



International Agricultural Trade Report

Weekly Market Report: Dairy, Livestock, & Poultry

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Korean Tanning Industry's Recovery Drives Resurgence in U.S. Cattle Hide Exports

Summary

Year-to-date 2000 U.S. exports of hides and skins have shown a strong increase, rising 38 percent to \$1,069 million during January-August 2000 over the same time period in 1999. Total exports through August were already 93 percent of the 1999 total of \$1,155 million. A key component of this improvement is South Korea's economic recovery, exemplified in this case by its tanning industry.

Background

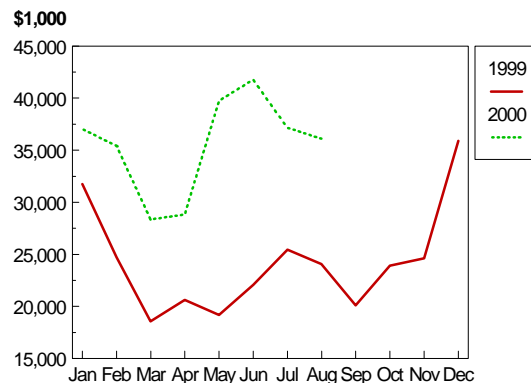
South Korea's economy is the first to recover from the regional financial crisis, which began in 1997 and affected Asian economies well into 1999. When the Asian Financial Crisis virtually shut off commercial credit to South Korean hide importers, it effected a sizable drop-off in total U.S. whole cattle hide exports to South Korea. These exports dropped 45 percent in value, from \$455 million in 1997 to \$251 million in 1998. In 1997, 40 percent of U.S. exports of whole cattle hides had South Korea as a destination, whereas in 1998, only 29 percent went to South Korea.

Partially off-setting the drop in availability of commercial credit was the GSM program which extended credit to South Korean hide importers, such that they were able to continue importing U.S. whole cattle hides, albeit lesser quantities. These quantities nonetheless supported U.S. domestic hide prices to a degree: after plummeting from \$73 per hundredweight to \$53 (butt-branded hides) between December 1997 and January 1998, they recovered to around \$69 by March 1998.

By the latter half of 1999, however, the South Korean economy was showing signs of a recovery, growing at a tremendous 10.7 percent for calendar year 1999, with a further 8 percent growth expected in 2000. Between January and August of 2000, total South Korean imports rose 43 percent over the same period in 1999, and exports showed a 26-percent growth; both indicators of a general economic recovery. U.S. total commercial exports to South Korea during January-August 2000 rose 25 percent over the same period in 1999 to \$18.6 billion.

Indicative of Korea's general economic recovery is the strong rebound in demand in the Korean tanning

Monthly U.S. Exports of Whole Cattle Hides to South Korea



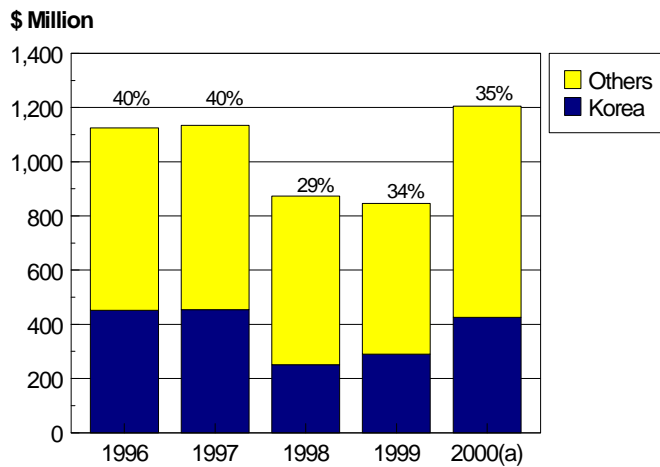
industry. On a value basis, exports of U.S. whole cattle hides to Korea rose 53 percent to \$284 million during January-August 2000 over the same time period in 1999, with trade approaching pre-crisis levels.

U.S. hide exports: South Korea is a critical market

So far in 2000, both volume and value are up strongly. This led to a \$6.39 per-piece increase in the export price over the same period in 1999, a 13-percent rise to an average of \$54.31 for January-August 2000. Data show that export prices for whole cattle hides to South Korea reached \$56.56 in August 2000 versus \$48.86 in August 1999. Meanwhile, the U.S. price for butt-branded steer hides has increased to \$79.50 per hundredweight in 2000 from \$68 in 1999 (November data), indicating a direct link between

overseas import demand for U.S. hides and U.S. domestic prices.

South Korea's Share of U.S. Exports of Whole Cattle Hides



(a): annualized using Jan-Aug data.

It appears that South Korean tanneries have not significantly altered their business and production operations in response to the Financial Crisis. Supplying the producers of leather footwear remains their primary focus. In the last few years, the leather footwear industry has moved in large part to China, and South Korean tanneries have been able to retain them as customers. As China moves into other industries utilizing leather, such as garments, furniture, and automotive upholstery, South Korean tanneries should be well-placed to keep supplying them. This, in turn, will require South Korea to uphold its strong imports of U.S. whole cattle hides.

As of June of 2000, U.S. hides and skins enjoyed an 86 percent market share in Korea. This impressive situation and the strength in U.S. exports of hides and skins to South Korea looks set to continue, aided by the U.S. Department of Agriculture's Fiscal Year 2001 GSM-102 Export Credit Guarantee Program, which was published on October 2, 2000. The announcement authorizes \$30 million in credit guarantees for the importation of U.S. hides and skins for FY 2001.

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