

The Negative Consequences of Export Bans

January 25, 2016

Bangladesh and India account for 97% of world jute production, with most production occurring in the Ganges Delta shared by the two countries. In a typical year, jute production totals about 3 million tons, and the farm value of production is about \$1.5 billion in a typical year.

Jute processing occurs mainly in India and Bangladesh. Traditional products include hessian cloth, food grade bags, carpet backing and other floor covering. Because of a national law requiring the use of jute in packaging material, India is the largest jute consumer. Diversified jute products, such as geo-textiles and composites are manufactured in relatively small quantities.

Jute cultivation and processing are labor-intensive and therefore provide livelihoods and food security for many farmers and their families in Asia. The average farm value of jute production per household is about \$250, a significant amount of income in countries where average per capita income is less than \$600. Jute is the major cash crop for 6 to 7 million households worldwide, meaning around 30 million people are involved in jute cultivation. When the full value chain, from agriculture, to marketing, transportation, manufacturing and trading are considered, 25 million people in Bangladesh alone, one-fifth of the population, are dependent on jute.

Export Bans

The Government of Bangladesh first banned exports of jute from mid-1984 through March 1985. The ban contributed to the disappearance of the jute textile industry in Europe and accelerated the loss of market share of jute to synthetic packaging, especially polypropylene woven bags.

Bangladesh imposed a second export ban at the end of 2009. Despite lifting the ban relatively quickly in February 2010, additional damage was done to world demand for jute by the interruption of trade and disruption to use. Producers of synthetic fiber substitutes took advantage of the uncertainty regarding the availability of jute and actively worked to expand production at the cost of jute and jute products.

The most recent ban on exports of raw jute and meshta was announced by the Government of Bangladesh on November 3, 2015. The ban was initially announced as applying for one month, but has since been extended indefinitely. On 6 January 2016, the Bangladesh Ministry of Textiles and Jute announced that 277,000 bales (about 50,000 metric tons) of raw jute (and meshta) is exempted from the export ban since contracts covering that quantity and letters of credit had been opened before November 3. However, contracts for which letters of credit had not been opened prior to the announcement of the ban will not be permitted to be shipped. Industry sources suppose that the ban may remain in force until June 30, 2016, the end of the current jute season.

Impacts of Export Bans

This third export ban is deepening the harm done to the jute industry directly, and all natural fiber industries indirectly. No industry can invest in processing equipment, research and development and market expansion if the continuity of supplies is not assured and can be disrupted unilaterally by a government without regard to international consequences. The current situation is especially alarming as it comes at a time of falling energy prices, giving producers of polypropylene a significant price advantage over jute.

The ban on exports of jute and meshta is undermining efforts to expand the use of natural materials in shopping bags and other packaging applications, thus encouraging continued expansion of synthetic fiber materials. And, the ban on exports of jute and meshta from Bangladesh is undermining the economic viability of composite jute mills in other developing countries, including Brazil and El Salvador.

The ban on exports of jute by Bangladesh is highly ironic. In November 2010, the Government of India banned exports of cotton, and the impact on the world cotton market was highly disruptive. At that time, the Government of Bangladesh complained bitterly to the Government of India and denounced the decision by India as an unfair interference in international trade with severe negative impacts on the textile industry of Bangladesh. The cotton industry of India still feels the impacts of that decision in the form of higher country risk premiums and lower prices paid to farmers for raw cotton, even now 5 years after the event. Furthermore, the export ban by India contributed to a temporary rise in cotton prices which accelerated the loss of market share of cotton to polyester among textile mills. As a consequence, the world cotton industry today suffers from lower market share, lower consumption, and lower revenue to farmers as a result of the ban on exports by India in 2010. The same dynamics will inevitably affect the jute industry of Bangladesh.

The issue of export bans to protect national industries has been discussed extensively at the World Trade Organization (WTO), and there is a strong consensus that short term advantages gained for national industries under the banner of resource security are far outweighed by the negative long term consequences of disruptions to trade. In the case of natural fiber industries, the negative impacts of trade bans are magnified by the impacts of interfiber competition and the resultant shift in demand away from natural fibers to synthetic fibers.

The Ministry of Textiles and Jute of the Government of Bangladesh is asked to reconsider the ban on exports of raw jute, including Meshta, so as to preserve the long term competitive interests of all natural fiber producers.

[The Discover Natural Fibre Initiative (DNFI) was created in 2010 as an outgrowth of the International Year of Natural Fibres 2009, declared by the United Nations General Assembly. The purpose of DNFI is to advance the interests of all natural fiber industries and to encourage increased use of natural fibers in the world economy.]