



*Labor issue is a major problem of the industry. Labors now have a wider range of choice.*

*Mahmudul Huq*

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Within the year 2012, the Jute industry (weaving) benefitted from the continuous purchases from Thailand. This phenomenon seems to be persistent as the Thai policy has decided to continue their support for the rice farmers to provide them with minimum price and packing in jute bags. On the spinning side there are signs of over capacity; export volume may have gone up but the export values have tumbled a bit. The raw jute prices have fallen while the profitability of the industry has slipped more than the raw jute prices. The reasons may attribute to the setting up of new mills and entrants of different sectors venturing into this industry following the success stories of some entrepreneurs in the jute industry. There was no evaluation of capacity and market size; and there was just an increase in capacity based on what existing mills were doing.

In 2011-12, the total exports increased by 20 percent for jute yarns though in a difficult world market situation. In terms of sales of carpets, Europe has gone down because of the financial problems and America has gone down because of the financial problems and uncertainties regarding the elections. Middle East is in turmoil, Egypt- I will say somewhat, and Syria- definitely. These are all potential markets. The Far East is okay. China seems to be diversifying from buying raw jute and buying yarns instead. They are importing yarn and then processing it into woven jute products. On a ten year time frame, China will considerably reduce its import of raw fibre; rather they will increase their import of jute yarns with the idea of using it in China and for supplying bags and sacks to their local market.

The jute yarn industry has seen a hike in the recent year. The 20 percent yearly growth of yarn has been primarily in China, partly in India, and at firms in the carpet industry around the world. The 20 percent growth has been in the exports volume and not in the capacity. The capacity accounts for a 30-35 percent increase. The profitability of the sector is being disturbed by the new entrants for whom price and profitability are not major issues but entering the market is their biggest concern. The profitability of the yarn sector has been disturbed to the point that it has been oppressed.

The jute business yet remains profitable despite the yarn sector being hampered. If I talk about my business individually, I have zero interest charge on my costing as we are operating with our own capital instead of Bank finance. Presently, the new entrants are being waived from the interest and capital repayment due to their start-up moratorium period. Thus, even if they are underselling, it will not hamper them yet and entering the market

remains their sole motive. However, by the time their moratorium period is over and they realize the need of making a profit, it will be too late; the damage will be done by then.

The new entrants in the market have adopted the low pricing strategy for market penetration. The lower prices offered by these new mills put pressure on the other players of the sector to sell at discounted prices. Hence, as an action-reaction response, we have stopped our Friday production for the months of November to February thereby limiting the supply in the market and reducing the pressure of selling at lower prices. Right now, my main lookout is the value and the not the market share. This is our strategy to maintain our profitability in the yarn sector.

For the weaving industry, Thailand is the main market; Sudan is disturbed; Syria is finished; and India is having the season right now. 2012 has indeed been a difficult year. Thailand is a major market for the jute bags. It is reported that Thailand will need 55 million jute bags for the packing of 5.5 tons of rice. This order will be divided among the private and public firms of Bangladesh, India, and some Thai mills. In 2012, the only country that we have added to our exporting list is Equatorial Guinea. It is not possible to find a 'new country' to export, every year. This year we are at saturation point.

The condition of the industry as a whole is vulnerable. It is endangered on the yarn side due to overcapacity. There are some upcoming financial difficulties in the future. On the weaving side, because of the continuation of the Thai market, it has helped us avoid the disturbance of Syria and Sudan. In Europe, out of the 35 million jute bag market in the potato industry, we supply 14-15 million of it.

Labor issue is a major problem of the industry. Labors now have a wider range of choice. Until you provide them financial assistance why will they work in a dirty industry than a clean industry? Besides my factory, there is PRAN. The air environment in PRAN is much cleaner than a jute mill. In a jute mill, you have to move weights in kilos from one machine to another; the physical turmoil is much greater in a jute mill in comparison to other sectors. In this difficult situation, if we cannot change the working environment, it will become a challenge for us. As an individual mill, we have increased our employee wages from October. We have given them a 15 percent allowance and in addition, we have provided them with other incentives as well.

The Bangladesh Jute Mills' Corporation (BJMC) still continues

to frustrate me. The government has pumped in 2,600 crores by writing off their Bank loans; but in return, what did we get? Every season, we hear that the government did not allot any money for buying jute. Where has the money gone that was allotted for jute purchase for the past two years? Meanwhile, a balance of 2,600 crore has been shifted from the balance of BJMC in the hope that it is profitable but where is the declared profit? If 5 mills can make profit, why can't the rest of them? This plague will not be solved as long as they are there. I see no political decision in disinvestment. Following the election of the present government, there have been no disinvestment in any field be it textile, jute, chemical or fertilizer industries. If we carry on with a policy of the government looking after each industry, why isn't the government itself manufacturing? There is no valid reason. In spinning we the private sector, have escalated production from 15,000 tons in 1980 to 480,000 tons in 2012 and we did not achieve this on the basis of under paying the workers or taking bank loans and giving liability to the government. There is a viable jute industry in the private sector but as long as the BJMC continues to be a major player in the weaving sector, it will always be difficult for the private sector to be viable. There are 26 mills under the BJMC umbrella. As long as the present government and the opposition will be in power, there is no motivation for this industry.

In 2012, there has been no regulatory changes in any policy regarding this sector nor there has been any new policy been added to the list. The only policy initiative is that the Mandatory Packaging Act has been passed into law. The government is stipulating the packaging of all rice, sugar, fertilizer, and cement. The law is a copy of India; but India has exempted packing cement in jute bags long ago. Grains, pulses can be packed in jute bags but for flour, it is difficult as it may get mixed with the jute fibre. Now my question is that the Mandatory Packaging Act was passed back in October 2011; but when it will be implemented? If this law was implemented, the demand for jute bags would have been higher and we would have been getting better prices.

The outlook of 2013 appears to be dull and poor. The bright days of the sector are far ended. It will come when capacity is set to the market situation. The present dilemmas surrounding the sector include lack of capacity, unhealthy competition and lack of labor. Focusing on the external factor, 2013 will bring revival of the American market while European and Syrian problems seem to be staggering, with the Egyptian market showing signs of improvement.

In 2013, we expect continued difficulty in the yarn side, worsening trading conditions, financial problems, labor availability issues, and power problems. Except the raw material, other costs are going up including wages, electricity, transport, and bank interest for a sector as a whole. The market is depressed. America perhaps is improving after the elections, Europe seems to remain very dull, especially the Southern Europe, and now Northern Europe is being pulled down by the Southern Europe. In Middle East, Egypt is politically disturbed and Syria is in war condition. The yarn is supplied to the carpet industry in Middle East. Middle East is selling those carpets in Europe, America, and some parts of Middle East itself. China is growing at a slow pace, Russia is growing at a fast pace albeit from a very small market size. On the weaving side, Syria is being affected. The market of Sudan is in a confusing situation; it is difficult for me to predict how the condition in Sudan is actually affecting the demand supply condition but all I can say is that we are experiencing a slackening growth from Sudan.

To retain our positions, we have to control our costs and capacity and fight for our markets without compromising our quality. The new entrants are compromising on their quality to attain a market place. Lowering capacity does not imply that I am shedding off my small buyers; all buyers, irrelevant to their size, have the same value to me. By eradicating the Friday production, we have already limited our capacity by 13 percent. This is our mechanism to maintain our prices and profitability. The new-comers will not be able to establish a brand by compromising on prices and quality. But in the quest to do so, they are losing their integrity with their reduced quality. With the reduction in prices in the overall market, may be I have to suffer for a while but this phase will pass away.

As far as my expectations are concerned, I have no such expectations from 2013. The only request I have to the government is to disinvest the jute sector and implement the Mandatory Packaging Act. These are the two things I am concerned about. There is very little scope less scope of disinvestment under the present condition I believe.

*Interview is taken by Md. Ashaduzzaman Riadh and Tanzina Ahmed Choudhury. All views and opinions expressed here are solely of the interviewed persons and neither represent the views of LankaBangla Securities Ltd. nor those of any of its associated institutions.*

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