

## Productivity & Efficiency Gaps in Indian Leather & Footwear Sector

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As identified in the above sections, the major gaps that exist in Indian Leather & Footwear sector that are impacting its competitiveness with respect to competing countries are:

### Issues in availability of critical input material – Raw material, manpower and technology

- **Both availability & quality of the most critical raw-material, i.e. Leather is a major issue in Indian Leather & Footwear industry.**
  - High grade leather not available in Indian market because of steady decline in animal husbandry.
  - Availability of cow leather is an issue because of religious sentiments.
  - Hides of size larger than 5 feet are not available in India, while average size in countries like New Zealand, Syria etc. is 6.5 to 9 feet.
  - Common issues like cuts, marks on the skins on the hides because of hand cutting & knife de-skinning being employed in most of the abattoirs.
  - Limited availability of high quality leather fur used in apparels.

**All of these deficiencies result in reliance on imports which puts pressures on cost as well as increases the cycle time of production.**

- **Lack of indigenous production of critical non-leather components impacting both cost and turnaround time of production for Indian firms.**
  - PU sole, insole board, steel toe caps, synthetic leather etc. for the footwear industry;
  - Metal fittings & accessories for the leather goods industry
  - Cotton lining etc. for the leather apparel industry
  - Chemicals such as Oils & fats, synthetic tanning agent & formic acid for tanning industry
- **Acute shortage of new & skilled workforce in the industry.**
  - Skill gaps for dyeing experts, tailors, cutters & skilled masters able to produce newer patterns are most prevalent in the industry.
  - Support skills like electricians, pneumatic & hydraulic technicians are also lacking in the industry.

**No institutes are targeting skill development in these areas. Institutes like CFTI have training programmes for supervisors but no targeted programmes exist for labours in particular.**

- **Lack of technology & mechanization leather processing**
  - Lack of cutting & de-skinning technology available in abattoirs, hence compromising on quality of raw-hides & skins.
  - Specialized machinery for leather treatment which provides ultra-thin leather is not available in India with Italy being the pioneer in the same.
  - Technology for finishing of leather fur is also not available in India, and hence is majorly imported.

### Issues impacting export competitiveness

- **Shrinking Export Markets:**
  - Major dependence of Indian exports on European & US markets leading to huge decrease of exports owing to the recession witnessed in these geographies.
  - Difficulties experienced in establishing contact with new buyers in foreign markets.
  - Imposition of barriers that derive from external legislative requirements are importers' insistence on compliance with higher than minimum specified chemical limits, testing and certification requirements, packing and related waste in excess of the EU norms .Examples include demand for over compliance with the norm on specified limits for chemicals used in leather processing and finishing such as azodyes, chrome IV, cadmium, polychlorinated biphenyls, terphenyls, and Benzedrine.
  
- **Issues with compliance of global quality norms:**
  - Lack of awareness about the EU's Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) legislation which aims to phase out harmful chemicals over 10 years by employing the life cycle process approach to production.
  - Other related costs to implement REACH are changes necessitated in production processes given the extent EU rules require exporting firms to identify all inputs used in production of the final product.
  - Other associated compliance costs for REACH include independent accreditation and verification of exporters' compliance at a fee every time this list is updated.
  
- **Incomplete/Failed transactions between Indian suppliers and export customers:**
  - Reported cases of non-acceptance of goods by the buyer because of quality issues leads to blocking of working capital.  
**The underlying reason for this is absence of any quality certification mark or trademark for Indian Leather product which is acknowledged & accepted globally. Further there is no certification that ensures that production meets all the environmental guidelines.**
  
  - On the contrary, there are several reported cases of unfair trade practices by buyers in export markets like unfair quality rejections, frauds such as non-payments, no delivery pick up from the ports/customs office etc. leads to blocking of working capital of the small & medium enterprises.  
**The underlying reason for this is absence of Grievance Redressal mechanism for the same.**

### Inadequate Support Infrastructure

- **Inadequate Common Effluent Treatment Plants for tanneries.**
  - Although, government has taken initiatives to set up secondary treatment plants for affluent coming out of the tanneries post primary treatment in the tanneries, there is major under capacity as far as secondary treatment is concerned.
  - Further, there is inadequacy in the primary treatment done at the tanneries and no monitoring system to measure the TDS level in the affluent.

- **Inadequate R&D infrastructure**
  - Production is mainly concentrated in the unorganised sector, which includes small tanning units, and contributes nearly 90% of total leather exports. The unorganised sector is heavily reliant on imported machines because most small firms have limited financial resources for investments in R&D and innovation. Not only does this stifle domestic innovation but it increases the vulnerability of firms to changes in foreign markets.
  - Research & Development efforts being undertaken by CLRI have very limited involvement from the industry. Therefore there are gaps in the needs of the industry and the R&D offering of CLRI.
  
- **Lack of awareness amongst MSMEs on government schemes & subsidies**
  - The government schemes & subsidies are not being availed by most of the SME's because of lack of awareness as well as paper work hassles.
  
- **Issues with Ports & Roads connectivity**
  - Traders in Land locked regions like Kolkata, Delhi, Kanpur, Agra etc. which contribute majority share of Indian leather trade incur higher costs of transportation. The inefficiency of the Indian inland transportation system is attributed to outdated transport Lorries, poor road conditions, unavailability of all-weather road connectivity, frequent road strikes, and rising fuel costs.
  - Inland transport and port congestion is another major impediment to Indian exports. Besides, existing ports lack mechanised handling and loading equipment which adds to loading time, increases warehousing costs and adversely affects delivery schedules