

As of 04 September 2019

Australia Bangladesh Trade Conference, Sydney, 2019

Date: 14 November 2019
Session: 14:00 hours ó 15:30 hours
Theme: Industry Session: Leather & Footwear

A. Background

The leather industry is the second largest export sector of Bangladesh, which accounts 3% share in the global leather and products market and 0.6% of the global export market. The export of leather and leather products including footwear has increased manifold over the past decades as well as seen its high value addition and growing employment opportunities. Hence, the Government of Bangladesh has declared it a thrust sector.

In FY 2011-2012, the export earnings from leather sector was only US\$ 0.58 billion, which has been increased to US\$ 1.2 billion in FY 2018-2019 accounting 3.0% of the country's annual exports. Besides, the leather footwear sector maintains a steady positive growth of 7.90 per cent with US\$ 879.40 million in the last financial year (FY2018-19) compared to US\$ 809.69 million in FY2017-18 (Source: Export Promotion Bureau).

Bangladesh leather industry comprises the components of tanning and finishing, footwear and footwear components, leather accessories and leather goods, e.g. bags, wallets, belts, accessories, etc. The sector has considerable potentials due to large supply of low-cost labour and raw material. Current demand for the leather, leather product and footwear in the world is nearly \$220 billion where Bangladesh exports US\$ 1.2 billion. This is indicative of immense growth in this sector.

Export performance of Bangladesh leather sector:



Export Target VS. Performance of Leather and footwear industry, July-November 2018

B. Strengths and Challenges of Bangladesh's leather sector:

The leather sector of Bangladesh includes 200 tanneries, 3,500 MSMEs, 2500 footwear making units and 90 large firms. Bangladesh meets the demand for about 10% of the world's total leather market.

Bangladesh leather has an international reputation for high quality of fine grain, uniform fibre structure, and natural texture which mostly comes from domestic farming. It annually produces and exports 300 million sq. ft of quality bovine, ovine and caprine leather. Bangladesh's goatskins are of globally recognized exceptional quality, shipment facilities are frequently available by both air and large seaport.

Leather products enjoy tariff and quota-free access to the European Union (GSP), Canada, Australia and Japan. Recently, a sustainable 205 industrial units Tannery Estate has been developed with CETP and STP and the production of eco-friendly leather and linkage industries—packing, lasts, adhesives, outsoles are growing rapidly.

Opportunities are being created as giant leather export countries such as China are considering shifting their production units in countries like Bangladesh due to increasing production cost. China imposes about 17 per cent export tax on leather footwear. As opposed to that, Bangladesh exports at zero per cent tariff rate and this is indeed a matter of drawing foreign investors in Bangladesh.

According to the data of the Leather Goods and Footwear Manufacturers and Exporters of Bangladesh (LMFEAB), wages have increased in competitor countries like China by 19 per cent, followed by Vietnam, 14 per cent; India, 13 per cent; and Indonesia, 30 per cent. Because of higher wages, a lot of foreign leather products and footwear manufacturers have been compelled to shut down their business in those countries.

As there are possible strong backward linkages with mostly locally sourced raw materials, it allows almost 90% of domestic value addition.

Mentionable, products such as fabric-based footwear are also now being produced in Bangladesh for global retailers. International brands like Adidas, Aldo, Timber Land, Marks & Spencer, Steve Madden, Esprit, ABC Mart, Nike and K-Mart, Sears etc. are sourcing leather goods or footwear from Bangladesh.

Because of sustained growth performance and its increasing competitiveness in producing quality products, at least 51 foreign companies have shown interest in establishing footwear units in Bangladesh. Of late, research is being carried out to produce footwear in combination with leather and other locally sourced natural fibres.

Given the bright prospects of increasing export, the Seventh Five-Year Plan of the Government enthusiastically put USD 5 billion export earnings from leather, leather goods and leather footwear by 2021. In the Export Policy 2015-2018, footwear and leather products have been referred to as one of the highest priority sectors in the country. Besides, a set of guidelines have been prescribed in the policy to produce high value-added exportable products and improve designs of products, to upgrade the testing facilities to the global standard, enhancing competitiveness in the global market and ascertaining compliance of the industry.

Notwithstanding the above-mentioned potentials, the export-oriented leather industry faces some significant challenges.

- Inefficient and environmentally unfriendly tannery operation in Hazaribagh lowered the value of the leather processed in Bangladesh. To facilitate relocation to tanneries from Hazaribagh to Savar Tannery Estate and to avoid pollution a common effluent treatment

plant (CETP) was built. However, the CETP is only partially operational and appears to be polluting the nearby Dhaleshwari River.

- Inefficiency in raw material procurement is another challenge. About 40-50% of the rawhides and skins are made available during the Eid al óAdha festival, requiring quick measures to finance rawhides procurement, facilitate their transfers for processing, and preserve quality. Inefficient procurement system results in weak leather traceability (a concern of the buyers), and sometimes processing becomes a challenge due to the lack of adequate processing facility.
- Other critical factors that constrain the industry's competitiveness include inefficient production technology, poor solid waste management, and lack of research and development. Leather goods producers face similar constraints.
- Moreover, training facilities are inadequate and need to be expanded. Design Capability and product innovation of most firms are low, and quality control is ineffective, the linkages and coordination between the small and medium-sized firms and the lead firms for which they subcontract are often weak, and support services are insufficiently developed.
- Operational Safety and Health (OSH) standards, Labor Law, Fire Safety and workplace safety need to be enforced across the industry to ensure compliance standards.
- Other major challenges of tanneries include access to finance, lack of skilled workforce and training facilities, access to the latest technology, and dependence on expensive imported chemicals. Small and medium-sized tanneries suffer from adequate access to finance and as such are unable to invest in upgrading technology and machinery, and developing skills for reducing cost and improving leather quality, and thus lose competitiveness.
- Possibility of losing preferential market access following impending graduation from least developed countries status implies the lifting of preferential treatment of Bangladesh's exports, and further increases the pressure of competitiveness on leather exporters.

Tanneries need to invest heavily in introducing advanced leather processing technologies for more environment-compliant and efficient production and solid and liquid waste management and to enhance their operational management capabilities. Dependence on expensive imported raw materials needs to be reduced.

It is pertinent for Bangladesh to focus on infrastructure and logistics, research and development, and technology to remain competitive in a changing industrial landscape. To unlock its potential and realize its aspirations, Bangladesh also needs to implement policy reforms to improve its business environment. Possibility of allowing bonded warehousing facilities to this sector to exempt export-oriented leather goods from duties and other taxes.

The development of the leather industry in other countries such as Viet Nam, the PRC, and Malaysia provides key lessons for Bangladesh. The presence of established relationships among local and international footwear manufacturers has been an important aspect of the sector in Viet Nam. There is a space for intermediaries, similar to the roles

played by Hong Kong Taipei, China and the Republic of Korea in case of Vietnam. Bangladesh will have to ensure considerable knowledge transfer both from foreign buyers and buying agents, to aid domestic factories to quickly develop new models. Greater innovation and brand creation among the lock players is another area for improvement.

C. Australia-Bangladesh trade scenario in the leather industry:

The trade volume between the two countries in leather products, footwear and hide & skins has been increasing gradually in recent years. In 2016, the two-way trade in leather, footwear and hide & skins were only US\$ 8.69 million in 2016 which has been increased to US\$ 23.98 million in 2018. Hence, there is immense potential to further expanding this trade volume. The market of leather products in the world is more than US\$ 220 billion while it is US\$ 1.524 billion for Australia.

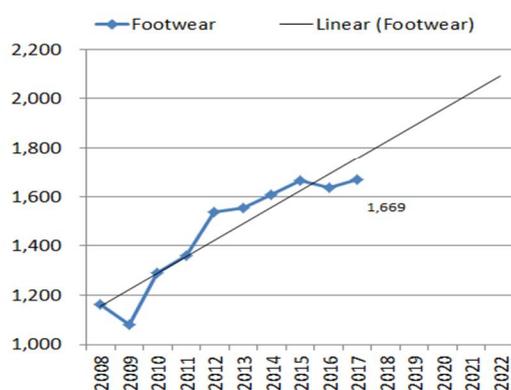
Unit: US Dollar Million

Product code	Product label	Australia's imports from Bangladesh		
		Value in 2016	Value in 2017	Value in 2018
42	Articles of leather	3.695	3.91	8.02
64	Footwear	3.376	3.952	6.917
		Australia's Export to Bangladesh		
41	Hide and Skins	1.59	5.83	9.05

Additionally, where Australia's footwear market is US\$ 1.73 billion, Bangladesh's export capacity in footwear is US\$ 981 million and Australia imports 6.91 million worth of footwear from Bangladesh. These indicate huge potentials. Australian export capacity for rawhide and skin is US\$ 676 million and Bangladesh imports from US\$ 180 million worth of rawhide and skins from the world.

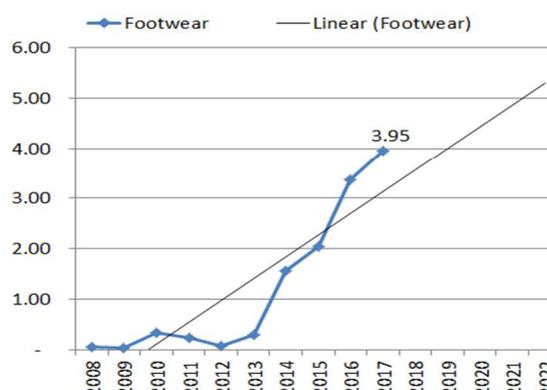
While Bangladesh should be improving the quality of her own hide and reduce importation, there is prospects of greater import from Australia in the near term. There could be opportunities for value addition of Australian Kangaroo and other animal hides for their re-export elsewhere. Leather furniture is an example where there could be scope for re-import into Australia after necessary value addition Bangladesh.

Footwear imported by Australia



Footwear exported to Australia

Unit : US Dollar Million



D. Potentials of foreign investment in the leather, footwear and leather goods sector in Bangladesh

Bangladesh has long established tanning industry, which produces around 2-3% of the world's leather from a ready supply of raw materials. The country is, therefore, an established and attractive location to source and outsource the manufacture of finished leather products.

The leather industry is ideally suited to Bangladesh with its abundance of labour and natural resources at internationally competitive rates. Availability of youthful, skilled and semi-skilled labour forces and qualified leather technologists is a privilege for Bangladesh. Other advantages for investing in this sector are as under:

- Good quality domestic supply of raw materials, as by-products of the large livestock industry. Bangladesh has a large domestic raw material base and is moving towards building an environmentally sustainable production of processed raw-hide and leather products.
- Government support in the form of tax holidays, duty-free imports of raw materials and machinery for the export-oriented leather market, export incentives.
- Tariff and quota-free access to major markets. Bangladesh enjoys tariff-free access to the European Union through the EU's Generalized (GSP), Canada, Australia and Japan.

Tanneries in Bangladesh need to invest heavily in introducing advanced leather processing technologies for more environment-compliant and efficient production and solid and liquid waste management and to enhance their operational management capabilities. Dependence on expensive imported raw materials needs to be reduced.

Since there is inadequate access to finance and the latest technology, foreign investors can help invest in upgrading technology and machinery, and secure good yields. They can also invest in supply chain management and marketing abroad.

E. Organisation of the session on Leather and Footwear: 14:00 hours – 15:30 hours

1. Moderator/ speaker to introduce the topic and discussants' names (Aided by Rapporteur) 5 Minutes
2. Lead Discussants (names or entities represented)
 - a. Representatives from Bangladesh 1+1 (Leather goods and Footwear Manufacturers' and Exporters' Association of Bangladesh) 20 Minutes
 - b. Australian Entity
Australian Hide Skin and Leather Exporters Association (AHSLEA)¹ 10 Minutes
 - c. Australian Chamber of Commerce 10 Minutes

¹ AHSLEA is a voluntary trade Association whose membership comprises the major exporters of Australian cattle hides, calf skins, sheep and lamb skins, kangaroo skins and goat skins. The members handle product from raw through to finished however essentially the product would be in the range of raw material through to wet blue material. Members account for approximately 90% of the Australian hide/skin production and in the vicinity of 85% of the exports of raw/wet blue hides/skins. The Association's members draw hides and skins from an Australian cattle herd which numbers in the vicinity of 28.5 million head at any particular point in time and from a sheep flock of around 75 million head.

3. Open discussion

40 Minutes

In the open discussion, the discussants may deliberate on the above or other relevant points and difficulties, but not exclusive to:

- Potential of Australia-Bangladesh trade in leather and footwear industry;
- Strength of Bangladesh Leather and Footwear industry and comparative benefits of importing from Bangladesh including items with value addition of Australian hide;
- Prospects of FDI in leather and Footwear industry of Bangladesh
- Issues/barriers affecting trade in leather and footwear industry;

4. Summation by the Moderator/ Chair

5 Minutes
