

EUROPEAN EXPORTS - WILL IT AFFECT YOUR BUSINESS?

Seward T. Besemer, Cooperative Extension
University of California

As presented to the Hawaii Association of Nurserymen, Honolulu, October 9, 1979

What I will say on the question of European flower exports into the United States is based on my opinion and appraisal of the situation after spending 3 intensive months in Israel, (12 February - 10 May 1979) and 3 months in Europe (11 May - 9 August 1979).

The answer to the question is, "Yes, European exports will affect your business, but not necessarily in an adverse way." The production and marketing of flowers and potted plants has definitely become a worldwide industry with strong competition between leading countries. The leading flower export countries are Holland, Israel, and Colombia, although many other countries export flowers, such as Kenya, South Africa, Guatemala, Brazil, The Philippines, and New Zealand. Only a few U.S. produced flowers are exported, either to Canada or Europe.

There is no question whatsoever that Holland is the leader in flower production and marketing. There are 17,500 acres of glasshouses in Holland, 50% of which are producing cut flowers and potted plants. This 50% is slightly more than all the greenhouses in the United States. The Dutch have the highest floriculture technology, solid government support for agricultural products, and a good system of collecting funds, through the grower owned auction cooperatives, for research, promotion and advertising.

Israel is technically part of Asia but for the purpose of this discussion on "European Exports" we shall include Israel. For the past 15 years there has been a steady stream of Israelis through California picking up every bit of

Besemer 79

ab

BESSEMER 179

information on floricultural crops. Israel and Southern California have nearly identical climate and both can produce good quality crops with their high light energy in winter months, using a minimum of fossil fuel for heating the warm crops, and both export to distant markets. Frankly, the Israelis have used our information better than our own industry and have in the past two years passed us in technology of floriculture crops, therefore, the U.S. is now number three in floricultural technology!

Israel's flower exports have increased over 200% in four years, from a value of \$18 million in 1975-76 to over \$75 million in 1978-79. The 1978-79 area of floral crops is about 3500 acres of which greenhouse flowers make up about 2300 acres. Spray carnations represent 37% of the value of all flowers and 20% of the area, or about 700 acres. Roses equal 36% of the value, 13% of the area or about 515 acres. Gladioli are 8% of the value, and 30% of the area, or about 1050 acres. All other flowers represent 19% of the value, 37% of the area, or about 1295 acres. The main greenhouse-grown flowers are spray carnations, roses, gypsophila, and annual statice.

In Israel 2 years ago there were virtually no "other flowers" beyond roses, carnations, and gladioli. Dramatic diversification has taken place with new crops such as gypsophila, statice, ruscus, Geraldton waxflower, liatris, gerberas, centaurea, other limonium species, and a variety of cut foliage such as ferns, pittosporum, and euonymus.

"AGREXCO," the quasi-government cooperative, markets nearly all of Israel's agricultural export crops under the brand name of "Carmel." About 95% of all cut flowers are transported to Europe by Agrexco. About 70% of these flowers are boxed in "Carmel" cartons at the eight regional packing houses. These flowers have been sold directly to customers in Europe and orders telexed to Israel. About 30% of the flowers are packed in larger returnable cartons by producers

and transported by Agrexco to flower auctions in Europe. Only 5% of all Israeli flowers are sold and transported by independent exporters. Generally speaking, the 30% of Israeli flowers that are sold at auctions are returning better average prices back to the producers than the 70% which are put through the pool system of Agrexco.

In the current season of 1978-79, Israel's flower production exceeded the demand in Europe plus the complexities of a warm winter in Israel and a severe winter in Europe. At times European consumers could not get out to buy flowers plus airplanes from Israel could not deliver on time to Europe. Many flowers were dumped.

There is one thing common to Holland, Israel, and Colombia. Their governments strongly support their flower industries. This cannot be so stated for the U.S. government which does not set quotas for imports on flowers or encourage production or provide subsidies, low interest loans and matching funds (with few exceptions) for research and marketing. In the smaller countries exports of agricultural products are more vital to their national economies than in the U.S. Of the total Dutch exports, 26% are agricultural products.

Basically, all flowers, potted plants, bedding plants, fresh fruits, and vegetables are sold in Holland at auctions owned and operated by growers. In both Holland and Israel there are umbrella organizations (Commodity Boards) at the government level which coordinate and formulate marketing plans. These boards have representation of all parties in the industry along with government people and researchers.

With the Dutch auction cooperatives, growers control their own destiny in the marketing of their products. There are 12 floral crop auctions and 60 fruit and vegetable auctions in Holland, plus many other auctions in Europe.

Each auction site has a complete facility. In addition to the clock selling area, there are grower delivery docks, exporter areas for assembly of orders, packing and packaging areas, and office facilities for computerizing all transactions.

The United States of America is considered by the Dutch to be an "underdeveloped country" for the consumption of floral items. In 1978 the U.S. per capita consumption of floral items was between \$10.00 and \$20.00. Switzerland now has a consumption of over \$55.00 per person, Holland about \$50.00 and West Germany about \$45.00. This high rate of consumption is not 200 years old as many people think, but has been achieved in the past 30 to 40 years.

The 1978 floral sales at 12 Dutch auctions was over \$800 million. West Germany receives the largest share of Dutch exports - - 84% of the cut flowers and 58% of the potted plants.

The largest flower auction market in the world is at Aalsmeer, Holland. This is a cooperative association of 3700 local growers. There are 2600 registered buyers.

The land and building investment is over \$100 million. The capital came from the merger of two former auctions (cut flowers and potted plants were sold at separate sites), and a partial government subsidy with only a 25% mortgage on the facility. The present land area is 104 acres with a building of 60 acres including an 18 acre increase just completed. Already more expansion is being planned.

On any market day, flowers can be seen from all over the world - orchids from Asia, ferns from Kenya, proteas from South Africa, anthuriums from Hawaii, carnations from Colombia, many items from Israel, Italy, France, and Spain and

potted plants from Denmark. The Aalsmeer auction sales were \$350 million in 1978, representing 44% of the 12 Dutch flower auctions.

Sales increased 10% over 1977.

The selling cost for growers is 5% of price received. Growers also contribute 0.35% of sales and wholesalers 0.45%, a total of 0.8% for research and promotion of products. The Dutch government matches the research funds.

There are numerous advantages to the cooperative auction system. The main advantages are as follows:

1. High efficiency, low selling cost for producers,
2. Producers get money immediately,
3. Buyers are certified,
4. Single crop producers and small producers can market along with larger diversified producers,
5. Higher average return for good quality products,
6. Market sets strict quality standards,
7. Producers build equity in market assets,
8. Tourist income from tours, restaurants, and giftshops,
9. Exporters are part of market, leasing space,
10. Sales are fast, moving large quantities of merchandise,
11. Large variety of merchandise for buyers to choose from,
12. Easy hours - auction sales are about five hours per day, five days per week,
13. Auction can impose industry regulations (example - provide pre-cooling facilities and require exporters to use), and
14. Can collect ample funds for research and promotion.

If Dutch clock auction markets could be established in the United States, there are obviously some serious questions about their potential success. In Western Europe, the population is close together. Much of the area can be covered by route trucks in 6 to 12 hours from the market. Would our present independent grower-shippers in the U.S. buy off the auction and trans-ship? Will there be enough buyers for the auction and who will they be? Will supermarket chains and eastern wholesalers send buyers to a California auction?

Despite the formidable objections to auction markets in the U.S., it is still conceivable that 12 to 20 auctions in key population centers could succeed. There is no question as to the inefficiencies of hundreds of U.S. shippers and wholesalers with independent facilities, cut-throat buying and selling (duplication of facilities, and prices not always based on the same product quality) and the resulting inefficiencies which all add to consumer price for flowers and potted plants. Most commission shippers charge 20-25% of product selling price, the eastern wholesalers add another sizeable percentage, the retail florist another 300 to 400%, etc. All these costs make U.S. flowers more vulnerable to foreign imports and direct distribution to supermarkets. Auction markets may allow U.S. producers to survive, plus producers can also derive some income by selling foreign imports through the auctions.

Forgive me for dwelling on the Dutch auction market system, but I should like to re-emphasize two points:

1. In the present situation, American producers of floral crops are not receiving a high enough return for their products, and
2. American floral producers and shippers are "price takers" with little or no control over the market system.

Another advantage in Europe is the power of the European Economic Community. It sets quotas and cut-off dates (usually May 9) for flower imports in order to protect domestic producers. Imports are deemed necessary in mid-winter (when solar energy is lacking for local production) to maintain consumer demand. The Dutch quality standards also apply to imports. I am sorry to say that American flowers would not fare well at the Dutch auction.

I could give more background statistics on the Dutch flower industry, but let's get back to the question of "European Exports - Will It Affect Your Business?"

Export flowers from Holland to the U.S. in 1976 was only 0.3% of all Dutch exports. I doubt that the Dutch can afford to ship many standard items such as roses and carnations.

Colombia is still our biggest competition for flowers. In the first six months of 1979 carnations from Colombia increased another 20% over 1978, and roses increased 125% (from a smaller base).

With government subsidies and hired labor at \$8.00 per day, Israel can probably produce flowers 25 to 30% cheaper than can growers in Southern California. However, transportation of flowers to and within the U.S. is a big cost factor. At present, I believe that Israel is exporting to the U.S. to:

1. Gain entry into the U.S. market with little or no profit derived,
2. Hit only the high price "holiday" periods or other domestic shortages of flowers, and
3. Add a bit to their gross sales by continuing to export after May 9, the EEC cut-off date. Unfortunately this cut-off date affects our U.S. producers by increased imports from both Israel and Colombia after Europe closes certain items. (The time is Mother's Day).

The Israeli marketing company, Agrexco, has an import house in New York. I have not seen too much evidence of a well-organized promotion program for Israeli flowers, except a few exhibitions. The Dutch also have an import company, "Sierafor, U.S.A.," with an office near Detroit. This effort, as well as all Dutch export endeavors, is managed by the Holland Commodity Board for Ornamental Plants, and is also influenced by the Dutch Organization of Flower Auctions.

Complete marketing plans for several countries are formulated for Dutch flowers for 1979 and also future years. The budget for exports to the U.S. and Canada for 1979 is \$290,000.00 (580,000 guilders) of which \$150,000 is for office operation and personnel, \$30,000 for promotion materials, \$25,000 for distribution of "Holland Flower" magazine, \$10,000 for SAF-AFMC program, and \$75,000 for cooperative advertising. More extensive budgets go for promotion in Europe. In fact, the largest budget for promotion is for Holland itself, over \$1,600,000.

While in Holland, I was told by personnel of "Sierafor U.S.A." that the main objective is supermarket sales. I was also given the impression that Sierafor would obtain flowers from U.S. sources, if necessary. Wouldn't it be interesting to start a Dutch clock auction in Detroit and have a Dutch agent as one of the buyers?!!

Since our U.S. government is more interested in assistance to developing countries and not particularly supportive of domestic flower producers, I see only a few alternatives for U.S. producers and wholesalers.

1. Join the Dutch marketing system, for they have the experience and the knowledge,

2. Buy and sell Israeli and Colombian flowers if a profit can be made, and
3. Producers ban together to form marketing cooperatives which will reduce selling costs, build equity, set standards, improve prices, and will also take advantage of number 2 above,

These ideas are mine, but I stand behind them, unless clearly proven wrong!

Seward T. Besemer

SEWARD T. BESEMER
Farm Advisor

STB:mf

The University of California Cooperative Extension in compliance with the Civil Rights Act of 1964, Title IX of the Education Amendments of 1972, and the Rehabilitation Act of 1973 does not discriminate on the basis of race, creed, religion, color, national origin, sex, or mental or physical handicap in any of its programs or activities. Inquiries regarding this policy may be directed to: Warren E. Schoenover, 317 University Hall, University of California, Berkeley, California 94720, (415) 642-0963.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the United States Department of Agriculture, James B. Kendrick, Jr., Director, Cooperative Extension, University of California.