

Visit of Upholstery Leather Delegation to Vietnam, June 8-10, 2015

Background

The Government of India is giving thrust to increase our trade relations with East Asian countries as part of "Act East" policy. In this connection, the Government has identified 5 product segments as potential sectors to have trade relations with Vietnam. These 5 sectors are (a) Textiles (b) Agriculture (c) Pharmaceuticals (d) Leather and (e) Engineering.

As far as Vietnam is concerned, promotion of export of Upholstery Leather is one of the key areas of co-operation identified during the visit of the business delegation to Vietnam under the Chairmanship of Shri Rajeev Kher, Secretary, Department of Commerce during January 2015.

Prospects for export of Leather and Footwear Components to Vietnam.

• Vietnam will be a big beneficiary of two major trade agreements as detailed below

a) The Trans-Pacific Partnership (TPP) is a proposed regional regulatory and investment treaty. As of 2014, twelve countries throughout the Asia-Pacific region have participated in negotiations on the TPP namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The TPP is expected to be signed shortly, on account of which there are expectations that the Vietnamese leather products and Footwear may get duty free benefits in major markets like USA, Japan, Australia, Canada etc., which will be a big boon for the industry in Vietnam.

b) Negotiations are also going on for an ASEAN – European Union Free Trade Agreement, which again will provide duty free access to Vietnamese leather products and Footwear exported to the huge European Union market.

• The aforesaid two major agreements which are expected to be in operation within this year, are expected to exponentially increase the export of value added leather products and footwear exports from Vietnam. This

provides opportunity to the Indian leather and footwear industry in the following areas.

• Vietnam has already set an ambitious export target of USD 40 billion (for hand bags and footwear alone) by 2025. However, Vietnam at present has only around 30 tanneries which produce about 250 million sq.ft. of leather per annum, as against the present requirement of 650 million sq. Ft. Thus, there is a huge demand for finished leather in Vietnam which is predominantly met through imports, mainly from countries like Thailand and Taiwan. It is learnt that the Taiwanese importers buy bulk leather from major supplying countries including India and re-export the same to Vietnam. Hence, there is good scope for export of finished leather from India to Vietnam.

• Out of the USD 40 billion export target set for Vietnam's export of hand bags and footwear, the export target for footwear alone is USD 31 billion (as against the footwear exports of USD 9.75 billion in 2014). This means that a whopping share of 78% has been projected for footwear in the total export targets set, which clearly shows the prospects for export of footwear components from India to Vietnam.

• As published in our earlier report, LEFASO has published the following demand forecasts in respect of raw materials/inputs till 2025 by the Vietnam leather and footwear industry keeping in view the projected export target of USD 40 billion. This clearly indicates the prospects available for exporters of finished leather, components and accessories in Vietnam.

• Indian companies can also explore the options of establishing 100% FDI or Joint Venture companies in Vietnam to explore the huge potential offered for export of leather products and Vietnam to major markets namely EU and USA. Besides, establishment of tannery and footwear component units in Vietnam to supply to Vietnamese industry is also an option.

Prospects for export of Upholstery Leather to Vietnam.

Automobile Industry in Vietnam

• Vietnam's automobile industry involves such big names as Toyota, Ford, Nissan, Honda and Mercedes. There are about 18 FDI and 38 domestic businesses making and assembling cars.

• They have a capacity of about 4,60,000 vehicles a year.

• Vietnam has about two million cars and 37 million motorcycles on the road. Sales of vehicles like SUV, Passenger Cars and Commercial Vehicles in Vietnam have shown a growth of 30% to 40% in 2014.

• Vietnam's automobile industry is looking at enhancing production for the growing domestic market as well as for overseas markets like Japan, Taiwan etc., Vietnam auto manufacture enjoys low labor, land and energy cost and has high potential for achieving production growth of more than 20% per annum.

• There are hundreds of auto part manufacture enterprises, most of which are SMEs featured with low production capacity and low technology. Major products are simple

Materials	Unit	Rate of localization in 2012	Demand Forecast	
			2015	2025
Leather	Million sq.ft	30%	600	1600
Synthetic Leather	Million Yard	30%	144	270
All kind of fabrics	Million Yard	70%	248	465
Outsoles	1000 ton	60%	80	1650
Shoes form	1000 pair	70%	2304	4320
Metal Accessories	1000 ton	50%	158	296
Glue and Adhesive	1000 ton	70%	16	30
Packing Accessories	1000 ton	90%	255	478

parts, e.g. seats, auto storage batteries. China, Korea and Taiwan are the major suppliers of upholstery leather to Vietnam.

- Import of finished leather by Vietnam has increased from USD 880.05 million in 2008 to USD 907.82 million in 2012. Assuming a 5% share for upholstery leather, the import of this segment comes to about USD 45 million per annum.

- The projected high growth of the automobile segment in Vietnam provides good opportunity for export of upholstery leather from India, which is a specialized leather used in seat covers in cars/vehicles.

Furniture Industry in Vietnam

(Source : Vietnam Trade Promotion Agency)

- Six years subsequent to joining the World Trade Organization (WTO), Vietnam's timber processing and furniture exporting industry has developed admirably, registering average growth during 2007-2012 of 16% a year.

- Vietnam's furniture exports come from 2,500 domestic and 400 foreign enterprises. This sector employs 300,000 people, and is now one of the key major export sectors of Vietnam. The industry has contributed considerably to the improvement of living standards for people in many rural areas of Vietnam. Not yet fully recognized, let alone fully exploited, the development of the wooden furniture industry also brings about opportunities for the development of other supporting industries in the country such as hardware, accessories, finishing materials, adhesives, veneers, machinery, and service industries in consultancy, software, marketing, shipping, and financing etc.

- Despite the major economies of the world being challenged because of the global economic crisis, furniture exports of Vietnam still grew in 2012, reaching US\$5 million, up 18% compared to 2011. As a result, Vietnam now ranks as the world's sixth largest exporter and number two in Southeast Asia. Vietnam's furniture products have been bought by buyers of more than 120 countries, with the US, China, EU and Japan importing the most. The US is responsible for 39% of the revenue, China 15%,

EU 14%, Japan 14%, and the special emerging market of South Korea 5%.

Strengths of Vietnam's timber and furniture industry

(Source : Vietnam Trade Promotion Agency)

- Plentiful labor readily adaptable and lower cost than that of neighbouring countries;

- Excellent handicraft skills and a wide range of handicraft materials giving it a basis of product decorative-ness and differentiation;

- An attractive environment for Foreign Direct Investment (FDI) by furniture companies because of plentiful low cost labor and relatively stable environment both socially and fiscally;

- The government of Vietnam facilitates incentives for sustainable development of the furniture industry;

- The Vietnamese worker is flexible and has a striving work ethic that makes the development of a business an exciting and rewarding activity for those entrepreneurs able to invest in enterprise;

- Vietnam has a growing name as a good destination for investment in furniture production, capable of competing with China with much less exposure to risk;

- Joining the WTO gives Vietnam an adequately predictable regulatory environment;

- Partly because of its recent history, Vietnam is the focus of much international development aid and is developing the capacity to effectively absorb the aid;

- There is a working export-oriented infrastructure in Vietnam successfully minimizing red tape on both necessary import inputs and exported products;

- With furniture manufacture still a sunrise industry in Southeast Asia, ample space exists in the market place for quality producers supplying well-designed furniture to controlled quality and on time;

- Vietnam has a long history of stability from the 10th Century through to the latter half of the 19th Century during which arts and crafts flourished leaving behind a legacy that can now be drawn upon for design and decoration. This was further tempered by the French period which enhanced the already developed arts; and

- Being a relative newcomer to the market, there is still time for Vietnam to develop a presence in the market through design, quality and business culture.

Visit of the Upholstery Leather Delegation

Considering the market prospects for upholstery leather exports to Vietnam, the Council for Leather Exports, in association with the Consulate General of India in Ho Chi Minh City initiated efforts to organize the visit of Upholstery Leather delegation from India to Vietnam and framed-up the following programme

- Meeting with Vice- Chairman, Vietnam Leather, Footwear and Handbags Association (LEFASO), June 8, 2015
- Buyer Seller Meet for Upholstery Leather on June 9, 2015
- Visit to Factories - June 10, 2015

Vietnam Chamber of Commerce & Industry- (VCCI – Ho Chi Minh City) was engaged as the marketing agency for the event.

The following members participated in the delegation.

S No.	Company	Name
1	Altas Leather Corp; Kanpur	Mr. Faras Anis Ahmad
2	Homera Tanning Industries Pvt. Ltd. Kanpur	Mr. Tariq Rizwan
3	Model Exims, Kanpur	Mr. Zaid Alam Mr. Jawad Alam
4	Orchid Tanning Company, Chennai	Mr. Jinna Mohideen
5	Sunrise Overseas, Kanpur	Mr. Almaas Shakeel Mr. Shadab Azher
6	Upper India Tanners, Kanpur	Mr. Yusuf Ahmed

Mr. D. Gokula Krishnan, OSD, Council for Leather Exports co-ordinated the event.

Meeting with Vice- Chairman, LEFASO, June 8, 2015

- The Consulate General of India organised a meeting of the leather industry delegation with Mr. Diep Thanh Kiet, President, TBS Group, Vietnam & Vice- Chairman, Vietnam Leather, Handbags and Footwear Association (LEFASO) at Rex Hotel, Ho Chi Minh City on June 8, 2015. Ms. Tuyet from the Indian Consulate also participated in this meeting.

- During the detailed interactive meeting, Mr. Diep Thanh Kiet provided the following market information.

- 850 million pairs of shoes are produced in Vietnam every year out of which 800 million pairs are exported, which means 94% of the shoes produced are exported.

- Every Year, Vietnam imports about 400 million sq.ft of leather. Cow leather is the main leather imported. Very few quantities of goat leather are imported at present, which are used in high end shoes and hand bag. 14% of the imports are from Taiwan and 13% from Korea. Imports are also made from Italy and Thailand. As of now, the direct imports from India are less. May be some of the leather exported from India to Taiwan are re-exported to Vietnam.

- The industry in Vietnam only thinks about countries like Taiwan, China and Thailand when it comes to finished leather and hence there is a need to create awareness on the capabilities of Indian finished



The delegates at the meeting

leather segment. In this connection, Indian finished leather exporters can participate in the Shoes and Leather Exhibition held every year in Ho Chi Minh City (next edition is scheduled between July 15-17, 2015) by having an India Pavilion, so as to create awareness on the Indian finished leather industry.

- The Governments of India and Vietnam are keen to promote their relationship.

- An issue now faced in exporting from India to Vietnam is long transportation time. While it takes only 3-4 days for a sea shipment of finished leather from Thailand to reach Vietnam, a similar shipment from India will take more than 18 days. This is an issue which has to be looked into.

- Also, the current situation is that

the brands ask the contract manufacturers in Vietnam to procure leathers from their own specified suppliers. On account of this, Vietnamese manufacturers are generally not looking for new suppliers of leather. However, LEFASO can introduce Indian companies to the brands for consideration of supply of leather in future. Initially, the list of Indian companies hosted in CLE website can be linked to LEFASO website for promotion purpose.

- For marketing of Indian finished leather, we need to consider establishment of a Trade Promotion Centre (on the lines of Export Promotion Bureau of Thailand) in Vietnam itself wherein the product samples can be displayed, so that the Vietnamese companies can walk in and obtain information, as sending sample pictures through e-mail is not enough. This is required because Vietnamese companies always like to procure leather at short notice.

- The leather industry delegations from India should visit Vietnam very frequently so that there are frequent interactions between Indian and Vietnam industries.

- The ASEAN –EU Free Trade Agreement has nearly concluded and TPP too will be finalized this year.

- Indian companies can also look at investing in Vietnam. As far as tanneries are concerned, they are located in Special Economic Zones. Land for such tanneries is provided on rental/ lease basis and tanneries have to make payment for effluent treatment



Mr. Diep Thanh Kiet, Vice- Chairman, LEFASO explaining the market prospects. Ms. Tuyet from the Indian Consulate is seen at the left.



The delegates with Mr. Diep Thanh Kiet, Vice- Chairman, LEFASO

to the Government. One such Zone has already been set-up in the Northern Vietnam and another Zone will come-up in a location of about 400 km from Ho Chi Minh City.

- The Government of Vietnam is framing-up the new industrial policy which will be unveiled soon.

- As far as exotic species of leather is concerned, only Crocodile leather production from species bred in Commercial Farms are allowed in Vietnam, for which quantity based license is given.

- VAT is applicable for local sale of leather in Vietnam, but VAT refund option is applicable for exporters.

During the meeting, Mr. Diep Thanh Kiet also explained about the various products manufactured by his company TBS Group

Shri D. Gokula Krishnan, OSD explained about the UITIC Conference scheduled to be held in Chennai during February 3-5, 2016 and invited the participation of a delegation from Vietnam in this Conference. The information materials and registration forms were also provided to Mr. Diep Thanh Kiet

Buyer Seller Meet for Upholstery Leather, June 9, 2015

- The Buyer Seller Meet was organised from 09 a.m. to 01.00 p.m. on June 9, 2015 at the Conference Hall of Vietnam Chamber of Commerce and Industry.

- Buyer mobilization efforts were undertaken by VCCI in co-ordination with the Indian Consulate in Ho Chi Minh City and Vietnam Leather, Handbags and Footwear Association (LEFASO). Invitations were sent to about 500 companies by VCCI.



Mr. Nguyen Van Tuan, Director – International Department, Vietnam Chamber of Commerce and Industry welcoming the delegates at the inaugural session

- The Buyer Seller Meet was inaugurated by Ms. Smita Pant, Consul General, Consulate General of India, Ho Chi Minh City in the presence of Mr. Vo Tan Thanh, Vice- President, VCCI. Shri Manoj Kumar, Consul and Head of Chancery, Consulate General of India, Ho Chi Minh City and Ms. Tuyet from Consulate General of India also participated in the inaugural session.



Ms. Smita Pant, Consul General of India, Ho Chi Minh City inaugurating the BSM along with Mr. Vo Tan Thanh, Vice – President, VCCI and two Indian participants

Buyers at the inaugural session

- Separate stands were provided to all participants.

- After inauguration, the Consul General visited the individual stands of the Indian participants and held detailed discussions on their products of display, market prospects etc.,



Vietnamese buyers along with Consul General of India at the inaugural session

INTERACTION OF CONSUL GENERAL WITH PARTICIPANTS



Ms. Smit Pant, Consul General along with Shri Manoj Kumar, Consul and Head of Chancery (2nd from left) interacting with participants



BUSINESS MEETINGS DURING THE BSM



ATLAS LEATHER CORP., KANPUR



HOMERA TANNING INDUSTRIES, KANPUR

BUSINESS MEETINGS DURING THE BSM

MODEL EXIMS, KANPUR



ORCHIND TANNING COMPANY, CHENNAI



SUNRISE OVERSEAS, KANPUR



UPPER INDIA TANNERS, KANPUR



- 29 business visitors from 22 companies participated in the BSM event and held interactions with the Indian participants
- The 06 Indian companies had a total of 46 business

meetings with Vietnamese buyers.

- As per feedback, future expected business to the tune of US\$ 1.13 mn was generated during the event.

Meeting with Consul General of India

The delegates had a detailed interaction meeting with Ms. Smita Pant, Consul General of India at CGI on June 10, 2015.



The delegates along with Ms. Smita Pant, Consul General

In this meeting, the aspects like outcome of the BSM, market prospects for export of finished leather and upholstery leather to Vietnam, exploring possibilities of future marketing events including participation in Shoes and Leather Fair, Ho Chi Minh City, prospects of Indian investments in Vietnam etc., were discussed.

The Consul General was informed that CLE is organizing the participation of 2 member companies in the July 2015 edition of Shoes and Leather Fair to be held from July 15-17, 2015 in a total area of 21 sq.mtr. and future larger participation in the fair will be explored. Also, LEFASO has been requested to organize the visit of Vietnamese leather/footwear industry to India during January / February 2016 so as to visit the India International Leather Fair 2016 and also participate in the UITIC Conference, besides visiting factories in various clusters across India.

The Consul General explained in detail about the market prospects in Vietnam and stated that CLE should send specific market promotion proposals and the Consulate is ready to provide all assistance.

Visit to Show Rooms/Factories

The Indian delegates also visited the following show rooms and factories to get first hand information on the types of upholstery leather used.

- June 9, 2015 – Visit to 3 B Furniture Showroom.
- June 10, 2015: - Visit showroom of TOAN THIEN AN Interior Co. (Member of HAWA) that makes furniture. - Cty TNHH Nội Thất Toàn Thiên Ấn - Address: 90A Nguyễn Đình Chiểu, Đakao Ward, District 1, HCM city.

SHOWROOM OF TOAN THIEN AN INTERIOR CO.



- June 10, 2015 - 02 pm visit factory of D'Car Company (that makes car seat) - Address: A1 Bình D ng Industrial park, T  Quang B u , Ward 6, District 8. HCM city

VISIT TO D'CAR COMPANY



Workers at D' Car Company

Upholstery Leather used in Van Seating



Delegates at D'Car Company



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- June 10, 2015 – Visit to 3 B Furniture Factory.

3 B FURNITURE FACTORY



Conclusion :

As mentioned above, there are good prospects for export of finished leather (including upholstery leather) and footwear components to Vietnam. However, longer transportation time taken for export from India is an issue. The following future marketing options can be explored.

a) Organising larger participation of Indian exporters in Shoes and Leather Fair, Ho Chi Minh City or organizing a large India Finished Leather event as a stand-alone event in Ho Chi Minh City.

b) Government may consider establishing an India Trade Centre in Ho Chi Minh City wherein samples/swatches of Indian products including leather, leather products and footwear can be displayed and trade enquiries of Vietnamese buyers can be attended to.

c) As a long term option, a warehouse for storing and selling Indian finished leather can be explored

d) Indian exporters can explore the possibilities of establishing tanneries in Vietnam either as 100% FDI unit or as a Joint Venture with Vietnamese companies.

