

Concept Note
Stakeholder Consultation

**Expanding Exports to the UK Market :
Leather and Footwear Products**

13 February 2023



Increasing and diversifying exports to the UK under Developing Countries Trading Scheme (DCTS)

Stakeholder consultation: Leather and footwear industries

The export potential of leather goods and footwear in Bangladesh is seriously underutilized, hindering its contribution to the country's exports and efforts to diversify its export base. Bangladesh's export basket is highly concentrated and overwhelmingly dominated by readymade garments, accounting for more than 80% of merchandise exports.

- The combined export receipts from leather goods and footwear in FY22 stood at \$1.7 billion, which is 3.2% of the total merchandise exports of Bangladesh.
- Considering its potential, the government has now set up a target to increase the leather sector's export earnings from around \$1 billion to \$10-12 billion by 2030.
- Over the past decade, Bangladesh has exported about 40 leather products and about 30 footwear items (at the HS-6-digit level).
- However, the number of export items for leather products has fallen to about 20 in recent years. A similar trend is observed for the footwear items.

The UK is a prospective market where Bangladesh can expand its export of leather products and footwear.

- In 2021, Bangladesh's exports of leather goods and footwear to the UK generated just \$38 million, a minuscule fraction (0.7%) of the UK's overall imports of such products, which totalled over \$5.3 billion in the same year.

The UK DCTS can be a game changer for Bangladesh to break into non-RMG export sectors, including leather goods and footwear (both leather and non-leather footwear). The United Kingdom (UK) has introduced this year its preferential trading scheme for developing countries, called the Developing Countries Trading Scheme (DCTS), marking its departure from the EU's Generalized System of Preference (GSP).

- Under the new scheme, Bangladesh as an LDC enjoys duty-free market access through the DCTS Comprehensive Preferences. After its LDC graduation in 2026, Bangladesh will continue to enjoy the same LDC benefit for another 3 years (until 23 November 2029).
- As an LDC, Bangladesh also stands to benefit from more generous UK Rules of Origin (RoO) requirements. The minimum value-added requirement for LDCs has been reduced to 25 per cent (from 30 per cent) in half of the chapter headings (48 chapters) defined at the HS 2-digit level.
- The UK DCTS offers relaxed and liberal product-specific rules, and extended cumulation facilities, allowing inputs to be imported from 95 countries and yet the LDC manufacturers of final products being eligible for duty-free exports.

After LDC graduation, Bangladesh will benefit from DCTS Enhanced Preferences with most of its exports continuing to enjoy duty-free market access in the UK.

- The DCTS removes the requirement for countries to ratify and implement certain international conventions as a precondition for trade preference.
- After LDC graduation and an additional three-year transition period, Bangladesh will get duty-free benefits in more than 85 per cent of its UK-bound product lines under DCTS Enhanced Preferences.

RAPID is undertaking research and consultation exercises to help Bangladeshi exporters take advantage of the UK DCTS Scheme.

- The Secretary of State for the Foreign, Commonwealth and Development Office of the United Kingdom has commissioned RAPID to conduct this research and consult with stakeholders to determine the best ways to boost, expand, and promote exports from Bangladesh to the UK.

- As part of the study, using a rigorous methodology and disaggregated export data, RAPID has identified several potential export sectors for the UK market. Leather goods and footwear are among the most prominent products to unleash their export potential.

This stakeholder consultation aims to understand the barriers and constraints faced by Bangladesh's exporters of leather products and footwear to the UK market.

- The discussion in this consultation meeting will focus on the following issues:
 1. Quality and standard requirements for exports of footwear and leather products in the UK and existing standards and testing facilities in the country. Legal and other trade-related regulations for exporting in the UK. Other non-tariff barriers in the UK for footwear and leather products.
 2. The regulatory and legal framework of operation for footwear and leather industries in Bangladesh. Regulations related to the export of these products. Availability and access to testing and quality control facilities in Bangladesh for these products.
 3. Reasons for low quality, low value-added, and fewer varieties of footwear and leather products: Issues related to procuring quality raw materials and other inputs, substandard technologies, lack of skilled labour force, uninterrupted energy supply, etc. The extent to which these factors lower the comparative advantages of footwear and leather products in the UK market compared to Bangladesh's major export competitors like China, India, Indonesia, Vietnam, and Sri Lanka.
 4. Access to finance: Impact of limited access to finance and high costs of borrowing on the scope of modernization and expansion of operations for small and medium footwear and leather factories.
 5. Infrastructure: Transportation and delivery of raw materials and inputs and timely delivery of the exported items, problems related to ports and shipment, and other supply-chain issues related to infrastructure.
 6. Dealing with public offices: Issues related to obtaining operating and import licenses, delays and irregularities in customs and tax offices, and dealing with various public utility providers.
 7. Environmental concerns: The footwear and leather industries are known for their negative impacts on the environment, including waste, pollution, and the use of harmful chemicals. Effects of environmental issues and the related image of footwear and leather industries in exporting in the UK.
 8. Labour issues: Maintaining the labour laws and healthy working conditions in footwear and leather industries and their impacts on export to developed countries, including the UK.
 9. Macroeconomic issues: Impacts of exchange rate uncertainty, problems with L/C opening, political uncertainty, and public health emergencies on production and export performance.
 10. The policy support: What are the policy supports and incentives needed to make the footwear and leather industries in the UK, including infrastructure, access to finance, market information dissemination, technology transfer, labour training, security, facilities for testing and quality control, easing regulations and legal barriers, etc.