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# Leather export prospects for 2012 are bleak

Pooja Sarkar, Business Standard

*Economic uncertainty in Europe and a decline in new contracts spell trouble*

Kolkata, Feb 28, 2012: Indian leather exporters, who sell to global brand names such as Wal-Mart, Calvin Klein, Esprit and French Connection, anticipate difficult times ahead as the signing of new contracts is nose-diving and economic uncertainty continues to grip the European Union.

Leather exports saw healthy growth in 2011, but exporters expect the crisis of 2012 to be worse than the downturn of 2008.

Paresh Rajda, regional chairman, Eastern Region, for Council of Leather Exports (CLE), a Central government body, said that this was because four years ago, it was the United States that was hit; this time round, it is the EU – which accounted for 65.48 per cent of Indian leather exports in 2010-11 – that is in crisis. Leather exports amounted to \$3.84 billion in 2010-11, which puts it in the category of top ten foreign exchange earners for the country.

Rajda added: “Some exporters have already started losing money and will find it difficult to continue running their factories, as some overseas companies are going bankrupt and payments are getting stuck.” Sanjay Barmecha, who exports leather bags and wallets to France, Belgium and other EU countries, said, “Sales will come down by at least 25 per cent compared to last year. Our production costs have increased significantly and margins have dropped, as it is difficult to find buyers at revised prices. Revenue figures may be higher, but sales volumes have dropped.”

Officially notified DGCI & S export data put leather and leather products exports in the first seven months of the current fiscal year (April-October 2011) at \$2,741.48 million, a growth of 27.33 per cent over \$2,152.98 million in the corresponding period of last year.

Ali Ahmed Khan, executive director of CLE, said, “Though the current growth trends are impressive, there is some apprehension about future export prospects due to the continuing economic slowdown in the European Union.”

Rajda added, “90 per cent of buyers have stopped giving big orders — they don’t want to stock products anymore.” Nor have exporters been able to find alternative markets.

He said, “Latin American countries like Brazil, Argentina and Chile were showing some promise, but due to pressure on their currencies there is a slowdown in that region too. And the Russian and Scandinavian regions are very closed and difficult to crack.”

Adding to the woes is the increase in global leather prices, and in raw material, freight and labour costs, which have dented exporters’ margins. Cost of production has gone up by 50 per cent.

Exporters said gross margins have crashed from 40 per cent to less than 25 per cent in the ladies handbag segment, from 25 per cent to 12-15 in the wallets segment, and from 10-12 per cent to seven to eight per cent in the industrial hand gloves segment. Khan said, “Though the leather industry faces tremendous cost pressures for end products due to factors like increased cost of raw materials, freight and labour costs, exporters maintain competitive rates, as buyers are demanding a 15-20 per cent reduction in prices, citing the market crisis.”

Barmecha added, “Labour costs have increased by 50-60 per cent in recent times and raw materials prices by 25-40 per cent, and for exporters who are sending cargoes by air the hit is higher.”

A senior official of Indian Leather Products Association said, “A lot of exporters are now taking orders with minimal margins or no margins at all, and if there is an increase in production costs they

will not be able to include it in the contract. Many just want to keep their factories running, and are operating at 40-50 per cent capacity.”

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