



65 Skyway Ave,  
Toronto, ON M9W 6C7 Canada  
tel: +1.416.675.9320  
fax: +1.416.675.6865  
www.nafa.ca

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## ***Wild Fur Market Update***

Now that you have received your NAFA Account Sale, I am sure there are several articles where the price is very disappointing to you. As your auction company, we are also disappointed with the results of this very difficult marketing season. Before the May auction, I told you that our policy would be one of trying to sell as much as possible and I believe we have done this. I would just like to take a minute of your time to again explain the reasoning behind NAFA's selling policy.

The most convincing reason for our May 2009 selling policy was that we did not want a repeat of what happened to us in the period 1988-1991. In 1988, when we saw the first decline in ranch mink and wild fur prices, the largest producer of mink in the world at that time, Denmark, decided that it would be better to take a percentage of their production and put it away into the deep freeze and keep it out of the market for a number of years. When they announced this program, they advised their shippers that they could take a \$15 U.S. advance per skin at a favourable interest rate and promised that these skins would be not sold until the market had returned to a price level that exceeded the cost price, which was estimated to be approximately \$24. Over the next couple of years, several million skins were put away into the icebox each year and when the market had not improved by 1991, it became a total disaster. The banks forced the auction company to sell the product and it sold far below the cost price, putting several of the largest mink farms in Europe into bankruptcy.

On the wild fur side, we followed a similar selling policy to that of Denmark. Starting in the 1988 selling season, we restricted, through price limits, the amount of goods we sold. We repeated this for the next couple of years and when we arrived in 1991/1992, we had a mountain of unsold wild fur. We were storing raccoon, coyote and muskrat in the hundreds and thousands of skins, to the point where we had to rent additional storage space on top of what we had at the time in Wisconsin, New York, Winnipeg and Toronto. When we finally started selling, because of the huge quantities and the age of the inventory, we were forced to sell at dumping prices. In hindsight, we created our own disaster. The affect of this led to poor wild fur production for years to come. In fact, many of our trappers never returned to their trappelines.

The lesson we learned was that we are a totally supply and demand driven industry. When a structural weakness occurs, we have to react immediately. This past season, our largest customer, Russia, showed a huge structural weakness. The ruble crashed and their economy was hugely affected by the world's financial crisis in October 2008. We at NAFA did not believe that we could artificially change the market, but that we had to go to a selling policy that allowed us to sell the goods more freely. We obviously hope that by following this selling policy, we will create a better market for our product next year. The skins that we have sold will be put into garments and trimming and because they were very reasonably priced, should produce a profit for the buyer/manufacturer/retailer. We are a strong believer in the free market system in which, when people make money, they come back to buy more. It is basic human nature.

On a more positive note, the Russian ruble, which during our February sale had seen a decline over 12 months from 24 rubles to \$1 U.S to 38 rubles, has now stabilized at 31 rubles per \$1 U.S. With the increase of the price of oil which has been slowly creeping up and is now around \$70 U.S. per barrel, the Russian economy should also improve and I believe will help us sell more fur garments in Russia next season. More about this later.

Herman Jansen