



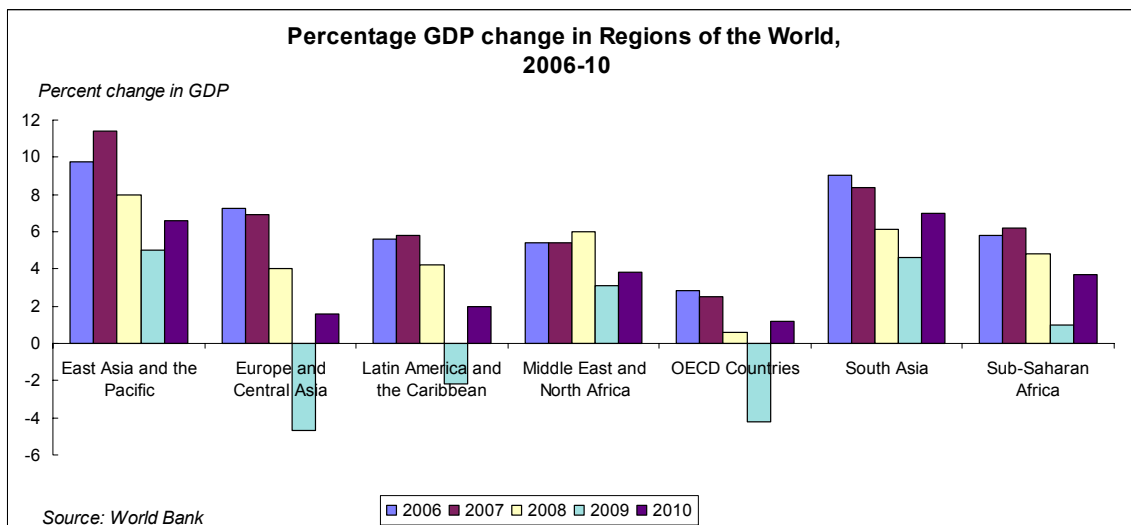
**GLOBAL HIDES AND SKINS MARKETS:
A REVIEW AND SHORT-TERM OUTLOOK
(As of November 2009)**

1. Highlights

During much of 2008 and 2009 the global hides and skins market was deeply affected by the widespread economic downturn following the international financial crisis.

Events began when, towards the end of 2008, markets for finished products were hit hard by a reduction in orders. The abrupt slowdown in global leather purchases and bleak prospects for demand was especially felt by important buyers of leather and related products, such as the shoes, the automobile and the furniture industries. As a result, raw material prices fell prompting a decline in world hides production in 2008 by around 2 percent, with much of the contraction concentrated in developing countries. The outlook for global production in 2009 has brightened slightly, with developing countries likely to lead a moderate recovery. Asian and Latin American countries have dominated the dynamic of production in recent last years, while European output markets have shrank considerably.

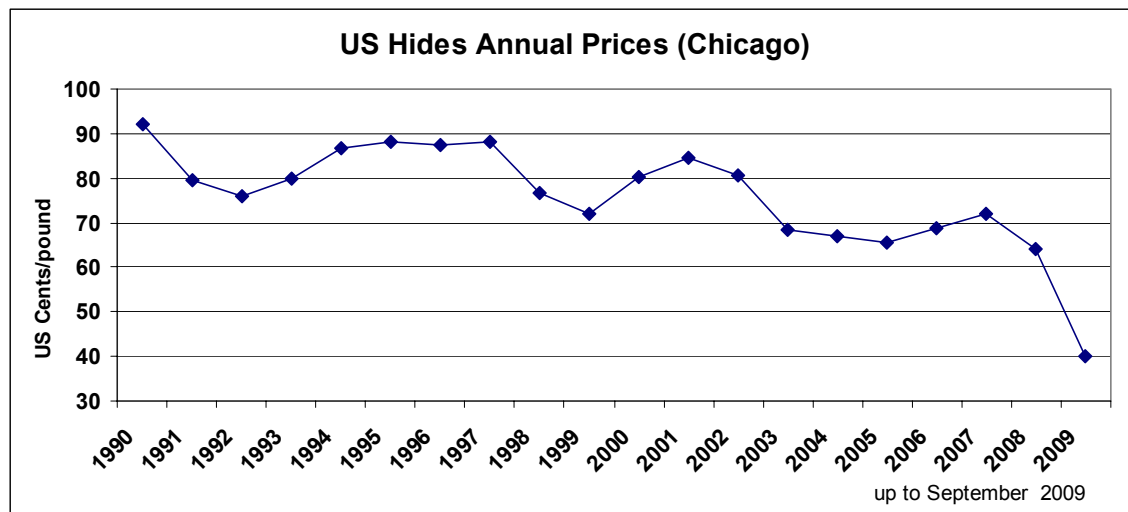
Mirroring production patterns, global hides and skins trade underwent a steep decline in 2008, of about 20 percent, following weak international demand for finished products and the drawing down of inventories in importing countries. Altogether, the global hides and skins market is now much ‘thinner’, and hence susceptible to more volatility. Another trend induced by the economic downturn, has been the shifting locale of global supply and demand towards emerging economies.



2. Prices fall due to faltering demand at the end of 2008; recovering in 2009¹

The past two years - 2008 and 2009- have witnessed a marked acceleration in the decline in prices of hides and skins. Prior to 2008, price levels were consistent with the long-term declining trend, which has been observed since the early 1990s, albeit with temporary recoveries. But, corresponding to the weakening in demand, the fall became dramatic, especially early in 2009 when the economic crisis deepened.

Prices were consequently affected in several ways, but primarily through a reduction of orders along the value chain. Manufacturers of leather, leather products and garments ultimately suffered from a fall in retail consumption, as a result of a deterioration of consumer income prospects worldwide, particularly in developed countries. Moreover, demand by intermediate leather product users also slowed drastically, especially for durable and semi-durable goods from the automobile and furniture sectors. Operating conditions were also worsened by rising oil prices in the first half of 2008 which brought about an increase in the price of chemicals, pressurising the profit margins of tanneries.

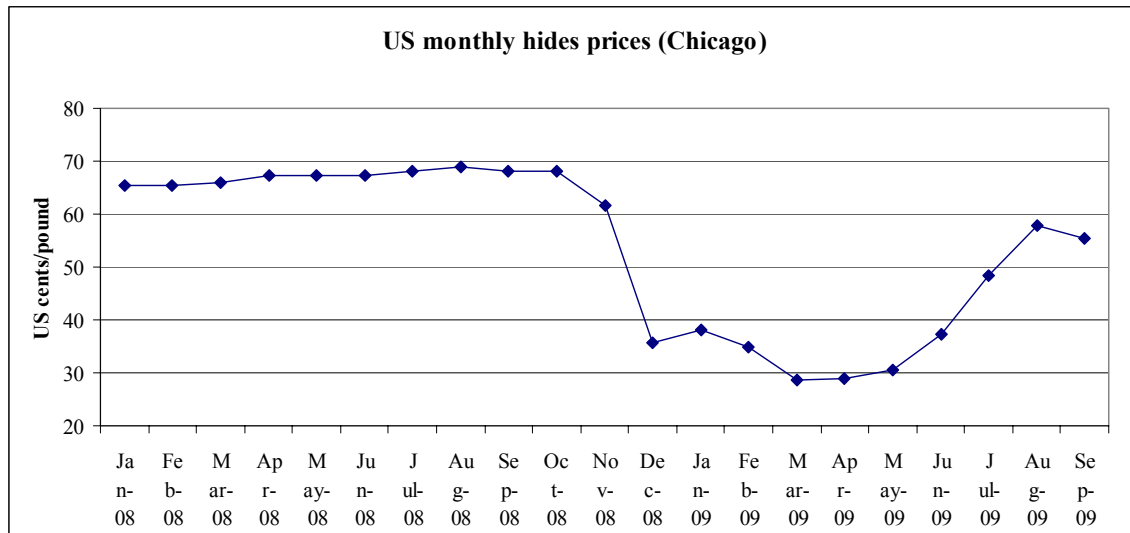


An examination of the monthly evolution of prices reveals how faltering demand and uncertainty was transmitted to global markets, particularly towards the end of 2008 and the beginning of 2009. Just in the period between November and December 2008 quotations collapsed as much as 42 percent, in what would normally be a seasonal peak in demand. Such falls were not contained, when after a short-lived rebound, prices continued to decrease through to April, reaching the considerably low level of US 29 c/lb.

A sustained recovery in quotations did not begin until May 2009, and fully materialised by way of a peak in August 2009, when prices had almost doubled from their level in April, but were still 16 percent lower compared to August 2008. Two factors brought about the recovery of prices. Firstly, in response to the economic downturn, the hides and skins industry underwent a global contraction in production capacity – many tanneries either closed, or operated at minimum capacity – while at the same time, stocks were

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

drawn down to meet demand along the production chain. Secondly, both final and intermediate demand began picking up in key markets, such as in China, India, Russia and Brazil - the same markets which were responsible for the dynamism in the sector in previous years, especially in supporting prices over 2006 and 2007.



3. Global production down in 2008, recovering in 2009

World production of bovine hides contracted by about 2 percent in 2008, notwithstanding the increase in global meat output recorded in that year. Most of the reduction took place in developing countries, where output of hides is estimated to have fallen to about 3.7 million tonnes in 2008, down almost 3 percent from the previous year. China reported a significant reduction in bovine hides production. Such change is consistent with the contraction observed in the total number of cattle heads in the country, which was generated by two main causes: the unfavourable weather conditions which materialized during the year, on the one hand; and the reduced demand for meat, brought about by the economic downturn. The slow-down in slaughtering resulted in a reduced availability of raw hides to process. Moreover, tanneries were confronted with raising production costs, due both the increase in chemical and oil-based inputs, as well as the need to comply with increasingly demanding environmental regulations.

By contrast, production expanded in Brazil and Argentina in 2008, albeit marginally, following an increase in beef prices which drove up slaughtering, and in spite of a limitation on exports in the latter country.

Asian producers have generally been more dynamic, as shown, for instance, by the positive performance of Bangladesh. Bovine hides and skins production in India underwent a 6 percent increase in 2008 and by 5 percent for goat and sheep skins. Such growth stemmed from an aggressive investment policy, promoted by the Government, together with buoyant domestic demand.

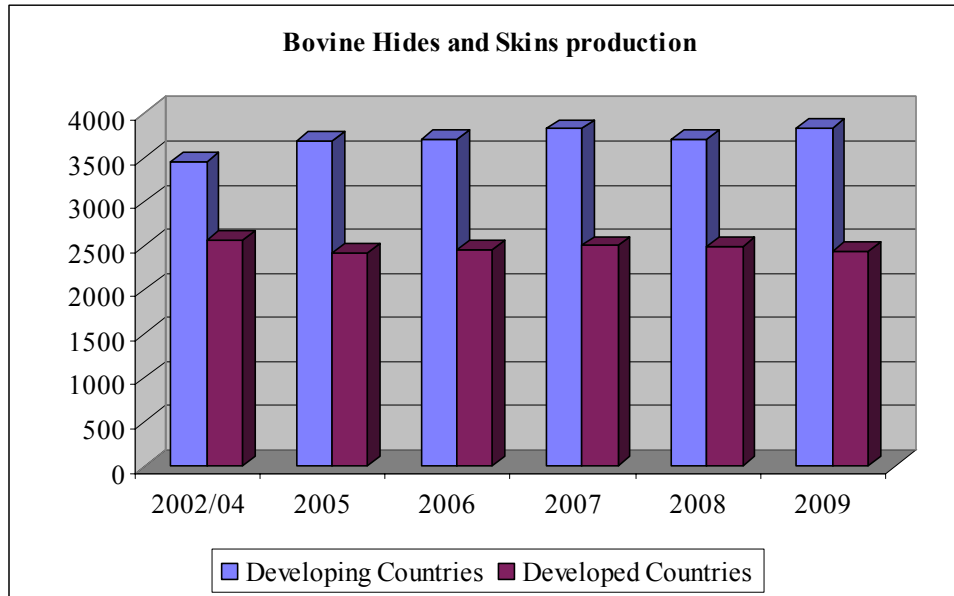
Eastern African demand has remained relatively strong, especially for sheep and goat hides and skins. In some of the main producers countries such as Uganda and Kenya, Governments had continued pursuing policies aimed at promoting value addition and product development, both through incentives to investment and taxes aimed at discouraging exports of raw hides. In Uganda, the export duty on raw products was raised in 2008 to US\$ 0.40 per kg, or 40 percent.

In developed countries, overall hides and skins production recorded a slight decrease in 2008. Falling incomes brought on by the economic slowdown resulted in a decline in orders, especially in the EU and in Russia. The strength of the Euro on the US dollar contributed to worsen the perspective for European tanners, due to the reduced competitiveness of exports of final products. By the same token, the weak dollar contributed to strengthen United States exports of hides, which increase slightly - especially those shipped to China – and brought about a marginal expansion in production.

Despite generally unfavourable outcomes in 2008 and in the first few months of following year, preliminary global indications point to a small recovery in 2009. For bovine hides, 2009 production could expand by over one percent to 6.3 million tonnes; goat hides could also record a marginal increase, while global production of sheep hides is estimated to contract by about 4 percent.

Much of the anticipated expansion in global bovine hide production is set to take place in China, where production could sharply rise to the tune of 17 percent. Demand for domestic skins is likely to fare better under the recessionary climate, compared to other producing countries. Similar reasoning applies to Latin America, where output is forecast to increase by a robust 4 percent in Brazil and 1 percent in Argentina. Overall, production growth in developing countries, is foreseen to reach over 3 percent in 2009.

Prospects for bovine hide production in developed countries remain bleak, however, with output expected to fall almost 2 percent in 2009. In Europe and the United States, production is expected to slow down substantially in the year, as European producers, particularly those in Italy, have reacted to successive contractions in demand by either downsizing operations or closing tanneries. Just in the last few months of 2008, ten plants were reported to have already suspended production.



A similar pattern is likely to emerge in the sector for sheep hides. A significant reduction in output is expected for developed countries, especially among the major producers of Australia and New Zealand, following a significant drop in the number of lambs, also in the EU, where production could contract by 3 percent. Prospects appear brighter in the goat hides market, where global output is likely to increase, albeit marginally in 2009, due to expected expansions in China and Pakistan.

4. Global trade shrank in 2008

Global trade in hides and skins underwent a considerable contraction in 2008. The decline was especially pronounced in the international bovine market, where transactions are estimated to have fallen 20 percent below the level of 2007. This was mostly a consequence of a limited participation by developed countries in the international market, as both suppliers and buyers.

In the EU, a drop in activity in the leather supply chain resulted in fewer exports from member states in 2008. Sales of bovine hides were reported at around 830 thousand tonnes, down 16 percent from the previous year. The United States registered a more pronounced reduction in exports of almost 250 000 tonnes, as once again, falling demand which was reflected in lower prices, prompted a fall in shipments. For the same reason, international hides and skins deliveries by Australia are reported to have fallen in 2008.

Consistent with changes observed in production environment, global exports from developing countries as a whole decreased in 2008, but not to the same extent that was experienced by the developed group of countries. For instance, sales of bovine hides fell by just 4 percent, thanks to China, which offset the reduction by exporting 28 percent more than compared to 2007.

Even on the import side, China stood by far as the most important destination for global trade in bovine hides, followed by Thailand. Domestic markets for leather products in these countries remained lively, despite falling income prospects. Imports of bovine hides increased by more than 100 thousand tonnes in 2008, while a 10 percent increase was recorded in global trade for sheep hides. The Russian Federation has been another growth market in 2008, particularly for sheep hides, and import demand by Belarus has also been buoyant.

At the other extreme, the EU lost considerable ground as an international buyer, given the deepening of the economic recession in member countries. The EU as a whole imported in 2008 some 240 thousand tonnes of bovine hides less than the previous year, more than half of which were on account of reduced purchases of the raw material by Italy. Tanneries in key producing regions of the country, such as Santa Croce sull'Arno in Tuscany, were operating well below their capacity throughout 2008.

Exports from Eastern Africa have suffered from reduced demands for raw hides, as well as wet blue products; the Chinese market, in particular, has slowed down considerably. Some governments in the regions have taken action to foster exports; in Rwanda, for instance, additional export licences have been granted to the abattoirs in Kigali, for wet-salted hides.

Given the observed changes in world reference prices and traded volumes, a contraction has certainly taken place in developing countries export earnings from the hides and skins industry; and a wider reduction may take place in 2009 given the further contraction of volumes.

6. Policy Highlights

a) Changes in China's trade policy

In March 2009, significant changes took place to the Chinese import tariff and export tax regime for semi-finished and finished hides and skins products. The new policy promotes the processing of domestically sourced raw materials, and higher value addition. While a ban on imports of raw hides and exports of semi and finished leather is likely to be maintained; imports of semi-processed leather, such as wet-blue, however, will be allowed to enter the country duty-free. Such products will also be exempt from value added taxes, provided that they are processed into finished leather goods and re-exported. Moreover, export tax rebates on a number of finished product lines were increased to 13 percent from 11 percent for footwear and bags, and from 5 percent for leather and fur apparel and leather gloves.

b) Chemicals in the European market

EU policy is having a profound effect on the global hides and skins market, especially in the impact of two major provisions on exports to the European market.

Firstly, compliance to the 2007 Regulation on Registration, Evaluation, Authorisation and Restriction of Chemical substances (REACH), could disrupt trade patterns. REACH promotes the early identification of harmful chemical substances, and assigns greater

responsibility to the supplier in the management of risks and the provision of safety information, especially in reporting “Substances of Very High Concern” In principle, raw leather is exempt from the regulations, but this is not the case for products leaving tanneries. Tanners are obliged to declare chemical usage and composition in treated leather, and this certainly will drive up production costs and impair competitiveness for manufactured goods destined to the European market.

Secondly, a Directive issued by the European Union in 2009 will prohibit the import of products containing dimethyl fumarate - a biocide employed in the prevention of mould on leather products during transit or storage. The ban was enforced after skin injuries were reported by consumers who had purchased furniture treated with the biocide. The policy change has generated confusion, since the commercial formulation of dimethyl fumarate, mirrors an innocuous chemical widely used in the storage of leather products.

Table 1. Livestock numbers

	2002/04 average	2005	2006	2007	2008 ¹	2009 ²
	<i>million heads</i>					
BOVINE						
World	1,506.5	1,524.7	1,537.7	1,534.4	1,543.1	1,549.9
India	282.8	279.7	277.5	275.3	275.0	274.7
Brazil	196.3	208.3	207.0	200.9	202.8	208.3
China	116.0	112.4	109.9	104.7	104.2	104.9
United States of America	95.9	95.4	96.7	97.0	99.7	100.6
EU (25)	93.2	91.5	90.7	90.5	91.0	90.0
Pakistan	48.1	50.5	56.9	58.8	58.8	60.2
Developing Countries	1,184.5	1,206.9	1,220.2	1,217.5	1,222.2	1,232.9
Developed Countries	321.9	317.8	317.5	316.9	320.9	317.0
SHEEP						
World total	1,041.2	1,089.1	1,092.4	1,086.9	1,092.0	1,110.9
China	136.0	152.0	151.3	146.0	146.4	150.4
EU (25)	111.1	111.0	109.5	107.9	107.7	107.6
Australia	102.2	101.1	91.0	85.7	76.8	76.8
India	61.5	62.9	63.6	64.3	64.4	64.7
Iran, Islamic Rep of	52.0	52.2	52.2	53.8	54.4	54.5
Developing Countries	687.4	729.1	740.5	741.2	754.3	763.6
Developed Countries	353.8	360.0	351.9	345.7	337.8	347.3
GOATS						
World total	782.9	820.9	823.8	830.4	834.3	848.7
China	147.9	152.0	146.6	137.7	138.1	141.8
India	124.4	124.9	125.2	125.5	125.6	126.3
Pakistan	52.8	56.7	53.8	55.2	57.1	58.5
Bangladesh	39.7	45.6	48.9	52.5	54.4	55.4
Nigeria	47.6	50.0	51.2	52.5	52.9	53.4
Developing Countries	748.7	785.5	787.8	794.3	799.1	812.5
Developed Countries	34.2	35.3	36.0	36.1	35.3	36.2

¹ Preliminary

² Estimate

Table 2. Production of Hides

	2002/04 average	2005	2006	2007	2008¹	2009²
<i>thousand tonnes</i>						
BOVINE						
World total	6011.2	6099.3	6159.8	6321.6	6195.6	6279.5
China	756.6	862.4	862.4	908.4	754.6	882.1
USA	895.1	813.4	847.7	860.0	867.2	833.6
Brazil	710.0	730.0	730.0	752.0	753.0	767.6
EU (25)	686.0	695.5	677.0	697.9	695.4	682.1
India	412.0	417.9	417.9	431.7	459.1	441.2
Argentina	352.5	403.2	403.2	421.3	421.9	425.6
Russian Fed	225.4	202.8	202.8	197.7	191.4	193.7
Developing Countries	3445.1	3681.9	3710.2	3822.4	3710.2	3837.5
Developed Countries	2566.1	2417.4	2449.6	2499.2	2485.3	2442.0
SHEEP						
World total	384.2	408.8	417.7	425.9	426.8	410.2
China	64.9	80.7	84.1	89.7	90.3	94.0
European Union (15)	62.6	64.8	65.0	69.0	68.8	66.7
Australia	35.7	37.4	39.6	36.4	34.9	32.0
New Zealand	40.0	39.9	41.1	41.9	41.3	29.1
Iran	15.1	15.1	15.1	15.2	15.2	13.7
India	12.1	12.0	11.9	11.9	12.5	12.0
Developing Countries	199.5	218.8	223.6	229.4	232.0	232.6
Developed Countries	184.6	190.0	194.1	196.5	194.8	177.6
GOATS						
World total	236.0	252.4	257.4	265.2	270.3	271.2
China	77.4	90.3	93.8	100.1	100.7	103.6
India	47.0	47.2	47.5	47.7	50.0	48.6
Pakistan	14.2	15.3	15.3	15.6	15.6	15.9
Bangladesh	13.7	13.7	13.7	13.7	14.5	14.2
Sudan	8.0	9.6	10.6	10.6	10.5	10.9
Iran	6.0	6.0	6.0	6.0	6.0	5.9
Developing Countries	222.1	238.5	244.0	251.1	256.2	257.1
Developed Countries	13.9	13.9	13.5	14.1	14.1	14.1

¹ Preliminary

² Estimate

Table 3. Exports

	2002/04 average	2005	2006	2007	2008
<i>thousand tonnes</i>					
BOVINE					
World total	2449.3	2557.3	2678.8	2726.3	2205.2
EU (25)	861.5	907.7	999.5	994.2	831.3
USA	905.4	837.0	926.2	1021.1	746.4
China	215.4	166.9	129.8	119.3	152.1
Australia	137.1	136.1	136.4	174.4	134.2
Developing Countries	280.7	285.0	261.7	214.9	201.1
Developed Countries	2168.5	2272.3	2417.1	2511.4	2004.1
SHEEP					
World total	155.4	196.1	217.4	241.3	229.4
Australia	31.2	65.1	63.3	84.3	91.0
EU (25)	64.9	63.3	67.4	66.1	63.2
New Zealand	17.0	20.3	26.5	37.3	31.4
South Africa	10.3	10.3	10.8	13.2	9.4
Developing Countries	28.5	19.1	34.1	27.3	20.4
Developed Countries	126.9	177.0	183.3	214.0	209.0
GOATS					
World total	16.9	18.3	16.0	no data in comtrade	
Uganda	4.9	11.4	7.5		
EU (25)	2.3	2.5	2.8		
Ethiopia	0.8	1.3	0.9		
China	0.5	1.0	0.7		
Developing Countries	10.3	13.3	10.4		
Developed Countries	6.6	5.0	5.6		

Source: Comtrade

Table 4. Imports

	2002/04 average	2005	2006	2007	2008
<i>thousand tonnes</i>					
BOVINE					
World total	2393.5	2408.5	2482.7	2533.4	2097.1
China	837.5	887.4	900.2	854.4	961.2
EU (25)	892.4	856.2	962.9	980.0	740.3
<i>of which: Italy</i>	418.1	400.7	459.4	441.2	296.0
Korea Rep	213.1	181.7	158.1	150.2	142.3
Thailand	119.1	110.5	96.3	122.1	129.0
Developing Countries	1280.3	1378.9	1368.8	1451.2	1260.7
Developed Countries	1113.2	1029.6	1113.9	1082.2	836.4
SHEEP					
World total	198.1	212.2	219.9	233.2	231.3
China	55.2	83.2	89.5	115.1	127.4
Turkey	70.6	55.8	56.1	48.4	40.2
EU (25)	49.8	34.7	39.4	47.2	36.1
Russian Federation	3.7	7.2	9.8	7.0	8.2
Developing Countries	140.7	165.7	167.4	176.9	184.2
Developed Countries	57.4	46.5	52.5	56.3	47.1
GOATS					
World total	19.1	24.9	22.1	no data in comtrade	
China	3.6	11.0	10.0		
Pakistan	4.9	9.9	8.3		
Turkey	5.6	3.4	4.6		
Kenya	0.3	1.1	1.3		
Developing Countries	15.2	21.9	19.2		
Developed Countries	3.7	3.0	2.9		

Source: Comtrade