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A Mixed Bouquet of Developments in Floriculture

World Floriculture Map 2021

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Introduction

Rabobank's 2021 World Floriculture Map, published in cooperation with Royal FloraHolland, highlights some key global trends in the highly diverse floriculture sector.

Steady Growth in International Flower Trade

Global ornamental plant exports have grown steadily over the past five years, at a compound annual growth rate (CAGR) of 3.9%. All subcategories (cut flowers, potted plants, bedding/balcony plants, bulbs, perennials, shrubs, and trees) experienced growth, although the growth rates vary per category. The CAGR of several major geographic markets varies along with economic situation, population growth, and age structure. The Covid-19 pandemic caused major disruptions in logistics and has been affecting consumer behavior since early 2020.

Rabobank's 2021 World Floriculture Map shows a fairly stable pattern for the main suppliers of the international cut flower and houseplants markets.

Different Suppliers for Different Markets

Suppliers from four equator countries (Colombia, Ecuador, Kenya, Ethiopia) caused a major shift in the international trade of cut flowers and cut foliage, and living plants five years ago. Since then, international trade has not changed much. The composition of global floriculture export flows consists of the same countries as in 2015. Companies in Colombia and Ecuador continue to supply the North American market. Kenyan and Ethiopian producers maintained their focus on the European markets. The Netherlands is still the largest hub of the global floricultural trade, delivering all kinds of ornamental plants to predominantly the European market. Dutch flower bulbs, on the other hand, are still exported all over the world.

- Flower bulbs (HS0601) are mainly sourced from the Netherlands.
- International exports of cut flowers (HS0603) are dominated by (i) the Netherlands, (ii) Colombia/Ecuador, and (iii) Kenya/Ethiopia.
- Cut foliage (HS0604) products – which include grasses, ferns, and leaves used as “fillers” in mixed bouquets, but also Christmas trees – have a supporting role in the international ornamental trade.
- Living plants (HS0602) – a broad category, including plant propagation materials, houseplants, balcony and bedding plants, perennials and shrubs, and trees – are traded predominantly within continents. However, niche products or propagation materials are traded globally.

Developments in the Five Largest Cut Flowers Markets

US

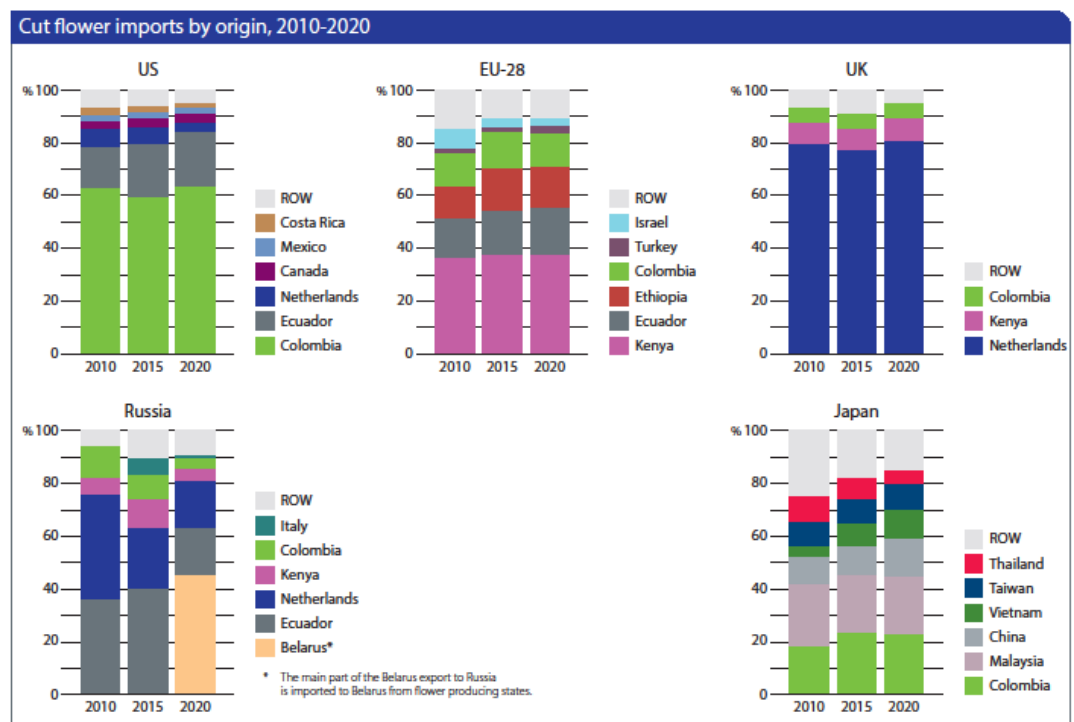
Colombia is by far the main supplier of cut flowers to the US, with an import value of almost USD 1bn. The country's import share has not changed in the last decade and is about 60%. Some of the leading Colombian companies are owned by US wholesalers. Obviously these producers have close ties with big-box retailers and florist suppliers in North America. Colombian growers ship their cut flowers by air or over sea. Since Colombia is located directly on the Atlantic and Pacific Oceans, Colombian producers can easily supply Florida and California by ocean freight. But, next to that, Bogota airport has regular flights to Miami, which is the main hub for flowers in the US.

Colombia has a relatively broad product range compared to Ecuador. In Ecuador, cut flower production is dominated by roses (~80%). Beside roses, Colombia also produces chrysanthemum, carnations and lilies.

EU-28

Kenya and Ethiopia are the main suppliers of cut flowers to the EU. Total cut flowers imports from non-EU countries to the EU (including UK) amount to USD 1.14bn. The graph shows data for the EU-28, to allow for comparisons between the pre-Brexit and post-Brexit data. The market share of supplying countries has not changed since 2016. Cut flower exports from Kenya and Ethiopia to the EU dropped, especially from April to August 2020, as a result of the shortage of air cargo traffic. However, due to the high price level of cut flowers since June 2020, the total value of Kenyan and Ethiopian exports in 2020 was the same as in 2015.

Figure 1: Cut flower imports by origin, 2010-2020



Source: UN Comtrade, Rabobank 2021

UK

The Brexit, with the UK leaving the EU, was one of the major changes in international trade in the last five years. This could well prove to be a gamechanger for the ornamental plant value chain in the next couple of years. In 2020, the situation was still comparable to 2015 – the Netherlands supplied approximately 80% of the UK's total cut flower imports, amounting to about USD 830m. The UK government is now looking for trade agreements outside the EU, for instance with members of the British Commonwealth, such as Kenya. This could change the share of cut flower imports into the UK over the next decade. Kenyan suppliers should expand their product line of cut flowers to benefit from this opportunity. The current supply is still dominated by roses. It would be a competitive advantage if Kenya could offer a broader range of cut flowers.

A large share of cut flowers is sold as mixed bouquets. Suppliers wanting to sell cut flowers to big-box retailers in the UK have to provide mixed bouquets. If non-Dutch suppliers are able to meet these requirements, Dutch import share might be under pressure.

Russia

Of the five largest cut flowers import markets, Russia is the most volatile. Imports dropped from USD 493m in 2015 to USD 271m in 2020. The relationship between the EU and Russia has been unstable over the past five years. The EU introduced thresholds in the day-to-day supply to the Russian market, resulting in a decline in the market share of Dutch cut flower imports. South American and African providers use airfreight shipping, and therefore it is important that they have landing rights in Russia. Sometimes these suppliers choose to ship the cut flowers by air cargo to Belarus, after which they are re-exported to Russia. The significant increase in exports from Belarus to Russia is a result of these developments. The rather volatile EUR/RUB and USD/RUB exchange rates also play a pivotal role in the competitiveness of the main suppliers.

Japan

Japan is Asia's largest cut flowers importer. Most of its imports are supplied by Southeast-Asian countries like Malaysia, China, Vietnam, Taiwan and Thailand. Each of these countries supplies a specific kind of flower. Malaysia, Taiwan and Thailand export orchids to Japan, China supplies lilies and Vietnam supplies mainly chrysanthemum. The total annual volume of imports (USD 324m) has not changed since 2015.

Shift to Online Retail Continues

Regular market research in four European countries (the UK, the Netherlands, France, and Germany) shows the continued growth of online retail channels. The UK is a frontrunner in this area. Both online sales of potted plants and of cut flowers are showing steady growth at the expense of street markets and florists. This growth is positively affected by the pandemic and by the increase in online suppliers. Prior to 2020, online sales were already experiencing steady growth, but, since then, e-commerce has gained momentum. Increasingly, European customers are becoming accustomed to buying cut flowers and plants online and we expect further growth in online sales in the coming years.

Street stalls and kiosks are struggling to maintain their share of wallet in all categories. Garden centers show a different development. In general, they have lost market share for indoor plants. On the other hand, they have gained market share for outdoor plants. We should be aware that the government response to Covid-19 has differed in all eight countries. During the coronavirus pandemic, garden centers have emerged as an alternative to street stalls and kiosks in most countries. We therefore do not exclude the possibility that this has contributed to the increase in outdoor plant sales.

Online sales in Belgium, Denmark, Sweden, and Switzerland did not develop as strongly as in the other countries, which could be due to local pandemic lockdown measures.

Figure 2: Retail shares of cut flowers and indoor and outdoor potted plant sales, 2021

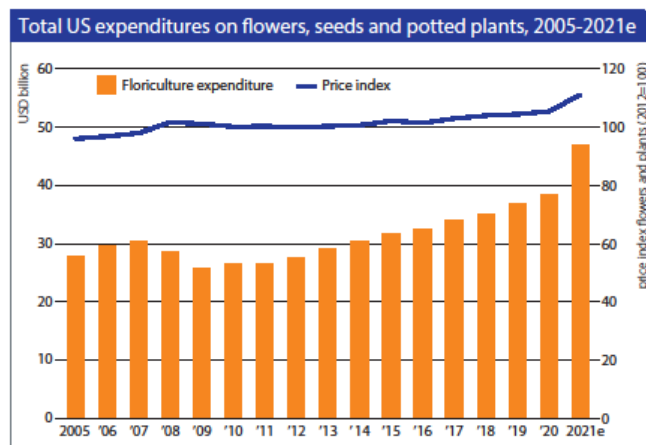


Source: Royal FloraHolland, Rabobank 2021

US Sales Skyrocketed Due to Covid-19

US floriculture expenditures rose sharply during the pandemic. Total consumption of flowers, potted plants, and seeds increased 23% from 2020, to an estimated all-time high of USD 47bn in 2021. This growth was driven by a combination of volume growth (~17%) and price increases (~5%).

Figure 3: Total US expenditures on flowers, seeds and potted plants, 2005-2021e



Source: US Bureau of Economic Analysis, Rabobank 2021

Floriculture expenditures in the US during the financial crisis (2008-2014), dropped to approximately USD 26bn (USD 31bn in 2007). Since 2015, we have seen steady growth. The CAGR during 2015-2020 was 4%. The CAGR during 2016-2021 increased to 7,5%, reflecting the explosive growth in 2021. Considering only volume growth, the CAGRs would be 3,1% and 5,7%, respectively. According to recent research (Consumer Houseplant Purchasing Study 2021), purchases of (indoor) plants in particular showed double-digit growth over the past five years.

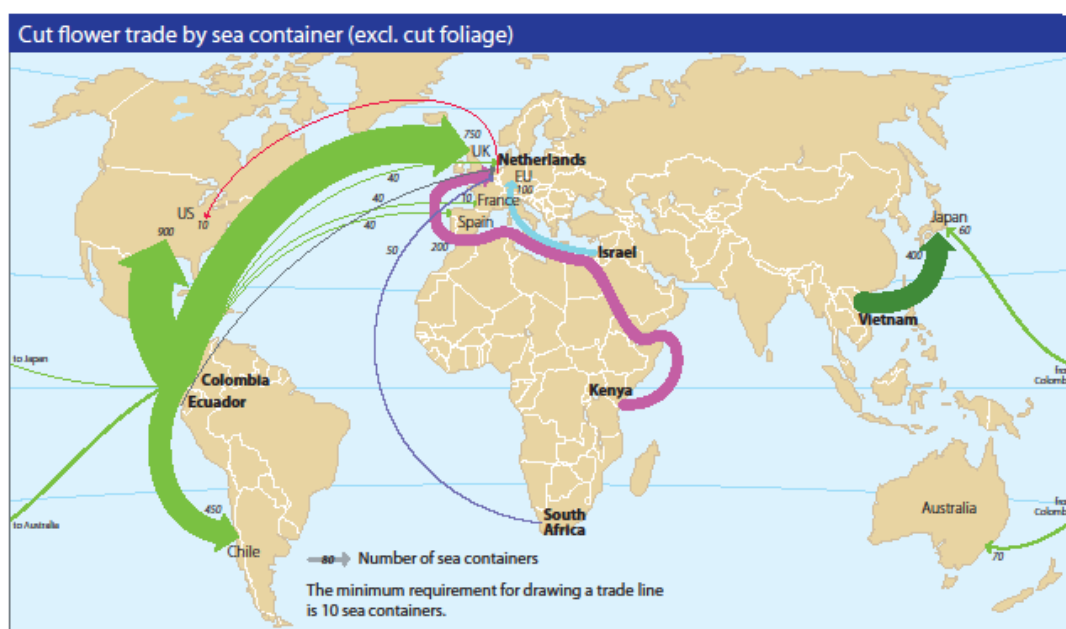
There are plenty of opportunities to expand the US market if (online) retailers can encourage the purchase of flowers and plants for personal use.

Sea Freight Is an Alternative

Due to their perishable nature, transporting cut flowers from growers to retail outlets must be done with utmost care and taking into account the speed of delivery. For exporters close to the equator, passenger flights are the preferred means of shipping flowers to North America, Europe, and Japan. An alternative way to transport cut flowers is to use specialized air cargo. Another alternative is the use of sea containers. The use of ocean freight shipping has increased over the last decade.

There are several reasons for this change. First, air transport costs have increased, and in a highly competitive market, reducing costs is important. Second, big-box retailers are more concerned with Scope 3 carbon dioxide emissions (emissions from the supply chain) and therefore want to know the carbon footprint of their products. Third, the Covid-19 pandemic caused massive disruption to international passenger flights, air cargo prices, and the availability of sea containers. All major logistics service providers had to improvise to get cut flowers from A to B in good condition within a limited time frame.

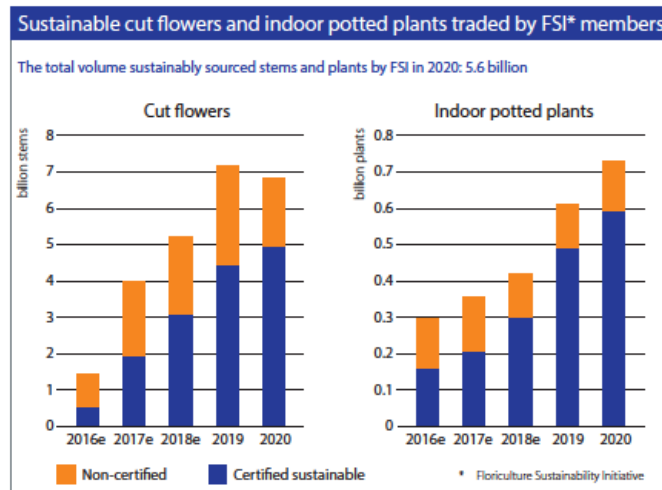
Figure 4: Cut flower trade by sea container (excl. cut foliage)



Source: Royal FloraHolland, Rabobank 2021

Global sea container transport of cut flowers showed an overall growth of 40% in the period 2015-2020. Sea freight of chrysanthemums from Colombia to Europe, and from Vietnam to Japan, was already common practice five years ago. The largest growth in sea transport over the past five years has been in the export of roses and other cut flowers from Colombia to Miami. The use of sea containers to transport roses from Kenya to Europe is still in its infancy, but logistics service providers and cut flower wholesalers are experimenting with the best way to transport these roses. The biggest challenge is to ensure the vase life of cut flowers.

Figure 5: Sustainable cut flowers and indoor potted plants traded by FSI* members



Note: Floriculture Sustainability Initiative

Source: FSI, Rabobank 2021

Sustainable Sourcing

Market outlets are increasingly focusing on sustainable sourcing. Non-governmental organizations are closely monitoring good agricultural practices, working conditions and environmental issues in the floriculture sector. The industry has responded by establishing the Floriculture Sustainability Initiative (FSI). Almost 70 globally-active big-box retailers, online sale companies, flower wholesalers and producer organizations are members of the FSI. Their ambition was to

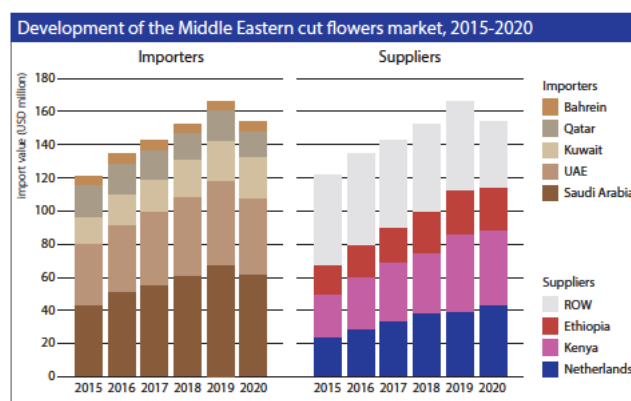
produce and trade at least 90% of flowers and plants responsibly by 2020. By the end of 2020, this amounted to 73% for cut flower stems and 81% for indoor potted plants.

Increasing this percentage of sustainable flower trade to 90% remains an important goal for the coming years. In addition, the FSI is broadening its ambition for 2025 to reach a higher standard of overall responsible behavior and the introduction and improvement of integrated reporting on sustainability (lifecycle analysis, carbon footprint, living wage et cetera).

New Markets in Floriculture

Every industry is looking to break into new markets and is seeking new opportunities. For the past five years, the industry has focused on selling cut flowers to countries on the southwestern borders of the Persian Gulf. Exports showed steady growth from 2015 to 2019, but logistical disruptions caused a decline in 2020. Nevertheless, the overall market outlook for this region is positive, thanks to the good economic prospects of the Gulf states and the current willingness of consumers and businesses to purchase cut flowers.

Figure 6: Development of the Middle Eastern cut flowers market, 2015-2020

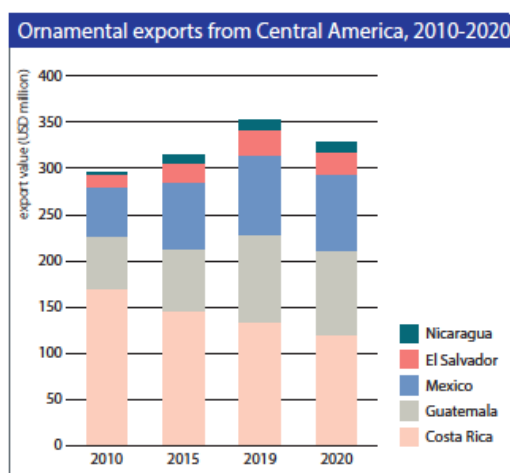


Source: UN Comtrade, Rabobank 2021

The three main suppliers (the Netherlands, Kenya, and Ethiopia) have managed to increase their market share in the Gulf states. Even in 2020, imports from these countries remained at the same level.

New Kids on the Block?

Figure 7: Ornamental exports from Central America, 2010-2020



Source: UN Comtrade, Rabobank 2021

Some Central American countries supply propagation materials, such as young plants, cuttings, and seedlings to North American and European growers. These growers import these young plants for cultivation and to acclimate them to indoor conditions.

As shown in the graph, exports from five Central American countries grew through 2019, but dropped by 7% in 2020. We expect the level of exports from these countries to recover to 2019 levels from 2021 onwards, in line with the growth we saw prior to 2020. Demand for young tropical plants and cuttings (yucca, palms) remains strong in the main markets and growers on both continents (North America, Europe) are expected to continue to order part of their propagation materials from their Central American suppliers.

Final Remarks

From March 2020, government measures to control the Covid-19 pandemic have caused logistical disruptions worldwide. In an international market such as floriculture, this immediately affected local consumption, local production and international trade. Retailers of flowers and plants had to look for new ways to sell their products to consumers, which gave a boost to online sales. Flower wholesalers and logistics service providers had to look for new ways to organize the supply chain. Some growers had to drop production for a while because their purchasers could not guarantee sales or logistics service providers could not guarantee transport to end markets.

In 2021, most growers were able to speed up their production again and sales went up in both the US and in Europe.

The biggest question for the near future will be whether end consumers will buy as many flowers and plants as they did in 2021, once the pandemic restrictions are lifted and consumers can once again spend their money on traveling and vacations.

In fact, many customers in the US, Europe, the Middle East, Japan, and China appear to have embraced cut flowers as a way to show affection and gratitude to their loved ones during the pandemic. Sales of potted plants (for indoor and outdoor use) are expected to remain at higher levels, as (partially) working from home has now become the norm for white-collar workers. Nevertheless, the general economic situation and development of disposable income in the main markets will also play an important role in future floriculture expenditures.

Poster versions of the World Floriculture Map 2021 are exclusively available to Rabobank clients. To receive one, please contact your relationship manager or email lambert.van.horen@rabobank.com.

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