

**PUBLIC ACCOUNTS COMMITTEE
(1977-78)**

(SIXTH LOK SABHA)

FORTY SEVENTH REPORT

EXPORT OF LEATHER

MINISTRY OF COMMERCE

[Action taken by Government on the recommendations of the Public Accounts Committee contained in their 209th Report (Fifth Lok Sabha)]

*Presented in Lok Sabha on 22-12-1977
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CHAPTER I

REPORT

1.1. This Report of the Committee deals with the action taken by Government on the recommendations of the Committee contained in their 209th Report (Fifth Lok Sabha) on Export of Leather, which was presented to Lok Sabha on 14 April, 1976.

1.2. Action Taken Notes on all the 29 recommendations contained in the 209th Report have been received from Government and these have been broadly categorised as follows :

(i) *Recommendations/observations which have been accepted by Government :*

Sl. Nos. 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16, 24, 25, 26 and 29.

(ii) *Recommendations/observations which the Committee do not desire to pursue in the light of the replies received from Government :*

Sl. Nos. 1, 8, 17, 18, 19 and 20.

(iii) *Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration :*

Sl. Nos. 23 and 27.

(iv) *Recommendations/observations in respect of which Government have furnished interim replies :*

Sl. Nos. 21, 22 and 28.

1.3. **The Committee expect that final replies to those recommendations/observations in respect of which only interim replies have so far been furnished will be made available to them expeditiously after getting them vetted by Audit.**

The Committee will now deal with the action taken on some of their recommendations.

Crash Programme for achieving Fifth Plan targets of Leather Exports—Paragraph 2.30 (Sl. No. 2).

1.4. Commenting on the shortfall in the achievement of leather export targets set down for the Fifth Five Year Plan, the Committee had in paragraph 2.30 of the Report, *inter alia*, observed :

“The estimate of leather exports envisaged for the first year of the Fifth Plan i.e. 1974-75 was Rs. 205 crores (*vide* Table in paragraph 1.9 of the Introductory Chapter of this Report),

and viewed against that target, there was a shortfall of 21 per cent in the achievement of leather export in the very first year of the Fifth Five Year Plan. The estimate of leather exports for the second year of the Fifth Plan (1975-76) is Rs. 250 crores. If leather exports during the first five months of 1975-76 (Rs. 78.8 crores) are any indication, export performance during the second year of the Fifth Plan may also fall considerably short of expectations. . . . Looking at the poor export performance in 1973-74, and 1974-75, Government should also consider whether it is not time to draw up a Crash Programme to ensure that whatever targets of leather exports have been set are achieved in full in the remaining tenure of the Fifth Five Year Plan."

1.5. In their Action Taken Note* dated 15 December 1976, the Ministry of Industrial Development have, *inter alia*, stated :

"The Committee's recommendation regarding the drawing up of a crash programme is being brought to the notice of Bharat Leather Corporation Ltd."

1.6. The Committee regret that instead of drawing up of a crash programme for achieving the export targets of leather set down for the Fifth Plan period, as suggested by the Committee, the Ministry have merely stated that the "Committee's recommendation was being brought to the notice of Bharat Leather Corporation Ltd." Since the Bharat Leather Corporation has only recently been set up, it will take some time before the Corporation is able to address itself to the problems of the leather industry. In the circumstances, it would have been more appropriate for the Ministry to have initiated urgently some conclusive measures to ensure that the industry gets necessary assistance and encouragement for achieving the export targets laid down. Keeping in view the limited time available for the realisation of the export targets, only a crash programme aimed at rendering immediate assistance to the industry would be of help. The Committee would therefore like to urge that Government should consider what urgent measures need be taken to render help to the leather industry for enabling it to fulfil its export obligations.

*Inadequate utilisation of the installed capacity for finished leather and leather footwear—Paragraph 2.32 (Sl. No. 4).**

1.7 The Committee had found in their examination that the actual utilisation of the installed capacity for finished leather from hides and skins was only 51 and 42 per cent respectively. Similarly, the installed capacity of leather footwear was being utilised to the extent of 66 per cent. Expressing their grave concern at the low utilisation of the installed capacity, the Committee had, in paragraph 2.32 recommended:

*Not vetted in Audit.

“The Committee urge that concerted measures for ensuring optimum utilisation of capacity should be adopted, for that alone can fulfil the twin objective of meeting domestic needs and increasing export earnings.”

1.8. In their Action Taken Note dated 31 August 1976, the Ministry of Commerce have stated :

“The Ministry of Industrial Development and DGTD have been requested to investigate the reasons for the under-utilisation of capacity for finished leather.”

1.9. The Ministry of Industrial Development have stated* :

“Government have taken note of the recommendation. The under-utilisation of capacity for production of finished leather and leather footwear is mainly due to the reason that two major units could not utilise the installed capacity fully because of financial and other problems. It is understood that these units would show improvement in 1976-77.”

1.10. The Committee are unhappy that on an important recommendation of the Committee which suggested taking up of concerted measures for ensuring optimum utilisation of the installed capacity for finished leather and leather foot-wear, no concrete action seems to have been initiated by the Ministry. Though the fact of gross under utilisation of the capacity for production of finished leather and leather footwear has been recognised, the Ministry of Industrial Development have not even considered it necessary to order an investigation into the causes of the under-utilisation although such a request appears to have been made by the Ministry of Commerce in pursuance of Committee's recommendation. All that the Ministry of Industrial Development have done is to give expression to an optimistic feeling that the “units would show improvement in 1976-77”. The Committee would like a more positive response to their recommendations observations which are made after a great deal of careful investigation of the problem. The Committee urge that the Ministry of Industrial Development should examine as to what concrete steps are required to be taken to ensure an optimum utilisation of the installed capacity for finished leather and leather footwear and furnish a report to the Committee in due course.

Manufacture of leather goods which fetch higher unit value—Paragraph 2.34 (Sl. No. 6).

1.11. The Committee had noticed that the unit value realisation by Indian exports of chrome tanned leather ranged between Rs. 15.14 to 35.00 per kilogram during 1969-70 to 1974-75 but in the case of finished leather the realisation was higher and ranged between Rs. 20.73 to Rs. 37.45 per kilogram. Though the semi-finished leather gave less unit value, the export of semi-finished leather in 1973-74 and 1974-75 was 9 and 3 times respectively more than that of finished leather in terms of value. The Committee while

*Not vetted in Audit.

emphasising the need for greater production of leather goods which fetched higher unit value, had in paragraph 2.34, *inter alia*, recommended:

“It is true that Indian semi-finished leathers are in great demand in World leather markets in view of their toughness, tensile strength and preservation properties, but since higher unit value is important, Government should impress upon the leather industry to take up more vigorously the manufacture of such leather goods as fetch higher unit value e.g., shoes, garments, sport goods, bags upholstery, purses, etc. and earn valuable foreign exchange, for the country.”

1.12. In their Action Taken Note* dated 15 December 1976, the Ministry of Industrial Development have stated:

“In order to realise higher unit value, the policy has always been to encourage setting up of units for the production of shoes, garments, sports goods and other leather goods. Recently, one unit, M s. United Shoes Corporation, Madras has been licensed for the production of 12 lakh pairs of leather footwear and 8 lakh pairs of shoe uppers per annum. Letters of intent have also been issued to a number of entrepreneurs for a total capacity of 6.6 million pairs of leather footwear per annum. It is felt that because of the high export obligation required for setting up of units in the large scale sector, adequate growth is not taking place in this industry. The manufacturers in the small scale sector also are not mechanising their units and new entrepreneurs in that sector are also not very much eager to set up new capacity in this field, because of 10% excise duty levied on the manufacture of leather footwear produced in units employing more than 49 workers and 2 H.P. In addition to the above, letters of intent have been issued for manufacture of shoe uppers to a couple of units and three applications for production of shoe uppers for exports are under consideration of the Government. Approval has already been given for production of 6.2 lakh nos. of leather garments. A large number of small scale units are also being set up for the production of miscellaneous leather goods like purses, hand-bags etc. Government is also taking steps to impress upon the leather industry the need to go in for diversification of their production for earning a higher unit value for exports.”

1.13. **The Committee find that although the Ministry of Industrial Development are conscious of the need for setting up of units for the production of shoes, garments, sports goods and other leather goods which fetch a higher unit value, they are not able to motivate the manufacturers either in the large scale sector or in the small scale sector to set up new capacity due to some constraints. Whereas in the large scale sector the manufacturers are not eager to set up new units because of the high export obligations involved, the entrepreneurs in the small scale sector feel inhibited because of 10% excise duty levied on the manufacture of leather footwear produced in units employing more than 49 workers and 2 H. P.**

*Not vetted in Audit

The Committee feel that since the hurdles in the way of setting up of new units for manufacture of leather goods have been clearly identified, there should be no difficulty in taking necessary remedial measures to get over these problems. Government will do well to address itself to resolution of the problems which are now clearly identifiable. The Committee would like to be apprised of the concrete action taken in this behalf.

[#] *Review of the existing structure of excise and other duties leviable on leather goods—(Paragraph 2.58—Sl. No. 11).*

1.14. Dealing with the needs of the leather footwear industry, the bulk of which was in the small scale and cottage sectors, the Committee had in paragraph 2.58, *inter alia*, observed:

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

1.15. In their Action Taken Note dated 31 August 1976, the Ministry of Commerce have stated:

“The observations of the Committee regarding excise duties have been noted and the matter has been taken up with Department of Revenue and Banking.”

1.16. **The Committee note that in pursuance of their recommendation the question of rationalisation of the excise and other duties leviable on the leather goods has been taken up by the Ministry of Commerce with the Department of Revenue and Banking. As has been conceded by the Ministry of Industrial Development the levy of 10% excise duty on the manufacture of leather footwear does act as a deterrent for the small scale and cottage Sectors. It is therefore imperative that the existing structure of excise and other duties may be re-examined with a view to rationalising it in the interest of the small scale leather industry. The Committee would like the Ministry of Commerce to vigorously pursue this matter with the Department of Revenue and Banking for securing whatever relief is possible for the small scale manufacturers of leather goods. The outcome of these deliberations may be intimated to the Committee at an early date.**

Stepping up of export of Leather Footwear—(Paragraph 2.60—Sl. No. 13).

1.17. Dealing with the problem of stepping up of the export of leather footwear, the Committee had in paragraph 2.60 made the following observations:

“The problem of stepping up of the export of leather footwear has to be studied in two parts *viz.*, (i) export of footwear to rupee-payment countries, and (ii) to other countries. In exporting footwear to rupee-payment countries, the aim should be bring about

improvements in quality to match international standards so as to meet the demand for quality goods in these countries and naturally realise a higher unit value. In so far as exports to other countries are concerned, export of shoe uppers certainly offers a potential market which should not be lost sight of. The Committee recommend concerted efforts to improve the quality of our sole leather which at present is moisture-absorbant and is, therefore, not quite adapted to the requirements of countries in the cold weather zone."

1.18. In their Action Taken Note dated 31 August 1976, the Ministry of Commerce have stated:

"Business with rupee-payment countries is negotiated and concluded after a fresh range of samples with new patterns/designs has been despatched to the buying countries and accepted by them. The quality, pattern/design of the samples conforming to international standards fetch higher unit values. Our premier deficiency lies in the poor quality of our leather shoes.

While arrangements are being made by putting up a leather sole unit plant to manufacture quality finished soles, the question of moisture absorption has been studied for a number of years. The problem lies in the nature of the raw material. (Sole leather in India is made out of buffalo-hide whereas ox-hide is used for sole leather in advanced countries.) If India has to export footwear to developed countries, raw ox-hide may have to be imported preferably from Australia, Newzealand to be tanned in India. Additionally sizeable funds will have to be put aside for setting up development project for improving the quality of sole leather which is buffalo based. So far the results have been disappointing. Perhaps the CLRI in conjunction with the British Leather Manufacturers Association could organise such a project."

1.19. It has been stated that if footwear has to be exported to developed countries, raw ox-hide may have to be imported and additionally sizeable funds will have to be put aside for setting up development project for improving the quality of sole leather which is presently buffalo-based. The Committee are inclined to feel that since the problems have now been clearly identified, the question of finding additional funds for the setting up of development project for improving the quality of sole leather should not be allowed to stall the progress in this field. The Committee need hardly emphasize that for making our exports of leather footwear competitive, the question of quality of sole leather cannot be lost sight of. It is in this context that more determined and serious efforts should be made for achieving a real breakthrough.

Review of the 'Cash subsidy' and other incentives for export of leather goods. (Paragraphs 4.60—S. No. 23).

1.20. In regard to the continuance of cash subsidy and other incentives for the promotion of leather exports, the Committee had in paragraph 4.60 made the following recommendation:

“The Committee note that the grant of cash as subsidy was favoured both by the Gokhale Institute of Politics and Economics, Poona (1969) and the Seetharamiah Committee (1972). The Gokhale Institute of Politics and Economics, Poona suggested (1969) a cash subsidy at the rate of 10 per cent on the exports of finished leather and 20 to 25 per cent on the exports of footwear and finished leather goods. The Seetharamiah Committee (December 1972) recommended a cash subsidy of 15 per cent against the export of finished leather and leather manufactures but only when the exporter could produce documentary evidence of the steps taken by him for putting the infrastructure i.e., land, building and machinery necessary for modernisation, balancing and expansion. The Committee are inclined to the view that even the present subsidy should be conditional, as in the Seetharamiah Committee's recommendation, on such infrastructure improvements as are essential to better export performance. While during evidence the Commerce Ministry gave its view that ‘at present the f.o.b. realisation for our finished leather goods is not such as to call for immediate cash subsidy’ the Committee were informed after evidence that the Ministry was considering the question of giving ‘development subsidy’. Government have since decided to grant ‘Cash Compensatory Support’ to exporters of leather and leather goods from October 1975 to 31 March 1976. Governmental assistance to the industry has always to be justified on the basis of its performance and only when the industry shares the benefit with the worker-producer and by higher export earnings helps the country's foreign exchange position. The Committee urge that Government should make a comprehensive examination of the position particularly from the viewpoint enunciated herein.”

1.21. In their Action Taken Note dated 31 August 1976, the Ministry of Commerce have stated:

“The Cash Compensatory Support has been introduced w.e.f. October 1975. It is too early to make a review of the scheme except in terms of export figures. The export performance of finished leather and leather goods since the introduction of the subsidy has been fairly impressive. However, while making such an assessment international market conditions have to be taken into consideration.

As respects sharing of the benefit between the producers and the workers, the Ministry of Industrial Development of the Government of India and the State Government have been informed of the observations of the Committee for suitable action.”

1.22. The Committee are unhappy over the lukewarm response of the Ministry of Commerce to their suggestions to make a comprehensive review of the position relating to grant of cash subsidy and other incentives being given to the leather industry with a view to ascertaining whether these incentives were justifiable on the basis of the performance of the industry and whether they had achieved

the purpose for which they were intended. They consider that such a review is important to decide whether the cash subsidy merits continuance and if so, what should be its quantum. They accordingly reiterate their earlier suggestion.

Need for a single agency responsible both for development and export of leather. (Paragraph 5.33—Sl. No. 27).

1.23. Commenting on the need for a single unified agency which should be responsible both for development and export of leather, the Committee had in paragraph 5.33 observed:

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

1.24. In their Action Taken Note dated 31 August 1976, the Ministry of Commerce have stated:

“The matter has already been considered in depth by Government before arriving at a decision. No change in the decision appears necessary at present. The problem of coordination between the STC and the Bharat Leather Corporation would however be looked into so that exports are not allowed to suffer.”

1.25. In this connection, the Ministry of Industrial Development have, however, stated*:

“The recommendations of the Committee would be carefully examined by the Ministry of Industry in consultation with the Ministry of Commerce.”

1.26. The Committee's attention has also been drawn to the following news-item which appeared in the Financial Express of 22 January 1977 under the caption ‘Tussle for Management’ :—

“The Bharat Leather Corporation under the Union Industry Ministry and the State Trading Corporation under the Commerce Minis-

*Not vetted in Audit.

try are both staking their claims for managing the chain of leather complexes to be aided by the World Bank.

The two ministries, it seems, are backing their respective corporations.

However, STC has an edge because it has not only sponsored the proposal but is also the canalising agency for leather exports.

The Bharat Leather Corporation Limited does not like what it calls STC's increasing inroads into the day-to-day functioning of the leather industry. It has also resented STC's setting up a modern testing and quality centre for leather goods.

In fact, BLCL would like to take away all activities of STC with regard to the leather trade. It seeks to become the sole canalisation agency for leather trade. It has proposed to appoint its own officer at the EEC headquarters in Brussels.

It further alleges that when leather was canalised through STC about three years ago the trade objected.

It further argues that STC's being a competitor can never become a protector."

A World Bank team which had come to India to make a first hand study of the proposed projects, had seen good export scope for the projects.

The six centres identified for the projects were Agra, Bombay, Calcutta, Jullundur, Meerut, Kanpur and Madras.

Each complex approximately involves an outlay of Rs. 11 crores including a foreign exchange component of over Rs. 5 crores. In addition, over Rs. 3 crores, including Rs. 1.4 crores in foreign exchange would be needed for working capital.

The main idea behind the integrated leather complexes is to augment country's leather exports.

It was estimated that earning could be trebled by converting 60 per cent of the exports of semi-finished leather to finished leather components and ready-to-wear articles.

This is in line with the Government policy to increase value added exports and to discourage the export of raw or semi-finished leather.

STC's leather exports in the last few years have risen substantially. In 1974-75, it exported leather and leather goods worth Rs. 135.6 crores and last year exports were Rs. 165.2 crores. The target for this year is Rs. 190 crores though STC expects to exceed it.

STC argues that since it has to export the finished products it has to be associated with production from the very beginning.

And, since it is to be the sole buyer of the products manufactured by these units and provide a certain amount of funds, it would like to control production."

1.27. The Committee regret that although the Ministry of Industrial Development have deemed it necessary to examine the Committee's recommendation on the need for a single unified agency for the development and export of leather, the Ministry of Commerce have not given the recommendation the consideration that it deserved and have given a laconic reply that "the matter has already been considered in depth by Government." However, the Ministry of Commerce appears to have realised the need for coordination between the State Trading Corporation and the Bharat Leather Corporation. The Committee cannot help reiterating that the functioning of two separate corporations, each under the administrative control of a different Ministry, having dual control over the development of the same industry, viz., leather is not a healthy phenomenon and the doubts expressed by them earlier in this connection have come true. In fact, as has been agitated in the Press, the coordination of the functions of the two organisations is a real problem which has to be tackled effectively. These two agencies can by no means be permitted to forge ahead in two different directions in the overall interest of the industry. It is precisely for these reasons that the Committee had suggested that the Government should carefully consider whether or not a single unified agency charged with the development and export of leather would be more appropriately suited for the job. The Committee would like the Government to re-consider whether the continuance of two different bodies under different Ministries is desirable and if so, how functional coordination between the two bodies could be effected in the interest of the leather industry.

National Policy for Animal Husbandry. (Paragraph 5.41—Sl. No. 29)

1.28. On the question of evolving a detailed policy framework for the development of Animal Husbandry, the Committee had in paragraph 5.41 made the following observations:

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

interest. The Committee would like to be informed of the concrete measures that Government propose to take for evolving and implementing a national policy for animal husbandry to which they attach a great deal of importance."

1.29. In their Action Taken Note dated 31 August 1976, the Ministry of Commerce have stated:

"These comments of the Committee are extremely valuable for future planning and have been noted. There are at present no forward and backward linkages between animal husbandry and the leather industry. The Commerce Ministry propose to make a beginning by sanctioning studies which would collect the data required in this area. It is also proposed to ask a detailed study of the raw-skin market to be carried out by the CLRI. This would provide authentic data regarding prices received by animal owners for the skin, identification of animal production areas which chiefly provide for the leather industry, and information about the structure of the raw-skin market. We also propose to take steps to collect reliable information about slaughtering of animals so that the availability ratio can be worked out scientifically. Modernisation of slaughter houses is extremely important for the leather industry. The subject is under the consideration of Planning Commission in the context of export production of meat. The Commerce Ministry would also take up with the Ministry of Agriculture so that studies and planning could be initiated as indicated by the Committee. The Ministry of Agriculture who was contacted in the matter has informed that the National Commission on Agriculture has recently examined in detail the problems and perspective of development of Animal Husbandry as a whole in the country and made a number of far reaching recommendations for development of Animal Husbandry and Dairying. These various recommendations are being examined. The National Policy for Animal Husbandry and Dairying will broadly be on the lines recommended by the National Commission of Agriculture."

1.30. The Committee have been informed that the National Commission on Agriculture have examined the problems and perspective of development of Animal Husbandry as a whole in the country and that the recommendations made by the Commission were under examination for evolving a national policy for animal husbandry and dairying. The Committee would like the Government to take an early decision in the matter and formulate a national policy for animal husbandry without further loss of time.

General observations

1.31. The Committee find that a number of important suggestions/recommendations made by them in the 29th Report have been merely noted for compliance and are being brought to the notice of the Bharat Leather Corporation for further action. The Committee wish that the Bharat Leather Corporation should con-

sider all their important suggestions/recommendations and particularly those mentioned below for compliance:

- Para 2.31 . . . Collection of proper market intelligence.
- Para 2.57 . . . Establishment of more integrated leather complexes.
- Para 3.53 . . . Technological guidance for small units.
- Para 5.32 . . . Overall development of leather industry.
- Para 5.38 . . . Research and Development Schemes for leather industry.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Committee are perturbed to find that India's leather exports (semi-finished, finished manufacture, etc.) after showing a rising trend (from 61.12 crores in 1967-68 to Rs. 80.16 crores in 1968-69 and Rs. 89.44 crores in 1969-70 (except in the year 1970-71 when there was a marginal fall in exports and finally reaching a record level of Rs. 187.15 crores in 1972-73, sharply declined to Rs. 162.26 crores in 1974-75. The estimate of leather exports envisaged for the first year of the Fifth Plan i.e., 1974-75 was Rs. 205 crores *vide* Table in Paragraph 1.9 of the Introductory Chapter of this Report), and viewed against that target, there was a short fall of 31 per cent in the achievement of leather export in the very first year of the Fifth Five Year Plan. The estimate of leather exports for the second year of the Fifth Plan (1975-76) is Rs. 250 crores. If leather exports during the first five months of 1975-76 (Rs. 98.8 crores) are any indication, export performance during the second year of the Fifth Plan may also fall considerably short of expectations. During evidence the Committee were informed that leather exports in 1973 had reached a peak level because of an international leather boom and the fact that competing countries like Pakistan and Argentina had restricted their exports of semi-finished leather. In the subsequent years of 1973-74 and 1974-75, adverse international conditions of recession are stated to have set in and caused overall drop in India's leather exports. The Committee feel that, as pointed out later in Chapters III and V of this Report, poor export performance in 1974-75 was partly due to Government's attempts to quicken the pace of the switch over from exports of semi-finished leather to finished leather and also to inordinate delay in creation of the adequate infrastructure needed to sustain a growing trend in leather exports.

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

gets of leather exports have been set up are achieved in full in the remaining tenure of the Fifth Five Year Plan.

[Paragraph 2.30—S.No. 2 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

The recommendations have been noted for appropriate action. It may, however, be pointed out that the poor export performance in 1974-75 cannot even partly be attributed to Government's attempt to quicken the pace of switch-over from the export of semi-finished leather to finished leather. The exports during 1974-75 of semi-finished leathers was below the quota limits. The shortfall in export was mainly due to extraneous factors like recession in the International leather industry and fall in demand. As observed by the Committee themselves, the quota restriction were necessary to induce exporters to shed their traditional outlook and adopt a speedy switch-over to the production of finished leather and leather manufactures. Government have adopted recently a package of incentives to help the industry. These steps are as follows:—

- (i) Machinery required for export production of finished leather and leather manufactures has been placed on OGL w.e.f. 14-4-1976.
- (ii) Cash compensatory support has been granted on the export of various items of finished leather and leather manufactures. The details are as follows:

Item	% of F.O.B.
Finished leather	10%
Leather shoes	15%
Leather chapals & Sandals	5%
Leather uppers, shoe linings & components	12.5%
Leather garments	15%
Leather goods and leather manufactures	10%

- (iii) Air freight subsidy is available to exporters of leather and leather goods.
- (iv) The S.T.C. has taken further action for utilising the Leather Development Fund created out of the service charges collected from the canalised exports of semi-processed hides and skins. Arrangements for import of machines for Common Facility Centre and Footwear Design Centres in U.P., West Bengal, Tamil Nadu, Bihar and Andhra Pradesh have been made.
- (v) The S.T.C. has also prepared a pre-feasibility study for creation of a Footwear Complex in Agra. Discussions have been held in the World Bank for assistance and a World Bank Technical Team is shortly visiting India for going into the details.
- (vi) Finished leather and leather goods industry has been included in the list of qualifying industries eligible for investment allowance under the Income Tax Act.
- (vii) Apart from the Bharat Leather Corporation under the Ministry of Industry, Government of India, many State Governments

have been persuaded to establish Leather Development Corporations for the effective development of the industry.

[Ministry of Commerce D.O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-76].

Although there has been a decline in the total export earnings of leather and leather goods during 1974-75, exports have registered an increase in 1975-76 to Rs. 226.20 crores. The exports of finished leather have also gone up from Rs. 16.8 crores in 1973-74 to Rs. 25.4 crores in 1974-75 and Rs. 40.4 crores in 1975-76. This shows that the policy of switch-over of exports from semi-finished to finished leather is gaining momentum and is likely to result in increased exports. Government have taken necessary steps for the creation of infra-structure for the production of finished leather/leather manufactures by giving incentives such as cash assistance against export of finished leather/leather footwear/leather manufactures, bringing import of leather machinery under Open General Licensing, reduction in export quota for semi-finished leather increase of export duty on semi-finished leather from 20 to 25%. The State Trading Corporation of India Ltd. are setting up five common facility centres (finishing-cum-servicing) one each in the States of Tamil Nadu, West Bengal, Bihar, U.P. and Andhra Pradesh in consultation with the respective State Governments for helping small scale manufacturers of semi-finished leather to switch-over production to finished leather which would fetch a more unit value realisation on export. A public sector company under the name and style of Bharat Leather Corporation Ltd. has also been incorporated on 30 March, 1976 which will provide the infra-structure for the development of Leather and Leather Goods Industry etc.

The Committee's recommendations regarding the drawing up of a Crash programme is being brought to the notice of Bharat Leather Corporation Ltd.

[Department of Industrial Development D.O. No. 11/59-76-LRG, dated 15-12-76].

Recommendation

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

[Paragraph No. 2.31—S. No. 3 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

The observations of the Committee are noted. Although it is difficult to eliminate merchant exporters straightaway, the manufacturing exporters were taken care of while introducing the quota system for semi-finished hides and skins. A separate category of non-exporting tanners was introduced and they were placed in charge of the S.T.C. They no longer have to depend upon middle man for exporting their products.

For the same reason, Common Facility Centres are being located at Focal points where tanners are concentrated so that the requirements of small manufacturers could be taken care of.

Regarding the collection of market intelligence, the export prospects, etc., the STC and the Leather Export Promotion Councils provide the necessary market information and guidance so that things are produced according to stringent requirements of the importing markets.

[Ministry of Commerce D. O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-76].

Government have noted the recommendation. The Bharat Leather Corporation will formulate specific measures on these lines.

[Department of Industrial Development D. O. No. 11/59-76-LRG, dated 15-12-76].

Recommendations

2.32. From the details of the capacity for finished leather made available to the Committee, it is found that the present utilisation of installed capacity for finished leather from hides and skins is only 51 and 42 per cent respectively and that of leather footwear 66 per cent. The Committee are gravely concerned at such low utilisation, and recommend that Government should investigate the reasons for such gross under-utilisation of capacity for finished leather. The Committee urge that concerted measures for ensuring optimum utilisation of capacity should be adopted, for that alone can fulfil the twin objective of meeting domestic needs and increasing export earnings.

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

stage of processing". The Committee, therefore, uphold Government's policy of progressive reduction of export of hides and skins in raw or semi-finished form and special encouragement to export of finished leather and leather manufactures.

[Paragraphs 2.32 & 2.33—S. Nos. 4 & 5 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

The Ministry of Industrial Development and the D.G.T.D. have been requested to investigate reasons for the under-utilisation of capacity for finished leather.

The Government welcome the Committee's endorsement of the Government policy of progressive reduction of export of hides and skins in raw and semi-finished form and special encouragement to export of finished leather and leather manufactures.

[Ministry of Commerce D. O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-76].

Government have taken note of the recommendation. The under-utilisation of capacity for production of finished leather and leather footwear is mainly due to the reason that two major units could not utilise the installed capacity fully because of financial and other problems. It is understood that these units would show improvement in 1976-77.

[Department of Industrial Development D. O. No. 11/59-76-LRG, dated 15-12-76].

Recommendation

The Unit value realisation by Indian export of chrome tanned leather ranged between Rs. 15.14 to Rs. 35.00 per kg. during 1969-70 to 1974-75 but in the case of finished leather the realisation was higher and ranged between Rs. 30.73 to Rs. 37.45 per kg. Though the semi-finished leather gave less unit value, the export of semi-finished leather in 1973-74 and 1974-75 was 9 and 3 times respectively more than that of finished leather in terms of value. It is true that Indian semi-finished leathers are in great demand in World Leather markets in view of their toughness, tensile strength and preservation properties, but since higher unit value is important, Government should impress upon the leather industry to take up more vigorously the manufacture of such leather goods as fetch higher unit value, e.g., shoes, garments, sport goods, bags, upholstery, purses etc. and earn valuable foreign exchange for the country.

[Paragraph 2.34—S. No. 6 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

The Ministry of Industrial Development, the Directorate General of Technical Development, the State Trading Corporation and the two Lea-

ther Export Promotion Councils have been informed of the observations of the Committee for further action.

[Ministry of Commerce D.O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-76].

In order to realise higher unit value, the policy has always been to encourage setting up of units for the production of shoes, garments, sports goods and other leather goods. Recently, one unit, M/s. United Shoe Corporation, Madras has been licensed for the production of 12 lakh pairs of leather footwear and 8 lakh pairs of shoe uppers per annum. Letters of intent have also been issued to a number of entrepreneurs for a total capacity of 6.6 million pairs of leather footwear per annum. It is felt that because of the high export obligation required for setting up of units in the large scale sector, adequate growth is not taking place in this industry. The manufacturers in the small scale sector also are not mechanising their units and new entrepreneurs in that sector are also not very much eager to set up new capacity in this field. Because of 10% excise duty levied on the manufacture of leather footwear produced in units employing more than 49 workers and 2 H.P. In addition to the above, letters of intent have been issued for manufacture of shoe uppers to a couple of units and three applications for production of shoe uppers for exports are under consideration of the Government. Approval has already been given for production of 6.2 lakhs nos. of leather garments. A large number of small scale units are also being set up for the production of miscellaneous leathers goods like purses, hand-bags etc. Government is also taking steps to impress upon the leather industry the need to go in for diversification of their production for earning a higher unit value for exports.

[Department of Industrial Development D.O. No. 11/59-76-LRG, dated 15-12-76].

Recommendation

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

[Paragraph 2.35—S. No. 7 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

This has since been corrected.

[Ministry of Commerce D.O. No. 4/13'74-EP (LSG) Vol. III, dated 31-8-76].

Recommendation

The Committee note that although exports of footwear from India have grown considerably in recent years (from 6 million pairs in 1969-70 to 10.5 million pairs in 1974-75), India's share of world footwear trade is estimated to be about 2 per cent, and Export of this commodity form about 5 per cent of country's total production of footwear. While the closed type of footwear is mainly exported to USSR and East European countries, the main buyers of 'open' footwear, that is Kolhapuri and other 'open' sandles, are in USSR, U.K., West Germany and France. The Committee were informed that a beginning had recently been made to extend our export of closed footwear to other countries like France and U. K. The Committee understand that a combined Delegation of the European Confederation of Footwear and Tanners which visited India in February 1976 had hinted at the prospects of the gradual expansion of India's exports of leather and leather manufactures particularly footwear 'uppers' to the challenging and somewhat sophisticated markets of the European Economic Community (EEC). The Committee recommend that along with maintaining and consolidating our present position in markets where Indian footwear has already penetrated successfully, new markets, especially in our neighbouring Afro-Asian countries, should be explored seriously. The Committee also recommended that the potential of export of footwear 'uppers' to EEC countries should be exploited to the maximum extent.

[Paragraph 2.56—S. No. 9 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

The S.T.C. has been asked to take note of the observations of the P.A.C. A team comprising representatives each from the EPC and the STC and industry intend to undertake a comprehensive study of the Afro-Asian countries to explore the export potentiality of leather Footwear exports to these countries. A small beginning has been made in Kuwait by the STC. Also, 3 lakh pairs of army boots have been exported to Iraq from the TAFCO Kanpur.

[Ministry of Commerce D.O. No. 4/13'74-EP (LSG) Vol. III, dated 31-8-76].

Recommendation

The Committee are glad that a prefeasibility study for setting up an integrated leather complex at Agra has been completed and a report on that study has hinted at the immense possibilities of export-oriented production of Goatskins "Uppers" and Shoes, generation of larger foreign exchange earnings and creation of employment opportunities for the weaker

sections of society. It has been estimated that the setting up of the Complex at Agra will involve a total capital investment of Rs. 13.86 crores including a foreign exchange investment of Rs. 6.75 crores. It will start generating inflow of foreign exchange to the tune of Rs. 8.23 crores a year from 1980 and will provide employment on site to approximately 2100 people of whom 1,900 will be from the weaker sections of society. The Committee understand that at present 2000 family and cottage units at Agra are forced to sell their footwear in the local wholesale market where neither sale nor fair payment are assured. The Committee also bear in mind that the small scale sector of footwear industry is almost unavoidably characterised by comparatively low productivity. In order to overcome these problems, Government should explore the feasibility of setting up integrated leather complexes with an export-orientation not only at Agra but also at other selected places. The Committee consider that such integrated Complexes could serve as a focal points to cater to the needs of small scale and cottage sectors of the footwear industry by providing them with production-cum-finishing facilities and by offering facilities for training for improvement of quality, finish and design of their products and also enabling them to raise the level of their productivity. The Committee recommend that the State Trading Corporation and the proposed Leather Development Corporation should play a positive role in assuring a proper market for the products turned out by the family and cottage sectors of the footwear industry.

[Paragraph 2.57—S. No. 10 of Appendix V of 209th Report of PAC (Fifth Lok Sabha).

Action taken

The World Bank have appreciated the Agra Footwear Project. They are sending a technical team shortly to study the project in greater depth and work out further details.

If this project is proved to be feasible, similar projects will be recommended for other parts of India as suggested by the PAC. Meanwhile, the recommendations have been brought to the notice of the S.T.C. and the Ministry of Industrial Development for further necessary action.

[Ministry of Commerce D.O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-76].

Government have noted the recommendation regarding establishment of more complexes on the line of Agra Leather Complex. The objectives of Bharat Leather Corporation Ltd., include assistance to develop the leather/leather goods industry and selling them in the domestic and export markets. This recommendation is being brought to the notice of Bharat Leather Corporation which has been set up recently.

[Department of Industrial Development D.O. No. 11/59-76—LRG, dated 15-12-76].

Recommendation

While drawing up an effective export strategy, Government should prominently keep in view the present decentralised set-up of the leather industry in India. According to an estimate published in the March

1974 issue of the Magazine 'LEATHERS' 75 per cent of E.I. tanned leather is stated to come from Cottage and Small scale industries. There are about 35 finished leather units in the organized sector concentrated in Calcutta, Kanpur and Madras and 200 units in the unorganised sector (mostly in Calcutta). The bulk of the leather footwear industry is also in the small scale and cottage sectors. The Committee feel that there is a clear need to progressively integrate the small scale sector and cottage sectors into the mainstream of the leather industry and assist these sectors to streamline their production on modern lines with an eye on exports. They should be given technological guidance provided with the common facility centres for finishing and assured of a market for the leather goods.

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

[Paragraph 2.58—S. No. 11 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

It is proposed to set up Common Facility Centres to start within the States of West Bengal, Bihar, U.P., Andhra Pradesh and Tamil Nadu. The Leather Development Fund with the S.T.C. will be utilised for the purpose. While the S.T.C. will provide market information the Bharat Leather Corporation under the Ministry of Industrial Development will take care of infrastructural development for the benefit of the small and cottage tanners.

The observations of the Committee regarding excise duties have been noted and the matter has been taken up with Department of Revenue & Banking.

[Ministry of Commerce D.O. No. 4/13/74—EP (LSG) Vol. III, dated 31-8-76].

As stated already, the Bharat Leather Corporation Ltd. has been set up to promote, develop, aid and otherwise assist leather industries and to provide them with the capital, credit means, resources, technical and managerial assistance and to take and adopt other suitable means and measures to enable them to improve the techniques of production, management and marketing. The observations of the Committee regarding excise duties have been taken up by the Ministry of Commerce with the Department of Revenue and Banking.

[Department of Industrial Development D.O. No. 11/59-76-LRG, dated 15-12-76].

Recommendation

The Export Promotion Council, Kanpur, have indicated that the export of finished leather is predominantly carried out by the manufacturer-exporter but that of Kolhapur 'Chappals' produced by Village Industries was handled by merchant-exporters. During evidence, the

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

[Paragraph 2·59 S. No. 12 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

Noted. The observations are being brought to the notice of the Department of Company Affairs as also the Development Commissioner, Small Scale Industries.

[Department of Industrial Development D.O. No. 11/59/-76-LRG, dated 15-12-76].

Recommendation

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

[Paragraph 2·60 S. No. 13 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

Business with rupee payment countries is negotiated and concluded after a fresh range of samples with new patterns/designs has been

despatched to the buying countries and accepted by them. The quality, pattern/design of the samples conforming to international standards fetch higher unit values. Our premier deficiency lies in the poor quality of our leather shoes.

While arrangements are being made by putting up a leather sole unit plant to manufacture quality finished soles, the question of moisture absorption has been studied for a number of years. The problem lies in the nature of the raw-material. (Sole leather in India is made out of buffalo-hide whereas ox-hide is used for sole leather in advanced countries). If India has to export footwear to developed countries, raw ox-hide may have to be imported preferably from Australia, New Zealand to be tanned in India. Additionally sizable funds will have to be put aside for setting up development project for improving the quality of sole leather which is buffalo based. So far the results have been disappointing. Perhaps the CLRI in conjunction with the British Leather Manufacturers Association could organize such a project.

[Ministry of Commerce D. O. No. 4/13/74 EP (L.S.G) Vol. III dated 31-8-76].

Recommendation

The Committee learn that India has recently been able to get an order for 3000 pieces of garments and 4,60,000 pairs of uppers from Hungary, and that the U.K. was also evincing interest in buying some 2,000 leather garments. The Committee were further given to understand that in fashion garments, design and pattern played an important part and that the STC had, apart from borrowing designs and patterns, from foreign customers invited foreign designers to come to India and help in turning out the latest designs for leather garments. The Committee recommend that besides formulation of designs and patterns on the basis of the latest trends, in fashion-conscious countries abroad, efforts should be made to help Indian manufacturers to acquire the requisite skills themselves and evolve such designs on their own.

[Paragraph 265, S. No. 14 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

Manufacturers in the small-scale sector may find it difficult to have the necessary establishment for evolving new patterns/designs. A Design and Display Centre already set up by the STC currently affords certain facilities to units in the small-scale sector. Such of the units in the small-scale sector as are willing and/or in a position to evolve designs on their own may do so with assistance and help available from the STC.

The STC has plans to organize courses in designing, testing methods, layouts, planning and organizational structure of manufacturing units.

[Ministry of Commerce D. O. No. 4/13/74-EP (LSG) Vol. III dated 31-8-76].

Recommendation

The Committee are pleased to hear of the impressive break through recently achieved by India in the export of ready-made garments. Export

of cotton apparel has almost doubled from Rs. 3,044 lakhs during April-November, 1973 to Rs. 5,907 lakhs in April-November, 1974. Readymade garments made in India are now being exported to the world's major markets like U. S. A., U.S.S.R., U. K. France, West Germany, Australia, Italy, Sweden and Japan. This, it was learnt, was achieved through working out package programme which encouraged the producer and the small scale entrepreneur to take to improved methods of readymade garments manufacture. The Committee recommend that Government should evolve a similar strategy to achieve a real advance in exports of leather garments also.

[Paragraph 2.66, S. No. 15 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

Noted. It is proposed to encourage State Leather Corporation to take up the task.

[Ministry of Commerce D. O. No. 4/13/74-EP (LSG) Vol. III dated 31-8-1976].

Recommendation

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

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

[Paragraph 2.80 S. No. 16 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

Noted.

[Ministry of Commerce D. O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-1976.]

Recommendation

The Committee are unhappy that not much has been done to build any thing like an adequate infra-structure for the leather industry in India. As early as December, 1972 the Seetharamiah Committee had recommended that finishing centres should be set up in areas where there was a concentration of small scale tanneries, that new entrepreneurs should be encouraged to set up finishing units, and an investment of Rs. 60 crores made for the conversion of 75 per cent of the export of semi-processed hides and skins in 1971-72 to that of finished leather. By this investment, additional foreign exchange earning had been estimated to be of the order of Rs. 90 to 95 crores. Some of the steps taken to encourage conversion of semi-finished leather into finished leather are stated to be (a) permission to persons/industry producing unit for acquiring imported machinery upto the limit of their licensing for semi-finished leather (b) permission to import equipment in a clearance block, basis with DGTD's prior approval (c) conversion of a portion of the import replenishment for acquisition of capital goods and (d) authorisation to STC to create a Leather Development Fund by pooling ¼th out of the one per cent service charge collected by it on the export of canalised semi-processed hides and skins so that the money could be utilised for setting up 5 common facilities centres (one each in Tamil Nadu, West Bengal, U.P., Andhra Pradesh and Bihar), one Shoe Upper facility centre, one unit sole plant and one design cell at Agra and one Central and four Regional Testing Laboratories. The Committee was informed that STC had launched enquiries about the availabilities, prices, delivery, etc. for capital goods machines for these centres. None of these centres, however, has come up so far, even though such common facility centres and the tangible development of infra-structural provisions are entirely essential to the stepping up of our finished leather exports. As regards the investment of Rs. 60 crores envisaged by the Seetharamiah Committee, all that Government have done so far is to formulate a proposal to set up a Corporation to be called Bharat Leather Corporation Ltd. and make a token provision of Rs. 5 lakhs in the budget estimates of 1975-76 for investment in the said Corporation. The Committee were informed that the Corporation would take care of the tasks of building the necessary infra-structure and the entire gamut of developmental activities, deemed indispensable for the leather industry. Nearly four years having elapsed since the Seetharamiah Committee reported, the Committee fear that Government have not utilised this period of time, by no means a short one, for the advance of our leather industry, and even common facility centres have not come up so far. During evidence, the representative of the Ministry of Industry & Civil Supplies was even constrained to concede that "the implementation could have been a little faster". The Committee, therefore, urge that steps already, long delayed, be vigorously taken for the creation of the necessary infrastructure and adequate funds provided for the purposes.

[Paragraph 5.30, S. No. 24 of Appendix V of 209th Report of P.A.C. (Fifth Lok Sabha.)]

Action taken

Noted. The Bharat Leather Corporation has since been constituted and a provision of Rs. 10 lakhs has been made in the Budget for 1976-77 towards the Corporation. A provision of Rs. 50 lakhs has also been made for the Corporation for the last two years of the Fifth Five Year Plan. This provision is only tentative, and subject to revision after detailed schemes have been worked out.

The Bharat Leather Corporation has been incorporated only recently. In the absence of this Corporation, the State Trading Corporation has been taking steps for setting up Common Facility Centres, one each in Tamil Nadu, West Bengal, U.P., Andhra Pradesh and Bihar. Equipment for the common facility centres has been ordered, and the progress of implementation is being monitored. It is expected that these centres would be ready by the end of March, 1977. Effective steps have been taken for conversion of capacities for semi-finished leather into finished leather by nine existing DGTD units to the extent of 0.13 million nos. of hides and 11.6 million nos. of skins. Three new units have gone into production of finished leather from semi-finished leather with a capacity of 0.56 million nos. of hides and 2.10 million nos. of skins. Six licences to new units and seven letter of intent have been issued for a total capacity of 0.75 million nos. of hides and 8 million nos. of skins. Some of the existing small scale units are also converting a portion of their capacities to finished leather. In addition to this, capacities to the extent of 1.63 million nos. of hides and 8.29 million nos. of skins have been approved for production of finished leather starting from raw hides and skins. It could be seen from the above that steps have been taken for creation of adequate capacities for the production of finished leather.

To reiterate, it is expected that the 5 Common Facility Centres will start functioning by 1st April, 1977.

[Department of Industrial Development D.O. No. 11/59-76—L.R.G., dated 15-12-76].

The Ministry of Commerce have sanctioned the following projects to be financed from the Leather Development Fund with the STC:—

(i) Five common Facility Centres for Leather finishing	Rs. 125 lakhs
[(ii) One Central and four Regional Testing Laboratories]	Rs. 6 lakhs
(iii) One Upper Facility Centre	Rs. 15 lakhs
(iv) One unit Sole Plant	Rs. 10 lakhs
(v) One Design Centre]	Rs. 2 lakhs

The machines to be imported by the STC should be in India by November/December 1976.

A Central Testing Laboratory has been set up in STC's office in New Delhi. Machines for Regional Testing Laboratories have been identified also.

Orders for import of machines for setting up Upper Facility Centre have been placed.

A Design-cum-Display Centre has been established at the STC's office in New Delhi.

Over and above the expenditure as detailed above on five projects (Rs. 158 lakhs) more machines are being ordered for the leather and leather goods industry under an OGL Scheme.

The recipient States have to allocate matching funds, select suitable sites and make arrangements for disposal of effluent.

[Ministry of Commerce D.O. No. 4/13/74—EP (LSG) Vol. III, dated 31-8-76].

Recommendation

It is distressing that apart from specific measures suggested by the Seetharamiah Committee for the creation of infra-structure in the country, no blueprint for action to give a new direction to the leather industry has yet been prepared by the Ministry of Industry and Civil Supplies.

It appears that in their view, such a blueprint should rather be prepared by the proposed Bharat Leather Corporation Ltd. when it comes to be formed. The Committee regret that the Ministry of Industry and Civil Supplies do not appear to have shown either foresight for a sense of urgency in dealing with this issue. A corporation, howsoever, well intended, is not always a panacea of all problems. Besides, such a body would, even after formation, take some time to get over teething and other troubles. Meanwhile the difficulties get aggravated and the country's interest suffers. The Committee recommended that rather than leaving the task to a projected Corporation, the Ministry of Industry and Civil Supplies should undertake the job on their own and help the Leather industry to stand firmly on its feet and go ahead.

[Paragraph 5.31, S. No. 25 of Appendix V of 29th Report of P.A.C. (Fifth Lok Sabha)].

Action taken

The Development Council for Leather and Leather Goods Industry have worked out a programme for development of these industries during the Fifth Plan period and action has already been taken to set up capacities on these lines. The Ministry has, in the past few months, organised a series of meetings with the State Leather Development Corporations, representatives of State Governments where such Corporations have not yet been established, and officers of the Bharat Leather Corporation and the STC with a view to giving a push to the development of the leather industry. The Bharat Leather Corporation has been asked to prepare an action programme for the Corporation on a most immediate basis. In the meantime, the setting up the Agra Leather Complex is being actively pursued, and the possibility of setting up more such complexes is being examined.

A programme of modernisation and expansion of the TAFCO has been prepared.

[Department of Industrial Development D.O. No. 11/59-76—LRG, dated 15-12-76].

Recommendation

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

[Paragraph 5.32, S. No. 26 of Appendix V of 209th Report of P.A.C. (Fifth Lok Sabha)].

Action taken

Noted. This recommendation is being brought to the notice of the Bharat Leather Corporation Ltd.

[Department of Industrial Development D.O. No. 11/59-76—LRG, dated 15-12-76].

Recommendation

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

Government propose to take for evolving and implementing a national policy for animal husbandary to which they attach a great deal of importance.

[Paragraph 5.41, S. No. 29 of Appendix V of 29th Report of P.A.C. (Fifth Lok Sabha)]

Action taken

These comments of the Committee are extremely valuable for future planning and have been noted. There are at present no forward and backward linkages between animal husbandary and the leather industry. The Commerce Ministry propose to make a beginning by sanctioning studies which would collect the data required in this area. It is also proposed to ask a detailed study of the raw-skin market to be carried out by the CLRI. This would provide authentic data regarding prices received by animals owners for the skin, identification of animal production areas which chiefly provide for the leather industry, and information about the structure of the raw-skin market. We also propose to take steps to collect reliable information about slaughtering of animals so that the availability ratio can be worked out scientifically. Modernisation of slaughter houses is extremely important for the leather industry. The subject is under the consideration of Planning Commission in the context of export production of meat. The Commerce Ministry would also take up with the Ministry of Agriculture so that studies and planning could be initiated as indicated by the Committee. The Ministry of Agriculture who was contacted in the matter has informed that the National Commission on Agriculture has recently examined in detail the problems and perspective of development of Animal Husbandary as a whole in the country and made a number of far reaching recommendations for development of Animal Husbandary and Dairying. These various recommendations are being examined. The National policy for Animal Husbandary and Dairying will broadly be on the lines recommended by the National Commission of Agriculture.

✓ [Ministry of Commerce D.O. No. 4/13/74—E.P. (LSG) Vol. III, dated 31-8-76].

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

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

[Paragraph 2·29, S. No. 1 of Appendix V of 209th Report of P.A.C. (Fifth Lok Sabha)].

Action taken

The Committee's observations have been noted. It may, however, be pointed out that export potential cannot be measured by livestock population alone. It also depends upon the following factors:

- (i) Livestock population per 100 human population is the true index as exportable surplus is restricted by domestic consumption. Indian population of sheep per 100 persons is lower than the world average. Similarly, Indian bovine population per 100 persons is much lower than that of Argentina, Australia, Brazil, etc. Indian population of goats per 100 persons is also lower than that of Argentina, Ethiopia, Iran, Mexico, Nigeria, South Africa and Turkey. India is in the international map of exports of hides and skins for the reasons that domestic consumption for leather and leather goods is smaller than world average. (Kindly see Chapter I of the Gokhale Institute and CLRI Report).
- (ii) Availability ratio which is the percentage between population of animals and the annual availability of skins is extremely poor for bovines in India due to the widespread prohibitions against slaughter of bovines. Our availability ratio is around 11% for bovines and 5% for cattle—90% of these small percentages is contributed by fallen animals. A country where the bovine hides are contributed largely from fallen animals

and not from slaughtered animals will also be at a disadvantage in the trade of bovine skins and hides.

[Ministry of Commerce D.O. No. 4/13/74—EP (LSG) Vol. III, dated 31-8-76].

According to the 1972 census of animal population, India was having 178·8 million cattle, 57·9 million buffaloes, 40·4 million sheep and 68 million goats. The bulk of the production of hides is from fallen animals. It is estimated that in India, the availability of hides is about 10% of the cattle population because of the low slaughtering rate and the progressive implementation of the ban on cow slaughter. The average international rate of availability is about 20%. The rate of availability of hides in America and West Europe is of the order of 39 to 40%. This shows that although we are having the highest cattle population, the availability of hides is very much lower compared to other advanced countries. Moreover, India is in a position to export leather because of the lower consumption rate within the country for the production of footwear and other leather articles. Against a population of about 600 million people, the production of leather footwear is estimated to be only of the order of 200 million pairs showing that for every three persons, the production of leather footwear is one pair per annum. As the standard of living improves, there is a likelihood of increase in the demand for leather footwear and other leather goods within the country. As the production of hides and skins is inelastic, the availability could not be increased quickly. There is, therefore, a possibility of the quantity of hides and skins available for exports coming down in future years. At present the bulk of the exports of leather is in the form of semi-finished hides and skins. The intention of the Government is, therefore, to switch-over the exports of finished leather and leather manufacture so as to enable the country to earn more foreign exchange for the same quantum of exports. Various measures have been taken by the Government for achieving this objective.

[Department of Industrial Development D.O. No. 11/59—76—LRG, dated 15-12-76].

Recommendation

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

[Paragraph 2·36, S. No. 8 of Appendix V of 209th Report of P.A.C. (Fifth Lok Sabha)].

Action taken

The Ministry of Agriculture are of the view that reptiles should not be killed at all and consequently the export of reptile skins including produce therefrom is banned.

[Ministry of Commerce D.O. No. 4/13/74—EP (LSG), Vol. III, dated 31-8-76].

Recommendations

3.26. The committee uphold Government's long-term objective of 'structural diversification and modernisation of leather industry' with a view to our exporting finished leather and leather manufactures rather than semi processed hides and skins which bring meagre returns and is appropriate only to a backward economy. The quota system, however, does not appear to have been evolved after sufficiently careful thought. It was March 1973 that Government announced its intention to reduce the export of semi-finished leather to 25 per cent of 1971-72 level within five year. In June, 1973, it was announced that export quota for the year 1973-74 would be fixed after making cuts of 20 per cent in the case of semifinished hides and 10 per cent in the case of semi-finished skins from the total exports of such leather in the calendar year 1972 which was selected as the base year. On 1st August, 1973, the Chief Controller of Imports and Exports issued instructions reiterating that all exports made from 1st April would be adjusted against the export quota, but 10 days later he announced changes in Government's decision according to which (i) the quota scheme was to be operated from 1st August, 1973-74, (ii) for the remaining 8 months of 1973-74 only 15 per cent of the annual would be allowed, and (iii) exports from April 1973 to July, 1973 would not be set off against the next eight month's limit. Even this decision was revised in January, 1974 when it was announced that 166.67 per cent of the annual quota would be allowed to be exported during August, 1973 to March, 1974. In March, 1974, another announcement came that in view of representations received from concerned interests that it would take some time to develop adequate infra-structure to manufacture finished leather, annual quotas for 1974-75 would be continued at the same level as for the preceding year, though these would be substantially reduced in the following year *viz.* 1975-76 and onwards. Defending these changes, the Ministry of Commerce argued that "strategy and mechanism had to be adopted and bent to meet the demands of actual conditions of production and exports in the domestic industry and international market respectively". The Committee feel that if Government had taken the actual conditions of production and exports into consideration at very beginning, before launching the quota system, and had made it known firmly to the industry and trade, it would have been spared the embarrassment and also the hazards that such frequent changes involved. The Committee cannot resist the impression that the quota system, so frequently changed and at short intervals of time, was conceived in haste and without careful anticipation of its likely effects. Certain new entrants to the export of finished leather goods have, according to the Leather Export Promotion Council, Madras, requested Government to order a further cut in the export quota of semi-finished leathers. The Committee urge Government to evaluate all such proposals on the basis of their own experience and ensure that the scheme

formulated with foresight and precision, gives a new, stimulating direction to the leather industry.

3.27. The Committee find that partly on account of the quota system, the quantities of E.I.T. leather and chrome tanned leather wet blue exported during 1973-74 were less respectively by 121.05 lakh kilograms (40 per cent) and 95.91 lakh kilograms (33 per cent) than the corresponding export in 1972-73. The value of these reductions at 1973-74 average export prices was Rs. 71.93 crores. As against this, the increase in export realisation for finished leather products in 1973-74 over the preceding year was only Rs. 3.48 crores. In other words, in 1973-74, we lost very much more, in term of foreign exchange, by restricting our exports of semi-finished leather than what we gained in the form of higher export of finished leather and leather manufacturers. To make things worse, the position does not seem to have improved in 1974-75 either, when quantities of E.I.T. leather and Chrome tanned leather wet blue exported were less respectively by 43 lakhs kgs. (23.6 per cent) and 75 lakhs kgs. (39 per cent) than the corresponding exports in 1973-74. The value of the reductions was as Rs. 36.22 crores. As against this, the increase in export realisation for finished leather, leather goods, and leather footwear in 1974-75 over the value of export of these items in 1973-74 was only Rs. 26.55 crores. The representative of the Ministry of Commerce stated in evidence that the decline in exports of semi-finished leather was not due to the quota system alone but also to the cumulative effect of four main factors, *viz.* (i) acute shortage of power, (ii) non-fulfilment of export quotas due to international recession, (iii) accumulation of large inventories with principal exporters like Italy, and (iv) rise in the cost of maintenance of cattle which continental cattle—holders tended rather to slaughter. The Committee feel, however, that these factors may have aggravated the situation, but the responsibility of the restrictions under the quota system bringing about reduced exports of semi-finished leather cannot be easily negated. The view of the Ministry of Commerce that export of finished leather cannot obviously keep pace *pari pasu* with the decline in the value of semi-finished leather does not explain the position and appears even to be complacent. The Committee feel strongly that our country just cannot afford a fall in our export earnings even as we make necessary long term schemes which may not bring in adequate dividends immediately. Government should therefore avoid drastic quantitative restrictions on semi-finished leather exports. The Committee urge also that from this angle the working of the quota system should be adequately appraised so that any serious detriment to the leather industry in its present phase of development and to the quantum of our export earnings could be decisively eliminated.

[Paragraph Nos. 3.26 & 3.27—S. Nos. 17 & 18 of Appendix V of 209th Report of P.A.C. (Fifth Lok Sabha)].

Action taken

The policy of the Government is clear. The quota system was introduced after careful thought and extensive and intensive consultation with the trade. But for introduction of the quota system, the tanners would not have taken steps at all for a switch-over to the production of finished and leather goods. This is amply reflected in the increased export

of finished leather in the recent past. It may also kindly be noted that the quota system was not frequently changed at short intervals. Since a policy of this kind could create certain hardships during the period of transition, it was necessary to effect changes at times. Nor was the policy influenced by the LEP Council, Madras. The Government considered the matter fully before deciding the policy for 76-77. Moreover, the new policy for 76-77 is a package of incentives and restrictive measures.

There has been considerable expansion in the establishment of finishing capacity of skins and hides during the past few years. The capacity during 1976-77 for finished skins is expected to be about 25 million pieces, during 1975-76, the finishing industry was having problems in obtaining sufficient quantity of semi-finished leather.

After taking these factors into consideration, the Government imposed a further cut of 15% in the quota for E.I. and wet blue goat and sheep skins and a 10% cut in the quotas of E.I. and wet blue buffalo hides and calf skins, cow hides and cow calf skins. These cuts would not be imposed on small quota holders *e.g.* quota holders with quota below 25,000 pieces of skins, 7500 pieces of hides and 500 pieces of calf skins would be exempted from the cut. There is no cut also on the quota for job-tanners and non-exporting tanners attached to the State Trading Corporation.

As a measure of restriction, Government have decided to effect an increase of 5% in the export duty of semi-tanned hides and skins. The export duty will be 25% on these items with effect from 1st May, 1976.

At the same time, in order to further encourage structural diversification of the leather industry to produce finished products, Government have decided to increase the cash compensatory support on finished leather by 5% to 10% with effect from 1st May, 1976.

The following are the other important measures taken to step up the export leather goods and to make this industry commercially well organised:—

- (i) Machinery required for export promotion of finished leather manufactures has been placed on OGL w.e.f. 14-4-1976.
- (ii) Air freight subsidy is available to the leather goods exporters against the shipments by air.
- (iii) Cash Compensatory support has been allowed for the following:—

(a) Leather shoes and garments	15% of f.o.b. value
(b) Leather chappals and sandals	5% of f.o.b. Value
(c) Leather shoe uppers, shoe linings and components	12½% of f.o.b. Value
(d) Finished Leather	10% of f.o.b. Value
(e) Leather goods/Manufactures	10% of f.o.b. Value

- (iv) Finished leather and leather goods including footwear has been included in the list of qualifying industries eligible for investment allowance.

[Ministry of Commerce D.O. No. 4/13/74-EP(LSG) Vol. III, dated 31-8-76].

Recommendation

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

[Paragraph 3·28—S. No. 19 of Appendix V of 29th Report of PAC (Fifth Lok Sabha)]

Action taken

The observations of the Committee have been noted. It may be pointed out however that Government have been watching the situation regarding the switchover from semi-finished to finished leather and have not forced the pace at all. The efficacy of introducing a quota, system has however proved itself.

The Committee themselves have observed that tanners should change their hidebound outlook and try to modernise the industry. But for the introduction of quota system, tanners may not have made efforts at all for a switchover. Even now, a large section of tanners would like a restoration of status *queante i.e.*, no restrictions on the export of semi-tanned hides and skins.

Besides, it need not be expected that there would be *pari pasau* increase in the export of finished leather hand leather goods with reduction in the export of semi-tanned hides and skins. Export performance in respect of finished leather and leather goods, however, has been quite impressive since the introduction of quota system although it depends to a great extent on international market conditions.

[Ministry of Commerce D. O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-76]

Recommendation

The Committee noted that for encouraging more exports of finished leather and leather goods including footwear, Government introduced air freight subsidy from February, 1971 at 50 percent of air freight paid but limited to 10 percent of the f.o.b. value in the case of footwear and components and 15 percent of the f.o.b. value on finished leather and leather goods. From October, 1974 the rates of subsidy were revised to 40 percent of air freight paid but limited to 7 percent of f.o.b. value in the case for finished leather and leather goods. The period upto which subsidy has been sanctioned expires on 31st March 1976 and total subsidy of Rs. 200·81 lakhs has been paid since the introduction of subsidy upto the year 1974-75. No subsidy is payable on exports to USSR because the exports to that country are on f.o.b. basis while the subsidy is admissible for c.i.f. only. The main considerations which are stated to have weighed with Government in granting the subsidy are rapid changes in fashions in USA and West European countries and the need for rapid transport to keep pace with countries competing in this line of export. The Committee were informed that air freight rate from India to USA was roughly 150 percent higher than from Brazil and 50 percent higher than from Rome. Besides, as Indian Footwear suffered from the disadvantage of fetching a lower price, the freight incidence in the case of Indian footwear was 28 percent as compared with Brazil's 5·5 percent and Italy's 9 percent. During evidence the representative of the Ministry of Commerce justified the grant of air freight subsidy on the ground, among others, that the "difference between sea freight and air freight was about three to four times". The Committee were also informed that there was a definite "Co-relation" between the air freight subsidy disbursed and a resultant increase in the export of finished leather, leather goods and footwear particularly to fashion conscious markets. Such exports had increased from Rs. 360 lakhs in 1971-72 to Rs. 3022 lakhs in the case of finished leather, from Rs. 199 lakhs to Rs. 1283 lakhs in the case of leather goods and leather manufactures, and from Rs. 873 lakhs to Rs. 1745 lakhs in 1974-75 in the case of leather footwears and components. The Committee feel that these arguments, though relevant, are not entirely convincing. First, the Committee are not sure whether the increase in exports of finished leather and leather goods had been due to the grant of air-freight subsidy or to other factors. Secondly, while there was an upward swing in exports of finished leather, leather goods and leather footwear such exports, as pointed out by audit, were only 14 percent, 18 percent and 20 percent of the total leather exports in 1971-72, 1972-73 and 1973-74, while the corresponding per centage for exports of semi-finished leather in these years were 86 percent, 82 percent and 80 percent. This, in the Committee's view indicates that the lion's share of our exports still remained with the traditional items and the policy of switching over to finished goods export had not achieved significant success.

[Paragraph 4·52- S. No. 20 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)]

Action taken

The percentage share of finished leather in overall exports of leather and leather manufactures has increased during the year 1975-76 and also 1976-77.

The switchover as was expected, could be achieved only over a period of time.

Air-freight subsidy is also an important element in the export effort for finished leather and leather manufactures, as already submitted before the Committee.

[Ministry of Commerce D. O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-76]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Committee note that the grant of cash as subsidy was favoured both by the Gokhale Institute of Politics and Economics, Poona (1969) and the Seetharamiah Committee (1972). The Gokhale Institute of Politics and Economics, Poona suggested (1969) a cash subsidy at the rate of 10 per cent on the exports of finished leather and 20 to 25 per cent on the exports of footwear and finished leather goods, the Seetharamiah Committee (December 1972) recommended a cash subsidy of 15 per cent against the export of finished leather and leather manufactures but only when the exporter could produce documentary evidence of the steps taken by him for putting the infrastructure i.e. land, building and machinery necessary for modernisation balancing and expansion. The Committee are inclined to the view that even the present subsidy should be conditional, as in the Seetharamiah Committee's recommendation, on such infra-structure improvements as are essential to better export performance. While during evidence they gave its view that "at present the f.o.b. realisation for our finished leather goods is not such as to call for immediate cash subsidy" The Committee were informed after evidence that the Ministry was considering the question of giving "development subsidy".

Government have since decided to grant "Cash Compensatory Support" to exporters of leather and leather goods from October, 1975 to 31st March, 1976. Governmental assistance to the industry has always to be justified on the basis of its performance and only when the industry shares the benefit with the worker-producer and by higher export earnings helps the country's foreign exchange position. The Committee urge the Government make comprehensive examination of the position particularly from the view point enunciated herein.

[Paragraph 4.60—S. No. 23 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

The Cash Compensatory Support has been introduced w.e.f. October, 1975. It is too early to make a review of the scheme except in terms of export figures. The export performance of finished leather and leather goods since the introduction of the subsidy has been fairly impressive. However, while making such an assessment, international market conditions have to be taken into consideration.

As respects sharing of the benefit between the producers and the workers, the Ministry of Industrial Development of the Govt. of India and the

State Government have been informed of the observations of the Committee for suitable action.

[Ministry of Commerce D. O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-76]

Recommendation

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

[Paragraph 5.33—S.No. 27 of Appendix V of 29th Report of PAC (Fifth Lok Sabha)]

Action taken

The matter has already been considered in depth by Govt., before arriving at a decision. No change in the decision appears necessary at present. The problem of coordination between the STC and the Bharat Leather Corporation would however be looked into so that exports are not allowed to suffer.

[Ministry of Commerce D.O. No. 4/13/74-EP (LSG) Vol. III, dated 9-9-76]

The recommendations of the Committee would be carefully examined by the Ministry of Industry in consultation with the Ministry of Commerce.

[Department of Industrial Development D.O. No. 11/59-76-LRG, dated 15-12-76]

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

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

[Paragraph 4. 53—S. No. 21 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)]

Action taken

The Councils have been asked to conduct a study on these lines.

[Ministry of Commerce D.O. No. 4/13/74-EP (LSG) Vol. III, dated 31-8-76]

Recommendation

The Committee are perturbed that in spite of the air freight subsidy scheme having been in vogue for more than five years, Government cannot refer to such comprehensive and reliable data as would justify the scheme. Some material appears to have been collected by the Export Promotion Council in 1970, but the Ministry of Finance could not be satisfied with the data. Information collected from the Export Promotion Council, Kanpur in Feb., 1973 was also found to be the same as that submitted in 1979. Some more data was obtained through the State Trading Corporation and the Export Promotion Council, Kanpur in August, 1974 but that did not indicate the period of exports and were not in terms of the quantity and value of costed units of the total exports. The Committee feel that there was no reason at all why the relevant data would not be kept compiled and analysed meaningfully so that well

informed decisions regarding such items as the continuance of subsidies could be made properly. The Committee urge that the compilation of authentic data should be given priority and completed without further delay.

[Paragraph 4.54—S. No. 22 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)]

Action taken

The Export Promotion Council for Finished Leather and for Leather Manufactures, Kanpur has been advised accordingly.

[Ministry of Commerce D.O. No. 4/13/74-EP ((LSG) Vol. III, dated 31-8-1976].

Recommendation

The Committee note the general question of levying a Research and Development Cess on all industrial undertakings for the purpose of research and development is under consideration of the Department of Science and Technology and that within the ambit of the overall scheme to be thus prepared, the proposed Bharat Leather Corporation Ltd. will also formulate specific scheme to further research and development in the leather industry. The Committee have already expressed themselves against procrastination in this matter and urge that an early decision be taken and implemented.

[Paragraph 5.38—S. No. 28 of Appendix V of 209th Report of PAC (Fifth Lok Sabha)].

Action taken

Noted. Section 9 of the Industries (Development & Regulation) Act, 1951 provides for levy and collection of cess on any such scheduled industry as may be specified by the Government in this behalf and the rate of cess shall not exceed 1/8%. The question of amending the Act, *inter alia*, to provide for increase in the rate of cess is being examined in consultation with the Ministry of Law, Justice and Company Affairs and Department of Science and Technology.

The recommendation is also being brought to the notice of Bharat Leather Corporation with the instruction that appropriate R&D schemes be formulated.

[Department of Industrial Development D.O. No. II.59-76-LRG, (dated 15-12-76)].

C. M. STEPHEN,

NEW DELHI;

December 19, 1977.

Chairman,

Public Accounts Committee.

Agrahayana 28, 1899(S).

APPENDIX

Conclusions/Recommendations

Serial No.	Para No.	Ministry concerned	Recommendation
1	2	3	4
1.	1.3	<u>Commerce</u> Industrial Development.	The Committee expect that final replies to those recommendations/observations in respect of which only interim replies have so far been furnished will be made available to them expeditiously after getting them vetted by Audit.
2.	1.6	Do.	The Committee regret that instead of drawing up of a crash programme for achieving the export targets of leather set down for the Fifth Plan period, as suggested by the Committee, the Ministry have merely stated that the "Committee's recommendation was being brought to the notice of Bharat Leather Corporation Ltd." Since the Bharat Leather Corporation has only recently been set up, it will take some time before the Corporation is able to address itself to the problems of the leather industry. In the circumstances, it would have been more appropriate for the Ministry to have initiated urgently some conclusive measures to ensure that the industry gets necessary assistance and encouragement for achieving the export targets laid down. Keeping in view the limited time available for the realisation of the export targets, only a crash programme aimed at rendering immediate assistance to the industry would be of help. The Committee would therefore like to urge that Government should consider what urgent measures need be taken to render help to the leather industry for enabling it to fulfil its export obligations.

3. I.10

Do.

The Committee are unhappy that on an important recommendation of the Committee which suggested taking up of concerted measures for ensuring optimum utilisation of the installed capacity for finished leather and leather foot-wear, no concrete action seems to have been initiated by the Ministry. Though the fact of gross under-utilisation of the capacity for production of finished leather and leather footwear has been recognised, the Ministry of Industrial Development have not even considered it necessary to order an investigation into the causes of the under-utilisation although such a request appears to have been made by the Ministry of Commerce in pursuance of Committee's recommendation. All that the Ministry of Industrial Development have done is to give expression to an optimistic feeling that the "units would show improvement in 1976-77". The Committee would like a more positive response to their recommendations/observations which are made after a great deal of careful investigation of the problem. The Committee urge that the Ministry of Industrial Development should examine as to what concrete steps are required to be taken to ensure an optimum utilisation of the installed capacity for finished leather and leather footwear and furnish a report to the Committee in due course.

4. I.13

Do.

The Committee find that although the Ministry of Industrial Development are conscious of the need for setting up of units for the production of shoes, garments, sports goods and other leather goods which fetch a higher unit value, they are not able to motivate the manufacturers either in the large scale sector or in the small scale sector to set up new capacity due to some constraints. Whereas in the large scale sector the manufacturers are not eager to set up new units because of the high export obligations involved, the entrepreneurs in the small scale sector feel inhibited because of 10% excise duty levied on the manufacture of leather foot-wear produced in units employing more than 49 workers and 2 H.P. The Committee feel that since the hurdles in the way of setting up of new units for manufacture of leather goods have been clearly identified, there should be no difficulty in taking necessary remedial measures to get over these problems. Government will do well to address itself to resolution of the problems which

are now clearly identifiable. The Committee would like to be apprised of the concrete action taken in this behalf.

5. 1.16 Commerce]
Industrial Development

The Committee note that in pursuance of their recommendation the question of rationalisation of the excise and other duties leviable on the leather goods has been taken up by the Ministry of Commerce with the Department of Revenue and Banking. As has been conceded by the Ministry of Industrial Development, the levy of 10% excise duty on the manufacture of leather footwear does act as a deterrent for the small scale and cottage sectors. It is therefore imperative that the existing structure of excise and other duties may be re-examined with a view to rationalising it in the interest of the small scale leather industry. The Committee would like the Ministry of Commerce to vigorously pursue this matter with the Department of Revenue and Banking for securing whatever relief is possible for the small scale manufacturers of leather goods. The outcome of these deliberations may be intimated to the Committee at an early date.

6. 1.19 Do.

It has been stated that if footwear has to be exported to developed countries, raw ox-hide may have to be imported and additionally sizeable funds will have to be put aside for setting up development project for improving the quality of sole leather which is presently buffalo-based. The Committee are inclined to feel that since the problems have now been clearly identified, the question of finding additional funds for the setting up of development project for improving the quality of sole leather should not be allowed to stall the progress in this field. The Committee need hardly emphasize that for making our exports of leather footwear competitive the question of quality of sole leather cannot be lost sight of. It is in this context that more determined and serious efforts should be made for achieving a real breakthrough.

7. I. 22 Commerce

The Committee are unhappy over the lukewarm response of the Ministry of Commerce to their suggestions to make a comprehensive review of the position relating to grant of cash subsidy and other incentives being given to the leather industry with a view to ascertaining whether these incentives were justifiable on the basis of the performance of the industry and whether they had achieved the purpose for which they were intended. They consider that such a review is important to decide whether the cash subsidy merits continuance and if so, what should be its quantum. They accordingly reiterate their earlier suggestion.

8. I. 27 Commerce]

Industrial Development

The Committee regret that although the Ministry of Industrial Development have deemed it necessary to examine the Committee's recommendation on the need for a single unified agency for the development and export of leather, the Ministry of Commerce have not given the recommendation the consideration that it deserved and have given a laconic reply that "the matter has already been considered in depth by Government". However, the Ministry of Commerce appears to have realised the need for coordination between the State Trading Corporation and the Bharat Leather Corporation. The Committee cannot help reiterating that the functioning of two separate corporations, each under the administrative control of a different Ministry, having dual control over the development of the same industry, viz., leather, is not a healthy phenomenon and the doubts expressed by them earlier in this connection have come true. In fact, as has been agitated in the Press, the coordination of the functions of the two organisations is a real problem which has to be tackled effectively. These two agencies can by no means be permitted to forge ahead in two different directions in the overall interest of the industry. It is precisely for these reasons that the Committee had suggested that the Government should carefully consider whether or not a single unified agency charged with the development and export of leather would be more appropriately suited for the job. The Committee would like the Government to re-consider whether the continuance of two different bodies under different Ministries is desirable and if so, how functional coordination between the two bodies could be effected in the interest of the leather industry.

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1.30. Agriculture

The Committee have been informed that the National Commission on Agriculture have examined the problems and perspective of development of Animal Husbandry as a whole in the country and that the recommendations made by the Commission were under examination for evolving a national policy for animal husbandry and dairying. The Committee would like the Government to take an early decision in the matter and formulate a national policy for animal husbandry without further loss of time.

General observations

10.

1.31

Commerce

Industrial Development

The Committee find that a number of important suggestions/recommendations made by them in the 29th Report have been merely noted for compliance and are being brought to the notice of the Bharat Leather Corporation for further action. The Committee wish that the Bharat Leather Corporation should consider all their important suggestions/recommendations and particularly those mentioned below, for compliance:

Para 2.31—Collection of proper market intelligence.

Para 2.57—Establishment of more integrated leather complexes.

Para 2.58—Technological guidance for small units.

Para 5.32—Overall development of leather industry.

Para 5.38—Research and Development Schemes for leather industry.

