

GLOBAL HIDE SUPPLY

A REPORT BY UNIVERSAL LEATHER

Why & Where Recent Price Increases began

Supply By Country

Demand by Industry

Price Trends

Forecast

Where Recent Price Increases Began

- ❑ Argentina is one of the world's largest producers of beef. It is also the third-largest exporter (after Brazil and Australia), and has the world's highest consumption rate of meat (an average of 68 kg per person per year).
- ❑ World Leather Upholstery Prices follow South American prices because SA hides are the most price competitive and desirable.
- ❑ On March 8th 2006, President Nestor Kirchner took the drastic measure of **banning all exports of beef** for a period of 180 days, in order to stop continuous price rises.
- ❑ Due to its prevalence in Argentines' diet, the price of beef has a large influence in the overall inflation rate, which had already become a concern.
- ❑ Exports had soared after the economic collapse of 2001. This forced the government to let the national currency, float and depreciate. As a result, internal prices of beef, a major staple of Argentine diet, rose considerably, and part of the beef production was diverted from the local market to importers abroad.

Why the Price Increases

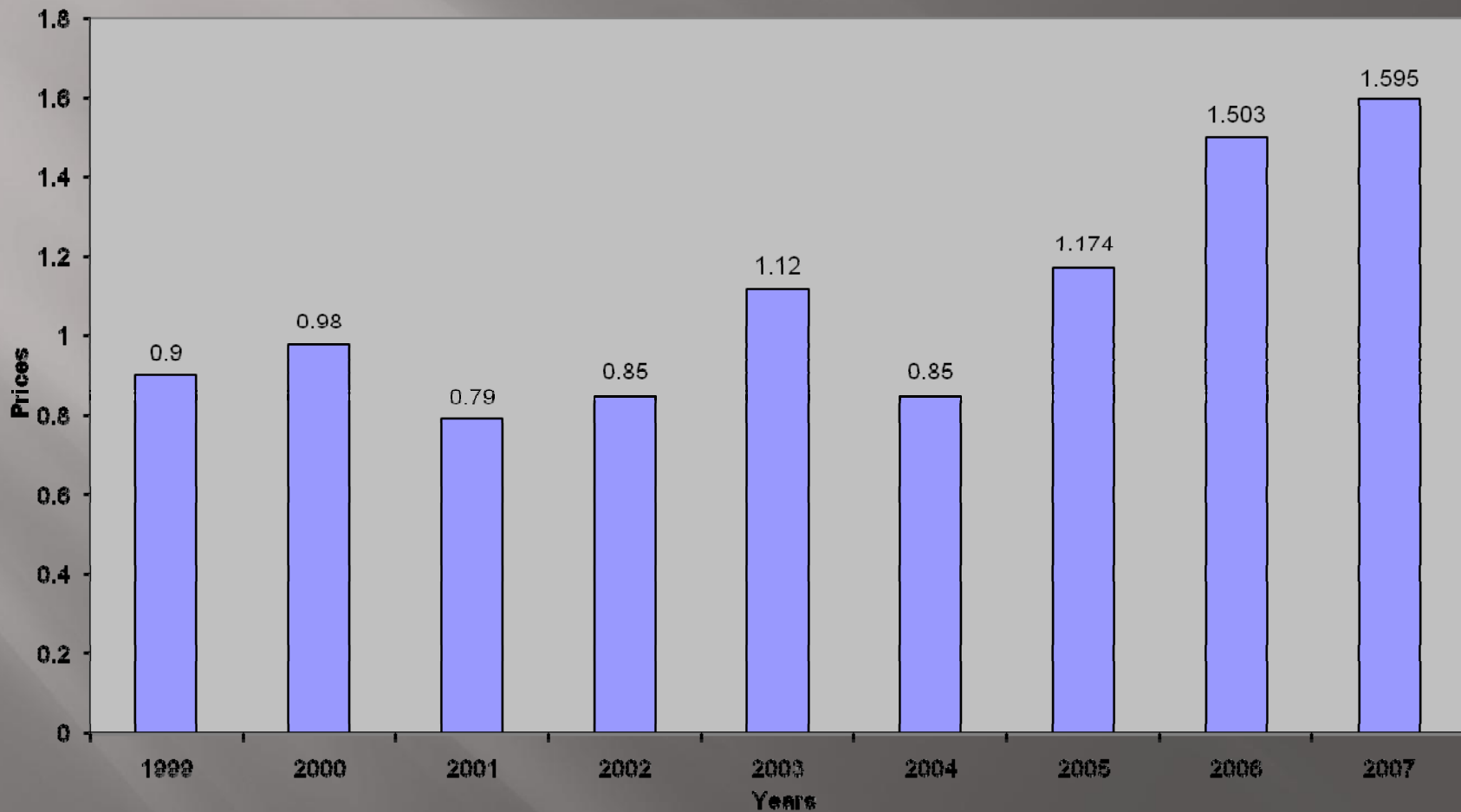
- Increasing demand, both local and foreign, also contributed to this scenario. In late 2005 and 2006, months of unsuccessful negotiations went on between the national government and the beef producers and traders, which included considerable political and media pressure by the former.
- Similar negotiations to achieve "price stability agreements" (consensual price controls) with other sectors of economy had been successful to varying degrees.
- On February 3, 2006, several meat plant associations announced that they would limit their own exports to 20% less than the amounts recorded in 2005, but this was not done in reality.
- Beef prices had accumulated a 26% rise in 2006, on top of 29% during 2005, until the ban was announced.
- In addition to the ban, the government raised the exports tax from 5 to 15% for certain processed beef products, equalizing them with those applied to other products.

Why the Price Increases

- Immediately after the announcement, the Argentine Rural Society (SRA) released a communiqué, stating that exporters would lose 280,000 ton's in sales, for 585 million USD, and that many meat processing plants would go bankrupt, thus causing the loss of thousands of jobs. Moreover, the SRA denounced the ban as harmful for Argentina's international image, and as a short-term measure that would not solve the background problem (scarcity of livestock due to lack of economic incentives).
- On May 26th, the Ministry of Economy partially lifted the ban, allowing for a quota for June–November equivalent to 40% of the exports of the same period in 2005. This followed a period of falling beef prices in the Liniers Market (though not to the general public) and several acts of protest by livestock farming organizations, including the threat of a nationwide strike. (This strike finally occurred in May, 2007).
- On July 4th, 2006, the restrictions were again softened, by allowing exports for an extra 25% of the amount of 2005. A new loosening (to 70% of the 2005 figures) was announced on September 28th, 2006.
- The situation continues.

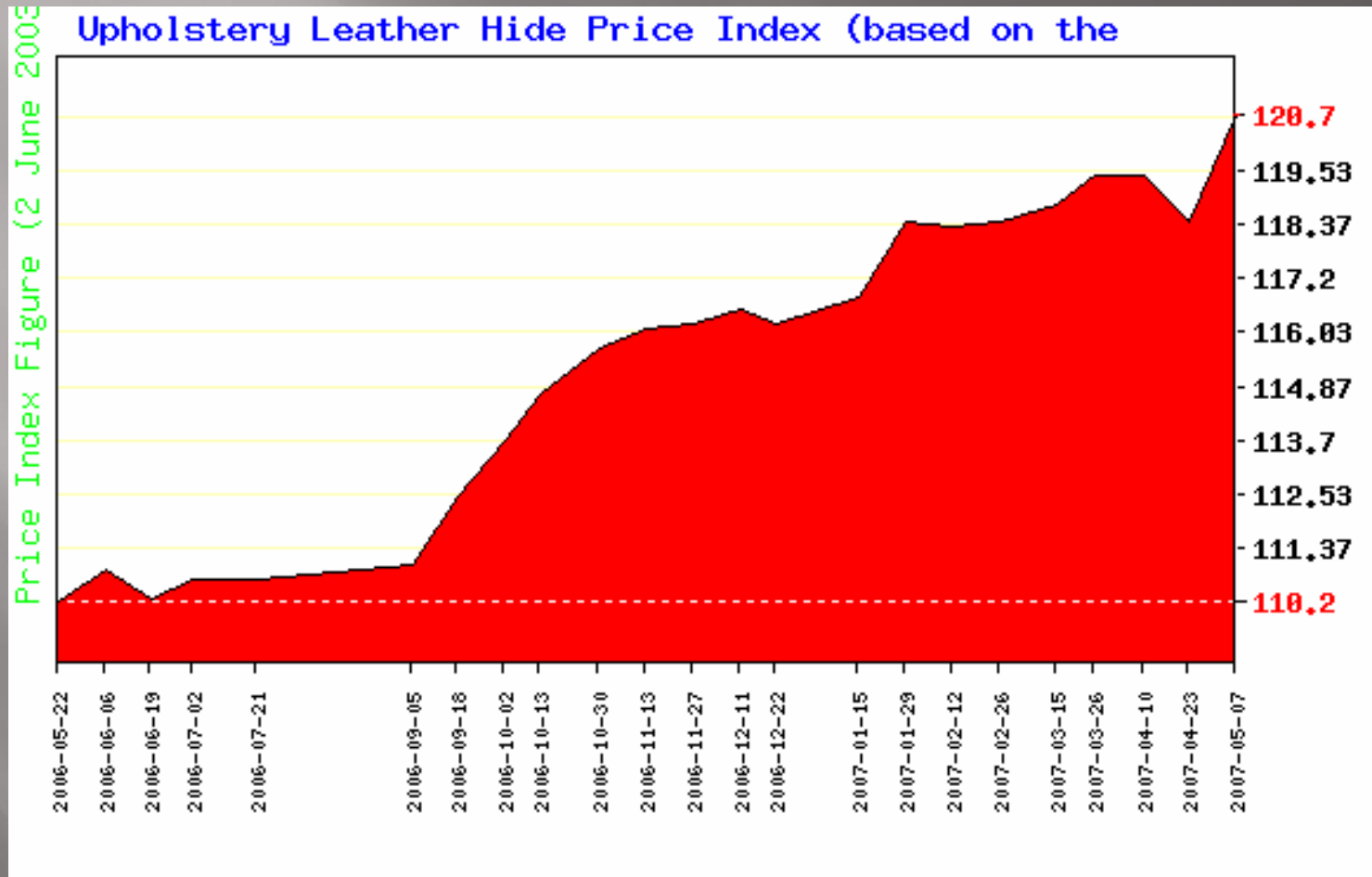
Price Trends

Argentine Fresh Hide Leather Price Averages: 1999-2007



■ Average Price

Global Price Composite Index Averages



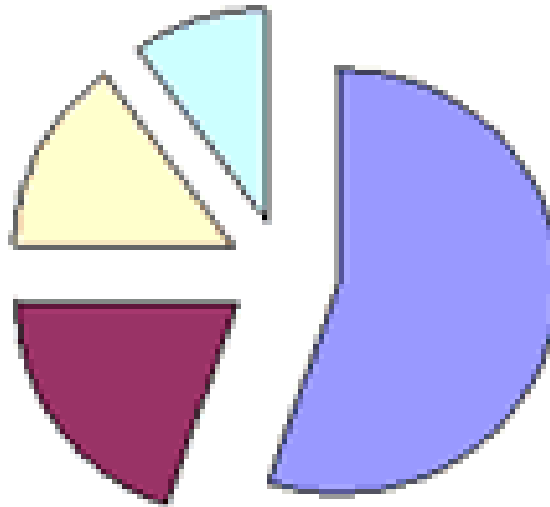
Global Production Finished Leather Products

LEATHER PRODUCTION Top 30 Countries (Million square feet)

Country	1997	1998	1999	2000	2001
China	2984.4	3285.3	3900	4141.8	4493.2
Italy	2149.4	1981.6	1820	2060.4	2065.7
India	1369.3	1379.6	1392	1428.3	1423.7
Korea	1268.8	869.2	1000	1086.4	973
USA	735.5	847	930.7	881	831.8
Former USSR	932	926	896	731.1	782.5
Brazil	672.3	705.2	725	784.6	756
Mexico	632.9	673.6	668.2	619.9	588.3
Spain	558.6	534.8	500	542.2	541.2
Argentina	403.1	430.6	461.6	485.2	487.2
Turkey	550.3	509.6	556.8	410	419.2
Pakistan	343.2	343.3	370	311.8	314.4

Demand By Industry

Share of leather by end use (2004)



■ Footwear 55%	■ Furniture & Automotive 20%
■ Garment & Glove 15%	■ Other 10%

Synopsis

South American Prices' have soared due to:

- Currency Exchange
- Government Measures to lower Meat Prices
- Strikes by Farmers refusing to sell at Gov. Prices.
- Lower kill
- Demand of hides from China & Italy for Shoe Leather whose market has the largest demand of leather.
- The Footwear industries willingness to pay higher prices.

Forecast

- ▣ World Leather prices will follow South American Prices due to SA hides being the most competitive, thus first choice of all buyers.
- ▣ Corrected Grain prices are the most effected due to the fact that China is paying \$1.20 psf for Wet Blue hides used in Foot Wear Production.
- ▣ Full Grain and better Semi Aniline Leathers remain to be the best value.
- ▣ Leather Prices will remain at current levels until the Argentine Government ceases to control meat prices and Demand diminishes.

Sources of Information

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