

The structure and dynamics of cut flower export markets from Kenya and Ethiopia, with particular reference to trade with Norway

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The structure and dynamics of cut flower export markets from Kenya and Ethiopia, with particular reference to trade with Norway

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1. Introduction

This report is part of a broad study of trade preferences and market conditions between various developing countries and Norway, conducted under the auspices of the Norwegian Institute of International Affairs and funded by the Norwegian Ministry of Foreign Affairs. Norway's Generalized System of Preferences (GSP) was established in 1971. From 2002 Norway has provided duty and quota free market access (DQF-MA) for all goods from all the 50 least developed countries (LDCs³). In 2005 the results of a review of Norway's GSP were published (Melchior, 2005⁴), which showed that agricultural products from developing countries other than LDCs were still subject to substantial tariffs, and this contrasted dramatically with advantages given to European trading partners. As a result, from 1 January 2008 changes were made to Norway's GSP⁵. An important adjustment was that 14 low income countries that were not part of the LDC group were included in the provision for duty and quota-free market access (DQF-MA). Consequently, 64 low income countries now benefit from DQF-MA to Norway for all their goods.

However, the broadening of access to a wider set of developing countries has not had the degree of change to imports from developing countries that was anticipated. This project has been examining various aspects of trade between developing countries and Norway to explore conditions promoting or limiting greater trade. One case study has been on the export of cut flowers from eastern Africa, in particular Kenya and Ethiopia, and this report presents an assessment of the structure and dynamics of this market, and the factors influencing its success and sustainability.

2. The flower industry in Kenya

Kenya presents a unique physical and climatic environment in the world shared by few, which when combined with the track record of private sector enterprise in other commodities such as tea, coffee, vegetables and tourism, has led to the country developing a unique profile as an international year-round provider of cut flowers. Its major competitors in Africa are its neighbours Ethiopia, Tanzania, Uganda, and to a lesser extent the southern African countries of Zambia and Zimbabwe. In South America the major competitors are Colombia and Ecuador. Kenya is probably the strongest and most competitive of the

³ Least Developed Countries are nations identified as such by the United Nations Economic and Social Council through its Committee for Development Policy and include countries with "a low per capita income", "a low level of human resource development" and "a high degree of economic vulnerability". The figures for these criteria are reviewed every three years.

⁴ [Melchior, Arne](#) (2005). *The future of Norway's GSP system*. NUPI Working Paper: 680. 69 pages. Discusses the prospects for the GSP system.

⁵ <http://www.regjeringen.no/upload/UD/Vedlegg/Handelspolitikk/gspchanges.pdf>

African flower trading nations. Kenya has a near perfect combination of climate and altitude, a progressively improving infrastructure, relatively low labour costs in a labour-intensive industry and excellent freight and passenger air links to Europe, the Middle East and Asia. The relatively low labour costs will undoubtedly not last, with strong pressure from trade unions and other lobbies to raise the minimum wage dramatically. Furthermore, the freight and passenger air services have been stretched by the dramatically rising cost of fossil fuels, influencing one flower and vegetable freight airline to go out of business.

The horticulture industry in Kenya as a whole generates some US\$ 1 billion annually, and the floriculture sector has seen progressive growth in both volume and value of cut flowers; it has also seen rapid and substantial institutional organisation. By comparison, the tourist industry currently generates some US\$ 800 million, but given its vulnerability to recurrent political and security issues, is likely to be overtaken by floriculture. In early 2008 the floriculture export provided an impressive demonstration of infrastructure, solidarity, communication and determination during, and in the aftermath of, the wave of violence which followed the general election of 2008. The peak floriculture export season precedes the St. Valentine's Day occasion, and amazingly the orders and commitments were not disrupted.

Agriculture contributes some 25% to overall national GDP in Kenya, with horticulture some 14% of agricultural GDP, and flowers some 7% of horticultural GDP. The industry directly employs some 90,000 people and indirectly some 500,000 of Kenya's estimated population of 40 million. Policy in the floriculture industry comes under the Ministry of Trade and Marketing.

3. The flower industry in Ethiopia

Like Kenya, Ethiopia presents a unique physical and climatic environment in the world which has led to a rapid growth in its role as an international year-round provider of cut flowers. Ethiopia also has a similar combination of climate and altitude, a gradually improving infrastructure, and low labour costs, but moreover it benefits from strong support from the Government of Ethiopia to the floriculture sector in the new 5-year Growth and Transformation Plan⁶, released in late 2010. For this (and other agricultural development enterprises) the country has also invested time and effort into attracting overseas investment in the country for agricultural and other enterprises (see for example http://www.ethioinvest.org/why_Ethiopia.php and <http://www.ethiopianembassy.org/PDF/10ReasonstoInvestCombo.pdf>).

⁶ http://www.ethiopians.com/Ethiopia_GTP_2015.pdf

However, as in Kenya, the costs of supporting this industry are changing and rising; there has been a rapid rise in labour costs over the last two years (but this has been countered slightly by the devaluation of the Ethiopian Birr).

There are some significant differences between Ethiopia and Kenya, however, in terms of its market access conditions. Ethiopia is classified as a LDC, and as such gains tariff-free access to Europe for various products (including flowers) under the Everything But Arms (EBA) agreement. Furthermore, because of Ethiopia's status as a LDC, and its struggle to wrest itself from the "basket-case" image it has projected globally with the periodic droughts, food insecurity and famines, there has been some limited donor support to help establish the flower industry. An example of this was the support received from the UK's Department for International Development (DFID) to the Ethiopian Horticulture Producer and Exporters Association⁷ (EHPEA) for the establishment of office premises, a vehicle and some technical training facilities. Furthermore, Ethiopia has drawn substantially on the experiences and expertise in Kenya, through study visits, support by some of the Netherlands private farms in Kenya, and involvement of Kenyan technical and managerial expertise in Ethiopian flower enterprises. A further example of public sector support is the Ethiopia Netherlands Horticulture Partnership Programme, a public/private partnership initiative launched in 2006 with funding from the government of the Netherlands, and undertaken under the auspices of the EHPEA (see below). This has the following series of activities:

- The development and implementation of a Code of Practice for the floriculture sector
- The introduction of integrated pest management (IPM)
- Capacity building for production managers and agronomists
- Market information synthesis for key market destinations
- Cold chain management
- Phytosanitary service capacity building
- Support to research and strategy to guide policy development

There are approximately 85 farms exporting flowers from Ethiopia, 60 of which deal only in roses. Exports go to a total of 29 countries. As far as exports to Norway are concerned, as an illustration the last three months have seen the following volumes sent to Norway:

- June: 81,000 kg (85% roses). Suppliers: AQ Roses, Herberg Roses, SHER Ethiopia, Joytech PLC, Dugda Floriculture PLC, Olijji Roses, Linssen Roses, Florensis Ethiopia

⁷ <http://www.ehpea.org/>

- July: 70,000 kg (95% roses). Suppliers: Linszen Rose, Dugda Floriculture, Sher Ethiopia, AQ Rose, Florensis Ethiopia, Joytech, Ziway Rose, Red Fox
- August: 135,000 kg (98% roses). Suppliers: Dugda Floriculture, Olij Rose, AQ Rose, Sher Ethiopia, Ziway Rose, Red Fox Ethiopia, Joytech, Braam Flowers.

Almost all of these are shipped through the Netherlands, where there is an agent who handles flowers designated for Norway.

Broader issues of trade from Ethiopia

Ethiopia has been actively seeking to expand its trade links with a wide variety of countries in many different ways. It has tended to focus on specific commodities, among which flowers and vegetables have featured strongly; indeed, flowers have been a favoured commodity, and are contributing to the country's economic growth, and of course its image. There has been strong political support, including at Prime Ministerial level, and also through a range of investment incentives offered by government. The country is very keen to access foreign currency.

Ethiopia established a commodity exchange⁸, which is still evolving and finding its role. At one stage, all commodities had to go through the exchange, which reportedly required that all qualities had the same price. As a result, certain producers of niche market products went into their own private production to avoid the pricing restrictions; this severely affected the coffee market⁹. There has since been a progressive graduation of understanding and flexibility in the commodity exchange, and price differentials based on commodity standards are now accepted.

Key products traded from Ethiopia are coffee, hides and skins, flowers and livestock. Emerging commodities are rice (to India and China), sesame (to China for biofuels), honey and silk.

4. Kenya's negotiation to be part of an Economic Partnership Agreement with the EU

Kenya is the only one of the five member countries in the East African Community (EAC) that does not have a LDC status. The LDC status gives automatic duty free import status into the EU under the Everything But Arms (EBA) special arrangement. Ethiopia, a significant producer of cut flowers, does enjoy EBA status. The lack of a fully

⁸ <http://www.ecx.com.et/>

⁹ <http://addisnegeronline.com/2010/09/ethiopian-commodity-exchange-to-assure-pure-monopoly/>

endorsed EPA between the EU and EAC puts the Kenyan floricultural industry at a considerable trading disadvantage compared with its neighbours if duties are to be imposed (see Box 1 on the implications of an EPA for Kenya's market access with the EU). The bilateral Economic Partnership Agreement (EPA) between the European Union (EU) and the East African Community (EAC - Kenya, Burundi, Rwanda, Tanzania and Uganda) to maintain duty free access of flowers into the EU has not yet been finalised, but an interim EPA has been in place since 2007. This delay is due to a number of technical issues regarding long term trade arrangements involving a wide range of products and development support between the EU and EAC. The stumbling blocks include market access coverage and liberalisation timetables, the use of safeguards and export taxes, and the Most Favoured Nation (MFN) clause provisions. Following the breakdown in negotiations, the EU stated specifically that failure to finalise the EPA process could lead to putting non-LDCs such as Kenya on the EU's GSP trade regime, resulting in increased tariffs on some of Kenya's key export products.

Box 1. From: Implications of an EPA for Kenya's Agricultural Market Access in the European Union. Institute for Economic Affairs, Nairobi, 2006.

Although trade liberalization brings with it considerable welfare gains, the political risks as well as economic costs involved often leads to preferences for trade pacts which tend to balance the import competing interests to those of exporters. Non-tariff barriers and other impediments may however limit the benefits that developing countries can derive from trade pacts such as trade preferences granted by developed countries for products from developing countries. Kenya's agricultural exports to the EU are mainly coffee, horticulture and tea. From the EU she also draws most of her equipment imports. The regional COMESA market is the main destination for her manufactured goods. Therefore EPAs may, although safeguarding market access into the EU, result in loss of competitiveness for Kenya's local manufacturing industries in the domestic as well as regional markets. Further, the envisaged CAP reforms not only threaten Kenya's export earnings from her agricultural exports to the EU but may also result in further decline in exports from other markets as a result of the world price dampening effect of the CAP reforms. Other than this the creeping use of non-tariff barriers to trade in the OECD in general and the EU in particular may further jeopardize the benefits that accrue to Kenya from the EPAs. This is further compounded by the considerable erosion of these preferences by concessions granted by the EU under other trading arrangements such as the WTO. For Kenya to benefit from the EPAs therefore there must be, inter alia, unfettered access for all Kenyan products into the EU market, long enough tariff phase down period to enable her to consolidate gains from the regional integration, full compensation for expected revenue loss in form of increased budgetary support and trade capacity building to mitigate the costs of complying with the creeping non-tariff barriers such as SPS and TBT measures.

There has also been a problem with finance as the EU and Kenya both ran out of funds to hold meetings, both blaming each other for the delays. Funds have now been found and meetings have been re-launched. If the EU became fed up with the negotiations and imposed taxes on non LDC countries, the only one to suffer would be Kenya and indeed within the country only horticulture and fish. Failure to sign the EPA could potentially add duties to Kenyan horticultural produce of ten to fifteen per cent and would probably see the demise of many Kenyan horticultural companies.

The EAC countries do not all see eye to eye; Tanzania for example fears that Kenya might overwhelm them and undermine their embryonic floriculture industry (which has suffered recently from electricity failure problems which have affected the national grid). The full agreement was to have been signed by July 2009; it is now 2011 and it is anticipated that there may be something signed by early 2012. However this has to be ratified by the Kenya parliament which has many other issues confronting it.

Other competitor countries in the floriculture business, notably Ecuador and Colombia, qualify for the EU Generalised System of Preferences + (GSP+), a unilateral preferential scheme for developing countries that allows duty free import of flowers into the EU.

5. Horticulture and Flower Growing Associations

a. The Kenya Flower Council

One of the benefits of the growth of the flower industry in both Kenya and Ethiopia has been the birth of organisations to facilitate the interface of the industry with government and other actors. The Kenya Flower Council (KFC¹⁰) is a voluntary association of independent growers and exporters of cut flowers and ornamentals which was formed in 1996. The industry was growing fast at that stage, and in the absence of a national horticulture policy, and the vision that Kenya had the opportunity to become a leading international player, there was a need for self-regulation to foster responsible and safe production and marketing of cut flowers in the country.

As of July 2011, KFC had a membership of 60 flower-growing and exporting companies owning 70 farms throughout the country; this membership represents about 50 - 60% of the flowers exported from Kenya. Farms range from 3 – 250 ha. Associate members are involved in the flower sector through flower imports, the provision of farm inputs and other affiliated services.

¹⁰ <http://www.kenyaflowercouncil.org/index.php>

The flower industry in Kenya (and indeed in other neighbouring countries) has gone through some difficult times, both with respect to the image of the industry, and to actual practices, and this has been picked up by, and sometimes distorted by the media. The major ingredients for debate were the industry characteristics of being highly capital intensive, highly non-skilled labour intensive and a high consumer of water. A significant success of the KFC has therefore been the development of a widely adopted Code of Practice to respond to this. According to the KFC website, KFC has developed a Code of Practice that is fully bench-marked to GlobalGAP and is undergoing a bench marking/mutual recognition process with various other standard setting bodies which include: Tesco's Nature, Fair Flowers and Plants (FFP), Fairtrade (FLP¹¹), MPS (MPS-SQ, MPS-Social, MPS-ABC) and Rainforest. KFC is also an agent for the Kenya Bureau of Standards KS-1758. KFC offers accreditation for its Code of Practice at two levels, the Gold and Silver Standards¹². A new member is required to comply with the Silver Code of Practice within one year from the date of joining; a compliance audit is undertaken within 6 months from the date of joining. The Gold Standard Code of Practice is the highest KFC recognition, awarding members accreditation for environmental, health & safety, good agricultural practices and quality management systems, which are applied and monitored daily. The Gold Standard Code of Practice is based on the ISO 14001 framework. The KFC has shared its emerging Code of Practice with other countries in the region. The overarching body under which the KFC falls is the South African National Accreditation System¹³.

The KFC has to liaise with a variety of different government and private organisations, and arguably it struggles to fulfil the expectations of its wide variety of different stakeholders, who expect it to cover lobbying, harmonisation of standards, industry communication and even marketing. This includes ensuring that it complies with the social responsibility requirements of both government and organisations such as the trade unions. This is indeed difficult for such a small organisation¹⁴.

In an interesting initiative involving KFC to explore competitiveness, the World Bank, the EU All ACP Agricultural Commodities Trust Fund Program (EU AAACP), and the African Caribbean Pacific has organized a series of interactive Video Conference (VC) seminars to elucidate challenges facing the flower industry in East Africa (notably

¹¹ There are 54 FLP-certified farms in six countries: Chile, Ecuador, Germany, Kenya, Portugal and Sri Lanka. These farms employ over 13,000 employees, with a total production area of around 1,300 ha.

¹² <http://www.kenyaflowercouncil.org/auditing%20and%20code%20of%20practice.php>

¹³ <http://www.sanas.co.za/>

¹⁴ The staff of KFC comprises a CEO, communications officer, accountant, receptionist, driver, office support person, and four consultant auditors.

Kenya, Tanzania, Uganda, and Ethiopia)¹⁵. The five VCs are addressing:

- The global competitiveness of the flower industry in the region
- The impact of agro-bacterium (*Agrobacterium tumefaciens*) and other soil-borne diseases on the production of roses
- The impact of climate change
- The impact of multiple taxes and levies on the industry
- The role of Strategic Environment Assessments in the establishment of sustainable flower farms.

The KFC attempts to support the common good areas in the flower industry, notably that employees are safe, appropriately rewarded, the environment is safe, and there is support to long term training and capacity development. It also has some ambitious and enterprising ancillary activities. One such activity is the support to a system of about 3,000 small-scale out growers, producing summer flowers for niche market export to ASDA, a UK-based supermarket. Another is the support at the local level (particularly in Nairobi) to florists and flower hawkers. The hawkers have now formed an association, gained recognition and licenses (so that, for example, they do not have to pay hand-outs to the City Council scouts to avoid harassment), donned green jackets and gained formal status. This has boosted their self-esteem and opened the door to a USAID scheme to help them build kiosks and create micro-enterprises.

b. The Ethiopian Horticulture Producer Exporters Association

The EHPEA was established in 2002. It has taken on the mantle of being the voice of the floriculture and horticulture industries in Ethiopia. Flower farming reportedly started in about 1995, with just three farms initially; there are now about 100 farms. About 90% of the production is flowers, worth approximately US \$ 160 million of exports in 2010, and the industry employs approximately 50,000 people. The EHPEA provides, or helps facilitate, the following support to the industry:

- Training programmes for government staff
- Development of the Code of Practice

There are three classes in the Code of Practice, namely Bronze, Silver and Gold.

- Bronze: This sets basic practices for internal monitoring and management of the standard on the farm, record keeping, pro-

¹⁵ <http://www.kenyaflowercouncil.org/blog/?p=1611>

tection of the environment, employment practices and occupational health and safety on farm.

- Silver: This is similar to the major market labels and included standards higher than bronze for good agricultural practice, protection of the environment and welfare of employees.
- Gold: This challenges the farm to engage in corporate social responsibility projects, and to become more involved in product quality management and capacity building for staff in the sector.

6. The interface with the Ethiopian government: The Horticulture Development Agency and the Animal and Plant Health Regulatory Directorate

The government of Ethiopia has made several provisions to attract investment in the country. These have included favourable prices for access to land for flower growing (reportedly US \$ 9 per ha per year), favourable bank loans, electricity service infrastructure development and a 5-year tax holiday. However there are also reported difficulties with sending money outside of the country, which is desperate for foreign exchange.

The Horticulture Development Agency (HDA) is the arm of government which interacts with producers. It was established in June 2008 as an autonomous Federal Government Agency under the Ministry of Agriculture. Its objectives are:

- to ensure the fast and sustainable growth of horticultural production and productivity;
- to facilitate the export of diversified horticulture products which meet internal food safety standards; and
- to coordinate the development of supporting services.

Within the Ministry of Agriculture is the Animal and Plant Health Regulatory Directorate (APHRD). This body has responsibility for the phytosanitary certification of exported flowers. This group also oversees the importation of chemicals and pesticides for use in the industry. The country had a poor historical record as a result of the past maintenance of stockpiles of expired chemicals. This was of such concern that specific government project, with support from the Food and Agriculture Organisation (FAO) of the United Nations, was undertaken to dispose of and manage these stockpiles. In response to a GoE request, FAO implemented five projects concerning pesticide management for a total budget of US\$ 6.5 million. The projects focused mainly on the disposal of obsolete pesticide activities. They

were almost equally split between capacity building and actual disposal, and targeted the entire country (policy makers, national institutions and their staff, in particular the Environmental Protection Agency, the Ministry of Health, and the Drug and Control Administration Authority).

All imported pesticides are now handled through this Directorate. Producers develop lists of pesticides which they wish to import, as well as volumes, which are related to need (particularly farm size). The APHRD evaluates requests, referring to the WHO hazard classification manual as to suitability and likely risks, before approving importation permits. Then following importation there are on-farm inspections of deployment, use of protective equipment, pesticide storage etc. Ethiopia is very sensitive about pesticides, because of the obsolete pesticide history in the country which was communicated globally, and because the legacy of this has resulted in continuing rumours of misuse and suspected toxicities. However, government is of the opinion that this is now well managed, supported of course by the Code of Practice and the variety of specific certification standards (such as the MPS Code of the Netherlands), with which producers endeavour to comply. There has been a particular issue with pesticides in the export of flowers to Japan, a market very sensitive to this issue.

7. A case study on a flower grower in Kenya: Sian Roses

Sian Roses¹⁵ has a very high quality operation in Kenya with five farms located around Nairobi and in the Rift Valley on a total of 100 ha. The company exports flowers to Norway, but all through Dutch, German and Swedish exporters. The products arrive in these respective countries and are then prepared for the customer for export. Prices in Norway are attractive. The company produces 120 million roses annually and has 1,800 employees.

Current issues identified include the following:

GSP forms. The GSP forms demanded by Norway cause problems, in that there are never enough forms available from government. This company has five farms, with the corresponding number of invoices and airway bills, and the forms are never sufficient. Then once completed at Sian's head office in Nairobi, they have to be sent to downtown Nairobi for approval and stamp, the efficiency of which depends on government staff availability. Forms must be in hard copy, no digital system has yet been developed (but which is clearly required). In addition, there is a high penalty imposed of some 250% (on the importer/buyer, but this is generally transmitted back to Sian) if there is any inconsistency in numbers, etc. between the forms.

Fair-trade¹⁶. Sian is very strong on Fair-trade, and is Fair-trade certified. This means that 10% of the value of the flowers comes back to the employees. This is handled independently from the trading finances, with a Joint Body (separate from the company) set up to handle the money with its own bank account. All in the chain are responsible, and this is audited regularly. It is reportedly one of the toughest certification to acquire and sustain.

MPS¹⁷ (Mileu Programma Sierteelt). This is a Dutch certification body which focuses on environment, quality and social aspects of production. MPS-Socially Qualified (SQ) is a certificate that allows growers to demonstrate that their products are cultivated under good working conditions. MPS-Socially Qualified includes requirements on health, safety and terms of employment, and is based on universal human rights, the codes of conduct of local representative organisations, and International Labour Organization (ILO) agreements. MPS-Quality is a quality assurance system that includes sector-specific requirements for floriculture. Quality assurance – in the sense of products and services being of proper quality and achieving maximum reliability – is increasingly becoming a strategic choice for growers.

Kenya Flower Council (KFC). The certification system of KFC is presented in section 5a above. The organisation is seen as the voice of the industry, and different players have different opinions on its performance. Clearly there are many demands on this small body; some see it as a marketing organisation, some as a lobbying body, and some as an organisation to harmonise the different certification requirements.

The range of markets. The Dutch market has clearly dominated, but many growers are looking for other independent markets, where better prices and tighter margins (without the Dutch interface) might be possible. These have included Japan (a distant, high value/low volume market with its own flower production) and Russia (a large and growing market with good prices, and traders in Moscow and St. Petersburg but with ultimate destination markets widely scattered). Japan has been terrified of the phytosanitary risks, and all products have been fumigated in the past, but this has reportedly reduced.

The carbon footprint issue. While this was a big issue a few years ago, especially with roses to UK supermarkets for Valentine's Day, a report in 2007 showed that Kenyan roses had only a fraction of the carbon footprint of roses imported from the Netherlands¹⁸. Since that re-

¹⁶ <http://www.fairtrade.net/>

¹⁷ <http://www.my-mps.com/>

¹⁸ http://www.fcm.org.uk/sites/default/files/Cut_roses_for_the_British_market.pdf

port, the issue has not hit the front pages, but it has definitely not gone away. It resulted in aeroplane stickers being put on roses in the supermarkets. Interestingly, some customers reportedly interpreted the aeroplane stickers as representing freshness!

Flower varieties. There are demands for different varieties in the different countries, and within a trading country there are also differences. This can be on the basis of whether the destination is wholesale, retail or to a specialist florist, and then within each of those categories there are different market favourites. In general the roses with a larger head are grown at higher altitudes, and this characteristic is generally at the expense of production. Colombia and Ecuador have a speciality in the larger head varieties grown at altitude, but many of these are reportedly highly specialised and targeted at the florist market.

Relations with government. Generally, the Kenyan government has left the industry alone. However as government becomes more aware of the returns to the Kenyan economy, there are indications of possible future changes in taxation responsibilities for the different actors.

8. A case study on a marketer in Kenya: The Flower Hub

Flower Solutions International Limited, through its Agency Agreement with The Flower Hub¹⁹ (TFH) (an Export Handling Consolidator and Facilitator), sources its flowers from 35 growers. Source farms range from the very large (such as Oserian in Naivasha) to those of 3 ha.

TFH only started exporting to a Norwegian client in late February 2011, so this is their first Scandinavian customer since TFH was established in 2005. Flowers are exported to Amsterdam, from where the Norwegian client takes full responsibility and subsequent clearance, handling and delivery costs; TFH price is landed in Amsterdam and their responsibilities end when the plane lands. This represents 2% of their cut flower export business, so not very significant; however this is after 6 months they hope this figure will grow. There are other Kenyan companies (such as Sian) exporting much larger volumes to Norway.

On what kind of marketing is done to target Norway, TFH report that the Scandinavian consumers are very ethical and thus Fairtrade is a key brand (Fairtrade does not like to be called a brand, but this perhaps best explains the label) in the marketplace. The key flower players targeting such markets are the large organizations such as Omni-flora (part of the Finlays' Group; formerly the Flamingo / Homegrown

¹⁹ <http://www.theflowerhub.co.ke/>

Group) and The Dutch Flower Group (which was the Oserian / Mavuno Group, but this now falls under The Dutch Flower Group).

9. A case study on a rose breeder in Kenya: Inter Plant Roses

This is an example of many rose breeders in Kenya. Typically new rose varieties are bred in the Netherlands and imported into Kenya for trials at the premises of a rose breeder (in this case near Naivasha). The breeder holds a well laid out display of the different varieties under trial in their greenhouses. The range is extensive, comprising every possible colour and colour combination, flowers with odour (the majority do not have), large heads, small heads, bouquet cluster heads, etc. Individual growers then visit the breeders' establishment to select varieties for trial on their own premises. Kenyan breeders may occasionally send some new varieties of flowers off to a particular Western market to test the interest and demand response. Most growers source from multiple Kenyan breeders. Two personal comments emerging were: the feeling that there is a need to harmonise the different accreditation standards; and the query as to whether Fairtrade should be limited to a certain number of growers, otherwise it will become mandatory, so eroding competition and comparative advantage.

10. Case studies on environmental conservation and sustainability organisations in Kenya

Lake Naivasha Growers Group²⁰.

The LNGG was founded in 1997 and is a voluntary association of growers working to balance commercial and environmental sustainability in the region surrounding Lake Naivasha. Over 70% of the roses exported to the EU markets come from the Naivasha area, and the horticultural sector of the region employs over 30,000 people directly. Lake Naivasha is a Ramsar²¹ site (established as such in 1995, one of two in Kenya; the other is Lake Nakuru National Park) and therefore a wetland of international importance. Unlike many other Ramsar sites it is under commercial use and not protected by fences.

The LNGG has an explicit mission to promote natural resource management and conservation in and around Lake Naivasha, thereby ensuring the commercial sustainability of enterprises through the fostering of best farming practices amongst its members for the benefit of

²⁰ <http://lngg.org/>

²¹ http://www.ramsar.org/cda/en/ramsar-about-about-ramsar/main/ramsar/1-36%5E7687_4000_0. The Convention on Wetlands (Ramsar, Iran, 1971) -- called the "Ramsar Convention" -- is an intergovernmental treaty that embodies the commitments of its member countries to maintain the ecological character of their Wetlands of International Importance and to plan for the "wise use", or sustainable use, of all of the wetlands in their territories.

all stakeholders. It initiated a Water Allocation Plan (WAP) in 2005, which has recently been revised for the period 2011 – 2014. It was jointly formulated by Water Resources Users Associations (WRUAs), Catchment Area Advisory Committees (CAACs), and the Water Resources Management Authority (WRMA). The WAP details concepts, methodologies and water balance analysis to address water scarcity, demand and inherent conflicts between various stakeholder groups. Much of the responsibility for implementation of the plan falls under the WRUCs.

Imarisha Naivasha

Imarisha Naivasha (meaning “empower Naivasha”) is a new initiative, promoted by the Prime Minister of Kenya Raila Odinga and backed by the Prince of Wales' Sustainability Trust, to try to coordinate local industries and communities with government agencies and international NGOs, to restore the Lake Naivasha environment. The restoration will apparently include reforestation and afforestation, catchment area management and the introduction of alternative livelihoods to the local community. This is an emerging initiative (indeed information about it has been taken from news items; there does not appear to be a designated website or fuller documentation available yet).

11. Other initiatives emerging from the growth of horticulture in Kenya

Horticultural Crops Development Agency (HCDA): this is the state corporation which operates under the Ministry of Agriculture with the responsibility to develop, promote and facilitate the horticulture industry in Kenya. It has a Board of Directors which draws membership from both public and private sectors. Its mandate is to a) regulate the industry through licensing and the application of rules; b) provide advisory services to the government and industry; c) provide market intelligence to the industry.

Horticultural News²²: This is an independent magazine targeted at the East African fresh produce market, set up by Karuri Ventures Ltd. It plays a role in information exchange and knowledge of the industry, and draws on both private and public sectors for articles, commentary, etc.

²² www.hortinews.co.ke

12. Air transport of flowers from Kenya and Ethiopia to Europe

Kenya

Cut flowers are highly vulnerable to time and temperature, and are all transported from eastern Africa by air. There are both freight and passenger flight options, with the majority in Kenya transported by air freight companies. MartinAir leads with 14 flights per week operating B747-400F and MD-11 airplanes. Cargolux is the second largest transporter of flowers to Europe with 9 flights per week operating B747-400F aeroplanes. Other transporters include: Lufthansa (5 flights per week on MD-11); Air France (2 flights per week on B747-440F); Singapore Airlines Cargo (2 flights week on B747-400F); and Saudia Cargo (6 flights per week via Jeddah on B747-400F and MD-11).

The B747-400F carries 110 tonnes of flowers while the MD-11 carries 70 tonnes. The Boeing 747-400F ranks among the best in its class, both in terms of fuel consumption and CO₂ emissions.

On average 250 tonnes of flowers and 10 tonnes of vegetables eventually go from Kenya to Norway on a monthly basis. Norway has very strict customs regulations and in the event of any error on documentation the shipment is held until the correction is made; with the cargo being perishable, in some instances shipments have expired and have to be destroyed.

Escalating fuel prices over the last few years have been transferred to the shipper, a portion has been borne by the airline and most of it by the customer, making the product more expensive to the end-user. Furthermore, the on-going financial crisis has also led to an increase in transport costs as most of the transporters are supported by financing agreements, the cost of which have gone up. As a result some airlines have ceased operating due to the increased cost of servicing their finance (such as MK airlines operated by Homegrown). Due to the high demand for air transport since the collapse of this airline the available cargo is being moved at a higher cost.

Business Sustainability. There will always be a demand for the air transport business given the high demand for vegetables and flowers in Europe. However most of the cost is transferred to the end-user. For the transporters the challenge is trying to transfer the high inflation costs to the shipper. Very often these two players are forced to share the costs; consequently business profitability has reduced substantially over the past 5 years.

Ethiopia

Addis Ababa, Ethiopia's capital city, is also a hub for air traffic in eastern Africa, but unlike Nairobi from where multiple freight and passengers services operate, the Ethiopian hub is almost exclusively Ethiopian Airlines. This has various repercussions. Firstly, while there is a cargo section of Ethiopian Airlines, much of the flower freight has to be carried in passenger flights (particularly those to the growing Asian markets such as Japan), limiting volume and increasing costs. Secondly, the lack of competition and dedicated freight carriers arguably raises freight costs. But on the other side, Ethiopian Airlines is a state owned (as the majority share-holder) company, and reputedly provides competitive freight charges to floriculture in the national interest.

Ethiopian Airlines reportedly lost the monopoly on cargo freight from the country some years ago, but the company clearly retains certain advantages.

13. Non-tariff barriers

A recent OECD report on the costs and benefits of non-tariff measures included a case study of the Kenyan cut-flower sector. The report noted that Kenya is among the top ten sources of cut-flower imports into OECD countries, especially the EU. It also noted the growing importance of non-tariff barriers within the expanding global trade in cut flowers, most notably SPS controls, but also production and labour standards. The paper focused on the impact of SPS standards in the light of exporter concerns over the trade effects of such measures²³.

The analysis argued that the increase of inspection costs for the EU outweigh the benefits of reduced infestation for the EU producers' and that tighter inspections lead to losses for foreign suppliers, since this can delay final delivery and lead to a loss of quality, and consequently revenues. However, 'improving production methods in exchange for reduced inspection tightness would also lead to diminished profits for foreign suppliers because of higher production costs. The report notes that the 'costs related to inspection programmes may become an entry barrier for certain foreign producers.'

The most significant finding of the OECD analysis is seen by some to be that SPS inspections (and their logistics and cost) can act as a particular barrier to market entry for low-income countries.

²³ [http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=tad/tc/ca/wp\(2009\)2/final&doclanguage=en](http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=tad/tc/ca/wp(2009)2/final&doclanguage=en)

14. Discussion

General

The Kenyan and Ethiopian flower industries have been a remarkable success, and they both continue to grow and to organise themselves. Floriculture has found a near perfect physical and climatic environment in both of the countries, which in the case of Kenya, along with vegetables, tourism and tea, and in the case of both countries along with coffee, now plays a pivotal role in economic growth, in the emerging independence from the governmental controls on agricultural enterprises so prevalent in many other African countries, in social development and in environmental awareness. In broad terms, Kenya definitely has the edge on quality, quantity and organisation, while for Ethiopia flowers are an important diversification enterprise encouraging entrepreneurship and foreign exchange earning opportunities.

The global economic downturn has affected both countries, and Ethiopia has recorded exports not reaching anticipated (and quite ambitious) targets²⁴. The airlines have been faced with substantial rises in fuel a cost, which have in some cases been shared but inevitably has affected the margins in the industry. Both countries also face some uncertainty with the rising costs of labour. And while the Ethiopian climate is highly favourable, the *keremt* or *meher* rains, with their long duration and intensity (generally June to September), add challenges to the provision of an uninterrupted year-round market. During this period the industry attempts to reduce crop density, augment the use of plastic protection, and treat the rising incidence of mildew and botrytis.

Both supplier countries cherish their trading links with Norway, as part of a strategy to diversify markets and limit risk. For both countries, the major risks to sustained volumes and margins are the fuel prices, the rising costs of labour and regulation of the labour markets, and the high costs of meeting SPS requirements. In the case of Kenya, the absence of an approved EPA also presents a risk. However, while the Norwegian market has a high based on the flower consumption per capita of human population, it is still a small market. It would possibly be attractive to both trading partners to relinquish the “middle men” in the Netherlands, and reduce costs through direct export to Norway, but given the small size of the markets this is unlikely to be viable for most traders.

²⁴ <http://ethiopianflowerexport.com/ethiopia-flower-horticulture-exports-miss-target/>

The comparative advantage of a Norwegian market?

How do Norwegian markets fit into this picture? Currently the Netherlands dominates the market for Kenyan and Ethiopian flowers. And indeed while the growth of the flower industry has been predominantly in private hands, the Dutch government has supported several initiatives in the horticulture sector, particularly those which promote small-scale producer (and indeed other small scale actors in the value chain). Even those flowers which are destined for the Norwegian market pass through the Netherlands, the majority through the auctions, while the others pass through designated agents in the Netherlands. From the Kenyan and Ethiopian sides there is a call for greater independence from the Dutch auctions, and more direct market access to alternative market destinations. This has already been seen for Kenya in the case of Japan and Russia, for example, and the Norwegian market offers similar potential opportunities; it is currently viewed as niche because of the low volume, but considered a target because of the high prices.

Norway is one of the markets for which broader development goals almost certainly play an important role, and for example Norway views the Fair-trade label as attractive, given the independent returns it offers to the employees of flower growing organisations. The FLP accreditation under the scheme provides attractive, unique and independent financial returns that have the potential to benefit societies associated with the floriculture enterprises.

While the floriculture industry is growing and is responding to the environmental, water use and social concerns raised by consumers and lobbies in the West, it is inevitably struggling to keep up with the dynamics of the complex pressures on the industry in an environment of weak institutions and infrastructures. How can enhanced trade with Norway assist to redress these challenges?

One opportunity is perhaps a response to the call in both Kenya and Ethiopia for more direct trading links with Norway. Could such more direct trading enterprises sustain the volumes and qualities required? There are undoubtedly producers in Kenya who could meet these (such as the example of Sian Roses presented), and through the higher prices offered by Norway, such trading partnerships offer the potential for broadening and strengthening the social aspects of producer enterprises, both direct and through Fair-trade channels.

Has the floriculture trade succeeded, and if so, why?

The floriculture trade in both Kenya and Ethiopia has provided an important new agricultural enterprise which has filled a global niche fuelled by the affluence of western development. Moreover, in export-

ing countries it has increased foreign currency earnings, boosted employment, provided additional social development and enterprise capacity functions which have all contributed to the broader good. This has been at a cost; the industry is highly dependent on water and energy, and on a workforce which is itself heavily dependent on social and environmental services. In both countries, particularly in Kenya, these challenges have given rise to the emergence (and increasing importance) of independent organisations to coordinate the development of sound codes of practice, which respond both to the sophisticated (and sometimes obscure) demands of the importing western countries, and to the growing demands of the civil societies and governments in the exporting countries.

Why has this success happened? The three key drivers of this success are considered to be:

1. the demand for cut flowers fuelled by the growing affluence of the West in particular;
2. the highly favourable physical and climatic conditions provided by the highland equatorial environments of eastern Africa (and the Andean region of South America);
3. the rapid recognition of, and response to, the Western demands of quality, safety and sustainability of market commodities entwined with the social, developmental and environmental demands of developing country exporters.

The food production versus agricultural diversification conundrum

Because of the developmental and societal gap implicit in the third driver listed above, there remains a polarisation of views on the merits of this relationship in certain sectors of both trading partners. On the one hand there is an extreme view which says “food deficit countries in the developing world should use their land resources to grow food to feed their people, not use it to grow flowers for export”. While efforts are clearly being made in both countries to improve and develop levels and efficiencies in the production, processing and marketing of food crops, this generic argument misses some key issues of scale. Flower farms are few in number (some 85 exporting farms in Ethiopia and 150 or so in Kenya) and small in size (3 – 350 hectares). In theory they do occupy land which could be used for grain crops, but the volumes of grain that could be produced from these areas is insignificant when compared to the food deficit gap to be filled (particularly in the case of Ethiopia). Furthermore, the labour requirement for cropping on such areas of land is small, dwarfed by the huge labour force engaged in the flower industry.

But there are many further reasons why the comparison between the two as mutually exclusive opportunities is odious. Diversification in agriculture offers multiple benefits to economic development, foreign exchange earnings and societal development. In addition, the floriculture industry has opened new opportunities in entrepreneurship which arguably serves as a model to other sectors of agribusiness, and to public private partnerships.

And beyond these reasoned arguments, the view that developing countries should stick to traditional agricultural practices for food crops and not diversify into a wider range of agricultural, employment and land-use approaches smacks of rather distasteful and paternalistic western dominance. This infers a feeling that developing countries should stay within their comfort zone and not seek innovative ways of broadening the agricultural trade base. While it is likely that this view is extreme, the condemnation of land use for flowers in countries with food deficits plays regularly in the international media.

The complexity of land use and foreign investors in Ethiopia

Developing this conundrum further, some western commentators²⁵ consider that the lease of land in Ethiopia to foreigners increases the vulnerability of the population to famines. Ethiopia has allocated a designated number of hectares for lease to investors to make use of the land for enterprises not undertaken by those living there at present. But it goes without saying that despite these being “unoccupied” lands which are not favourable for many agricultural crops, there are indeed people (often pastoralists) living there. This is seen by some as a double whammy: taking the land from others, and using it export products to other countries (such as rice to India and China). However, there is another side to the story, of course. Despite what is written, these lands have indeed been neglected in terms of agricultural development, and are generally unfavourable for teff, wheat²⁶, etc.

Much of this is considered by some to be the development of pragmatic land use options which promote employment, despite the fact that emerging commodities are destined largely (although not entirely) for export. However, because of the lack of a political opposition in Ethiopia, they are interpreted by others to be dictatorial ventures which are not in the best interests of the Ethiopian people. Both sides argue their cases convincingly.

²⁵ https://www.conftool.com/gc2011/index.php/Brunswijck-234.pdf?page=downloadPaper&filename=Brunswijck-234.pdf&form_id=234&form_version=final&CTSID_GC2010=xcHFVVfopV5BQADrmcyAlUiFn68

²⁶ The author was part of a mission to evaluate land on offer by the government for wheat farming in the Wabe Shabelle Valley between southern Arsi and Bale. The largely empty tracts of land were in an ecological zone entirely unsuitable for wheat production.

Conclusions

The flower trade from Kenya and Ethiopia has brought direct financial benefits to both countries which contribute to agricultural GDP. Moreover it has brought substantial indirect benefits in the form of employment, organisational and institutional capacity gains, and it has acted as a role model for national enterprise development led by the private sector. Providing trading advantages in the market of flowers to Norway offers an effective high profile modality to strengthen the social and environmental responsibility aspects of this labour intensive and water thirsty industry. Due in part to the quality pressures from the West, and to the demanding and ever changing safety and environmental standards needed, the industry presents a unique opportunity to be a leader in social change in these exporting countries.

Appendix 1. List of people interviewed

Jane Ngige, CEO, Kenya Flower Council, Kenya

Mark Low, General Manager, Interplant Roses, Kenya

Jos van der Venne, Managing Director, Sian Roses, Kenya

Isabel Spindler, Redlands Roses, Kenya

Raphael Nzomo, CEO, Afrika Aviation

Rod Evans, private consultant (formerly Director, Homegrown)

Tim Hobbs, Managing Director, Tambuzi, Kenya

Millie Seagon, The Flower Hub, Kenya

Paul Walker, The Flower Hub

John Graham, author, Ethiopia

Haile Selassie Tekie, Director General, Ethiopian Horticulture Development Agency, Ethiopia

Tsegaye Abebe, Chairman, Ethiopian Horticulture Producer Exporters Association

Ashenafi Bekele, Animal and Plant Health Directorate, Ethiopia

Tsehay Azage, Animal and Plant Health Directorate, Ethiopia

Belachew Hurissa, independent consultant, Ethiopia