



Workshop on Potentials and Challenges of Leather Sector in Bangladesh: Points to Ponder



Organized by
Support to Sustainable Graduation Project (SSGP)
Economic Relations Division
Ministry of Finance

Outcome Document

Support to Sustainable Graduation Project (SSGP) of the Economic Relations Division (ERD) organized a workshop titled 'Potentials and Challenges of Leather Sector in Bangladesh: Points to Ponder' on 22 October 2023 at the NEC Conference Room, Planning Commission Campus, Dhaka.

Hon'ble Minister of the Ministry of Industries Mr. Nurul Majid Mahmud Humayun MP attended the workshop as chief guest. Member (Secretary) of the Planning Commission Mr. Abdul Baki and President of the Metropolitan Chamber of Commerce and Industry (MCCI) Mr. Md. Saiful Islam were present as special guests. ERD Secretary Ms. Sharifa Khan chaired the event.



Hon'ble Minister of the Ministry of Industries Mr. Nurul Majid Mahmud Humayun MP speaking during the workshop

Welcome Remarks by Mr. Farid Aziz, Additional Secretary & Project Director, SSGP, ERD:

Mr. Farid Aziz, in his welcome remarks, mentioned that leather was the second highest export-earning sector of the country after readymade garments during the last fiscal year. He recalled that considering the huge potential of this industry - the government had identified it as one of the top priority sectors. Mr. Aziz mentioned that currently, leather and leather products exported from Bangladesh enjoy Duty Free Quota Free (DFQF) market access in various countries. The sector is also benefiting from various government supports, including cash incentives. However, he observed that after the country's graduation in 2026, most of the international support measures (ISMs) including DFQF market access would be terminated while the government supports provided to the sector might be restricted. In this context, Mr. Aziz explained that the workshop had been organized to identify the potentials and challenges of the leather sector and to discuss the strategies and way forward to utilize its full potential.

Keynote Presentation on 'Potentials and Challenges of Leather Sector in Bangladesh: Points to Ponder' by Mr. Rabiul Islam Rabi, Consultant, ADB & Leather Sector Expert

At the beginning of his keynote presentation, Mr. Rabi highlighted the prospects and bottlenecks of Bangladesh's leather industry. He noted that Tariffs on leather and leather goods are low in the EU market, although tariff on leather shoe is high. If Bangladesh avails r GSP+ benefit after graduation, Bangladesh would continue to enjoy duty free benefits for footwear exports in the EU market. However, he pointed out that after LDC graduation, leather footwear items are expected to face higher tariffs in key export markets like , Canada, India, republic of Korea and Japan. In this context, he observed that ensuring quality and compliance would play a key role in boosting exports to these markets. Noting that exporters from Bangladesh receive 30 to 40 per cent lower prices from international buyers because of the lack of certifications. Obtaining Leather Working Group (LWG) certification would be critical to realize the growth potential of the sector.

Mr. Rabi identified 8 action points that require immediate attention. These are:

- Effective operationalization of the Leather Development Authority under the Prime Minister's ; is expected to give a big boost to expedite reform measures;
- Ensuring the effective functioning of CETP with highest priority;
- Preparing at least 15-20 factories for d for LWG certification within the next 5 years;
- Actively pursuing targeted Foreign Direct Investment (FDI) and ensuring policy continuity;
- Fast-track the release of the Hazaribagh tannery plot;
- Making the most of incentives and fiscal space prior to LDC graduation;
- Proactively negotiating post-graduation market access conditions;
- Establishment of Solid Waste Management Facilities and Modern Dumping Yard;

Mr. Rabi observed that the proposed Leather Development Authority could consider forming a specialized team of technical experts and seasoned entrepreneurs who possess the necessary technical know-how. Calling for fast-tracking the release of the Hazaribagh Tannery Plot—he observed that prompt release of the land will allow entrepreneurs to fulfil their loan obligations and allocate resources towards implementing necessary compliance measures. He said that Bangladesh Bank might create a long-term soft loan for 15 to 20 years amounting to at least Tk. 500 core with low interest for the entrepreneurs (Tk. 300 crore for CETP and Tk. 200 crore for individual ETP for 10 large enterprises). He also called for strengthening policy support for leather exports with equal treatment like RMG and ensuring policy continuity for at least 5 years. He observed that cash incentives on exports should be increased from 10 to 15 percent until the LDC graduation becomes effective in 2026. He called for reducing the tax/VAT on the imported chemicals, input, raw materials, etc. Mr. Rabi proposed the establishment of Solid Waste Management Facilities and Modern Dumping Yard with support from the Bangladesh Climate Change Trust Fund.

In addition, he also put forward some mid to long term recommendations. These are:

- Addressing the challenge of raw materials availability and reducing lead time;
- Improving trade logistics to enhance the exporters' speed to market;
- Installing mechanized desalting machines and establishing chrome recovery plants for enhanced sustainability;
- Promoting reuse of by-products;
- Promoting decent work and ensuring labour rights;
- Undertaking comprehensive G2G collaboration for skills development;

- Building a critical mass of professionals capable of using cleaner technologies in the tannery Industrial Estate;
- Establishing standard slaughterhouses to enhance traceability and to brand Bangladesh as a responsible source;
- Proactively oversighting the environmental compliance;

Mr. Rabi proposed the establishment of Resource Recovery Centers for promoting the use of by-products. He called for establishing worker accommodation and medical facilities at the tannery industrial estate. He observed that occupational health and safety inspections by the Department of Inspection for Factories and Establishment (DIFE) must be regularized while also ensuring accountability and transparency in the process. Underlining the importance of skills development in the sector, he called for boosting the technical capacity of the Institute of Leather Engineering & Technology of Dhaka University. He also stressed the need for adopting the international best practices from successful models like India and Vietnam. For ensuring greater environmental compliance, he called for enforcement of the new Environmental Conservation Rules 2023.

Discussions by the Panelists:

Mr. Md. Shamimul Haque, Additional Secretary (BSCIC, SME & BITAC), Ministry of Industries:

Mr. Haque, in his remarks, observed that ensuring compliance in the leather industries would be crucial for getting LWG certification. He informed that the government had identified some specific challenges in addressing the compliance issues of the leather sector. He recalled that the government had formed a taskforce for proper collection and preservation of rawhides—especially during the time of Eid-UI-Adha. He also informed that the government is supplying free salt at the grassroots level to facilitate the preservation of rawhide. He also recalled that measures had been taken to ensure that rawhides are not transported to Dhaka from outside within seven days of the Eid-UI-Adha with a view to stabilize the price of rawhide.

Prof. Dr. Mohammed Mizanur Rahman, Director, Institute of Leather Engineering & Technology, University of Dhaka:

Dr. Rahman, in his speech, identified a strong backward linkage industry as a major prerequisite for the proper preservation and processing of raw materials. He emphasized ensuring the quality of raw materials, product diversification, process diversification and process development for preparing the local leather industry for post-LDC gradation scenario. He stressed the need to establish rawhide collection center at the upazilla level for proper collection, preservation of rawhides from grassroots level. He observed that salt should be applied to rawhides within three hours of animal slaughtering. Noting that the relatively smaller tanneries would struggle to meet the compliance issues—he opined that such smaller tanneries should be relocated to separate hubs under BSCIC. He also underscored the need for developing skilled human resources for product diversification within the leather sector.

Mr. Md. Jainal Abedin, CEO, Bangladesh Finished Leather, Leathersgoods and Footwear Exporters' Association (BFLLEA):

Noting that the domestic market of Bangladesh is likely to expand in the years to come with the rising income level of people, Mr. Abedin said that the local leather product manufacturers should

look to tap that growing market. He observed that there are several tanneries in the country which are capable of opting for LWG audit. However, he noted that those tanneries could not avail LWG certification due to the lack of proper waste management in the tannery industrial estate. In this context, he urged for expediting the operationalization of the CETP. Mentioning that the tannery owners are often unjustifiably blamed for causing water pollution Mr. Abedin called for taking effective measures to address this 'image crisis' issue.

Mr. Md. Shakawat Ullah, General Secretary, Bangladesh Tanners Association:

Mr. Shakawat Ullah recalled that although the government had allocated land and necessary funds for setting up the CETP—necessary progress could not be achieved in this regard due to the failure of the concerned Chinese contractor. He recalled that Chinese firm 'Lingzhi Environmental Protection Co. Ltd' received the work order back in 2013 for constructing the CETP and was supposed to complete its task within 18 months. However, he said firm handed it over to BSCIC in June 2021 without completing the full task. He observed that the machine left by the Chinese firm is beyond repair and therefore needs to be replaced. In this context, he called for initiating a new project to revitalize the establishment of the CETP. Noting that the quality of Bangladeshi rawhide is better than most of its competitors—he observed that Bangladeshi tanners and manufacturers are still not able to get fair prices for their products due to the absence of LWG certification. He called for establishing slaughterhouses at divisional headquarters to maintain the quality of rawhides. Recalling that the rawhides are subject to 5 percent VAT—he called for reviewing and rationalizing this rate.

Open Discussion

At this stage, the floor was opened for suggestions and recommendations from the participants. During this session, the following observations and recommendations came from them:

- The Leather sector should be provided with the same kind of supports and incentives that are provided to RMGs.
- The success stories of the competitor countries should be analysed and replicated in Bangladesh.
- Need-based policies should be formulated by streamlining the strategies through the proposed Leather Development Authority.
- The government should lease out the CETP to a private sector entity to ensure its prompt operationalization and smooth running.
- It was claimed that the larger players often receive undue priority at the cost of the SMEs in the country's leather sector. Against this backdrop, it was informed that recently, BSCIC had stopped issuing licenses to commercial exporters who do not have their own tanneries. In this context, it was explained that those exporters are no longer able to export their products in the overseas market on their own. It was also informed that such commercial exporters are not eligible for any export incentive including duty drawback facilities-- as these incentives are reserved for manufacturers only. It was also clarified that currently there is no SME among the tannery owners. However, it was also recalled there are some SMEs among the leather goods manufacturers.
- Bangladesh should look to sign Free Trade Agreements (FTAs) or Preferential Trade Agreements (PTAs) with the major export destinations to prepare the sector for post-LDC graduation scenario. Such bilateral agreements would create the compulsion for strengthening the supply chain while creating enabling environment for investment.

- Special financing package can be devised to support the rawhide traders during the annual Eid al-Adha festival.
- Special training programs can be arranged at the grassroots level on the proper preservation of rawhides.
- Specific areas of skill gaps in the leather sector should be identified. Consequently, those gaps should be adequately addressed in collaboration with the relevant academic institutions.
- Private entities can be provided with necessary incentives for setting up their own CETPs.
- There should be a designated focal point in every upazilla for regular and updated record keeping and monitoring of animal slaughtering and rawhide collection.

Speech by the Special Guest: Mr. Md. Saiful Islam, President, Metropolitan Chamber of Commerce and Industry (MCCI)

Mr. Md. Saiful Islam, in his remarks, mentioned that the abundance of raw materials, availability of skilled and semi-skilled workforce and geographic location as major advantages for Bangladesh's leather industries. Identifying the relationship between apparel sector and the leather goods sector—he called for establishing linkage between the two so that apparel buyers from Bangladesh are attracted to source their leather goods from the same country. He also observed that Bangladesh should look to receive ISMs from its major export destinations until the year 2031 before opting for GSP plus. Underscoring the importance of 'speed to market' issues for boosting the country's exports—he emphasized on enhancing the efficiency of seaports and airports through engaging private operators. He also stressed simplification and streamlining of customs procedures.

Speech by the Special Guest: Mr. Abdul Baki, Member (Secretary), Industry and Energy Division, Planning Commission

Noting that many big businesses are relocating their manufacturing plants from China and other traditional manufacturing hubs to new destinations—Mr. Baki said that Bangladesh's leather goods manufacturers should take the advantage of such trend. He also emphasized attracting more foreign direct investment in the leather sector to facilitate technology transfer in this arena. In this context, he also stressed on improving the ease of doing business in the country. He also observed that enhancing the logistics competitiveness of the country would be vital for furthering the growth of this sector.

Speech by the Chief Guest: Mr. Nurul Majid Mahmud Humayun MP, Hon'ble Minister, Ministry of Industries

The Hon'ble Minister, in his speech, said that a countrywide network should be established for the collection and preservation of raw hides for the improvement of the local leather industry. He also observed that the livestock offices of the government at the district and upazilla level can play a vital role in the proper monitoring, collection and preservation of rawhides. He also emphasized establishing storage facilities at the grassroots level for the preservation of rawhides. He stressed the need for arranging training facilities at the local level on timely and efficient processing of rawhides. He underscored the need for sincerity and integrity of the private entrepreneurs for the improvement of the sector.

Concluding Remarks by the Chair: Ms. Sharifa Khan, Secretary, Economic Relations Division, Ministry of Finance

Ms. Sharifa Khan, in her concluding remarks, recalled that ERD, as the main focal point on LDC graduation issues of the government, had been organizing a series of workshops, seminars and focus group discussions on various sectors that are likely to be impacted by LDC graduation of the country. She expressed her hope that the suggestions and recommendations coming from this workshop would provide important inputs into relevant policy making. Lastly, she thanked all the participants for their input and suggestions.

Major Recommendations

The workshop came up with the following major recommendations:

- Operationalizing the Leather Development Authority under the Prime Minister's Office; may Forming a specialized team of technical experts and seasoned entrepreneurs by the Leather Development Authority who possess the necessary technical know-how;
- Ensuring effective functioning of CETP with highest policy priority;
- Considering leasing out the CETP to private sector entity for ensuring its smooth running;
- Establishing solid waste management facilities and modern dumping yard;
- Creating a long-term soft loan facilities by Bangladesh Bank for 15-20 years amounting to at least Tk. 500 core with low-interest rate for the entrepreneurs (Tk. 300 crore for CETP and Tk. 200 crore for individual ETP for 10 large enterprises);
- Preparing at least 15-20 factories for LWG certification within the next five years;
- Establishing Rawhide collection centers at the upazilla level for proper collection and preservation of rawhides from grassroots stage (The livestock offices of the government at the district and upazilla level can play a pivotal role in the proper monitoring, collection and preservation of rawhide. There should be a designated focal point in every upazilla for regular and updated record keeping and monitoring of animal slaughtering and rawhide collection. Special training programs can be arranged at the grassroots level on the proper preservation of rawhides. Special financing package can be devised to support the rawhide traders during the annual Eid ul-Adha festival);
- Releasing on fast track basis the Hazaribagh Tannery Plots (Prompt release of the land will allow entrepreneurs to fulfill their loan obligations and allocate resources towards implementing necessary compliance measures);
- Providing policy support to leather exports with equal treatment like RMG and ensuring policy continuity for at least 5 years.
- Considering enhancing cash incentives on exports from 10 percent to 15 percent till the LDC graduation becomes effective in 2026.
- Reducing Tax/VAT on the imported chemicals, input, raw materials
- Focusing on sea and airport efficiency by involving international operators with extensive experience in port and airport operations for substantially reduce lead time;
- Installing mechanized desalting machines and establishing chrome recovery plants for enhanced sustainability;
- Establishing dedicated Resource Recovery Centers for promoting the use of by-products;
- Regularizing occupational health and safety inspections by the DIFE while ensuring accountability and transparency in the process;

- Undertaking comprehensive G2G collaboration for skills development for boosting the technical capacity of the Institute of Leather Engineering & Technology of Dhaka University and adopting the international best practices from successful models like India and Vietnam. Building a critical mass of professionals capable of using cleaner technologies in the tannery Industrial Estate.
- Establishing standard slaughterhouses to enhance traceability and to brand Bangladesh as a responsible source;
- Taking action to sign Free Trade Agreements (FTAs) or Preferential Trade Agreements (PTAs) with the major export destinations in order to prepare the sector for post-LDC graduation scenario;
- Establishing Linkage between the apparel sector and leather goods manufacturers so that apparel buyers from Bangladesh are attracted to source their leather goods from the same country.

Annex:

- Recommendations from Bangladesh Tanners Association
- Recommendations from MCCI