

Why Colombian flowers cost more these days

Copied from the business section of the Miami Herald
Monday May 28, 2007

The downside of a higher Colombian peso
The Colombian peso's rise against the dollar is hurting exporters.
BY CHRIS KRAUL
Los Angeles Times Service

CHRIS KRAUL/LOS ANGELES TIMES

Carlos Borrero receives dollars for his exported flowers. The currency's strength has been bad for his business.

BOGOTA -- The Colombian peso is on a hot streak, and that's good for national pride, consumers of luxury imports and tourists heading to Disney World. But it's a bouquet of trouble for Bogotá flower grower Carlos Borrero and the rest of this nation's export-centered rose industry.

Like most growers who sell abroad, Borrero is paid in dollars but absorbs his costs in pesos. That means the revenue he's taking in buys about 40 percent less locally than four years ago. Meanwhile, the cost of his labor and materials has risen 40 percent in the same period.

"It's like I lost a full year of income because of the exchange fluctuation since 2004. How the hell can a small business survive that?" asked Borrero, who has an engineering doctorate from Michigan State University and whose 75-acre farm in the Bogotá suburb of La Punta ships \$2 million worth of roses and carnations to the United States a year.

Nearly all world currencies have gained against the dollar in recent years; the dollar has slid 30 percent in value since 2002 against an index of world currencies, according to the International Monetary Fund. But the greenback's decline has been steeper against the currencies of Third World countries whose economies have been lifted by booming demand for commodities such as copper, sugar and soybeans, and the incoming floods of dollars chasing them.

BIG DECLINE

The dollar buys 20 percent fewer Colombian pesos than it did a year ago and 30 percent fewer than it did four years ago.

But there is more to the peso's appreciation than demand for Colombia's oil, coal, bananas, coffee and other commodities. As never before, foreign investors are here buying up banks, factories and real estate.

Total annual investment equates to 27 percent of the nation's annual economic output, reflecting growing confidence in Colombia and the policies of President Alvaro Uribe, said Standard & Poor's analyst Richard Francis in New York.

The rise in the peso's value is visible even on the streets: Sales of new cars, most of them imported, are up 50 percent in the first four months of this year, said economist Mauricio Cardenas of the Fedesarrollo think tank in Bogotá. The peso's increased purchasing power means more imports, which are growing at a 23 percent annual rate, he added.

The number of construction permits grew 26.5 percent over the 12 months ended in March, a reflection of a real-estate market frenzy. The boom has sparked concerns about inflation at Colombia's central bank, which raised the benchmark loan rate by a quarter percentage point to 8.75 percent Friday.

Many Colombian exports haven't suffered even though a strong peso makes them more expensive. But that's not the case with flowers.

After years of strong business fueled by Americans' appreciation of big-budded Colombian roses, the industry is fighting for survival amid stiff competition from Ecuador, China, Kenya and Mexico -- relative newcomers to rose exporting.

Although Colombia shipped almost \$800 million in flowers to the United States last year, the industry has cut margins to maintain its market share. Investment in new varieties and technology has shrunk, according to the grower industry association, Asocolflores.

Borrero, whose family has been in the flower business since 1969, said

his company, Rosas Sabanillas, will chalk up its first annual loss this year, after barely breaking even last year. He worries about having to let some of his 230 employees go, many of whom are single mothers who took out mortgages to buy houses.

WILTED FLOWERS

Other companies are faring far worse. Five major flower growers either have scaled back operations or gone bankrupt over the past year. Total jobs in the cut-flower industry have fallen by 12,000 since 2005, a 10 percent loss.

The industry is screaming for relief, going so far as to propose that Uribe stop letting the peso float freely and instead establish a fixed "exchange rate platform" of 2,500 pesos to the dollar. That would immediately strengthen the dollar by 20 percent over its current value of about 1,987 pesos and make flower exports more competitive.

"We are saying for the first time that we are in serious difficulties and at risk of extinction," Borrero said.

Fedesarrollo's Cardenas said the peso's high relative value was cyclical, and it eventually would devalue back to an "equilibrium" of 2,500 pesos to the dollar.

For Borrero, it can't come too soon.

"The revaluation of the peso is definitely cyclical," he said. ``What we don't know is: Will we, the flower growers, still be around for the turnaround?"