# **CEC Working Paper**

# Leather Industry in India

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## **List of Abbreviations**

- AITUC All India Trade Union Congress
- CITU Centre of Indian Trade Unions
- CLE Council for Leather Exports
- CLRI Central Leather Research Institute
- **CNC Computer Numerical Control**
- **CETP** Combined Effluent Treatment Plant
- ESI Employees State Insurance
- LIDCAP Leather Industries Development Corporation
- NAMA Non Agricultural Market Access
- PF Provident Fund
- SEZ Special Economic Zones
- SISI Small Industries Service Institute
- TMS Tannery Modernization Scheme
- TIDCO- Tamil Nadu Industrial Development Corporation Ltd.
- UK United Kingdom
- USA United States of America
- WTO World Trade Organisation



The leather and leather products industry is one of India's oldest manufacturing industries that catered to the international market right from the middle of the nineteenth century, the demand for its products being both domestic as well as international right from the beginning. About 46 per cent of the production in the sector is exported and it ranks eighth in the list of India's top export earning industries and contributes roughly Rs. 10,000 crores per annum, i.e., about 4 per cent to export earnings. The sector accounts for 2.5 per cent of the global leather-related trade of Rs. 387,200 crores. An estimated 15 per cent of total purchase of leading global brands in footwear, garments, leather goods & accessories, in Europe, and 10 percent of global supply is outsourced from India<sup>1</sup>.

The leather industry employs about 2.5 million  $people^2$  and has annual turn over of Rs. 25,000 crores. The industry is also one with strong links with the social structure through caste and community. Thus a large number of people engaged in the industry (entrepreneurs as well as workers) are even today from traditional leatherworking castes (belonging to the lower castes in the caste hierarchy) and the Muslim community. Due to the age of the industry and its links with the social structure, the organisational structure that has emerged is a very complex one that contains within it elements of continuity with traditional structures as well as those that represent a break with them. In addition to these historical aspects of its evolution, the dynamics of the industry has been shaped to a large extent by export orientation from colonial times. The sector is dominated by small-scale firms although there also exist a significant number of medium and large sized firms in all segments of the industry. The industry is concentrated in several leather clusters in four or five distinct locations in the country, with each cluster containing a wide variety of enterprise forms and organisational structure. To be more specific, the major production centers of leather and leather products are located at Chennai, Ambur, Ranipet, Vaniyambadi, Trichy, Dindigul in Tamil Nadu, Kolkata in West Bengal, Kanpur and Agra in U.P., Jallandhar in Punjab, Delhi, Hyderabad in Andhra Pradesh, Bangalore in Karnataka and Mumbai in Maharashtra. Tamil Nadu is the biggest leather exporter (40%) of the country and its share in India's output on leather products is 70%.<sup>3</sup>

The following three tables provide information on employment in different segments of the industry, different production centres and their composition in the sector.

<sup>&</sup>lt;sup>3</sup> <u>www.tidco.com</u>(2006)



www.leatherindia.org (2007)

<sup>&</sup>lt;sup>2</sup><u>www.leatherindia.org</u> (2007)

Sector	Total employment	Women employment	% Share
Flaying, curing and carcass recovery	8.00	0.35	4.00
Tanning & finishing	1.25	0.25	20.00
Full shoe	1.75	0.55	31.00
Shoe uppers	0.75	0.63	84.00
Chappals (Indian style open footwear) & Sandals	4.50	1.50	33.00
Leather Goods & Garments	1.50	1.23	82.00

# Table - 1: Estimated employment in different segments of leather industry (Figures in lakhs).

(Source: Council for Leather Exports) (YEAR) Complete source in footnote

 Table 2. Major production unit types and Capacities (YEAR) Complete source in footnote

	Sector / Product	Estimated annual production capacity	Household, tiny and cottage industry	Small scale sector	Medium & Large scale sector
1	Tanneries- leather	2.5 billion sq. ft.	10%	35%	55%
2	Leather footwear	1009 million pairs (includes 100 million pairs of shoe uppers)	60%	25%	15%
3	Non- leather footwear	1056 million pairs	15%	70%	15%
4	Garments and outerwear	20 million pieces	-	95%	05%
5	Leather goods	100 million pieces	10%	85%	05%
6	Saddlery & Harness	Value: Rs. 2680 million	40%	60%	-

(Source: <a href="http://www.siadipp.nic.in/publicat/footwear.htm">www.siadipp.nic.in/publicat/footwear.htm</a>)

Table 3 :Production centres of leather and leather products.



Region	Large & Medium Scale	SSI	Household
Tamil Nadu	64	31	7
Delhi & UP North	4	8	25
Agra, Kanpur	9	34	14
Calcutta	1	3	19
Bangalore	6	3	4
Mumbai	3	11	
Others	13	10	32

(Source: <a href="http://www.siadipp.nic.in/publicat/footwear.htm">www.siadipp.nic.in/publicat/footwear.htm</a>)

#### Structure of the industry and the production process.

The leather and leather products sector consists of the following activities: The process of raw material production, i.e., carcass collection and flaying, production of leather from the raw material, i.e., tanning, and manufacture of leather products from finished leather. Of these, carcass collection and flaying are dispersed across rural and urban areas all over the country whereas tanning and product making which constitute the manufacturing activities in the industry have come to be concentrated mostly in urban centres in the form of industrial clusters.

The first stage in the chain is the production of raw hides and skins from either dead or slaughtered animals. The major species of livestock that supply hides and skins to the leather industry are cattle, buffaloes, goats and sheep. India has the largest livestock population in the world, accounting for about 15% of the world's population of cattle, 56% of buffaloes, 20% of goats and 5% of sheep<sup>4</sup>. However, raw material availability and quality are one of the main constraints that the sector is faced with in an overall sense. Many of the problems that affect raw material availability seriously and have serious implications for export performance and quality in the sector are linked to the methods of procurement of raw hides and skins, their flaying and curing. In spite of the largest livestock population in the world, the availability of hides and skins in India is constrained by a low rate of recovery. Available livestock are scattered and diffused throughout the country and their collection practices vary from region to region. Recovery takes place from both slaughtered as well as fallen (dead) animals and in a country where cow slaughter is not permitted in large parts, as well as where very often livestock that die are not recovered for days and sometimes weeks on end, the recovery rates are much lower than their potential.

<sup>&</sup>lt;sup>4</sup> CLRI (1987)



In addition, carcass collection as an activity is strongly linked to traditional caste structures and most of it is done by people belonging to lower castes in rural areas, as part of caste-determined occupational structures in villages. Although the traditional system of disposing carcasses to the traditional flayers by farmers has been undergoing changes, it was estimated that even in the mid-80s, 55% of carcasses were being disposed to the traditional flayer on the average all over the country

Flaying takes place as a dispersed and sporadic activity in rural areas, as well as in dispersed units and slaughterhouses in semi-urban and urban centres that are linked to markets for raw hides and skins. Traditionally, flaying of dead animals was an integrated part of the rural leather industry, where the flayer was very often a tanner and cobbler as well. Today, very little of tanning or product making takes place in rural areas, but the activities of carcass collection and flaying are still linked to customary obligations and to caste and as a result, those engaged in this activity are part of a large informal workforce that earn very little from the activity.

In addition, there are several problems that arise at various stages in raw material collection and processing. To quote only some examples, the tools and methods of flaying used by both traditional flayers in villages as well as by butchers in slaughter houses are primitive in general and affect the quality of the tanned hide that is produced. Methods of curing are also traditional and this is another factor that affects the quality of the raw material. The raw hides and skins that are flayed undergo preliminary processing or curing such as salting to preserve them and are mostly transported to raw hide and skin markets all over the country, where also several defects can occur.

Some raw hides and skins are consumed at the local village level by tanners and cobblers for making traditional leather and footwear but even they have to source most of their raw material from outside at high prices because the development of the urban clusters has led to the outflow of raw material from the rural to the urban areas. Collection and trade in raw hides and skins is controlled heavily by middlemen and traders who take advantage of caste factors in giving very low prices to flayers. With the growth of the urban clusters, most of the raw hides and skins produced are channelised into the market chain that leads to the urban clusters.

One of the most important links in the chain between the flayer and the tanner is the raw material dealer, who organises collection, curing, storing, grading, packing and ultimately the transportation of raw hides and skins to the urban centres. These dealers lend advances to the primary producers and at the same time deliver the raw material on credit to the tanners. They thus maintain strong backward and forward linkages in the process of raw material management and many of the large groups that operate in the industry today come from families of raw material dealers who have been able to grow due to their control over this crucial segment of the production chain. There is a massive network of raw material dealers of different sizes who operate at different points in the chain. While the small-scale dealers operate in semi-urban/urban centres within a limited area of operation, the big dealers operate mainly in urban centres with a very wide network of collection systems. The small dealers deal directly with tanners or supply to the large dealers. Between the dealers and the primary producers, large numbers of middlemen are involved in the collection, preservation and trade of the raw hides and skins. According to CLRI (1987), " The organisational set up



of raw material marketing looks like a pyramid with a large number of collectors/ small dealers spread at the base and gradually narrowing down by the time it reaches the terminal markets."<sup>5</sup>

The mode of payment to flayers/collectors is usually through a system of advances normally offered against a guarantee of supply and on various terms and conditions such as a fixed rate of interest, fixed price, free of interest, discounted price as compensation for advance paid, etc<sup>6</sup>. The actual contracts are strongly influenced in most areas heavily by the fact that the flayers/collectors belong to low castes and the prices received are meagre. It has been noted<sup>7</sup> that raw material dealers exercise a great deal of control over the primary producers and the system has generally worked to the disadvantage of the small flayer/collector.

What are the implications of this phenomenon of tanning and product making getting concentrated in the urban areas? It has resulted in (a) poor quality of raw material due to the low level of health as well as poor living conditions of animals, decay of hides and skins caused by delays in processing and high prices due to high transportation costs and a long chain of intermediaries involved in trade (b) decline in rural tanning leading to unemployment among trade leather working communities and artisanal migration to urban and semi-urban areas and (c) adverse terms of trade for rural tanners and product makers and (d) concentration of pollution loads in the urban clusters where the investment necessary to deal with it is extremely heavy.

From the raw hide and skin markets, the raw material finds its way, through agents and traders, to different kinds of tanneries (that do either traditional vegetable tanning, or E.I. tanning, or wet-blue tanning or integrated tanning, as the figure shows). Tanning consists of operations done in four stages: those that are done in the beam house (or pre-tanning operations), in the tan yard, post-tanning and finishing operations. The division into these broad sets of operations exists for both vegetable as well as chemical (or chrome) tanning.

What needs to be noted at this point is that the production process can be split up into many component processes and can be done under a wide variety of production organisation forms, depending on how many processes are being undertaken by an enterprise, how mechanised the operations at each stage are, and how employment intensive and skill intensive they are, with all these determining how large or small the enterprise is, what kind of employment takes place, and what the conditions of production are.

Vegetable tanning is the traditional tanning method. It is of two types, i.e., bag tanning and pit tanning. In bag tanning, the carcass is sewn together into a bag and then tanned with amla or babool or myrabulan bark. This is done by filling the bag with the tannin solution and hanging it up for several days to absorb the solution. In the second method, pit tanning, the open hide instead of being sewn into bags, is soaked in pits and tanned with the same vegetable substance. Before tanning is done, various pre-tanning operations such as salting, liming (soaking the hide/skin in lime solution to remove the hair from the outer side, or the skin side of the hide/skin, as well as to make the inner flesh side bouncy) and deliming

<sup>&</sup>lt;sup>7</sup> CLRI(1987)



<sup>&</sup>lt;sup>5</sup> CLRI (1987), p 239

<sup>&</sup>lt;sup>6</sup> The actual arrangements vary from area to area across the country.

(soaking the limed hide/skin in sulphuric acid to remove lime) are done in pits filled with the respective solutions. Traditional vegetable tanning is highly labour intensive and involves hard manual work in extremely difficult working conditions. The tanned leather made through either bag tanning or pit tanning processes is tough, reddish in colour and used for special products like saddlery, sports goods, and for shoe soles. One problem with vegetable tanning is the long time taken for tanning the hide. It takes nearly three weeks for the hide to be tanned, rendering it relatively less economic to undertake compared to chrome tanning. Improved methods for vegetable tanning have been developed by the Central Leather Research Institute (CLRI). Madras but these have not vet become popular. All over the country, those involved in traditional tanning come from leatherworking castes where skills have been handed down across generations. With the decline in rural tanning mentioned earlier as well as the relatively uneconomical process of production of vegetable tanned leather, a large number of these workers have remained unemployed in villages or migrated to towns and cities, very often getting employed as leather workers in the different clusters. Traditional vegetable tanning takes place mostly in dispersed rural areas, unlike chrome tanning (which will be discussed below) and clustering is rare, except in the instance of one significant conglomeration of large numbers of traditional units in Calcutta which has been analysed in this study<sup>8</sup>.

One form of vegetable tanning that has been popular in the international market right from when it began is the Madras produced East India leather, or E.I. leather as it is referred to. E.I. tanning consists of a process developed in colonial times in Tamil Nadu, which has been restricted to this area due to favourable climatic conditions. Apart from this demand, in recent years, the demand for vegetable tanned leather and products made out of it has gone up, though not very significantly, with the increase in demand for bio degradable products in general.

Chrome tanning is the more modern process of tanning using powdered chrome as the tanning substance. There are two major stages to the chrome tanning process: production of semi-finished leather through wet blue tanning and crust formation, and leather finishing. Both these stages can be done in the same tannery (which have been referred to as integrated tanneries here) or can be divided between different tanneries. Each of these major processes involves a number of sub-processes, which include complicated, and sometimes repeated operations. In chrome tanning, the 'wet blue' stage, when the leather acquires a light blue hue, is the preliminary stage. It prepares raw hides and skins for the first stage of the finishing stage by tanning it in chrome liquor. The chrome tanned leather undergoes a number of operations to be available in the crust stage as semi-finished leather. In each of the operations that are done in order to produce semi-finished leather, it is possible to use purely manual, or highly mechanised operations, or a range of semi-manual and semimechanised operations. The process of finishing also involves a large number of operations that are a combination of manual and mechanised operations which can be split up between as many units as there are numbers of operations, or can all be done under one roof in highly mechanised factories or somewhere in between.

<sup>&</sup>lt;sup>8</sup> The clusters, it will be seen, came up to enable production in large vegetable tanyards, but with the development of chrome tanning, all the clusters switched predominantly to production of chrome tanned leather.



Vegetable tanned leather that is made traditionally is used to produce cheap products such as cycle seats, etc. for the local market in semi-urban areas and the urban clusters, or to produce traditional items such as shoes and bags that are demanded in the national as well as the international markets. Finished chrome leather is produced either by integrated tanneries (which exist in different sizes and employ different production modes), or by finishing tanneries that acquire semi-finished leather from E.I. or wet-blue tanneries. This finished leather has several uses. It is either exported directly to product makers in other countries, or goes into the production of leather products in a large variety of production organisation forms. The kind of production organisation form depends on the product being produced. For example, footwear production of the standardised variety is amenable to assembly line production and is also demanded in large batches and therefore produced to a very significant extent by large domestic and multinational firms. At the same time, a large chunk of footwear production is also decentralised, ranging from production by small independent producers producing and selling relatively small numbers in the national as well as the international market, to small producers who are essentially subcontractors to larger firms, with the chain of subcontracting extending from large firms down to tiny household workshops. Bags, wallets, and leather garments, on the other hand, require greater supervision for their production and are not amenable to assembly line production and are produced typically in small batches in smaller enterprises.

It was mentioned above that that the production process can be split up into many component processes and can be done under a wide variety of production organisation forms in the tanning segment. It can be seen that this splitting up of production processes in the product making segment as well also results in several alternative organisational forms, depending on how many processes are being undertaken by an enterprise, how mechanised the operations at each stage are, and how employment intensive and skill intensive they are, with all these determining how large or small the enterprise is, what kind of employment takes place, and what the conditions of production are.

Once the leather and leather products are manufactured, they are sold in the domestic or the international market through a wide network of agents and traders to a wide range of buyers. The system of trade in leather products is as complicated as that in raw hides and skins and involves several layers of intermediaries in both national as well as international markets.

### **Government Policy**

The promotional structure for the development of the leather industry is quite vast, with institutions set up for basic research on materials and processes (the Central Leather Research Institute in Madras), for building a pool of technical manpower (colleges of leather technology in different parts of the country), for training workers through training institutes (Footwear Design and Development Institute), national level programmes such as the UNDP assisted National Leather Development Programme and the Leather Technology Mission, various state level leather boards and other such initiatives. There are also a large number of business associations, formed by entrepreneurs in different segments of the industry, and an extremely active Council for Leather Exports (CLE) under the aegis of the Ministry of Commerce.

Government policy towards the leather industry has been guided by the imperatives of two primary aspects: the first aspect is based on the premise that this is a traditional industry providing employment to a large number of people who constitute the bottom of the



economic and social hierarchy, that production based on small scale can be conducive to maximisation of employment and harnessing of skills in the sector and that production of many articles made of leather should therefore continue to be produced in artisanal or small scale units; the second aspect is based on the fact that the sector has always been a large foreign exchange earner and that exports should concentrate on adding value to raw material such that outflow of raw material from the country in semi-processed or finished form should be regulated and exports of more and more value added items should be encouraged. Both policies for small-scale sector development as well as policies for export promotion have thus influenced the leather industry.

#### **Small Scale Sector Policy**

The main aspects of small-scale sector policy that have had a bearing on the leather industry are reservation, subsidised long-term finance and various incentives. The policy of reservation has been inspired by the following concerns: that this is a traditional rural industry providing employment to a large number of people in rural India and that modernisation and mechanisation which might be caused by large scale production might lead to displacement of artisans and people belonging to vulnerable sections of society; that production of various articles for domestic consumption should take place in artisanal units. Many segments of leather and leather product production have thus been reserved for the small-scale sector from 1967 and reservation continued to be a major tenet of policy until February 2003. The provision of subsidised long-term finance and various incentives have been in existence essentially given the recognition that in a small-scale dominated industry, they have to be available to individual producers to overcome constraints on growth and performance. Changes in all these came about with changes in the conceptualisation of the importance of the small-scale sector and these are traced below.

Small-scale reservation has been in existence for the leather and leather products industry since 1967, when reservation was extended from the handloom and small powerloom sector to a large number of industries where small-scale is important. The list of reserved items was gradually expanded over the years until the late nineties. A gradual process of dereservation has been taking place from the late nineties, following a series of arguments being presented by industry associations and committees appointed to look into problems faced by the industry. The arguments run as follows: Reservation does little for the promotion of small enterprises and only serves the purpose of keeping out large enterprises. It is necessary to allow large enterprises to produce products that were hitherto reserved for the small-scale sector particularly in export sectors, because exporting requires minimum scales of operation for efficient production as well as marketing. An important committee constituted to suggest reforms for the small-scale sector in India argues that in important sectors such as textiles and leather, the pace of expansion of exports is threatened because India is unable to supply sufficient quantities within stipulated delivery schedules<sup>9</sup>. In addition, reservation runs counter to a policy of import liberalisation where small enterprises will find it difficult to compete with imports. Thus enterprises need to be able to expand to minimum economically viable size in order for production to be efficient and to encourage exports. The argument for dereservation thus constitutes a major aspect of the changed conceptualisation of the small-scale sector, and within that of the leather sector as a major export earner.

<sup>&</sup>lt;sup>9</sup> Report of the Expert Committee on Small Enterprises (1997).



#### **Export Policy**

The period since 1973-74 has seen significant changes in the policy regime for leather and leather product exports. It has been marked by the progressive emphasis on the exports of value added products over time, in order to promote the development of the domestic leather industry, as well as to keep in line with overall international trends in leather industry exports. This period has also been characterised by important developments on the international front. Apart from the fact that international trade has come to be dominated by increasingly value added products, there was a relocation of several processes in leather and leather product production from advanced countries to developing countries. Relocation took place over time in both polluting activities such as tanning as well as in processes where labour cost saving became a major objective. In keeping with these developments<sup>10</sup>, therefore, policy has been oriented towards more and more value addition in production and export in India.

In 1972, a government committee appointed to look into the export potential of the leather industry (known as the Seetharamiah Committee<sup>11</sup>) made large scale recommendations for encouraging exports of finished leather. It made 18 recommendations, of which all but one were accepted by the government. With its two primary aims being to increase the export potential of the industry and to make it earn foreign exchange for the country, it recommended, among other things, a ban on exports of raw hides and skins, quota restrictions on export of semi-finished leather, a simultaneous increase in finished leather production capacity, and incentives for increasing finished leather exports. The quota restrictions on semi-finished leather exports were such that over the next eight to ten years, exports would reduce to <sup>1</sup>/<sub>4</sub> of the 1971-72 level. In addition to the quota restrictions, semifinished leather was subject to an export duty of 25%. Soon after, semi-finished leather became a canalised item to be exported through the State Trading Corporation. (Exports were decanalised much later, in 1988-89.) A large number of incentives were given to exports, following the recommendations of the committee. Cash Compensatory Support for exports was extended to leather exports in 1973, and Duty Drawback was also provided<sup>12</sup>. Generous airfreight subsidies were provided to overcome disadvantages in long-distance transportation.<sup>13</sup> The recommendation that was not accepted by the government, which may be said to have affected the industry profoundly, was one to provide a cash subsidy upto 15% against exports of leather and leather manufactures for the setting up of infrastructure for modernisation by producers. This was a production-oriented recommendation that targeted producers and left out pure traders who did not have manufacturing facilities. In its place, the CCS scheme was introduced, which is aimed at encouraging trade, not necessarily by manufacturers.

<sup>&</sup>lt;sup>13</sup> A large proportion of all categories of leather industry exports are air-freighted on the basis of volume



<sup>&</sup>lt;sup>10</sup> These developments and their implications on exports from India have been discussed in detail in Chapter 6. <sup>11</sup> Government of India (1972)

<sup>&</sup>lt;sup>12</sup> Cash Compensatory Support was a fiscal incentive provided primarily with the objective of compensating them for the disadvantages that they face in the production process, such as unrefunded taxes and duties paid on inputs in export production. Duty Drawback was meant to pay back the excise and customs duty which had to be paid on inputs

Sinha and Sinha (1992) have argued that the committee's recommendations did not take into account the conditions on the ground as they existed. For example, the air freight subsidy was given, but most foreign airlines refused to carry the high-volume low weight cargo at subsidised rates. Air India did not augment its carrying capacity in order to be able to take up the extra load that this meant. Indian exporters were very often unable to meet delivery schedules as a result. They have also argued that the incentives provided essentially benefited traders as against producers and thus production conditions did not improve significantly.

The second major policy thrust came in the form of the adoption of recommendations made by a second committee (known as the Kaul Committee)<sup>14</sup> in 1979. Its major emphasis was on making available the capital goods needed in the production of leather and leather manufactures through imports. Accordingly, the import duty on tanning, finishing, footwear and leather goods machinery was reduced to a uniform rate of 25%. This facilitated the import of machinery by manufacturers, but also generated some lopsided effects. For example, manufacturers went in for indiscriminate purchase of machinery without several complementary conditions for successful adoption of new machinery coming into existence, such as the existence of adequate demand, sufficient working capital, etc. India also became a dumping ground for obsolete machinery from abroad.<sup>15</sup> The industry in general, and the tanning and finishing industry in particular generated capacities much in excess of what was feasible, given demand. This is an aspect that has been the root of many problems in the industry and reflects the lack of an integrated approach to the whole industry, focusing on clusters of enterprises.<sup>16</sup> In addition, machinery was imported in fully assembled form, and not in knocked-down condition, because this was permitted, and the development of knowledge to assemble according to need, or the development of repair and maintenance facilities was hindered.

A more integrated view of the problems faced by the industry was adopted in the mideighties when the need for producing value added leather products was recognised and given utmost priority. A third committee (known as the Pande Committee)<sup>17</sup> that published its report in 1985 concentrated on evolving measures to augment raw material availability, further the modernisation process and promote footwear as the most important item of export. It recognised the lack of a consistent database on availability of raw hides and skins in India and following its recommendations, a study was conducted by the CLRI to make available this database.<sup>18</sup>The study looked at availability of raw hides and skins at the time as well as prospects for later and recommended measures to improve the quality and availability of raw material. The committee also recommended that imports of finished leather be permitted to compensate for the shortage of raw material and imports of raw hides and skins, wet blue leather and crust leather were also put on OGL. Apart from ensuring supply of raw material through imports, it was also assumed that the finished leather produced in the country was not all of the required quality and available in sufficient quantities for high

<sup>&</sup>lt;sup>18</sup> CLRI (1987)



<sup>&</sup>lt;sup>14</sup> Government of India (1979).

<sup>&</sup>lt;sup>15</sup> Sinha and Sinha (1992)

<sup>&</sup>lt;sup>16</sup> The question of the need for modernisation as well as what constitutes modernisation in the industry, as well as the policies that have been introduced to deal with it have been mainly individual enterprise oriented and have concentrated essentially only on the acquisition of machinery at any cost.

<sup>&</sup>lt;sup>17</sup>Government of India (1985).

quality shoe manufacture and that finished leather imports should be permitted to ensure high quality of leather products.

In order to promote footwear exports in keeping with world trends, it recommended the production of footwear on large scales as well as the development of manpower in footwear engineering, design, pattern making, etc.

Another major committee that submitted its report in 1992 (this being the last committee set up exclusively for the leather industry)<sup>19</sup> explicitly considered measures that were necessary to achieve a 10% share for India in the global market for leather and leather products by the year 2010, an objective that was subsequently adopted by the government and the industry bodies. The committee has argued that while employment generation is a major objective for a traditional industry like leather, this can be achieved best if export growth is accelerated and India's share is improved. Accordingly, the committee's recommendations concentrated on promoting exports of the leather industry. Several different aspects, which form the backbone of the current policy for the industry, were discussed.

Underlying the recommendations of the committee, as well as that of several other documents that have been published on the industry are several assumptions: that the domestic market should not act as a barrier in the expansion of exports; that expansion of scales in a big way is the only way to tap the international market effectively, especially in the footwear segment; that low labour costs are something that will give India a competitive edge over other countries that have higher labour costs and an export structure that takes advantage of this is a preferred strategy for India; that employment and livelihoods that are provided by a labour-intensive sector like leather will continue to be provided by the expansion of the small scale sector through subcontracting, ancillarisation, etc. The various recommendations of the committee followed from these assumptions.

First, it recommended that reservation of specific products for production in the small-scale sector be abolished. This is based on the understanding discussed earlier that increasing export share involves the enhancement of capital availability for the industry and the need to generate substantial additional investment from within and outside the country into the industry. This enhanced capital availability has been hindered, according to the committee, by forcing large scale units to either get licenses for enhancing capacity or by keeping an export obligation on these units. It was assumed that larger Indian and foreign concerns did not enter production in any major way in the leather industry because of the conditions attached to large scale production. It was further argued that dereservation would not harm the interests of the small scale sector if a package of supportive policies was enacted, with increased export growth generating direct and indirect employment in many ways such as successful ancillarisation, subcontracting, etc.

Second, it was recommended that licensing requirements for the industry be dispensed with, that foreign collaborations be cleared quickly and routinely and that Indian firms be permitted to enter into joint ventures in order to gain access to raw material abroad.

<sup>&</sup>lt;sup>19</sup> Government of India (1992).



Third, it was recommended that a variety of educational institutions and training centres be set up and developed to train manpower for the industry. Fourth, the main tenets of a technological package to modernise the industry were identified.

Subsequently, there have been major changes in the regulatory framework for the leather industry, with the major aspects being delicensing, dereservation and import liberalisation.

#### Liberalisation and the Leather Sector

Policies of the Indian government since 1991 have been supporting liberalization in various manufacturing industries. The leather sector was opened up to foreign capital in 2001. After 11 items were dereserved in June 2001 (including semi finished hides and skins, leather shoes, washers and lace) no industrial license is required to manufacture most of the items in the leather industry. Only some items (like chappals, Sandals and garments, gloves and fittings for leather goods) are reserved for exclusive manufacture by small-scale units, which can be produced by non small-scale units after obtaining an industrial license subject to an export obligation of 50 per cent<sup>20</sup>. The government approved an outlay of Rs 290 crore for the 10<sup>th</sup> plan period (2002-07) for modernizing segments of the Leather Industry, namely tanneries, footwear, footwear components, saddlery, leather goods and garments. Government plans include setting up leather units in SEZs and developing leather parks. Some State government in 2002 announced its plans to set up 10 Leather Parks in the state which will require a total investment of Rs 120 crores<sup>21</sup>.

Policy changes favoring reduction in tariff have encouraged import of footwear and as a result the domestic production levels have been fluctuating. Cheaper, imported shoes from China are rapidly taking over the shoe market in India. Imports of ready-made sports shoes from China increased from 468,000 pairs in March 1999 to 570,000 pairs in October 2000, and as a consequence, production levels in the domestic shoe industry fell by 11.24%<sup>22</sup>. Leather sector is also seen as an area of focus in the present negotiations on Non-Agricultural Market Access (NAMA) under the World Trade Organisation (WTO). The present negotiations severely limit government's abilities to increase tariff levels to protect their industry. In the case of India, while a small number of big businesses may gain from the market access to the developed countries, millions of small-scale producers and artisans are being exposed to the harsh competition of the international market, directly affecting employment. Though the tariff reduction formula is yet to be finalized, according to estimations, an average tariff cut of 25 per cent is expected to increase exports in leather, leather products and footwear by 3.7 per cent but imports by 19.3 per cent. Zero tariff or sectoral cuts are expected to raise exports by 7.9 per cent but imports by a 110.7 per cent<sup>23</sup>.

To summarise, policy towards promoting exports from the leather industry has over the years had multiple objectives: the development of the indigenous leather industry through export controls and successive quota restrictions on exports of less value added items such as raw hides and skins and semi-finished leather initially and on finished leather later,

<sup>&</sup>lt;sup>23</sup> Trade Adjustment Study: India, Veena Jha, 2005



<sup>&</sup>lt;sup>20</sup> www.tidco.com

<sup>&</sup>lt;sup>21</sup> Hindu Business line, May 11, 2002

<sup>&</sup>lt;sup>22</sup> Looming Crisis, Action Aid, Campaign document for Trade Justice Campaign

combined with successive development of value-added products; an initial emphasis on the protection of small scale production through reservation in order to ensure employment generation and artisanal production while also encouraging exports, followed by dereservation later; liberalisation of trade policy to enhance import availability of machinery and raw material; developing the industry on the lines of what is demanded on the international market. Policy for the industry has mostly tried to cater to the idea that India should take advantage of trends in international demand, while keeping other objectives such as generation of employment, the quality of employment and the resilient development of the indigenous industry secondary.



This study understands perspectives of the workers in the leather industry in India. It elaborates on how the government policies of liberalisation and deeper integration with global economy has implicated on the labour market in India. Herein the emphasis is on the key issues that affect the workers in terms of their working conditions, wage, social security, and employment security, organisation and negotiating capacity. Key Objectives of this study are a) To understand leather industry of India as part of a global production chain and its implications; b) To understand the changes occurring in the organisation of leather industry as a result of liberalization policies of the government of India and c) Impact (') is having on the Labour Market; Working conditions including wages and social security; organization of production and employer employee relationship and the negotiating capacity of workers.

The study is located in 3 key regions of leather production in India: Chennai in Tamil Nadu which is a hub of modern factories producing leather footwear and accounts for the highest export of leather from India; Agra in Uttar Pradesh, a traditional cluster manufacturing leather footwear for export as well as footwear for the domestic market which has transformed significantly over the past few years and Warangal in Andhra Pradesh a traditional tanning centre facing decline

The chapters on Chennai and Agra locate these cities as part of a global value chain. Some key questions that these sections explore are – what is the nature of production organisation and how is it determined? How does this production organisation get reflected in the labour process? As a cluster, how have Chennai and Agra responded to this? These questions are addressed by focusing on different aspects – organisation of production, structure of the labour market, the nature of recruitment and employment in different unit types.

The chapters explore he linkages between different stages of production, between large manufactures producing, subcontracted units and workers. For this purpose manufacturers are classified as Large, Medium and Small. The role of intermediaries is also looked at. Another the key issue that these chapters explore is control within the value this chain and what is the freedom of the manufacturer. Subsequently the implication on workers is explored. Some key issues here are - employment status of the workers, wages, working conditions, social security, social segregation and workers' organising .

Chapter on Warangal tries to understand the leather tanning Industry in Warangal at present, why is the industry in a state of decline and what are the implications of this decline for the workers.

Contours of the value chain is the concluding chapter which sums up the analysis of the value chain derived from the previous chapters.

### Methodology



This study involves an analysis of the supply chain in the leather industry in Agra by focusing on the manufacturer, intermediary and workers. For this purpose qualitative as well as quantitative methodology has been used for collecting data. Indepth interviews of workers and management were conducted using interview guides and questionnaires. Analysis borrows from transcription of conversations and researchers observations. Information was collected from any other source deemed important.

The first step was to find the workplaces which are producing for big international retailers and brands. Through desk research top supplies of leather shoes and products were identified in Chennai and Agra. The information was verified through field survey. The supply chain of these units was traced and an attempt was made to establish the backward linkages (with dependent subcontractor, independent units doing jobwork and others who were partially linked to this chain) and forward linkages (with the brands and retailers) wherever possible. In some cases it was difficult to trace the chain as an increasing trend of doing most of the production in house was observed, in the case of Chennai from the tanning stage and in the case of Agra from the post tanning.

Top exporters were the starting point in terms of the field work. However, the 'workplace' in this study was not confined to this top layer of exporters. The field research in Chennai included 6 factories and in Agra included 7 factories.

An emphasis was put on understanding the source of inputs/raw materials. Based on a preliminary understanding that the raw materials for the leather industry in Agra are supplied from tanneries in Kanpur and Unnao, information was collected on these raw material suppliers (the organization of production and working conditions) in the workplace.

Management interviews were conducted for all the workplaces researched. Researcher interviewed the management (middle- or lower-level management actually had more detailed information). The interviews were done with personnel manager, line managers, supervisors. Emphasis was put on interviews with the managers, in order to make clear links from a certain company to a certain buyer, raw materials supplier and so on.

Workers interviews were conducted for all workplaces. The number of workers to interview depended on the size of the workplace. About 5 per cent of the workers per workplace were interviewed in the case of Agra and Chennai. For very large workplaces a maximum number of 20 was set. Interviews were done in groups or one-on one. Sample included workers in different departments (cutting, packing etc.) and in different units in the workplace (when there are different units). Researchers also ensured that the interviews were gender balanced (in accordance with the gender division in the workplace). Besides the sample atleast 6 indepth interviews (case studies of the workers preferable two from each unit) including subcontractors were also conducted.

Other sources for collecting information included export associations, export promotion councils or agencies; buying houses; labour department; factory inspector; internet; exhibitions or fairs; chambers of commerce and workers (living) communities, tea vendors outside the factories, other members of the workers' families and ex-workers of the factories and their families.



The field research was constrained at several occasions. In many cases the information was not coming forth from both management and workers. Researchers tried to overcome this by concealing his/her identity and posed as a university student. Management was not forthcoming, particularly in cases when the researcher was noticed interviewing the workers. Another constraint was that the latest annual reports of the companies studied could not be obtained even from the relevant government authorities.



# Chapter 3 - The Leather Industry in Tamil Nadu – Representing the Success Story?

The leather industry in Tamil Nadu has a long history going back to the middle of the nineteenth century. While India was a traditional producer of leather, export trade in raw hides and skins and leather began in the 1830s. It began to be recognized that India, with the largest cattle population in the world, could become a potential supplier on the world market.<sup>24</sup> Initially, India exported only raw and cured hides and skins, but by 1850, began exporting tanned hides and skins as well. This was due to a significant technical improvement introduced in the Madras Presidency.

Until 1847, locally tanned hides and skins in Madras, using the avaram bark, produced a pale yellow, flexible leather, which was defective in that when exposed to sunlight, oxidization resulted in it turning an ugly red colour and patchy. The Madras tanners received complaints from overseas buyers on account of this. In 1847, Charles De Sousa, a French Eurasian technologist treated this avaram tanned leather with a tan liquor from myrabulan, which came to be known as the myrabulan bath. Subsequently, the leathers tanned in the Madras Presidency were found to be of acceptable quality internationally. Exports from Madras thus surged and both U.K and Germany became significant importers of tanned leather as well as raw hides and skins from India. This technical development marked the beginning of the development of the leather industry in Tamil Nadu. Another factor that expanded trade and stimulated growth in the industry was a second major technical improvement that took place in the first decade of the twentieth century, i.e., the development of chrome tanning. Although this was introduced in the USA and Europe as early as the 1890s, in India it was started on an experimental basis in a factory set up by the Government of Madras only in 1904. This was done at the initiative of A.Chatterton, one of the officials of the provincial government in the Madras Presidency as one of his attempts to foster economic development in the provinces by demonstrating the success of different lines of business with state patronage.

The industry in Tamil Nadu developed primarily in response to high raw material availability. The Madras industry specialised in skins. In addition, in terms of livestock availability, the south's advantage lay in goats and sheep, rather than cattle<sup>25</sup>. The railways connected Madras to a wide area that supplies skins, from the Tamil countryside, to Southern Andhra, and from the Deccan to Orissa. Added to these advantages was the growth of Madras city as a destination for migrant labour. From the time that de Susa's factory was at work in Pondicherry, a tanning industry had developed near Madras. In 1857, experimental tanneries were set up in Madras and Bangalore to develop tanning methods. By 1880-81, India was exporting Rs.3.5 million worth of tanned leather and most of this was from the province of

<sup>&</sup>lt;sup>25</sup> Ibid. This is because goats and sheep are adaptable to drier and drought prone lands, compared to cattle which thrive on grasslands.



<sup>&</sup>lt;sup>24</sup> As early as 1804, a prominent civil servant, H.T.Colebrooke, argued that England could replace her supplies of hides from Brazil with those from Bengal.
<sup>25</sup> Ibid. This is because goats and sheep are adaptable to drier and drought prone lands, compared to cattle

Madras. By 1905-06, this had grown to Rs. 41.1 million<sup>26</sup>. While other parts of India traded in raw hides and skins, Madras exported tanned skins from very early on. The tanning industry, therefore, was fairly well developed in India by the 1920s and Tamil Nadu became one of its main centres. Small, unorganised tanneries were very large in number, with a provincial survey of unregistered factories conducted by the Royal Commission for Labour in 1931 showing that in Madras, 776 tanneries employed about 10000 workers.

Further, in Tamil Nadu, the leather industry, from the very beginning, grew to cater to the export market and production units were more on a factory basis than on a cottage basis. The Tamil Nadu clusters are exclusively export oriented, with units either exporting directly, or fabricating for exporters, or doing job work for export production, or selling to exporters.

The development of tanning in Tamil Nadu was because of military demand for tanned leather primarily for boot production. Pallavaram, a suburb of Madras, and Ambur. situated about 110 miles west, saw a spectacular growth of factories during and before World War I and subsequently the industry spread to cover a large area of the North Arcot district. While the early leather businesses in Tamil Nadu were in the hands of the Eurasians, the main indigenous group that became prominent was the Muslims who accumulated large surpluses through trade in timber, seeds, wool, bark, etc in addition to leather. Some of these merchants had migrated from Kutch in the 1860s and continue to be in control of some of the largest leather businesses in Tamil Nadu even today. Because of their dispersed trading interests in raw products of various kinds, they had established networks for the collection and trade in these different raw products, including leather, and could ultimately exercise a greater control over the production chain. These entrepreneurs could set up factories on larger scales than in other parts of the country because of the finance available to them and did not need a local market for tanned hides and skins that was necessary for the tanneries in Calcutta or Kanpur run by the non-Europeans. Madras and adjoining areas also did not have an important enough leather product making industry traditionally that could provide a local market for tanned hides and skins. Only a minority of the Madras firms was European. The largest Madras leather tannery, called the Chrome Leather Company, was set up near Pallavaram near Madras by a young European who was an assistant in a Madras tannery and this firm supplied chrome leather for upholstery to a coach making firm called Simpsons<sup>27</sup>. The area around this firm came to be subsequently known as Chromepet and is today distinct from Pallavaram.

In addition to the Madras area, consisting of Chromepet-Pallavaram and adjoining areas, the leather industry in Tamil Nadu is located in the Palar Valley in Vellore district, consisting of the clusters of Vaniyambadi, Ambur, Pernambut, Melvisharam and Ranipet and the clusters of Erode, Trichy and Dindigul in the other parts of Tamil Nadu. All these clusters have existed since the colonial period and their present level of development is a result of conscious government policy to develop leather clusters in particular ways. Particularly in Tamil Nadu, the degree of state intervention in the industry has been high and a variety of institutions have come into existence to take care of the needs of the industry.

<sup>&</sup>lt;sup>27</sup> Roy (1999)



<sup>&</sup>lt;sup>26</sup> All India Manufacturers' Organisation (1948), P.Usha (1984).

Between 1946 and 1954, two committees were appointed to look into the problems faced by the leather industry, particularly in Tamil Nadu<sup>28</sup>. In 1957, the Central Government established an Export Promotion Council for leather in Madras, in order to seek new markets and to promote the exports of finished leather and leather goods. Another landmark during this period was the setting up of the Central Leather Research Institute (CLRI) in 1953 under the auspices of the Council for Scientific and Industrial Research (CSIR). From an All-India point of view, Tamil Nadu, and within this the city of Madras, became a major centre of focus for the industry, with the state and its capital getting identified with the modern segment of the leather industry in India, something that the rest of the country needs to emulate.

#### **Cluster Description and performance.**

The Madras cluster, essentially concentrated in the Chromepet-Pallavaram belt and some adjoining areas, consists of large numbers of tanneries and some shoemaking units. The Chromepet-Pallavaram cluster consists of large numbers of input suppliers, repairing workshops, warehouses for storing raw hides and skins and several tiny unregulated units for converting waste material into various articles that are transported to local markets. In addition, the Madras cluster also has an office of the Labour Commissioner located near the Pallavaram cluster, as well as several branches of nationalised banks catering quite exclusively to the sector's credit needs. The Madras cluster, therefore, appears better regulated and more organised.

Having gone over the background information on the growth of the leather industry in Tamil Nadu, the following sections will look at whether the Tamil Nadu leather industry, especially in Madras, is substantially different from the other two clusters that this study has undertaken to analyse.

#### Social Background of Entrepreneurs and Workers.

In Tamil Nadu, like in other leather clusters of the country, many tannery workers belong to the scheduled castes, but within them there are a large number who are not from the leather working traditional castes, but come from agricultural families who were involved in and moved into other occupations as well. There are also large numbers of Muslim workers, particularly in tanneries owned by Muslim entrepreneurs. Traditional leather working communities such as the Chakkiliyans and the Paraiyans are mostly engaged in the 'dirty' operations in tanning.<sup>29</sup> An interesting aspect of the importance of ethnic identity for the composition of the labour force lies in the fact that from the early seventies onwards, with the introduction of finishing capacity as part of the Seethara maiah Committee's recommendations, there was a substitution of traditional workers by Muslim workers in a large number of traditional tanneries in Tamil Nadu, including Madras, which is why when fieldwork for this study was done, large numbers from both communities were found<sup>80</sup>. This substitution was based on the perception by a large number of Muslim entrepreneurs that

<sup>&</sup>lt;sup>30</sup> P.Usha's study (Usha (1984) found this to have taken place extensively in the tanneries in the various clusters that she studied in Tamil Nadu.



<sup>&</sup>lt;sup>28</sup> After the war, the Government of Madras set up an ad-hoc committee to report on the state of the leather industry in Tamil Nadu. In 1954, a Committee for Leather Industry and Trade was appointed to look into the reasons why the Madras industry's exports collapsed in 1952. Government of Madras (1954).

<sup>&</sup>lt;sup>29</sup> Nihila (1999) found that in skin tanning units in Tamil Nadu, chakkiliyan women were engaged in the initial process of opening the raw curried skin and of sorting and trimming them.

traditional workers were unfit for the transition to higher-technology processes such as finishing and they would also be unwilling to make the transition. In fact, one of the reasons why the substitution actually took place was as a response to higher labour militancy and the growth of organised trade unions. This will be discussed later.

In general, community appears as an important aspect of ownership as well as employment in the tanning segment as a whole. The Directory of Tanneries published by the CLRI lists more than half of 82 tanneries in Ambur and almost 100 out of 137 tanneries in Vaniyambadi in Tamil Nadu as being owned by Muslims<sup>31</sup>. Within the tanneries, community ownership is more prevalent in older chrome tanneries (both small scale ones as well as medium and large scale) and less in the jobworking segment. In the interviews, it appeared that community linkages are very helpful for entrepreneurs to get a head start in the tannery segment. This is because access to raw material, credit and capital, as well as the ability to sort raw material are factors that crucially affect production in tanning<sup>32</sup> with each of these made easier through community linkages. For example, being a Muslim tanner in Madras provides access to all the above, essentially due to the historical involvement of the community in raw material trade.

However, it cannot be argued that community has functioned as an entry barrier to entrepreneurship in the tanning segment in the leather industry since it was also observed that large numbers of non-traditional entrepreneurs had also set up and operated successful units. One of the reasons why community has not really functioned as an entry barrier in tanning is because of the availability of large numbers of leather technologists who pass out of the various colleges of leather technology regularly.

The following sections lay out the structure of production organisation in typical clusters in Tamil Nadu by tracing the value chain for different kinds of enterprises and the conditions in the labour market. These sections are primarily based on fieldwork done in Madras and Ambur. The fieldwork undertaken in this study consisted of detailed interviews with 123 workers working in – enterprises and with production managers/owners of six among these enterprises. Table 3.1 provides information about the enterprises that were studied.

S.No	Kind of	Name of	Scale of	Age of	Kind of
	Enterprise	Enterprise	operations	enterprise	ownership
1	Dependent	Yokash	Small Scale	2 years	Single
	subcontractor	Leather		-	Proprietorship
	(Fabricator) in	Fashion			

<sup>&</sup>lt;sup>31</sup> CLRI (1998): Directory of Tanneries in India.

<sup>&</sup>lt;sup>32</sup> While this would be true of any industry, it is particularly true of tanning because of the aversion to 'working with flesh' by the largest segment of the population and the ability to judge raw material, trade in it as well as the willingness to finance such trade and production resting only with specific communities, or to those specially trained for it.



	Leather Product making				
2	Independent Finishing Tannery	RMC Exports	Small Scale	8 years	Partnership
3	Dependent Subcontractor in Leather Finishing	New Tech Leathers	Small Scale	18 years	Proprietorship
4	Forward integrated Tannery-cum- Product making unit	N.M.Zackrial & Co	Medium Scale	34 years	Registered under Companies Act
5	Forward integrated Tannery-cum- Product making unit	Multi Vista Global Ltd	Medium Scale	17 years	Registered under Companies Act
6	Forward integrated Tannery-cum- Product making unit	A.V.Thomas Leather and Allied Products Private Ltd	Large Scale	More than 25 years	Private Ltd

Source: Field Study

The interviews were conducted in representative firms in different categories. The first category of firms, constituting the bottom level in the hierarchy of linkages, are the dependent subcontractors in tanning (jobwork tanneries represented by Unit 3) and in leather product making (fabricators represented by Unit 1). These are all small scale enterprises and are involved in hierarchical, vertical relationships with firms that place orders with them. These have come into existence in response to the export thrust<sup>33</sup> and represent the response to fragmented, highly volatile demand in the international market.

In the two firms at this level that this study looked at, the first fabricates shoe uppers for two Madras exporters out of finished leather provided by them and the second produces finished leather from wet blue leather provided by four Madras exporters. Raw material in both cases is sourced by the subcontracting firms mostly from within the state, either from Erode or Trichy<sup>34</sup>. The parent subcontracting firms in turn sell the output (shoe uppers and finished leather respectively) abroad, which is mostly Italy in the first case. Leather product fabricators have very low levels of investment and are therefore easy to set up as the machines are relatively less expensive, whereas jobwork tanneries require more initial investment if sophisticated operations such as leather finishing are undertaken. In the case studies, Unit 3 reported an investment in plant and machinery of Rs.38 lakhs, whereas Unit 1

 <sup>&</sup>lt;sup>33</sup> This is a phenomenon that has intensified from the mid-to late eighties, in response to the export thrust.
 <sup>34</sup> The fabricator's subcontracting firm also sources a small percentage of finished leather from Calcutta.



reported an investment of only Rs.5 lakhs. In both cases, it was reported that contracts with parent firms were short term, of maximum six months duration, although over time long term relationships can get built up with them.

At the next level, there are a large number of small scale producers of finished leather and leather products who are independent producers, such as Unit 2 in this study, which undertakes conversion of wet blue leather to finished leather. The small-scale independent enterprises are involved in vertical hierarchical relations with jobwork units or fabricators (depending on what they produce) who either supply specific products to them or undertake specific processes regularly, or in times when demand is buoyant. In this case, the unit mostly does its own work but gets about 10% of the work outsourced depending on demand. Unit 2 also does jobwork for upto 10-15% of its capacity when there is excess capacity. It procures 70% of its raw material from within Tamil Nadu, 10% from Jullundur and 20% from the international market. These small-scale firms, which have vertical linkages with subcontractor and subcontractee firms and also horizontal relationships among themselves, form the vast majority of firms in the industry and to a large extent would get covered under the modern small-scale sector. They also export to many countries, with most of Unit 2's exports going to China .

The top level consists of medium and large scale enterprises which are independent as well as those that form part of groups. They, in many cases have grown from small scales, sometimes even from fabricator levels. In the tannery segment, they are the result of forward integration from the tannery stage and have minimal, if not no links with the previous two levels. In the product making segment, except for footwear manufacturing firms they have links with fabricators as well as independent small scale tanneries and product making units and in many cases have integrated backwards. The large tannery enterprises have grown with the clusters, though they are relatively independent of them today in a production and marketing sense. The product-making segment in the large-scale sector is still dependent on lower levels for flexibility. Two firms that belong to this category were studied (Unit 4 and Unit 6). Unit 4 is a single, vertically integrated firm employing more than 1000 workers, whereas Unit 6 is a multi-unit group enterprise that has branches even outside Chennai, in Pondicherry and Calcutta with total employment running into several thousands.

Unit 6 has established production capacities in the entire range of products in the leather industry, beginning from tanning of raw hides to a variety of leather products such as shoes, leather garments, leather goods such as bags and wallets. It does no job work for others but gets 40% of its production outsourced in different segments. Like in the earlier cases, much of the raw material is sourced locally (about 70%), but there is also a significant quantum of raw material (both raw hides and skins and finished leather) that is imported. Its exports are mostly of leather products to different European countries, but about 25% of its finished leather production is exported to China and Hong Kong.

The typical trajectory of growth of firms in the industry is as follows: beginning as a jobwork tannery or a product fabricator working purely on orders from larger units that themselves are small scale units, a firm gradually adds machines to do additional tanning or finishing processes in the case of tanneries, i.e., expands the ambit of jobwork operations and gradually tries to get independent customers outside of jobwork. A fabricator, similarly, tries to sell his products independently in the domestic market first and gradually in the export



market. Both these grow gradually to small scale independent enterprises that mostly do their own work but also do some jobwork while they remain small scale. Gradually, these small-scale enterprises diversify production with tanneries undertaking some production of leather products where exports are easier to undertake and product making units starting to manufacture different kinds of products. Thus forward integration or horizontal integration take place even as size remains small. Backward integration from product making to tanning is not seen in small-scale enterprises because the levels of investment required to set up full tanning units is high. While the largest numbers of units remain as these two kinds of smallscale enterprises, some expand capacities in tanning as well as product making and turn into medium and large-scale companies. As the enterprises grow in size and scale the relationship with the bottom level declines, but these units in turn continue to retain the ability to do jobwork when demand is slack. Product making units integrate backwards to ensure captive supplies of tanned leather and very often these have been set up on an inter-cluster basis.

Thus vertical integration within the same firm does not necessarily mean the absence of vertical relationships with other firms and this goes side by side with extensive relations with jobwork or fabricating units. These units are also relatively easy to set up, warranting low investment and generating incomes quickly to make production worthwhile. Thus for a typical firm in the industry, the choice is not between whether to make or buy but to retain the facility for both and use both depending on the situation.

In jobwork tanneries, division of labour is fairly well defined, with distinction being made between workers operating different machines and various other skilled, semi-skilled and unskilled workers. Those who operate machines and drums are considered skilled workers, whereas those working with small handtools such as knives for dehairing and fleshing are considered semi-skilled. All other categories of workers are unskilled workers.

In the small scale independent tanneries, production takes place in factories in both the clusters and a large number of operations are mechanised. In Calcutta, the units undertake the whole process from the raw to the finishing stage, whereas in Madras, the production process begins only at the wet blue or E.I. stage and ends with finished leather. This is because, as mentioned earlier, the Chromepet-Pallavaram tanners are not permitted to undertake the highly polluting stages of tanning upto the wet blue or E.I. stage (or the wet processes as they are referred to).

Investment in these units is quite high, to the tune of Rs.0.5 crores on the average, with a fair degree of mechanisation. A typical tannery contains 20-25 different machines for measuring, cutting, splitting, shaving, etc and several drums where many of the tanning, drying and colouring operations are done. Some of the machines in these units are bought from domestic manufacturers with outlets in the clusters and a few are imported and are of much higher capacity than the average production in these units. Most of the machines, however, are produced domestically and are purchased very often from within the clusters themselves.

Raw material is procured either directly from raw hide and skin markets (in Calcutta, where the main raw material is raw hides and skins) or from other clusters (in Madras where semifinished leather is procured mostly from Dindigul or Trichy, which specialise in the wet processes). These tanneries do not influence raw material prices, which are given to them by the kind and size of buyers from the same sources (in the case of semi-finished leather being the raw material), or by the nature of transactions in raw hide markets (where tanning begins from the raw hide stage). To elaborate, the small scale tanneries in Madras source the wet



blue leather  $\alpha$  E.I. leather that they use from Dindigul, which has hundreds of small tanneries undertaking tanning from the raw to the wet blue or E.I. stage. These tanneries, in turn, sell to other large tanneries in Dindigul itself or in Ambur, Vaniyambadi, etc. mostly on a jobwork basis. With raw hides and skins or semi-finished leather constituting 60 to 70% of input costs, it may be said that these tanneries have very little control over input prices. However, although the control over raw material prices is little, the small scale tanneries have stable, fairly longstanding relationships with raw material suppliers. Chemicals are purchased mostly locally from old suppliers, with price negotiations being done at firm level, indicating a certain flexibility on the part of the supplier depending on volumes of an individual firm's demand, longevity of contract, etc. Most of the chemical suppliers are small scale firms themselves who market their output to individual firms and not in general open markets.

In both the places, the units that were studied had set up product-making and exporting divisions utilising finished leather produced by themselves. Each tannery in Madras has six or seven dedicated buyers of their output (domestic buyers in the former case and foreign buyers in the latter case) with these relationships getting sustained for five or six years at a stretch, and two or three new contacts being established every year.

One aspect that all entrepreneurs stressed in the interviews was that profit margins were being consistently squeezed due to the combination of rising raw material prices and more or less stable output prices, leading firms to undercut each other to get a greater share of the output market, or to cut labour costs by keeping wages very low or resorting to casualisation of the workforce. Thus, as far as horizontal linkages are concerned, i.e., relationships between firms of similar size and producing similar products, it was found that it is intense competition that characterises the relationship between similar enterprises as far as production and marketing is concerned, and not really co-operation or joint action to deal with market agents. It was reported that hardly any information regarding prospective new markets, available machinery and technology, or orders received is ever shared between enterprises, even among enterprises owned by people from the same community or even related to each other. In fact, two of the enterprises reported that on the contrary, a great deal of resources and energy are devoted to gathering secret information on orders received, designs developed by and links established by other similar firms. The reason for this is that most tanneries in the small scale sector are vertically integrated, doing all permissible parts of the production process, and are not dependent on each other in a production sense. The areas where co-operation obtained significantly was with regard to how enterprises dealt with labour, where employers' associations play a major role, as well as in joint action for larger policy issues. For example, in recent years, tanners in Madras have got together and established a Combined Effluent Treatment Plant (CETP) to deal with the pollution due to generation of large volumes of effluents during tanning. These conclusions contrast with some of the standard ones that the literature on clustering have arrived at, where cooperative competition has been observed in terms of horizontal linkages between firms as well.

Coming finally to the production process in the medium and large scale units, it is typically what is considered the modern process in tanning, and the units are highly mechanised, very often automated with the use of CNC machines becoming important over time. All operations from the drum stage ight up to the finishing stage are done by specialised machines and operated by skilled labour which is fairly specialised by operations. These units



use a fair number of imported machines, but very often second hand and imported from Italy. Imported machines, it was reported, are useful only if specialised effects are necessary such as a particular kind of grain in the leather and if demand for that kind of leather was forthcoming in sufficiently large quantities. Otherwise, even these large units did not find it economical to buy imported machinery, even second hand. (It was also reported that a second hand Italian machine for any of the finishing operations cost almost double of what it cost to buy an Indian machine for the same operation, albeit for a product of lesser quality.) Investment in fixed capital is of the order of Rs. 10-15 crores and the companies have annual turnovers of Rs. 20-50 crores<sup>35</sup>. Installed capacities for tanning are more than 2 million sq.ft per month. Table 7.9 shows the cost structure of a typical large scale unit. It may be seen that raw material costs cover almost 90% of costs incurred and labour costs constitute only less than 3% of cost even in these organised sector units. This is the same as the expenditure on labour in the backward traditional tanneries.

These units do all their tanning operations in-house in their present state, having grown from the small scale independent tannery level, at which stage all of them gave work out to jobworkers as well as did jobwork themselves. At the current level of operations, the tannery part in these units is relatively independent of other enterprises in the tannery segment and hardly any kinds of vertical linkages with outside firms obtain, though vertical interfirm linkages have been crucial to their earlier growth. In the units that have integrated forward to establish product making units, work is given out to fabricators for the relatively less skilled processes in the making of products such as handbags, wallets or leather garments, primarily to avoid supervision problems as well as to permit more flexibility to variable demand. It became clear from this that while in tanning and in footwear making it is still possible to centralise operations and function independently for producers such as the ones being considered who supply fairly large quantities of output, in product making, the degree of fragmentation in demand as well as the kind of demand that requires products to be made as cheap as possible makes a flexible production structure with strong vertical inter firm relations inevitable.

These units procure raw material through their buying depots and also have influence over raw material trading channels. All the units reported that they get relatively stable supplies of raw material from the market when they need to buy from the market, due to links with a group of stable suppliers. Orders for raw materials are placed in bulk because they also receive large finished leather orders from their buyers. Unlike the smaller units, these units do not buy raw material on credit because they are in a position to advance credit for raw material purchases. All the units covered also import semi-finished leather and add value to them for use in their own product making units, or import finished leather for their product making units. The finished leather that they themselves make is either exported directly or sold to exporters.

The above description enables us to understand the value chain in the Tamil Nadu leather clusters, summarised in the form of the diagram below.

<sup>&</sup>lt;sup>35</sup> These were the companies that were covered for this study. The other Tamil Nadu clusters have companies whose sales turnovers are of the order of Rs.120 crores or so.



#### Figure 3.1 Value chain in the Leather industry in Chennai

# VALUE CHAIN IN THE LEATHER AND LEATHER PRODUCTS INDUSTRY





The above description shows that the organisation of production can be characterised by one of extreme flexibility given the conditions for profitable production in the conjecture that the industry is faced with. This flexibility, in turn, is guaranteed by extremely flexible labour processes and this is elaborated below.

#### Labour market, working conditions, division of labour and wages.

This sub-section looks at the various aspects of the organisation of the labour process in the leather industry in Tamil Nadu with the objective of answering the following questions: are labour markets characterised by the same kind of flexibility that characterises the system of production? How is the labour process organised in the cluster? These questions are answered by focusing on different aspects. First, the structure of the labour market, the nature of recruitment and employment in different unit types.

In Tamil Nadu, as mentioned earlier, there was a substitution of traditional workers by Muslim workers for machine operations in the early seventies and thus, a significant number of tannery workers are Muslims, apart from the Scheduled Caste workers . In contrast to many other leather clusters in India, where employment is strictly caste determined and leather workers to a large extent being from traditional leather working communities, the major aspect of labour market segmentation in Tamil Nadu is that along gender lines, with significant numbers of women being employed in tanneries in the North Arcot clusters. Also, in Chromepet-Pallavaram and Ambur, where factories were visited for this study, women are employed in tanneries where finishing jobs are done and not in the earlier stages. This is because women are usually employed for many of the degrading and arduous operation in the wet stages of the pre-tanning and tanning process, which are banned in the Madras area. In short, Tamil Nadu is an example where there have been clear changes in the labour market in this traditional industry, i.e., workers from the muslim community and female workers being relatively later entrants, the former being a process from the midseventies and the latter in response to diversification of the industry into leather product making.

Our study covered 123 workers working in - units. The distribution of workers by type of unit and by gender are given in Tables 2 and 3 respectively. Of the 123 workers interviewed,



77 were women. As far as social background is concerned, very few reported being from traditional leather working communities, although most of them are Scheduled Caste workers. Most of the workers interviewed are Hindu, with only 25 Christians (of which 15 are women) and 13 are Muslim(of which 10 are men). This follows the trend that is well known about the leather industry in Tamil Nadu, with large numbers of women being employed in leather product making, mostly from Hindu backgrounds, with Muslim workers being found among men more than women. Table 32 provides summary information on social background and Table 3.4 on educational background.

	Category	Frequency	Percent
	General	1	0.81
Caste	BC	21	17.07
	ST/SC	101	82.11
Religion	Hindu	86	69.92
	Muslim	13	10.66
	Christian	25	20.32

#### Table -3.2: Social background of the respondents

#### Table-3.4: Educational qualification of the respondents

Class	No of respondents	Percentage
No formal education	6	4.88
upto 7 <sup>th</sup>	28	22.76
8-9	43	34.96
10 <sup>th</sup>	32	26.02
12 <sup>th</sup>	7	9.75
Graduation	1	0.81
No response	6	4.88

Most workers, it may be seen, have some formal education and more than 50% have studied upto the 9th standard, making it a workforce aware of the work that they are doing and therefore amenable to skilling and training. However, more than 90% of the workers did not have any technical training, in spite of the large number of training institutes that have been set up in different parts of the country.

It was reported that a significant proportion of recruitment takes place by word of mouth, through workers working in the various enterprises, reflecting a possible importance of kinship ties in recruitment to some extent. Most workers, however, reported direct employment, with Fig 3.2 below showing the frequency distribution of modes of recruitment.



Figure – 3.2 Modes of Recruitment



It is evident that the workforce in the units is not very stable, as the following figure shows, with less than 50% of the workers having worked in the same unit for more than five years, and about 35% of the workers for less than 2 years. However, more than 70% reported having permanent, as against casual employment (Fig 3.4). An interesting distinction was discovered between so called "permanent" workers and "casual" workers in both the tanneries as well as the product making units. Those who have worked for a period of 4-5 years or so in a unit consider themselves " permanent" to the extent that they are not laid off even if there is a fall in demand. The employers also consider them permanent in the same way although it is difficult to say whether clear records exist recording them as permanent workers. The "casual" workers who are also paid monthly salaries similar to the "permanent" workers run the risk of being laid off and the piece rated workers are like daily wage earners with no security whatsoever. Further, the 'permanent' workers are given some Provident Fund and ESI cover, but hardly any other social security benefits that are warranted by factory employment in formal sector units, as Fig 3.5 shows.

#### Figure 3.3: Work Experience of the Respondents





#### Working experience of the respondents in terms of percentage

Figure 3.4: Nature of Employment



Nature of employment

## Figure 3.5 Social Security Benefits



Social security benefits given to the respondents.

Figure 3.6: Total Monthly Income

Total monthly income including overtime




The above figure contains information about emoluments (including wages, benefits and overtime) paid to the workforce, showing that almost a fourth of the respondents earn less than Rs.2000 per month and half of them earn less than Rs.3000, significantly lower than the minimum wages to be paid in the industry. Combined with the fact that about 50% of the respondents were employed on casual terms, this makes it a highly informal labour market even in the large units that were studied. Enterprises maintain regular records of workers employed and there is an office of the Labour Commissioner outside the cluster, which looks into grievances by workers when they are raised and regulates conditions of work. While the labour market in Madras is formal and regulated, there is thus a major segmentation on the basis of gender, and this keeps average wages low across the sector.

In the larger enterprises in Madras, adjustments to demand takes place not through layoffs, but through the system of a 'retention wage'. This is a wage which is paid to workers in slack times or when there is no demand, which ensures that they remain in the employment of the firm concerned. The retention wage is significantly lower than the monthly wage when demand is buoyant, these workers are required to 'compensate' for the retention wage received with longer working hours at the average monthly wage. Overtime rates are not paid in such a case. What is guaranteed here, therefore, is regular employment, but with adjustment to demand volatility taking place by adjusting wages in the above manner and maintaining flexibility.

In Tamil Nadu, trade unions have existed in the leather industry but have over time become ineffective due to a variety of reasons. This trend was corroborated by the field interviews, where managers as well as workers reported that there were no plant level unions that were affiliated to any union outside. There were a large number of agreements that were drawn up between unions affiliated mostly to the AITUC and CITU and employers associations, mediated by the Labour Commissioner in each of the clusters in Tamil Nadu. These agreements were invariably drawn up after strikes were announced by the trade unions, indicating a certain degree of legitimacy among workers, as well as threat perceptions on the part of employers. The agreements had to do with increases in wages as well as allowances. Over a period of time, however, employers have succeeded in diluting the potential for collective bargaining through the replacement of trade unions. While this has reduced the effectiveness of industry level trade unions, workers in individual units still continue to keep contact with the trade unions, although most workers reported that there was no trade union in the enterprises.

However, over a period of time, with the nature of changes in the organisation of firms, the labour process, the feminisation of the workforce, etc, the possibilities for labour militancy have become limited in the sector as a whole.



## Chapter 4 – Agra - Restructuring or Transformation

The tradition of making leather in Agra is centuries old. According to Walton, H.G who wrote a Monograph on tanning and leather work in the united provinces of Agra and Oudh in 1903, tanning industry has traditionally been a rural industry with fallen cattle being the source of raw hides. He noted that traditionally Rajputs used leather shields. During the Mogul period the leather industry in the United Provinces of Agra and Oudh <sup>36</sup> underwent a period of boom. Leather shoes were used by the Mughal army. Leather work also bifurcated with the making of embroidered and ornamented shoes for the Mogul Court<sup>37</sup>. Walton also talks about a sect of chamars called "Rangia" (or "dyer") who formed a considerable portion of the population and carried on a brisk trade chiefly of shoe leather. He defines chamar as one who is by name as well as by hereditary occupation the person who works in leather. He notes that Chamar is the village drudge and the skins and hides of dead animals are his dues.

During the British period export of raw skin and later tanned leather promoted urbanisation of the industry in this region. As trading and transportation systems were established, Kanpur and Agra emerged as important centres of hide trade from where hides were transported to the ports (Chennai and Mumbai). Further, the cantonments stationed at Cawnpore (since 1801) and Agra (since 1805) required leather for shoes, saddlery and harness and the East India Company relied on the local tanners to meet this demand. Walton notes that before the mutiny of 1857, the saddlery, harness and accoutrements for the East India Company's native army and also for the Bengal Artillery were largely manufactured at Cawnpore by the native contractors from locally tanned leather. The industrial slack caused by the mutiny in 1857-59 made them seek alternative sources of supply from England, but the English supply was irregular and inferior in quality and the company again had to fall back on local supply<sup>38</sup>. British introduced technological modernization in the leather industry. Walton notes that the first harness and saddlery factory was established by Lieutenant J. Stewart, an officer of the Arsenal, in 1869 at Cawnpore. Walton also writes that Lieutenant J. Stewart encouraged the tanners to introduce more efficient methods of tanning by giving out contracts and advances of money to build pits, tan leather and introduce chemical process. Tanning was further consolidated with the emergence of organised slaughter houses in the region in the early 20<sup>th</sup> century. These slaughter houses also specialised in meat trade (dried oxen and buffalo meat with Burma).<sup>39</sup> Emergence of tanneries also encouraged huge migration of the traditional leather workers around them. In the United Provinces of Agra and Oudh every eighth man was a chamar in 1911 and his was the first caste (6,083,283) in point of numbers<sup>40</sup>. Walton notes that

 <sup>&</sup>lt;sup>39</sup> Tirthankar Roy
 <sup>40</sup> Walton



 $<sup>^{\</sup>mathbf{36}}$  Walton, H.G., Monograph on tanning and working in leather in the united provinces of Agra and Oudh

<sup>&</sup>lt;sup>37</sup> Spate O. H. K.; Ahmad Enayat (1950), *Five Cities of the Gangetic Plain: A Cross Section of Indian Cultural History*, Geographical Review, Vol. 40, No. 2 ,p.268

 $<sup>^{38}</sup>$  Walton, H.G , Monograph on tanning and working in leather in the united provinces of Agra and Oudh  $\,$ 

Cawnpore was always recognized as the asylum of black guards, unacceptable even in the somewhat hard minded society of imperial Lucknow. Crooke<sup>41</sup> says that Kanpur emerged as a Chamar Centre. While an organised tanning industry developed in Kanpur, Agra emerged as a centre of artisnal leather production. Historical sources reveal that some sections of traditional leather workers gained economically from the increased trade during the British rule and also acquired a higher social position vis-à-vis the large majority of chamars. Jatavs, who constitute most of the leather workers in Agra, were one of these.

Traditionally Agra as a cluster specialised in producing footwear for the domestic market, with a small segment catering to the export market. Production was largely home based or in small units by owned by Jatavs. Peter Knorringa Knorringa observed that Jatav households sold their products to local traders who, in turn, sold it to outside merchants. These merchants who dominated Agra's footwear trade were usually forward caste Hindus or well to do Muslims. Since the producers and the merchants were from different communities, caste based and identity clashes always existed.

When the government of India announced its Industrial policy in 1956, leather industry was reserved for the small scale sector keeping in mind the social concerns. But subsequent policy interventions emphasised on mounting the export potential of the industry. As a result the export segment expanded over even the traditionally non export oriented leather centres like Agra. The period of 1970s was a turning point as from here on there was an emphasis on the export of value added products. There were a series of interventions by the state: ban on export of raw or semi finished leather, facilitating import of capital goods and technology transfer. Setting up leather product making factories now became a lucrative proposition. As Knorringa observes, since the 1970s traders and some outsiders set up more organised workshops and small scale factories that employed Jatav artisans because of the need to control quality and progress of production more directly. Most of these new entrepreneurs have been seen as finance entrepreneurs, as opposed to the more traditional Jatav master.<sup>42</sup> Agra during this time was exporting largely to the Soviet Union and parts of Eastern Europe.<sup>43</sup>

The next turning point came in the early 1990s, when there was a reorganization of the export market. There low quality export market of USSR and the Eastern European countries was disappearing and firms were augmenting their capacities to face the more competitive markets of the West. The government at this time promoted the use of non leather materials in the domestic market so that leather could be reserved for export segment.<sup>44</sup> Dereservation and tariff liberalisation paved way for big players in the industry. Competitive pressure from the international market forced the industry to concentrate on economies of scale. For the small scale domestic producers all this meant shortage of raw materials resulting in increasing cost of production and at the same time loss of market as it was being captured by the big players. Knorringa<sup>45</sup> notes a decrease of 10 % in employment as in many firms died in the period 1991-96. But at the same time he notes a drastic increase

<sup>&</sup>lt;sup>45</sup> Peter Knorringa, Economics of Collaboration, Sage Publishers, 1996



 <sup>&</sup>lt;sup>41</sup> W. Crooke, The Tribes and Castes of the North-West Provinces and Oudh, 4 vols., (Calcutta, 1896)
 <sup>42</sup> Knorringa 1991

<sup>&</sup>lt;sup>43</sup> Knorringa, Peter (1999), *Agra: An Old Cluster Facing the New Competition*, World Development Vol. 27, No. 9, p.1593

<sup>&</sup>lt;sup>44</sup> Subodh Varma and Mahesh Kumar, From Leather Artisans to Brick Kiln Workers Narratives of Weary Travellers, NLI Research Studies Series No. 071/2006

in employment in the direct export<sup>46</sup>. But it is important to point out here that this employment in the export segment was subjected to the volatility of international demand, as is clearly reflected in the case of footwear uppers which faced a recession in demand after about a decade of boom from mid nineties onwards. Agra by then had specialised in upper production. The period from 2000 in addition to all this has witnessed, the dumping of cheep imported shoes, mainly Chinese in the domestic market segment further mounting the problems of the domestic sector.

**Cluster description and performance:** Though modern style factories catering exclusively to the export market are coming up in Agra, most of the production at present is still concentrated in small scale production facilities. Agra, is reported to have a daily production capacity of about 250,00 pairs of all types of footwear. About 50 modern factories, 150 Semi Mechanized units and about 5000 cottage units produce these<sup>47</sup>. It accounts for 22.7 per cent of India's footwear export and 7.3 per cent of export of leather & leather products<sup>48</sup>. Further, a Special Economic Zone has also been proposed for Agra<sup>49</sup>.

Footwear produced in Agra range from high quality premium leather footwear to non leather footwear. Exporters' Associations stress that Agra's key strength is its ability to respond quickly to the changing demands of the buyers in terms of season and fashion. Different localities in Agra<sup>50</sup> cater to different production activities. Along with a huge raw material base, Agra also has a strong network of input suppliers. The cluster dynamics of Agra has contributed significantly towards its growth. Interfirm linkages, increasing technological progress and specialization to raise competitiveness among key players have also become characteristic of this cluster<sup>51</sup>. Some of the well known foreign brands sourcing footwear from Agra are - Clarks, Salamander, Reebok, Wal-mart, C&A, Marshall, Benetton, Marc and Max<sup>52</sup>.

**Social Background of the Entrepreneurs and Workers in Agra:** The traditional leather workers - Jatavs and Muslims continue to dominate the domestic or household footwear industry in Agra. However, they hardly have any presence in the export segment. Further, even among the domestic players the general impression was that Jatav entrepreneurs are losing ground and their number has decreased in the past decade due to competition from Chinese non leather footwear in the domestic market. According to a leader of the Jatav

<sup>&</sup>lt;sup>52</sup> www.ibef.org



<sup>&</sup>lt;sup>46</sup> From 1250 workers in 1991 to 5750 in 1996

<sup>&</sup>lt;sup>47</sup> Sahasraman, 2006

<sup>&</sup>lt;sup>48</sup> Sahasranaman 2006

<sup>&</sup>lt;sup>49</sup> Indian Leather Industry – Perspective Planning and Intervention Strategies to Reach US \$ 7 billion exports by 2010-2011, CLE New Delhi

<sup>&</sup>lt;sup>50</sup> Field survey reveals that home based production mainly of non leather footwear for domestic market dominates the traditional localities in the interiors of the city like Jagdishpura, Dhanauli, Gopalpura and Nainnala. These units depend mainly or only on family labour. Central Agra - Hing ki Mandi, Jeoni Mandi, Mantola also largely produces for domestic market, while jobwork units catering to export market and some export units are also found here. Usually these units employ about < 100 hired labourers, while some may employ even upto 300. Export oriented large production facilities (>100 workers) are located in the outskirts of Agra, especially on the Delhi – Agra highway and Agra – Gwalior highway. It is important to note that there is a trend towards vertical integration of production processes in big export units in Agra and upto 2500 workers can be found working in such production facilities.

<sup>&</sup>lt;sup>51</sup> In 1990-91, some 60 000 workers employed in around 5000 mostly informal small scale units, produces approximately 300000 pairs of shoes per day (Knorringa 1996)

Mahapanchayat, there is a total lack of support from the government in terms of schemes or incentives to promote the domestic footwear industry and this is leading a decline of small producers in the industry.

The export industry is dominated by upper caste Hindus, mainly Punjabis and Sindhis; upper caste Muslims and the new entrants who are mostly the educated middle class and belonging to caste such as baniyas and Kayasthas. Punjabi and Sindhi families entered this trade after partition. The Muslim entrepreneurs are originally from Agra and have family dominated business establishments in leather trade in other parts of India, like some have family relations with big tanneries in Kanpur. Entrepreneurs from the traditional leather making castes have not been able to make inroads into the export segment due to controlled access to resources and inability to make huge capital investments.

Workforce in the leather industry is dominated by the Jatavs, both in the domestic and export segments. It is very difficult to give a description of the workforce in the industry in numbers as no formal survey has been done and there remains a lot of ambiguity. According to A. Sahasranaman 25 per cent of the total population of Agra is dependent directly or indirectly on the footwear industry, which provides employment to approximately 400,000 people. However, according to the Director of Aadhar<sup>53</sup>, the number of workers working in this sector is far below the reported number, according to him the number may vary between 1-1.5 lacs. According to a report<sup>54</sup> by SISI<sup>55</sup>, Agra and Mr. Sarnam Singh, Asst. Director, Leather, SISI, Agra, the total no of workers may be around 200,000. CLE, Agra quotes the total number of workers having employment directly or indirectly in Leather industry to be around  $3.5 - 4 \text{ lacs}^{56}$ .

#### **Organisation of Production**

The following section outlines the organisation of production by outlining the value chain for different kind of enterprises. This section is based on fieldwork in Agra. All the firms described in this table are in some form or the other linked to the export market.

<sup>&</sup>lt;sup>56</sup> Information given by Officer Incharge, CLE, Agra in an interview during fieldwork for this study, September 2006



<sup>&</sup>lt;sup>53</sup> Adhar is an NGO working with Central Leather Research Institute (CLRI) on the Umbrella Project of the Ministry for Human Resource Development, Government of India on registration and providing identity cards to Leather Workers in Agra <sup>54</sup> Status Report on Leather, Leather Products and Footwear Components Industry of the State, Small

Industries Service Institute (SISI), Agra 2005-06

<sup>&</sup>lt;sup>55</sup> Small Industries Service Institute (SISI), Agra a part of 30 SISI set up by the Ministry of Small Scale Industries in different locations to look after the promotion and development of existing Small Industries and prospective entrepreneurs.

S.	Kind of Entorprise	Name of	Scale of	Age of	Kind of	Nature of
No.	Kind of Enterprise	Enterprise	Operation	Enterprise	Ownership	Employment
1	Independent Footwear Manufacturing unit also does jobwork and also sub contracts its work	Ascot Footwear	Small Scale, Annual Turnover Approx. Rs. 35 crores	25 years	Partnership	Permanent and Casual workers 525 workers
2	Independent Footwear Manufacturing unit does job work for Ascot Footwear & Trade Concepts	Taurus Incorporated	Small Scale, Annual Turnover Approx. Rs. 1.5 – 2 crores	7 years	Proprietorship	Permanent and Casual workers 70 workers
3	Independent Footwear Manufacturing unit also sub contracts its work	Metro & Metro	Small Scale, Annual Turnover Approx. Rs. 60 crores	17 years	Partnership	Permanent, Contract and Casual workers 1400 workers
4	Independent Footwear Manufacturing unit also sub contracts its work	Dawar Footwear Industry	Small Scale, Annual Turnover Approx. Rs. 40 crores	30 years	Partnership	Permanent, Contract and Casual workers 1450 workers
5	Independent Footwear Manufacturing unit also sub contracts its work	Gupta Overseas	Small Scale, Annual Turnover Approx. Rs. 53 crores	20 years	Partnership	Permanent, Contract and Casual workers 2000 workers
6	Dependent Footwear Manufacturing unit does job work for other units like Gupta Overseas	Kamps Footwear	Small Scale, Annual Turnover Approx. Rs. 2 crores	27 years	Proprietorship	Permanent and Casual workers 100 workers
7	Dependent subcontractor firm doing jobwork for export units like Gupta Overseas	Bava Shoes	Small Scale			Casual Workers less than 100

If we begin from the bottom of the hierarchical order, the first category of firms are those which are dependent units doing jobwork for export firms. They are known as fabricator or subcontractors or jobworkers and are small scale firms employing less than 100 workers. Unit 7 is a typical example of this. They could be doing jobwork for one or more than one firms at the same time.



Next is the category of dependent subcontractors who are more exclusive suppliers to leading brands – domestic or international. They produce the entire footwear. The scale on which such units operate could vary, but usually they operate on small scale and have a turnover between 1-2 crore. They share long standing relations with the brand. Such firms came into existence in the late 1980s and early 1990s and expanded over a period of time. The workforce here is both permanent and casual. Unit 6 in the study represents such a unit. It produces more or less exclusively for a leading brand - Bata. It employed about 100 workers.

Then are those independent footwear producers who are into direct exports as well as also do jobwork for other exporters. Unit 2 represents one such unit. At present was doing 90 % of its own work and 10% of job work for the export oriented units. Production in the unit was largely done in-house. The company's current investment in plant and machinery is approx. Rs.15- 20 lacs. The firm has a single Ex-stitching machine imported from Germany. The turnover of the company is approx. Rs. 1.5 - 2 crore and installed capacity for producing different varieties of footwear is 500 pairs / day. It employs about 100 workers.

Finally we have the large export firms. These units seem to have a greater degree of independence in terms of their production and marketing. They are vertically integrated from the shoe upper production stage till the final product. Unit 1, 3, 4 and 5 represent such units. In the case of unit 1 the company's current investment in plant and machinery is approximately 4 crores and the annual turnover of the company is Rs 35 crore. The firm has fully mechanized units, with the latest machines imported from Italy. The installed capacity of the firm for producing products is 3000 pairs / day. Cost of the finished products when produced by the export house range between US\$ 8-36. The company also sub contracts its work to other units. 80% of the production is done in-house while the remaining 20% is subcontracted out. Mainly the uppers are sub contracted out but sometimes the entire product is being manufactured in another unit. Raw material used by the company is being sourced from Kanpur and also imported from Thailand and China. About 500 workers are employed here.

Among the large export firms there are a category of producers that do not engage in jobwork for other exporters. Unit 3, 4 and 5 in the present study represent such firms. They have a hierarchical relation with subcontractors who supply specific products to them. These units usually employ 1000-2000 workers. In unit 3 the current investment in plant and machinery is approx. Rs.10 crore. The annual turnover of the company is approx. Rs. 60 crore. The firm has machines imported from Italy and Germany. The installed capacity for producing different products is 6000 pairs / day. The company does its own work as well as sub contracts its work to other units. 95% of the production is done in-house while the remaining 5% is subcontracted out. Mainly uppers are sub contracted. In the case of Unit 4 the current investment in plant and machinery is approx. 10 crores with 20% increase in the same every year. The firm has fully mechanized units, with the latest machines imported from Italy & Germany. With effective presence in more than 40 countries the company has increased its earning from 1 crore (1993) to 40 crores (2005-06). The installed capacity for producing products is: Ladies shoes – 2000 pairs / day, Men's shoes – 2400 pairs / day & Uppers – 2000 pairs / day. From shoe upper to complete shoe everything is produced in house thereby reducing the production lead-time and enhancing cost. The company does its own work as well as sub contracts its work to other units. 80% of the production is done inhouse while the remaining 20% is subcontracted out to small fabricators. Raw materials and



components are mainly sourced from units in India and also imported from Germany & Italy.

It is important to note here that unlike Chennai where the production process in big units begins from tanning, in Agra no unit has vertically integrated tanning. Another important point that must be made here is regarding the home based workers in Agra. It is difficult to say that the home based production in Agra has no links with the export market. But at the same time the home-based production in Agra predominantly caters for the domestic market and in this sense we did not explore this rug of producers in this study. Before we discuss how each of this category functions in the value chain, it is important to explain the stages of production of leather footwear in Agra:

#### Figure 4.1: Steps involved in footwear production



When we analyse of the production chain Agra, we find that the first level is of the fabricators or subcontractors who specialise in some key operations in footwear manufacturing. Usually they specialise in upper stitching. Sometimes these workshops also take up lasting and bottoming operations. These fabricators may or may not be exclusively producing for the export market. Since the entire shoe is not being produced here, a huge investment is not required. Number of workers working in such fabricator workshops vary



between 10-100. Exporters who give orders to such firms consider it as a convenient way of meeting the flexible and fast changing international demand, while escaping from laws and regulations. Those exporters who did not give orders to these firms explained the growing emphasis on quality and hence the insistence of the buyers to produce everything in-house. Upper designing takes place in the export firm. Leather and other components are provided by the export firm. Primarily stitching is done here. Such units are not easy to locate as they conceal their identity very efficiently. The main exporters do not divulge any information regarding them and in most cases deny having links with them.

Moving further up in the value chain we have the small scale manufacturers who are producing the entire shoe. Such firms will always have direct links with the export market. Many times they also pick up orders for job work from other big exporter firms, agents and merchant exporters. The ratio of own production to job work varies from firm to firm and also varies every year. In some cases they also further subcontract work to the fabricators. Usually in case they are doing their own production, raw materiak will be purchased by them according the specifications of the buyers. However, in case of job work leather and other components are provided by the company for whom the work is being done. While many of these firms started their operations with mechanisation being restricted to the use of manually powered sewing machines, over a period of time particularly since 2000 they have come to adopt new techniques. Most of the machinery used by them is domestically manufactured, but in some cases they have come to acquire imported machines from European countries - Italy and Germany.

Further up along the chain are the medium and large exporters. A close observation reveals that in the recent past exporters in this category have undergone many changes. Most of these units registered originally as small scale enterprises, continue to have the same status for records but in reality have grown far beyond. They have augmented their capacities with investment between 25-50 crore, state of art factories and are working on plans for further expansion. Workforce employed by them has expanded hugely over the past few years and on an average they employ between 1000-2000 workers. They have vertically integrated the production process beginning from the upper designing till the final packing. Yet these firms have strong vertical with other firms in the cluster. Almost in all cases they subcontract a part of the production to other units. In some cases we observe that even similar size units take up jobwork from their co competitors.

While on the one hand there is an increasing emphasis on in house production, and vertical integration within the firm, a vertical relationship with fabricators outside continues. Export firms usually subcontract about 5 -20 % of their production, mainly upper production and packing. Interestingly, the relationship of the exporters with subcontractors under study is reported to be by and larger not stable. Exporters informed that relationship with subcontractors is not long standing and they give the order to whoever agrees to do the work at the given price. Exporters as a strategy keep changing their subcontractors. Subcontractors provide flexibility and allow exporters to cater to fashion specific and seasonal demands of the buyers. Subcontractors are also not committed in picking up job work from exporters. Certain degree of specialisation is evident though as subcontractors are often assigned only to produce specific part of the shoe. Inhouse contracting is also practiced by some export units. In this case the export unit takes out a tender for a part of the order that he has obtained from the buyer. Subcontractor quoting the lost rate is given the contract. He works within the premises of the export unit. Another form of contracting is when labour is supplied and managed by the contractor. In this case the responsibility of



completing order lies with the company. Workers work within the production facility of the exporter, but they are hired and paid by the contractor.

Designing is done both in house and according to the specifications of the buyers. How effectively exporters can develop their own designs depends on the Rand D capabilities within the firms. It was observed during this study that exporters are taking more and more initiative to expand their R&D facilities. Yet this involves a great amount of risk as their access to international market and demand remains restricted. Hence exporters mostly prefer to strictly adhere to the design specifications laid by the buyers. One of the firms studied had its own brand of footwear which it marketed in the international market. The firm reported that it developed indigenous designs for 40 per cent of its total production and 60 per cent of the production was according to the buyer specifications. Strict can adherence to buyer specifications becomes an area of their own core competence. Websites of an export houses states that it is their 'primary competitive advantage.'

Finished leather is the key raw material component accounting for almost 60<sup>57</sup> percent of the input cost. The kind of raw material used depends on the product specifications. Most of the firms in Agra source finished leather from four locations in India Chennai (50%), Kanpur (20%), Kolkata (15%) and Jalandhar (15%)<sup>58</sup>. About 10 per cent is being imported<sup>59</sup>. Bulk of the consumption of Agra consists of goat skin, she. ep skins and calf skins and hence is sourced from the modern tanneries in Tamilnadu. Kanpur is the main source of buffalo leather while Kolkata specializes in cow leather. It can be argued that firms in Agra have stable relations with raw material suppliers. One of the exporters explained that a couple of big tanneries in Kanpur supply raw materials to all top export houses in Agra. Supply of accessories (hooks, buckles, evelets and toppufs) is virtually monopolised by one supplier in Agra. They buy these from units based in Delhi, Aligarh, Mumbai, China and Europe and sell in Agra. Soles and Chemicals are supplied locally. This monopoly is also reflective of a strong element of trust entrusted by the exporters in this supplier. Producers exert hardy any control over the inputs, both raw materials and accessories. Though their may be some price negotiations, with their suppliers, product specifications laid down by the buyer do not provide much scope for it. To explain this further, specifications laid down by international buyers include not only the product design but also the raw material, depending on the quality and colour of the final product. This sometimes also implies that the buyers specify the country and company from which the raw material should be sourced. Some buyers insist on the use of imported leather for their products. Even the accessories to be used and packaging boxes are specified by buyers. Exporters stress that for the same order, sample price fixed once cannot by the buyers be changed even if the prices of raw materials fluctuate. Any increase is borne by the exporter.

Further, quality control regulations are strictly directed by buyers and maintained by exporters. According to most of the exporters, buyers are very strict and insist on the quality of the leather being tested by SGS<sup>60</sup> at the sample stage for each order. Only after getting the certificate the final orders are placed. Buyers conduct regular inspection of the products. In case of the orders acquired through an agent, he conducts regular inspection of the products.

<sup>&</sup>lt;sup>60</sup> The SGS Group is an inspection, verification, testing and certification company. SGS India Pvt. Ltd, provides Inspection, Testing and Certification services to the trade in India.



<sup>&</sup>lt;sup>57</sup> As calculated from the cost of production details given by the firms in the study

<sup>&</sup>lt;sup>58</sup> Information given by Officer Incharge, CLE, Agra in an interview during fieldwork for this study, September 2006

<sup>&</sup>lt;sup>59</sup> Indian Leather Industry – Perspective Planning and Intervention Strategies to Reach US \$ 7 billion exports by 2010-2011, CLE New Delhi

Delivery schedules are specified by buyers in the contract. There is no space for negotiation in fixing delivery schedules. Exporters stressed that they were very strictly following delivery schedules committed to the buyer. In case an order is delayed, the exporters compensate this like by sending the consignment by air on their own expense. The reason exporters give for having long standing relations with their buyers is the ability to keep up their delivery schedules.

With regards to price fixation, exporters in the field study noted that negotiations are involved however this is only at the stage of initial price setting. Final price for the same order cannot be changed. Further, even between the first and second order, buyers leave a scope for only 5-10 % increase. For the exporters, the profit remains between 10 to 15 % of the total cost of the production. In the case of job work as one producer elaborated, "margin remains between Rs 20- 30/ per pair of shoes, irrespective of the design and quality."

Exporters in most cases have long standing relationships with buyers. Number of orders received from the same buyer ranges from 2- 4 times a year. Every detail regarding the product is decided before the final order is sanctioned. When a job is obtained through agents the agents gives the orders along with the details of the product to be produced. Long standing relationships also have a strong element of trust and once the deal is finalized the production starts even without written orders. Agents are mostly used as: 1) some buyers prefer to deal through agents, 2) agents helps them to get in touch with new buyers, 3) in international fairs agents help in securing them orders and 4) agents help exporters in marketing their own designs. Participation in international fairs is another key strategy of the exporters as this also helps them establish direct relations with the buyers. "Orders received are short term and bulk, need not necessarily be cheep," observed one of the exporters. The field study indicated that despite thin margins, cut throat competition among each other often compels exporters to further reduce their profit margin per piece in case they get a greater quantity of order.









#### Labour Market, Working conditions and wages

The same question that were addressed in TN are addressed with respect to the labour market in Agra's Leather industry. The attempt is to identify how the flexibility in the organisation of production maintained further through flexibility in the labour market. The present field survey covers a total of 141 workers from export production units in Agra. In Agra the Jatavs or traditional leather workers continue to dominate the workforce. In the present study, most of the respondents are predominantly Jatavs (86.52%). Jatavs fall in the Scheduled Caste category. Unlike Chennai, in the case of Agra one cannot say that there has been any organised attempt to replace the traditional workforce. Yet it is important to note that apart from Jatavs some sections of the Muslim community, backward castes and even upper caste hindus are also increasingly found engaged in footwear making. Women were mostly engaged in upper production as fitters or as helpers in the packaging department, in some cases restricted to jobs like serving water, sweeping etc. This indicates a trend of job segregation, where participation of women in the workforce in export units is negligible and confined largely to low paid jobs.

In terms of age the workforce in the leather industry in Agra is more or less evenly distributed across different age groups. Most of the workers (29.08%) were in the age group of >35 yrs, while another 18.84 % fell in the group of 31-35 yrs. The presence of only 7% of the workforce in the age group of up to 20 yrs testifies that in the export oriented units workers below 18yrs are not allowed to enter the premise. Majority of the respondents (76.6 percent) were married. Most of the workers (65.25 %) said that they had large families i.e. of 5 members and above. Levels of education attained by the workers in leather industry indicate huge variation. While roughly 25% of the workers had received no formal education, only about 3% of the respondents said that they had completed their graduation (Fig-4.3). This clearly indicated that educational levels are not restricting workers from entering into this industry. At the same time, as against the common perception of traditional artisanal industries, having formal education could be an added advantage. 5 respondents noted that they had technical education. Table 2 shows the frequency and percent of respondents having technical education. All the respondents who had received technical education noted that they got trained first and then entered the industry. No on the job training was reported.

All the workers interviewed said that they had worked for big export units as well as in the small workshops also catering for the domestic industry or 'civil' as they called it. The usual trend was to start work with 'civil' and after gaining about a couple of years experience, join the export units. Infact many of the younger workers noted that they still kept fluctuating between 'export' and 'civil' work. Workers had different perception about these. "In civil we have the freedom of movement whereas in the export unit we are jailed," stressed one worker. "In civil we do not mind working overtime since all the work is piece rated, but in export this is not the case" said another. Yet the only reason for working in the export unit is the availability of work round the year whereas in civil, work is available for maximum of 6 months in a year.



	Category	Percent
	General	6.4
Caste	BC	7.1
	ST/SC	86.5
Religion	Hindu	94.3
	Muslim	5.7

#### Table 4.2: Composition of the Workforce

#### Figure 4.3: Educational Qualification of the Respondents



On recruitment majority of the workers noted that they joined the company through a worker already working in that unit. Since all the workers are local, they stay in nearby localities and have family ties, neighbourhood links and common friends with workers in the same industry. Job related information is easily exchanged through all these channels. About 36% of workers said that they directly got the job. These workers reported that companies advertised for various vacancies, which enabled these workers to approach them. Boards advertising vacancies like for fitters and stitchers are a common sight along the highway where these export units are located. Workers also reported to have got their present job through contractors. In many cases these contractors were distantly related to the workers. In other cases they were introduced to the contractors through common friends.





Method of joining the company by the respondents.

#### Figure 4.4: Method of Recruitment

Details of the working experience of the respondents have been presented in fig 4.5. In the present study almost 65% of the respondents said that they were working in their respective units for the last three years. These figures clearly indicate that the leather industry in Agra does not have a high labour turnover. This is a clear departure from the trend observed in other manufacturing industries such as the garment industry in Delhi or Mumbai. This also indicates that the industry is offering regular work to the workers. However, it also means that there are no long term employees in the company. Another indicator of this is the presence of almost 37% of the workforce in service for 3-5 years also indicates this. This is further substantiated by the fact that an overwhelming majority of the respondents said that they were regular, though they have not been given any appointment letter and they themselves are aware of the fact that they can removed from employment at any time without any notice. This is clearly one of the ways employed by the firms to exercise labour control.

Then dual system of hiring workers is practiced which enables firms to control the workforce as well as adjusting according to the flexible international demand. Usually while some categories of workers like cutting masters working in the sampling department and supervisors are always hired directly by the firms. For the rest of the workers, some will be hired directly and some through contractor. While companies usually pay workers on time rate, contractors pay only on piece rate. The piece rates vary according to the design. In the present study about 51.8 percent of the respondents were time rated and the remaining 48.2 per cent of the respondents were piece rated workers.



#### **Figure 4.5: Work Experience of the respondents**



Work experience of the respondents

Further, working hours and wage are two key instruments used to control workers and maintain a flexible workforce. Many firms studied follow a practice of increasing the normal working hours for workers. About a fifth of the workers noted that they worked for working for 10-12 hours on normal working days. Then majority of the workers reported that they do overtime. The overtime working hours by the respondents has been presented in fig 4.8. About 24.1% of the respondents were working 2-4hours overtime every day indicating the extensiveness of the work in these units. The workers said that overtime working was not on their will but was compulsory and if they refused to do they were removed from the factory.

Analysis of the wage structure in the firms reveals that majority of the workers (77.3%) received monthly a salary which was below Rs. 3000. The remaining 22.7% received more than 3000/ month. The total monthly income of the respondents in terms of percentage has been shown in fig 4.9. In the case of piece rated workers the rate per piece depends on the design of the upper. It may vary from Rs. 8-10 per pair to Rs. 21/ pair. The workers said that they work more to earn more.



### Figure 4.6: Nature of Employment



Figure 4.7: Duration of Overtime



Duration of Overtime



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#### Figure 4.8: Total Monthly Income of the Respondents



Total monthly income of the respondents including OT.

 Table: 4.3 Minimum wage structure for different class of workers

Serial no.	Class	Minimum wages/ month as per Govt. notification (in Rs.)	Wage structure as per SISI report (in Rs.)
1	Unskilled	2600	2500
2	Semi Skilled	2964	3500
3	Skilled	3290	5000

According to the UP state Govt. notification dated 24.022006 the revised minimum monthly wages for the different categories of the workers has been presented in table 4.7. Table 11 shows the number of workers from different departments and the minimum wage distribution across categories. A total of 105 workers from both (piece rated & fixed salary workers) groups did not get the minimum wage fixed by the Government. Five piece rated workers lie on the border of the minimum wages and as they are piece rated workers the no. of pieces done are not fixed for each month therefore they can be considered as not getting



the minimum wage. Taking this into consideration a total of 110 workers (78.14%) were not getting the minimum wages.

Department	Category	Minimum Wages / month	Piece rated workers	Monthly paid workers	No of under paid workers	%
Fitter	Skilled	3290	40	45	73	85.98
Cutting	Semi skilled	2964	14	8	18	81.8
Bottom	Semi skilled	2964	8	6	7	50.0
Final Passing	Semi skilled	2964	0	3	1	33.3
Printing	Semi skilled	2964	4	1	5	100
Finishing	Semi skilled	2964	2	3	4	80.0
Packaging	Un skilled	2600	0	3	2	66.7
Quality control	Skilled	3290	0	1	0	0
Designing	Skilled	3290	0	3	0	0
Total			68	73	110	78.1

 Table 4.4 Number of under paid workers in each department

The overtime rate in general was Rs. 10/ hour. "We get Rs. 30 for 3hrs overtime work. The rate of overtime being Rs. 10/ hr," noted a worker. According to the workers of the one unit they get one-day payment for doing one-day night shift from 6pm to 12.30 am. They get half an hour lunch break and Rs 25 for the dinner. None of the workers reported getting overtime payment at the premium rate (as stipulated under the minimum wages act of 1948). Workers from 2 units reported that if a worker is late for work he is not allowed to enter the unit. Majority of the worker from different units said that Sunday is a regular weekly holiday but it is not paid. 83.7per cent of the respondents said that they were not getting any annual holidays whereas only 16.3 per cent of the respondents were getting annual holidays.

Overwhelming majority of the respondents said that they were deprived of social security benefits like PF, ESI and Bonus (Fig -4.12). Only a small fraction of the total respondents were getting these benefits. Even among the workers who receive these benefits, it is observed that social security is understood only in terms of PF and ESI benefits. Other social security benefits like gratuity, crèche, coverage under accident schemes and retrenchment benefits are not being given to any of the respondents. Both the permanent and non-permanent workers were deprived of these social security benefits only permanent workers get PF, ESI and bonus.



#### **Figure 4.9: Social Security Benefits**



Social security benefits given to the workers.

A worker narrated, "I was working as a machine operator in the fitter department in a company. I was a regular employee of the company availing PF and ESI benefits. Once I fell ill and was admitted in the hospital, after recovery I went to join duty but to my surprise when I tried to claimed the medical benefits, I was dismissed from my job without giving any reasons." Workers informed that many of them did not have their PF account numbers, so even while their PF is deducted, they do not know whether it reaches their account. Even among the workers who receive these benefits, it is observed that social security is understood only in terms of PF and ESI benefits. Other social security benefits like gratuity, crèche, coverage under accident schemes, maternity benefits to female workers and retrenchment benefits are not being given to any of the respondents. Then while under pressure of compliance with labour standards, while most exporters try to keep First Aid and Fire fighting facilities in the units, most of the workers are not satisfied with this and they feel that this is just an eyewash for the buyers. The workers said that though there is firefighting apparatus but only the supervisors and permanent workers are trained to use it and the other workers do not know how to use it. First aid box is present but that is only for show and rarely medicines are present in it. The first aid box is there only to escape the inspection. Sometimes the workers get the medicines but on most of the occasions they do not get it. The workers said that the managers take the medicines to their homes. According to a worker two monkeys died in the water tank of the factory and the workers were drinking water from same source. The unit has an AC but it is never switched on even during summer.

Majority of the respondents had complaints regarding the health and safety conditions at the working place and said that there has been no improvement in the health and safety conditions during the last 5 years. Workers suffer commonly from respiratory



problems, lung diseases and skin infections due to constant exposure to glue and fumes. They are also exposed to risk of nasal cancer, neurotoxicity and adverse physical factors. Workers said that if he is ill and he takes a half-day holiday he loses the wage for the entire day.

In Agra despite laws being in place, freedom of association and the right to collective bargaining remain a distant realization for the workers in the leather industry. There is no unionization in the entire footwear-manufacturing units in Agra. The workers are not unionized and if they try to form a union the worker is removed from the work that very moment, seeing this the other workers do not try to form the union but they are of a opinion that there should be a union to represent their voice regarding wage negotiations, dispute resolutions and about social security benefits.

Though there have not been any serious cases of strikes and lockout in the units studied, there have been cases where the entire production has been stopped for few hours. In one of the export unit the workers demanded wage increment and went on strike the management closed the unit and opened another unit after 1 yr. Occasional instances of protest against work pressure and for wage increment are found but as one worker said, "Workers who open their mouth are removed from their job." Another worker noted, "If we have any complaint, it has to be settled within the department. We are never allowed to meet the manager or the owner of the unit."

According to one worker, "working hours in the factory are long and we are unable to spend time with family. There is no time or space for a union." According to another worker, "the management does not favor the formation of trade unions and hence due to their fear we do not form it." Another worker added, "Once the management comes to know that someone is trying to form a union or raising his voice against the management, the very next moment he loses his job, which they cannot afford to do so. It is better to be employed rather than unemployed." A worker narrated: "I was working as a supervisor in a company for the last five years. I was in charge of one of the assembly line production whose strength was 60. One day on my way to work I had an accident in office bus and did not go to work that day and the next day. When I went to work after 2 days I was not allowed to enter the premise saying that I am no more an employee of the factory. On this the workers of the assembly line where I was in charge protested against the decision of the management, seeing this, the management removed all the workers (60) from the factory. This incidence took place in the month of Dec., 06." Another worker narrated: "In my company, 10 workers asked to increase their wage but to their surprise all of them were removed from their job. This incidence took place one year ago." Of the total respondents, 138 (97.87%) were of the opinion that there should be a union, which can raise voice for their benefits.

Trade Unions have always been present in Agra but the general feeling was that they are approached by workers when they have been dismissed, for Provident Fund related issues or in cases where workers need compensation for injury etc. At the same time there are sporadic protests which may or may not be lead by a union. With existing low wage and lack of social security, flexible labour practices are adding job insecurity and the workers are increasingly feeling the need to organise.



## **Chapter 5: Warangal - A chronicle of Decline**

The previous two chapters analysed the structures of production and network that have come up in response to the export thrust in two major countries for local production Tamilnadu and Agra. This chapter looks at the story of a declining old cluster as an illustrative case for structural change in the leather industry that came about as a result of its systematic incorporation into the GVC for leather . The case of Warangal is presented below.

The leather tanning industry in Warangal dates back to, the nineteenth century. According to local sources, (around 1813) during the reign of the Nizams in there were about 500 tannery units running in and around this town. Warangal's tanning industry at present is concentrated in 2 villages: Deshaipet and Enumamula. According to a legend, Enumamula was a beautiful forestland with a large population of (daunted) elephants – that is how the village got its name (In Telugu, the word for Elephant is Enugu). Another interesting story about the place is that when the Kakatiya kings<sup>61</sup> ruled the city, the King's Devadasf<sup>2</sup> came here to enjoy through a secret cave. Remains of the secret cave can still be seen here. History of Deshaipet or – Deshai's land is traced back to a rich landlord family of Warangal District called Deshai. Their native place was Atmakur Village in Warangal and they owned thousands of acres of agricultural land in Deshipet<sup>63</sup>.

Deshaipet and Enumamula are divided by a road. Enumamula is a Gram panchayat village under Hanmakonda Mandal and Deshaipet is a revenue village and comes under Municipality. Enumamula has a population of 15000 and 10000 eligible voters out of which 5000 people belong to Scheduled Castes. Their main occupation is leather work and agriculture and related industries such as beedi work and construction work. Enumamula has a municipal school, two private schools and one private hospital. Deshaipet has a population of around 17484, 8000 of which belongs to Schedule Castes<sup>64</sup>. Main occupation here is Leather work, beedi work and weaving. This village has four Churches, one Mosque and three temples. There is a municipal school two private management schools and one aided school presently catering the needs of the locality. One Post Graduate college is also there. Here also there is no health care centre except a private clinic.

**Status of Tanning Industry and the Organisation of the Production Process:** The Tanning Industry in Warangal at present consists of 12 tanneries. Out of these 8 are located in Enumanula and 4 in Deshaipet. Most of these units are engaged in the processing of sheep hides. Raw hides from nearby villages of Warangal, Karimnagar and other districts of north Telangana are processed here. Collection of raw hides is through established networks. After processing, this leather is sold to leather garment and leather product manufacturing units. Leather from Warangal is mostly used in making of garments, handbags, jerkins, purses and other related leather products. There is no leather manufacturing unit in Warangal. The produce of the tanneries units is sold in the Chennai market. The following figure explains the Production Chain in Warangal (fig 5.1)

<sup>&</sup>lt;sup>64</sup> As per the latest election study reports (taken from a local newspaper journalist)



<sup>&</sup>lt;sup>61</sup> Kakatiya dynasty ruled parts of Andhra Pradesh from 1083 to 1323.

<sup>62</sup> 

<sup>&</sup>lt;sup>63</sup> An old man from Deshaipet narrated this legend to us



#### Figure 5.1: Production Chain in Warangal

#### Source: CEC field Survey

The leather production chain in Warangal begins from Mandi Bazar<sup>65</sup>. Located at Pochammaidan, 3kms away from Deshaipet, Mandi Bazar is the prime source of raw material to the tanneries in Enumanula and Deshaipet.. Goat, sheep and cow skins<sup>66</sup> are sold here. Mandi Bazaar has about 60 -70 shops owned by merchants who supply raw material to tanneries. The skin is treated with sodium and the process is known as salting.

The tanning process followed in all the 12 tanneries in Warangal is 'chrome tanning<sup>67</sup>. The various stages of this are explained in figure 5.1.

The finished skins from Warangal are sold through 2 key channels -1) through merchants to production units in Delhi, Chennai and Punjab 2) through merchants again in fairs to production units both within and outside India. At present Warangal has 8 functional units. (Largely) the units can be categorized as in table 5.1.

<sup>&</sup>lt;sup>67</sup> Chrome tanning is a chemical tanning process



<sup>&</sup>lt;sup>65</sup> Skin is brought to Mandi Bazar from three slaughterhouses. The meat men purchase animals from the market (Weekly Market). After cutting, the goat the raw skins are going to directly to Mandi Bazaar or the intermediaries taking from the meat men and taking them to Manndi Bazaar

<sup>&</sup>lt;sup>66</sup> While goat and sheep skins are used by tanneries in Deshaipet and Enumamula and are undergoing wet blue tanning, cow skin is used by a EI tanning unit (which does vegetable tanning )in Khammam. There are about 4 shops selling cow skin. Some of it the processed skin is also brought back by the same merchants and used to produce goods for local consumption

	Kind of enterprise	Forward Integration	Nature of
			Employment
1.	Tanneries doing job	Production is based on orders	Informal
	work for firms based	from large firms engaged in	
	largely in Chennai and	making leather goods and	
	Delhi	garments	
2.	Tanneries engaged in	Products sold to domestic	Informal with some
	own production	manufacturers or exporters	permanent workers

Table 5.1: Kinds of Enterprises Covered in the Field Work in Warngal

Most of the tannery units of Warangal fall in the first category. They are vertically integrated with the parent firm as their raw material supplier. The present study covers – such firms. While these firms do undertake own production from time to time varying from once a year (around Christmas season) to once in three years, this forms a very little part of their total production. They are mainly engaged in job work for firms based in Chennai and Delhi. The nature of relation with the parent firm in most cases is long standing. However, this is not to imply that they get regular or constant job work from them. There is a lot of uncertainty in the nature of orders that come from the parent firm, both in terms of the quantity and the price.

Tanneries in the second category are those who are engaged in own production. The present study covered two such firms. One of these firms has been able to develop modernize production techniques. While they do engage in job work during certain periods of the year, they are largely engaged in own production. These tanneries sell their product in the open market in Delhi and Chennai through middlemen.

According to the tannery owners, profit margins vary depending on the time of the year, for example in summer, sheep are affected with and cradles<sup>68</sup> and pinholes<sup>69</sup>. Skins are thus prone to rejection and affects the overall profit margin. Between March and July the selection is good. July to November is the rainy season and causes rainspots<sup>70</sup> in sheep. During this season the selection is bad but there is business as Christmas is round the corner and so several orders have to be completed before December 1. From December to March profits are low and risks is very high.

The workforce engaged in these units is informal. Each of these units maintains a pool of workers around them. There is a mutual understanding between the workers and the management of not hiring workers outside this pool and the workers who are a part of this pool, do not go for work in any other tannery.

Around 800 workers are working in these tanneries out of which 180 workers are permanent. In these units, except on the technical side, majority of the workers are women. Some of the men are engaged as technicians, machine operators and supervisors etc<sup>71</sup>.

<sup>&</sup>lt;sup>70</sup> Also called *phuns, thisi affects the sheep during rainy season when water* enters the skin of sheep and remains there as bubbles.



 $<sup>^{68}</sup>$  Also called *Kata* this refers to when thorns are stuck to the sheeps' skin. This Usually happens in march and the effects are, felt in Summer.

<sup>&</sup>lt;sup>69</sup> Plant that sticks to the skin – also sticks to the sheep's skin

During fieldwork in Warangal, tannery owners noted that the industry in Warangal had changed over the past couple of decades. This change was manifested in several ways. First, as has been described above, most of the tanneries at present are doing jobwork. However, this was not always the case. Tanneries in Warangal are relatively old establishments, most dating back to the late 19<sup>th</sup> and early 20<sup>th</sup> century. With increasing competition in the 1990s, the conventional tanning techniques gave way to mechanization. Most of the tanneries were taken over by a new management. The new management followed a strategy of employing non permanent workers. This allowed them to cater to the highly flexible and volatile demand of the international market on the one hand and on the other hand also dispelled fears of unionization. Interviews with workers revealed how in these tanneries, over the past five years services of regular/permanent workers were terminated and the same workers were asked to join back on a casual/temporary basis.

Second, the tannery management pointed at a declining trend in profit margins since 2001. According to the tannery managements interviewed, price per DCM<sup>72</sup> is declining. "A very general trend here is that from Rs 5-6 per DCM the price has come down to Rs 2-2.5 per DCM (from late 1990s to 2006)," noted a tannery owner who has been in this business for the last 40 years. "Uptill 2001 the price we got for one skin was between Rs 200-300 depending on the quality. But at present the price of the same skin rests between Rs 80-110," noted a tannery owner who has been in this business since 1991. "For the past 3 years we are only able to break even in our business," noted another tannery owner who has been in business since 1980s. Similar observations were made even by the raw skin merchants of Mandi Bazar; "Earlier the price of the raw skin was Rs. 180-200, but since 2000 the price of the raw skin is going down. Now the highest of the price is Rs.100. If the goat is injured the skin price will be the Rs. 60-80."

Third, another change noted by the tannery owners was that trading through leather fairs had declined. The units doing own production particularly noted that in the 1990s they were able to get a lot of orders from the Chennai leather fair, enough to keep them in business through the year. But at present they are unable to procure any orders from these fairs.

Fourth, interviews with tannery management reveal that the quantum of work has decreased over the past decade. According to a tannery owner, who is from the third generation managing the family business, "From the 1980s upto early 1990s, we used to process 15000-20000 raw skins per day in this company. But at present this has come down to hardly 5000 skins per day and that too is subject to irregularities."

It is also worth mentioning here that while the tannery management claims that the industry has changed, what has not changed is the final product. Almost all the tanneries make the same leather – black sheep leather. New innovations in technology and style do not reach Warangal.

**Stages of Development (or Decline):** The tanning industry in Warangal continued to flourish in small scale and home based units through the 19<sup>th</sup> century. During this period the tanning operations were performed manually using vegetable dyes. In 1981 there were about 33 tanneries in Warangal spread across 3 areas – Deshaipet, Pochamma Maidan and Mandi Bazar<sup>33</sup>. According to the information by local sources, the finished leather produced in these tanneries was being exported to the international market these tanneries were exporting finished leather. The nature of the industry started undergoing a change in the

<sup>&</sup>lt;sup>73</sup> As informed by local trade union leader



<sup>72</sup> 

about the mid 1980s. With the introduction of colored dyes and later chrome tanning, competition among the various units increased. By about the late 1990s the number of tanneries declined to 18. This number further declined to 12 in 2002 and at present there are only 8 functioning tanneries in Warangal.

This decline in the tanning industry in Warangal firstly needs to be understood in the context of the larger policy framework of the Government of India.

Thrust of the government of India's leather policy has been employment generation and preserving traditional livelihood for the marginalized section besides promoting export of value added leather products<sup>74</sup>. But it is the export focus that has always received more attention from the government. The government through its policies and incentives on the one hand promoted growth and diversification of the industry in clusters like Chennai and on the other hand allowed a slow decline of traditional leather tanning clusters all over the country. In the year 2000, the government dereserved tanning from small scale sector and also launched the Tannery Modernization Scheme (TMS). But this only benefited the export clusters. Centres like Warangal were reduced to doing jobwork for export oriented units in Chennai. This had a detrimental impact on the tannery workers. While they were loosing their traditional occupation, entry into occupations remained restricted due to their disadvantageous status in the society and low levels of education and awareness. The only initiative of the Andhra Pradesh government towards developing the leather tanning industry Warangal came when the Leather Industries Development Corporation (LIDCAP)<sup>75</sup> set up a training centre and trained about 200 workers into making leather products, but due to lack of marketing support these workers could not continue their business and went back into tanning and other occupations.

Apart from this, though some tanneries got support for setting up affluent treatment and waste disposal facilities, several tanneries have also faced closures since 2003 due to their inability to comply with the pollution control norms.

The second important point to be noted here is the fact that the tanning industry of Warangal has had a very vibrant trade union history<sup>76</sup>. Union among the leather workers started as early as 1942. According to trade Union documents "...This union has been formed secretively, to counter atrocities of the Nizams and management's exploitation<sup>77</sup>." Surva Deva Bhatla Rama Nadham of AITUC was the leader of this movement uptil 1956<sup>78</sup>. In 1986 Tannery and Leather workers Union, Registered No E 691 (affiliated to AITUC) was formed. The union under the leadership of Zakariah started gaining strength towards the mid 1990s. At that time about 3000 tannery workers were members of this union.

With increasing competitive pressure and declining prices on the one hand and workers organizing and demanding their rights on the other, the management used various tactics to dispel the trade union – filing fake cases against the union leaders, dismissing them

<sup>&</sup>lt;sup>78</sup> From 1956-86 unions lead by several political parties were formed in Warangal, but we could not collect mush information on them.



<sup>&</sup>lt;sup>74</sup> Meenu Tiwari, 2003; Sumangala Damodaran 2005

<sup>&</sup>lt;sup>75</sup> Established in 1973 with the objective of promoting leather industry in the state and also facilitating needful employment to leather artisans among S.C.s and particularly to women.

<sup>&</sup>lt;sup>76</sup> This section on the trade union struggles in Warangal is primarily based on the interviews of three trade union leaders: Com Zakariah (leader of the Tannery and Leather Worker'ss Union from 1990s uptil 2000); Com. Shiv Kumar and Com Vinod Kumar (leader of the tannery Worker's union at present) and the documents given by them

from work, even resorted to violent means to curb them<sup>79</sup>. However the union relentlessly pursued filing memorandums and taking out processions to pressurize the management to implement minimum wage, social security and other due benefits. After a series of struggles, the union called a 16-day strike long strike, which was observed across all tanneries in the region supported by about 1000 regular tannery workers, casual workers and also workers from other industries in 1997. Following this strike, the union was recognized by the management. Management and union signed time bound agreements which fixed the wage and bonus of all categories of workers across various departments according to their skill level, social security - ESI and PF to be provided by the management, total number of leaves, uniform and other provisions<sup>80</sup>.

However, since 2001, the strength of the union declined. As the struggle for the Telangana state gained strength, the leaders of this union became inclined towards it and their presence in Tanneries started declining after 2001. According to the present union leaders in Warangal, their organizing have suffered a setback as most of the workers at present are informal and do not have a continuous work period.

**Implications of the Decline:** The above discussion establishes that the leather tanning industry in Warangal is declining. In order to understand the implications of this declining tanning industry in Warangal, we conducted a field research covering 80 workers.

This composition of the workforce is of particular importance in terms of understanding the implications of this decline. Workers in tanning industry in Warangal mostly (97.50%) belong to the Madigas community. Madigas are traditionally leat her workers and agricultural labourers. They comprise 40-50 % of the schedule castes<sup>81</sup>. They are indirectly connected with Chamars or Chambhars. Madigas are also known as Mangs in Maharashtra, Chaklaiyas in Tamilanadu, Madigas in Andhra and Karnataka and possibly Matangs in parts of North India<sup>82</sup>. Like Most Madigas from Warangal, 96.25 % of the workers interviewed noted that they are Christians. Majority of the workers (53.8%) interviewed noted that they had received no formal education; about 29.5 % of the workers were non-matriculate; 11.5 % were matriculate and 5.1 % had completed intermediate. Only one worker stated that he had technical qualification.

This analysis clearly reveals the vulnerability of the workforce. Coming from traditionally leather making castes majority of them have faced social discrimination. While historical structural processes have confined them to certain caste occupations, low levels of education further restrict their mobility.

Field survey revealed that more than half of the workers (58.8 %) were women. It is also important to note here that despite women being in majority in the workforce, their participation remains confined to certain jobs. These are the manual jobs such as wool picking. Women do not work with machines.

The field investigation reveals that most of the workers (57.50%) were in the age group about of 31-35 yrs, followed by 32.5% of the respondents in the age group of 26-30 yrs. In terms of the working experience, most of the respondents (56.3%) were working in the respective units for more than five years; 38.80% were having an experience of 3-5 years while the remaining 5 % were having experience of 1-2 years. This trend clearly indicates

<sup>&</sup>lt;sup>82</sup> A Brief note on the Madiga Community, V. Ramachandra Rao



<sup>&</sup>lt;sup>79</sup> Source:

<sup>&</sup>lt;sup>80</sup> such as parachute coconut oil, Santoor soap, Rin soap to be provided by the management

<sup>&</sup>lt;sup>81</sup> http://www.rghr.net/mainfile.php/0607/675/

that the younger generation among the traditional tanners is trying to explore opportunities outside the tanning.

However, a household survey revealed that opportunities for workers outside this industry remain limited. According to the survey which covered about 15 households of Madigas, work in construction industry and related activities such as painting are the only other occupation that these people indulge in.

Another interesting trend that the workers noted was that the services of old and permanent workers were being terminated and they were being reemployed as casual workers. "In tannery A this month 10 workers are being thrown out as they are about to complete 10 years of service," noted a tannery worker.

An analysis of the recruitment pattern in the tanneries reveals that community ties pay a major role in getting work. Majority of the workers (91.20%) joined the company through a worker already working in that unit whereas the remaining 8.8% of the respondents directly joined the unit.

According to the information given by trade union leaders, there are at present about 800 workers in Tanneries in <u>Warangal</u> and out of these only about 200 are regular. In the field survey most of the workers were casual or and daily wage earners (about 60 %).

Field survey reveals that the employment pattern in tanneries has frequent fluctuations. Tanneries do not provide regular employment to workers. General trend is that workers get work for 15-20 days in a month spread across irregularly. "We get work for 15 days in a month but today we don't know if we will have work tomorrow," noted Jannu, a tannery worker. According to the field survey 98.27% of the respondents were working for less than 8hrs /day, while the remaining 1.72% of the workers were working for 8-12 hours / day on normal working days. Hence in effect workers are not able to earn a minimum monthly wage.

Kumara Swamy, 30, working as a painter in Warangal and wife is working in a leather unit. He is getting Rs. 90 and working hours morning 10am to evening 6pm. In addition, his wife is getting the per day Rs. 50. "She is working with wool picking unit for one skin she gets 50 paisa. Daily she gets 100 skins. However, she will not get the work in a week continuously", he noted. "I am a helper. I collect the wool after is is dried, pack it in a gatta and load it in lorries. One gatta is brought by the merchant for Rs 180 and I get Rs 30-40", noted Rammiah, a helper.



#### Figure 5.1: Total Monthly income of the Respondents



In this kind of a precarious employment situation it is not surprising that no workers got social security and other benefits.

While Warangal can boast of a vibrant trade union history, at present none of the units are unionised. All respondents said that there is no union in the factory. The workers are not unionized and if they try to form a union the worker is removed from the work that very moment, seeing this the other workers do not try to form the union but they are of a opinion that there should be a union to represent their voice regarding wage negotiations, dispute resolutions and about social security benefits.



# **Chapter 6: Contours of the Value Chain**

This study was undertaken to examine the nature of the value chain in the leather industry, India's role within the value chain and its impact on the organisation of production and conditions of labour in the Indian leather industry. This was looked at through a detailed examination, through fieldwork, of three clusters, Agra, Chennai (and associated locations) and Warangal. This chapter summarises the findings of the study in terms of an analysis of India's participation in the value chain for leather and comparison and contrast of the three locations where fieldwork was done in terms of production organisation and the labour market.

Economic organisation in the leather and leather products industry has been shaped by three factors: insertion into global markets from colonial times onwards, historical and contemporary links with the social structure and State intervention through government policy geared primarily towards exports. Within this broad understanding of the determinants of economic organisation, the following specific arguments may be made: First, it is the insertion into global markets that has been the primary stimulus causing change and development of the industry and it is the nature of the international market combined with a specific set of policies to cater to it that can to a large extent explain the structure and performance of the industry as a whole as well as the clusters that have been specifically studied. This insertion into the global market has been determined by international relocations of tanning and subsequently various labour intensive operations in the leather products industry from the advanced countries to developing countries. The role of the State has been crucial in determining the nature of integration with the value chain in the leather industry. The most vital aspect of the role played by the State in the leather and leather products industry has been in determining he nature of export orientation and formulating policies to tailor production primarily towards the international market. Thus, while the colonial period saw India entering the international market for raw hides and skins and then semi-finished leather, actively promoted by the colonial state, policies to encourage the indigenous development of value added segments in the industry such as finished leather, shoe components, full shoes and leather goods took place in subsequent stages from 1973 onwards. India's integration with the global value chain for leather, thus, has been conscious and the result of concrete policy.

Second, the structure that developed to cater to the international market through successive value addition resulted in a complete transformation of the production chain in the leather industry. What was a scattered industry with tanning as well as leather product making spread across the country now came to be concentrated towards production in major clusters that focussed on exports. Thus, as the case of Warangal showed, there was a systematic decline in small clusters like this and this reflected in general the thrust of policy of orienting production and channelling raw material supplies towards the major clusters. Further, as the case of Agra showed, even clusters that catered primarily to the domestic market came to be increasingly focussed on exports. A large part of the production chain which consisted, in addition to the activities of carcass collection and flaying centres, also centres for tanning and leather product making, came to be transformed into a structure to permit the transfer of raw material to the large clusters and even within that to production for exports. The case of Warangal clearly demonstrates the decline of decentralised tanning



in rural areas and in small urban clusters. An immediate implication of this has been a decline in raw material quality, high cost of raw materials and a shift of focus away from the domestic market even when it is lucrative.

Third, in the clusters which thrived, the organisation of production came to be characterised by a hierarchical structure of enterprises. In Chennai and Agra, the fieldwork showed the existence of complex organisational forms that have developed to cater to the export market. Even when firms produce primarily or exclusively for the domestic market in Agra, they form part of the above structure that has developed in response to the vagaries of the international market. Both the locations studied are typical small scale clusters with the majority of the units being small in scale, as seen elsewhere in the world, with a wide range as well as depth. Thus, there are, in addition to the main production units, a large numbers of raw material dealers, machinery and chemical suppliers and repair workshops in both clusters. In Agra, what appears to have happened is that what was primarily a domestic market oriented cluster with some segments of exporting units, as earlier studies (Knorringa 1996) showed, there has been a clear emergence of a very significant segment to cater to the export market and a commensurate rise in the contribution of Agra to leather exports. In Tamil Nadu, the clusters have always been almost exclusively export oriented, with Tamil Nadu's contribution to exports being the highest among all regions. The organisational forms that exist in Agra and Tamil Nadu are similar in terms of the layers of activities, with there being distinctly three levels of enterprises. Both clusters contain the whole range of organisational forms that have been outlined in the chapters on Agra and Tamil Nadu, from vertically integrated enterprises with the whole production process internal to the firm to a huge number of units doing part processes and linked to each other vertically or horizontally, with a wide range of intermediate structures in between. In industrial organisation terms, there are a large number of forms between the traditional extremes of market and hierarchy. At the lowest level designated Level I, there are very large numbers of jobwork tanneries and leather product fabricators involved in hierarchical, vertical relationships with firms that place orders with them. These have come into existence in response to the export thrust and represent the response to fragmented, highly volatile demand in the international market. At the next level, Level II, there are a large number of small scale producers of finished leather and leather products who are either independent producers or produce for a group consisting of many small scale enterprises in different stages of the production process. The small-scale independent enterprises are involved in vertical hierarchical relations with jobwork units or fabricators. The top level, i.e., Level III, consists of medium and large scale enterprises which are independent as well as those that form part of groups. They, in many cases have grown from small scales, sometimes even from fabricator levels. Vertical integration within the same firm does not necessarily mean the absence of vertical relationships with other firms and this goes side by side with extensive relations with jobwork or fabricating units.

Fourth, the structure that has emerged is one that allows for maximum flexibility. Thus for a typical firm in the industry, the choice is not between whether to make or buy but to retain the facility for both and use both depending on the situation. The situation can be characterised by one of extreme flexibility given the conditions for profitable production in the conjecture that the industry is faced with. This is true for both clusters.



Fifth, a crucial question that this study was interested in is that of control within the value chain for leather. In the international market, ultimate control is exercised by buyers. These buyers may be agents of large retail chains, supermarkets or major brandnames. In both locations it was clearly seen that the nature of transactions between buyers and their agents and producers is highly asymmetrical. It has been seen how production is tailored exactly to suit specification of buyers and transactions are characterised by vulnerability in terms of price, length of contracts, number of competitors, etc for the largest number of producers. Even the largest firms in the industry, those that have relatively more stable and long-term contracts with their buyers, have very little independence with respect to design and specification of the products being produced. While the nature of transactions and thus the nature of the international market have resulted in this structure, such transactions have been possible also due to inadequate upgradation on the part of firms in the industry.

Sixth, this flexibility is not only in the structure of production but in labour processes as well. In both the Chennai and Agra clusters informalisation is a major feature of the labour market, irrespective of the nature of the enterprise. Informal methods of recruitment and remuneration are a guaranteed system of exerting control over the labour process and even in the segments such as footwear manufacture and finished leather production where production conditions can favour vertical integration, flexibility is attained through control over labour. The availability of cheap labour presents the possibility of adjusting instantly to changes in demand, whereas investment in more machinery, even if the costs can be recovered quickly, prevents the possibility of such instantaneous adjustments. The control over the labour process constitutes the most certain element in the production process for an entrepreneur and in a situation where entrepreneurs consider production conditions to be vulnerable, informal labour processes are used and are widespread. The use of informal labour processes is possible due to employment based on caste in Agra and that segregated by gender in Tamil Nadu.



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## Annexure I: A Report on the Slaughter Houses in Delhi and Hapur<sup>83</sup>

#### Introduction

The slaughterhouse of Delhi at Idgah is the only slaughterhouse in Delhi and is over 100 years old. Up till 1993 there was no limit on the number of animals that could be slaughtered here. In 1994 the high court fixed the number of animals to be slaughtered at 2500 per day.

There are 3 separate divisions in this slaughter house – each for the slaughtering of the buffalos, sheep's and goats respectively. In each division there are two sub divisions, one each for the Hindus and Muslims owing to their different methods of slaughtering i.e. jhatka<sup>84</sup> and halal<sup>85</sup> method respectively. As per the present slaughter policy, only the unproductive and useless buffaloes are slaughtered. About 12000 animals are brought to the slaughterhouse daily for transactions. Both sexes of animals are slaughtered.

#### Number of animals slaughtered:

Out of the 2500 animals (buffalo, sheep & goat) about 2000 are sheeps & goats number and the remaining 500 are buffaloes.

#### Sources of animals:

Goat and Sheeps- In this slaughter house, 90% of the animals come from Rajasthan and Haryana.

Buffalo: 90% of the individuals come to the slaughterhouse from Punjab<sup>6</sup>. But according to the traders the animals are brought from different states like Punjab, Rajasthan, Chattisgarh, MP and UP. The quality of the skin of the goat from Rajasthan is

best, as it does not contain any grain.

#### Value of Raw Hides:

The rates of the raw hides (goat, sheep & buffalo) depends on factors like

- 1. Availability of the animals
- 2. Quality of the hides

	Goat	Sheep	Buff calf	Buff opposti
Raw hide	60/70 - 125 per hide	100 - 150 per hide	150 - 200 per hide	700 -1000 per hide

## Source: A Trader, DSH **Destination of raw hides**

Some of the raw hides are converted to wet blue in Delhi and Haryana, whereas majority of the hides are sent to Kanpur and Chennai.

<sup>&</sup>lt;sup>86</sup>Source: Manager, Slaughterhouse



<sup>&</sup>lt;sup>83</sup> This report is based on Fieldwork conducted by CEC in the two slaughterhouses in 2007

<sup>&</sup>lt;sup>84</sup> In the jhatka method the animals gets killed within 4-5 sec. It takes 4-5min for the animal to be killed in the halal method.
### Value addition

The raw hide of goat worth Rs. 70 measures 40dm in area and an expense of Rs. 20 is added to convert it into wet blue and further addition of Rs. 50 takes place to convert it into finished leather, further addition of tax and transportation cost the hide reaches the factory with a total cost of Rs. 178. An average value addition of about Rs.108.

	Goat	Sheep	Buff calf	Buff opposti
Raw hide	Rs. 85 -110 4-7 sq. ft. avg. 4.75	Rs. 60 - 200 avg. 5 sq. ft.	Rs. 450-600 14-16 sq. ft.	Rs.1000-1200 34-36 sq. ft.
Wet blue charges	Rs. 12 / piece	Rs. 14 / piece	Rs. 4.5 / sq. ft.	Rs. 4.5 / sq. ft.
Finished leather	Upper-55-65/sq.ft. Lining-42/ sq. ft.	Upper- 65-80/sq. ft. Lining-45-50/sq. ft.	51 / sq. ft.	47-49 / sq. ft.

Source: Tauhid Alam, Trader, Kanpur

The rawhide of goat worth Rs. 85-110 on an avg. measures 4.75/ sq. feet in area (Rs.20.50 / sq. feet) and at an expense of Rs. 12 it is converted into wet blue (Rs.2.53/ sq. feet). The cost of finished upper ranges between Rs. 55-65/ sq. feet whereas, the cost of lining is Rs. 42/sq.feet. Considering the avg. area to be 4.75 sq. ft. of the rawhide and avg cost of upper to be Rs. 60/ sq. feet the total cost of the finished leather comes to be Rs. 285. An average value addition of about Rs.187.5.

The rawhide (buff opposti) worth Rs. 1000-1200 on an avg. measures 35/ sq. feet in area (Rs.31.50 / sq. feet) and at an expense of Rs. 157.5 it is converted into wet blue (Rs.4.5/ sq. feet). The cost of finished leather ranges between Rs. 47-49/ sq. feet. Considering the avg. area to be 35 sq. feet of the rawhide and avg cost of leather to be Rs. 48/ sq. feet the total cost of the finished leather comes to be Rs. 1680. An average value addition of about Rs.580.

	Goat	Sheep	Buff calf	Buff opposti		
Raw hide	Rs. 80-100	Rs. 120-125	Rs. 400-1200	Rs. 1350-1400		
Wet blue charges	Rs. 12 / piece	Rs. 14 / piece	Rs. 4.5 /	Rs. 4.5 / square		
			square feet	feet		
Finished leather	Upper- 55-57/	Upper- 65/ sq.		45-50 / sq. feet		
	sq. feet	feet				
	Lining-35-36/	Lining- 45-50/				
	sq. feet	sq. feet				
Source: Marketing Executive SHL, Kannur						

Source: Marketing Executive, SHL, Kanpur

A loss of Rs. 500 crores occurs every year due to insignificant non-recovery of hides. In other words, they are being wasted due to non-availability of traditional flayers as well as the local practice of burying the dead animals in certain parts of the country.

Manager slaughterhouse, Delhi



Hapur is the Asia's largest market for raw hides and skins. The market is build on an area of 150 bigha. The Chamra Mandi is owned by Md. Hazi Kesar Qureshi. There is a single slaughterhouse in Happur and is running for the last 30-40 years. Both sexes of animals are slaughtered only the unproductive individuals are being slaughtered. The animals that are being slaughtered have dual benefits i.e. they are reared for milk and meat.

# Number of animals slaughtered:

At present about 250- 350 animals (buffalo) are being slaughtered daily in the slaughterhouse at Happur.

The meat is sent to Merrut for final processing and packaging after the removal of the bones. The bones are brought to the units making powders. Earlier the flesh of the dead animals was thrown away and only the bones were used but nowadays the flesh is also used to make feeds for fish and poultry.

#### Sources of animals:

The animals are brought from different states like Punjab, Rajasthan, Haryana Chattisgarh, MP and UP. The raw hides are brought to the market from different states like Punjab, Rajasthan, Haryana Chattisgarh, MP, Bihar, Gujarat, Delhi, AP and UP.

# Value of Raw Hides:

The rates of the raw hides (goat, sheep, cow & buffalo) depends on factors like

Availability of the hides

1. Quality of the hides

	Goat	Sheep	<b>Buff calf</b>	Buff opposti	Cow
Raw	30 sq. ft.	35 sq. ft.	25 sq. ft.	33-34 sq. ft.	40 sq. ft.
hide	avg. 5 sq. ft	avg. 5-5.5 sq. ft	avg. 15 sq. ft	avg. 36-37 sq. ft	avg. 28 sq. ft
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Source: A Trader, Happur

These rates are of the selection grade whereas the rates are Rs 10 less for the rejection grade of every variety. The rates of the skins of the dead animals are also low.

The rates of the hides are maximum in January and minimum in June-July. Total transaction of Rs >1 crore takes place from the market / week. The total share of the buff hides of the total hides and skins are 30%.

### **Destination of raw hides**

Majority of the hides are sent to Kanpur, Kolkata, Jallandhar and Chennai. Kanpur- 50% Kolkata- 20% Jallandhar – 15-20% Chennai- 10-15%



