

FINISHED LEATHER REPORT

By

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Limitation of Study

Executive Summary

Brief Profile of the Sector

Back ground

At the time of independence of Pakistan, there were only few tanneries in the big cities like Karachi, Lahore and Delhi etc.¹ In 1950s more tanneries starts in the big cities of Pakistan. 1960s better equipped tanneries started in other cities like Multan, Sahiwal, Kasur, Gujranwala and Sialkot. Leather industry has 800 tanneries in the country which are producing good quality finished leather of cow, buffalos, sheep and goat skins. The sub sector of leather industry is; tanning, leather, footwear, garments, leather gloves, leather shoe uppers etc. The products which are made by leather in Pakistan are leather garments, gloves, tanned leather and footwear. There are 364 companies related to leather and tanneries, registered with Securities and Exchange Commission of Pakistan (SECP). It has given job to around 0.2 million of labor force.

Sub- sectors

Tanned Leather or Finished Leather is a mother industry for all Leather Goods/ Garments/ Footwear Sector and comprises of following sub-sectors as its value added products.

1. Leather Garments
2. Leather Gloves
3. Leather Shoe upper

¹<https://core.ac.uk/download/pdf/234685601.pdf>

4. Other Leather Goods

Geography

²From a demographic perspective, the leather industry of Pakistan is clustered in a few regions. Currently, there are more than 2500 (registered and non-registered) tanneries and footwear manufacturing units operating in Pakistan. The number of registered tanneries has grown in the recent past (from 529 in 1999, to 600 in 2003, with a current standing of 725 units), following the overall expansion of the industry, the influx of modern technologies in Pakistan, and the increase in the global demand for leather garments. These facilities are found scattered throughout the country in the industrial hubs of Karachi, Hyderabad, Lahore, Multan, Kasur, Faisalabad, Gujranwala, Sialkot, Sahiwal, Sheikhpura and Peshawar.

Contribution to Economy

Leather sector (Finished Leather, Articles of Leather and Footwear) as a whole is considered among the top five sectors in Pakistani Export Basket. The Tanned Leather/ Finished leather is a mother industry for all leather goods/ garments/ footwear. It is a source of finished leather input for the said products. Except for few leather garments/ goods, like PPE garments that involve considerable value addition, articles of leather mainly require stitching and sometimes dying on the input finished leather. The share of finished leather in total exports is \$ 151.3 million out of \$ 17.4 billion which constitute 0.87 percent of total exports³. However, the total share of leather sector is \$ 552.3 million⁴ which constitute 3.174 percent of total exports and finished leather is a major raw material in all the leather sector manufactured products.

² <http://trtapakistan.org/wp-content/uploads/2013/10/Leather-and-Textile.pdf>

³ http://www.finance.gov.pk/survey/chapter_20/08_Trade_and_Payments.pdf

⁴ http://www.finance.gov.pk/survey/chapter_20/08_Trade_and_Payments.pdf

Value Chain

Global Supply Chain Analysis

⁵Human skills, equipment and chemicals are needed for the production of top quality leather. In the footwear, leather garments and goods sector, additional attributes are required like high manufacturing skills, design know-how, computer-aided design systems, branding and marketing. The rapid industrialization followed by world conversion into global village has revolutionized the production process. The concept of global supply chain emerged in production where due to reduced cost of production and cheap labor, manufacturing takes place in other country rather than the country which consumes.

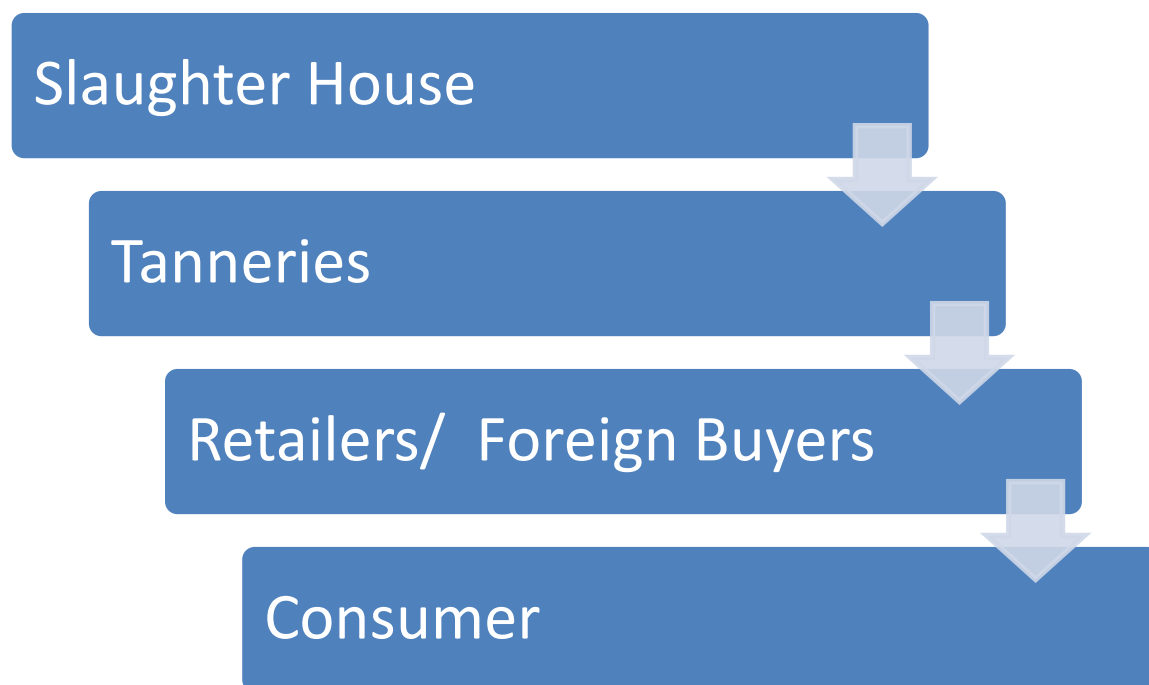
Global Supply Chain process includes two different set of production process. In first production process MNCs stationed in developed countries, purchased manufactured goods from their manufacturing plants/ companies under agreement located in developing countries for final consumption in the developed countries include the country where MNCs' stationed. In the second production process, the MNCs purchased finished products from manufacturing units located in developing countries either directly or through their agents or buying houses. The goods so procured are then shipped to destination country either directly or indirectly. In indirect mode, usually the goods so purchased are first sent to any of the packaging plant for embossing logo of MNC. The developing countries include Pakistan, India, Bangladesh etc.

⁵<https://open.unido.org/api/documents/5147783/download/The%20global%20leather%20value%20chain%20%20the%20industries,%20the%20main%20actors%20and%20prospects%20for%20upgrading%20in%20LDCs#:~:text=The%20global%20leather%20value%20chain%20is%20complex..exported%20between%20companies%20and%20countries.>

The supplier receives all materials and instructions from the buyer and produces and delivers the products under the customer's brand name. The supplier does not finance purchase of materials and is usually paid at delivery.

Value Chain Analysis (National)

Leather hides/ raw material used for Finished Leather production is a byproduct of Cattle Meat sector. Leather value chain starts from cattle farming and involves several steps that finally ends with value added Leather Garments. The value chain is shown in the following diagram.



The value chain in leather garments starts from Slaughter Houses where animals' hides are obtained as a byproduct of meat. The hides are then preserved and sent to Tanneries for further processing. In Pakistan, hides are also procured by Tanneries in bulk quantity after Eid –ul-Azha days. Tanneries then process the hides into finished leather and dye it according to further

requirements of buyers. Finished Leather is then undergoes cutting and dying process as per the requirement of buyers/ leather products manufacturers (wallets, jackets, gloves etc).

The finished leather then sent to retailers/ leather products manufacturing plants within tanneries or in case of export of these products to Foreign Buyers. Then these products reach the final consumer after value addition by foreign buyer (manufacturer of Leather Products). The process of reaching end consumers in case of exports involves some more steps. Foreign buyer can be an off-shore buying house or trading agent who then send the imported products to their manufacturing units of Leather Products or sell them to any other leather products manufacturing unit as a retailer /whole seller. Then after making value addition and conversion of finished leather into articles of leather, the manufacturer transfer the final product to own brand retailers from where it reaches end consumers. An important difference between finished leather and leather products is that the former has its end consumers as industrial manufacturer of leather products while the later has its targeted consumers as general public. The finished leather involves one more chain link of industrial producer of leather products before it reaches its final consumers i.e. general public consumers since it cannot be used by general public without further value addition.

Process and Linkages

The production process commence at different levels in manufacturing plant. The peculiar quality of leather manufacturing is that several tanneries are also involved in manufacturing leather products. In this case, the manufacturing process starts from the purchase of raw material i.e. hides. These hides then undergo 23 processing steps to develop into Finished Leather which includes dying, chemical processing and cutting etc. this finished leather is then shifted to manufacturing unit of the same factory or sister factory unit. The finished leather undergoes the process of further matching and cutting. The finished leather then sent to assembly process from where finally stitching is done to the finished leather which is now changed to leather product. Finally finishing process make a leather garment product ready to transfer to retailers or export. A standard finished leather manufacturing unit performs following processing steps:

1. Curing

Hides, the term applied to animal skins used in leather production, must be preserved in order to prevent deterioration. These preservation methods often involve salting, freezing, chilling, or the use of chemicals.

2. Soaking

Once the hide has been cured, it left to soak in water for several hours – sometimes even days. The objective in this step is to rehydrate the hide, as well as to remove any excess salt or dirt. For instance, unwanted deposits of dirt may have occurred during transportation.

3. Painting

Do not let the term confuse you. When describing how leather is made, painting refers to removing wool from sheepskins using sulphides.

4. Liming

While liming has a number of purposes, the primary function of this step is to remove any unwanted hair from the hide through the introduction of alkali. Once the hair has been removed, we are left with raw animal skin. This is more commonly referred to as a pelt.

5. Fleshing

As the term suggests, fleshing is the process of passing the pelt through a machine that removes any tissue from the flesh side. In some instances, a pelt will also be split into layers at this stage.

6. De-Liming

This step involves the graduate neutralization of alkali in the pelt. It is important that this is done gradually, as a rapid change in acidity could result in tissue distortion.

7. Bating

Enzymes are applied to the pelt, causing it to flatten and relax.

8. Pickling

Tanning requires pelts to be mildly acidic; therefore, pickling involves the application of weak acids or salt solutions. If a pelt is not to be tanned for several months, a strong solution may be applied to act as a preservative.

9. De-Greasing

Just prior to tanning, a pelt must have any excess grease removed with water or a mild solvent.

10. Tanning

Tanning chemically alters the collagen structure of a pelt, such that it is protected against chemicals, moisture, and microorganisms. To put it simply, converting the proteins found in a pelt in a stable material occurs in this step. It is generally done by using:

- **Minerals:** A mineral, such as salts of chromium, is the most common leather tanning material.
- **Oils:** When a pelt is tanned with oil, the result is a much softer leather for more fashionable products.
- **Vegetables:** Plant extracts may be used to produce thick, firm, and brown leather, ideal for belts, shoes, bags, and cases.

Once a pelt has been tanned, it is now considered leather – but there are still several steps to go before it is ready for sale to a manufacturer.

11. Splitting

In this step, a machine is used to slice leather into two layers. One of the resulting layers will be without a grain surface. This piece can be used to produce suede or have an artificial grain surface applied to it.

12. Shaving

With the piece that has a grain surface, another machine is used to shave the non-grain side. This is how leather is made to a desired level of thickness.

13. Neutralization

This step in how leather is made is done to remove residuals from any of the previous chemical applications. Additional tanning materials may also be applied to create a particular style or texture in the finished product.

14. Dyeing

Depending upon the intended use for the finished leather, any number of colours may be applied at this stage. This is how leather is made in black, red, brown, and even white varieties.

15. Fatliquoring

This process involves lubricating the leather with oil to ensure it is both flexible and soft. This is especially important when producing leather for fashion, as the absence of oil will cause the leather to become hard as it dries out.

16. Samming

Moisture must be taken out of the leather before it will be ready for production. Almost half of the water is removed through a number of different machines.

17. Setting Out

The leather is now stretched and the grain surface is smoothed out. In so doing, the moisture remaining in the leather is further reduced.

18. Final Drying

Leather is generally dried until less than 20% water content remains.

19. Staking & Dry Drumming

To ensure that the leather is soft and flexible, it is further massaged in a staking machine. This process separates the fibres. Once complete, the leather is placed inside a rotating drum for extensive tumbling.

20. Buffing & Brushing

The flesh surface of the leather is now totally removed through buffing to produce a softer feel, or simply to reduce the overall thickness. A thorough brushing happens thereafter to remove any dust accumulated during buffing.

21. Finishing

Finishing occurs in leather production to ensure even colour, remove any defects on the grain surface, correct the level of gloss, and to add a protective and water resistant surface.

22. Final Grading

Prior to sale to a manufacturer, the tanner must grade the colour intensity and uniformity of the leather, as well as its feel, softness, thickness, and texture. Any naturally occurring defects, such as scratches, must also be noted during the final grading.

23. Measurement

The final product is now complete! This is how leather is made from start to finish. All that remains in this step is to measure the area of each individual piece, as leather is sold by area. To ensure complete accuracy, measurements are done by machine.⁶

⁶ <https://www.loveyourleather.ca/leather-blog/how-leather-is-made-in-23-steps/>

Value Chain:

⁷The leather value chain in Pakistan is well integrated. Most of the tanneries and leather-manufacturing units are located in close proximity, which ensures uninterrupted supply of raw material for the leather manufacturers. Both these actors are in direct contact with each other

Leather garment manufacturers industry consists of two types of linkages: direct and indirect linkage. Leather industry is primarily demand driven and works on the basis of available orders which minimize the role of middle man and known as direct linkage. In such type of linkage manufacturers are in directly in contact with their customers. However, in some instances, a middle man is present as focal person of manufacturer and customer. But the role of focal person is confined to public dealing only and he has no linkage in manufacturing process.

However, there is one challenge faced in preservation of raw material. As the major time for accumulation of raw material is Eid-ul-Azha after the sacrifice of animals, no proper arrangements for proper preservation of this precious raw material i.e. hide is available. Moreover, our climatic conditions are predominantly warm. Resultantly, a considerable number of hides are wasted. Raw hides are such a precious raw material that its export is discouraged in Pakistan as well as other countries.

Problems in Value Chain

In Pakistan there are some issues in value chain of finished leather value chain which are causing problems in overall value chain, however, the major part of value chain is working properly. The issue confronting value chain is the import hurdles and fluctuation in price of imported dyes. All of the dyes and chemicals used in the tanning process are imported but the high duty and frequent fluctuation in import duty adversely affect the prices and ultimately make tanned leather less competitive viz a viz tanned leather of their competitors of foreign origin. Another important challenge is the environmental standard compliance issue arising out of whole tanning

⁷ <http://trtapakistan.org/wp-content/uploads/2016/05/leather-final-report.pdf>

process as tanned leather is among major export commodities and ensuring environment standard compliances as a complimentary condition for trade. The treatment of industrial waste of tanneries need proper effluent treatment plant which incurs a considerable expenditure in tanning process (as Factory Over Head cost).

Trade Statistics

Trade Statistics

Pak Export of Tanned Leather

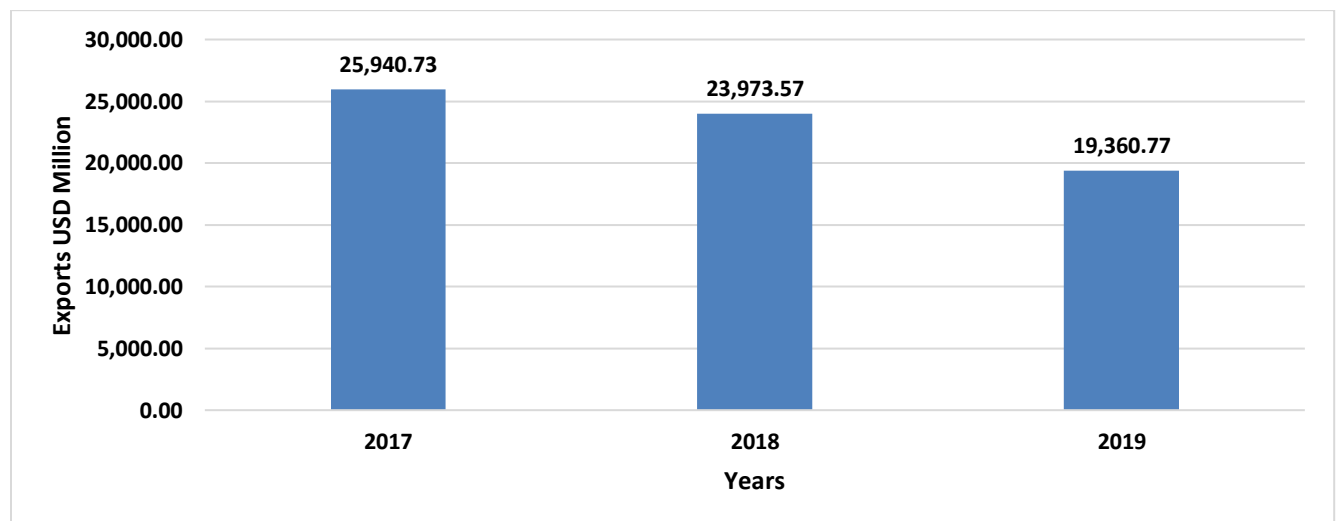
USD Million

HS Code	Description	July-June 2015-16	July-June 2016-17	July-June 2017-18	July-June 2018-19	July-June 2019-20	CAGR 5-Years
41	Raw hides and skins and leather	362.75	345.58	330.21	252.24	184.15	-14.52%

Source: PBS

Global Exports and Imports

Global Exports of Tanned Leather



Source: Trade Map

Major Global Exports

USD million

Exporters	Exported value in 2017	Exported value in 2018	Exported value in 2019
Italy	4,398.10	4,415.77	3,804.62
United States of America	2,698.19	2,210.85	1,700.31
Brazil	1,899.50	1,442.97	1,149.59
Hong Kong, China	1,413.77	1,157.43	909.06
Germany	1,047.05	1,008.44	756.97
China	619.07	636.25	705.40
Thailand	557.48	676.66	666.47
Spain	739.87	741.45	647.16
France	737.38	731.18	578.33
Argentina	719.85	720.20	564.39
India	882.17	783.11	554.80
Korea, Republic of	596.98	555.38	509.61
Australia	751.75	675.77	508.58
Viet Nam	455.55	433.47	457.27
Austria	645.63	587.99	434.13
Netherlands	461.48	423.15	367.76
United Kingdom	489.49	432.13	339.16
Taipei, Chinese	452.01	394.54	309.95
Poland	297.38	331.11	269.02
Pakistan	335.86	298.63	228.62
Turkey	210.01	210.20	205.31

Source: Trade Map

Exports Vs Imports Analysis

Major Global Exports of Tanned leather at HS-6 Digits

USD Million

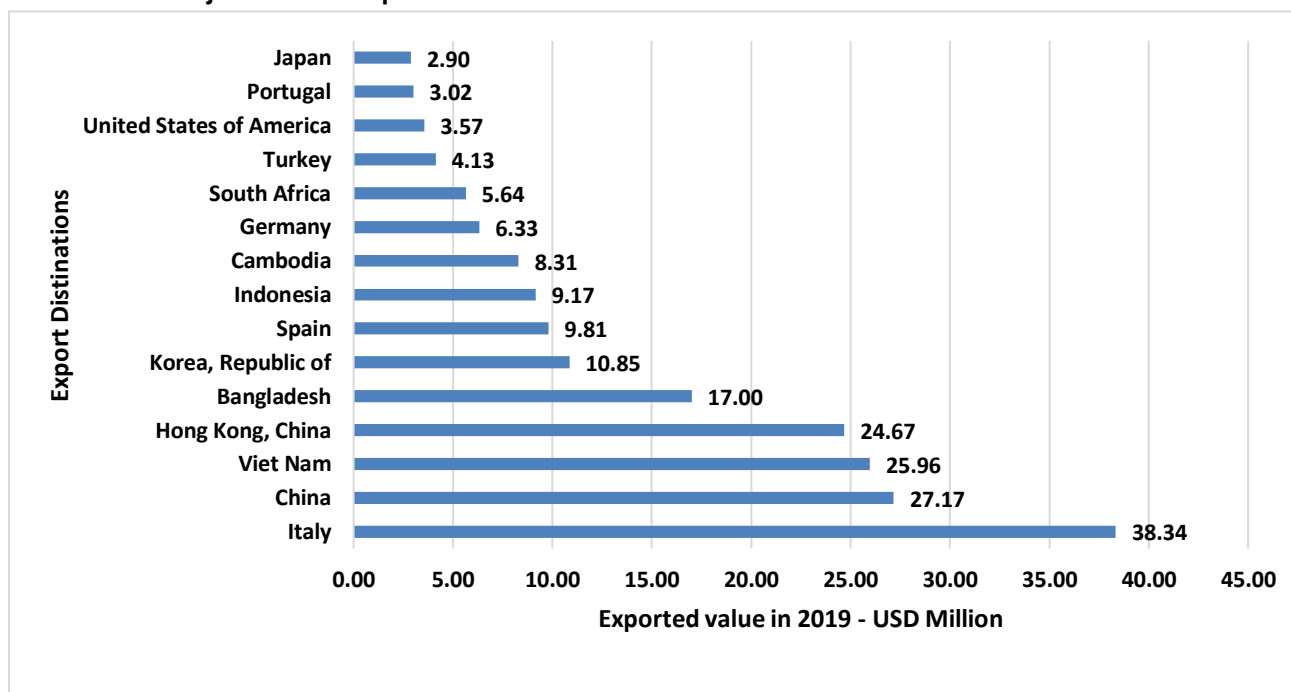
Product code	Product label	2017	2018	2019
'410712	Grain splits leather "incl. parchment-dressed leather", of the whole hides and skins of bovine ...	4,485.74	4,380.16	3,622.40
'410792	Grain splits leather "incl. parchment-dressed leather", of the portions, strips or sheets of ...	2,854.87	2,751.25	2,405.63

'410150	Whole raw hides and skins of bovine "incl. buffalo" or equine animals, whether or not dehaired ...	3,720.41	3,043.51	2,092.89
'410799	Leather "incl. parchment-dressed leather" of the portions, strips or sheets of hides and skins ...	1,998.63	2,027.25	1,916.52
'410411	Full grains, unsplit and grain splits, in the wet state "incl. wet-blue", of hides and skins ...	2,661.64	2,116.85	1,553.78
'410441	Full grains leather, unsplit and grain splits leather, in the dry state "crust", of hides and ...	1,211.27	1,220.77	957.76
'410719	Leather "incl. parchment-dressed leather" of the whole hides and skins of bovine "incl. buffalo" ...	959.15	944.03	770.96
'410419	Hides and skins of bovine "incl. buffalo" or equine animals, in the wet state "incl. wet-blue", ...	869.78	846.35	625.87
'411200	Leather further prepared after tanning or crusting incl. parchment-dressed leather", of sheep ...	674.89	649.26	574.58
'410711	Full grains leather "incl. parchment-dressed leather", unsplit, of the whole hides and skins ...	697.12	658.42	535.53
'411310	Leather further prepared after tanning or crusting "incl. parchment-dressed leather", of goats ...	657.55	591.77	482.69
'410210	Raw skins of sheep or lambs, with wool on, fresh or salted, dried, limed, pickled or otherwise ...	591.46	544.47	398.65
'411420	Patent leather and patent laminated leather; metallised leather (excluding lacquered or metallised...	459.52	434.87	381.05
'410120	Whole raw hides and skins of bovine "incl. buffalo" or equine animals, whether or not dehaired, ...	579.71	522.90	354.80

Source: Trade Map

Country wise Analysis

Pak Major Export destinations for Tanned Leather



Source: Trade Map

Product wise analysis

Pak Major Exports of Tanned Leather at HS 6-digit

USD Million

Code	Product label	Exported value in 2017	Exported value in 2018	Exported value in 2019
'410712	Grain splits leather "incl. parchment-dressed leather", of the whole hides and skins of bovine ...	114.57	110.38	68.76
'411310	Leather further prepared after tanning or crusting "incl. parchment-dressed leather", of goats ...	83.11	74.46	58.40
'411390	Leather further prepared after tanning or crusting "incl. parchment-dressed leather", of antelopes, ...	36.74	22.30	35.98
'410792	Grain splits leather "incl. parchment-dressed leather", of the portions, strips or sheets of ...	50.78	48.94	29.43
'411200	Leather further prepared after tanning or crusting incl. parchment-dressed leather", of sheep ...	32.31	26.54	22.68
'410449	Hides and skins of bovine "incl. buffalo" or equine animals, in the dry state "crust", without ...	14.20	11.75	9.27
'410719	Leather "incl. parchment-dressed leather" of the whole hides and skins of bovine "incl. buffalo" ...	0.12	0.03	1.29
'410530	Skins of sheep or lambs, in the dry state "crust", without wool on, whether or not split (excluding ...	1.14	1.34	1.24
'411520	Parings and other waste of leather or of composition leather, not suitable for the manufacture ...	0.34	0.64	0.69
'410622	Hides and skins of goats or kids, in the dry state "crust", without wool on, whether or not ...	2.04	1.66	0.49

Source: Trade Map

Competitiveness of the Sector

Cost Structure

Tanneries are producing high quality standard Finished leather of all sorts i.e. Cow, Buffalo, Sheep & Goat skins with latest innovations up to the international standard and the Tanning Industry is equipped with heavy imported machineries and highly skilled labour with heavy investment at all corners of each Tannery in Pakistan and engaged in producing best quality leather, which is acclaimed internationally as competing progressively with Italian & Spanish Tanners in the world.

The **Unit price of leather for export** is increasing encouraging for the last recent months as can be seen from the below, which is clearly evident that the **“Finished Leather”** is most highly valued added product of the Industry as compared to rest of commodities, which is also narrated hereunder as well :-

Commodity	Period	Unit price value
Finished Leather	July-June 2019-2020 (financial year)	@US\$ 1.02 per sqft.
“	July-Sept’2020 (3 months)	@US\$ 1.18 per sqft.
“	July’Oct’2020 (4 months)	@US\$ 1.26 per sqft.
“	July-Nov’2020 (5 months)	@US\$ 1.33 per sqft.

(Compiled by PTA based on export figures released by PBS)

Unit Price of PER SQFT. of “Leather” for Export ONLY to high value branded export products	Unit Price of per SQFT consumed in Each “Leather Jacket”	Unit Price of per Sqft consumed in making Each Pair “Leather Shoes”
@ US\$ 1.26 per sqf	@ US 0.70 – 0.75 per sqft	@US\$ 1.05 – 1.10 per sqft
Goat/Sheep : 1.78%	Leather Garments: 7.54%	Leather Footwear : 4.62%
Cow/Buffalo : 3.75%		

It is also depicted below the present plight of the **Leather Sector of Pakistan** in comparison for review at a glance:-

ALREADY LOST THE PRECIOUS FOREIGN EXCHANGE BY THE LEATHER SECTOR OF PAKISTAN

<p>US\$ 1.275 Billion</p> <p>(Export figure for the year 2013-14 July-June)</p>	<p>US\$ 750 Million</p> <p>(Export figure for the year 2019-2020 July-June)</p>	<p>Total Loss of foreign exchange as yet by Leather Sector</p> <p>US\$ 524 Million</p> <p>(already lost by Leather Industry)</p>
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Productivity

The Productivity of Tanning Industry is severely hurt/damaged in lacking of level playing field to this vital export oriented Industry of the last several years due to infrastructural bottle necks and expensive cost of production in comparison with its competitors in neighboring countries. It is also a fact that not a single new tannery is established in past few years.

Time & Delivery Performance

⁸The factory providing data is quite punctual in time and delivery of goods. Timely delivery of the leather export shipments is **UTMOST IMPERATIVE** for Leather Business which is also hurt/damaged owing to level playing field to this vital Industry specially basic amenities like uninterrupted Electricity & Gas, basic infrastructure, Sweet Water etc., etc. which are core ingredients for the Industry.

⁸ Feedback from PTA and Exporters

Freight Details

The freight was US\$ 1/ kg by air which rose to around US\$ 6/kg during COVID -19. During the Pandemic of COVID-19, the Freight Charges have drastically been increased to the exorbitant extent for which a comprehensive proposal for the subsidy on exorbitant charges of air freight has already been submitted by PTA for exclusively of **9 months effective from March'20 to Nov'2020** for the allocation of required fund for **Pak Rs. 300 Million**. A view of air freight charges before COVID during COVID is made as under :-

Destination(s)	Previous Regular Rate of per kg. in PKR <u>(500 (+) kgs shipment)</u>	Current Rate of Per Kg., in PKR. <u>(500 (+) kgs shipment)</u>	Previous Regular Rate of per kg. in PKR (<u>500 (-) kgs shipment)</u>	Current Rate of Per Kg., in PKR. <u>500 (-) kgs shipment)</u>
Far East	Rs.150 per kg.	Rs.750 Per Kg.	Rs.175/- per Kg.	Rs.865/- Per kg.
Europe	Rs.180 – Rs.190/-	Rs.1100 Per kg.	Rs.220/- Per Kg.	Rs.1270/- Per kg.
Bangladesh	Rs.150	Rs.650 Per kg.	Rs.175/- per kg.	Rs.750/- Per Kg.

Quality Standards / Requirements

Azo, Disperses free dyes/ chemicals are used in process of manufacturing. To avoid cancer and other hazardous diseases, EU has set quality standards “REACH” for imports. The imported chemicals are being used to meet the said standard.

There is strict obligation in Tanning Industry for meeting essential NEQ's / REACH compliance in the production of Finished Leather and also mandatory for International Lab testing for Leather before the export to the international world brands of Leather Shoes, Leather Garments, Leather Bags/Leather Products, which certainly involved heavy cost especially in the enrollment into the folder of Leather Working Group (LWG) which is now the mandatory pre-requisite of

foreign buyers/customers without which they cannot place the export of finished leather to Pakistan, for which it is mandatory to establish “Individual Treatment Plants at the Tanneries, which cost around Rs.100 to 120 Million.

Relative Price Analysis

⁹Our Tanned Leather is higher in the prices at International market of Leather than rest specially neighboring competing countries, which is **around 15 – 20%** because of costly utilities like Electricity, Gas etc. Our leather is competing with the best edge of quality innovative finished leather of cow, buffalo, sheep & goat skins at the higher unit price value

⁹ Feed Back of PTA and Exporters

Government Facilitation to the Sector

FBR- Duty Drawback Schemes

Export Facilitation Schemes in terms of **Custom Duty** are as given by government for promoting exports. The rules providing facilitation is given are as under:

- ❖ The Export Oriented Units (EQU) and Small and Medium Enterprise Rules, 2008
- ❖ Manufacturing Bond Rules- SRO 450 (1)/ 2001
- ❖ Duty and Tax Remission for Exports (DTRE) Scheme
- ❖ Temporary Importation Scheme- SRO 492 (1)/ 2009
- ❖ Export Processing Zone (EPZ) Rules
- ❖ Determination of Materials and Fixation of Rates

Rebates to Leather sector under promoting exports by export led growth policy by Sales Tax refunds. All plants and machinery used in manufacturing or production (Chapter 84 & 85) is exempted from 2% additional customs duty since May 2018.

SROs- Import Export Policy Orders

Under Import and Export Control Order 2016, raw material consumed in leather industry is given high tariff rates for exports i.e wet blue leather. The export of finished leather especially value added leather goods under the said order by different rebate schemes. The chemicals used in leather goods manufacturing have tariff rate between 3 to 20 percent these chemicals include Enzymes - Proteases, Lipases and Amylases. Bulk Chemicals – sodium chloride, lime, sodium sulphide, ammonium salts, formic acid, sulphuric acid, sodium formate, sodium bicarbonate, ammonia. Performance Chemicals – fat liquors, finishing agents (polyurethane resins etc.), pigments, dyes. These chemicals are mainly used in making finished leather and the use of chemicals is less in making leather products.

SBP- Regulations

SBP facilitation for importer and exporters is done in several ways. Performance requirement reduced from twice to one and a half time to get cheaper credit by traders. Extension in time period by 6 months to meet performance requirements for traders. Extension is also given in time period to ship goods from six to twelve months. SBP grant relaxation in Long Term Financing Facility from 50 percent or US\$ 5 million to 40 percent or US\$ 4 million for all LTFF for 01, January, 2020 to 30, September, 2020.

Commercial Banks are allowed to enhance the time period for realization of exports proceeds from existing requirement of 180 days to 270 days on a case by case basis where COVID-19 is a cause of delay and for import of goods this time is increased from 120 days to 210 days. Limits for advance payments for imports increased from US\$ 10,000 to US\$ 25,000 to boost trade.

SBP has also introduced some schemes for business concerns namely.

- ❖ Temporary Economic Refinance Facility (TERF) i.e. reduction of end user markup to 5% from 6% for Long Term Financing Facility.
- ❖ Refinance Facility for Payment of Wages and Salaries.

Pakistan Credit Guarantee Company (PCGC) was also established in 2019 as a DFI. It is provided major funding by UK DFID. It aim at increasing SME lending, reducing collateral constraints, facilitate access to reinsurance capital and lower financing cost for SMEs.

Subsidies in Utilities/ any other

Utilities rate are higher in Pakistan in comparison with neighboring countries (2017 data)

Variables	Pakistan	Bangladesh	India
Electricity (per Kwh)	0.11	0.09	0.09
Gas (per MMBTU)	135	68	115.01

The rate of SSGC and SNGPL rates as on July 1, 2019 (General Rates= Rs. 1,021 per MMBTU/ Minimum Charges Rs. 26, 301.6 per month) and for zero rated sector (General Rates= Rs. 786 per MMBTU/ Minimum Charges Rs. 20, 232 per month). Thoe other important factor is electric ity, Electric Tariff for industries range from 19.74 per unit to 20.82 per unit (NEPRA).

Besides, the above, Business Support Package due to COVID-19 is also given to further boost export in this sector. **Matching grant** will be provided up to a maximum of Rs. 5 (five) Million for specified plant and machinery or specified items to improve product design and encourage innovation in SMEs and export of leather under STPF 2015-18.

Prime Minister of Pakistan has announced special package termed as **PM's initiative** and consist of following incentive:

- ❖ Market based exchange rate
- ❖ Extension in PM's Package for 3 years
- ❖ Refunds to Exporters and Industrialists
- ❖ Tariff rationalization on inputs.
- ❖ Export Refinancing Scheme..

The leather products sector is also given projects from Export Development Fund. Combined Effluent Treatment Plant is a pending EDF project aimed to comply standards of LWG. Business Centre, Sialkot is under process. National Institute of Leather Technology is also an EDF

funded project which is in dormant condition. Lab testing charges subsidy @75% is also given for extending support to exporters of leather garments/ goods.

Leather sector is also among sectors granted GSP Plus status by EU and it is included in zero rated sectors in Pak-China FTA-II.

Potential for increase in Exports & Challenges Faced (Analysis)

Sector Challenges, Productivity & Demand

The main challenge for sector is from the price competitiveness from neighboring competitors, preservation of hides at Eid ul Azha, compliance of standards of Leather Working Group and observance of Environmental standards.

Potential markets for Pakistan

Potential for Leather consumption exist in the world specially in Far East, Europe, Canada, USA, Bangladesh, Eastern Europe etc., which needs to be explored with vibrant/effective campaign and observance of high quality standard products.

How to be compatible in potential markets

The only way to be compatible is to bring leather products at par with international leather products in terms of quality and price which will be supported by marketing and promotion tools.

Conclusion:

Market diversification. The supplier should work with several export markets and customers and promote diversification with export intelligence and participation in trade fairs.

Excellence in manufacturing. The manufacturer should be concerned not only with production efficiency but also with the service attributes of supply, including quality and consistency of quality, speed of delivery and speed of response to change in product design.

Effective use of knowledge acquired from within the value chain. Firms learn from contacts with different markets and from information flows between producers and customers. Demanding customers are also a good learning experience.

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