

CONSULATE GENERAL OF INDIA SAN FRANCISCO

LEATHER IMPORTS INTO THE USA FROM INDIA

A. OVERVIEW

The Indian leather industry is the 8th largest foreign exchange earner and has constantly been upgrading structure of its exports from raw hides and skin to value added products and is presently achieving 80% of total exports in finished leather products.¹ This has been made possible by the presence of support industries like leather chemicals and finishing auxiliary, an eco sustainable tanning base and a world class support for HRD and R&D.

The footwear segment is the pride of India's leather industry, and ranks second in the world next to China. In the last five years India's footwear production increased by 60%. It is interesting to note that India produces more gent's footwear whereas the world's major production is in ladies footwear. India exports almost 50% of its footwear production and nearly 75% of this is from the Southern Region.

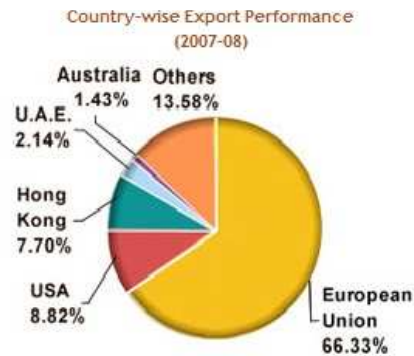
As per DGCI& S monthly export data, the export of leather & leather products for the first eleven months i.e April-February 2008-09 touched US\$ 3337.33 million against US\$ 3248.73 million in the corresponding period of last year, registering a positive growth of 2.73% in Dollar Terms. The major markets for Indian leather products are Germany with a share of 14.28%, Italy 13.20%, UK 11.42%, USA 9.56%, Hong Kong 6.23%, France 6.23%, Spain 5.99%, Netherlands 4.22%, U.A.E. 2.42%, Denmark 1.73%, Belgium 1.53% and Australia 1.52%. **These 12 countries together accounts for nearly 78.33% of India's total leather products export.**

Overall positive growth is seen in markets like **USA 12.22%**, Germany 5.24%, UK 0.03%, France 13.57%, Spain 1.50%, Netherlands

13.23%, Australia 11.87%, and Denmark 26.23%.

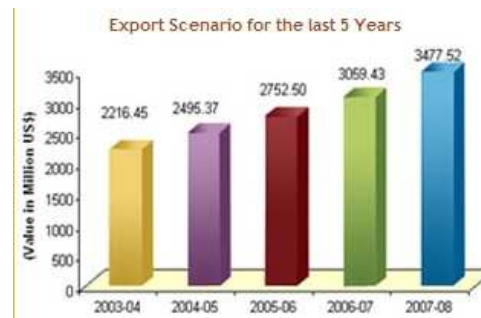
Trade figures for USA are:

	Million \$ April-Feb	Million \$ April-Feb	% Variation
	2007-08	2008-09	
USA	286.84	321.90	12.22%



(Source: Council for Leather Exports, India)

The industry has set a trade target of US\$ 12 billion by 2012, including exports worth US\$ 7 billion and domestic sales worth US\$ 5 billion.



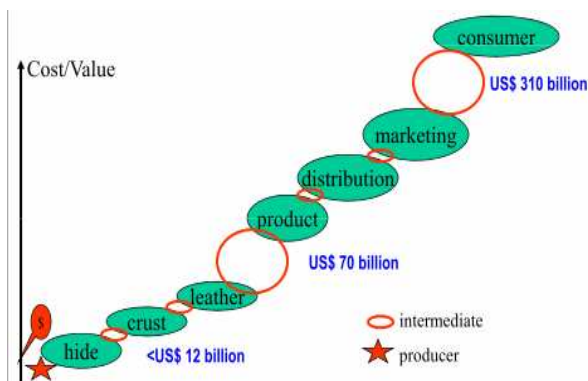
(Source: Council for Leather Exports, India)

USA is the biggest importer of finished leather in the world. Leather imported into the US are broadly classified under two main headings, Leather Articles (HTS code 42) and Footwear

¹ It is believed to employ more than 2.5 million people-mostly women, directly or indirectly, which has a huge social impact.

(HTS code 64). Total Leather imports into the US in 2008 under these two headings was about US \$ 28 billion. Of this, China accounted for the bulk i.e. \$21.7 billion which is 77.5%.² **During this period, US leather imports from India totaled about \$463 million i.e. 1.7%**

Standard Leather Supply Chain



Looking at the two main headings of leather, **India appears to be doing better in export of Leather articles (HTS code 42) like travel goods, handbags, etc. to USA as opposed to Footwear (HTS code 64).**

HTS code 42 – Leather articles of travel goods, handbags, saddlery and harness for animals, leather apparel, etc.

In this category India’s exports to the US increased from \$238.7 million to \$274.7 million in 2008, an increase of 15% and the first quarter of 2009 shows a smaller increase to the comparable figure of 2008 by 9.6%. This is encouraging given that US imports from China have declined by 26.9% in the first quarter of 2009, albeit from a huge base figure.

HTS code 420291& 420292, i.e. container bags, boxes, etc. experienced an export increase of 41.8% and likewise HTS code 420221 (handbags) increased by 39%. This shows there is tremendous scope for improvement in these categories.

HTS code 64 – Footwear

US imports from India have declined by about \$1.7 million in the first quarter of 2009, which

can be taken as almost no change from last year. Imports into US from China in this category have declined by \$115.9 million. Notwithstanding this decline, China’s footwear exports to the US in the sub-category of HTS code 6402, footwear with outer soles and uppers of rubber and plastic, have actually increased by \$110.6 million, a mere 7.5% increase. India has accounted for an increase of \$1 million but which is an 88% improvement over the comparable period of 2008.³

It also appears that cheaper footwear imports into the US have recently increased whereas the more expensive ones have declined during the first quarter of 2009, maybe due to the current recession. While China with its huge manufacturing base geared towards exports is able to take advantage of current trends in the export market, its exports are also subject of anti-dumping investigations. Also, China as a source may not provide completely correct picture in that supply chains are fragmented over the globe and some of the US imports from China and Mexico includes parts and components from other countries which can sometimes account for over half its total value, i.e. “processing exports”.

India with its highly skilled workforce and high quality leather products is well positioned to take advantage in today’s price conscious consumer market of USA. Prices of Indian leather products are much lower than European manufacturers.

Unfortunately, the small and medium scale enterprises in India, including in leather hubs in Punjab have been facing a difficult phase during recent times. Slowdown has affected the growth of this industry in Punjab to up to 32 per cent by October 2008. And, this slowdown has not only reduced the demand but it has set aside the export orders in process. The 1,200 odd sports goods manufacturing units in Jalandhar that were expecting double-digit growth after India’s best ever performance in Beijing Olympics, too are faced with a difficult time. The 120 million USD sports industry is now asking for government aid⁴

² www.endtheshoetax.org

³ www.usitc.gov

⁴ Asian News International datelined Dec 3, 2008

The Council for Leather Exports of India⁵ has formulated and implemented many programmes under Market Access Initiative (MAI) assistance. MAI projects focus on assisting the leather industry develop the export markets for Indian leather products by getting access to major markets like US. It tries to create more awareness and build an image of the Indian leather sector in overseas countries. MAI also encourages joint venture and business collaborations and supports design development initiatives. The implementation of various market promotion activities by the Council under MAI assistance has resulted in overall growth of the leather sector. Accordingly, India's export of leather products has increased from \$1875.21 million in 2002-03 to \$3477.52 million in 2007-08, recording an annual growth rate of 11.91%.

For the financial year 2009-10, the Council has, inter alia, approved a Focus USA programme for Footwear under which they are facilitating participation of Indian leather industry in WSA Footwear Fair, Las Vegas, USA (in both August 2009 and February 2010 editions) and are also organizing visit of Indian delegation to USA and reverse visits.

B. Some Recent Developments

The American Apparel and Footwear association (AAFA) have proposed the "Affordable Footwear Act". They seek to remove punitive import duties, commonly called the "shoe tax" on a range of shoe types popular with today's consumers, particularly lower to moderately-priced footwear and children's shoes. Together, the duties on footwear covered by the Affordable Footwear Act account for \$800 million or about 40% of the total shoe tax collected annually. All in all, the shoe tax is proposed to be removed from about 60% of all shoes sold in the US. US domestic footwear producers are not seen as opposing the legislation as they account for only 1% of total market.⁶

Congressman William Delahunt (D-MA) and Jerrold Nadler (D-NY) reintroduced the Design Piracy Prohibition Act (HR 2196) on April 30, 2009. The legislation attempts to provide three years of copyright protection for designs which

are deemed original. The bill would place apparel and footwear companies and their designers into a new legal landscape. The AAFA is opposing this legislation explaining the associations continued concerns to every member of the US House of Representatives.

Recognizing the potential of the leather industry and keen to take the industry's share to 4 per cent of the world trade by 2010, the Government of India has, inter alia, taken following initiatives.

- Foreign equity up to 100% is allowed, subject to certain conditions.
- Foreign equity up to 51% is accorded automatic approval in several key areas.
- Investments over 51% equity participation are approved on a case-to-case basis by the Foreign Investment Promotion Board (FIPB). Clearance of proposals by the FIPB takes around six weeks on an average.
- Foreign investors need not have a local partner.
- Free repatriation of profits and capital investment is permitted, except for a shortlist of specified consumer goods industries

During the 10th Plan, the Government of India has provided financial assistance to build a Footwear Component Park and a Footwear Complex at Chennai, and provided marketing and training assistance to artisans and primary workers. The government also proposes to build a footwear park, a tanning complex, a leather goods park and two footwear component parks for the leather industry, all by 2010.

Government of India have also announced that exports of garments and all leather items to the European Union and the US from April 1, 2009 will be entitled to a 2% incentive from the Government.

This incentive will be available for exports up to the end of September 2009. They will come in the form of duty-free credit scrips under the market-linked Focus Product scheme⁷

C. Upcoming Events

The Council for Leather Exports is organizing (under MAI) the 17th Delhi International Leather

⁵ <http://www.leatherindia.org>

⁶ www.apparelandfootwear.org

⁷ Source: BUSINESS LINE, March 01, 2009, New Delhi.

Fair to be held in New Delhi from October 23-25, 2009 under the aegis of ITPO. It will also organize India International Leather Fair – 2010, and International Leather Goods Fair – 2010

The Council is also participating under the Focus US programme for Footwear in World Shoe Association (WSA) Footwear Fair and Conference in Las Vegas, USA from 31st July to 2nd August, 2009 and again in February 2010. (This is a premier Luxury Footwear and fashion accessories marketplace that features over 350 luxury designers from around the globe which will be targeting manufacturing, importers and exporters.). **The Council is also participating in New York Shoe Fair in December 2009. It is also proposed to organize a Buyer/Seller meet by the Council in New York coinciding with the Fair.**

The American Apparel and Footwear Association (AAFA) is planning to organize a seminar on safety issues for the footwear industry in India in November/December 2009. They have more or less decided on Chennai as the venue. The AAFA had organized a similar event in China last year. To coincide with the seminar they had taken a delegation of footwear importers from the US to China where several buyer seller meetings were held. The Embassy/Consulate of India are currently in discussion with AAFA regarding the visit to India of a delegation of US importers. The Council of Leather Exports of India has suggested that visit of US Footwear Delegation to India can be organized coinciding with the India International Leather Fair (IILF), scheduled during January 31 to February 3, 2010, at Chennai.

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For any queries, please contact:

Mehrnoosh Khorshidchehr,
Commercial Assistant
Consulate General of India
San Francisco
com@cqisf.org