

Country Commentary: India



We call India a subcontinent because it is a distinct landmass, but it is not large enough to be considered a continent. The nation of India dominates three-fourths of the subcontinent. Pakistan, Nepal, Bhutan, and Bangladesh occupy the remainder. Sri Lanka is an island nation off the southern coast of India. In this series of articles we consider only India, Pakistan and Bangladesh. These three countries look set to find a growing place in the new world landscape of the global leather business.

India: a source for 10% of global leather requirement says CLE

In the last two or three years, developments in the Indian leather industry have been very much overshadowed by the astronomic growth of production in China. Nevertheless, India remains a major source of leather production and with a sound raw material base, a long tradition, and skills evolved out of a knowledge of leather manufacture rather than adapted from athletic footwear production, the country should be able to maintain and grow this position.

India is said to be the largest livestock holding country in world. It is ranked as the second largest producer of footwear after China with 16% of the world production, some 2,065 million pairs. It is the second largest exporter of leather garments with over 16 million pieces and of leather accessories with over 63 million items and 52 million pairs of gloves. According to the Indian Council for Leather Exports (CLE) the current value-added products constitute nearly an 80% share of total leather sector exports. The Indian leather industry is the country's eighth largest foreign exchange earner with an annual export value of about \$2 billion. It is one of the largest employers in India, with a workforce of around 2.5 million, of which almost a third are women.

Environmental issues

A few years ago India began to seriously address its environmental issues as it was already suffering from damage from water solubles seeping into the ground water in some areas. What has been encouraging is that the laws that have been introduced have also been enforced quite strictly and plants that are unable to conform with these have been shut down. Extracting water soluble salts, not least common salt NaCl, is very difficult and expensive, and is most commonly done by means of reverse osmosis. Worldwide, tanners try to avoid this solution due to the high costs.

Mr. Sunil Rallan, president of Rallan



Tanning Ltd, Chennai told *World Leather* that all the areas in India where tanneries are functioning now have their own effluent treatment plants.

"In Tamil Nadu, our authorities are now insisting on setting up reverse osmosis plants so that the water after treatment can be re-used, either in the tannery or for any other purpose since the quality is very good," he remarked but added, "This is high technology and a very expensive proposal, but we have already started implementation..." It is worth adding here

that in Ambur and Vaniyambadi reverse osmosis plants with huge capacities are now being established for the first time.

India has over 17 common effluent treatment plants (CETPs) and 200 individual facilities besides a large number of chrome recovery units.

According to the CLE, in the last two years nine projects that include building new CETPs and upgrading existing ones have taken place at a total cost of Rs332.7 million (\$7.24 million).

Targeting 5% of world leather trade

The leather sector recorded its best ever export performance of \$2.380 billion in 2004-05 (April-March), which exceeded the target of \$2.284 billion. This is closely followed by the previous year's export growth of 18%. The Indian Minister for Commerce and Industry, Kamal Nath, in his first meeting with members of the CLE, asked the leather industry to make sincere efforts to get at least 5% of world trade in leather within the next five years, as this would generate over one million additional jobs in the country. He even urged the industry to try achieve the \$5 billion mark in the next three years rather than the five-year period set by the industry.

Mr. M. Rafeeqe Ahmed, chairman of the CLE, has welcomed the ministerial announcement of a special integrated leather development programme, under which Rs2,900 million is being allocated to modernise and upgrade technology in the leather sector. This is intended to facilitate growth at a much faster rate to secure the ambitious targets set by the government and the industry itself.

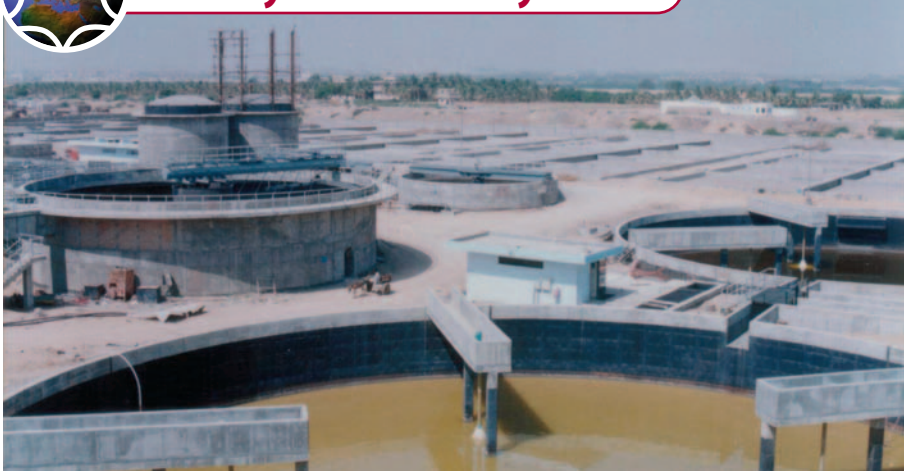
The USA and major European countries continue to be leading markets for Indian leather products accounting for 75% of the export growth. As such, the CLE has drawn up a plan to promote overseas markets under different strategies. The short term aim is to secure about 4.5% ➤

Estimated production capacities in India:

Hides	65 million pieces
Skins	170 million pieces
Leather Footwear	909 million pairs
Leather shoe uppers	100 million pairs
Non-leather footwear	1,056 million pairs
Leather Garments	16 million pieces
Leather Goods	63 million pieces
Industrial Gloves	52 million pairs
Saddlery	0.10 million pieces



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One of India's 17 CETPs

of the global market share from the current 2.51%. It is anticipated that the Indian leather sector will work on building capacity and adding value, but it will also participate in international fairs and invite foreign buyers to visit its facilities.

The council plans to establish a Design Centre for Leather Garments and Leathergoods/Accessories in co-ordination with the National Institute of Fashion Technology (NIFT) and the Indian Leather Garments Association (ILGA) in New Delhi. A Letter of Understanding (LOU) was recently signed by NIFT, ILGA, and CLE, formalising this collaborative programme in the areas of both design development and training, specifically for the leather garments and leathergoods/accessories segments of the Indian leather industry. The centre will service the leather industry situated in different parts of the country through NIFT centres based in New Delhi, Chennai, Kolkata and Mumbai.

Dedicated leather and leather products parks

In 2004, the CLE indicated that strengthening the infrastructure in the leather sector was to be given top priority. Large dedicated leather parks are already in place in Kolkata, Jalandhar and Kanpur. In addition to this a major leather tanning complex in Andhra Pradesh; a footwear complex and a footwear components park in Chennai; a footwear components park in Agra; and a leathergoods export park in Kolkata—are being established.

The Calcutta Leather Complex is the pet project of the government of West Bengal (GOWB). Asia's largest integrated leather facility, the Calcutta Leather Complex (CLC) was inaugurated in mid-2005. Nearly Rs6,000 million will be invested in the first phase and create jobs for 10,000 people. According to the government, it can accommodate over

Major production centres in India

Tamil Nadu in southern India is said to be the largest production area, accounting for more than 60% of the country's leather. The leather units in Tamil Nadu are concentrated in Chennai, Ambur, Ranipet, Vaniyambadi, Trichy, and Dindigul. Similarly, other major production hubs are located in Kolkata in West Bengal; Kanpur, Agra and Noida in Uttar Pradesh; Mumbai in Maharashtra; Jalandhar in Punjab; Bangalore in Karnataka; Hyderabad in Andhra Pradesh; Ambala, Gurgaon, Panchkula and Karnal in Haryana; and also in Delhi.

800 tanneries, 250 leathergoods units and ancillary industries, with a combined employment potential of 80,000 jobs. Forty-three units have already started production and more are expected soon—in fact the numbers are set to multiply every fortnight and foreign investors are also likely to move to the site. "We expect large FDI (foreign direct investment) in the leather sector," state industries minister Mr. Nirupam Sen said at the inauguration ceremony of CLC.

The CLC is the largest integrated leather complex in the world and is the first private-public build, operate and transfer (BOT) project, between the GOWB and development company M. L. Dalmiya & Co. Ltd. The complex is designed to house all activities connected with the leather industry and is certainly ambitious. It will include a raw hide market, tanneries, a common effluent treatment plant with a capacity of 30 million litres per day, a chrome recovery plant, leather chemical units, leather products units, an export processing zone, a R&D centre, and marketing facilities.

A leather goods manufacturing park within the CLC, the first in the India, is being set up to give a boost to this segment of the industry. The park is expected to be ready within one year. 🌐

Pakistan sets \$1 billion export target

The fiscal year 2004-05 was a good year for Pakistan's leather sector as exports of leather and leather products registered an increase of 21% to reach \$898 million from last year's total of \$744 million. As a result of this, the government has now set an export target of \$1 billion for 2005-06 and of this total, finished leather alone will account for some \$341 million.

According to the annual report compiled by the Pakistan Central Bank, the country's leather and leather goods attracted \$6.5 million of Foreign Direct Investment (FDI) during 2004-05 (July-June) compared with \$3.5 million in the previous year. Despite this, the report highlighted that overall the leathergoods industry in Pakistan registered a fall in output of 5.6% in 2005 having registered a remarkable 31.5% rise in the previous year. This decline was largely due to a shortage of raw hides, which recorded a 13.5% rise in exports. Footwear output also witnessed a sharp reversal from 6.4% growth in FY04 to a decline of 10.9% in the current year. The availability of imported shoes at cheaper prices as compared with locally manufactured shoes has been the foremost cause for this decline.

To counter some of these trends the government has recently imposed a 20% duty on the export of raw hides and skins in order to encourage the production of value-added products in the leather sector within Pakistan. It is hoped that this will boost production this year.

Earthquake shakes the country and the industry

Pakistan suffered a quite unprecedented loss of life and property due to the massive earthquake that hit on October 8 in the North West Frontier Province (NWFP) and Azad Kashmir (the area of Kashmir administered by Islamabad) and it is no surprise that the leather sector was also affected. According to Gulzar Firoz, president of Pakistan Tanners' Association

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Five year export figures for leather and leather products (2000-01 to 2004-05)
Value in '000 US Dollar

Commodity	Unit Qty	July-June 2000-2001		July-June 2001-2002		July-June 2002-2003		July-June 2003-2004		*July-June 2004-2005	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Leather Tanned	'000 m ²	17,532	232,921	17,290	239,934	15,348	234,775	16,048	251,694	18,525	304,351
Apparel & Clothing	'000 Pcs.	10,511	375,597	9,396	321,341	6,756	232,315	8,496	323,656		314,760
Leather Gloves	'000 Pairs	12,984	37,332	17,658	51,324	16,302	56,969	16,254	70,722	31,746	151,952
Leather Footwear	'000 Pairs	4,392	34,607	6,456	48,613	8,380	73,396	8,777	78,044	9,922	95,018
Leather Goods N.S.	'000 Kgs	1,020	12,587	831	10,530	4,962	97,262	933	19,965		32,560
TOTAL:			693,044		671,742		694,717		744,081		898,641

Source: Federal Bureau of Statistics. *(Export figures for the month of June 2005 are provisional)

(PTA) (S.Z) Environmental Society and chairman of Korangi Association of Trade & Industry (KATI), a large number of semi-skilled labourers working in tanneries in Karachi left immediately to travel to their home towns in the affected areas so as to help relatives and victims. There was also a temporary problem with logistics as all large vehicles were commandeered for relief operations.

Prime Minister Shaukat Aziz said, "I am optimistic that despite the challenges posed due to the destruction and devastation caused by the earthquake, the pace of economic development will not be hampered and the country will achieve the growth targets set for the financial year 2005-06." He has asked the authorities concerned to implement initiatives to achieve a 100% increase in the country's export during the next five years, bringing it to \$28 billion at the rate of 20% annually. Addressing businessmen recently he said, "Our exports can be substantially increased by articulating a sustainable response to the newly emerging challenges of a liberalised global trading system. The government is focusing on expanding its export base and exploring new markets to achieve this export target."

Pakistan's total exports reached an all time high of \$14.4 billion in FY05. Similarly, imports also reached a new high at \$21.2 billion. This is the third year that the country's aggregate trade i.e. imports and exports have reached record levels.

Pakistan's Commerce Minister Humayun Akhtar Khan, while presenting his trade policy for 2005-06, raised the overall export target to \$17 billion—an increase of about 18% over 2004-05. He also announced a series of measures intended to help the leather sector. These include an exemption from sales tax on the import of materials and components for the leather

and sporting goods sectors; a limit of 100 leather garments sent as samples in a year as against 50 samples, as was the case; the establishment of Footwear Development Centres by the Footwear Association in Lahore and Karachi with financial assistance from the Export Promotion Bureau (EPB); and hiring an international consultant for the footwear sector. These steps are intended to support the target of over \$1 billion worth of exports.

Chaudhry Muhammad Saeed, president of the Federation of Pakistan Chambers of Commerce (FPCCI) has applauded the trade policy for 2005-06 terming it as an instrument to boost exports from Pakistan in the quota-free trade regime.

...and now for the not so good news

Despite the positive export figures and the initiatives being implemented in the industry, problems still remain in the sector. Khawaja M. Yousuf told *World Leather* that the Tanners' Association has time and again approached the government concerning the problems facing the leather industry. While pleased by the measures, especially the resolution of the sales tax position he still has concerns. He comments, "A long pending major issue for zero rating the leather industry for the purposes of sales tax has been resolved. However, the following issues are still to be addressed by the government:-

1. A proposal for the inclusion of exports of leather and leather products in the Free Trade Agreement (FTA) between China and Pakistan.
2. Permission to import foreign tanning machines without duty, even if similar machines are manufactured locally.
3. The fact that the rate of withholding tax increased by 0.25% (from 0.75% to 1%) on export proceeds of leather and other leather articles."

The export of finished leather from Pakistan is duty free and, as much of it is considered to be high quality, there is considerable demand in the world market. Despite this, tanners are exploring new markets primarily through participating in various international fairs in order to enhance the export of finished leather and leather products. New leather products are developed in line with world fashion trends and foreign users' demands. Tanners have now started producing upholstery/furniture leather for export, which appears to have been well received.

"The Pakistan leather industry is progressing tremendously which can be gauged from the volume of its exports increasing to \$898 million, which was more than the export target set by the government at \$790 million. It is expected that the export target of more than \$1 billion will be achieved in the fiscal year 2005-06," adds Khawaja M. Yousuf.

Shortage of raw hides and skins

A more negative scenario is painted by Gulzar Firoz, who links the export target to the availability of raw hides and skins. He said that due to a shortage of raw material, many tanneries were already running below their full capacities.

The Pakistan Tanners' Association has signed a Memorandum of Understanding (MOU) with the University of Veterinary and Animal Sciences in Lahore, for mutual cooperation between the PTA and the university to promote its activities and strengthen scientific research, training and technology by developing human resources. The research work has already started and it is expected to pave the





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way for the availability of better quality meat for consumers and a better supply of "flawless" hides and skins for the leather industry by means of training the technical personnel at abattoirs.

Effluent treatment at Korangi

With so many units involved in leather manufacture, the industry produces large amounts of effluent that have to be treated and the country is also investing in this area in order to meet international standards. Pakistan's President, General Pervez Musharraf, is expected to inaugurate a Combined Effluent Treatment Plant (CETP) set up by the Pakistan Tanners' Association (Southern Zone) Environmental Society, for a cluster of tanneries in the Korangi industrial area by mid-January 2006. The plant is the first of its kind in Pakistan in terms of ownership, capacity and system. It is based on Up-flow Anaerobic Sludge Blanket (UASB) technology with a post treatment process which has the lowest operational and maintenance costs.

The plant has now been completed and is ready for testing while a contract worth PRs80 million (\$1,339,557 million) has been awarded to local firms to lay 12 kilometres of pipe for a collection and conveyance system and dilution lines to bring the tannery effluents and untreated domestic sewage to the plant for treatment. The existing practice of discharging the effluent into storm water drains will be discontinued on completion of the proposed system. The treated wastewater will be discharged into the Malir River while solid

Leather garment industry

There are about 350 leather garment manufacturing units in the organised sector in the country. Total annual installed capacity of these units is estimated to be 15 million leather garments (of all kinds) per annum. Sialkot, better known worldwide for its soccer ball production, has the largest number of leather garment manufacturing units with more than 186 in the city, representing about 60% of the total capacity. Karachi has the second largest cluster with 130 units, followed by Lahore with about 20 units. These numbers come from a recent study carried out by the government's Small and Medium Enterprise Development Authority.

Leather garments constitute a seasonal product and consequently the capacity utilisation of the manufacturing units varies with the demand over the year. The period between June and October is the peak season with capacity utilisation reaching 100%, however, during the months of November, December, January and May, capacity utilisation comes down to 50%. February, March and April are categorised as the lean months and most of the units will see production fall as low as 10% of their installed capacity.

waste will go into specially-designed waste bins. Firoz expressed the hope that under the Environmental Protection Order of the federal and provincial government that all of the tanneries in the area would be connected to the CETP and the region would thus

become environmentally friendly. This is important as a means of giving a better image to Pakistani leather and leather products in the international markets.

The plant has the capacity to treat a total of 43,000 cubic metres per day of tannery, plus domestic, wastewater. It can be compared technically with the effluent treatment plant in Mirzapur (14000m³/d) and the Kanpur (36000m³/d) plant in Uttar Pradesh, India. It is hoped that the use of locally-manufactured fibre reinforced plastic components in the UASB reactor (particularly for the components, distribution boxes, feed inlets, gas domes, effluent gutters, piping, etc) will ensure anti-corrosion protection and increase the durability of the components to a life expectancy of 50 years. It will serve 170 to 180 tanneries. The plant will be able to use domestic wastewater for dilution purposes and will produce its own electricity through bio-gas—a major step towards cost saving in post operations.

Firoz reveals that it was built at a total cost of PRs492 million (\$8.2 million) which was provided by the Export Promotion Bureau (PRs334 million), PTA-SZ Environmental Society (PRs96 million), the Government of Netherlands (PRs40 million) and the City District and Sindh government (PRs22 million). However, he makes the point that about PRs45 million will be required annually to cover the running costs. To raise this amount, a proposal is being contemplated which will require a 40% mandatory running cost charge for each tannery and the rest would depend on their monthly discharge levels. 🌐

The leather industry is moving in Bangladesh

With a population of some 144 million (Pakistan 162 million and India 1,080 million) Bangladesh is not an insignificant country and has seen economic growth running at 5% per annum for the last few years. With a labour force of over 65 million the country suffers from a stubborn 40% level of unemployment and underemployment. There is an extensive export of labour to Saudi Arabia, Kuwait, UAE, Oman, Qatar, and Malaysia with workers' estimated remittances having recently been valued at over \$1.7 billion per annum. GDP per capita is estimated at a lowly \$2,000.

As a consequence the leather industry has an important role to play in the development of the Bangladesh economy. Bangladesh's Commerce Minister Mr. Altaf Hossain Chowdhury has set an 'ambitious' export-earning target of \$10.11 billion for the fiscal year 2005-06. The target is almost 17% higher than that achieved in the previous 2004-2005 fiscal period. The country's business leaders as well as the Export Promotion Bureau (EPB) authorities are very optimistic about reaching the target with some help from the government. Bangladesh recorded 14% export in 2004-5 to reach a level of \$8.65 billion.

The role of leather

While presenting his annual budget Bangladesh Finance and Planning Minister M. Saifur Rahman stated that the leather and the leather goods industries have emerged as a "potential sector of our country". It is the fifth largest export earning sector, but one with outstanding growth opportunities and one which is attractive to foreign investors. In order to encourage development of this sector, he proposed a concessionary rate of customs duty for some dyes and leather chemicals.

During the year 2004-05 Bangladesh's leather sector exports including crust,

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finished leather, footwear and leather goods, recorded growth of 8.2% to \$288 million from \$266 million in the corresponding period a year earlier. In fact, the country achieved its best ever export performance in 2000-2001 due to the BSE outbreak in the EU but after 9/11, the declining trend could not be prevented due to the limited value-added capability in the leather sector of Bangladesh, Mr. Fakhur Alam, editor of Bangladesh Leather told *World Leather*.

The export target for footwear has also been raised to \$120 million against last year's \$96.19 million.

A review of the leather sector

The first tannery in Bangladesh was set up at Narayanganj by RP Saha sometime in the 1940s. It was later shifted to the Hazaribag area of Dhaka, which now accommodates a large number of tannery units. At present, there are about 170 tanneries in Bangladesh and they use locally available raw hides and skins. About 150 tannery units are located in Hazaribag in Dhaka.

According to the records of the Hazaribagh Tannery Workers' Association, about 10,000 workers are employed in the tanning industry. Besides this, there are about 150 qualified leather technologists including some foreign nationals who are working in different tanneries. The total capital invested in the tannery industry is estimated at Tk2.5 billion of which government/bank finance is about Tk1.2 billion. About 1,500 people are involved in the process of collecting raw hides and skins and making them available to tannery units. About 100 organisations import chemicals for use in the industry.

Bangladesh's leather sector is progressing well and is now equipped and capable of processing 255 million square feet of crust leather; 130 million square feet of finished leather; 32 million pairs of footwear and

3.5 million pieces of leather goods per annum.

The industry produces some of the world's top quality goatskin with a very fine and smooth grain pattern. The country's cow leather has an excellent naturally compact fibre structure with a round feel and touch. More than 80% of the country's annual production is exported worldwide as semi-finished/finished leather, footwear and accessories. There are over 31 modern shoe factories engaged in the production of high quality footwear with 2,500 smaller footwear units spread over the country. Besides this, 100 large and small manufacturers produce various leather items.

Tannery relocation programme

To save the Buriganga River from pollution and to meet international environmental standards, Bangladesh's Prime Minister Begum Khaleda Zia formally inaugurated the much-awaited construction work of the Modern Leather Industry City at Savar, near Dhaka, earlier this year. The tannery relocation project was approved by the government on August 16, 2003 at a cost of Tk1,760 million (\$27 million).

The selected site is located in Savar along the bank of the river Dhaleswari, only 20 kilometres away from Dhaka city and 10 kilometres from the Hazaribagh Tannery Area.

The state-owned Bangladesh Small and Cottage Industries Corporation (BSCIC), which is implementing the project has already appointed ML Dalmiya and Company Ltd. as the consultant of the BSCIC's leather industrial city project. Under the memorandum of understanding Dalmiya will act as the consultant for the BSCIC's project. A consortium led by the firm will draw up the plans for the Common Effluent Treatment Plant (CETP) in the leather industrial city. The firm will also work on the installation and commissioning. It is said that export earnings from leather and leather products will multiply when the tanneries from Hazaribag and other leather-based industries from other parts of the country are transferred to the new hub.

If implemented, the project will be able to support the 195 leather industrial units creating employment opportunities for about 100,000 people.

Alam expressed the hope that apart from modern pollution control facilities, a CETP and construction of a damping yard, provision for another two plants will

remain for future use at Savar. As a result, he hopes, "There will be no health risks for workers, leather technologists and employees at their work place and this will be a great relief from the serious health hazards they are exposed to in the outmoded tanneries."

The leather industry has urged the government to ensure an environmentally feasible and sustainable leather processing atmosphere, adopting cleaner production techniques, unique facilities for wastewater treatment, recovery and re-use of chrome chemicals, safe disposal of solid waste and sludge, by-products manufacturing like protein concentrate as poultry feed and the introduction of environmental management systems (EMS) to attain ISO certification.

Livestock

Bangladesh has a fairly large livestock population to support a strong and growing tanning industry. At present there are 70 million cows, 35 million goats, five million sheep and 4.5 million buffalo in the country. About 75,000 tons of raw hides and skins are processed every year in the tanneries of Bangladesh. The raw stock processed includes cow, buffalo, goat and sheepskin. While cow hides and calfskins account for 70% of the production, the share of goatskins is 20%. Buffalo and sheep account for the rest.

Export performance

Md. Tipu Sultan, chairman, Bangladesh Finished Leather, Leathergoods and Footwear Exporters' Association discussed the government's targets for the industry with *World Leather*.

He said, "The Leather Industry in Bangladesh has great potential for growth but a shortage of trained and experienced technicians is the major constraint in the production of quality crust and finished leather." In addition he added: "We are now passing through a transition stage because of the relocation process of tanneries from Hazaribagh to Savar. As a result, most of the tanneries are now operating with their old existing systems and waiting to move." He expressed hope that the situation would improve rapidly when the tanneries are shifted to the new site. He expects the tanners will then invest willingly and growth in the sector will increase accordingly.

The tanneries will be relocated from Hazaribagh to Savar by the end of 2006 as estimated by the government in the revised project profile. 🌐

Exports from Leather Sector

This includes, crust finished leather, footwear and leather goods

Year	Tk in Crore	In Million US\$
1999-2000	1,252.11	246.89
2000-2001	1,668.50	290.68
2001-2002	1,449.62	252.49
2002-2003	1,343.86	229.72
2003-2004	1,567.80	265.91
2004-2005	1,770.23	287.79

Source: Export Promotion Bureau