



Rijksdienst voor Ondernemend
Nederland

Business Opportunity Scan Leather Sector Bangladesh

Commissioned by the Ministry of Foreign Affairs

*>> Duurzaam, Agrarisch, Innovatief
en Internationaal ondernemen*

Commissioned by the Ministry of Foreign Affairs
On behalf of the Embassy of the Kingdom of the Netherlands in Dhaka, Bangladesh

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Introduction

This business opportunity scan in the leather sector in Bangladesh provides insight into the current and (expected) future state of play in the Bangladesh leather sector. In particular, this study addresses the position of Bangladesh in the global leather supply chain, the growth potential of the sector, key factors that could positively or negatively influence the development of the sector, and opportunities for Dutch companies to contribute to the development of a sustainable Bangladesh leather sector.

Background

The leather sector is, after the Ready-Made Garments (RMG) sector, the second-largest contributor to Bangladesh exports. Bangladesh boasts significant livestock and leather production (see table 1), ranking fourth in Asia on bovine and goat products after India, China and Pakistan. Leather from Bangladesh is considered to be of good quality, and leather goods and footwear factories are increasingly able to meet the high demands of western brands, although leather quality consistency remains a challenge due to a lack of investment in modern technology. Growth in recent years has been slow but steady with the exception of 2015-2016, during which period the Bangladeshi leather industry suffered a general setback that in some cases reduced production to 50% of its capacity. This setback was caused by a worldwide reduction in demand for leather goods and footwear, whereas the demand for leather car seats – not produced in Bangladesh – continued to increase. Although setbacks occur periodically, experts suggest that there is substantial room for further expansion of the sector, with the government of Bangladesh providing significant financial incentives for investors in this sector. These developments may provide new or increased opportunities, and in particular for Dutch companies that supply raw materials, chemicals, safety equipment, machines, cleantech solutions and design, among other things. The research performed for this business scan suggests that there are also opportunities for the agro and food safety sectors upstream of the leather value chain.

At the same time, the sector faces a set of major social and environmental challenges in Bangladesh. Especially in the area of leather tanning, concerns are numerous and include non-adherence to workers' rights, suspected child labour in some sector supply channels, disregard of occupational health and safety, and widespread environmental pollution. In an effort to address the latter problem, the government of Bangladesh is now forcing tanneries to move from their present location in Hazaribagh, Dhaka, to a new industrial zone in Savar, where it has financed the construction of a Central Effluent Treatment Plant (CETP) for the entire zone. While this decision looks good on paper, many concerns remain as to the envisaged environmental efficiency and management of the CETP, the absence of any guidance for tannery owners on the design and construction of the tanneries, insufficient plans on the safe use, transport and storage of chemicals, the apparent lack of facilities for workers and their families, the absence of required infrastructure such as health care, schools or shops, and so on.

While the social and environmental challenges for leather goods and footwear factories are somewhat less pressing than those faced by the tanneries, there are concerns for occupational health and safety, fire safety, and the treatment of wastewater and solid waste. There seems to be little or no evidence of child labour employed in the leather goods manufacturing sector.

Most of the studies which have so far been executed focus on the problems identified in the Bangladeshi leather sector and how they can be resolved. This scan intends to focus more on the opportunities which these problems offer to the Dutch private sector, and how the Dutch private sector can be of help in this matter.

Bangladesh may apply for the GSP Plus status from the European Union when and if it graduates to the developing country bracket in 2021. As a least developed country, Bangladesh has been enjoying zero-duty benefits on exports to the EU since 1971 under its Everything But Arms scheme. Once it becomes a middle income country, however, Bangladesh will no longer be eligible for this privilege. Instead, the GSP Plus scheme may become applicable for Bangladesh, which will require the country to fulfil a number of conditions. Strengthening workplace safety, improving labour rights, safeguarding the environment and reducing corruption are some of the major prerequisites for receiving the GSP Plus status from the EU, the destination for the majority of Bangladeshi leather and leather goods production.

On the basis of recent experiences in the garment sector, which has enacted substantial labour and safety changes, it is expected that the engagement of the private sector could result in a win-win situation. The further sustainable development of the leather sector in Bangladesh will require significant investments in knowledge and technology, which will generate interesting opportunities for Dutch companies.

In the context of opportunities, the Netherlands could act as a supplier of services and technologies, whereas Bangladesh could act as a supplier of processed leather and manufactured goods.

Research methodology

The present **Business Opportunity Scan** report is based on personal interviews with a wide range of stakeholders both in the Netherlands and in Bangladesh, covering the following sectors:

- Cattle improvement
- Slaughterhouse improvement
- Raw hides and skin ex-importers
- Hide and skin traders
- Tanneries
- Machine manufacturers, traders and importers or their local agents
- Tannery engineering bureaux
- Effluent treatment experts
- Chemical companies
- Leather ex-importers
- Shoe manufacturers/ex-importers
- Garment manufacturers/ex-importers
- Leather goods manufacturers/ex-importers
- Leather goods and footwear manufacturers associations
- Labour union of tannery workers
- Environmental NGOs

Each interviewee from the aforementioned stakeholder groups was asked which issues they were facing and which possibilities they saw to develop further business opportunities through a close collaboration with their counterparts in the Netherlands and Bangladesh respectively. The answers have been elaborated and woven into the result of this final report.

Acknowledgements

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Thanks are due to all the persons met in the course of the research, listed below in alphabetical order.

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Organisation	Website	Available information on
BCIC	www.bcic.gov.bd	Co-management CETP Savar. Contact point for all chemical interest in Bangladesh.
BEPB	www.epb.gov.bd	Trade information centre and export database, provider of data on export from Bangladesh.
BIDA	www.boi.gov.bd	Foreign investment information/facilitation centre. One-window stop for foreign investors to Bangladesh. Website providing basic information.
BSCIC	www.bscic.gov.bd	Promoter of Bangladeshi Small, Medium and Cottage Industries. Focal point for obtaining contacts and assistance.
BTA	www.tannersbd.com	Representative body of Bangladeshi tanners and information point for contacts with stakeholders. List of members.
ILO	www.ilo.org	Publication and promotion of international labour standards.
CBS	www.cbs.nl	Statistics Netherlands (<i>Centraal Bureau voor de Statistiek</i>). Official Dutch agency for statistics and statistical publications.
International Council of Tanners	www.leathercouncil.org	Forum for members to meet and exchange views and information. Statistics and market information on the leather industry.
World Statistical Compendium	www.fao.org/3/a-i4651e.pdf	Worldwide statistics on livestock population, raw hides and skin production, leather and footwear.
LFMEAB	www.lfmeab.org	Representative body of export-oriented manufacturers and exporters of leather goods and footwear in Bangladesh.
LWG	www.leatherworkinggroup.com	Information for all stakeholders of the leather value chain (LVC), including manufacturers, suppliers, academic institutions on corporate social responsibility (CSR) and environmental benchmarks.
Ministry of Commerce	www.mincom.gov.bd	Trade portal providing information on trade statistics, tariffs and GSP facilities.
MVO Nederland	www.mvo.nl	Promotes a sustainable and internationally competitive leather supply and distribution chain.
Netherlands Embassy Dhaka	www.nederlandwereldwijd.nl/landen/bangladesh	Representative body of the Netherlands in Bangladesh. Provider of trade contacts and information.
Netherlands Enterprise Agency (RVO)	www.rvo.nl	Provides information on business support, subsidies and trade development.
Tannery of the Future	www.tanneryofthefuture.org	Provides sustainability tool for tanneries, wholesalers, fashion brands and retailers to improve sustainability in leather production.
UNSD	www.unstats.un.org	Provider of world trade statistics.
WITS	www.wits.worldbank.org	Provider of world trade statistics.

Acronyms

B2B	Business-to-Business
BFLFEA	Bangladesh Finished Leather, Leather Goods and Footwear Exporters Association
BH&SMA	Bangladesh Hides & Skin Merchants Association
BCIC	Bangladesh Chemical Industry Corporation
BEPB	Bangladesh Export Promotion Bureau
BIDA	Bangladesh Investment Development Authority
BSCIC	Bangladesh Small Cottage Industry Corporation
BTA	Bangladesh Tanners Association
BTUC	Bangladesh Trade Union Centre
BUET	Bangladesh University of Engineering and Technology
CETP	Central Effluent Treatment Plant
DC	Developing Country
EC	European Commission
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ERP	Enterprise Resource Planning
GSP	General System of Preference
ILO	International Labour Organisation
ITUC	International Trade Union Confederation
LDC	Least Developed Countries
LFMEAB	Leather goods and Footwear Manufacturers/Exporters Association of Bangladesh
LVC	Leather Value Chain
LWG	Leather Working Group
MOC	Ministry of Commerce
MVO	Maatschappelijk Verantwoord Ondernemen (Corporate Social Responsibility – CSR)
RVO	Rijksdienst Voor Ondernemend Nederland (Netherlands Enterprise Agency)
SME	Small and Medium Enterprises
SWOT	Strength, Weaknesses, Opportunities, Threats
TOTF	Tannery Of The Future
UNSD	United Nations Statistics Division
WITS	World Integrated Trade Solution

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1. Executive summary

This business opportunity scan of the leather sector in Bangladesh provides insight into the current and (expected) future state of play in the Bangladesh leather sector. In particular, this study addresses the position of Bangladesh in the global leather supply chain, the growth potential of the sector, key factors that could positively or negatively influence the development of the sector, and opportunities for Dutch companies to contribute to the development of a sustainable Bangladesh leather sector.

Bangladesh is the fourth-largest livestock holder in Asia. Smallholders, for whom an animal represents their savings and family assets – just as money in the bank – rear livestock in the countryside. Animals are traded in dedicated livestock markets all over the country. There are no professional slaughterhouses in Bangladesh; animals which are raised for their milk and meat are processed after their productive life by small butchers in the case of cattle and usually through home slaughter in the case of small ruminants. This does not constitute a solid basis for hygiene and food safety. Hides and skins are being traded in a pyramid system where small collectors sell to bigger collectors, who sell to still bigger collectors, ending with traders who sell to the tanneries. Export of raw hides and skins is prohibited. Bangladesh is considered to be a country where good-quality leather is produced, albeit with quality consistency challenges. The tanneries are, with a few exceptions, situated in the industrial area of Dhaka called Hazaribagh, which is considered one of the most polluted and unhealthy places in the world. Workers are performing their duties in rather challenging circumstances with regard to both their health and labour conditions, which are far removed from basic ILO standards. The Government of Bangladesh has decreed that tanneries must move away from the Hazaribagh industrial area – once on the outskirts of the city but now in the city centre – to a new designated industrial area called Savar, where it has developed a Central Effluent Treatment Plant. Although this move is under way and a number of tanneries have meanwhile started production in Savar, at the moment of writing this document the CETP is not yet operative. This again creates an environmental challenge, with many people fearing that Savar will become a copy of the present Hazaribagh situation within the next five years. The country has a few medium-sized shoe factories, as well as a number of small leather goods manufacturers, all of which export their products (though only a few to the Netherlands).

The Netherlands, on the other hand, is a highly industrialised country with a high-tech approach to all stages of the leather value chain, starting with sophisticated technologies for cattle rearing with the objective of meat and milk improvement. Dutch slaughterhouses are of the highest quality in terms of animal welfare, hygiene and food safety. Hide and skin traders have traditionally traded all over the world and are still very active and innovative. One example of this innovation is the development of technologies which reduce the use of salt for hide and skin conservation, as salt is extremely difficult to remove from tannery effluent water. There are few tanneries in the Netherlands, but these produce high-quality leather for an international client base. Like the tanneries, shoe factories are also limited in numbers, although some are producing very large quantities. The Netherlands imports ready-made footwear from Bangladesh, though not on a regular basis. Leather goods manufacturers are mainly SMEs who use local production as well as articles produced abroad, including (on a limited basis) in Bangladesh.

The Dutch chemical industry for the leather value chain is among the finest in the world, being a frontrunner in the active development of cleaner and more sustainable processing technologies with biodegradable chemicals. The Dutch chemical industry is not a main supplier of the Bangladeshi leather industry at the moment, but it is determined to increase its impact in the wake of the move of the tanneries to the new Savar industrial area.

Even though the Netherlands is a relatively small country, it is an ideal partner for the leather value chain in Bangladesh. Dutch enterprises are able on the one hand to provide knowledge, engineering and technology, and on the other hand to become a buyer of Bangladeshi leather products both for domestic use and for trade with other countries.

Dutch companies can become important partners in the upstream part of the Bangladeshi leather value chain, where modern technology is still an unknown factor. Cattle and small ruminants can be improved to supply more and better milk and meat. Industrial animal rearing can be introduced, which would be a completely new industry for Bangladesh with a huge prospective market and a consumer base of 160 million inhabitants. Tannery owners or other industrialists will be potential or even ideal partners to create professional farms. Similarly, the introduction of professional and hygienic slaughterhouses would be a dramatic and necessary improvement for the Bangladeshi food safety. Perfect partners in this process are the local municipalities, who are responsible under Bangladeshi law for slaughter operations and who should be made aware of the need to invest in safe meat processing.

Dutch chemical companies, engineering bureaux, machine manufacturers, machine reconstruction companies and tanneries could partner with Bangladeshi tanneries for leather improvement, cleaner processing, the sales of machines and the layout of tanneries. In terms of effluent treatment technology, management and maintenance of the CETP, and particularly process and effluent monitoring and certification, Dutch engineers and chemists would also be able to make a significant contribution to the environment and sustainability of the leather sector.

The Bangladeshi LVC may also benefit from collaboration with Dutch labour organisations and NGOs, who could assist them in improving the labour conditions in the country, ideally in partnership with their local counterparts. This activity might not yield direct economic benefits, but it will definitely be a good investment in creating a better awareness of compliance and CSR issues in Bangladesh. Although such issues are not (yet) on top of the priority lists of local industry owners, these issues are definitely going to play a significant role in the development and profitability of the Bangladeshi leather value chain in the medium and long term. Without compliance to ever-increasing customer demands, the sector will face serious setbacks which are difficult to reverse.

The Netherlands has up until now been a relatively small trading partner for Bangladesh in the LVC. Huge opportunities exist, however, in focusing on the improvement of a sector where the industry is weak, so that one can envision a dramatic growth if stakeholders in both countries will become more aware of each other.

2. Leather industry size and trade worldwide¹

The leather industry is based on a raw material that is a by-product or waste product of the meat industry. A variety of different hides and skins are used worldwide; in 2015, livestock was composed of 34% cattle, 24% sheep, 21% goats and 21% pigs.² Available leather worldwide is composed of 23% cattle, 34% sheep, 30% goat and 13% pig per animal hide, whereas in terms of skin surface this translates to about 59% cattle, 20% sheep, 24% goat and 17% pig.

International trade has always been a major element of the sector. This trade begins with the transport of raw or semi-processed hides and skins from source countries to other, more industrialised countries, where they are further processed to produce finished leather. More value is added in these transit or destination countries, as finished leather products (footwear, upholstery, garments, leather goods, gloves, and so on) are created from the processed leathers. As yet it is not possible to trace the trade of hides, skins, leather and leather goods worldwide, because only part of the trade is conducted in a transparent and professional way. It is realistic to imagine a calf being born in the DR Congo and crossing into Rwanda, where it is sold for meat. Its hide can then be traded via Burundi to Tanzania, or for that matter via Uganda to Kenya. Tanzanian and Kenyan exporters can process or sell the hide, for example to India, where it is processed into leather for export to China and finally made into footwear or leather goods. Ultimately, the Chinese factory sells its products to buyers worldwide. Although there is a requirement of transport, export and health documentation, none of these documents are firmly linked to the product. As a consequence, there is no possibility to trace a leather product to any of its production or transport stages. It is only through transparency of supply that consumers, brands and their supply chains can ensure that the materials used in a product have been sustainably selected and sourced.

Table 1 | Worldwide production of livestock, hides and skins²

Production status		x 1'000 head		
Livestock	Cattle	Sheep	Goat	Variation
2015	1,674,814	1,170,145	1,020,705	+1.64%
2014	1,674,283	1,149,053	980,088	-1.01%
2013	1,661,941	1,174,831	1,005,603	+1.05%
2012	1,642,531	1,167,086	992,924	+0.86%
2011	1,635,149	1,147,564	979,868	
Raw hides & skins		x 1'000 pieces		
2015	366,867	543,544	479,413	-1.96%
2014	371,173	553,368	493,016	+1.03%
2013	366,399	550,031	486,656	+1.61%
2012	355,268	546,282	479,363	+0.95%
2011	353,628	539,371	474,919	

Table 1 indicates a relatively stable livestock over the past five years and a relatively stable production of hides and skins, as the decline in the meat consumption of developed countries is offset by an increase in the meat consumption of developing countries. It is expected that this trend of meat consumption will continue in the short and medium term.

¹ Source: FAO – World Statistical Compendium for raw hides and skins, leather and leather footwear, 2015.

² Leather Magazine, 15 April 2015.

Leather quality differs depending on livestock characteristics, climate and environment, livestock facilities, animal welfare, conservation, and processing facilities and technology. The leather sector is a good example of early globalisation. It is increasingly becoming a buyer-driven commodity, a development which forms most of the sector from cradle to grave – or rather from farm to boutique. The leather value chain forms an integrated industrial chain with marketing and manufacturing units that are independent parts of global production networks, whether these are for the raw materials or the finished products. Hides produced in the USA are quoted on the Chicago Stock exchange and are a commodity that establishes its own prices in the same way that other commodities such as oil and steel do. This pricing is based on supply and demand, which are in turn influenced by fashion trends. The Chicago quotation is the benchmark which other markets follow, depending on their geographical position and their respective hide and skin quality. Major target markets of the finished products are North America, Europe and Japan, whereas developing countries purchase lower-quality leather or leather goods, often “production rejects” that are not suitable for export to the industrialised world. Design and marketing inputs come from the industrialised areas, often accompanied by technical assistance aimed at reaching product and production levels suited to customer demand. China is rapidly increasing in importance within the leather industry as a consumer market. After a decline in internal consumption during 2015 and 2016 due to the worldwide economic crisis, the Chinese leather market is forecast to resume growth in 2017. Even though the fashion industry has not favoured the consumption of leather in recent years, the declining demand of the footwear market is more than compensated for by the increasing demand in the upholstery market. This increase is particularly visible in the automobile and aeronautical sectors, which are absorbing the volumes that were previously taken up by the footwear industry.

The meat industry, which supplies the raw materials to the leather industry, was worth US\$ 18.3 billion in 2007. The value of raw hides and skins comprises about 10% of the meat value, whereas leather had a total value of US\$ 72.1 billion in the same year (see table 2), four times the value of the industry that supplies its raw materials.³ Today, the leather market is estimated to be worth more than US\$ 100 billion, though accurate figures are not yet available. Whereas developed countries produced the great majority of leather 20 years ago, nowadays they together produce less leather than China on its own due to the industry shifting “east”. With labour and production costs now increasing in south-east Asia as well, experts predict that the next industrial move will be toward the African continent.

Table 2 | Trade value

Value of trade within the value chain in 2007, in billion US\$		
Meat	18.3	20.3 %
Raw hides and skins	5.1	5.6 %
Leather	19.7	21.8 %
Leather footwear	38.2	42.3 %
Leather goods and garments	9.1	10.0%
Total	72.1	100 %

Source: ICT – International Council of Tanners, 2011

³ More recent statistics are unavailable, as newer statistics also compound meat sectors that are not suppliers of the leather industry, such as poultry.



Since humans are omnivores and meat is often part of their regular diet, hides and skins have always been available and used from early on to provide shelter, clothing and footwear. Every day, the meat of about 1 million cattle, 1.4 million sheep and 1.3 million goats is processed for human consumption. The hides and skins thus produced could represent an insurmountable health and environment hazard if buried, burned or otherwise disposed in an untreated form.

Figure 1 | *The oldest profession: tanning*

2.1 Raw material – a sustainable resource

Without meat production, there would be no possibility of sustaining a leather industry. The leather industry, notwithstanding its use of (in some cases dangerous) chemicals, transforms a potential health risk into a fashionable and durable commodity. Leather is desired by many users as footwear, garments, daily usable objects and upholstery, and it is perceived by these as healthy, durable, luxurious and fashionable. The leather industry, with only a few exceptions, positions itself as sustainable and environmentally conscious, invests in energy savings and technology, and spends large amounts of money to be compliant with consumer safety and effluent legislation. In general, again with a few exceptions, the industry perceives a shared responsibility to avoid animal maltreatment.

2.2 Hide and skin production

The world's cattle livestock amounts to an estimated 1,674,814,000 animals, with India being the largest livestock holder. India is followed by Brazil, China and the USA, with Bangladesh positioned eleventh. Sheep account for 1,170,145,000 head, with China, India, Australia and Sudan being the largest livestock holders. The statistics do not make a difference between hair sheep and wool sheep. Both Bangladesh and the Netherlands are ranked in quite a low position.

The world's population of goats amounts to 1,020,705,000 head, most of which are found in China, India, Pakistan and Nigeria. Bangladesh ranks fifth, whereas the Netherlands holds a rather small livestock of goats (see Appendix 1).

India is the largest producer of raw hides, followed by China and Brazil, which two have traded places compared to their livestock situation. Bangladesh is positioned within the first quarter of rawhide producers, whereas the Netherlands is ranked in the second quarter.

Bangladesh is not statistically represented in the production of sheepskins, whereas the small production in the Netherlands puts it in a rather low position.

The Netherlands is statistically insignificant in the production of goatskins, whereas Bangladesh is ranked third after China and India.

The statistics do not take stock of the differences between hair and wool sheep, and compute these as one (see Appendix 2).

2.3 Leather production

China is the largest producer of leather, followed by Brazil, Russia and Italy for bovine leathers and by India, Turkey and Italy for leather made from goat and sheep. The shift in position for countries that are large livestock holders but not large leather producers clearly indicates the globalisation of the trade in raw materials, of which Italy and Turkey are clear examples. Neither Bangladesh nor the Netherlands are among the ten largest producers of bovine leathers, though both are positioned amongst the first quarter. Bangladesh is the tenth producer in the world for the production of goat and sheep leather, whereas the Netherlands only produces these leathers in very small quantities (see Appendix 3).

2.4 Leather import and export

China and Italy are the largest importers of leather, before Spain and Germany for bovine leathers and India and Spain for sheep and goat leathers. Bangladesh is not a significant importer of finished leathers (see Appendix 3).

2.5 Footwear production

China and Italy are the largest producers and exporters of leather footwear. Surprisingly, Mexico is also an important producer of shoes with 296.4 million pairs, but it exports only 10.4 million pairs. The Netherlands and Bangladesh are relatively small producers of shoes, although there is large statistical gap between the 42.2 million pairs of shoes exported by the Netherlands and the mere 1.9 million pairs produced there. Western consumer countries such as the USA, Germany and the United Kingdom are the main importers of shoes, though China takes third place before the UK. The Netherlands takes the ninth place in the world for leather footwear imports, whereas imports of leather shoes to Bangladesh are insignificant (see Appendix 4).

3. Bangladesh leather position 2015

In 2015, Bangladesh exported to approximately 200 countries in the world (see Appendix 5), of which around 80 countries purchased leather and/or leather goods. The Bangladeshi leather industry is positioned fourth in Asia after India, China and Pakistan. Exports of leather from Bangladesh to the Netherlands amounted to US\$ 216,109.10, ranking it twenty-fifth among its largest export partners. Leather goods accounted for US\$ 1,921,278.49, ranking it twelfth, whereas footwear was worth US\$ 57,535,578.10, ranking it the fourth export partner for this commodity in 2015.⁵

In 2015, the Netherlands ranked tenth among the largest export partners of Bangladesh, covering commodities with a total value of almost US\$ 850 million.

Appendix 6 graphically represents the ten largest export partners of Bangladesh for general exports in all sectors, the exports in leather, leather goods and footwear respectively.

The potential for exports from Bangladesh to the Netherlands is far larger than the actual trade at this moment. The reason for this situation is most likely that only a limited number of Dutch importers and manufacturers are aware of the supply potential of leather-related enterprises and their products in Bangladesh. Tables 3 and 4 below indicate that the Netherlands is at the moment only an occasional buyer of Bangladeshi leather and leather products. Nonetheless, Bangladesh has the potential of becoming a regular supplier of Dutch importers of leather and leather goods, as it already is for footwear importers. Dutch exports to Bangladesh in the leather sector are insignificant or wholly absent. In the area of chemicals for the leather industry alone, Bangladesh can become a far more important market for Dutch chemical suppliers than it is at this moment (see table 5). The author assumes, based on his interviews with Dutch importers and exporters, that their knowledge of the Bangladeshi market is limited. The present study is meant to contribute to increasing that knowledge.

Table 3 | Dutch imports from Bangladesh⁴

Netherlands Import US\$	2011	2012	2013	2014	2015
Leather	147	25,978	74,221	576,016	47,663
Leather goods	92,046	105,261	361,130	535,180	2,055,078
Footwear	18,792,590	18,429,014	24,930,477	36,723,118	52,909,485

Table 4 | Dutch exports to Bangladesh⁶

Netherlands export US\$	2011	2012	2013	2014	2015
Leather	-	-	-	-	185
Leather goods	41,339	1	9,966	3,738	244
Footwear	-	-	-	-	-
Leather chemicals (3202)	1,505,653	1,888,890	2,705,572	2,801,642	2,029,196

From table 4 above, it is clear that the demand in the Netherlands for Bangladeshi leather products has increased over the last 5 years.

⁴ Source: UNSD.

4. Dutch leather position 2015

The Netherlands is both a trading country and a producing country for leather, leather goods and footwear. Although few Dutch tanneries exist, there are 242 shoe factories,⁵ 2.760 footwear shops and 3.135 retailers that sell both leather goods and footwear.⁶ Leather and leather goods production and imports are rather small (see table 3 above for an indication) compared to the footwear trade, but several small enterprises have expressed a keen interest to source or continue to source in Bangladesh, provided that its production is sustainable.

It has proven impossible during the preparation of this business scan to approach the larger footwear stakeholders in the Netherlands and to obtain from them or their sector association reliable figures on yearly production, import and export.

Table 5 | Dutch raw hides and skin imports and exports in 2015, in US\$⁹

Imports		Rank	Exports	
World	2,099,493,230		World	1,919,275,670
Germany	409,639,880	1	PR China	492,517,300
Italy	271,601,270	2	Germany	254,843,020
France	190,613,430	3	Italy	200,983,070
UK	190,341,140	4	Belgium	156,426,940
Belgium	148,454,190	5	Vietnam	127,734,140
PR China	127,190,820	6	Hong Kong	116,450,950
Denmark	118,762,470	7	India	105,418,940
Spain	81,880,760	8	France	72,151,210
Poland	72,146,150	9	UK	54,878,690
Hong Kong	60,012,610	10	Poland	46,493,620
Bangladesh	2,103,590		Bangladesh	0

Table 6 | Dutch footwear imports and exports year 2015⁷, in US\$

Imports		Rank	Exports	
World	4,223,668,700		World	3,369,408,810
PR China	851,964,650	1	Germany	868,927,970
Belgium	607,012,470	2	France	453,463,830
Germany	590,347,710	3	UK	451,536,880
UK	316,218,910	4	Italy	396,545,010
Portugal	293,430,180	5	Belgium	316,418,640
Italy	291,173,260	6	Spain	164,043,520
Vietnam	282,541,880	7	Poland	93,146,310
Hong Kong	147,885,700	8	Sweden	80,742,040
France	105,632,070	9	Austria	66,854,220
Indonesia	89,524,100	10	Czech Republic	52,236,560
Spain	71,184,590	11	Portugal	49,004,400
Bangladesh	62.143.330	12	Denmark	42.943.230

⁵ Source: https://nl.wikipedia.org/wiki/Lijst_van_Nederlandse_schoenfabrieken.

⁶ Source: CBS.

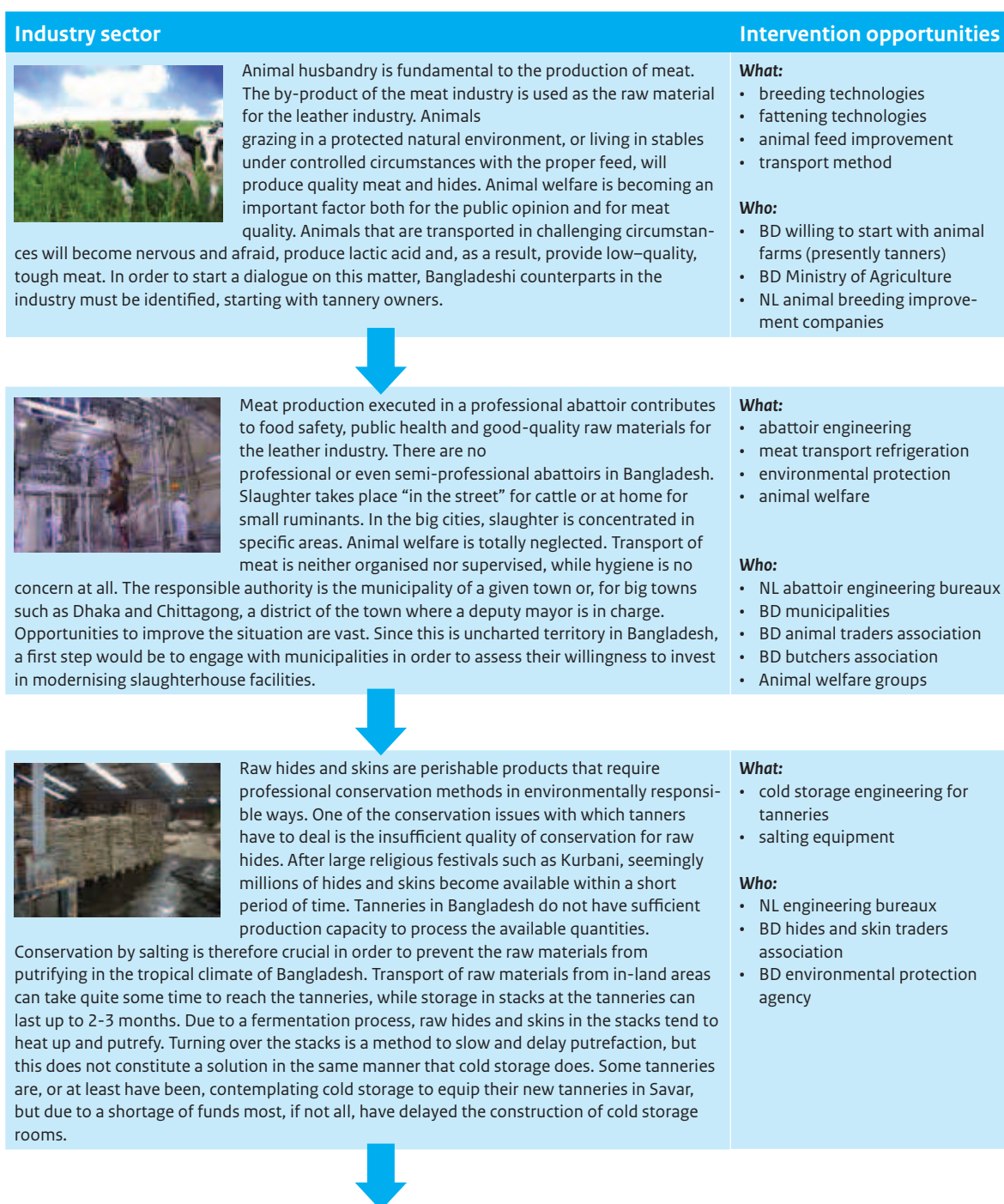
⁷ Source: WITS.

It should be noted that the WITS statistics do not differentiate between leather footwear and non-leather footwear. The footwear imports from Vietnam and Indonesia are certainly almost always non-leather shoes, while a large part of those from China are non-leather. The statistical data for imports from Bangladesh in tables 3 (source: UNSD) and 5 (source: WITS) above are consistent if one takes into account that the figure of US\$ 9,233,845 could be partly comprised of non-leather footwear.

The Netherlands exports chemicals with a total value of US\$ 68,282,690,080 worldwide, of which only US\$ 81,620 to Bangladesh. Chemical imports into the Netherlands account for US\$ 48,371,133,680 worldwide, of which US\$ 37,246,510 from Bangladesh. Surprisingly, the WITS statistics indicate that chemical exports from the Netherlands to Bangladesh are negligible, whereas Bangladesh imports chemicals from worldwide suppliers have a total value of US\$ 171,083,780.


5. Value chain analysis

5.1 Value chain description



Industry sector	Intervention opportunities
 <p>Tanning is the most important operation to transform perishable collagen (raw hides and skins) into durable leather. The move from Hazaribagh to Savar offers a huge opportunity for the tannery owners to upgrade existing and wholly insufficient methods of tanning and tannery management to a new and higher level. This upgrade concerns equipment, processing technology and quality consistence. Labour conditions are in dire need of improvement if Bangladesh wants to remain a supplier of leather to brands and large distribution chains. Tannery owners tend to be conservative in their investments and consider used or reconditioned equipment, which does not generally correspond to the latest laws and conceptions of quality consistence, environmental and corporate social responsibility. Process control and automation are not being considered, as these are wrongly seen as a luxury. Instead, they are a tool that pays itself back over even a short period of time (1-2 years) in terms of better quality, energy, water and chemical savings. Most of the new tannery designs are made by local engineering bureaux who have little or no experience with the construction of modern tanneries. None of the tannery engineering bureaux have experience with process control and automation. In the first phase of Savar, the tanneries have been designed and a large part is under construction. The Government of Bangladesh has announced, however, that it will authorise a Phase II which, with the right approach aimed directly at the tannery owners, will provide Dutch companies with good opportunities. Dutch chemical companies could invest in laboratories and active consulting of the tanneries in the use of modern tanning chemicals aimed at clean tannages. At the end of this transformation process, the tanneries can deliver fully finished leather which is saleable to Dutch shoe factories, particularly shoe factories with large productions in keeping with the large volumes produced by Bangladeshi tanners. It should be noted that Bangladeshi domestic hides are very suitable for fine grain leathers for shoes and bags, but that they are not suitable for upholstery leathers. Tanners who intend to produce upholstery leathers will have to source their supply from exporters in Oceania, Brazil, North America and Europe, who have cattle suitable for this kind of product. This presents an obvious opportunity for Dutch hide and skin merchants.</p>	<p>What:</p> <ul style="list-style-type: none"> • tannery engineering • machine production • chemical supply • environmental engineering • management training • CSR training <p>Who:</p> <ul style="list-style-type: none"> • BD tanneries • BD labour organisations • NL tannery engineering bureaux • NL machine manufacturers • NL chemical producers • NL buyers organisations • NL fashion industry



 <p>The footwear industry is the main consumer of leather, though automobile upholstery is increasing in importance for the production at the tanneries. In the preceding paragraph on tanneries, the requirements for upholstery leathers have been elaborated. Although the fineness of the grain of Bangladeshi domestic hides is undisputed, there are still numerous natural and man-made defects such as insect bites, scars and conservation issues, not to speak of quality consistency issues. For these reasons, some of the shoe factories buy leathers from abroad, which offers an opportunity for Dutch tanneries. Export-quality shoe factories in Bangladesh are a mix of mechanisation and manual labour. The factories work in a production line pattern similar to western countries. As these are not automated, however, a bigger manual workforce mainly composed of women is necessary. Contrary to the general environmental and social issues prevailing in the tanning sector, the manufacturing sector works at a far higher level. The density of workers per m2 of manufacturing floor is far lower than in the RMG sector. As a result, fire safety can be improved further but does not seem to be an immediate priority. One of the most challenging issues for the shoe industry is the purchase of accessories, which are not available in Bangladesh. Cheap accessories are available in China, whereas high-quality accessories are only available in Europe. Shoe factories in Bangladesh are mainly working on a contract basis for their overseas customers, who submit their design and ask for a quotation. Once the quotation is accepted, the Bangladeshi factory starts production. Final quality control of the produced goods is performed by the buyer's own inspectors. Any rejects are the responsibility of the manufacturer and are not paid by the buyers. Shoe factories are not clustered in the same way as the tanneries, and can therefore be found outside industrial areas.</p>	<p>What:</p> <ul style="list-style-type: none"> • shoe factory engineering • industrial engineering • accessories supply • machine supply • fashion and design <p>Who:</p> <ul style="list-style-type: none"> • BD footwear factories • NL engineering bureaux • NL machine suppliers • NL fashion designers • NL footwear buyers • NL leather suppliers
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Industry sector	Intervention opportunities
 <p>Leather goods manufacturing as a branch of leather products manufacturing is more skill-oriented and less industrial, and therefore very attractive for development depending on the size of the manufacturer. Some Dutch importers are already buying from what are perceived as small but sustainable suppliers, though quantities are as yet limited. The products vary and cover the whole field of leather objects for fashion, the office, and so on. The quality, compared with for instance India, may not be attractive to the European market without further supervision. Dutch importers already working with Bangladesh maintain a close quality supervision, however, which results in a product that is acceptable for the Dutch market at an acceptable price. The leather goods manufacturers, being relatively small, are not very visible to buyers unless forming part of a tannery or a group operating in another sector. To find suppliers, one therefore has to contact one of the sector associations.</p>	<p>What:</p> <ul style="list-style-type: none"> • accessories supply • machine supply • fashion and design <p>Who:</p> <ul style="list-style-type: none"> • BD leather goods factories • BD leather goods manufacturer association(s) • NL machine suppliers • NL fashion designers • NL leather goods buyers



5.2 Value chain sector comparison Bangladesh - Netherlands

Comparison is made in this paragraph between the value chains respectively in the Netherlands and Bangladesh. These differences are clear indications where the trade opportunities are situated for Bangladeshi and Dutch private sector interventions.

5.2.1 Animal husbandry

Netherlands	Bangladesh
<p>Animal husbandry in the Netherlands is based on a very sophisticated and well-developed scientific approach. Specialised companies of world fame are engaged in the improvement of various animal breeds, differentiating between milk and meat producing animals and monitoring the required quality of the products. The Dutch breeds are exported all over the world.</p>	<p>Animal husbandry in Bangladesh has no scientific approach. Animals are grazed in the open by the farmers or village people for whom they provide income. The animals are exploited for labour in the fields or for their milk. Once their usefulness is exhausted, they are sold via traders and cattle markets to butchers. There are no breeding farms in the country, but recently small enterprises have emerged that buy calves from the countryside for fattening. After fattening, the animals are sold during religious festivals where they fetch the best prices.</p>
	

5.2.2 Abattoirs

Netherlands	Bangladesh
<p>Dutch abattoirs are designed on the basis of Dutch laws on hygiene, food safety and animal welfare. Several slaughter methods are operated including halal and kosher, all at a highly professional and mostly industrial level. Abattoirs are centralised units serving supermarkets and retail shops by means of refrigerated transport. Abattoirs are regularly inspected by the Netherlands Food and Consumer Product Safety Authority (NVWA), who survey</p> <ul style="list-style-type: none"> • the security of food and consumer products; • the health of animals and fauna; • animal welfare; • nature legislation. 	<p>As yet, there are no organised abattoirs in Bangladesh. The only exception is the military, which obtains its meat supply from dedicated sources. Slaughter operations of cattle and buffalo take place in certain dedicated areas of cities and villages, whereas small ruminants are generally subjected to home slaughter. Professional butchers buy their animals from organised markets and bring them to their “shop”. Each butcher in Dhaka processes more or less three cattle per day. The meat is sold per kilogram and transported without supervision, by any means of transport, to retail shops in town. The sector comes under the authority of the respective municipalities or their subdivisions in the various parts of towns. Although there are laws regulating meat production and transport, these are not enforced.</p>
	

5.2.3 Raw materials

Netherlands	Bangladesh
<p>Raw hides and skins are professionally processed in abattoirs and prepared in a very professional way for conservation as close to the abattoirs as possible. Most parts of this process are mechanised to ensure maximum quality control, consistent selection and professional salting with temperature control. There is a trend to use less salt, as this is one of the most difficult chemicals to eliminate from tannery effluent.</p> <p>Dutch traders operate worldwide and are regular suppliers of tanneries abroad, mainly in Europe and south-east Asia.</p>	<p>Without any professional abattoirs, the collection of raw hides and skins is done in a pyramid system. Butchers sell the unsalted hides and skins that they produce to collectors. The collectors sell the hides to traders, who salt the raw materials and sell them to the tanneries. The further the production of the raw hides moves away from the tanneries, the more traders are involved and the bigger the volume of traded items becomes.</p>
	

5.2.4 Tanneries

Netherlands

The number of tanneries in the Netherlands has been reduced over the last five decades and only a few are still operating today. These produce high-quality leather with the aid of very advanced equipment, in total compliance with environmental and labour laws and regulations. The leather that is produced is of a high and very consistent quality.

Bangladesh

Tanneries in Bangladesh have for more than half a century operated in the Hazaribagh industrial area, which was once on the outskirts of town but today is in the city centre. Hazaribagh developed from a lowly hide and skin collection and export centre to an amalgamate of production units. Here, production goes through the stages from wet blue to crust and finally to finished leathers, which are presently exported mainly to Europe and China. The area is lacking any form of organisation, effluent treatment or waste management. It is in fact considered one of the most polluted places on earth, with serious health risks for its inhabitants and workers. Over the last two decades, several attempts have been made to improve the environmental situation, but to no avail. Instead, the Government of Bangladesh has appointed a new industrial area called Savar and ordered the tanneries to move from Hazaribagh to the Savar industrial area. This order to move has been opposed by the industry over a period of many years, but presently new tanneries are finally being constructed and taken into production in Savar, where the Government has financed the construction of a CETP. At the time of writing this paper, the CETP was not yet ready and faces several challenges.


The labour conditions in the tanneries, both in Hazaribagh and in Savar, are not compliant with a bare minimum of the ILO or modern health regulations. All tanneries lack safety equipment and measurements.



5.2.5 Footwear industry

Netherlands	Bangladesh
<p>The Netherlands has a relatively small footwear industry and imports most of its footwear from south-east Asia or, for better quality, from within the EU and in particular from Italy. There are nonetheless a few rather large shoe factories.</p>	<p>The major tanneries in Bangladesh own relatively large and modern shoe factories, producing upward of 5,000 pairs per day. The shoe factories are either joint ventures or collaborations with foreign companies, mostly from Italy, while exports are mainly destined for the EU. Buyers supply the factories with their own designs and state their leather requirements, after which the shoe factories execute the order. There is almost no local design or development of new products. Depending on the requirements of the buyers, the manufacturers source their raw materials either locally or abroad.</p>
	

5.2.6 Leather goods manufacturing

Netherlands	Bangladesh
<p>The Netherlands also has a relatively small leather goods manufacturing industry. It imports most of its required materials from south-east Asia or from within the EU, in particular from Italy for the better-quality items. A number of relatively small importers have started supplying themselves from Bangladesh, some of which have identified sustainable sources.</p>	<p>Bangladesh hosts a relatively large number of manufacturing units for leather goods, including belts, bags, garments and small leather goods such as tablet and phone covers, portfolios, key rings, and so on. Compared to the shoe factories, these units are either small enterprises or an integrated part of the shoe factories.</p> <p>Buyers supply the factories with their own designs and state their leather requirements, after which the factories execute the order. There is almost no local design or development of new products. Depending on the requirements of the buyers, the manufacturers source their raw materials either locally or abroad.</p> 

5.3 SWOT analysis

The SWOT analyses below are produced in order to introduce a comparison of the opportunities which each sector in the one country is able to offer to its counterparts in the other country, as well as the challenges that arise and the opportunities that these provide.

5.3.1 Bangladesh

<p>Strengths</p> <ul style="list-style-type: none"> • Available labour • Raw materials in abundance • Natural animal feed in abundance • Water in abundance • Foreign investment facilitation • High-level sector associations • Leather industry tradition 	<p>Weaknesses</p> <ul style="list-style-type: none"> • No concept of animal welfare • Lack of modern infrastructure • Lack of professional livestock management • Lack of modern slaughter facilities • Low awareness of CSR • Low awareness of environmental issues • ILO basic principles not implemented • Low awareness of quality concepts • No quality consistency • Limited awareness of industrial management • Uncooperative sector associations (BTA and LFMEAB) • No traceability • Challenging business climate
<p>Opportunities</p> <ul style="list-style-type: none"> • Expand market to the Netherlands • Improve quality awareness • Improve awareness of industrial management • Improve quality consistency • Improve labour conditions • Improve environmental conditions • Improve food safety and public health • Make step forward in quality on the international market 	<p>Threats</p> <ul style="list-style-type: none"> • Challenging reputation • Lack of mentality change • Apathy of stakeholders • Government pushing for change without basic elements in place • Lack or insufficiency of funds • Refusal to change traditional structures • Lack of animal welfare, unfair labour conditions, insufficient environmental protection • Regional competition

5.3.2 Netherlands

<p>Strengths</p> <ul style="list-style-type: none"> • Modern leather value chain • High-level technical knowledge • Well-developed chemical industry • High CSR awareness • Good engineering skills • Strong, innovative livestock sector • Existing fashion industry on both large and small scale • Earlier intervention for the benefit of the Bangladeshi LVC (MVO Nederland Self-Assessment Tool) 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Small market • Incomplete picture of Bangladeshi LVC • Limited number of stakeholders
<p>Opportunities</p> <ul style="list-style-type: none"> • Knowledge transfer • Supplying of technical materials • Supplying of modern tannery design • Livestock improvement • Slaughter facility improvement • Quality awareness building • Design development and transfer 	<p>Threats</p> <ul style="list-style-type: none"> • Lack of available funds • Focus on other countries in the region (India, Pakistan, Vietnam, Indonesia) • Lack of motivation to explore Bangladeshi LVC

5.4 Observations

There are clear and compelling indications that the leather value chain in Bangladesh is active, important and very much alive. It clearly has its challenges, which are quite significant. Unless positive changes are implemented, these challenges will over the coming years threaten the continuous development of the LVC in Bangladesh, as buyers all over the world will purchase from ever more sustainable sources. At the moment, the Bangladeshi leather industry is still lagging behind in awareness and implementation of a modern concept of producing and doing business in a sustainable way. This situation offers a host of opportunities for the Dutch private sector as suppliers of leather, equipment, engineering, product development, environmental technology, but also raw materials. The Netherlands can provide all sectors with technology, as well as with its experience in CSR and sustainability, to improve conditions in the Bangladeshi leather industry. The opportunities for the Netherlands lie in two simultaneous directions, as buyers of leather and leather products made in Bangladesh and as suppliers of chemicals, leather, machines and technology. The above picture warrants the development of a closer relation between the LVCs of the Netherlands and Bangladesh.

It should be observed that after the events at Rana Plaza, where more than 1,000 textile workers lost their lives in a fire, the international community maintains its focus on Bangladesh in terms of worker safety and social conditions. In fact, the International Trade Union Confederation (ITUC) is currently highlighting the non-compliance of Bangladeshi employers in the textile sector with international labour and safety norms. The ITUC has called on the EU to bring the GSP preferential trade deal under the Everything But Arms scheme into question.⁸ The leather industry in Bangladesh would do well to avoid being thrust into the international limelight. Instead, it should become compliant with international labour and environmental norms in order to avoid further speculations on the termination of the GSP trade facilitations, which currently exempt Bangladeshi leather imports into the EU from import duties.

⁸ <http://www.euractiv.com/section/trade-society/opinion/bangladesh-crackdown-calls-preferential-eu-trade-deal-into-question/>.

6. Areas of intervention

Stakeholders in both countries have expressed their mutual interest in expanding the existing trade between the two countries. In this collaboration, the Netherlands will mainly be a supplier of know-how, raw materials, equipment, design and assistance, as well as building awareness particularly of labour relations, environmental issues and CSR. Conversely, Bangladesh will be a supplier of processed and manufactured commodities such as leather, footwear and leather goods.

6.1 The Netherlands toward Bangladesh

6.1.1 Commercial opportunities

Areas of intervention	Private sector opportunities
Cattle improvement	<p>There are several breeds of cattle and small ruminants in Bangladesh from different origins such as India and Myanmar, in addition to local breeds. There are indications that some breeds have been imported from western Europe, the USA and Oceania. It has also been suggested that bull sperm has been or is being imported from the USA. Even if this indication is correct, the import of sperm is still sporadic and not based on scientific knowledge or industrial requirements. Regardless of these suspicions, a more scientific and industrial approach will be beneficial for the meat and milk production in the country. The Netherlands are one of the main players in the world for animal breed improvement intended to ensure the highest quality of meat and milk. As such, it is in a prime position to introduce cattle improvement and industrial production of animals and meat in Bangladesh.</p> <p>At present, Bangladesh appears to have only one small cattle farm in Dhaka, which can be considered a first attempt at professional cattle farming. This does represent a growing tendency which can be exploited by Dutch sector entrepreneurs. At this early stage, having only one small farm, Bangladesh is at the very earliest stages of cattle and small ruminant farming. Presently, the sector may not be very attractive for Dutch enterprises active in this field, since numbers count to make an intervention commercially attractive. However, at some point a start must be made – even if it is modest – and Dutch companies could definitely take an active role in guiding, assisting and encouraging this emerging sector. It is evident that there is a very good prospective for a productive and beneficial collaboration which warrants investment, taking into account the vastness of the Bangladeshi livestock.</p> <p>Who:</p> <p>There are clear indications that the main interest for the development of professional herding comes from big tanneries that wish to diversify their activities. In fact, the first cattle farm in Dhaka is indirectly owned by Karim Leathers. Milk producers are another category which will probably have a direct interest in cattle farming, in order to simplify and organise their supply line of raw milk.</p>

Areas of intervention	Private sector opportunities
<p>Slaughterhouse improvement</p>	<p>There are no professional slaughter facilities in Bangladesh which can compare to facilities in developed countries. Slaughter is performed by professional butchers, each of whom buys a daily number of animals at any of the organised animal markets according to their orders or expected sales. This may vary from two to six animals per butchery, which are licensed by the local municipalities or districts. Animals are slaughtered following halal procedures and bled horizontally on the ground either in small slaughter rooms or simply in the streets. Hygiene, food safety and public health are neither considered nor observed.</p> <p>The Dutch private sector could approach one or more municipalities and elaborate on its interest in the modernisation of the slaughter facilities under their jurisdiction. Dutch companies could propose to transform these into more professional operations, devise hygiene and food safety regulations, and suggest how to implement these. Slaughter operations that are now performed by a myriad of independent butchers would perhaps need to be organised in a cooperative, in order to achieve a feasible number of animals to be processed in a single plant. This also requires changes to traditional approaches that can only be realised through the participation of the local authorities. The designing of small, hygienic slaughterhouses with vertical processing off the ground must be developed together with slaughter and flaying tools. In addition, the introduction of refrigerated holding facilities as well as hygienic meat transport must also receive attention. Butchers must be trained to optimise the revenue of their meat through modern techniques for choice cuts, in order to supply restaurants and private clientele alike. In short, there is a need for a mixed effort of commercial interest and awareness building.</p> <p>Dutch sector professionals are in a perfect position to assist in the improvement of conservation techniques for raw hides and skins. They are also potential suppliers to the tannery industry in Bangladesh of hides that are suitable for the ambitions of the tanners in the area of upholstery.</p> <p>This type of possible intervention must be brought to the attention of the responsible authorities, starting with the municipality of large cities such as Dhaka and Chittagong. These should be the first to be willing to invest in this development and to commission projects. With the expansion of trade in general in Bangladesh, (luxury) hotels are steadily multiplying and are likely to be the primary market for volume customers.</p> <p>Who: Parties interested in the professionalisation of slaughterhouses are in the first place the municipalities, who have a direct interest in and obligation to food safety. Secondary interest will come from the cattle farms once these are in business, as meat is easier to transport than live cattle.</p>
<p>Hide and skin supply</p>	<p>Dutch hide and skin merchants are trading all over the world and will find ample opportunities for sales to Bangladeshi tanners. These have expressed an interest in producing leathers from large hides for upholstery and for the automotive industry, which is one of the objectives from several tanners for their new production units in Savar. Raw hides and skins, as well as processed leather (wet blue), can be freely imported by tanneries in Bangladesh without import levies. Indirect import via Bangladeshi importers or traders is subject to a 5% import duty.</p> <p>The Bangladeshi hide and skin traders, who are presently supplying the tanners from the domestic market, believe that local supply is sufficient to satisfy the demand of tanneries for traditional articles. Tanneries, on the other hand, question this assumption and instead plan to import wet-salted hides from abroad. These imports are intended for the planned production in the new tanneries of upholstery leather in Savar, a process for which Bangladeshi hides are not suitable due to size, quality and humps.</p> <p>Who: Interviews with Dutch hide and skin suppliers have unearthed a keen interest in supplying to the Bangladeshi market. None of the traders were aware that Bangladeshi tanners could be prospective buyers. Suppliers will need to enter into contact with local agents for their sales. They could easily approach leather agents who sell processed leathers on behalf of the Bangladeshi tanners, as these agents are also knowledgeable about hides and skins.</p>

Areas of intervention	Private sector opportunities
Machine supply	<p>There are ample opportunities to sell equipment to all LVC sectors in Bangladesh, including drinking facilities for animals at farms, milking machines, slaughterhouse equipment, new and reconditioned tannery machines, process control and automation for tanneries, as well as equipment for shoe factories and leather goods manufacturers. The first and most accessible market is the tannery sector, where new and reconditioned machines are required for equipping the newly constructed tanneries. Even the tanneries that have already moved to the Savar industrial area are under-equipped and require more machines. Dutch machine manufacturers specialised in each of the value chain sectors could approach their counterparts and tap or develop the Bangladeshi market.</p> <p>It should be noted that Bangladeshi tanneries have a huge stock of leathers accumulated over a period of time due to processing errors, colour mismatches and such. Dutch suppliers of process control equipment are in a position to help reduce these costly stocks to more manageable and acceptable levels.</p> <p>Who: Most of the interviewed Bangladeshi tanners expressed an interest in buying used and reconditioned machines. They were not aware that there were suppliers in the Netherlands for used and reconditioned machines. To arrange for this trade, Dutch machines suppliers can approach the tanneries in Bangladesh either directly or via agents. There are several agents who are presently representing Italian and Chinese machine suppliers.</p>
Software design and development	<p>A totally new, untapped and as yet unknown process in Bangladeshi tanneries is Enterprise Resource Planning (ERP). There are a number of local software companies that are interested in developing a collaboration with Dutch software developers, with the intention to introduce ERP into the Bangladesh LVC in each of the value chain sectors. A project on IT sponsored by the Netherlands surveyed the Bangladeshi IT market in April 2016, though it did not focus on the requirements of the leather industry.</p> <p>Who: The Netherlands commissioned a study of the Bangladeshi IT business in early 2016. The study was performed in collaboration with several IT companies in Dhaka, which are the parties interested in the development, sales and maintenance of ERP systems in Bangladesh for the tanning industry. Panacea Systems Ltd is most interested to be contacted by, or to contact, Dutch software designers to develop ERP software for tannery together.</p>

Areas of intervention Private sector opportunities

Traceability

Brands and big distribution chains are becoming more and more demanding as to the various aspects of their supply chain. These demands include tracing the various stages of their supply chain for commodities through a procedure commonly called “from cradle to grave” – or rather “from the farm to the boutique”. This procedure includes factual knowledge of sustainability, animal welfare, labour conditions, health and safety, and the use of chemicals at each value chain stage. The traceability requirement is buyer driven and has as of yet not been considered by Bangladeshi LVC stakeholders. Large fashion brands and important distribution chains (for example, IKEA) demand transparency in their supply chain. Without transparency and traceability, these luxury brands and top distribution chains will not buy from non-compliant sellers. Such requirements are still limited at a global scale, but they will gain in importance in the medium term. Introducing traceability into the whole LVC is far from easy, because a large proportion of the products are coming from or are being manufactured in countries that have no traceability system in place. Regardless of this current lack of urgency, traceable products in the near future will have a much larger market share than non-traceable products.

The introduction and implementation of a traceability system cannot be realised from one day to the next. A system must be specially developed for and adapted to the particular circumstances of a country. However, there are fixed points in an organised value chain that form the basis of a traceability system. To name a few, cattle can receive barcoded ear tags identifying the farm. The same identification can be used to document the transport of the cattle to cattle markets. Similarly, at the slaughter facility the ear tag number can be linked to the meat and hide of the animal in question. Finally, a batch of hides composed of individual numbers can be compiled and taken to the tannery, where it can be considered a production lot. This is a simplified indication of procedures performed in Europe which can be elaborated and adapted in Bangladesh. It is obvious that legislation plays an important role in making the system consistent across the board.

Several Bangladeshi tanneries wish to acquire a bronze, silver or gold medal from the Leather Working Group (LWG). Audits by the LWG consider industrial, social and traceability aspects, in which the minimum requirement for traceability must identify the slaughterhouse that produces the hides and skins for the audited tannery. There is as of yet no possibility in Bangladesh to trace leather goods back to the farms where the animal hide or skin for a leather object was processed, nor can any of the following stages be traced. However, at the time of the research for this paper, at least one Dhaka tanner trading with a top brand was aware of the fact that his supply should be traceable. This traceability was seen as a requirement for selling to his customer, by making an effort at least to identify the region from which certain batches of his raw supply were coming.

In short, there is a huge opportunity for Dutch specialists in this field to develop a traceability system for the Bangladeshi LVC that also enables the tracing of meat for the benefit of public health. The party to approach for this traceability system is obviously the industry itself, with its representative associations being the most likely partners to commission the development of a traceability system. Finance should be solicited from the industry itself and from institutional bodies such as the Bangladeshi Ministry of Commerce and Industry. The Bangladeshi LVC must now make a start to become compliant with the demands of most brands and distribution chains, making its value chain transparent in order to increase its exports.

Who:

The interested parties are the tanneries who in the near future will have to demonstrate to their buyers the source of their raw materials. The tanners as a community should therefore be the main party to target, though the meat industry would also be a player once it is developed further. The catalysts for the introduction of a traceability system should be the buyers of Bangladesh materials to lead the way for further market opportunities. This initiative would typically have to be managed by an NGO or through overseas funding, at least to get it off the ground. Realistically speaking, there is little chance that the industry will find common ground to finance a traceability system on its own, although it will be able to maintain the system once it is in place.

Areas of intervention	Private sector opportunities
Engineering	<p>Provided that the interested authorities wish to improve the meat production situation, slaughterhouse design is one of the opportunities for engineering bureaux in the upper parts of the value chain.</p> <p>In the middle parts of the value chain, the Government of Bangladesh has decided that there will be an expansion of the Savar tannery area. This decision is made alongside the ongoing move of tanneries from the old tanning area of Hazaribagh to the new tanning area in Savar, where 30 to 40 tanneries have started or are finishing construction of their new facilities. Presently, the great majority of the tanneries in Savar have been designed by local engineering companies, which appears to have resulted in a number of challenges, a lack of vision for modern development and a lack of technological and production innovation. With the intended expansion of the tanning area, new opportunities are presented for modern tannery design. Bangladeshi tanners must be encouraged to invite professional help from dedicated Dutch engineering bureaux. These bureaux must in turn seek local partners, as tannery design is a day-to-day, hands-on occupation which can only be managed from abroad through local representation.</p> <p>Who: For slaughterhouse engineering, the interested parties are the municipalities, provided that they are willing to accommodate this gigantic shift from the present situation to a modern meat-producing society. This shift involves very intensive acts of preparation and convincing, as in general the change from do-it-yourself to an organised, responsible system will present many challenges. This task is doubtlessly best handled by an NGO.</p> <p>Tanneries involved in the second phase of the shift from Hazaribagh to Savar, or tanneries that already have one production unit in Savar but are looking to expand, will require professional design. The current move of the first batch of tanneries turns out to be rather challenging, with structural problems emerging. Learning from the errors made in the first move will therefore provide foreign engineering bureaux with an edge.</p>
Effluent treatment assistance	See Chapter 7.
Chemical supply	<p>The Netherlands has two major producers of tannery chemicals, which are both represented in Bangladesh. Both only have local sales agents at the moment, who also carry a basic stock of chemicals for off-the-shelf sales. These companies are setting up facilities such as warehouses and laboratories in or around the Savar tanning area. Because of the large consumption of dedicated chemicals, there are clear opportunities to invest in the country by setting up production of some of the most commonly sold chemicals. Neither of the companies has as yet shown a keen interest, but they should keep this opportunity into future consideration. By contrast, there are also ample opportunities to assist Bangladeshi tanneries in moving toward cleaner production formulas and techniques.</p> <p>Who: The companies themselves are the main beneficiaries. They are at the moment in partnerships with their representatives in Bangladesh, but they will have to start or continue setting up laboratories for processing assistance as they have done in other countries.</p>

Areas of intervention	Private sector opportunities
Leather export	<p>Due to the challenge of inconsistent leather quality as produced by Bangladeshi tanneries, some footwear and leather goods factories import finished leather instead. Interviews with shoe factories unearthed an interest in buying finished leather from the Netherlands. Although Dutch tanneries have never sold to Bangladesh, they have ample opportunities for export of good-quality leather. Contact details of shoe factories are easily found on the LFMEAB website. The quantities involved are not huge, but Bangladesh is still a potential market. Dutch tanneries could also forge a collaboration with their Bangladeshi counterparts for product development and marketing.</p> <p>Who: The target area is the shoe manufacturer stakeholder community. Sales will need to take place via agents, which can be the same agents already working with the tanneries for the export of the locally produced leathers.</p>
Product development	<p>Bangladeshi manufacturers rarely market their own designs of leather goods. Most manufacturers produce items based on the designs and samples submitted by their clients. These designs are limited to footwear, leather garments and small leather goods, particularly in the low and middle market segment. Although a design institute is available in theory, reality shows that no overseas buyers avail themselves of the services of this design institute in practice.</p> <p>With the production of good, consistent leather quality, there will be opportunities to develop more advanced and complex products. Examples include components for the automotive or aeronautical industry such as complete manufactured seats, components for large production and distribution chains of furniture (chairs, cushions, and so on). This business opportunity scan has not studied the financial capabilities of the design institute to engage with professionals from overseas.</p> <p>Who: As there are no product development companies in Bangladesh, these need to be created. This can be done in one of two ways: either in collaboration with a leather and/or footwear manufacturer, or through the establishment of a branch office of Dutch designer bureaux.</p>

6.1.2 Non-commercial opportunities

Labour conditions watchdog

The tanning sector in Hazaribagh employs some 30-35,000 regular workers, plus 15-20,000 casual and indirect workers. It is estimated that 80,000 people make a living from the tanning sector. Since 2011, the country has adopted labour laws that establish minimum wages and regulate labour conditions. These laws are implemented only partly or not at all and are considered insufficient by the labour union, which complains that it has no support from the authorities. Labour and safety conditions in Bangladeshi tanneries are indeed rather challenging both in Hazaribagh and Savar, whereas the standards in footwear and leather goods production are far more acceptable for overseas buyers in developed countries.

Much has been said and written about the labour and environmental conditions in Bangladeshi tanneries, while several documentaries have been aired on local and overseas TV channels. The challenges resulting from the labour conditions have an ever-increasing negative effect on the reputation of the leather industry in Bangladesh, a fact that is regrettably ignored by tannery owners and management.

The Bangladesh Trade Union Centre (BTUC) is poised to improve the labour conditions in the tanneries, but very few changes have been implemented despite reaching agreements and signing protocols with the 200 or so tannery owners and management. The BTUC is forced to be continuously on the defensive in order not to endanger the position of its members with tannery management, which is said to hold almost absolute power. As workers can be hired and fired at will, the union is obliged to take a soft approach which results in little effect. In fact, labour conditions in the approximately 50 tanneries that have presently started production in Savar are similar to or even worse than in Hazaribagh. There is as yet no provision for the accommodation of labourers and their families, no provision for medical care and emergency situations, no infrastructure such as schools, decent shopping facilities or restaurants, even though these issues were agreed upon by both the labour union and the industry. The Government and tannery management have been made aware of these challenges as of the beginning of the Savar project, particularly through workshops organised by UNIDO. Results have been meagre, however, and little or nothing has been done locally to improve the present situation.

In addition to support from suppliers for innovative ideas, the best results for change are generally generated by buyer demands. If a party is interested in buying, it often asks for compliance with its demands. With this in mind, Dutch buyers and suppliers may be able to facilitate changes. Their proposals may involve on the one hand new production systems such as safer machine handling by workers, and on the other hand benchmarks for chemical use, labour rights and CSR in general. These Dutch stakeholders could promote a collaboration between Dutch and Bangladeshi labour organisations as well as dedicated NGOs. This collaboration may contribute to improving both the local CSR situation and the negative reputation of the Bangladeshi leather industry. As a result, the industry will be able to improve its image, and consequently its sales possibilities, with those parts of the world that are attaching more and more importance to the conditions under which the object that they purchase is produced.

Although this is not a direct business opportunity, it is an important requirement for the Bangladeshi LVC which is in dire need of outside help. In this light, the present paper encourages contacts between Dutch and Bangladeshi labour union organisations.

Environmental watchdog	<p>The environmental situation in Savar is similar in gravity to the one described above in the opportunities concerning labour conditions.</p> <p>The shift from Hazaribagh to Savar offers an immense opportunity to improve dramatically on the horrific environmental conditions presently attested in Hazaribagh. Here, open ditches are filled with untreated effluent and solid waste from tanneries, which subsequently flows into the nearby lake and rivers. Pollution on the ground in Hazaribagh is so serious that it is considered one of the areas most polluted by industry in the world.</p> <p>With the construction of a modern CETP in Savar, industrial pollution in the tannery industrial area was imagined to be a matter of the past. As it turns out, however, the opposite is true. In November 2016, when the mission to Bangladesh for this survey was undertaken, the construction of the CETP was not yet completed and the three chrome recovery units were in various phases of construction. Nevertheless, the Government pushed the tanneries to move and start production, with serious environmental implications. Tannery effluent, untreated for the separation of chrome, is being pumped to the CETP, which is not equipped for the treatment of untreated tannery effluent. One can imagine that the output of the CETP to the nearby river is not compliant with any legal benchmark or requirement. Fishermen operating in the Daleshwan River reported for the first time in their lifetime dead fish in the river. This situation is neither addressed nor monitored.</p>
CSR	<p>The “Tannery of the Future” (TOTF), developed by MVO Nederland, is an easily accessible self-assessment tool for tanneries. It works as a prelude to full certification; for example, from the Leather Working Group. Tanners, retailers, brands and merchants can use the tool to discover how leather production can be improved in terms of sustainability on the basis of simple questions on 14 different aspects of Corporate Social Responsibility.</p> <p>The TOTF self-assessment tool is developed by and with Dutch leather experts, retailers and brands, together with tanneries in developing countries. Dutch members of MVO Nederland, most of whom are importers of leather goods, recognise the efforts of enterprises that aim to become compliant and vouch to give preference to those suppliers that are compliant or that are working towards compliance.</p> <p>The results of the Bangladeshi LVC stakeholders joining the TOTF project ambitions have been limited. Still, with proper awareness building, the TOTF objectives could result in positive results for the export of LVC products not only to the Netherlands but also elsewhere.</p>

6.2 Bangladesh toward the Netherlands

Supply

Bangladesh is an importer of know-how, equipment and raw materials, whereas it is a supplier of leather and ready-made leather goods.

There is some collaboration between Dutch importers and Bangladeshi exporters, but the level of trade is rather small and inconstant. In the footwear sector, however, there are signs that the supply is expanding over the years.

The main reasons for the low level of trade are the perception in the Netherlands of the challenging quality reputation and the (negative publicity of the) labour and environmental conditions.

With a more positive perception of the Bangladeshi leather value chain and with the improvements proposed in this paper, this situation should change for the better to increase the sales of Bangladeshi products to the Netherlands. Obviously, this will not happen overnight, but with a roadmap and linked performance deadlines, improvements can and must be introduced. A reasonable timespan for these improvements could be 3-5 years.

The Netherlands offers great opportunities to large-scale sales of low- and medium-quality footwear, but also to SMEs serving niche markets of leather goods.

7. CETP

7.1 Present situation



Source: Google Maps

The construction of the CETP at the Savar industrial tanning area was initiated in 2012 and the plant was supposed to enter into production at the end of 2015. Though little construction is remaining, work was still not completed in November 2016. The plant is engineered in such a way that it only treats tannery effluent without chrome content. Tanneries must separate the effluent with chrome content from the effluent without chrome content. The chrome discharges from the tanneries are to be processed by three substations called Effluent Pumping Stations (EPS), where the chrome is recovered for recycling. After the chrome recovery, the three EPSs send the remaining effluent to the CETP. At the moment, the EPSs are not yet ready; one is at the final stage of running tests, whereas the other two are not nearly ready. The treatment of solid waste is being considered, which should generate 5 MW of electricity per day when it is burnt in the Solid Power Generation System (SPGS). The SPGS is still at the engineering and design stage but should be operational mid-2017, though this timeline is probably far too optimistic. Meanwhile, at least 18 tanneries have started processing raw hides into wet blue (chrome-tanned, semi-processed leather). They are also discharging their effluent – including the chrome effluent – directly to the CETP, which has a receptive capacity of 15,000 m³ per day. The CETP “processes” this effluent, in spite of the fact that it is not designed to separate the chrome content. Moreover, it probably discharges partly treated or untreated effluent directly into the Daleshwan River, as it cannot store more than the daily production capacity. It is unclear at this moment what happens to the solid waste (fleshings) of the tanneries, though these are removed from the tanneries at night.



7.2 Legal requirements

Official publications have been made accessible on the legal requirements for effluent discharge by tanneries from and around the Savar CETP into the Daleshwan River.

7.3 Short-term outlook

Once the construction phase has been concluded, the Chinese suppliers of the CETP will run the plant for a period of two years, during which time they will train Bangladeshi staff and technicians. No Bangladeshi staff have yet been selected, nor has a governing body been elected yet. The governing body will be comprised of the BSCIC, the BTA, Bangladesh University of Engineering and Technology (BUET) and the Government of Bangladesh.

The Government will need to establish and/or publish legal benchmarks and standards for the input from the tanneries into the CETP and the output of the plant into the river, because it is not clear whether there are legal regulations in existence. Laboratory space has been assigned at the CETP, but the laboratory has not yet been equipped. In order to monitor the proper functioning of the plant in an efficient manner, equipment will need to be purchased and installed, while staff will need to be employed.

7.4 Medium-term outlook

In order to guarantee the proper functioning of the plant and the quality of its output, it will be important to institute an independent body that can monitor and certify the quality of the output and its compliancy with legal requirements. This is an opportunity for Dutch laboratories and independent certifying agencies to assist the governing body of the CETP.

One current matter of uncertainty is the fact that the tanners are having doubts on the functioning of the CETP. They also regard the cost of the water treatment per square foot of leather, estimated to be about US\$ 0,16 per sq ft, as excessive. As a result, they are considering creating ETPs on their premises in substitution for the CETP. Such a move would complicate matters for the CETP and make the treatment cost per sq ft even higher. Apart from the costs, it is not clear whether tanneries will be allowed to treat their own effluent.

8. Investment facilitation⁹

8.1 Bangladeshi facilitations

The majority of the Dutch LVC actors that were interviewed have expressed their hesitation to invest directly in Bangladesh. This is partly due to a lack of knowledge of the market and partly due to the (erroneous) image that many have of the country in terms of security, both financial and personal.

The Bangladesh Investment Development Authority (BIDA) was established on 1 September 2016 by an Act of Parliament as the principal agency for private investment promotion and facilitation in Bangladesh. The Act authorises BIDA to provide various promotional and facilitating services, with a view to accelerating the industrial development of the country.

In effect, BIDA provides

- pre-investment information and counselling services;
- investor welcoming services (faster immigration);
- registration/approval of foreign, joint-venture and local projects;
- registration/approval of branch/liaison/representative offices;
- approval of work permits for foreign nationals;
- facilitation of utility connections (electricity, gas, water & sewerage, telecom, and so on);
- assistance in obtaining industrial plots;
- approval of remittance of royalty, technical know-how and technical assistance fees;
- facilitation of import of capital machinery and raw materials;
- approval of foreign loan, suppliers' credit, PAYE scheme, and so on.

Bangladesh promotes itself as offering some of the world's most competitive fiscal and non-fiscal incentives for direct foreign investment.

In summary, these amount to the following in most cases:

- remittance of royalty, technical know-how and technical assistance fees;
- repatriation facilities of dividend and capital upon exit;
- permanent resident permits upon investing US\$ 75,000 and citizenship upon investing US\$ 500,000;
- tax holidays:
 - in the Dhaka and Chittagong Divisions, 100% in the first two years, 50% in years three and four and 25% in year five;
 - in the Rajshahi, Khulna, Sylhet and Barisal Divisions, and in the three Chittagong Hill Tracts, 100% for the first three years, 50% for the next three years and 25% for year seven;
- depreciation allowances:
 - accelerated depreciation for new industries on the cost of plant and machinery is available at the rate of 50%, 30% and 20% for the first, second and third years respectively;
- cash and added incentives to exporting industries:
 - businesses exporting at least 80% goods or services qualify for duty-free import of machinery and spare parts in bonded warehousing;
 - 90% loans against letters of credit and funds for export promotion;
 - export credit guarantee scheme;
 - domestic market sales of up to 20% are allowed to export-oriented businesses located outside of an EPZ* on payment of relevant duties.

⁹ Source: www.boi.gov.bd.

8.2 Dutch facilitations

Netherlands Enterprise Agency (Rijksdienst voor Ondernemend Nederland)

The Netherlands Enterprise Agency (RVO) has various programmes to support sustainable economic growth in Bangladesh. These programmes focus on innovative investment projects and the transfer of technology, knowledge and skills in social and economic sectors. The type of support that RVO can provide varies from information and advice to establishing contacts (via several networks, including the Netherlands Embassy in Dhaka) or providing financial support; for example, via subsidy programmes, loans and/or grants, letters of guarantee, export credit finance (via the Dutch Good Growth Fund) or tax advantages.

9. Conclusions

9.1 A growing and changing market

The omnipresent livestock in Bangladesh provides for ever-renewable resources of hides and skins. This is an important asset in a world where red meat consumption is decreasing in industrialised countries but increasing in developing countries, in which the per capita income steadily increases and the consumption of red meat is to an extent a symbol of prosperity. This development increases the availability of the raw materials for the leather industry. Bangladesh aims at maximum value addition to its raw materials, strongly promoting and incentivising the production of finished products and discouraging the export of unfinished products. The local market is steadily becoming a consumer market, which means that leather products – now almost only accessible to the higher-income groups – will be sought after by a steadily growing part of the population.

Increasing global demand for leather and leather goods creates an opportunity for local development of the leather sector in Bangladesh. Market opportunities are increasing in domestic and regional markets, while cheap, non-leather footwear and apparel will steadily be replaced in local as well as international markets. This creates a place for products “made in Bangladesh”.

First of all, it should be noted that the most important “chemical” for processing leather is water. Water supply in Bangladesh is abundant and non-detrimental to the population, provided that effluent is properly treated and monitored according to modern standards which safeguard the environment. Furthermore, the resulting leathers and leather products will have to be competitive in value and quality. Joint collaboration will be essential for this type of development, in order to provide market access and suitable technology as necessary. Partnerships in joint ventures, strategic alliances and long-term agreements will form the pattern of future processing, manufacturing and trading. These also provide the opportunity for Bangladeshi value chain stakeholders, as a key part of the supply chain, to exploit the complete potential of the market. To this effect, development of business partnerships is needed.

The sector is subject to very rapid changes in what is a buyer-driven chain. In future, producers must be compliant with the demands of consumers regarding animal welfare, respect for the environment, and the socially and economically responsible treatment of the labour force.

9.2 Opportunities for doing business in Bangladesh

It is apparent from this study that an opportunity exists in Bangladesh for the Dutch private sector to take advantage of the various challenges and to realise improvements throughout the value chain at all levels, starting with livestock improvement and the creation of cattle farms and organised hygienic slaughter facilities. Infrastructural improvement of tanneries through modern technology, more efficient processing, process control, automation, improved labour conditions and, ultimately, the introduction of traceability and improved environmental awareness will increase production efficiency and the overall quality of the locally produced leather. These improvements create important benefits both locally and in the international market.

Bangladesh is set to improve its reputation and its opportunities to enter the ever-changing patterns of world trade, as its industry has a large global market and positive future prospects. It is predicted that footwear sales will grow considerably, as the ability of people in LDCs to buy shoes at a higher rate and of better quality will increase more than the average world population. Expanded use of leather, for example in automotive or airplane upholstery, will add to the overall market demand.

9.3 Globalisation

In Bangladesh, total vertical integration of the leather value chain is already under way, enabling the country to supply the world market with commodities ranging from raw materials to finished products. This vertical integration can be expanded to the upstream part of the value chain through breeding and fattening facilities. Collaboration with a partner such as the Netherlands will add to the value of the local industry. The use of Enterprise Resource Planning (ERP) systems, which can trace the movement and production of materials throughout the country, plan production and thereby create reliable delivery, will attract large distribution chains and other buyers worldwide. This multilateral trading system will continue to expand, bringing with it an increasing need for research, dialogue and partnerships. Stakeholders in the Netherlands are ideal partners to assist with the research and technologies necessary to keep up with the ever-changing demands of the global market.

9.4 Environmental protection as a marketing factor

Environmental concerns arise in both the processing countries and the customer markets for the final leather products. The former have to ensure that there are sufficient and renewable national water resources – once the priorities of human consumption and agriculture have been met – for tanneries to operate. The tanneries, individually or as a cluster, are subsequently required to treat the effluent that they produce so that the environment is protected and no health risks arise as a result of pollution of wastewater discharge, water supplies, the atmosphere or the land. This protection of the environment has to be accomplished within set legal, technical and economic parameters. The customer market is increasingly demanding that products are produced without environmental damage. The creation of a “clean and safe leather” quality label that offers production warranties will be a giant step toward the international recognition of leather produced in Bangladesh. Such a quality label will ultimately generate extra income.

9.5 Social Corporate Responsibility

Big retail chains and multinational brands are insisting more and more that leather and leather goods marketed by them should be traceable from origin to retail. Buyers want their supply chain to be clean, a process that involves animal welfare, pollution control, internationally acceptable labour conditions and product safety. Individual importers' requirements for traceability and SCR are likely to be followed by similar requirements from national or regional governments. Examples include EU regulation 1069/2009, which focuses on the registration of abattoirs, and EU regulation 1907/2006 on chemicals and their safe use. Stakeholders in Bangladesh need to be aware of this trend, so that the supply chain of international trading partners or destination countries does not continue to exclude them. The intervention of the Netherlands and/or Dutch experts or stakeholders in the development and the step-by-step introduction of a traceability system and CSR would be a unique and extremely important asset to the development and the expansion of trade in Bangladesh. Action groups greatly influence the market and keep the leather value chain under particularly close scrutiny. For example, the PETA action group who expressed concern about the treatment of cows in India – regardless of its justification – seriously damaged the Indian leather industry, while the deforestation report produced by Greenpeace in 2011 had a negative impact on Brazilian leather exports. The fur industry was similarly decimated by action groups, prompting brands which work with exotic leathers such as reptiles, ostrich and similar products to protect themselves from criticism by demanding a clean, transparent and sustainable supply chain. It is therefore of great importance that the Bangladeshi leather industry moves toward a behaviour that is socially acceptable worldwide.

9.6 Quality awareness

The overall quality awareness of Bangladeshi suppliers in the leather value chain is not optimal. The raw materials are in need of improvement to reduce natural and man-made defects, while the quality of the leather leaves room for more consistency. These shortcomings induce local leather goods and footwear manufacturers to seek supply from external sources, as otherwise the quality of the footwear and leather goods produced in Bangladesh may not be appealing to the international market – leaving aside the usual exceptions, of course. Quality is an important ingredient to market any commodity, which means that trade cannot be optimised unless the leather value chain in Bangladesh improves the overall quality of its products. Apart from the need for technical knowledge, modern technology allows for quality control and quality consistency with the aid of a combination of hardware and software. Such systems use intuitive touchscreen controls, which are particularly important in countries such as Bangladesh where a very large number of employees lack sufficient schooling but do know how to operate smartphones. Quality does not only relate to a product but also to the reliability of producers and exporters. The correct and timely executions of contracts and the presentation of correct documentation are part of the overall quality requirements of buyers and reflect on the credibility of sellers.

10. Recommendations

10.1 Cattle and raw materials

The Netherlands has a long-established and highly professional meat and dairy industry. Herds are medium sized, compared to the North and South American herds, and well cared for. Due to advanced genetics, the reproductive age of Dutch bovine livestock has been reduced from 2.5 years to 12-14 months and its slaughter age from 4 years to 30 months, which reduces costs and increases herds. Meat and leather are of excellent quality, while the Netherlands has become a very important player in the meat, milk and rearing industry worldwide. The average wet-salted hide in the Netherlands weighs 22-23 kg, compared to 14 kg for a similar hide from Bangladesh.

Dutch companies that engage in herd improvement, herd management and support for farmers are qualified to assist the Government of Bangladesh and interested stakeholders in drawing up a roadmap and offering practical assistance to the country in its creation of professional cattle farming. This assistance will improve the production of milk and meat, as well as the processing of hides for the leather industry. Within the same sector, Dutch professional abattoirs can also be of help in assisting the creation of professional slaughterhouses in the major cities of Bangladesh, a process which will have a beneficial influence on food safety as well as the quality of meat and hides.

Bangladeshi authorities are the partners to be approached for promoting Dutch capabilities and creating business opportunities.

On a smaller scale, Dutch companies must engage with Bangladeshi entrepreneurs to develop small but industrial cattle farms. Stakeholders in the LVC would be ideal partners to start with, as they have a direct interest in quality hides and skins.

10.2 Leather processing

Dutch engineering companies can approach and assist tanners that have as yet undefined construction plans for and/or layouts of new tanneries in the Savar industrial area and its future expansion. These plans may include modern western-style tanneries with an efficient production flow, modern cost-effective machines – both new and reconditioned – with consideration for the environment, recycling of tanning effluent, utilisation of renewable energy sources and worker safety. The objective of all these initiatives is to create a cost-effective, sustainable and socially responsible production environment. Dutch chemical companies and tanners are in the right position to cooperate with the tanners in Savar for technical and marketing purposes, after which they can aid in the development of sustainable formulas and finished leathers.

Chemical companies may consider setting up production units in Bangladesh for most of the chemicals used, as has been done in neighbouring India and nearby Pakistan. Laboratories for the testing of samples and the development of new processes for the market in Bangladesh would be another opportunity.

10.3 Footwear

The larger tanneries in Bangladesh have their own shoe factories, some of which supply themselves with finished leather from abroad. Dutch tanneries are known to be reliable suppliers of good leather of consistent quality. Dutch footwear factories have the opportunity to act as partners and/or marketing offices for Bangladeshi shoe factories. Some of these factories have already entered into foreign collaborations, but new opportunities will continue to present themselves. There is a need for assistance in design and technology, which will help the Bangladeshi footwear manufacturers to make their own designs and become less dependent on overseas partners. This creates a larger customer basis for the Dutch market to access on a more regular basis.

10.4 Leather goods

Unlike the footwear industry, the Bangladeshi leather goods manufacturers are small to medium-sized enterprises. Some are already working successfully with Dutch importers, but there is still a lot of potential in this field. Dutch entrepreneurs will find open doors for new collaborations and the supply of leather goods to the Dutch market, if they seize the opportunity to contact suppliers in Bangladesh and create a business relationship that will be durable.

10.5 Environment

Environment is an important issue in the new Savar tannery area. No roadmap is as yet known or available for managing the CETP when the Chinese construction company and CETP management have fulfilled their tasks. Dutch experts must actively assist the Bangladeshi management of the Savar CETP in defining the benchmarks for arrival and discharge effluent, in order to have a maximum yield with the most efficient operation and lowest operation costs possible. This collaboration will also require an objective and audited effluent certification, which guarantees the tanneries and their buyers a long-term, regularly monitored compliance with international effluent norms. CETP management and local environmental NGOs will derive great benefit from such a collaboration.

10.6 Labour compliance

Under pressure of action groups, overseas buyers are finding it more and more important to have a clean, sustainable and socially responsible supply chain. At the moment, labour conditions are quite challenging in Bangladesh, although in the RMG sector significant steps forward have been made after the dramatic events at Rana Plaza. This action is buyer driven, which means that buyers must impose their demands. Dutch labour experts must assist both the tannery owners and management, as well as their counterparts in the local labour unions, to forge a *modus vivendi* that implements ILO conditions. This development will have positive effects on the market access of the Bangladeshi leather industry.

10.7 Trade mission

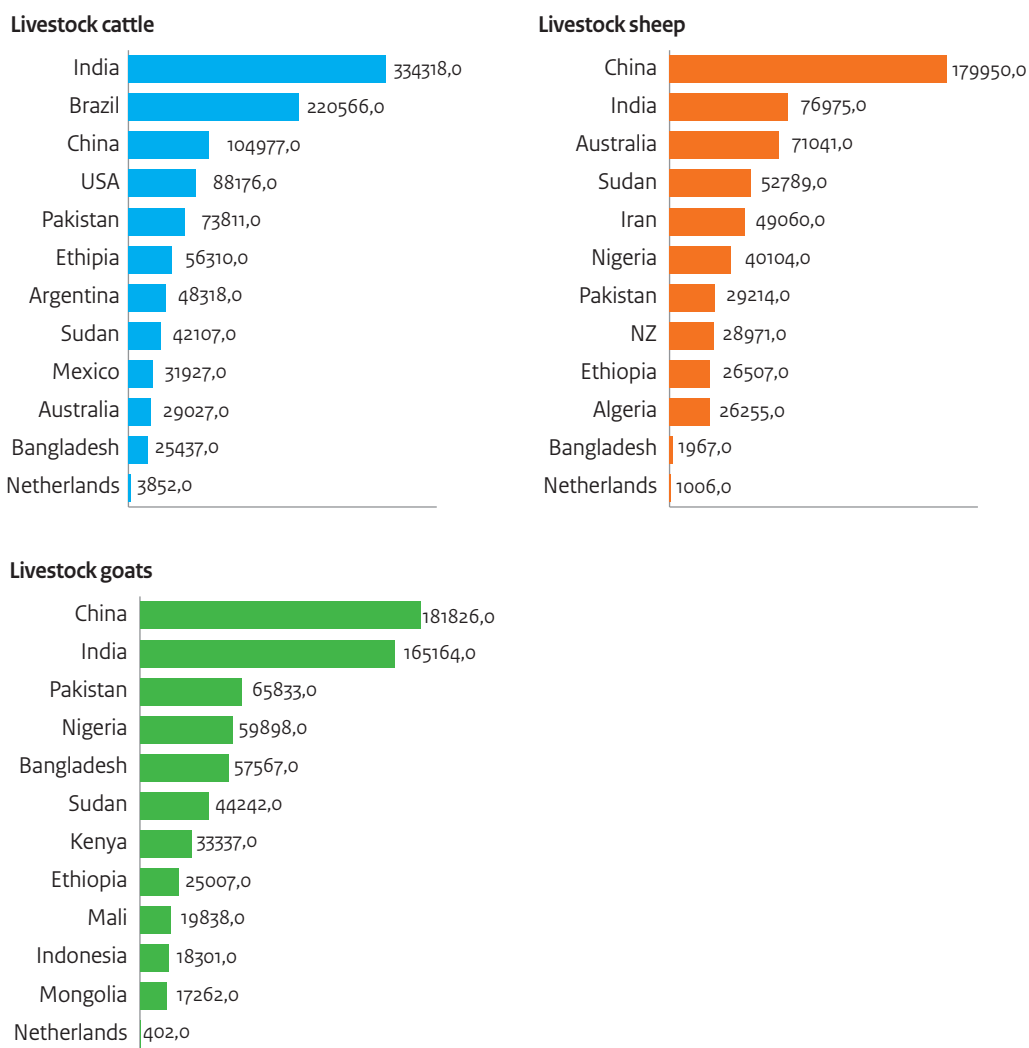
The success of an industry is based on the success of its sales in the competitive world environment, where personal contacts are at the basis of each commercial agreement. Since Dutch and Bangladeshi industry stakeholders have little knowledge of each other, it will be very beneficial to organise a trade mission that will bring Dutch stakeholders to Bangladesh and show them the reality of the Bangladeshi leather value chain. Afterwards, bilateral business-to-business meetings should be organised to allow possible partners on both sides to make each other's acquaintance and discuss business possibilities.

10.8 Legislation

Trade and "the market" are always a prime incentive for change. As a consequence, Dutch buyers and their colleagues in other EU and non-EU countries are an important and compelling factor to demand modern environmental and labour conditions in their supply countries, in this case Bangladesh. This cannot be imposed on an all-or-nothing basis, but must be introduced gradually and partly through trade negotiations between partners. It should be considered unacceptable that developed countries exploit local environmental and labour situations which are not compliant in their own country's legislation. Trade and goodwill must be accompanied by proper regulations to avoid that pollution and ILO non-compliance are relocated for the sake of competitiveness to countries where such legislation is missing. The EU REACH Regulation has made a first important step to safeguard EU buyers from dangerous chemicals being used in products imported from third countries. Similarly, Dutch and EU institutions may use incentives to stimulate environmental and labour improvements regarding imports from Bangladesh.

Appendix 1 | Livestock

Graph 1 | Livestock in thousands of head

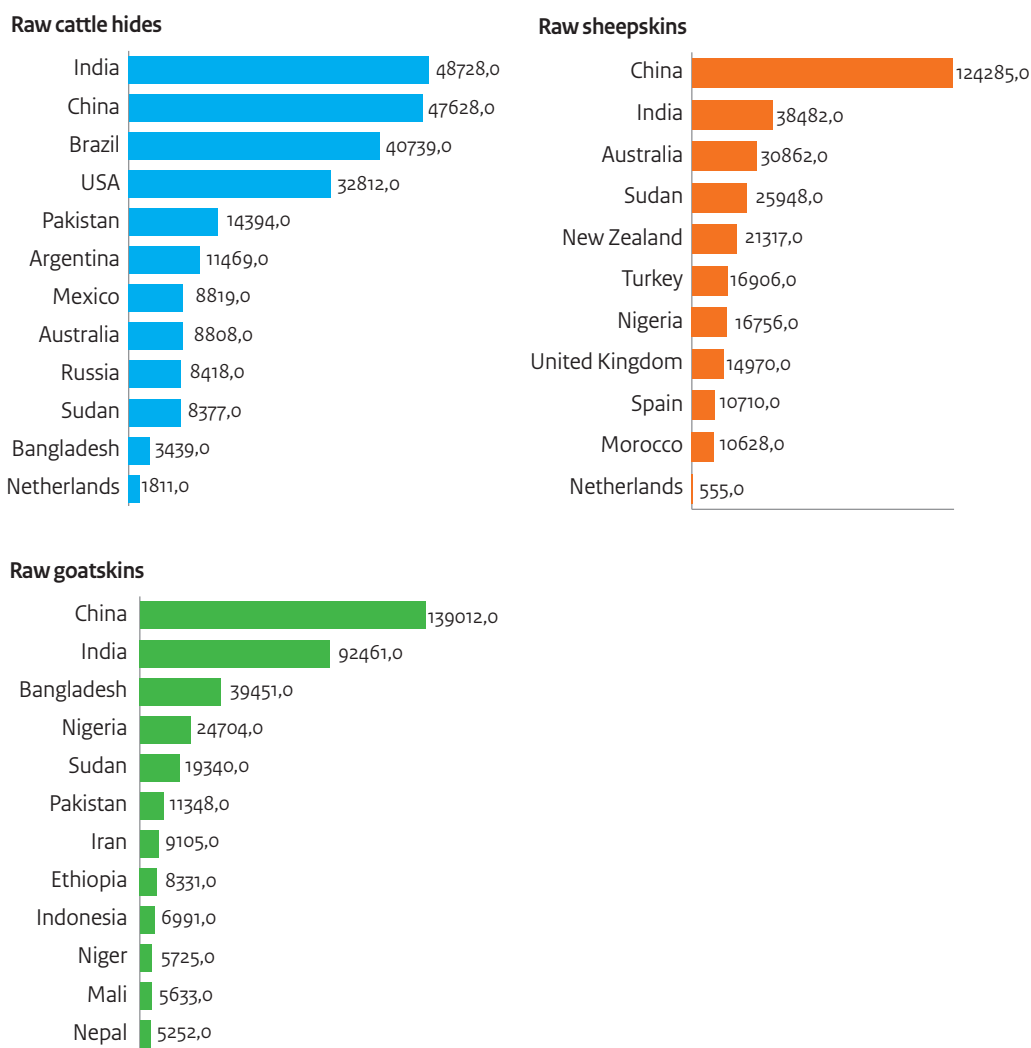


The world's cattle livestock amounts to an estimated 1,674,814,000 animals, with India being the largest livestock holder. India is followed by Brazil, China and the USA, with Bangladesh positioned eleventh. Sheep account for 1,170,145,000 head, with China, India, Australia and Sudan being the largest livestock holders. The statistics do not make a difference between hair sheep and wool sheep. Both Bangladesh and the Netherlands are ranked in quite a low position.

The world's population of goats amounts to 1,020,705,000 head, most of which are found in China, India, Pakistan and Nigeria. Bangladesh ranks fifth, whereas the Netherlands holds a rather small livestock of goats.

Appendix 2 | Raw materials

Graph 2 | Raw cattle hides in thousands of pieces



India is the largest producer of raw hides, followed by China and Brazil, which two have traded places compared to their livestock situation. Bangladesh is positioned within the first quarter of rawhide producers, whereas the Netherlands is ranked in the second quarter.

Bangladesh is not statistically represented in the production of sheepskins, whereas the small production in the Netherlands puts it in a rather low position.

The Netherlands is statistically insignificant in the production of goatskins, whereas Bangladesh is ranked third after China and India.

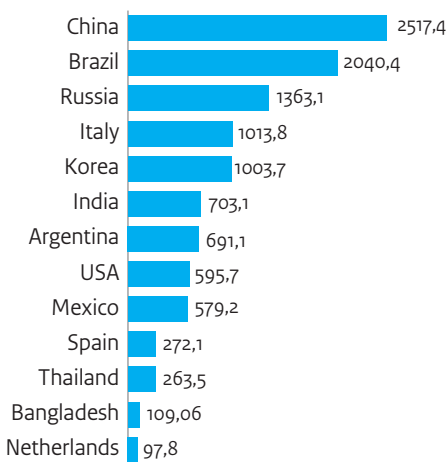
The statistics do not take stock of the differences between hair and wool sheep, and compute these as one.

Graph 2 provided above gives a clear indication that livestock holding, particularly for small ruminants, is geographically determined by climate and eating habits.

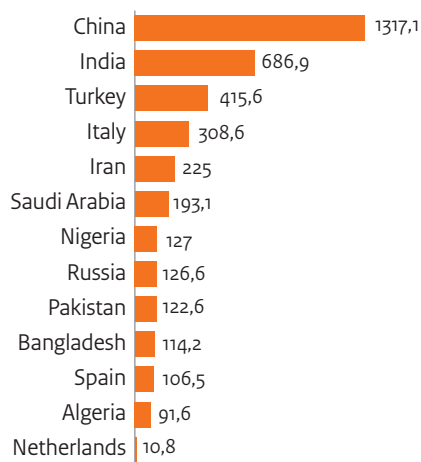
Appendix 3 | World leather production

Graph 3 | World leather production

Bovine leather production



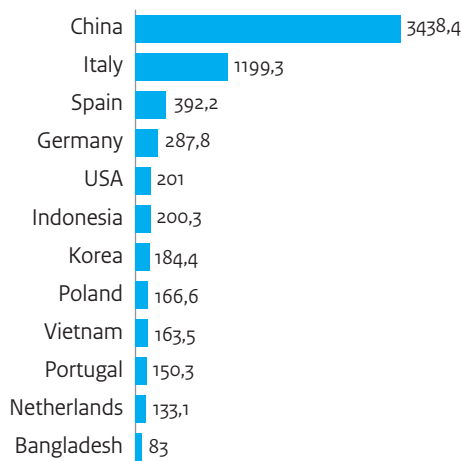
Sheep/goat leather production



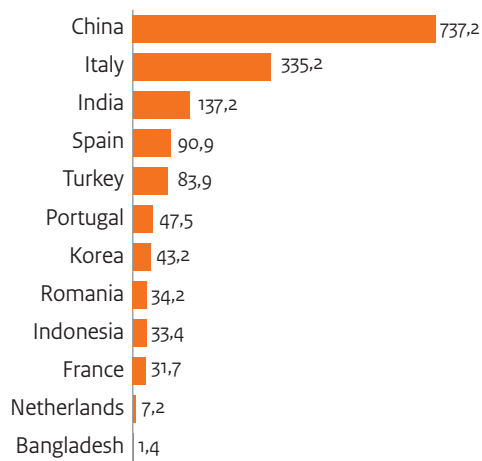
China and Italy are the largest importers of leather, before Spain and Germany for bovine leathers and India and Spain for sheep and goat leathers. Bangladesh is not a significant importer of finished leathers.

Graph 4 | Leather imports

Bovine leather imports



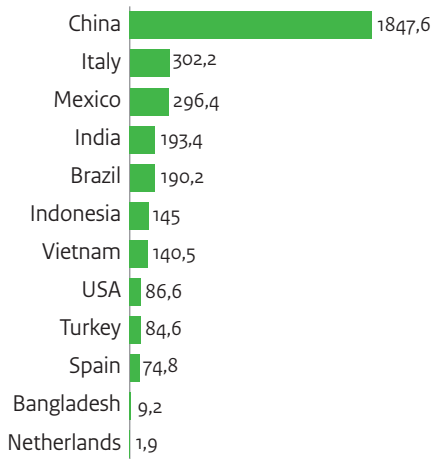
Sheep/goatskin leather imports



Appendix 4 | World footwear production

Graph 5 | Leather footwear production, export and import

Leather shoe production



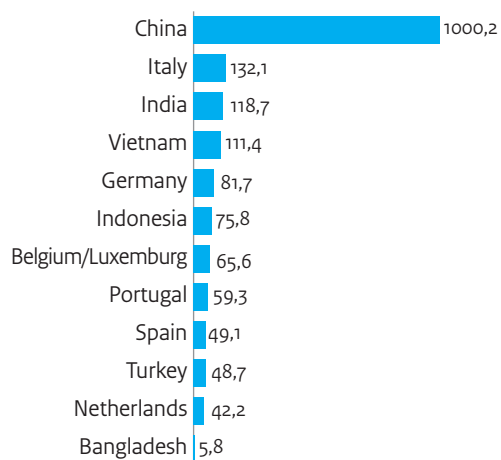
China and Italy are the largest producers and exporters of leather footwear. Surprisingly, Mexico is also an important producer of shoes with 296.4 million pairs, but it exports only 10.4 million pairs.

The Netherlands and Bangladesh are relatively small producers of shoes, although there is a large statistical gap between the 42.2 million pairs of shoes exported by the Netherlands and the mere 1.9 million pairs produced there.

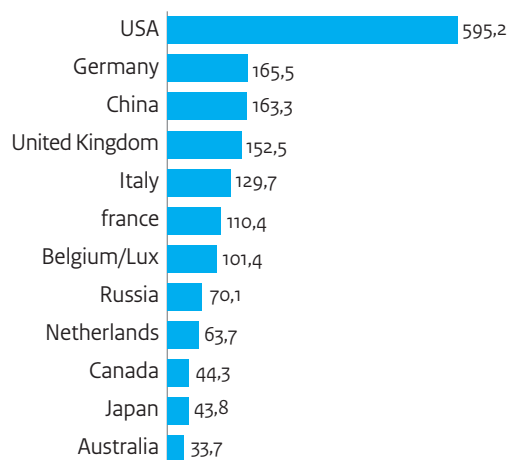
Western consumer countries such as the USA, Germany and the United Kingdom are the main importers of shoes, though China takes third place before the UK. The Netherlands takes the ninth place in the world for leather footwear imports, whereas imports of leather shoes to Bangladesh are insignificant.

Graph 6 | World footwear imports and exports

Leather shoe exports



Leather shoe imports



Appendix 5 | Bangladeshi export markets

Table 7 | Bangladeshi export markets, 2015

Exports to	Overall US\$	rank	Leather	rank	Leather goods	rank	Footwear	rank
UNITED STATES	6.220.645.468,78	1	304.614,57	23	28.838.729,23	3	77.387.502,98	3
GERMANY	4.988.076.447,29	2	1.685.525,00	13	13.593.396,77	6	100.895.771,91	1
UNITED KINGDOM	3.809.697.711,37	3	1.965.085,13	10	1.767.907,16	14	19.123.268,67	7
SPAIN	1.998.907.370,55	4	14.820.061,27	6	1.566.258,69	16	3.098.227,68	20
FRANCE	1.852.164.390,62	5	646.267,63	18	801.859,11	19	12.922.723,96	10
ITALY	1.385.674.916,62	6	30.712.288,29	4	6.755.737,57	7	22.949.959,89	6
CANADA	1.112.880.146,01	7	103.007,72	31	2.827.928,98	9	17.340.225,51	9
JAPAN	1.079.546.430,48	8	15.549.201,37	5	28.251.488,34	4	88.615.255,49	2
BELGIUM	1.015.330.616,84	9			27.881.473,14	5	4.459.936,97	14
NETHERLANDS	845.924.521,59	10	216.109,10	25	1.921.278,49	12	57.535.578,10	4
CHINA	808.144.450,51	11	52.087.327,23	2	144.785.713,36	1	30.992.575,74	5
AUSTRALIA	705.638.352,54	12	813.726,22	17	2.326.110,29	11	626.625,92	28
INDIA	689.621.525,93	13	14.038.418,14	7	5.836.354,44	8	180.447,32	45
DENMARK	664.016.718,85	14	2.279,01	38	410.964,36	24	97.347,76	52
TURKEY	661.887.854,30	15	423.693,16	21	204.743,59	30	124.312,35	48
POLAND	658.022.151,78	16	1.832.014,00	12	387.950,29	25	11.126.105,08	11
SAINT BARTHÉLEMY	651.292.315,92	17	56.891,59	33	35.051,17	42	128.669,21	47
SWEDEN	481.725.921,58	18			293.275,99	28	1.720.976,62	22
UNITED ARAB EMIRATES	425.913.790,98	19			108.733.051,65	2	5.585.092,55	13
CZECH REPUBLIC	416.940.822,82	20	12.540,49	36	8.082,81	47	755.732,60	26
RUSSIAN FEDERATION	314.292.584,58	21			327.020,68	27	1.113.190,38	24
KOREA, REPUBLIC OF	280.093.104,46	22	39.623.780,54	3	2.625.236,66	10	4.247.381,48	16
SAUDI ARABIA	225.679.843,37	23			557.832,86	21	223.181,93	42
HONG KONG	214.126.277,81	24	71.125.700,96	1	996.495,80	18	6.764.256,65	12
IRELAND	207.906.664,51	25			29.393,24	43	326.860,03	35
MALAYSIA	191.054.635,15	26	20.819,00	34	106.917,39	36	1.015.524,41	25
MEXICO	166.153.844,75	27	556.187,71	20	117.575,83	35	3.183.289,75	19
SINGAPORE	164.699.392,20	28	114.998,26	29	1.243.220,95	17	298.364,14	36
NORWAY	142.056.135,30	29	481,43	40	426.327,10	22	619.149,22	30
BRAZIL	135.602.206,35	30			381.115,67	26	495.339,88	32
SWITZERLAND	125.655.012,02	31			61.403,58	39	3.431.769,60	18
SOUTH AFRICA	98.463.294,70	32	159.393,95	27	1.779.011,47	13	521.769,33	31
SLOVAKIA	75.144.818,84	33					271.476,98	38
NEW ZEALAND	73.625.583,84	34			17.862,33	44	76.312,94	57
TAIWAN, PROVINCE OF CHINA	68.365.172,97	35	9.177.877,06	9	695.299,35	20	1.548.966,71	23
VIET NAM	65.055.097,34	36	12.170.110,20	8	175,50	57	81.920,79	54
PORTUGAL	64.389.045,34	37	1.112.094,85	14			17.580,69	65
AUSTRIA	61.651.427,06	38			4.411,14	49	3.571.055,13	17
CHILE	51.154.715,00	39			277.692,51	29	1.832.675,58	21
PAKISTAN	47.070.228,21	40	645.122,56	19	2.637,10	50	47.752,05	59
INDONESIA	43.360.809,44	41	891.968,23	16	93.886,51	37		

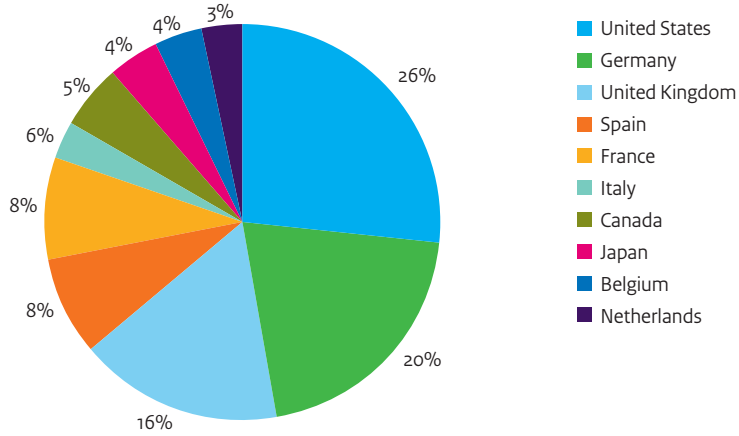
Exports to	Overall US\$	rank	Leather	rank	Leather goods	rank	Footwear	rank
PHILIPPINES	40.437.161,58	42	227.725,49	24	132.428,23	34	15.808,23	67
SLOVENIA	39.167.869,46	43					739.371,05	27
MYANMAR	38.226.345,20	44	375.203,38	22	89.226,39	38		
THAILAND	35.154.005,09	45	139.001,39	28	417.074,06	23	80.782,40	55
EGYPT	33.961.233,43	46					95.907,26	53
QATAR	33.268.960,36	47					26.213,61	64
FINLAND	32.727.927,98	48	2.139,05	39	172.847,09	31	379.645,05	34
GREECE	32.674.838,18	49	111.402,68	30	666,24	54	180.156,08	46
PERU	30.498.272,43	50			13.043,10	45	214.262,54	43
SRI LANKA	30.445.740,39	51			118,21	58		
KUWAIT	27.004.105,78	52					428.625,48	33
OMAN	20.918.389,78	53					119.838,00	49
NEPAL	17.884.878,60	54					2.018,91	69
PANAMA	16.910.469,20	55			1.139,14	51	4.412.118,90	15
CROATIA	14.650.646,61	56			774,24	53		
ROMANIA	14.024.075,63	57			154.496,00	33	623.692,64	29
COLOMBIA	12.910.639,70	58	74.383,51	32			238.112,21	40
LEBANON	12.018.008,23	59					10.271,34	68
JORDAN	9.518.984,53	60			56.861,54	40		
MOROCCO	8.826.688,91	61			8.196,26	46		
ARGENTINA	8.059.120,14	62					188.423,42	44
HUNGARY	6.640.902,44	63					52.230,79	58
SERBIA	6.248.051,70	64			274,68	55		
ALGERIA	4.387.787,41	65					28.229,34	60
CAMBODIA	4.370.307,85	66	1.035.022,55	15				
URUGUAY	4.350.643,28	67					118.195,03	50
CYPRUS	4.337.138,48	68					240.639,81	39
LATVIA	4.310.053,80	69					26.606,56	63
TANZANIA, UNITED REP. OF	3.540.569,66	70			1.045,53	52		
LITHUANIA	2.957.282,42	71			158.479,02	32		
BELARUS	2.228.894,18	72	2.377,22	37				
SWAZILAND	1.851.773,69	73					16.547,00	66
EL SALVADOR	1.815.723,50	74					281.000,74	37
ANGOLA	1.580.310,77	75			37.080,87	41		
BOSNIA AND HERZEGOVINA	1.239.938,84	76					107.427,58	51
BRUNEI DARUSSALAM	1.235.337,39	77			230,62	56	235.755,39	41
NICARAGUA	1.202.630,11	78			8.049,80	48		
PARAGUAY	1.032.392,33	79					26.782,06	62
IRAQ	880.810,93	80					27.602,22	61
MONGOLIA	841.703,53	81					78.997,27	56
LAO PEOPLE'S DEM. REP.	408.815,53	82	197.304,49	26				
VIRGIN ISLANDS, BRITISH	78.978,18	83	15.738,91	35				
GABON	74.202,43	84	1.965.085,13	11	1.767.907,16	15	19.123.268,67	8

Source: EPB

Appendix 6 | 10 largest export partners

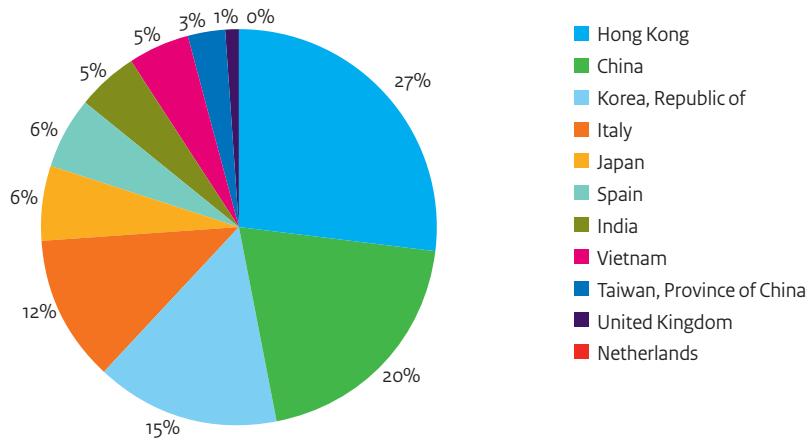
Graph 7 | Largest export partners, 2015

10 largest export partners



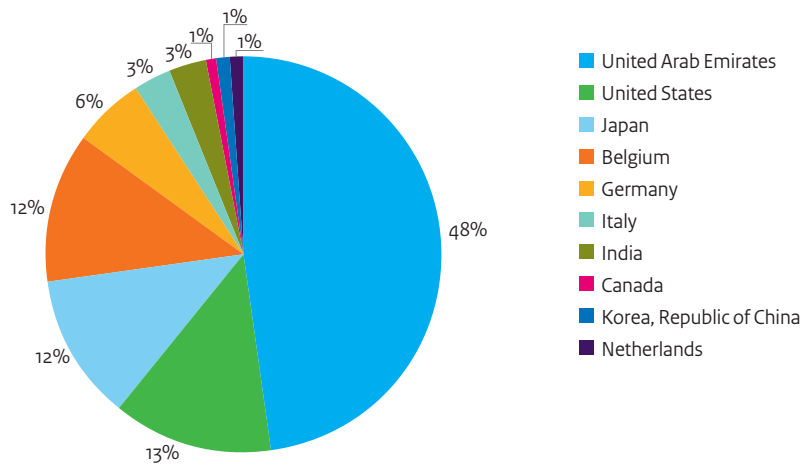
Graph 8 | Largest leather partners, 2015

10 largest leather importers plus the Netherlands (25th)



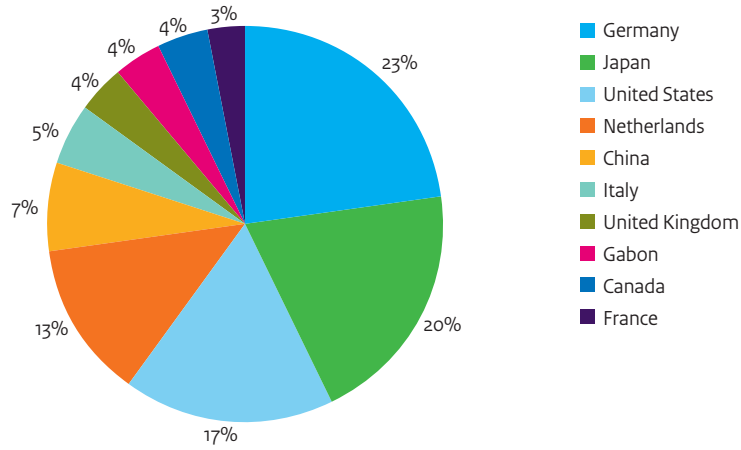
Graph 9 | Largest leather goods partners, 2015

10 largest leather goods importers plus the Netherlands (12th)



Graph 10 | Largest footwear partners, 2015

10 largest footwear importers





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