

**Price Volatility of Rawhides:
Impact on the Leather Industry
of Bangladesh**

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Price Volatility of Rawhides: Impact on the Leather Industry of Bangladesh

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Executive Summary:

In this analysis, the discussion focuses on the volatility of rawhide prices in recent years. Putting the issue at the center, the present situation of the overall leather industry has been discussed, majorly about export. It was found that export earnings have declined since FY2014, which continues till now. It was also observed that the rawhide prices for cows and goats started declining since 2015, an impact of export decline, and reached the lowest level in 2020 (goat Tk.23 per piece and cow Tk.300 per piece). The leading causes of price falls are to be found in the high cost of preserving rawhides, reduced demand for rawhide, ban on the export of rawhide and wet-blue leather, and the lack of export of leather goods. After that, the main challenges of reaching prices up to the robust equilibrium level had also been discussed. The opportunities of the leather industry having ample supply of low-cost labor and raw material have also been regarded. Finally, it was concluded that if all the mentioned problems can be solved rationally on a priority basis, that will contribute significantly to unemployment reduction, boosting foreign currency earning or export earnings, and most importantly, export diversification; which will lead to an increase in the rawhides' demand, and will naturally contribute to the increase in the market price.

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1. Introduction

The leather industry is important in Bangladesh, which is the fourth most potential export earner after the Readymade Garment (RMG), Jute, Fish & Shrimp (Bangladesh Bank, 2022). This industry has significant potential for development using a massive supply of cheap labor and raw materials. At the same time, this industry can contribute significantly to export diversification and boost export earnings, as well as help to reduce the country's over-dependence on the RMG sector.

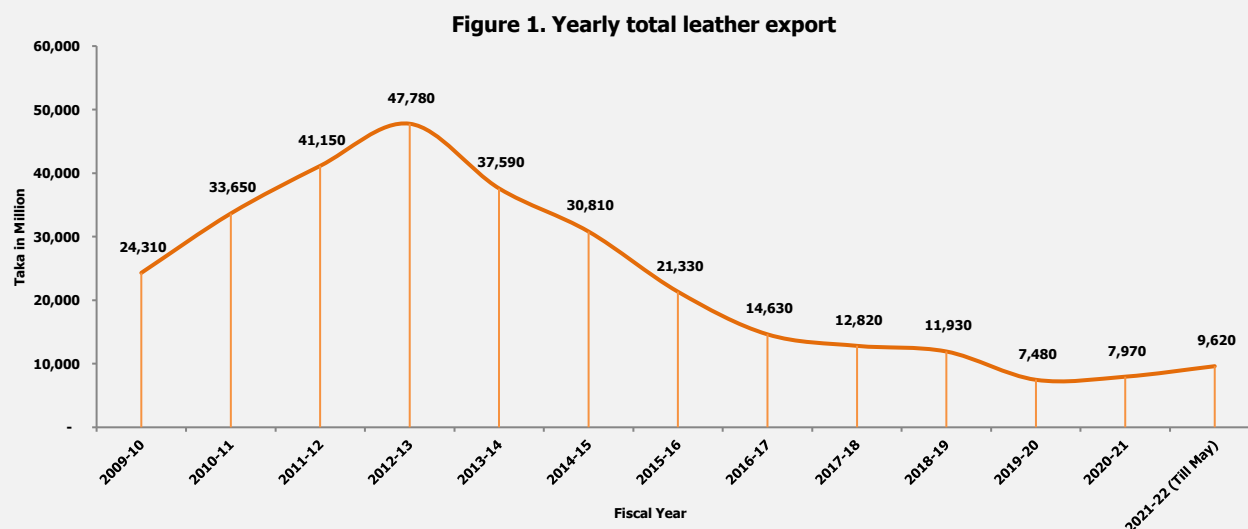
However, the data of Bangladesh Bank (The data has been collected from Bangladesh Bank's website:

<https://www.bb.org.bd/en/index.php/publication/publicn/3/10>, accessed 16 August 2022) shows that export earnings have started to decline since FY2014 (Figure 1), which has gained momentum after the relocation of the tanneries from Hazaribagh to Savar in 2016 and the Covid-19 pandemic. Moreover, the total decline in leather exports from FY1972 to 2019 was 79% (The Financial Express, 2022). Figure 1 also shows that in the first eleven months of FY2022, the export earnings from the leather industry stood at Tk.9,620 million, which is 35.11% more than the same period of the previous fiscal year. In the corresponding period of the previous fiscal year, the export income was Tk.7,120 million. This increasing export trend of leather and related goods is due to the export liberalization after the pandemic shock.

Moreover, this industry contributes to the country's total exports of about 4% and 0.5% of total GDP; besides, six lakh laborers are working

directly and three lakh indirectly (The Business Standard, 2022). Nevertheless, Bangladesh's current share of the world's \$215 billion leather and leather goods market is only 0.5% (The Financial Express, 2022). In this situation, the industries ministry set a target to increase exports to \$5 billion by 2025 and increase the sector's contribution to GDP by 1% (The Business Standard, 2022).

The leather industry is suffering from a lot of issues, such as mainly relocation from Hazaribagh to Savar, environmental pollution issues, Common Effluent Treatment Plant (CETP) installation, solid waste management system & dumping yard, imported machinery & chemicals, inefficiency in raw material procurement, lack of skilled workforce, lack of funding, heavily reliant on brokers, work environment, meager rawhide price, power supply, and so on (Business Inspection, 2022). Keeping all the problems in mind, the main objective of this report is to identify why the price of rawhides declined and its impact on the leather industry.



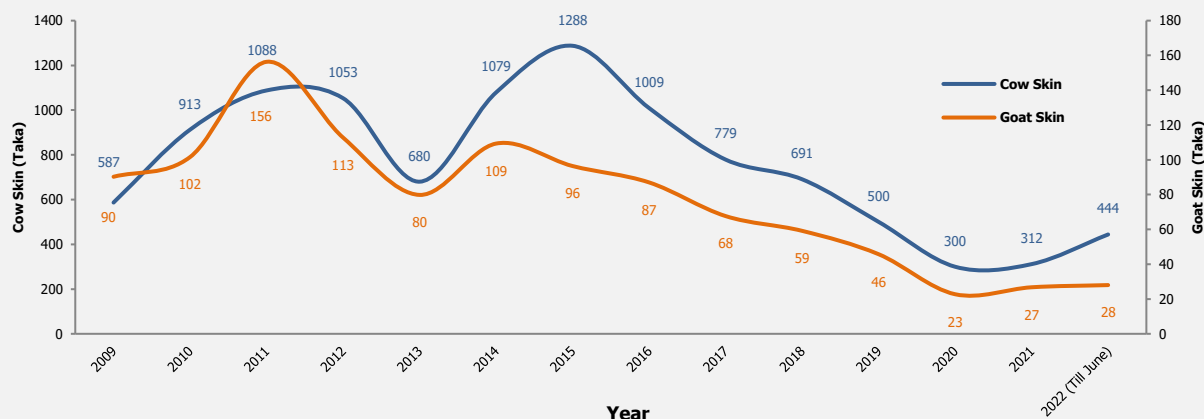
2. Present Status of the Rawhide Price

Figure 2 shows (The data has been collected from Bangladesh Bank's website: <https://www.bb.org.bd/en/index.php/publication/publication/3/10>, accessed 16 August 2022) that rawhide prices for both cows and goats started declining in 2015 and reached the lowest level in 2020 (goat 23-taka per piece and cow 300-taka per piece). After that, the price started to increase slowly again, and the goat rawhide price increased to Tk.28 and cow Tk.444 in 2022. Besides, during Eid-ul-Adha, the rawhide supply increased significantly for a short period due to slaughtered (sacrificing) a significant number of animals (cow, goat, buffalo, sheep, etc.), a total of 44 lakh bulls and 22 lakh goats were slaughtered (The Daily Star, 2021). In the last couple of years (last three years), the price of rawhides at that time dropped below the breakeven point that some vendors were forced to throw their rawhides. The price decline rate

was so strong that the rawhide price did not even meet their transport cost.

Considering the significant price fall, the commerce ministry of Bangladesh set the rawhide price (price floor) above the market price (equilibrium price) to protect the vendors from this extreme price fall. For example, in 2022, the government has fixed TK. 47-52 per square foot of cattle rawhide in Dhaka and TK. 40-44 per square foot outside of Dhaka, which is 8% more than the previous year. On the other hand, at the same time, the price of male goat skin was fixed at TK. 18-20 per square foot and the female goat was fixed at TK. 12-14 per square foot. Besides, the government also set the wholesale price for cattle rawhide (TK. 433 in 2022 and TK. 281 in 2021) and goat skin. In the international market, exporting per square foot of finished leather for \$1 to \$1.1, but in the case of compliance factories, the price ranges from \$1.3 to \$1.4 depending on buyers (The Business Post, 2022).

Figure 2. The yearly price per piece rawhide (cow & goat)



3. The Causes of Rawhide Price Fall

Now the question is why the price is declining. We found several reasons after reviewing the articles and interviews of the tannery owners. For example, the high cost of preserving rawhides reduced demand for rawhide, ban the export of rawhide and wet-blue leather, the lack of export of leather goods, etc.

Generally, rawhide can be preserved in three ways: freezing, salting and drying. In Bangladesh, preservation is mainly done by salt, which is expensive considering the current price of rawhide. For example, preserving cattle or goat skin requires 40-50% salt of the skin weight, about 8-9 Kg salt, and the cost of salt is around TK. 200-300 for an average size of cattle rawhide. Thus, with high preservation costs and low rawhide market price, the tannery owners are

discouraged from storing raw hides, which further reduces the price.

On the other hand, rawhide demand in the domestic market has declined due to decreasing the number of tanneries after shifting from Hazaribagh to Savar, as well as due to the covid-19 pandemic; the export growth becomes negative; which has made the local rawhide market unusually dull (Financial Express, 2022; The Business Post, 2022). Additionally, due to compliance issues, Bangladesh has less access to the world market and is forced to export leather goods below the fair price (The Business Post, 2022).

Consequently, rawhide price has fallen drastically over the last three years, especially during Eid-Ul-Adha, due to the surplus supply. So, many traders sold their rawhide at throwaway prices or dumped them into water bodies or other open spaces. Against such a backdrop, the government decided to allow the export of rawhide and wet-blue leather on a 'case-to-case' basis after 32 years last year. As a result, the rawhide market has increased slightly since last July (The Business Post, 2022).

4. Challenges and Opportunities

Setting the rawhide price at an equilibrium level is challenging because the demand-supply gap is significantly high. The gap only can mitigate by increasing the demand for rawhide. The rawhide mainly comes from the byproduct of the meat industry. However, in recent years, Bangladesh has been self-sufficient in meat production and thinking of exporting surplus production abroad. In this situation, it is impossible to reduce the supply of rawhide. So, we have to think alternative.

Suppose the government intervenes in the market by setting a price floor above the equilibrium price to maintain a certain level of prices. This will obviously increase the possibility of an excess supply of rawhide in the market, even though the market is already suffering from oversupply. In this circumstance, government intervention will not work efficiently. The recent government intervention in 2022 (the commerce

ministry of Bangladesh) was not successful in preventing rawhide prices from falling. On the other hand, setting a price ceiling is needless, as it is set when the price of a commodity is prevented from rising above a certain level.

The next challenge is to re-establish all the previous tanneries in the Savar Leather Industrial Park, but this is impossible due to the lack of land. So far, 154 tanneries out of 222 have been allocated plots at the Savar Leather Industrial Park. However, if the government can increase the total number of tanneries shortly, including the total west management system, that will boost the demand for rawhide and create a significant opportunity for rawhide vendors.

Another challenge is to increase the significant number of leather goods manufacturing factories, which will create a demand for rawhide. Install more factories is somehow quite tricky because it is related to not only the domestic market but also export.

Exporting leather and leather goods is another challenge due to compliance issues. Bangladesh mainly exports finished leather to China, Vietnam, Thailand, and Italy; and is forced to export leather goods below the fair price (The Business Post, 2022). According to the Chairman of the Bangladesh Tanners Association (BTA), the existing capacity is enough to export a minimum of \$3 billion, but the industry failed to meet the capacity because of a compliance issue.

The industry has also suffered to set up CETP for all tanneries and ensure a proper and complete west management system. The Human Right Watch reported that tanneries are responsible for air, water, and soil pollution, which leads to serious health problems in the population (Human Rights Watch, 2012). To mitigate the problems, the Bangladesh government has shifted tanneries from Hazaribagh to Savar, but still, there is no improvement in solid waste disposal in the open surrounding areas. Although, some of the tanneries have installed ETP at their own cost. However, which is not enough to achieve global standards and obtain the Leather Working Group (LWG)'s certification.

The other problems are the efficiency of supply chain and backward linkage management, quality of products, necessary government backing, lack of domestic and foreign investment, lack of training programs, and so on.

From the above discussion, it is clear that rawhide prices declined below the equilibrium level due to the surplus supply of rawhide, which is optimistic for the leather industry. The leather industry has considerable potential for development using Bangladesh's ample supply of low-cost labor and raw material. According to Grand View Research, the global leather goods market is anticipated to reach \$624.08 billion by 2028 (The Business Standard, 2022). Considering all the opportunities, the development of this industry is essential for several reasons. For example, the development of this industry can contribute significantly to unemployment reduction, boosting foreign currency earning or export earnings (which helps the government to increase foreign currency reserves), and most importantly, export diversification. It should be noted that this industry's primary raw material (rawhide) comes from local sources. Hence this industry does not spend foreign currency to purchase raw materials like RMG. The net profit margin will also be significantly higher than the RMG sector.

5. Conclusion and Recommendation

The leather industry, the fourth most potential export earner, has significant potential for development using our huge supply of cheap labor and raw materials, which can play a significant role in export diversification. Bangladesh currently contributes only 0.5% of the world's \$215 billion leather and leather goods market. Using our strength of cheap labor and raw materials, Bangladesh set a target to increase exports to \$5 billion by 2025 and increase the sector's contribution to GDP by 1%, where the main challenge is compliance issues.

However, this industry is suffering an oversupply of rawhide problem, which we cannot control because the rawhide is the byproduct of the meat

industry. Excess supply of the rawhides increases exponentially on Eid-UI-Adha; on average, 44 lakh bulls and 22 lakh goats are slaughtered each year in Eid-UI-Adha, which brings down the price of rawhide below the breakeven point. This abnormal fall in prices is ominous for the leather industry. This unusual fall in prices happened due to the high cost of preserving rawhides, reduced demand for rawhide, the ban on the export of rawhide and wet-blue leather, the lack of export of leather goods, etc.

Nowadays, this sharp fall in the price of raw hides is one of many problems in the leather industry which must be resolved jointly. Currently, this industry is suffering from various problems such as relocation from Hazaribagh to Savar, environmental pollution issues, CETP installation, solid waste management system & dumping yard, imported machinery & chemicals, inefficiency in raw material procurement, lack of skilled workforce, lack of domestic and foreign investment, work environment, power supply, quality products production, and government support, and so on. If all these problems can be solved rationally on a priority basis, that will contribute significantly to the unemployment reduction, boosting foreign currency earning or export earnings which support increasing foreign reserve, and most importantly, export diversification; which will lead to an increase in the rawhides' demand, and will naturally contribute to the increase in the market price. And, finally, this fourth largest export sector's contribution to GDP will increase significantly and move to the second position next to the RMG sector.

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