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Market description:

Developments and trends in the flower and plant market for 2015 / 2016

Stability is not enough: new markets are important

The 2013 crisis in horticulture seems to be almost forgotten. After a good 2014 year in the German target market, which reached 2012 levels, and similar levels expected for 2015, the industry is more optimistic again – with good reason! Consumer sentiment is excellent. Slight shifts in trade flows are visible. Economic and political conflicts are affecting the markets.

A look at global sales shows that the strong global concentration of demand for flowers and ornamental plants from major industrialised nations in Europe, Asia and America, as well as well-known emphases in manufacturing, also remain strong in 2015. The Netherlands' strong role as a hub for imports and exports to Europe also remains unchallenged even as direct imports in other European countries continue to increase. According to experts, there are increasing direct imports by central purchasing organisations in the German retail sector.

Strong imports of cut flowers to the EU drive growth

According to EUROSTAT, imports of flowers and plants slightly increased in recent years in quantity and value. Cut flowers are mainly responsible for the increases in the import of flowers and plants to the EU. Compared to the previous year, the import of cut flowers to the EU during the first half of 2015 rose by 8% by value, and 15% compared to 2013. All other segments of the plant industry are unremarkable or are decreasing. In 2014, a total of 414,580 tonnes with a value of €1.59 billion were imported by the EU. Across a 10-year comparison, it is evident that import volumes are declining with increasing import values. This means that increasingly higher value products are being traded.

Identifiable past shifts in European contact countries are continuing: Kenya is strengthening its position; in 2014 28% of EU imports came from Kenya alone. Kenya is positioning itself as a supplier of quality products. Ethiopia is also continuing to increase its importance as an exporter to the EU, while imports from Israel, the United States and Costa Rica have tended to decline.



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Trade surplus through strong exports from the EU

Similar to imports, exports of flowers and ornamental plants from the EU have tended to increase in the last ten years, although slight decreases in EU exports were registered in 2014 and 2015. In 2014, the quantity decreased slightly by 0.8% in comparison to 2013, and the value decreased by 2.9%. With potted plants in particular, there were revenue declines of 4.5% in value terms in the first half of 2015. In 2014, 682,000 t of flowers and ornamental plants were exported as a whole at a value of €1.91 billion. The monetary value comparison between EU imports and exports clearly shows how different the plant import and export sectors of the EU are. Through the export of potted plants, shrubs and bulbs, etc., there is an overall trade surplus amounting to €326 million (as of 2014). The positive trade surplus has existed since 2002. But the trade balance of the EU for the cut-flowers and cut-foliage sector has been negative for years (2014: minus €500 million). The significance of the different target markets for EU exports in 2015 is similar to the past: In 2014, Russia (21.3%) and Switzerland (20.7%) had the strongest demand by far for flowers and ornamental plants from the EU, followed by the United States (10.2%), Norway (8.8%) and China (4.8%).

Russia remains the most important sales region for EU exports

Since 2013, there has been a noticeable decline in demand for flowers and ornamental plants imported from the EU by Switzerland, but especially Russia. Comparing the 1st half of 2015 with the same six-month period of the previous years, there is a significant decrease of one quarter of the value within a period of only two years. The EU delivered cut flowers to Russia worth about €164.6 million in the first half of 2013, but in 2015 it was only €123.9 million. For potted plants, there was a decrease of €39.5 million to €30.2 million in the same period. This negative trend affects the Netherlands in particular which, as the strongest EU exporter in the last two years, has lost significant market shares in Russia. The value of cut flowers exported to Russia was almost halved for the Netherlands within the last two years from €136.9 million to €66.4 million, as can be seen in a comparison of the first half years. Exports of potted plants are equally affected; in the first half of 2015, exports dropped by 38%.

Other EU countries gain what the Netherlands has lost in importance

The Netherlands' reduction in exports to Russia in 2015 was offset in part by other export countries. Lithuania, Latvia and Poland, as well as Finland and Italy, to a lesser extent, are worth mentioning in particular. Whether the higher imports of

the Netherlands in the countries of Lithuania, Latvia and Poland are due to increased export activities of these countries to Russia or to higher personal consumption cannot be established decisively.

Lithuania, Latvia and Poland have at least doubled their exports to Russia in the cut-flowers product group since 2013. In the first half of 2015, Lithuania delivered cut flowers worth €34.8 million instead of the €17.4 million delivered in the first half of 2013. Latvia and Poland show similar growth rates. Finland was able to increase its low export volume during the same period from €0.02 million to €0.9 million. The countries mentioned previously also showed increases in exports of potted plants, although not to the same degree as cut flowers. The number of suppliers has increased. According to EUROSTAT 2015, Denmark and the Czech Republic for the first time delivered significant supplies of potted plants to Russia.

Nevertheless, in 2015 the community of EU countries no longer reached the original export values to Russia because Russia increasingly received its imports from non-EU countries. In 2014, Russia announced trade contacts with Africa. It is not safe to say to what extent these were realised and how they may have affected the decline in imports of flowers and ornamentals from the EU. Given the evidence currently available, it remains pure speculation. Currently, all signs point to a continuation of the development, i.e. continued waning of the significance of the Netherlands as well as the EU as exporters to Russia because the weakness of the rouble and the political tensions are not changing.

Changes in the EU's domestic market, especially in the German target market

The declining exports to Russia inevitably lead to modified flows of goods, in Germany as well. In addition, Germany is strengthening its self-sufficiency in plants. According to an AMI cultivation survey on the production and economic trends in ornamental horticulture (PWZ - Produktions- und Wirtschaftstendenzen im Zierpflanzenbau) in the autumn of 2014, amongst other things, more bedding and balcony products made in Germany were expected for 2015. This suspected expansion in the area of cultivation is also confirmed by import statistics for Germany. Assuming stable exports, and a stable consumption of flowers and ornamental plants in Germany (€108 per person per year), a significant decline can be seen compared to the previous year for German imports of potted plants. 19% less were imported in the first half of 2015 when compared to the same period last year. That means a loss of €74 million.

Netherlands and Denmark feel the effects of increased self-sufficiency in Germany

The import decline in Germany essentially affects the Netherlands; in the reference period because a drop of 18%, approx. €60 million in merchandise value can be seen. The development is not unknown to the Netherlands; FloraHolland has also reported on it. Denmark also had to endure high losses of 24%, but at a lower level, in the first half of 2015. Their potted plant exports to Germany decreased from €32 million to €25 million.

Movement in the markets for Dutch products

With losses in the Russian business and losses in exports to Germany, you have to wonder where the Netherlands sells its goods. According to EUROSTAT figures, Netherlands' exports rose until 2014. But in the first half of 2015, they declined in comparison with the 2014 and 2013 reference periods.

In summer 2015, the Association of Wholesaler in Flower Production (VGB - Vereniging van Groothandelaren in Blumenwerkerijproduktion) reported that exports by the Netherlands to the United Kingdom (plus 18%) as well as France, Italy, Belgium and Spain grew, and would almost compensate for the export declines for Germany and Russia. According to experts, the significant export growth meant that the target markets of Britain and France are now responsible for 60% of the exports from the Netherlands.

In addition, Poland has become a stable target market for the Netherlands. Consumption in Poland, and the Baltic States as well could also increase with increasing prosperity in these countries. Scandinavia also continues to be interesting. The significant increases in sales to Britain among others was also due to the weak euro.

The Spanish market has recovered quickly after overcoming irritations brought on by the VAT increase, from which the Netherlands has also benefited.

Poland focuses on Russia

Poland is expanding its export activities, particularly in potted plant sales. Sales in the first half of 2015 increased by 34% compared with the previous year. Trade relations with Russia in particular are responsible for the increase. Exports have almost doubled to about €3 million. The export value for cut flowers has also grown (plus 8%). Russia, together with Slovakia, is crucial again here. Exports to Russia during the reference period increased by 75% (plus €2.1 million). At the

same time, Polish exports to Germany were scaled back in value (minus €1.8 million).

Is a new transfer hub for EU exports to the East developing in Poland and the Baltic States?

The search for new markets in third countries

The slight changes in the flow of goods within the EU, as well as the export and import situation of the EU described previously, show that all countries are looking to additional markets.

Many EU countries/distributors are focusing on third countries in the search for new customers and distribution channels. Accordingly, FloraHolland sees future sales opportunities primarily in Southeast Asia and North America in its corporate strategy for 2020. The United States and Canada currently (2014) make up approximately 10% and 2%, respectively, of EU exports – both with a decreasing tendency in the last 10 years.

But China has also been considered an interesting market for years. Currently, China is a destination country for approximately 4.8% of European exports. According to a Colombian study, cut-flower imports in China grew 61% from 2010 to 2014. This growth could continue in the long term because the country is currently undergoing great social changes. 15 million Chinese will move from poverty to the middle class and approach the west in their consuming behaviour. So China could – as the largest producer and exporter in Asia, especially for the Japanese market – predominantly import flowers, which represent exclusivity and luxury. Imported goods are a status symbol for the Chinese. The demand from weddings, hotels and restaurants could develop as a lucrative niche.

It cannot be said yet how the current economically tense situation in China will affect demand and the export of flowers and plants. In addition, despite China's increasing imports, we cannot overlook the fact that production in China is strongly professionalised, and it remains an interesting question when the time will come that China will have its own sufficient production capabilities and will increasingly become an exporter outside Asia. In addition, according to AIPH South Korea is expanding its production in all areas. In 2014, production expansions of over 5% were seen in all sectors.

There are also sales margins in Europe

Is it right to solely concentrate on exports to third countries?

The potential for flower and plant sales in the EU does not seem to be exhausted, as the exemplary emerging consumer markets in Poland and the Baltic States show. With increasing economic development, the demand for flowers and plants also increases.

In this respect, it makes sense that the Central Horticultural Association (Zentralverband Gartenbau e.V) has called on the Federal Ministry to promote export measures not primarily for third countries, but also within the EU. The Association of the German Wholesale and Import Trade for Flowers (Verband des Deutschen Blumen- Groß- und Importhandels e.V) also made similar calls.

For 2015, Veiling Rhine-Maas also sees the key to success in the development of partnership relations with distributors and customers, and employs foreign-language customer service representatives, who are dealing successfully with the French-language market. Given their goal of attracting more international customers, including Eastern European customers, Veiling Rhine-Maas seems to see potential in the European market. A market presence in the target countries of the domestic market appears productive for sales.

Consumer climate in Germany is beneficial

The general mood of consumers – which is conducive for sales of flowers and plants – has also been excellent in 2015. Germans have appeared unfazed during the first half of the year by international crises and the events surrounding Greece. The domestic conditions for income, work and inflation are reassuring and lead to the fact that the official statistics for the first quarter of 2015 show the highest real wage increases (plus 2.5%) since the beginning of the survey in 2008.

Consumer desire is undiminished. Retail sales in the first five months of 2015 increased in real terms by 2.4% compared to the same period last year. It is not clear whether the mood of consumers will continue to remain at a record level.

At the end of September 2015, the GfK registered the first doubts among citizens about whether the economic development would be sustained despite the influx of refugees and economically faltering emerging markets such as China. Despite the shock, consumer sentiment was still high, and no trend reversal was evident. In its 2015 autumn forecast, the Federal Government foresees stable growth in the

German economy – in 2016 as well – despite a weaker world economy and high numbers of refugees. Economic growth should be stable at 1.8%.

Mother's Day and bedding plants reveal customers' good mood

The good mood of consumers can be seen in Mother's Day sales figures for 2015. Compared to 2014, florists from Germany, as well as the Netherlands and France reported higher sales, which were due to higher average spending per customer as well as an increase in the number of customers.

The average spending for a Mother's Day present in France was €28. Spending per customer in the Netherlands (€21) and Germany (€19) was significantly less.

For Germany, an average spending of €19 is good. Nationwide, members of the Association of the German Wholesale and Import Trade for Flowers (Verband des Deutschen Blumen- Groß- und Importhandels e. V.) were very pleased with the Mother's Day sales. In terms of both quantities and pricing, 2015 showed growth for cut-flower wholesalers. Florists in the Trade Association of German Florists (Fachverbands Deutscher Floristen e. V) were also very satisfied.

According to a survey by the Association of German Flower Wholesalers (Vereinigung Deutscher Blumengroßmärkte), the 2015 bed and balcony season went well for all. Experts are reporting sales increases of approximately 7% in wholesale.

Generally, it can be said that after a somewhat slow start in spring, from mid-May onwards, sales of flowers and plants in Germany ran continuously and without major disruptions or surprises in 2015. The bed and balcony season replaced a harmonious spring season. The summer was stable with average prices. All in all, it was not an outstanding season but also not a bad season.

Conclusion

The mood in the flower and ornamental-plant market in Germany is good despite the current troubling spots. The tendentially bad experiences of the past years in the flower and plant trade have meant a decline in expectations. Stagnation in sales is evaluated as success. In 2015, plant purchases were stable and will continue to be stable in 2016 given the expected good consumer sentiment. Given declining EU exports to the most important buyer, Russia, there are increasingly attempts to compensate for the decline in other ways. And this has also been successful in part.

The influence that political and economic conditions have can be seen in the high exports to Britain (exchange rate) and the flow of goods to Spain (increase in value added tax). Both financial market conditions could revive the market and sales in the short term. But for the long term, reliable distribution channels that guarantee stability need to be established. Whether these really have to be located outside the EU or whether the potential of the domestic market still needs to be exploited is a matter of perspective. A push to the overall market may come from both areas, which may support each other. Sometimes unsuspected potential is right in front of us and “parish pump politics” lead to more success than anticipated.

Sources:

EUROSTAT, AMI, BGI, GfK, VBG, TASPO, Gabot, and expert interviews

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