



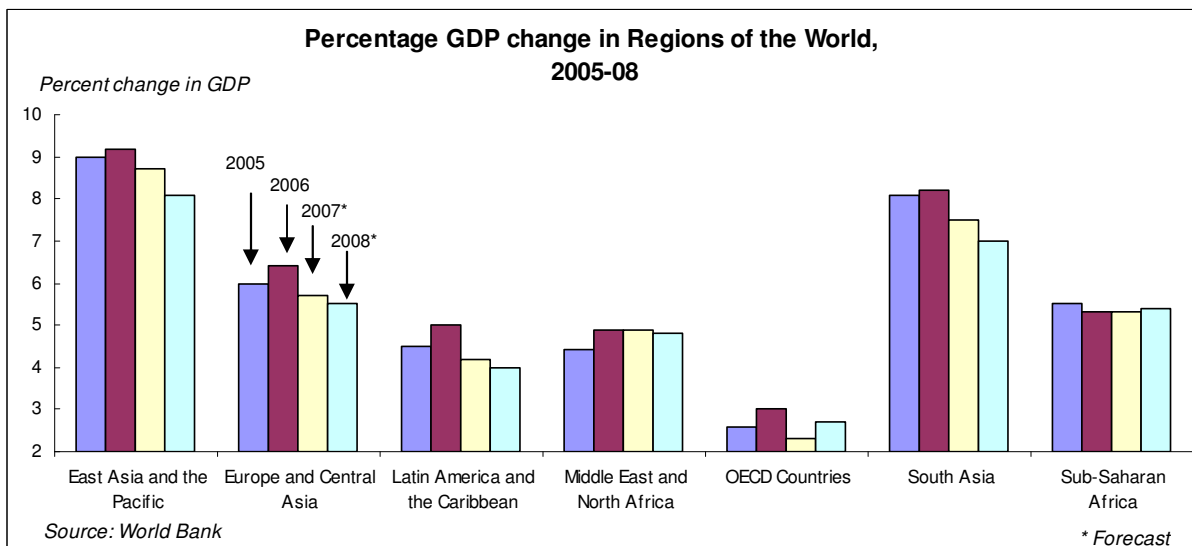
GLOBAL HIDES AND SKINS MARKETS: A REVIEW AND SHORT-TERM OUTLOOK (As of July 2007)

1. Highlights

The global hides and skins market in 2007 is riding the momentum that started in 2006. Although a slight increase in supplies is projected, demand is forecast to be stronger and an upward trend in prices that started in 2006 is likely to continue through the year. A robust global economy is helping fuel increased demand for leather and leather-related products.

Production of hides and skins is estimated to have increased slightly in 2006. Consistent with the trend of recent years, the expansion in developing countries more than offset the decline in developed countries. Global demand for leather and leather products – and therefore hides and skins – improved in 2006. The increase in demand outpaced the modest increase in supplies and supported an increase in prices during the course of the year; a departure from the trend of the last few years.

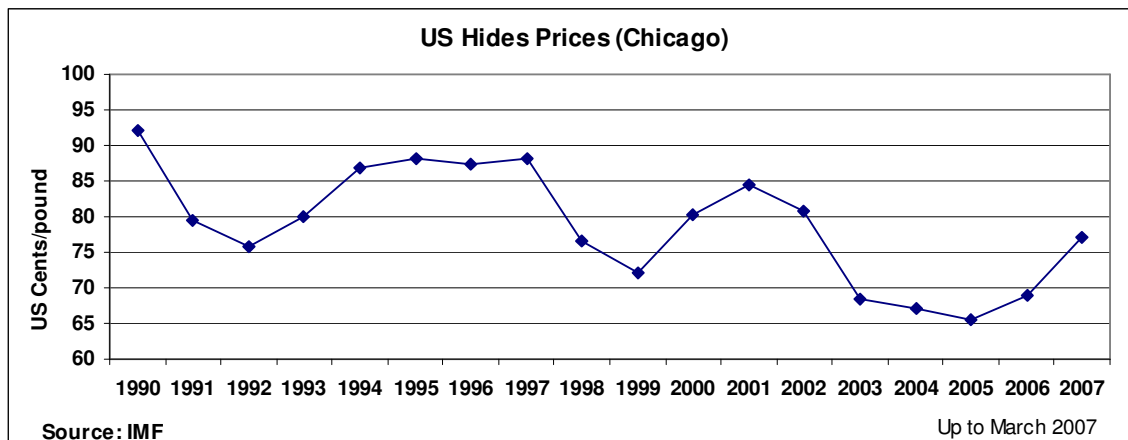
During much of 2004 and 2005, markets for hides, skins and related products were largely influenced by slow global economic growth, currency exchange rates and animal diseases in different parts of the world. According to the World Bank, the slowdown in economic growth of the industrialised countries that started in the second half of 2004 carried over into 2005. Gross Domestic Product (GDP) growth of that group of countries was estimated at 2.5 percent in 2005, compared to about 3.1 for 2004. The pace of growth also slowed in developing countries primarily due to a combination of high oil prices, low export growth and domestic capacity constraints.



However, the situation improved in 2006 as most of the regions of the world experienced a reasonable increase in GDP. World Bank data estimated a GDP growth of 7 percent for developing countries in 2006, while GDP of developed countries expanded by about 3.1 percent. In 2007, GDP is expected to remain robust across the world, underpinning the demand for leather and leather products.

2. Hides and Skins Prices¹ in 2007 Maintain the 2006 Momentum

Several factors have combined to support an upward trend in hides and skins prices thus far in 2007, including increased imports by traditional buyers like China, the EU and Turkey. Prices were further boosted from imports by non-traditional importers, such as the Russian Federation, supported by a reportedly strongly performing tanning industry that required raw hide qualities that could not be sourced locally. However, hides and skins are by-products of the meat industry, and supplies are relatively price inelastic. Therefore, production was not expected to significantly increase. Supply was further constrained by the Rift Valley Fever that hit livestock in East Africa, particularly in Kenya and Tanzania, significantly reducing the slaughter rate. African countries have increasingly become important sources of raw hides and skins. However, in an effort to support the development of their respective domestic industries, many African Governments were increasingly putting export restrictions on raw hides and skins in place. This has boosted the tanning capacity in the region.



World hides and skins prices increased in 2006, after a steady decline since 2001, as demand expanded strongly for raw hides and skins, particularly from China, fuelled by an improvement in the global economy. Most of the regions registered reasonable GDP growth which triggered an increase in demand for leather products. Following a slowdown in buying by tanners at the end of 2005 owing to uncertainty over the new customs policy that was being introduced at the time, shipments to China, the largest raw hides importing country, increased significantly, especially during the first half of 2006.

¹ US (Chicago) prices as reported by the IMF. Ideally global price indices representing different market segments and regions would be used, but this is not possible because of the lack of the relevant data.

The decline in prices between 2002 and 2005, is attributed to a combination of factors. The weak global economic situation that prevailed during the period negatively impacted on consumer confidence resulting in a reduction in demand for leather and leather products. From the supply side, the lower margins on leather and leather products made tanners less willing to offer higher prices for the raw materials. This was due to the fact that tanners, shoe and leather-goods manufacturers were faced with increased costs of production emanating from higher prices for chemicals, energy and freight. The manufacturers, on the other hand, are price takers from the major international retail outlets.

Increased output of leather products, especially from Asia, in a period when demand was generally weak also had a price dampening effect during the period.

3. Production of Hides and Skins to Increase Modestly in 2007

In line with the expected modest rise in global meat output in 2007, world hides production is also expected to register a minimal increase. Increased feed costs have resulted in lower profitability in the meat industry and the subsequent slow meat output recovery in 2007. In addition, the beef price recovery is encouraging retention of animals for herd rebuilding.

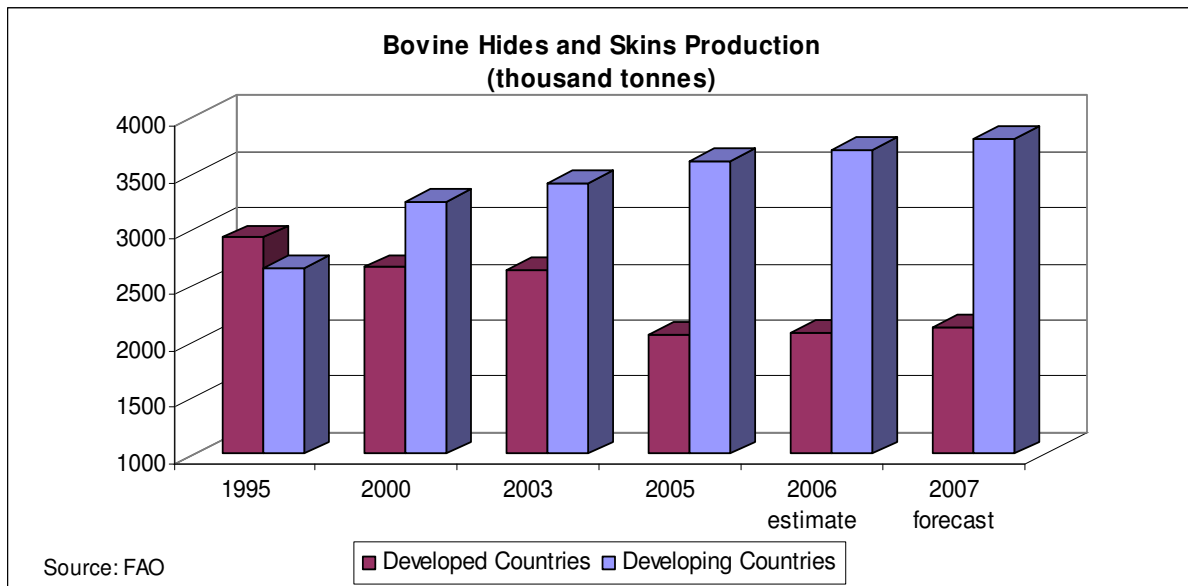
In tandem with past trends, most of the significant production gains are expected to be concentrated in developing countries. The increasing trend in the production of hides and skins in developing countries is related to increasing per capita incomes which stimulate higher consumption of meat and meat-based products. China and India are forecast to account for most of the projected increase. Some of the other major developing country producers – Argentina and Brazil – could see stagnation, and possibly a decline, in production owing to policy measures aimed at keeping domestic beef prices affordable in Argentina and the declining cow stocks in Brazil. The Argentine policy, introduced in 2006, limits beef exports and has resulted in a reduction in domestic prices of beef. However, it should, be noted that if the current rate of increase in per capita meat consumption in Argentina continues through the rest of the year, it is probable that the annual slaughter rate and, hence, production of hides, could be similar to that produced in 2006.

While developed countries are set to witness a relatively small increase in output, most of the gains are likely to be in the United States and Oceania where drought is reported to be inducing animal slaughter. Hides output from the United States, one of the world's leading producers, could rise slightly because of increased slaughter. This is partly due to drought conditions in South Eastern and South Western parts of the country. The United States slaughter rate (January to June 2007) was reported to be ahead of the 2006 pace. Similarly, the drought in Australia has reportedly contributed to an above average slaughter rate as farmers are finding it difficult to maintain the same herd-sizes in the midst of a record drought. European production is expected to increase only marginally, with rising meat prices prompting a slight increase in cattle slaughter.

For goat and sheep skins, production is forecast to expand by about 3 percent from the previous year to reach approximately 743 000 tonnes in 2007. Asia is expected to account for most of the increase, particularly in the People’s Republic of China, the Islamic Republic of Iran and Pakistan. The unfavourable weather conditions in Australia and New Zealand are making it difficult to assess the potential impact of such conditions on the skins production. If farmers choose to sell some of their core breeding stock due to the limited availability of feed and water, then an increase would be registered. In the United States, the improved pasture conditions in the traditional sheep and lamb producing States could lead to the withholding of animals for herd rebuilding.

It should, however, be pointed out that uncertainties facing the meat industry, and by implication the hides and skins industry, include the potential effects of higher feed costs in many countries, partly emanating from utilising feed grains for bio-fuel production, and higher incidence of animal diseases.

In 2006, world production of bovine hides was estimated to have increased by 1.9 percent to about 5.8 million tonnes, following a low global output in 2005, when production fell as a consequence of the trade restrictions which were imposed following reports of BSE in the United States.



4. Global Trade in Hides and Skins Strengthens in 2006

In line with a strong global economic performance, the 2007 trade in hides and skins will likely experience another expansion similar to that of the previous season. China, whose tanning capacity greatly expanded during much of the 1990s, will continue to dominate imports of the raw material.

In 2006, world trade in hides and skins was estimated to have increased by above about 2.7 percent from the previous year to approximately 2.6 million tonnes, mainly due to the strong performance of the global economy. This was in contrast to the marginal increase in 2005 during which factors such as the weak global economic growth and the impact of animal diseases in different parts of the world contributed to a decline in demand and a disruption of trade flows as some countries put trade restricting measures in place.

China continued to be the largest single-country destination for hides and skins, a position it has held since 2001. It was estimated that China accounted for about 40 percent of the global imports of hides and skins. This was a reflection of the country's developed and improved tanning industry. However, China introduced measures aimed at reducing imports of raw materials and more of semi-processed material in 2005 as a means of protecting its environment from the polluting effects of the tanning industry.

Imports into some of the traditional European markets were estimated to have increased slightly from 2005 led primarily by Italy, the single largest importer of hides and skins in Europe. This was a reversal of the declining trend in imports of raw material to Europe during much of the 2000s, which was caused by the move of tanning industries from developed to developing countries, mostly to Asia, during much of the 1990s. There were reports suggesting that tanning margins were negatively impacted because of the higher prices for raw materials coupled with the relatively stable leather prices in 2006. Consequently, some EU importers, traditionally known for strict adherence to imports of high quality raw materials, imported material of lower quality in their import mix to improve their profitability.

Turkey and the EU have traditionally been the major importing countries for skins, and in 2006 this trend continued, as the two countries accounted for more than 50 percent of the world total imports of sheep and goat skins.

On the export side, developed countries continued their dominance by a big margin although their production has, generally, been declining. This is also consistent with the flight of the tanning industry from developed to developing countries over the years. While the US and the EU accounted for only 25 percent of global hides output in 2006, their share of global exports was estimated at over 58 percent.

5. Higher Prices Lead to an Improvement in Export Earnings

The 2006 hides and skins export earnings, vis-à-vis 2005, were estimated to have increased by about 1.4 percent primarily attributed to a turn-around in the price trend from a four-year steady decline to an increase last year. An improvement in export volumes, especially from developing countries, was also a contributing factor. For the first time in six years, export earnings from bovine hides surpassed the levels registered in the early 2000s, when the combination of lower hides and skins prices and stagnation in trade volumes resulted in a decline in export earnings. Export earnings by developed countries, which account for over 80 percent of the exports of raw hides and skins, declined during most of that period owing to a fall in export volumes and prices.

6. Policy Highlights Relevant to Hides and Skins

a) The Tax Regime on Exports of Raw Hides and Skins from Kenya, Tanzania and Uganda Stiffens

The three East African countries recently presented their respective budgets for the 2007-08 financial year (July/June). In the budgets, both Kenya and Uganda increased the export levy from 20 percent to 40 percent on all exports of raw hides and skins. The Government of Tanzania had proposed the same duty to be imposed or it be computed on a container basis, that is, a 20ft container would be taxed US\$ 15 000 while a 40ft container would be charged US\$ 30 000. However, this has not been imposed yet and the Ministry of Livestock Development is committed to lobbying the relevant departments to have it imposed as they had already agreed on the same with all stakeholders. There were reports of increased exports of the raw material from the three countries during the first half of 2007 as exporters expected such a measure to be implemented and tried to finalise a number of deals before the end of June. The measures were aimed at helping the domestic tanning industry to recover from several years of decline and there were reports that indicated that the turn-around in the tanning industry of the three countries was indeed taking place. The region is increasing its exports of wet-blue (semi-processed) material at the expense of the raw hides and skins.

b) Argentine Beef Export Policy Could Lead to a Decline in Hides' Production in the Medium-term

The Government of Argentina introduced a policy restricting beef exports with the objective of making it more affordable for domestic consumers. The policy was reported to be achieving its objective as domestic per capita meat consumption was currently reported to be nearing record levels of close to 75 kilograms. However, it was reported that due to domestic price controls, stakeholders in the meat industry were finding it difficult to break-even and, as such, limiting and, in some cases, taking investments out of beef production. Land was reportedly being taken out of cattle production and into crop production – especially soya and maize. In the medium-term, this could lead to a drastic fall in the country's beef and, therefore, hides production.

7. Conclusion

The demand for leather and leather products is elastic and generally fluctuates with the global economic performance. Improved economic growth in 2006 impacted positively on leather and related-product markets. Although world production of hides and skins increased slightly, the declining output trend in developed countries continued. Overall, the demand for hides and skins outstripped supply resulting in an increase in prices, a departure from the trend in previous years when prices steadily declined. The combination of higher prices and an improvement in trade volumes led to an expansion in export earnings.

The trend of higher demand and prices for hides and skins continued into 2007. For the remainder of the year, barring new disease outbreaks, global hides and skins markets should continue to be influenced by policy developments in the major producing and trading countries, global economic growth, oil prices, interest rates and currency exchange rates. In addition to the above, competitiveness of Europeans tanners will likely be affected by the new REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) regulations which became effective on 1st June 2007. The aim of REACH is to improve the protection of human health and the environment through better and earlier identification of the properties of chemical substances. Also, a continued strengthening of the European currencies will continue to put the European manufacturers at a disadvantage in the export market, vis-à-vis their competitors, especially lower cost producers in Asian countries.

Table 1. Livestock numbers

	2000/02 average	2003	2004	2005 ¹	2006 ²	2007 ³
<i>million heads</i>						
BOVINE						
World total	1,489.3	1,521.1	1,535.3	1,549.7	1,567.1	1,584.8
India	285.6	284.0	283.2	283.0	282.8	282.5
Brazil	178.3	196.7	205.6	208.1	213.3	221.0
China	128.1	131.0	134.8	138.0	141.7	145.5
United States of America	97.4	96.1	94.9	95.8	97.5	98.8
EU (15)	92.5	89.4	88.3	87.6	86.1	86.8
Argentina	48.5	50.9	50.8	50.8	50.8	51.4
Developing Countries	1,179.0	1,218.1	1,235.8	1,252.1	1268.6	1285.4
Developed Countries	310.4	303.1	299.5	297.5	298.5	299.5
SHEEP						
World total	1,038.4	1,034.0	1,062.8	1,084.1	1,091.3	1,012.5
China	133.4	143.8	157.3	170.9	172.6	181.9
EU (15)	108.0	103.2	102.9	102.1	100.2	102.9
Australia	111.9	99.3	101.3	101.1	100.9	95.4
India	60.4	61.8	62.5	62.5	62.8	63.0
Iran, Islamic Rep of	53.9	53.9	54.0	54.0	54.1	54.3
Developing Countries	708.2	724.4	751.2	772.3	780.4	792.2
Developed Countries	330.2	309.6	311.6	311.8	310.9	220.2
GOATS						
World total	736.7	773.3	795.4	815.8	824.1	827.9
China, Mainland	155.7	172.9	183.4	195.8	197.7	208.4
India	120.9	120.1	120.0	120.0	120.7	120.9
Pakistan	49.2	52.8	54.7	56.7	58.0	60.8
Sudan	40.0	42.0	42.0	42.0	42.2	42.2
Developing Countries	708.4	744.7	767.1	787.9	796.3	808.3
Developed Countries	28.3	28.6	28.2	27.8	27.8	19.7

¹ Preliminary

² Estimate

³ Forecast

Table 2. Production

	2000/02 average	2003	2004	2005¹	2006²	2007³
	<i>thousand tonnes</i>					
BOVINE						
World total	5851.6	6051.2	6201.6	5676.0	5785.2	5943.9
USA	927.4	918.4	844.0	813.4	847.7	860.0
China	667.5	754.1	810.5	862.4	910.1	977.0
Brazil	660.9	709.9	730.0	730.0	745.9	750.0
European Union (15)	681.3	672.0	662.1	645.9	632.7	652.4
India	396.6	403.8	415.7	417.9	435.5	464.3
Argentina	307.5	325.2	244.8	265.5	246.9	246.0
Russian Fed	224.7	228.3	222.7	202.8	195.8	192.9
Developing Countries	3238.0	3415.3	3633.3	3613.3	3706.2	3809.7
Developed Countries	2613.6	2636.0	2568.3	2062.8	2079.1	2134.2
SHEEP						
World total	392.9	390.5	397.5	410.1	420.7	430.6
China	53.7	64.8	74.9	80.7	86.3	92.0
European Union (15)	62.7	61.8	62.0	62.9	59.6	60.1
New Zealand	41.7	41.7	38.6	39.6	40.4	41.2
Australia	46.8	36.7	32.4	34.5	36.6	33.6
India	17.5	17.7	17.8	17.8	18.0	18.0
Iran	18.7	15.1	15.2	16.5	16.5	18.5
Developing Countries	200.2	207.3	220.4	229.3	237.8	246.6
Developed Countries	192.7	183.2	177.1	180.8	182.9	183.9
GOATS						
World total	251.1	268.4	280.4	291.1	301.5	312.3
China	66.6	80.1	88.5	95.2	101.8	107.6
India	71.6	72.0	72.5	72.5	73.0	73.3
Pakistan	16.8	18.1	18.5	19.1	20.0	21.0
Bangladesh	13.9	14.6	14.6	14.6	14.6	14.6
Developing Countries	237.4	253.8	265.8	276.2	286.3	296.9
Developed Countries	13.6	14.6	14.5	14.9	15.2	15.3

¹ Preliminary

² Estimate

³ Forecast

Table 3. Exports

	2000/02 average	2003	2004 ¹	2005 ¹	2006 ²
<i>thousand tonnes</i>					
BOVINE					
World total	2159.3	2354.6	2401.0	2436.0	2492.8
EU (15) *	704.4	724.4	770.5	762.9	747.3
USA	678.1	685.3	657.3	665.2	693.3
Australia	220.5	130.3	155.7	163.9	155.5
China	172.0	207.9	187.2	203.5	214.8
Developing Countries	277.1	292.3	305.9	317.3	375.4
Developed Countries	1882.2	2062.3	2095.1	2118.7	2117.4
SHEEP					
World total	171.2	174.0	174.6	178.4	181.8
EU (15) *	48.7	51.9	50.2	49.3	46.7
Australia	33.5	26.2	26.0	33.9	36.0
New Zealand	23.3	26.1	27.3	27.7	28.3
Iran	12.6	10.4	8.0	8.0	8.0
Developing Countries	49.0	47.4	49.7	51.6	53.5
Developed Countries	122.2	126.6	124.9	126.8	128.3
GOATS					
World total	13.8	14.3	14.5	16.0	16.5
EU (15) *	3.2	1.5	1.1	2.0	1.9
Ethiopia	1.8	1.2	1.5	1.5	1.5
Nepal	1.0	1.2	1.1	1.1	1.2
Sudan	0.3	1.0	0.8	0.8	0.9
Australia	0.7	0.3	0.4	0.4	0.4
Developing Countries	8.8	9.5	10.0	10.4	10.7
Developed Countries	5.0	4.8	4.6	5.6	5.7

* EU is given as the sum of the 15 member states.

¹ Preliminary

² Estimate

Table 4. Imports

	2000/02 average	2003	2004 ¹	2005 ¹	2006 ²
<i>thousand tonnes</i>					
BOVINE					
World total	2196.1	2284.7	2286.3	2305.9	2368.7
China	706.5	805.4	838.9	912.1	961.6
EU (15) *	876.6	729.4	687.5	688.7	702.8
<i>of which: Italy</i>	<i>474.6</i>	<i>347.2</i>	<i>337.2</i>	<i>331.6</i>	<i>336.1</i>
Korea Rep	261.9	207.4	183.0	181.7	176.2
Thailand	118.9	114.8	113.4	110.5	97.3
Developing Countries	1095.6	1155.6	1209.5	1254.4	1,314.2
Developed Countries	1100.4	1129.1	1076.8	1051.5	1,054.5
SHEEP					
World total	171.0	173.1	173.3	175.5	179.3
Turkey	63.3	89.6	83.6	73.1	72.7
EU (15) *	51.8	37.5	34.3	30.2	33.2
China	43.9	38.3	53.3	65.1	60.6
Developing Countries	105.0	113.5	118.9	123.5	124.0
Developed Countries	66.0	59.6	54.4	52.0	55.3
GOATS					
World total	13.9	15.3	16.0	16.3	16.8
Turkey	3.4	6.7	4.1	3.4	3.4
EU (15) *	3.9	2.5	2.6	2.3	2.4
India	2.5	3.3	2.1	1.5	1.5
Pakistan	1.4	1.5	1.5	1.3	1.3
China	2.3	1.8	3.7	4.3	4.0
Developing Countries	9.9	10.7	11.2	11.6	11.7
Developed Countries	4.1	4.6	4.8	4.7	5.1

* EU is given as the sum of the 15 member states.

¹ Preliminary