



Development *Alternatives*, Inc.



Cut Flower Perspectives 2001-2005

*Development of Armenian flower market
Development of cut flower exports*

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RESULTS

As a result of this consultancy, XXX Company was invited to export their flowers to the 3 major cut flower auctions in Holland in October, as well as to two importer/exporters, Zurel and Blumex (both among the top 5 Dutch flower traders). In addition, the largest trader in Germany, Florimex, currently the largest flower trader in the world, asked for samples and said they would do business when XXX Company reached sufficient export volume (10 ha minimum).

Despite the fact that Armenia is not a UPOV signatory, five Dutch companies, on the recommendation of others in the European flower industry, agreed to export propagation material, cuttings and to provide technical help to XXX Company. In addition, Blumex and Hilverda agreed to export cut flowers to XXX Company for resale in Armenia for the domestic Yerevan market.

RECOMMENDATIONS AND OPPORTUNITIES

Technical support should be provided to XXX Company to increase cut flower production area by 30 hectares and to widen the variety of flowers produced to include the basic items used in mixed bouquets: roses, carnations, spray carnations, alstroemeria, spray chrysanthemums (cushion, daisy, micro-sprays, buttons) and gerbera. In addition they should be helped to produce complimentary items for supermarket bouquets such as larkspur, delphinium, lisianthus, snapdragons, stock, liatris, helianthus, spider chrysanthemums, bouvardia, fuji asters, gypsophilia, asters, statice, limonium, celosia, gilia, gomphrena, leatherleaf, eucalyptus and other greens. (2001-2005)

Technical support should be provided for post-harvest, grading, packing, cold store chilling of flowers for export as soon as XXX Company has the basic facilities to pack including cold room, grading tables, boxes and sleeves.

Market research visits to develop stable client contacts should be organized for XXX Company to Vienna, Prague and at least half dozen cities in Russia and neighboring countries within the next year. Specifically, a visit to Moscow to follow up a lead with a Russian supermarket chain should be planned for late summer 2001.

Other flower shows of importance for XXX Company participation would include, Agriflor Middle East, Dubai, April 2002, Info@hpp.nl, www.agriflor.com Flora Olomouc, Czech Republic, April 2002, expo@floraol.cz, www.flora-ol.cz Agriflor de las Americas, Quito, Ecuador June 2003, www.agriflor.com

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ACTIVITIES AND OBJECTIVES OF THE CONSULTANT

April 19-27, 2001 the consultant visited an Armenian company to evaluate the quality of the products and the estimated costs of producing and shipping these products to various potential foreign markets. Some advice was provided regarding post-harvest, grading, packaging, cold storage and transportation of flowers to European markets.

April 27-May 9, 2001, the consultant, together with the company management, visited importers and auctions in the Netherlands and in Germany with the objective of developing stable and reliable marketing channels for future flower exports.

The visits to the import managers of the three major Dutch flower auctions, two of the top five importers in Holland and the largest importer in Germany, established that there was good international potential of the XXX Company product.

The trip to Holland and Germany allowed the consultant to teach techniques of direct sales marketing. The consultant guided the representatives of XXX Company through the process of presenting samples of their flowers and a description of their company, its goals, its competitive advantages and the reasons why their product should become part of the import mix of each importer visited. The reaction was positive at every appointment.

LIMITATIONS OF THIS STUDY

Armenian cut flower companies at the time of the consultant's visit very often did not have a cold room, export quality boxes, rubber bands of the correct type, clippers, sleeves for the flower bunches or labels. Therefore this consultant only described and demonstrated some of the required steps in post-harvest, packing, cooling and shipping of flowers.

In addition, though notable comparative advantages for such companies were identified, such as superb quality of the flowers and cost of freight, the comparative costs of greenhouses, boxing and packing materials and so forth were not established. The actual per unit cost of each type of flower, CIF, in markets in the EU could only be estimated. It was assumed that the export market would bring them good profits, since their costs, as described, were lower than most of competitors in other flower exporting countries.

OVERVIEW OF CUT FLOWER EXPORT OPPORTUNITIES FOR XXX Company

In early 2001, XXX Company aspired to profitable export opportunities for cut flowers in major European markets.

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Consignment sales on the Dutch flower auctions will give an easy entry into the EU with low risk and assured payments with no particular marketing effort required. VBA, BVH and TFA welcomed XXX Company and invited them to sign up and ship flowers to their import departments. However, because of the competitive characteristics of the Dutch markets, sales prices are low.

Sales to private corporate importer/traders in the Netherlands and in Germany will return more profit, but requires that XXX Company take a more active role in filling the clients' needs, providing the correct array of product species, lengths and packing and a greater volume of product. Zurel and Blumex, among the top ten traders in Holland invited XXX Company to ship to them. Florimex, the largest flower trader in the world, invited XXX Company to begin shipping when they reached 10 hectares (25 acres) in flower production.

Exporting to importer/distributors in France and Switzerland, not visited on this trip, will also require a much greater flower export capacity on the part of XXX Company. Furthermore, in France there will be the need to cross language barriers from English into French, but such exports will bring higher returns.

Austria and Czech Republic, smaller markets though still in the top dozen targeted by the Dutch exporters, may offer still greater price opportunities.

Countries such as Russian Federation and the UAE offer still greater price opportunities, but there will be attending greater risks related to accounts receivables collections and volatility of the market themselves.

The Japanese market can be reached with connections through Dubai. This may prove interesting for the sales of calla lilies. But the Japanese market has very demanding phytosanitary requirements.

The US and Canadian markets, because of cost of transport, are out of reach for exports from Armenia.

Over 79 countries compete in the import and export of cut flowers. This commerce is valued at over \$4,025 million per year. In Europe the major flower producer/exporters include the Netherlands, France, Spain and Italy. In the European winter season, countries of East Africa, South America, Israel and India provide supplements to the European market for temperate flowers.

The major cut flower supplier/exporter in this commerce of cut flowers is the Netherlands. A dozen major traders there, including Zurel and Blumex, both visited on this trip, supply 88% of that German flower import market. The German import market is the largest in the world, followed by the US, the UK, France, the Netherlands itself, Switzerland and others. Cut flower imports into the UK, France and Netherlands have remain steady in the last few years, but the big German market, which used to import over a \$1 billion of flowers per year, has suffered a recent decline of almost 23%.

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To compensate for the drop in cut flower imports into Germany since 1999, the traders from the Netherlands have hustled to sell in other countries. This tactic has been successful, and the Dutch cut flower exports rose 7% in 1999 to \$2,188 million, rose again slightly in 2000, and continue to rise in 2001. Increases in exports to the UK and the US helped solve the problem. But, at the same time, the smaller markets of Central Europe have been increasing important to the Dutch flower traders. The Czech Republic was up 12%, Poland up 73%. Latvian imports are up 16%. And though economic chaos reduced cut flower imports into the Russian Republics by 60% in 1999, by 2001 that market was growing rapidly again, and had regained its position among the top ten export destinations for flowers from Holland.

The Netherlands dominates imports of cut flowers in all 23 top 25 markets in the Europe. They have 88% of the import market of Germany, 73% of the imports into the UK, 84% of France, 67% of the Swiss market, 72% of Italy, 80% of Belgium, 84% of Austria, 92% of Denmark, 89% of Sweden, and between 70 and 80% of most other European markets. They even have 80% of the Armenian cut flower import market.

The Netherlands exports mostly its own production, but it is also the fifth largest cut flower importer in the world, and many of these imported flowers are re-exported. The main foreign flower suppliers to the Netherlands include Israel with 22% of the Dutch flower imports, Kenya with 23%, Zimbabwe with 12% and Spain with 12%.

The disadvantage of exporting to the Netherlands for a company like XXX Company, is that there is great competition among foreign flower producers to supply the Dutch market and therefore the Dutch flower auctions prices are low. XXX Company is advised to start exporting to Holland. But as XXX Company grows in size it is advised to approach other markets such as Germany, France and Austria, even Italy, as well as exploiting markets close at hand: Russian Republics, Czech Republic and the Mid-East.

The disadvantages that XXX Company faces in the international commerce of flowers in 2001 are the following.

Armenia has not signed the UPOV agreement regarding intellectual property rights and the guarantee of payment of royalties to breeders of roses, carnations, chrysanthemums and other patented varieties. Therefore, some of the European breeders of flowers will be reluctant to sell plants to XXX Company. This may mean that XXX Company can not offer the best new varieties with the longest vase life—which would reduce the prices that could be obtained for their out-of-date product in Europe. One objective of the trip to Europe in May 2001 was to establish personal relationships with CBA, a chrysanthemum breeder, and reinforce existing relationships with Kooij & Zonen, the firm supplying carnations and gerbera daisies to XXX Company. This was achieved. Yet this process of one-on-one contacts must be continued with breeders of a wide variety of flowers that should be in the XXX Company product mix. Most important will be the need to establish credibility with the dozen rose breeders (France, Germany and the Netherlands.)

Another disadvantage is that Armenian cut flowers are subject to duty upon being imported into the EU. None of Armenia's flower exporting competitors, except India,

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have to pay duty. Their flowers enter the EU duty free. Negotiations to reduce duty from the current winter rate of 7.5% to zero may be, unfortunately, protracted. It is key that the Ministry of Foreign Affairs of Armenia initiate this negotiation process in Brussels.

Finally, local companies are too small to be of interest to most European importers. Generally they find it most economical to import at least 500 kg (32 boxes) per shipment and generally prefer to import four to five times per week.

The comparative advantages of local companies vis-à-vis their flower exporting competitors around the world are the following:

The quality of the carnations is often times higher than in any other exporting country. This is due to high light intensity and 330 days of sunshine a year, excellent volcanic soil with abundant micro-elements and trained and experienced agronomists. The length of the carnations (prime determinant of price) is such that if properly packed and exported, the flowers would obtain the highest prices on world markets.

Furthermore the cost of airfreight, which is frequently more than half of the C&F price of the cut flowers on the markets in Aalsmeer, Paris, London or Frankfurt, is low. Kenya and Colombia, leading exporters of cut flowers to Europe, pay \$1.80-\$2.60 kilogram for airfreight of their flowers. India pays \$2.20 per kilogram. Israel, the world's third largest exporter of flowers after The Netherlands and Colombia, must pay \$.80 per kilo to get their flowers to the major European cities. XXX Company will pay only \$.40 per kilo. This factor alone will reduce the landed cost of flowers in Europe by more than 25%.

Floriculture production in Armenia

The domestic flower market, represented by flower shops and street kiosk sales in Yerevan is larger than in many poor developing countries, reflecting the local population's enthusiasm with flowers. Nonetheless, this domestic market is already too small, at certain times of the year, to absorb all of the XXX Company flower production on only 3.5 hectares plus that of the other small farmers.

An increase in production at XXX Company will be for exports. The situation is similar to Colombia, Ecuador, Kenya, Morocco, where flower farms export 95% of their product, and only non-exportable grade are made available locally.

Currently Armenian fresh flower imports are probably under \$200,000 per year in value, most brought in by one chain of flower shops. These imports are of cymbidium orchids, other tropicals and large gerbera daisies, products that complement the producers of small farmers around Yerevan. The import substitution opportunity for XXX Company is there, but could undoubtedly be filled with only a hectare or two of greenhouses. XXX Company, acting as an importer, could also find a niche, but total profit opportunities are negligible.

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EXPORT MARKET OPPORTUNITIES

Local companies can export to any country where they have a competitive advantage against local domestic producers (usually October-April) or against other foreign flower exporters (frequently a function of cost of airfreight to market). Armenia has direct passenger flights to over two dozen cities in Western and Eastern Europe, the Russian Federation, the neighboring countries and south into the eastern Mediterranean.

Airline Connections

Without pre-arranged cargo agent transit services in transit cities such as Moscow, export of flowers must be on direct flights.

Direct flights are available from Yerevan to Aleppo, Amsterdam, Anapa, Ashgabat, Athens, Beirut, Dubai, Ekaterinburg, Frankfurt, Kiev, Krasnodar, Larnaca, London, Mineralnye Vody, Minsk, Moscow, Novosibirsk, Odessa, Paris, Prague, Rostov, Samara, Simferopol, Sochi/Adler, Istanbul, St. Petersburg, Stavropol, Tashkent, Tehran, Vienna, Volgograd and Zurich.

Russia, Greece, Lebanon, Ukraine, Cyprus, Georgia, Czech Republic, Austria, Germany, Netherlands, Switzerland and Great Britain have cut flower consumption that is high enough to consider them potential export markets. Cut flower consumption is low in most Muslim countries, but Tehran would be the exception.

Due to the perishability of cut flowers, foreign clients prefer twice-weekly air service. Direct flights are preferred rather than having to change equipment in cities without sufficient facilities for handling perishables. Therefore connections in all cities except Frankfurt, Zurich, Paris and Amsterdam should not be considered.

Daily service is available to Moscow. Twice weekly direct flights are available to the following cities: Aleppo, Amsterdam, Dubai, Kiev, Krasnodar, London, Mineralnye Vody, Moscow, Novosibirsk, Odessa, Rostov, Paris, Prague, Samara, Sochi/Adler, St. Petersburg, Stavropol, Tehran, Vienna, Zurich.

Because major selling days vary from city to city in each city, clients will demand that flowers are best delivered on certain days such as Sunday, Monday and Thursday. Flowers arriving on Friday or Saturday must sit in the coolers and wait to be sold at the beginning of the week. This means the flowers get old. This may limit the supposed twice-weekly delivery potential to some cities to just once a week, as most flights from Yerevan leave on Monday and Friday. High weekend import clearing costs in Europe (for both cargo agents and government officials) may also restrict shipping potential to some cities as well.

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Nonetheless, there would appear to be almost two dozen cities that could import cut flowers from Yerevan, at least once, if not twice a week.

Minimum Shipment Volumes

A standard cut flower box for air shipment is 41 inches by 20 inches by 10 inches high or 7 inches high. Most flower boxes are not weighed, but shipped out according to the standard dimensional weight which is 19 kg. Per box. Commercial shipments are all over 100 kg (6 boxes). Most shipments are over 500 kg. (27 boxes).

In addition, large supermarket clients, in Russia or elsewhere, may take up to 200 boxes per shipment.

One Boeing 707 cargo plane can carry 1,200 boxes per load. Eventually, if expansion plans develop, Armenian Air will probably put on a flower dedicated cargo plane. As a point of comparison of size, 20 cargo planes loaded exclusively with flowers leave Bogota, Colombia and arrive in Miami, Florida in the US, every morning of the week. Just one cargo plane off flowers daily from Yerevan would improve XXX Company's ability to exploit its market opportunities.

Airfreight rates in most cases are considerably higher at 100 kilograms than above 500 kilograms. Thus unless a special arrangement is made with the airlines, all shipments should exceed 27 boxes.

Most serious clients in large cities can easily absorb 27 boxes twice a week, particularly if a number of flower types are imported from the exporting farm. In order to service smaller wholesaler/importers most efficiently, a large number of flowers in the availability list is recommended. Roses, the most consumed flowers in Europe and Russia should be an important element of the offering. This will be discussed in detail below.

Cost of Air Freight

According to XXX Company, freight rates per kilogram for boxes of cut flowers can be negotiated at \$.40 per kilogram to all cities serviced by Armenian Airlines, as most outgoing flights carry little or no cargo. This Armenian Air quote is valid for 500 kg or 32 boxes and up. This rate is extremely competitive.

Currently competitors pay the following:

\$2.20/kg from India, \$2.60/kg from Ecuador, \$1.80 from Kenya, \$.80 from Israel. Of course, flower farms in the Netherlands pay no freight to their major markets, and producers in the South of France, Italy and Spain pay only trucking costs, but their costs of production are considerably higher.

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Other airlines leaving Yerevan for other markets may follow the Armenian Airlines lead in charging only \$.40 per kg for flower cargo freight. Currently Swissair quotes \$1.60 to Zurich, Austrian Air \$2.20 to Vienna. At the time that clients are contacted, a "flower rate" must be negotiated with each airline servicing that city. The objective will be to obtain rates under \$.55 per kg.

Pricing

The average cost of standard carnations sold on the European markets April 16-20, 2001 was as follows:

Market	Origin	Length	Price
VBA auction in Aalsmeer	All sources	All lengths	\$.12
BVH auction in Naaldwijk	All sources	All lengths	\$.14
Austria	Colombia	70 cm	\$.18
Austria	Colombia	60 cm	\$.16
Austria	Italy	70 cm	\$.17
Czech Republic	Spain	70 cm	\$.20
France	Colombia	70 cm	\$.29
France	Colombia	60 cm	\$.19
France	Spain	60 cm.	\$.16
Germany	Colombia	70 cm.	\$.23
Germany	Colombia	60 cm.	\$.21
Germany	Israel	60 cm.	\$.18
Germany	Spain	70 cm.	\$.14
Switzerland	Guatemala	70 cm.	\$.25
United Kingdom	Colombia	70 cm	\$.20
United Kingdom	Colombia	60 cm	\$.17
United Kingdom	Spain	70 cm	\$.10
United Kingdom	Spain	60 cm.	\$.09

Prices: Selling prices of the importer to the wholesaler, minus the importer's taxes and duties.

As can be seen, there are variations in price from city to city. The Czech Republic, Austria and France stand out as good opportunities to be explored.

Weekly prices for 35 major flowers traded in international commerce are available from the Market News Service (MNS) section of the International Trade Center UNCTAD/WHO. See Annex. A recent issue of the "MNS CUT FLOWERS - EUROPEAN MARKETS" published the first quarter 2001 export figures for the Aalsmeer flower auction in the Netherlands. In order of importance the top ten export countries of cut flowers were:

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First Quarter Dutch Exports in millions of Dutch Guilders
1st Quarter 2001 mutation in %

	XXX Company	XXX Company	XXX Company	-----	XXX Company	--
Germany	575	-8 %				
United Kingdom	296	+3 %				
France	249	0 %				
USA	92	+21 %				
Italy	76	+3 %				
Switzerland	64	+9 %				
Austria	49	-3 %				
Belgium	48	+2 %				
Russia	38	+46 %				
Denmark	32	-13 %				
Other countries	228	+2 %				
All countries	1.750	-1 %				

Mutation: compared to the same period first quarter period of the year 2000.

Notable is the recent growth of the Russian market. The Russian Federation is now the 10th most important flower market for the Dutch exporters. It has recovered remarkably since 1999, when total flower imports were only \$10 million. This "affinity" market for Armenian flower exports should be exploited when the Russian economy is good, and cut flower imports are rising.

Flower Export Market Opportunities

Any of the above mentioned markets would offer opportunities for XXX Company provided XXX Company's flower export volumes were large enough, provided that they have sufficient flower varieties and provided that the flowers are of sufficient quality. Frequently however, export opportunities are determined by personal affinities between the managers and their potential clients, and by frequency and ease of direct airfreight. The Netherlands, Germany, Austria, Switzerland, Russia, the Czech Republic are the countries in Europe where XXX Company will undoubtedly start. Italy and France, both markets which appreciate long-stemmed roses and carnations, will be quickly put on the list. The UK is supplied with inexpensive shorter carnations from Colombia and thus does not represent a good opportunity. Belgium and Denmark would be difficult because there are no direct flights.

Undoubtedly XXX Company is looking at a good market potential, providing quality continues to be excellent, and costs are, as they appear to be now, below those of any of their competitors. The factors of greenhouse cost and airfreight costs must be supervised closely. Aside from that, when the marketing package is in place, there is easily a export market opportunity for over \$50 million per year.

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Competitors such as Israel and Spain, East Africa and India, will not be able to touch XXX Company on quality. Costs of air freight will hinder Ecuador and Colombia. Costs of growing will hold back the producers in Holland, France and Italy. XXX Company is therefore in a position to become a significant cut flower and greens supplier to Europe.

COMPETITORS

Armenia will have over 75 nations to compete with in the European cut flower markets. The principal competitors in the production of temperate flowers, who are each major world exporters to the EU, are The Netherlands, Israel, France, Italy, East Africa and South America. Each of these countries (or regions with several countries) has significant advantages and some weaknesses in competing for this market. For purposes of measuring competitiveness, XXX Company should look carefully at each of them and determine with care the market niche that they feel that they can control with the objective of making the highest long-term profit.

The Netherlands

The world's largest flower exporter is the Netherlands. Costs are very high, but productivity is high as well. Production area includes 3757 hectares of cut flowers (950 ha of roses, 813 of chrysanthemum, 232 of freesia, 249 of liliun, 235 of gerbera, 201 of orchids, 109 of carnations, 124 of alstroemeria, 84 of anthurium, 78 ha of eustoma, 27 ha of gypsophila and 653 of other flowers). In the last 15 years the area devoted to flowers and plants is up 35% and productivity is up 67%. The area devoted to carnations and gypsophila and some types of roses and other flowers, however, is declining, as production is less expensive in developing nations.

Israel

The largest exporter of flowers to the EU and the third flower exporter in the world after the Netherlands and Colombia. Production includes 1916 hectares of cut flowers (238 ha of Chamaelaucium, 236 ha of roses, 159 ha of gypsophila, 138 ha of standard carnations, 91 ha of hypericum, 81 ha of solidago, 78 ha of ruscus, 77 ha of limonium, 73 ha of lisiathus, 54 ha of gerbera, 49 ha of aster, 25 ha of anemone, 21 ha of spray carnations and 595 of diverse other flowers.) Exported 1.6 billion stems valued at \$253 million in 1998. The most important export markets include the Netherlands, UK, France, USA, Switzerland, and Germany in that order.

Strong points include wide range of product, strong commercial organization, dynamic research and development, low negotiated airfreight rates at \$.80 or less per kg. Weak points include high cost of labor and tenuous political climate.

Italy

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Cut flower production on 4350 hectares (1013 ha roses, 981 of carnations, 663 of chrysanthemums, 381 of gladiola, 325 of gerberas), most of this goes to serve the domestic market, and exports of cut flowers have decreased over the years. In fact, Italy is not a big import market for Ecuadorian roses and cut flowers from many countries. The great strength of floriculture exports is with foliage. It is the largest cut foliage exporter in the world, the major product being ruscus.

France

Produce \$800 million of cut flowers on 2140 hectares of which half are under glass. Roses, carnations, gerbera, tulips chrysanthemums, alstroemeria and gladiola are the main species and they are well known for Mediterranean specialty flowers such as French tulips, anemones, renoncules and foliages such as ruscus, eucalyptus, grevillea and asparagus. France is largely self sufficient from April through September, but is an importer from October through the end of March. It is the fourth largest cut flower importer in the world after Germany, the U.S. and the UK.

East Africa

The flower farms were started 30 years ago by Europeans in Kenya and production has now spread to nearby countries. The area of flower production in Kenya, Zimbabwe, Tanzania, Zambia, Uganda, Malawi is 3100 hectares. The production is generally at about 1400-1600 meters, considerably less than in the highlands of South America, which makes productivity higher, but stem length and quality shorter. The region exports about 50 species, of which roses constitute most of the investment and cover 1100 hectares. Other important flowers include carnations, statice, alstroemeria, aster, protea, solidago, euphorbia, ammi majus, alium, statice and summer flowers.

The region is highly competitive because of low production costs, notably open air production or production in poly plastic greenhouses, and low cost of labor (\$1-\$2 per day). Flowers enter the EU duty free. Nevertheless, there is little qualified labor and productivity per worker is low (30 persons per hectare of roses as compared to 4 in South America). Cost of shipping to Holland, the major market, is \$1.80 to \$2.20 per kg. Quality of flowers is irregular and there is a lack of professionalism among exporters. Some countries have unstable political situations, violence and corruption.

South America

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Colombia has produced flowers for export since the late 1960's. More than 5700 hectares are in production on the Sabana plateau around Bogota, at over 2000 meters, mostly dedicated to carnations and roses, but widely diversified to over 80 other types of flowers including chrysanthemums, alstroemeria, aster, bouvardia, delphinium, gerbera, gypsophia, limonium, lisianthus and solidago. Many of these flowers go into the making of pre-made bouquets for North American supermarkets. Cut flower exports exceed \$570 million.

Ecuador started production of cut flowers in 1986 and exports now exceed \$180 million. The principal flower exported is roses, considered the largest and finest in the world commerce, but more than 50 other species of flowers are produced. Ecuador is the fourth largest flower exporter in the world, after the Netherlands, Israel and Colombia. The high quality of the roses, grown at over 2600 meters, are Ecuador's strength. Labor costs are low, and labor is productive and well trained. As in the case of Colombia and East Africa, greenhouses are poly-plastic and there is no need for heating or cooling. The weakness is the relatively high cost of airfreight to Europe at \$2.60 per kg. Nonetheless, Ecuadorian roses have a strong position in many markets especially in Italy, Austria and Russia.

COMPETITIVENESS OF LOCAL COMPANY EXPORT OFFERING

Potentially Armenian companies could be very competitive in the export of cut flowers. It would have an immediate opportunity in the export of long stem carnations. In early 2001, poor boxes, inadequate packing, lack of pre-cooling and a very limited product, variety and color mix kept it from having a stable export market. Even in Moscow, where Armenian carnations were at one time considered to be among the finest, there is no client that is clamoring to take all of the Armenian cut flower production. All of the problems with packing and shipping could be easily remedied. But it will require a large investment over several years for local companies to build a product base that will create a strong demand in the market. Though some might counsel a conservative step by step expansion plan, this will only delay the moment in which the product will begin to sell itself. The first expansion step, daring as it may feel to incrementalists, must be taken to create sufficient size for success.

Breadth of varieties offered

Undoubtedly 15 varieties of carnations need to be added to deepen the existing carnation assortment. In the future, another 30 species of flowers and half dozen types of foliages included in the local cut flowers offering. The most important would be the rose, the most important flower in the European market.

Supplying Supermarkets

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DAI directors in Armenia had identified, at the time of this consultancy, a supermarket opportunity in Russia. It would be appropriate to make contact with the managers of flower imports of this group currently expanding in Moscow and St. Petersburg and identify their quantity and quality needs, the species, varieties and colors that they are importing or intend to import, and their requirements for bouquets. This information would be invaluable in orienting the choice of species that would make up bouquets for that group.

It would appear important that if a trip were to be made to the head office in Moscow, that a person familiar with the different species of flowers, should accompany the mission. There are over 70 species, and perhaps 200 varieties that would go to making up supermarket bouquets. Bouquet colors and types must change with the seasons. They must be specially labeled for Christmas, Easter and Woman's Day all important Holidays in Russia. They must be sleeved and presented in a way that would be competitive with Dutch bouquet makers such as Movrie, Wesseling and the Dutch Flower Group in Aalsmeer and competitive with the product being exported by FloraFresh in Colombia and by Florimex.

Signing of the UPOV agreement

Intellectual property rights for flower breeders (the rights to collect royalties on the sale of patented varieties of roses and other flower species) is protected under an international agreement called UPOV. Armenia is not yet a signator to this agreement. Therefore breeders will be reluctant to sell to Armenian flower growers, and even more reluctant to sell the new varieties with large flowers and long vase life. This will be a big disadvantage for XXX Company, who will have to work through the process of individually approaching each of these companies (many of whom keep a large legal staff busy protecting their rights) and begging for access to the commercial varieties of flowers.

ORGANIZATION OF EXPORT MARKETING

The marketing department of a company should be staffed with a sales manager for domestic sales, and a sales manager for export sales.

The export sales manager will have a multi-lingual secretary who will answer a direct telephone line into the company used specifically for calls from outside the country. The export sales manager will also need the assistance of a transportation manager to deal with truck delivery to airports, airline reservations, obtaining and faxing of documents, (AWB, Invoice, Packing list, Phytosanitary Certificate, Certificate of Origin) to the foreign client and the foreign cargo agent.

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The export sales manager will also have under his supervision, a regional and country sales managers as needed. At the beginning, one or two people fluent in Russian and English will be required. Some markets, such as France, will require specific language skills. In other markets including Italy, Switzerland and Austria, the English language will be sufficient.

Sources of market information, Import regulations, Duties, labeling

XXX Company now has in its possession, provided by the consultant, copies of the regulations, duty information, post-harvest protocols and labeling information that were published in the English version of Floriculture Products, A Study of Major Markets, Update version 1996, published by the International Trade Centre, UNCTAD/WTO, Geneva, Switzerland.

This document reviews the requirements of the European markets, including Austria, France, Greece, the Netherlands, Germany and the UK. Information on import requirements in Cyprus, Georgia, Lebanon, Russian Republics, UAE and Ukraine must be researched by XXX Company .

The rate of duty on cut flowers into the EU, which drops yearly, must be updated on a yearly basis. It is charged on the C&F value at the point of arrival less the value of the airline freight over EU territory. This formula is complicated and can be best determined by the cargo agent at the entry point. In the 2001 the duty levied on cut (except where duty-free status had been established) amounted to about 7.5 percent during October-May and 15 % May-September.

Most flower producing and exporting countries do not pay any duty when exporting to the European Union, as they have been excepted through ACP and other bi-lateral agreements.

Negotiations by Armenia for zero duty free status must be handled through the Armenian Government Department of Foreign Affairs representatives in Brussels, Belgium.

Sources of information on pricing in foreign markets

The best source of current and future price predictions is via telephone communication with the clients themselves. Rarely does this information get written down—a logical effect of clients not wanting to commit themselves.

When flowers are sent on consignment to the flower auctions in Holland, information on the prices obtained for the shipper's flowers is available the same day via e-mail, and more general price information is available within a week with a code, using the Internet. But most importers do not provide this information for a week, since flowers are subject to claims upon arrival to the regional wholesaler. When flowers are sent on consignment, price information may be delayed until the payment arrives a month and a half after the fact. Therefore, telephone calls, weekly, to the importing clients, can help keep the pulse of the market.

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Communications with clients

Though fax and e-mail may be used to communicate with clients regarding varieties, colors, size, bunching, arrival times, flight numbers, AWB's, certificates of origin, phytosanitary certificates, packing lists, invoices, payments, monthly billing and so forth, generous telephone communication costs must be included in the marketing budget. Even for a small exporting flower farm, this may exceed \$1000 per month. The telephone serves to strengthen the personal relationship upon which all flower export sales are established.

Most importantly, changes in a shipments compared to the original order must be reported to each client on a 24-hour basis. This will include changes in numbers of boxes shipped, a breakdown of a cooler, a truck strike or other emergency that precludes the flowers making it to the airport, or a problem in production such as an excessive use of spray which might require the client to treat the flowers differently upon arrival. Most clients carry cellular telephones and they are available round-the-clock, though some courtesy is requested in regard to calling 10pm to 4am, and time zones changes must be taken into consideration.

ANNEX A.

Procedures for shipping fresh cut flowers.

Procedures for shipping fresh cut flowers to the European Union (Examples in the Netherlands are applicable to all countries around the world.

- All original documents should be attached to airway bill.(AWB) including the XXX invoice, the Phytosanitary Certificate, the Certificate of Origin and the packing list)
- Airway bill should be addressed to the cargo agent in the point of entry
For example : Van de Put Fresh Cargo Handling c/o Zurel or VBA, or, Blumex at their address in the Netherlands. The telephone number of the cargo agent should be included on the AWB in the section « Notify on arrival ».
- Make sure all boxes are labelled correctly with client name, the city where the client is located and the country . Preferably labeling should be on both ends of the box.
- Boxes must also be marked with species name in English, variety name if applicable, number of units and length, for example, « Roses, Madame Delbard, 250 stems, 70 cm. » Preferably labeling should be on both ends of the box..
- Fax a pre-advice with a copy of the airway bill and the invoice to the Customs Agent (such as Van de Put Cargo, fax 0031-20-4055194). This is to inform them that a shipment is coming in case the airline does not call them upon arrival. Similar information should, as a courtesy, also be sent to the client.
- Send all shipments with freight Prepaid at the Yerevan airport.
- If XXX sends flower shipments on a consignment basis, the importer, for example, VBA or Blumex, will sell your flowers for you, deduct their commission and the invoice from the customs agent, Van de Put as an example, and will pay the rest of the sale price to XXX.
- Make sure there is an original Phytosanitary document from the Armenian Ministry of Agriculture is with each shipment, otherwise the flowers cannot be inspected and therefore they cannot be sold. Your shipment will then stay in our coldstore until the Customs Agent does get the original Phyto—which you will send on the next plane to Schiphol. Usually this 3-day delay will render the flowers unsalable.
- All charges will be invoiced to the receiver (VBA Blumex, etcetera). Eventually these charges will be invoiced back to XXX in the Grower's Report made at the end of the month.

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ANNEX B.

BIBLIOGRAPHY OF SOURCES OF INFORMATION

Duties, packing, shipping information :

An important source of information is Cut Flowers, A study of major markets published by the International Trade Centre UNCTAD/WHO in 1997. For further copies contact ITC, Palais des Nations, 1211 Geneva 10, Switzerland, Tel 41 22 730 0110, E-mail : itcreg@intracen.org Reference publication : ISBN 92-9137-072-X

Copies of Appendix I of this publication, p. 213-235, regarding European Union quality standards for fresh cut flowers and ornamental foliage were distributed by the consultant to XXX.

Prices :

An invaluable insight into pricing variations in the European markets can be obtained by subscription from the Market News Service section of the International Trade Centre, UNCTAD/WHO, a section of the United Nations located in Geneva, Switzerland. Price information arrives weekly by e-mail. The MNS report on European Cut Flowers covers pricing by wholesalers in over 15 countries and includes market and weather comments on Switzerland, France, Netherlands, Spain, Belgium, Austria, UK, Norway, Italy and the Czech Republic.

The MNS reports flower prices in US\$, except those from the Dutch auctions. Prices from Flower Auction Aalsmeer (VBA) and Flower Auction Holland (BVH) are quoted in Dutch florins. These price reports are based on inquiries made by the MNS staff by telephone to the wholesalers in the major cities. The report gives the price that the wholesaler quotes when selling his clients. The report also covers over 100 flowers types.

For subscriptions contact: MNS-SUBS@intracen.org

The director of the Market News Service, Jan Pleismeijer, was, prior to this position, Head of Imports at the Aalsmeer Flower Auction (VBA) and is at times interested in helping new exporters with further information.

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