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The Cut Flower Industry in a new economic framework

How this could affect the Cut Flower
Growers in the USA

Where are we coming from:

Since 2004-2005 until late 2014 we had the following situation:

Fast growth in emerging countries

Slow growth in the USA, Europe and Japan

High commodity prices, especially oil

Very low interest rates

Very Low inflation in the developed markets

High levels of debt in developed countries

High depreciation of the USA dollar

Labor cost growing at higher rates in emerging economies

Main consequences of the combination of E those factors for the Industry

Major crisis in Colombia and Holland which lead to increased consolidation of production in bigger and more sophisticated growers

Acceleration of the consolidation in the wholesale, retail and internet sales of Cut Flowers

Russia shows up in the map, as a major buyer of Ecuadorian and Kenyan flowers

Significant slow down in the growth rate on the supply side

Important increase in the productivity by sq. foot in greenhouses

What has changed? In the world economy

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Significant slow down in growth in the emerging markets, specially China

Drop in all commodity prices, oil from as high as US \$145 per barrel to less than US \$50 per barrel

The US economy has started to grow again with a good recovery of the labor market

The ECB changed its monetary policy which together with the Greek debt issue has the Euro at less than US \$1.10 per dollar, from 1.45 per US dollar

The Bank of Japan has changed its monetary policy taking the Yen to levels of Y125 per US dollar from as low as Y75 per US dollar

The collapse of the commodity prices has taken most currencies down to levels not seen in 10 years

Exchange Rates

boomborg

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Exchange rates in the last 5 years:

July

USA Dollars in certain currencies

					Diff	
	2011	2012	2013	2014	2015	2012 2015
Japanese Yen	81	76	97	101	123.5	52%
Euro	1.46	1.26	1.32	1.36	1.08	26%
Russian Ruble	27.6	32	32.8	35.114	58.44	112%
Canadian Dollar	0.94	1.01	1.03	1.08	1.3	38%
Mexican Peso	11.6	13.39	12.66	12.94	16.25	40%
Colombia Peso	1758	1800	1885	1875	2852	62%
Kenyan Shilling	83.35	84.18	87.35	87.7	101.29	22%
Ecuador Dollar	1	1	1	1	1	0%

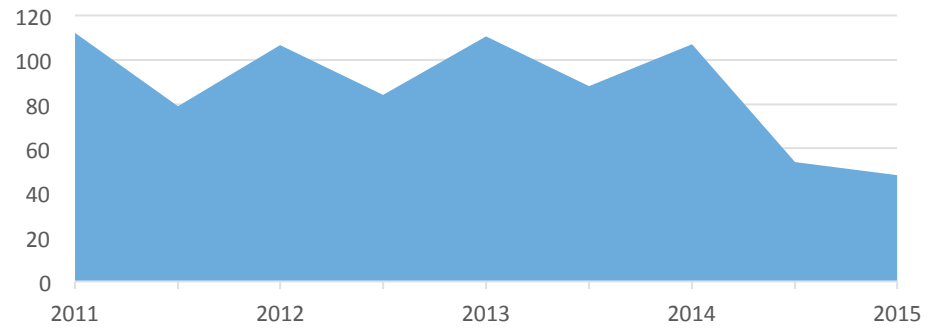
Oil Price

Bloomberg

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2011	2012	2013	2014	2015
112.29	79.2	106.7	84	110.53
	106.7	88.01	106.91	54
				48
				57%

Oil prices 2011 2015



What has not changed in the World Economy

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High levels of Debt in Developed Countries

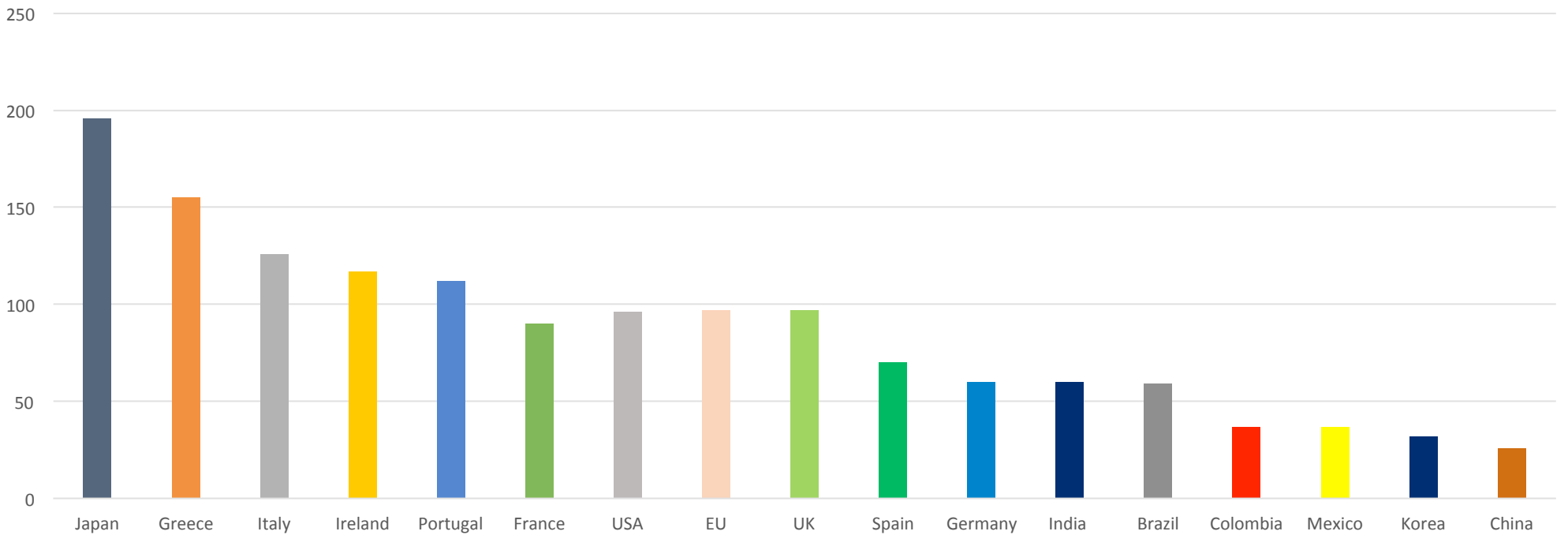
Low rates of growth in Developed Economies

Slow rates of growth in the labor market in Developed Economies
(except in the USA)

Debt as % of GDP

World bank IMF CIA

Debt as % of GDP



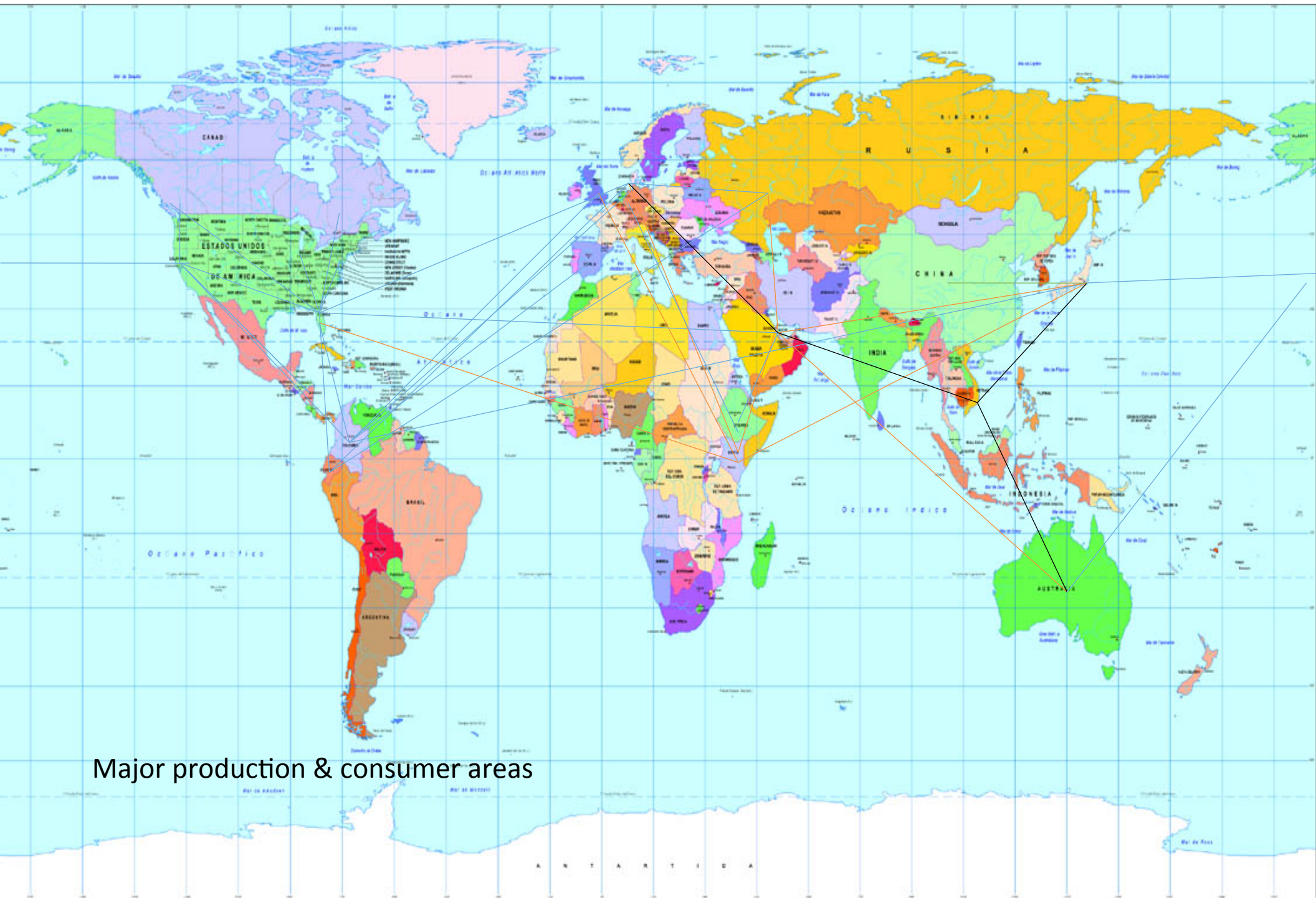
Which Countries are KEY in The Cut Flower Industry

Markets

Continental Europe
USA
UK
Japan
Canada
Russia

Growing Areas

- Continental Europe (Holland)
- Colombia
- Ecuador
- East Africa
- Japan
- Mexico
- Canada
- California



Major production & consumer areas

Which Countries are KEY for Cut Flower Industry

The Industry in the countries mentioned earlier is so highly interconnected that:

1. Exchange rate changes and economic weakness are affecting the following markets:
 - Japan
 - Russia
 - Europe
2. Lower exchange rates have had positive effects for growers in:
 - Colombia
 - Holland
 - Japan

Which Countries are KEY for Cut Flower Industry

3. Higher exchange rates are negatively affecting the following growers and will continue to do so:

- Ecuador
- California
- Kenya (in relation to the Euro)

All will have supplies up in the air seeking markets where they can be sold

Mexico

Will Mexico increase its presence in the USA, with better quality and benefit from transport costs?



Where are we, and long term trends in the world economy

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High levels of the US Dollar across the board

Low prices in all commodities, especially oil

Expansionary monetary policies in Europe will probably generate a slow recovery

China's economy will have to adjust to certain unbalances, low rates of growth

High rates of debt will create constant threats of crisis and recessions

Overall, very small rates of growth worldwide

Where is The Industry

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Holland and Colombia are stable, best and largest growers have learned how to work and compete with high levels of the Euro and Peso

Those who were heavily involved in Russia are looking for new markets and not doing well

Kenyans will have to adjust to a lower Euro looking for new markets, some rose farms still in trouble

Ecuadorians are in real trouble, high costs and the collapse of the Russian market is causing uncertainty – looking for new markets to survive

The USA market is coming out of a very good season, especially Mother's Day giving hope to the ones in the USA market

Mexico and Canada are benefiting from the low level of the Mex Peso and the Can Dollar and its relationship with USA

Sea freight is becoming more important in connecting the markets even more

Which New Markets?

As Colombian, Ecuadorian and Kenyan Companies try to escape from the problems of Russia, Japan and Europe, where could they go?

- New Markets? China, Korea? These will take years to develop even though they will become important markets in the future
- In the meantime the USA seems to be their only viable market
- It is important to realize only two products are affected: Roses and Carnations
- How much damage can be done? Not as much as in the past but it will lower certain prices

Most visible and difficult problems for The Industry in general

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There are three issues affecting the industry worldwide, with different degrees of importance but present in all growing areas:

1. Availability of land
2. Labor
3. Water

These are real barriers to growth in the growing area

What to expect in the near future for The industry in the USA

It is not the same industry we had ten years ago:

The channels of distribution and who controls them are extremely important

There are fewer, but more powerful players

What you offer in terms of quality, reliability and product portfolio is more important than price itself

The above is what creates value. This is not to say that some segments of the market will look at price as a main factor. These buyers are less than in the past

Some pressure on prices will be felt as new companies try to sell in the USA

Canadian companies will do quite well in the Northeast, it will be difficult to compete with them on cost and quality

What to expect in the near future for The Industry in the USA

The full effect of devaluation of the Colombian peso has not been felt since most companies had forwards, the real exchange rate could be around COL \$ 2.350 per dollar so far.

This will change late this year or early next year

Most companies are coming from very difficult years and most probably will not embark in a price war. This does not seem necessary so far as the supply and demand seem to be stable

Ecuador and Kenya are pushing products in the USA as the EU market and Russian prices have come down as much as 30%

How much will this affect the USA market? Difficult to assess but it will definitely affect the wholesale market more than the supermarkets, where the channel of distribution is well controlled by the ones already serving it

Oil prices: who will benefit more? Trucks or planes? So far, land transportation

How to defend from possible disruptions on the Market



The key is not to get involved in a war of attrition that will take place between the Rose and Carnation growers trying to stay alive by entering the USA market

Be **DIFFERENT**, create value, do not get into the commodity price war

Watch your cost more than ever

Most important of all: strengthen and protect the **California Grown** brand

It is already valued by many buyers, and makes all of you DIFFERENT, because:

- It means quality
- Product offered is different
- Most California growers have understood the importance of being reliable

Some of the most successful Agr. products in the world have benefited enormously with the “Protected designation of Origin” (PDO) programs



Be Californian **Buy California Grown**SM

Michigan Flower Farm

Locally Grown Flowers... Naturally!