P. A. C. No. 506

PUBLIC ACCOUNTS COMMITTEE
(1975-76)

(FIFTH LOK SABHA)

TWO HUNDRED AND NINTH REPORT

EXPORT OF LEATHER

MINISTRY OF COMMERCE

[Paragraph 29 of the Report of the Comptroller and Auditor General of India for the year 1973-74, Union Government (Civil)].

LOK SABHA SECRETARIAT
NEW DELHI

March, 1976/Chaitra, 1898 (S)

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(1975-76)

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INTRODUCTION

I, the Chairman, Public Accounts Committee, having been authorised by the Committee, do present on their behalf this Two Hundred and Ninth Report on Paragraph 29 of the Report of the Comptroller & Auditor General of India for the year 1973-74—Union Government (Civil), relating to Export of Leather.

2. The Report of the Comptroller and Auditor General of India for the year 1973-74—Union Government (Civil) was laid on the Table of the House on the 30th April, 1975. The Committee examined paragraph 29 of the said Audit Report at their sittings held on the 14th and 15th July, 1975. The Committee considered and finalised this Report at their sitting held on the 23rd March, 1976. Minutes of these sittings form Part II* of the Report.

3. A Statement showing the main conclusions|recommendations of the Committee is appended to the Report (Appendix V). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the examination of the subject by the Comptroller and Auditor General of India.

5. The Committee would also like to express their thanks to the officers of the Ministry of Commerce for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
March 24, 1976.
Chaitra 4, 1898 (*Saka*).

H. N. MUKERJEE,
Chairman,
Public Accounts Committee.

*Not printed. One cyclostyled copy laid on the Table of the House and five cyclostyled copies placed in Parliament Library.

CHAPTER I

INTRODUCTORY

India has the largest livestock population in the world. According to 1972 census, India possesses 179 million cattle, 58 million buffaloes, 68 million goats and 40 million sheep.

1.2. Despite having the largest livestock population, India's share in world leather exports is barely 20 per cent. During the last five years, the proportion of India's leather exports to its total exports ranged between 5 to 9.5 per cent only, indicating significant unexplored potential for export of leather and leather manufactures.

1.3. Sixty one per cent of the leather exported is in the semi-finished form. There are two main varieties of semi-finished Indian leather, *viz.*, East India Tanned (E.I.T.) and Chrome Tanned Wet Blue. The E.I.T. process is a process of vegetable tanning. It was introduced in Madras (now Tamil Nadu) about two centuries ago. It has been perfected with considerable local skill and raised to the level of an art. This process is peculiar to India and cannot, it is understood, be duplicated elsewhere. The main centres of E.I.T. process are in and around Madras. There are certain other centres like Ambur, Vaniyambadi, Erode, Dindigul, Tiruchi in Tamil Nadu. There are some tanneries around Bombay notably at Dharavi also.

The Chrome Tanning process is of comparatively recent origin in India. It is a system of tanning with chemicals. The important wet blue centres are at Kanpur, Agra, Calcutta and Madras.

1.4. There are 433 tanneries in Tamil Nadu, 200 tanneries in Calcutta and roughly 25 in other States. India has about 35 finished leather units in the organised sector (concentrated in Calcutta, Kanpur and Madras) and 200 in the unorganised sector (mostly in Calcutta).

1.5. Indian semi-finished leathers are known for their toughness, tensile strength and preservation properties.

1.6. An important characteristic of the leather industry in India is that it is highly decentralised. The production in the large scale sector accounts for no more than 10 to 15 per cent of the total production of tanned hides and leather footwear. It has a preponderance of small tanneries. The Leather Industry is labour intensive

About 8,50,000 people are employed in different branches of this industry.

Progress in Plan Periods

1.7. Leather industry did not make much headway in production and exports during first three Five Year Plans and it was only during the Fourth Plan that a break-through was achieved. Plan Targets and achievements are enumerated below:—

PRODUCTION

	Tanned Hides Skins (Million Pieces)		Leather Footwear (Million Pairs)		Export of Leather Footwear (Million Pairs)	
	Target	Achievement	Target	Achievement	Target	Achievement
First Plan . .	46·0	46·0	91·0	88·5	0·5	1·5
Second Plan .	50·0	47·6	102·0	102·0	1·0 2·0	2·5
Third Plan . .	52·0	69·1	140·0	140·0	4·5	4·0
Fourth Plan .	93·9	100·8	200·0	200·0	10·12	7·9

1.8. The aim of the Fourth Five Year Plan was to:—

(a) utilise the available raw hides and skins for tanning purposes and also to further process them into finished leather;

(b) meet the domestic demand for leather and leather articles fully; and

(c) export as much of leather footwear and leather articles as possible to earn valuable foreign exchange.

1.9. The Ministry of Commerce was asked to indicate the estimates of leather export both in terms of quantity and value as envisaged in the 5th Five Year Plan.

The Committee have been informed as follows:—

"The following are the estimates of leather exports in terms of value envisaged for the 5th Five Year Plan 1974-75 to 1978-79.

(Rs. in crores)

Years	E. I. Tanned	Wet Blue	Finished leather	Leather goods	Footwear components	Total
1974 75 . .	90	60	30	10	15	205
1975-76 . .	90	50	60	20	30	250
1976-77 . .	65	35	100	40	60	300
1977-78 . .	50	25	150	55	90	370
1978-79 . .	40	20	205	65	120	450

Quantitative targets are not indicated".

Studies in Export Promotion

1.10. Conscious of the need for higher unit value realisation for export, Government have been trying since 4th Five Year Plan to change the pattern of export from semi-processed hides and skins to finished leather and leather products. The first comprehensive study about export potential of leather was made by the Gokhale Institute of Politics and Economics. Poona in conjunction with the Central Leather Research Institute, Madras. In their Report submitted in 1969 the promising potential for export was emphasised. The strategy recommended for increasing exports included amongst others the following measures:—

(a) diversification of products and markets,

(b) obtaining higher unit value through improvements in the quality of the products.

(c) building up of infrastructure,

(d) collection and dissemination of Overseas Market Intelligence,

(e) setting up of (i) Common Facility Centres (ii) Raw Material Banks (iii) Leather Goods Centres (iv) Design Centres (v) Marketing Agency for Small Scale Units (vi) finishing Units.

(f) **Incentives to the Entrepreneurs,**

(g) **Re-structuring of Leather Industry,**

(h) **Modernisation of Slaughter Houses, etc.**

1.11. Another Committee was appointed in July, 1972 under the Chairmanship of Dr. A. Seetharamaiah to make a comprehensive study of the question of promoting Indian exports of leather manufactures. The Committee was asked *inter alia*:—

(i) to examine the necessity of reducing the export of E.I. tanned and chrome tanned hides and skins,

(ii) to suggest measures for speedier switch-over of exports from semi-processed hides and skins to finished leather and leather manufactures.

(iii) to consider the impact of export ceiling on short-term and long-term earnings of foreign exchange.

(iv) to examine whether the exemption of the tanning industry from the provisions of Section II of I (D&R) Act will help in increasing exports.

(v) to identify the steps to be taken for the mechanisation of the leather industry for increasing export production.

(vi) any other relevant matter connected with the export of leather and leather manufactures.

1.12. The Seetharamaiah Committee suggested a number of measures for promoting export of leather manufactures. Its main recommendations were: restriction on export of semi-finished leather, cash subsidy to the extent of 15 per cent against the exports of finished leather and creation of infrastructure. The Committee worked out that the investment required for setting up of the infrastructure including land, building and machinery for conversion of 75 per cent of the exports of semi-processed hides and skins during 1971-72 would be about Rs. 60 crores with a foreign exchange component of Rs. 10 crores. The additional foreign exchange earnings by export of finished leather would be about Rs. 90 to 95 crores, per annum. In case a portion of the finished leather is further converted and exported as leather footwear and other leather goods, the foreign exchange earnings would be, it was pointed out, still higher.

1.13. The need for exporting leather in finished form was also emphasised in 1974 by the United Nations Committee for Trade and Development. Its study on the marketing and distribution system for hides and skins, leather and leather footwear pointed out that a country's foreign exchange earnings on account of hides would increase by 136 per cent if exported as finished hides instead of as raw hides and that of skins to 186 per cent if exported as finished skins instead of as raw skins. The study also observed that "generally speaking, it can be said that these earnings also tended to increase with each degree of processing in the countries studied".

1.14. These are some of the basic background facts which should be kept in mind in any examination of the problems and prospects of our leather industry.

CHAPTER II

EXPORT OF LEATHER

Audit Paragraph

While international trade in leather has traditionally been dominated by certain countries, a number of others have also been exporting sizable quantities of leather, particularly in semi-finished form—*viz.*, Argentina, Brazil, China, India, Nigeria, Pakistan, Uruguay, etc.

2.2. An important consideration which governs the leather ex-export policy of many countries is the relative unit-value which can be realised on the export of leather in its various forms, *viz.*, raw, semi-finished, finished or as manufactured goods. Every additional process undertaken within the exporting country adds to the value of export product, and is therefore expected to yield higher earnings of foreign exchange. According to a joint study made by the Gokhale Institute of Politics and Economics, Poona, and the Central Leather Research Institute, Madras, in 1969, tanning is expected to add 51.78 per cent to the value of raw hides and skins, while tanning and finishing would add 62.43 per cent, in Indian conditions. Thus, finishing of tanned leather would add about 7 per cent to its value. The above study, however, pointed out that this might be an under-estimate, and supposed that in the case of cattle and buffalo hides as well as calf skins the value added by finishing tanned leather might be taken as 10 per cent, while in the case of goat and sheep skins it could be as high as 50 per cent in some cases, and about 25 per cent on an average.

2.3. India has the largest livestock holding in the world, with a total of about 348@ million heads of cattle, buffaloes, goats and sheep. Its share in world leather exports was estimated in 1972 to be nearly 20 per cent. The proportion of India's leather (semi-

@ According to 1972 Census, India's livestock population was estimated as 345.225 million.

finished, finished manufactures, etc.) exports to its total exports in the last few years has been as follows:—

Year	India's leather exports (Rs. in crores)	India's total exports (Rs. in crores)	Proportion of leather exports to total exports (per cent)
1967 68	61·12	1198·70	5·10
1968 69	80·16	1357·90	5·90
1969-70	89·44	1413·30	6·33
1970-71	82·20	1535·20	5·35
1971-72	100·89	1608·20	6·21
1972-73	187·15	1960·90	9·54
1973-74	186·18	2483·22	7·50
1974-75 (£)	162·26	3304·14	4·9
1975-76 (£) (April—August)	78·88	2689·45	2·9

2.4. The export of hides and skins in raw form has been progressively reduced by Government orders during the last two decades. The exports of hides and skins during the five years ending 1972-73 were as follows:—

(Crores of Rupees)

*1968-69	5·30
**1969-70	8·40
**1970-71	3·80
**1971-72	0·70
**1972-73	0·90

2.5. The Committee on Development of Leather and Leather Manufactures for Exports (set up in July 1972) recommended (December 1972) that export of hides and skins should be banned. Export of hides and skins was banned (except for lamb fur skins) from January, 1973.

*Economic Survey 1971-72

**Economic Survey 1973-74

(£) Information relating to the years, 1974-75 and 1975-76 is not contained in the Audit Paragraph but was obtained from the Ministry of Commerce. It is not vetted in Audit.

2.6. There are two main varieties of semi-finished India leather: (i) E.I.T. (East India Tanned) and (ii) chrome tanned wet blue. The E.I.T. process, which is a system of vegetable tanning, was introduced in Madras (now Tamil Nadu) in the British days more than two centuries ago, and has been developed with considerable local skill. There are a few E.I.T. tanneries in Maharashtra also. The chrome-tanning process, which is a system of tanning with chemicals, is of comparatively recent origin in India. The important wet blue centres are in Kanpur, Calcutta and Madras. India semi-finished leathers are in great demand in world leather markets, in view of their toughness, tensile strength and preservation properties, and also the excellence of E.I.T. process which is unique to this country.

2.7. Tamil Nadu accounts for more than 70 per cent of the total leather exports from India. The leather industry is highly decentralised. It was estimated in 1973 that about 75 per cent of E.I.T. leather comes from cottage and small scale industries. According to an estimate published in March 1974 in the magazine 'Leathers' of the Leather Export Promotion Council, there are 433 tanneries in Tamil Nadu (67 in the large scale sector, 13 in the organised sector, and 234 in the unorganised sector), about 200 tanneries in Calcutta, and 25 in other States like Andhra Pradesh, Karnataka, Maharashtra, Punjab and Jammu and Kashmir. The estimate published in March 1974 mentioned above indicates that there are about 35 finished leather units in the organised sector (concentrated in Calcutta, Kanpur and Madras), and 200 units in the unorganised sector (mostly in Calcutta). About 8.5 lakhs people are said to be employed in India in the leather industry, mostly in the house hold sector.

2.8. Exports of various categories of leather during the last six years were as follows. Further details showing quantities, value and unit value realisation from 1969-70 onwards are shown in Appendix II).

(Rs. crores)

Year	E.I.T. leather	Chrome tanned Wet blue	Reptile skin	Finished leather	Leather footwear and Components	Leather goods and leather manufactures	Furs	Total
1	2	3	4	5	6	7	8	9
1969-70	49·76	27·20	1·40	2·15	7·45	1·25	0·23	89·44
1970-71	44·74	24·50	0·76	1·58	9·25	1·36	0·01	82·20

1	2	3	4	5	6	7	8	9
1971-72 .	64·27	21·77	0·50	3·60	8·73	1·99	0·03	100·89
1972-73 .	101·10	52·04	0·67	16·64**	10·27	3·60	2·83	187·15
1 73-74 .	85.60	62.38	1.38	16.48**	11.30	6.17	2.87	186.18
974-75@ .	61·03	40·73	†	30·22	17·45	12·83	†	162·26
1975-76@ (Apr—Aug.) .	33·07	16·74	†	17·70	6·95	4·42	†	78·88

*The exports of furs and reptile skins have not been indicated as the same are not covered by the present leather quota policy. For the furs, there is no ban on its export in raw condition.

The export of reptile skins is controlled by the Ministry of Agriculture.

**Includes crust leather exports as well.

2.9. Till the mid 1950's, the main outlet for Indian E.I.T. leather was the United Kingdom. But since then the destinations have been diversified to include countries like Belgium, France, Italy, Japan, West Germany, etc.

* * * *

[Para 29 of the Report of the Comptroller and Auditor General of India for the year 1973-74 Union Government (Civil)]

A. EXPORT OF LEATHER

(i) *Capacity for production of Finished Leather*

2.10. Against an estimated requirement of capacity for the production of finished leather from 2.7 million Nos. of hides and 24.7 million Nos. of skins, the total approved capacities up-to-date is to the extent of 4.27 million Nos. of hides and 31.8 million Nos. of skins as per £ details given below:—

(Figs. Million Nos.)

	Hides	Skins
(1) Quota for export of semi-processed leather during 1973-74	9·5	59·5
(2) 75% of the existing production of semi-processed leather to be converted to finished leather . . .	7·3	45·0

@Information relating to the years 1974-75 and 1975-76 is not contained in the Audit aragraph but was obtained from the Min. of Commerce. It is not vetted in Audit.

*Relates to portions of Audit Paragraph which have been reproduced and dealt with in Chapters III on quota System and Chapter IV on Air Freight Subsidy.

(£) Not vetted in Audit.

	Hides	Skins
(3) Additional availability by 1978-79	3·3	4·7
(4) Additional capacity for finished leather to be created by 1978-79 (2+3)	10·6	49·7
(5) Conversion by existing manufactures of semi-finished leathers including finishing centres	7·9	25·0
(6) Capacities available for expansion and new units (4—5)	2·7	24·7
(7) Expansion of 7 existing units	0·97	5·0
(8) Licences issued to 10 new units	0·9	9·8
(9) Letters of Intent issued to 29 units	2·4	17·0
(10) Total approved capacities (7+8+9)	4·27	31·8

2.11. According to the Ministry of Commerce there is no further scope for creation of capacities for finished leather for the time being.

2.12. The following is the existing capacity utilisation of the finishing/manufacturing units borne on the registers of the D.G.T.D.:

(Percentage utilisation)

*	Licensed capaity of the units in production	Licensed capacity under implementation	Total licensed capacity	Installed capacity	Licensed capacity of the existing units%	Total licensed capacity%	Installed capacity%
				(Figures in Million Pieces)			
Finished leather from Hides	4·43	09·96	5·40	5·08	58	46	51
Finished leather from Skins	6·50	9·80	16·30	15·51	100	40	42

(NOTE.—Installed capacity for finished leather includes the additional capacity converted by the existing units from semi-finished to finished leather)

2.13. The Committee have been informed by the Ministry of Commerce that the exact figures of production of small scale sector are not available. It is, however, estimated that there is a capacity of 3.5 to 5 million pieces of hides and roughly 5 million pieces of skins in the small scale sector for finished leather. Thus total instal-

*Includes the blanket g permission given to the producer of semi-finished hides and skins for conversion into finished leather without obtaining a fresh licence.

led capacity for finished leather both in the large scale and small scale sectors maye be taken as 8 to 10 million pieces from hides and 20 million pieces from skins.

2.14. The following promotional steps are being taken by Government for the establishment of capacity for production of finished leather and leather products:

(i) The Department of Industrial Development had issued a Press Note that all manufacturers of semi-finished leather can now instal capacity to manufacture finished leather to the full extent of their semi-finished capacity, without having to obtain licences for the purpose.

(ii) In the import policy for registered exporters, there is a provision that against the 3 per cent import replenishment allowed against export of E.I. tanned and chrome tanned hides and skins, at least 2/3rd of the import replenishment has to be compulsorily utilised for the import of machinery, tools and equipment required for balancing, modernisation and various expansion programmes.

(iii) In 1973, a list of machinery was drawn up which was allowed to be imported by registered exporters against their R.E.P. licences, without having to go to D.G.T.D. every time. To meet the need of the changing situation a comprehensive list of machinery required for the manufacture of finished leather and leather goods and footwear has been drawn up in consultation with the Ministry of Industry and Civil Supplies.

(iv) the list of chemicals and dyes which are allowed to be imported in the shopping list against replenishment licences has been expanded.

(v) new units are being allowed from the stage of semi-processed leather for the manufacture of finished leather with substantial export obligation.

(vi) proposals for licences, foreign collaborations and C.G. imports are actively pursued by the Ministry with concerned Ministries.

(vii) S.T.C. are taking steps for creation of bonded warehouses where chemicals and dyes could be imported for distribution to the manufactures of finished leather and leather goods. A similar facility has been permitted to a party in Madras for the benefit of the trade.

2.15. The Committee asked whether as recommended by Seetharamiah Committee, Government had issued a public notice inviting applications for setting up units for production of finished leather based on chrome-tanned leather as raw material. In reply, the representative of the Ministry of Commerce stated:

"On this point regarding applications, we took two steps. We brought to the notice of the Export Promotion Council of which all the exporters are members that they should avail themselves of this opportunity. Both the Councils—Madras and Kanpur—conveyed this information to their constituents to apply for these production facilities and machinery. Again on 4th September, 1973, the Government issued a press note saying that the conversion of capacity for the manufacture of semi-finished leather to the production of finished leather can be automatic up to the extent to which they are already registered and that they would also not require any special licence for the production of finished leather. There are as many as about 71 items. 22 items are for tanning machinery and 37 are for footwear machinery; 7 items are for leather goods machinery and 3 items are for additional machinery for leather footwear. All are cleared on *en block* basis as eligible for import for purposes of setting up these production facilities."

Asked whether the result had been commensurate with the efforts stated to have been made, the witness said:

"The result, as I said, has been catching up....Seven units have been issued industrial licences and some of them have actually gone into production. There is one unit called State Tanner in Rajasthan. One unit is in Haryana. There is one unit each in Hyderabad and Madhya Pradesh. In Madras, there is one unit called BOKIA LEATHER. There are two units in Calcutta."

2.16. The Committee enquired when the units which were given licences went into production and what had been their year-wise production. In reply, the witness stated:

"These have been just set up. Some of them have commenced production; some of them are about to commence production. But there is no sizable production."

(ii) *Exports of semi-finished and finished Leather*

2.17. The Committee wanted to know why total leather exports (semi-finished, finished and leather manufacturers, etc.) which had reached a peak level of Rs. 187.15 crores in 1972-73 had declined to Rs. 186.18 crores in 1973-74 and then to Rs. 162.37 crores in 1974-75. In reply, the representative of the Ministry of Commerce stated that the decline in exports in these years was due to international recession. Chairman, Leather Export Promotion Council, Madras was stated to have expressed the same view in October, 1975 in the Magazine, 'LEATHERS' stating that "overall drop in exports in 1973-74 and 1974-75 was due to adverse international conditions."

2.18. The Committee enquired why there was decline in volume of the export of 'finished leather' from 138.88 lakh Kgs in 1972-73 to 43.99 lakh kgs in 1973-74. In reply, the representative of the Ministry of Commerce stated:

> "The point is that the figures that are furnished include what is called crust chrome leather and by mis-classification it was added to the finished leather. If the finished leather is excluded from the crust leather, then the figures will give a much more correct, realistic and appropriate picture, even though the unit is best expressed as Sq. metre or deci-metre, if I do this, for the year 1972-73 even on Kg basis, the figure for crust leather is 121.52 lakh kilograms and finished leather is 19,73 lakh kilograms."

2.19. Asked how there could be a sudden jump in exports of chrome tanned leather from 143.77 lakh Kgs. in 1971-72 to 409 lakh Kgs (287.31 lakh Kg. plus 121.52 lakh Kgs which was stated to have been wrongly classified as 'finished leather'), the witness clarified:

> "In the year 1972-73 there was a great deal of leather boom. It was also the period when other competing sources like Argentina, Pakistan and other countries had applied their brake on the export of semi-finished leather. Therefore, there was a great demand for semi-finished leather and our trade was anxious to take the maximum advantage out of this. Therefore, it reached the peak in the year 1972-73."

(iii) *Unit Value Realisations*

2.20. The unit value realisation on exports of various items of leather had been as under:—

Year	E.I.T. Rs. per Kg.	Chrome tanned Rs.	Finished leather Rs.	Leather footwear Rs. per pair
1969-70	25·36	20·63	30·43	11·66
1970-71	22·83	17·76	20·73	13·39
1971-72	25·03	15·14	21·29	11·66
1972-73	33·38	18·11	11·98	13·04
1973-74	47·08	32·58	37·45	13·10
1974-75	44·00	35·00	*	*

*Information not available.

2.21. As regards 1975-76, exports of E.I. tanned and Chrome tanned are stated upto August, 1975 to have resulted in unit value realisation of Rs. 40.00 and Rs. 33.5 per K.G. respectively.

2.22. The Committee referred to the fact that as against the finished leather of 16.91 lakh Kgs. exported in 1971-72 and unit value realisation of Rs. 21.9 per K.G., the quantity of finished leather exported in 1972-73 increased to 138.88 lakh Kgs. but the unit value had gone down to Rs. 11.98 per K.G. and enquired as to what was the reason for lesser unit value realisation on exports of finished leather in 1972-73. In reply, the witness stated:—

> "I would like to explain this. This was going on all along. After all, our exports of finished leather were not very high and they were indicating it in terms of Kg for quite a long time, and perhaps, proper attention was not paid to it. When we started looking into the policy of export of finished leather etc. this was brought to our notice. Some of the exporters, on this point, wanted to make out a case saying that this policy was wrong because the semi-processed leather was fetching a more unit value than the finished leather. That arose because of the misunderstanding and perhaps, some people wanted to make use of

it. Now this error has been corrected and it will be proved that the finished leather fetches a higher unit value than the semi-finished leather. Now, we have requested the DGCI & S to indicate it in square decimeters and I hope that this will give the correct unit value."

2.23. Asked if the figures of unit value realisation would be recast on scientific lines for earlier years also i.e. from 1969-70 to 1974-75, the witness stated:—

"It would be very cumbersome, and it would be a troublesome administrative exercise."

2.24. Asked what were the products which yielded the highest units value, the witness stated that leather garments, leather goods and shoe uppers had the highest added unit value.

(iv) *Export of Goat and Sheep skins*

2.25. The Committee wanted to know if any special efforts were being made to export goat and sheep skins which were among the best in the world. The Ministry of Commerce stated, in a Note, that:—

"India is the largest exporter of goat skins in the world although the largest producer is the People's Republic of China. India's goat skins and sheep skins are noted for their high quality. Nearly 80 per cent of our goat and sheep skins are being exported. The quality of these skins is good because these are mostly from slaughtered animals unlike the cow and buffalo hides which are from naturally dead animals. Goat and sheep skins—both in E.I. and wet blue form—constitute the major portion of our leather exports. So whatever policy measures we have taken in respect of hides and skins, these mainly help goat and sheep skins."

2.26. As regards arrangements for collection of sheep and goat skins, it was stated that:—

"Hides and skins are being collected from villages. There are curing centres where these hides and skins are collected and cured. There is also a Raw Hides and Skins Improvement Society which pays attention to proper preservation of hides and skins. The Leather Export Promotion Council, Madras have also paid attention to this problem through their Research and Development Cell with the help of the Central Leather Research Institute. Such steps improve the quality of hides and skins, particularly goat and sheep skins in the Indian context. Better quality skins would mean higher exchange earnings. Indian goat and sheep skins fetch high prices in the international markets as compared with similar skins from other competing countries."

(v) *Export of Reptile skin*

2.27. The Committee asked whether during the last two to three years, the export of reptile skin as semi-finished goods had increased while that of reptile skin goods as finished goods had reduced despite Government's policy of encouraging export of leather in finished form. In reply, the representative of the Ministry of Commerce stated:

"There are two varieties of reptiles, poisonous and non-poisonous. In the case of poisonous reptiles, there is a total ban. For the sake of wild life preservation, the Government has been advised by the Wild Life Board that we should not at all allow the export of skins of poisonous reptiles. There is a total ban on the killing of poisonous reptiles. In the case of non-poisonous reptiles, an ecological balance has to be struck. The snakes have a functional role to play to kill rats. Otherwise our agricultural crop will be very much affected. The Ministry of Agriculture has been insisting on having a quota of non-poisonous snake skins also. They have put it at 3 lakh pieces. There has been a reduction from 5 lakh pieces to 3 lakh pieces. This year, they are not inclined to allow anything at all. We agree that there should be progressive reduction in the quota but we cannot do away with it completely at one time. So far as reptiles are concerned, there is a definite policy that we should not encourage their killings."

2.28. Asked whether we could not have greater realisation of added value by exporting reptile skin goods instead of reptile skin itself, the Commerce Secretary replied:

"The Agriculture Ministry in consultation with the Wild Life Board has been insisting on a total ban on export of reptile skins and goods made out of reptile skins. We have been telling them that this can be done only gradually, not overnight. This is a very valuable suggestion that if we do allow it, it should not be in the form of skins but it should be more in the form of goods."

2.29. The Committee find that though India has the largest live-stock holding in the world with a total of about 345 million heads of cattle, buffaloes, goats and sheep, its share in the world leather exports is about 20 per cent. The proportion of India's leather exports to its total exports since 1967-68 has ranged between 5 to 9 per cent only. The Committee see no reason why with concerted measures it should not be possible to step up leather exports, preferably in the finished form, in the years to come so that India which has the largest live-stock holding in the world can take its rightful share in the export trade and earn the much-needed foreign exchange.

2.30. The Committee are perturbed to find that India's leather exports (semi-finished, finished, manufactures, etc.) after showing a rising trend from Rs. 61.12 crores in 1967-68 to Rs. 80.16 crores in 1968-69 and Rs. 89.44 crores in 1969-70 (except in the year 1970-71 when there was a marginal fall in exports), and finally reaching a record level of Rs. 187.15 crores in 1972-73, sharply declined to Rs. 162.26 crores in 1974-75. The estimate of leather exports envisaged for the first year of the Fifth Plan i.e. 1974-75 was Rs. 205 crores (vide Table in paragraph 1.9 of the Introductory Chapter of this Report) and viewed against that target, there was a shortfall of 21 per cent in the achievement of leather export in the very first year of the Fifth Five Year Plan. The estimate of leather exports for the second year of the Fifth Plan (1975-76) is Rs. 250 crores. If leather exports during the first five months of 1975-76 (Rs. 78.8 crores) are any indication, export performance during the second year of the Fifth Plan may also fall considerably short of expectations. During evidence the Committee were informed that leather exports in 1972-73 had reached a peak level because of an international leather boom and the fact that competing countries like Pakistan and Argentina had restricted their exports of semi-finished leather. In the subsequent years of 1973-74 and 1974-75, adverse international conditions of recession are stated to have set in and caused over-all drop in India's leather exports. The Committee feel that, as pointed out later in Chapters III and V of this Report, poor export performance in 1974-75 was partly due to Government's attempts to quicken the pace of the switch-over from exports of semi-finished leather to finished leather and also to inordinate delay in creation of the adequate infra-structure needed to sustain a growing trend in leather exports.

In the Committee's view, stable perspective planning is a pre-requisite for ensuring effective and abiding participation in leather exports. The Committee recommend that if the Fifth Five Year Plan targets of leather exports, which appear to be modest enough, are to be achieved, Government should not remain content with a few promotional steps but should seriously consider evolving a more dynamic and comprehensive export strategy for the leather industry and provide a well thought out package of facilities to turn this industry into an export oriented one. The leather industry, on its part, will have to extricate itself from traditional moorings, shed its hide-bound outlook, modernise itself and look upon exports not as a mechanism of escape from recession at home but as a basic commitment to the national task of achieving our rightful share in the international trade in leather. Looking at the poor export performance in 1973-74 and 1974-75, Government should also consider whether it is not time to draw up a Crash Programme to ensure that whatever targets of leather exports have been set are achieved in full in the remaining tenure of the Fifth Five Year Plan.

2.31. The Committee are of the view that whatever export strategy is evolved by Government for stepping up exports of leather and leather goods, it should be pragmatic enough to ensure a closer link between the exporter and the producer because, in the ultimate analysis, exports depend on a stable and efficient level of domestic production. The benefit of higher export earnings should percolate to the producer at the field level instead of being siphoned off, as it often is, by the merchant-exporter or big firms, and the producer should feel motivated to turn out quality leather goods at economic prices. The Committee trust that the task of the producer of leather goods would be greatly facilitated if precise and detailed information on latest market trends, market-wise export prospects, specifications of quality and designs of leather items in demand are made available in time to enable him to pattern his production to suit the export requirements. Properly surveyed market intelligence can indeed play a crucial role in educating the leather industry about the export potentialities.

2.32. From the details of the capacity for finished leather made available to the Committee, it is found that the present utilisation of installed capacity for finished leather from hides and skins is only 51 and 42 per cent respectively and that of leather footwear 60 per cent. The Committee are gravely concerned at such low utilisation, and recommend that Government should investigate the reasons for such gross under-utilisation of capacity for finished leather. The Committee urge that concerted measures for ensuring optimum utilisation of capacity should be adopted, for that alone can fulfil the twin objective of meeting domestic needs and increasing export earnings.

2.33. The Committee note that the export of raw hides and skins was reduced from Rs. 8.40 crores in 1969-70 to Rs. 0.90 crores in 1972-73 and from January 1973, such export was completely banned. One of the important considerations governing the leather export policy of many countries appears to be the relative unit value which could be realised in its various forms, viz., raw, semi-finished, finished or as manufactured goods. A joint study made by the Gokhale Institute of Politics and Economics, Poona, and the Central Leather Research Institute, Madras, in 1969 had shown that tanning was expected to add 51.78 per cent to the value of raw hides and skins and the 'finishing' would further add about 7 per cent to the value of tanned leather. The study also noted that this was in some ways an underestimate and that in the case of goat and sheep skins value added by 'finishing' could be as high as 50 per cent in some cases, and about 25 per cent on an average. A subsequent analysis undertaken by UNCTAD in April, 1974, indicated that "a country's gross as well as net foreign exchange earnings from the export of hides and skins tend to increase with each successive stage of processing." The Committee, therefore, uphold Government's policy of progressive reduction of export of hides and skins in raw or semi-finished form and special encouragement to export of finished leather and leather manufactures.

2.34. The unit value realisation by Indian export of chrome tanned leather ranged between Rs. 15.14 to Rs. 35.00 per Kg., during 1969-70 to 1974-75 but in the case of finished leather the realisation was higher and ranged between Rs. 20.73 to Rs. 37.45 per Kg. Though the semi-finished leather gave less unit value, the export of semi-finished leather in 1973-74 and 1974-75 was 9 and 3 times respectively more than that of finished leather in terms of value. It is true that Indian semi-finished leathers are in great demand in World leather markets in view of their toughness, tensile strength and preservation properties, but since higher unit value is important, Government should impress upon the leather industry to take up more vigorously the manufacture of such leather goods as fetch higher unit value, e.g., shoes, garments, sport goods, bags, upholstry, purses, etc. and earn valuable foreign exchange for the country.

2.35. It transpired during evidence that while compiling statistics of India's leather exports the export of crust chroms leather of 121.52 lakh kgs. in 1972-73 was due to misclassification, included in the category of finished leather, thereby giving an altogether misleading picture of the export of finished leather, which in 1972-73 was only 19.73 lakh kgs. and not 138.88 lakh kgs. Another fact which came out was that the country's export of finished leather had all along been expressed in terms of kilograms whereas the correct unit of measurement should have been square meter or decimeter. The representative of the Ministry of Commerce admitted that as the exports of finished leather were not very high, proper attention had not perhaps been paid to this question. However, an assurance was given that instructions had been given to the Director General of Commercial Intelligence and Statistics to compile exports of finished leather in terms of square meters or decimeters. The Committee regret that an important point like the correct unit of measurement for quantification of exports of finished leather had escaped the Ministry's attention. Commercial Statistics should hereafter be compiled with greater care and be entirely reliable.

2.36. The Committee learn that while the Ministry of Agriculture in consultation with the Wild Life Board insist on a total ban on the export of reptile skin, the view of the Ministry of Commerce is that such export should not be banned all at once but should be progressively reduced. The Committee recommend that if and only if in the over-all ecological and economic interests of the country reptile skins can at all be exported, it should be in the form of goods made of such skin but not in the raw or semi-finished form. This would result in higher unit value realisation and greater foreign exchange income.

B. EXPORT OF FOOTWEAR

2.37. India produces about 200 million pairs of footwear annually. During the Fifth Five Year Plan, an additional capacity of 100 million pairs is envisaged. The Development Council had, it is learnt, suggested the following sector-wise allocation for creation of this additional capacity:—

Capacity (Million pairs)	Large Scale Units Nos.	Small Scale Units Nos.
35	15	150
55 (Indian type Open Shoes) .	10	450
15 (Shoe Uppers) . . .	..	150
100	25	750

2.38. The installed capacity of the Units borne on the registers of the D.G.T.D. is about 23 million pairs only. Utilisation of installed capacity of these units is stated to be around 66 per cent.

2.39. Although exports of footwear from India have grown considerably in recent years (from 6 million pairs in 1969-70 to 10.5 million pairs in 1974-75), even now India's share of world trade in this field is estimated at around 2 per cent and export form about 5 per cent of the country's production of this commodity.

2.40. During evidence the Committee desired to know to which countries leather shoes were being exported. In reply, the representative of S.T.C. stated:

> "The finished footwear mainly goes to the Soviet Union and East-European countries. I am dividing the finished footwear in two parts, the closed footwear and the open footwear. The closed footwear mainly goes to USSR and other East-European countries. A beginning has now been made to export it to France and U.K. in a fairly sizeable quantity. This has been only a recent development. So far as the open footwear is concerned, that is, sandals, Kolhapuri and other open sandals, we have now diversified the markets to include U.S.A., U.K., West Germany and France also."

2.41. The Committee enquired how the retail prices in countries to which India exported footwear compared with the retail prices prevailing in India. In reply, the representative of STC stated:

> "I may submit that the retail price is not the real guide in the pricing of the product because the retail prices in countries like USA, are very high because of cost of promotion and distribution. We have to compare the landed cost of the product in USA as between India and other exporting countries. For example, in a recent study, it was brought out that the cost of distribution and promotion of consumer goods which includes footwear will be to the extent of 100 to 150 per cent. As between the retail price and the import price, there would be a differential ranging from 100 to 150 per cent. So, our real criterion of judgement would be the landed price *vis-a-vis* India and other exporting countries. You are quite right in saying that the retail prices in those countries are three to four times higher. That is because of a chain of middle-men through which the product passes and the very high margin of profit that is imposed at every level."

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> "In regard to the export of footwear to USSR our prices have been highly competitive. They are also importing from

other countries, like U.K., Italy, etc. We have also to take that into account as to what prices they can get footwear from other countries."

2.42. Asked whether export prices of footwear left a reasonable margin of profit, the witness stated:

"In regard to the closed footwear, we have been able to export to USSR with a reasonable margin of profit over the cost of production, that is, about 15 percent. That has been the pricing level with USSR who is the bulk importer of closed footwear. In regard to other countries for exporting open sandals, it is the competition from other countries that we have to take into account, not the cost of production in the country itself. For example, the cost of production in the USA will be very high but we have to meet competition from Brazil, Argentina, Italy, etc., where they are able to export at a lower price."

2.43. The Committee enquired if the prices of footwear in Soviet Union were much higher than they paid for supplies from India. In reply, the representative of STC said:—

"In the case of Soviet Union also, the retail prices may be three to four times higher. But we have to compete there also with other supplying countries who export footwear."

2.44. The Committee desired to know if Gulf countries insisted on cheaper prices for Indian footwear and not so much on quality. In reply, the representative of STC stated:—

"It is true that they prefer the cheaper type of footwear. Actually they are purchasing ankle and kneee boots from India but Pakistan is a very strong competitor. If they can get it cheaper from Pakistan, they switch over to buy the same from there. In the case of Army Soft Wear leather goods, especially the boots we have noticed the tendency on their part to buy cheaper ones rather than to buy more sophisticated products."

2.45. As regards scope of exports of leather footwear to EEC countries the Committee understand that a combined Delegation of the European Confederation of Footwear and Tanners which visited India from 1st February to 15th February, 1976 at the invitation of the State Trading Corporation has hinted that India could gradually expand its exports of leathers and leather manufactures particularly footwear "uppers" to the challenging and sophisticated markets of the European Economic Community. According to the Press reports, the State Trading Corporation and the Delegation have agreed that positive prospects exist for encouraging collaborative or participatory arrangements between the Indian and EEC firms.

2.46. Asked if big business houses were being given licenses for entering the field of manufacture of finished leather under the new policy, the witness stated:

> "Lately, some firms had come to the Ministry of Industry to set up finished leather units in the country. When this matter came up, we immediately pointed out that all these finished leather units, whoever comes, should be given an export obligation and that export obligation must be strictly enforced. This was done. The Industry Ministry accepted our plea and in all these big cases, Tatas and others, there is an export obligation; 60 per cent obligation is there. The idea is that they produce 60 per cent of finished leather and export it and the balance is used within the country for further leather manufactures and footwear, which will also find its export market. I do not think there was any intention at any one time to support or give exclusive benefits to any big party."

2.47. The Committee asked if it was a fact that big business houses bought leather goods from small manufacturers in Kanpur and other cities, put their own stamp on it, and made huge profits from exports. In reply, the representative of the Ministry of Commerce, stated:—

> "This is a function which we have assigned to the STC and the STC has been asked to operate on this leather development fund, to create design centres and training centres for the people, particularly in the small-scale sector and also try to train them in regard to those products...... The Leather Development Corporation which is being commissioned under the aegis of the Industrial Development is primarily designed to see that these small scale operators and manufacturers are given the fullest amount of facilities for know-how, designing, training, etc., and afford them necessary assistance. So, on the one hand, from the production side there is the Development Corporation and, on the other side, there is the STC. They are both combining their efforts to bring to bear their experience upon the small manufacturers and give them all

financial, technological and technical assistance. There is one more submission in regard to export houses. The export houses are obliged by the conditions laid down in the export-import control policy red-book that they should collect 5 per cent of their export at least from the small sector or upto 25 lakhs on an obligatory basis and make it as part of the exports. The other point that has been made by the hon. Member, namely, whether in the process the export houses pay adequately to small manufacturer, is a point which will, no doubt, be taken by the Ministry of Industry and Civil Supplies, and I think it has been investigated and we would ask the Director General of small Industries Corporation to go into this particular aspect."

2.48. The Committee desired to know in what manner implementation of the objectives of Export Policy Resolution, were dovetailed with Government policy in other fields to ensure that monopolies were curbed and interests of small scale industries were safeguarded. In reply, the representative of the Ministry of Industrial Development stated:

"The instruments of the Government to deal with this problem are really three-fold. Firstly, the MRTP Commission is currently seized of the question whether it is a monopolistic or restrictive trade practice or not. They are currently engaged in this exercise. After the investigations have taken place and the Commission has come to a finding, then only a decision can be taken in the matter. The second instrument is that under the Foreign Exchange Regulations Act the Government has the power to reduce the foreign equity to 40 per cent. The FERA Committee will go into all the activities, how much of foreign equity should be there from the export angle and so on, and then fix the foreign equity. Thirdly, Bata happen to be in existence even before the Industries (Development and Regulation) Act was passed in 1951. So, they do not have an industrial licence. Recently, Government have amended the Act to have powers to call for registration certificates, as they are called, and fix the capacity which they at present do not have. In other words, so far they do not have any formal legally recognised capacity as such because they came into existence before the Act was passed. Now under the amended Act Government have power to go through their export performance and other activities and determine what should be their capacity. Leather footwear and some such industries are specifically mentioned there."

The witness added:

"It is true that Bata do buy leather goods from a large number of small-scale units in Agra and other places, put the Bata brand and market them internally and also export. Government is aware of that. I find from the figures which I have been able to gather that they have procured about Rs. 8 crores of material in terms of shoes or accessories within the country from the small scale units and the sales are about Rs. 14 crores. What price they are paying to the small-scale units and at what price they are selling is a different thing."

2.49. The Committee enquired if any investigation had been conducted to ascertain what prices were paid by Batas to small scale leather industries and what policy was being followed in this matter. In reply, the representative of the Ministry of Industrial Development stated:

"The policy depends on facts because *per se* buying from small scale industries and marketing is helpful to them as they do not have a marketing net work and expertise because they only produce goods on order and sell them. The field investigation team was told so by some of the small scale people. So we will have to balance this fact and see how far it is a help and how far it is exploitation. It depends on the facts of the case and they will be known when the Commission goes into them."

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"If the Commission comes to the conclusion that the prices paid by Batas are very low and the sale price is very high. that it is monopolistic in practice, the Government will invoke the provisions of the Act to discipline them."

2.50. The Committee enquired that how far the producers of finished leather and leather goods in our country had benefited as against the merchant exporters of these goods.

The Ministry of Commerce replied, in a note, that:—

"Export promotion Council for Finished Leather and Leather Manufactures, Kanpur have indicated that the export of finished leathers is predominantly carried out by the manufacturer exporters. In the case of footwear and leather goods, exports are mostly done by the manufacturer-exporters themselves. However, in the case of only one particular type of footwear i.e. Kolhapur chappals produced by village industries, exports are handled by merchant-exporters."

2.51. Asked whether the role of the State Trading Corporation vis-a-vis other leather houses has been defined, the Ministry of Commerce stated:—

"STC would be interested certainly in promoting exports and for that matter, they have to look into the infra-structural facilities and see something is done about them. They have actually brought out a programme for doing so and a sum of something like Rs. one crore is being allotted to them for this purpose. But, the role of STC, vis-a-vis other large houses, etc. I think has not been defined clearly."

2.52. Agra is one of the important centres of footwear industry. It has an annual production of 9 million pairs of footwear. It has been estimated that 90 per cent of the shoes produced in Agra are accounted for by 2,000 family and cottage units (involving less than ten people) and the rest by 200 or so small scale units (i.e. units employing 10 or more workers and using simple machinery). It is understood that the cottage and family sector comprising over 2,000 units, sell their produce in the local wholesale market and neither sale nor payment are assured.

2.53. The Committee understand that a pre-feasibility Report on 'Agra Integrated Leather Complex' prepared for the State Trading Corporation has indicated that the Complex to be located on a 4 Hectare of land will be 100 per cent export-oriented and will produce quality goatskin Uppers and Shoes. The Complex will have 5 main Units, viz., (i) Leather Finishing Unit, (ii) Bark tanning Unit, (iii) Components (Uppers) Manufacturing Unit, (iv) Lasts Manufacturing Unit, and (v) Soling and Shoe making Unit. These units would be supported by a Training Centre, Design-*cum*-Laboratory, Administrative Offices etc. The Complex will involve a total capital investment of Rs. 13.86 crores including foreign exchange investment of

Rs. 6.75 crores. Some of the advantages that are likely to accrue from the proposed Complex are:—

(i) the annual rate of return on investment will be 28 per cent;

(ii) it will start generating a net inflow of foreign exchange to the tune of Rs. 8.28 crores a year from 1980 which will be the year of full production;

(iii) the exchequer will earn Rs. 1.98 crores in duties;

(iv) it will provide employment on the site to approximately 2,100 people of whom 1900 will be from the weaker sections of Society.

2.54. Leather footwear industry is also known to suffer from the low productivity of the average worker which is as low as 1.5 pairs a day. A study made in this regard in the Ministry of Commerce has indicated that average productivity can be increased 3 to 4 times by adding power driven, fatigue-saving machines to such units. But the small scale units seem to feel that excise and custom duties acted as a deterrent to expansion and modernisation of such units. At present Excise duty of 10 per cent *ad valorem* is payable on the production of leather footwear. The duty is payable only by units employing more than 49 workers and using 2 H.P. A survey undertaken by the State Trading Corporation on behalf of the Ministry is stated to have indicated that footwear units employed ingeneous ways of avoiding excise duty by keeping down the number of workers or using less power or spliting their units into sub-units. Custom duty on import of machines required for semi-mechanisation of footwear units at 40 per cent with surcharge of 2-1/2 per cent was also felt as a dis-incentive by small scale units. Most of these units belong to persons who are not likely to have assets even sufficient to provide guarantee for bank loan required for semi-mechanisation.

2.55. As regards the quality of leather sole, the Committee were informed in evidence that shoes made in India had buffalo leather sole but as it could absorb moisture, it was not very popular in countries of cold climate. These countries were tending to switch over to shoes made of synthetic material sole. The representative of the State Trading Corporation stated that experiments to make buffalo leather weather-proof were being made.

2.56. The Committee note that although exports of footwear from India have grown considerably in recent years (from 6 million pairs in 1969-70 to 10.5 million pairs in 1974-75), India's share of world

footwear trade is estimated to be about 2 per cent, and exports of this commodity form about 5 per cent of country's total production of footwear. While the closed type of footwear is mainly exported to USSR and East European countries, the main buyers of 'open' footwear, that is Kolhapuri and other 'open' sandals, are in USA, U.K., West Germany and France. The Committee were informed that a beginning had recently been made to extend our export of closed footwear to other countries like France and U.K. The Committee understand that a combind Delegation of the European Confederation of Footwear and Tanners which visited India in February, 1976 had hinted at the prospects of the gradual expansion of India's exports of leather and leather manufactures particularly footwear 'uppers' to the challenging and somewhat sophisticated markets of the European Economic Community (EEC). The Committee recommend that alongwith maintaining and consolidating our present position in markets where Indian footwear has already penetrated successfully, new markets, especially in our neighbouring Afro-Asian countries, should be explored seriously. The Committee also recommend that the potential of export of footwear 'uppers' to EEC countries should be exploited to the maximum extent.

2.57. The Committee are glad that a pre-feasibility study for setting up an integrated leather complex to Agra has been completed and a Report on that study has hinted at the immense possibilities of export-oriented production of Goatskin "Uppers" and Shoes, generation of larger foreign exchange earnings and creation of employment opportunities for the weaker sections of Society. It has been estimated that the setting up of the Complex at Agra will involve a total capital investment of Rs. 13.86 crores including a foreign exchange investment of Rs. 6.75 crores. It will start generating inflow of foreign exchange to the tune of Rs. 8.28 crores a year from 1980 and will provide employment on site to approximately 2,100 people of whom 1,900 will be from the weaker sections of society. The Committee understand that at present 2000 family and cottage units at Agra are forced to sell their footwear in the local wholesale market where neither sale nor fair payment are assured. The Committee also bear in mind that the small scale sector of footwear industry is almost unavoidably characterised by comparatively low productivity. In order to overcome these problems, Government should explore the feasibility of setting up integrated leather Complexes with an export-orientation not only at Agra but also at other select places. The Committee consider that such integrated Complexes could serve as focal points to cater to the needs of small scale and cottage sectors of the footwear industry by providing them with production-cum-finishing facilities and by offering facilities for training for improvement of quality, finish and design of their products and also enabling them to raise the level of their productivity. The Committee recommend that the State Trading Corporation and the proposed Leather Development Corporation should play a positive role in assuring a proper market for the products turned out by the family and cottage sectors of the footwear industry.

2.58. While drawing up an effective export strategy, Government should prominently keep in view the present decentralised setup of the leather industry in India. According to an estimate published in the March, 1974 issue of the Magazine 'LEATHERS', 75 per cent of E.I. tanned leather is stated to come from cottage and small scale industries. There are about 35 finished leather units in the organised sector (concentrated in Calcutta, Kanpur and Madras) and 200 units in the unorganised sector (mostly in Calcutta). The bulk of the leather footwear industry is also in the small scale and cottage sectors. The Committee feel that there is a clear need to progressively integrate the small scale and cottage sectors into the mainstream of the leather industry and assist these sectors to streamline their production on modern lines with an eye on exports. They should be given technological guidance, provided with common facility centres for finishing, and assured of a market for their leather goods.

The Committee also recommend that Government should examine the existing structure of excise and other duties to see whether is calls for any rationalisation so that such duties do not act as a deterrent or disincentive for small scale and cottage sectors of the leather industry.

2.59. The Export Promotion Council, Kanpur, have indicated that the export of finished leather is predominantly carried out by the manufacturer-exporter but that of Kolhapuri 'Chappals' produced by Village Industries was handled by merchant-exporters. During evidence, the representative of the Ministry of Industry and Civil Supplies stated that Government was aware that big firms like Batas bought leather goods from a large number of small-scale units in Agra and other places and sold or exported the same after putting their own brand name. It was stated also that under the terms of our export-import policy, such firms were under an obligation to buy at least 5 per cent of their exports from the small scale sector. The Committee learnt that one of the field investigating teams had been told that small scale units not having a marketing network of their own, felt that such purchases by big firms were of considerable help to them. It was adduced, however, in evidence that if the Monopolies and Restrictive Trade Practices Commission currently conducting investigations to find out whether or not prices paid by big firms to small scale manufacturers for leather goods were very low as compared to the sale prices, came to the conclusion that such practices were monopolistic', Government would not hesitate to invoke the provisions of M.R.T.P.C. Act and discipline refractory firms. The Committee trust that Government would take suitable measures to safeguard the interests of the small-scale manufacturers of leather goods and protect them from all unwarranted exploitation.

2.60. The problem of stepping up of the export of leather footwear has to be studied in two parts viz., (i) export of footwear to rupee-payment countries, and (ii) to other countries. In exporting footwear to rupee-payment countries, the aim should be to bring about improvements in quality to match international standards so as to meet the demand for quality goods in these countries and naturally realise a higher unit value. In so far as exports to other countries are concerned, export of shoe uppers certainly offers a potential market which should not be lost sight of. The Committee recommend concerted efforts to improve the quality of our sole leather which at present is moisture-absorbant and is, therefore, not quite adapted to the requirements of countries in the cold weather zone.

C. EXPORT OF LEATHER GARMENTS

2.61. The Committee desired to know if any special efforts had been made to export more leather garments to East and West Europe. In reply, the representative of the STC stated:

> "We have been able to get an order for 3000 pieces of garments from Hungary.. Also for 560,000 pairs of uppers. Of course, this is from the EEC, we have been able to evoke interest for an order of 2,000 garments from the U.K."

2.62. Asked whether by improving the quality of leather garment, its exports could not stepped up, the witness stated:—

> "With regard to fashion articles, design and pattern play a very important part. Because we have been able to satisfy the customers with regard to the quality of the leather upto the standard they want, we have been able to borrow the designs and patterns from them. Secondly, we have invited foreign designers to come to India for two or three months and make the designs here so that we can carry on for another six to eight months. Therefore, these two steps are being taken."

2.63. The Committee find from the Annual Report of the Ministry of Commerce for the year 1974-75 how an impressive breakthrough was achieved in export of ready-made garments. Exports of cotton apparel almost doubled from Rs. 3,044 lakhs during April—November, 1973 to Rs. 5,907 lakhs during April—November, 1974. The Committee understand that this impressive breakthrough has been brought about by implementation of a package programme which encouraged the producer and the small scale entrepreneur to take to ready-made garment manufacture. Garments are being exported from India particularly to all parts of the world including the sophisticated markets of Europe, USA etc.

2.64. The Committee desired to know why leather industry could not be organised in such a way that we scored an advantage over other countries. In reply, the Commerce Secretary stated:

> "This is precisely one of the tasks to which the Leather Development Corporation will address itself."

2.65. The Committee learn that India has recently been able to get an order for 3,000 pieces of garments and 5,60,000 pairs of uppers from Hungary, and that the U.K. was also evincing interest in buying some 2,000 leather garments. The Committee were further given to understand that in fashion garments, design and pattern played an important part and that the STC had, apart from borrowing designs and patterns from foreign customers, invited foreign designers to come to India and help in turning out the latest designs for leather garments. The Committee recommend that besides formulation of designs and patterns on the basis of the latest trends in fashion-conscious countries abroad, efforts should be made to help Indian manufacturers to acquire the requisite skills themselves and evolve such designs on their own.

2.66. The Committee are pleased to hear of the impressive breakthrough recently achieved by India in the export of ready-made garments. Export of cotton apparel has almost doubled from Rs. 3.044 lakhs during April—November, 1973 to Rs. 5,907 lakhs in April—November, 1974. Ready-made garments made in India are now being exported to the world's major markets like, USA, USSR, UK, France, West Germany. Australia, Italy, Sweden and Japan. This, it was learnt, was achieved through working out a package programme which encouraged the producer and the small scale enterpreneur to take to improved methods of ready-made garments manufacture. The Committee recommend that Government should evolve a similar strategy to achieve a real advance in exports of leather garments also.

D. EXPORT PROMOTION COUNCILS

2.67. Besides the Export Promotion Council for finished leather and leather manufactures, Kanpur, there is also an Export Promotion Council for Promoting the export of E.I. tanned leather, tanned reptile skins etc. at Madras.

2.68. During the visit of the Study Group of the PAC to Leather Export Promotion Council, Madras they had learnt that there had emerged an unhappy phenamenon of confrontation between the two Councils after the announcement of the Government policy to switch over to exports of finished leather.

2.69. While dealing with this question the Commerce Secretary during his evidence had also *inter alia* stated "Now there was a sort of bickering between the two Councils".

2.70. The Committee enquired whether there was a move to merge the two Export Promotion Councils into one as recommended by the Seetharamiah Committee. In reply, the witness stated:—

> "That matter is very seriously under consideration. In principle, the Ministry of Commerce has accepted this, but, it has to receive higher sanction. These matters in regard to Leather Export Promotion Councils are decided at the Cabinet level generally. This matter is very soon going to be settled."

2.71. The Ministry of Commerce, in a note stated that the merged Council will be incharge of Export promotion of all types of leather and leather manufactures including footwear.

2.72. The principal centres of leather industry in India are Madras in the South, Calcutta in the East and Agra Kanpur in the North. While the first two predominently produce semi-finished and finished leather, the Kanpur-Agra region is known for manufacture of footwear and other leather goods. As pointed out in the Audit Report, Tamil Nadu accounts for more than 70 per cent of the total leather exports from India. This is why presumably Government had located the headquarters of the Leather Export Promotion Council at Madras.

2.73. During their visit to Madras Leather Export Promotion Council, the Study Group of the PAC gathered the impression that the leather industry in Madras was a forward-looking enterprise utilising at the same time certain inherited advantages. The attention of he Committee has been drawn to the fact that on 10th November, 1976 the Tamil Nadu Legislative Assembly adopted the following resolution:

"Whereas the major production and export of finished and semi-finished leathers come from Tamil Nadu accounting for as high as 85 per cent of the All India exports; and whereas the leather industry in Tamil Nadu accounts for employment of large labour force drawn from weaker sections of Society. Now, therefore, this House resolves to request the Government of India:—

(i) to locate the headquarters of the proposed Leather Industries Development Corporation in Madras; and

(ii) to allow the Leather Export Promotion Council to continue to function in Madras with the additional responsibility for promoting the export of finished leathers."

2.74. The attention of the Committee has also been attracted to press reports of a similar demand put forward on behalf of West Bengal in the Legislative Assembly of that State.

2.75. The Committee wanted to know how Export Promotion Councils kept themselves informed of the changes in fashion of leather goods. In reply, the representative of the EPC, Kanpur stated in evidence:

"The Export Promotion Council is not so much well organised so far as marketing is concerned, because STC does the job. But, certainly, our manufacturers (members) individually keep themselves abreast of the fashion. It is very difficult to predict how long it will stay. But, as far as transportation of goods by air is concerned, it is very much necessary.**** I am in Karnpur. But STC does tell about the changes in fashion to their own associates who are our members also. STC is also a member of the Export Promotion Council." * * * * We participate in specialised fairs abroad where too we get this information."

2.76. Asked how many members of EPC Kanpur were from small scale sector, the witness replied:—

"About 95 per cent members belong to the small scale sector."

2.77. The Committee wanted to know if it was a fact that members from the larger enterprises, even though few in number, exer-

cised greater control in the actual promotion of EPC. In reply, the witness said:—

> **"In the case of our Council, even the Chairman himself belongs to a small scale unit. Out of 14 members elected, none comes from the organised unit like Batas and Tatas."**

2.78. As regards the respective roles of proposed Leather Development Corporation, STC and Export Promotion Councils, the representative of the Ministry of Commerce stated:—

> "As I said we were thinking of forming a Leather Development Corporation and in that context, the question arose whether it should deal with production only or with exports also and if so, whether the Export Promotion Council which is dealing with exports should become an integrated body of that organisation or it should be kept separate. These were the questions which were thrown up. Now that the Leather Development Corporation is to be conceived as a purely production oriented institution and export is still be looked after by the STC, the two Export Promotion Councils can be merged into one. The actual implementation of the decision already accepted in principle has now been taken on hand. Since these have been formed under the Companies Act. we are seeking the approval of the Government. Immediately after that, this will be implemented."

2.79. In a subsequent Note (Bebruary 12, 1976), the Ministry of Commerce intimated that:—

> "Government have decided to merge the Leather Export Promotion Councils, Madras and Kanpur and establish its Headquarters at Calcutta. There will be Regional Offices at Madras, Bombay and Kanpur."

2.80. The Committee note that there are two Leather Export Promotion Councils engaged in the task of furthering leather exports. While the Leather Export Promotion Council at Madras had the task of promoting the export of semi-tanned and tanned leather, the Leather Export Council at Kanpur was entrusted with looking after the exports of finished leather and leather manufactures. It was distressing to learn during evidence that the two Leather Export Promotion Councils did not often see eye to eye with each other and there was even some bickering between them. The Committee, therefore, welcome the Government's decision to merge the two

Councils and hope that the combined Council would be set up early and an integrated policy implemented efficiently.

While Calcutta, along with Madras and Kanpur-Agra, has a special importance in the country's leather map, Tamil Nadu has the largest number of tanneries and accounts for more than 70 percent of our total leather exports. The Committee have been lately informed of Government's decision to establish the Headquarters of the merged Council at Calcutta and locate its regional offices at Madras, Bombay and Kanpur. Since the headquarters could be located in no more than one place, the Committee hope that this decision would be accepted in the spirit of national integration and that it will be worked in a manner which does not hurt the interests and susceptibilities of all the important centres of leather industry in India. This implies that the regional offices should also be adequately equipped and organized so that there is no sense of grievance in our leading Leather industry regions.

CHAPTER III

QUOTA SYSTEM

Audit Paragraph

* * *

Government's policy of promoting export of leather in more finished form acquired great urgency in view in 1972, in of the unprecedented exports of semi-processed leather, which resulted in a severe shortage of raw materials for the finished leather, leather goods and footwear industries in India and led to various representations from manufacturers of those commodities. In July 1972, Government appointed a Committee on the Development of Leather and Leather Manufactures for Exports headed by Dr. A. Seatharamiah, who was then Director-General, Technical Development, to examine the whole question of leather exports. In November 1972 Government decided to canalise all foot-wear exports through the State Trading Corporation of India (earlier canalisation through that Corporation was restricted to exports to certain countries only). In December 1972 Government decided to canalise exports of all semi-finished leather also through that Corporation.

3.2. The Committee on Development of Leather and Leather Manufactures for Exports recommended a quota system to be regulated in such a way that in about 8 to 10 years' time the exports of semi-finished leather would be reduced to 25 per cent of their 1971-72 level. Government informed Parliament in March 1973 that it intended to reduce the export of semi-finished leather to 25 per cent of the 1971-72 level within five years. In the same month it was announced by the licensing authorities that quantitative restrictions would be imposed on semi-finished leather exports from 1st April 1973 and that all exports made from that date would be adjusted against the annual quotas to be fixed for individual exporters. It was announced in June 1973 that the quotas for 1973-74 would be fixed after making cuts of 20 per cent and 10 per cent in the case of semi-finished hides and skins respectively from the total exports

****Portions of Audit Paragraph relating to Export of leather and Air freight Subsidy have been reproduced and dealt with in Chapters I and II respectively.

of such leather in the calendar year '1972, which was to be the base year.

3.3. The Chief Controller of Imports and Exports, New Delhi, issued instructions to all licensing officers on 1st August, 1973, prescribing the manner in which individual quotas were to be fixed, and reiterating that all exports made from April, 1973 would be adjusted against the quotas. On 10th August, 1973, however, he announced certain changes in Government's decision, to the following extent:—

(i) the quota scheme would be operated only from 1st August, 1973;

(ii) for the remaining eight months of 1973-74, only 50 per cent of the annual quota would be allowed;

(iii) exports made from April 1973 to July 1973 would not be set off against the next eight months limits.

3.4. The above decision was further modified in January 1974, when it was announced that 66.67 per cent of the annual quotas would be allowed to be exported during August 1973 to March 1974.

3.5. Government announced in March 1974 that in view of representation received from industry and trade that it would take some time to develop adequate industrial infra-structure to manufacture finished leather, it has been decided to continue the annual export quotas for 1974-75 at the same level as for the preceding year. It was also clarified that the quotas would be substantially reduced in the following years, *viz.*, 1975-76 onwards.

3.6. Meanwhile, there had been a considerable shortfall in the export of semi-finished leather below the level fixed for the period from August 1973 to March 1974, and the period of validity of the 1973-74 quotas was extended upto June 1974 mainly in view of the fact that the decision to enhance the permissible limit for the last eight months of 1973-74 to 66.67 per cent had been announced very late, and some exporters could not avail of the additional allotment because they had not planned for it in advance.

3.7. Partly as a result of the various measures taken in 1973-74 in introducing the quota system for exports of semi-finished leather, quantities of E.I.T. leather and chrome tanned leather wet blue exported in that year were less by 121.05 lakh kilograms (40 per cent) and 95.91 lakh kilograms (33 per cent) than exports in 1972-73. In terms of hides and skins quantities of exports (in weight) of both the above varieties of semi-finished leather in 1973-74 were less by about 55 per cent and 24 per cent respectively than 1972-73, as against reduction of 20 per cent and 10 per cent from exports during the calendar year 1972 envisaged. (In terms of number of pieces of hides and skins exports in 1973-74 were less by about 67 per cent and 27 per cent respectively than 1972-73). The value of these reductions at 1973-74 average export prices was Rs. 71.93 crores. As against this, the increase in export realisation for finished leather, leather goods, leather foot-wear and other finished products in 1973-74, over the preceding year was only Rs. 3.48 crores. The Ministry stated (January 1975) that "reduction in exports of semi-finished leathers were primarily due to lower demand. In future years also while the export of finished leather and leather products will show a gradual increase it would not be appropriate to expect that every fall in the exports of semi-finished leather would have corresponding increase in export of finished leather etc."

3.8. Reduction in exports of semi-finished leather in 1973-74 without corresponding increase in exports of finished leather, leather goods and leather foot-wear due to non-availability of adequate infra-structure for production of finished leather, leather goods and leather foot-wear resulted in closure of many small tanneries, creating large-scale unemployment among tannery workers. In a memorandum submitted in January 1974, Government of Tamil Nadu stated that 248 tanneries in that State had been closed down, and 102 were working far below capacity. In the light of these developments, the Commerce Ministry wrote to the State Trading Corporation in April 1974 directing that a scheme should be prepared under which the Corporation could purchase semi-finished leather not only from non-exporting tanners but also from other manufacturers whose capacity for producing semi-finished leathers exceeded their quota entitlements. In was suggested that the Corporation could export these leathers on its own. The scheme is yet to be finalised (October 1974).

[Paragraph 29 of the Report of the Comptroller and Auditor General of India for the year 1973-74—Union Government (Civil)].

3.9. The following table gives the figures of exports of semi-processed leather as against the quota fixed after imposition of quantitative restrictions during the years 1974-75 and 1975-76 (April-December).

Item*	Quota (After reduction of 20% for hides and 10% for skins)	Performance 1974-75 Pieces	Value	% for pieces	(Value in Rs./Lakhs) Performance 1975-76 (April-December) Pieces (As compiled by LEPC Madras)	Value	%age
B. I tanned hides and skins							
1. Cow calf	19,51,200	12,63,000		64·73%	968000		50%
2. Buffalo calf	25,08,300	19,28,000	6103	76·86%	1600000		70%
3. Cow hides	24,92,000	18,70,000		75·04%	1613000		66·6%
4. Buffalo hides	1,60,000	1,51,000		94·38%	123000	5637·09	76·8%
5. Goat skins	202,34,700	109,90,000		54·31%	8350000		33%
6. Sheep skins	149,26,500	103,14,000		69·10%	7049000		48%
TOTAL	422,72,700	265,16,000	6103		19703000	5637·09	
Wet Blue Chrome tanned hides and skins:							
1. Cow calf	1,53,900	24,000		15·59%	1000		0·66%
2. Buffalo calf	3,89,700	241,000		61·84%	84000		21·8%
3. Cow hides	14,88,000	467,000		31·38%	76000		5·1%
4. Buffalo hides	3,94,400	55,000	4073	13·95%	4000	3260·65	1·01%
5. Goat skins	232,02,000	130,00,000		56·02%	12386000		53·3%
6. Sheep skins	10,68,300	4,88,000		45·68%	333000		31·1%
TOTAL	266,96,300	142,75 000	4073		12884000	3260·65	

3.10. The value of E.I. tanned and wet Blue Leather exported during 1972-73 to 1975-76 (April-December) is given below:

(Value in Rs./Laks)
(Quantity in Lakh/Kgs.)

	1972-73		1973-74		Reduc-tion	1974-75		%Reduc tion	1975-76 (April-Dec.)		% reduction not given for 1975-76 because it is only part year
	Qty.	Value	Qty.	Value		Qty.	Value		Qty.	Value (According to LEPC Madras)	
E.I. lTanned eather	302.86	10110	181.81	8560	40%	139	6103	23.6%	124.86	5637.99	
Chrome anned Wet Blue)	287.31	5204	191.40	6238	33%	116	4073	39%	—	3260.65	

3.11. It would be seen from the above table that quantities of E.I. tanned leather and chrome tanned leather (wet blue) exported during 1974-75 were less by 43 lakh kgs. (24 per cent) and 75 lakh kgs. (39 per cent) respectively than the corresponding exports of exports of these items in 1973-74. In value terms the exports of E.I. tanned and Chrome tanned (wet blue) were less by Rs. 46.22 crores (E.I. tanned Rs. 24.57 crores and Chrome tanned wet blue Rs. 21.65 crores). As against this, exports of finished leather, leather footwear and leather goods in 1974-75 were more by Rs. 26.55 crores only (*vide* para 2.8 *ante*).

3.12. The Committee asked whether constant shifts in the Quota System did not indicate considerable vacillation, in-consistency and an insolationist type of approach not based on the totality of circumstances which would best serve the interest of the industry as a whole. The Ministry of Commerce in a Note, referred to their long term objective of "structural diversification and modernisation of the leather industry" and expressed the view that "while the objective was kept in sight and striven for, the strategy and mechanics had to be adopted and bent to meet the demands of actual conditions of production and exports in the domestic industry and international market respectively." The Ministry related the following sequence of events to support their view point:—

(a) In December 1972, Government brought all categories of semi-processed hides and skins including E.I. tanned and wet blue hides and skins and crust leather under the Export Control Order Government also canalised all types of footwear to all destinations in November, 1972, through the State Trading Corporation (Footwear were canalised hitherto only for the East European countries). This was followed by canalisation of semi-processed hides and skins in December, 1972 in order to monitor the proposed restrictions.

(b) Government also announced on 6th February, 1973 that quantitative restrictions on exports of semi-processed hides and skins will be effective from 1st April, 1973. For fixing the quotas, Govt. called upon the exporters of semi-processed hides and skins to indicate their best year's exports in terms of number of pieces during any of the calendar years between 1967 and 1971, and also their exports in 1972.

(c) Government appointed an official Committee to evolve a suitable formula for enforcing quota restrictions. On the basis of the report of this Committee, it was announced in June, 1973, that the quotas for the year 1973-74 would be fixed after making a cut of 20 per cent and 10 per cent for semi-finished hides and skins respectively from the total exports of such leathers in the year, 1972 which was to be the base year. The year, 1972, was chosen as the base year because that year recorded the highest export performance of semi-finished hides and skins and with a view to avoiding hardship to the tanners on account of quota restrictions. Besides, it was stated that normalcy returned to West Bengal—the second largest tanning centre in that country next only to Tamil Nadu—only in 1972 after a period of law and order disturbances, and that year should be taken into consideration for quota fixation purposes.

(d) All this aimed at the long term objective of structural diversification and modernisation of the leather industry and in order to set a direction for the leather industry.

(e) Chief Controller of Imports and Exports, New Delhi issued instructions to Licensing Authority on 1st August, 1973 to prescribe the manner in which individual quotas were to be fixed and reiterated that all exports made from April 1973 should be adjusted against the quotas.

(f) A representation was received and a deputation waited on the Minister stated that most of the exporters who are in active trade and exported substantial quantities of semi-processed hides and skins during the 3 months period, April-June 1973—and now they found that they had nearly exhausted the quotas they were entitled to. If this position was not modified, these exporters would be forced to slow down production in the tanneries and default in the contracts they had entered into. It would also result in unemployment on account of closure of tanneries.

(g) After examining these representations, the Government changed the operative date of quota restrictions from 1st April, 1973 to 1st August, 1973. As a matter of abundant caution Government released only 50 per cent of the quota lest they should run the risk of exceeding the proposed quota for the whole year of 1973-74 (when the performance of 1-4-73 to 1-8-73 is added on to the further exports to be allowed for the year till 31st March, 1974). It was felt that the position could be reviewed later.

(h) It was noticed during the year, 1973-74 that industry had initiated steps to develop capacity for manufacture of finished leather and leather goods. Government also took steps to facilitate this process by simplification of the licensing procedure and the procedure for the import of machinery and chemicals. Government also received representations from the industry and trade that since the process of development industrial infrastructure to manufacture finished leather would take some time, no cut in the export quotas for 1974-75 should be made. Government formed some basis for this view, and accordingly decided to continue the annual export quotas for 1974-75 at the same level as for 1973-74.

3.13. The Committee enquired why Government decided to bring down export of semi-finished leather to 25 per cent in a period of 5 years instead of 8 years as recommended by Seetharamaiah Committee for such switch-over. In reply, the Commerce Secretary stated that as a matter of fact the Export Promotion Council, Kanpur, which deals with finished leather had favoured a ban on the export of semi-tanned leather but Government thought that that would not be proper. When Seetharamaiah Committee's recommendation was accepted, it was felt that "switch-over within eight years is likely to be too long a period." Accordingly, Government's policy of yearly reduction of 20 per cent in respect of E.I. and Chrome Tanned cow and buffalo hides and 10 per cent in respect of E.I. and Chrome tanned calf sheep and goat skins was decided upon, so that ultimately a 75 per cent ban on semi-tanned leather could operate and about 25 per cent could still be exported. As regards the pace of implementation, the witness said:

> "But as it went, we found that the pace at which the Government thought the switch-over would take place did not really materialise in the sense that people did not get over to the idea of buying balanced machinery for finished leather. There was some difficulty expressed also and, due to this I suppose the switch-over was not as quick as expected. Many did not understand the implication of the various benefits the Government had given.
>
> Therefore, with a view to speeding up the operation of the switch-over, Government maintained the quota of reduction of 10 per cent for skin and 20 per cent for hides; but then, the difficulties in the field of semi-tanned leather became very acute. There was a very large hold up semi-tanned leather in the country and, therefore, a large number of people in the various sections of the community were subjected to suffering. In fact, whenever an officer or even the Minister went to Madras or the Tamil Nadu areas, they found that the distress needed immediate action. As a result of that, the quota restrictions had to be kept in a kind of stage which did not allow us to cut them any further. And that policy has had to continue, and we are still watching how the switch-over takes place. This switch-over I suppose, is taking place now. Within the year we will have several units producing finished leather; much more production of finished leather will come during the year, and next year we will certainly be able to reduce the quota still further. This kind of balancing operation is not based on statistics; it is based on some kind of judgement which is taken at the highest level. Let us not hurry up; let us hasten slowly."

3.14. In a Note furnished after evidence, the Ministry of Commerce stated as under:—

> "Although the Committee recommended a quota system to be regulated in such a way that in about 8-10 years time the

export of semi-finished leathers would be reduced to 25 per cent of 1971-72 level, Government wanted to accomplish the desired results of added export earnings from finished leather over a period of 5 years. The Ministry of Commerce had intended this accelerated pace because it was estimated that there was adequate capacity in the country for conversion of the semi-finished hides and skins into finished leather, and aimed at ushering in the long-term objective of structural diversification and modernisation of the leather industry and also to set a direction for the industry. However, a sizeable amount of idle capacity for conversion in a few production units could not be utilised for financial and other reasons. The industry had also to adjust itself to the new dispensation taking into consideration international market factors. The international leather industry started facing recessionary conditions. Hence, the Government was constrained to reckon with practical conditions of production despite availability of capacity and decline in international demand for semi-finished leathers while putting the policy into actual implementation."

* * * *

It was our desire to achieve the objective within the reduced time schedule. However, there had to be conditioned implementation by the actual international conditions for marketing and supply of capital goods machinery need which required some time. Since we have embarked upon this measure of structural diversification of the industry, many developing countries have also accelerated this programme of diversification and the delivery time for import of leather machines has become longer. These factors have to be reckoned while implementing this policy.

* * * *

The Commerce Ministry took into consideration the totality of circumstances, internal and external. The reduction in the export in the export of semi-processed hides, and skins was mainly due to international recessionary conditions and not merely the result of the policy adopted. In fact, the policy was adjusted from time to time with the prevailing domestic and international conditions in order not to cause hardship to the leather industry and trade. While the objective was kept in sight and striven for the strategy and mechanics had to be adapted and bent to meet the demands of actual conditions of production and exports in the domestic industry and international market respectively.

3.15. The Committee drew attention to the observations in the audit paragraph that there was reduction in exports of semi-finished leaher in 1973-74 without corresponding increase in exports of finished leather and enquired how far the quota system had achieved the objectives of increasing foreign exchange earnings. To this query, the representative of the Ministry of Commerce replied:—

"So far as the quota system is concerned, the objectives you mentioned were what Government had in mind, namely, increase the foreign exchange earnings and, secondly, see that more goes in an added-value form through finished leather. With these objectives in view, we workd out the quota system. The only point is that, as the Secretary, Commerce, had mentioned, Sitaramaiah Committee had phased this transition over a period of eight to ten years whereas Government took the view that we should endeavour to get to the final position of 75 per cent of semi-finished leather going in the form of finished leather within a span of five years. This was the basic change in the time perspective that Government had in view, and the quota system was worked out with that change in mind. At the same time it recognised that we could not, obviously, go beyond the facts of the situation, and the facts were that, in 1972, there was a maximum amount of export due to boom in leather trade and based on that the quotas were worked out. It may be recalled that the Seetaramaiah Committee had suggested a quota system based on 1971-72. There was a deliberate departure so that the industry and the trade may not be violently affected by putting the basis as 1972. Even here it was found necesary to care more for hides for our own production in finished form. Therefore, the percentage of cut for hides was higher, that is, 20 per cent, and the percentage for skin was lower, 10 per cent. This was the general policy regarding quota restriction. In working out the policy applying it to individual quota-holders, the individual quotas were related to the best performance of the exporter in the period 1968—1972."

3.16. Dealing with the reactions to quota system, the representative of the Ministry of Commerce further stated:—

"The policy was announced in June, 1973. There were two reactions to it. One was, some people had already exported a good deal before June and they felt hit on account of the quota introduced in June; they wanted to have an additional outlet for their production. The other thing was, because it was announced in June, they wanted to have a larger quota for those who had not exported earlier Govt. took an equitable view, and in August 1973 stated that, now that four months had passed, correspondingly they would reduce the quota and make it 50 per cent of the previous year's performance. The third stage was reached in December when Government further reviewed the position and raised the percentage from 50 to 66-2/3 per cent *i.e.* for a total period of 8 months. These modifications were essential, empirical and pragmatic in order to meet the practical difficulties of accumulation of stocks with our own exporters and producers, so that some relief may be had consistently with the international market situation."

3.17. Referring to the reasons for poor off-take under the quota system, the witness said:—

"Now two or three things happened. One is that the finished leather-conversion requires power and there was an acute shortage of power in 1973-74 and even in 1974-75; because of this, many of these units could not actually function to the maximum. Secondly, the international market recession also had taken place; the inventory 1972-73 had been large with the Italians who were one of the principal importers and also with certain other countries; they did not want to add to their inventories. Thirdly, in the year 1973-74, towards the latter half and again in 1974-75, there was a tendency on the part of the Continental cattle-holders to slaughter their cattle because the cost of maintaining them was for too high. It may be recalled that our exports of groundnut cake and cattle feed had registered a very heavy increase in 1973-74. But in 1974-75 there was a rebouncing of that, because of the excessive slaughter of cattle. I myself had an occasion to discuss this with the Asstt. Under-Secretary of the Overseas Development Ministry of U.K., and he was kind enough to mention that in his own country quite a good deal of cattle was being slaughtered more than normal. Therefore, hides and skins were then becoming available in the Continent and in U.K. in a larger measure. So, their offtake fell. It was because of these cumulative factors that the offtake became less. At the same time when the offtake became less, we did not want our local industry to suffer.

3.18. The Committee enquired why since Government had not introduced restrictions as originally contemplated it was still not possible to maintain the level of exports of E.I.T. and Chrome leather as in 1973. In reply, it was stated:

"Even if we had allowed unfettered export of E.I.T. leather and semi-finished goods in the year 1973-74 because of the international situation, it might not have reached the same level as it was before. The fact, however, remains that the quota have not been fulfilled. This is an index to show that the market has really receded and, therefore, there would not have been that amount of offtake."

"We had four meetings with the Leather Export Promotion Council and with the exporters themselves in July, 1973, December 1973 and last year twice. On each occasion, we put it to them, that when they have not fulfilled their quota, how do they say that quota restrictions were responsible for the difficulty? Their reply was that it was because of recession."

3.19. In a subsequent Note, Ministry of Commerce intimated that in October 1975 issue of "LEATHERS," an organ of the Export Promotion Council, Madras, the Chairman of that Council observed:—

"The overall drop in exports in 1973-74 and 1974-75 was mainly due to adverse international market conditions, and we cannot put the blame on quota system."

3.20. Asked if there was recession in the international market, how was it that our exports of finished leather had improved from 16.48 crores in 1973-74 to Rs. 25.37 crores in 1974-75, the witness replied:—

"Prior to 1973-74, our semi-finished goods had been very popular. Argentina, Pakistan and other countries had been exporting this kind of semi finished and finished products. Pakistan, Argentina and other countries banned their exports, with the same objective as we had, earlier and in the year 1972-73 to some extent, the banning of these from the other countries gave a spurt to our exports."

3.21. The Committee wanted to know whether as a result of various measures taken by Government in 1973-74 in introducing quota system for export of semi finished leather, while the quantity of export of E.I. tanned leather and Chrome tanned leather had gone down by 40 per cent and about 33 per cent respectively than exports in 1972-73, the export of finished leather had not registered a commensurate increase. In reply, the representative of the Ministry of Commerce stated:

> "Certainly there had been a reduction in the value of semi-finished leather because it is our professed policy to discourage the volume of such exports. Also, the international conditions were such that the off-take was not that adequate. So far as finished leather is concerned, it is true that there cannot be a kind of *pari passu* increase in finished exports. We have been progressively stepping it up, building up the infra-structure and the machinery required for production. So, there has been an increase from year to year in the value of finished leather and leather products exports, but it cannot necessarily keep pace *pari passu* with the decline in the value of semi-finished leather."

3.22. Asked whether the shifting of emphasis from export of semi-finished leather to finished leather without creating infra-structure in time had been mainly responsible for large scale lay off in tanneries in Tamil Nadu and if so whether it was indicative of lack of planning in implementation of the policy, the representative of the Ministry of Commerce replied:—

> "No doubt there was a certain amount of decline because of the international recession. Even the quota that we had allocated for semi-finished leather exports could not be fulfilled by the exporters both in the non-STC and STC sectors."

> "When the quota system was introduced, we had anticipated that about 50 per cent of the capacity available for finished leather conversion could be additionally utilised, but then there were certain additional factors such as the fact that certain plants, equipment, certain additional or balancing machinery etc. were required. This has been catching up. I am myself aware of it. I had twice inspected finished leather units in Madras for instance. They have been progressively increasing import of machinery from West Germany, and France and adding to their equipment, so, the process is going on. So, by one year's

experience or the first year's experience of finished leather exports, Government cannot have reasons to be deterred."

3.23. The Committee wanted to know whether the switch over from export of semi-finished to finished leather had adversely affected the small tanners in the country who traditionally produced semi-finished leather, and rather benefited the merchant exporters or intermediaries who fleeced the small producers. In reply, the Commerce Secretary stressed only the Seetharamiah Committee's recommendation that the switch over from export of semi-finished leather to finished leather and other manufacturers should be done over a period of eight years, and added that when Government tried to quicken the pace of switch over, there was some unavoidable lay off and displacement of labour particularly in Tamil Nadu. It was further stated:—

"In fact, a team was organised by the Government of India which went about from place to place and met the various tanners and those who had semi-processing units to find out what were the difficulties they were suffering from and to solve them immediately on the spot. It was found that there was a fund of ignorance among them. They did not know about the benefits Government were giving and they had doubts about several things. Then, they started switching over to buying small little parts or other machinery, not of very big value, for the purpose of transition from the stage of semi-finished to finished leather. Now, this was such slow process that we had to allow semi-tanned leather to continue being exported even though under a quota and even though under a higher export duty. Between the two, we had to strike a balance."

3.24. During their visit to the Leather Export Promotion Council, Madras, it was represented to the Study Group of the P.A.C. that the quota system instead of producing desired results had aggravated the problem in several ways, namely:—

(i) By overnight cutting down the capacity of the tanner the policy had resulted in a financial crisis to the tanner;

(ii) The efficiency of a tanner was considerably reduced overnight on account of a very low capacity utilisation, almost doubling his overheads and the cost of production;

(iii) The quota system completely changed the nature of tanner's business to which he was heitherto accustomed.

(iv) Because of inflexible nature of quota system the average price realisation had also considerably gone down in the export sector. Although it is true that when E.I. tanned and wet blue is converted into finished leather one gets a better price but the prices of E.I. leathers keep fluctuating very often and there is no regular basis to arrive at the calculation of added value.

(v) The quota system was introduced on the strength of its theory. It was pleaded before the Study Group that a study in depth of the implications of the scheme should be made before embarking on it fully.

3.25. In a representation submitted to the Committee the Leather Export Promotion Council, Madras, drew attention to a further alleged danger namely the entrance in the field of finished leathers by monopoly houses, and their insistence on further reduction of the export quotas of E.I. tanned and wet blue leathers. The relevant passage is as follows:—

"At present some new entrants in the field of finished leathers, belonging to certain monopoly houses, seem to be exerting considerable influence on the Government with regard to formulating the export policy of semi finished leathers. These new entrants are particularly interested in immediately doing away with hundreds of small tanners all over the country, in order to reap a bumper harvest for themselves. A strong plea for a 30 per cent cut in the export quotas of the exporters of vegetable tanned and wet blue leathers for the year 1976-77, by these new entrants, seem to be under serious consideration of the Government. By doing so, it will mean these tanners have to throw out 30 per cent of the existing workers. This will bring untold suffering to this special working class, which as you are well aware, mostly belong to the weaker section of the Indian community. It is argued by the representatives of these new entrants, that they are unable to obtain the raw material because of the unchecked exports of these leathers by the tanners. This representation is absolutely false because the majority of the finished leather exporters, who contribute 85 per cent of the exports of finished leathers, do not make any such claim that raw material is not available. The new entrants only wish that many of the small tanners simply close down in order to obtain for themselves huge quantities of raw hides and skins, at cheaper prices, which will enable them to increase their

> profits at the expense of the country's foreign exchange earnings. At present the voice of the tanners is not heard in any quarters simply because they are dubbed as outmoded and 'unprogressive'.

It is argued that by cutting export quotas it does not necessarily mean that the tanners have to cut down production or retrench workers. The Government expects that the tanners should have to maintain same level of production as before, and sell the excess quantities to the finished leather and leather goods manufacturers. But here the Government is completely overlooking the problems that a tannery has to face in organising production without orders and without working capital.

The finished leather manufacturers of India do not come forward and place advance orders with the tanners at present. In the absence of this a tanner cannot plan any production. Moreover, even the banks who readily make available working capital against export orders, do not advance any working capital for manufacture and sale for the local market. Therefore in the absence of any orders from the local buyers, and also in the absence of working capital from the banks, the tanners have no choice but to cut down their production to the extent the export quotas are made available. Therefore, the policy of cutting quotas, in the absence of any solution to the above two problems, simply would result in lesser production and retrenchment of workers for the existing 400/500 small tanners. Perhaps this is exactly what the big monopoly houses are now wanting to happen."

3.26. The Committee uphold Government's long-term objective of "structural diversification and modernisation of leather industry" with a view to our exporting finished leather and leather manufactures rather than semi-processed hides and skins which bring meagre returns and is appropriate only to a backward economy. The quota system, however, does not appear to have been evolved after sufficiently careful thought. It was in March, 1973 that Government announced its intention to reduce the export of semi-finished leather to 25 per cent of 1971-72 level within five years. In June 1973, it was announced that export quota for the year 1973-74 would be fixed after making cuts of 20 per cent in the case of semi-finished hides and 10 per cent in the case of semi-finished skins from the total exports of such leather in the calendar year 1972 which was selected as the base year. On 1st August, 1973, the Chief Controller of Imports and Exports issued instructions reiterating that all exports made from 1st April would be adjusted against the export quota, but 10 days later he announced changes in Government's decision according to which (i) the quota scheme was to be operated from 1st

August, 1973 (ii) for the remaining 8 months of 1973-74 only 15 per cent of the annual quota would be allowed and (iii) exports from April, 1973 to July, 1973 would not be set off against the next eight months' limit. Even this decision was revised in January, 1974 when it was announced that 66.67 per cent of the annual quota would be allowed to be exported during August, 1973 to March, 1974. In March, 1974 another announcement came that in view of representations received from concerned interests that it would take some time to develop adequate infra-structure to manufacture finished leather, annual quotas for 1974-75 would be continued at the same level as for the preceding year, though these would be substantially reduced in the following year, viz., 1975-76 and onwards. Defending these changes, the Ministry of Commerce argued that "strategy and mechanism had to be adopted and bent to meet the demands of actual conditions of production and exports in the domestic industry and international market respectively." The Committee feel that if Government had taken the actual conditions of production and exports into consideration at the very beginning, before launching the quota system and had made it known firmly to the industry and trade, it would have been spared embarassment and also the hazards that such frequent changes involved. The Committee cannot resist the impression that the quota system, so frequently changed and at short intervals of time, was conceived in haste and without careful anticipation of its likely effects. Certain new entrants to the export of finished leather goods have, according to the Leather Export Promotion Council, Madras, requested Government to order a further cut in the export quota of semi-finished leather. The Committee urge Government to evaluate all such proposals on the basis of their own experience and ensure that the scheme, formulated with foresight and precision, gives a new, stimulating direction to the leather industry.

3.27. The Committee find that partly on account of the quota system, the quantities of E.I.T. leather and chorme tanned leather wet blue exported during 1973-74 were less respectively by 121.05 lakh kilograms (40 per cent) and 95.91 lakh kilograms (33 per cent) than the corresponding exports in 1972-73. The value of these reductions at 1973-74 average export prices was Rs. 71.93 crores. As against this, the increase in export realisation for finished leather, leather goods, leather footwear and other finished leather products in 1973-74 over the preceding year was only Rs. 3.48 crores. In other words, in 1973-74 we lost very much more, in terms of foreign exchange, by restricting our exports of semi-finished leader than what we gained in the form of higher exports of finished leather and leather manufactures. To make things worse, the position does not seem to have improved in 1974-75 either when quantities of E.I.T. leather and Chrome tanned leather wet blue exported were less respectively by 43 lakh kgs (23.6 per cent) and 75 lakh kgs (39 per cent) than the corresponding exports in 1973-74. The value of these reductions was as much as Rs. 46.22 crores. As against this, the increase in export realisation for finished leather, leather goods and leather footwear in 1974-75 over the value of export of these items in 1973-74 was only Rs. 26.55 crores. The representative of the Ministry of Commerce stated in evidence that the decline in exports of semi-finished leather was not due to the quota system alone but also to the cumulative effect of four main factors, viz., (i) acute shortage of power, (ii) non-fulfilment of export quotas due to international recession, (iii) accumulation of large inventories with principal exporters like Italy and (iv) rise in the cost of maintenance of cattle which continental cattle-holders tended rather to slaughter. The Committee feel, however, that these factors may have aggravated the situation, but the responsibility of the restrictions under the quota system bringing about reduced exports of semi-finished leather cannot be so easily negated. The view of the Ministry of Commerce that export of finished leather "cannot obviously keep pace pari passu with the decline in the value of semi-finished leather" does not explain the position and appears even to be complacent. The Committee feel strongly that our country just cannot afford a fall in our export earnings even as we make necessary long-term schemes which may not bring in adequate dividends immediately. Government should, therefore, avoid drastic quantitative restrictions on semi-finished leather exports unaccompanied by a commensurate increase in finished leather exports. The Committee urge also that from this angle the working of the quota system should be adequately appraised so that any serious detriment to the leather industry in its present phase of development and to the quantum of our export earnings could be decisively eliminated.

3.28. The Committee note that the Sitaramiah Committee had recommended a quota system to be regulated in such a way that in about 8 to 10 years time the exports of semi-finished leather could be reduced to 25 per cent of their 1971-72 level. Government's idea, however, was that it was "too long a period" and that the task should be accomplished in five years from 1972. Acceleration of the pace of conversion of semi-finished capacity into finished leather capacity is no doubt desirable, but the resultant curbs on export of semi-finished leather had caused a crisis in the leather industry and the closure of as many as 248 tanneries in Tamil Nadu, thus creating considerable and sudden unemployment in that State and elsewhere. The Committee fear that, even with the best of intentions, Government had perhaps tried to move faster and more drastically than the actual situation warranted. Even at this late stage, the Committee would urge Government to take a fresh stock of the situation, and by a perceptive re-scheduling of its programme enable the leather industry to adjust itself to the new requirements and readily cooperate in the challenging task ahead of us in our race for economic advance and well being.

CHAPTER IV

A. AIR-FREIGHT SUBSIDY ON EXPORTS OF FINISHED LEATHER ETC.

Audit Paragraph.

* * * *

Government's intention for over 15 years had been to switch-over from export of semi-finished leather (E.I.T. leather and chrome-tanned wet blue leather) to export of finished leather and leather goods including footwear. For encouraging more exports of finished leather and leather goods including footwear the then Foreign Trade Ministry initiated a proposal in May 1970 for payment of air-freight subsidy to exporters of finished leather, leather goods and leather footwear. The Finance Ministry rejected the proposal stating *inter alia* that sanction of air freight subsidy for export of non-perishable products might have wide repercussions, and that an adequate margin might already be available to the exporters. In November, 1970 the Foreign Trade Ministry revived the proposal, based on certain data submitted by the Export Promotion Council for Finished Leather & Leather Manufactures, Kanpur. The justification given for the proposed subsidy was that finished leather, leather goods and leather footwear were mainly exported to fashionable markets in the West where trends changed quickly, and that other competing countries had the advantage of close proximity to importing countries and could therefore effect quicker deliveries. The Finance Ministry, although not fully satisfied with the data, agreed in January 1971 to payment of the subsidy from February 1971 to March 1972 at 50 per cent of the air freight paid, with a limit of 15 per cent of f.o.b. realisations in the case of finished leather and leather goods, and 10 per cent of f.o.b. realisations in the case of leather footwear and components. This was subject to a review after a year. Attempts made by the Foreign Trade Ministry during that period to collect details of exports effected by air failed, but in April 1972 subsidy at the same rates was extended with the concurrence of the Finance Ministry up to March 1973. On this occasion, a new condition was introduced that exports should be effected through Indian flag carriers in order to qualify for subsidy. In January 1973, the Foreign Trade Ministry made a proposal to sanction the subsidy scheme on a perpetual basis. The Finance Ministry rejected the proposal on the ground that relevant data had not been verified, but agreed to continue the subsidy at the existing rates till March, 1974. In February, 1974 the Foreign Trade Ministry reviewed the proposal to continue the subsidy without any time limit, suggesting that a review might be made after 3 years. But in March, 1974 this idea was dropped, and it was suggested that the scheme might be continued upto March, 1975. The Finance Ministry called for the latest cost data but was informed that it would take considerable time to get them. The Finance Ministry observed *inter alia* as follows:—

(i) Reliable data regarding export effected by air were not available.

(ii) Cost data were not furnished in the required form, and information collected from the Export Promotion Council in February, 1973 was the same as that submitted in 1970.

(iii) Details of cost of production were not furnished, so as to see whether the exporters were incurring any loss.

4.2. However, the subsidy was continued at existing rates on ad hoc basis for another six months upto 30th September, 1974, and the Finance Ministry suggested that data should be collected before that date.

4.3. Some more data were obtained through the State Trading Corporation and the Export Promotion Council by August 1974, but these were not certified by any Chartered Accountant and did not also indicate the cost of production or the losses actually sustained by exporters. The Finance Ministry observed in September 1974 that the basic facts for a decision were not available, and suggested continuation of the subsidy at certain reduced rates upto March 1975, by which date a proper detailed study could be made. It was clarified by the Commerce Ministry in September 1974 that it would be difficult to collect authentic data as required by the Finance Ministry. Thereafter, in November 1974 orders were issued extending the air freight subsidy upto March 1975 at the reduced rate of 40 per cent of air freight paid (with a limit of 10 per cent of f.o.b. realisations in the case of finished leather and leather goods and 7 per cent of f.o.b. realisation in the case of leather footwear and components).

4.4. The Ministry stated (January 1975) that "most of our finished leather, leather goods and footwear are being exported by air".

The Ministry also stated (January 1975) that "export of finished leather, leather goods and footwear depend upon the fast changing fashion in the foreign markets" and "our export efforts will totally fail if we are not able to supply goods in time and this is possible only by effecting our exports by air".

4.5. Out of Rs. 2.37 crores estimated by Government as payable as air-freight subsidy on finished leather, leather footwear and leather goods air-lifted during 1971-72, 1972-73 and 1973-74, Rs. 1.08 crores were paid by March, 1974.

4.6. Almost 50 per cent of the exporters of finished leather, who account for the bulk of finished leather exports, are stated to be exporters of semi-finished leather also (both E.I.T. and chrome-tanned wet blue). In 1972-73 out of 146 registered exporters of finished leather, 70 exporters, who accounted for not less than 62 per cent of the total finished leather exports during that year, were also exporters of semi-finished leather. These exporters got the benefit of increase in unit value on their exports of semi-finished E.I.T. leather and chrome-tanned leather as shown below:—

Year	Unit value (per Kilogram) of exports	
	E.I.T. leather Rs.	Chrome tanned wet blue Rs.
1970-71	22·83	17·76
1971-72	25·03	15·14
1972-73	33·38	18·11
1973-74	47·08	32·58
1974-75 (*)	46·00	25·00

4.7. While the wholesale price index for leather in India increased by 74 per cent between 1970 and 1973 (*viz.*, from 133 to 232), the export prices of E.I.T. leather appreciated by 106 per cent (from Rs. 22.83 to Rs. 47.08 per kg.) between 1970-71 and 1973-74 and those of chrome-tanned wet blue appreciated by 83 per cent (from Rs. 17.76 to Rs. 32.58) over the same period. Apparently, these exporters earned profit on their exports of semi-finished leather, *i.e.* E.I.T. leather and chrome-tanned wet blue. While sanc-

(*) Information relating to the year 1974-75 is not contained in this Audit Paragraph but was obtained from the Ministry of Commerce. It is not vetted in Audit.

tioning subsidy to finished leather exporters Government does not seeem to have taken this fact into account. The Ministry stated (January, 1975) that "a large number of exporters of finished leather were not producers of semi-finished leather and they had to buy semi-finished leather at prevailing high prices. The withdrawal of subsidy only for common exporters of semi-finished and finished leather would have been difficult to administer and would be a discrimination affecting precisely the persons who were reluctant to switch over from semi-finished leather exports."

4.8. In 1970-71 export of finished leather, leather goods and leather footwear (Rs. 12.20 crores) was about 15 per cent of the total leather exports (Rs. 82.20 crores). After the air freight subsidy was sanctioned from February, 1971 exports of finished leather, leather goods and leather footwear increased, but were only 14 per cent, 18 per cent and 20 per cent of the total leather exports in 1971-72 (Rs. 100.89 crores), 1972-73 (Rs. 187.15 crores) and 1973-74 (Rs. 186.18 crores) respectively, while the corresponding percentages for exports of semi-finished leather (E.I.T. leather, chrome-tanned wet blue leather and reptile skin) were 86 per cent, 82 per cent and 80 per cent. Thus, there has not been much significant success in switching over from semi-finished leather to finished leather, leather goods and leather footwear although most of the advanced countries seem to prefer importing leather in more finished form, and the General System of Preference introduced by the various advanced countries in 1971 removed the tariff barriers which had earlier been handicaps for export of Indian finished leather and leather products. This was mainly due to non-availability of facilities for production of finished leather with the tanning industry, a large portion of which is in the small scale and the cottage sectors. The Committee on the Development of Leather and Leather Manufactures for Exports recommended (December, 1972) setting up of more finishing centres where there were concentrations of small scale tanners.

4.9. The Ministry stated (January, 1975) that "Government has taken many steps to promote establishment of capacity for production of finished leather and leather products. The licensing policy has been changed on the lines of the recommendations of the Seetharamiah Committee Report and new units from the semi-finished stage onwards of leather tanning are being freely licensed. The list of machineries and chemicals has been drawn up which are required for the finished process and import of these is freely allowed." The Ministry also stated that "for co-ordinating and to provide leadership in this process of switch-over it is likely that a corporation under the Central Government may also be established soon."

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[Paragraph 29 of the Report of the Comptroller and Auditor General of India for the year 1973-74, Union Government (Civil)].

4.10. In January, 1975, the Ministry of Commerce informed Audit that:—

(i) In this area of exports where air-freight is necessary our competitors from South America, Taiwan, Hong Kong and Europe have air-freight advantage for both the major markets of Western Europe, U.S. and Canada. Our total trade in finished leather and leather products is small and has to be increased at the expense of the established and more profitable trade of semi-finished leathers. The air-freight subsidy, therefore, is well justified for equalising the trade terms with the competitors when we are just making our entry into the foreign markets.

(ii) The draft paragraph observes that reliable data regarding exports effected by air were not available. This is true because the airlines do not keep the data on a regular basis. The Customs Authorities in air ports like Delhi also furnish daily lists of exports only to the Director General, Commercial Intelligence and Statistics about the exports effected by air. But, at the same time it is well-known fact that most of our finished leather, leather goods and footwear are being exported by air.

(iii) It has been extremely difficult to collect data from the numerous footwear units who are in the dis-organised cottage sector. It is estimated that 200 million pairs of footwear are being produced in the country, out of which 8 million are being exported. Out of this 8 million, the Director General, Technical Development units are reported to account for about 2 million and rest comes from the small scale or cottage sector. The producers of footwear are small men and they mostly belong to the depressed sections of the society. It is very difficult to expect them to maintain data as we require for our pur-

****Deleted portions of the Audit Paragraph have been reproduced in and dealt with in Chapters II and III of this Report.

poses. The Export Promotion Council for Finished Leather etc. has been authorised to appoint a Cost Accountant for verification of proper data and the same may be submitted to the Cost Accounts Officer of the Government for a cost study.

According to the Directory of the Export Promotion Council for Finished Leather and Leather Manufactures, Kanpur there were only 261 parties who exported leather footwear, 138 exporters of finished leather and 379 of leather goods in 1972-73.

(iv) It should also be remembered that our footwear particularly of casual sandals type do not fetch high value. Here even a small gain counts and if this is not provided for, the exporters incur losses. Hence it is necessary to provide air freight subsidy on this item. In respect of footwear also designs and fashion change very fast and we have to change our production pattern accordingly.

(v) It is also a fact that we are making a beginning in the production of finished leather, leather goods and footwear. These are also difficult items in the sense that they require sophisticated machines, chemicals and dyes and also design requirements and strict specifications. Our trade is small in these items as compared with our potentialities because of these constraints. So, it is absolutely essential that we facilitate export production and access to far off markets by provision of the facility like air freight subsidy.

(vi) It is true that the profits of the exporters of semi-finished leather during 1972 were very high. This leather boom contained upto early 1973. Since then, the prices have been falling in the international market and the demand has been slowing down. It is quite likely that the profitability of semi-finished leather may come down to the levels of 1970 or even lower. The leather trade is subject to cyclic fluctuations of price, common in traditional commodity trade.

4.11. In the Report of the United Nations Conference on Trade & Development (December, 1974), the need for use of air transport by the developing countries was stressed in the following words:—

"Developing countries are isolated from the fashion centres of the world and in most cases lack the structual capacity to adapt their lines of production quickly to the specific requirements dictated by fashion (quality, texture, colour, substance, feel etc.). An added problem in this regard concerns delivery time and transport costs. If developing countries want to compete in the finished leather fashion market of developed countries, it appears that they should seriously consider use of air transport. However, the higher transport costs involved may well outweigh the original advantage of lower production costs and prices that developing countries have *vis-a-vis* the producers in developed countries in the processing of these leathers."

* * * * *

"Some of the major exporting countries—including all the developing exporting countries—being located long distances from their major consumption markets, particularly of Western Europe, are at a disadvantage vis-a-vis the European exporting countries, a great part of whose exports is shipped to short distance destinations—mostly within Europe. Hence their transport costs are much higher than for the European suppliers, and the time required for their products to reach the consumers is much longer, thus causing higher inventory costs. Moreover, the longer the distance over which transport takes place, the greater are the possibilities of interruptions, delays and unforeseen changes. Such delays are particularly serious in the case of finished products like footwear and other leather fashion goods for which the demand is seasonal, because they may cause such fashion products to lose the market."

4.12. The Ministry of Commerce, in a note*, mentioned the following additional points for the grant of air freight subsidy:

(a) "It will be appreciated that sea shipments in such small consignments with such rapid frequency is not feasible. Based on our commitments of supply of components, such as footwear uppers, the buyer plans a programme of production and our supplies must be adopted to the daily or weekly production planning at the other end. Footwear and leatherwear are seasonal in the year—winter, soring, summer and fall—any time lag between the designing concept and the production of footwear or leather goods

*Not vetted in Audit.

makes the articles unsaleable. It has, therefore, become imperative that the gap between the design concept and final production is reduced to the minimum.

(b) Apart from quicker feed-back for correcting any one of the mistakes that may occur, which do occur even in the Western factories, heavy inventories can be avoided by a quicker means of transport.

(c) Another impelling factor for deliveries by air is arrival of components at the other end in factory fresh condition. It will not be out of place to mention that the original contract with USA buyers for cow-boy uppers was based on sea freight. First consignment reached the destination with fungus and other defects due to long sea voyage and consequently had to be destroyed. An agreement was, therefore, entered for the despatch of cow-boy uppers by air.

(d) Our competitors are mostly based in South America, North Africa and places like Portugal and Spain in Europe. If we have to meet their challenge, air freighting is must and is the only asnwer.

(e) STC's own experience is that but for air-freighting they would have never succeeded in developing exports of components. STC's direct exports of components has steadily increased as follows:—

Year	Invoiced value (Lakh Rs.)
1971-72	50
1972-73	83
1973-74	147
1974-75	180

(f) The trend in Western countries is to send even semi-processed leathers by air. We would not be able to compete unless finished leathers, footwear, footwear components and leather goods are sent by air with necessary assistance towards high cost of air freight.

(g) The Leather Export Promotion Council, Madras have compiled different types of incentives available to the leather industry in our competing countries (*Appendix II).

4.13. The Committee desired to know whether other countries also exported leather goods by air to catch up with changes, in fashion. In reply, the representative of the Ministry of Commerce said:—

"I would like to submit two points. In respect of certain countries such as Argentina and Brazil and in Western Europe which are nearer the market—there it takes much shorter time than us even to send goods by sea rather than by air. Where the sources are nearer the market in the continent, there the time taken for sending goods by sea is the same as what we take by air. As far as change of fashion is concerned, one has to get in touch with the market constantly for knowing these particular changes and the STC Officer and the TDA collect data and they have been informing their associates as to how to adapt themselves to these changes."

4.14. The Committee wanted to know if any other country gave air freight subsidy to exporters of leather goods. In reply, the representative of STC said:

"Brazil gives many incentives. In fact it is a very fine package. The result has been that they have developed their export performance in the last 1-1/2 years."

4.15. Asked if producers of finished leather and leather goods as against the exporters had in any way benefited from air freight subsidy, the witness said:

"I do not think the Industrial Development Ministry has the statistics right now whether it led to better wages or better returns for the producers."

4.16. The Committee were informed by the Ministry of Commerce (February 19, 1976) that total amount of air freight subsidy paid on

*Not vetted in Audit.

various items from time to time since 1971-72 is as under:—

Year	Finished leather and leather goods	Footwear and Footwear Components	Total
	Rs.		Rs.
1971-72	4,81,848	67,967	5,49,815
1972-73	31,45,661	8,53,230	39,98,89
1973-74	53,49,462	14,84,629	68,34,091
1974-75	74,10,324	12,88,494	86,98,818
TOTAL	163,87,295	36,94,320	200,81,615

4.17. The rates at which air freight subsidy was operated were as follows:—

(i) Finished leather & Leather goods . .	50% of the air freight paid but limited to 15% of the f.o.b. value from February, 1971 to 30th September, 1974.
	40% of the air freight paid subject to 10% of the f.o.b. value from October, 1974 to March, 1976.
(ii) Footwear and footwear components . .	50% of the air freight paid but limited to 10% of the f.o.b. value from February, 1971 to 30th September, 1974.
	40% of the air freight paid subject to 7% of the f.o.b. value from October, 1974 to March, 1976.

4.18. The Ministry of Commerce stressed that "there is co-relation between the air freight subsidy disbursed and the increase in the export of finished leather, leather goods and footwear particularly to fashion conscious markets."

4.19. The exports of finished leather, leather footwear, leather components, leather goods and leather manufactures since 1971-72 increased as follows:—

(Rupees in lakhs)

Year	Finished leather	Leather foot-wear Com-ponents	Leather goods & leather manufactures
1971-72	359·96	873·25	199·00
1972-73	1663·63	1026·79	360·40
1973-74	1647·64	1129·45	617·36
1974-75	3022·00	1745·00	1283·00
1975-76 (April-August)	1770·00	695·00	442·00

4.20. Giving region-wise breakup of exports, the Ministry of Commerce stated:

> "On an average about 20 per cent of finished leather goods to Eastern Europe and the rest predominently to West Europe and USA. For footwear including components about 35 per cent goes to East Europe and the rest predominently to USA. Leather goods are predominently taken by USA and Japan and only about 5 per cent goes to East Europe."

4.21. The Committee were informed that air freight rates from India to New York *vis-a-vis* from Brazil/Rome to New York were as follows:—

Sector	Rate per K.G.	Minimum weight	Corresponding rate from Brazil/Rome
India-New York	Rs. 12.00	100 Kgs.	Brazil—Rs. 4·80 Rome—Rs. 8·00

4.22. It will be seen that the freight rate from India to USA is roughly 150 per cent higher than the corresponding rate from Brazil and 50 per cent higher than the rate from Rome to New York.

4.23. The Ministry of Commerce pointed out in a note that the percentage of freight incidence was very high in the case of Indian footwear as would be seen from the following table:—

Footwear from Country	Average price	Freight to New York	Percentage freight incidence
India	Rs. 43.00	Rs. 12.00	28
Brazil	Rs. 00	Rs. 5.00	5·5
Italy	Rs. 90.00	Rs. 8.00	9

4.24. Giving justification for the air freight subsidy scheme, the representative of the Ministry of Commerce said in evidence:

> "In the first place it is the policy of the Government to step up export of finished leather and to that extent to give them an incentive. Apart from import replenishment, there is no other incentive available to the leather industry. Air Freight subsidy was found to be called for because the difference between sea freight and air freight was about three to four times. As I had occasion to submit to this Honourable Committee, it is not our cost, it is more the price of the commodity from the competing sources that actually determines the requirement of the assistance and the incentive for any commodity of export from this country. In respect of finished leather, our competing sources were Argentina, Brazil, Latin America, Spain and Italy and also on the eastern side Hong Kong and Korea. They were able to reach the markets much quicker even by sea and their freights were more competitive."

4.25. The Committee desired to know if air freight subsidy was allowed irrespective of the country to which finished leather, leather goods, footwear and components were exported. In reply, the representative of the State Trading Corporation stated:

> "Is it the Western countries. It is on c.i.f. basis in which case we have to arrange for transport and work out the transport economics ourselves.*** The Soviet Union buys goods on f.o.b. basis. In the case of f.o.b. sale, it is for the buyer to make arrangements as to which route it prefers and which mode of transport it prefers. It is the closed footwear that is mainly exported to Soviet Union. It is quite heavy and sturdy footwear. So, the question of making a comparison has not arisen because the buyer has

taken delivery at the border of India and has made its own transport arrangements."

Asked if it is a fact that no air freight subsidy is given for export of footwear to USSR because export to that country on f.o.b. basis, the witness replied:—

"That is correct. That is on f.o.b. basis."

4.26. The Committee desired to know who administered the air freight subsidy and in what manner it was ensured that subsidy was given only for item for which it was meant. In reply, the representative of the Ministry of Commerce stated:—

"This is administered by the Joint Chief Controller of Imports and Exports."

4.27. The Committee asked how was it that the Ministry of Finance rejected the proposal of the Ministry of Commerce for air freight subsidy in January 1970 but agreed to it subsequently in January 1971. The representative of the Ministry of Finance stated:—

"First we said 'No' because we were not satisfied with the argument that the exporting of goods by air will result in the reduction of the f.o.b. realisation. Subsequently, it was clarified by them that in the matter of exports by air, the air freight has to be borne by the sender. That means, he will be at a disadvantage *vis-a-vis* the other person who will be selling in the same market. Therefore, to overcome this handicap, some sort of subsidy for the transportation by air must be provided. In a case like this it always happens that in the initial stage the Finance Ministry may be reluctant but, after a good deal of clarification, they may finally agree fully or in a modified form. That does not mean that at the first stage itself we could agree without adequate justification from the other Ministry."

4.28. As regards data compiled in connection with grant of air freight subsidy, the Committee were informed by the Ministry of Commerce that when they had revived the proposal in November, 1970 for grant of air freight subsidy, it was based on data received from the Export Promotion Council, Kanpur. A copy of the data is enclosed (Appendix III). Analysis of the data indicated that net additional cost on export by air per 100 K.G. of f.o.b. value would be as shown against each:

Leather goods	Net additional cost on export by air	Percentage of FOB export value
	Rs.	
Brief Case	682	51
Satchels	672	40
Document Gases	658	40
Folio Cases	624	13
Wallets, Passport Cases, Purses etc.	615	8
	Average .	30

4.29. It would be seen from the above table that the data worked out the net additional cost on export by air as 30 per cent on an average.

4.30. The Ministry of Commerce also furnished to the Committee a brief resume of the data furnished by the E.P.C. Kanpur and S.T.C. in August, 1974 (Appendix IV). It would be seen from this data of 1974 that difference between air freight and sea freight in respect of 'finished leather' was put at Rs. 989.00 which is 18 per cent of the F.O.B. value. Ministry of Finance was not satisfied with this data. Thereafter a Cost Accountant appointed by the E.P.C. Kanpur furnished some data which indicated that in the case of leather goods, air freight as percentage to sea freight ranged between 207 per cent (Chappals) and 653 per cent (Shopping Bag). While furnishing the data, the Cost Accountant pointed out that—

(a) "The cost of data for footwear is on random sampling basis.... Here also the different items of footwear with different designs patterns, sizes, colours, etc. will have different costs as well as sales prices. In case of standard designs, patterns and sizes the sales prices will be more or less same with different exporters. However, in case of fashion articles the prices of each and every design/ pattern with individual exporters will be different. Hence averaging the costs/prices will not be much help.

(b) If complete study of all the aspects of costs/prices of various items etc. are to be made the same is a very difficult proposition and each individual unit will take at least two months or so to collect various data and if at least 5/10 units/cases are to be considered then at least a year will be required to complete the study."

4.31. Asked to give progress made by the Cost Accountant to complete the study, the Ministry stated in a note that the Cost Accountant was appointed for a specified period of three months "in order to provide some authenticated data then required by the Ministry of Finance for considering the continuation of the air freight subsidy beyond March, 1975. The subsidy was considered and allowed beyond March, 1975 on the basis of data the Cost Accountant could collect."

4.32. Asked whether Ministry of Finance was satisfied with adequacy of data for grant of air freight subsidy, the representative of the Ministry of Finance stated in evidence that:—

"This was a new type of export promotion that was being suggested. Therefore, at the initial stage we had no data to conclude that either the system has succeeded or has failed. Whenever an export promotion scheme of this kind is introduced for the first time, we have to consider whether the future trend will justify the granting of the subsidy.

* * * *

"Now after three years we have some data, even though it is not quite satisfactory. Then, it is difficult to get precise information regarding the cost, how much of it goes to the middleman and how much is paid to the original producer. We have to make an overall assessment and see whether it should be continued. If the experiment has succeeded, we continue it."

4.33. The Committee enquired that if the review was based on insufficient data, what was the nature of control exercised by the Ministry of Finance. In reply, the representative of the Ministry of Finance said:—

"The responsibility for ensuring control of the various export promotion councils rests with the administrative ministries. Whatever may be their shortcomings at a particular point of time, the export has to be sustained. We cannot completely withdraw the scheme altogether. So, we are in a dilemma. We quite agree we are not in a happy situation.

* * * *

"Of course, we could have said "we will not give any subsidy". It is very easy to do that. Then what will happen to export promotion? It will result in a reduction in exports. That would be too drastic a step. So, we ask the administrative Ministry to take effective steps to remedy the state of affairs. In the meanwhile, the assistance has to go on."

4.34. The Committee enquired that if Government had no data of cost of production, was not action of the Ministry of Commerce based on a prior data an arbitrary one. In reply, the representative of the Ministry of Commerce stated:

"We did collect data from the Kanpur Council for export of finished leather and also from the STC and we found that there was a certain differential advantage in freight enjoyed by our competing sources and, therefore, our exporters require this amount of a limited support. That this view is also fully justified has been borne out by the subsequent Report of the United Nations which had gone into the question of the marketing and distribution system of hides and skins etc., published in December, 1974. The UN publication states that so far as finished leather is concerned, there is an added value and that the developing countries would do well to concentrate on such exports and because the developing countries are far removed from the markets, and the developed countries have an advantage, consideration should be given for a freight subsidy. This was a subsequent report of the United Nations which fully endorsed our initial *prima facie* action based on a *priori* data".

4.35. Asked if the subsidy was not based on determination of the actual loss suffered by exporters which would be subsidised, the representative of the Ministry of Finance stated:

"In one sense it is so; this exercise came later."

4.36. Asked what steps were being taken to collect reliable cost data of leather industry, the witness said:

"There has been a progressive improvement in the quality of the data that has been furnished. In 1974-75, we insisted on the Export Promotion Council to appoint a Cost Accountant specially for this purpose of collecting data, and then get the advice of the Finance Ministry as to the nature of the data required. The STC was also asked to improve upon their data. In addition to this, we also asked Air India to put mandatory rates which were in force from 1970. It was discontinued for some time again renewed from 15.7.74. We still found the freight differential was higher than the disadvantage that we suffered from our exports and hence the qualitative argument on the basis of the *a priori* data was found acceptable to the Finance Ministry."

4.37. Asked if continuance of subsidy beyond 31st March, 1976 would at least be subject to production of actual cost data, the witness said:

"When the question of further continuance arises, certainly this aspect would be kept in view."

4.38. The Committee enquired if while giving air freight subsidy, Government went by freight charges of Air India alone or whether freight charges of other chartered carriers were also taken into consideration. In reply the representative of the Ministry of Commerce stated:

"We take into account the freight charges as given by the Air India which is operating. It is upto the Air India to make certain chartered arrangements if their own carrying capacity is not adequate. Here, in this case, as I mentioned, mandatory rates were in force for same time from 11.2.1970 and subsequently also from 6th March 1975 and even here, mandatory charges have not been accepted by two of our host. countries like the UK and West Germany. We are pursuing that matter and wherever mandatory rates are in vogue, we also reckon with it in working out the air freight incidence."

*   *   *   *

"As far as Air India and other Airlines are concerned, they are covered by IATA and they have one common tariff. So far as chartered flights are concerned, if the chartered carriers are foreign airlines, it will mean an out-go of foreign exchange and that will be counter-productive. In working out the subsidy, we have said, that 40 per cent of the air freight paid or 10 per cent of the FOB realisation will be given. If they are using any other chartered airlines we expect a certificate of no objection from Air India that they do not have the carrying capacity."

4.39. The Committee pointed out that if leather goods were sent by a chartered flight carrier, cost of transportation would be far less and thereby the need for subsidising such cost would to that extent be reduced. The witness assured the Committee that:—

"In fact the total volume of exports by air rose perceptibly during the last one and half years: we shall keep that particular point of view in mind and see to what extent there can be further modifications in the light of current developments, when the next review is made ***. We will collect some mal data on this and go into this question which has recently risen when the next revision is made."

4.40. The Committee wanted to know if the need for air freight subsidy continued even after opening up of Suez Canal, the witness said:—

"The hon. Member has made a very valuable suggestion. The Suez Canal has been opened recently and there will be a time saving of three weeks. This will certainly have an impact on our leather exports and we will go into this question at the next review."

4.41. The Committee desired to know whether it would not have been better to spend money on creation of infra-structure facilities for leather industry rather than give air freight subsidy to big exporters. In reply, the representative of the Ministry of Commerce said:—

"Air freight subsidy, as the hon. Member pointed out, does not cover fully the air freight of the exporter. To the extent he is able to export this, he makes a profit and if possible, he is able to create employment potential."

4.42. The Committee enquired whether total assistance available to the leather industry was taken into account while considering the question of air freight subsidy. In reply, the Commerce Secretary, stated:—

"We came to their help only partially. There is no other assistance available to them, no cash assistance or any other assistance, except import replenishment and drawback."

4.43. The representative of the Ministry of Commerce added:

"I submit that in computing what would be the effect of air-freight subsidy on the cargos, the amount of replenishment as they are getting and the amount of draw back that they might get are also debited."

4.44. The Committee enquired how much time it took to export leather goods from India to U.S.A. Giving details of a few export orders for 'cow boy uppers' received by STC from USA in 1974, it was *stated in response to work orders dated 25-1-74 received in the first week of February, 1974 goods were despatched between 22nd April and 12th June, 1974. Against work order dated 8-2-74 received in the second week of February, 1974, goods were despatched between 27th May and 12th June, 1974. There was another work order dated 1.5.74 received in the beginning of second week of May, 1974 against which goods were despatched between 7th June, 1974 to 29th July, 1974.

4.45. The Committee enquired if the initiative for change of fashion in footwear came from the Indian side. In reply, the representative of the STC stated:—

"It is the American importer or the American designer who changes it; the American market does not change. Obsolescence is also there in many other consumer products and not only in footwear. It is they who set the trend and they also borrow ideas from other exporting countries. It is a two-way process. For example, in the Kolhapur chappals they have brought about many innovations through the suggestions of the Indian exporting community and in regard to other open sandals also they have fashioned out certain types of leather and other exporters have given suggestions about certain designs, certain raw materials etc. So, it is working as two-way process. But the fundamental fact remains that, whether it originates from here or there, obsolescence is very quick and they are always on the look-out for new ideas, new materials and so on.

*Reply not vetted in Audit

4.46. The Committee desired to know if fashion changed frequently in Communist countries also, the witness said:

> "It is not so rapid. Their source of supply are also being diversified. For example, they were buying from Italy. Fashion changes. This will be reflected in their buying footwear from abroad."

4.47. The Committee asked if air freight was being given on any other goods because of fast changing fashions. In reply, the representative of the Ministry of Commerce stated:—

> "Handicrafts have also got this subsidy, as well as carpets. Carpets have also get subsidy of the order of 5 per cent of the f.o.b. value or Re. 1/- per kilogram, whichever is less, for export to Western Europe, U.K. and U.S.A. upto 30-9-75. In addition cash subsidy of 10 per cent of f.o.b. value is available for handicrafts and crafts; upto 31-3-76 where f.o.b. value is not less than Rs. 15/- per square metre and for fresh vegetables, flowers and fruits because they are perishable, we had been giving them air freight subsidy of 20 per cent upto 31st March. 1974. But since then it has been dicontinued because the necessity for continuing it was not apparently felt."

4.48. The Committee asked how could rapid change in fashion of footwear be pleaded as a justification for air freight subsidy when exports of footwear and components constituted only 10 per cent of the total exports of leather. In reply, the representative of the Ministry of Commerce stated:

> "The argument of fashion applies as much to footwear as also to leather goods, particularly handbags and fancy garments and things like that and also leather garments. Leather goods constitute 60 per cent."

4.49. Asked whether any statistical study has been made to find out how soon the fashion changed and led to stock accumulation, the witness replied:

> "Our information was that once in three months, this kind of fashion does change and we are able to get this information from the commercial intelligence."

4.50. The Committee desired to know whether STC had any organisation for market study to keep abreast of changes in fashion in leather goods. In reply, the Commerce Secretary stated:

"STC have their own marketing organisation. They have got all these statistics and data with them. Whenever we want them, they always make them available to us. STC disseminates this information down the line. There are 23 foreign offices abroad which are collecting this kind of information for the STC."

4.51. The Committee desired to know whether it would not be desirable to evolve an export strategy which did not lean too heavily on fiscal subsidies like air freight subsidy and whether it was not high time that exporters got rid of such crutches. In reply, the Commerce Secretary, stated *inter alia* that:—

"We have at present a package, so to say, of three kinds of incentives; cash assistance, import replenishment and drawback on duties. It is a matter for consideration whether for purposes of simplification and for purposes also of seeing to it that this kind of cash assistance if it is to be given, has to be based on detailed study of marginal cost—this could be avoided. Time and again, the Commerce Ministry has also stated and it has found its way into the papers that cash assistance is like a crutch and we should do away with it as soon as possible. This is in furtherance of this kind of thinking that a group headed by a Member of the Planning Commission is going into this and I hope within a period of month or so, they will balance all these factors and would be able to give suggestions on this subject."

4.52. The Committee note that for encouraging more exports of finished leather and leather goods including footwear, Government introduced air freight subsidy from February, 1971 at 50 per cent of air freight paid but limited to 10 per cent of the f.o.b. value in the case of footwear and components and 15 per cent of the f.o.b. value on finished leather and leather goods. From October, 1974, the rates of subsidy were revised to 40 per cent of air freight paid but limited to 7 per cent of the f.o.b. value in the case of leather footwear/components and 10 per cent of the f.o.b. value in the case of finished leather and leather goods. The period upto which subsidy has been sanctioned expires on 31st March, 1976. A total subsidy of Rs. 200.81 lakhs has been paid since the introduction of subsidy upto the year 1974-75. No subsidy is payable on exports to USSR because the exports to that country are on f.o.b. basis while the subsidy is admissible for c.i.f. basis only. The main considerations which are stated to

have weighed with Government in granting the subsidy are rapid changes in fashions in U.S.A. and West European countries and the need for rapid transport to keep pace with countries competing in this line of export. The Committee were informed that air freight rate from India to U.S.A. was roughly 150 per cent higher than from Brazil and 50 per cent higher than from Rome. Besides, as Indian footwear suffered from the disadvantage of fetching a lower price, the freight incidence in the case of Indian footwear was 28 per cent as compared with Brazil's 5.5 per cent and Italy's 9 per cent. During evidence, the representative of the Ministry of Commerce justified the grant of air freight subsidy on the ground, among others, that the "difference between sea freight and air freight was about three to four times." The Committee were also informed that there was a definite "co-relation" between the air freight subsidy disbursed and a resultant increase in the export of finished leather, leather goods and footwear particularly to fashion-conscious markets. Such exports had increased from Rs. 360 lakhs in 1971-72 to Rs. 3022 lakhs in the case of finished leather, from Rs. 199 lakhs to Rs. 1283 lakhs in the case of leather goods and leather manufactures, and from Rs. 873 lakhs to Rs. 1745 lakhs in 1974-75 in the case of leather footwears and components. The Committee feel that these arguments, though relevant, are not entirely convincing. First, the Committee are not sure whether the increase in exports of finished leather and leather goods had been due to the grant of air-freight subsidy or to other factors. Secondly .while there was an upward swing in exports, of finished leather. leather goods and leather footwear such exports, as pointed out by audit. were only 14 per cent, 18 per cent and 20 per cent of the total leather exports in 1971-72, 1972-73, and 1973-74, while the corresponding percentage for exports of semi-finished leather in these years were 86 per cent, 82 per cent and 80 per cent. This, in the Committee's view indicates that the lion's share of our exports still remained with the traditional items and the policy of switching over to finished goods export had not achieved significant success.

4.53. The Committee are not averse to the provision of air freight subsidy if it helps to sustain and increase foreign exchange earnings for the country through our exports. Such subsidy could perhaps also be justified where Government had satisfied itself that in sending finished leather and leather goods by air, the exporters were unavoidably incurring losses or had margins of profit so scanty that the transaction was felt to be not worthwhile. The Committee learn during evidence that Government was conducting a review preliminary to deciding if the present air freight subsidy should be contioned beyond 31st March, 1976. It is expected that relevant factors like cost of production, difference in sea and air freight, export prices, the exporters' margin or profit, likely reduction in sea freight on account of the re-opening of Suez Canal, lower rates in chartered flights, etc. would be duly taken into account. In view of the fact that 70 out of the 146 registered exporters of finished leather were also exporters of semi-finished leather and presumably made substantial profits, the Committee would prefer to have the subsidy strictly limited to cases where the over-all national interest requires it and where, on account of the subsidy being made available, the industry undertakes adequate infra-structural changes with a view to a positive, long-term improvement of India's position in the world's finished leather market.

4.54. The Committee are perturbed that inspite of the air freight subsidy scheme having been in vogue for more than five years, Government cannot refer to such comprehensive and reliable data as would justify the scheme. Some material appears to have been collected by the Export Promotion Council in 1970, but the Ministry of Finance could not be satisfied with the data. Information collected from the Export Promotion Council Kanpur in February, 1973 was also found to be the same as that submitted in 1970. Some more data was obtained through the State Trading Corporation and the Export Promotion Council, Kanpur in August, 1974 but that did not indicate the cost of production or the losses sustained by exporters. Thereafter the Export Promotion Council, Kanpur, and the State Trading Corporation were asked to appoint a Cost Accountant for a short period of three months but the Ministry of Finance again found the data inadequate since they did not indicate the period of exports and were not in terms of the quantity and value of costed units of the total exports. The Committee feel that there was no reason at all why the relevant data could not be kept compiled and analysed meaningfully so that well informed decisions regarding such items as the continuance of subsidies could be made properly. The Committee urge that the compilation of authentic data should be given priority and completed without further delay.

B. CASH COMPENSATORY SUPPORT

4.55. The Joint Study made by the Gokhale Institute of Politics and Economics, Poona and Central Leather Research Institute, Madras in 1969 pointed out that the major difficulty in the expansion of the export of finished leather, leather footwear and other leather goods was lack of necessary marked intelligence, organisation and capacity to break into the market of the developed countries and for that reason, it was felt that "it will be necessary to offer export subsidies or cash assistance to the exporters of finished leather, footwear made partly or wholly of leather and other leather goods. It was observed that "India could possibly expand its export of finished leather and leather goods only if cash subsidy is introduced to enable the Indian exporters to cut the export price to compete in the Italian market." It was recommended that "such cash incentives may be provided for a period of five years to bring about the restructuring of the leather industry." Stressing the need for inducing entrepreneurs to export, a cash subsidy to the exporters at the rate of 10 per cent on the exports of finished leathers and 20 per cent to 25 per cent on the exports of footwear and finished leather goods was suggested.

4.56. The Seetharamiah Committee (December, 1972) had recommended a cash subsidy of 15 per cent against the export of finished leather and leather manufacturers which may be allowed to be accumulated wherever necessary over a period of 5 years and disbursements effected at the time when the party produced documentary evidence of the steps taken by him for putting up the necessary infrastructure i.e. land, building and machinery for modernisation, balancing and expansion. The idea was to link up the grant of cash subsidy directly with setting up of infra-structure and with the repayment of loans taken specially for that purpose.

4.57. The Committee asked if the Government was aware that Indian footwear Exporters were facing difficulties due to erratic power supply, scarcity of raw materials, limited shipping facilities and that as a result thereof many units were on the point of liquidation and had demanded a cash subsidy to overcome these difficulties. In reply, the representative of the Ministry of Commerce stated in evidence:—

> "It has to be viewed from two angles. On the one hand, the primary importance now is for creating infra-structure facility for production of finished leather, on which we are concentrating. We are taking several steps in this regard. The subsidy arises only when there is a case made out, on the basis of the principle of marginal cost. Very recently, a Special Committee headed by Mr. M. G. Kaul, Secretary to the Department of Economic Affairs had indicated that a certain element of profit should also be allowed; and that mere marginal cost difference will not suffice, as an incentive. That is a note of policy which we will have to take into account. Difficulties will arise if the f.o.b. reali-

sation is still not adequate according to the current standards of marginal cost. At the moment, the f.o.b. realisation for our finished leather and leather goods is not such as to call for immediate cash subsidy; but we cannot rule it out for the future; it will depend on market conditions and price realisation. We are concentrating on the first requirement. We shall go into the question on the basis of the accepted policy directives and when the need arises, depending on costs and the f.o.b. realisation."

4.58. The Ministry of Commerce, however, *informed the Committee in November, 1975 that a scheme of "development subsidy" was being evolved and the same would be submitted shortly to the Cabinet Committee on Exports. In a subsequent Note (February 12, 1976), it was *stated that Government had since granted "cash compensatory support" at the following rates to the export of finished leather and leather goods in order to enable leather industry to develop exportable leather goods:—

Export Product	Rate of cash Compensatory as a % age of f.o.b. value
(a) Leather Shoes and garments	15%
(b) Leather Chappals and sandals	5%
(c) Leather shoe uppers, shoe linings and components and leather manufactures excluding items (a) and (b) above	10%
(d) Finished leather	5%

4.59. The above decision is applicable in respect of exports made during the period from 1st October, 1975 upto and including 31st March, 1976.

4.60. The Committee note that the grant of cash subsidy was favoured both by the Gokhale Institute of Politics and Economics, Poona (1969) and the Seetharamiah Committee (1972). The Gokhale Institute of Politics and Economics, Poona suggested (1969) a cash subsidy at the rate of 10 per cent on the exports of finished leather and 20 to 25 per cent on the exports of footwear and finished leather goods. The Seetharamiah Committee (December, 1972) recommended a cash subsidy of 15 per cent against the export of finished leather and leather manufactures but only when the exporter could produce do-

*Replies not vetted in Audit.

cumentary evidence of the steps taken by him for putting the infra-structure, i.e. land, building and machinery necessary for modernisation, balancing and expansion. The Committee are inclined to the view that even the present subsidy should be conditional, as in the Seetharamiah Committee's recommendation, on such infra-structure improvements as are essential to better export performance. While during evidence, the Commerce Ministry gave its view that "at present the f.o.b. realisation for our finished leather goods is not such as to call for immediate cash subsidy", the Committee were informed after evidence that the Ministry was considering the question of giving "development subsidy". Government have since decided to grant "Cash Compensatory Support" to exporters of leather and leather goods from October, 1975 to 31st March, 1976. Governmental assistance to the industry has always to be justified on the basis of its performance and only when the industry shares the benefit with the worker-producer and by higher export earnings helps the country's foreign exchange position. The Committee urge that Government make a comprehensive examination of the position particularly from the view point enunciated herein.

CHAPTER V

DEVELOPMENT OF LEATHER INDUSTRY

A. *Creation of Infra-structure*

In their Report on Development of Leather and Leather Manufactures for Exports (December, 1972), Seetharamiah Committee while recommending restrictions on export of semi-finished leather had laid stress on creation of infra-structure, research and development, etc. so that more of finished leather could be produced and exported.

5.2. The main thrust of the recommendations of Seetharamiah Committee was on the creation of infrastructure for the leather industry. It recommended that:

(1) The Committee has worked out the details of the infra-structure that would be required for finishing 25 per cent of E.I. tanned and Chrome tanned leather (unfinished) exported in 1971-72. It has been estimated that for this purpose about 26 units are to be set up with total investment of about Rs. 20 crores. The requirements for machinery would be of the order of Rs. 4 crores including a foreign exchange component of Rs. 3 crores. While working out the requirements, it was assumed that the units will process only wet-blue and E.I tanned leathers on two shift basis. On this basis, it could be seen that for the conversion of 75 per cent of the exports of semi-processed hides and skins during 1971-72 to finished leathers, the total investment required would be about Rs. 60 crores. It is estimated that the additional foreign exchange earning would be of the order of Rs. 90 to 95 crores. In case a portion is converted to leather footwear and other leather goods for exports, the foreign exchange earning would be still higher.

(2) New entrepreneurs may be encouraged to set up finising units on condition that they would start from the stage of E.I. or wet-blue leather. In case of foreign companies, larger industrial houses, etc., and in cases involving foreign collaborations guarantee to export a considerable portion of the production should be stipulated.

(3) Finishing centres may be set up especially in areas where there is a concentration of small scale tanners by the existing tanneries, Export Promotion Councils, State Industrial Development Corporations, etc.

5.3. The above recommendations have been accepted by Government in principle. As regards progress of implementation of these recommendations, Ministry of Industry and Civil Supplies intimated that:—

(i) There is already one finishing centre under DC (SSI) at Erode. They plan to set up a couple of more such finishing centres where there are a concentration of small-scale semi-finished leather manufacturers. Some State Governments like Tamil Nadu|Uttar Pradesh are also interested in setting up of finishing centres for helping the small-scale and cottage manufacturers. The proposed Leather Development Corporation will also take up the work of setting up of such finishing centres. U.P. Government have allotted funds to the extent of Rs. 20 lakhs for starting common facility centres in Jajmau, Kanpur.

(ii) For the past nearly two years, letters of intent|licences are being issued to new entrepreneurs for the production of finished leather only from semi-finished leathers and with a guarantee to export a considerable portion of the production ranging from 50 per cent to 60 per cent.

(iii) The investment needed for the finished leather units for land, building and machinery would have to come to a large extent from private entrepreneurs and financial institutions as is the case in other industries. However, the question of giving financial grants and aid to smaller units would be considered by the proposed Leather Development Corporation.

5.4. At present there is one Finishing Centre at Erode in Tamil Nadu and one Crome Tanning Extension Centre at Tangra working under SSI, Calcutta. The common facility centres are mainly intended for small and cottage tanners. They are intended to be set up at focal points where tanneries are concentrated.

5.5. Erode Finishing Centre in Tamil Nadu is functioning since March, 1958. The Centre has a staff strength of 31 persons. Besides rendering common service facilities and technical assistance, the Centre conducts stipendary training programmes for six months in the subjets of (i) Heavy Leather Manufacture, (ii) Light Leather Manufacture and (iii) Seasoning and Glazing Machine Operations. With a meagre annual receipt of Rs. 18,000 in 1958-59, the collection in the Centre has now exceeded Rs. one lakh per year. The annual receipts, it has been noted, cover about 60 per cent of annual expenditure of the Centre in recent years. The Committee have been informed that the existing machinery which is 15 years' old, requires replacement. The extent of assistance rendered by Erode Centre during 1973-74 to 1974-75 was as under:—

	1973-74	1974-75
(a) No. of entrepreneurs contacted	1502	1416
(b) No. of entrepreneurs given technical assistance . .	610	610
(c) No. of entrepreneurs given information to start new industries	30	20
(d) No. of entrepreneurs given other assistance . .	862	786
(e) Total enterprises assisted	455	449

5.6. The Chrome Tanning Extension Centre at Tangra working under SSI, Calcutta was started on 4th April, 1961 in a rented premises in Tangra area having concentration of about 300 small-scale tanning units. The Centre is stated to be equipped with sophisticated imported and indigenous machinery, required for manufature of Chrome Upper and other Finished leathers. The main function of the Centre is to render common facility service to the small scale tanning units in various operations of tanning and finishing of leathers with the machinery installed in the Centre. In addition to common facility, the Centre is also giving training in processing and machine operation required by the industry. The Centre is also giving extension service facility, consultancy service to the units in the area by giving necessary technical and other assistance required The Centre also carries the experimental and developmental work for improving the process and product and also arrange for demonstration of processes to the industry wherever required. The Centre has a sanctioned staff strength of 20 persons only. The revenue earned by rendering common facility service to small scale units during the last five years are as follows:—

Year	Revenue earned through common facility services	No. of small scale units assisted	No. of Jobs done
1970-71	Rs. 16,160	N.A.	N.A.
1971-72	Rs. 18,181	N.A.	N.A.
1972-73	Rs. 29,412	152	1249
1973-74	Rs. 24,000	119	903
1974-75	Rs. 31,700	122	985

5.7. As far as the private sector is concerned, the small tanners in Vainyambad (Tamil Nadu) have formed a leather finishing and servicing Industrial Cooperative Society for organising a common facility centre.

5.8. In addition to the two existing common facilities at Erode and Tangra, the State Trading Corporation has been authorised by Government to set up 5 more Common Facility Centres in the States of Tamil Nadu, West Bengal, Bihar, Uttar Pradesh and Andhra Pradesh from the Leather Development Fund available with them. This Fund has been created by the State Trading Corporation from out of 1 per cent Service Charge levied on the export of canalised semi-processed hides and skins. 75 per cent of the Service Charge so collected is taken into the Leather Development Fund.

5.9. The State Trading Corporation was authorised in March, 1975 to set up the following:—

	Rs. Lakhs
(i) Five Common Facility Centres (one each in Tamil Nadu, West Bengal, Uttar Pradesh, Andhra Pradesh and Bihar) .	75
(ii) One Shoe Upper Facility Centre, Agra	15
(iii) One Unit Sole Plant, Agra	10
(iv) One Central and four Regional Testing Laboratories (one each in West Bengal, Tamil Nadu, U.P., Bihar and Andhra Pradesh)	6
(v) One Design Cell, Agra	2
TOTAL	108

Administrative and functional control of these Centres will be decided in consultation with the State Governments.

5.10. In this connection, the Director, Leatherware Division of the State Trading Corporation visited Europe and met machinery manufacturers to identify footwear and tanning machines for purchase from European suppliers. A Delegation of manufacturers of footwear and leatherware machinery visited India recently and STC had a dialogue with them for purchase of machinery for the above mentioned centres. STC have also identified machines and suppliers for Shoe Upper Facility Centre, Sole Plant, Testing Laboratories and Design Cell.

5.11. The Committee were informed that the Seetharamiah Committee's recommendations for creation of infra-structure for the leather industry has been partly implemented by licensing private interests, and the Leather Development Corporation will take further care of it in the near future. A proposal to establish a Leather Corporation under the Ministry of Industry and Civil Supplies was approved by the Cabinet Committee on Economic Policy and Coordination in their meeting held on 25th March, 1975 subject to the following directions:—

(i) Care should be taken to see that small entrepreneurs do not get displaced, and

(ii) the new Corporation should establish suitable working relationship with STC to take full advantage of its expertise and facilities in effecting export of leather and leather products.

5.12. The objective of the Corporation is stated to be over-all development of leather industry in the country. The detailed functions of the Corporation would be as follows:—

(1) Development of—

(a) Leather and Leather Goods Industry;

(b) Leather goods machinery;

(c) Manufacture of leather auxiliaries, chemicals, etc;

(d) Manufacture of leather goods, fittings, grinders, etc.

(2) Establishment of production-cum-service centres for finished leather and leather goods;

(3) Promote Research and Development in Leather and Leather Manufactures;

(4) **To advise, assist, help and guide—**

(a) implementation of ISI standards;

(b) training and employment of technicians, designers etc.,

(c) establishment of capacity for finishing by organising tanner's and manufacturers.

(5) To promote the formation of cooperatives of village level workers and small entrepreneurs to ensure that no leather resources go waste and that all hides and skins drawn at the village level find their way into organised sector for the conversion into marketable/exportable articles.

(6) Organise and promote the setting up of raw materials banks for supply for machinery spares and raw materials, auxiliaries, etc.

(7) Conduct and organise research in marketing and disseminate market intelligence for development of the industry vis-a-vis export needs.

(8) Arranging and financing, where required, the building up of infra-structure for the development of the industry.

5.13. As regards capital structure of the proposed Corporation, it was stated that the initial capital requirements of the Corporation would be of the order of Rs. 5 crores of which 50 per cent would be equity to be subscribed by the Government of India and 50 per cent might be loan to be advanced by the Govt. of India. The authorised capital of this Corporation might be raised to Rs. 10 crores. An amount of Rs. 5 lakhs has been provided in the Budget Estimates for 1975-76 for investment in the Corporation.

5.14. The Committee were informed (March 1976) by the Ministry of Industry & Civil Supplies that it has been decided to name the proposed Corporation as the "Bharat Leather Corporation Ltd." The Corporation it was stated, was likely to be registered shortly. It's Headquarters will be located at Agra. The question of appointment of a Chairman was stated to be under consideration of Government.

5.15. The Committee pointed out that as early as in December, 1972. Seetharamiah Committee had suggested an investment of Rs. 60 crores for development of infra-structure for leather industry which, when implemented, was estimated to earn Rs. 90 crores of foreign exchange but all that Government seemed to have done so far was to make a paltry provision of Rs. 5 lakhs for 1975-76. On the Committee's enquiry if that was the way to proceed in a matter of great economic interest to the country, the representative of the Ministry of Commerce replied:—

> "But I submit the provision of Rs. 5 lakhs to which you, Sir, have referred is only a token provision and depending upon the actual functioning and the parameters of requirements, I am sure the ID Ministry would come up with appropriate provision at their R. E. stage. I would only like to add one point; alongside the scope listed, there is one other aspect which is relevent. There are at least a few State Development Corporations, State Industrial Corporations and State agencies which are also in the field, which are taking steps to set up the necessary infra-structure for the production of finished leather goods."

5.16. Asked how with the meagre resources which would be available to the proposed Leather Corporation it could be expected to fulfill the role proposed to be assigned to it, the representative of the Ministry of Commerce stated in evidence:—

> "The Leather Corporation will concentrate mainly on production. It is an appex structure which will coordinate the programmes and implement them through the State agencies such as the Industrial Corporations, cooperative organisations, etc. There is already an organisation like the TAFCO, for instance, and there are also some other State units in the field. The idea is that there should be different organisation for production. While export and marketing are looked after by the STC and the Export Promotion Council, there should be, on the other hand, an organisation to see that export production programmes are properly translated into implementation. If there are two different sets of organisations—one for production and other for exports the production programmes and policies of the Leather Corporation will permeate through the State Development Corporations and such industrial

units which are set up under the cooperative structure as well as to other private sector units."

5.17. The Committee desired to know what concrete steps had been taken by the Ministry of Industrial Development for development of infra-structure for leather industry in the country. In reply, the representative of the Ministry of Commerce stated that they had been working out steps in consultation with the Ministry of Industrial Development from time to time. The witness mentioned the following four steps taken in this direction:—

"First, the necessity for the export of finished leather has led to the increasing of the production facilities, mehanisation, import of equipment for production of finished leather, etc. In order that this may not suffer and a fillip may be given to it, the ID Ministry, at our instance and in consultation with us, issued a Press Note in September, 1973—if I remember right in which it said that any person/industry/producing unit which had the capacity for semi-finished leather could *ipso facto* also acquire imported machinery for finished leather upto the limit of licensing.

Secondly, some persons who were wanting to convert their production facilities available hitherto for semi-finished leather into finished leather would be permitted to import equipment from abroad on a clearance block basis items which were cleared by DGTD for bulk clearance for import. This obviated the necessity for advertisement for ascertaining indigenous availability; it also obviated the necessity for specific consultation in each case with DGTD. Therefore, the process was quickened and it was automatically granted.

The third step taken was to convert a portion of the import replenishment for purposes of acquisition of capital goods required for this purpose, particularly if the export item was semi-finished leather. This again gave a certain amount of automatic availability of foreign exchange for import of the required equipment.

Fourthly, we have also asked STC, which was canalising the export of footwear and other leather goods to set apart a development fund and from out of it to meet certain requirements for production facilities and for the promotional effort of production in the country. We have also asked them to work out a few finishing centres, design centres or other facilities of technological significance which may be required for conversion of semi-finished leather into finished leather."

5.18. As regards long-range measures for taking the entire gamut of development functions in respect of leather, the representative of the Ministry of Commerce stated:—

"This requires organisational and financial support. For this purpose, a Leather Development Corporation was conceived. This had to be worked out between the ID Ministry, Commerce Ministry the Planning Commission and the Bureau of Public Enterprises. Government have finally decided to have this Corporation; it will be set up under the aegis of the Ministry of ID who are now taking active steps to form the organisation and select the personnel for the top-level management. It is Government's decision that the export part of it will continue to be dealt with for the time being by STC. This Corporation is expected to come into being very soon."

5.19. The Committee wanted to know if the setting up of a Leather Corporation was not a sophisticated way of escaping the responsibility and whether Government truly pinned great hopes on it. In reply, the representative of the Ministry of Commerce said:—

"The original conception was that we might be able to form out of the nucleus available in STC, a separate organisation for this purpose, under the Ministry of Commerce. But then the production aspect had also to be taken into account. The picture was made even more complex. It was much more broad-based covering the whole gamut of operations, as I said, right from the raw hide stage to the finished product stage. There was also the angle of State Government's involvement because the industrial units are with them."

5.20. The Committee asked whether the Ministry of Industrial Development had not been there in the picture long enough, and wanted to know if that Ministry had prepared any blue print for development of leather industry in the country or was still in the process of cogitation. In reply, the representative of the Ministry of Industrial Development stated:

"In the Ministry of Industrial Development, we look after the leather industry. The Commerce Ministry look after exports. We are working in close cooperation and there is complete understanding between the two Ministries. We have also taken note of what should really be the capacity to be created for in order to be able to achieve the projected target of demand for export by 1978-79. With that in view, we have also taken the raw material availability into account. We have also to see what semi-finished capacity available in different parts of the country is likely to be and conversion of it into finished leather manufacturing capacity that will materialise on a particular basis. Then what should be the further capacity to be created by fresh licensing? We have issued quite a few licencses recently. We have reached a stage where we have reviewed this matter of licencses issued and the capacity available in terms of availability of raw materials and have recently taken a tentative view that there may not have been any need to create any further capacity either finished or semi-finished, based on raw material availability. In other words, we are in close touch with what is materialising and what is not, what needs to be done to achieve the target by way of capital goods import, licenses, foreign collaboration and so on."

Further, the witness added:

"The basis of governmental action has been report of the Seetharamiah Committee which prepared the broad blue print and strategy in the direction of leather development. They have taken note of the raw material availability, the tanneries' capacity and what should be the direction of reaching the target of raw-material to semi-finished stage, semi-finished to finished stage, going up to leather goods ultimately. Since 1973 that has been the broad blue-print before us x x x Or view is that this Corporation, as soon as it is formed, will give us a more concrete blue print of action by coordination with the industry on the one hand, with the State Governments on the other and also with others concerned with leather development."

5.21. Asked whether Government had thought that the private sector was in a position to make an investment of Rs. 60 crores and had the necessary resources of machinery skilled manpower, technology, organisation, etc. and therefore, not much public investment was called for, the witness said:—

"The Government came to the view that unless there is substantial governmental assistance and participation the industry as structured now may not be able to achieve the targets. So, the Leather Development Corporation has been conceived, which is a sort of holding Company, an appex body, to coordinate the activities of the State Leather Corporations."

5.22. Asked whether delay in implementation of the recommendation relating to infra-structure so vital to the leather industry meant that apart from assisting the private industry to the extent Government could, no other steps were called for, the witness stated:—

"While on the one hand we are trying to help the private industry, at the same time Government have also taken steps to establish the Leather Development Corporation which will be the focal point of future development. Haryana, Rajasthan, Andhra Pradesh, U.P. and Maharashtra have got their own Corporations. All State Governments are also setting up simultaneously tanneries and Corporations to play a more positive role in the public sector. It is a complementary effort that is going on between the private sector and the public sector."

5.23. The Committee wished to know why Government had pinned all hopes upon the proposed Leather Corporation to undertake development work and whether the Ministry of Industrial Development and the Leather Export Promotion Councils could not have themselves taken up this work. In reply, the witness stated:

"The main trouble is, for instance, the Development Council for Leather which functions under the Ministry of Industry is an advisory body and the two Export Promotion Councils are registered under the Companies Act as non-profit making organisations. They cannot undertake commercial functions as such, whereas the Leather Development Corporation will be a full-fledged public sector organisation which undertake commercial operations and which will be able to generate money like institutional finance from banks and other organisations. That is why there is a distinction between the Leather Development Corporation and the organisations which are already in existence."

5.24. The Committee enquired if the proposed Leather Corporation would be an appex body at the Centre and if so, what would be the future of Leather Development Corporation functioning in various States. In reply, the representative of the Ministry of Industrial Development stated:—

"In so for as the structure of the Leather Development Corporation is concerned, it is a Corporation of the Government of India at the Central level; it will not have, at least we have not thought of it so far, any subsidiaries at the State level. At the same time, States like Andhra Pradesh, Bihar and U.P. have set up their own independent Leather Development Corporations. We propose to have close liaison with the State Development Corporations and give them such assistance as they require by way of finance or technical assistance so that the State Development Corporations also play a very important role."

5.25. The Committee enquired in what way advantage was being taken of the E.I. tannery process which had been perfected in Madras. In reply, the representative of the Ministry of Commerce stated :

"Previously our exports were mostly in a raw form. E.I. tanning was introduced in India during the East India Company days and that is why it is known as E.I. taning scheme. It has been perfected well in Madras. It is said that it cannot be imitated elsewhere. I have seen even U.N. documents stating that E.I. tanning has been raised to the level of an art. It is really useful for certain particular purposes. In our export structure, E.I. tanned leather constitutes quite a high percentage, though it is semi-finished tanned. Our present Policy it to restrict these exports. It is under restrictions because it is semi-tanned."

5.26. The representative of the State Trading Corporation added :

"The fact that we have been able to export from raw one to semi-finished leather is basiscally because of E.I. tanniage. Secondly, the perfection that we get from this processing is so much that, unlike chrome, E.I. tanned leather when finished, is ideally suited both as lining material and upper material for footwear. Flor Sheim, one of the biggest manufacturers of footwear, have almost monopolised the purchase of this from one or two tanneries in Madras."

5.27. The Committee asked in after having accepted the recommendation of Seetharamiah Committee for setting up finishing centres, Government had set up any such centres in the country. In reply, the representative of the Ministry of Industry and Civil Supplies stated:

"As you rightly pointed out, the Committee's recommendations were accepted by Government. One of the major recommendations is, as I mentioned, to set up common facility centres. We have also approached the Planning Commission to make a plan provision. The Leather Development Corporation was initially intended to set up the finishing centres. They were taking time. The STC, as Mr. Tirumalai explained just now, are also, trying to place money collected through cess for common facility centres so that the small tanners do not have to set up their own finishing centres but they can make use of the facility that may be available to them. One of the recommendations is to involve the private industry for getting the facilities till they come to the finishing stage, by way of import of equipments, components and things like that. All that I say is that we have given the letters of intent and permission for import of the capital goods machinery and we are trying to see that they come into fruitition. Government is also seeking to participate directly by setting up the Leather Development Corporation. For setting up the Common facilities centres, the Corporation will take some time. These centres also are now being proposed to be set up by the STC itself."

5.28. When the Committee pointed out that only Kanpur, Madras and Calcutta had grown into principal centres of leather industry and not much had been done to establish units at other places, the witness said :—

"We are not at all unaware of the fact that a lot more needs to be done to help the leather industry in the country.

We are not complacent, we are not unaware of the magnitude of the task. I submit that we have made a sincere beginning both in the public and private sectors to try to take this industry forward and will implement the recommendations of the Committee as far as practicable. I concede that the implementation could have been a little faster, but the setting up of the Corporation has taken a little more time."

5.29. The Committee asked whether in order to boost production, it was necessary to have more large plants at focal point where tanneries are concentrated. In reply, the representative of the Ministry of Commerce stated :—

"The Erode centre in Tamil Nadu and another one at Calcutta are functioning well. But there is need for more such centres. We feel that the Leather Development Corporation will be able to play an active role in setting up centres. In Vanyambadi, in Tamil Nadu, the tanneries in that area formed a cooperative society also. It did not get off very well. They made some attempts and collected some money. They approached the Government of Tamil Nadu for further assistance. It did not get off very well. I hope, it will be a success and something will be done by their own efforts."

5.30. The Committee are unhappy that not much has been done to build anything like an adequate infra-structure for the leather industry in India. As early as December, 1972 the Seetharamaiah Committee had recommended that finishing centres should be set up in areas where there was a concentration of small scale tanneries, that new enterpreneurs should be encouraged to set up finishing units, and an investment of Rs. 60 crores made for the conversion of 75 per cent of the export of semi-processed hides and skins in 1971-72 to that of finished leather. By this investment, additional foreign exchange earning had been estimated to be of the order of Rs. 90 to 95 crores. Some of the steps taken to encourage conversion of semi-finished leather into finished leather are stated to be (a) permission to persons/industry producing unit for acquiring imported machinery up to the limit of their licensing for semi-finished leather, (b) permission to import equipment on a clearance block, basis without DGTD's prior approval, (c) conversion of a portion of the import replenishment for acquisition of capital goods and (d) authorisation to STC to create a Leather Development

fund by pooling 3/4ths out of the one per cent service charge collected by it on the export of canalised semi-processed hides and skins so that the money could be utilised for setting up 5 common facility centres (one each in Tamil Nadu, West Bengal, UP, Andhra Pradesh and Bihar), one Shoe Upper facility centre, one unit sole plant and one Design cell at Agra and one Central and four Regional Testing laboratories. The Committee was informed that the STC had launched enquiries about the availabilities, prices, delivery, etc for capital goods, machines for these centres. None of these centres, however, has come up so far, even though such common facility centres and the tangible development of infra-structural provisions are entirely essential to the stepping up of our finished leather exports. As regards the investment of Rs. 60 crores envisaged by the Seetharamaiah Committee, all that Government have done so far is to formulate a proposal to set up a Corporation to be called Bharat Leather Corporation Ltd. and make a token provision of Rs. 5 lakhs in the budget estimates of 1975-76 for investment in the said Corporation. The Committee were informed that the Corporation would take care of the tasks of building the necessary infrastructure and the entire gamut of developmental activities, deemed indispensable for the leather industry. Nearly four years having elapsed since the Seetharamaiah Committee reported, the Committee fear that Government have not utilised this period of time, by no means a short one, for the advance of our leather industry, and even common facility centres have not come up so far. During evidence, the representative of the Ministry of Industry & Civil Supplies was even constrained to concede that "the implementation could have been a little faster." The Committee, therefore, urge that steps, already long delayed, be vigorously taken for the creation of the necessary infra-structure and adequate funds provided for the purpose.

5.31 It is distressing that apart from specific measures suggested by the Seetharamaiah Committee for the creation of infra-structure in the country, no blueprint for action to give a new direction to the leather industry has yet been prepared by the Ministry of Industry & Civil Supplies. It appears that in their view, such a blueprint should rather be prepared by the proposed Bharat Leather Corporation Ltd. when it comes to be formed. The Committee regret that the Ministry of Industry & Civil Supplies do not appear to have shown either foresight or a sense of urgency in dealing with this issue. A Corporation, howsoever well intended, is not always a panacea of all problems. Besides, such a body would, even after formation, take some time to get over teething and other troubles. Meanwhile, the difficulties get aggravated and country's

interest suffers. The Committee recommend that rather than leaving the task to a projected Corporation, the Ministry of Industry & Civil Supplies should undertake the job on their own and help the leather industry to stand firmly on its feet and go ahead.

5.32 The Committee welcome Government's move to set up a Corporation to be called "Bharat Leather Corporation Ltd." with the objective of over all development of leather industry in the country and for performance of multifarious functions such as establishment of production-cum-services centres for finished leather and leather goods, promotion of research and development encouragement for formation of cooperatives of village level workers and small entrepreneurs setting up raw material banks, dissemination of market intelligence, training and employment of technicians, financing of infra-structure, etc. The Committee feel that one of the primary objectives should be to see that tanner/producer in the small scale or cottage industry is integrated into the mainstream of leather industry which should be geared to achieve higher production of quality leather and goods. As recommended elsewhere in the Report Bharat Leather Corporation should arrange not only technical guidance but also take steps to provide an assured market for their product at reasonable prices.

5.33 The Committee note that while the proposed Bharat Leather Corporation Ltd., would look after production of leather, the exports of leather would be handled by the State Trading Corporation and the Leather Export Development Councils. The State Trading Corporation which is responsible for export is under the Ministry of Commerce whereas the proposed Leather Corporation which would look after over all development and promotion of leather industry would function under the administrative control of a separate Ministry viz. the Ministry of Industry and Civil Supplies. The Committee suggest that Government should seriously consider whether it would not be preferable to have a single agency responsible both for development and export of leather. If there are two separate Corporations, each under a separate Ministry, problems of coordination between the two are bound to crop up and may necessitate evolving of an effective machinery for coordination. The Committee would like Government to take an overall view of the matter and inform them of the decision arrived at.

B. RESEARCH & DEVELOPMENT

5.34. At present there is one *Central Leather Research Institute at Madras. It was formally inaugurated in 1953 with the objective

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Note on CLRI.

*Reply not vetted in Audit.

of (a) putting the age old India leather industry on the lap of science and (b) tackling through the industry's economic, social and human problems. At the time of CLRI's inception, the Indian leather industry was exporting raw and E.I. tanned material which served as the starting material for manufacture of finished leather from which various leather articles including footwear were made. Now the industry is exporting more finished leathers than before and has stopped exporting a raw stock. This Institute has claimed to have played a vital role in the rapid development of the industry.

5.35. It is understood that a number of State Governments are anxious to start or develop leather industry in their regions. All these factors have created a situation where in the services of CLRI—its experts and expertise are sought after to an increasing extent. CLRI has been vested with authority to certify whether leathers being exported are finished leathers or not. CLRI has, in addition to its Research and Development activities, built up an infrastructure which is able to meet the demands relating to consultancy, preparation of project and feasibility reports, training standardisation and quality control and information. CLRI has, prepared feasibility reports for several entrepreneurs and also for setting up leather manufacturing units in Rajasthan, Kerala, Jammu and Kashmir, Marathwada and Bihar by the respective State Governments. Also project reports prepared elsewhere have been scrutinised by CLRI before the necessary credits are guaranteed by financial institutions. The services of CLRI's experts have been made available both within the country and abroad especially in developing countries through International agencies. CLRI's expertise has been utilised in starting newer lines of production and standardisation existing production. CLRI conducts tanning courses of various types for nominees from the industry and for special groups. It has imparted specialised training to men from Afro-Asian countries. A large number of Indian standards for various types of leathers have been drawn up as a result of collaboration between CLRI and Indian Standards Institution. CLRI is also represented in the various committees engaged in the service of the Indian leather industry. In addition to the monthly Journal, CLRI is now bringing out documentation services which are greatly appreciated abroad also. CLRI is making available through NRDC the technical know-how it has developed for manufacture of the various products required in the manufacture of finished leathers and also products based on slaughter house and tennery waste products.

5.36. Seetharamiah Committee had, in their Report, made the following observation regarding Research, Development and Extension services for leather industry:—

"A lot of work has been done in the country in terms of research, development and extension services in the leather and leather goods industries through the Central Leather Research Institute, the Regional Leather Institutes, the Centres run by the Small Scale Development Organisation, Export Promotion Councils, STC, etc. With a great task ahead of to switch over the bulk of the present exports of semi-processed hides and skins into finished leather and leather manufactures, it is essential to have strong research, development and extension activities in these industries. Although centralised Government agencies have been spending considerable amounts on research, development, extension in leather and leather goods industries, the Committee felt that the private sector has not contributed enough in the direction. The Committee, therefore, recommend that the leather industries may be given the option either to spend a small percentage of their annual turnover on research and development or to pay a small cess for promoting research, development and extension services."

5.37. In this connection, the Ministry of Industry and Civil Supplies *informed the Committee that:

"Some of the manufacturers of leather and leather goods are already spending a small percentage for R & D. The general question of levying a R & D cess on all industrial undertakings for the purpose of research and development is under consideration of the Department of Science and Technology. The Leather Development Corporation of India will also formulate specific scheme within the ambit of the overall scheme to further R & D Development in the leather industry."

5.38. The Committee note that the general question of levying a Research and Development Cess on all industrial undertakings for

*Reply not vetted in Audit.

the purpose of research and development is under consideration of the Department of Science and Technology and that within the ambit of the over-all scheme to be thus prepared, the proposed Bharat Leather Corporation Ltd. will also formulate specific scheme to further research and development in the leather industry. The Committee have already expressed themselves against procrastination in this matter and urge that an early decision be taken and implemented.

C. ANIMAL HUSBANDRY

5.39. Development of leather industry depends on annual availability of hides and skins. These are obtained from:

(i) derivations from slaughtered animals, and

(ii) recovery from fallen animals.

Slaughtering of animals is not undertaken for getting skins alone but for meat production. Skins are got as a bye-product. The Committee understand that in India the percentage of recovery from fallen animals is around 60 per cent for cattle and buffaloes and about 35 per cent for sheep and goats. Recovery from fallen animals is stated to provide more than 90 per cent of the hides and skins in case of cattle and buffaloes. Slaughtered animals' skins account for more than 95 per cent of the total skins availability in case of sheep and goats. The slaughter rate is, therefore, the determinate factor in case of sheep and goats as it is not so in case of cattle buffaloes. A study made in 1967-68 had given the slaughter rate of 29.29 and 41.32 per cent for sheep and goats respectively. Seetharamiah Committee Report (1972) had indicated the slaughter rates of 1971 as 47.5 per cent for sheep and 67.5 for goats. Achievement of higher slaughter rates is conditioned by the demand for meat in the country.

5.40. The Committee wished to know whether to boost production of leather in a more scientific and systematic way, any steps had been taken to survey cattle potential in the country, improve animal hunsbandry and set up modern slaughter houses in the country. In reply, the representative of the Ministry of Commerce stated in evidence:—

> "So far as slaughter houses are concerned, the Animal Husbandry Department of the Ministry of Agriculture has got plans and schemes for implementation. * * * We had a discussion with the State Governments' representatives of our Agriculture and Industries Ministries. We are trying

to work out a close coordination with the Schemes that they have."

The representative of the State Trading Corporation added:

"First of all, you have to distinguish between slaughtered skin and fallen hides. Whereas slaughter of goat is not prohibited at all, that of cow is prohibited, at least in majority of the places. In regard to goat slaughter house, there has been some concerted effort, although not to the degree that it is needed. In other words, there are, in Tundla and Calcutta, positive slaughter houses who no specific jobs for the leather trade and those slaughter houses get a better unit return in the Calcutta market. But efforts need to be redoubled."

5.41. The Committee feel that the leather industry has to be viewed in the over-all context of Animal Husbandry. The responsibility for Animal Husbandry at present rests with the Ministry of Agriculture. With a view to evolving a detailed policy framework for the development of Animal Husbandry so indispensable to the advance of what may be called our agro-economy, there has to be the closest coordination at least between the Ministry of Agriculture, Ministry of Industry and Civil Supplies and the Ministry of Commerce. With the break-through which appears to have recently been achieved in agriculture and in milk production, it is indeed an opportune time to have a closer look at Animal Husbandry as a whole. It would be worthwhile to study critically how Animal Husbandry has been developed in the best national interest in East European countries, the United States and in South American countries so as to evolve a policy best suited to Indian conditions and attuned to the larger national interest. The Committee would like to be informed of the concrete measures that Government propose to take for evolving and implementing a national policy for animal husbandry to which they attach a great deal of importance.

New Delhi;
March 24, 1976;
Chaitra 4, 1898 (SAKA)

H. N. MUKERJEE
Chairman,
Public Accounts Committee.

APPENDIX I

India's Leather Exports

Year	E.I. Tanned Leather	Chrome Tanned Leather Wet Blue	Finished Leather	Leather foot-wear (in pairs)	Leather Goods and Leather Manufactures	Furs	Reptile skin	Footwear Components	Total
1	2	3	4	5	6	7	8	9	10
		(Quantity in lakh Kgs)			(Value in lakhs of rupees)				
1969-70									
Quantity . .	196·16	131·83	7·06	60·29	..	..	26·93	..	..
Value . . .	4,975·84	2,719·64	215·29	703·36	125·30	22·63	140·02	42·31	8,944·39
Unit Value . .	25·36	(Rs.) 20·63	30·43	11·66	..	..	..	..	..
1970-71									
Quantity . . .	195·94	137·93	7·62	67·90	..	..	21·69	..	..
Value . . .	4,474·53	2,449·80	157·96	909·19	136·12	1·24	76·25	15·38	8,220·4
Unit Value . .	22·83	(Rs.) 17·76	20·73	13·39	..	..	..	..	..
1971-72									
uantity . . .	256·69	143·77	16·91	73·58	..	..	16·07	..	
alue . . .	6,426·73	2,177·13	359·96	858·09	199·00	2·91	50·35	15·16	10,089·3
Unit Value . .	25·03	(Rs.) 15·14	21·29	11·66	..	..	..	..	..

(*Source*: Monthly Statistics of the Foreign Trade of India published by the Director General, Commercial Intelligence and Statistics, Calcutta).

1	2	3	4	5	6	7	8	9	10
1972-73									
Quantity . . .	302·86	287·31	138·88	75·02	..	..	18·12	..	..
Value . . .	10,109·84	5,203·76	1,663·63	978·26	360·40	283·55	66·95	48·53	18,714·92
Unit Value . .	33·38	(Rs.) 18·11	11·98	13·04	..	..	..	..	..
1973-74									
Quantity . . .	181·81	191·40	43·99	79·53	..	..	20·86	..	..
Value . . .	8,560·22	6,238·40	1,647·64	1,041·85	617·36	286·78	138·42	87·60	18,618·27
Unit Value . .	47·08	(Rs.) 32·58	37·45	13·10	..	..	..	..	..
1974-75									
Quantity . . .	139	116	..	105	..	..	..	..	..
Value . . .	6103	4073	3022	1745	1283	..	..	..	16226
Unit Value (Rs.) . .	44	35	..	..	..	..	..	..	..
1975-76 (April-August)									
Quantity . . .	81	50	..	45	..	..	..	..	..
Value . . .	3307	1674	1770	595	442	..	..	..	7888
Unit Value (Rs.) . .	40	33·5	..	..	..	..	..	..	..

(NOTE: Figures of exports of Leather Footwear in 1974-75 and 1975-76 include exports of Footwear components as well).

APPENDIX II

Incentives offered in many Under-developed Countries for Leather Industry

Afghanistan:

Five-year tax exemption for approvd industries. Duty free import of plant, materials and equipment.

Argentina:

Ten-year tax reduction, starting at 100 per cent for the first four years, then reducing to 10 per cent after ten years for approved industries. Alternatively companies may deduct between 30 and 70 per cent of their investment from their tax bill. Duty free imports of machinery and parts not available locally and specialised export incentives.

Bahamas:

No income or corporate tax. Import duty refunds and exemption for equipment for hotels and industry.

Barbados:

Either a ten-year holiday with national depreciation allowance or a seven-year holiday with depreciation allowances used before or after the tax holiday. Duty-free import of capital equipment. profits from export are taxed at a reduced rate after tax holiday.

Brazil:

Special tax holidays for companies locating in certain regions. Ten year tax holiday for hotel and tourist investments. Export profits tax exemption.

Cameroon:

Depending on the types of company, various tax exemptions and deductions. Import duty exemption on equipment, materials and machinery.

Colombia:

Partial exemption from company tax is permitted for companies using local raw materials. Special tax credits for export performance are available at 15 per cent of the value of exports. Certain industries are eligible for further tax concession.

Cyprus:

Special tax holiday incentives have to be negotiated directly with the government. Three-year tax holidays and low interets loans are available for tourist development. Duty-free import of plant and raw materials.

Egypt:

Five year tax holidays for approved companies.

Ethiopia:

Five year tax holiday for new investment greater than E $ 200,000; expansion of existing plant and investments of less than E $200,000 are given a three year tax holiday. Imports for processing are duty free.

Eire:

Tax relief for 15 years on export profits. Grants available for 50 per cent of fixed assets to companies locating in certain areas. Generous capital allowances.

Ghana:

Approved companies may be granted tax holidays upto ten years. Duty-free import of raw materials and machinery. Export duties exemption for manufactured exports.

Greece:

Special low cost loans for shipping and hotel investments. Approved companies may be eligible for a guarantee of tax stability; for industries locating outside Athens, reduction and exemption from various taxes. Machinery eligible for duty-free import for ten years. For export goods, raw materials may be imported duty free.

Indonesia:

Two to six years' exemption from corporation and dividend tax. Exemption from import duty on raw materials for two years. An export bonus is payable for export performance.

Israel:

Approved industries (mainly export oriented) are entitled to a reduced tax rate for five years. Machinery and equipment are eligible for grants of 15 to 30 per cent.

Ivory Coast:

Approved companies are guaranteed stability of tax for a minimum of 25 years. Duty exemption for raw materials and machinery. Export tax reduction for ten years.

Jamaica:

Ten-year tax holiday for companies locating in developing areas and 15 years in the less developed areas. Duty-free imports may be permitted.

Korea:

Tax holiday for five years on foreign owned investment and tax reduced by 50 per cent for a further three years. Capital goods imported duty free. Raw materials for export goods are also duty free.

Malaysia:

Tax holidays granted on the basis either of capital invested or the numbers (five year holiday for more than 350 employed). Extension of tax holidays for manufacturing special products and locating in development areas. Other investors eligible for hotel and development investments and export performance.

Malawi:

Special initial depreciation allowance. Commonwealth goods may be imported duty free for use in manufacturing.

Mauritius:

Development companies are eligible for between five and eight years' tax holiday depending on whether special deprciation allowance are taken. Export companies are eligible for between 10 and

20 years' tax holiday. Raw materials and capital goods may be imported duty free.

Mexico:

Export companies are entitled to tax reduction and duty drawback.

Morocco:

Approved companies are eligible for a guarantee of tax stability and accelerated depreciation allowances. Machinery and raw materials may be imported wholly or partly duty free. Low cost credit facilities are available for hotel projects.

Nepal:

Approved companies are eligible for tax holidays of between five and ten years. Raw materials and capital goods may be imported duty free. Export companies may be exempt from export duties.

Nigeria:

Between two and five year tax holiday may be granted depending on the amount invested. Ten years' exemption from import duties may be granted.

Panama:

Special tax incentives may be granted to companies locating in the free zone including holidays and duty free imports.

Papua New Guinea:

Pioneer companies are eligible for between five and six years' tax holidays.

Paraguay:

Industries may be exempted from between 30 and 50 per cent of their tax bill for five years. In development areas this may be increased upto 100 per cent for ten years. Various degrees of duty exemption are permitted on capital equipment and raw materials.

Philippines:

Depending on the type of company, certain tax reductions and duty exemptions are allowed.

Singapore:

For an investment of over $ 1 mn., a five-year holiday may be permitted. Duty-free import of machinery and raw materials. Export profits are eligible for a three-year tax holiday.

Sri Lanka:

Five-year tax holiday for approved industries. Export profits may have a three-year tax holiday.

Sudan:

Approved companies are exempt from taxation for five years. For an investment of more than $ 1 mn., only 50 per cent of the tax bill is payable for a further five years. Machinery and factory equipment are eligible for a reduction of import duties.

Trinidad and Tobago:

Five-year tax holiday for pioneer companies. For large-scale investment this may be increased to ten years. Capital equipment may be imported duty free.

Tunisia:

Complex system of incentives dependent on the amount of the investment. Special low cost loans for the development of tourist facilities.

Turkey:

Approved companies may substract between 30 and 50 per cent of their investment from their tax bill. Exports are eligible for the return of duties and indirect taxes.

Zaire:

Certain tax reliefs depending on the type of industry. Import duty exemption for machinery.

Zambia:

Two-year tax holiday for pioneer companies with extra years granted for large investments. Duty exemption for the import of machinery.

India.

Ministry of Commerce has intimated that incentives available to the exporters of leather and leather manufactures in India are (i) Import Replenishment, (ii) Cash Compensatory Support and (iii) Drawback. Details of these incentives are given below:—

I. *IMPORTANT REPLENISHMENT*

Import replenishment permissible under the import policy for registered exporters against the exports of items stated below and percentage up to which import replenishment in terms of f.o.b. value of the export product would be allowed.

Export Product	Import replenishment percentage	
Vegetable, tanned leathers all sorts, known in the trade as E.I. Tanned, semi-tanned, partially tanned, half tanned, pretanned hides and skins and crust leather.	3%	At least 2/3rd of import replenishment entitlement will be utilised for the import of machinery, tools and authorised expansion.
Tanned hides and skins, chrome tanned (chrome tanned blue hides and skins) other than chrome crust leather.	3%	At least 2/3rd of import replenishment entitlement will be utilised for the import of machinery, tools and equipment for balancing modernisation and authorised expansion.
Tanned hides and skins, chrome tanned crust leather.	8%	
All types of finished leather leather belting, picking bands, buffers, sheep calf roller skins and leather approns.	10%	
Leather manufactures the following namely: Footwear and components of footwear (excluding canvas footwear).	15%	
Light categories of travel and other leather goods like attache cases, brief cases, ladies hand bags, wallets, leather apparell, garments, purses, Fashion leather hand gloves etc.	20%	
Heavy leather goods like saddlery items, leather trunks, leather suitcases.	15%	
Leather of raw hide pickers.	5%	
Leather washers.	40%	
Industrial leather gloves	20%	

II—*CASH COMPENSATORY SUPPORT*

Cash Compensatory Support at the following rates:

Export product	Rate of cash compensatory as a % age of f.o.b. value
1	2
(a) Leather shoes and garments . .	15%
(b) Leather chappals and sandals . .	5%
(c) Leather shoe uppers, shoe lining and components and other leather manufactures [excluding item (a) and (b) above]	10%
(d) Finished leather	5%

III. *DRAW BACK*

Hides, skins, leather articles of leather or artificial leather, other leather goods and travel goods and travel goods not elsewhere specified.	Brand rate to be fixed on an application from the individual manufacturer/exporter.
E.I. tanned hides and calf skins, namely cow hides, buffalo hides, kids, cow calf and buffalo calf.	Rs. 0.66 per Kg.
E.I. tanned skins, namely goat skins and sheep skins.	Rs. 0·68 per Kg.
E.I. tanned snake and reptile skins . .	Rs. 0·63 per Kg.
Tanned hides and skins chrome tanned (chrome tanned blue hides and skins) other than chrome crust leather and reptile skins.	0·7% of the f.o.b. value.
Tanned hides and skins, chrome tanned chrome crust leather other than reptile skin.	2% of the f.o.b. value.
All types of finished leather leather belting, picking bands, buffers, sheep/calf roller skins and leather approns, other than reptile skins and reptile leather.	3·6% of the f.o.b. value.
Light categories of travel and other leather goods like attache cases, brief cases, ladies hand bags, walets, leather apparel, purses etc.	
(a) Bridles with brass fittings like rings, buckles etc.	7·8% of the f.o.b. value.
(b) All others	5·3% of the f.o.b. value.
Heavy leather goods like saddlery items, leather trunks, leather suit cases.	5·3% of the f.o.b. value.
Industrial leather gloves	4·8% of the f.o.b. value.
Chrome leather washers, all sorts . .	Rs. 1200·00 per tonne inclusive of drawback on packing materials.

1	2
Footwear and components of footwear (excluding canvas footwear, plastic footwear, rubber footwear, footwear with tyre sole and Kohlapuri chappals).	5·3% (Five point three per cent only) of the f.o.b. value or the following rate whiche ever is less :— (a) Men's leather shoes with rubber or leather soles—Rs. 1·06 (Rupee one and paise six only) per pair. (b) Ladies leather shoes or sandals—Rs. 0·33 (Thirty three paise only) per pair. (c) Boys leather shoes with rubber or leather soles—Rs. 0·80 (Eighty paise only) per pair. (d) Children leather shoes with rubber or leather soles—Rs. 0·80 (Eighty paise only) per pair. (e) Men's leather Sandals with rubber or leather soles—0·64 (Sixty four paise only) per pair. (f) Boys leather sandals with rubber or leather soles—Rs. 0·48 (Forty eight paise only) per pair. (g) Children leather sandals with rubber or leather soles—Rs. 0·48 (Forty eight paise only) per pair. (h) Chappals (excluding Kolhapuri chappals) with the rubber or leather soles—Rs. 0·32 (Thirty two paise only) per pair.

APPENDIX III

AIR-FREIGHT SUBSIDY REQUIRED FOR AIR-FREIGHTING LEATHER GOODS (ALL FIGURES IN RUPEES)

Export products	F.O.B. Value per 100 Kg.	Ocean Freight	Air Freight	SAVING IN EXPORT BY AIR			INDIRECT LOSS BY AIR FREIGHTING SINCE FOB VALUE IS REDUCED :	Draw-back based on 10%	Net Additional cost on export by air (4+8+9)–(3—5+6+7)	Percentage of FOB Value
				Packing	Interest	Any other	Replenishment licence (Based on 50% Premium			
1	2	3	4	5	6	7	8	9	10	11
LEATHER GOODS										
Brief Case .	1340	334	990	20	14	55	49	66	1105—423=682	51%
Satchels. .	1680	334	990	25	19	55	49	66	1105—433=672	40%
Document Cases	1600	334	990	40	18	55	49	66	1105—447=658	40%
Folio Cases. .	4608	334	990	40	52	55	49	66	1105—481=624	13%
Wallets, Passport Cases, Purses etc.	7200	334	990	20	81	55	49	66	1105—490=615	8%

APPENDIX IV

A BRIEF RESUME OF DATA FURNISHED BY STC AND EPC KANPUR IN AUGUST, 1974

(i) The f.o.b. value of total exports of finished leather and leather goods and leather footwear and components thereof during the last 3 years are:

(Figures in Rs. crores)

	1971-72		1972-73		1973-74	
	Total f.o.b. value	Moved by air	Total f.o.b. value	Moved by air	Total f.o.b. value	Moved by air
Finished leather .	3·92	2·63	7·24	5·79	14·17	11.33
Leather goods .	1·82	0·62	3·43	1·17	4·83	2·24
Footwear/components	8·98	0·70	10·58	1·10	11·25	2·02

(ii) The per-centage increase in f.o.b. value since 1972 till to-date on the various leather goods—as under:

		Percentage increase in f.o.b.
1.	Finished leather/leather goods	10%
2.	Footwear including components	12%

Difference between air freight and sea freight in respect of finished leather was also given :

IIEMS	F.O.B. value per 100 kgs.	Ocean freight	Air freight	Savings by air on account of interests etc.	Loss by air on a/c of reduced f.o.b. values (a) Replenishment	Export by air net additional cost. (b) Drawback	Average percentage
Finished leather .	5500·00	187·00	1200·00	110·00	50·00	36·00	989·00

(NOTE: Finance was not satisfied with the above data).

APPENDIX V

Summary of main conclusion/recommendations

Sl. No.	Para No.	Ministry/Department concerned	Conclusions/Recommendations
1	2	3	4
1	2·29	Commerce	The Committee find that though India has the largest live stock holding in the world with a total of about 345 million heads of cattle buffalo's, goats and sheep, its share in the world leather exports is about 20 per cent. The proportion of India's leather exports to its total exports since 1967-68 has ranged between 5 to 9 per cent only. The Committee see no reason why with concerted measures it should not be possible to step up leather exports, preferably in the finished form, in the years to come so that India which has the largest live stock holding in the world can take its rightful share in the export trade and earn the much-needed foreign exchange.
2	2·30	do	The Committee are perturbed to find that India's leather exports (semi-finished, finished, manufactures, etc) after showing a rising trend from 61.12 crores in 1967-68 to Rs. 80.16 crores in 1968-69 and Rs. 89.44 crores in 1969-70 (except in the year 1970-71 when there was a marginal fall in exports), and finally reaching a record level of Rs. 187.15 crores in 1972-73, sharply declined to Rs. 162.26

1	2	3	4
			crores in 1974-75. The estimate of leather exports envisaged for the first year of the Fifth Plan *i.e.* 1974-75 was Rs. 205 crores (*vide* Table in paragraph 1.9 of the Introductory Chapter of this Report) and viewed against that target, there was a shortfall of 21 per cent in the achievement of leather export in the very first year of the Fifth Five Year Plan. The estimate of leather exports for the second year of the Fifth Plan (1975-76) is Rs. 250 crores. If leather exports during the first five months of 1975-76 (Rs. 78.8 crores) are any indication, export performance during the second year of the Fifth Plan may also fall considerably short of expectations. During evidence the Committee were informed that leather exports in 1972-73 had reached a peak level because of an international leather boom and the fact that competing countries like Pakistan and Argentina had restricted their exports of semi-finished leather. In the subsequent years of 1973-74 and 1974-75, adverse international conditions of recession are stated to have set in and caused over-all drop in India's leather exports. The Committee feel that, as pointed out later in Chapter III and V of this Report, poor export performance in 1974-75 was partly due to Government's attempts to quicken the pace of the switch-over from exports of semi-finished leather to finished leather and also to inordinate delay in creation of the adequate infra-structure needed to sustain a growing trend in leather exports. In the Committee's view, stable perspective planning is a pre-requisite for ensuring effective and abiding participation in leather ex-

			ports. The Committee recommend that if the Fifth Five Year Plan targets of leather exports whirh appear to be modest enough, are to be achieved, Government should not remain content with a few promotional steps but should seriously consider evolving a more dynamic and comprehensive export strategy for the leather industry and provide a well thought out package of facilities to turn this industry into an export oriented one. The leather industry, on its part, will have to extricate itself from traditional moorings, shed its hidebound outlook, modernise itself and look upon exports not as a mechanism of escape from recession at home but as a basic commitment to the national task of achieving our rightful share in the international trade in leather. Looking at the poor export performance in 1973-74 and 1974-75, Government should also consider whether it is not time to draw up a Crash Programme to ensure that whatever targets of leather exports have been set are achieved in full in the remaining tenure of the Fifth Five Year Plan.
3	2·31	Commerce	The Committee are of the view that whatever export strategy is evolved by Government for stepping up exports of leather and leather goods, it should be pragmatic enough to ensure a closer link between the exporter and the producer because, in the ultimate analysis, exports depend on a stable and efficient level of domestic production. The benefit of higher export earnings should percolate to the producer at the field level instead of being siphoned off, as it often is, by the merchant-exporter or big firms, and the producer should feel motivated to turn out qualitf leather goods at economic prices.

1	2	3	4
			The Committee trust that the task of the producer of leather goods would be greatly facilitated if precise and detailed information on latest market trends, market-wise export prospects, specifications of quality and designs of leather items in demand are made available in time to enable him to pattern his production to suit the export requirements. Properly surveyed market intelligence can indeed play a crucial role in educating the leather industry about the export potentialities.
4	2·32	Commerce	From the details of the capacity for finished leather made available to the Committee, it is found that the present utilisation of installed capacity for finished leather from hides and skins is only 51 and 42 per cent respectively and that of leather footwear 66 per cent. The Committee are gravely concerned at such low utilisation, and recommend that Government should investigate the reasons for such gross under-utilisation of capacity for finished leather. The Committee urge that concerted measures for ensuring optimum utilisation of capacity should be adopted, for that alone can fulfil the twin objective of meeting domestic needs and increasing export earnings.
5	2·33	do	The Committee note that the export of raw hides and skins was reduced from Rs. 8.40 crores in 1969-70 to Rs. 0.90 crores in 1972-73 and from January 1973, such export was completely banned. One of the important considerations governing the leather export policy

			of many countries appears to be the relative unit value which could be realised in its various forms, *viz.*, raw, semi-finished, finished or as manufactured goods. A joint study made by the Gokhale Institute of Politics and Economics, Poona, and the Central Leather Research Institute, Madras, in 1969 had shown that tanning was expected to add 51.78 per cent to the value of raw hides and skins and the 'finishing' would further add about 7 per cent to the value of tanned leather. The study also noted that this was in some ways an under-estimate and that in the case of goat and sheep skins the value added by 'finishing' could be as high as 50 per cent in some cases, and about 25 per cent on an average. A subsequent analysis undertaken by UNCTAD in April, 1974, indicated that "a country's gross as well as net foreign exchange earnings from the export of hides and skins tend to increase with each successive stage of processing." The Committee, therefore, uphold Government's policy of progressive reduction of export of hides and skins in raw or semi-finished form and special encouragement to export of finished leather and leather manufactures.
6	2·34	do	The Unit value realisation by Indian export of chrome tanned leather ranged between Rs. 15.14 to Rs. 35.00 per Kg. during 1969-70 to 1974-75 but in the case of finished leather the realisation was higher and ranged between Rs. 20.73 to Rs. 37.45 per Kg. Though the semi-finished leather gave less unit value, the export of semi-finished leather in 1973-74 and 1974-75 was 9 and 3 times respectively more than that of finished leather in terms of value. It is true that Indian semi-finished leathers are in great demand in World leather markets in

1	2	3	4
			view of their toughness, tensile strength and preservation properties, but since higher unit value is important, Government should impress upon the leather industry to take up more vigorously the manufacture of such leather goods as fetch higher unit value, e.g., shoes, garments, sport goods, bags, upholstry, purses etc. and earn valueable foreign exchange for the country.
7	2·35	Commerce	It transpired during evidence that while compiling statistics of India's leather exports the export of crust chrome leather of 121.52 lakh kgs. in 1972-73 was due to misclassification, included in the category of finished leather, thereby giving an altogether misleading picture of the export of finished leather, which in 1972-73 was only 19.73 lakh kgs. and not 138.88 lakh kgs. Another fact which came out was that the country's export of finished leather had all along been expressed in terms of kilograms whereas the correct unit of measurement should have been square meter or decimeter. The representative of the Ministry of Commerce admitted that as the exports of finished leather were not very high, proper attention had not perhaps been paid to this question. However, an assurance was given that instructions had been given to the Director General of Commercial Intelligence and Statistics to compile exports of finished leather in terms of square meters or decimeters. The Committee regret that an important point like the correct unit of measurement for quantification of exports of finished leather had escaped the Mi-

			nistry's attention. Commercial Statistics should hereafter be compiled with greater care and be entirely reliable.
8	2·36	do	The Committee learn that while the Ministry of Agriculture in consultation with the Wild Life Board insist on a total ban on the export of reptile skin, the view of the Ministry of Commerce is that such export should not be banned all at once but should be progressively reduced. The Committee recommended that if and only if in the over-all ecological and economic interests of the country reptile skins can at all be exported, it should be in the form of goods made of such skin but not in the raw or semi-finished form. This would result in higher unit value realisation and greater foreign exchange income.
9	2·56	do	The Committee note that although exports foot-wear from India have grown considerably in recent years (from 6 million pairs in 1969-70 to 10.5 million pairs in 1974-75), India's share of world footwear trade is estimated to be about 2 per cent, and exports of this commodity form about 5 per cent of country's total production of footwear. While the closed type of footwear is mainly exported to USSR and East European countries, the main buyers of 'open' footwear, that is Kolhapuri and other 'open' sandals, are in USA, U.K., West Germany and France. The Committee were informed that a beginning had recently been made to extend our export of closed footwear to other countries like France and U.K. The Committee understand that a combined Delegation of the European Confederation

1	2	3	4
			of Footwear and Tanners which visited India in February, 1976 had hinted at the prospects of the gradual expansion of India's exports of leather and leather manufactures particularly footwear 'uppers' to the challenging and somewhat sophisticated markets of the European Economic Community (EEC). The Committee recommend that alongwith maintaining and consolidating our present position in markets where Indian footwear has already penetrated successfully, new markets, especially in our neighbouring Afro-Asian countries, should be explored seriously. The Committee also recommend that the potential of export of footwear 'uppers' to EEC countries should be exploited to the maximum extent.
10	2·57	Commerce	The Committee are glad that a pre-feasibility study for setting up an integrated leather complex at Agra has been completed and a Report on that study has hinted at the immense possibiliies of export-oriented production of Goatskin "Uppers" and Shoes, generation of larger foreign exchange earnings and creation of employment opportunities for the weaker sections of society. It has been estimated that the setting up of the Complex at Agra will involve a total capital investment of Rs. 13.86 crores including a foreign exchange investment of Rs. 6.75 crores. It will start generating inflow of foreign exchange to the tune of Rs. 8.28 crores a year from 1980 and will provide employment on site to approximately 2,100 people of whom 1,900 will be from the weaker sections of Society. The Com-

			mittee understand that at present 2000 family and cottage units at Agra are forced to sell their footwear in the local wholesale market where neither sale nor fair payment are assured. The Committee also bear in mind that the small scale sector of footwear industry is almost unavoidably characterised by comparatively low productivity. In order to overcome these problems, Government should explore the feasibility of setting up integrated leather Complexes with an export-orientation not only at Agra but also at other select places. The Committee consider that such integrated Complexes could serve as focal points to cater to the needs of small scale and cottage sectors of the footwear industry by providing them with production-*cum*-finishing facilities and by offering facilities for training for improvement of quality, finish and design of their products and also enabling them to raise the level of their productivity. The Committee recommend that the State Trading Corporation and the proposed Leaher Development Corporation should play a positive role in assuring a proper market for the products turned out by the family and cottage sectors of the footwear industry.
11	·58	do	While drawing up an effective expert strategy, Government should prominently keep in view the present decentralised set-up of the leather industry in India. According to an estimate published in the March, 1974 issue of the Magazine 'LEATHERS', 75 per cent of E.I. tanned leather is stated to come from cottage and small scale industries. There are about 35 finished leather units in the organised sector (concentrated in Calcutta, Kanpur and Madras) and 200 units in

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			the unorganised sector (mostly in Calcutta). The bulk of the leather footwear industry is also in the small scale and cottage sectors. The Committee feel that there is a clear need to progressivly integrate the small scale and cottage sectors into the mainstream of the leather industry and assist these sectors to streamline their production on modern lines with an eye on exports. They should be given technological guidance, provided with common facility centres for finishing, and assured of a market for their leather goods.
			The Committee also recommend that Government should examine the existing structure of excise and other duties to see whether it call for any rationalisation so that such duties do not act as a deterrent or disincentive for small scale and cottage sectors of the leather industry.
12	2·59	Commerce	The Export Promotion Council, Kanpur, have indicated that the export of finished leather is predominantly carried out by the manufacturer-exporter but that of Kolhapuri 'Chappals' produced by Village Industries was handled by merchant-exporters. During evidence, the representative of the Ministry of Industry and Civil Supplies stated that Government was aware that big firms like Batas bought leather goods from a large number of small-scale units in Agra and other places and sold or exported the same after putting their own brand name. It was stated also that under the terms of our export-import policy, such firms were under an obligation to buy

			at least 5 per cent of their exports from the small scale sector. The Committee learnt that one of the field investigating teams had been told that small scale units not having a marketing network of their own, felt that such purchases by big firms were of considerable help to them. It was adduced, however, in evidence that if the Monopolies and Restrictive Trade Practices Commission currently conducting investigations to find out whether or not prices paid by big firms to small scale manufacturers for leather goods were very low as compared to the sale prices, came to the conclusion that such practices were 'monopolistic', Government would not hesitate to invoke the provisions of M.R. T.P.C. Act and discipline refractory firms. The Committee trust that Government would take suitable measures to safeguard the interests of the smallscale manufacturers of leather goods and protect them from all unwarranted exploitation.
13	2·60	do	The problem of stepping up of the export of leather footwear has to be studied in two parts viz., (i) export of footwear to rupee-payment countries, and (ii) to other countries. In exporting footwear to rupee-payment countries, the aim should be to bring about improvements in quality to match international standards so as to meet the demand for quality goods in these countries and naturally realise a higher unit value. In so far as exports to other countries are concerned, export of shoe uppers certainly offers a potential market which should not be lost sight of. The Committee recommend concerted efforts to improve the quality of our sole leather which at

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			present in moisture-absorbant and is, therefore, not quite adapted to the requirements of countries in the cold weather zone.
14	2·65	Commerce	The Committee learn that India has recently been able to get an order for 3,000 pieces of garments and 5,60,000 pairs of uppers from Hungary, and that the U.K. was also evincing interest in buying some 2,000 leather garments. The Committee were further given to understand that in fashion garments, design and pattern played an important part and that the STC had, apart from borrowing designs and patterns from foreign customers, invited foreign designers to come to India and help in turning out the latest designs for leather garments. The Committee recommend that besides formulation of designs and patterns on the basis of the latest trends in fashion-conscious countries abroad, efforts should be made to help Indian manufacturers to acquire the requisite skills themselves and evolve such designs on their own.
15	2·66	do	The Committee are pleased to hear of the impressive breakthrough recently achieved by India in the export of ready-made garments. Export of cotton apparel has almost doubled from Rs. 3,044 lakhs during April—November, 1973 to Rs. 5,907 lakhs in April—November, 1974. Ready-made garments made in India are now being exported to the world's major markets like, USA, USSR, UK, France, West Germany, Australia, Italy, Sweden and Japan. This,

it was learnt, was achieved through working out a package programme which encouraged the producer and the small scale enterpreneur to take to improved methods of ready-made garments manufacture. The Committee recommend that Government should evolve a similar strategy to achieve a real advance in exports of leather garments also.

16	2·80	do	The Committee note that there are two Leather Export Promotion Councils engaged in the task of furthering leather exports. While the Leather Export Promotion Council at Madras had the task of promoting the export of semi-tanned and tanned leather, the Leather Export Council at Kanpur was entrusted with looking after the exports of finished leather and leather manufacturers. It was distressing to learn during evidence that the two Leather Export Promotion Councils did not often see eye to eye with each other and there was even some bickering between them. The Committee, therefore, welcome the Government's decision to merge the two Councils and hope that the combined Council would be set up early and an integrated policy implemented efficiently.

While Calcutta, along with Madras and Kanpur-Agra, has a special importance in the country's leather map, Tamil Nadu has the largest number of tanneries and accounts for more than 70 per cent of our total leather exports. The Committee have been lately informed of Government's decision to establish the headquarters of the merged Council at Calcutta and locate its regional offices at Madras, Bombay and Kanpur. Since the headquarters could be located

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			in no more than one place, the Committee hope that this decision would be accepted in the spirit of national integration and that it will be worked in a manner which does not hurt the interests and susceptibilities of all the important centres of leather industry in India. This implies that the regional offices should also be adequately equipped and organized so that there is no sense of grievance in our leading leather industry regions.
17	3·26	Commerce	The Committee uphold Government's long-term objective of "structural diversification and modernisation of leather industry" with a view to our exporting finished leather and leather manufactures rather than semi-processed hides and skins which bring meagre returns and is appropriate only to a backward economy. The quota system, however, does not appear to have been evolved after sufficiently careful thought. It was in March, 1973 that Government announced its intention to reduce the export of semi-finished leather to 25 per cent of 1971-72 level within five years. In June 1973, it was announced that export quota for the year 1973-74 would be fixed after making cuts of 20 per cent in the case of semi-finished hides and 10 per cent in the case of semi-finished skins from the total exports of such leather in the calendar year 1972 which was selected as the base year. On 1st August, 1973, the Chief Controller of Imports and Exports issued instructions reiterating that all exports made from 1st April would be adjusted against the export quota, but 10 days later

he announced changes in Government's decision according to which (i) the quota scheme was to be operated from 1st August, 1973 (ii) for the remaining 8 months of 1973-74, only 15 per cent of the annual quota would be allowed and (iii) exports from April 1973 to July, 1973 would not be set off against the next eight months' limit. Even this decision was revised in January, 1974 when it was announced that 66.67 per cent of the annual quota would be allowed to be exported during August, 1973 to March, 1974. In March, 1974 another announcement came that in view of representations received from concerned interests that it would take some time to develop adequate infra-structure to manufacture finished leather, annual quotas for 1974-75 would be continued at the same level as for the preceding year, though these would be substantially reduced in the following year, *viz.*, 1975-76 and onwards. Defending these changes, the Ministry of Commerce argued that "strategy and mechanism had to be adopted and bent to meet the demands of actual conditions of production and exports in the domestic industry and international market respectively." The Committee feel that if Government had taken the actual conditions of production and exports into consideration at very beginning, before launching the quota system, and had made it know firmly to the industry and trade, it would have been spared the embarassment and also the hazards that such frequent changes involved. The Committee cannot resist the impression that the quota system, so frequently changed and at short intervals of time, was conceived in haste and without careful anticipation of its likely effects. Cer-

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			tain new entrants to the export of finished leather goods have, according to the Leather Export Promotion Council, Madras, requested Government to order a further cut in the export quota of semi finished leather. The Committee urge Government to evaluate all such proposals on the basis of their own experience and ensure that the scheme, formulated with foresight and precision, gives a new, stimulating direction to the leather industry.
18	3·27	Commerce	The Committee find that partly on account of the quota system, the quantities of E.I.T leather and chrome tanned leather wet blue exported during 1973-74 were less respectively by 121.05 lakh kilograms (40 per cent) and 95.91 lakh kilograms (33 per cent) than the corresponding export in 1972-73 The value of these reductions at 1973-74 average export prices was Rs. 71.93 crores. As against this, the increase in export realisation for finished leather, leather goods, leather foot-wear and other finished leather products in 1973-74 over the preceding year was only Rs. 3.48 crores. In other words, in 1973-74 we lost very much more, in terms of foreign exchange, by restricting our exports of semi finished leather than what we gained in the form of higher export of finished leather and leather manufacturers. To make things worse, the position does not seem to have improved in 1974-75 either, when quantities of E.I.T. leather and Chrome tanned leather wet blue exported were less respectively by 43 lakh kgs. (23.6 per cent) and 75 lakh kgs. (39 per cent) than the corresponding exports in 1973-74. The value of

these reductions was as much as Rs. 36.22 crores. As against this, the increase in export realisation for finished leather, leather goods, and leather footwear in 1974-75 over the value of export of these items in 1973-74 was only Rs. 26.55 crores. The representative of the Ministry of Commerce stated in evidence that the decline in exports of semi-finished leather was not due to the quota system alone but also to the cumulative effect of four main factors, *viz.*, (i) acute shortage of power, (ii) non-fulfilment of export quotas due to international recession, (iii) accumulation of large inventories with principal exporters like Italy and (iv) rise in the cost of maintenance of cattle which continental cattle-holders tended rather to slaughter. The Committee feel, however, that these factors may have aggravated the situation, but the responsibility of the restrictions under the quota system bringing about reduced exports of semi-finished leather cannot be so easily negated. The view of the Ministry of Commerce that export of finished leather "cannot obviously keep pace *pari passu* with the decline in the value of semi-finished leather" does not explain the position and appears even to be complacent. The Committee feel strongly that our country just cannot afford a fall in our export earnings even as we make necessary long-term schemes which may not bring in adequate dividends immediately. Government should therefore avoid drastic quantitative restrictions on semi-finished leather exports unaccompanied by a commensurate increase in finished leather exports. The Committee urge also that from this angle the

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			working of the quota system should be adequately appraised so that any serious detriment to the leather industry in its present phase of development and to the quantum of our export earnings could be decisively eliminated.
19	3·28	Commerce	The Committee note that the Seetharamaiah Committee had recommended a quota system to be regulated in such a way that in about 8 to 10 years time the exports of semi-finished leather could be reduced to 25 per cent of their 1971-72 level. Government's idea, however, was that it was "too long a period" and that the task should be accomplished in five years from 1972. Acceleration of the pace of conversion of semi-finished capacity into finished leather capacity is no doubt desirable, but the resultant curbs on export of semi-finished leather had caused a crisis in the leather industry and the closure of as many as 248 tanneries in Tamil Nadu, thus creating considerable and sudden unemployment in that State and elsewhere. The Committee fear that, even with the best of intentions, Government had perhaps tried to move faster and more drastically than the actual situation warranted. Even at this late stage, the Committee would urge Government to take a fresh stock of the situation, and by a perceptive re-scheduling of its programme enable the leather industry to adjust itself to the new requirements and readily cooperate in the challenging tasks ahead of us in our race for economic advance and well being.

20	4.52	-do-	The Committee note that for encouraging more exports of finished leather and leather goods including footwear, Government introduced air freight subsidy from February, 1971 at 50 per cent of air freight paid but limited to 10 per cent of the f.o.b. value in the case of footwear and components and 15 per cent of the f.o.b. value on finished leather and leather goods. From October, 1974, the rates of subsidy were revised to 40 per cent of air freight paid but limited to 7 per cent of the f.o.b. value in the case of leather footwear/components and 10 per cent of the f.o.b. value in the case of finished leather and leather goods. The period upto which subsidy has been sanctioned expires on 31st March, 1976. A total subsidy of Rs. 200.81 lakhs has been paid since the introduction of subsidy upto the year 1974-75. No subsidy is payable on exports to USSR because the exports to that country are on f.o.b. basis while the subsidy is admissible for c.i.f. basis only. The main considerations which are stated to have weighed with Government in granting the subsidy are rapid changes in fashions in U.S.A. and West European countries and the need for rapid transport to keep pace with countries competing in this line of export. The Committee were informed that air freight rate from India to USA was roughly 150 per cent higher than from Brazil and 50 per cent higher than from Rome. Besides, as Indian footwear suffered from the disadvantage of fetching a lower price, the freight incidence in the case of Indian footwear was 28 per cent as compared with Brazil's 5.5 per cent and Italy's 9 per cent. During evidence, the representative of the Ministry of Commerce justified the

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			grant of air freight subsidy on the ground, among others, that the "difference between sea freight and air freight was about three to four times." The Committee were also informed that there was a definite "co-relation" between the air freight subsidy disbursed and a resultant increase in the export of finished leather, leather goods and footwear particularly to fashion-conscious markets. Such exports had increased from Rs. 360 lakhs in 1971-72 to Rs. 3022 lakhs in the case of finished leather, from Rs. 199 lakhs to Rs. 1283 lakhs in the case of leather goods and leather manufactures, and from Rs. 873 lakhs to Rs. 1745 lakhs in 1974-75 in the case of leather footwears and components. The Committee feel that these arguments, though relevant, are not entirely convincing. First, the Committee are not sure whether the increase in exports of finished leather and leather goods had been due to the grant of air-freight subsidy or to other factors. Secondly, while there was an upward swing in exports of finished leather, leather goods and leather footwear such exports, as pointed out by audit, were only 14 per cent, 18 per cent and 20 per cent of the total leather exports in 1971-72, 1972-73, and 1973-74, while the corresponding percentage for exports of semi-finished leather in these years were 86 per cent, 82 per cent and 80 per cent. This, in the Committee's view indicates that the lion's share of our exports still remained with the traditional items and the policy of switching over to finished goods export had not achieved significant success.

21	4·53	-do-	The Committee are not averse to the provision of air freight subsidy if it helps to sustain and increase foreign exchange earnings for the country through our exports. Such subsidy could perhaps also be justified where Government had satisfied itself that in sending finished leather and leather goods by air, the exporters were unavoidably incurring losses or had margins of profit so scanty that the transaction was felt to be not worthwhile. The Committee learnt during evidence that Government was conducting a review preliminary to deciding if the present air freight subsidy should be continued beyond 31st March, 1976. It is expected that relevant factors like cost of production, difference in sea and air freight, export prices, the exporters' margin of profit, likely reduction in sea freight on account of the re-opening of Suez Canal, lower rates in chartered flights, etc. would be duly taken into account. In view of the fact that 70 out of the 146 registered exporters of finished leather were also exporters of semi-finished leather and presumably made substantial profits, the Committee would prefer to have the subsidy strictly limited to cases where the over-all national interest requires it and where, on account of the subsidy being made available, the industry undertakes adequate infra-structural changes with a view to a positive, long-term improvement of India's position in the world's finished leather market.
22	4·54	-do-	The Committee are perturbed that inspite of the air freight subsidy scheme having been in vogue for more than five years, Government cannot refer to such comprehensive and reliable data as would justify the scheme. Some material appears to have been collected by

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			the Export Promotion Council in 1970, but the Ministry of Finance could not be satisfied with the data. Information collected from the Export Promotion Council, Kanpur in February, 1973 was also found to be the same as that submitted in 1970. Some more data was obtained through the State Trading Corporation and the Export Promotion Council, Kanpur in August, 1974 but that did not indicate the cost of production or the losses sustained by exporters. Thereafter the Export Promotion Council, Kanpur, and the State Trading Corporation were asked to appoint a Cost Accountant for a short period of three months but the Minisry of Finance again found the data inadequate since they did not indicate the period of exports and were not in terms of the quantity and value of costed units of the total exports. The Committee feel that there was no reason at all why the relevant data could not be kept compiled and analysed meaningfully so that well informed decisions regarding such items as the continuance of subsidies could be made properly. The Committee urge that the compilation of authentic data should be given priority and completed without further delay.
23	4·60	Commerce	The Committee note that the grant of cash subsidy was favoured both by the Gokhale Institute of Politics and Economics, Poona (1969) and the Seetharamiah Committee (1972). The Gokhale Institute of Politics and Economics, Poona suggested (1969) a cash subsidy at the rate of 10 per cent on the exports of finished leather and

			20 to 25 per cent on the exports of footwear and finished leather goods. The Seetharamaiah Committee (December, 1972) recommended a cash subsidy of 15 percent against the export of finished leather and leather manufactures but only when the exporter could produce documentary evidence of the steps taken by him for putting the infra-structure, i.e. land, building and machinery necessary for modernisation, balancing and expansion. The Committee are inclined to the view that even the present subsidy should be conditional, as in the Seetharamaiah Committee's recommendation, on such infra-structure improvements as are essential to better export performance. While during evidence, the Commerce Ministry gave its view that "at present the f.o.b. realisation for our finished leather goods is not such as to call for immediate cash subsidy", the Committee were informed after evidence that the Ministry was considering the question of giving "development subsidy". Government have since decided to grant "Cash Compensatory Support" to exporters of leather and leather goods from October, 1975 to 31st March, 1976. Governmental assistance to the industry has always to be justified on the basis of its performance and only when the industry shares the benefit with the worker-producer and by higher export earnings helps the country's foreign exchange position. The Committee urge that Government make a comprehensive examination of the position particularly from the view point enunciated herein.
24	5·30	-do-	The Committee are unhappy that not much has been done to build anything like an adequate infra-structure for the leather industry in

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			India. As early as December, 1972 the Seetharamaiah Committee had recommended that finishing centres should be set up in areas where there was a concentration of small scale tanneries, that new entrepreneurs should be encouraged to set up finishing units, and an investment of Rs. 60 crores made for the conversion of 75 per cent of the export of semi-processed hides and skins in 1971-72 to that of finished leather. By this investment, additional foreign exchange earning had been estimated to be of the order of Rs. 90 to 95 crores. Some of the steps taken to encourage conversion of semi-finished leather into finished leather are stated to be (a) permission to persons/industry/producing unit for acquiring imported machinery up to the limit of their licensing for semi-finished leather, (b) permission to import equipment on a clearance block basis without DGTD's prior approval, (c) conversion of a portion of the import replenishment for acquisition of caiptal goods and (d) authorisation to STC to create a Leather Development Fund by pooling 3/4ths out of the one per cent service charge collected by it on the export of canalised semi-processed hides and skins so that the money could be utilised for setting up 5 common facility centres (one each in Tamil Nadu, West Bengal, U.P., Andhra Pradesh and Bihar), one Shoe Upper facility centre, one unit sole plant and one design cell at Agra and one Central and four Regional Testing laboratories. The Committee was informed that the STC had launched enquiries about the availabilities, prices, delivery, etc. for capital goods machines for these centres. None of these

			centres, however, has come up so far, even though such common facility centres and the tangible development of infra-structural provisions are entirely essential to the stepping up of our finished leather exports. As regards the investment of Rs. 60 crores envisaged by the Seetharamaiah Committee, all that Government have done so far is to formulate a proposal to set up a Corporation to be called Bharat Leather Corporation Ltd. and make a token provision of Rs. 5 lakhs in the budget estimates of 1975-76 for investment in the said Corporation. The Committee were informed that the Corporation would take care of the tasks of building the necessary infra-structure and the entire gamut of developmental activities, deemed indispensable for the leather industry. Nearly four years having lapsed since the Seetharamaiah Committee reported, the Committee fear that Government have not utilised this period of time, by no means a short one, for the advance of our leather industry, and even common facility centres have not come up so far. During evidence, the representatives of the Ministry of Industry & Civil Supplies was even constrained to concede that "the implementation could have been a little faster." The Committee, therefore, urge that steps, already long delayed, be vigorously taken for the creation of the necessary infra-structure and adequate funds provided for the purpose.
25	5·31	-do-	It is distressing that apart from specific measures suggested by the Seetharamaiah Committee for the creation of infra-structure in the country, no blueprint for action to give a new direction to the leather industry has yet been prepared by the Ministry of Industry

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			& Civil Supplies. It appears that in their view, such a blueprint should rather be prepared by the proposed Bharat Leather Corporation Ltd. when it comes to be formed. The Committee regret that the Ministry of Industry & Civil Supplies do not appear to have shown either foresight or a sense of urgency in dealing with this issue. A corporation, howsoever well intended, is not always a panacea of all problems. Besides, such a body would, even after formation, take some time to get over teething and other troubles. Meanwhile, the difficulties get aggravated and the country's interest suffers. The Committee recommend that rather than leaving the task to a projected Corporation, the Ministry of Industry & Civil Supplies should undertake the job on their own and help the leather industry to stand firmly on its feet and go ahead.
26	5·32	Commerce	The Committee welcome Government's move to set up a Corporation to be called "Bharat Leather Corporation Ltd." with the objective of over-all development of leather industry in the country and for performance of multifarious functions such as establishment of production-*cum*-service centres for finished leather and leather goods, promotion of research and development, encouragement for formation of cooperatives of village level workers and small enterpreneurs, setting up raw material banks, dissemination of market intelligence, training and employment of technicians, financing of infra-structure, etc. The Committee feel that one of the primary objectives should

			be to see that tanner/producer in the small scale or cottage industry is integrated into the mainstream of leather industry which should be geared to achieve higher production of quality leather and goods. As recommended elsewhere in the Report, Bharat Leather Corporation should arrange not only technical guidance but also take steps to provide an assured market for their product at reasonable prices.
27	5·33	-do-	The Committee note that while the proposed Bharat Leather Corporation Ltd., would look after production of leather, the exports of leather would be handled by the State Trading Corporation and the Leather Export Development Councils. The State Trading Corporation which is responsible for exports is under the Ministry of Commerce whereas the proposed Leather Corporation which would look after over-all development and promotion of leather industry would function under the administrative control of a separate Ministry *viz.* the Ministry of Industry and Civil Supplies. The Committee suggest that Government should seriously consider whether it would not be preferable to have a single agency responsible both for development and export of leather. If there are two separate Corporations, each under a separate Ministry, problems of coordination between the two are bound to crop up and may necessitate evolving of an effective machinery for co-ordination. The Committee would like Government to take an overall view of the matter and inform them of the decision arrived at.

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28	5·38	Commerce	The Committee note that the general question of levying a Research & Development Cess on all industrial undertakings for the purpose of research and development is under consideration of the Department of Science and Technology and that within the ambit of the over-all scheme to be thus prepared, the proposed Bharat Leather Corporation Ltd will also formulate specific scheme to further research and development in the leather industry. The Committee have already expressed themselves against procrastination in this matter and urge that an early decision be taken and implemented.
29	5·41	-do-	The Committee feel that the leather industry has to be viewed in the over-all context of Animal Husbandry. The responsibility for Animal Husbandry at present rests with the Ministry of Agriculture. With a view to evolving a detailed policy framework for the development of Animal Husbandry so indispensable to the advance of what may be called our agro-economy, there has to be the closest coordination at least between the Ministry of Argiculture, Ministry of Industry and Civil Supplies and the Ministry of Commerce. With the break-through which appears to have recently been achieved in agriculture and in milk production, it is indeed an opportune time to have a closer look at Animal Husbandry as a whole. It would be worthwhile to study critically how Animal Husbandry has been developed in the best national interest in

East European countries, the United States and in South American countries so as to evolve a policy best suited to Indian conditions and attuned to the larger national interest. The Committee would like to be informed of the concrete measures that Government propose to take for evolving and implementing a national policy for animal husbandry to which they attach a great deal of importance.

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