October 2021

Enhancing the Competitiveness of Pakistan's Leather Garment Industry

PLGMEA

Pakistan Leather Garments Manufacturers & Exporters Association

The Pakistan Business Council

FOSTERING ECONOMIC GROWTH

(A Company set up under Section 42 of the Companies Ordinance 1984)

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Acknowledgments

Team Leader:
Samir S. Amir

Lead Researcher:
Rabia Tariq

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For any queries or feedback regarding this report, please contact
samir@pbc.org.pk **or** **rabia@pbc.org.pk**

The Pakistan Business Council:

An Overview

The Pakistan Business Council (PBC) is a business policy advocacy platform, established in 2005 by 14 (now 88) of Pakistan's largest private-sector businesses and conglomerates, including multinationals. PBC businesses cover nearly all sectors of the formal economy. It is a professionally-run organization headed by a full-time chief executive officer.

The PBC is a not-for-profit entity, registered under Section 42 of the Companies Ordinance 1984. Though it is not required under the law to do so, the PBC follows to the greatest extent possible, the Code of Corporate Governance as applicable to listed companies.

The PBC is a pan-industry advocacy group. It is not a trade body nor does it advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers to allow Pakistani businesses to compete in regional and global arenas. The PBC conducts research and holds conferences and seminars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan.

The PBC works closely with the relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues which impact the conduct of business in and from Pakistan. The PBC has submitted key position papers and recommendations to the government on legislation and other government policies affecting businesses. It also serves on various taskforces and committees of the Government of Pakistan as well as those of the State Bank, SECP and other regulators with the objective to provide policy assistance on new initiatives and reforms.

The PBC's Founding Objectives

The major objectives of the PBC as stated in its founding documents are:

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and fieldwork for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the World economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

The PBC is a Section 42 not-for-profit Company Limited by Guarantee. Its working is overseen by a Board of Directors. More information on the PBC, its members, and its workings, can be found on its website: **www.pbc.org.pk**

PBC Member Companies

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ACRONYMS

- **ACD** Additional Custom Duty
- **B2B** Business to Business
- **CAD** Computer-aided Design
- **CAGR** Compound Annual Growth Rate
- **CD** Custom Duty
- **CLRI** Central Leather Research Institute
- **CPEC** China Pakistan Economic Corridor
- **DTRE** Duty and Tax Remission for Exports
- **EDF** Export Development Fund
- **ETP** Effluent Treatment Plant
- **EU** European Union
- **F.O.B** Free on Board
- **FAO** Food and Agriculture Organization
- **FBR** Federal Board of Revenue
- **FDI** Foreign Direct Investment
- **FTA** Free Trade Agreement
- **FY** Financial Year
- **GDP** Gross Domestic Product
- **GSP** Generalized System of Preferences
- **HS** Harmonized System
- **ILO** International Labor Organization
- **ISO** International Organization for Standardization
- **ITC** International Trade Center
- **JV** Joint Venture
- **LPDI** Leather Products Development Institute
- **LWG** Leather Working Group
- **MFN** Most Favored Nation
- **NILT** National Institute of Leather Technology
- **NTB** Non-tariff Barriers
- **PBC** Pakistan Business Council
- **PCT** Pakistan Customs Tariff
- **PLCIP** Pakistan Leather Competitive Improvement Programme
- **PLGMEA** Pakistan Leather Garments Manufacturers & Exporters Association
- **PSDF** Punjab Skills Development Fund
- **PTA** Pakistan Tanners Association
- **PTA** Preferential Trade Agreement
- **RD** Regulatory Duty
- **SEZ** Special Economic Zone
- **SME** Small and Medium-sized Enterprises
- **SRO** Statutory Regulatory Orders
- **UAE** United Arab Emirates
- **UK** United Kingdom
- **UNIDO** United Nations Industrial Development Organization
- **USA** United States of America
- **USD** United States Dollar
- **YoY** Year-on-Year

Executive Summary

Introduction

Manufacturing has traditionally played a key role in the development of developing economies like Pakistan. However, in recent years, Pakistan has deindustrialized prematurely, with the share of manufacturing in GDP declining continuously. While Large-Scale Manufacturing (LSM) growth revived in FY21 as compared to FY20, the Monthly Quantum Index of Manufacturing has been declining since its peak of January '21 and stands lower than what it was in the pre-Covid period in FY19.[1]

With steady deindustrialization, Pakistan's share of global exports, especially in the value-added sector, has also been declining. The country's share in world exports remained a meagre 0.12% in 2020 compared to a share of 0.14% in 2019.

The Pakistan Business Council's (PBC's) ***Make-in-Pakistan*** initiative – aims to revive manufacturing in Pakistan, leading to jobs, an increase in value-added exports, import-substitution initially of labor-intensive products and an increase in tax collection. As part of the Make-in-Pakistan initiative, the PBC has initiated a series of sector studies to identify impediments to increasing global competitiveness of those sectors in which Pakistan has international presence. So far, the PBC has conducted sector studies on the "Knitted Apparel Sector", the "Denim Apparel Sector," the "Towel Sector," "Pakistan's Refrigerator Industry" and the "Footwear Sector".

This report titled ***"Enhancing the Competitiveness of Pakistan's Leather Garment Industry"*** is part of the PBC's Make-in-Pakistan initiative and relies on existing secondary research supplemented with field and online interviews of firms in the leather garment manufacturing sector.

Study Objectives

- Provide an overview of Pakistan's leather garment industry.
- Study the global leather garment market, identify key players, and compare Pakistan's leather garment industry's performance with that of key global players.
- Identify key factors impacting the export competitiveness of Pakistan's leather garment exports.
- Provide a set of policy recommendation to improve sector and firm-level competitiveness of Pakistan's leather garment industry.

[1] PBC's Report on Update of Contours of a National Charter for Exports

Study Methodology

This study's findings and recommendations are based on one-on-one interviews with owners/senior managers of firms in Pakistan's leather garment industry supplemented with desk research of secondary data on the global leather garment industry. Details of the interviewees can be seen in **Annexure 1.** The purpose of the interviews was to get a better understanding of the current state of Pakistan's leather garment sector, trends in the global leather garment industry, major international competitors and their strategies, impediments to the development of Pakistan as a major player in the global leather garment market, and to help formulate policy recommendations to increase the export competitiveness of Pakistan's leather garment sector.

The Pakistan Business Council (PBC) would like to appreciate the cooperation extended to it by the Pakistan Leather Garment Manufacturers & Exporters Association (PLGMEA), and its office bearers.

Analysis and Findings

Global Leather and Leather Goods Industry

- The international leather goods market has seen sharp declines in growth, especially during 2015 and 2020, post-COVID. In 2020, global supply of these goods reached $186.5 billion.
- China, Italy and Vietnam remain the largest exporters of such goods with market shares of 32.2%, 10.6% and 10.6%, respectively.
- The leather goods industry can widely be categorized into five categories; **Leather Footwear, Leather Garments, Leather Gloves, Finished Leather and Other Leather Manufactures (bags, wallets, and so on).**

Pakistan's Leather and Leather Goods Industry

- Pakistan's leather industry is the second largest industry, after textile, contributing around 5.4% to the export earnings of the country.
- During 2020, exports of leather goods fell to approximately $0.85 billion, which was a decline of 14.2% as compared to 2019. This figure of $0.85 billion is the smallest-ever since the last ten years.
- At HS-06 level, "Articles of apparel, of leather or composition leather…" (HS-420310) was the highest export under the leather industry, with market share of almost 28.0%. This indicates the importance of leather garments in the Pakistani economy.
- During FY20, Pakistan's net FDI amounted to around $2.6 billion. Out of this, a mere $2.5 million was represented by the leather and leather goods industry which is a decline as compared to inflows of FDI for this sector during FY10-FY14.

Global Leather Garments Trade

- The global supply of leather garments has been steadily declining, reaching an export value of $2.3 billion in 2020.
- With an export value of $237.5 million, Pakistan ranked as the third largest exporter of leather garments in 2020. The country's exports of this commodity account for approximately 10.3% of the global leather garment export.
- The top two exporters are Italy and India, exporting leather garments worth $422.1 million and $320.6 million, respectively, in 2020.
- Pakistan falls under the top three import sources for seven (Germany, USA, France, Spain, Netherlands, Switzerland and Russian Federation) of the top ten importers of leather garment.
- All top 10 importers have faced a decline in imports of leather garments in the last ten years.

Manufacturing of Leather Garments

Skins and Hides

- The leather garment value-chain is highly dependent on another value-chain – animal production. In other words, the main input relies on animal production rates and the ability to collect and preserve the pelts.
- Cowhide leather is used in making men's jackets, especially motorbike jackets, which require protective gear. Sheepskin leather is preferred by both genders for jackets and hats due to its soft texture while lambskin leather is used to make high-quality leather jackets. Similarly, goatskin leather is used to make leather bags and sometimes, jackets.
- China is the largest skin and hide producer, producing more than 5 million tons of skin. Meanwhile, Pakistan ranks as the seventh largest producer of skins and hides, accounting for around 3.3% of the global animal skin production.
- Pakistani leather garment manufacturers sometimes import raw skins and hides from different countries such as Iran, UAE, Afghanistan, New Zealand, and so on.

Tanning

- The tanning industry plays a vital role in the progress of sub-sectors of the leather industry. Pakistan has around 800 tanneries (184 registered), with 42.4% of them concentrated around Punjab.
- Figure 9 in this report outlines the value-chain of tanneries in detail. This process begins from animal hides or skins which need to be stored and treated appropriately to ensure better leather production. Hence, tanneries involve substantial investment in equipment and machineries.
- Tanning is the most toxic phase in leather processing, with 90% of production using chromium tanning. Hence, effluent treatment is mandatory in many countries, and effluent treatment plants (ETP) are particularly designed to purify industrial waste water for reuse or to dispose of it safely. In Pakistan, there is currently only one combined ETP located in in Korangi Industrial Area, Karachi.
- To promote sustainable leather production, the Leather Working Group (LWG) was set up in 2005, to identify the best environmental practices in the industry and provide guidelines for continual improvement. The most indispensable requirement of the leather industry now is LWG certification – a mandatory prerequisite for accessing the US and EU markets, among others.

Leather Garment Manufacturing

- Unlike tanneries, leather garment processing units or factories are labor-intensive since skilled labor is needed to turn the leather material into leather garments. Additional skills are required such as design know-how, knowledge of computer-aided design (CAD) systems and so on to ensure high-quality garment production.
- Figure 15 in this report explains the value-chain of the final product in detail. Leather garments contain different components and inputs such as zippers, linings, buckles, and so on which add immense value to the leather jacket. In the case of Pakistan, these items are mostly imported from countries such as China due to quality difference and demand of international clients.

Pakistan's Leather Garment Industry

Trade Trends

- Pakistan's CAGR for the export of leather garments was -4.8% for the last ten years and this declining trend can be seen since 2014. This commodity's exports, which amounted to $371.0 million in 2011, declined till $237.5 million in 2020. Hence, there is a need for constant development, government support and policies which help Pakistani leather garment manufacturers revive this sector.
- With a market share of 82.0%, leather jackets are the largest export commodity at PCT level under leather garments for the Pakistani market, followed by leather trousers and coats.
- Pakistan's leather garment exports are mainly concentrated in the European region, with a combined market share of around 80.5% in 2020. The second largest region is the American region, followed by the Asian region. Hence, it is evident that Pakistan's leather garment exports are not as diversified.
- Germany, USA and the Netherlands are the top three export destinations in 2020 for Pakistan's leather garment exports, with market shares of 31.4%, 13.0% and 8.7%, respectively. However, exports to these destinations have declined in the last ten years.

Potential Markets

- Pakistan has the highest untapped potential worth $52.2 million for exporting leather garments to USA.
- In addition to USA, Pakistan's potential markets based on untapped potential trade for export of leather garments are China and European countries. The country's main competitors for these markets are India and Italy. The industry is of the view that top potential markets, especially China, can be penetrated through better marketing, and participation in trade fairs and exhibitions. Moreover, commercial counsellors in these countries should arrange B2B meetings with major importers to generate more orders.

Comparison to Top Exporters

- Pakistan's leather garment exports had a higher ten-year CAGR (-4.83%) and annual growth rate (-8.17%) than the world average. These rates are higher than Italy and India's growth rates as well. France and UK are the only two countries with a positive CAGR for the 2011-20 period.
- Pakistan's leather garment exports have fared well comparatively during COVID-19 since the annual growth rate (2019-20) is higher than all top exporters. Factors that may have contributed to the quick recovery in exports from Pakistan were the early easing of the strict lockdown as opposed

to regional competitors, as well as, the incentives provided by the government to the exporters to recuperate their losses borne during the lockdown.

Export Performance under Different Trade Agreements

- Analyzing Pakistan's export performance of leather garments under different trade agreements shows that Pakistan has the highest share worth 9.0% in Mauritius' market. In the case of Malaysia and Indonesia, Pakistan's exports of leather garments have declined since the implementation of the FTA and PTA. However, exports to China have increased by 36.2% since the implementation of the FTA.

Government Support

- The government of Pakistan has exempted 3% custom duty on import of tanned hides in wet state, along with duty on stamping foils (PCT Code 32121000), a new technology in leather tanning industry to produce high-quality fashion leather articles. In addition, most imported machinery has been exempted from additional custom duty.
- FBR has enhanced duty drawback rates on the export of leather articles and garments from September 28, 2020, which will increase the global competitiveness of Pakistan's leather products and contribute towards export-led growth. The rates are: 7.54% for leather jackets, 5.73% for leather trousers, 6.6% for leather coats and 3.84% for other leather garments.
- Regulatory duty on a few inputs of the leather garment industry, such as leather decreasing agents, have been decreased from 10% to 5%. Meanwhile, regulatory duty on finished goods such as leather garments has been maintained at 50% to strengthen the local industry.
- The automation of custom procedures has immensely helped exporters as well. The scheme covers disbursement of export rebates and duty drawback, along with the processes for application and grant of licenses, analysis cards, quotas, DTRE approval and so on.
- Initiation of Sialkot Tannery Zone is underway. The zone will have the required infrastructure, along with a complete effluent collection system and a common effluent treatment plant. If the project is successfully finished and the zone is made functional, it will foster industrial growth and enhance the exportability and international acceptability of the leather sector products of Pakistan.

Competitor's Leather Garment Industry – India

- Similar to Pakistan, India's leather garment exports reached a peak of $652.5 million in 2013, after which they steadily declined till $320.6 million in 2020.
- The main strengths of the Indian leather garment industry are presence of own raw material, trained workforce, modernized manufacturing units, presence of support industries, and immense government support in terms of exporter-friendly policies.
- The Indian government initiated the Leather & Accessories Development Programme which focuses on development of infrastructure for the leather sector, addresses environment concerns specific to the leather sector, facilitates additional investments, employment generation and increase in production.
- Other initiatives involve setting up of leather parks (two in Chennai and one each in Nellore, Agra and Kolkata), establishment of 'design centers' at individual manufacturing units, to facilitate improvement in design capabilities, and duty-free imports of essential inputs.

Industry View on Enhancing Competitiveness

Lack of Skilled Manpower

- The leather garment industry is a labor-intensive one. In Pakistan, workers usually follow the teacher/student culture and most of them learn the relevant skills on-job which is a huge limitation that prevents competitiveness.
- Lack of training institutes and skill development programs for the industry translates into low-priced leather garments which are not able to fetch as much price as leather garments from competitor countries. The institutes that are present offer outdated curricula.
- Hence, workers are unable to operate upgraded machinery and it becomes difficult for them to make technological shifts.

Recommendations

- To bridge the existing gap in curricula development, there is a need to establish close liaison between the industry, academia, government and other stakeholders. In collaboration with the private sector, the government should develop undergraduate specialty training programs in leather garment design, sewing, and finishing including associate's and bachelor's degrees.
- The issue of sustainability needs to be focused upon as well. Regular follow-ups on these programs, along with constant development according to the industry's current needs and changing fashion trends needs to take place.
- Calling in foreign technicians from time to time will help the industry grow, enhance the quality of leather garments being made, and will align the country's production according to international standards.

Lack of Supporting Industries & Heavy Dependence on Imports

- Pakistani leather garment manufacturers and exporters need to import almost all inputs and accessories such as zips, linings, buttons, buckles, thread (Nylon and Polyester), and so on. This increases production costs and lead times, which delays the delivery of export orders. Since fashion is a dynamic industry, foreign customers and brands value quick response time.
- Currently, Pakistan has only one Japanese zip manufacturer (YKK Pakistan Pvt. Ltd.) present in the country which meets international standards.
- High duties on a few imported raw materials, along with complicated import procedures, makes the local leather garment uncompetitive.

Recommendations

- Incentives should be given for setting up new firms for providing accessories and components for the leather and leather garment industry. The government needs to play the role of a facilitator to help these firms become compliant in accordance to international standards and to gain certifications.
- Key industry players are of the view that the issue of lack of supporting industries can be minimized by introducing such brands for accessories in the form of JVs.
- While duty-free import of a few accessories has been granted, significant duties are still paid on supplementary items such as chemicals, dyes and other components. Tariffs on essential raw materials, intermediate goods and even machinery should be restructured and the initiative should be taken to implement the cascading of nominal tariffs with progressive stages of manufacturing.

Issues in Preservation of Raw Leather

- With Eid-ul-Azha taking place during the summers for the past few years and interrupted supply of electricity and gas, excessive wastage of skins and hides takes place.
- Lack of awareness about proper preservation techniques along with unprofessional or inexperienced butchers adds to the loss.
- In 2019, an estimated loss of about Rs 1.5 billion occurred to both, tanneries and the hide dealers, due to these very reasons.

Recommendations

- The most important step is for the government and the PTA to come together to create awareness through media houses, seminars and other such programs. The focus should be on basic principles of hygiene and sanitation, animal husbandry, animal slaughtering, bleeding, ripping, flaying and processing of hides and skins.
- Establishment of centralized slaughterhouses should take place where trained professionals are hired. For this purpose, research and development should be undertaken constantly to keep up with better practices.
- Professionals at charity and welfare organizations should also be trained since these organizations are involved in the collection of skins and hides in Pakistan.
- Most importantly, uninterrupted supply of gas and electricity to such industries should be ensured, especially during the peak season of Eid, which is imperative for smooth processing of hides and skins.

Lack of Certification

- International buyers of finished leather and leather goods require a higher degree of compliance with environmental regulations. As mentioned previously, the most indispensable requirement of the leather industry now is LWG certification. However, there are only 6 tanneries in Pakistan that are LWG certified, as compared to 194 in India. This translates into important clients preferring India due to the certification.
- Customers expect consistent quality which is difficult to achieve without any international level testing labs in the country.

Recommendations

- Since LWG certification is for tanneries, the government should allow subsidies on Individual Treatment Plants installed by tanneries.
- After obtaining the license, additional costs and investments are required in order to keep the license. For this purpose, the government should financially support tannery owners and encourage them with incentives to keep these certifications.

Need for Improving Country's Image

- Even though Pakistan's law and order situation has improved since the last couple of years, leather garment exporters are of the view that many important international buyers do not feel comfortable visiting the country due to existing misconceptions and misperceptions about Pakistan's political situation which limits face-to-face interactions.
- Not much efforts are being put in by Pakistani commercial consulates, embassies or appointed trade facilitators to arrange meetings with potential buyers.
- Industry players have expressed that presentation of Pakistan's stalls in international exhibitions is not paid attention to, due to which these stalls do not align with international buyers' expectations and requirements. Hence, Pakistani stalls always pale in comparison to stalls of India, Turkey, or other competitors.

Recommendations

- Appointed trade facilitators, trade counselors and other stakeholders should be properly trained to arrange more business-to-business meetings with leather garment exporters and importers.
- More participation in trade fairs, attention to detail on presentation of stalls, and effective communication with foreign investors needs to take place. Commercial counselors should be encouraged and incentivized to invite potential customers to Pakistani booths in international fairs.
- The Export Development Fund (EDF) should allocate appropriate funds for these purposes and proper checks and balances should take place periodically to ensure compliance.
- Pakistan could also learn valuable lessons from the Turkish "TURQUALITY" Programme through which the Turkish government has been funding the development of 10 worldwide Turkish brands.

Lack of Joint Ventures

- According to industry players, JVs in the leather garment industry can help provide technical assistance to tannery and factory workers. Collaboration with foreign leather garment manufacturers would help the domestic industry access new technology and improve labor skills, as well as boost exports.
- This will also lead to an improvement in Pakistan's image and a rise in the unit values compared to the current values.

Recommendations

- Pakistani ambassadors of different countries play an important role in this regard. They should encourage foreign investors to explore Pakistan for possible JVs and investment opportunities. For JVs to be successful, best governance practices, monitoring, tight control and check and balance exercises are vital.
- JVs under China Pakistan Economic Corridor (CPEC) should be looked upon. China currently dominates the conversion of leather into finished leather goods; however, with rising labor costs, Chinese leather industries are willing to relocate to other developing economies.

High Cost of Doing Business

- Due to inconsistent government policies, complicated procedures and lack of transparency, cost of doing business in Pakistan is quite high which is a major factor limiting competitiveness and hampering growth.
- Pakistan suffers from low levels of human capital and labor market inefficiencies in which it ranks 16th and 21st from the bottom out of 141 countries, thus forming significant hurdles in Pakistan's ability to adapt to, and respond to, changes in world demand for leather garment articles.

Recommendations

- The five export-oriented sectors have been promised subsidized energy tariffs that stand at 9 cents/unit electricity and $6.5 per MMBtu for gas. This promise has not been fully honored for all exporters and the government must look into this matter promptly. In addition, these concessionary rates should be continued for the foreseeable future as fuel oil and gas tariffs play a major role in the output costs.
- Initiatives such as the Pakistan Single Window and the automation of bank credits for rebates are steps that have been welcomed by industry players and similar such efforts are needed to improve growth prospects.

Chapter 1

Global Leather & Leather Goods Trade

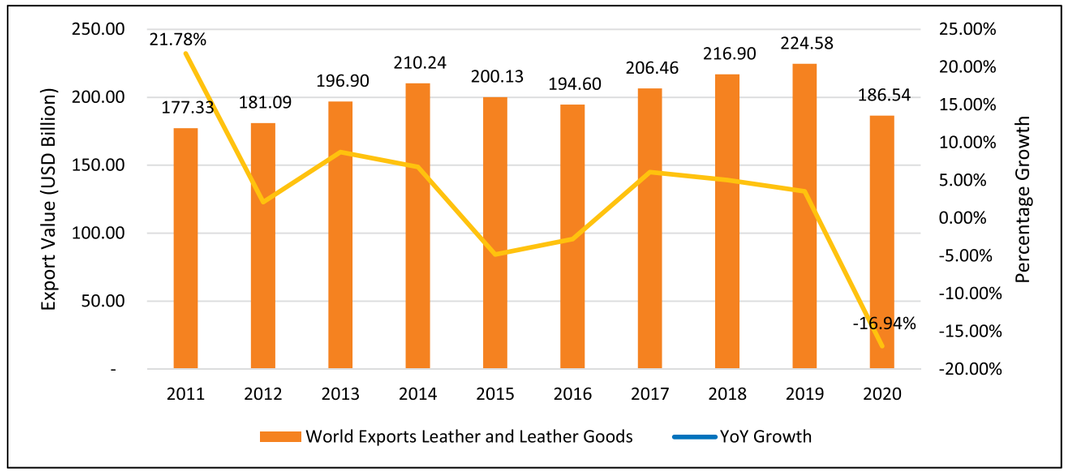
Chapter: 1 Global Leather & Leather Goods Trade

Global Supply of Leather and Leather Goods

Leather and leather goods are among the most widely traded global commodities. The trade in these goods is expected to grow in the coming years, given population increases and greater urbanization in developing countries. In recent years, the production and supply of leather and leather goods has progressively shifted from industrialized to developing countries.

The following figure illustrates the global supply of leather and leather goods over the last ten years, along with the Year-on-year (YoY) growth rate. The most significant increase was seen in 2011, with a YoY growth rate of 21.8%. However, the international leather goods market has seen sharp declines in growth, especially between 2015 and 2020. In 2020, the supply of leather and leather goods were valued at $186.5 billion.

Figure 1 Overview of the Global Supply of Leather and Leather Products



Source: ITC Trade Map

Composition of Leather and Leather Goods Exports

The leather goods industry is composed of the following five categories**; Leather Footwear, Leather Garments, Leather Gloves, Finished Leather and Other Leather Manufactures** (such as bags, wallets and so on). The table below lists the top ten exports of leather and leather goods at HS-06 level during 2020. The major exports within this sector were of footwear articles such as "Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather" (HS-640399) and other leather articles such as "Handbags, whether or not with shoulder straps, incl. those without handles, with outer surface…" (HS-420221).

Leather apparel (HS-420310), the 15th largest leather good export, has also been shown in the table. Pakistan currently ranks as the third largest exporter of this product.

Table 1 Top Global Exports of Leather and Leather Goods 2020

Ranking	HS Code	Product Description	Export Value in 2020 (USD Billion)	Share in Total Exports 2020
		Leather & Leather Goods	**186.54**	
1	640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather . . .	22.42	12.02%
2	640419	Footwear with outer soles of rubber or plastics and uppers of textile materials (excluding . . .	21.61	11.59%
3	640299	Footwear with outer soles and uppers of rubber or plastics (excluding covering the ankle or . . .	20.96	11.24%
4	420221	Handbags, whether or not with shoulder straps, incl. those without handles, with outer surface . . .	13.52	7.25%
5	420292	Travelling-bags, insulated food or beverage bags, toilet bags, rucksacks, shopping-bags, map-cases, . . .	12.94	6.94%
6	640411	Sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes and the like, . .	11.84	6.35%
7	420222	Handbags, whether or not with shoulder straps, incl. those without handles, with outer surface . . .	11.78	6.31%
8	640391	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather, . . .	10.45	5.60%
9	420212	Trunks, suitcases, vanity cases, executive-cases, briefcases, school satchels and similar containers, . . .	8.01	4.29%
10	420231	Wallets, purses, key-pouches, cigarette-cases, tobacco-pouches and similar articles carried . . .	3.93	2.11%
15	420310	Articles of apparel, of leather or composition leather (excluding clothing accessories, footwear . . .	2.30	1.23%

Source: ITC Trade Map

Major Players in the International Leather and Leather Goods Trade

The following tables list the top 10 exporters and importers of leather and leather goods. Pakistan, which is ranked as the 22nd largest exporter and 101st largest importer has also been included in these tables for reference. As evident from the tables, China, Italy and Vietnam remain the largest exporters with market shares of 32.2%, 10.6% and 10.6%, respectively. Furthermore, Vietnam has shown the highest growth in exports since 2011. Meanwhile, top importers include the USA, Germany and France, with market shares of 17.2%, 8.5% and 6.5%, respectively.

Table 2 Top Exporters of Leather and Leather Goods

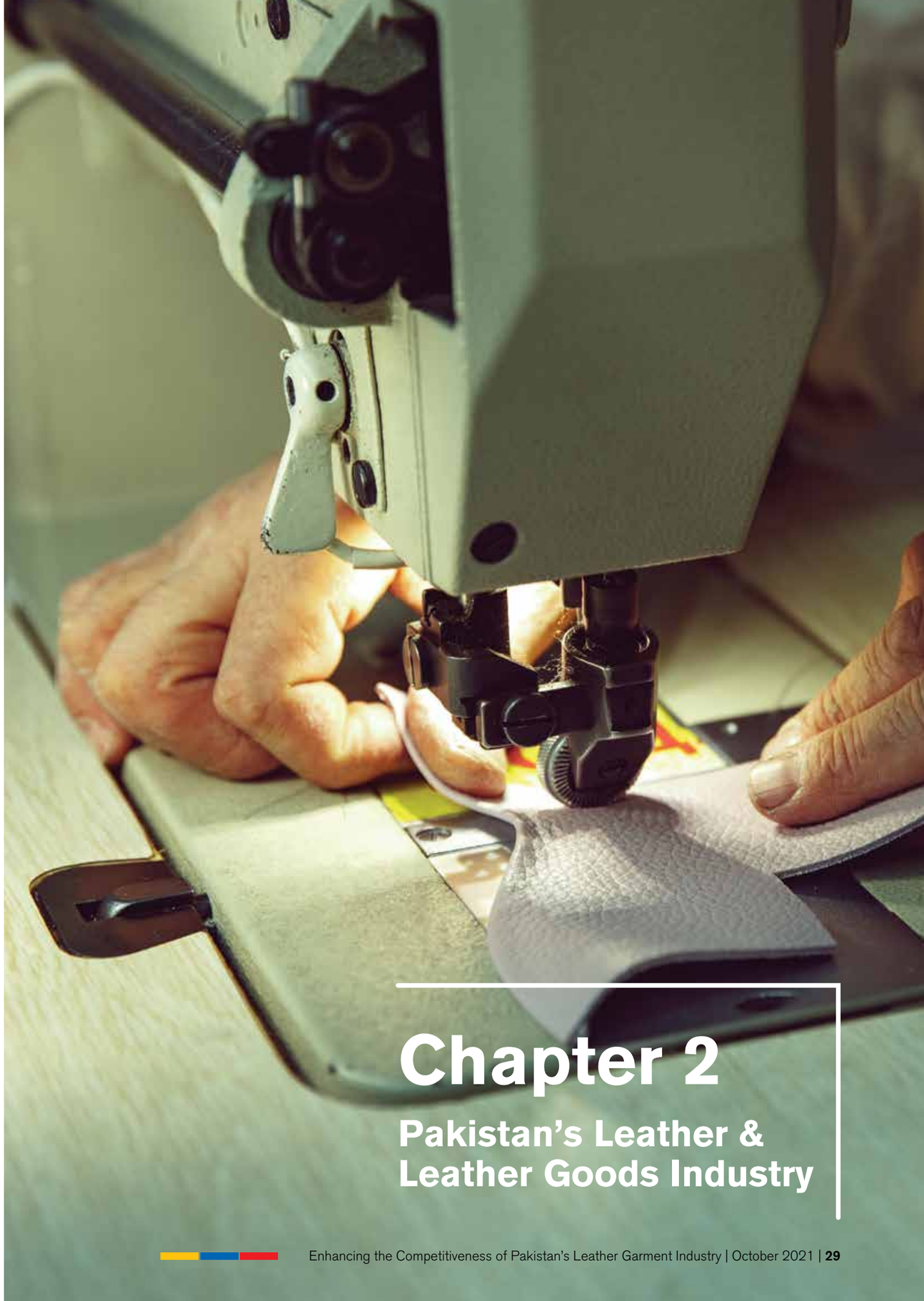
Ranking	Exporters	Export value in 2011 (USD Billion)	Export value in 2020 (USD Billion)	CAGR (2011-20)	Share in Total Exports 2020
	World	**177.33**	**186.54**	**0.56%**	
1	China	68.62	59.97	-1.49%	32.15%
2	Italy	18.38	19.86	0.86%	10.64%
3	Viet Nam	7.87	19.85	10.82%	10.64%
4	France	8.95	13.08	4.30%	7.01%
5	Germany	7.42	10.27	3.68%	5.50%
6	Hong Kong, China	12.57	5.51	-8.75%	2.96%
7	Indonesia	3.59	5.46	4.75%	2.93%
8	Netherlands	4.47	5.31	1.94%	2.85%
9	Spain	4.14	3.93	-0.59%	2.11%
10	India	4.11	3.76	-1.00%	2.01%
22	Pakistan	1.25	0.85	-4.19%	0.46%

Source: ITC Trade Map

Table 3 Top Importers of Leather and Leather Goods

Ranking	Importers	Import value in 2011 (USD Billion)	Import value in 2020 (USD Billion)	CAGR (2011-20)	Share in Total Imports 2020
	World	**181.70**	**183.82**	**0.13%**	
1	United States of America	35.37	31.55	-1.26%	17.16%
2	Germany	13.65	15.60	1.49%	8.49%
3	France	11.05	11.91	0.84%	6.48%
4	China	4.02	10.71	11.51%	5.83%
5	Japan	11.19	9.50	-1.81%	5.17%
6	Italy	10.10	9.12	-1.13%	4.96%
7	United Kingdom	9.86	8.50	-1.64%	4.62%
8	Korea, Republic of	3.47	6.31	6.87%	3.43%
9	Netherlands	5.08	6.19	2.22%	3.37%
10	Hong Kong, China	11.37	5.77	-7.25%	3.14%
101	Pakistan	0.14	0.08	-7.41%	0.04%

Source: ITC Trade Map



Chapter 2

Pakistan's Leather & Leather Goods Industry

Chapter 2: Pakistan's Leather & Leather Goods Industry

According to the Pakistan Tanners Association (PTA), the leather industry is the second largest industry in Pakistan after textiles, contributing around 5.4% to the export earnings of the country. Table 4 below shows the importance of the leather industry for Pakistan through the listing of a few key indicators. Pakistan's leather industry is an export-oriented industry, providing high-quality, value-added and innovative goods to the world.

Table 4 Contribution of the Leather Industry to Pakistan's Economy

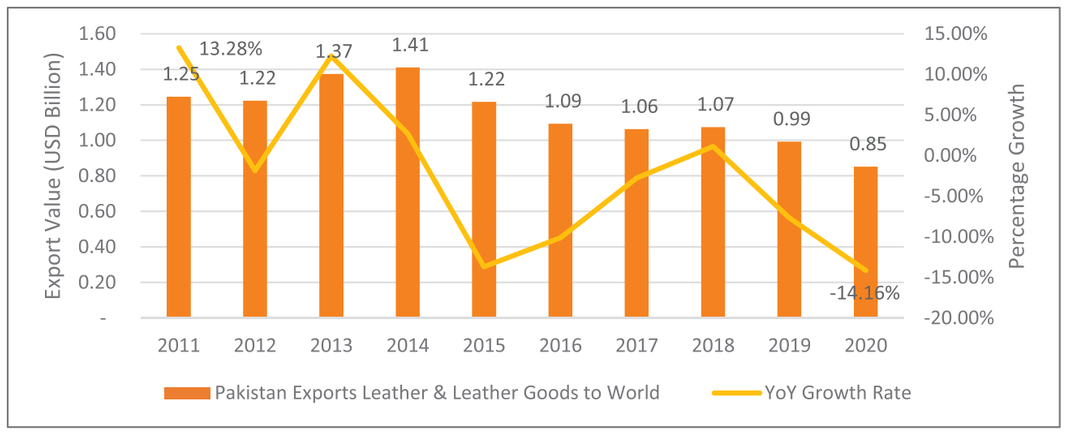
Variable	Contribution
Sector-wise Ranking in Foreign Exchange Earnings	2nd
Share in Large-Scale Manufacturing (%)	1.22
Share in GDP (%)	5.00
Share in Total Exports (%)	5.40
Share in FDI (%)	0.22
Employment (Number of People)	More than 500,000

Source: Pakistan Bureau of Statistics Annual Report 2019-20, Pakistan Tanners Association

Pakistan's Exports of Leather and Leather Goods

Figure 2 below shows Pakistan's exports of leather and leather goods in the last ten years, along with the YoY growth rates.

Figure 2 Overview of Pakistan's Exports of Leather and Leather Goods



Source: ITC Trade Map

The industry exhibited the largest YoY growth in exports of 13.3% in 2011. However, this growth was short-lived as exports have been declining steadily after 2014, as can be seen in the figure. During 2020, exports fell to approximately $0.85 billion, which was a decline of 14.2% as compared to 2019. This figure of $0.85 billion was also the lowest in the last ten years. Though a part of the decline in 2020 can be attributed to COVID-19, there has been a steady decline in exports over the years and this calls for an interaction between the sector and the Government of Pakistan to reverse this trend.

Pakistan's Composition of Leather and Leather Goods Exports

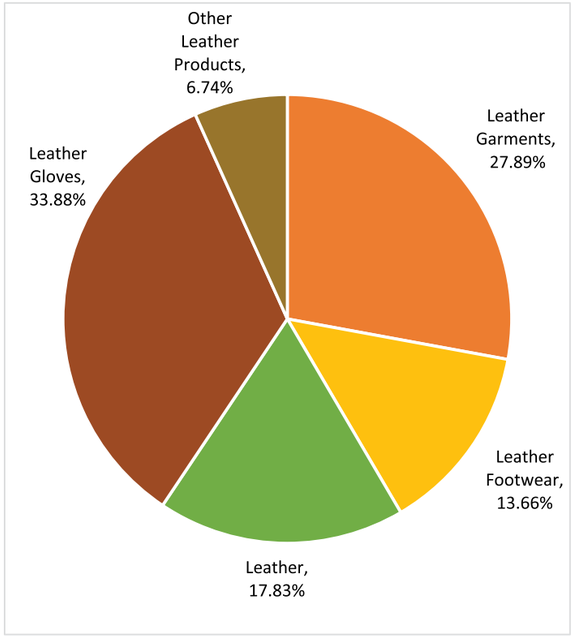
Figure 3 lists Pakistan's top five exports of leather and leather goods in 2020 at HS-06 level, along with their export value and growth rates since 2011.

Figure 3 Pakistan's Top 5 Exports of Leather and Leather Goods, 2020

Source: ITC Trade Map

At HS-06 level, "Articles of apparel, of leather or composition leather…" (HS-420310) was the highest export during the year, with a market share of almost 28%. This indicates the importance of leather garments in Pakistan's leather exports. However, exports of this commodity have exhibited a negative CAGR of 4.8% since 2011. Other major exports in the leather sector include leather gloves, leather footwear and finished leather. However, the growth rate of most of these products has not been very impressive.

Figure 4 Leather Industry Exports Composition



Source: ITC Trade Map

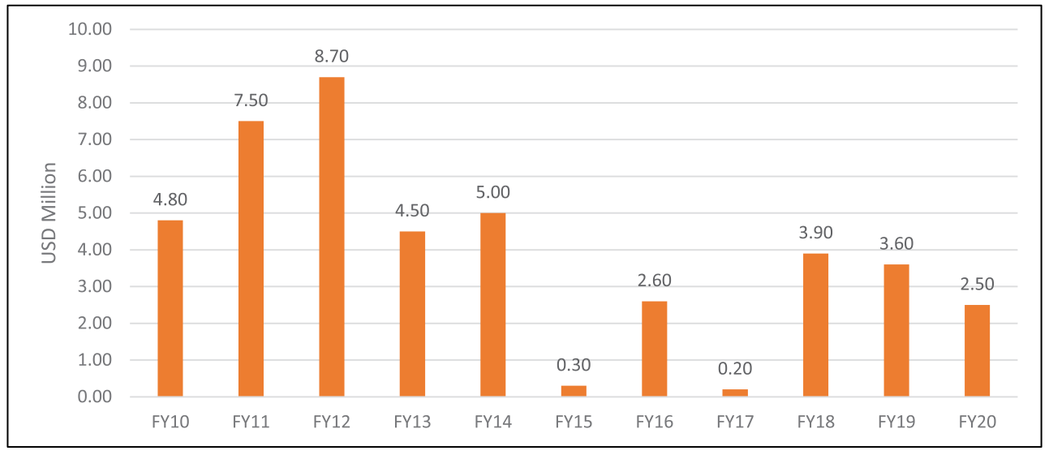
Sorting all the exports of the leather and leather goods industry into the five pre-determined sub-sectors shows the share of each category in the industry's export basket which is shown in Figure 4.

While leather apparel exports are Pakistan's largest leather exports at HS-06 level as indicated in Figure 3, Figure 4 shows that they are the second largest export sub-sector in the Pakistani leather industry, accounting for around 28% of total leather exports. Exports of leather gloves have grown in the past few years, making it the largest sub-sector in the leather industry.

Foreign Direct Investment (FDI) in Leather and Leather Goods

FDI in the leather and leather goods sector has played a minimal role in Pakistan's economy as can be seen from Figure 5 below. During FY20, Pakistan's net FDI amounted to around $2.6 billion. Out of this, $2.5 million was destined for the leather and leather goods industry which is a decline as compared to inflows of FDI for this sector during FY10-FY14. FY15 and FY17 had the lowest-ever inflows of FDI in the leather and leather goods industry as shown in the figure below. While there has been recovery and FDI has increased gradually, it is expected that FDI will decrease again due to the COVID-19 pandemic.

Figure 5 FDI (Net Inflows) Trend in Leather and Leather Goods



Source: State Bank of Pakistan

Source: State Bank of Pakistan

Chapter 3

Global Leather Garments Trade

Chapter 3: Global Leather Garments Trade

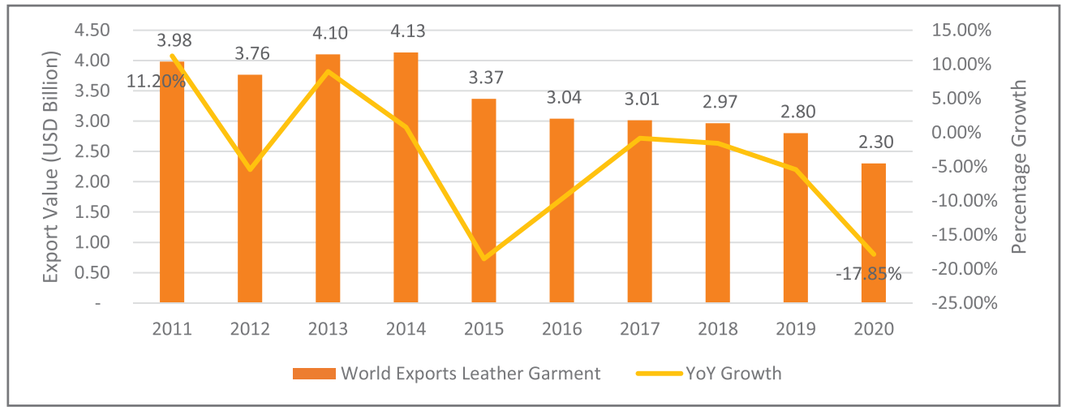
Leather garments is an important sub-sector of the leather industry as discussed previously. At HS-06 level, only one HS code falls under the leather garment category:

- **HS-42** — Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut
  - **HS-4203** — Articles of apparel and clothing accessories, of leather or composition leather (excluding footware and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks)
    - **HS-420310** — Articles of apparel, of leather or composition leather (excluding clothing accessories, footware and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks)

Global Supply of Leather Garments

The figure below shows the global supply of leather garments for the last ten years, along with the YoY growth rate. The highest growth of 11.2% was seen in 2011 while the steepest decline of 18.5% was witnessed in 2015. Since then, the supply of leather garments has been steadily declining, reaching an export value of $2.3 billion in 2020. The steady decline can be partly attributed to reduced demand in China and the Far East and changing consumer preferences for other materials used in apparel wear.

Figure 6 Overview of Global Supply of Leather Garments



Source: ITC Trade Map

Major Players in the International Leather Garments Trade

Tables 5 and 6 below list the top 10 exporters and importers in the leather garment trade, along with their share in the global leather garment market and their top export and import markets.

With an export value of $237.5 million, Pakistan ranked as the third largest exporter of leather garments in 2020. The country's exports of this commodity accounted for approximately 10.3% of global leather garment exports.

Table 5 Top 10 Global Exporters of Leather Garments

Ranking	Exporters	Export value in 2020 (USD Million)	CAGR (2011-20)	Share in Leather Garment Export	Top Export Destinations
	World	**2,302.97**	**-5.90%**		
1	Italy	422.11	-4.84%	18.33%	Switzerland 18.7% France 13.5% USA 9.6%
2	India	320.55	-6.42%	13.92%	Germany 14.4% Spain 13.7% USA 13.5%
3	Pakistan	237.54	-4.83%	10.31%	Germany 31.4% USA 13.0% Netherlands 8.7%
4	France	210.47	0.86%	9.14%	Hong Kong 15.2% Germany 12.0% Italy 11.2%
5	Germany	177.40	-5.52%	7.70%	Switzerland 18.7% Austria 17.8% Poland 11.5%
6	China	103.26	-18.76%	4.48%	USA 16.1% Japan 14.2% Korea 13.8%
7	Turkey	95.61	-6.68%	4.15%	France 14.5% Netherlands 11.7% Germany 11.4%
8	Spain	90.52	-2.63%	3.93%	Poland 9.8% Russia 9.6% France 9.3%
9	United Kingdom	86.87	1.90%	3.77%	Germany 19.6% France 11.3% Italy 11.2%
10	Netherlands	84.94	-2.51%	3.69%	Germany 36.5% UK 11.2% Belgium 9.2%

Source: ITC Trade Map

Pakistan is one of the three import sources for seven (Germany, USA, France, Spain, Netherlands, Switzerland and Russian Federation) of the top 10 importers of leather garments. This can be seen in Table 6 and indicates Pakistan's position as a major supplier of leather garments. Table 6 also shows that all the top 10 importers have faced a decline in their imports of leather garments in the last ten years.

Table 6 Top 10 Importers of Leather Garments

Ranking	Importers	Import value in 2020 (USD Million)	CAGR (2011-20)	Share in Leather Garment Import	Top Import Sources
	World	**2,135.89**	**-6.30%**		
1	Germany	286.15	-7.10%	13.40%	India 25.2% Pakistan 24.9% Italy 15.6%
2	United States of America	212.79	-8.57%	9.96%	India 24.9% Italy 24.9% Pakistan 12.1%
3	France	200.05	-6.63%	9.37%	India 24.5% Italy 24.5% Pakistan 14.3%
4	Italy	149.69	-6.33%	7.01%	India 26.5% France 13.6% Romania 6.3%
5	United Kingdom	128.01	-4.80%	5.99%	Italy 23.1% India 21.0% France 13.7%
6	Netherlands	114.47	-3.59%	5.36%	Germany 21.2% Pakistan 13.4% Italy 11.6%v
7	Spain	105.32	-6.10%	4.93%	India 54.3% Pakistan 16.4% Italy 7.9%
8	Switzerland	88.66	-3.83%	4.15%	Italy 33.1% India 17.1% Pakistan 15.1%
9	Russian Federation	80.31	-5.13%	3.76%	India 26.9% Italy 23.9% Pakistan 23.1%
10	China	79.28	-4.70%	3.71%	Italy 42.5% India 16.8% Turkey 10.0%

Source: ITC Trade Map

Chapter 4

The Manufacturing of Leather Garments

Chapter 4: The Manufacturing of Leather Garments

Articles of apparel made of leather, or leather jackets, first appeared during the First World War as a garment used by German fighter pilots. These garments, known especially for their insulating properties and warmth, were used as outerwear layers of uniforms for protection purposes. During the 1920s, leather garments began to gain more popularity and entered the fashion world as a number of designers started featuring leatherwear as part of their collections.

While leather garments used for protective purposes are thicker, heavier and usually equipped with waterproof pockets and closures, leather garments worn as a fashion statement are thinner and may contain accessories such as studs, chains and belts.

At independence in 1947, there were only a few small-scale tanneries in the country producing sole leather. In the next few decades, the installation of new, well-equipped and advanced units started taking place after which, Pakistan started producing finished leather during the 1970s. The 1980s were a turning-point during which the country exhibited a period of improved quality production of leather and leather goods. A major reason for this was the relocation of industry from Europe where the introduction of strict compliance requirements led to the closure of a number of tanneries. By 1990, the leather sector had jumped to become the second-largest foreign exchange earner for the country by contributing 10.41% to total exports.

The Pakistan Leather Garments Manufacturers and Exporter Association (PLGMEA) was founded in 2001 to protect, promote and develop Pakistan's Leather Garment industry. Since then, PLGMEA has been involved in boosting leather garments exports by participating in local and international fairs to help promote the sector.

Currently, units producing leather garments are spread all over Pakistan, with a high concentration in Sialkot, Karachi and Lahore.

Leather garment manufacturing can be simplified as shown below:

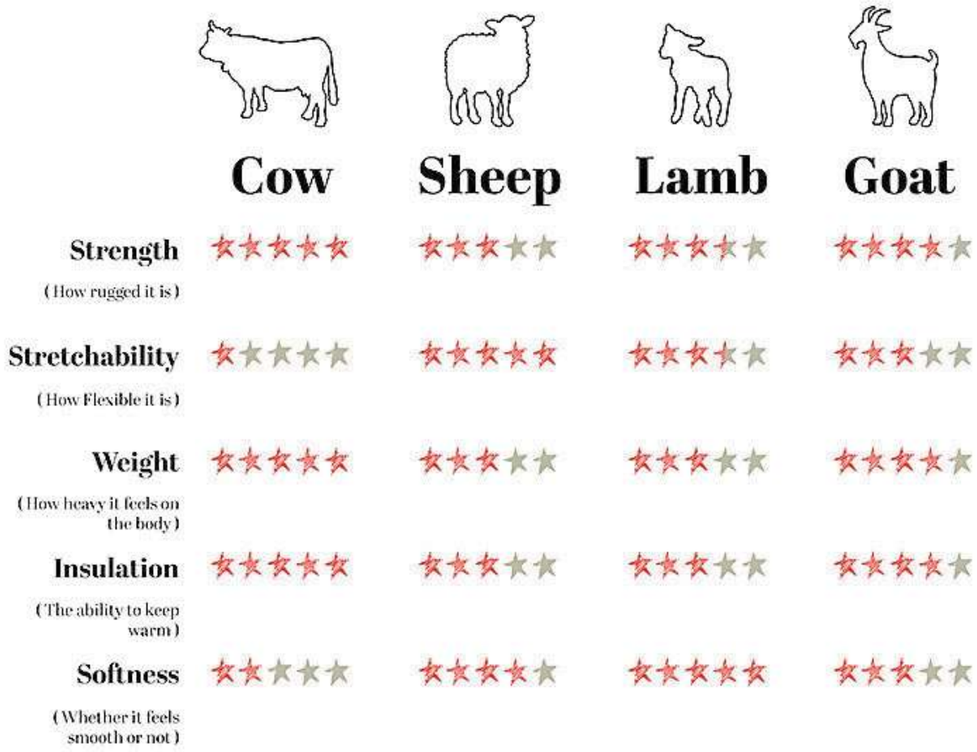
Skins and Hides

Different animals produce different quality hides (the pelt of large animals such cows & buffalos) or skins (smaller animals such as goat, sheep, and lamb) which in turn, makes the leather quality different in each case. Moreover, different portions of the hide also yield different qualities of leather which are used for specific purposes.

Figure 7 below rates the quality of different types of leather based on their origin. The quality of leather in the figure is compared based on their strength, stretchability, weight, insulation and softness. Cow hides have the most strength, weight and insulation, with goat skin coming in second along the same parameters. Furthermore, sheep skin is the most flexible while lamb skin is the softest.

Cowhide leather is used in making men's jackets, especially motorbike jackets, which are used as a protective gear. Sheepskin leather is preferred by both genders for jackets, hats and so on due to its soft texture while lambskin leather is used to make high-quality leather jackets. Similarly, goatskin leather is used to make leather bags, shoe lining and sometimes, jackets.

Figure 7 Quality of Leather from Different Animals Compared



Source: The Jacket Maker

Table 7 lists the top 10 countries, in terms of the quantity, produced of animal skins and hides (Goat, Sheep, Cattle, Buffalo). As can be seen, China is the largest skin and hide producer, producing more than 5 million tons of skin. China is also a major producer of pigskin which has not been included in the table below. China is followed by USA and Brazil in animal skin production. Meanwhile, Pakistan ranks as the seventh largest producer of skins and hides, accounting for around 3.3% of the global animal skin production.

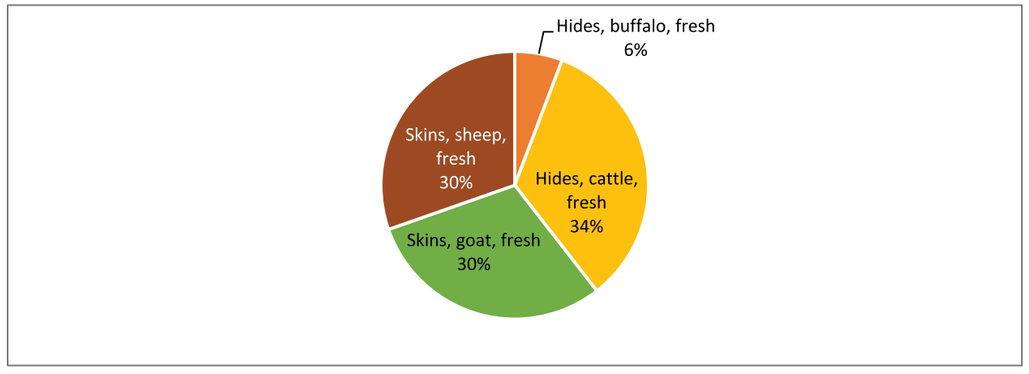
Table 7 Top 10 Countries Producing Animal Skins for Leather Goods

Country	Production Quantity of Skins (Goat, Sheep, Cattle, Buffalo) (Tons)	Share in Total Skins Produced
Total Skins Produced	**14,183,647**	**100.00%**
China	2,535,752	17.88%
China, mainland	2,533,703	17.86%
United States of America	1,135,868	8.01%
Brazil	1,043,708	7.36%
India	674,562	4.76%
Argentina	526,447	3.71%
Pakistan	462,177	3.26%
Australia	439,686	3.10%
Mexico	270,663	1.91%
Russian Federation	223,034	1.57%

Source: FAO Stats

Figure 8 illustrates the composition of skins and hides produced globally. Cattle hides, followed by Goat skins and Sheep skins are the most produced skins and hides worldwide. Out of these, Sheep skin is usually used to make leather garments.

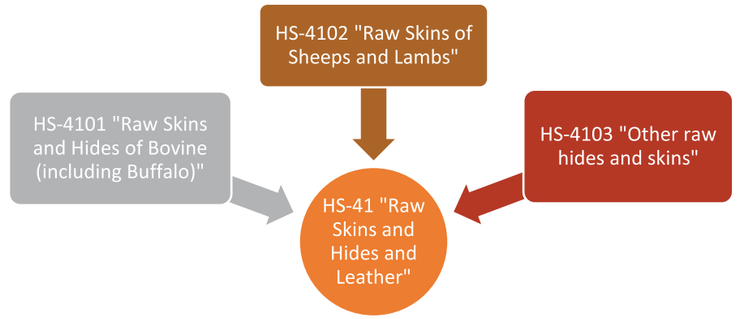
Figure 8 Composition of Skins and Hides Produced Globally



Source: FAO Stats

Pakistan Imports Skins and Hides

Raw skins and hides can be classified in three categories according to their HS codes as can be seen below:



Even though Pakistan is a major producer of skins and hides, it exports a portion of these to different countries after further value-addition such as tanning, crusting and finishing. This reduces the availability of hides and skins for the local downstream industry. Skins and hides from countries like New Zealand are preferred in the making of leather garments due to better quality raw material.

Lack of breeding and farming to raise livestock in Pakistan often leads to this difference in quality of skins and hides. Due to a shortage of local raw materials and the quality differences, Pakistani leather garment manufacturers sometimes import raw skins and hides from different countries as shown in Table 8 below.

As can be seen in the table, Pakistan imported skins and hides worth $22.8 million from the world in 2020. Iran, the UAE and Afghanistan are the top three import sources of raw skins and hides for Pakistan, accounting for 21.8%, 17.0% and 9.4%, respectively, of total raw material imported.

Table 8 Top Exporters of Skins and Hides for Pakistan

Exporters	Pakistan Imports 2020 (USD Million)	Share in Total Skins and Hides Imported
World	**22.80**	
Iran, Islamic Republic of	4.96	21.76%
United Arab Emirates	3.88	17.02%
Afghanistan	2.14	9.40%
New Zealand	1.75	7.65%
Australia	1.73	7.57%
Turkmenistan	1.48	6.48%
South Africa	1.21	5.29%
Somalia	0.97	4.25%
China	0.94	4.13%
United Kingdom	0.85	3.71%

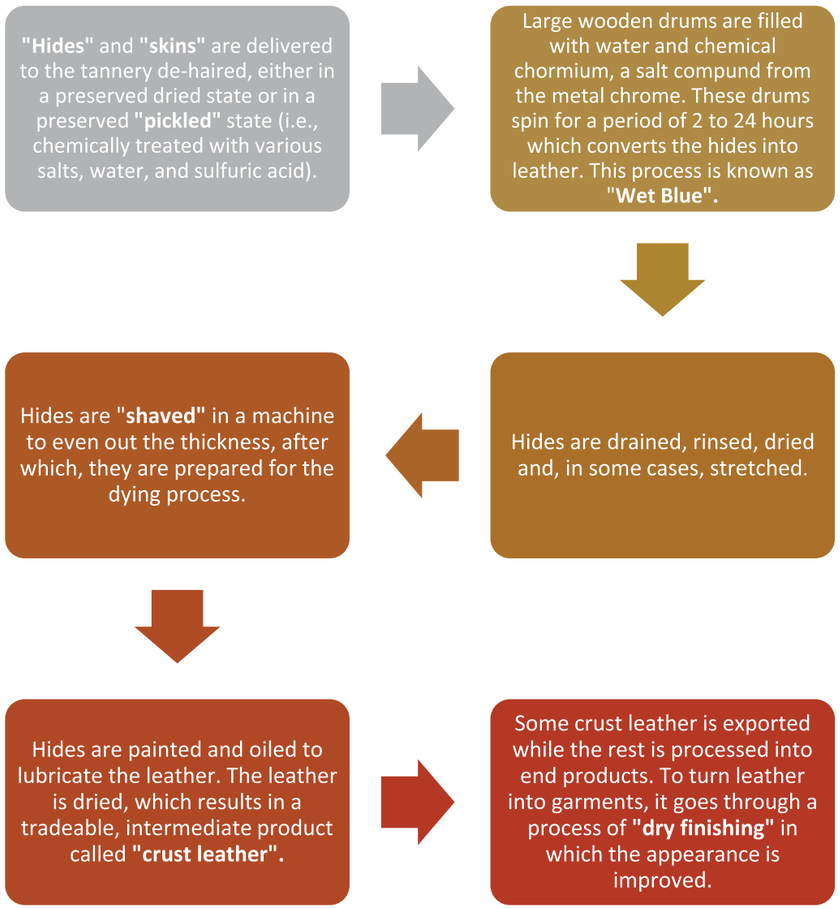
Source: ITC Trade Map

Value-Chain of Tanneries

There are around 800 tanneries (184 registered) in the country actively engaged in producing quality finished leather from Cow hides, Buffalo hides, Sheep skins and Goat skins. Pakistan is currently considered to be a hub for the production of high-quality leather and leather products. The tanning industry plays a vital role in the development of sub-sectors of the leather industry by providing the basic material– leather. According to the Pakistan Tanners Association (PTA), Punjab has 42.39% of the total tanneries in the country.

The figure below lists the process of treating animal skins to produce leather at tanneries. This process begins with raw animal hides or skins which need to be stored and treated appropriately to ensure better quality leather production. Hence, tanneries require substantial investments in equipment and machineries.

Figure 9 Value-Chain of Tanneries



Different Types of Tanned Leather

After the tanning process, which alters the protein structure of the animal's skin, the leather becomes more durable and less susceptible to decomposition. Depending on the finishing desired, the leather may be pressed, waxed, rolled, lubricated, re-tanned, injected with fat liquor[2], split, shaved, or dyed. The table below lists down HS codes and descriptions of the different types of tanned leather.

Table 9 HS-Classification of Tanned Leather

HS Code	Description
4104	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared.
4105	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prepared.
4106	Tanned or crust hides and skins of other animals, without wool or hair on, whether or not split, but not further prepared.
4107	Leather further prepared after tanning or crusting, including parchment- dressed leather, of bovine (including buffalo) or equine animals, without hair on, whether or not split, other than leather of heading 41. 14.
4113	Leather further prepared after tanning or crusting, including parchment- dressed leather, of other animals, without wool or hair on, whether or not split, other than leather of heading 41. 14.
4114	Chamois (including combination chamois) leather; patent leather and patent laminated leather; metallised leather.
4115	Composition leather with a basis of leather or leather fibre, in slabs, sheets or strip, whether or not in rolls; parings and other waste of leather or of composition leather, not suitable for the manufacture of leather articles; leather dust, powder and flour.

Source: Pakistan Tanners' Association, FBR Website

[2] Fatliquor is oil in water emulsion. Fatliquoring influences the physical properties of the leather, such as extensibility, tensile strength, wetting properties, waterproofness and permeability to air and water vapor.

Figures 10 and 11 below show different parts and processes of a tannery, which are described in detail in the value chain above. Meanwhile, Figure 12 shows the different types of finished leather prepared at tanneries. Each type has a different texture which produces a different quality of finished leather. Through the garment manufacturing process, value is added to this leather, to produce high quality leather garments.

Figure 10 Crust leather hung for drying

Source: Mongolleather.pk

Figure 11 Leather Tanning Drums

Source: Mongolleather.pk

Figure 12 Different types of leather

Source: RSI Export House

Environmental Concerns

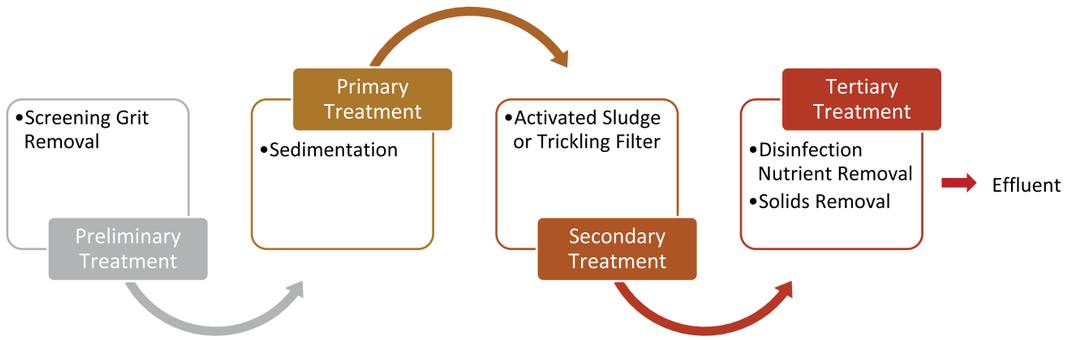
As currently practiced, leather production is linked with some sustainability issues. Extensive rearing of livestock has severe environmental impacts such as deforestation, water and land overuse, and gas emissions. Tanning is the most toxic phase in leather processing, with 90% of leather production using chromium tanning.[3]

Chrome tanning uses several chemicals which can be harmful to health and, and unless treated before discharging, often ends up polluting the air, soil and water. The disposal of these chromium effluents into water bodies is known to cause various illnesses. Furthermore, exposure to heavy metals in the leather industries has been identified as the causative agent for many health hazards. Annexure 3 lists the environmental hazards related to leather tanning and also the better alternatives that can be considered.

Effluent Treatment Plants (ETP)

Effluent treatment is mandatory in many countries, and effluent treatment plants (ETP) are particularly designed to purify industrial waste water for reuse or to dispose of it safely. The main aim is to release safe water into the environment which is free from the harmful effects caused by the effluents. The figure below briefly outlines this process.

Figure 13 Process of ETP



Source: Saltwater Technologies

In Pakistan, there is currently only one combined ETP for the tanning industry and is located in the Korangi Industrial Area in Karachi. However, upgradation of this plant is needed and talks of modification and upgradation are underway. Moreover, the project of Sialkot Tannery Zone has been initiated and it has been announced that a central ETP will be established for the zone.

[3] Leather sustainability website, BLC Technology Centre

Sustainable Leather Production

The Leather Working Group (LWG) is a not-for-profit organization responsible for environmental certification of the leather manufacturing industry. Since 2005, LWG has identified environmental best practices in the industry and provided guidelines for continual improvement. It uses an audit protocol that assesses the environmental compliance and performance capabilities of tanners, and promotes sustainable environmental business practices within the leather industry.

The most indispensable requirement of the leather industry now is LWG certification – a mandatory prerequisite for accessing the US and EU markets, among others. Internationally, an ever-increasing number of retailers and brands are relying on the LWG, which means the number of compliant LWG manufacturers in Pakistan needs to be raised. For Pakistan, absence of this certification is the key barrier to exports, as well as a hinderance in sustaining its past performance in exports. Currently, only 6 leather tanneries in Pakistan are LWG certified as compared to around 194 in India[4]. LWG certified manufacturers in Pakistan are listed below, along with their location and LWG rating.

Figure 14 LWG Certified Manufacturers in Pakistan

Dada Entreprises Pvt Ltd	Eastern Leather Company Pvt Ltd	HSA Akhtar Ali Pvt Ltd	Khwaja Tanneries Pvt Ltd	Siddiq Leather Works Pvt Ltd	Muhammad Shafi Tanneries Pvt Ltd
Location: Kasur	Location: Sheikhupura	Location: Lahore	Location: Multan	Location: Lahore	Location: Karachi
Member since: 2017	Member since: 2020	Member since: 2020	Member since: 2020	Member since: 2016	Member since: 2015
Rating: Gold	Rating: Gold	Rating: Gold	Rating: Silver	Rating: Silver	Rating: Bronze

Source: LWG Website

[4] LWG Official Website

Value-Chain of Leather Garments

Finished leather from the tanneries is transported to leather garment manufacturers from where the garment manufacturing process begins. Since skilled labor is needed to convert the leather into garments, these factories are mostly labor-intensive workshops, unlike tanneries which are capital-intensive. In the leather garment industry, in addition to machinists, additional skills sets are required such as design know-how, knowledge of computer-aided design (CAD) systems and so on to ensure high-quality garment production. Figure 15 below lists the leather garment manufacturing process in detail.

Figure 15 Value-chain of Leather Garments

The leather garment value-chain is highly dependent on another value-chain – livestock production. In other words, the main input relies on animal production rates and the ability to collect and preserve the pelts.

Finished Product – Leather Jacket

The figure below shows a conventional motorcycle leather jacket, along with a few of its labeled parts which add value to the final product. These parts are described in detail below.

Parts of a Motorcycle Leather Jacket

Figure 16 Labeled leather jacket

Collar: The collar of the garment rests around the neck and often comes with a fastener or stud at each end. Some leather garments may be collarless.

Lapels: These are triangle-shaped slices of leather as can be seen in the figure. Usually, a zipper runs along the edge of one panel so a square-shape is made, once the jacket is zipped.

Pockets: Many leather jackets feature diagonal pockets. While some pockets close with a button, others close with zippers as in the case above.

Zippers and Studs: There are usually multiple zippers and studs on a leather garment. Studs are usually just for show while zippers are used to close the jackets or pockets. Pakistani manufacturers mostly import these from China due to quality differences. Annexure 2 lists the major raw materials imported by Pakistani leather garment manufacturers.

Lining: The lining of the garment is the material that runs along the inside. The material can be cotton, nylon or suede. The company's label as well as care tags are stitched onto this lining.

Waist Buckle: A waist buckle runs along the lower edge of the jacket, which can be used to create a more proper fit.

Shoulder Epaulettes: These are little details added to the top of each shoulder to create a square shape. Epaulettes are optional and many jackets do not have them.

Panels: Panels are pieces of leather usually of the same color and texture. The jacket might have soft panels on the interior of the sleeve, or it might feature ribbed leather panels down the sides or in place of an epaulette at the shoulder.

All in all, the parts shown above add immense value to the leather jacket. In the case of Pakistan, these items are mostly imported from countries such as China due to quality difference.

Chapter 5

Pakistan's Leather Garment Industry

Chapter 5: Pakistan's Leather Garment Industry

Codes and Classifications

Pakistan's leather garments exports can be further sub-divided into four different categories along the 8-digit codes known as Pakistan Custom Tariffs (PCT) Codes as indicated below:

HS-420310 Articles of apparel, of leather or composition leather (excluding clothing accessories, footware and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks)

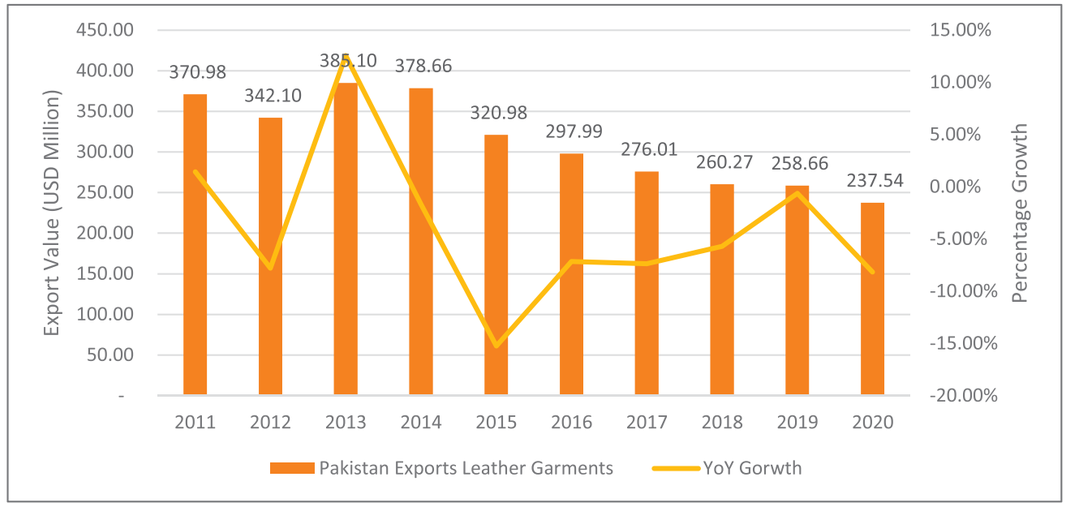
- **42031010** Articles of apparel, of leather or composition leather (excluding clothing accessories, footware and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks): jackets, leather or of composition leather
- **42031020** Articles of apparel, of leather or composition leather (excluding clothing accessories, footware and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks): trouser leather
- **42031030** Articles of apparel, of leather or composition leather (excluding clothing accessories, footware and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks): coats, leather or of composition leather
- **42031090** Articles of apparel, of leather or composition leather (excluding clothing accessories, footware and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks): other

Leather Garment Exports

Figure 17 below shows the trend of Pakistan's exports of leather garments to the world in the last ten years. Pakistan's CAGR for the export of this commodity was -4.8% during this time period and this declining trend can be seen since 2014. Pakistan's leather garment exports, which amounted to $371.0 million in 2011, declined to $237.5 million in 2020.

HS-420310 is further divided into PCT Codes and Pakistan's export of each category is shown in Table 10 below for the year 2019 since this is the latest data available at PCT level. With a market share of 84.0%, leather jackets are the largest export and hence, the most important export commodity in the leather garment sector, followed by leather trousers and coats.

Figure 17 Overview of Pakistan's Exports of Leather Garments



Source: ITC Trade Map

Table 10 Pakistan's Exports of Leather Garments

HS Code	Product Description	Export value in 2019 (USD Million)	Share in Total Leather Garment Exports 2019
420310	**Articles of apparel, of leather or composition leather…**	**258.66**	**100.00%**
PCT Code			
42031010	Articles of apparel, of leather or composition leather (excluding clothing accessories, footwear and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks): jackets, leather or of composition leather	212.21	82.04%
42031090	Articles of apparel, of leather or composition leather (excluding clothing accessories, footwear and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks): other	25.71	9.94%
42031020	Articles of apparel, of leather or composition leather (excluding clothing accessories, footwear and headgear and parts thereof, and goods of chapter 95, e.g., shin guards, fencing masks): trouser leather	16.92	6.54%
42031030	Articles of apparel, of leather or composition leather (excluding clothing accessories, footwear and headgear and parts thereof, and goods of chapter 95, e.g., shin guards, fencing masks): coats, leather or of composition leather	1.43	0.55%

Source: ITC Trade Map

Top Export Destinations and Market Concentration of Leather Garments

Table 11 lists Pakistan's top ten export destinations for leather garments in 2020, along with the CAGR, market share and untapped export potential. Most of the countries in the list belong to the EU. However, the growth rate of exports to a majority of these countries has been on a decline for the ten-year period. Amongst the top export destinations, Pakistan had the highest untapped potential worth $52.2 million for exporting leather garments to the USA in 2020.

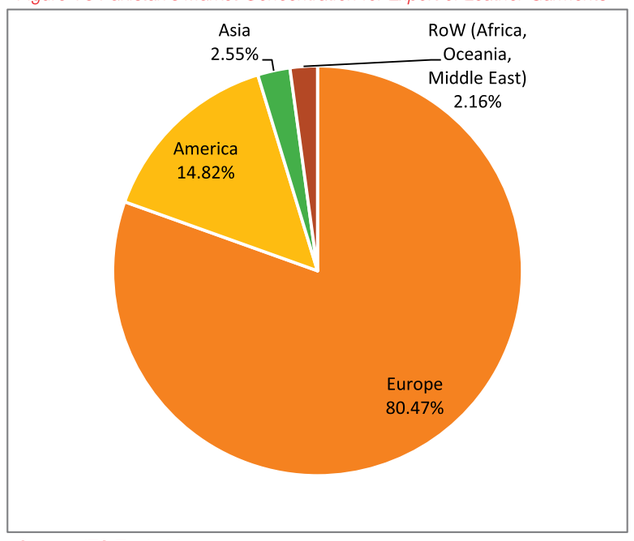
Table 11 Pakistan's Top Export Destinations for Leather Garments

Export Destinations	Export value in 2011 (USD Million)	Export value in 2020 (USD Million)	CAGR (2011-20)	Share in Total Leather Garments Exports 2020	Untapped Export Potential 2020 (USD Million)
World	**370.98**	**237.54**	**-4.83%**		
Germany	90.37	74.64	-2.10%	31.42%	19.29
United States of America	41.71	30.93	-3.27%	13.02%	52.17
Netherlands	26.50	20.67	-2.72%	8.70%	-
France	37.37	17.21	-8.26%	7.24%	10.18
United Kingdom	24.81	15.67	-4.98%	6.60%	18.49
Spain	31.55	15.02	-7.92%	6.32%	31.51
Poland	1.00	8.10	26.17%	3.41%	-
Belgium	21.76	7.38	-11.32%	3.11%	5.88
Russian Federation	6.82	7.37	0.87%	3.10%	0.11
Italy	11.44	7.21	-5.00%	3.04%	27.91

Source: ITC Trade Map

Figure 18 groups the major markets into regions to show the share of each region in Pakistan's leather garment exports. As indicated previously, Pakistan's leather garment exports are mainly concentrated in the European region, with a market share of around 80.5% in 2020. The second largest region is the North American region, followed by the Asian region. The African, Oceania and Middle East regions contribute a miniscule share of Pakistan's leather garment exports.

Figure 18 Pakistan's Market Concentration for Export of Leather Garments



Source: ITC Trade Map

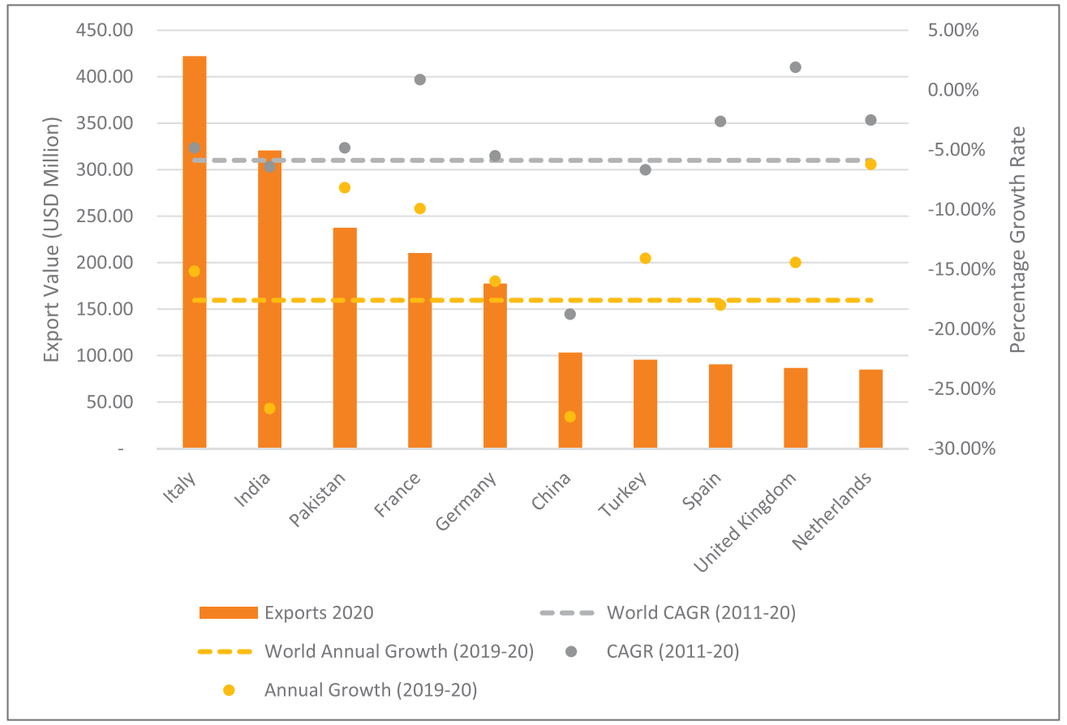
Diversification of markets for leather garment exports is necessary to ensure future growth and minimize trade shocks for Pakistan.

Export Performance Compared to Top Exporters

As can be seen in the figure below, Pakistan's leather garment exports had a higher ten-year CAGR (-4.83%) and annual growth rate (-8.17%) than the world average shown by the dotted lines. In fact, these rates are higher than those for Italy and India which are the number 1 & number 2 exporters of leather garments. Pakistan's leather garment exports have fared well comparatively better during COVID-19 since the annual growth rate (2019-20) is higher than all the other top exporters. France and the UK are the only two countries with a positive CAGR for the 2011-20 period.

All major exporters, like Pakistan, have also been experiencing a contraction in their exports.

Figure 19 Pakistan's Leather Garment Export Performance



Source: ITC Trade Map

Export Performance under Different Trade Agreements

The table below shows Pakistan's leather garment exports under different FTAs and PTAs signed by the country. Iran is not included in the list since leather garments are not a part of the Pakistan–Iran PTA and Sri-Lanka is not included in the list since the country imports insignificant quantities of leather garments from Pakistan.

Even though all countries listed below apply 0% tariff on the import of leather garments from Pakistan, Pakistan's market share in these countries is very low. Pakistan has the highest share of 9.0% in the Mauritius' market and is the 3rd largest exporter of this product. Furthermore, in the case of Malaysia and Indonesia, Pakistan's exports of leather garments have declined since the implementation of the FTA and PTA, as indicated by the negative CAGR. However, exports to China have increased by 36.2% since the implementation of the FTA.

There is untapped potential, especially in the Chinese market which Pakistani leather garment manufacturers need to work towards.

Table 12 Pakistan's Leather Garment Export Performance under Different PTAs and FTAs

	China	Mauritius	Malaysia	Indonesia
Implemented During the Year	2006	2007	2008	2013
Tariff Applied by Partner on Pakistan	0%	0%	0%	0%
MFN Duties Applied	6%	0%	0%	15%
Pakistan's Ranking amongst Exporters	7th	3rd	7th	9th
Top Two Exporters	Italy India	Italy China	Singapore Italy	China Hong Kong
CAGR in Leather Garment Exports since Implementation	36.17%	10.12%	-3.70%	-18.76%
Partner Imports Leather Garments from World, 2020	79.28 million	0.11 million	1.84 million	5.00 million
Partner Imports Leather Garments from Pakistan, 2020	2.11 million	0.01 million	0.04 million	0.04 million
Pakistan's Market Share, 2020	2.66%	9.01%	2.17%	0.8%
Untapped Potential Trade	41.85 million	-	0.85 million	0.52 million

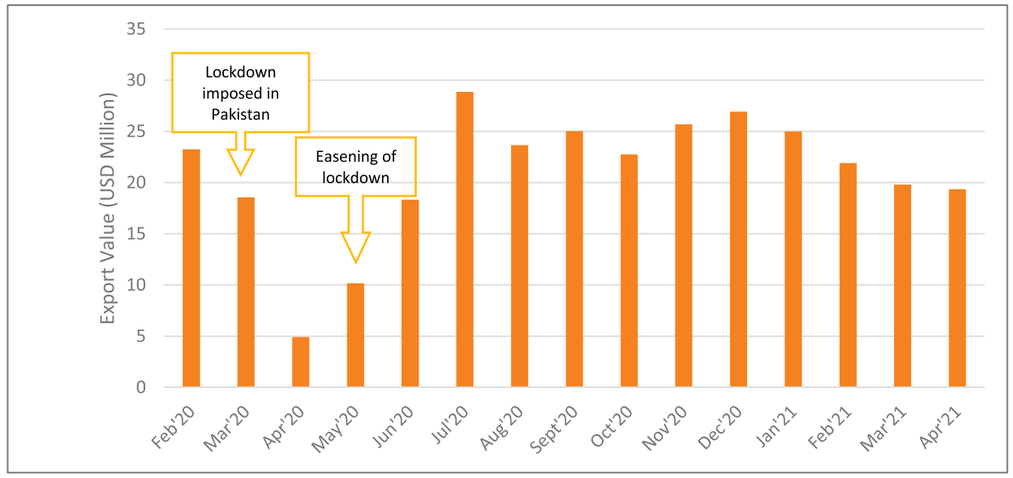
Source: ITC Trade Map

Effect of COVID-19 on Pakistan's Leather Garment Industry

The COVID-19 outbreak slowed down business activities all around the globe, reducing global trade due to closure of borders and local lockdowns. As stated in the PTA Annual Report[5] of 2020, the COVID-19 crisis and the initial lockdown period starting from March 2020 severely affected Pakistan's leather garment industry as 95.0% of its exports are to countries which were hit badly by the crisis i.e., China, Italy, Germany, Spain and so on. Over 50 to 70% export orders were cancelled while due payments for previous shipment were delayed. Foreign customers also started asking for around 10 to 20% reduction in prices due to the pandemic which was not feasible.

The figure below shows the impact of COVID-19 on Pakistan's leather garment exports. As shown, the strict lockdown that was imposed in the country during March 2020 greatly decreased exports of leather garments in April and May. However, the lockdown was eased during mid-May[6] 2020 due to which, the Pakistani leather garment industry started recovering from the earlier drop in exports. Factors that may have contributed to the quick recovery in exports from Pakistan were the early easing of the strict lockdown as opposed to regional competitors which allowed exporters to restart work and meet their export demand, as well as, the incentives provided by the government to the exporters to recover losses suffered during the lockdown.

Figure 20 Effect of COVID-19 on Pakistan's Leather Garment Exports



Source: Pakistan Bureau of Statistics

[5] https://www.pakistantanners.org/documents/annualreport1920.pdf
[6] "Provinces announce easing lockdown even as Pakistan witnesses record rise in coronavirus cases" https://www.dawn.com/news/1555575

Potential Export Markets and Opportunities for Market Expansion

Pakistan's top 10 potential markets for the export of HS-420310 have been identified in the table below based on untapped potential exports. This is the extent to which a country can increase its exports to a specific market for a specific product, given its supply capacities and demand conditions. The difference between the actual exports and potential exports is defined as the untapped export potential.

As indicated in the table, the US holds the highest potential of $52.2 million. Pakistan faces an average tariff of around 3.0% and the number of non-tariff barriers amount of around 10 in the case of the USA. The country faces 0.0% tariff on the export of leather garments to eight of the top high potential markets, indicating that Pakistan can look into these markets for further expansion and diversification.

The industry is of the view that these markets, especially China, can be penetrated through better marketing, and participation in trade fairs and exhibitions. Moreover, commercial counsellors in these countries need to arrange B2B meetings with major importers to generate more orders.

Table 13 Top 10 Potential Markets on the Basis of Untapped Potential Trade

Potential Markets	Imports from world 2020 (USD Million)	Pakistan exports 2020 (USD Million)	Untapped potential trade (USD Million)	Pakistan's market share (%)	Per unit price offered by Pakistan (USD/ Dozen)	Average tariff (estimated) faced by Pakistan (%)	Number of non-tariff requirements faced by Pakistan
United States of America	212.80	30.93	52.17	3	456	3	10
China	79.28	0.87	41.85	7	422	0	70
Spain	105.32	15.02	31.51	2	456	0	4
Italy	149.69	7.21	27.91	5	476	0	4
Germany	286.15	74.64	19.29	2	498	0	4
United Kingdom	128.01	15.67	18.49	4	516	0	4
Hong Kong, China	61.24	0.08	16.09	29	509	0	6
France	200.05	17.21	10.18	3	525	0	4
Denmark	41.19	3.84	9.48	3	454	0	4
Korea, Republic of	56.90	0.09	8.87	9	450	13	-

Source: ITC Trade Map

To further analyze the top potential markets for Pakistan, the table below lists the top two competitors of Pakistan in each of these markets along with their market shares and tariffs faced. In the case of Spain and Germany, India is listed as the only competitor since Pakistan ranks as the second largest supplier for these countries.

India and Italy, who are the top two exporters of this commodity, appear to be the most prominent competitors as these countries are the top two import sources for a majority of the high potential markets for leather garments. Comparing the average tariff faced by its competitors and Pakistan reveals that Pakistan faces a lower tariff on leather garments in the case of the USA, China and Denmark. In the case of Korea, Pakistan faces a higher tariff rate while the rate is the same for other countries.

Table 14 Top Potential Markets and Competitors

Potential Markets	Pakistan's market share 2020	Average tariff (estimated) faced by Pakistan (%)	Competitors	Competitor's Market Share 2020	Average tariff (estimated) faced by Competitor (%)
United States of America	14.53%	3	India Italy	28.89% 28.86%	3 5.3
China	1.10%	0	Italy India	42.48% 16.78%	6 6
Spain	14.26%	0	India	54.28%	0
Italy	4.82%	0	India France	26.48% 13.56%	0 0
Germany	26.09%	0	India	25.18%	0
United Kingdom	12.24%	0	Italy India	23.12% 21.01%	0 0
Hong Kong, China	0.13%	0	France China	28.81% 20.35%	0 0
France	8.60%	0	India Italy	24.51% 24.49%	0 0
Denmark	9.32%	0	India China	59.53% 10.56%	0 4
Korea, Republic of	0.16%	13	Italy China	31.14% 30.67%	0 0.2

Source: ITC Trade Map

To summarize, Pakistan's potential markets based on untapped potential trade for export of leather garments are the USA, China and the European countries. The country's main competitors for these markets are India and Italy. Pakistan can look into these opportunities, identify barriers to trade, work towards market expansion and diversification.

Non-tariff Barriers Faced by Pakistan

The figure below briefly[7] lists the non-tariff barriers (NTB) faced by Pakistan in the export of leather garments as applicable for a few of the top export destinations, along with the high potential markets such as the European countries and China.

Certification requirements include LWG certification as mentioned in Chapter 4. Furthermore, NTBs also include other requirements such as Eco-Labeling, the aim of which is to establish that goods being produced have minimum impact on the environment by adopting eco-friendly best practices. The EU is strictly following the standards set under Eco-Labeling for leather products, footwear and textile products.

Figure 21 NTB faced by Pakistan on Export of Leather Garments

USA	UK	Germany, Italy, Spain, France	China
•Licensing, permit or registration requirements to export •Non-automatic import-licensing procedures • Cold-hot treatment • Fumigation • Prohibition for non-economic reasons	•Product quality, safety or performance requirement •Certification, Inspection requirements •Prohibition for non-economic reasons.	•Product quality, safety or performance requirement •Certification and Inspection requirement •Prohibition for non-economic reasons.	•Testing, Certification, Inspection, Labelling, Packaging, Marking and Quarantine requirements •Consumption taxes •Product quality, Conformity assessment etc.

Source: Market Access Map

[7] Detailed measures can be accessed on Market Access Map as follows:
USA: https://www.macmap.org/en/query/regulatory-requirement?reporter=842&partner=586&product=420310&level=6&rtype=I
UK: https://www.macmap.org/en/query/regulatory-requirement?reporter=826&partner=586&product=420310&level=6&rtype=I
European countries: https://www.macmap.org/en/query/regulatory-requirement?reporter=918&partner=586&product=420310&level=6&rtype=I
China: https://www.macmap.org/en/query/regulatory-requirement?reporter=156&partner=586&product=420310&level=6&rtype=I

Government Support for the Leather and Leather Garments Industry of Pakistan

This section briefly outlines the initiatives taken by the government of Pakistan to promote exports of the leather and leather garment sectors.

Exemption of Custom Duty on Raw Materials

The government of Pakistan has exempted 3% custom duty on the import of tanned hides in wet state with HS Codes 4101, 4102, 4103 excluding 41033000. The government has also removed duty on stamping foils (PCT Code 32121000), a new technology in the leather tanning industry to produce high-quality fashion leather articles. The industry believes it would help gain additional share in the international export market and compete with other countries' manufacturers.

In addition, the government has also exempted all plant and machinery used in manufacturing or production of goods under HS Codes 84 and 85 from additional custom duty, which was previously 2%. A few machineries under these codes are used in the manufacturing of leather garments.

Revised Rebates and Duty Drawback Rates

The Federal Board of Revenue (FBR) has enhanced duty drawback rates on the export of leather articles and garments from September 28, 2020, this it is hoped, will increase the global competitiveness of Pakistan's leather products and contribute towards export-led growth. The revised duty drawback rates, under SRO 930(I)/2020 are as follows:

Table 15 SRO 930(I)/2020 - Revised Duty Drawback Rates on Leather Garments

PCT Code	Product Description	Revised Duty Drawback
42031010	Leather Jackets	7.54% of F.O.B[8] Value
42031020	Leather Trousers	5.73% of F.O.B Value
42031030	Leather Coats	6.60% of F.O.B Value
42031090	Other Leather Garments (waist coats or tops etc)	3.84% of F.O.B Value

Source: FBR Pakistan

The rate has been revised upwards for export of finished leather, leather chair and other leather products as well.

[8] Free on Board: a transportation term that indicates that the price for good includes delivery at the Seller's expense to a specitied point and no further

Reduction of Regulatory Duty on Inputs

The Federal government has also reduced regulatory duty on a few inputs of the leather garment industry from 10% to 5%. These inputs include leather degreasing agents (HS-340211, HS-340212, and HS-340213). The FBR has also reduced regulatory duty on the export of wet blue hide and skins from 20% to 10% from July 1, 2021.

Meanwhile, regulatory duty on the import of finished goods such as leather garments has been maintained at 50% to strengthen the local industry.

Automation of Customs Procedures

The previous duty drawback system which required filing of duty drawback claims by exporters and the subsequent issuance of manual paper-based cheques caused delayed payments of duty drawback. During July, 2020, it was announced that this system will be re-engineered by the State Bank of Pakistan to allow automated disbursement of sanctioned amounts to exporters. This automation of credit of export rebates and duty drawback is through a system that matches proof of export with realization of export proceeds, allowing banks to credit on the same day as export realization. The scheme also covers the processes for application and grant of licenses, analysis cards, quotas, DTRE[9] approval and any other approvals required under the relevant rules.

The leather garment industry players are fully in support of this policy and are of the view that this has not only improved their liquidity, but has also made it easier to do business.

Sialkot Tannery Zone

Figure 22 Sialkot Tannery Zone Entrance

Source: Sialkot Tannery Association

As mentioned previously, initiation of the Sialkot Tannery Zone is underway. The project is being executed as a Public-Private Partnership. Around 396 acres land has been procured in order to provide modern facilities and to enable tanners to produce international standard leather and leather products. Even though the mega project was started years ago, it has failed to materialize due to several issues. However, the project is underway once again and is expected to be functional soon.

[9] Duty and Tax Remission for Exports

Chapter 6

Competitors' Leather Garment Industries

Chapter 6: Competitors' Leather Garment Industries

As mentioned previously, India is Pakistan's main competitor in the leather garment industry. This chapter briefly discusses the performance of India's leather garments industry, along with its strengths and government policies that have enabled this industry to flourish.

India's Leather Garment Industry

Even though India's leather garment exports do not fall under its top exports to the world, the Indian leather and leather goods industry, as a whole, holds a prominent place in the country's economy because of its high exports and foreign exchange earnings. The industry has access to plentiful supplies of raw material as India is home to 20% of the world's cattle and buffalo and 11% of the world's goat and sheep population. Combined, the leather industry provides employment to around 4.4 million people, 30% of which, are women.

The table and figure below list a few facts and figures about the leather garment industry of India.

Table 16 India's Leather Garment Industry

	Value in 2020
Export (USD Million)	320.55
Import (USD Million)	2.07
Ranking in World Exports	2nd
Ranking in World Production	2nd
Share in Total Leather Goods Exports (%)	8.97
Annual Production Capacity (Million pieces)	16.00

Source: ITC Trade Map, Council for Leather Exports of India

Figure 23 India's Top Export Destinations for Leather Garments 2020

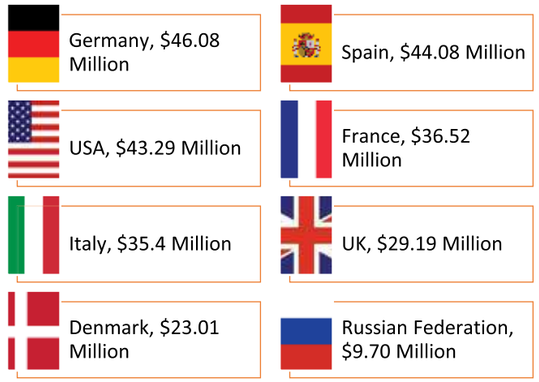
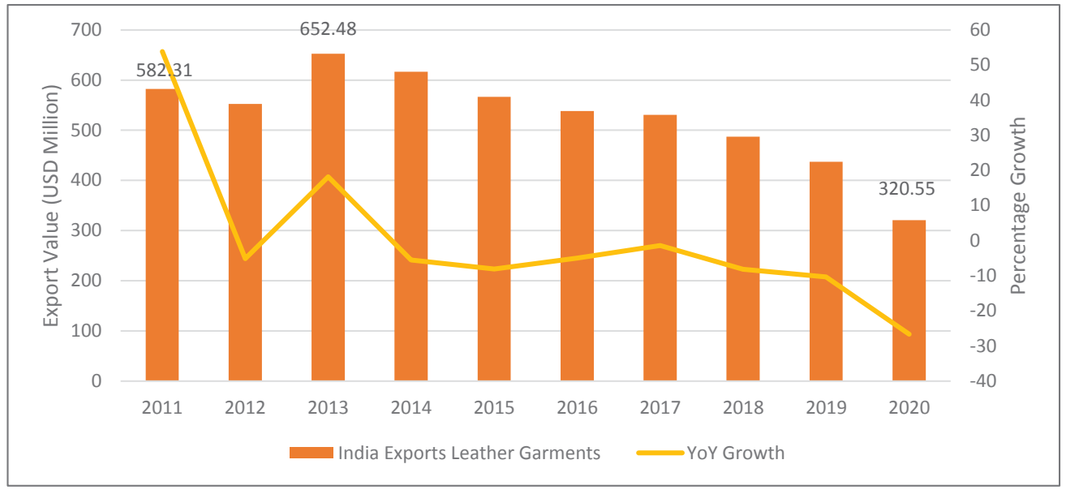


Figure 24 illustrates India's leather garment exports in the last ten years, along with its YoY growth rates. Similar to Pakistan, India's leather garment exports reached a peak of $652.5 million in 2013, after which they have steadily declined.

Figure 24 India's Leather Garment Exports



Source: ITC Trade Map

The table below compares tariffs applied by Pakistan's top export destinations on leather garments from India and Pakistan. As can be seen, both countries face similar tariffs from their major export destinations.

Table 17 Comparison of Tariffs Applied on Leather Garments from India and Pakistan by Pakistan's Top Export Destinations

	Top Export Destinations for Pakistan	Tariff Applied on India (%)	Tariff Applied on Pakistan (%)
Top European Markets	Germany	0	0
	Netherlands	0	0
	France	0	0
	United Kingdom	0	0
	Spain	0	0
	United States of America	3	3
	Russian Federation	10	10

Source: ITC Trade Map

Strengths

The figure below briefly lists the strengths of the Indian leather and leather garment industry. These include the initiation of the Mega Leather Cluster[10], along with many other strengths.

Figure 25 Strengths of India's Leather & Leather Garment Industry

Source: Council of Leather Exports of India, FDI India, Times of India

[10] The project would provide direct and indirect employment to about 1.5 lac people. Advanced and eco-friendly machinery will be installed. There would be around 200 stand-alone plots and around 100 factories in the leather cluster which would have its own 20 MLD Common Effluent Plant.

Government Policies for the Leather and Leather Garments Industry of India

Figure 26 Government Policies for the Indian Leather and Leather Garment Industry

Under Leather & Accessories Development Programme, the following assistance is provided:	Integrated Development of Leather Sector sub-scheme: 30% grant is provided on the cost of plant and machinery for micro/small units and 20% for other units, with a ceiling of USD 0.307 Mn for each product line.
	Mega Leather, Footwear and Accessories Cluster sub-scheme: 50% grant with a ceiling of USD 19.23 Mn based on size is provided. Mainly for the establishment of MLCs to boost infrastructure facility and support services.
	Human Resource Development sub-scheme: Assistance for Placement Linked Skill Development training to unemployed persons is provided - USD 230 per person, for skill up-gradation training to employed workers - USD 76 per employee and for training of trainers - USD 3,076 per person.
	Leather Technology, Innovation and Environmental sub-scheme: Help for upgradation/installation of Common Effluent Treatment Plants @ 70% of the project cost. Pilot Projects under Technology Benchmarking for leather units, organizing Environment Related Workshops and Pilot projects for Solid Waste Management are also eligible for assistance under the scheme.
	Additional Employment Incentive for Leather, Footwear and Accessories Sector scheme: Employers contribute 3.67% to employees provident fund for all working in the leather and accessories sector. The employees are enrolled in Employees' Provident Fund Organization for first 3 years of their employment.
Other initiatives taken by the Government to make leather more competitive include:	Concessional duty on imported machinery and chemicals.
	Manufacturer-exporter of leather garments or a merchant exporter tied-up with supporting manufacturer is permitted duty free import of certain essential / critical inputs and embellishments to an extent of 3% of FOB value of export realization effected in the previous year. These inputs include fastners, inlay pads, shoulder pads, buckles, laces and so on.
	Setting up of leather parks: An outlay of Rs. 4792.7 million (87.36 Million Euro) for setting up five leather parks – two in Chennai and one each in Nellore, Agra and Kolkata. The Council for Leather Exports has estimated that this scheme will generate a total investment of INR 11633.1 million (2120.05 Million Euros) in about three years.
	Establishment of 'design centres' at individual manufacturing units, to facilitate improvement in design capabilities: Under this scheme, 25 % of the project cost is provided to the units under the market access initiative scheme of the Ministry Of Commerce and Industry. Several individual units have come forward to establish their own design centres.

Source: Invest in India, Indian Leather Industry Council

Chapter 7

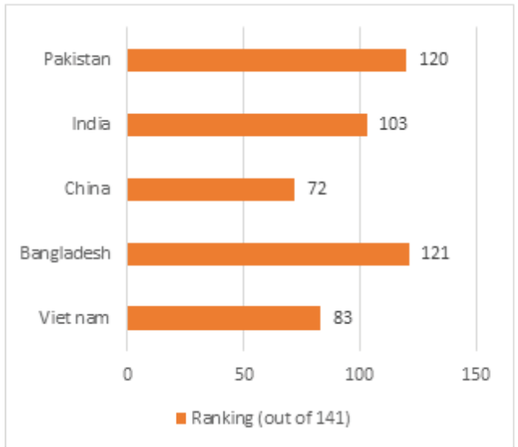
Industry View on Enhancing Competitiveness

Chapter 7: Industry View on Enhancing Competitiveness

Lack of Skilled Manpower

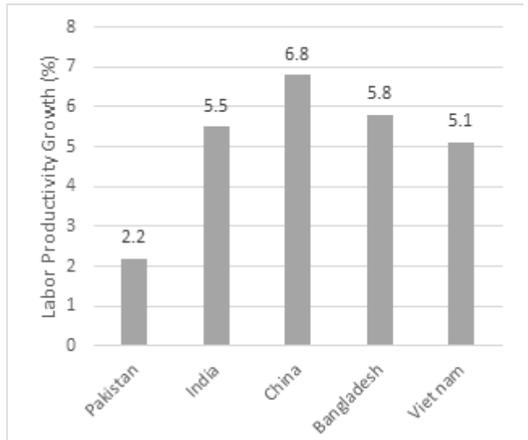
Human capital – the capabilities and skills of individuals — is a key driver of economic prosperity and productivity, especially for labor-intensive industries. The leather garment industry is a labor-intensive one. In Pakistan, workers usually follow the teacher/student culture and most of them learn the relevant skills on-job which is a huge limitation that prevents competitiveness. Lack of training institutes and skill development programs for the industry translates into low quality leather garments which are not able to fetch as much price as leather garments from competitor countries. The current practice of training manpower also decreases productivity and efficiency of labor. According to the International Labor Organization (ILO) estimates, Pakistan's labor productivity[11] is measured at $14,232, which is lower than India's at $19,693 and China's at $29,363. Figure 27 shows Pakistan's labor market ranking (out of 141) according to The Global Competitiveness Report compared to its regional competitor's rankings. Meanwhile, Figure 30 below shows labor productivity growth (2010-19) for Pakistan and its regional competitors.

Figure 27 Labor Market Ranking 2019



Source: The Global Competitiveness Report

Figure 28 Labor Productivity Growth (2010-19)



Source: International Labor Organization (ILO)

[11] Labor productivity represents the total volume of output (measured in terms of GDP) produced per unit of labor (measured in terms of the number of employed persons or hours worked) during a given time reference period.

There has been little to no change in training programs or courses for the leather garment industry. There are not enough vocational institutes dedicated to the leather garment sector and the handful that are there, are currently not functional or have not been upgraded. There has been minor upgrading in the curricula and the different institutes teach self-made curricula, while offering limited range of skill sets. The current curricula are mostly theory based and outdated, resulting in poor quality training. There has also been low participation of the private sector in the curricula development process, resulting in the widening of skills-market gaps. The table below lists the handful of vocational institutes or centers in Pakistan focusing exclusively on the leather sector.

Table 18 Training Institutes for Leather Technology in Pakistan

Institute	Course Offered	Key Course Content	Location
National Institute of Leather Technology (NILT)	1- & 3-Year Diploma 6 Month Training Program	Leather products finishing, leather garment stitching, cutting operations, basic computer application, basic communication skills	Karachi
Leather Products Development Institute (LPDI)	Short Courses	Computer aided designing (CAD), garment pattern making & designing	Sialkot
Government Institute of Leather Technology	1- & 3-Year Diploma	Leather engineering, CAD, leather garment stitching	Gujranwala
Pakistan Institute of Modern Studies	Diploma	Designing/sketching, stitching/ sewing, material technology, product development, quality assurance/ control	Islamabad

Source: Punjab Skills Development Fund (PSDF) & Industry Interviews

According to industry players, institutes such as NILT were built to teach leather processing and technology but over the period of years, due to lack of funds, the quality of courses being taught has declined considerably. Lack of proper vocational centers translates into low skilled workers due to which leather garment exporters are unable to get orders from high-end brands. With diversification of production and with technical development (introduction of new materials, mechanization, CAD/CAM/CIM techniques) basic and general knowledge has to be upgraded and supplemented with new skills (for instance, setting automated equipment).

According to PSDF, the regional competitors of Pakistan take 75 minutes to produce one leather garment whereas the local garments sector takes 133 minutes for the same work. There is a wastage of 30% in finishing, 12% in washing and there is a need to cut costs up to 45% in sewing by becoming more efficient. Furthermore, workers are unable to operate upgraded machinery and it becomes difficult for them to make technological shifts. The managements' old habits, beliefs, and assumptions cloud openness to new ideas and overpower creative and innovative initiatives. For these very reasons, major industry players have opened up their own vocational centers within their factories.

Apart from the institutes mentioned above, South Korean technicians had been called into Pakistan to train workers in the past years which turned out to be useful. However, more such training sessions need to take place for the industry to become more competitive.

Recommendations

Pakistan's existing vocational and technical training system is not sufficient to meet the present and future labor force needs. To bridge the existing gap in curricula, there is a need to establish close liaison between industry, academia, government and other stakeholders. The industry feels that in collaboration with the private sector, the government needs to develop undergraduate specialty training programs in leather garment design, sewing, and finishing including associate and bachelor's degrees. The international leather garment industry's needs have to be studied and understood if existing programs are to be updated to address the shortage of skilled labor. Currently, the industry is in need of the following skills:

- Leather technologist
- Leather tanning machine operator
- Pattern-maker
- Leatherwear designer
- Leather dyeing technician

The issue of sustainability needs to be focused upon as well. Regular follow-ups on these programs, along with constant development according to the industry's current needs and changing fashion trends needs to take place.

Apart from skills specific to leather garment production, programs should also focus on developing necessary administrative skills. This will equip workers to become more productive and make the industry more competitive. As mentioned before, calling in foreign technicians from time to time will help the industry grow, enhance the quality of leather garments being made, and will align the country's production to international standards.

Pakistan can learn from vocational programs of its regional competitors, such as India. The Central Leather Research Institute (CLRI) in India has proven to be quite successful in making Indian labor competitive by equipping them with the necessary skills. A few of the courses and programs offered by CLRI are:

Table 19 Programs Offered by CLRI - India

Course/Program Offered	Duration
Diploma Programme in Leather Garments	52 Weeks
Executive training in leather garments manufacture	160 Hours
Maintenance of machines in leather goods and garments	80 Hours
Leather garment pattern designing	N.A
CAD for garments	160 Hours
Hazard and operability studies	16 Hours

Source: UNIDO – Report on Professional Education and Training in the Leather-based Industries

Lack of Supporting Industries & Heavy Dependence on Imports

Interviews with local leather garment manufacturers and exporters revealed that one of the most significant constraint facing Pakistan's leather garment industry is the absence of a local ancillary industry that produces quality inputs or components, crucial for making finished leather garments / products. Leather garment manufacturers and exporters need to import almost all inputs and accessories such as zips, linings, buttons, buckles, thread (Nylon and Polyester), labels and so on.

Annexure 2 contains a list of materials most commonly imported by Pakistani leather garment manufacturers, along with their import sources. In addition to the import of accessories, chemicals used for leather garments also have to be imported. This increases production costs and lead times, which delays the delivery of export orders. Since fashion is a dynamic industry, foreign customers and brands value quick response time, which is an area Pakistani leather garment exporters mostly lack in. To address this issue, exporters have to place orders for accessories in advance and in bulk, which ties up working capital. Many industry players then have to sell the product without profit in order to finish their stocks and minimize losses. Currently, Pakistan has only one Japanese zip manufacturer in the country which meets international standards. The details of this can be seen on the right. Many of YKK's production locations have been certified as meeting ISO 9001, ISO 14001, among many other standards and certifications.

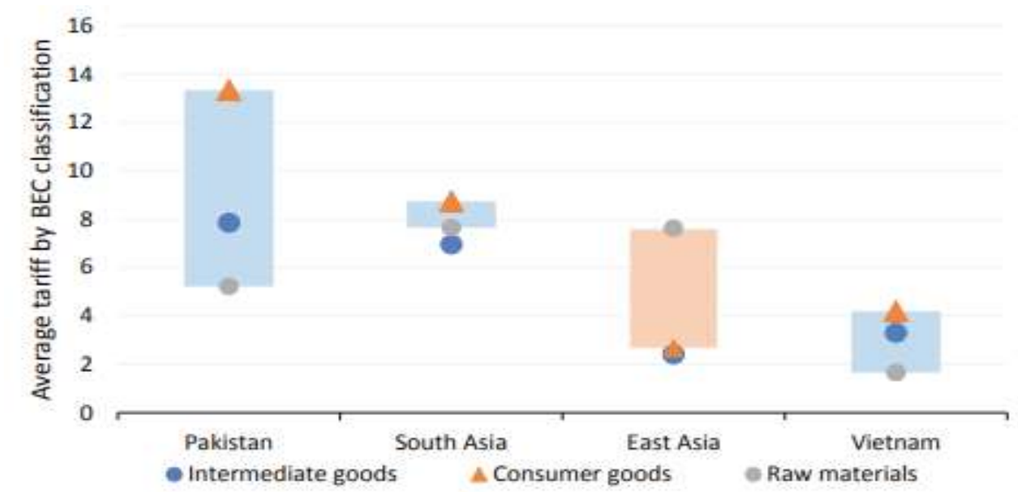
YKK Pakistan Pvt. Ltd. (Karachi)

- Products Manufactured:
- Zippers (Metal Zipper, Coil Zipper, VISLON Zipper, Slider)
- Snaps & Buttons (Tack Button, Eyelet Washer, Rivet & Burr)

Even though importers can import quite a few accessories duty-free, other accessories such as lining and chemicals are still being charged high duties. High duties on imported raw materials, along with complicated import procedures, makes the locally produced leather garment uncompetitive in export markets. Pakistan's tariffs (customs duties) are almost twice as high as the world average and three times higher than those in East Asia and the Pacific[12]. The country has one of the highest weighted average tariff rate differentials in the region and in the world, with an average tariff difference between consumer goods and raw materials of 8.1% in 2018, and between intermediate goods and raw materials of 2.6%. These differences in tariffs, known as 'tariff escalation' or 'cascading', have been used to both protect domestic firms and generate revenues[13]. Figure 29 below shows the cascading tariffs of Pakistan, in comparison to South Asia, East Asia and Vietnam[14]

[12] We focus only on customs duties (tariffs) to facilitate the cross-country comparison
[13] The World Bank – Economic Policy for Competitiveness
[14] Vietnam's values date back to 2017

Figure 29 Tariff cascading by country/region



Source: The World Bank

Recommendations

Pakistan needs to develop its industry for accessories to reduce import reliance, for which government support is required. While large manufacturers may not bear the brunt of high import tariffs on accessory imports by using government schemes for re-exports due to their scale, the problem becomes more severe for SMEs who cannot stay profitable due to high duties. Incentives should be given for setting up new firms for providing accessories and components for the leather and leather garment industry. The government needs to play the role of a facilitator to help these firms become compliant in accordance to international standards and to gain certifications. Key industry players are also of the view that the issue of lack of supporting industries can be minimized by introducing such brands for accessories in the form of JVs.

Furthermore, while duty-free import of a few accessories is allowed, significant duties are still paid on supplementary items such as chemicals, dyes and other components as mentioned earlier. Tariffs on essential raw materials, intermediate goods and even machinery should be restructured and an initiative should be taken to implement the cascading of nominal tariffs with progressive stages of manufacturing. This would increase competitiveness of the industry by providing access to imported raw materials, intermediate goods and machinery at international prices.

PBC's report titled Contours of a National Charter for Exports highlights these issues as well and mentions *"All import levies and domestic transaction costs, irrespective of where they are incurred in the supply chain leading up to the point of export should be refunded to the final exporter, allowing maximum price competitiveness. An imputed duty and tax refund mechanism based on standard cost for SMEs is used in India and can be replicated".*

Issues in Preservation of Raw Leather

According to the PTA, Pakistan is one of the biggest markets of raw skins and hides, especially during the festival of Eid-ul-Azha. Despite this fact, majority of leather garment manufacturers import hides and skins as shown in Table 8 previously. Since the main constituent of hides and skins is protein, these materials are highly susceptible to bacterial action. As such, adequate preservation of hides and skins is crucial in slaughterhouses and tanneries. With Eid-ul-Azha taking place during summers for the past few years, coupled with inadequate preservation mechanisms, and interrupted supply of electricity and gas, excessive wastage of skins and hides takes place. In addition, lack of awareness about proper preservation techniques along with unprofessional or inexperienced butchers adds to the losses. In 2019, an estimated loss of around Rs 1.5 billion accrued to both tanneries and hide dealers due to these very reasons.

According to the industry players, previously the government used to provide them with salt and took necessary steps to preserve leather. This year, they claim, there has been no such support from the government due to which, more skins are expected to have deteriorated. As a result, their quality and quantity will decrease, leading to increasing reliance on imports.

Recommendations

The most important step is for the government and the PTA to come together to create awareness through media houses, seminars and other such programs. During 2016, PTA inked an accord with the University of Veterinary and Animal Sciences and EU's Pakistan Leather Competitive Improvement Programme (PLCIP) for preservation of hides and skins. Under this agreement, a number of seminars were held where experts and researchers presented on generic and scientific methods for preserving the hides and skins to be collected during Eid. More such initiatives should be taken, with a focus on basic principles of hygiene and sanitation, animal husbandry, animal slaughtering, bleeding, ripping, flaying and processing of hides and skins.

In addition, establishment of centralized slaughterhouses should take place where trained professionals are hired. For this purpose, research and development should be undertaken constantly to keep up with modern practices. Professionals at charity and welfare organizations should also be trained since these organizations are involved in the collection of skins and hides in Pakistan.

Lastly, the government should ensure uninterrupted supply of gas and electricity to such industries, especially during the peak season of Eid, which is important for smooth processing of hides and skins.

Lack of Certifications

International buyers of finished leather and leather goods require a higher degree of compliance with environmental regulations. Meeting environmental compliance standards has always been challenging for tanneries in developing countries like Pakistan. As mentioned previously, the most indispensable requirement of the leather industry now is LWG certification – a mandatory prerequisite for accessing the US and EU markets, among others. However, there are only 6 tanneries in Pakistan that are LWG certified, as compared to 194 in India. This translates into important clients preferring India due to the availability of certifications. Hence, the industry is of the view that obtaining this certification is one of the most important issues for leather garment exporters of the country, and for which, support of the government is vital.

Furthermore, customers expect consistent quality which is difficult to achieve without any internationally acceptable testing labs in the country. Pakistani leather garment exporters have suggested that the country should focus on establishing training institutes and testing laboratories to get CE certification[15].

Apart from LWG certification, a few other important certifications for leather garment manufacturers are listed as follows:

ISO 9001	ISO 14001	WRAP	OEKO-Tex 100
•Quality Management System	•Environmental Managaement System	•Worldwide Responsible Accredited Production : World's largest **labor and environmental certification program** for labor-intensive consumer products manufacturing and processing.	•For textile and leather products that have been tested for harmful substances and which are thus safe from a human-ecological perspective.

Recommendations

Since LWG certification is for tanneries, the government should allow subsidies on Individual Treatment Plants installed by tanneries. During a meeting with the Ministry of Commerce in March 2021, PTA proposed allocation of Rs 900 million for matching grant for the individual treatment plants at tanneries in Pakistan. In addition, they stressed the need for common effluent treatment plants (communal plants) available for all the units, especially SMEs in tannery zones. PTA also proposed to allow government subsidy on international lab testing for leather, which will reduce burden on manufacturers.

[15] CE marking indicates that a product has been assessed by the manufacturer and deemed to meet EU safety, health and environmental protection requirements

After initially obtaining the initial certifications, additional costs and investments are required in order to maintain certifications. For this purpose, it was recommended by industry that the government should financially support tannery owners and encourage them with incentives to maintain these certifications.

Need for Improving the Country's Image

Even though Pakistan's law and order situation has improved in the last couple of years, leather garment exporters are of the view that many important international buyers do not feel comfortable visiting the country due to existing misconceptions and misperceptions about Pakistan's political situation. This limits face-to-face interactions, which in turn, limits the number of orders received. In addition, they believe that not much effort is being put in by Pakistani commercial consulates, embassies or appointed trade facilitators to arrange meetings with potential buyers. Even when queries are received from potential foreign clients, these are passed on to the ministry that deals with leather and the whole process takes a lot of time. Since these queries are time-sensitive, many of them cannot be processed further.

Furthermore, though Pakistan participates in international leather exhibitions and expos, which is necessary to improve the country's image and perception, industry players have expressed their view that the presentation of Pakistani stalls is not paid attention to, due to which these stalls do not align with international buyers' expectations and requirements. Hence, Pakistani stalls always pale in comparison to stalls of India, Turkey, or other competitors.

Recommendations

Due to the enormous economic and social effects of the travel advisories on the country, industry believes that the government should put in extra efforts to remove negative travel advisories. This will start to bring about a positive image of the country in the minds of international clients, encouraging them to visit the country for business. For this purpose, appointed trade facilitators, trade counselors and other stakeholders should be properly trained to arrange more B2B meetings with leather garment exporters and importers.

Furthermore, proper research should be undertaken on effective marketing practices. More potential buyers need to be made aware of the high-quality leather garments available in Pakistan and for this, more participation in trade fairs, attention to detail on presentation of stalls, and effective communication with foreign investors needs to take place. Commercial counselors should be encouraged and incentivized to invite potential customers to Pakistani booths at international fairs. The Export Development Fund (EDF) should allocate appropriate funds for these purposes and proper checks and balances should take place periodically to ensure compliance.

To increase world export shares through market diversification, Pakistan must simultaneously address internal constraints to improve flexibility and quality of production and secondly, diversify its market to include export destinations other than Europe.

Pakistan could also learn valuable lessons from the Turkish "TURQUALITY" Programme through which the Turkish government has been funding the development of 10 global Turkish brands.

The Lack of Joint Ventures

Joint ventures (JVs) provide an opportunity for industry players to gain new insights, expertise and knowledge about their specific industry. They also enable business expansion, development of new products, technology transfer, and moving into new markets. Despite these benefits, Pakistan's leather garment industry has not been very successful with JVs. According to industry players, in addition to the above-mentioned benefits, JVs in the leather garment industry can help provide technical assistance to tannery and factory workers. This will also lead to an improvement in Pakistan's image and a rise in the unit values of exports as compared to the current values.

Recommendations

Leather garment industry players are of the view that Pakistani Ambassadors in different countries play an important role in this regard. They should encourage foreign investors to explore Pakistan for possible JVs and investment opportunities. Additionally, the government needs to focus on business-friendly policies to attract foreign investment and interest. These include provision of infrastructure, tax holidays, consistent policies and so on. All in all, for JVs to be successful, best governance practices, need to be put in place.

Moreover, JVs under China Pakistan Economic Corridor (CPEC) should be looked into. Under this project, several special economic zones (SEZs) have been approved with each SEZ having specific geographical competency and unique competitive production potentials that can be utilized through joint ventures with Chinese companies. Leather garment exporters noted how China currently dominates the conversion of leather into finished leather goods; however, with rising labor costs, Chinese leather industries are willing to relocate to other developing economies. As mentioned before, the leather garment support industry can be developed in the country through JVs.

High Cost of Doing Business

Leather garment exporters are of the opinion that due to inconsistent government policies, complicated procedures and lack of transparency, cost of doing business in Pakistan is quite high. This is a major factor limiting competitiveness and hampering growth. According to the World Bank Ease of Doing Business Report 2021, Pakistan has improved its ranking[16] from 147th in 2018, to 136th in 2019, and finally to 108th in 2020 out of 190 economies. Figure 30 below shows the country's ranking since 2007, along with the plan for the coming four years by the government.

Figure 30 Pakistan's Doing Business Ranking 2007-2024(P)

Source: Pakistan Doing Business

Despite this jump of 36 places in the last two years, Pakistan's ranking is still quite low compared to its regional competitors India (Rank: 45), China (Rank: 77) and Vietnam (Rank: 38). This is an indication that there are a number of areas which need improvement, especially regulatory reforms related to receiving credit, resolving insolvency and so on, since the country's ranking has gone down in these areas during the last one year. Even though Pakistan reduced the time required to obtain construction permits significantly from 285 days to 125 days in the last year, India reduced the time required to obtain these permits from 18 to 15 days.

Inland freight rates are also very high in Pakistan and this impacts competitiveness of businesses in Pakistan.

Apart from uncompetitive input costs, local exporters also face high tax rates. Pakistan's corporate tax rate is the highest amongst its competitors like Bangladesh, India, China and Vietnam. Multiple other taxes including sales tax, income tax, and other regulatory duties further raise the cost of doing business. Pakistan stands at 173 in the international ranking of paying taxes. The table below compares the cost of doing business in Pakistan to its regional competitors.

[16] Lower Ranking=Better Competitiveness

Table 20 Cost of Doing Business Comparison

	Pakistan	India	China	Vietnam	Bangladesh
Starting a Business (rank)	**72**	**136**	**27**	**115**	**131**
Procedures (number)	5	10	4	8	9
Time (days)	16.5	18	9	16	19.5
Cost (% of income per capita)	6.7	7.2	1.1	5.6	8.7
Getting Electricity (rank)	**123**	**22**	**12**	**27**	**176**
Procedures (number)	6	4	2	4	9
Time (days)	113	53	32	31	125
Cost (% of income per capita)	1,234.50	28.6	0	994.2	1,745.80
Reliability of supply and transparency of tariff index (0-8)	5	6	7	7	0
Price of electricity (US Cents per kWh)	22.2	20.3	12.8	12.5	9.4
Trading across Borders (rank)	**111**	**68**	**56**	**104**	**176**
Time to Export					
Documentary compliance (hours)	55	12	9	50	147
Border compliance (hours)	58	52	21	55	168
Cost to export					
Documentary compliance (USD)	118	58	74	139	225
Border compliance (USD)	288	212	256	290	408
Paying Taxes (rank)	**173**	**115**	**105**	**109**	**151**
Payments (number per year)	34	7	11	33	6
Time (hours per year)	283	138	252	435	384
Corporate Tax Rate (%)	29.0	25.0	25.2	25.0	20.0

Source: Doing Business, World Bank Databank

Pakistan suffers from low levels of human capital and labor market inefficiencies in which it ranks 16th and 21st from the bottom out of 141 countries, thus forming significant hurdles in Pakistan's ability to adapt to, and respond to, changes in world demand for leather garments.

Keeping Pakistan's lag in many areas in mind, industry players view the high cost of doing business as a major impediment to increasing exports. This is why Pakistan ranks as the least competitive among other regional competitors listed above, according to the World Economic Forum Report on Global Competitiveness Indicators.

Recommendations

The government needs to introduce more reforms to improve the investment climate in the country, which will eventually reduce the cost of doing business. Initiatives such as the Pakistan Single Window and the automation of bank credits for rebates are steps that have been welcomed by industry players and similar such efforts are needed to improve growth prospects.

Furthermore, in order to ease business further, the PBC in its report titled Contours of a National Charter for Exports recommends, *"where the supply chain is complex and long, involving multiple players from the start to the final point of export, a system is required to compute and refund import duty and unadjusted transaction taxes (GST etc.) up to the point of export to the final exporter".*

It is also important to note that the five export-oriented sectors have been promised subsidized energy tariffs that stand at 9 cents/unit of electricity and $6.5 per MMBtu for gas. This promise has not been fully honored for all exporters and the government needs to resolve this at the earliest. In addition, these concessionary rates should be continued for the foreseeable future as fuel oil and gas tariffs play a major role in the output costs.

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ANNEXURE 1

Table 21 List of Manufacturers Interviewed

S. No.	Company Name	Name of Authorized Representative/Focal Person	Northern/ Southern Zone
1	The Designer	Syed Shujaat Ali, CEO	Southern Zone
2		Syed Sameer Ali, Managing Director	
3	Pak Leather Crafts Ltd.	Umer Ahmed, Director	
4	Highways Creation (Pvt) Ltd.	Danish Khan, Chairman PLGMEA & Chief Executive	
5	Ideal (Pvt) Ltd.	Fawad Ijaz Khan, Founder Member PLGMEA & CEO	
6	Noor Leather Garments (Pvt) Ltd.	Rashid Arshad Zahur, CEO	
7	Hafiz Tannery	Danish Aman, Managing Director	
8	Hamid Leather (Pvt.) Ltd.	Muhammad Nasim, Production Manager	
9	Muhammad Ashraf (Pvt) Ltd	Atif Ashraf, CEO	
10	Chamois International	Muhammad Ahsan-ul-Haq, Partner	Northern Zone
11	Cosmopolitan Enterprises	Syed Ahtesham Mazhar Gilani, Vice President LCCI & CEO	
12	Pak Virk Industries – Virk Group	Khawar Yaqoob Virk, DIrector	
13	RST Moto (Pvt) Ltd.	Muhammad Imran, CEO	
14	JMS Tradewell International (Pvt) Ltd.	Khayyam Sethi, Director	
15	Riaz Tanneries	Yasir Ikram, Director Sales and Marketing	
16	Gold Panel International	Zohaib Rafique Sethi, Director International	
17	Sughran Garments	Sajid Latif, Sr. Vice Chairman PLGMEA & Managing Director	

ANNEXURE 2

The following is a list of materials most commonly materials imported by Pakistani leather garment manufacturers.

Table 22 Leather Garment Inputs Imported by Pakistani Leather Garment Manufacturers

Raw Materials	Description	HS Codes	Source
Tanned Leather	Sheep Skin Lamb Leather Goat Leather Cow Leather Buffalo Leather	4101 4102 4103	Imported: raw hides from Saudi Arabia, Iran, and China, Dubai, Sudan, Kenya, Australia and Italy Local: Kasur, Sialkot, Lahore and Karachi
Artificial Leather	PVC and PU based	3921 3926 5603 5903	Imported: Korea, Taiwan, Thailand Local: Lahore
Machinery	Sewing Machines Pattern-making Machineries Computer-Aided Designing (CAD) System Steam Generator with Iron	845210 847989 845380	Imported: China, Italy, Japan, Thailand
Inner Fabrics	Cotton, Polyester Cotton, Polyester, Nylon, Spandex, Lycra fabrics (both knitted and woven)	5209 540752 540761	Imported and Local, both
Accessories	Zippers, Buttons, Fusing Fabric, Eyelets, Snaps, Protective Pads, Gel Foams, etc. Sundries: Labels, Hang Tags, Poly Bags, Marking Tapes, Embroidery Patches, Thread, etc.	5810 960720 960610 830810 960711 392620 540110	Imported: China, Hong Kong, Thailand Local: low supply and not up to par with international standards For sundries: local supplies available from Lahore, Karachi, Sialkot and Faisalabad

Source: Small and Medium Enterprises Development Authority (SMEDA) and Industry Interviews

ANNEXURE 3

The following table lists the environmental hazards related to manufacturing of leather garments, along with alternative materials.

Table 23 Environmental Hazards & Alternative Materials

Material	Description	Use	Effect on humans	Effect on environment	Size of Impact	Better materials
Chrome-Tanned Leather	Chromium is a heavy metal used as a leather tanning agent.	Chromium is a cheap, fast method of tanning leather. This leather is more likely to be soft, pliable and stable in water compared to other methods.	Tannery workers exposed to Chromium are at risk of damage to gastrointestinal, respiratory and reproductive systems. Chromium is also carcinogenic.	Tannery waste contaminates water sources through negligence, e.g., dumping hides onto riverbanks. Contamination can accumulate in food sources e.g., local fish supplies.	16 million people are at risk of Chromium exposure globally according to the Blacksmith Institute.	▪Biocouture ▪ Cellulosic Fiber ▪ Cork Sheeting ▪ Eco leather ▪ Modern Meadow ▪ MuSkin ▪ Mycelium ▪ Piñatex™ ▪ Vegetable Tanned Leather ▪ wetgreen®
	Formaldehyde is a chemical compound (CH_2O) used in tanning leather.	Formaldehyde is used in a number of ways throughout the leather tanning process e.g., as an adhesive or as a tanning agent. The result is pale in colour so hides are referred to as "wet-white".	Inhaled formaldehyde (at concentrations above 0.1 ppm in air) can potentially result in watery eyes, headache, a burning sensation in the throat, and difficulty breathing. Formaldehyde is also classified as a carcinogen.	Unknown	Formaldehyde tanning is nowhere near as common as Chrome tanning, but the health effects as a result of exposure in tanneries are known and it's being phased out.	
	Arsenic is a chemical element, commonly used as a tannery chemical.	At the tannery industry, arsenic is used as a pesticide in the form of sodium arsenate.	Exposure to arsenic (at concentrations above 0.01 ppm) can potentially result in irritation of the stomach and intestines, decreased production of red and white blood cells, skin changes and lung irritation. Prolonged exposure has also been associated with lung cancer in workers.	Concentrations of the dangerous inorganic arsenics that are currently present in surface waters enhance the chances of alteration of genetic materials of fish.	Studies of leather-tannery workers in Sweden and Italy found cancer risks "between 20% and 50% above [those] expected."	

Material	Description	Use	Effect on humans	Effect on environment	Size of Impact	Better materials
Basic Dyes	Dyeing is a method of applying colour to the leather. The dyestuffs used in tanneries vary depending on product range required along with dictates of the emerging market.	Basic dyes have high color value and are among the brightest dyes available.	Dyes are made from a variety of chemicals and compounds e.g., sulfuric acid, chromium, copper and other metallic elements. "The World Bank estimates that textile dyeing and treatment contribute up to 17-20% of total industrial water pollution." This pollution can enter the water supplies of local communities and wildlife.		"Conventional textile dyeing is extremely water and chemical intensive: for every two pounds of textiles dyed, 25-40 gallons of water is used."	▪ Reactive Dyes ▪ Waterless dyed fabric ▪ Undyed fabric
Direct Dyes		Direct dyes are used because they give a strong, full color. They dye level and have good coloring value.				
Acid Dyes		In an acidified water solution, the dye acts as an acid and combines with the basic groups of the skin.				

Source: Better Shoes Foundation, Lenntech

www.pbc.org.pk

The Pakistan Business Council

FOSTERING ECONOMIC GROWTH

(A Company set up under Section 42 of the Companies Ordinance 1984)

8th Floor, Dawood Centre, M.T. Khan Road, Karachi - Pakistan
Tel: +92 21 3563 0528 - 29 | Fax: +92 21 3563 0530