EXIM BANK: RESEARCH BRIEF

Floriculture – A Sector Study

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Introduction

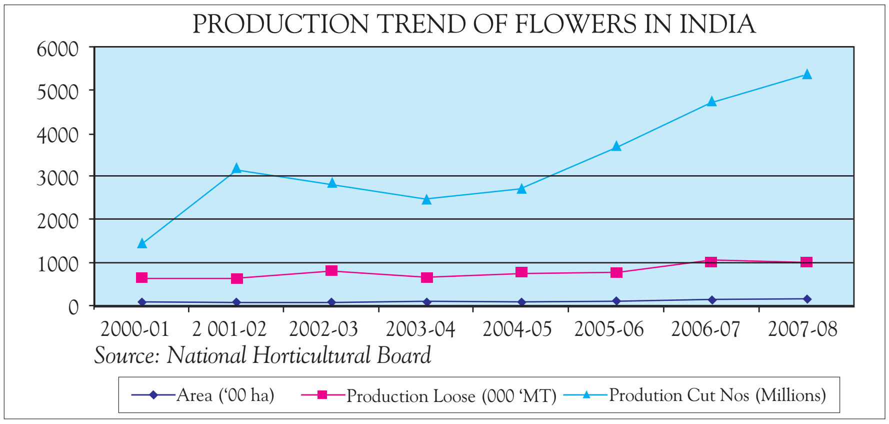
Post globalization, floriculture has become one of the important commercial activities in Indian agriculture. Indian floriculture industry comprises the florist trade, nursery plants, bulb and seed production, apart from production of micro-propagation material, and extraction of essential oils from flowers.

Production

Karnataka, Tamil Nadu, Andhra Pradesh, West Bengal, Maharashtra, Uttarakhand, Uttar Pradesh, Delhi, Haryana, Kerala, Himachal Pradesh and North Eastern states are the major flower growing states in India. Tamil Nadu is the largest loose flower producing state, while West Bengal is the leading cut flower producing state in India.

Rose is the principal cut flower grown all over the country. Other most important cut flower crops in the country are Gladiolus, Tuberose, Asters, Gerbera, Carnation, Anthurium, Lilium, and Orchid.

While exports remain the prime motivator for Indian flower cultivators, the demand in the domestic market is also on the rise. Marketing of cut flowers in India is much unorganised at present. In the metros, however, in the recent years, some modern florist show rooms have come up, where flowers are kept in controlled temperature conditions, with considerable attention to value added services. To facilitate flower trade, two auction centres have also been established one at Bangalore and the other at Mumbai. A number of Export Oriented Units (EOUs) have been set up in the country; most of them are largely dependent on foreign collaborations for technological support. In the recent years, a number of large Corporate Houses such as ESSAR group, TATA group, Reliance, ITC, and Bharti have also invested in the flower sector.



Source: National Horticultural Board

Protected cultivation is not a common practice in India, the greenhouse designs and structures for the modern floriculture units are mostly imported from countries like Holland, Israel, France, and the USA. In India, there are three types of greenhouse production technologies, viz., low-tech units, mid-tech units and hi-tech units, with the investment costs varying significantly among the three groups.

Exports from India

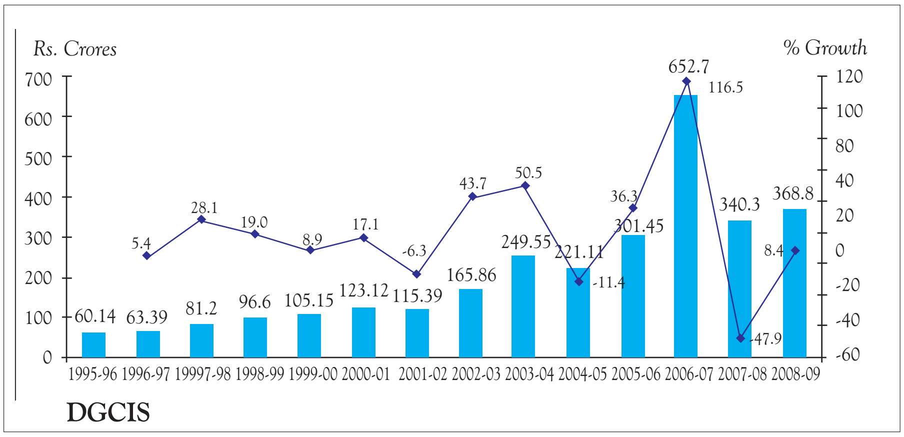
India's exports of floricultural products in the year 2007-08 decreased by 41 percent to US$ 84.5 million (Rs. 340 crores), from US$ 144 million (Rs. 653 crores) in 2006-07, which further decreased by 5.18 percent in the year 2008-09 to US$ 80.19 million. However, in 2008-09, in Rupee terms, export of floriculture from India increased marginally. In the recent years, dried flowers and foliage have been forming a large part of floricultural product exports from India. During 2008-09, dried flowers constituted over 60 percent of cut flowers exports, and dried foliage constituted over 95 percent of total foliage exports from India.

Europe continues to be the largest destination for Indian floriculture exports. However, in the recent years Indian exports of floriculture products have also been to the Japanese and Australian markets.

Government Incentives / Initiatives

Government of India acknowledges the potential of the floriculture industry and has conferred 100 percent export oriented industry status. Various

FLORICULTURE EXPORTS FROM INDIA



incentives are being offered by the Government of India, which have enabled the setting up of a number of floriculture units for producing and exporting flowers. Most of these are located near Mumbai, Bangalore and Delhi. These units have obtained technical know-how from Dutch and Israeli consultants.

Tax benefits are offered to new export oriented floriculture companies in the form of income-tax holidays and exemption from certain import duties. Duties have been reduced for import of flower seeds and tissue-cultured plants. Financial support is provided for setting up of pre-cooling and cold storage units, as well as for using improved packaging material.

Government of India, promotes, assists and facilitates the setting up of Agri Export Zones (AEZ) in association with State Governments with the objective of providing remunerative returns to farming community in a sustained manner and to increase their competitiveness. There are at present six operational Agri Export Zones for floriculture development in India.

World Consumption and Trade

There are over 50 countries that are active in floriculture production on a large scale. In terms of production value, the Netherlands, the United States, Japan, Italy, Germany and Canada are the largest producers of cut flowers and plants. Europe, USA and Japan are the major consumers of floriculture products. Germany is the largest consumer, followed by the UK, France and Italy.

Global exports of floriculture products stood at US$ 17 billion in the year 2007. Fresh cut flowers and foliage accounted for around 49.1 percent (US$ 8.31 billion), and live plants, bulbs and cuttings accounted for 50.9 percent (US$ 8.60 billion) of total floriculture products exported in 2007. With an estimated annual average growth rate of over 10 percent, world exports are expected to reach US$ 25 billion by 2012.

Germany (US$ 2.59 billion) was the largest importer, followed by the United Kingdom (US$ 1.89 billion), USA (US$ 1.81 billion), the Netherlands (US$ 1.55 billion), and France (US$ 1.43 billion).

Flower Trade and Trade Channels

The international flower trade is governed by several codes of conduct, besides the phytosanitary obligations of the importing countries. These include, the Dutch milieu programma sierteelt (MPS) programme addressing the environmental quality issues, Flower Labelling Programme (FLP), Fair Flowers Fair Plants label (FFP), and International Union for the Protection of New Varieties of Plants (UPOV).

The trade channel for flowers mainly comprise of auctions and wholesale. Auctions have been the most important trade channel for imported flowers. However, in the recent years, trade through wholesale or direct sale channel has been on the rise

Outlook and Prospects

Global economic crisis has significantly affected the floriculture industry worldwide, with demand for floricultural products considerably declining in all the major consuming countries, such as Europe, USA and Japan, consequently, affecting export levels, profit margins, and employment in the flower sector, particularly in the developing countries. The decline in demand applies to all flower and product varieties. Decline in pricing has been observed across the product segments. Decrease in turnover is a major concern for most of the floriculture companies in the major markets, which is leading to estimated 30-50 percent drop in margins. Other factors affecting the growth of the industry are higher freight and input costs due to higher fuel and energy costs.

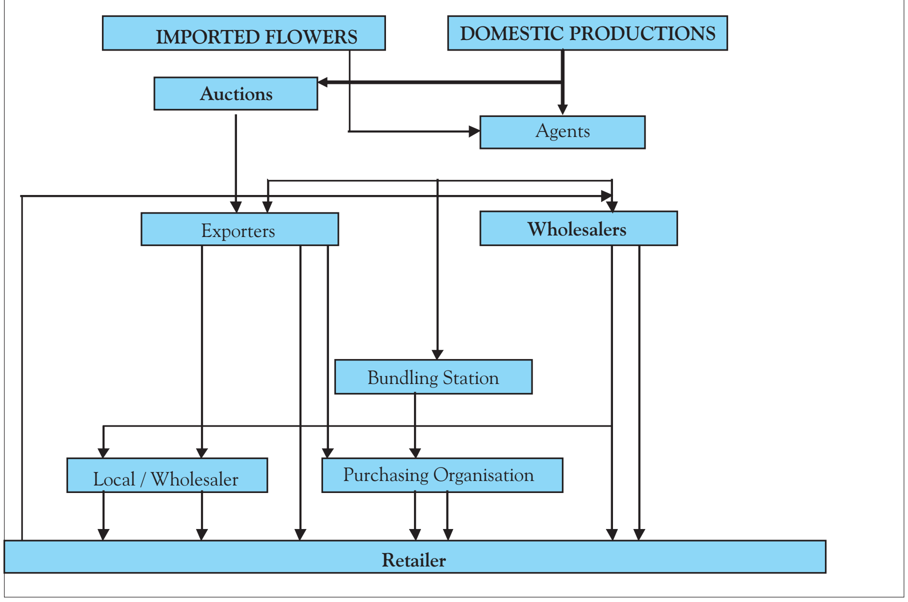
Majority of the players see little room for improvement in the industry in the next couple of years, and expect the situation to improve later. Nevertheless, according to the industry experts current situation may lead to a sector-wide transformation, and consolidation.

Albeit the current demand slowdown, improving product availability, quality and marketing standards would increase expansion opportunities in the mature markets, and growing consumer base with higher income is expected to add to the demand in the new markets. Further, with the emergence of newer marketing concepts, such as online sales and specialized florist outlets, floriculture trade in the coming years, is expected to see newer dimensions.

India – Outlook

Indian floriculture industry is also affected by the global economic slowdown. Further, the competition in the international arena has been increasing with the entry of new African countries in global floriculture trade.

THE FLOWER CHAIN



Besides the African countries, a number of Asian neighbours are also emerging as competitors in the export markets such as China, Nepal, Sri Lanka and Pakistan. With international trade in the sector showing not so favourable scenario, the domestic market for flowers is on the rise with flower consumption in the cities and major towns reportedly growing at 40 percent per annum.

The potential for expansion of commercial floriculture in India, including production for domestic and export sales of cut flowers and plants is unlimited provided the country expands the production of existing products as well as the product range.

India's export markets have also been diversifying from traditional markets, such as EU and USA, to new markets in the East Asia, such as Japan, and Australia. However, more concerted efforts are required for the Indian floriculture industry to make a significant mark in the new and emerging markets, such as those in the East European region, and in the Asian region.

Some of the areas in which market opportunities exist for the Indian floriculture industry are: hi-tech cultivation and product diversification (to competitively grow Orchids, Anthurium, Gladiolus, Tuberose, and Foliage varieties, as the demand for tropical flowers and plants is increasing worldwide); tapping the landscaping opportunities (with growing real estate market worldwide, nursery industry is also opening up for supplying trees, greens and ornamental plants); floral arts-floral designing (which is increasingly getting popular in the events such as weddings and festivities); and catering to the growing demand for custom made products, dry flowers and foliage, flower seed production, flower extracts and essential oil, and natural dye.

Challenges

In spite of the export potential, the performance of the Indian floriculture sector has not been encouraging. The floriculture exports dropped marginally in value terms, from US$ 84.57 million in 2007-08 to US$ 80 million in 2008-09. Reasons cited for this shortfall mainly related to trade environment, infrastructure and marketing issues such as high import tariff vis-a-vis African countries. The availability of dedicated perishable carriers is also low in India and the freight rates are high. The high freight cost puts the industry at a cost disadvantage position. Largely due to inadequate support infrastructure in distant production areas, much of the production potential is not optimally utilized, and the small unit size of the flower farms in India acts as a constraint in achieving economies of scale. Further, inadequate cold chain management is not only affecting the future of floriculture trade in the country, but also having a negative impact on the present produce and on its marketability.

The industry is also faced by several challenges at the production level mostly related to availability of basic inputs, including seeds and planting materials, quality irrigation and skilled manpower. Ageing plantations are further adding to the woes of the flower producers in the country.

At the marketing stage, major challenges faced by the Indian flower exporters are related to low level of product diversification and differentiation, vertical integration and innovation, and challenges associated with quality and environmental issues. With increasing involvement of supermarkets in flower trade, organizing logistics is also becoming a critical factor for the Indian flower exporters.

Strategies

Several positive steps are being undertaken by India to develop the floriculture sector as a viable export sector. However, more strategies need to be adopted to consolidate the strengths of India in this sector and create efficient backward and forward linkages. The first and foremost requirement is to develop a state-of-the art Integrated Cold Chain, for flowers right from the point-of-origin (growers) to the point-of-consumption (customers). The freight cost disadvantage can partially be overcome by achieving economies of scale. To minimize the time taken and damages caused during handling, emphasis should be given on improvement of cargo handling facilities and making internal container depots suitable for floricultural products. Besides creating additional cargo space specific to floriculture, efforts may be taken to increase the frequency of international flights and chartered flights handling floriculture cargo.

Government of India may consider making additional efforts towards encouraging private sector for co-investments in the supply-chain infrastructure. To address the import duty disadvantage faced by India in the international markets, such as Europe, the Government may enhance its efforts in negotiating preferential tariff regimes with such countries. For efficient implementation of developmental initiatives, attempts may be made in creating National Export Promotion Council for development of modern floriculture.

Shifting to Integrated Supply Chain Model, integrating small and medium scale growers into large-scale producer supply chains may help in attaining economies of scale in the industry. Periodic re-plantation with appropriate re-plantation support from Government is necessary in order to meet the changing demand in global market for variety and quality.

Developing the non-traditional production areas such as South Gujarat, South Maharashtra, North Karnataka, hilly areas of Tamil Nadu and Karnataka, Uttarakhand, Himachal Pradesh, Jammu and Kashmir, and North Eastern States, which are well endowed to grow flowers and ornamental plants, may help in meeting the growing needs of both domestic and international market.

In order to ensure regular supply of quality inputs such as planting material, efforts may be made to develop and propagate varieties indigenously. To help protect breeder's rights, India may consider becoming a member of the UPOV with adequate safeguard mechanism for the Indian growers. Besides, indigenous technology for modern floriculture may be developed to suit the Indian growing conditions. To address the shortage of trained manpower on modern commercial floriculture, training centres and programmes for skill development in floriculture may be established.

Marketing initiatives should be suitably designed to meet the market requirements, and yet remain competitive. Attention may be required for achieving the flower labeling and certification requirements, besides, maintaining international quality standards throughout the production chain. Diversification of product mix is also essential considering the changing pattern of demand. Indian floriculture exporters should emphasize developing other diversified products and marketing them through dedicated outlets, thus, expanding the definition of floriculture from just fresh flowers to products and accessories manufactured from flowers.

Establishing a network of support systems with the involvement of Government, private sector and research institutions / universities will be another strategy for development of the floriculture sector.

Indian exporters should adopt customized marketing strategies while targeting various markets. There is need to intensify marketing efforts for direct sales in emerging markets, and expand markets outside the traditional markets. Promoting strong brand recognition for Indian cut flowers and flower accessories through designated outlets at the foreign markets, and advance product positioning in these markets would help Indian flower exporters to compete in international markets effectively

A "consortium" approach may be encouraged among the units for branding, grading, packaging, transporting, quality control, supply assurance, market development, market promotion, and research and development.

Opportunities for India

The market for floriculture products consists of a range of product groups, which offer diverse opportunities for countries like India, as potential suppliers. The opportunities are optimal for India in supplying products such as summer flowers, Orchids and tropical foliages, particularly, during the periods when these products are scarce in the western markets. There are also opportunities for increasing production of value-added products such as dry flowers, seeds, potted plants, and micropropagants. Opportunities also lie in exploring and developing new markets and expanding in the existing markets.

The strengths of Indian floriculture include the favourable geographical situation, soil and environment, labour costs and the recent investment culture of Indian corporate players. With corporate players getting in on the business, and smaller players consolidating their efforts, India's floriculture sector could expect to blossom over the coming years.

Note: Indian Rupee are referred in crore and lakhs:
1 crore : 10 million
1 lakh : 100 thousand

Publication is available with:
Dharmendra Sachan
Chief Knowledge Officer

EXPORT-IMPORT BANK OF INDIA
Centre One Building, Floor 21,
World Trade Centre Complex,
Cuffe Parade, Mumbai - 400 005, India.
Phone : +91 22 2218 0379
Fax : +91 22 2218 3070
E-mail : dharmendra@eximbankindia.in
Website : www.eximbankindia.in

Contact Numbers : Ahmedabad : 2657 6852, Bangalore : 2558 5755, Chennai : 2522 4714, Guwahati : 246 2951, Hyderabad : 2330 7816 , Kolkata : 2283 3419, Mumbai : 2282 3320, New Delhi : 2332 6625, Pune : 2645 8599
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