A REPORT ON THE BANGLADESH PULP AND PAPER INDUSTRY

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TZHE ECONOMY OF BANGLADESH IS in relatively good shape in comparison with economies of other countries in Asia, although the growth rate is slowing down as a result of the effects of the Asian currency crisis. Gross domestic product (GDP) growth is down in comparison to earlier years. The local currency (taka) has devalued only marginally against the U.S. dollar, keeping pace with the inflation rate.

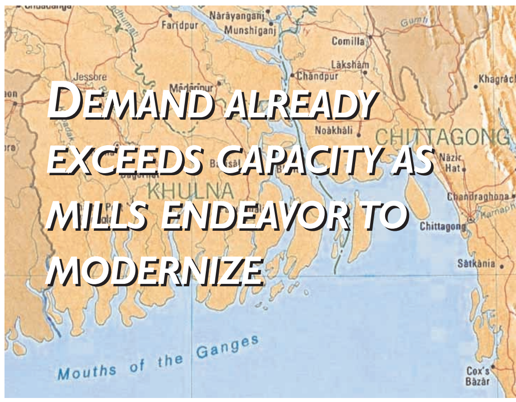
The political climate is practically stable, with garment exports being one of the largest foreign exchange earners for the country. (There are more than 3000 garment exporters in the country.)

Nature, however plays a different role. Every year, Padma, Jamuna and Meghna — the three main rivers — overflow during the monsoons and bring about destruction to agriculture crops in rural areas. The typhoons and floods bring immense hardship to the people and destroy property practically every year.

The country has a population of nearly 130 million and per capita consumption of paper is nearly 2.5 kg per person. The demand of paper and board in the country is estimated at around 0.4 million metric tons/year. The capital investment in the pulp and paper industry is 1 billion-Bangladesh taka,(US$ 18.5 million). More than 15,000 people are employed in the pulp and paper industry in Bangladesh.

The forest resources have remained untapped and bamboo, the main fiber source for the pulp industry, is still available. The total forest area of 13,000 km^2 is hardly 9% of the total land area of 143,998 km^2.

Commercial forests cover an area of nearly 8000 km^2.



The domestic paper industry is divided into two sectors, the first controlled and owned by the government and the second being owned and promoted by the private sector.

The government sector has three paper mills, all based on bamboo. The Khulna Newsprint mill is situated near the town of Khulna. It has an installed capacity of 45,000 ton/year of newsprint only. It is reportedly operating at only about 20% of that capacity. Karnaphuli Paper Mills, with an installed capacity of 60,000 tons/year, is situated at Chandragara, Chittagong, and manufactures printing and writing paper. It is an integrated pulp and paper unit based on bamboo. The third unit in the government sector is the North Bengal Paper Mill, situated in the northern region of the country. It is also an integrated pulp and paper unit and manufactures printing and writing papers.

All three units are hindered by outdated equipment and new investments are hardly forthcoming from the government to make them viable.

There are no manufacturers for coated papers and boards in Bangladesh. As a result the entire requirement of coated papers is being imported. Roughly 35,000 metric tons of coated papers, mainly C2S, is

imported from Taiwan, South Korea, Indonesia and Germany.

The country also does not have producers for quality carton boards. Imports of uncoated and coated carton and folding boxboards, mainly required in the garment industry and cigarette industry, are to the tune of approximately 50,000 tons. The main source of imports are Taiwan, South Korea, Indonesia and India.

Uncoated woodfree is also imported in considerable quantity. 30,000 tons of this particular grade is imported mainly from Thailand and Indonesia .

The country has newsprint manufacturers, but still has to import about 60,000 tons from South Korea, Canada and Scandinavian countries.

The corrugated box industry is also dependent on imports. About 70,000 tons of kraft liner, test liner and media is imported from Thailand, Singapore, Malaysia, Indonesia and South Korea.

The neighboring countries of India and China, which were at one time the major suppliers, are no longer considered because of prices and quality. With the depreciation in currencies of Taiwan, South Korea, Malayasia, Thailand and Indonesia, the price of the products from these countries have become far more attractive. On the other hand, the currency of China has remained stable and the Indian rupee has depreciated only marginally, thus making it difficult for the manufacturers of these two countries to export to Bangladesh in quantity. However, India still has a 10% to 15% share of the Bangladesh imports. Exports from India are confined mainly to cheaper grades: colored printing papers, media, light-weight kraft papers and some quantity of carton boards.

The present import duty structure has left the importers, mainly merchants, to suffer. The import duty on printing and writing papers is 25%, newsprint is 15%, duplex/carton boards is 30% and coated papers is 30%. However, the total impact, including VAT (15%) and other taxes, increases the total of import duties to 48% for printing and writing papers, 38% for newsprint, and 58% for coated papers and duplex/carton boards.

One of the major grouses of the paper merchants and importers is that the "Export Oriented Units" (EOU), mainly garment manufacturers and exporters numbering more than 3000, are allowed to import paper and boards for their consumption duty free, based on their export obligation. Thus, the differential in duty works as an inducement for a large quantum of paper and boards imported by such units to be sold in the open market. This affects the normal trade channels in a substantial manner. The Bangladesh Paper Importers Association and Bangladesh Paper Merchants Association has brought this anomaly to the notice of the government for remedial measures, but to no avail.

Entrepreneurs in the private sector, seeing the growth taking place in the domestic market, have come forward to set up units mainly based on recycled fiber. Waste paper is being collected domestically as well as being imported. Power is not a problem at present. The imports would come down substantially once all these units commence production.

Basundhara Paper Mills has started production on its first paper machine. Basundhara is manufacturing mainly printing and writing papers. Two more machines are being installed at the same site. The unit will have an installed capacity of nearly 120 ton/day when all the three machines commence production. Fresh Mint Tissue Ltd., part of the Basundhara group, is setting a tissue converting unit, which is likely to commence production by the second quarter of 1999. It also plans to set up a tissue making plant at a later stage.

Other units which have recently commenced production are Kanik Paper at Narayanganj. It is a 15 tons/day unit based on recycled fiber and manufactures printing and writing papers. Mac Paper has also commenced production of duplex board and cultural paper at Narayanganj, with an installed capacity of 25 tons/day.

Magura Paper Mills, a 25 tons/day plant is shortly coming into production for duplex board and cultural papers.

T K Paper is setting up a 100 tons/day mill near the port town of Chittagong. The unit is likely to commence production of printing and writing papers in the first quarter of 1999.

Leena Paper is setting up a 50 tons/day unit near Dhaka, based on recycled fiber for manufacture of cultural papers. Capital Paper Mills is also setting up a 75 tons/day unit near Dhaka to manufacture of cultural papers based on recovered paper.

The end of 1999 will see Shahjalal Newsprint Mills coming into production. The 125 tons/day unit is likely to manufacture newsprint using recovered fiber as its main raw material.

Sonali Paper, a 30 tons/day unit, is already producing duplex board and cigarette tissue, while Hossain Pulp, a 15 tons/day plant, is presently manufacturing folding box board and has plans to manufacture cigarette tissue very soon.

There are at least 2400 paper merchants in Bangladesh, with more than 1000 of those situated in the Naya Bazaar area of Dhaka. There are nearly 250 importers and indenters of paper and boards in the country. A very rough estimate puts the figure of printers in the country at more than 50,000.

With increasing population, and government taking steps for removal of poverty and illiteracy and emphasis on garment exports, there is enough potential for the demand of paper and paper boards to increase in double digits. The setting up of paper manufacturing facilities in the country itself would lead to decrease in imports and make it self dependent. The formation of South Asia Free Trade Area (SAFTA) based on the pattern of European Community (EU) and preferential duty structure amongst the countries of SAFTA would increase the trade in paper between them. These are indeed good days for the domestic producers with hopes of a better future. **TJ**

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