

Distinguished Members,

Assalamu Alaikum

I would like to take the opportunity to welcome you all to the 11th Annual General Meeting of Leathergoods and Footwear Manufacturers and Exporters Association of Bangladesh. It is my pleasure and honor to present before you the Annual Report 2014 on behalf of the Executive Committee of LFMEAB. The year 2014 was challenging for the entire Bangladesh economy as a whole, and the leather sector was also affected. The political unrest especially in the last quarter of 2013 took a heavy toll on the economy and the after effects were felt in 2014 through lower export orders and investment. However Bangladesh continued to experience general macroeconomic stability in the form of low inflation, manageable fiscal deficit, and stable balance of payment position.

The outgoing committee and I as your President have sincerely tried our best to navigate our industry through these uncertainties and challenges over the last four years. Today is the 11th AGM of our Association and I think we can all be proud that despite many hurdles and obstacles to growth, we have remained focused on our most important objective and that is to make our industry world class and competitive. This is backed up by the fact that despite a challenging year in 2014 our leather sector exports grew by 37.5% in that year too.

Global Economic Scenario:

Dear Members,

We all know how the global trading conditions and market trends affect our export business from Bangladesh and I believe the single most important factor for future success is sustainability. We must recognize the seriousness regarding traceability within the supply chain and make sure that we are ready for these new requirements. The Green Purchasing Policy will soon be a new protocol in the global leather trade, which is continuing to establish standards for environmental sustainability such as zero waste strategy and treatment technology.

The EU, our largest export destination has already adopted the 'Single Market for Green Products' initiative. This development will have a definitive impact on manufacturing and sourcing practices. If the Bangladesh leather industry cannot move in the right direction, this opportunity will pass us by right in front of our eyes.

The world economy continues to grow at a modest pace where growth of world gross product is projected to accelerate slightly from 2.6 percent in 2014 to 2.8 percent in 2015 —a forecast presented in the World Economic Situation and Prospects (WESP) 2015 in January. Global growth

is forecasted to improve to 3.1 percent in 2015. However, the growth divergence between various regions is widening, owing to differing impacts from the recent decline in the prices of oil and other commodities, as well as country-specific factors.

Emerging markets and developing economies have shown stronger GDP growth in recent years and the forecasts for the next few years indicate the maintenance of this trend. By 2019 advanced economies will represent 40% of the world GDP, i.e., at a level slightly below the contribution of emerging and developing economies in 1995.

This obviously represents a major change in the commonly accepted paradigm of consumer spending growth being mainly driven by the US, Japan and European countries. The fastest growing and most important markets of the future will be in the emerging and developing economies of Asia, Latin America and Africa.

Economic growth will also result in a growing middle class. According to a study presented by Ernst & Young, in 2009 there were 1.8 billion people considered middle class. By 2030 that number is expected to almost triple and reach 4.8 billion people, representing roughly 3 billion new consumers joining the middle class. As this number grows, purchasing power will tend to increase resulting in additional consumption, and possibly increased savings as well.

Export Performance

Dear Colleagues,

I would like to share with you an overview of the export performance and achievement of our leather products and footwear export subsector during the last fiscal year. The table below shows the export performance of Leather, Leather Products and Footwear industry in the global market as reported by Export Promotion Bureau:

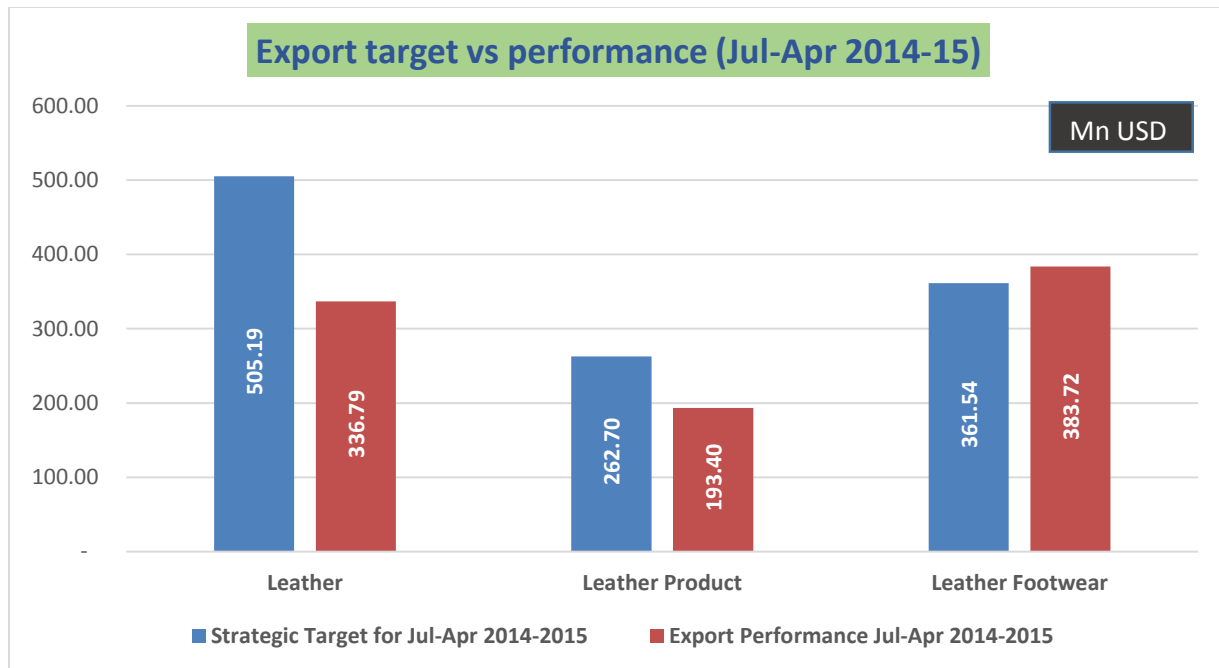
- The export target for the fiscal year 2014-2015 was 1.397 billion USD, where the strategic target for July-April 2014-2015 was 1.129 billion USD, but the export performance was only 0.913 billion USD during the period July –April, 2014- 2015.
- So total exports suffered a setback, and under achieved by 19.08% against the strategic target during the period. Protracted political instability, nonstop blockades & violence seriously thwarted the supply, production and exports. The leather industry faced massive disruptions in its supply chain, from raw hide collection within the country to supply of imported input materials from Chittagong sea port and Dhaka airport, and as a result many export factories failed to meet their delivery deadlines, which severely constrained the attainment of export target.

However even in this unfavorable situation footwear exports performed admirably and it exceeded the target registering 6.13% export earnings growth for the sub sector.

Export performance in the Leather Sector

Export performance for the Month of July-April (FY 2014-2015)								
Overall position								Mn. US \$
<i>Products</i>	<i>Export Performance July-June. 2012-13</i>	<i>Export Performance July-June. 2013-14</i>	<i>Export Target for 2014-15</i>	<i>Strategic Target for Jul-Apr 2014-2015</i>	<i>Export Performance Jul-Apr 2014-2015</i>	<i>Export Performance Over Strategic Target (% Achieved)</i>	<i>Export Performance for Jul-Apr 2013-2014</i>	<i>% Change of export performance Jul-Apr 2014-15 Over Jul-Mar 2013-14</i>
All products	27,027.36	30,186.62	33,200.00	26,835.56	25,303.25	-5.71%	24,654.39	2.63%
(7) Leather (Chapter 41)	399.73	505.54	625.00	505.19	336.79	-33.33%	424.05	-20.58%
(8) Leather Product (Chapter 42-43)	161.62	240.09	325.00	262.70	193.40	-26.38%	197.36	-2.01%
(24)Leather Footwear (Chapter 6403)*	419.32**	378.54	447.28	361.54	383.72	6.13%	306.24	25.30%
LEATHER SECTOR (Leather + Leather Products)	561.35	1,124.17	1,397.28	1,129.43	913.91	-19.08%	927.65	-1.48%
<i>*For the FY 2014-15 Footwear has been divided into Leather (6403) and Other (excl 6403)</i>								
<i>**Figure includes both Leather Footwear and Other Footwear</i>								

Export performance in three subsectors against strategic target



Bangladesh Industry Outlook

As a part of a global value chain we remain highly susceptible to international market behavior and volatility, as we fight for market share in highly competitive markets, from a relatively weak position.

Despite the consistent growth of our sector, our biggest challenge today is shrinking profit margins due to the strengthening of the Bangladesh Taka against Euro by more than 24 % in the last 12 months. As the Eurozone crisis drags on with no end in sight yet, there is pressure to maintain or even reduce our export prices to the European market. Since more than 60% of Bangladesh leather sector exports go to Europe this is a tremendous challenge. Whilst Bangladesh exporters struggle to retain competitiveness, our competitors from Vietnam, Cambodia, India, and Pakistan are boosting their competitiveness through strategic moves like currency depreciation, enhanced market access like GSP plus etc.

Prospects of accelerated growth in the leather sector will hinge upon Bangladesh's ability to improve productivity, raise efficiency, diversify markets, enhance quality and create the needed skilled manpower needed to succeed. The sector target of USD 5 billion by 2021 needs an actionable, pragmatic strategic plan for the next five years with special focus on productivity improvement, design development, raising compliance standards, policy advocacy and reducing social risks.

According to *Lucintel*, a leading market research firm, the global leather goods industry is expected to grow at 4.5% in the next five years. The major drivers of the industry would be per capita income, increasing consumer affluence, growth in the travel industry, and product innovation.

There is a huge opportunity in the untapped international market with an increasing global demand and potentiality for value added, diversified products.

Compliance for Success

Dear Members

In order to retain existing market share and solidify our position as a reliable sourcing destination, we have been proactively pursuing our “Compliance for Success” initiative for the sector. I would like to extend my heartfelt gratitude to all our members, especially the owners and factory management for their active cooperation, support and willingness to translate our endeavor into reality.

I am delighted to be able to inform you that phase-1 compliance audit has been conducted in most of the member factories. After that, significant improvement has been observed in many factories according to the provided Corrective Action Plan (CAP). We expect all our members to become fully compliant, by the middle of next year. The LFMEAB Compliance for Success Cell now has 2 certified lead compliance auditors whose main responsibility is to ensure identification, awareness building and implementation of compliance practices in all member factories. Moreover, LFMEAB has developed its own Compliance Guidelines to be implemented by all members.

We must also recognize that similar to RMG sector our leather, leather goods and footwear sector is incurring substantial costs in meeting and establishing compliance standards for the sector with obvious effects on future pricing. However this must also be seen as a precondition for exports to developed markets in the near future so cannot be just seen as an additional cost.

The Tannery Estate Dhaka (TED) will play a very important role in the future development of our leather sector. The Ministry of Industry is committed to inaugurate it by June 2016 and there is visible effort and commitment to operationalize it within the stipulated deadline.

Challenges of the sector going forward

The export oriented leather industry in Bangladesh will have to cope with the following issues:

- Implementation of Central Effluent Treatment Plant (CETP) and relocating all the tanneries from Hazaribagh to TED, Savar is the highest priority for the sector. Otherwise the sector will have to face dire consequences, including loss of market access and GSP to EU.
- The political uncertainty that still remains, seriously threatens growth and investment in the leather industry, like all other sectors of the economy. According to one survey in March 2015, more than 40% of the entrepreneurs surveyed did not opt for fresh investment in the current fiscal year due to political uncertainty.

- Bangladesh exports in general are facing erosion of advantage in general especially in the US and EU markets, as TPP for Vietnam and GSP Plus for Pakistan respectively have made exports from both these two nations much more competitive to these major markets viz-a-viz Bangladesh.
- Cost of doing business remains very high in Bangladesh with respect to competitor nations in areas such as land availability and prices, construction costs, transport costs and cost of capital. The prime lending rate in Bangladesh for manufacturing companies is more than double that of China still today.
- Lack of sufficient, environmentally sustainable and modern finished leather production capacity in country.
- Limited product diversity in our export basket of leather products (e.g. leather jackets are currently the only item in the category of leather garments) make us more vulnerable in the global market.
- Operational Safety and Health (OSH) standards, Labor Law, Fire Safety and workplace safety need to be enforced across the industry to ensure compliance standards are fully met.