he added.

As a result, Apex has reduced manufacturing costly products that have higher scope for value addition.

"If we want to ensure 85 to 90 percent value addition, we have to manufacture costly items that have less demand at the moment," Kajuri said.

Kajuri also said 95 percent of their leather shoes for the domestic market were made from local raw materials, but they have to import leather for high-end products, such as that of the Venturini brand.

"Now, leather footwear manufacturers can ensure value addition of around 20-30 percent depending on the products for the export market," said Arifur Rahman Chowdhury, general manager of ABC Footwear Industries Limited, one of the biggest exporters of leather footwear.

Previously, manufacturers could ensure value addition of around 60 percent, but with the appreciation of the US dollar against taka, the value addition has reduced.

According to him, most exporters cannot use leather produced locally due to the lack of LWG certification.

"But we can use local leather tanned at our factory as we have LWG certification," he said.

On condition of anonymity, a leading footwear exporter said they have to mention the source of raw materials when selling products to foreign buyers.

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Post-election economic priorities

MAMUN RASHID

Whatever the outcome of the election is, the upcoming government to be formed faces some challenges from the onset of its tenure given both local and global economic conditions. Given the challenges, the government must dive into the issues and come up with corrective measures immediately after taking charge.

Taming the rising inflation: The focus must be on limiting public expenditure through all possible measures by re-assessing needs and rooting out inefficiencies. It is high time the government re-thought the future and purpose of the consistently loss-making state-owned enterprises (SOEs). Do our taxpayers really need to carry the burden of their inefficiencies?

The government should also prioritise infrastructure projects based on economic outcome and urgency. Despite significant achievements in our infrastructural development, the time is now to exercise discretion and conservativeness in initiating new mega projects.

The government should also increase transparency in public procurement and foster quicker completion of existing projects to reduce inefficiencies caused by unfair practices. Reducing the fiscal budget and sacrificing GDP growth, along with raising interest rates and addressing supply-side inefficiencies will help control inflation, which has reached double-digit figures.

Stabilising the forex market: It is of utmost significance that the foreign exchange market is stabilised by taking appropriate measures. As of 2022-23, the total external debt position of Bangladesh is $62.3 billion, an increase of 62 percent during the current tenure of the government and the number has increased in the last five to six months.

Some 41 percent of this debt position is bilateral loans with stricter terms as compared to multilateral loans. The repayment of these loans will be one of the major challenges for the upcoming government. Given the current level of foreign reserves and the depleting trend, these numbers may start ringing alarm bells soon.

Ensuring adequate liquidity: In order to ensure seamless commercial activities, necessary actions must be taken. We need structural changes in the banking sector with improved governance that addresses our longstanding non-performing loan (NPL) situation. Reducing NPL and bringing down operational costs through digital transformation will allow the financial sector to generate optimal returns on their capital base, thus leading to improved liquidity.

The forex market requires pragmatic steps to reduce the dominant prevalence of unofficial channels. The central bank must take every step possible to keep remittance inflows and the outflow of forex in official channels. With the kerb market rates nearly 10 percent above official rates, that will not be possible even with increased incentives. We have to look beyond.

Expanding the revenue base: While being thrifty with spending is one side of the coin, revenue generation is the other side that the government should put more emphasis on. Tax reform is an ongoing process, and the government should work to ensure further compliance with the tax code.

In the coming years, the government should utilise more digital platforms and technology to reduce evasion and keep track of personal finances. With customs and trade facilitation, customs procedures can be streamlined and smuggling and illicit trade can be combatted to ensure higher contribution to government revenue and foreign exchange reserve.

While these aspects are important, some other reform areas have been widely discussed for a while now. Our central bank needs to be a tad bit proactive at times. We have seen delayed responses when it comes to lifting the interest rate cap on lending, stopping the printing and lending of the taka, and deciding to opt for a market-driven exchange rate. It is extremely important for the government to set monetary policies and control mechanisms that reflect the ground reality.

The author is an economic analyst

Coal use hits record in 2023

AFP, *Paris*

Global consumption of coal reached an all-time high in 2023, the IEA energy watchdog said Friday, as Earth experienced its hottest recorded year.

The International Energy Agency reported that nations would burn even more coal this year than in 2022, the previous record for consumption of the key source of planet-warming gases.

Scientists say greenhouse gases will need to be cut almost in half this decade to meet the world's targets of limiting global heating and avoiding catastrophic impacts on the Earth's climate.

The EU's Copernicus Climate Change Service said earlier in December that 2023 will be the hottest on record after November became the sixth record-breaking month in a row.

The IEA said, nevertheless, that after peaking this year, worldwide coal consumption was expected to start declining in 2024, as renewable power generation from solar and wind continues to expand.

Its latest forecasts were published two days after the conclusion of the United Nations climate negotiations (COP28) in Dubai -- where nearly 200 countries reached a deal that the world should be "transitioning away from fossil fuels" to limit global warming.

It was the first time in the 28-year history of the annual climate negotiations that all fossil fuels were mentioned in an accord.

The disruption in the Earth's climate has contributed to an increase in the intensity and frequency of storms, droughts and lethal wildfires around the world.

Diggers move imported coal after it was unloaded from ships at a port in Rugao, in China's eastern Jiangsu province on November 16. Consumption of coal in China alone grew by 220 million tonnes or 4.9 percent in 2023, while in India it grew 8 percent. PHOTO: AFP

Oil and gas should not be demonised

Elon Musk says

REUTERS, *Rome*

Oil and gas should not be demonised in the medium-term, Elon Musk, the founder of electric car maker Tesla, said on Saturday, but he also said it was important to reduce carbon emissions to preserve the planet.

Musk, speaking at a right-wing political gathering organised by Italian Prime Minister Giorgia Meloni's Brothers of Italy party said: "Climate change alarm is exaggerated in the short term," adding that the environmental movement may have gone too far, causing people to lose faith in the future.

At this month's COP28 climate summit, representatives from nearly 200 countries agreed to begin reducing global consumption of fossil fuels to avert the worst of climate change, signalling

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