Business leaders in the apparel and textile sectors allege that international buyers consistently pay lower than the global average to suppliers in Bangladesh. PHOTO: STAR/FILE

Call for fair price grows louder as new EU rules loom for garment makers

STAR BUSINESS REPORT

Business leaders in the apparel and textile sectors in Bangladesh yesterday demanded fair prices for their products sourced by international buyers, saying the country has made major gains in quality and compliance.

The leaders made the demands at a roundtable on "Due Diligence Laws", organised by the International Business Forum of Bangladesh (IBFB) at its conference room in the capital.

In December, the European Parliament and Council negotiators agreed on new rules -- referred to as Due Diligence Laws -- obliging firms to integrate their human rights and environmental impact into their management systems.

The rule applies to EU and non-EU companies with a turnover over 150 million euros and smaller companies in sectors such as textiles, agriculture, mineral resources and construction.

It includes a civil liability regime for damages and penalties including naming and shaming and fines of up to no less than 5 percent of net worldwide turnover, according to the website of the European Parliament.

The agreed draft law requires formal approval from the European Parliament and the European Council before it can enter into force.

Yesterday, business leaders in the apparel and textile sectors alleged that international buyers consistently pay lower than the global average to suppliers in Bangladesh.

"Bangladesh seems to be the buyer's market. Buyers always impose lower prices," said Mohammad Hatem, executive president of the Bangladesh Knitwear Manufacturers and Exporters Association.

"We are deprived."

He said the fair price should be included in the due diligence law. "Otherwise, everybody in the apparel industry, including workers, will suffer."

He described all apparel brands and buyers as "blood suckers".

Mohammad Ali Khokon, president of the Bangladesh Textile Mills Association, says manufacturers have to take certificates from various organisations in Europe and the United States to comply with rules.

"But we don't get a fair price."

"If we are to comply fully, you need to give us the strength to carry this heavy burden," he said, calling on the buyers to raise prices.

Faruque Hassan, president of the Bangladesh Garment Manufacturers and Exporters Association, echoed the same sentiment.

"No matter how much we talk about ensuring a level-playing field, today's market is buyer-driven and manufacturers have little to no scope to intervene in this setting," he said.

"The goal we want to achieve by implementing the due diligence law is universal and desired by all."

He said there has to be a mechanism to ensure a level-playing field, particularly for the supply chain partners downstream.

While making the keynote speech, Bernd Spanier, deputy chief of the European Union to Bangladesh, said once the due diligence law is implemented, obligations will be enforceable in two ways.

First, victims can claim reparations from a company in a European court if they can show that the damages they suffered were caused by the companies' failure to follow due procedures.

Second, the EU's national supervisory bodies will be able to sanction companies if they fail to implement diligence procedures.

Stakeholders, including trade unions or civil society organisations, will have to make claims within five years.

About the fair price, Spanier said pricing is a matter of negotiation between buyers and sellers.

"We can't force anyone to do that."

Charles Whitley, ambassador and head of delegation of the EU to Bangladesh, said Bangladesh is going to graduate from the group of least-developed countries to a developing nation by 2026.

"So, due diligence legislation shouldn't be seen as an isolated thing."

"The laws aren't in the interest of buyers or sellers. It's in the interest of everybody in the world so that we can tackle climate change, child labour, slavery, labour exploitation, pollution, deforestation, excessive water consumption, and damage to the ecosystem."

"That's not a European interest; it's a global interest."

SAVINGS SCHEMES

Banks asked to issue tax deduction certificate for free

STAR BUSINESS REPORT

Bangladesh Bank (BB) yesterday ordered scheduled banks not to take any fee from the investors for issuance of certificates of tax deduction at source from the profit earned from state-sponsored savings schemes.

The banking watchdog made the call through a circular issued today as many investors have alleged that they have been harassed at the time of receiving such certificates.

Many have also alleged that pensioner savings certificates are being sold to the unsuitable persons while the deserving ones are getting deprived, according to the circular.

Sri Lanka keeps policy rates steady to tame inflation

REUTERS, *Columbo*

Sri Lanka's central bank kept interest rates steady on Tuesday, in line with market expectations, forgoing a rate cut as a new tax threatened upward pressure on expenses and fuelled concerns about inflation.

The Central Bank of Sri Lanka (CBSL) maintained the Standing Deposit Facility Rate at 9 percent and the Standing Lending Facility Rate at 10 percent, as predicted in a Reuters poll.

The central bank said the decision was aimed at maintaining inflation at the targeted level of 5 percent over the medium term, while enabling the economy to reach its potential.

"The Board took note of the effects of the recent developments in taxation and supply-side factors that are likely to pose upside pressures on inflation in the near term," it said in a statement, adding that any such uptick in consumer prices this year was expected to be short-lived.

The central bank slashed interest rates by 650 basis points last year as Sri Lanka's economy began a painful recovery from its worst financial crisis in more than seven decades, helped by a bailout by the International Monetary Fund (IMF).

Improvements in the economy need to be translated into improved living conditions for Sri Lankans, the IMF said last week, wrapping up a technical staff visit to the country.

At the start of 2024, the island nation raised its value added tax (VAT) to 18 percent from 15 percent to meet revenue targets under the four-year $2.9 billion IMF programme.

That could spark a renewed rise in Sri Lanka's key inflation rate, which had eased to 4 percent at the end of 2023 from a high of 70 percent in September 2022.

Bank of Japan maintains ultra-loose policies

AFP, *Tokyo*

The Bank of Japan maintained its signature monetary easing measures on Tuesday, as speculation grows of a shift away from its ultra-loose stance.

After a two-day policy meeting, board members decided to keep interest rates in negative territory -- a global anomaly that has depreciated the yen -- while also leaving unchanged the band in which rates for 10-year government bonds fluctuate.

Analysts had predicted the BoJ would stand pat on Tuesday, partly to avoid further disruption after an earthquake on New Year's Day killed at least 233 people in central Japan.

But Governor Kazuo Ueda is eventually expected to move away from the bank's long-standing ultra-loose policies that economists see as unsustainable.

After the policy announcement, Ueda suggested that a major shift was not on the horizon.

"Even if... hypothetically, the negative interest rate were lifted, we can say that the extremely easy financial environment will continue for the time being," he told reporters.

The likelihood of Japan meeting the central bank's long-standing goal of sustained two percent inflation "continues to grow gradually", Ueda said.

Japan's inflation, excluding fresh food, slowed in December to 2.3 percent, figures showed Friday.

But the BoJ sees the increases as driven by temporary factors including higher energy costs, and instead wants to see a "virtuous cycle" of inflation fuelled by demand and higher wages.

On Tuesday the bank revised down its inflation forecast for the next fiscal year to 2.4 percent from 2.8 percent. All eyes are now on upcoming annual pay negotiations, with unions expected to make more ambitious demands than in previous years.

Ueda said the bank would "continue to carefully analyse various data" including the wage negotiations to assess whether its two percent target had been achieved in a demand-driven way.

The bank in April launched a review of its "non-traditional" attempts to end the deflation that has plagued Japan since the 1990s, after the bubble era.

And for several months, policymakers have hinted that they could be willing to change direction, including by making minor tweaks to their yield curve control programme that keeps a grip on bonds.

Timing is everything, however -- with Ueda facing pressure to normalise while minimising any economic shocks.

"As a virtuous cycle from income to spending gradually intensifies, Japan's economy is projected to continue growing at a pace above its potential growth rate," the BoJ said in a statement on Tuesday.

Even so, "there are extremely high uncertainties surrounding Japan's economic activity and prices", it added. "The bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions."

Former BoJ board member Sayuri Shirai told AFP that if the bank wants to achieve two-percent inflation in a stable manner, "it's not the right time, because Japanese consumption is so weak" and wage rises are low in real terms.

However, "if the BoJ wants to implement normalisation regardless of the sustainability of the two percent target, it's better to do it this year," before inflation dips back below two percent, said Shirai, an economics professor at Keio University.

Walton shares sink to lowest level in three years

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This was because taka, the local currency, saw less frequent devaluation against foreign currencies during the first six months of the current fiscal compared to the same period of the year prior.

Repeated currency devaluations in the first half of fiscal 2022-23 inflated finance costs at the time as Walton needs to import certain raw materials, said a top official of the company.

But as these fluctuations reduced in recent quarters, foreign exchange losses fell compared to the previous year.

Regarding the reduced sales, the official said demand for home appliances and electronics shrank due to the ongoing inflationary pressure.

So, even despite raising the price of goods, Walton saw lower sales proceeds amid a massive drop in overall sales.

"If inflationary pressure eases, then sales will rise," they added.

Walton's earnings per share (EPS) stood at Tk 11.24 yesterday while it was Tk 0.47 previously.

After offloading 1 percent of its shares in 2020, the company provided 300 percent dividend to its shareholders for fiscal 2022-23.

However, Walton's sales rose 5 percent year-on-year to Tk 1,165 crore in the October-December period of fiscal 2023-24, when its profits more than doubled to Tk 140 core.

Its finance costs dropped 22 percent year-on-year to Tk 115 crore during the period, as per the company's financial reports.

Walton's has paid-up capital of Tk 302 crore and reserves of Tk 10,016 crore, showed DSE data.

Economy to take a beating

FROM PAGE B1

five largest textile mills in Bhulta and Gausia of Narayanganj is 1,000 tonnes per day. But they have been producing 300 tonnes daily for the last 15 days owing to a fall in gas supply.

Mohammad Ali Khokon, president of the Bangladesh Textile Mills Association, said there is zero pressure of gas for several hours in some factories.

Mohammad Hatem, executive president of the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), said the worst-affected industries are located in Narayanganj.

Nearly 500 garment factories in the industrial belt have almost zero output, said several owners.

The situation prompted the BKMEA to write to the prime minister on Sunday, calling for immediate steps to ride out the energy crunch.

The severity of the energy crisis has hit industries and businesses at a time when they are already weighed down by a sharp depreciation of the local currency, a shortage of US dollars needed to settle import payments, and a rising bank interest rate.

Owing to a significant fall in the foreign currency reserves, the taka has lost its value by about 30 percent against the US dollar in the past two years, which has made imports costlier.

Similarly, because of the withdrawal of the ceiling on lending rates in July, the cost of funds has gone up in the banking sector after remaining capped at 9 percent for more than three years.

"The cost of doing business has climbed due to the significant appreciation of the dollar," said Humayun Rashid, president of the International Business Forum of Bangladesh.

"We, the businessmen, are adopting various mechanisms to optimise efficiency to tackle the ongoing crisis."

Rashid, also the managing director of Energypac Power Generation Limited, said the dollar shortage, the gas crisis, and the increase in bank interest have affected businesses.

"One challenge is coming after another. As a result, businesses are finding it tough to survive."

Entrepreneurs in the leather footwear sector say although leather, the key raw material for the industry, can be sourced domestically, most of the chemicals and accessories needed to manufacture finished goods for both local and export markets need to be imported.

The packaging industry has seen an output decline of 25 percent.

"Demand has decreased like in other sectors," said Safius Sami Alamgir, president of the Bangladesh Flexible Packaging Industries Association.

Subir Kumar Ghose, chief executive officer of Partex Petro Ltd, said the overall import cost in the energy sector has increased by 10 to 12 percent due to the depreciation of the taka.

Md Fazlul Hoque, managing director of Maona-based Israq Textile Mills Ltd, said their yarn production fell to 70 tonnes a day against a capacity of 110 tonnes because of the lower gas pressure.

Hatem said the volatile exchange rate, the higher cost of financing, and the severe gas crisis are hitting the industries so badly that many owners may turn defaulters if they can't continue smooth production and export on time.

Industry people and analysts say a higher production cost will translate into higher prices of finished goods, meaning local consumers, who are grappling with an elevated level of inflation for the past 18 months, could see another spike in their cost-of-living.

If the prices are raised to absorb the higher cost of production, Bangladesh may also emerge as an unattractive supplier to global markets. As a result, sales may fall, both at home and abroad.

Exports grew at 0.84 percent in the first half of the current financial year. It rose 6.67 percent in the last financial year, which ended in June.

Govt importing

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Bran Oil Mills Ltd and Ali Natural Oil Mills and Agro Industries will collectively supply the rice-bran oil at Tk 158 per litre.

Presided over by the new Finance Minister Abul Hassan Mahmood Ali, yesterday's meeting at the cabinet division was the first to be held in-person since the Covid-19 pandemic.

In what was the first meeting held this year, the cabinet committee approved purchases worth Tk 2,305 crore, of which Tk 1,141 crore will be arranged through borrowing.

Of the approved proposals, one was for importing 33.60 lakh MMbtus of liquefied natural gas (LNG) from the international spot market.

Switzerland-based TotalEnergies Gas and Power Ltd will supply the fuel at a cost of Tk 470.48 crore while the unit cost will be $10.88.

Bangladesh will also import 2.60 lakh tonnes of fertilisers, including urea, TSP and DAP, at a cost of Tk 1,038 crore from Saudi Arabia, Morocco and Russia through Karnaphuli Fertilizer Company Limited.

Payments for the fertiliser will be arranged from local Bank loans, according to meeting sources.

Interest rate

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"The market is not suffering from dearth from yesterday. The availability of funds started to reduce when the central bank started selling dollars to banks," said a chief of treasury at another private bank.

He said the new interest rate for overnight loans indicates that there is an acute shortage of funds in the market.

"And the rate would have risen further had the central bank not provided support to banks through repo," he added.

However, the interest rate hike on overnight loans is nothing unusual.