



AN IN-DEPTH STUDY OF INDIA'S LEATHER INDUSTRY WITH SPECIAL REFERENCE TO EXPORT PROSPECTS OF LEATHER PRODUCTS

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Abstract: *The Foreign Trade Policy 2004-09 identified leather and leather products as a thrust sector for export promotion because of its significant export prospects coupled with employment generation. India has a strong raw material base and technical expertise to achieve the target but both the government and the industry are aware of the problems. However, past efforts in restructuring the industry, modernization of tanneries, and promotion of common effluent treatment plants and creation of leather complexes have not yet yielded the desired results. Our responses to global challenges of trade liberalization and environmental requirements, and domestic environmental compliance requirements have been partial and very slow. In fact our responses have been reactive rather than proactive. We need continuous and quick adjustments to the challenges at home and abroad via a proactive policy to realize dynamic efficiency gains. This paper focuses on the potential demand of leather and its related products in foreign markets and how immensely leather export can contribute in the development of Indian Economy.*

Key words: Cumulative Annual Growth Rate (CAGR), Indian Leather Industry, Leather and Leather Products, Leather Parks, Tanneries.

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INDIA'S HISTORY: LEATHER AND LEATHER PRODUCTS

Leather was one of the first manufactured materials, and the Leather Technologist can claim to be a member of an ancient profession. Leather has long outgrown in its practical purpose and today is regarded more as a luxury than a necessity, particularly in the affluent West. The global industry is valued at about Rs.3964.4 billion (71.27 Billion Euro). Most of the leather producing countries are developing countries, yet China and Italy are the leading producers and exporting nations in the world with exports worth Rs. 886.16 billion (15.93 billion Euros) and Rs. 606.32 billion (10.901 billion Euros) respectively. The industry is buyer –driven, with producing countries manufacturing in line with specifications, guidelines and technical advice provided by the buyer countries. The leather industry occupies a prominent place in the Indian economy in view of its substantial export earnings, employment potential and growth.

The Indian leather industry, one the most vibrant sector of the country's economy, is well-structured and spans various segments, such as tanning and finishing, footwear and footwear components, leather garments, leather goods, including saddles and harness. Well recognized in the international market, the Indian leather goods constitute about 7 per cent of India's export earnings. Besides being a significant earner of foreign exchange, the leather industry generates employment, ensuring jobs for over 2.5 million people, with 75 per cent of the production from small and cottage sectors. India, with an output of Rs. 186.56 billion (3.354 billion Euros) and exports of Rs. 125.46 billion (2.225 billion Euros), is placed third, while developed markets such as the US are major consumers of leather products. It is now poised for a big leap to double its global share from the present 3%. The industry covers a vast spectrum of inputs, activities, skills and products i.e. livestock, hides and skins, tanning, leather products and exports.

The Indian Leather Industry is growing by leaps and bounds. One must be wondering why India is exporting so much of leather to western countries. Apparently because leatherwear still enjoys a great demand abroad and now-a-days even the domestic market is developing and consuming the offerings of this industry.

MAJOR PRODUCTION CENTRES OF LEATHER AND LEATHER PRODUCTS

Major production centres of leather and leather products in India are as under:



Southern Region

Tamil Nadu- Chennai, Ambur, Ranipet, Vaniyambadi, Trichy and Dindigul.

Andhra Pradesh- Hyderabad, Karnataka, Bangalore.

Northern Region

Punjab- Jallandhar.

Delhi- Delhi.

Eastern Region

West Bengal- Kolkata.

Central Region

Uttar Pradesh- Kanpur and Agra.

Western Region

Maharashtra- Mumbai.

SLAUGHTER HOUSES IN INDIA

There are 2702 slaughterhouses in the country, which are recognized or authorized by local bodies. In addition a considerable number of animals are slaughtered in unauthorized places. A rough estimate indicates up to 50 percent of animals slaughtered in any urban centre are from unauthorized slaughter. Over the years, the facilities and hygienic conditions in most of the slaughterhouses have deteriorated. Compared to 1951, livestock population increased by about 62 percent and human population increased by 134 percent but the number of authorized slaughterhouses have not increased to meet the demand for meat production. The increased demand for meat is met either through over crowding operations in the existing slaughterhouses operating at much higher capacity than feasible in the facilities or through unauthorized slaughter at many places. In both these situations not only meat hygiene is a casualty, increased pollution and adverse public reactions are observed. The existing slaughterhouse capacity in the country is unable to meet the growing public demand for clean and hygienic meat. This can be achieved by improving existing slaughterhouses to accommodate higher capacities and creating new slaughterhouses with modern facilities.

MAJOR SOURCE OF CATTLE FOR SLAUGHTER HOUSES

Several head of cattle are reportedly being transported from Karnataka to slaughterhouses in Andhra Pradesh, Maharashtra and Kerala. It is estimated that more than three million



cattle head are being transported out of the State annually. It is said that Karnataka has emerged as a major source of cattle for slaughterhouses as they are available at cheaper rates. The demand for beef in Kerala is said to be one of the reasons for the transportation of a large number of cattle to slaughterhouses there. While the domestic consumption in that State is said to be around two lakhs tonnes, the slaughterhouses also cater to the international market.

Though Kerala has a high count of cattle, some experts say these cannot be sent to slaughterhouses as they are expensive hybrid cattle.

LEATHER PARK

Under the leather park package, Chennai is going to have two parks — one for footwear and the other for components. An exclusive park for tanneries is also coming up at Nellore, a leather goods park within the upcoming Calcutta Leather Complex in Kolkata and another component park in Agra. The leather goods park project of Indian Leather Products Association (ILPA), coming up on approximately 60 acres of land inside the Calcutta Leather Complex (CLC) at Bantala in east Kolkata was completed by 2008-09. The facility has put Kolkata on the international leather goods buyers' map. Ten leather product manufacturing companies, including Liberty Shoes and Irving Leather Company of the US besides a couple of Chinese companies, are keen to set up units in the leather park proposed to be set up in Nellore district.

SCOPE OF TANNERIES IN INDIA

The Indian market has been fragmented with about 2200 tanneries of which 2100 are small scale units and over 8000 leather product manufacturing units. The tanning industry is concentrated in three states viz. Tamil Nadu, West Bengal and Uttar Pradesh. Of the total number of tanneries in India, Tamil Nadu accounts for 52%, West Bengal 23% and U.P 12%. The other important states are Maharashtra, Andhra Pradesh and Punjab. Looking from the angle of scale of operations, the tanning industry largely exists in the small-scale sector with a share of 93% in the total number of tanneries in the organized sector.

- **Tamil Nadu**

Tamil Nadu has a dominant presence in the leather and leather based industries. The tanning industry in India has a total installed capacity of 225 million pieces of hide and skins of which Tamil Nadu alone contributes to an inspiring 70%. Leather industry occupies a



pride of place in the industrial map of Tamil Nadu. Tamil Nadu enjoys a leading position with 40% share in India's export. It currently employs about 2.5 million persons Leather exports by the end of the year 2000-2001 were Rs. 9000 crores. This translates into exports worth nearly Rs. 102.6 billion (1.844 Billion Euros) from Tamil Nadu - given the major share it has traditionally enjoyed. Government Of Tamil Nadu offers a special capital subsidy to further encourage the leather industry. TALCO- a state government organisation is setting common effluent treatment plants in leather industry clusters. A recent study by the National Council of Applied Economic Research (NCAER) made a comparison of the incentive packages of all Indian States which reveals that Tamil Nadu offers the most attractive package among industrialized States of India. Tamil Nadu ranks II at the all India level in terms of attractiveness of incentives.

- **West Bengal**

West Bengal is one of the country's top states for export of finished leather goods. 70% of the country's leather goods are exported from West Bengal. Bata India Limited is India's largest manufacturer and marketer of footwear products. Bata India sells 60 million pairs of footwear products per year throughout India and in overseas markets such as USA, UK, Europe, Middle East and Far East. Its registered office is at S.N.Banerjee Road, Kolkata. It has 5 plants near Kolkata. Main plant is located in Batanagar near Kolkata. Bata India secures its leather supply from two tanneries in Mokamehghat (Bihar) and Batanagar (West Bengal). The number of manufacturing industries engaged in leather products is 538. West Bengal Leather Industrial Development Corporation provides market facilities for the leather products manufactured by small scale industries located in the state. The export market for leather products is very high for good quality leather footwear's and leather crafts and articles. The exports are mainly to European countries as Germany, Italy, UK, France etc.

- **Uttar Pradesh**

U.P. is one of the most important states in India holding sizeable population of live stock. Claiming a share of 22% U.P. ranks 1st in case of Buffalo and 11th in case of Cattle having a share of 12%. With regards to Goat and Sheep it has 14th and 11th position respectively. Thus, U.P. has a very strong raw material base and all types of main raw material for leather industry are available. Major production centres and Number of leather and leather products industries in U.P. are to the tune of approx. 11500 of which Kanpur and Agra are



the two famous production centres in the world. Kanpur is a prominent centre for leather processing. About 200 tanneries are located in Kanpur. Kanpur tanneries specialize in processing hides into heavy leather (Sole, harness and Industrial leather). This is the only centre in India where saddlery products are manufactured. Agra has been the biggest centre for shoe-manufacturing in the country. Apart from these traditional centres for leather and leather products manufacturing in U.P., NOIDA has recently emerged as another major centre especially for leather footwear and leather garments. NOIDA provides very good infrastructural facilities and establishment of FDDI in NOIDA is expected to promote more footwear. Meerut is another centre for production of sports goods.

INDIAN FOOTWEAR INDUSTRY

There are nearly 4000 units engaged in manufacturing footwear in India. The industry is dominated by small scale units with the total production of 55%. The total turnover of the footwear industry including leather and non-leather footwear is estimated at Rs.8500-9500 crores (Euro 551.3-1723.1 Million) including Rs.1200-1400 crore (Euro 217.6-253.9 Million) in the household segment. India's share in global leather footwear imports is around 1.4% Major Competitors in the export market for leather footwear are China (14%), Spain (6%) and Italy (21%). The footwear industry exist both in the traditional and modern sector. While the traditional sector is spread throughout the country with pockets of concentration catering largely to the domestic market, the modern sector is largely confined to select centres like Chennai, Ambur, Ranipet, Agra, Kanpur and Delhi with most of their production for export. Assembly line production is organized, and about 90% of the workforces in the mechanized sector in South India consist of women. In fact, this sector has opened up plenty of employment opportunities for women who have no previous experience. They are trained to perform a particular function in the factory itself.

LEATHER GARMENTS INDUSTRY IN INDIA

The second most important product made out of leather is leather garments. Modern factories have been established in the small-scale during the last decade, mostly in the vicinity of urban areas of Chennai, Bangalore, Delhi and Hyderabad. The leather garment is relatively high leather intensive commodity. Garments and Goods, these segments are essentially dominated by the small scale sector with Large Scale Industries (LSIs) having a very negligible share of less than 3% in garments. Due to increased export demand, the



capacity for the leather garment industry has been rising and is presently 18 million pieces per annum. Production is placed at 12 million pieces per annum with capacity utilization at 60-75% with an aggregate turnover of Rs.2200 crore (399.05 million Euros). The share of leather garments in total exports of leather and leather products has been rising and is presently around 24%, having grown at CAGR of 9%, since 1995-96 to reach Rs. 2104 crore (503.8 Million Euros) in 2000-01. India's import in world import garments is around 11%. Our main competitors are China, Italy and Turkey.

LEATHER INDUSTRY NETWORK

An ideal leather industry network would comprise of the following:

- Livestock (Cattle, Buffalo, Goat)
- Slaughter houses
- Raw Hide/Skin Collection
- Tanning Industry
- Leather Industry
- Other Allied Industries
- Export Market

The other small industries that can co-exist within this network are the glue and manure manufacturing industries that utilize the bones and discarded organs of the slaughtered animals respectively. Besides, operating in close co-operation with the slaughter houses are corporations that have built their services and products around the meat-consuming market- processors of meat into various forms of fast food, processed meat transporters, deep freezer manufacturers, cattle feed 'enhancers', drug manufacturers who sell 'meat growth hormones' and antibiotics for cattle and even agribusiness' banks that will give loans only for cattle 'producing'. Not to forget the fast-growing biotech industry. Other value added product manufacturing industries like Meat-cum-Bone Meal (MBM), Tallow, Bone Chips, Pet Foods and Methane as a source of energy can also exists close to the slaughter houses. Thus the leather industry network appears to offer numerous possibilities for the establishment of other small enterprises.

CARE AND HANDLING OF LEATHER

Leather is a versatile, durable and prestigious material, with a wide range of desirable attributes - such as flexibility, strength, mouldability, breathability, friction resistance and



with the possibility of being prepared in a way to be resistant to heat and water. Leather will retain its appearance and its functional properties if it is correctly handled and maintained. The correct method of care and handling will depend on the type of leather.

EXPORT POTENTIAL IN LEATHER INDUSTRY

India is a major exporter of leather and leather products. It accounts for 2 percent of world trade in leather and leather related products and 10 percent of leather raw material available in the world. Leather exports account for 7 percent of India's export basket. US and some European countries together account for 80 percent of India's leather products exports. New market being developed includes South Africa, Australia, New Zealand, Canada, Japan, Spain, Portugal, and Saudi Arabia. The notable feature of our export performance is the change that has taken place in the export pattern in favour of high value added items, a development in consonance with the export policy. In the 1960s, exports were more in the form of raw materials. In the early 1980s exports were in the form of finished leathers. And, in the 1990s and beyond the target is in favour of fully fabricated products. Five types of leather products exported from India are Leather Footwear, Footwear Components (Shoe Upper, Soles, etc.), Leather Garments, Leather Goods (including Harness & Saddlery, Leather Gloves, etc.) & Finished Leather. The major customers for India's export are Germany, USA, Italy, UK, Spain and France. In recent year, Hong Kong has emerged as a large importer of leather. Around 70% of the global imports of leather products are accounted for by Western Europe and North America. USA is the largest importer of all kinds of leather products, accounting for about 25% of the global trade. Germany is the second largest importer of leather products in the world. Italy, Portugal, Spain, Czechoslovakia and Romania are potential competitors from the European region. Though these countries enjoy the advantages of easy access to the West European market, rising labour costs is the limiting factor. However, the former East European countries are trying to consolidate their position slowly. Their unfamiliarity with the market mechanism is their major drawback. In the Asian region, South Korea and Taiwan are still continuing their activity, but in a different style. In view of the high labour costs, they are relocating their production bases and consolidating their hold on the market. The real competitors for India are China, Indonesia, Turkey and Thailand. These countries enjoy favourable labour costs and congenial industrial and investment climate, though they may



not have significant raw material base of their own. However, current global trade favours import of hide and skins, and their processing in any part of the world. Countries like Bangladesh, Sri Lanka, Nepal and a few African countries may be future competitors for India. They have consolidated their gain in the tanning sector, and are slowly penetrating the products market. The global market for leather products is estimated at Rs. 2781.4 bn (50.45 Billion Euro). Of the various items, the market for upholstery is growing fast, while the market for leather goods is likely to remain stable.

GOVERNMENT POLICIES

The Government of India has announced various initiatives to make the leather more competitive. Key Policy initiatives include:

- De-licensing of integrated tanneries that convert raw hides and skins into finished leather.
- Several leather goods have been de-reserved from the Small Scale Sector.
- Free import of raw hides & skins, semi-finished and finished leather.
- Concessional duty on imported machinery and chemicals.
- Free export of raw hides & skins, semi-finished and finished leather and leather products.
- Policies to facilitate modernization / up gradation: In June 2005 the government initiated a Rs. 2788.45 million (50.82 Million Euros) 'modernizing scheme' called the 'Integrated Leather Development Programme', whereby all leather tanning and product units will be eligible for modernization assistance. The assistance will be to the extent of 30% of project cost for Small Scale Industry (SSI) units and 20% for non-SSI units, subject to ceiling of Rs. 4792 thousand per unit (87.36 thousand Euro per unit).
- Setting up of leather parks: An outlay of Rs. 4792.7 million (87.36 Million Euro) for setting up five leather parks – two in Chennai and one each in Nellore, Agra and Kolkata. Council for Leather Exports has estimated that this scheme will generate a total investment of Rs. 11633.1 million (2120.05 Million Euros) in coming years.
- Establishment of 'design centres' at individual manufacturing units, to facilitate improvement in design capabilities: Under this scheme, 25 % of the project cost is provided to the units under the market access initiative scheme of the Ministry Of



Commerce and Industry. Several individual units have come forward to establish their own design centres.

GOVERNMENT SUPPORT

With an eye on the potential of the sector, the Indian Government has placed an emphasis on the utilization of the available raw materials to maximize returns. It has introduced a number of initiatives, with special emphasis on integrated development of the tanning sector. These have included raw material augmentation, technology upgrade, and promotion of environmental cleaner processing options, quality standardization and human skills development. To encourage training of unorganized artisan workers, the Government has given support to well equipped training institutions to encourage training programmes to be given jointly with reputed foreign enterprises and experts.

LICENSING POLICY

After de-reservation of 11 items in leather sector, which include semi-finished hides and skins, leather shoes, leather washers and laces, moulded rubber soles and heels for footwear, flexible polyurethane foam, polyurethane shoes soles, show-tacks & eyelets and leather pickers and other leather accessories for textile industry, vide Notification No SO 603(E) dated 29th June, 2001, no industrial license is required for manufacture of most of the items of the leather industry. However, the location of industrial projects will be subject to Central or State environmental laws and regulations including local zoning and land use laws and regulations. Industrial undertakings desiring to set up industrial undertakings for manufacture of these items have to only file an Industrial Entrepreneurs' Memorandum (IEM), in the prescribed format, with requisite fees to Secretariat for Industrial Assistance in the Department of Industrial Policy & Promotion, Government of India, Udyog Bhawan, New Delhi-110011. Some of the items of the Leather industry viz. leather shoe uppers (closed), leather sandals and chappals, leather garments, industrial leather gloves, leather suitcase and travel goods, leather purses and hand bag, fancy leather goods and novelty items, watch straps and leather straps of all types are still reserved for exclusive manufacture by the small scale sector. Small scale sector units are defined in terms of investment in plant and machinery. Non-small scale units can manufacture these items after obtaining industrial license, which is granted subject to an export obligation of 50 percent production in each year.



CONCLUSION

The observations of the exporters in this sector are that as the Indian Leather Industry has captured world attention by way of its unique performance in the international arena, there has been an increasing emphasis on its planned development, aimed at optimum utilization of available raw materials for maximizing the returns particularly from exports. There has been a remarkable growth in exports in the recent year.

- India is a reliable source for procuring eco-friendly leather products. India produces variety of finished leather(cow and buff calf, sheep nappa, goat skin), footwear & components, travel bags, purses & wallets, briefcases, luggage, garments, saddlery and harness equipments.
- The major production centers for leather and leather products are located at Chennai, Ambur, Ranipet, Vainyambadi, Trichy, Dindigul in Tamil Nadu, Calcutta in West Bengal, Agra and Kanpur in Uttar Pradesh, Jallandhar in Punjab, Delhi, Hyderabad in Andhra Pradesh and Bangalore in Karnataka. It is estimated that the leather and leather products industry provides employment for about 2 million people in the country.
- It is gratifying to note that more and more Joint Ventures and Foreign Direct Investment (FDI) have already got under way in the post liberalized era and this has proved a real advantage for the Indian Industry to enhance its production base and exports.
- India's inherent strength lies in its strong raw material base, technical manpower, and proven quality control measures. India ranks first among the major livestock holding countries in the world, having 57% of buffalo, 16% of cattle, 20% of goat and 4% of sheep population.
- It is no denying fact that the legendary quality of India's traditional leather craft, combined with modern production facilities and trained personnel, has put India on the world map for sophisticated leatherwear. The liberalized economic and developmental trade policies adopted by the Government of India since 1991 and simplification of procedures have been instrumental to the growth of this industry.
- With an enviable reputation in international leather circles, and an ever increasing global demand, Indian leather today ranks among the top export earners in the



country Indian leather products are exported to as many as 120 countries. The major markets for Indian leather products are Germany, USA, Italy, UK and France. Other significant importers are Spain, Hong Kong, CIS, Australia, Netherlands, Denmark.

- Quality is the emphasis in every endeavour. Most manufacturers have in-plant quality control systems and many of them are graduating to accreditation under ISO 9000 norms, This, more than anything else, has made Indian leather what it is today, truly international and providing a smooth link between the global buyers and the Indian leather exporters.

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