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Voluntary _ Public

Date: 6/9/2016

GAIN Report Number: IN6078

India

Post: New Delhi

Hides and Skins - 2016

Report Categories:

Livestock and Products

Product Brief

Market Development Reports

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Report Highlights:

In calendar year (CY) 2014, India produced approximately 51 million pieces of bovine hides, and 128 million pieces of sheep, lamb, and goat skins. In CY 2015, wet blues imports decreased by 5.1 percent to \$677 million from the previous year due to less demand for Indian finished leather exports from major buyers such as Hong Kong, Italy, Spain, Germany and France. From CY 2010 to 2015, U.S. wet blues exports to India marginally grew from \$9.3 to \$10.7 million at a compound annual growth rate (CAGR) of 3 percent.

Executive Summary:

In calendar year (CY) 2014, India produced approximately 51 million pieces of bovine hides, and 128 million pieces of sheep, lamb, and goat skins. About 80 percent of these local raw materials are used to produce on average approximately 2 billion square feet of leather per year. From CY 2010 to 2015 wet blues imports increased at a compound annual growth rate (CAGR) of seven percent on strong global demand for Indian finished leather exports. However, in CY 2015, imports decreased by 5.1 percent to \$677 million from the previous year due to less demand for Indian leather finished exports from major buyers such as Hong Kong, Italy, Spain, Germany and France. From CY 2010 to 2015, the U.S. wet blues exports to India marginally grew from \$9.3 to \$10.7 million at a CAGR of 3 percent.

Production:

In CY 2014, India produced approximately 51 million pieces of bovine hides, and 128 million pieces of sheep, lamb, and goat skins. About 80 percent of these local raw materials are used to produce on average approximately 2 billion square feet of leather per year. India's livestock population supports this growing industry; however, in the last few years some animal populations have decreased. According to the Livestock Census, 2012, published by Government of India (GOI), from 2007 to 2012 the cattle population fell by 4.1 percent to 190.9 million while the water buffalo population increased by 3.2 percent to 108.7 million. During the same period, the sheep and goat population declined by 9.1 and 3.8 percent to 65.06 and 135.17 million, respectively.

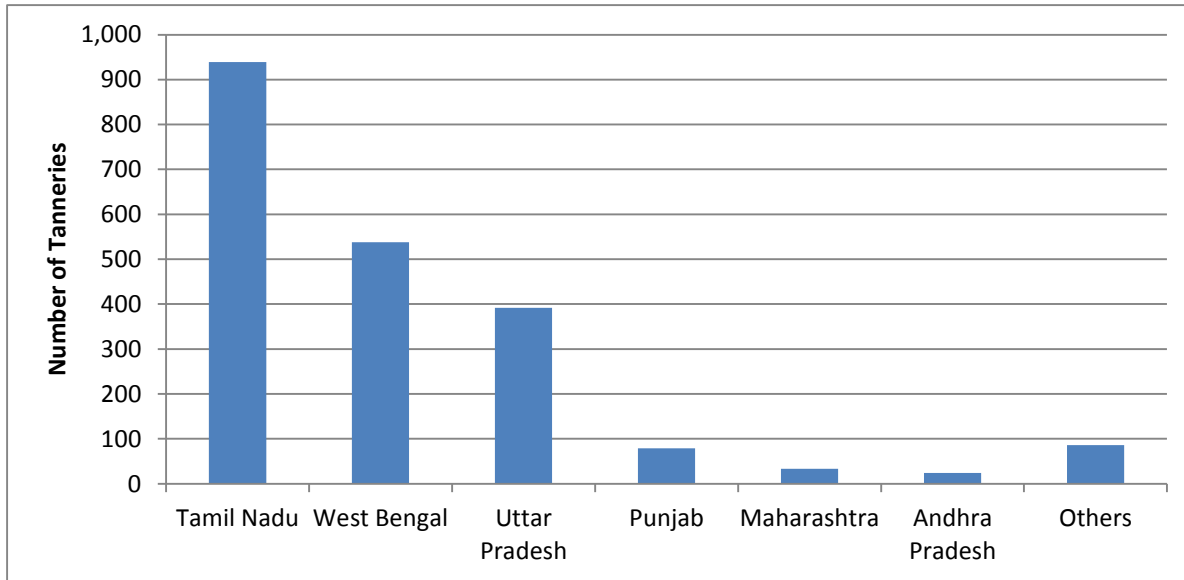
Raw hides and skins are processed in tanneries to produce wet blues (semi-processed leather), and are further tanned to create finished leather. Indian tanneries either buy wet blues from processors or produce wet blues themselves. According to industry reports, there are around 2,000 tanneries in India. More than 75 percent are considered small- to medium-sized factories that process up to 500 pieces per day; large tanneries can process between 1,000 to 1,500 pieces per day. Major production centers are in Tamil Nadu (Chennai, Ambathur, Ranipet, Vaniyambadi, Tiruchirappalli, and Dindigul) West Bengal (Kolkata), Uttar Pradesh (Kanpur, Agra, and Noida), and Punjab (Jalandhar) (Please see Figure 1).

Tanneries source raw hides from slaughterhouses or middlemen who purchase pieces from local butchers or weekly markets. Major challenges faced by small- and medium-sized tanneries include unskilled manpower, obsolete technology, and environmental pollution. Large tanneries subcontracted to international brands often have modern equipment and can comply with stricter quality standards.

Poor animal husbandry practices lower the quality of domestically produced hides and skins; moreover, unskilled labor can create defects such as cuts, marks, scars, and scratches. According to industry sources, Indian cow hides are around 25 to 28 square feet while buffalo hides are around 45 square feet. Large operations that export higher quality finished products need very sizeable hides, which are imported and constitute 20 percent of total finished leather production.

Most leather manufacturers primarily use bovine hides to produce finished leather goods. Local water buffalo hides are generally 20 to 30 percent less expensive than locally sourced cow hides. According to industry sources, raw buffalo hide prices are approximately \$18 to \$20 (15 to 25 kg), \$30 to \$35 (35 to 45 kg), and \$45 to \$50 (more than 45 kg) per piece. Goat skins are also used for shoes, shoe linings, gloves, bags, garments, and other soft leather products primarily geared for the domestic market. Around 90 million pieces of raw goat skins (approximately four to five square feet per piece) are produced per year. Sheep and lamb skins are used to produce garments, gloves, automotive seat covers, and other products.

Figure 1. India: Tamil Nadu has the Highest Number of Tanneries in India



Source: Department of Animal Husbandry, Dairying, and Fisheries, Government of India

Consumption:

According to sources, in fiscal year (FY) 2015 (April to May) total sales for the hides and skins industry were approximately \$12.5 billion, up 10 percent from the previous year. Contacts believe that the leather sector will grow by 24 percent in the next five years due to higher demand for finished leather goods from the rising middle class. However, many consumers are price sensitive, which has resulted in increased synthetic leather utilization to control costs.

Value Added Sector

The local leather industry manufactures footwear, garments, saddles and harnesses, gloves, handbags, travel bags, briefcases, wallets, belts, sports goods, footwear, and general upholstery. There is also rising demand for luxury furniture and automobile upholstery. The local footwear industry is the largest buyer of leather material, and produces around 909 million pairs of shoes per year. According to industry reports, Indian consumers purchase on average 1.7 pairs of shoes per year, which is low compared to the global average of three pairs per year (developed countries purchase six pairs per year). The garments sector is the second largest buyer and produces approximately 16 million finished goods per year.

Many leather manufacturers are family owned businesses; some are subcontracted to international brands and focus more on export markets. Several cities produce specific finished leather products. For example, Kanpur creates work boots and upholstery, Chennai utilizes high quality leather for the fashion industry, and Agra and Kolkata produce lower quality footwear for the domestic market.

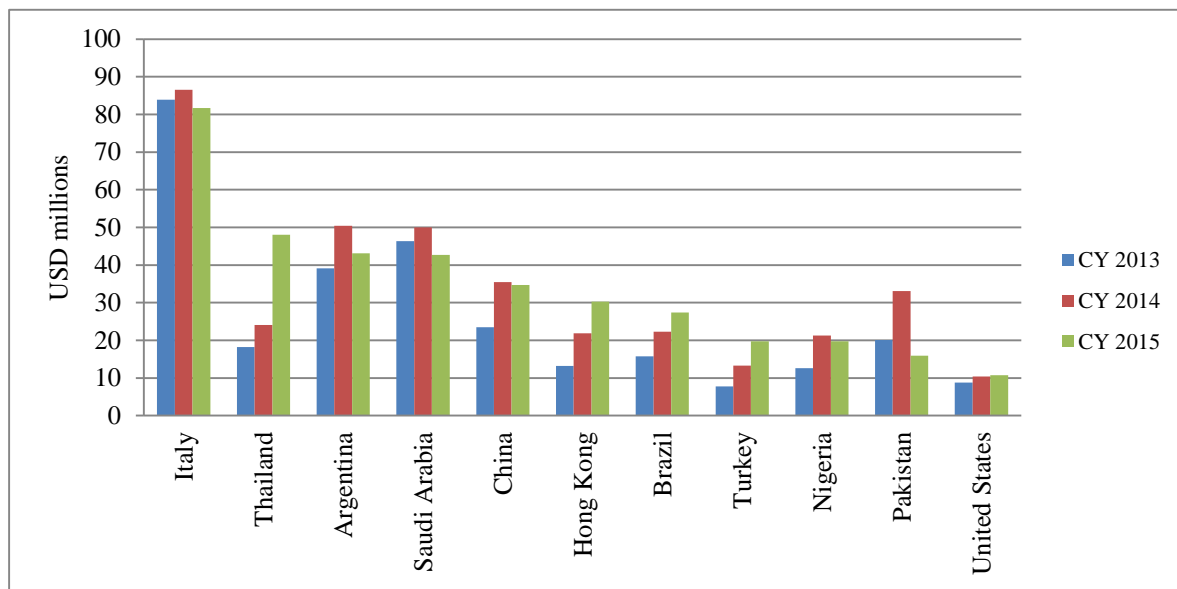
Imports

From CY 2010 to 2015 wet blues imports increased at a CAGR of seven percent on strong global demand for Indian leather exports. However, in CY 2015, Indian imports decreased by 5.1 percent to

\$677 million from the previous year due to less demand for Indian finished leather exports from major buyers such as Hong Kong, Italy, Spain, Germany and France. For CY 2015, Italy had the highest export market share for wet blues, followed by Thailand, Argentina, Saudi Arabia, China, and Hong Kong (Please see Figure 2). In CY 2015 the U.S. export market share was 1.6 percent, or \$10.7 million. From CY 2010 to 2015, U.S. exports to India marginally grew from \$9.3 to \$10.7 million at a CAGR of 3 percent. U.S. high quality leather is used to manufacture finished leather goods such as footwear for export markets.

Although wet blues have a higher tariff rate, it is more cost competitive than raw hides and skins because of lower transportation costs (raw hides and skins require refrigerated containers). Due to its higher quality, wet blues imports are mainly used to produce high quality leather products for third country markets.

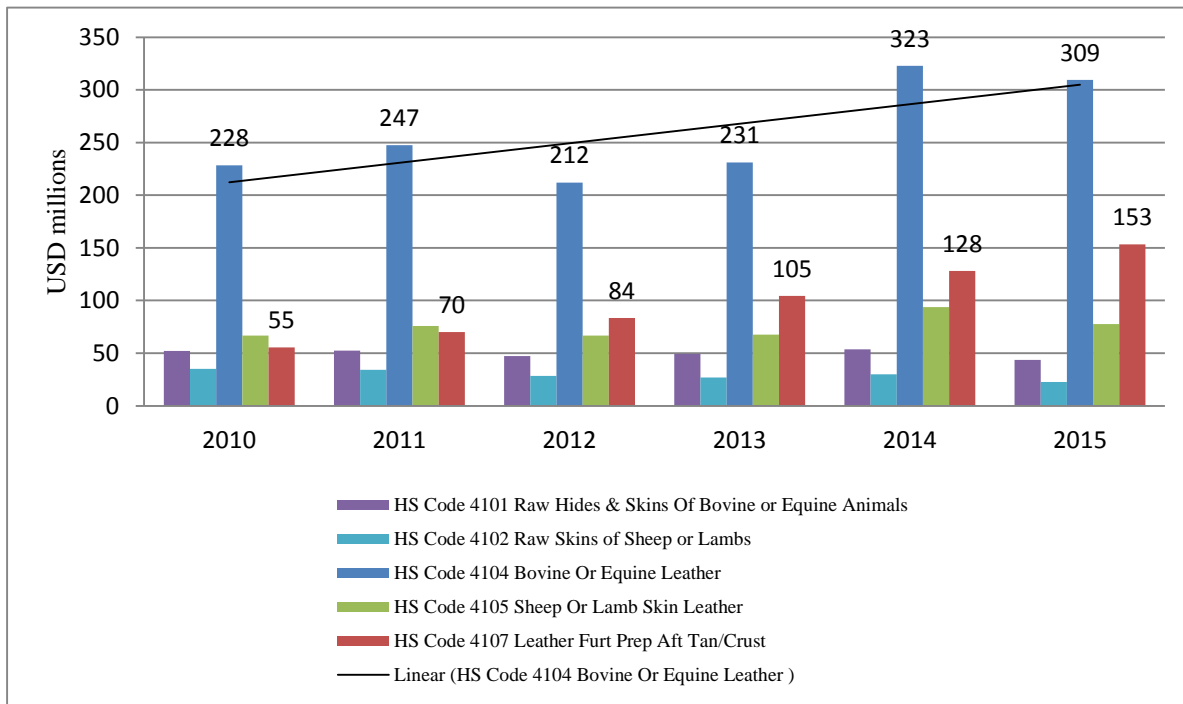
Figure 2. India: Major Suppliers of Raw Hides and Skins and Wet Blues



Source: Global Trade Atlas

* HS Code 41

Figure 3. India: Bovine and Equine Wet Blues Imports Grow

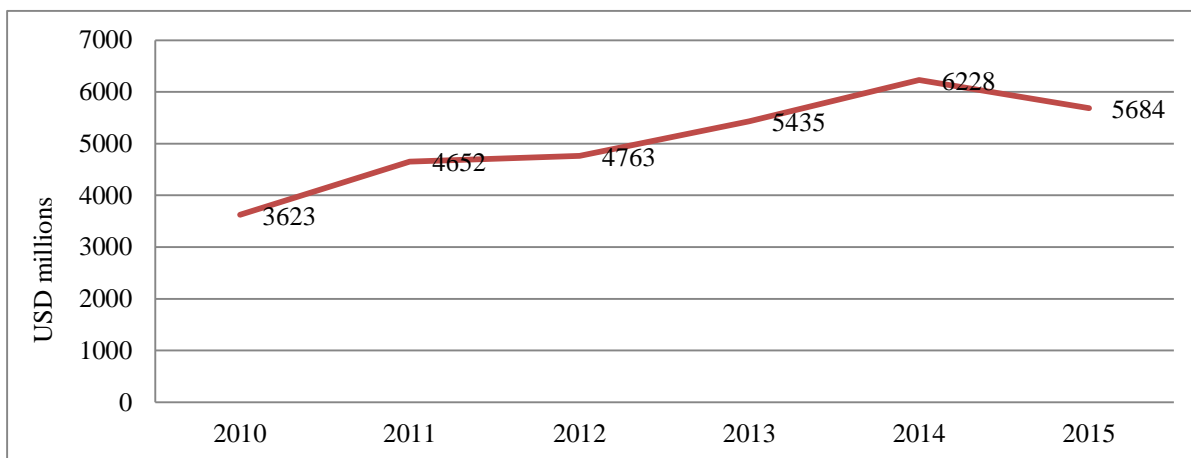


Source: Global Trade Atlas

Exports

In CY 2015, India exported \$5.7 billion of leather and leather products, 8.7 percent less than last year on lower export demand (Please see Figure 4 and the Imports section). India exports finished leather to Hong Kong, Italy, China, Vietnam, South Korea, and United States. Raw hides and skins and wet blue exports are minimal due to high export taxes. Eighty-one percent of exports are finished leather products such as footwear and footwear components, leather articles (e.g., hand bags, jewelry boxes, and travel goods), and leather garments (e.g., jackets, jerseys, gloves, and belts) (Please see Figure 5).

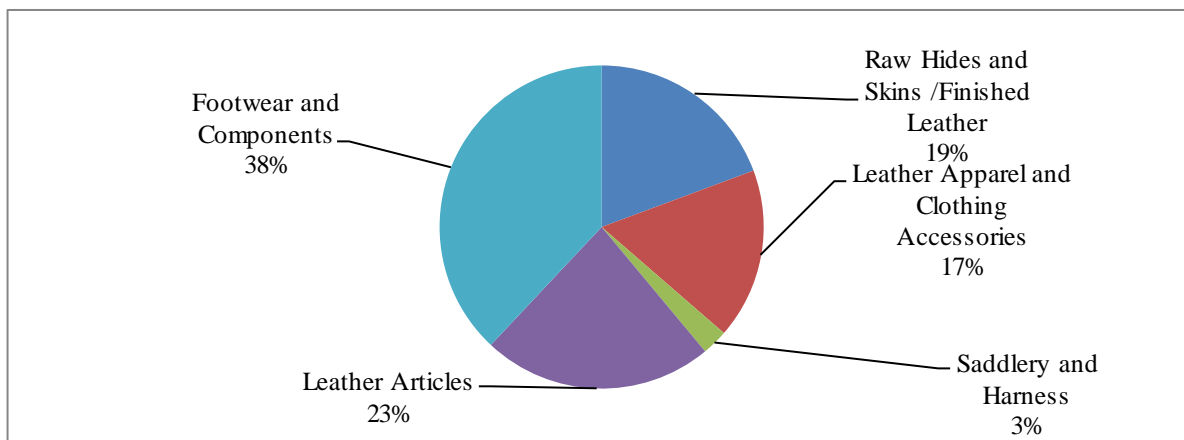
Figure 4. India: Leather and Leather Product Exports Gradually Rise



Source: Global Trade Atlas

* Include leather products under HS Codes: 41, 42 and 64

Figure 5. India: CY 2015 Leather and Leather Product Exports by Category*



Source: Global Trade Atlas
 * Percentage based on value.

Policy:

There are no quantitative restrictions on importing raw hides and skins, wet blues, and finished leather and leather products. Raw hides and skins have a zero tariff whereas wet blues and other semi-finished/finished leather products have a 10 percent tariff. Leather accessories listed under the Harmonized Tariff Schedule (HTS) chapter 42 and footwear (which is listed under HTS chapter 64) have a 10 percent tariff; some saddles and harnesses under HTS chapter 42 have a 30 percent tariff. Raw hides and skins and tanned and untanned leather have an export tax of 60 percent.

Various GOI programs support the leather industry. The Ministry of Commerce and Industry provides financial assistance to Indian exporters under the Merchandise Exports from India Scheme; this program offers duty credit scrips (i.e., tax exemptions) on imported inputs used to manufacture goods for export markets. The scheme entitled Integrated Development of Leather Sector provides financial assistance to modernize factories with new equipment, as well as supports the establishment of new manufacturing plants. For all operations, the program grants 30 percent of the cost of a manufacturing plant and 20 percent of the cost of machinery for each product line, all of which is subject to a ceiling of \$297,000. The GOI also offers financial assistance to establish leather factory parks, which it hopes will improve the economies of scale and lower environmental pollution.