

# Ornamenting The National Exports



S p o t l i g h t i n g   T h e   L e a t h e r   I n d u s t r y   o f  
P a k i s t a n

P R O J E C T S   &   P O L I C Y   R E S E A R C H  
D E P A R T M E N T

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# 1

## **Executive Summary**

- 1- Historical Performance of  
Leather Industry
- 2- Factors Effecting Leather  
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- 3- Research Analysis  
Methodology



# 1-Historical Performance of Leather Industry

Pakistan's leather industry, including value addition, is the third top export earning sector after textile and vegetables (sector as a whole). In FY 2017-18, the sector contributed \$ 948 MN volume of exports and has the potential to multiply this volume of exports with further improvement in quality and diversification in different range of products. Leather sector provides more than one million jobs to the people in Pakistan. The overall figure of about 800 small, medium and large scale tanneries is quoted by the business community, but, there are 184 registered tanneries in Pakistan. The country has been divided into two zone, the Southern Zone and the Northern Zone. There are overall 98 tanneries in corporate class while 86 in associate class. According to the Pakistan Tannery Association, Punjab has 42.39% of the total tanneries.

The leather industry plays a significant role in the economy of Pakistan. According to Pakistan Tanners Association (PTA), leather industry contributes 5.6% share in Gross Domestic Product (GDP) and represents 5% of total exports of Pakistan. Industry experts revealed that Pakistan is still leading in leather technology and is of second best quality after Italy, globally.

Pakistan is the only country that experienced a negative growth in exports while the regional dynamics indicated an evident growth of the regional players like India, China and Vietnam. Industry experts are of the view that the Government of Pakistan has not been following export-led policies which were imposed & enforced by the regional countries. In the federal budget 2016-17, Government of Pakistan has provided an exemption of leather industry from sales tax. In addition to this, export re-finance rate has also declined to 3% from 3.5%. The Impact of these initiatives has shown an increase in leather articles exports (3%) observed in recent financial year (2017-18). *(Source: pakistaneconomist.com, In-house research)*

## Pakistan Top Export Destinations

During 2013, the Generalized System of Preferences (GSP) Plus status given to Pakistan was expected to increase export volume. As per GSP+ status, about 20% of Pakistani exports were allowed to enter the EU market at zero tariff and 70% at preferential rates. Impact of GSP+ status was evident which was to rise the country's exports to EU. However, appreciation of rupee and real effective exchange rate (REER) after implementation of GSP Plus added to the woes of exporters.

*(Source: pakistaneconomist.com, In-house research : Refer' Top Export Destinations Section)*

**5.6%**  
**Contribution**  
**to GDP**

**USD 948.36 MN**  
**Exports of**  
**Leather Goods**

**3.28% Growth**  
**in 2017-18**

*(Source: Pakistan Tannery Association, Ministry of National Food Security and Research, Transactions Department Inhouse Research :PBIT)*

## 2-Factors Effecting Leather Industry Performance

### **Historical Analysis:**

The historical analysis shows that leather manufacturing declined by 18% in FY16 as against to 6% drop in FY15. However, in FY17 and FY18, the industry started to recover and decrease by 6% in FY17 while a growth of 3% in FY18 is also recorded.

The downward trajectory has intensified with the export value of leather garments falling by 16% in FY17 as against to fall of 6% in FY16. Leather gloves exports lowered by a considerable 12% in FY16 while they fell by 2% in the FY17. The Footwear exports also dropped by whopping 19% in FY16 and further 7% in FY17, however, in the last year (FY18) the performance of leather sector has shown an improvement and all articles of leather except tanned/raw leather indicated an upward trend as compared to previous years. (Refer section value VS quantity analysis).

### **Smuggling of Live Animals/In-Efficient Leather Supply Chain:**

Variety of factors behind the leather sector's monotonous performance includes continual smuggling of live animals to neighboring Afghanistan which puts pressure on supply of hides and skins to leather manufacturers. Other factors, which have not crept up presently but have plagued the leather industry for some time now includes the inefficient leather supply chain, the shortage of quality labor as well as lack of modern technology. The electricity and gas tariffs have been painful for leather manufacturers, particularly, pointing to at least 30% higher tariffs when compared to regional competitors Bangladesh, Vietnam and India. Moreover, diseases in the livestock in Pakistan also prove hurdle in the manufacturing and exports of finished products of leather that damages the quality of the leather and tarnish the image of products at international level.

### **Muslim Festival- Eid-ul-Azha:**

It is also relevant to observe that the Eid-ul-Azha season accounts for almost 40% of the total raw material accumulated from domestic sources. Due to Eid-ul-Azha falling in the hotter part of the year, large quantities of hides and skins are damaged because of inadequate preservation mechanisms and rising reliance on imported raw material. Therefore, keeping in view this factor, the federal government has declared removal of the customs duty on imports of raw materials like skin and hides in the present budget (FY17-18) to provide some relief for the industry.

### **Custom Duties:**

Even further, there are still some custom duties imposed on various machinery used in the production processes. There has been imposition of a 4% customs duty and 17% sales tax on import of machinery. To add to the woes is the high cost of doing business which has affected every sector including leather in the manufacturing industry.

*(Source: pakistaneconomist.com, In-house research)*

*(Source: Pakistan Tannery Association, Ministry of National Food Security and Research, Transactions Department Inhouse Research :PBIT)*

## Factors Effecting Leather Industry Performance

### Minimal Participation in Leather Working Group:

As consumer preferences have evolved, environmentally compliant products have become a major concern for the majority of leather buyers. To address this need, a Leather Working Group (LWG) was formed at the international level to maintain and promote environmental compliance in production of leather commodities which are to be subsequently traded. The State Bank of Pakistan in recently released quarterly report has pointed out that only three manufacturers in Pakistan are members of the LWG.

Disappointing numbers to say the least, especially when compared to India and China as they have 88 and 76 registered manufacturers as part of the LWG, respectively. Internationally, an ever increasing proportion of retailers and brands are relying on the LWG, which means the number of compliant LWG manufacturers in Pakistan needs to be raised on a war-footing basis. Other technical issues include laboratory testing to ensure quality of the products

### International Leather Prices:

There is also fall in leather prices observed internationally over the last three to four years which has also forced leather exporters to realize large losses on their inventory stockpiles which has hampered any fresh investment or expansion. It also goes without saying that declining profitability has led banks to avoid further lending to leather manufacturers which has more constrained liquidity.

### Conclusion:

The government should take initiatives for the leather sector and to turn the page, the cost of doing business needs to be brought down, and incentives to be provided while technology investment needs to be undertaken by the private sector if they wish to remain relevant in the global leather marketplace. Further, the government needs to realize the importance of the leather sector for the economy and should inject funds into the sector and introduce the brand names to the international scale.

*(Source: Pakistan Tannery Association, Ministry of National Food Security and Research, Transactions Department Inhouse Research :PBIT)*



### 3-Research Analysis Methodology

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The five years historical analysis is performed by breaking down the leather manufacturing industry into two categories:

- 1) Articles of Leather
- 2) Tanned Leather.

Further, in both categories, new export destinations are highlighted within the top importing countries of the world with which Pakistan is already doing exports but not to the optimal level. An optimal level Metrix is benchmarked in-house by the research team, which identify 5 categories of world importing countries of overall leather products, based on their market share relative to total world imports of each category.

Moreover, in both categories, a comparison in Pakistan's leather exports and leather exports by top global exporters are also compared. This analysis help us identify that articles of leather manufacturing has increased and world exporters are rapidly shifting more to articles of leather exports comparative to raw hides/ tanned leather exports (2013-2018).



2

**Global Overview  
of Leather  
Industry**







# “ITALY AND FRANCE, THE EUROPEAN LEADERS OF THE GLOBAL LEATHER SECTOR IN 2016.

- A third of global leather exports come from Europe, half of which originate in France and Italy (16%).
- **Italy (12%) is the second largest global exporter of leather** behind China (36%), exporting mainly to France, the United States, Hong Kong, China and Germany.
- **France (4%) maintained its position as the fourth largest exporter in the world**, behind Vietnam (10.5%).
- In certain sectors, such as leathers and raw hides or leather goods, France holds third place for global exports. As a result of the strong demand for luxury handbags.
- **France exports 10% of the leather goods** items sold around the world. With the largest bovine herd in Europe (19.5 million head of cattle including 5.5 million calves).
- **France exports 6% of the global total of leathers and raw hides.**
- **France** also gave a strong performance in **leather goods** and **leather accessories** (gloves) holding **5th place** in the list of global exporters, with some 4.5% of total global exports.”

(Source: Conseil National DU Cuir, Press Release, Jan 24<sup>th</sup>, 2018)

## “CHINA, A GIANT IN DECLINE.”

- **China** is still the **largest exporter in the global leather sector** (36% of global exports) ahead of Italy (12%), Vietnam (11%), France (4%) and Indonesia (3%).
- Between 2010 and 2016, China’s market share fell from 45% to 36% while, at the same time, Vietnam (the world’s third largest exporter) gained five percentage points of the market share.
- This shrinkage is even more pronounced for finished products.
- China’s loss of market share over the period 2010-2016 stands at:
  1. 11 points for footwear
  2. 13 points for leather goods
  3. 11 points for leather clothing and accessories.
- The countries that benefited the most from this fall are Vietnam and Indonesia for footwear, Italy and Vietnam for leather goods, Italy and India for leather clothing.
- China is facing competition from countries with cheaper workforces, as well as from countries exporting luxury articles.
- The country’s main clients are the United States (30% of Chinese exports), Japan, Hong Kong, Germany and the United Kingdom.”

(Source: Conseil National DU Cuir, Press Release, Jan 24<sup>th</sup>, 2018)



## “THE UNITED STATES, THE WORLD'S LARGEST IMPORTER OF FINISHED GOODS.

- The United States heads the list of global importers of finished goods in leather.
- Depending on the sector, US imports represent **between 19% and 22% of global imports**.
- In the footwear sector, six European countries appear among the eight largest importers, behind the US; namely
  1. Germany
  2. France
  3. UK
  4. Italy
  5. Netherlands
  6. Belgium.
- Japan is the sixth largest importer of footwear in the world (4.5%).
- The European market remains the world's largest market for imports of finished goods in leather. In value terms, half the footwear exported around the world is bought by European countries, against 29% for America, 20% for Asia and 1% for Africa.
- For leather goods, Japan and Hong Kong are respectively the second and third largest global importers with 8.5% and 7% of the market, behind the US (19%) but ahead of France and Germany (6%).
- As for exports, 39% of leather goods in the world are destined for European countries, ahead of Asia, America and Africa which take respectively 35%, 25% and 1%.”

(Source: Conseil National DU Cuir, Press Release, Jan 24<sup>th</sup>, 2018)



3

**What is Leather  
Working Group ?**



**LEATHER  
WORKING  
GROUP**

## Leather Working Group

The Leather Working Group (LWG) is the multi-stakeholder group which was found in 2005. The objective of Leather Working Group (which includes brands, manufacturers, and chemical suppliers) is to develop and maintain a protocol that assesses the environmental compliance and performance capabilities of leather manufacturers and promotes sustainable and appropriate environmental business practices within the leather industry.

# 50

**Brands/retailers**  
(More than one hundred individual brands)

# 46

**Chemical suppliers**

# 323

**Leather manufacturers**



### Joining Process

The LWG philosophy on membership is that brands and suppliers fund the group through annual subscriptions, while leather manufacturers are required to be assessed via the LWG Environmental Audit Protocol and to achieve a rating - Gold, Silver, Bronze or Audited. (LWG audits/membership remain valid for 24 months depending on the award)

Annual Turnover (USD)/Year  
**0 - 250 MN**

Subscription Rates (USD)/Year  
**2,500**

PKR  
**3.5 Lac**

Annual Turnover (USD)/Year  
**250 MN- 1 BN**

Subscription Rates (USD)/Year  
**4,500**

PKR  
**6.3 Lac**

Annual Turnover (USD)/Year  
**1 BN – 3 BN**

Subscription Rates (USD)/Year  
**7,500**

PKR  
**1.05 MN**

Annual Turnover (USD)/Year  
**5 BN +**

Subscription Rates (USD)/Year  
**17,000**

PKR  
**2.38 MN**

# Leather Working Group

## Key Features



**12.1 billion litres**

Average water saved by the LWG rated leather manufacturers each year

Average water reduction by **category C** leather manufacturers over 4 audits **35%**

Average water reduction by **category D** leather manufacturers over 4 audits **30%**



**775 Megawatts**

Average energy saved by the LWG rated leather manufacturers each year

Average energy reduction by **category C** leather manufacturers over 4 audits **48%**

Average energy reduction by **category D** leather manufacturers over 4 audits **33%**



**1.9 billion ft<sup>2</sup>**

Approximate volume of wet blue with **Grade A** traceability

Average of **300+** leather manufacturers

## LWG Benefits

The LWG meets twice a year at various locations around the world. These locations vary depending on the timings of fairs and topical industry events but tend to rotate between Asia, USA, or Europe. The meetings are open to all members.

Meetings provide a unique networking environment to interact with other key stakeholders from the leather industry.

The Group provides a priceless source of information, benefited by the diversity and number of its members.

Participating members are recognized for their awareness of and intent to improve environmental practices in the leather industry.

## Leather Working Group

Three out of 184 registered tanneries in Pakistan are members of Leather working group and being awarded the below rankings



Internationally, an ever increasing proportion of retailers and brands are relying on the LWG specially India which have 88 members. How leather industries in India and other countries converge to environmental friendly and comply with LWG group.

### CASE STUDY

#### *Tata International Ltd are a Gold rated LWG member tannery of India*

Tata International is a global company with a network of offices and subsidiaries in more than 39 countries in Europe, Asia, America and Africa.

Tata is one of the leading exporters of leather and leather products, footwear, garments and leather goods, catering to leading brands globally. Their environmental protection and sustainability drive includes:

- Installed one of India's largest solar thermal water heating systems in the tannery to provide renewable energy source
- Provided Chemical substitution from wastes.
- Modern recycling treated waste water and multiple effect evaporator used.
- Water harvesting technology.
- Effective Microbes technology based sewerage treatment plant and treated water used for gardening.
- Organized several awareness sessions on tree plantation drives, cleaning on the banks of the Rivers etc.
- Undertake certain activities including energy saving initiatives and environmental awareness drives in neighboring schools/colleges to industry.

# 4

## **Primary Source of Leather Raw Material in Pakistan**

- 1- Livestock Population
- 2- Production of Hides and Skins  
in Pakistan

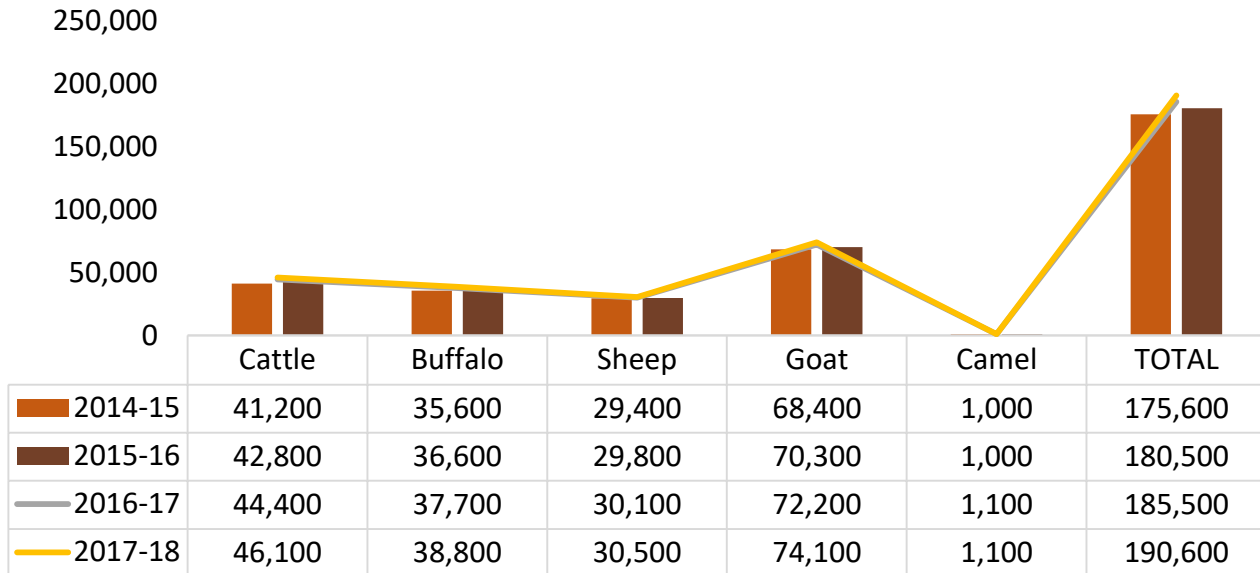




# 1-Livestock Population

Pakistan is an agricultural country which has world’s best livestock population. According to the Federal Ministry of National Food Security & Research, Pakistan, the livestock population in 2017-18 was recorded at 38.8 Million buffalos, 46.1 Million cattle, 74.1 Million Goats, 30.5 Million sheep while 1.1 Million camels. This enables the leather market to collect more hides and skins as the livestock population has increased over the period of time.

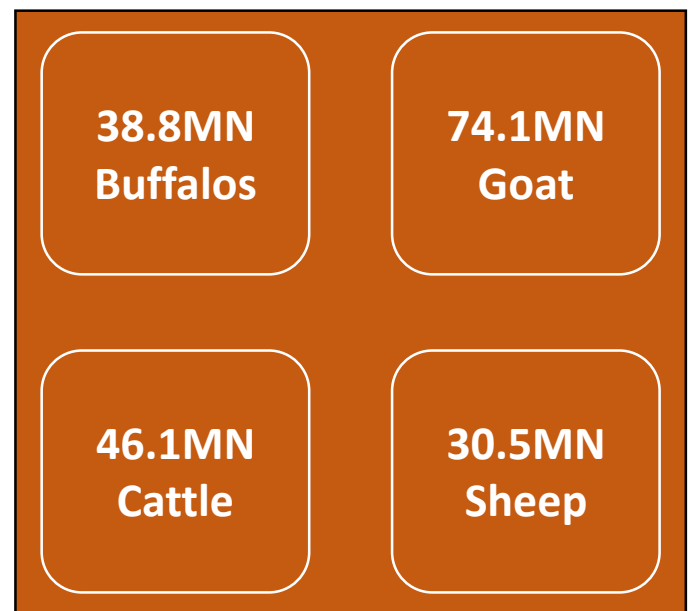
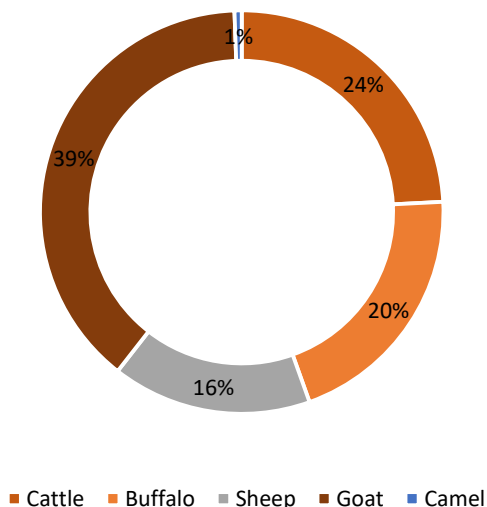
### Livestock Population Of Pakistan



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

The total livestock population of Pakistan has increased to 190,600,000 animals in 2017-18 from 175,600,000 which indicated 8.5% increase over the period of four years.

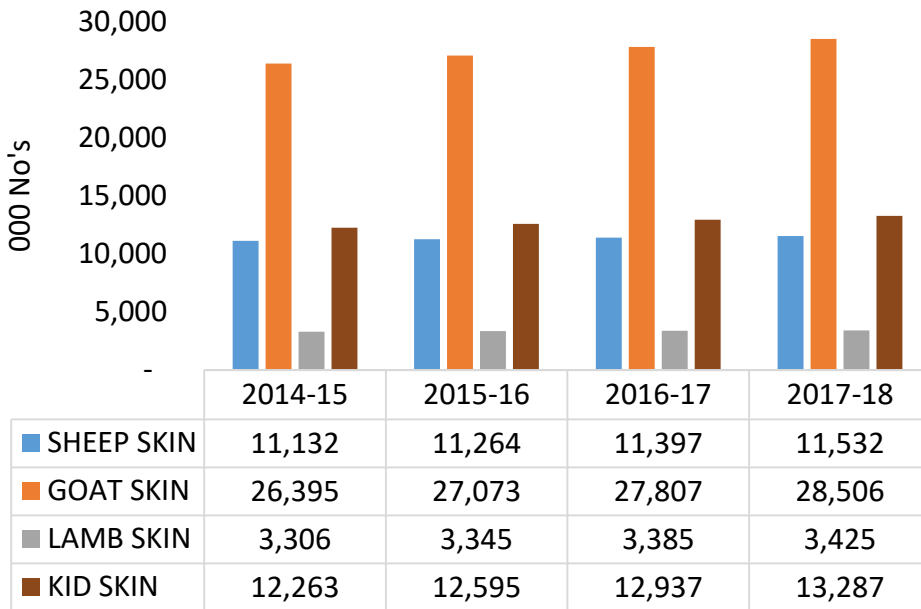
### Livestock



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

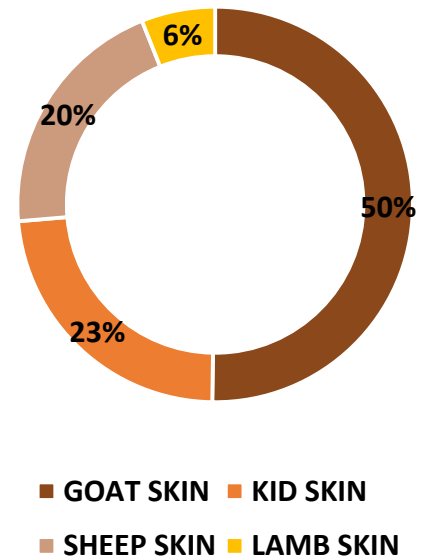
## 2-Production of Hides and Skins in Pakistan

### Production Of Skins In Pakistan



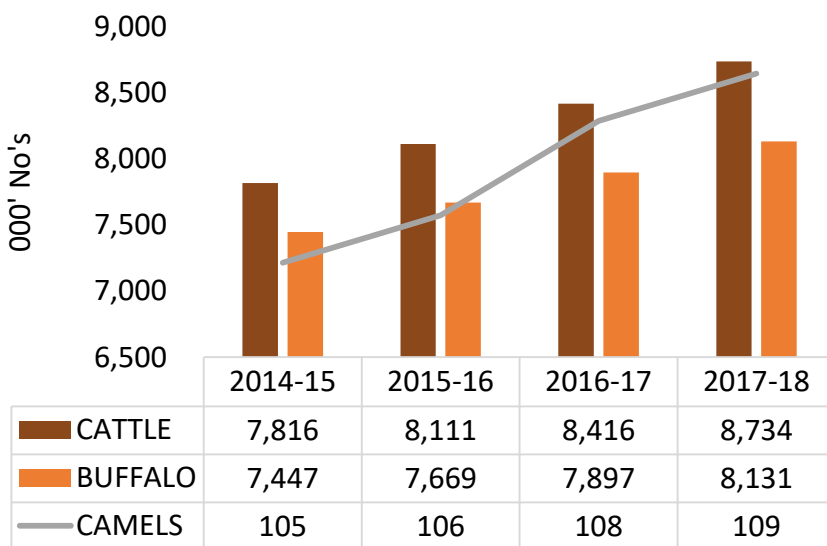
(Source: Pakistan Tannery Association, Transactions Department Inhouse Research :PBIT)

### Production of Skins



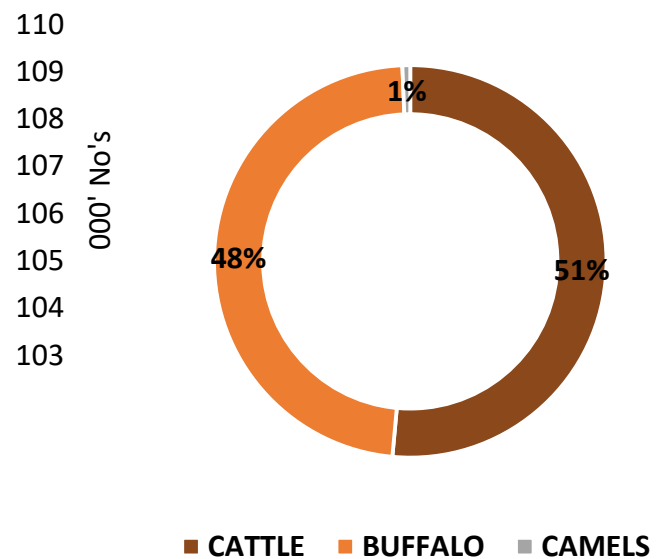
Pakistan is one of the leading livestock producing countries of the world. From the total livestock population of Pakistan, 50% goat skin is obtained while the share of kid skin is around 23%. Similarly, cattle hide comprises of 51% share in hides and 48% share is of buffalo hides.

### Production Of Hides In Pakistan



(Source: Pakistan Tannery Association, Transactions Department Inhouse Research :PBIT)

### Hides



5

**Tanneries In  
Pakistan**



## Tanneries in Pakistan

According to the Pakistan Tanners Association (PTA), there are about 800 tanneries in Pakistan, 184 Members presently recorded with Pakistan Tanners Association from all over the country are actively engaged in manufacturing and fully geared-up towards promoting export of quality finished leather and leather products on modern pattern as per global demand and are playing their positive role in earning much needed foreign exchange by invigorating country's export volume. They are courageously prepared to meet the challenges of World Trade Organization (WTO) regime and other international pressures with quality consciousness and full sense of responsibilities to uphold the impeccable image of leather industry within the ambit of national strategies, rules & regulations and global conditionality.

SOUTHERN ZONE	
Corporate Class	42
Associate Class	64
Total	106
NORTHERN ZONE	
Corporate Class	56
Associate Class	22
Total	78
<b>OVERALL</b>	<b>184</b>

CITY	TANNERIES
Karachi	106
Lahore	41
Kasur	16
Sialkot	15
Sheikhupura	3
Multan	2
Sahiwal	1
<b>Total</b>	<b>184</b>

### Challenging For Tanneries In Developing Countries

International buyers of finished leather and leather goods require a higher degree of compliance with environmental regulations. Meeting environmental compliance standards has always been challenging for tanneries in developing countries. The waste from tanneries is in three forms: solid, liquid and gas. Liquid waste is the biggest challenge for tanneries as the amount produced per kilogram of hide is between 50 and 60 liters. Contaminants/chemicals in the liquid waste must be treated by an effluent treatment plant before being discharged into water bodies. Globally, millions of dollars have been directed at addressing this problem in tanneries; however it has resulted in a limited success. Other environmental concerns for the leather goods manufacturers are the chemicals and residues retained in the leather and managing the disposal of solid waste material. Failure to meet the environmental standards may constrain the industry from taking advantage of Pakistan's GSP+ Status for export to the EU market.

(Source: Pakistan Tannery Association, Transactions Department Inhouse Research :PBIT)

# 6

## **Pakistan Leather Export Performance**

- 1- Historical Analysis- Leather & Leather Products
- 2- Export- Value VS Quantity Analysis
- 3- Import VS Export Comparison



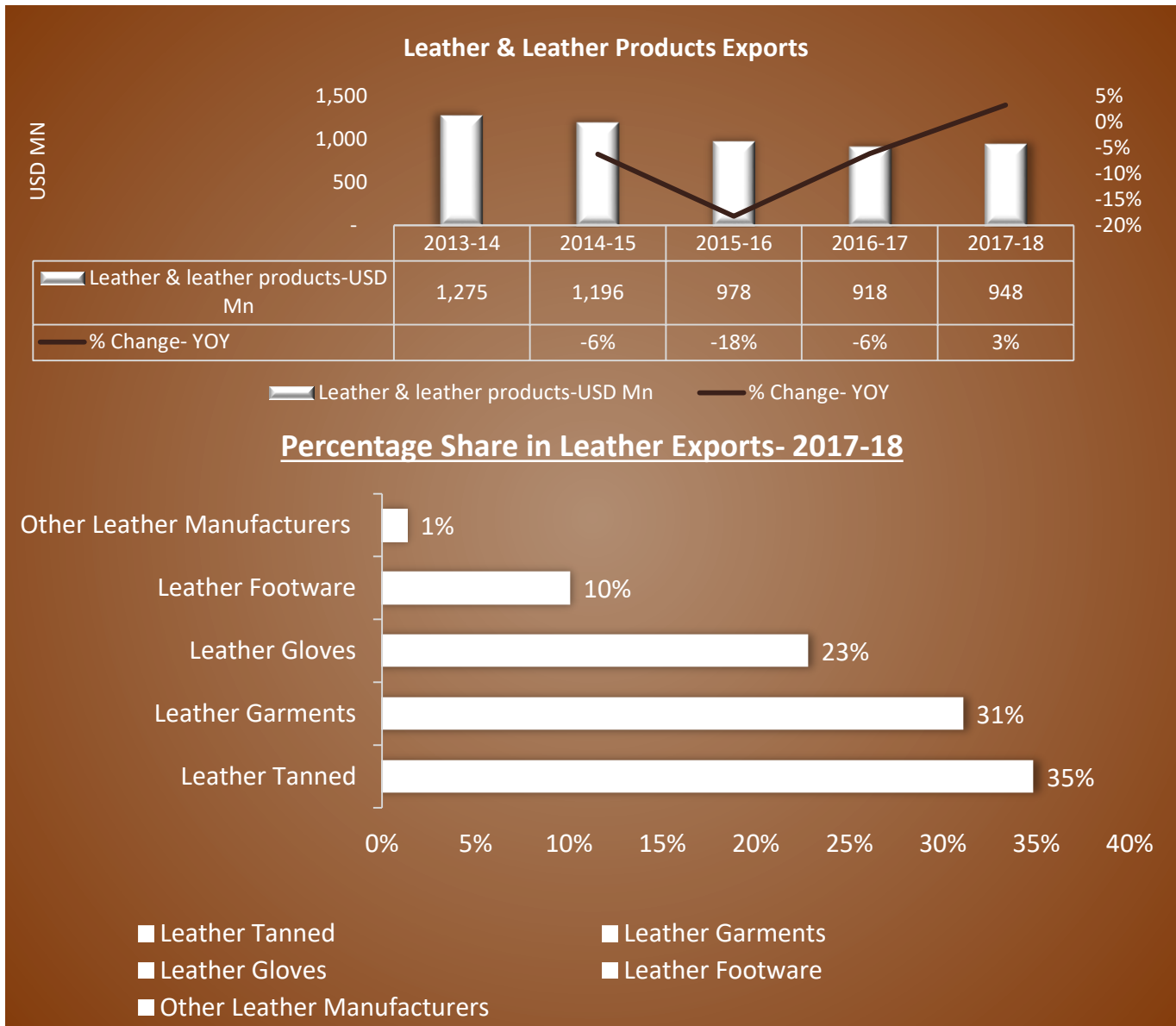
# 1-Historical Analysis- Leather & Leather Products

The export of Leather and Leather Products for the financial year July-June 2017-18 marked a positive trend of US\$ 948 MN relative to the performance of US\$ 918 MN in the corresponding period of last year, indicating a growth of 3.28% over the period.

There are two broad categories in leather exports; 1<sup>st</sup> is tanned leather also known as Raw Hides and Skins and the other is articles of leather which includes garments, leather gloves, footwear, bags and other leather manufactures.

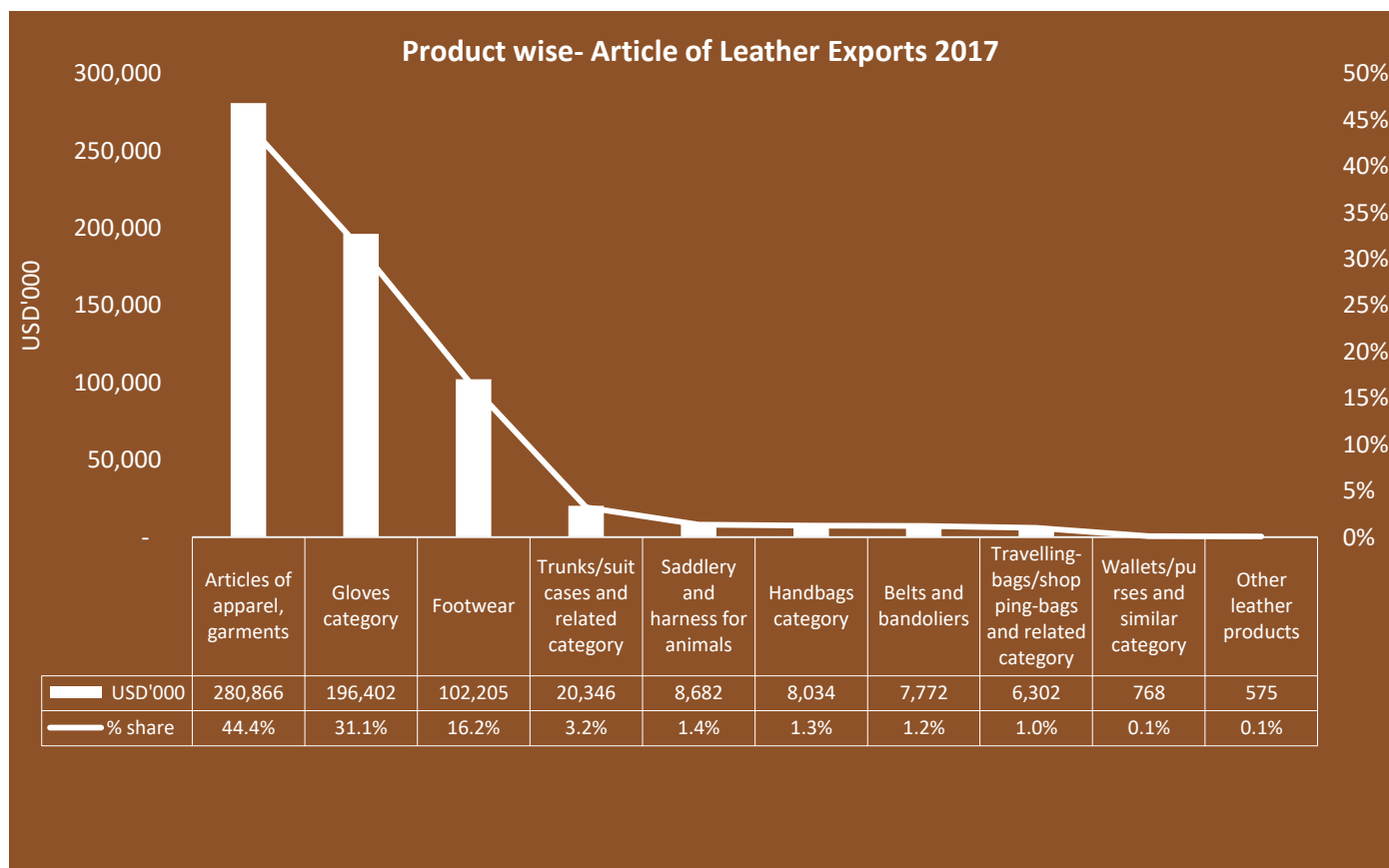
Export of Tanned Leather holds a major share of 35% in Pakistan’s total Leather & Leather Products exports with an export value of US\$ 330 million. This is followed by Leather Garments with a share of 31%, Leather Gloves 23%, Leather Footwear 10% and Other Leather Manufactures 1%. Pakistan is capable of producing fine quality leather products and exporting raw leather as well as value added products.

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## Historical Analysis- Leather & Leather Products



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

During July-June 2017-18 about 26 MN square meters of finished/tanned leather was exported to Hong Kong, Italy, China, India, Vietnam, Korea, Germany, South Africa, Bangladesh, Spain, Turkey, Indonesia, Japan, USA and some other countries registered about 12.46% growth in volume. Articles of leather have witnessed a growth in volume exports over the period whereas there growth in exports \$ value over the period have also increased.

FIVE YEAR EXPORT PERFORMANCE OF LEATHER & LEATHER PRODUCTS IN QUANTITY						
COMMODITY	Units	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Leather Tanned</b>	Sq. M	29,349,000	22,272,000	17,072,000	23,279,000	26,179,000
<b>Garments</b>	Pieces	16,668,000	11,544,000	10,812,000	9,036,000	10,332,000
<b>Leather Gloves</b>	Pair	47,682,000	42,564,000	30,402,000	28,506,000	36,192,000
<b>Leather Footwear</b>	Pair	7,398,000	6,919,000	5,744,000	5,339,000	6,018,000
<b>Leather Manufacturers</b>	KG	1,366,000	1,068,000	1,150,000	943,000	1,022,000

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## Historical Analysis- Leather & Leather Products

It is important to mention here that tanned leather witnessed about 4.45% downward trend in value of exports over the same period (2016-17 to 2017-18). For detailed analysis of each product and correlation of growth in volume & value of exports, please refer to the section (Value vs Quality Analysis).

(Source: Pakistan Tanners Association)

FIVE YEAR EXPORT PERFORMANCE OF LEATHER & LEATHER PRODUCTS IN USD VALUE					
COMMODITY	2013-14	2014-15	2015-16	2016-17	2017-18
Leather Tanned	551,413,000	489,412,000	362,753,000	345,595,000	330,209,000
Garments	406,254,000	365,738,000	320,525,000	291,893,000	294,399,000
Leather Gloves	202,548,000	216,914,000	191,557,000	187,109,000	215,881,000
Leather Footwear	98,803,000	109,761,000	89,151,000	81,384,000	95,150,000
Leather Manufacturers	16,311,000	13,988,000	14,098,000	12,150,000	12,626,000
<b>Total</b>	<b>1,275,329,000</b>	<b>1,195,813,000</b>	<b>978,084,000</b>	<b>918,131,000</b>	<b>948,265,000</b>

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

HISTORICAL AVERAGE PRICE PER UNIT (2013-14-2017-18) IN USD						
COMMODITY	UNITS	2013-14	2014-15	2015-16	2016-17	2017-18
<b>Leather Tanned</b>	AUP/Sq.M	18.79	21.97	21.25	14.85	12.61
<b>Leather Garments</b>	AUP/Pieces	24.37	31.68	29.65	32.30	28.49
<b>Leather Gloves</b>	AUP/Pair	4.25	5.10	6.30	6.56	5.96
<b>Leather Footwear</b>	AUP/Pair	13.36	15.86	15.52	15.24	15.81
<b>Other Leather Manufacturers</b>	AUP/KG	11.94	13.10	12.26	12.88	12.35

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

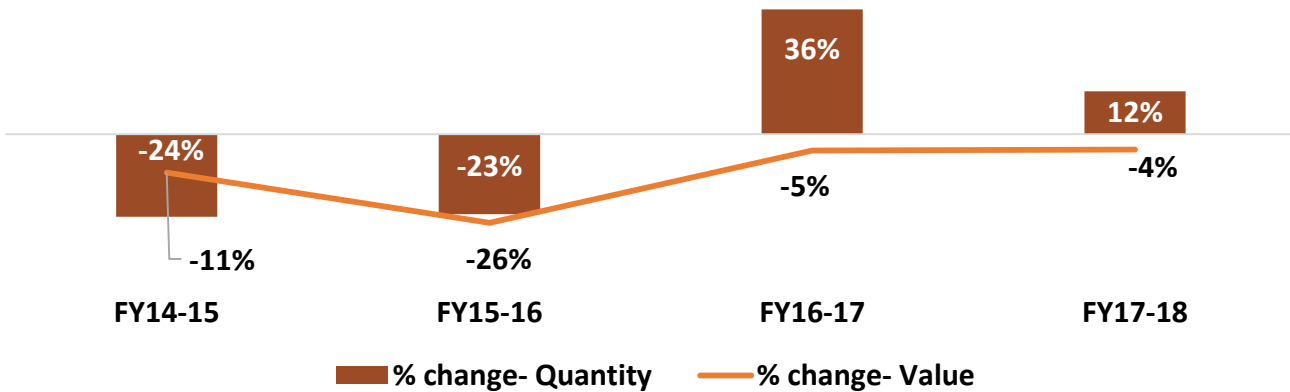


## 2-Export- Value VS Quantity Analysis

### Tanned Leather:

Over the review period (FY14-18), export of Finished/ Tanned leather indicated a consistent declining trend in \$ value terms where -11%,-26%,-5% & -4% reduction in exports value was recorded over the period FY15, FY16, FY17 & FY18, respectively, as compared to their corresponding years. It has been observed that during each review year quantity of exports changes less than change in value of exports. i.e. during FY18 there has been 12% increase in quantity exports observed while a relative 4% reduction in \$ value of exports.

### Leather Tanned

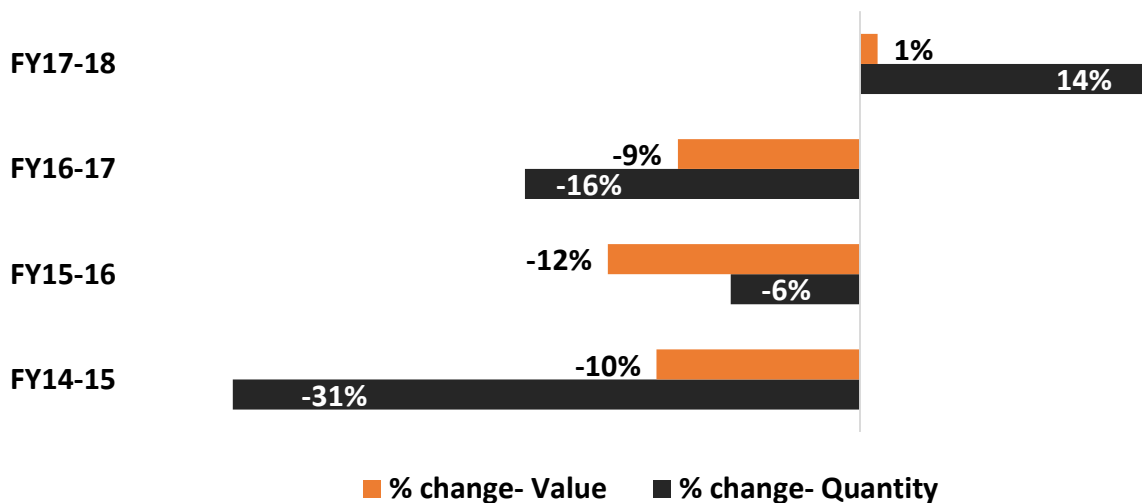


(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

### Leather Garments:

Exports of leather garments over the review period (FY14-18) has shown a downward trend both in quantity and value of exports till FY17, however in FY18 the exports of leather garments has increased as compared to previous year. During FY16 & FY18, our garment exports were less competitive where change in quantity exports exceeded change in \$ value of exports, however for the period FY15 & FY17, change in value of exports surpassed the change in quantity of garments exports. (FY15:10% decrease in \$ value vs 31% decrease in quantity exports as compared to previous year)

### Leather Garments



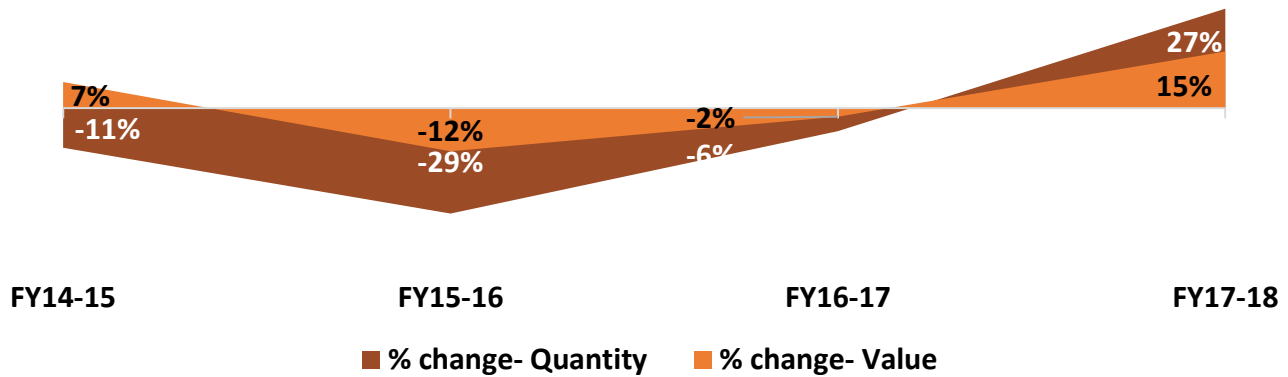
(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## Export- Value VS Quantity Analysis

### Leather Gloves:

Leather gloves exports during the period (FY15-17) had been the most competitive product of leather articles where change in value of exports surpassed the change in quantity of exports (i.e. in FY17 there was a -6% change in quantity of gloves exports recorded against -2% reduction in \$ value of exports relative to the corresponding year FY16). In recent financial year 2018, growth in volume and value of exports has been recorded despite the fact that the surge quantity exceed increase in value of exports. As international prices of leather have come down.

### Leather Gloves

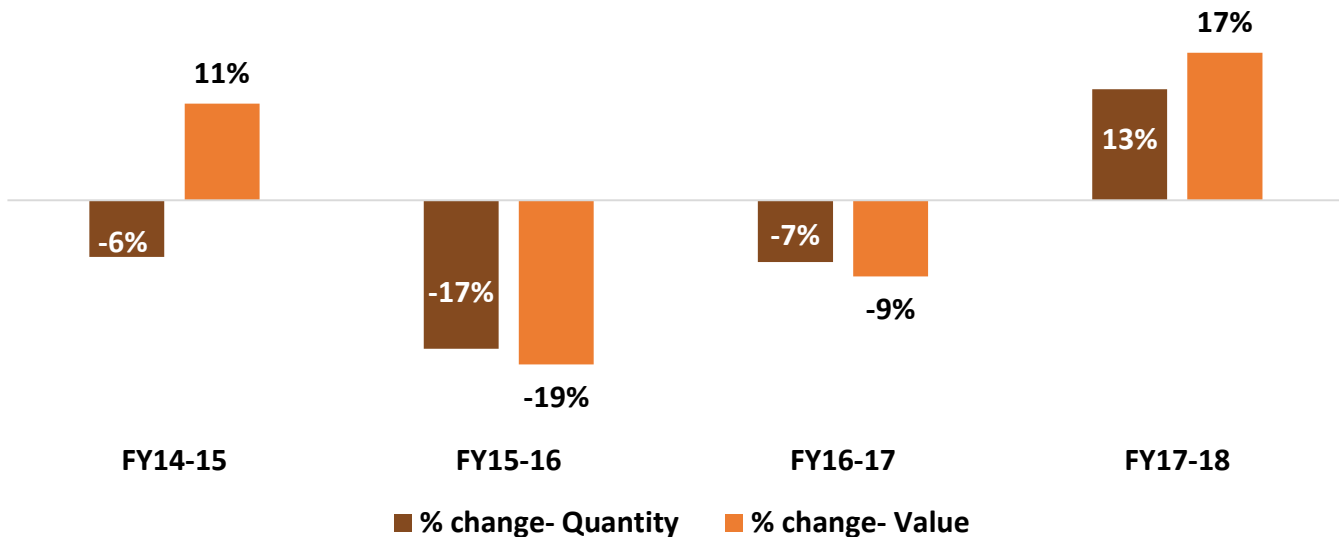


(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

### Leather Footwear:

Only in FY15 and FY18 leather footwear exports of Pakistan were considered competitive as in both years the increase in exports was recorded while a rise in exports value surpassed the change in quantity/volume of footwear exports. However, during FY16 & FY17 there was a drop in exports recorded while it was also observed that change in quantity of exports surpasses change in \$ value of exports.

### Leather Footwear

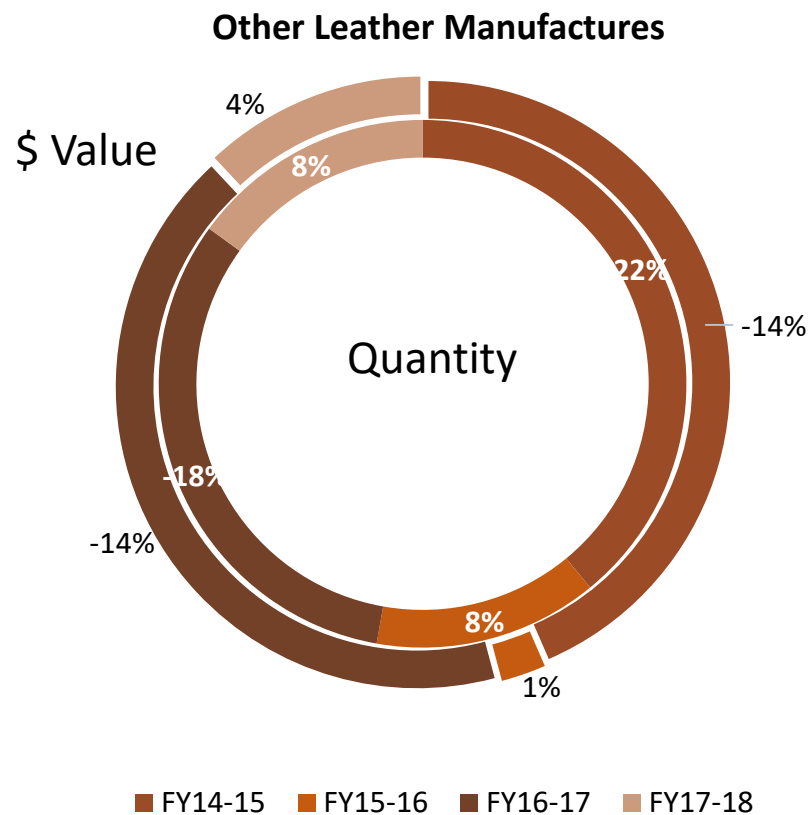


(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## Export- Value VS Quantity Analysis

### Other Leather Manufactures:

Other leather manufacturers represents a very minute share (1%) in Pakistan leather exports. Over the recent year (FY18) there is a considerable growth of 4% was recorded in comparison to corresponding year.



Pakistan can increase its profit by increasing the production of value added products instead of exporting raw leather. The products include the following: -

1. Belts
2. Car Interior
3. Leather Coveralls
4. Textiles
5. Synthetic Material
6. Luggage Bags
7. Handbags
8. Camera and Guitar Straps

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## Export- Global Value VS Quantity Analysis

### Tanned Leather

Overall, during analysis of previous four years (2015-2018), it is observed that global exports of tanned leather has decreased as compare to Pakistan exports quantities. The below analysis shows top 60% of tanned leather exporting countries YOY change in quantity exports and their relation with change in \$ value of exports.

The analysis clearly depicts that Pakistan's Tanned leather quantity exports is increasing in 2017 and 2018 whereas rest of large exporters are declining their exports quantity.

Moreover, the analysis of change in value of tanned leather showed us that the global large exporting countries \$ change in value of exports is showing a declining trend due to the fact that their quantity exports are decreased. However, Pakistan \$ value change of tanned leather exports is showing a down surge although their exports quantities of tanned leather has increased.

	Change in Quantity Exports			Change in Value Exports			Market Share
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18	
<b>Italy</b>	-6%	-3%	-23%	-18%	-5%	2%	<b>17%</b>
<b>USA</b>	0%	0%	7%	-17%	-14%	-2%	<b>10%</b>
<b>Brazil</b>	-8%	-2%	2%	-23%	-10%	-7%	<b>7%</b>
<b>Hong Kong</b>	-28%	-20%	-3%	-15%	-22%	-12%	<b>5%</b>
<b>Germany</b>	5%	-6%	-4%	-20%	-11%	1%	<b>4%</b>
<b>India</b>	-24%	-12%	-9%	-20%	-17%	-3%	<b>3%</b>
<b>Australia</b>	-9%	-3%	3%	-15%	-23%	0%	<b>3%</b>
<b>Spain</b>	-5%	1%	11%	-23%	-3%	3%	<b>3%</b>
<b>France</b>	4%	-2%	-2%	-21%	-6%	1%	<b>3%</b>
<b>Argentina</b>	-10%	0%	20%	-18%	-13%	1%	<b>3%</b>
<b>Pakistan</b>	-23%	36%	12%	-26%	-5%	-4%	<b>1%</b>

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## Export- Global Value VS Quantity Analysis

### Articles of Leather

Article of leather represents the majority of share in total leather and leather products exports and represents 75% share in (2017-18). Article of leather exports over the review period (2015-16--2017-18) shows a decline but in recent year show an upsurge mainly due to China, the largest exporter of article of leather increased its export quantity relative to previous years.

The below analysis shows the YOY trend of change in exports quantity in relation with change in \$ value of articles of leather of top 60% exporting countries of the world. The relationship of Pakistan article of leather exports as compare to the top world exporter shows that in in 2016 and 2017 our exports decline by more than world top exporters; articles of leather exports, however it recover in the recent year in line with global increase in 2018.

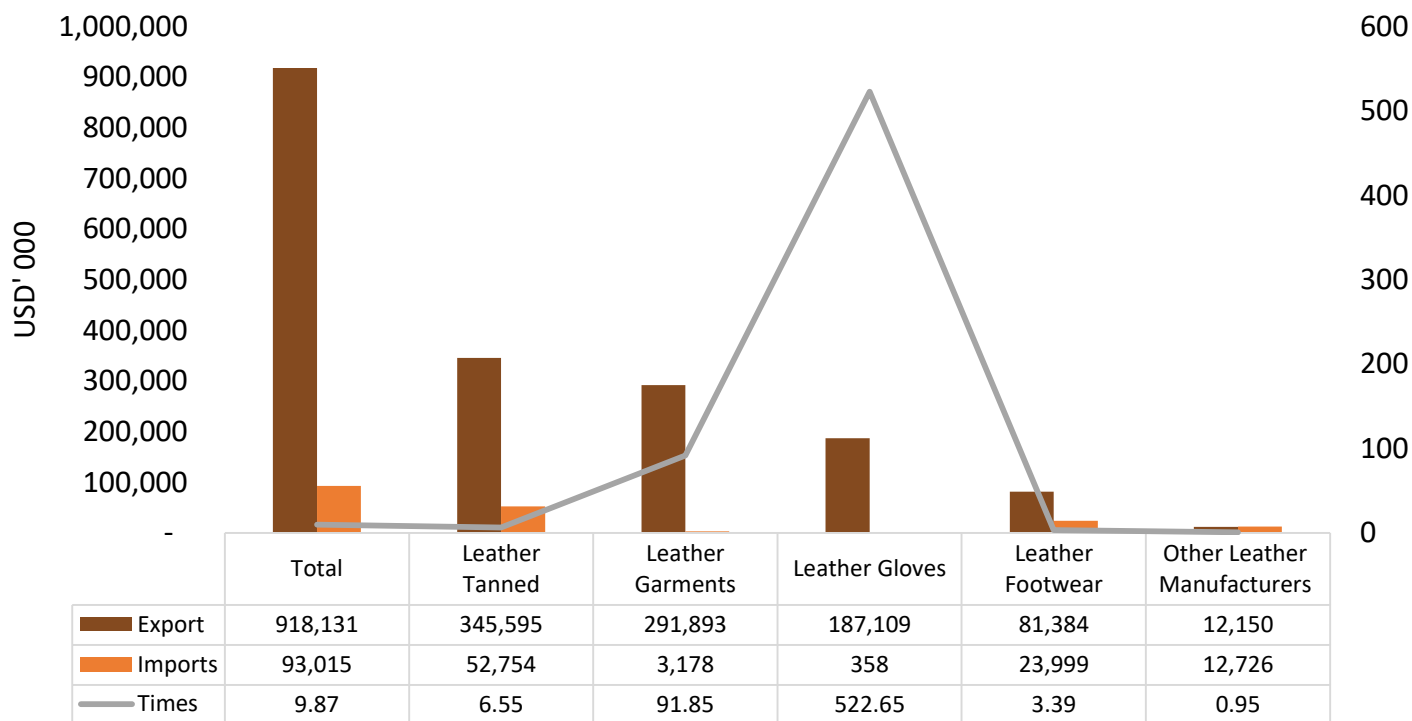
	Change in Quality Export			Change in Value Export			Market Share
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18	
<b>China</b>	-5%	-2%	11%	2%	-12%	5%	<b>37%</b>
<b>Italy</b>	1%	5%	0%	-13%	0%	15%	<b>12%</b>
<b>France</b>	-4%	2%	6%	7%	11%	16%	<b>10%</b>
<b>Germany</b>	6%	-2%	4%	-9%	5%	12%	<b>3%</b>
<b>Neither land</b>	-1%	9%	18%	3%	14%	15%	<b>2%</b>
<b>Pakistan</b>	-23%	-9%	22%	-13%	-13%	16%	<b>1%</b>

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)



### 3-Import VS Export Comparison

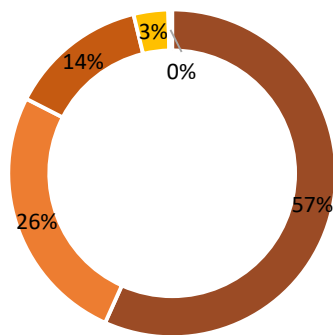
Exports Times of Imports- 2016-17



Pakistan also imports Leather and Leather Products, however the exports exceeds dramatically over imports (i.e. leather exports are 9.87 times of leather imports). Importantly, the two largest leather exports products, leather garments and leather gloves (31% & 23% share in exports, respectively) are the major reason of surplus in leather articles exports because both products exports are (522 & 91 times) of their imports. Moreover, leather footwear represents 10% share in total leather exports. Finished/tanned leather represents 35% share in exports and are 6.55 times relative to their imports. Below chart represents proportionate share of each leather products in their exports and imports respectively (i.e. leather garments represents 31% in Pakistan leather exports whereas 3% in Pakistan leather imports)

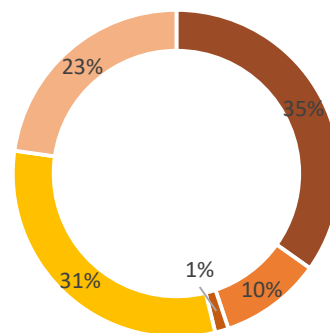
Tanned Leather & Leather Articles Imports- 2017

- Leather Tanned
- Leather Footware
- Other Leather Manufacturers
- Leather Garments
- Leather Gloves



Tanned Leather & Leather Articles Exports- 2017

- Leather Tanned
- Leather Footware
- Other Leather Manufacturers
- Leather Garments
- Leather Gloves



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

7

**Pakistan's  
Top Export  
Destinations For  
Articles of  
Leather & New  
Opportunities**



# Articles of Leather

Pakistan exports of leather articles is more centric to USA, UK, Germany, Spain, France, Netherlands, and Belgium. It has been noted that globally Italy and Canada collectively represents 75% of total exports of leather articles. However, immense opportunity of exports exists with world top importers of leather articles. The comparison in high lighted columns represents those countries whom Pakistan is exporting leather articles but not up to the potential. i.e. in category-3 which groups the countries with 3-5% share of world's articles of leather imports, Pakistan has a potential to export to China and Korea where we are exporting less than 1% of our total exports of articles of leather.

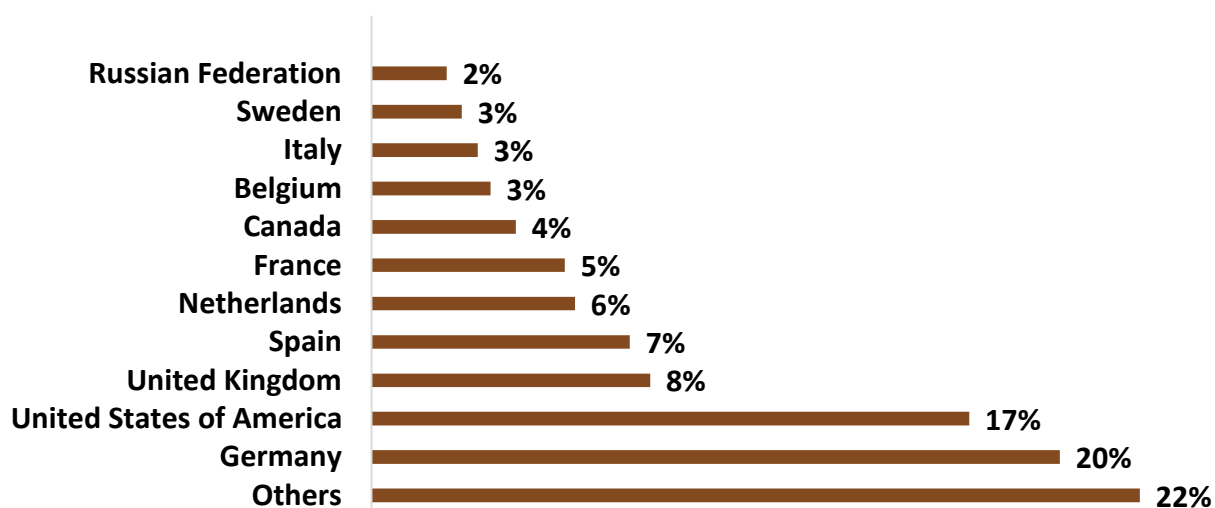
- 1- Export Opportunity
- 2- Country Wise Exports of Pakistan
- 3- Percentage Share
- 4- Global Exporters
- 5- Global Export Competitiveness
- 6- Global Importers



# 1-Export Opportunity- Articles of Leather

Sr. No	World Top 90%- Importers	Imports 2017	% of World Imports	Pakistan's Contribution	Pakistan's Export Value 2017	% in Total Exports
1	USA	13,488,245	18%	1%	107,217	17.0%
2	Japan	5,712,069	8%	0%	9,159	1.4%
	Hong Kong	4,827,711	6%	0%	1,073	0.2%
	France	4,707,304	6%	1%	34,681	5.5%
	Germany	4,634,177	6%	3%	123,459	19.5%
	UK	3,564,844	5%	1%	49,973	7.9%
3	Italy	3,502,708	5%	1%	19,068	3.0%
	China	2,630,682	4%	0%	3,216	0.5%
	Korea	2,421,617	3%	0%	1,440	0.2%
	Spain	1,897,575	3%	2%	46,315	7.3%
	4	Netherlands	1,851,103	2%	2%	36,509
Singapore		1,777,362	2%	0%	2,774	0.4%
Canada		1,649,120	2%	2%	25,892	4.1%
UAE		1,322,930	2%	1%	9,948	1.6%
Australia		1,322,634	2%	1%	12,780	2.0%
Switzerland		1,224,120	2%	0%	2,247	0.4%
Belgium		1,222,256	2%	2%	21,328	3.4%
5	Poland	882,652	1%	1%	12,416	2.0%
	Mexico	834,981	1%	0%	1,712	0.3%
	Russian Federation	778,308	1%	2%	13,486	2.1%
	Austria	726,584	1%	0%	1,680	0.3%
	Taipei, Chinese	706,626	1%	0%	749	0.1%
	Czech Republic	697,930	1%	1%	5,248	0.8%
	Thailand	594,339	1%	0%	677	0.1%
	Romania	559,458	1%	0%	352	0.1%
	Sweden	531,233	1%	3%	16,192	2.6%
	Macao, China	522,401	1%	0%	4	0.0%
	Malaysia	501,331	1%	0%	1,013	0.2%
	Saudi Arabia	455,495	1%	2%	8,100	1.3%
	Portugal	427,037	1%	0%	1,171	0.2%
	Brazil	425,796	1%	0%	1,497	0.2%
	Denmark	412,128	1%	2%	9,241	1.5%
Serial No. 1 to 5		66,812,756	90%		580,617	90%
Total		74,292,278	100%	100%	631,953	100%

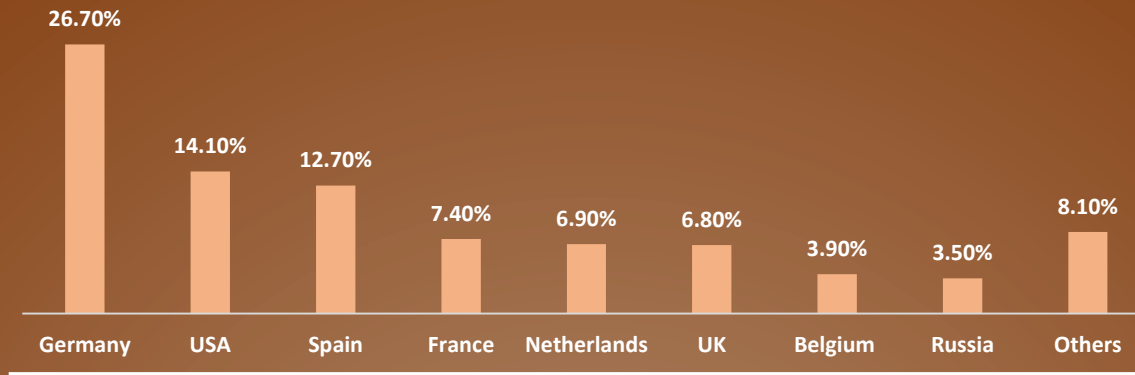
## Top Export Destinations of Leather Articles



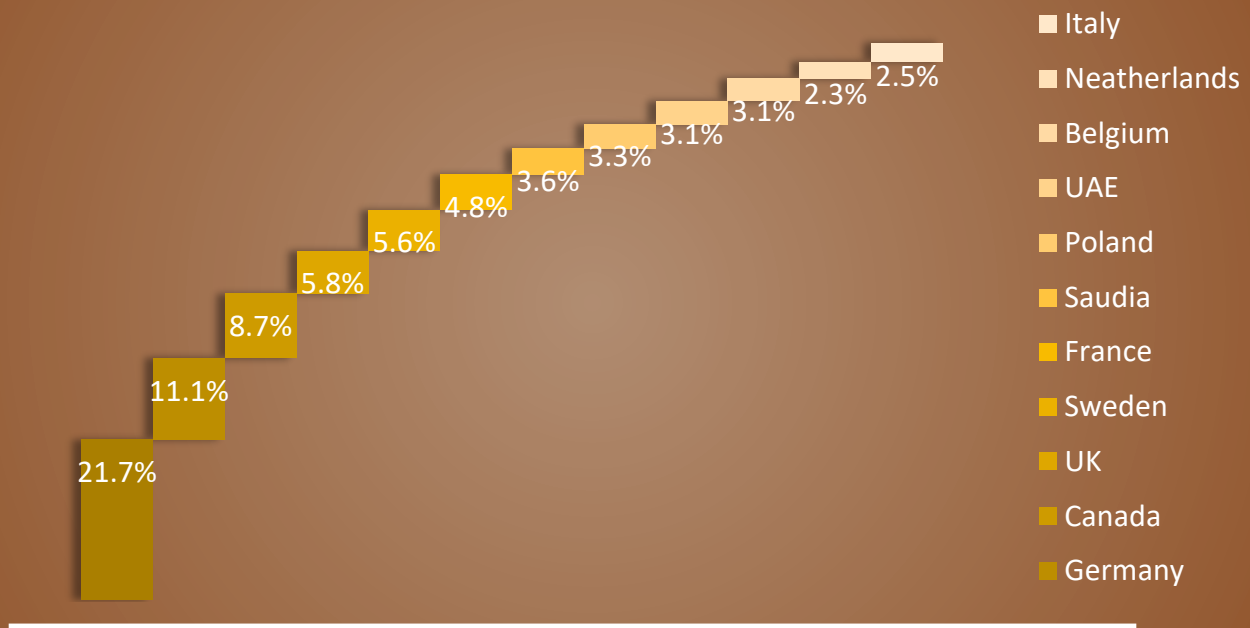
(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

# Export Opportunity- Articles of Leather

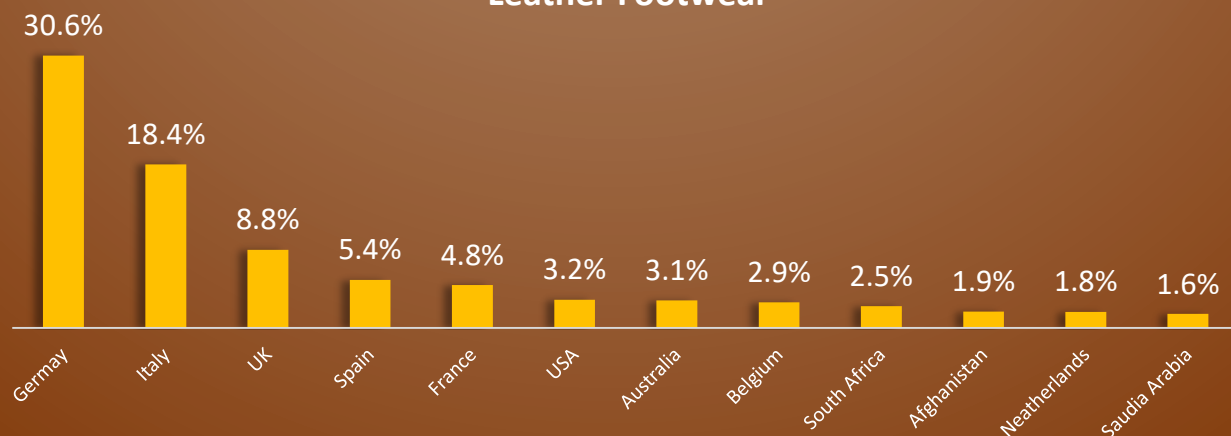
## Leather Garments



## Leather Gloves



## Leather Footwear

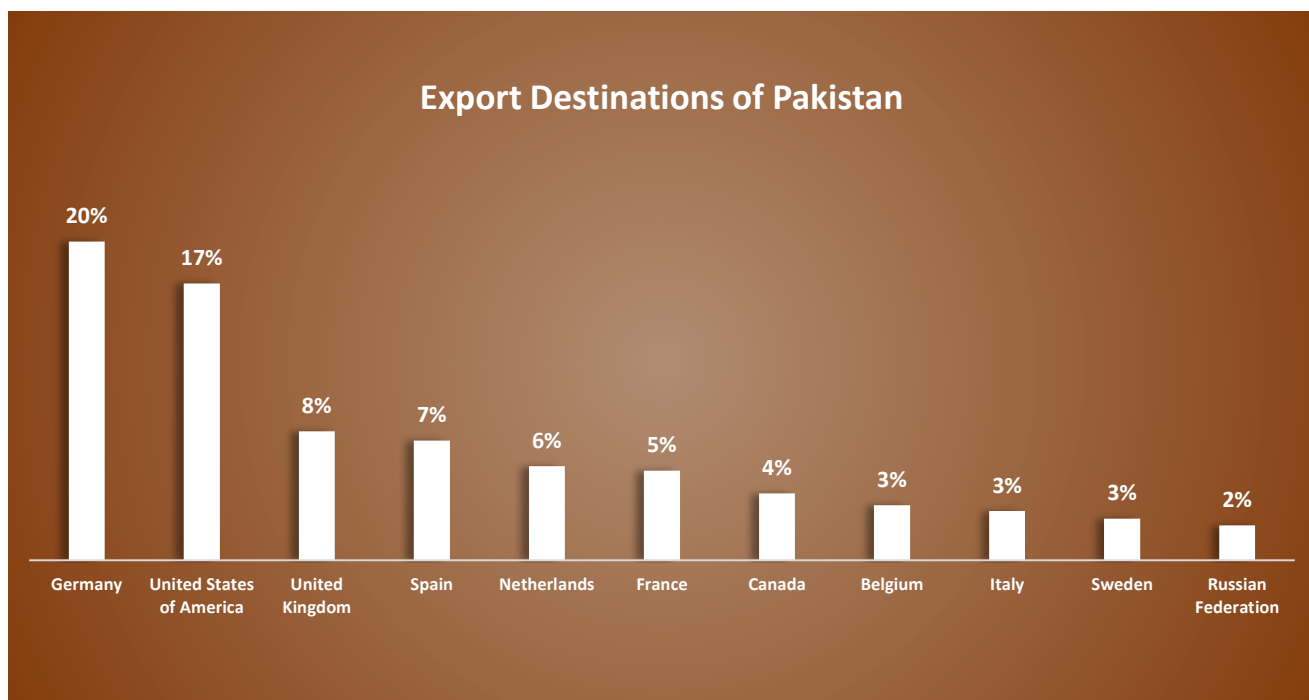


(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## 2-Country Wise Exports of Pakistan- Articles of Leather

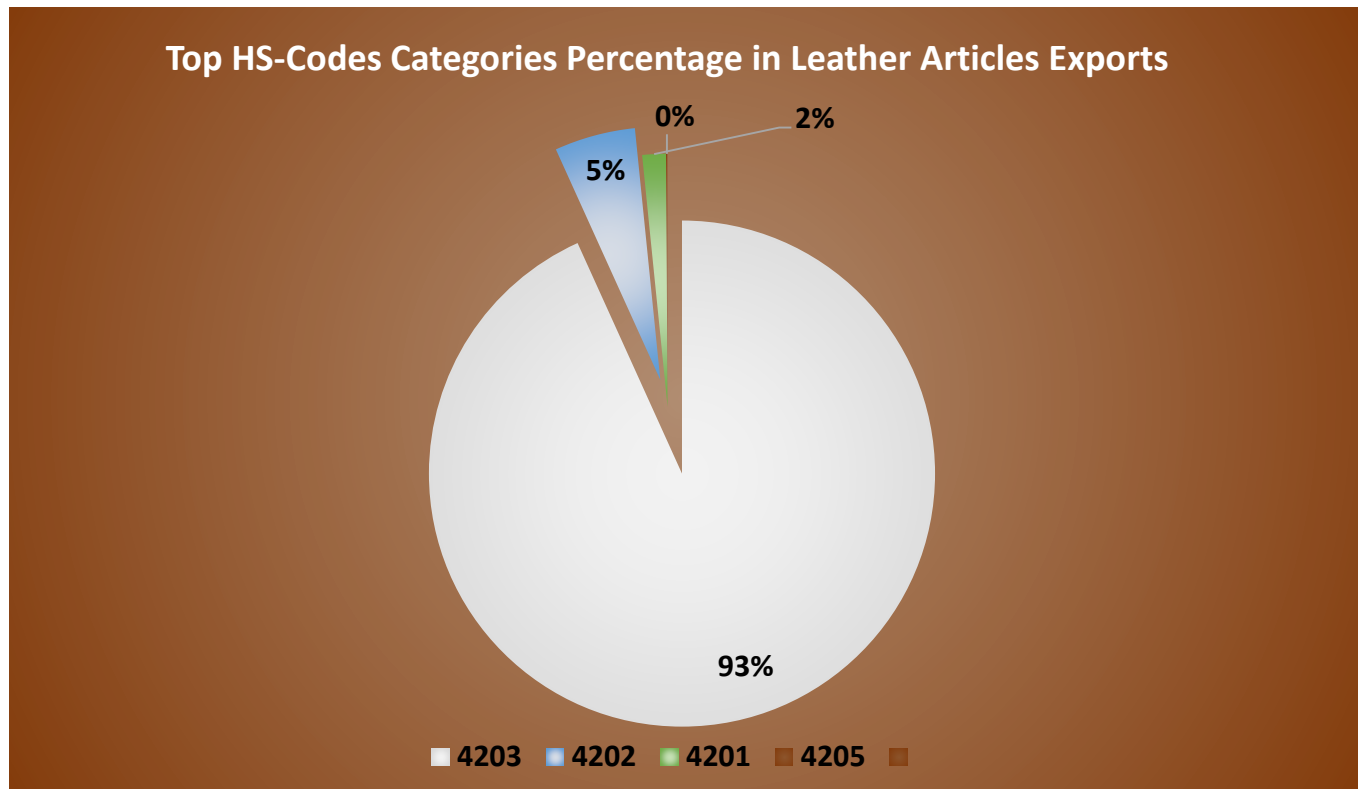
The analysis in this section is extracted from Top-10 exporting destinations of Pakistan which represents more than 75% of Articles of Leather under HS-42's total exports.

Sr. No	IMPOERTER	EXPORT VALUE USD'000
	WORLD	631,953
1	Germany	123,459
2	United States of America	107,217
3	United Kingdom	49,973
4	Spain	46,315
5	Netherlands	36,509
6	France	34,681
7	Canada	25,892
8	Belgium	21,328
9	Italy	19,068
10	Sweden	16,192
11	Russian Federation	13,486



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

### 3-Percentage Share of Articles of Leather (Product Wise)



HS-4202	Trunks and Suitcases
HS-4203	Garments
HS-4201	Saddlery & Harness
HS-4205	Others

HS-4203:“Articles of apparel and clothing accessories represents the highest share in leather articles exports category in 2017

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

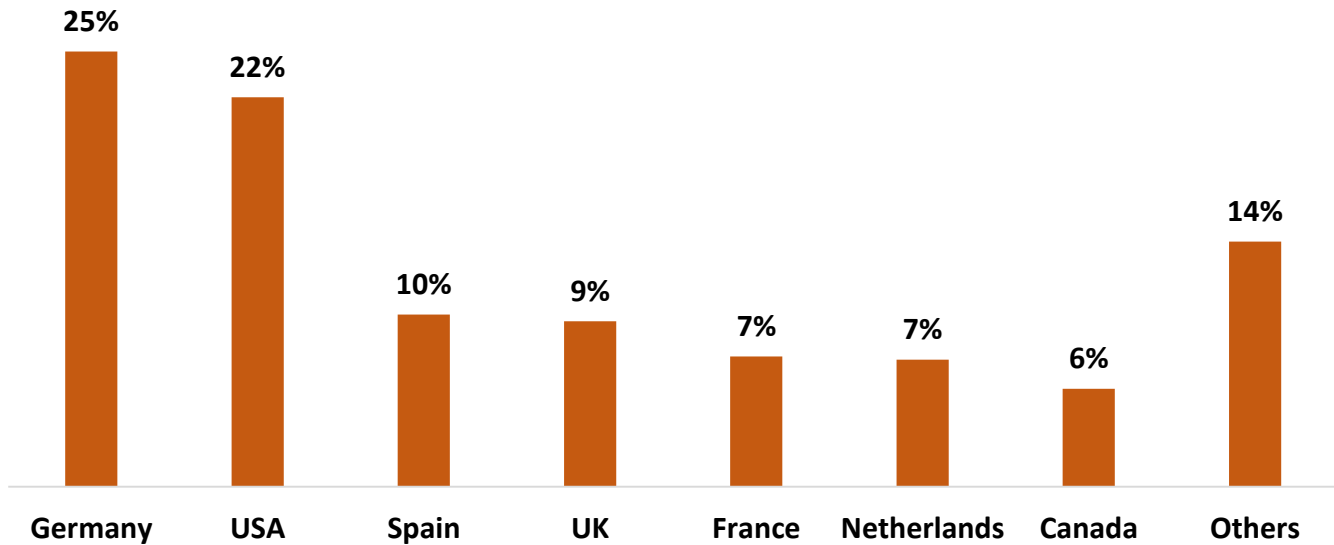
**Expected Global Automotive Leather Interior Market by 2026**

**USD 42.5BN**

## Percentage Share of Articles of Leather- HS:4203, HS:4202

Under HS 4203, Pakistan exports its items to Germany(25%) followed by USA(22%) and Spain(10%). The other countries compile a share of 43% out of which, UK imports 9% and Canada imports 6% of items. Netherlands and France imports were recorded at 7% each for this HS Code.

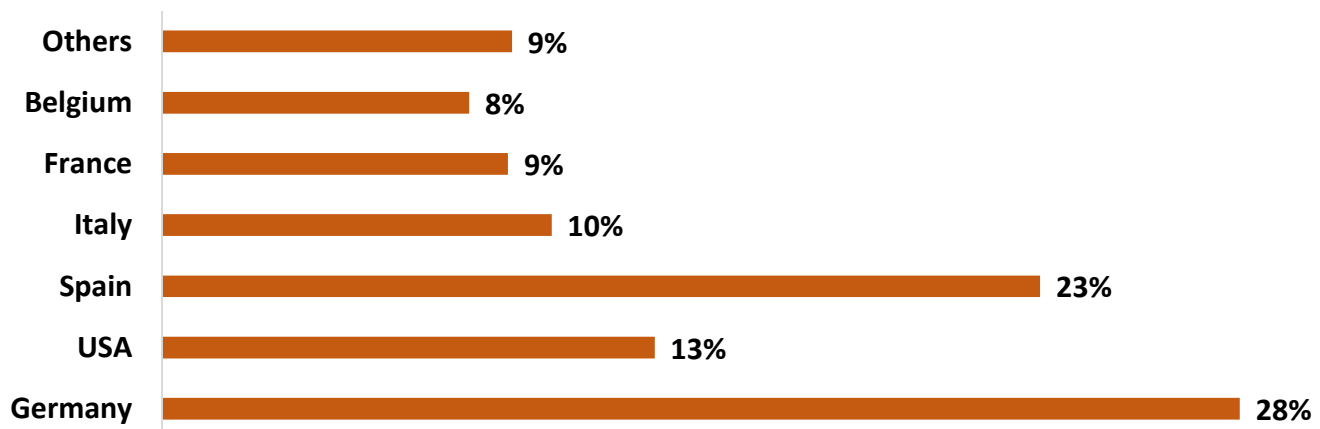
### HS-4203 (Country Wise Import Share)



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

Under HS 4202, Pakistan exports its items to Germany(28%) followed by USA(13%) and Spain(23%). The other countries compile a share of 36% out of which, Italy imports 10% and France imports 9% of items. Belgium imports were recorded at 9% while remaining importers collectively pile up the import share of 9%.

### HS-4202 (Country Wise Import Share)

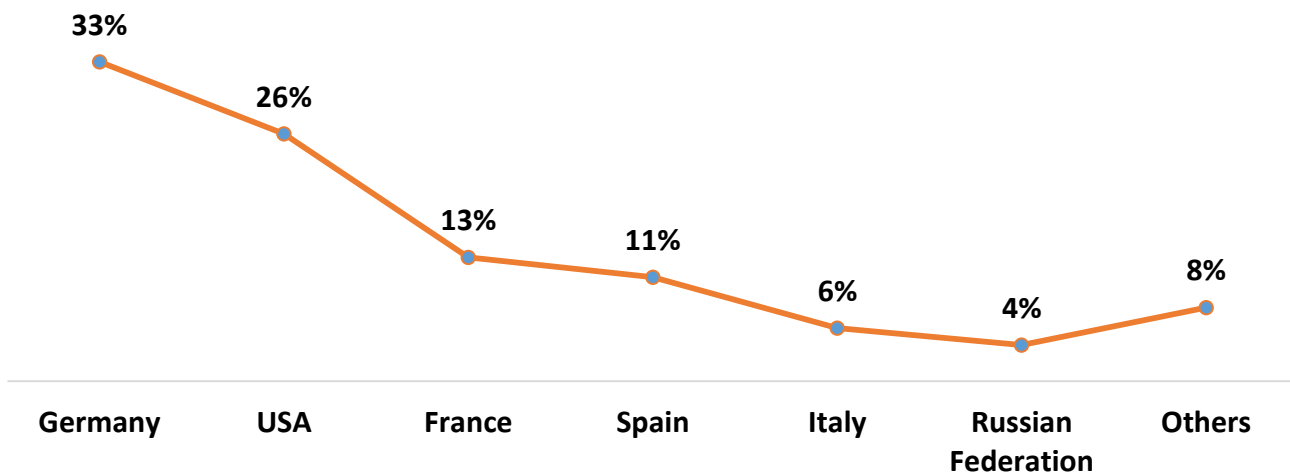


(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## Percentage Share of Articles of Leather- HS:4201, HS:4205

Under HS 4201, Pakistan exports its items to Germany(33%) followed by USA(26%) and France(13%). The other countries compile a share of 28% out of which, Spain imports 11% and Italy imports 6% of items. Russian Federation imports 4% of this item from Pakistan while remaining importers import 8% collectively.

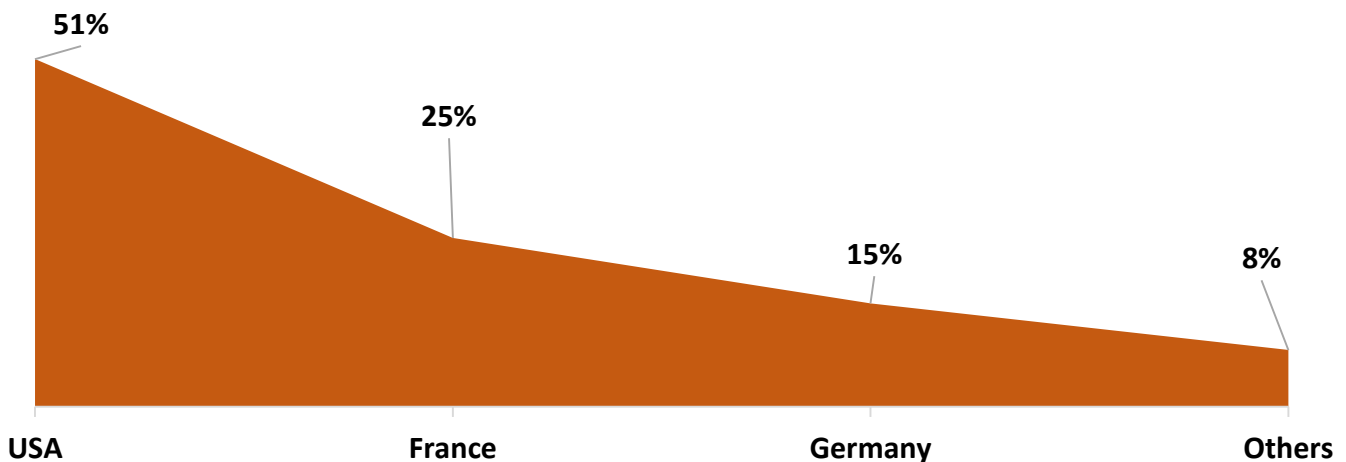
### HS-4201 (Country Wise Import Share)



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

Under HS 4205, Pakistan exports its items to majorly to United States of America. The import share of USA for this HS Code is 51% in Pakistan's exports under HS 4205. France imports 25% of these items and Germany imports 15% under this category from Pakistan. The remaining 8% is imported by different countries of the world.

### HS-4205 (Country Wise Import Share)



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## 4-Global Exporters- Articles of Leather

The overall global exports of Articles of Leather are recorded at USD 77 BN where China, Italy and France had the major share in these exports in 2017. China exported 37% of the total Articles of leather, while the exports of Italy were recorded at USD 9.1 BLN which is 12% of the total global exports.

Pakistan is the 14<sup>th</sup> major exporter of Articles of Leather to different countries of the world. Pakistan's share of exports of Articles of Leather is 1% of the total global exports of this product. In 2017, Pakistan exported Articles of Leather of value USD 631 MN as compared to USD 644 MN in 2016.

The top five exporting countries all together contribute share of 69% of the total global exports of Articles of Leather.

ARTICLES OF LEATHER- EXPORTERS							
Ranks	Exporters	Exported value in USD 000'					Share in 2017
		2013	2014	2015	2016	2017	
1	China	30,673,232	30,365,883	31,031,735	27,367,409	28,872,139	37%
2	Italy	8,461,753	9,145,726	7,980,595	8,017,339	9,176,852	12%
3	France	6,753,067	6,815,905	6,280,201	6,748,658	7,464,002	10%
4	Hong Kong,	6,383,214	5,950,720	5,342,973	4,705,267	4,763,078	6%
5	Viet Nam	1,776,790	2,350,776	2,704,003	2,985,053	3,080,614	4%
6	Germany	2,152,730	2,344,283	2,128,527	2,277,402	2,552,327	3%
7	India	2,513,188	2,548,217	2,425,276	2,345,799	2,410,114	3%
8	Netherlands	1,258,424	1,341,831	1,386,201	1,583,251	1,827,664	2%
9	USA	1,643,903	1,625,095	1,684,274	1,627,360	1,554,000	2%
10	Belgium	1,458,150	1,417,023	1,296,065	1,388,211	1,467,514	2%
14	Pakistan	743,538	742,028	687,621	644,930	631,953	1%
	<b>World</b>	<b>74,600,100</b>	<b>76,225,118</b>	<b>74,449,303</b>	<b>71,873,196</b>	<b>77,222,999</b>	<b>100%</b>

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## 5-Global Export Competitiveness- Articles of Leather

The top exporters of articles of leather, exports different %age shares from the total global exports. China, the top exporter of articles of leather experienced a 5% positive year on year in 2016-17 as compared to -12% in 2015-16.

The below table shows 4-Year export \$ value growth of top 20 exporting countries of articles of leather. Pakistan ranks 14<sup>th</sup> in the exporting list whereas it is observed that throughout the review period our exports are showing a decreasing trend until FY-17.

Moreover, all top exporting countries are showing a relative positive growth trend over the same review period (FY14-17)

ARTICLES OF LEATHER					
Export Competitiveness with Top-20 Competitor Countries					
Ranks	Exporters	%age change in exports year on year			
		2013-14	2014-15	2015-16	2016-17
	World	2%	-2%	-3%	7%
1	China	-1%	2%	-12%	5%
2	Italy	8%	-13%	0%	14%
3	France	1%	-8%	7%	11%
4	Hong Kong	-7%	-10%	-12%	1%
5	Viet Nam	32%	15%	10%	3%
6	Germany	9%	-9%	7%	12%
7	India	1%	-5%	-3%	3%
8	Netherlands	7%	3%	14%	15%
9	USA	-1%	4%	-3%	-5%
10	Belgium	-3%	-9%	7%	6%
11	Singapore	19%	23%	42%	7%
12	Spain	25%	-7%	3%	10%
13	UK	7%	8%	-8%	5%
14	Pakistan	0%	-7%	-6%	-2%
15	Czech Republic	5%	-13%	16%	27%
16	Switzerland	0%	-2%	3%	17%
17	Philippines	28%	50%	12%	-6%
18	Poland	25%	24%	13%	6%
19	Hungary	23%	4%	13%	9%
20	Thailand	6%	-6%	-9%	13%

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)



## 6-Global Importers- Articles of Leather

Under the same category of Articles of Leather, the global imports in 2017 stood at USD 74 BLN while the recorded value in 2015-16 were USD69 BLN.

In 2017, USA imported 18% of the Articles of Leather from different countries of the world. The total value imported by USA was USD 13 BLN in 2017 while in 2016 the import value for articles of leather was USD 13.1 BLN. Similarly, Japan's imports were 8% of the total global imports of the articles of leather.

The top importers of articles of leather include Hong Kong (6%), France (6%), Germany (6%), UK (5%), Italy (5%), China (4%), Korea (3%) and Spain (3%).

ARTICLES OF LEATHER - IMPORTERS							
Ranks	Importers	Imported Value in USD 000"					Share in 2017
		2013	2014	2015	2016	2017	
1	USA	13,412,700	13,871,141	14,448,716	13,197,711	13,488,245	18%
2	Japan	5,859,504	5,734,088	5,331,517	5,585,459	5,712,069	8%
3	Hong Kong	5,965,817	5,973,176	5,307,879	4,696,051	4,827,711	6%
4	France	4,307,801	4,614,927	4,188,795	4,256,744	4,707,304	6%
5	Germany	4,176,645	4,589,346	4,383,045	4,429,514	4,634,177	6%
6	UK	3,434,149	3,797,251	3,649,009	3,479,079	3,564,844	5%
7	Italy	3,074,442	3,369,046	3,223,402	3,207,639	3,502,708	5%
8	China	1,917,131	2,051,667	2,112,310	2,202,437	2,630,682	4%
9	Korea	2,006,169	2,207,847	2,106,084	2,220,648	2,421,617	3%
10	Spain	1,535,845	1,747,114	1,727,097	1,835,345	1,897,575	3%
	<b>World</b>	<b>70,146,194</b>	<b>73,716,389</b>	<b>70,721,280</b>	<b>69,769,839</b>	<b>74,292,278</b>	<b>100%</b>

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

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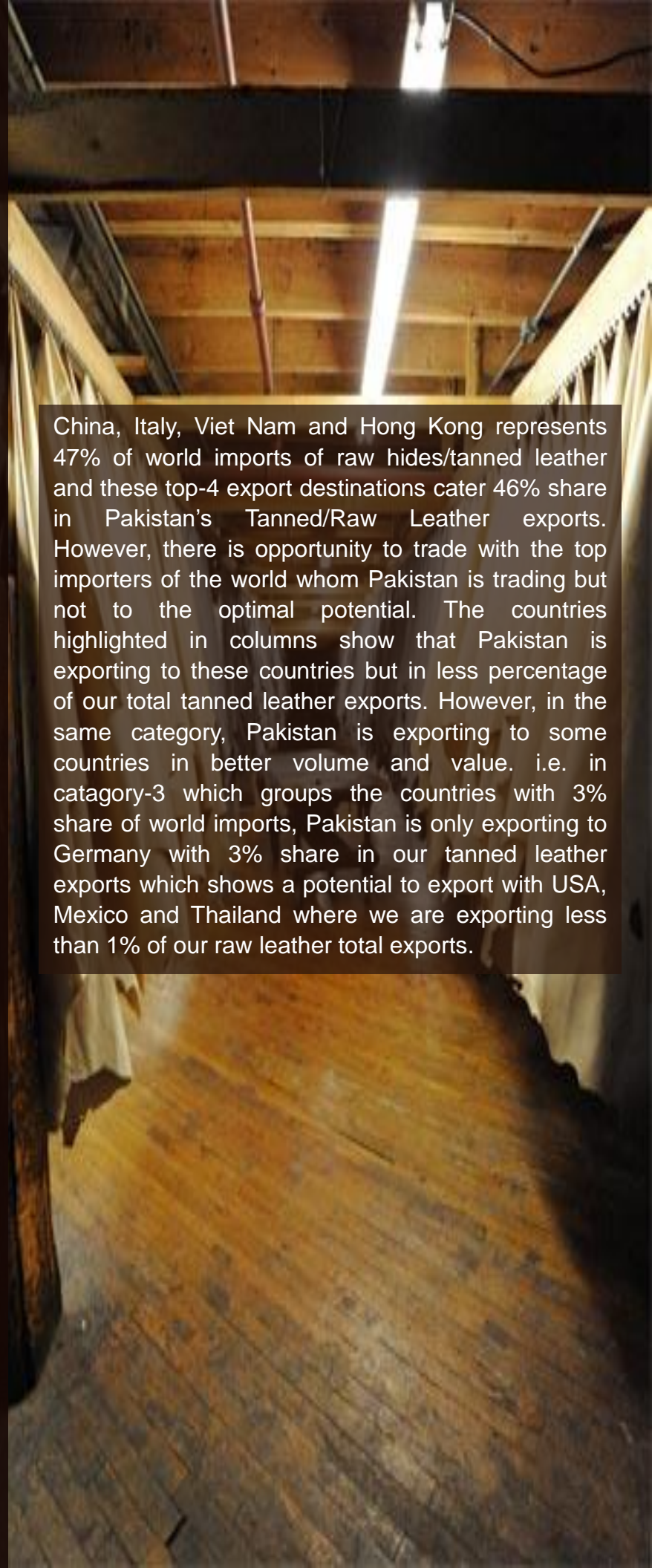
**Pakistan's  
Top Export  
Destinations For  
Tanned Leather  
& New  
Opportunities**



# Tanned Leather

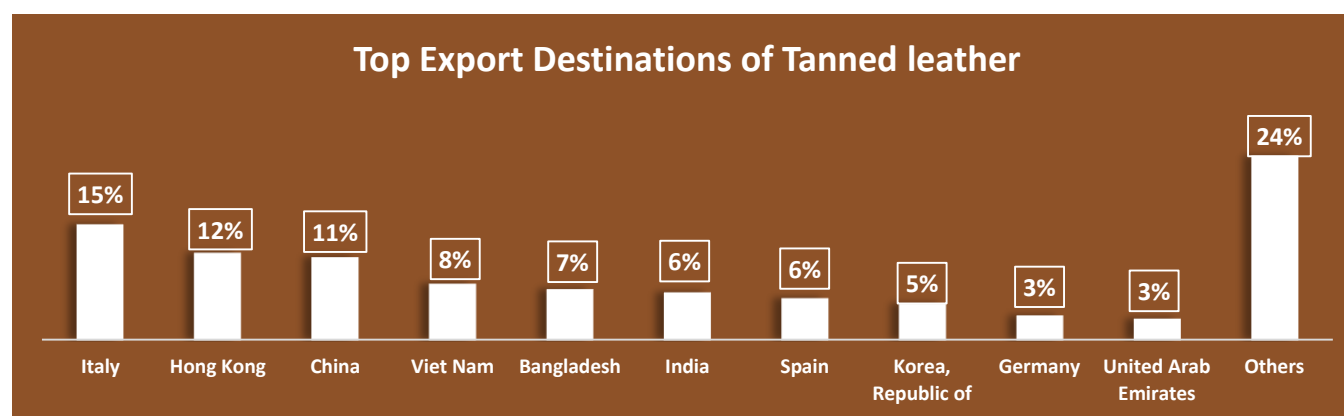
- 1- Export Opportunity
- 2- Country Wise Exports of Pakistan
- 3- Percentage Share
- 4- Global Exporters
- 5- Global Export Competitiveness
- 6- Global Importers

China, Italy, Viet Nam and Hong Kong represents 47% of world imports of raw hides/tanned leather and these top-4 export destinations cater 46% share in Pakistan's Tanned/Raw Leather exports. However, there is opportunity to trade with the top importers of the world whom Pakistan is trading but not to the optimal potential. The countries highlighted in columns show that Pakistan is exporting to these countries but in less percentage of our total tanned leather exports. However, in the same category, Pakistan is exporting to some countries in better volume and value. i.e. in category-3 which groups the countries with 3% share of world imports, Pakistan is only exporting to Germany with 3% share in our tanned leather exports which shows a potential to export with USA, Mexico and Thailand where we are exporting less than 1% of our raw leather total exports.



# 1-Export Opportunity- Tanned Leather

Sr. No	World Top 90%- Importers	Imported value in 2017	% of World Imports	Pakistan's Contribution	Pakistan's Export Value-2017	% in total exports
1	China	5,648,927	21%	1%	37,040	11.0%
	Italy	3,529,644	13%	1%	51,656	15.4%
2	Viet Nam	1,687,086	6%	2%	25,309	7.5%
	Hong Kong	1,666,783	6%	2%	39,129	11.7%
3	Mexico	1,063,223	4%	0%	102	0.0%
	Germany	904,000	3%	1%	11,086	3.3%
	USA	752,011	3%	1%	3,950	1.2%
	Thailand	713,804	3%	1%	4,296	1.3%
4	France	642,178	2%	1%	3,444	1.0%
	Spain	629,623	2%	3%	18,815	5.6%
	India	618,022	2%	3%	21,414	6.4%
	Korea	585,167	2%	3%	16,394	4.9%
	Romania	571,526	2%	0%	1,697	0.5%
	Poland	510,503	2%	0%	2,241	0.7%
	Portugal	499,969	2%	1%	3,136	0.9%
	Indonesia	426,798	2%	2%	9,353	2.8%
	Austria	404,503	2%	1%	2,832	0.8%
	5	Netherlands	330,557	1%	1%	3,590
Hungary		324,935	1%	0%	1,472	0.4%
Slovakia		321,387	1%	0%	51	0.0%
Croatia		318,678	1%	0%	358	0.1%
Taipei, Chinese		280,159	1%	1%	2,059	0.6%
Turkey		259,512	1%	2%	5,557	1.7%
United Kingdom		245,954	1%	0%	593	0.2%
Japan		244,973	1%	2%	4,768	1.4%
Tunisia		205,991	1%	0%	652	0.2%
Bosnia and Herzegovina		205,587	1%	0%	-	0.0%
Bangladesh		179,474	1%	13%	22,810	6.8%
Czech Republic		179,135	1%	0%	8	0.0%
Cambodia		177,095	1%	4%	6,849	2.0%
Ukraine		159,015	1%	0%	5	0.0%
Slovenia		154,760	1%	2%	2,835	0.8%
Albania	149,236	1%	0%	272	0.1%	
Serbia	145,489	1%	0%	133	0.0%	
Serial No. 1 to 5		24,735,704	90%		303,906	90%
Total		26,614,208	100%	100%	335,341	100.0%



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

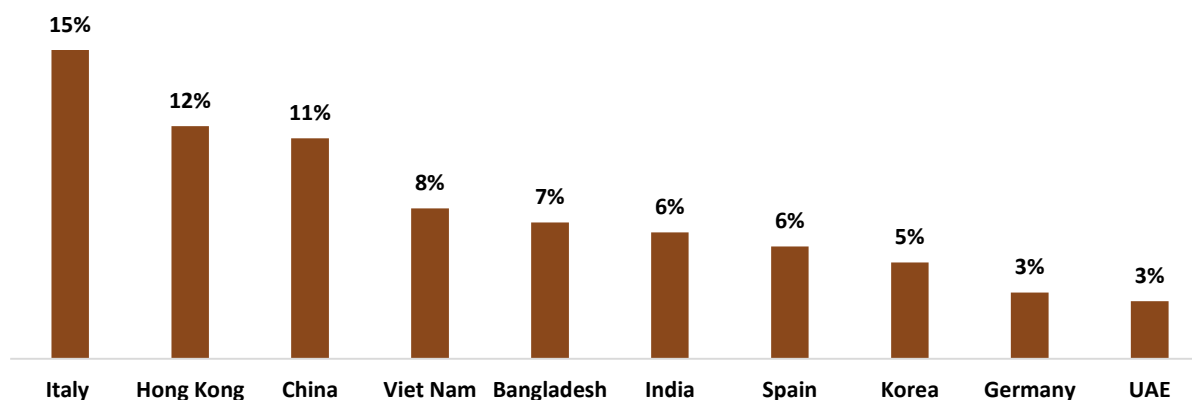
## 2-Country Wise Exports of Pakistan- Tanned Leather

The analysis in this section is extracted from Top-10 exporting destinations of Pakistan which represents more than 75% of Raw Hides and Skins under HS-41's total exports.

Sr. No	IMPORTERS	EXPORT VALUE USD'000
1	Italy	51,656
2	Hong Kong, China	39,129
3	China	37,040
4	Viet Nam	25,309
5	Bangladesh	22,810
6	India	21,414
7	Spain	18,815
8	Korea, Republic of	16,394
9	Germany	11,086
10	United Arab Emirates	9,667
	<b>World</b>	<b>335,345</b>

In 2017, Pakistan exported tanned leather of value USD 335 MN, while the same was USD 349 MN in 2016. The exports of Pakistan in 2017 placed it at 20<sup>th</sup> rank on the list of major exporters of tanned leather or raw hides and skins. Its total share in the exports of tanned leather is 1%. The top importers of raw hides and skins are Italy, Hong Kong and China. Italy imported the tanned leather of worth USD 51.6 MN in 2017 while Hong Kong imported the tanned leather of USD 39.1 MN in 2017.

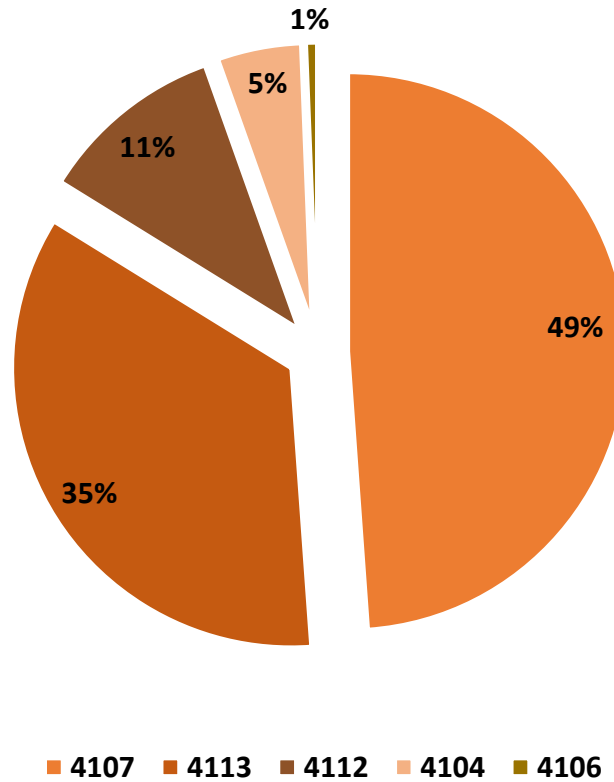
### Export Destinations of Pakistan



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

### 3-Percentage Share of Tanned Leather (Product Wise)

Top Product Categories in Tanned Leather Imports from Pakistan



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

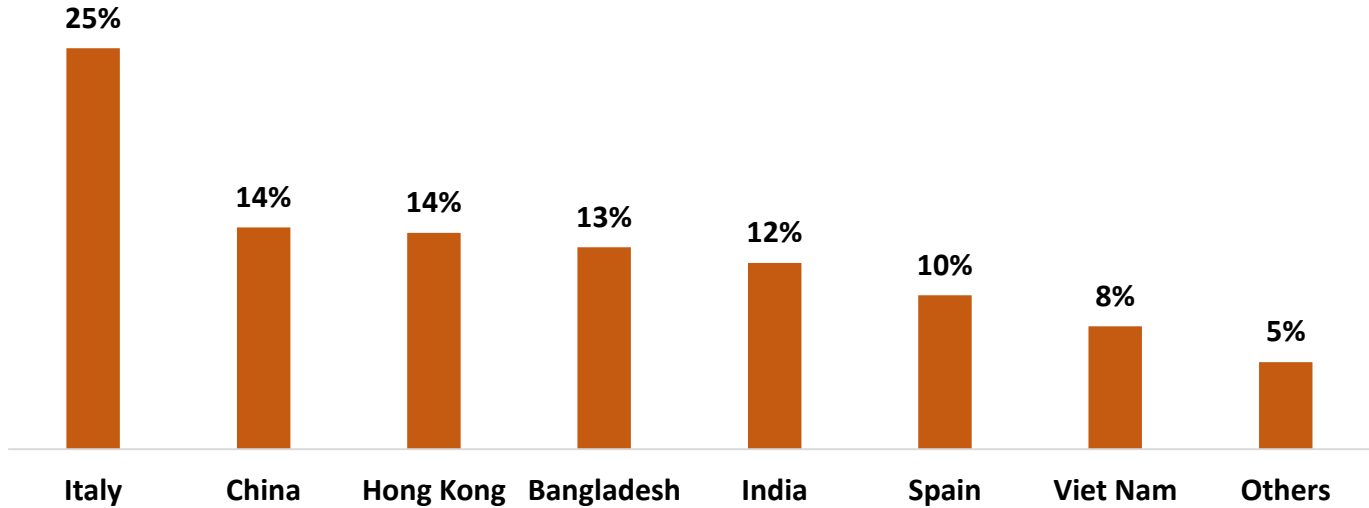
HS-4107: LEATHER PREPARED AFTER TANNING	
HS-4113	Leather further prepared by Goats
HS-4112	Leather further prepared by Sheep
HS-4104	Tanned or crust hides and skins of bovine
HS-4106	Tanned or crust hides and skins of goats or kids

Hs-4107: Leather further prepared after tanning or crusting "incl. parchment-dressed leather", of bovine" represents the highest share in tanned leather exports in 2017.

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

# Percentage Share of Tanned Leather

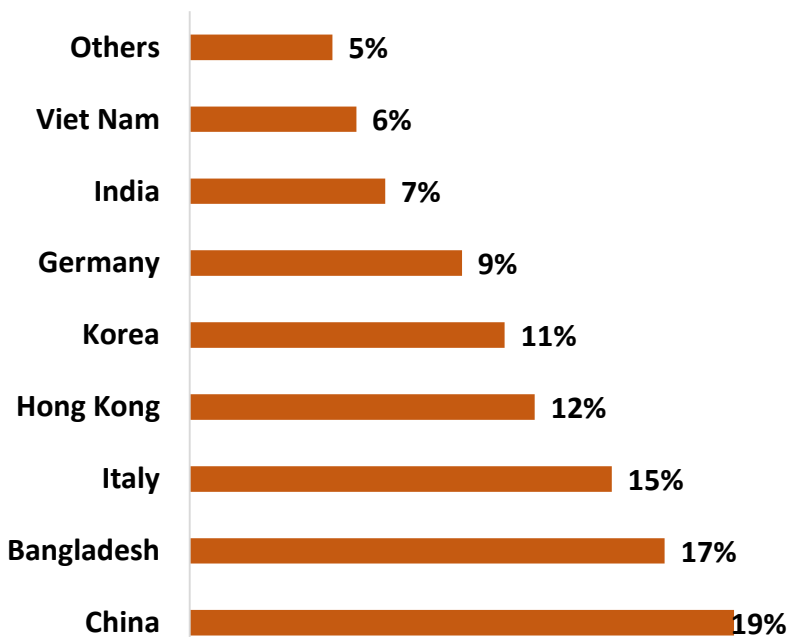
### HS-4107 (Country Wise Imports Share)



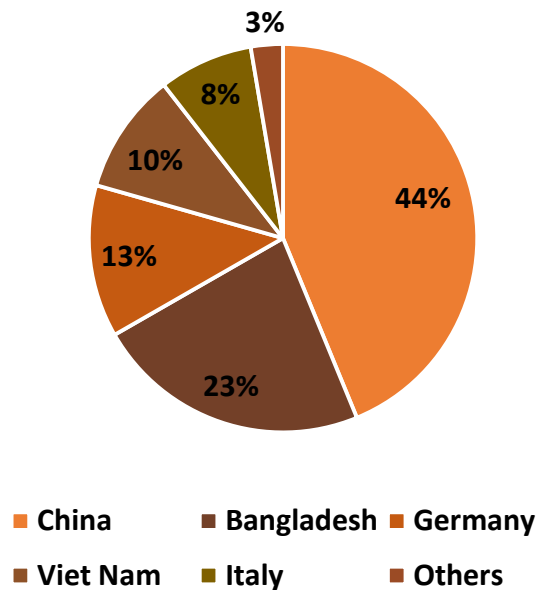
Pakistan’s exports of Raw Hides and Skins to world represents 1.5% of the world’s exports of this product. With 25% share in Pakistan’s exports of HS-4107, Italy imports the items of USD 31 MN followed by China with USD17.15MN imports and Hong Kong with USD 16.7 MN. Similarly, China imports 19% of items under HS-4113 from Pakistan i.e.

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

### HS-4113 (Country Wise Imports Share)



### HS-4104 (Country Wise Imports Share)

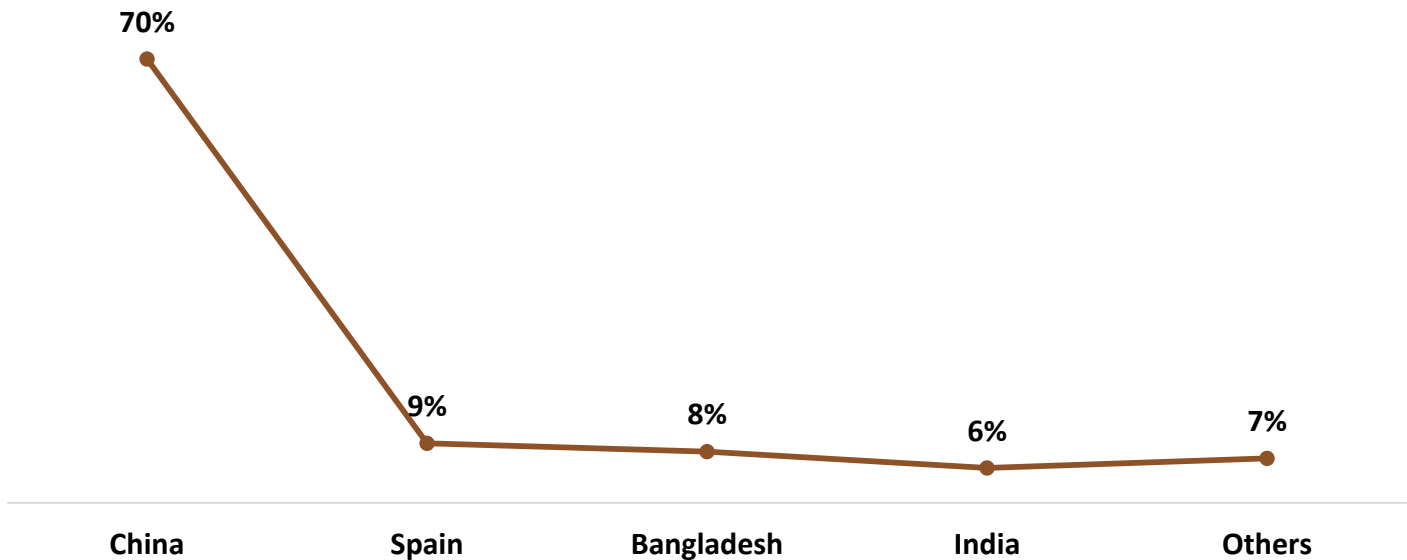


(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## Percentage Share of Tanned Leather

Under HS-4106, Pakistan's top importers are China with a share of 70% while Spain(9%), Bangladesh(8%), India(6%) and rest of the world importers with 7% share. China is the biggest importer under this category from Pakistan

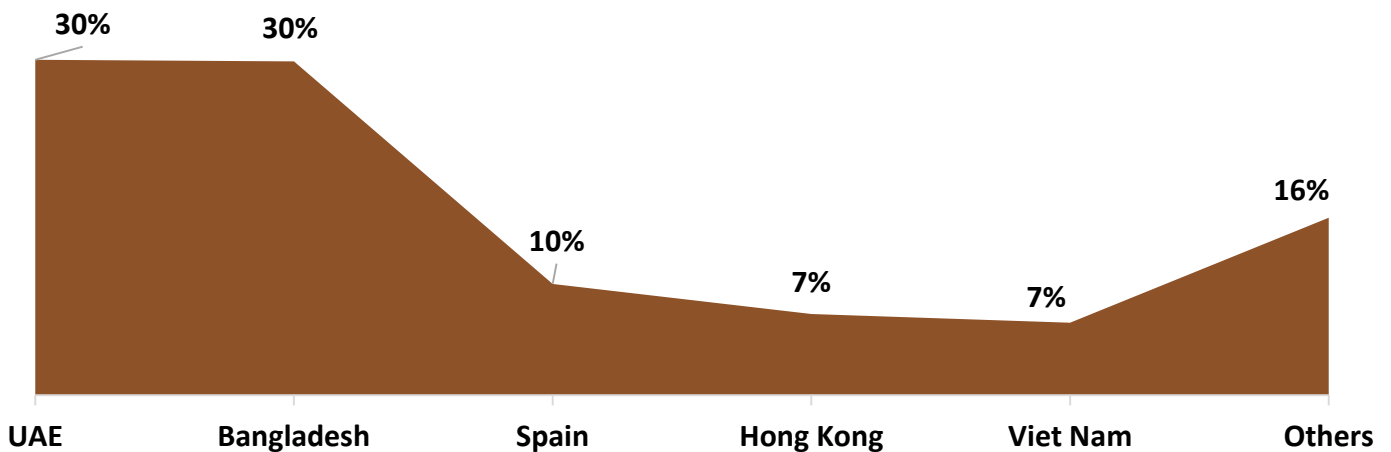
### HS-4106 (Country Wise Imports Share)



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

Under HS-4112, Pakistan's top exports are to UAE and Bangladesh as they import 30% of the items under HS-4112, while Spain imports 30% of the items under this category while Hong Kong and Viet Nam imports 7% each from Pakistan

### HS-4112 (Country Wise Import Share)



(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)



## 4-Global Exporters- Tanned Leather

The overall exports of Raw Hides & Skins commonly known as Tanned Leather is exported by few countries in the world. Reference to the below table, all top countries are experiencing a declining trend in exports of raw hides and skins as the world is moving towards the value addition.

Pakistan is the 20<sup>th</sup> major exporter of tanned leather to different countries of the world. Pakistan's share of raw hides & skins is about 1% of the total exports of this product. In 2017, Pakistan exported tanned leather of value USD 335 MN while the same was USD 349 MN in 2016.

Italy, USA and Brazil are the top exporters of raw hides and skins with a percentage share of 17%, 10% and 7% of the total global exports. The top five countries add up 39% of the total exports of the world.

RAW HIDES AND SKINS/ TANNED- EXPORTERS							
Ranks	Exporters	Exported value in USD 000'					Share in 2017
		2013	2014	2015	2016	2017	
1	Italy	5,521,320	5,594,942	4,583,842	4,332,707	4,419,964	17%
2	USA	3,757,799	3,833,706	3,186,945	2,741,014	2,698,190	10%
3	Brazil	2,510,559	2,947,940	2,265,342	2,032,541	1,899,502	7%
4	Hong Kong,	2,542,056	2,428,788	2,053,841	1,602,046	1,413,770	5%
5	Germany	1,416,441	1,512,259	1,223,602	1,111,644	1,108,986	4%
6	India	1,349,059	1,363,716	1,096,323	908,749	882,732	3%
7	Australia	1,195,723	1,156,344	985,359	755,155	752,466	3%
8	Spain	1,039,424	970,015	744,155	724,598	742,981	3%
9	France	975,105	980,568	777,203	730,575	737,322	3%
10	Argentina	916,903	1,003,200	824,080	715,201	719,982	3%
20	Pakistan	529,698	547,508	425,085	349,003	335,345	1%
	<b>World</b>	<b>35,677,256</b>	<b>36,416,467</b>	<b>30,072,715</b>	<b>26,217,623</b>	<b>25,991,460</b>	<b>100%</b>

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## 5-Global Export Competitiveness- Tanned Leather

The global export market of Tanned leather has experienced a negative growth of 1% in FY-17 whereas (13%) was recorded in FY-16. Italy is considered as the top exported of raw leather hides & skins which has ruled the export market of tanned leather with 2% positive year on year growth in FY-17

With 20<sup>th</sup> position in the global exporters of raw hides and skins, Pakistan's share of raw hides & skins is about 1% of the total exports of this product. In 2017, Pakistan experienced a negative 4% growth in comparison to -18% in 2015-16. As mentioned, Pakistan's export value of tanned leather in 2017 was USD 335 MN while it was USD 349 MN in 2016.

The below table shows 4-Year export \$ value growth of top 20 exporting countries of tanned leather. Pakistan ranks 20<sup>th</sup> in the exporting list whereas it is observed that throughout the review period our exports are showing a decreasing trend until FY-17.

RAW HIDES AND SKINS/ TANNED					
Export Competitiveness with Top-20 Competitor Countries					
Ranks	Exporters	%age change in exports year on year			
		2013-14	2014-15	2015-16	2016-17
	<b>World</b>	<b>2%</b>	<b>-17%</b>	<b>-13%</b>	<b>-1%</b>
1	Italy	1%	-18%	-5%	2%
2	USA	2%	-17%	-14%	-2%
3	Brazil	17%	-23%	-10%	-7%
4	Hong Kong	-4%	-15%	-22%	-12%
5	Germany	7%	-19%	-9%	0%
6	India	1%	-20%	-17%	-3%
7	Australia	-3%	-15%	-23%	0%
8	Spain	-7%	-23%	-3%	3%
9	France	1%	-21%	-6%	1%
10	Argentina	9%	-18%	-13%	1%
11	Austria	5%	-1%	-10%	3%
12	China	21%	18%	-6%	-2%
13	Korea	0%	-9%	-25%	-13%
14	Thailand	7%	2%	-6%	-3%
15	UK	4%	-13%	-13%	2%
16	Netherlands	9%	-21%	-9%	0%
17	Viet Nam	26%	30%	-10%	11%
18	Taipei, Chinese	8%	-19%	-24%	-8%
19	Mexico	8%	-5%	-22%	5%
20	Pakistan	3%	-22%	-18%	-4%

(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

## 6-Global Importers- Tanned Leather

Under the same category of Tanned Leather, the global imports in 2017 were recorded to be USD 26.6 BLN which stood at USD 26.8 BLN in 2015-16.

In 2017, China imported 21% of the global raw hides and skins from different countries of the world. The total value imported by China was USD 5.6 BLN in 2017 while in 2016 the import value for tanned leather was USD 5.7 BLN. Similarly, Italy imports 13% tanned leather of the total global imports.

The top importers of tanned leather include Viet Nam (6%), Hong Kong (6%), Mexico (4%), Germany (3%), USA (3%), Thailand (3%), France (2%) and Spain (2%).

RAW HIDES AND SKINS/ TANNED- IMPORTERS							
Ranks	Importers	Imported value in USD 000"					Share in 2017
		2013	2014	2015	2016	2017	
1	China	8,025,665	8,260,979	7,499,446	5,758,923	5,648,927	21%
2	Italy	4,588,126	4,957,395	3,781,346	3,331,612	3,529,644	13%
3	Viet Nam	1,164,801	1,686,007	1,741,976	1,667,965	1,687,086	6%
4	Hong Kong	3,503,347	3,081,336	2,466,909	1,858,660	1,666,783	6%
5	Mexico	1,012,630	1,164,592	1,164,995	1,165,427	1,063,223	4%
6	Germany	1,208,793	1,290,625	947,643	895,080	904,000	3%
7	USA	738,096	816,748	821,365	805,429	752,011	3%
8	Thailand	703,659	744,792	688,537	643,034	713,804	3%
9	France	762,183	752,901	642,841	640,789	642,178	2%
10	Spain	877,241	948,982	821,231	673,628	629,623	2%
	World	33,779,408	35,907,732	31,025,547	26,867,625	26,614,208	100%

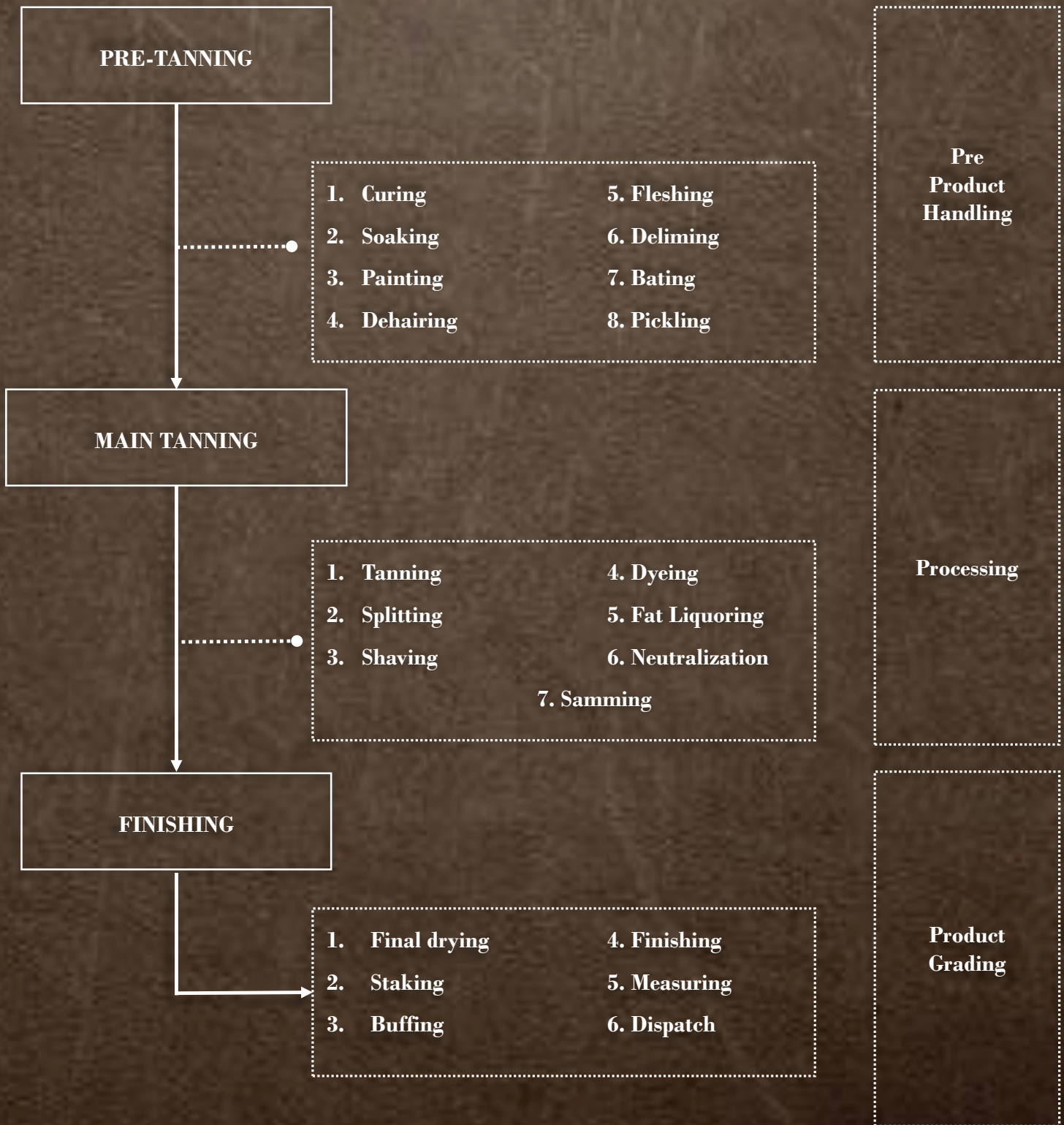
(Source: Pakistan Tannery Association, Trademap.org, Transactions Department Inhouse Research :PBIT)

9

**Leather  
Manufacturing  
Process Flow**



# Leather Manufacturing Process Flow



## Leather Manufacturing Process Flow- Details

### PRE PRODUCT HANDLING:

This is the pre-tanning stage for leather processing which is initiated soon after the raw hides and skins are collected by the tannery. The stage includes a step as Curing of hides and skins by salts or brine solution. This done to ensure the non-decomposition of hides and skins. Curing is done by salting, chilling or freezing. The hides are the Soaked in water for hours and days which removes salts and dirt while wool or hair are then removed in Painting step, whereas, Fleshing is done to remove any attached piece of flesh. The hides and skins are then De-limed to neutralized any presence of alkali. Bating, includes the longer liming of delimed hides and skins to get clean surface for tanning. Pickling is done to store hides and skins for longer period of time before tanning.

### PROCESSING:

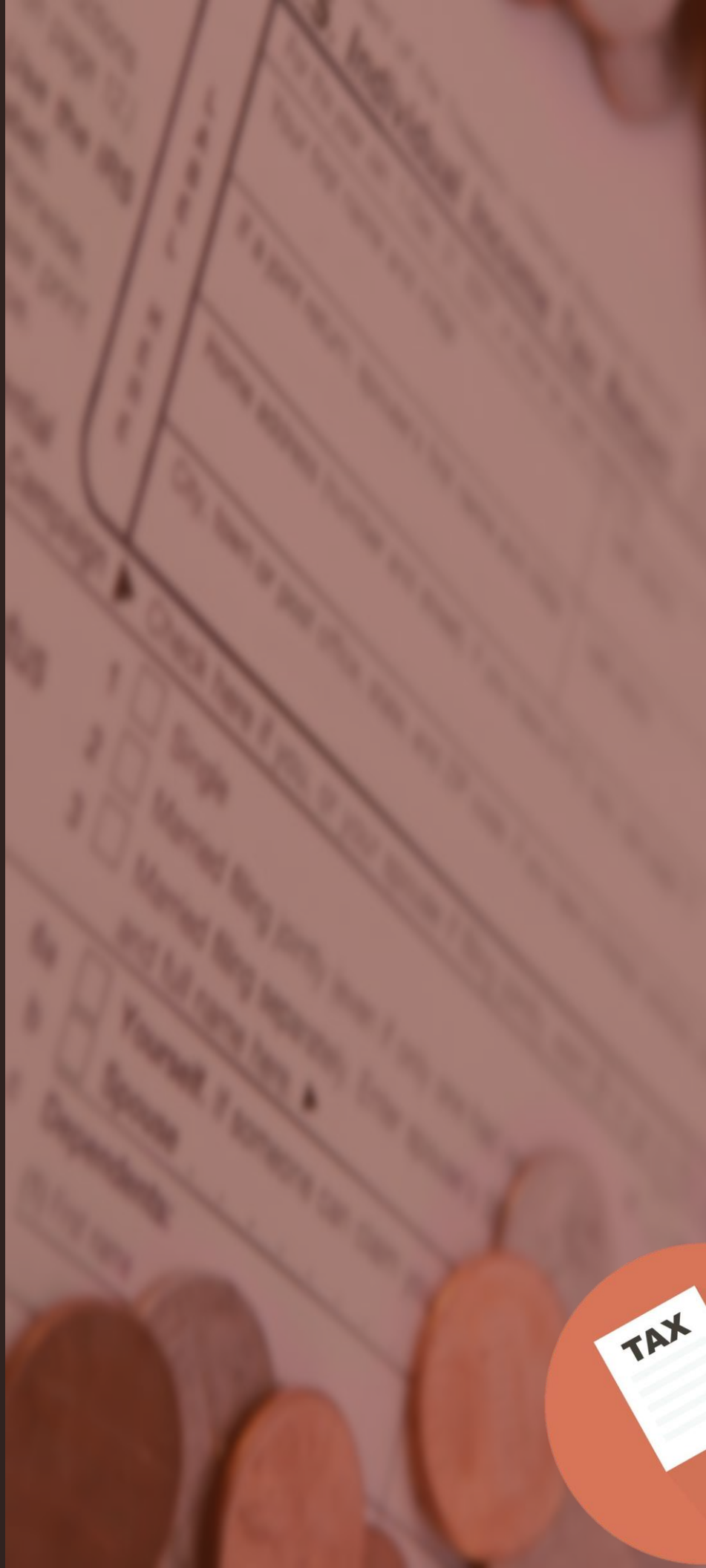
This is the Main Tanning stage where protein of raw hides and skins is converted into a stable material. This stage would shape into the more usable form of the raw hide and skin. The raw hides and skins can be tanned by minerals, oil, vegetable. Mostly, chromium tanning is done in mineral tanning. After the hides and skins are tanned, the thicker leather is sliced into splitted layers. To achieve a uniform thickness for all layers, Shaving is done on the non-grain side of the Sliced leather. In addition to this, some treatment is applied to the shaved hides and skins for Neutralization which also requires some additional tanning for particular leather properties. The hides are finally ready for Dyeing with wide range of colors to meet latest trend and fashion requirements. For softening the leather, the colored leather sheets are Fatliquored by using some special oil lubricants. In case of some additionally stored water in the sheets, Samming, is done by machines which reduces atleast 55% of the stored water.

### PRODUCT GRADING:

In this stage, the processed leather sheets are set out for Final Drying to atleast 10%-20% of the water content. Stacking is the process in which the machine is used for softening the leather and making it more flexible. The fibred leather is then Buffed or Brushed to reduce thickness and get a fine look and removing excessive dust. Final Grading is done on the basis of color, softness, finishing, appearance, designs and scratches to Dispatch the Measured pieces of leather, uniformly and accurately.

10

## Tax Incentives



## Tax Incentives

The Federal government of Pakistan announced various tax incentives and business friendly steps for the Leather Industry of Pakistan in Budget 2018-19.

### TAX INCENTIVES

- Exemption of 3% Custom Duty
  - On Tanned Hides and Skins
- Exemption of Additional 2% Custom Duty
  - All Plant and Machinery Used in Manufactured or Production of Goods
- Reduction on Regulatory Duty on Import of Goods
  - 5% to 35% on Leather Decreasing Agents
  - 20% on Bags and Trunks
  - 50% on Garments
  - 15% on Footwear Outer Soles
  - 35% on Footwear material and Composition or Uppers of Leather
- 5% Drawback on Local taxes & Levies on Finished Leather
- Increase in Threshold of Taxable Income

### SPECIAL ECONOMIC ZONE

- SEZ in PUNJAB, PAKISTAN
  - FIEDMC
  - PIEDMC
- INCENTIVES
  - 10-Year Income Tax Holiday
  - One Time Exemption on Import Duty on Machinery
  - Developed Infrastructure
  - Road Network

(Source: Pakistan Tannery Association, Transactions Department Inhouse Research :PBIT)





# 11

## Way Forward

### 1- Suggestions to Improve Leather Exports

- i. Value Addition in Leather Products
- ii. Active Membership of Leather Working Group (LWG)
- iii. Preservation of Hides & Skins
- iv. Compliance with Environmental Regulations

### 2- Potential Joint Venture Partners



# 1-Suggestions to Improve Leather Exports

---

## **i-Value Addition in Leather Products**

Over the period of last five years (2013-18), globally export of tanned leather has shown a declining trends as compared to articles of leather.

This tilt tells that global manufacturers of leather are moving towards value addition and the share of tanned leather exports over the period has shrunk (2013: 32% Vs 2017: 25%)

Pakistan leather exports over the same review period (2015-18) is not in line with the global trends. Although due to global decrease in tanned leather prices, globally tanned leather exports has declined over the period (2013-18) but Pakistan tanned leather exports increased in quantity and therefore depict more decline in exported value relative to global decline in value.

Moreover, finished articles exports in 2016 and 2017 shows a decline and recover in 2018. It is pertinent to mention here that Pakistan exports of leather articles throughout the period is lagging the global trends and decline by more than global decline, however recover in the recent year in line with global increase in 2018.

This suggests that globally, countries are shifting toward finished articles exports and growing their local leather industry and Pakistan leather manufacturers should increase their exports particularly in article of leather.

*(For detail analysis please refer section: Global value Vs quantity Analysis)*

## **ii-Active Membership of Leather Working Group (LWG)**

As per the initiative of this leather working group, steady and significant improvements have been seen on environmental level, as the manufacturing has been done in accordance to the natural safety while climate friendly steps have also been take.

Averagely, 12.1BN liters of water has been saved by the leather manufacturers registered at LWG. Along with this, 775MW energy has been conserved. It has been documented that 16% of the world's finished leather has been produced by the member companies of LWG. The companies get benefit of an international platform for their business.

The State Bank of Pakistan in recently released quarterly report has pointed out that only three manufacturers in Pakistan are members of the LWG. A lot of room is still available for in this regard for the tanneries in Pakistan especially when compared to India and China that have 88 and 76 manufacturers as part of the LWG.

Internationally, an ever increasing proportion of retailers and brands are relying on the LWG, which means the number of compliant LWG manufacturers in Pakistan needs to be raised on a war-footing basis.

## Suggestions to Improve Leather Exports

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### iii-Preservation of Hides & Skins

Pakistan is home to a Muslim population, majorly. With religious significance, there are few events which have a very positive economic effect on national exchequer. The Muslims celebrate this event once a year which provides jobs and business to several people across the country.

It has been noted that lack of awareness in dealing with skins and hides technically, the uncontrolled conditions with hot weather and power shortage in last year resulting into load shedding has damaged the industry. Every year, around 25% hides of sacrificial animals on Eid ul Azha, causes an estimated loss of about PKR1.5 billion to both tanneries and the hide dealers. The basic problem comes with the handling of the skins and hides.

In 2017-18, 13MN hides and skins were expected during the three days of Eid. The export of leather goods and articles was then expected to see a deficit of USD 325-375 MN if electricity and gas weren't provided during those three days.

The Pakistan Tannery Association (PTA) quotes that the country would be experiencing the annual loss of more than USD 400 MN other than those PKR 1.5 BN in terms of foreign exchange if the necessary steps are not taken for preservation of hides and skins.

(Source: dnd.com.pk, Pakistan Tannery Association, Ministry of National Food Security and Research, Transactions Department Inhouse Research :PBIT)

Suggestions: -

- Improved Slaughter Practices
- Centralized Slaughter Houses
- Trained Professionals
- Proper Handling of Skins and Hides
- Preserving of Hides and Skins Using Scientific Methods
- Research & Developments Centres
- Training of Professionals at Charity & Welfare Organization
- Mechanism of Quick Delivery to the Buying Houses
- Initiation of Project Specific Courses at Relevant Universities
- Proper Supply of Electricity & Gas

### iv-Compliance with Environmental Regulations

International buyers of finished leather and leather goods require a higher degree of compliance with environmental regulations. Meeting environmental compliance standards has always been challenging for tanneries in developing countries like Pakistan. The disposal of solid waste is the biggest challenge for tanneries. Contaminants/chemicals in the liquid waste must be treated by an effluent treatment plant before being discharged into water bodies. Tanneries in Pakistan should comply with the international standards for regulation to improve their export orders from around the world as international buyers require high degree of compliance.



## 2-Potential Joint Venture Partners

### Leather Textile & Apparel Collaboration- Pakistan & China

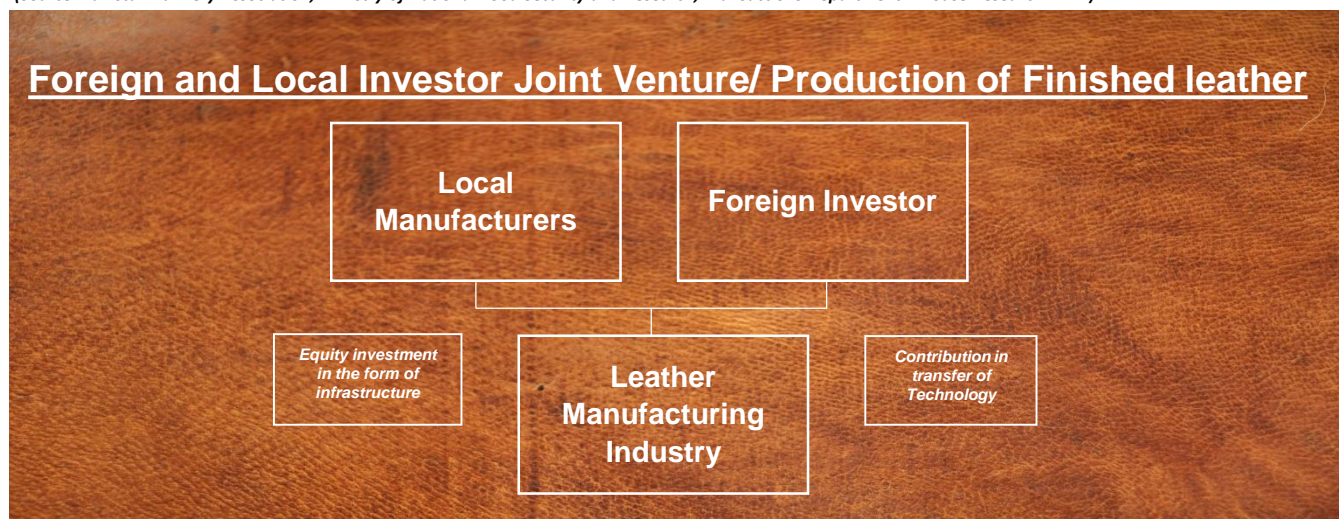
Due to increasing economic cooperation with China under the China-Pakistan Economic Corridor (CPEC), Pakistan has the potential to boost growth of Small and Medium Enterprises (SMEs) through joint ventures between businessmen of the two countries, and modernization of our existing leather industry through transfer of technology and financial assistance.

There is a wide scope for joint ventures between Pakistani and Chinese SMEs, especially in the fields of leather and apparel, because China currently dominates the conversion of leather into finished leather goods; however with rising labor costs, Chinese leather industries are willing to relocate to other developing economies. Globally, the demand for leather garments exhibit a stable trend (\$12 BLN: 2013, \$10 BLN:2017), however, the demand for leather products continue to expand (\$62 BLN: 2013, \$65 BLN:2017).


Pakistan is well positioned in this regard because of the availability of finished leather and competitive labor costs (although cost of doing business is high due to the factors discussed previously). Pakistan's growth has been restrained by an inability to meet changing customer demands including a fast turnaround for fashion items. Pakistan has the best quality of raw material (raw skin and leather) of cow, buffalo, goat and sheep, but production has been restrained because of a decrease in livestock production and high cost of doing business. It is vital for Pakistan to resolve the growth constraints on the leather sector. Access to technology and sector specific equipment is important for the expansion of the leather sector. Moreover investment in manufacturing and value addition are required. Since establishment of Pakistan, the primary focus has been on tanning (the process of treating skins and hides of animals to produce leather). Pakistan exports 95% of the total leather produced in the country while 35% of its exports comprise of leather without value addition and finished products.

Leather sector imports 25% of hides and skins from the Middle East, Africa and Australasia and exports semi-finished leather to mainly China, Italy, Vietnam and Hong Kong. CPEC offers immense opportunities for industry-led economic growth in Pakistan if we are able to take advantage of the emerging opportunities. Strong liaison and joint business ventures with Chinese enterprises will ensure a transfer of technology that shall help in the modernization and production of finished leather. For sustainability of local leather industries, it is vital to acquire and follow chemical production, dyeing, and tanning techniques from Chinese counterpart to meet the international environmental standards.

*(Source: Pakistan Tannery Association, Ministry of National Food Security and Research, Transactions Department Inhouse Research :PBIT)*



## Potential Joint Venture Partners






FRANCE

TOM & EVA, a wholesaler based in Aubervilliers specializes in leather goods. It outsources its manufacturing from China. There is a good potential for JVs in Pakistani market where TOM & Eva can shift there business on low labor cost and lucrative market. The company offers bag packs, handbags, clutches, wallets etc.

AFFAIRE DE SAC is leather bag wholesaler. Their leather products can be exclusively customized for production. The technological and branding expertise can enable local Pakistani businesses for creating export potential. It manufactures leather bags, rucksacks, travels bags, wallets, satchels, laptop bags.

Founded in Paris in 1924, LEON FLAM's heritage is closely connected with travelers, including the brave and adventurous Aéropostale pilots. The brand offers a range of elegant luggage pieces for modern-day travelers, as well as everyday bags and wallets.




Daphne International Holdings Limited is a Hong Kong-based investment holding company, who is also one of the largest shoe manufacturers in China. The Company operates through several segments, including the sales of footwear products under Daphne and Shoe Box and other brands.

Spider King Group, also based in Wenzhou, Zhejiang, is one of the largest shoe manufacturers and distributors for upscale shoes in China. The Company specializes in producing and selling commercial leather shoes.

The largest shoes manufacturing group of China with more than 25% of market share, Belle, also owns several major footwear brands in China, including Belle, Staccato, Joy & Peace.




  
  

Hong Lam leather gifts and products processing facility was first established for small domestic units. Hong Lam Service Trading Production Co., Ltd with the aim of developing the growing company to bring the best product quality to customers.

The company is registered at Viet Nam and is the top 3<sup>rd</sup> company for manufacturing and dealing in wallet, purse, bags, belts, shoes and other leather products

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# ABOUT US

Punjab board of investment & trade is a provincial trade and investment promotion agency established by the Government of Punjab in 2009. In today's global economy, trade and investment play an increasingly important role in generating means for transformative change. At PBIT, we strive to ensure that this transformative change is sustainable and more impactful. PBIT is committed to enhancing the global competitiveness of Punjab and its business. To this end, we work to attract new investments in the region and strengthen the existing ones by promoting local investment opportunities, facilitating businesses and highlighting the distinct advantages of Punjab as a business location.

Incorporated under Section 42 under the Companies Ordinance of 1984, Punjab Board of Investments & Trade (PBIT) assists companies which intend to invest in the manufacturing and services sectors of Punjab. The wide range of services provided by PBIT include providing information on the opportunities for investments, as well as facilitating companies which are looking for joint venture partners. PBIT acts as Punjab's marketing arm and actively promotes the province worldwide as one of the best investment hubs in Asia. PBIT as Special Economic Zone Authority Punjab also evaluates the applications/proposals from Developers to declare their Industrial Parks as Special Economic Zones. For granting one time import duty exemption on machinery, equipment, spare parts, consumables in Special Economic Zones, PBIT is responsible to issue a confirmation Letter on the status of the applicant prior to seeking the permission from the relevant department/agencies to claim for the exemption. Investors are always encouraged to discuss their project interests with PBIT officers, wherein Information can be obtained on major public/private projects, prevailing sectoral policy framework, existing incentive regime, financing options, trade statistics etc. Punjab Board of Investment & Trade is a Steering Committee Member and the Director of South Asia at the World Association of Investment Promotion Agencies (WAIPA) - a prestigious world association of organizations similar to PBIT created by UNCTAD.

## Projects and Policy Research Department

Punjab Board of Investment and Trade targets a socio-economic growth through its P&PR. The department plans to fortify its deep roots, both locally and internationally, by reaching out to leading businesses for discussing the panoramic commercial opportunities. As per the initiative of inventiveness, the department plans to provide a transaction advisory as defined in its role to bring-in the investments and establish new businesses. For this purpose, Pitch books of different identified sectors are a new resourcefulness of this department which would target to develop the in-house capacity of production by connecting the local and international market players. This would not only ensure the technology transfer but also create several jobs in the province. The department plans to connect through the regional IPAs, financial institutions, the embassies in different countries and local chambers as well so as to fast-track the process of economic growth and industrialization in Punjab in regard to its recognition as 'The Land of Opportunities

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