



Bangladesh Garments Accessories and Packaging Manufacturers & Exporters Association (BGAPMEA)

Final Report
on

Background paper on Policy & Regulatory issues for Advocacy and Lobbying

Study-II

Impact of Export and Import Policies on the Growth and Expansion of Garment
Accessories and Packaging (GAP) Sector: An Analysis of the Constraints, Possibilities,
Remedial Measures and Policy Derivatives

under Bangladesh INSPIRED Programme
SME Competitiveness Grant Scheme

Submitted on July, 2016

Prepared by

Bangladesh Project Management Institute (BPMI)
in Collaboration with BGAPMEA & EUB

Team Leader

Khandokar Ibrahim Khaled
Former Deputy Governor, Bangladesh Bank &
Former Managing Director of Sonali Bank, Agrani Bank & Pubali Bank

Funded by



The European Union



Ministry of Industries
Govt. of the Peoples Republic of Bangladesh

Impact of Export and Import Policies on the Growth and expansion of Garment
Accessories and Packaging (GAP) Sector: An Analysis of the Constraints,
Possibilities, Remedial Measures and Policy Directives

Table of Contents

1.0 Introduction	
1.1 Background	1
1.2 Objectives and Scope	2
1.3 Methodologies and Instruments	3
1.3.1 The methodology of the study includes	3
1.3.2 Principal Activities/Tasks and Corresponding Methodology	4
1.4 Study Instruments/Tools used in the Study	5
1.5 Sources of Data Collection	5
2.0 Review and Analysis of Export Import Policies	
2.1 Garment Accessories & Packaging Industries in Bangladesh	6
2.2 Growth Trend	7
2.3 Trend of Export of Finished Products and Import of Raw Materials of GAP sector during last 10 yrs.	8
2.4 Review of the Export and Import Policies	8
2.4.1 Review of the Export Policy	8
2.4.2 Import Policy	12
2.5 Special Features of Deemed Exports, System of Bonded Warehousing Facilities and Utilization Permits	12
3.0 Constraints relating to Deemed Export	
3.1 Import Entitlement	14
3.2 Utilization Permit (UP)	14
3.3 Delivery of Goods before Issuance of UP	14
3.4 Renewal of Bond License	15
3.5 Continuous Bond Facilities	15
3.6 Delay in Getting Payment	15
3.7 Refuse to Pay Bills in US Dollar	15
3.8 Restriction on L/C for Raw Materials beyond 180 Days	15
3.9 Restriction on L/C for Machineries beyond 180 Days	15

(i)

3.10	Inspection of Bonded Ware Houses by Two Authorities	16
3.11	Other Anomalies affecting Deemed Export	16
4.0	Recommended Policy Guidelines	
4.1	Guidelines for Exploring and Developing Export Market	17
4.2	Import Policy	21
5.0	Recommendations	
5.1	Recommendations relating to Import Policy	23
5.2	Recommendations relating to Export Policy	25
	Questionnaire II	28

Impact of Export and Import Policies on the Growth and expansion of Garment Accessories and Packaging (GAP) Sector: An Analysis of the Constraints, Possibilities, Remedial Measures and Policy Directives

Chapter-I

1.0 Introduction

1.1 Background

The RMG sector of Bangladesh has exhibited phenomenal growth during last two decades. Due to its extraordinary performance, Bangladesh has earned the position of second largest garment exporters of the world with 5% global market share only; next to China enjoying 31% of the share of total global market of US\$ 450 billion. Thus, although Bangladesh occupies the second largest position, its market share is only one sixth of China, allowing a very wide gap.

Until the early 1960s, the apparel industry in the developed countries like the US and UK relied on domestic subcontracting; cutting and stitching operations were subcontracted to small garment factories which mostly used cheap female labour, while large-scale merchandising was undertaken by larger firms. Subsequently, as industrial wages began to rise, the apparel retailers in the developed countries found it more profitable to relocate production to lower-wage developing countries; in most cases, such out-sourcing took the form of subcontracting arrangements between the retailer in the developed country and the garment manufacturer in the developing country. The retailers in the developed countries placed work-orders to the offshore garment manufacturers, often through buying agents, and they also helped the garment makers in various ways to produce and ship the merchandise. Such sub-contracting reduced the risk of doing business with foreign partners since it did not require any foreign direct investment. In essence it was a triangular trade between the garment manufacturers and the foreign buying agent on the one hand, and the retailer and the buying agent on the other.

Packaging and Garments accessories constitute the most crucial determinants of quality, of products and add aesthetic value to the garments products which justifies to claim: **accessories and packaging qualify the products.**

As a result, accessories & packaging provides underpinnings to the growth and expansion of each of the sector of the economy. A high degree of potential exists for almost all the user segments which are expanding appreciably. Fabrics and garments, consumer goods and other durables, processed foods, hard and soft drinks, fruit and marine products, cosmetics and personal care, office stationary and accessories, electrical appliances and equipments,

entertainment and other electronics, shoes and leather ware, gems and jewellery, toys and sports goods, chemicals and fertilizers, etc. are the important sectors using large quantity of accessories and packaging materials. Due to lower manufacturing costs, Bangladesh is fast becoming a preferred hub for accessories and packaging production. So garment accessories & packaging although constitute insignificant percentage of cost of the products, occupies most important position in production economics.

In the export market, contribution of packaging & accessories is very important. In many cases, these units are located within the mainstream industrial units; for instance packaging & accessories of medicine is an integral part of pharmaceutical industry, many garment factories have their manufacturing facilities of poly, sticker etc. within their compound. In Bangladesh, there are large numbers of small, medium and cottage-based independent packaging and accessories industrial units scattered all over the country.

1.2 Objectives and Scope

1.2.1 Objectives

The study aims at attaining remarkable improvement upon the competitiveness of GAP Sector through restructuring policy directives in respect of import of raw materials, export of finished products, reduction of cost of production, quality improvement, simplification of tariff structure and protection of domestic industries.

1.2.2 Scope

The scope of this study includes:

- Review of import and export policies of last 05 years, analysis of the problems, and constraints arising out of the export and import policies, which inhibit the growth and expansion of GAP Sector;
- Analysis of the changes/increases in the cost components of import of raw materials and machinery viz. C&F price, freight charge, inland transportation, custom-related cost, bond-related cost and problems (such as delay or refusal of giving acceptance and payment of back to back L/C), insurance etc, and reasons for such increase; and
- Recommend measures aiming at removing the prevailing anomalies in these policies and making these regulatory issues and policies to contribute to reduction of costs, exploring export market through foreign Mission, participation in export fair etc., improvement of quality, growth and expansion of GAP Sector.

1.2.3 Study Approach

The key conceptual issues in the approach are:

- Review and analyse the changes/increases in the cost components of import of raw materials and machinery viz. C&F price, freight charge, inland transportation, custom-related cost, bond-related cost and problems (such as delay or refusal of giving acceptance and payment of back to back L/C), insurance etc, and reasons for such increase;
- Study and review of import and export policies of last 05 years;
- Analyze the export and import policy problems, and constraints inhibiting the growth and expansion of GAP industries;
- Analyze and attribute the changes/increases in the cost components of import of raw materials and machinery;
- Attribute the reasons for such change and increase; and
- Recommend measures aiming at removing the prevailing anomalies in these policies and making these regulatory issues and policies growth friend of the GAP sector.

1.3 Methodologies and Instruments

1.3.1 The methodology of the study includes :

- Collection (with the help of pre-designed Checklist) and review of relevant import and export policy guidelines and regulatory issues tenable during last 05 years;
- Collection and review of last 05 years' import and export figures from sample member units of GAP;
- Collection (With the help of pre-designed Checklist) and review of C & F price, freight charge, inland transportation, custom-related cost, bond-related cost, L/C related cost, insurance etc. incurred by sample member units of GAP.
- Discussion with the concerned stakeholders, particularly with the personnel from Bangladesh Bank, Commerce Ministry, Ministry of Finance etc. on relevant issues, including their views and suggestions for overcoming the relevant problems and hurdles with the help of pre-designed Questionnaires/Discussion Checklist.
- Discussion with sample member units of GAP on relevant issues, including their views and suggestions for overcoming the relevant problems and hurdles with the help of pre-designed Questionnaires/Discussion Checklist.

1.3.2 Principal Activities/Tasks and Corresponding Methodology

The principal activities/tasks and corresponding methodology of conducting various tasks are presented below:

Sl. No.	Tasks/Activities	Study Method to be Applied	Study Instruments/ Tools to be Used
01	Review of import and export policies of last 05 years, analysis of the problems, and constraints arising out of the export and import policies, which inhibit the growth and expansion of GAP Sector;	Collection of import and export policies from CCIE Office and review these policies	Pre-designed Checklist to collect import and export policies from Chief Controller of Import and Export (CCIE) Office
02	Analysis of the changes/increases in the cost components of import of raw materials and machinery viz. C&F price, freight charge, inland transportation, custom-related cost, bond-related cost and problems (such as delay or refusal of giving acceptance and payment of back to back L/C), insurance etc, and reasons for such increase; and	<p>i) Exploring both primary and secondary sources for data concerning cost components of import of raw materials and machinery;</p> <p>ii) Consultation and review of data collected from these sources.</p>	<p>a) Pre-designed Checklist to collect data from GAP Units;</p> <p>b) Pre-designed Questionnaire (emphasizing on the cost components of import of raw materials and machinery viz. C&F price, freight charge, inland transportation, custom-related cost, bond-related cost and problems) for use at the sample GAP Units;</p> <p>c) Pre-designed Checklist of aspects for discussion with Key Informants (KIs) from CCIE, insurance company offices, GAP units and different associations.</p>

03	Recommend measures aiming at removing the prevailing anomalies in these policies and making these regulatory issues and policies growth friend of the GAP sector.	Review and analysis of data outcome derived from Sl. 01 and Sl. 02 through brain storming, forming and norming process among consultants.	Standard practice, keeping in view prospective needs.
----	---	---	---

1.4 Study Instruments/Tools used in the Study

The following Instruments/Tools have been used in the study:

- Status of GAP units and their fund requirements, availability, inhibiting elements;
- Checklist to collect relevant policy guidelines and regulatory issues;
- Checklist to collect data concerning C & F price, freight charge, inland transportation, custom-related cost, bond-related cost, L/C related cost, insurance etc. incurred by sample member units of GAP.
- Check list to discuss with the concerned stakeholders, particularly with the Officials of Bangladesh Bank, Commerce Ministry, Ministry of Finance etc. on relevant issues, including their views and suggestions for overcoming the relevant problems and hurdles with the help of pre-designed Questionnaires/Discussion Checklist.
- Checklist to discuss with sample member units of GAP on relevant issues, including their views and suggestions for overcoming the relevant problems and hurdles with the help of pre-designed Questionnaires/Discussion agenda.

1.5 Sources of Data Collection

Both Primary and Secondary Sources of data collection have been used.

Secondary Sources: Published reports, records, study reports, statistical reports on the issues will be utilized for collection of secondary data.

Primary Data: Specially designed questionnaire, checklist, discussion with BGAPMEA officials, officials from relevant Govt. offices such as EPB, CCIE, NBR, Bangladesh Bank, Bangladesh Bureau of Statistics etc. will be utilized for collecting primary data.

Chapter-II

2.0 Review and Analysis of Export Import Policies

2.1 Garment Accessories & Packaging Industries in Bangladesh

Bangladesh is aiming at exporting RMG for US\$ 50 billion by the year 2021. On average garment accessories and packaging contribute about 16% of RMG export earnings. Under this corollary and assumption, the export earnings from Garments Accessories and Packaging sector may be estimated to arrive at \$18.0 billion during 2025. If the packaging and accessories could be exported directly together with deemed exports the figure may even assume much higher figure and may stand as a parallel industry sector with RMG in terms of earning.

The following table exhibits the typical category of Accessories & Packaging Industries in Bangladesh

Table-2.1 (a): Number and Categories of Accessories & Packaging Manufacturing Units under BGAPMEA.

Sl. No.	Categories of Industries	No. of Units
01.	Button	25
02.	Chemical	01
03.	Corrugated Carton	651
04.	Elastic & Drawstring	109
05.	Embroidery	02
06.	Gum Tape	03
07.	Hanger	08
08.	Interlining	07
09.	Multi Items	194
10.	Packaging	25
11.	Padding	03
12.	Poly	134
13.	PP Band	01
14.	Labels	39
15.	Quilting & Padding	01
16.	Resin	01
17.	Sewing Thread	72
18.	Screen Print	04
19.	Zipper	20
Total		Total : 1300

In order to cater to the demands for the garments sector, capacity of the GAP sector needs be scaled up through increasing operational capacity and efficacy of the existing industrial units and also developing new enterprises.

2.2 Growth Trend

Bangladesh, with its outstanding efforts, would be able to export RMG valued at US\$ 50 billion by the year 2021. Apparel export to non-traditional markets rose to US\$ 3.5 billion in 2013 from merely US\$ 800 million in 2008. This is a dramatic performance during last 6 years time which was achieved due to the result of serious entrepreneurial initiatives and concomitant and governments' incentive package for exporters for exploring new destinations of their products. Under this corollary and assumption, export earnings of the Garments accessories and packaging were found to increase from US\$1.8 billion in 2008-09 to US\$ 4.76 billion in 2013-14. If packaging and accessories could be exported directly together with deemed exports the figure would assume greater dimension and would stand as a parallel industry sector with RMG in terms of earnings.

Table-2.2 (a): Export Performance of Garments Accessories & Packaging Industries during last 8 yrs. (2005-06 to 2013-14)

Fiscal Year	Total Export Earning (in mn US\$)	RMG Export Earning (in mn US\$)	Share of RMG as % of Total Export	Export of Accessories & Packaging (in mn US\$)
2005-06	10526.16	7900.80	75.06	1185.12
2006-07	12177.86	9211.23	75.64	1381.68
2007-08	14110.80	10699.80	75.83	1604.97
2008-09	15565.19	12347.77	79.33	1852.17
2009-10	16204.65	12796.72	77.12	1919.51
2010-11	20628.73	18340.89	78.10	2751.13
2011-12	23704.19	20360.05	78.80	3075.00
2012-13	27027.36	21515.73	79.61	4100.00
2013-14	30186.62	24491.88	81.14	4750.00

(Data source: Export Promotion Bureau)

2.3 Trend of Export of Finished Products and Import of Raw Materials of GAP sector during last 10 yrs.

Garments accessories and packaging products have been projected to grow at rate of 23%. The following table 2.3 shows the projected trend of export of garments accessories & packaging products and import of raw materials. In a meeting with the officials of BGAPMEA and owners of the enterprises, it was discussed and expressed views that the GAP industries are 100% exported oriented and cost of import of raw materials is equivalent to 60% of the export value. Based on this assumption, the cost of import of raw materials from 2014-20 to 2018-19 have been estimated.

Table: 2.3 : Projected Trend of Export of Garments Accessories & Packaging

Industries and Import of Raw Materials during 5 years (2014-15 to 2018-19)

(In million US \$)		
Year	Export	Import of Raw Materials
2014-2015	5,843	3506
2015-16	7,187	4312
2016-17	8,840	5304
2017-18	10,873	6524
2018-19	13,373	8024
Average	9,223	5534

2.4 Review of the Export and Import Policies

2.4.1 Review of the Export Policy

Export trade is facing fierce competition in the context of trade liberalization resulting from globalization. Export Policy 2012-15 has been formulated with a view to consolidating, sustaining and expanding the export growth of Bangladesh in the competitive international trade regime alongside making the overall economic activities more dynamic and outward-looking. Vision-2021 as envisaged by the present government aims at, among other things, elevating Bangladesh to a middle income economy by 2021 through socio-economic development. Expansion of export trade is a must for achieving the higher growth rate of national income, and the current Export Policy has attached particular importance to the matter. All-out efforts are underway to improve the quality of the products through fulfillment of various compliance conditions alongside augmenting productivity for consolidating and diversifying the export.

Changing trend of the global economy underpinned by globalization is impacting our export market. Keeping the above imperatives, Export policy 2012-15 has been prepared giving emphasis on the followings:

1. Encouraging labor-intensive (especially female labor) export-oriented production;
2. Ensuring availability of raw materials from home and abroad for manufacturing export goods; and Augmenting productivity and diversification of products;
3. Improving the quality of products;
4. Encouraging the use of modern, appropriate and environment-friendly technology, producing high-end products, and improving the design of the products;
5. Initiating new strategies for the expansion of the markets for export products,
6. Providing various financial and tax subsidies or incentives including low-interest loans to exporters;
7. Reducing lead time in export by means of improvement of port management and infrastructure;
8. Simplification of procedures for clearing goods, and improvement of the transport system;
9. Organizing single country Trade Fair for Bangladeshi products in different countries, sending trade missions abroad and supporting the exporters to participate in international fairs under the initiatives of exploring new market for product branding and diversification;
10. Taking all necessary initiatives for achieving duty-free market access to developed and developing countries, including the United States with a view to expanding markets for Bangladeshi products and services abroad;
11. Taking special initiatives to enhance exports of products and services to South Asia, Middle East and other Asian and African countries; In the Export Policy, there are highest priority sectors which have special export potentials, but such potentials could not be utilized properly due to certain constraints, and more success is attainable if adequate support is rendered to them.

2.4.1.1 Special Priority Sector

In the Export Policy 2012-15, packaging industries, among the GAP industries, falls in the special priority sectors. Benefits and Facilities for the special Priority Sectors are:

- (a) Project loans at comparatively low rate of interest on a priority basis;
- (b) Consideration for export loans on soft terms and at reduced interest rates;
- (c) Shipment of products at reduced air fare;
- (d) Duty draw-back/ bond facilities;

- (e) Give priority in getting utility services such as electricity, gas, telephone for setting up backward linkage industries including infrastructural development to reduce production cost;
- (f) Expansion of technical facilities to improve the quality of products;
- (g) Assistance in marketing of product;
- (h) Assistance in exploring for foreign market;
- (i) Possible financial benefits for utility services such as electricity, water and gas;

2.4.1.2 Facilities for Deemed Exporters

Deemed exporters, like direct exporters are entitled to avail all export facilities including duty draw-back. Local raw materials used for producing exportable items and local products & raw materials used in industries/ projects funded by foreign investments are considered as "deemed export";

2.4.1.3 Bond Facilities for Export Oriented Industries

The National Board of Revenue considers the possibility of providing bonded warehouse facilities to import-dependent export industries. Bonded warehouse facilities are extended to all export-oriented industries.

2.4.1.4 Provisions for General Export Facilities

The export policy delineates that there shall be an Export Promotion Fund (EPF) with EPB. The following facilities will be available from this fund:

- Venture capital at lower interest rates and on soft terms for production of goods;
- Support for obtaining foreign technical assistance, service and technology for development and diversification of products;
- Support for sending marketing missions abroad and participating in international trade fairs;
- Assistance in possible cases, to set up sales and display centers as well as warehouse facilities abroad;
- Support for participating in training programs abroad on product development and marketing to improve technical and marketing skills;
- Assistance in other activities related to development and expansion of markets, including products and services.

2.4.1.5 Provisions for other Financial Facilities

- Possibility of providing tax exemption and subsidy in service sectors such as electricity, water and gas, instead of cash incentives;
- Initiatives to develop necessary infrastructure to ensure uninterrupted supply of electricity, gas and water for all export-oriented industries on priority basis;
- Electricity, water and gas charges at a reasonable level for industrial use;
- Cash incentives to potential export-oriented emerging sectors i.e. the sectors which are capable of making products having demand in international market.

2.4.1.6 Funding for Export

- Financial assistance for Export Promotion Fund (EPF) or Export Development Fund (EDF) for the promotion of export;
- Facilities for back-to-back Letter of Credit for other export items besides readymade garments;
- Loans at lower interest rates and on soft terms for import of capital machinery and raw materials to promote exports.

2.4.1.7 Export Credit

- Commercial banks on a priority basis, to provide the exporters credit of 90 percent of the amount mentioned in the irrevocable letter of credit or in the confirmed contract;
- Introduction of online banking system to ensure prompt disposal of export related matters and promote transparency in the banking sector; 4.5.3 Bangladesh Bank to ensure uninterrupted flow of normal credit for the export sector;
- Fixation of exporters' cash credit limit based on the achievements of export earning of previous years and bank-client relation;
- Commercial banks not to impose overdue interest in case of the products exported on the basis of site-payment under irrevocable letter of credit provided that the exporter submits necessary export documents;
- Bangladesh Bank to open up an "Export Credit Cell" for arranging necessary fund for the development of export sector;
- Commercial banks to set up "Special Credit Unit" for arranging export fund;
- Initiatives to provide financial compensations, through creating a fund similar to the Export Credit Guarantee Scheme (ECGS), to those exporters who have incurred losses;
- Authorized dealers will be able to open internal back-to-back L/C in favor of local raw materials suppliers under the master letter of credit;

- In case of export, rate of interest, LC commission, miscellaneous service charges, bank guarantee commission etc to keep as minimum as directed by Bangladesh Bank

2.4.2 Import Policy

According to Import Policy 12-15, export-oriented Industries who are deemed exporters are given Utilization Permit (UP) against Back-to-Back L/C subject to the following conditions, as:-

- (a) In the cases where payment for carton and accessories is not possible after payment through L/C, adjustment for payment of carton and accessories will be made if there is surplus in any other L/C opened for raw and packing materials. Such adjustment for payment against raw and packing materials will be made through adjustment in not exceeding seven such cases;
- (b) Various relevant information of the cases in which surplus money is adjusted against back-to-back L/C, such as relevant back-to-back L/C number, reference, date, name and address of the L/C opener, description of the commodities, quantities and other relevant information should be clearly quoted in the UP;
- (c) Back-to-back L/C for supplied accessories will in no way be left unadjusted for more than six months;
- (d) Adjustment for inland back-to-back L/C should be made within 6(six) months; and
- (e) Conditions mentioned in clause (a) to (d) will be applicable irrespective of value for all consignment.

2.5 Special Features of Deemed Exports, System of Bonded Warehousing Facilities and Utilization Permits

2.5.1 Deemed exporters, like direct exporters, enjoy all export facilities including duty draw-back. Local raw materials used for producing exports and local products & raw materials used in industries/ projects funded by foreign investments. According to import policy, utilization permission are given to the deemed exporters complying the following provisions:

- (a) If payment for carton and accessories is not possible after payment through L/C, adjustment for payment of carton and accessories will be made from the surplus in any other L/C opened for raw and packing materials. Adjustment for payment against raw and packing materials will be made through adjustment of maximum seven cases;
- (b) If surplus money is adjusted against back-to-back L/C, in such cases UP should contain clearly the information such as relevant back-to-back L/C number, reference, date, name

and address of the L/C opener, description of the commodities, quantities and other relevant information;

(c) Back-to-back L/C for supplied accessories should be adjusted within six months;

(d) Adjustment for inland back-to-back L/C should also be made within 6(six) months; and

(e) Conditions mentioned in clause (a) to (d) will be applicable irrespective of value for all consignment.

2.5.2 A bonded warehouse, or bond, is building or other secured areas in which dutiable goods may be stored, manipulated, or undergo manufacturing operations without payment of duty. Upon entry of goods into the warehouse, the importer and warehouse proprietor incur liability under a bond. This liability is generally cancelled when the goods are:

(a) exported; or deemed exported;

(b) withdrawn for supplies to a vessel or aircraft in international traffic;

(c) destroyed under customs supervision; or

(d) withdrawn for consumption domestically after payment of duty.

While the goods are in the bonded warehouse, they may, under supervision by the customs authority, be manipulated by cleaning, sorting, repacking, or otherwise changing their condition by processes that do not amount to manufacturing. After manipulation, and within the warehousing period, the goods may be exported without the payment of duty, or they may be withdrawn for consumption upon payment of duty at the rate applicable to the goods in their manipulated condition at the time of withdrawal. In the United States, goods may remain in the bonded warehouse up to five years from the date of importation. Bonded warehouses provide specialized storage services such as deep freeze or bulk liquid storage, commodity processing, and coordination with transportation, and are an integral part of the global supply chain. Other attributes of bonded warehouse are:

(a) Bond regulations, such as annual licence renewals and repeat requirements to set raw material import quantities, are hassles for the exporters.

(b) Export-oriented will have to renew their bond licences by March 31 every year in line with the Bonded Warehouse Guidelines 2008. Previously, exporters had been given permanent bond licences, where single-time import limits and annual limits were fixed for each exporter.

(c) The bonded warehouse facility is important to export-oriented industries, especially garment industries -- in reducing lead-time and keeping product prices competitive.

(d) The bonded warehouse licence is given to import raw materials without any duty charges against a commitment of exporting the finished products. It aims to make exports more competitive.

(e) All the imported goods are stored at the bond holders' warehouses and in case of failure to export, importers are to pay duty charges and taxes for the rest of the goods imported.

(f) Without the operation of Customs Bond Commission, the exporters have to pay taxes during import of their raw materials. Moreover, local tax free procurement under bond facility should also be taxable in the normal tax regime.

Chapter-III

3.0 Constraints relating to Deemed Export

Garment accessories and packaging products manufacturing units operating under the bonded warehouse system are permitted to import raw and packing materials as per Utilization Declaration (U.D) issued by the Bangladesh Garments Manufacturers and Exporters Association (BGMEA). Bond license and Utilization Permission are given to facilitate exports by deemed exporters but due to certain limitations, import of raw materials for manufacturing garment accessories and packaging products is hampered. Following are the constraints relating to deemed exports.

3.1 Import Entitlement

Import entitlement is issued by the Bond Commissioners' Office while Bond license is renewed by BGAPMEA. On the other hand, UP utilization permission is issued by the custom authority with provision to renew this by the BGPMEA for 2 years. In the process of issuing utilisation permission, custom authority applies bureaucratic practice and takes time hampering import of raw materials in due time. Ultimate effect of this delay cause to increase the cost of production and chance of failing the supply of garments accessories and packaging products. This system creates **a dilemma on the part** of the exporters in the sense that issuing and renewing authority of UP lies on two separate authorities.

3.2 Utilization Permit (UP)

Utilization Permission is issued against three instruments namely, Back to back L/C, U.D. issued by BGMEA and DEDO Coefficient. These are issued by the Custom Authority following cumbersome process which takes time and incur expenses. Often specifications (size, type, quality, quantity, etc.) of raw materials are not clearly spelt out in UD, as a result concerned Custom Officers raise questions, with bad intension to exploit the deemed exporters,

whether Utilization Declaration is reconciled with utilization Permission and also inventory of import of raw materials is validated by the records of in-bond and ex-bond of the bond register.

3.3 Delivery of Goods before Issuance of UP

As per rule, delivery of goods must be completed after issuance of UP. But sometimes due to pressure from RMG factories goods are delivered before issuance of UP because of time constraints. Capitalizing this issue, Custom Officials create problem for the deemed exporters raising the questions how raw materials have been delivered to RMG factories before getting UP. On the other hand, Customs Offices, at times, delay in issuing UP on the ground of inspections of bank and bonded warehouse and try to find sources to exploit the exporters.

3.4 Renewal of Bond License

Although the authority of Renewal of bond licence has been given to BGAPMEA but import entitlement is given by the Bond Commissionerate. Renewal is meaningless without Import Entitlement, which is held by Bond Commissionerate. Contrary to this, BGMEA is authorized to issues Utilization Declaration for which RMG factories remain safe from harassment by the officials of kthe Bond Commissioner.

3.5 Continuous Bond Facilities

In spite of the fact that all the Garments accessories and packaging manufacturing units although 100% export oriented, these are not enjoying continuous bond facilities. BGMEA and BKMEA member units having manufacturing units in different places enjoy the continuous bond facilities.

3.6 Delay in Getting Payment

The deemed exporters face problems in getting payment after supply of accessories. The deemed exporters after supply of accessories submit the required documents to their lien banks for collection of bills from the L/C opening bank following the terms and conditions of L/Cs. In many cases, the L/C opening banks delay in providing acceptance to the bills and even at time they fail to pay the bill under back to back L/C because of insufficient balance in the exporters' account.

3.7 Refuse to Pay Bills in US Dollar

The local banks which issues back to back L/C against master L/C, refuse to pay the bills of the deemed exporters in USD although the final proceeds are credited in USD against master L/Cs after 90/120 days. Payment of the bills in local currency against back to back L/C causes financial loss to the backward linkage industries.

3.8 Restriction on L/C for Raw Materials beyond 180 Days

As per current rule of Bangladesh bank, L/C for raw materials is restricted with clause of deferred payment beyond 180 days. But due to business cycle of this sector, import of raw materials and supply of finished goods to the buyers takes more than six months and after that payment is received.

3.9 Restriction on L/C for Machineries beyond 180 Days

Due to global business crisis, many suppliers of machineries are ready to accept payment through L/C with deferred payment of 2/3 years (with or without monthly installments). But the existing rule of Bangladesh bank does not allow to open L/C with deferred payment period beyond 360 days which is not enough to build up funds from export earnings.

3.10 Inspection of Bonded Ware Houses by Two Authorities

Under section 91 of Customs Act, bonded ware houses are inspected by the Custom Bond Office but amending the Act, Custom Appraisal and Internal Audit Commissionerate has been given authority to inspect the bonded ware houses. As a result, inspection of bonded ware houses by two authorities are creating hassles and hinder export activities.

3.11 Other Anomalies affecting Deemed Export

3.11.1 Recognised units under specialized textile industry operating under the bonded warehouse system can import raw & packaging materials (including banned/restricted items) as determined by customs authority against confirmed and irrevocable letter of credit for export of the items of specialised textile against back to back L/C. For this purpose no prior permission from the Chief Controller are required. While garments accessories and packaging products manufacturing units, although 100% export oriented, needs maintain all formalities to import accessories and packaging materials.

3.11.2 Recognized export-oriented hosiery units under bonded warehouse system are also allowed to import raw and packing materials (including banned & restricted items) within the limit set by Custom Authority known as Export-Import Entitlement against back to back L/C by establishing confirmed and irrevocable letter of credit. This entitlement works as a barrier to expand production and export beyond Entitlement, although the concerned exporters get export order. This limits the export of the deemed exports.

3.11.3 100% export oriented industries unit under bonded warehouse system are allowed to import necessary raw materials & packing materials for 4 (four) months in revolving system against back-to-back L/C under Master Export L/C or against confirmed contract by the buyer.

In this case (a) The concerned bank will consider value of export of the previous year or performance certificate as the basis for fixing the need. (b) In case of new factories the need for four months will be fixed on the basis of production capacity determined by the Board of Investment.

Chapter-IV

4.0 Recommended Policy Guidelines

4.1 Guidelines for Exploring and Developing Export Market

4.1.1 RMG sector is the largest multi-billion dollar export-oriented manufacturing industries in Bangladesh. Garments accessories and packaging industries, which provide critical under pinnings to the manufacturing of RMG products, are growing at the rate of 23%. But many constraints hinder the growth and development of garments accessories and packaging industries. Efforts should be taken to remove these constraints. In order to boosting up the export performance of RMG & GAP industry sectors, a number of policy support schemes were implemented in the past. The results of these schemes were mixed. A review of the performance of these schemes are given in brief in the following paras:

4.1.2 Important Export –Incentives

Scheme	Operations
Export Performance Benefit (XPB)	This scheme was in operation from mid-1970s to 1992. It allowed the exporters of nontraditional items to encash a certain proportion of their earnings (known as entitlements) at a higher exchange rate of WES. In 1992 with the unification of the exchange rate system, the XPB scheme ceased.
Bonded Warehouse	Exporters of manufactured goods are able to import raw materials and inputs without payment

	of duties and taxes. The raw materials and inputs are kept in the bonded warehouse. On the submission of evidence of production for exports, required amount of inputs is released from the warehouse. This facility is extended to exporters of RMG, specialized textiles such as towels and socks, leather, ceramic, printed matter and packaging materials, who are required to export at least 70 percent of their produce.
Duty Drawback	Exporters of manufactured products are given a refund of customs duties and sales taxes paid on the imported raw materials that are used in the production of goods exported. Exporters can also obtain drawbacks on the value added tax on local inputs going into production.
Duty free Import of Machinery	Import of machineries without payment of any duties for production in the export sectors.
Back to Back Letter of Credits (L/Cs)	It allowed the exporters to open L/Cs for the required import of raw materials against their export L/Cs in such sectors as RMG and leather goods. The system is considered to be one of the most important incentive schemes for the RMG export.
Cash Subsidy	The scheme was introduced in 1986. This facility is available mainly to exporters of textiles and clothing who choose not to use bonded warehouse or duty drawback facilities. Currently, the cash subsidy is 25 percent of the free on board export value. In recent times, cash subsidies have been offered to agro products exporters.
Interest Rate Subsidy	It allows the exporters to borrow from the banks at lower bands of interest rates of 8-10 percent against 14-16 percent of normal charge.
Tax Holiday	First introduced under the Industrial Policy of 1991-93, this incentive allows a tax holiday for exporter for 5-12 years depending on various conditions.
Income Tax Rebate	Exporters are given rebates on income tax. Recently this benefit has been increased. The advance income tax for the exporters has been

	reduced from 0.50 percent of export receipts to 0.25 percent.
Retention of Earnings in Foreign Currency	Exporters are now allowed to retain a portion of their export earnings in foreign currency. The entitlement varies in accordance with the local value addition in exportable. The maximum limit is 40 percent of total earnings although for low value added products such as RMG the current ceiling is only at 7.5 percent.
Export Credit Guarantee Scheme	Introduced in 1978 to insure loans in respect of export finance, it provides pre-shipment and post-shipment (and both) guarantee schemes

4.1.3 In general, the export process in Bangladesh involves 12 steps. The following table exhibits the steps, documents and actors involved with export process.

Table 4.1.3: Export Process in Bangladesh

Steps	Documents	Actors
Receive export order from buyer	Proforma Invoice (PI)	Exporter and importer
Collect Letter of Credit (L/C) or Open back to back L/C	Sales Contract (SC); PI; Letter of Credit Authorization (LCA)	Exporters' bank
Produce/collect goods for export		Exporter; Supplier
Obtain inspection certificate	Application for inspection	Exporter, inspecting authority (independent or importer nominated)
Reserve space with shipping agent	SC; Commercial Invoice (CI)	Exporter; Shipping Agent
Obtain insurance certificate	CI; PI; PL	Insurance Company, Exporter
Submit documents for customs	CI; Packing List (PL); Certificate of Origin (CO); EXP Form; Insurance certificate	Exporter; C&F Agent; Customs; Chamber
Transport goods to port/ICD	Challan (description and quantity of goods)	Exporter; C&F Agent; Port authority
Complete cargo examination	Customs declaration; CO	Customs

(if necessary)		
Stow container on vessel Obtain Bill of Lading (B/L)	PL; CI	Shipping agent Shipping agent
Collect payment	B/L; CI; PL; CO; Insurance document, Certificate of Inspection	Exporter; Exporter's bank

In addition to the documents listed in the Table 4.1.3, other documents are required for the export of specific products. These include the Certificate of the Generalised System of Preferences (GSP), the Health Certificate and the Utilisation Declaration (UD). Furthermore, aside from the organizations listed in Table 4.1.3, relevant institutions / trade bodies are also involved in the process.

4.1.4 Areas for Improvement in Export-Promoting Policies

Export policies and associated incentives are formulated to provide a predictable and secure Environment for the exporters. It specifies objectives, designs strategies, and sets up export targets to achieve. In exports, appropriate export policy can play a significant role in energizing export and bringing diversification into the export basket on the one hand and help remove the constraints currently prevailing as obstacles to the growth and expansion of export trade, on the other hand. Areas of such improvements in export- promoting policies are summarized below:

- (a) Enhancement of institutional efficiency through restructuring export-related organizations, such as, the Export Promotion Bureau (EPB), and capacity building of various export-related departments;
- (b) Diversification of exports;
- (c) Development of the product standards, production of high value products, and improvement of the design;
- (d) Adoption of new strategy to expand the markets for new products, utilisation of computer technology, use of all modern technology including e-commerce;
- (e) Development of required infrastructure and establishment of backward and forward linkages;
- (f) Creation of new exporters, support existing exporters, and creation of business-friendly environment;
- (g) Development of skilled manpower, and

(h) Awareness development amongst trade bodies, businessmen and all concerned about international trade rules and regulations.

4.1.5 Strategy to achieve the objectives

In order to achieve the goal of growth and expansion of exports by implementing the recommendations specified in the earlier section, the following strategies are recommended to be adopted:

- (a) Formation of Product Development Councils;
- (b) Support for market intelligence;
- (c) Expansion of institutional facilities for trading and exporting houses;
- (d) Establishment/strengthening of the institutions to ensure standards and quality of products;
- (e) Support to the producers in using modern techniques for product design;
- (f) Support to exporters in gathering information about the business techniques and procedures;
- (g) Undertake sector-specific diagnostic studies so that structural and policy constraints can be identified in order to devise most appropriate policy framework;
- h) Emphasis on production incentives, quality and cost competitiveness, and diversification of export basket.
 - (i) Arrange trade fairs of Bangladeshi products in different countries of the world and to provide support to the exporters for participating in various international fairs;
 - (j) The responsibilities of EPB, among others, are dissemination of trade information, product development for export and organization of trade fairs. There have been allegations that EPB often fails to perform such roles effectively as it lacks efficiency and professionalism. Hence institutional reforms are required to make the EPB an effective export promoting agency.

4.2 Import Policy

Imports can improve firms' productivity and export competitiveness, and trade growth can contribute to global economic growth. Firms are outsourcing and off shoring in order to lower costs, acquire higher quality inputs, and generally improve their competitiveness. Garments accessories and packaging products manufacturing units ,based on mutual benefit, are well integrated into garment production networks. In spite of integrated networks, this sector is inhibited by policy and action constraints.

4.2.1 Factor inhibiting the Import Facilities

(a) Import entitlement for GAP units is issued by the Bond Commissioners' Office and utilization permission is issued by the custom authority with provision to renew this by the BGAPMEA for 2 years. This system creates a dilemma on the part of the exporters in the sense that issuing and renewing authority of UP lies in two separate authorities. In order to remove the constraints and to speed up the import of raw materials, issue of utilization permission may be entrusted with the BGAPMEA.

It may be mentioned here that BGMEA and BKMEA are enjoying similar facilities of issuing utilization declaration (UD) for adjusting imported raw materials for the units under them. This has ensured continuous import and their adjustment under bonded warehousing system;

(b) Utilization Permission is issued by Custom Authority following cumbersome process which takes time and expensive financial involvement. Often specification (size, type, quality, quantity, etc.) of raw materials are not clearly spelt out in UD, as a result concerned Custom Offices raise questions whether Utilization Permission is issued following the Utilization Declaration and also inventory of imported raw materials are validated by in and out bond register;

(c) Sometimes, goods are delivered to the RMG factories before issuance of UP because of time constraints. Capturing this issue, Custom Officials create problem for the deemed exporters raising the questions that how raw materials are imported before getting UP. On the other hand, Customs Offices, at times, delay in issuing UP on the ground of inspections of banks and bonded warehouse;

(d) Garments accessories and packaging manufacturing units, although, 100% export oriented are not enjoying continuous bond facilities while BGMEA and BKMEA member units having manufacturing units in different places enjoy this facilities;

(e) L/C for import of raw materials for garments accessories and packaging manufacturing units is restricted with clause of deferred payment beyond 180 days but due to business cycle, import of raw materials and supply of finished goods to the buyers take more than six months and after that payment is received. This creates financial burden on GAP units importing raw materials to make payment of bills of the suppliers;

(f) Garment accessories and packaging manufacturing units import machineries through L/C with deferred period of 360 days which is not enough to generate funds from export earnings. This is a problem on the part of GAP units to make payment to the suppliers of machineries;

(g) Under section 91 of Customs Act, bonded ware houses are inspected by the Custom Bond Office but amending the Act, Custom Appraisal and Internal Audit Commissionerate have been

given authority to inspect the bonded ware houses. As a result, inspection of bonded ware houses by two authorities are creating hassles and hinder export activities.

Chapter-V

5.0 Recommendations

5.1 Recommendations relating to Import Policy

- a) Issuance of UP on the basis of back to back L/C and UD by the Custom Authority involves cumbersome process and long time. To expedite this process such authority of issuing UD has long ago been delegated to BGMEA. Similarly, the authority of issuance of UP should be given to BGAPMEA to expedite the process, which would facilitate the process of import of raw materials by GAP units. It may be mentioned here that this decision was taken by the relevant govt. authority earlier and necessary software and other institutional capacity for issuing UP were developed by BGAPMEA. But this decision has not yet been implemented. We recommend the relevant govt. authority should implement the decision of issuing UP by BGAPMEA which belongs to the members of respective Association with immediate effect. Like BGMEA, BGAPMEA may be authorized to issue Utilization Declaration for which GAP industries will remain safe from harassment by the officials of the Bond Commissionerate.
- (b) In order rescue the BGAPMEA member units from harassment by custom officials, the authority of determination of import entitlement for GAP factories should be given in line with authority given to BGMEA and BKMEA .
- (c) BGMEA and BKMEA are availing the continuous bond facilities. BGAPMEA member units, as supporting industrial units and being 100% export oriented, should be given the similar facilities.
- (d) Since, the gap between import of raw materials and supply of goods to the buyers and receipt of payment take more than six months, the clause of deferred payment by 180 days may be relaxed and extended up to one year.
- (e) Machineries are imported by GAP units with condition of deferred payment within 360 days but due to global business crisis and delay in payment of bills by the deemed exporters, GAP industries face problems to manage funds for payment of suppliers bill. Such time limit for deferred payment is recommended to be extended up to 4 years.
- (f) The authority of into-bond and ex-bond is carried out by Bond Office. The Bond Office also carry out necessary audit and inspection before renewal of Bond Licence. Same work is again done by Custom Appraisal and Internal Audit Commissionerate. Such duplication of works involves time and cost. So, this system should be done away with.
- (g) As per rule, delivery of goods must be completed after issuance of UP. But sometimes due to pressure from RMG factories goods are delivered before issuance of UP because of time constraints. Capitalizing this issue, Custom Officials create problem for the deemed exporters raising the questions how raw materials have been delivered to RMG factories

before getting UP. On the other hand, Customs Offices, at times, delay in issuing UP on the ground of inspections of bank and bonded warehouse and try to find sources to exploit the exporters. Realizing this dilemma on the part of deemed exporters to deliver accessories before issuance of UP, Custom Office should change its mindset concerning the utilization permission and abstain from exploiting the exporters.

- (h) GAP industries may be allowed to open back to back L/Cs to procure raw materials in bulk form.
- (i) Bangladesh Bank has restricted deferred payment against L/C of raw materials beyond 180 days. This restriction should be relaxed with the provision to deferred payment beyond 180 days until the deemed exporters receive payment. Because due to business cycle of this sector, the time gap between import of raw materials and supply of finished goods to the buyers ranges more than six months and after that payment is received.
- (j) Conceptualizing the global business scenario, Bangladesh Bank should allow L/C for capital machineries with deferred payment of 4 years (with or without monthly installments).

5.2 Recommendations relating to Export Policy

Export policies and associated incentive schemes are formulated to provide a predictable and secure Environment for the exporters. Such policies specify objectives, designs strategies, and set up export targets. In exports, appropriate export policy can play a significant role in boosting up export and bringing diversification into the export basket on the one hand and help remove the constraints currently prevailing as obstacles to the growth and expansion of export trade, on the other hand. Areas of such improvements in export- promoting policies are summarized below:

- (a) Since L/C opening banks delay in providing acceptance to the bills and even at times fail to pay the bills under back to back L/C showing the cause of insufficient balance in the exporters' account. To remove such bottlenecks, Bangladesh Bank is recommended to issue necessary instructions to the L/C opening banks to make payment of the deemed exporters' bill as per terms and conditions of L/C.
- (b) Bangladesh Bank is also recommended to issue necessary instructions to the local banks to pay the deemed exporters' bill in foreign currency because the L/C opening banks get payment for master L/C in foreign currency.
- (c) Institutional capacity of EPB and other related export related organizations are recommended to be enhanced through restructuring , reorganization and managerial training.
- (d) Multi- dimensional efforts may be taken to explore new export markets for GAP products;
- (e) Interventions may be directed to develop product standards, production of high value products, and improvement of the design etc;
- (f) Adoption of new strategy to expand the markets for new products, utilization of computer

- technology, use of all modern technology including e-commerce;
- (g) Development of required infrastructure and establishment of backward and forward linkages;
 - (h) Creation of new exporters, support existing exporters, and creation of business-friendly environment;
 - (i) Development of skilled manpower, and
 - (j) Awareness development amongst trade bodies, businessmen and all concerned about international trade rules and regulations.
 - (k) Formation of Product Development Councils;
 - (l) Support for market intelligence;
 - (m) Expansion of institutional facilities for trading and exporting houses;
 - (n) Establishment/strengthening of the institutions to ensure standards and quality of products;
 - (o) Support to the producers in using modern techniques for product design;
 - (p) Support to exporters in gathering information about the business techniques and procedures;
 - (q) Undertake sector-specific diagnostic studies so that structural and policy constraints can be identified in order to devise most appropriate policy framework;
 - (r) Emphasis on production incentives, quality and cost competitiveness, and diversification of export basket.
 - (s) Arrange trade fairs of Bangladeshi products in different countries of the world and to provide support to the exporters for participating in various international fairs;
 - (t) Export Promotion Bureau (EPB) is the lead organization in the country to disseminate trade information, product development for export and organization of trade fairs. There have been allegations that EPB often fails to perform such roles effectively as it lacks efficiency and professionalism. Hence institutional reforms are required to make the EPB an effective export promoting agency.

5.3 General Facilities

The following facilities may be created for development of Garment Accessories and Packaging(GAP) manufacturing units:

- i) Industrial Estate for GAP sector: For healthy growth of the GAP sector, industrial estate with all necessary physical facilities and utility services, like- gas , electricity, CETP etc. should be created nearby Dhaka and Chittagong . we recommend to undertake this project immediately with the help of Ministry of Industries and BSCIC in consultation with BGAPMEA.
- ii) Venture capital at lower interest rates and on soft terms for production of goods;
- iii) Support for obtaining foreign technical assistance, service and technology for development and diversification of products;
- iv) Support for sending marketing missions abroad and participating in international trade fairs;

- v) Cash incentives;
- vi. Financial assistance for Export Promotion Fund (EPF) or Export Development Fund (EDF) for the promotion of export;
- vii. Loans at lower interest rates and on soft terms for import of capital machinery and raw materials to promote exports.

REFERENCES

1. Garments and Packaging Industries in Bangladesh,2014, BGAPMEA seminar Paper
2. Sobhan Rehman and Nasreen Khundker, ed., (2001): *Globalization and Gender changing patterns of women's Employee in Bangladesh* centre for policy Dialogue, University Press Limited, Dhaka.
3. Spinanger Dean, (September, 2000): *The WTO, ATC and Textile and Clothing in a Global perspective: What's in it for Bangladesh?* Background Paper prepared by the Centre for Trade Policy and Law (CLPT) for Dialogue on *Implementation of WTO ACT: Current Status and Implications for Bangladesh*, held on Sept 30, 2000 Dhaka (Unpublished)
4. Rahman Shamsur and A K M Atiqur Rahman, 2001, "*Development of Backward Linkage Industry in the Textile sector: Promises and Achievements*" Paper presented at the TexBangla Seminar held on May 28, 2001.
5. Azad. A K. (2000), "*Inter Industry Linkages of Services in the Bangladesh Economy (With a case study of the Ready-made Garments Industry) And Potential Service Trade.*"
6. Haarlam, Rijk van & Jose, San (2001), *The BGME/ILO/UNICEF Child Labour project in the Garments Industry, Bangladesh*" A presentation during the symposium "child Labour & the Globalizing Economy: Lessons from Asia/ Pacific Countries" , Standford University, California.
7. Chowdhury A Matin (2002), "*BTMA Presentation on Post MFA*", PowerPoint presented by BTMA at a seminar held on July 27, 2002 at Hotel Sheraton Dhaka.
8. BGAPMEA statistics.
9. Import Policy 2015-18.
10. Export policy 2015-18.
11. Bangladesh Tax Handbook 2015-16.