8. Ethiopia's floriculture industry

Summary

Today's flower business is a globalized industry which has experienced recent, high growth rates. The global consumption of cut flowers is estimated at over €30 billion per year with Europe and North America being the leading markets. Since the 1990s, the production focus has been moving from the markets in the northern hemisphere towards countries where climatic conditions are more favourable and production and labour costs are lower. As a result, the new centres of production are typically Global South countries such as Colombia, Ecuador, Kenya and Ethiopia.

Ethiopia's rapidly growing horticulture sector, including flowers, symbolizes the role of globalization and increasing levels of interdependence in the economic growth of the country. Trade rather than aid is seen as a more effective way to increase local prosperity and employment levels. 75% of Ethiopia's exports are coffee, teff (a hardy grain that can be cultivated under both drought-like and rainy conditions) and flowers. The Ethiopian floriculture industry has become the fourth largest flower exporter in the world and second largest in Africa in the last five years. Revenues from flower exports have grown from $27.9 million in 2002-03 to $178.3 million in 2010-11. In 2015 they stood at $250 million and the aim is to have increased this to $550 by 2020. Ethiopia has achieved in five years what it took Kenya 15.

There are now (2016) 120 flower companies in Ethiopia. 73 have invested through Foreign Direct Investment (FDI), 36 are local and 11 are joint ventures. As the name suggests, a foreign direct investment (FDI) is a company that has invested and controls a business enterprise in a country outside its home base. Many companies based in the Global North make use of FDI because of lower production costs in countries such as Ethiopia. There is a considerable body of theory that deals with FDI. In many ways it reflects the liberal ideas of Adam Smith who introduced the theory if comparative cost advantage. He argued that every country would have an advantage in the production of a commodity relative to other countries. In the case of Ethiopia it is flowers. FDI enhances this idea and brings it into line with more recent neo-liberal approaches.

Curriculum Links-A level

Global shifts
Social and political tensions
The impact of development
Globalisation
Local-global links
Sustainability
Successful regeneration strategies
Classifying economic activities

Key Words

Horticulture
Interdependence
Foreign Direct Investment (FDI)
Comparative advantage

Questions to consider

1. Is Ethiopia's flower industry sustainable?

2. In what ways do the Afriflora-Sher flower farms illustrate social responsibility principles in action?

3. Is there evidence of the 'trickle-down effect' – local communities benefitting directly or indirectly by the growth of the floriculture sector?

4. Imagine you are the Managing Director of Esmeralda Farms. What options are available to you regarding the future of your Ethiopian production unit?

Figure 1 A row of over 30 greenhouses near Ziway about two hours drive south of Addis Ababa. [August 2013] ©Dr Kevin Cook. The greenhouses produce roses for European markets.
Background information provided by Study Tour participant Lucy Scovell.

Introduction

In 1999 there were two privately owned horticulture farms and today (2016) there are well over 100 floriculturists alone. Most are located within a 100 km radius of Addis Ababa in the Oromia region and are around 2000m above sea level. The most fertile and most irrigable land in the country is found here. About one third of farms are fully owned by Ethiopian companies with the remainder being either fully foreign owned or joint ventures. The majority of foreign entrepreneurs who own or jointly own farms are Dutch, Indian or Israeli.

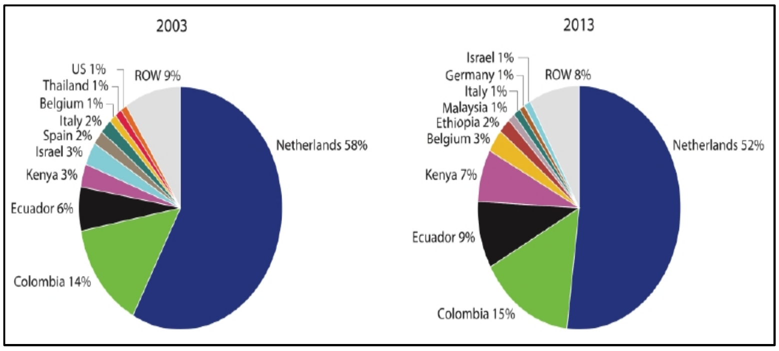

Figure 2. Cut flower exports by country 2003 and 2103.

Source: UN Comtrade 2014

Ethiopia is the second largest producer of flowers in Africa and the fourth in the world (8.4%) after the Netherlands (40.3%), Colombia (16.5%), Ecuador (10.4%) and Kenya (8.4%) and exports more than 80 million stems a month to 40 countries. Ninety percent go to the Netherlands from where they are auctioned and sent around the world. Ethiopia also exports to Germany, Britain, and Russia and, in smaller amounts, to the United States and the Middle East.

The EU is one of the largest floriculture markets accounting for more than half of world imports. The effects of Brexit on the industry are unknown.

Why does Ethiopia have a comparative advantage in the flower industry?

Two hundred and forty years ago, Adam Smith (1723-1790) published his work entitled 'The Wealth of Nations'. In it he outlined a theory that became known as the 'Law of Comparative Advantage'. He argued that in a liberal economic system each country should be encouraged and allowed to export that which it produced best. In Ethiopia's case that might well be flowers. In Ethiopia's case it can be argued that the following factors provide the advantage:

- High altitude growth gives the roses a sturdier, thicker skin and a longer shelf life of 30 days.
- The shorter flight time to Europe than competitors e.g. two hours less from Addis Ababa than Nairobi, is a key for certain plant species e.g. roses.
- The introduction of new non-stop air routes with larger planes e.g. Boeing 777 from Addis Ababa to Dulles, USA with 20 tonnes of cargo space allows 20,000 stems per week to be exported with the potential of 500 000 stems per week.
- The opening in February 2013 of a new 'perishable cargo terminal' in Addis Ababa. This terminal has been designed specifically for the airfreight export of flowers and includes expanded cold storage space. Bahir Dar airport also has cold storage capacity.
- The Ethiopian Government has provided a range of incentives, such as a five year tax holiday.
- Companies both in the Global North and South provide inward investment to benefit from these advantages.
- The Ethiopian Horticulture Producers and Exporters Association (EHPEA) provides a cohesive approach and advice in many aspects of the business e.g. marketing.
- Fair trade marks and labour compliance help to meet foreign investors' needs.
- The spread of technology and innovation within the industry will aid its spread within the country.

How to explain Ethiopia's meteoric expansion of its horticulture industry

In recent years, several developing countries in sub-Saharan Africa, such as Ethiopia, Kenya, Zambia and Uganda, have experienced rapid growth in the export of highly perishable horticultural products to countries in the Global North. Flowers are luxury products with a high value in most societies and global demand reached US$ 40 billion in 2008. The floriculture industry is an example of a successful diversification into non-traditional markets. The industry emerged in the late 1990s, and despite being a late-comer, Ethiopia has become the second largest flower exporter in Africa (after Kenya). In 2015 it equalled Kenya in terms of flower production and will almost certainly overtake them in the coming years.

It is primarily climatic conditions that have made Ethiopia and the other top producer nations (except for the Netherlands) favourable cultivation locations for horticultural products as they are all situated in the Tropics close to the equator, and have a diverse range of altitudes. Additionally, the Ethiopian Government, the Ethiopian Horticulture Producers and Exporters Association (EHPEA), and international investment have all played key roles in Ethiopia's floriculture industry development. The EHPEA, which has included private sector entrepreneurs, has been instrumental in gaining government support for the sector. Their success can be gauged by the benefits available to horticulture producers. These have included five year tax holidays, duty free imports, access to bank loans and land and a 100% exemption on the payment of export customs duty. With advice from experienced growers in the Netherlands, it is hardly surprising that the industry has grown so rapidly.

Uncertain political conditions which include ethnic violence in neighboring countries such as Kenya have led investors and producers to look for alternative locations. With its excellent climate, encouraging economic incentives and cheap transportation costs, Ethiopia was an obvious choice, especially for the cultivation of roses. State-owned land was made available for flower farms at affordable prices, especially near the airport. This reduced transportation costs and facilitated market entry. It became obvious that Ethiopia has a comparative advantage in the production of roses, especially with the large amount of labour available. In addition, as the industry expanded, so the unit costs of production decreased.

International investment, knowledge transfers and technological innovations are having an impact on the domestic production. International investment is beneficial for the recipient country as it also promotes economic activity, therefore increasing employment. In the case of Ethiopia, the cut flower industry has experienced investment from a range of geographical and industrial backgrounds, from the Netherlands, United Kingdom and India, to more regional markets such as Nigeria, Sudan and Oman, thereby also encouraging South-South integration. Nevertheless, the biggest market for the Ethiopian rose remains the Netherlands, as around 90% of rose exports go to this country. Ethiopia has emerged as a strong global cut flower market competitor.

The tragedy of Esmeralda Farms

Esmeralda Farms is a good example of a globally operating company moving its sphere of operations to maximise its returns. It has a 265 ha flower producing area in Ecuador and is active throughout Latin America, in Peru, Colombia, Costa Rica, and Mexico. The move to Ethiopia in 2013 came about as a result of increasing production costs in Ecuador and the company originally intended to reduce is production activity in South America. Peter Ullrich, Esmeralda's founder began with a project testing summer flowers and gypsophila in 2014 encouraged by the Ethiopian government's incentives. The trials went well and by 2015, half of the company's European market requirements were being provided by the150 hectare farm at Bahir Dar, Ethiopia rather than sending them from Ecuador. The intention was to meet all of Europe's needs from Ethiopia. By the beginning of 2016, the company employed over 600 workers on their Bahir Dar farm and 14 more at the European head offices at Aalsmere in the Netherlands.

What happened at the Esmeralda Bahir Dar plant in August 2016 is an excellent example of how the local can impact on the global. Patterns of development can change very quickly if there is an outbreak of tensions at the local level. The local then begins to affect the global in disastrous ways. Tension between local people and the Ethiopian government had been building for some time and continued unrest and demonstrations against the government had become more and more brutal with strikes, road blocks causing serious issues for farms and businesses. On August 29th 2016, at least four farms in the Bahir Dar area were damaged, and a fifth nursery was attacked though the staff managed to defend it. The Esmeralda farm was burnt to the ground by anti-government protestors and $10 million worth of damage was caused. The company decided, as a result, to close its operations in Ethiopia with the loss of jobs in both Bahir Dar and Aaalsmere. It seems unlikely that it will return. It will meet its European market requirements from Ecuador where it has reopened a farm to produce gypsophila.

This quotation from the Managing Director of Esmeralda Farms summed up the situation at the beginning of December 2016.

> *'Everything is gone. Ten million of investments and a lot of time and effort have been burnt to the ground in one day. Luckily, only one person got wounded. I've been to Ethiopia to start it all up 24 times last year. It's now one of the quietest countries in Africa and it actually still is, but the opposition now struck us on a local level. We're in a relatively new agricultural area. It started with a Belgian neighbour that cultivates beans, then our Italian neighbour started with gypsophylia and then we were next. Conversations with the president now take place regarding how we could continue. You cannot get insurance against damage like this.'*

Economic impacts

The floriculture industry has had a huge impact on Ethiopia's economy and society; most significantly on job creation, which is said to amount to over 100,000 new jobs in the last five years. Local people are being trained in business and management skills and most donors are giving back to society in one way or another. For example, Et-Highlands Flora hires and trains orphans, thereby including them in the workforce. The industry has also had a major influence on gender perspectives, as more than 75% of workers are female. One argument holds that floriculture is comparable to childcare, as the presence of women is believed to facilitate the entire growth process. It also enables them to break barriers in commercial entrepreneurship as they are able to interact with business communities and traders.

Issues raised by the increased floriculture sector growth

As with all development paths, there are costs as well as benefits. In the case of the Ethiopian flower industry these include:

- Sudden local incidents such as the attacks on farms in the Bahir Dar area can seriously impact on production.
- The use of chemical pesticides and fertilizers increase soil salinity and decrease biodiversity.
- Contact with chemical fertilizers and pesticides may increase health risks to workers, particularly those involved in spraying flowers.
- The lack of development of workers' rights, including unions, during the sector's rapid expansion can lead to little development for workers.
- Members of the Oromo ethnic group have lost their land to floriculture farms without being given adequate compensation.

Afriflora – Sher farms. An example of social responsibility in action

Dutch flower growers were asked by the Ethiopian Government to set up a socially responsible flower farm in 2004, following the success of a similar project in Kenya. As well as the farm itself, schools, sports facilities and medical care would be developed with the backing of the Ethiopian Government. Ziway was chosen as a location due to the availability of a 450ha level plot with good quality water, fertile soil and a good climate for growing roses. The site is a two hour drive along an asphalt road from Addis Ababa. The potential for finding labour was high due to a local unemployment rate of 50%.

By 2006, the first greenhouses were in operation, typically in blocks of 100m x 900m (9ha), with a separate processing area set up along the front of the block. Roses are grown in the greenhouses. The processing area includes cold storage facilities, a packing area, offices, toilets and a canteen.

Each greenhouse block is assigned to a grower who pays back the start-up costs after a 10 year period and will then own the block. Whilst the first blocks were assigned to Dutch growers, subsequent blocks were transferred to local companies with staff of Ethiopian origin. The site provides employment for over 6000 people and the current expansion will lead to work for 15,000.The company has gained industry standard awards for their roses (MPS) and are compliant with fair trade standards.

Indian flower farms in Debre Behan – an example of South-South Foreign Direct Investment

It is not only companies from the Global North such as the Netherlands that are investing in Ethiopia's flower industry and several Indian companies have done so also. One Indian company, ASK Flowers and Greens Plc, based at Debre Berhan, exports 1.2 million flowers a year to European, Middle Eastern and African markets. Shahab Khan, who set up ASK Flowers and Greens Plc in 2007 at an investment of 20 million birr (US$1 million), said he was putting in another 10 million birr and was planning to enter the Russian market.

ASK was the first flower investment in the region. In 2012, another Indian, Sanjay Bengali, set up Esimo Flowers & Agro Industries Plc in the same area with an investment of 100 million birr (US$5 million). Esimo plans to harvest to 90,000 or 100,000 stems per month. Bengali has said that his company would be growing roses that are bred locally and are similar to Ecuadorian and Colombian breeds. Another Indian firm, Karuturi Global, is also engaged in the production of cut roses across Ethiopia and Kenya.

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