

Leather & Footwear – Indian Regulatory & Policy Environment

The domestic leather and footwear industry has undergone a massive transformation thanks to the continuous support of the Government. Recognizing the opportunities for Indian leather industry from globalization, the government over the last decade and a half has undertaken several initiatives in the areas of investment, taxation, research and cluster initiatives.

The erstwhile restrictions on capacity expansion by way of reservation for SMEs has been done away as the government has de-reserved the manufacture of various types of leather including semi-finished leather, harness leather, leather shoes, etc. from small scale sector.

Investment measures

As a part of the liberalization measures, most of the items of manufacture in the leather sector have been de-licensed. Further, 100% Foreign Direct Investment and Joint Ventures are permitted through the automatic route. 100% repatriation of profit and dividends is also allowed, if investments are made in convertible foreign currency. Only a declaration to this effect to the Reserve Bank is required.

The production capacity in the leather & leather product industry has not increased even after the de-reservation of the entire leather sector from small scale sector. Absence of huge capacities to cater to volume markets like USA, which account for nearly 1/4th of total world imports of leather & leather products, is one of the factors hampering the growth of this sector. Huge investments are required to make the industry technologically and environmentally sound and competitive. However, the industry has not been able to attract high investments to address these issues. In spite of having a liberal FDI policy, the domestic leather industry has managed to attract mere Rs 2.68 billion since 2000. This constitutes a tiny 0.04 per cent of the total FDI inflows received by India.

Trade measures

Introduction of Foreign Trade Policy (2004-2009) has provided several incentives to exporters to boost the export prospects of the industry. It has also aimed at procedural simplification and trade facilitation measures. Existing measures like the Focus Product Scheme (FPS) and the Duty Entitlement Passbook Scheme (DEPB) have been extended in the new Foreign Trade Policy (2009-14). Various other benefits available to exporters of leather products include: Duty neutralisation/remission scheme in place like DEPB and Duty Drawback; Duty free import of certain raw materials like raw & finished leather, fur skins, etc.; Concessional duty on import of specified machinery for use in Leather Sector; and low import tariff - Peak Rate 10%.

Specific schemes for Sector development

The government has been making efforts to improve the prospects of the domestic leather industry and its speedy expansion through the 'Indian Leather Development Programme' (ILDLP). This is in continuance with the 'National Leather Development Programme' (NLDP) implemented in the nineties. The objective of the ILDP is mainly to bridge the critical gaps in infrastructure for integrated development of the leather industry. There are thirteen sub-schemes in ILDP through which the government aims to augment raw material base, enhance capacity, address environmental concerns, human resource development, and attract investment and global marketing in the leather industry.



However, the progress of the schemes has not been very encouraging in the Eleventh Five Year Plan. The Planning Commission approved Rs 12.51 billion for implementation of 13 sub-schemes under ILDP during the 11th Plan. However, a review of the different schemes in the Eleventh Five Year Plan reveal that the aggregate disbursement has been low than the proposed financial outlay. Out of the proposed outlay, Rs 7.38 billion was made available under ILDP in five years of the Eleventh Plan. High land cost, delay in environmental clearance and funding constraints are the main reasons cited for the under-achievement in targets.

Infrastructure development

The inadequate infrastructure has been a major bottleneck in the growth of the Indian leather industry. Much of growth in the leather sector in prominent traditional hubs of Agra, Kanpur, Jalandhar, Ambur-Ranipet-Vaniyambadi and Kolkata was unplanned and was almost entirely due to private sector initiative. The existing infrastructure in various leather clusters i.e. integrated supply chain infrastructure (material markets, tanneries), production infrastructure (water supply, drainage facilities, power supply, effluent treatment plants, factories for ancillary products) and support facilities (design and product development studios, testing laboratory, training institutes, buyer-interaction showrooms etc.) is not up to the mark and requires a major reformation to make the industry internationally competitive.