

Chapter Five

Analysis of Three Sub-Sectors

Hand-made Paper

The export potential is medium. The bulk of Nepalese paper and paper products are exported to the US, EU countries and Japan. Nepali entrepreneurs believe that Nepal has quite a good market share of the high-end market in the US and EU where Nepal which it is targeting with its unique and high quality products. Built on traditional skills, Nepali handmade paper- making has been thriving primarily due to an abundant supply of Lokta resources. Nepalese handmade paper is famous for its unique quality, strength, durability, and resistance to insects. A diverse range of paper products are produced for export. Indeed, the bulk of production is exported, either directly or via tourists. Production is small scale and scattered throughout the country. As a result, its competitiveness is below average. There is, however, a growing market demand for Nepalese handmade paper. The Argeli plant, a close family of Lokta plant, which grows in lower altitudes than Lokta, offers a promising alternative. World market prospects appear to be above average. From a broader perspective, which includes the diverse range of handmade paper products currently available, the international market for Nepalese Handmade paper is even larger. There is great potential to increase production by diversifying into the market for stationary and art items like envelopes, cards, artist paper, book bindings and household items like lampshades etc. The most attractive markets are EU countries, Jordan and India.

The current socio-economic impact in terms of employment is medium. The full-time employment estimates indicate more than 22,000 people in the sector. This sector has a high potential for job creation, and profit margins for all market actors from Lokta producers to Exporters are high.

Priority actions

- Introduce good environmental practices to save Lokta resources and conduct research for replacements
- Introduce standards for the sector
- Upgrade technology of Lokta paper making

SWOT Analysis for handmade paper

<p>Strength:</p> <p><i>Resources:</i> Lokta fiber unique - basically only available in Nepal Export oriented product with geographically diverse markets Product differentiation Almost all raw materials and skills are local</p> <p><i>Production:</i> Low capital investment required</p>	<p>Weakness:</p> <p><i>Production:</i> Crude technology of Lokta paper making resulting in low quality High cost of production due to long supply chain</p> <p><i>Business Environment:</i> Non-existence of standardization and poor quality products Lack of qualified technical and design expertise able to meet quality.</p>
<p>Opportunity:</p> <p><i>Product:</i> Great prospect for diversification of the raw material base</p> <p><i>World Markets:</i> Niche market opportunity due to unique qualities Unlimited market potential</p>	<p>Threat:</p> <p><i>Resources:</i> Dwindling resource base of Lokta in accessible areas may threaten the supply of raw materials</p> <p><i>Competition:</i> Competitively priced paper products from other countries Unhealthy competition resulting in lower quality and price war</p>

Current export performance

According to Hand Paper Association, the annual export market of handmade paper and products is currently worth about USD 4 million.

The Bulk of Nepalese paper and paper products are exported to the US, EU countries and Japan. In 2004/2005, the major markets were the US (23%), France (18%), Germany (13%), UK (8%), and Japan (5%). According to the Handicraft Association of Nepal's report, Nepal was among the top 5 suppliers to the EU market, with an average annual growth rate of 66%. However, exports declined by 20% between 2003-04 and 2004-05, primarily due to growing competition in international markets as well as the impact the insurgency had on the productive capacity of Nepali industry. Nepali entrepreneurs believe that Nepal has a respectable market share of the high-end market in the US and EU which Nepal is targeting with its unique and high quality products.

Domestic supply conditions

Built on traditional skills and culture, Nepali handmade paper- making has been thriving primarily due to abundant supply of Lokta.

Nepalese handmade paper is famous for its unique quality, strength and durability, as well as its resistance to insects. Nepalese handmade paper is presently made mostly from Lokta plant fiber or a combination of Lokta and Argeli plant fiber. These plant fibers are collected from some of the highest mountains in Nepal, a process which is unique to Nepalese handmade paper and may contribute to its mystic and popularity. The high altitude plant fiber makes the Nepalese Lokta paper very strong. Another unique feature of Nepalese Lokta paper is that the production process has not been mechanized. For example, unlike in many countries where the wet paper sheets are electricity dried, Nepalese handmade paper sheets are left to dry in the sun and wind naturally. By using traditional production techniques and continuing to produce high strength paper, from high altitude fiber, Nepal has successfully created its own niche market, which its main competitors, namely China, India, Philippines, Thailand, have not been able to enter.

Background information on Lokta Paper

There is a long tradition of handmade paper in Nepal. Earliest accounts, from the eighth century, record Nepali traders in Tibet manufacturing and selling it to Buddhist monks who used it to write their scriptures. The majority of handmade paper today is made from the bark of the Lokta, or *Daphne Papyracea*, a shrub that grows in the forests in the foothills of the Himalayas, under the shade of larger plants. When the bark is removed in the right manner, it reveals a self-regenerating native based fiber. Lokta grows at an altitude above 6500ft, is strong, durable and has a natural resistance to worms and insects. Paper is made from it using a centuries old process handed down from generation to generation.

Nepalese handmade paper is one of the few products in Nepal in which all the elements of supply chain are based on local resources. It utilizes local raw material, local labor and local expertise. Value addition takes place both in the urban as well as rural areas. Income is shared by both rural and urban people.

A diverse range of products are produced for export. Over the past few years, handmade paper's uses have branched out way beyond writing paper and envelopes. The Creative Women's Craft has made clothes from it, while Kanpou-Nepal exports it to Japan, where the fiber is used in making the Japanese currency the yen. World Friendship International uses it to make Japanese fans, which are exported to Japan. There are a number of experiments combining Lokta with cotton and silk to produce clothes.

The bulk of production is exported, either directly or indirectly via tourists. In the domestic market, the paper products are mainly sold to tourists, primarily through handicraft retail shops and stationery shops, or used for official government documents. Kathmandu, from where almost all export of handmade paper originates, also consumes over 80% of domestic sales. There are a number of international buyers who purchase large quantities from individual companies. UNICEF, for example, purchases a large percentage of a company based in Kathmandu's production. Handmade paper products are sold to customers abroad, mainly through specialized gift shops, fair-trade stores, variety stores, furniture and home interior stores and departmental stores. The Lokta handmade industry adopted fair trade principles in 1993, when the Fair Trade Group Nepal was formed.

The production is scattered throughout the country. The Lokta plant is found in 52 hill districts in Nepal. However, paper-production is only done in 32 districts. Until the beginning of 2003, about 313 units of handmade paper industries were registered with the cottage and small industries department. Of them, 268 were registered as a cottage industry and 45

as a small-scale industry. The five major handmade paper-producing districts are Jajarkot, Dailekh, Bajhang, Rukum and Solukhumbu³⁵. Lokta paper is promoted by the Handicraft Association of Nepal (HAN) and its sub-group, the Nepal Handmade Paper Association (HANDPASS). In fiscal year 2003/2004 the handmade paper sector was ranked the fourth highest among exports of handicraft products.

The Lokta value chain comprises numerous actors. The main actors in the Nepali handmade paper value chain are the Lokta bark harvesters, paper sheet producers, paper products manufacturers, exporters, wholesalers and retailers. Individual households, or micro-entrepreneurs, collect the Lokta bark. The Lokta collectors sell their dried Lokta inner bark mostly to local paper producers. There are a few exceptions, where Lokta bark traders transport the bark out of their districts mostly to Kathmandu. In some parts of the country, there are household level paper producing units, where entire families are often involved in Lokta bark collection and paper making. These small units also buy Lokta bark from their neighbors, and, occasionally, employ some of them in paper making. Larger paper production units buy the paper from the other units and sell it to the Kathmandu market.

The large paper making units are, usually, run by local entrepreneurs as well as, more recently, by cooperatives or FUGs. Urban manufacturers buy paper sheets from the paper producers, and manufacture various paper products for export. They also sell some quantity to other exporters.

Competitiveness prospects are below average.

- There is a growing market demand for Nepalese handmade paper. The industry has not yet set any production targets for future growth. This is mainly due to the fact that it is not produced but collected and that there are concerns about ensuring sustainability, as well as the fact that the export industry is still in the first stages of development.
- According to Nepal Handmade Paper Association, there are abundant lokta plant resources in Nepal. The available data on Lokta stock in Nepal, published by the government of Nepal's Department of Forestry, shows that there is a total of 110,181 Mt of raw lokta available, and that the current utilization of lokta is about 8000-10,000 MT per year. The shrub is usually regenerates in between five and eight years' times.
- Owing to a lack of understanding about proper collection practices, the bark is currently not removed in the proper, sustainable manner. Collection practices can be improved, and in fact one or two producers have recently received an FSC36 certification. Although there are currently plenty of Lokta plants available, which are essential as the industry is entirely dependent on them, the lack of correct collection practices could be a possible threat to the success of Nepalese Handmade paper exports.

The Argeli plant, a close family of the Lokta plant, which grows in lower altitudes than Lokta, offers a promising alternative. It is already being farmed in some districts of Nepal, and a significant amount of paper sheets, paper stationery and other items have been successfully produced and marketed abroad by some entrepreneurs. There is also an ongoing trial production with banana plant fiber, and according to knowledgeable circles there are a dozen or so plants in Nepal that have fibers that could make good handmade paper. The government, along with HANDPASS, will need to take the initiative to determine most promising plants and develop the appropriate technology, to encourage the production of a variety of handmade papers, besides the traditional Lokta.

World markets

The world import market for handmade paper rolls is worth over USD 100 million and has been showing solid growth over recent years, 14% per year over 2001-05.

The international demand is mostly concentrated in two major markets: France and Japan. In 2005, they represented, respectively, 48% and 15% of world imports. Among the markets representing more than 1% of the international demand, France Ireland, Austria and United Arab Emirates are highly dynamic.

The main competitors to Nepalese Handmade paper are China, India, Philippines and Thailand.

Market access conditions for this sector are very favourable. Handmade paper, both rolls as well as all paper-based stationary, items face zero tariffs in most markets. The industries indicated that their products have not, so far, faced any non-tariff barriers.

World market prospects are above average.

- Looking at the industry from a broader perspective and including handmade paper products in their many diversified forms, the international market for Nepalese Handmade paper is exponentially larger. This takes into account, for instance, the market for stationary as well as for art items, such as envelopes, cards, artist paper, book bindings, and household items, such as lampshades.
- The most attractive markets are the EU countries, Jordan and India. Nepalese handmade paper products are much underrepresented in most of these markets. All these markets have a much faster growth rate than the world average and therefore are highly dynamic.
- Nepal's market access conditions to all markets, especially in terms of market openness, are very favourable. These markets apply zero-duty rates to Nepal as well as its top five competitors. This means that there is no real tariff advantage for Nepalese handmade paper. At the regional level, Sri Lanka is considered a highly attractive market owing to its high growth rate.

Current socio-economic impact

The full-time employment is medium for this sector, with estimates more than 22,000 people working for this industry. At present, the Lokta industry provides employment, of which over 70% are women and over 85% are based in mountain villages.³⁸ These mountain villages are often extremely impoverished and lack basic health and education services. There are often very few other income generating opportunities. The employment generated from the Lokta handmade paper value chain affects both rural and urban areas as follows: The bush management and bark harvesting from the Lokta plant in the wild provides livelihood to about 15,000 villagers. Paper sheet production takes place at the household and village level and provides livelihood for 9,390 villagers, 80% of whom are women. Paper- products manufacturing is done primarily in Kathmandu (over 90%) and to a lesser extent in other cities like Janakpur, Birgunj, Pokhara, Biratnagar and Kavre. It provides employment to 4,000 urban dwellers. Research has shown that an expansion of the industry, could push employment to well over 40,000 people, and that, in terms of substantial growth, it could have a significant impact by increasing the incomes and livelihoods of many rural communities, especially women who are already involved in various aspects of value addition.

Profit margins for all market actors, from Lokta producers to exporters, are high. Unlike other natural product commodities, value is added at each stage, and by each actor, along the value chain until the raw material has been transformed into a marketable finished product, such as greeting cards or lampshades. The net margin of Lokta collectors is 40%. Other actors in the chain, who add value by further processing the raw material, make gross margins between 20% and 60% (Table 45). The distribution of benefits, indicated by the margins, is relatively fair in this industry. As compared to other natural products, where the collectors make less than daily agriculture wage rate of Rs. 80, Lokta collection provides the collectors with an average income of Rs. 130 a day.

The introduction of community forestry has helped to conserve Nepal's forests in many ways, and have also protected the Lokta forest as well. After years of deforestation, the Nepali government made forest conservation a priority in the late 1980s and early 90s, turning over the management of nearly one-third of government owned forestlands to the Forest User Groups (FUGs). Today around a third of Nepal's total population, of about 21 million people, belongs to FUGs. Many of these have been very successful. For example FUGs in Dolakha have been able to meet the international standards of sustainability for Lokta forest in that area. Paper producers and manufacturers are aware of the necessity to maintain a sustainable supply of Lokta. Nevertheless Lokta resources are threatened, and a more sustainable solution will need to be found soon.

The UK Market for Handmade Paper

Overview

Very little data is available on this niche market and the handmade paper industry in the UK in general. This is partly due to the absence of any trade association representing this small and specialized sector of the UK paper trade.

A number of companies already importing Lokta paper from Nepal were identified in the course of this research. Interviews with these companies provided the following feedback:

- The handmade paper trade in the UK is very small. The UK market for handmade paper is characterized by small businesses importing handmade papers and products, many operating on-line stores and selling through websites.
- Importers of sheet paper sell to: i) private individuals/amateur craft makers, ii) craft shops; small producers of gift items; professionals, eg. photographers, iii) marketing houses that use the paper to make up-market products as part of a promotional package eg. gift wallet for buyers of a luxury car. It is estimated that there are around six companies in the UK solely importing handmade sheet paper.
- Handmade paper products produced in the UK are typically paper/photo albums, decorative gift boxes, cards, notebooks. Bespoke products are offered by some small producers, often for special occasions such as weddings, christenings.
- Small companies benefit from the zero import duty on handmade papers from Nepal and those contacted also spoke of the ease and efficiency of dealing with Nepalese exporters.
- The handmade paper trade benefits from the growing emphasis in the UK on environmentally friendly products and the popularity of Fairtrade products.
- Popular attributes of Lokta paper are that is good value, a robust paper, and produced with some good quality finishes such as marbling.
- To succeed in the UK Gift market, a highly effective sales agent is required to develop this fiercely competitive market.

The potential for handmade paper in the UK is very closely linked to the giftware market. In order to provide an assessment of the potential of the UK market for Nepalese handmade paper, this report gives an overview of the market for paper gifts and decorative articles. The following sections are from the CBI Market Information report on the EU Market for Paper Gifts and Decorative Articles, March 2007.¹

The UK Market for Paper Gifts and Decorative Articles¹

Paper Gifts

In its survey on Paper Gifts and Decorative Articles the CBI focuses particularly on two key products in the paper gifts market: photo albums and paper boxes, both machine and handmade. By handmade items in this survey is meant objects which are assembled by hand.

Photo album - is a book in which a collection or a series of photographs may be stored. Some albums have compartments where the photos may be slipped in. Older style albums often are simply books of heavy paper. Photos can be glued to or attached to the paper pages of these types of album. Sizes of photo albums are: (24 cm x 20 cm), (23 cm x 21cm), (13 cm x 22 cm), (30 cm X 25 cm), (25 cm X 20 cm), etc. Photo albums can be both machine- and handmade.

Handmade paper boxes - used for decorative or/and present-giving purposes as well as for functional uses. Hand-made paper boxes can be used for a number of decorative purposes such as boxes for jewellery, cutlery and similar articles, pillboxes, boxes for cards, sewing-boxes. However, they are also widely used because of their functionality. Paper boxes are used for the storage of pictures, paper clippings, etc. Functionality and decoration are merging together when it comes to the application of paper boxes. When no shape is described, a typical rectangular box may be expected. Nevertheless, decorative boxes can be of any shape and colour, examples are:

- Rectangular boxes of sizes: (20 cm X 10 cm X 7 cm), (11 cm X 8 cm X 5 cm), etc. Round boxes of sizes: (15 cm X 10 cm (diameter)), (16.5 cm x 16.5 cm (diameter)), etc.
- Hexagonal boxes of sizes: (10 cm x 6 cm), etc.
- Square boxes of sizes: (18 cm x 18 cm x 10 cm), (13 cm x 13 cm x 13 cm), etc.
- Heart-shaped boxes of sizes: (15 cm X 9 cm), etc.

The two products described above are very often used as gifts and decorative articles.

Scope of the survey and Statistical Nomenclature

The figures cover a broader range of products than those used for home decoration and gifts. Market and statistical information is mostly given per separate product, namely: 'Albums for photos and other collections' and 'Paper boxes'. Unfortunately, there is no statistical information available only for hand-made paper boxes. One should treat all the numbers given in this survey as compound for both hand-made (by hand assembled) and machine-made boxes.

Annually, the European Statistical Institute collects production and trade information for variety of products. The data for each one of these products can be accessed through the use of the so-called HS and PRODCOM codes. The HS classification gives information regarding different trade flows between countries and is used both for customs and for statistical purposes. The PRODCOM classification is used by EU-countries to record annual production values.

The HS group for 'Albums for photos and other collections' is 4820 and for 'Paper boxes' are 4817 and 4819. The researched PRODCOM codes are in Group 22.22 for 'Albums for photos and other collections' and 21.23 and 21.21 for 'Paper boxes'.

Market Description

Consumption

The EU-25 is one of the leading markets in the world for paper gifts and decorative articles (photo albums, paper boxes, etc). In the UK, apparent consumption of paper gifts and decorative articles amounted to €1.7 billion of which €39.5 million for 'albums for photos and other collections' and €1,655.4 million for 'paper boxes' in 2004. British apparent consumption of 'albums for photos and other collections' increased by 5.5% annually between 2000 and 2004 and by 7.2% annually for 'paper boxes'. Forecasts for the British paper gifts and decorative articles market are quite positive according to trade associations' statistics. Between 2005 and 2009 retail sales of decorative articles (including paper ones) are projected to increase by about 6.1% annually at constant prices.

Table 1. Apparent consumption of paper gifts and decorative articles in UK, value € million

	2000	2002	2004	Average % Change
United Kingdom:				
Albums	31.9	37.6	39.5	5.5%
Boxes	1,250	1801.3	1655.4	7.2%

Production

Paper gifts and decorative articles production in EU-25 countries represented a value of approximately €11.4 billion of which €141 million for 'albums for photos and other collections' and €11,248 million for 'paper boxes' in 2004 according to the Eurostat database and showed a 4.5% increase over the year 2002.

British production of paper gifts and decorative articles amounted to €1.6 billion of which €12 million for 'albums for photos and other collections' and €1,580 million for 'paper boxes' in 2004. Over the years, production has fluctuated slightly. It reached its highest value in 2002 and decreased by about 10% between 2002 and 2004 (paper boxes had come under increased pressure from other packaging types such as metal, glass and plastics). As far as market forecasts are concerned, Datamonitor projects a slight increase in the British paper and packaging market (which includes production of paper boxes) between 2004 and 2009.

In the paper gifts and decorative articles market, there is intense competition, mainly from developing countries' manufacturers. Production processes in this sector are very labour intensive and involve scarce capital investments. As labour is cheaper in developing countries, Developing Country exporters meet the greatest competition from other DC producers. In Europe, manufacturers of hand-made paper products are very few, as most hand-made paper products come from Asia.

Trade: imports and exports

Imports

Total EU-25 paper gifts and decorative articles imports for the year 2005 amounted to €2.1 billion of which €117 million for 'albums for photos and other collections' and €1,936 million for 'paper boxes'. In comparison to 2004, total imports have decreased by about 0.1%.

With regards to the UK, the statistics indicate that Intra-EU trade is increasing in UK. Imports from both outside EU and from developing countries are decreasing. The Netherlands and Sweden are strongly growing as suppliers and to a lesser extent, USA, Hong Kong, Norway, Turkey, Egypt. Whereas, China, Philipines and Germany are declining suppliers.

Imports of paper gifts and decorative articles in UK, value € million, volume – tonnes (x1000)

	2001		2002		2003		2004		2005	
	value	vol	value	vol	value	vol	value	vol	value	vol
Album	26.4	8.0	29.3	9.2	23.8	8.5	31.6	10.7	26.4	9.1
Box	15.0	3.7	14.6	4.2	13.3	4.0	197.6	92.8	199.1	124.6

Leading Suppliers of paper gifts and decorative articles, 2005, share in % of imported value

	Leading Suppliers in 2005	Share %
United Kingdom	Intra-EU: The Netherlands 18%, Sweden 11.5%, Germany 4%	73.3%
	Extra-EU excl Developing Countries: USA 3.4%, Hong Kong, 2.1%, Norway 0.9%, Canada 0.6%	3.6%
	Developing Countries: China 12.5%, Philippines 1.2%, Turkey 1.0% Egypt 1.0%	18.1

Exports

The figures are separate for 'paper boxes' and 'albums for photos'. Total EU exports for the year 2005 amounted to €2.7 billion of which €73 million for 'albums for photos and other collections' and €2,578 million for 'paper boxes'.

Export of paper gifts and decorative articles in UK, value € million, volume – tonnes (x 1000)

	2001		2002		2003		2004		2005	
	value	vol	value	vol	value	vol	value	vol	value	vol
Album	2.8	0.3	3.1	0.5	5.8	1.2	4.5	1.0	4.3	0.8
Box	7.4	1.5	6.4	1.8	6.6	2.0	122.1	48.7	113.0	42.9

Trends in the paper gifts and decorative articles market

Increasing customisation is one of the most important social trends within Europe. The European consumer of today wants to distinguish him- or herself from the mass, consumption is a means of doing so. In general, it can be said that the taste of modern consumers regarding the decoration of their homes is very personal. Therefore, product design, colour and materials play an important role in the gift-giving and decorating decision-making process, according to Euromonitor.

An interesting trend for the whole Europe is the emergence of sets of paper gifts (e.g. boxes, picture frames and photo albums combined together or boxes of different sizes and shapes with the same colours and patterns).

Valentine's Day, Christmas, Mothers' day, etc. are very important holidays for the paper gifts and decorative articles market. On that occasion, people tend to give their gifts in highly decorated boxes of unusual and original shapes.

UK sales of decorative articles and gifts have become increasingly driven by the latest trends in fashion. In the UK, there has been a growing interest in interior design, largely fuelled by media coverage, and consumers increasingly wishing to express themselves through their household and possessions. Examples of trendy paper products marketed in this country are:

- Hand-made paper boxes pasted with decorative petal work
- Paper and penholder sets made of chipboard pasted with an exclusive paper front.
- Customised products are becoming more and more popular in general.
- Hand-made paper photo albums incrustated with small stones and dried leafs

In the UK, the decorative and gift industry can view the coming years in a positive manner, as the number of households in the UK is expected to continue to grow, just like the economy as a whole and the largely corresponding disposable incomes (Euromonitor).

A general threat for exporters from the developing countries is the great rivalry amongst themselves. Chinese producers

are using 'aggressive marketing' to reach customers in Western Europe and offering very competitive prices with relevant quality.

Nevertheless, the handmade paper boxes and photo albums market offers a lot of opportunities for the producers and exporters from the developing countries, as the sector is highly labour-intensive. In this sense, European producers cannot compete, as the average wage in the EU is much higher and the costs of production are not comparable.

Last, but not least, the emerging eco-friendly image of paper affects the market in a positive way. Products with such marks emphasising their eco-friendliness will offer a lot of opportunities for the future.

Distribution channels

The most common are:

Retail chain. The largest chains of shops, whether department stores, furniture retailers, garden centres or hypermarkets, usually have their own buying staff. The number of links in the chain from producer to consumer has been limited to one, resulting in high cost efficiency and control over the buying process.

Buying group. As the purchasing of a collection is very time-consuming and knowledge intensive, individual retailers often work together in a buying group. The buying group can offer different forms of co-operation, from simple buying and importing to offering a complete shop formula in a franchise structure.

Importer/wholesaler. The integration of the formerly separate functions of importer and wholesaler has become very common in the EU. Although there are still some separate importers and wholesalers, they form only a small minority. The importer/wholesalers have become a dominant factor in the market for paper gifts and decorative articles. They are the link between producer and retailer, who usually are both smaller than the importer/wholesaler. They are very knowledgeable about fashion and trends, have an extensive buying and sales staff, and often hold stock. Importer/wholesalers sell to both individual shops and retail chains. An example is in Mass Trading www.mastrading.co.uk

Agent.

The agent is an intermediary between buyer and seller, usually working on commission and representing either the producer, the export marketing organization (selling agent) or the importer/wholesaler or retailer (buying agent). They can range in size from a single person, representing only a few companies, to a large organisation working for large retail chains or importers, managing hundreds of suppliers and having a full sales staff. Among the usual tasks for an agent is production control and safeguarding smooth logistics. Agents are usually combined with importer/wholesalers, acting as an agent for some products or producers, and as an independent importer for others.

Trends in distribution

There is a definite trend towards the shortening of the distribution chain in order to cut costs, especially for the larger organisations.

On the other hand, producers and importers enlarge their distribution chains through outsourcing labor- and cost-intensive activities (by enlargement of the distribution chain is meant adding new parties to the production and logistics process). For example it can be worthwhile to work with an export marketing organization or selling agent instead of employing sales staff within the company.

Many importers, whether they are retailers, importer/wholesalers or agents, ask for exclusivity when they buy a product. The reason is to reduce the possibility of the appearance of the same product on the market in other retail outlets for a possibly lower price. Against this exclusivity, the buyer usually offers a large order, or regular repeat orders. Furthermore, exclusivity is usually limited in time and/or to a specific country.

Another important cost factor is the stock level. To minimise these costs, importers often choose to split up an order into several consignments, if this is feasible in view of the costs of transport and handling.

There is a movement towards ever-shorter lead times. To be able to react rapidly to the changing market, importers tend to place their orders as late as possible. Buyers often demand that a certain stock level is maintained by the exporter, to be shipped on demand.

Prices and margins

The paper gifts and decorative articles Product Group contains many varieties of products, in all possible sizes, materials

and finishes. The UK market for these products contains a great variety of shops and other outlets in many segments and it is not possible to give a good overview of the level of consumer prices.

Margins

As the number of links in the export chain can differ and the quality and contents of each link also, it is impossible to give a standard overview of costs and margins for the different phases in the process. However, there is a rule of thumb in the market for interior articles and gifts that an article with an FOB price of 1 GBP will sell for around 4 to 5 GBP in the shop.

FOB price: 1

Plus mark-up importer/wholesaler 60-120% makes:

Imported in Europe (wholesale value) 2

Plus mark-up retailer 100% makes:

In Shop (retail value) 4

Plus VAT 20 % makes:

Consumer price 4,80

This makes for an average import/wholesale margin of 2, and a retail margin of 2.4

Transport costs (usually 10 – 15 % of the FOB price) are included in the mark-up of the importer/wholesaler.

The rule of thumb, which goes for the majority (middle) of the market, is based on the basic assumption that costs vary with the price of the product along the complete line. Comparing a cheap product with an expensive product, it is clear that for the more expensive product not only the costs of transport will be higher, because the product is more delicate or bigger and the insurance will be higher, but also the margins of the importer, wholesaler and retailer will be higher, because marketing a more expensive product requires higher investment in all the elements of the marketing mix. The FOB-consumer price ratio for the absolute bottom of the market will be around 3 and for the top end of the market it will be closer to 6.

Packaging, marking and labelling

Commonly used packaging materials include corrugated cardboard, excelsior (wood wool), jute, paper, plastics, including expanded polystyrene, wood and bubble wrap. The type of material chosen depends on: the sensitivity of the product; the types of damage that are likely; the value of the product; the size of the product; the weight of the product; the length of time the product will be packaged; and the method of shipping being used. Specific comments for paper gifts and decorative articles are:

Moisture-isolated packaging is extremely important for paper products as they can change their colour, shape and even smell when exposed to moisture. Boxes, albums, etc. are mostly packaged in polybags to protect them from humidity. The method of shipping should be carefully considered (means of transportation providing the least exposure to humidity would be most suitable for paper articles).

Hard-cover packaging should be used when moving paper boxes for instance as they might lose their shape when subjected to pressure. Moreover, most often smaller boxes are put into larger ones to save space.

When packaging small paper articles of light weight, the method of 'agglomeration' can be used. Small objects are typically grouped together in one package for reasons of efficiency (mostly in a group of 6). For example, photo albums can be ordered in big corrugated cardboard boxes and then put in containers.

Barcoding is important for large and more professional customers. It helps importers and wholesalers to enter the information concerning products in their computer automatically. Information concerning products is put down on a label in a number of thick and thin lines. It is not compulsory to use barcodes, nevertheless an increasing share of producers make use of these codes, making it easier to keep information concerning your stock. Secondly, it helps to trace your products. More information can be found on the following site (<http://www.ean-int.org>).

Tariffs and quota

Import duties for all mentioned products are zero rated for all developing countries.

The UK VAT rate is 17.5%.

Sites of trade organizations:

E-shop

<http://www.one-world-is-enough.net/>
<http://www.mynaturalpaper.co.uk/index2.htm>
<http://www.traidcraftshop.co.uk>
<http://www.onevillage.org/>
<http://www.sharedearth.co.uk/>
<http://www.liberomondo.org/>

Wholesalers

<http://www.mastrading.co.uk/>
<http://www.puckator.co.uk/>
<http://www.malini.com/>
<http://www.life-style.co.uk/>
<http://www.ganisha.co.uk/>
<http://www.lemontreewholesale>
<http://www.somethingdifferentwholesale>
<http://www.parlaneinternational>
<http://www.ochre.net/>

Retailers middle segment

E-shop

<http://store.monsoon.co.uk/>
<http://www.cotswoldco.com/>
<http://www.littlewoods.co.uk>
<http://www.additionsdirect.co.uk/>
<http://www.shopsafe.co.uk/>
<http://www.lauraashley.com>

Department stores

<http://www.marksandspencer.com/>
<http://www.bhs.co.uk/>
<http://www.debenhams.com/>
<http://www.selfridges.co.uk/>
<http://www.heals.co.uk/>
<http://www.johnlewis.com/>

Shops

<http://www.conran.com/>
<http://www.pier.co.uk/>
<http://www.next.co.uk/>
<http://www.cargohomeshop.com/>

Sales promotion

Trade press

<http://www.worldofinteriors.co.uk/>
<http://www.international-homes.com>
<http://www.theenglishhome.co.uk>

Trade fairs

<http://www.homeandgift.co.uk>
<http://www.springfair.com/>

1. Source CBI Market Information report on the EU Market for Paper Gifts and Decorative Articles, March 2007.
www.cbi.eu

The Danish Market for Handmade paper

Introduction

The market for handmade paper products in Denmark is small and niche oriented, and available quantitative data on the market for this particular product segment is non-existent.

However, the following sources of related data have been identified and drawn upon:

- Ø CBI Market Survey on “The EU Market for Photo albums, Paper Tableware and Hand-made paper boxes”, August 2008. The survey does not cover Denmark specifically.
- Ø CBI Market Survey on “The Gifts and Decorative Articles Market in the EU”, May 2008, which includes both paper products and the Danish market, but does not provide any concrete information on the Danish paper market specifically.
- Ø “Market Report – Focus on the Scandinavian market. Interior Decoration September 2007”, DIPP, which includes Denmark and covers a broad range of interior decoration items and gift articles imported from developing countries, but excluding paper products. The product categories included in the DIPP report were selected specifically because they are of relevance to exporters from developing countries, and data and trend descriptions have therefore been included in the following analysis to the extent that they are believed to provide an indication of trends and market opportunities for paper products as well.
- Ø Figures from Statistics Denmark on the value of import of Nepalese paper products to Denmark
- Ø Interviews with two Danish importers/wholesalers of Nepalese paper products

Given the lack of hard data for the market for handmade paper in Denmark, the research strategy has been to try to provide some general facts about the development of the Danish market for decorative articles and gift items in Denmark, as handmade lokta paper products can be seen as a subgroup of this general category. In addition, focus has been on supplying information not already provided in the descriptions of the paper market from the section on the UK paper market, as the descriptions of product categories, distribution, requirements to labeling in general would cover the same in Denmark. Emphasis has thus been put on soft data regarding trends and importers requirements.

Trade figures quoted in this chapter should be interpreted and used with some caution. For instance the data may show a discrepancy between years, e.g., a large fall or extraordinary growth, which is due to inaccurate reporting by companies. Also consumption is calculated as apparent consumption: a construction of production + imports - exports. Since production data tends to be under reported, both production and consumption figures only give a general picture. However, the overall trends shown in the figures are useful to get an indication of trends and sizes within the market.

The Danish market for gift articles and decorative items

The Danish market for gift articles and decorative articles is – despite the small size of the population (5.6 million only) – interesting to Nepalese exporters due to the very high per capita income and general strong purchasing power of Danish consumers, and of course to the fact that the Danish gift article market as a whole is growing:

Table 1 Apparent consumption in Denmark of gifts and decorative articles in million EUR

Year	2001	2003	2005	Average annual change in %
Total consumption (Million EUR)	217	240	244	3 %
Own production	224	246	221	1.1 %
Export	245	230	234	-2.2 %
Imports	251	234	269	4.1 %
- of which imports from developing countries	60	58	73	11.3 %
Developing country share of imports	23.9 %	24.7 %	27.1 %	

Source: CBI “The gifts and decorative articles market in the EU” , own making

As can be seen in table 1 above, the total Danish consumption of gifts and decorative articles is growing by an average of 3% annually, which is relatively high compared to the growth rate of 0.3 % of the EU countries as a whole, and given the fact that the market development in 2004-2005 in general was stagnant, picking up again in 2006 and 2007.

The main reasons for the general growth in import of gifts and decorative articles are:

- Stronger consumption and demand for gift articles and decorative articles due to rising disposable income. (The per capita income in Denmark and Scandinavia is high, also in comparison with other EU countries, and was in 2006 EUR +30,000 per capita).
- Higher demand for cheap imports from low wage countries
- Increasing interest in ethnically produced products

It is apparent that the consumption of gifts and decorative articles in Denmark is increasingly consumption of imported goods, and especially imports from developing countries which have grown by 11.3% in the period 2001-2005.

Apart from a general market growth, the figures reflect the fact that an increasing share of gifts and decorative articles are sourced from low wage areas. This a noticeable trend in Denmark in many sectors where labour intensive production/products is increasingly outsourced to or sourced from low wage areas to keep a competitive cost level.

This trend is seen even more markedly in the DIPP study of the interior market in Denmark for a selected range of decorative articles (in categories where developing countries are strongly represented but excluding paper), where own production of goods have dropped markedly by approximately 20% over a period of only 4 years:

Table: Market figures for interior decoration products in Denmark

Year	2003	2004	2005	2006
Total consumption (Million EUR)	115	117	113	114
Own production	61	60	57	49
Export	54	42	41	41
Imports	108	99	97	106

Source: DIPP report, own compilation

This trend of outsourcing labour intensive work clearly offers opportunities for manufacturers of hand made paper products, as the sector is highly labour intensive. Danish and other European producers cannot compete, as average wage levels and other operating costs are much higher, and the research has not revealed any significant production of handmade paper products in Denmark.

The market for (handmade) paper products

The EU-27 is one of leading markets in the world regarding both photo albums and tableware. The total consumption of photo albums and tableware in 2005 is valued at € 904 million, and a market growth rate of 1-2%.

Specific figures from Denmark on total consumption of paper products are not available, nor are figures on handmade paper products. However, figures of import of paper and paper goods to Denmark have been assembled for Nepal and handful of other developing countries in Asia that traditionally manufacture (handmade) paper products:

Table 3 Import of paper and paper products from selected developing countries to Denmark 2003-2007

Country	2003	2004	2005	2006	2007
Nepal	26.533	34.400	37.200	58.667	76.933
Bangladesh	9.600	11.200	18.667	13.600	15.733
India	878.267	887.200	710.267	979.867	1.123.200
Indonesia	2.072.800	2.330.000	2.025.867	1.508.533	1.182.267
Philippines	969.867	953.733	530.933	416.533	298.667
Thailand	500.533	296.933	636.533	472.400	557.867
Vietnam	144.267	62.267	92.400	32.133	42.800

Source: Statistics Denmark, own compilation, includes both handmade and industrially processed paper

As can be seen in table 3, the total import of Nepalese paper products to Denmark in 2007 represented only a minor value of DKK approx. € 77.000. It should however be noted that the value of Nepalese products imported is growing, as is imports from India and Thailand, and on a smaller scale Bangladesh. The imports from Indonesia, the Philippines and Vietnam have been dropping noticeably, most likely due to strong competition from China. This could indicate that there is a small but growing interest in hand made paper products perceived to be of higher quality/with more unique product qualities alongside the market for paper from China.

That said, a general challenge for producers from developing economies (including producers of paper products) is the general rivalry amongst themselves, an issue that will be touched upon later in the report.

Distribution Channels

For a description of common types of distribution channels found in European markets, please see the previous section on the UK Market for Handmade Paper.

Interviews and internet research in the Danish market indicates that there are only 4 professional importers/wholesalers of handmade Nepalese paper to Denmark. These are:

APP Marketing – specialised in import and whole sale of all types of papers and stationary, including a broad range of lokta paper and various other handmade papers. Primary lokta products include paper and stationary. The main customer groups are book stores/stores selling stationary and hobby stores.

Danry Import – the only Danish wholesaler specialised exclusively in import and wholesale of Nepalese lokta paper products. The main lokta products are bags and gift-wrapping paper, but the assortment also includes notebooks, photoalbums, cards, lamp shades and seasonal ornaments. Lokta boxes are sold on the b2b market, where jewellery shops and craftsmen are the main customer groups, using lokta wrapping and boxes for wrapping their products upon sale of jewellery and crafts (brooches, glasses, dishes) to retail customers. Other customer groups are hobby stores and bookstores.

Creativ Company – specialised in selling a broad range of items and inputs for the hobby market, including various paper products and items for scrapbooking. The company has both direct web based sales to private/retail customers, as well as whole sale to hobby stores, supermarkets and (child care) institutions.

Vestergaard A/S – import and wholesale of various paper goods, incl. lokta paper. Main customers for lokta paper products include hobby stores, book stores and supermarkets.

In addition, a few retailers specialised in import of Nepali crafts and various handmade products including paper on a small scale have also been identified.

The identified 5 importers/wholesalers supply goods for resale in the retail market, and customers thus include supermarkets, book stores, specialised paper stores, hobby article stores, stores selling crafts and gift articles, interior decorations stores etc.

Direct b2b sale is also made to a broad range of companies using lokta products in their own production and marketing. Especially boxes and wrapping paper have a sizeable market with Danish jewellery stores, craft stores, gift article stores etc. that use lokta wrapping and -boxes when final sales of one of their own products has been made to retail customers. Examples of use of lokta paper for product labels are also found.

Margins and prices:

It has not been possible to make a thorough analysis of prices or margins in the market, but an example of margins has been given for a package of paper that is re-sold via a hobby store chain:

FOB price from Nepal	1
Re-sale price of importer/wholesaler	2
Sales price of hobby store	6-8
Danish VAT (25%)	1,5-2
Retail price for consumer	7,5-10

For other lokta products, such as boxes sold in the b2b market, the margin of wholesalers may be smaller, even down to 20%. This is most likely due to the fact that the customers are using the products as product packaging, the price of which must be deducted from the profit margins of the seller. Prices for boxes must thus be competitive – also in comparison with industrially produced alternative forms of packaging. Also, given that lokta paper products must be air freighted out of the country, it appears to be difficult for importers to achieve reasonable profit margins on relatively heavy products such as (photo) albums.

Examples of retail prices found in Danish web shops for lokta products (incl. VAT, excl. shipping):

Box, 6x6x3.5 cm: €2.5
 Heart-shaped box: €2.8
 Sheet of paper, A4: € 0.55-0.80
 Sheet of printed wrapping paper, 50x70 cm: € 3.95

Prices in retail outlets will of course be higher due to higher costs of operation (sales outlets, sales staff etc.)

A few of the importers/wholesalers supply the large Danish super markets chains with a packages of lokta stationary or DIY Kits with only few types of lokta paper for scrapbooking etc. in large volumes at very low prices. This has a clear negative effect on the market prices, as supermarkets purchasing a single product in large volumes can sell these special bargain products at much lower rates than what it is possible for the other importers that import, stock and sell a broad and specialised range of locta products. Sometimes, supermarket retail prices are equivalent of the purchasing prices of the other importers. In addition, as super markets tend to strive for high turnover rates on this type of “special bargain” items, any unsold lokta packages are within a short period of time (e.g. one week) often reduced further in price thus having a negative impact on prices of smaller importers and retailers.

Either way, exporters of lokta paper products must be careful not attempt to base their prices on the final retail price of these product in Denmark. Danish importers/wholesalers are well aware of both the need of their customers (retailers) to add considerable margins in order to able to cover the very high costs in Denmark of retail locations, staffing, marketing, taxes etc. and importers are also well aware of what the general price-levels are in the production chain for the products they import. Therefore, prices must first and foremost be based on the actual cost of production and sale + reasonable profit margin and return of investment for the exporter.

Market segments

The European market for photo albums, paper tableware and handmade boxes can be segmented into the upper segment, the middle segment and the lower segment.

Segment and market share	Market Criteria	Product Criteria
Upper segment Estimate 5-10%	Exclusive distribution. Best locations. Glossy promotion. Important brands.	High quality materials. First class workmanship. Perfect design. High price level. Also European products. Brands important.
Middle segment Estimate 50-70% ¹	Many chains. Department stores and uniform shops. Large assortment. Coordinated collections. Large scale promotion.	Resonable to high Quality materials. Good design and workmanship. Fashionable collections. Lower to medium price level. Mostly non-European products.
Lower segment Estimate 20-40%	Intensive distribution. High traffic locations. Aggressive marketing. Bulk sales.	Basic quality. Focus on low price and special sales offers. Brands less important. Products mostly from Far East.

Source: CBI

The selling approach should be aligned with the market in question. In approaching the top end of the market low pricing is of less importance than high quality and unusual design. In approaching the middle segment of the market e.g. department stores or uniform shops, importance should be given to logistics, labeling, packaging and timely transportation. Products offered should be easy to sell and pricing should be reasonable sharp. In serving the lowest segment of the market the focus of importance should be low pricing which may come at the expense of quality and services.

It is the impression from interviews and research that the market for Nepalese paper is mainly in the middle segment, apart from sales to importers selling to supermarkets (e.g. lower segment), and that continuous targeting of the middle segment would be of greatest interest for lokta manufacturers to avoid hard competition with producers of hand made paper (in poorer qualities and lower prices) from other Asian countries, and especially China. However, this assumes that the exporters are capable of meeting expectations in regards to not just price, but also quality a.o. as described in the following section.

Trends and market opportunities

For lokta manufacturers and exporters, the research has shown that it is essential that the exporters understand the requirements – explicit as well as unspoken - of importers and the market, and that they follow market trends.

Trends for interior decoration products Based on information from DIPP report on the Scandinavian market for Interior Design (which excludes paper products) as well as on information provided through interviews with Danish importers of Nepalese lokta paper products.

In general there is an overall increased interest in the Danish consumer market for interior decoration and interior decoration products (including crafts and gift articles), among other things expressed in a sharply increasing number of published home decoration and hobby books and -monthly magazines as well as decoration television shows.

Consumers today purchase interior decoration items more frequently today than some years back, and trends for interior decoration items and paper items tend to follow increasingly shorter trend cycles as is also the case in fashion design (which often spurs new trend cycles for decorative items). Estimations today signal that there are two trend cycles per year for decorative items, and exporters of paper products should thus continuously seek information on ongoing and upcoming trends and be prepared to develop products accordingly on a running basis.

Danes are known to be fond of simple and light design, and Danish products may appear simple compared to those of other cultures. “Less is more” is thus a well known mantra for Danish design products and Danish designers, and there is normally little if any ornamentation attached to the products. That said, the interior decoration market occasionally sees trends with a focus on “ethnic” ornaments and decorative items from developing countries. However, in general items that can be sold in the home country as souvenirs to tourists are most likely not exportable. For paper products specifically, use of hindu motifs and ornamental print will not sell well (unless the print is of Scandinavian symbols).

Colour trends within interior design and the gift article market change almost as rapidly as fashion trends, and for handmade lokta stationary products and interior design items specifically, the demand in terms of colours tend to follow colour schemes seen in the fashion (garment) industry.

However, with reference to the general preference amongst Danish consumers for simple designs, consumers often tend to prefer esthetical simple and neutral colours in products (e.g. black, white, gray, blue, natural fibre) and simple designs. This is especially true for the b2b market for lokta packaging and boxes, where neutral colours and non-ornamented designs continue to be best selling items. As b2b customers are interested in purchasing specialised packaging for their own goods, producers of lokta packaging must be able to provide print of company logos and addresses in a high quality on the boxes and packaging items upon demand.

Naturally, importers of lokta paper can and will specify their exact requirements in regards to colour and designs to the Nepalese exporters, but for more general marketing purposes, it is important that exporters can present a product range in continuous development that demonstrates some knowledge and monitoring of the colour and design trends that affect the market at a given time. A good way of following new market trends is by obtaining information on fashion and interior decoration trends via Danish and international fairs, magazines and websites for fashion, crafts, gift articles and interior decoration in general. Examples have been provided at the end of the chapter.

That said, it should also be underlined, that the - in Nepal and other developing economies – always highly popular “strategy” of copying/duplicating what other exporters of the same product types are apparently successful with in the

Based on information from DIPP report on the Scandinavian market for Interior Design (which excludes paper products) as well as on information provided through interviews with Danish importers of Nepalese lokta paper products.

market, is not an appropriate market strategy. If all exporters essentially present the same products, they will find it difficult to differentiate themselves in a market which is essentially always looking for new products in order to stimulate customer demand, and which has a large number of suppliers to choose between globally.

Apart from meeting customers' aesthetic requirements and expectations in regards to colour and design, it is essential that exporters understand – and are able to meet – the quality standards and expectations of the importers and essentially of the final customers, whether these are explicit or non-spoken. This includes the products' perceived quality, packaging and presentation, uniqueness and sustainability as described below:

Uniform product quality standards

For Danish importers and customers it is essential the product quality is consistently high and standardised. Even for handmade products such as lokta paper, products must be delivered as agreed in terms of colour and finishing, and especially inconsistencies in the use of dye colours appear to be a recurring problem, e.g. products are delivered in varying shades/colours.

Another important issue mentioned by all importers of paper products is damage of paper products from damp; either due to products not being sufficiently dry when packaged or due to poorly sealed packaging that allows for damage during the transportation.

Packaging and presentation is very important, also for handmade products from developing economies, and exclusive looking packaging and presentation can contribute to conveying an impression of high quality and thus stimulate purchasing decisions.

General considerations for packaging and labelling for shipping etc. have been described in the section on the UK market for paper products. Danish importers of lokta paper products frequently experience problems with the packaging of the products, e.g. products are packaged in not entirely clear cellophane/plastic of poor quality, products are packaged too tight thus damaging the product, the products packaged in sets do not complement each other, the products are not quite dry when packaged and/or have been submitted to humidity during the transportation a.o. If importers need to (re)package, this adds substantially to the possible sales cost (and/or reduces possible profit margins) due to the high cost of labour.

Delivery times

Punctuality is greatly valued in Danish culture, as a sign of respect and efficiency, not just for personal meetings, but also on a more extended level in regards to reliability in respect to delivery of goods. Danish importers generally operate on tight schedules and selling seasons are short, not least for seasonal articles. Keeping delivery times are essential as there will be no market for delayed goods.

Recurring problems experienced by Danish importers are late shipment of goods from producers, as well as delays during transportation. The importers expect the exporter to take responsibility and solve issues of late delivery. It is therefore essential to use good shipping agents who can foresee and react upon possible delays related to change of air carriers and possible stranding of goods in airports during the shipping. If nothing else, the sender must include a time buffer in their own production and shipping plan to ensure that goods will arrive timely even if unforeseen delays were to occur in the shipping.

Sustainability requirements

"Sustainability is not a trend but rather a new awareness, a value and a global theme which manufacturers, buyers and consumers need to confront. Sustainability is an element in the widest variety of themes. It is not a short-lived trend but a necessity. A theme you can't ignore if you want to be fit for the future." (CBI)

Increased prosperity is shifting sustainability and ethical questions higher up on consumers agenda. Danish consumers are increasing their demands towards how products in the market are produced (environment, fair trade and fair labour conditions etc.) and are to some extent also willing to pay higher prices for ethical products.

Environment

In general, lokta paper production does not have grave negative environmental effects, but the treatment – or lack of same – of waste water with chemical dyes is an issue to be considered.

In regards to stationary paper products including products for scrap booking, many customers have requirements to the acid content of the paper products and especially to the use of colour pigments, and there is a trend towards use of vegetable based pigments in the dyeing processes rather than chemical pigments. Exporters should thus be prepared to offer products within both categories.

Labour conditions

An increasing number of customers (both retail businesses and end consumers) take an interest in the conditions under which the products are produced, especially when it comes to products manufactured in developing countries, where workers rights and occupational health and safety standards at the general level are known to be poorer than similar Danish standards. The consumers will expect importers/sellers to take responsibility for ensuring that the conditions of production are acceptable and sustainable both in regards to the environment, working environment and the general working conditions of the workers engaged in production.

Some customers (especially larger hobby- and supermarket chains) thus ask their Danish suppliers of paper products to provide information on the standards on issues at Nepalese (and other) suppliers such as use of child labour, working and employment conditions, as well as occupational health and safety issues for workers in the production process etc.

Potential exporters of lokta paper should thus be prepared to invest in – and be monitored on – sustainability issues. Certification is an obvious option, but also an expensive one. Danish importers are likely to take a positive and active interest in conveying the market requirements and expectations to sustainability, but not necessarily also prepared to invest in the actual improvement of the conditions of production and employment. Some importers solve the issue by visiting exporters and selecting those that they find have the most sustainable production process, so that they can warrant the suppliers used, and some even send or present pictures from the production. Other importers/retailers expect producers to complete questionnaires and self audits on a broad range of issues.

Opportunities and threats

In regards to the classic paper products, e.g. stationary products, it is obvious that the general volume of sending of handwritten letters is rapidly decreasing with the growth of the internet and possibility of internet correspondence. However, in areas where “the personal touch” continues to be of high importance – e.g. personalised invitations, seasonal greeting cards, and scrapbooking - there should be growing business opportunities for exporters of high quality paper products in designs that will meet Danish market tastes.

In regards to the packaging market – e.g. the market for boxes and wrapping paper for both retailers and consumers – this is most likely the market segment with the highest potential growth rate in a market with increasing interest in and purchase of gifts, crafts, interior decoration items etc. in need of packaging. Likewise, the interior decoration market is also expanding which could provide market opportunities for manufacturers that can develop decorative paper boxes for storage in the home.

The trend towards searching individualistic products and attaching importance to sustainability indicates that there is an increasing interest in hand-made products of high quality (but non-traditional designs) that are produced under sustainable conditions. Branding and story-telling about the products and their origin (putting a face on the producers) could provide potential customers with an additional perceived value of the products.

Threats

Production of hand made paper products is clearly a niche market, and is most likely to continue to be of a limited size. The main threat for Nepalese exporters is thus competition from suppliers of handmade paper products from other countries. Danish importers of hand made paper products also import paper from especially Thailand and India, whereas import from Bangladesh has been tried by some importers but discontinued due to poor quality of paper and difficulties in meeting the importers requirements to delivery times, packaging etc.

Handmade paper imported from Thailand is mulberry paper, and is cheaper to import, most likely due to lower production and freight prices. However, lokta paper is in many respects paper with better inherent product qualities due to longer fibres and lack of glue in the paper, and should thus be marketed as being of a higher and more durable quality and more environmentally friendly.

Links and useful sources of information

Trade organisations

FAGA (The Danish Association for suppliers of gift articles and handicrafts) has approx. 300 members producing and/or importing gift articles and handicrafts. The website contains list of members as well as well calendar of fairs in Denmark, Scandinavia and Northern Europe.

DIPP (The Danish Import Promotion Programme) assist exporters in Africa, Asia and Latin America who wish to enter the Danish market with special focus on the 17 Danida programme countries, including Nepal. Exporters may post business proposals at the website!

Purchasing associations for books, office supplies and paper products

<http://www.kon-tur.dk/> (books and office-supplies)

<http://www.osd-as.dk> (office-supplies, paper products)

<http://www.bogpa.dk/home> (books, office supplies and other “bookstore” items)

Wholesalers/importers of book paper

<http://www.appm.dk>

<http://www.danryimport.dk>

<http://www.pandurohobby.dk>

<http://www.altihobby.dk>

Examples of web shops for paper goods and hobby articles

<http://www.danskpapivare.dk>

<http://www.daphne-import.com>

<http://www.arneshus.dk/>

<http://www.anettespapirogstil.dk>

<http://netbutik.unicef.dk>

<http://www.boesner.dk/>

<http://www.stenboden.dk>

<http://www.hobbyshoppen.dk>

<http://www.artdv.dk>

<http://www.fairtradedk/sw1066.asp>

<http://www.skrapbooks.dk/>

<http://www.kuni.nu/>

Inspirational sites on Danish design, crafts and interior decoration

<http://www.danishedge.dk>

<http://www.danishcrafts.org>

<http://www.ddc.dk/>

<http://www.boligindretning.net/>

<http://www.boligmagafinet.dk/>

<http://www.bobedre.dk>

Trade fairs

Visiting – or exhibiting in - professional trade fairs is of course an excellent way of meeting new customers and researching market trends. However, their web sites are also in themselves useful sources of information on product trends in the coming season and especially for exhibitor information.

Formland is Scandinavia's largest trade fair for interior accessories, commercial art and design and takes place bi-annually in February and August. The fair is located in Jutland, Denmark.

<http://www.formland.com>

CPHome is a Copenhagen-based bi-annual trade fair for gift articles and interior design.
<http://www.cphome.dk/>

Copenhagen International Fashion Fair is the largest fashion fair in Northern Europe and is held biannually in February and August.
<http://www.ciff.dk/english>

Paperworld fair (Germany)

The Paperworld fair in Frankfurt, Germany, was in 2008 visited by 66,000 professional trade visitors, including Danish importers/wholesalers of paper products. In 2008, 8 Nepalese paper exporters exhibited at the fair.
<http://paperworld.messefrankfurt.com/frankfurt/en/home/html>

The Paperworld trend brochure, featuring comprehensive information on future trends plus a full palette of trend colours, complete with Pantone information, can be ordered from Messe Frankfurt, priced Euro 9.00, during the run-up to Paperworld.

Hobby & Håndarbejde 2009 is a fair targeting the private consumer hobby and craft market.
<http://www.hobbyoghaandarbejde.dk>

Cut flowers

The export potential is high. Nepal's export performance is overall satisfactory. The value of export has grown over the last six years, making Nepal a net-exporter of flower products.

Currently, the Netherlands, USA, India, Japan and Denmark are the main markets. Border trades through illegal channels between Nepal and India are very common and it is very difficult to estimate the true value of border trade transactions. Nepal is noted for its exceptionally rich bio-diversity, as it possesses a wide variety of topographical and climatic conditions within a small area. Floriculture business has been flourishing in Nepal since the early nineties driven by entrepreneurial enthusiasm and investment caused by the growth in consumption in the domestic market. Today, there are 550 small and medium-sized nurseries and flower growers, with a combined turnover, in 2006, of Rs.230 million. Despite a positive prospect for the future expansion of the flower sector, the present volume of flower production is limited by low productive efficiency. The sector has the potential to expand further provided that it obtains support in terms of resources, R&D, man power and financial support; strong market information marketing infrastructure support (e.g. cold chains) and a favourable policy regulatory environment that addresses issues such as high cost of input imports. Global market conditions seem very competitive as a number of large producers, such as Kenya, China etc, have already successfully established themselves in the international market. The most attractive markets are concentrated in the EU where Nepalese products are required to meet SPS measures.

The current socio-economic impact in terms of employment is low. According to the FAN, the 550 small and medium farm units involved in floriculture production and their associated networks employ about 2,500 people. With necessary supply-side conditions, it is possible to create employment opportunities with a direct impact on poverty reduction and improvement in women empowerment.

Priority actions

- Improve policy and regulatory environment
- Improve supply of technical manpower for hi-tech farming
- Provide R&D and technical support
- Provide financial support for expensive investments in high-tech
- Provide market information
- Provide marketing infrastructure such as cold chain facilities
- A strategic policy and plan with a package of incentives that include subsidies on (a) air-freight, (b) greenhouse construction and related materials, (c) irrigation, (d) supply of planting materials, (e) cooling chamber, and (f) refrigerated vehicles.
- Duty waiver facilities on import of all inputs required for the cultivation and processing of exportable floriculture products.
- Setting up of infrastructure facilities such as wholesale market centers and cooling chamber in international airport.

- Improve provisions for human resource development in the floriculture sector by setting up an institution for specialized degree programmes, training programme, R&D and extension services.
- Growers and traders of floriculture products should be treated as farmers and should not come under tax net. Floriculture entrepreneurs should receive exemption from all internal taxes to attract investment at least for 5 years to begin with.
- Simplification of procedures applicable on imports and domestic movement of methyl bromide, sulphur, and nitrate required for soil and plant treatment.
- FAN should be supported to handle all market promotion as well as technical aspects of floriculture development in Nepal.

SWOT Analysis for cut flowers

<p>Strength:</p> <p><i>Resources:</i> Experienced technicians and knowledgeable entrepreneurs Availability of special cultivars and species Use of appropriate technology Quality products Availability of adequate land and labor Involvement of well established organizations</p> <p><i>Marketing:</i> Stable market linkage and relationships</p>	<p>Weakness:</p> <p><i>Resources:</i> Lack of adequate technical manpower for hi-tech farming Inadequate financial resources at reasonable cost Restrictions and procedures on chemical input imports are cumbersome Infrastructure insufficient (e.g. no cold chain)</p> <p><i>Marketing:</i> High cost of overseas market promotion and research Lack of information on world markets and trading systems</p>
<p>Opportunity:</p> <p><i>Resources:</i> Favourable geo-climatic conditions and rich bio-diversity for further expansion of the sector</p> <p><i>World Markets:</i> Increasing world market demand Favourable market access condition with preferential tariffs under multilateral, regional and bilateral trading arrangement and negotiations</p>	<p>Threat:</p> <p><i>World Markets:</i> Non-tariff barriers and undeveloped capacity to comply with SPS and TBT regulations Imposition of tariff and complicated regulatory procedures in import of inputs</p> <p><i>Business Environment:</i> Unstable land policy due to likely change in land ownership regulations Labor unions</p>

Current export performance

Exports have grown over the last six years and Nepal has emerged as a net exporter of flower products. In 2005/06 total exports of all floriculture products from Nepal increased by 98 per cent compared to the previous fiscal year, driven by an increase in the export of bulbs by 116% and live plants by 357%. Total export value in the fiscal year 2005/06 reached USD 466,000. Currently, the Netherlands, U.S.A., India, Japan and Denmark are the main markets for bulbs, cut flowers, and other floriculture products.

As with any perishable horticultural products, illegal border trades between Nepal and India are very common for cut flowers, bulbs and live plants. Illegal trades also occur as a means of bypassing complicated, time consuming and costly trade procedures. It is very difficult to estimate the total amount border trade transactions. It has been suggested that a large amount of trade occurs during the monsoon and winter seasons, when domestic supplies are limited in India. Similarly, Nepal receives cut flowers, across the many border points, from India during the marriage and festival seasons.

Domestic supply conditions

With a wide variety of topographical and climatic conditions within a short distance, Nepal is noted for its exceptionally rich bio-diversity. There are as many as 6,500 species of flowering plants. The range of conditions offer unique prospects for developing many native as well as cultivable species of flowers, flower bulbs, tubers and rhizomes, ornamental plants and orchids. Commercial species of orchids of herbaceous perennials are in general epiphytic⁴² and terrestrial⁴³ in habitat⁴⁴. Eastern Nepal is rich in Epiphytic species, West Nepal in Terrestrial species, and Central Nepal possesses both types. Epiphytic species are considered more attractive as they are more colorful and have larger flowers than other species. In 1989 Dahal and Shakya listed 90 genera and 350 species of orchids in Nepal. The commercially most important Orchids are the sympodial and monopodial types. They have different flowering periods and a number of them are of exportable. 14 districts, covering 7 million people (2005 Projection), have been identified as having prospects for floriculture production in Nepal. These districts include Kathmandu, Lalitpur, Bhaktapur, Kavrepalanchowk, Chitwan, Dhading, Makwanpur, and Nuwakot in central Nepal. The districts are all located within one to four hours drive from the international airport in Kathmandu. Other districts with favourable climatic conditions for flowers are Jhapa, Illam, Morang, and Sunsari in eastern Nepal and closer to Kolkatta market⁴⁶ and Dadelhdhura, and Doti in western Nepal closer to Delhi market.⁴⁷ The driving distance from these six districts to the Kolkata and Delhi flower markets is around 5 to 6 hours.

The climatic advantages in the quality and variation of Nepalese flower bulbs, roses, carnations, gerberas, tissue culture plants, have been well recognized in the Indian and overseas markets. Floriculture business has been flourishing in Nepal since the early nineties. Entrepreneurial enthusiasm and investment in this sector developed both the growth in consumption in the domestic market and gradual penetration to the overseas markets. In 1992, there were four commercial flower growers in three districts with a combined annual turnover of Rs.20 million. Today, there are 550 small and medium-sized nurseries and flower growers, with 80 hectares of land (32 ha covered) and over Rs. 375 million in investments, actively involved in the commercial production of cut-flowers and other floricultural products.

The level of production has recently increased. Authentic data are not available on the current national production of these items. However, the recent increase in production volume is indicated by the increase of the area under cultivation. There has been an increase in domestic demand for cut flowers and ornamental plants, at the same time, there has been a growth in exports to India and abroad. Thanks to the increase in the area under cultivation, the turnover on the wholesale market has increased. Increased production appears to be successful with increased import substitutions due to a greater domestic supply of, previously, imported varieties such as, gladioli, roses, tuberose, carnations, gerberas and orchids

Floriculture enterprises in Nepal are privately and domestically owned. So far no foreign investor has ventured in the floriculture sub-sector in Nepal. Their turnover in 2006 was estimated at Rs.230 million. The dramatic growth in the area under cultivation, in less than a decade, has been the result of increased consumer demand, as well as strong support from business associations in developing production and marketing. The Floriculture Association of Nepal (FAN) wholesale market is the only organized market in the country that maintains transaction records on Cut flowers. Data for last eight years shows a surge in the total volume of stalks transacted and a gradual decrease in unit prices from some local species such as Dutch roses, carnations, and tube roses. This clearly suggests improved production efficiency and indicates that there may be potential to further strengthening Nepalese competitiveness. The cymbidium orchid, which is produced in low volume and is not imported, shows an upward trend in price together with an increase in volume of production.

However, the Nepalese suppliers have not yet managed to become competitive in terms of price. Flower entrepreneurs face many problems in terms of R & D, human resource development, financial capacity and support, information, marketing and infrastructure, as well as government support.

Major issues effecting flower entrepreneurs

Areas	Problem Descriptions
Production	
R & D and Technology Services	Very little modern technology is currently used due to the absence of public sector's support for R&D on agronomic practices, post-harvesting and marketing. Growers have limited knowledge of IPM systems. Entrepreneurs, at their own initiative, are managing the transfer of the appropriate technology from other countries, which are already exporting to advanced countries. Often such transfers are very much unsystematic.
HRD and Technical Services	There is a scarcity of qualified technical manpower and floriculture extension services. There is only one institution providing formal horticultural education. There no other institution giving any regular formal or informal systematic training in agronomic and post-harvesting practices in Nepal. Moreover, majority of growers are still in process of learning by doing.
Information, Marketing and Infrastructure	
Information	Entrepreneurs have limited capacity to access information on market opportunities, improved technologies and market regulations.
Market Promotion	Growers and entrepreneurs have limited financial capacity to launch market promotion programmes in developed countries.
Marketing Research	Entrepreneurs have no access to up-to-date information on market requirements, demand, market regulations, and opportunities. Limited financial capacity has constrained efforts to undertake international market research to encourage export promotion.
Marketing Infrastructure	Growers and exporters are not supported by appropriate infrastructural arrangements for post-harvesting process such as treatment, warehousing, cleaning, grading, packing, etc. Other requirements are wholesale market facilities, refrigerated van, and laboratory for pre-export testing at plant quarantine check posts, chilling/cooling room at Kathmandu airport.
Policy, Regulatory and Institutional	
National Strategies and Action Plans	The country lacks national strategic plans and action programmes extending support to agronomic and post harvesting practices, HRD, technical services, marketing infrastructure, FDI, and R&D, and transparent policy on trade and tariffs
Administrative and Procedural	Entrepreneurs are the victims of confused policies. While the import of inputs is subjected to duties, the import of flowers from India enjoys duty free status. Lengthy and tedious procedures have to be followed for importing and local transporting of pesticides and fungicides such as methyl bromide, sulphur and nitrate.

Most inputs have to be imported. Growers use imported planting materials, seeds, chemical fertilizers, insecticides and fungicides, greenhouses and equipment, cooling equipment. There are a number of specialised agents, in the private sector, who import these inputs.

The Nepalese government at present plays a minimum role in the development of the floriculture sub-sector. Some farmers outside the Kathmandu valley are, temporarily, receiving electricity subsidy through a project funded by Asian Development Bank. The government, however, is committed to providing credit to the flower cultivators at three per cent subsidy on bank interest through the Agriculture Development Bank of Nepal. Import of certain inputs and greenhouses are allowed at 1 per cent tariff. This policy, however, has been virtually ineffective due to cumbersome and non-transparent rules and procedures.

Competitiveness prospects are satisfactory.

- Numerous common export plants can be grown in Nepal: Seasonal flowers, Ornamental Plants (Non-Flowering), Shrubs and Climbers, Cut-flowers, Bulbs, Tissue Culture Plants and Foliage. The availability of more than 6,500 species of flowers in Nepal itself indicates that there may be potential to innovate and develop markets for new species of exotic flowers and plants currently unknown to consumers. There are a number of possibilities for growing high value exotic items. Some of these items identified by entrepreneurs are: Gloriosa, Hoemanthus, Kukurma, Zephyranthus, Bird of paradise, Cymbidium Orchids (Pleione, Praecox), Polyanthus (Rosani), Licorisaurea, Eucharis, Achivminis, etc.
- The prospects for improving the quality of Nepalese floriculture products are favorable. The most important areas to focus on, for quality improvement, are investment in greenhouses, proper plant health management and better economic delivery systems. Irrigation and climate control are not as big an issue in Nepal compared to its close competitors such as India, Thailand, and Sri Lanka.
- There is a great potential, if the internal problems are resolved, to expand production gradually through public-private partnership. About 10,000 ha of land are easily available for flower and ornamental plants cultivation. The land under flower and ornamental plants cultivation can be increased further once private sector entrepreneurs and foreign investors are given a more favourable climate to invest in. Adequate labor is available in the selected districts at, daily wages, between USD 1.10 to 2.20. Given the agro-climatic condition, there is a possibility from farmers to shift from low value to high value crops, such as flowers, in these districts. On the basis of the success of trial attempts at hi-tech production, and the improvements in domestic marketing, it is estimated that Nepal should be able to increase the area under flower and plant cultivation to around 1000 ha within the next five years. This estimate can further increase if FDI is attracted, under joint venture arrangements, into the proper agronomic and post-harvesting technologies. Currently, competitiveness and success in export markets can only be achieved if the efforts of the private sector or FDI are backed by government policies and facilities. According to entrepreneurs, such policies and facilities should emulate those currently used in India.

World markets

The demand for flowers is dynamic. The share of world exports increased from 9 per cent in 1999 to 13 per cent in 2004. Total world trade reached USD 11.9 billion in 2005.

The major markets are mostly in Europe, the US and Japan. The top ten largest floriculture importing countries are Germany, U.K., U.S.A., the Netherlands, France, Japan, Italy, Switzerland, Belgium and Russia.

However, Asian markets are not insignificant and are increasing in importance. In 2005 the value of Asian imports of cut flowers surpassed USD 300 million, imports of ornamental plants reached USD 260 million and bulbs and tubers USD 160m. Imports grew annually from 2001 to 2005 by 10% and above. Japan is the major market, representing approximately three quarters of the continent's imports, followed by Singapore, Hong Kong (of which 50% is Chinese produce being re-exported) and Taiwan. Japan's imports of cut flowers increased from USD155 million in 2001 to USD230 million in 2005. Presently, Malaysia, Colombia and Thailand are the main suppliers of cut flowers to Japan. In recent years the Netherlands has lost significant market share to these newer suppliers, mainly due to a loss of price competitiveness. Currently CIF prices of imports from Malaysia are around USD 6 per kg whilst those of the Netherlands are close to USD 22 per kg. Chrysanthemum and orchids are the most popular cut flowers in Japan, these are mostly supplied by Malaysia and Thailand respectively.

As more and more countries have begun to export cut flowers, there has been a commensurate increase in competitiveness. Among the developed countries, the Netherlands (highest quantity supplier), Germany, Italy, Spain, and UK are the largest exporters of floriculture products to the world market. A number of new countries have established themselves in the international market, including, Kenya, Israel, Ecuador, South Africa, Zimbabwe, Uganda, Zambia, Thailand, India, China, Malaysia, and Sri Lanka. Recently Ethiopia, Vietnam, Taiwan, and Colombia have managed to successfully enter the global market with the help of support from their governments through favorable national strategic environment and policy interventions designed to attract FDIs. Countries like the Netherlands and Israel, it appears, are losing market share because of increased supplies from cheap labor, land and air-freight countries.

For the past few years the prices on the world market have remained stable despite the change in production and source patterns.

China's emerging flower industry, which uses a mass production approach, is already threatening for other exporters in developing countries. Between 2004 and 2005, China's exports of cut flowers, flower bulbs and live plants grew at 30%, 90% and 23% respectively. According to the recent MNS report by the ITC, China hopes to bring jobs to tens of million of impoverished isolated workers in a bid to narrow down the income gap between rich city dwellers and unemployed farmers.

Nepal's market access conditions to all markets, especially in terms of market openness, are very favourable. Nepal enjoys tariff preferences in most of the target markets. However, non-tariff barriers are applicable to all floriculture products, in all of these markets (Table 49).

Market Access Conditions in the Target Markets

Markets	Tariff Barriers	Non-tariff Barriers
EU	Nepal enjoys a special "Everything but Arms" scheme that provides duty free access for floriculture products.	SPS control (PC is required for all items), environmental and safety issues, quality and grading standards, packaging and labeling requirements, breeder's rights, IPRs and CITES.
USA	Nepal enjoys preferential tariffs based on the US GSP Scheme that attract 1.7% tariffs on fresh cut flowers and 0% tariffs on other floriculture products. Other countries face an average tariff of 4.85% on floriculture products.	Plant quarantine control of Animal and Plant Health Inspection Service (APHIS) of USDA and prohibition of imports under CITES, all products must be accompanied by PC. Almost all bulbs being produced in Nepal are under the import permitted list of USDA.
Japan	Nepal enjoys preferential tariff under the GSP Scheme attracting 0% duties on all types of floriculture products. Normal tariff in Japan is 3%.	Plant quarantine control is strictly applicable on all items. Import of items under CITES, and items containing soil, pests, diseases etc. are strictly prohibited.
India	Nepal enjoys preferential tariffs on import of floriculture products under the bilateral trade treaty.	Plant quarantine regulations are strictly applicable. PC is required in all cases. Special permission is required for import of soil, hay, earth clay, compost, sand, live insects, etc.

World market prospects are high.

- Nepal is only now trying to enter into world market. Some trial consignments of cut flowers have been delivered to overseas markets. Having achieved success in exporting some products, Nepal will need to gradually gain export experience before attempts are made towards investment for large commercial transactions of fresh cut flowers and exotic orchids.
- The Flower Council of Holland has also predicted that the global consumption of floriculture products is to grow by 30 per cent by 2014.

- The major OECD countries (particularly EU countries) as well as big developing countries, such as China and India, are the most attractive markets. All markets have higher growth rates than the world average, particularly in China and India. The most significant fact is that Nepal is highly underrepresented in these attractive markets, except for India. In this regard, the insufficient transportation facility as well as SPS measures may constrain Nepal's export capacity to overseas.
- Buyers from Japan, India and U.S. have recently shown interests in importing flower products from Nepal and have approached some floricultural entrepreneurs. Items that can be immediately exported overseas are roses, gerberas, carnations, cymbidium Orchids, tuberoses, anthuriums, and gladioli. Exportable bulbs include the *Gloriosa* spp., *Zephyranthus*, *Hoemanthus* (football lilly), *Polyanthus* (Rosani), *Licorisaurea*, *Eucharis grandiflora* (Amazanlily), *Achimenes* and *Kukurma*. Tissue cultural plants (annually 500,000) and some live plants are being exported but prospects of expanding their export have yet to be explored.

Current socio-economic impact

According to the FAN, the 550 small and medium farm units involved in floriculture production and their associated networks employ about 2,500 people, of which more than 60% are women.

The full-time employment equivalent (FTEE) is currently low for this sector.

The contribution of floriculture products to Nepal's total export earnings is currently negligible. However, if the cultivation of flower and other floriculture products is extended in future, it will be possible to create employment opportunities with a direct impact on poverty reduction and improvement in women empowerment. If flower and other floriculture products cultivations are extended up to 1000 ha in future, it will be possible to create employment opportunities for 25,000 people. Such job and income opportunities in rural areas will have direct impact on poverty reduction and empowering women. Moreover, it will have positive impact on the environmental situation with increased plantation and flower cultivation.

The UK Market for Cut Flowers¹

1. Market description: consumption and production

Consumption

The UK is the second largest market for cut flowers and foliage in the EU, (after Germany). The value of the market has been increasing steadily for more than a decade. The current value of the market is €2,821 million. Between 2002 and 2006, consumption increased by 4% annually. Because of the low level of penetration and the opportunities for development of sales channels, the consumption level is expected to continue to increase. However, increases will probably no longer be as high as in the previous years. The market value for 2011 is forecasted at €3,521 million.

The average expenditure on flowers was €47 per capita in 2006. It is one of the highest in the EU. The penetration of the market is relatively high as well. The share of the population buying flowers was 75% in 2005. Two factors determine the total expenditure per purchasing consumer. One is the price of purchases, the other one is purchasing frequency. The average purchasing frequency has increased from 21.3 in 2001 to 22.5 in 2004. This increase was mainly caused by an increase of mixed bouquet purchases. Purchases of mono-bunches, compositions and single flowers remained at approximately the same level. Considering the total expenditure on flowers, mixed bouquets are also increasing in importance. Their share increased from 37% in 2001 to 57% in 2005. Mono-bunches, compositions and single flowers all lost share in total expenses. Nevertheless, mono-bunches still account for 42% of total flower sales. Most consumers buy flowers on impulse. Another interesting fact is that almost half of all flower sales take place on Friday and Saturday. Furthermore, flower sales peak on public holidays.

Product groups

Since British people prefer a classic and cosy interior, they are most likely to choose bouquets mixed with traditional flowers (such as *Rosa*, *Freesia*, *Dendranthema* and even *Dianthus*) in "sweet" colours (pink and purple). The preference for mixed bouquets to decorate the home explains the relatively high expenditure on flowers by the people who purchase them. Important criteria influencing the choice of bouquets are freshness, scent and price. The colour of the bouquet has also become an important factor of influence in recent years.

Table 1.1 Top-15 flowers in mono-bunches, 2001-2005, share in %
2001 2002 2003 2004 2005

	2001	2002	2003	2004	2005
Dianthus	34	33	25	27	16
Rosa	9	14	16	19	16
Lilium	8	11	11	14	15
Dendranthema	16	17	14	15	14
Narcissus	5	3	3	4	6
Raceme dianthus	0	0	0	0	6
Tulipa	4	4	4	5	4
Freesia	5	5	4	4	2
Gladiola	0	0	0	0	1
Iris	1	1	1	1	1
Orchids	0	0	0	0	1
Gerbera	0	0	0	0	1
Helianthus (sunflower)	0	0	0	0	1
Convallaria	0	0	0	0	1
Other	18	13	22	11	11
Total	100	100	100	100	100

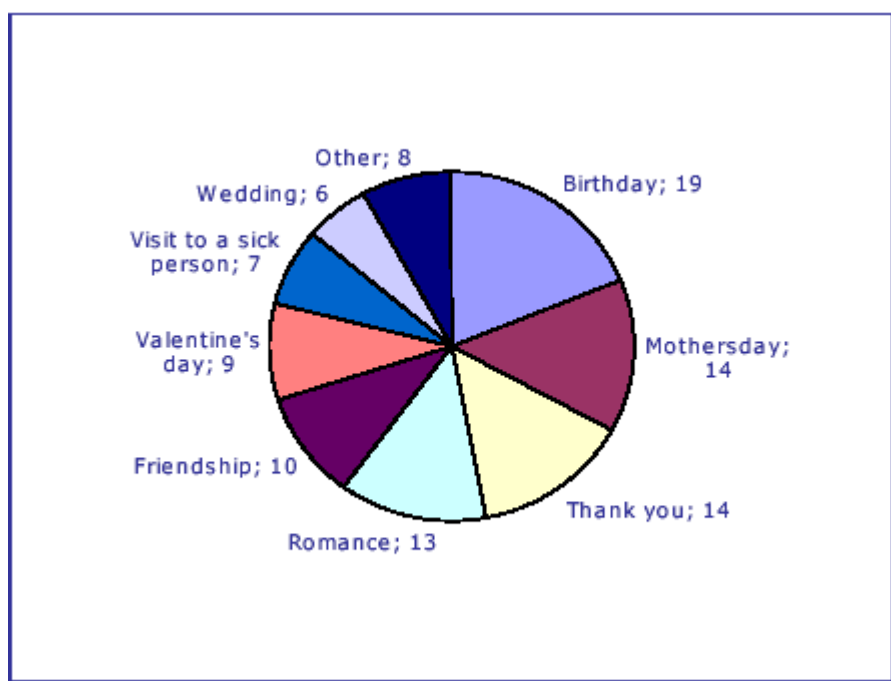
Source: Horticultural Commodity Board (2007)

Table 1.1 presents the most popular flowers in the UK market. Dendranthema and Dianthus are popular because these species are relatively cheap and have a longer vase life compared to other species. They are notably more popular than in most other EU countries. In a recent consumer survey, however, many consumers also considered Dendranthema as the least beautiful flower. Dianthus received much attention in recent years, due to the strongly decreased sales of this flower. Therefore, more market information is available for Dianthus than for other flowers. Forecasts about the future of Dianthus are diverse, but research by the Association of Netherlands Flower Auctions (VBN) has provided some interesting facts. In the UK, Dianthus is mainly used in compositions which are meant to be given away, which is in contrast to Germany and France. In those countries, Dianthus is mainly bought for own use. Another interesting fact is that UK consumers have indicated that the strength of the stem should be improved. Consumers in the UK are very positive about Lilium. Lilium has an image of exclusivity and white Lilium is most popular. Sales of Lilies increased notably in recent years. According to the retailers, this was the result of both increased demand and increased availability. Retailers also expect sales of Lilium to increase in the next few years.

Market segmentation

- In all of the EU, flowers are mostly purchased by women. Also in the UK, the share of men purchasing flowers in 2005 (64%) is significantly lower than the share of women who purchase flowers (87%). In general, men often purchase flowers only as presents, while women also purchase them for own use.
- A general rule in the flower business is that flower purchases increase with the age of the buyer. In the UK, people between 65 and 75 spent most on flowers in 2005; they represent 21% of the population. The next largest age group that buys flowers consists of people between 35 and 44 years of age, with a share of 20%. People younger than 24 spent least on flowers.
- People in the south of the UK bought most flowers in 2005, accounting for 40% of the UK. The northern region accounts for 34%, and the middle region for 26%.
- In the UK, a relatively large share of flower purchases is for own use. In 2005, approximately 55% of flower purchases was for own use. This large share is related to the high average income in the UK and to the popularity of flowers. Many consumers can afford to purchase flowers for own use and like to decorate their home with flowers. Moreover, the distribution of flowers is rather convenient for consumers in the UK, stimulating impulse purchases. This is further explained in Section 2. Flowers as gifts represented 33% of flower purchases, while flowers for funerals and graves represented only 6%.

Figure 1.1 Occasions for buying flowers, 2005, share in %



Source: Product Board for Horticulture (2007)

- Figure 1.1 presents the occasions for which British people buy flowers. Most people buy flowers as a birthday present (19%). Furthermore, many people buy flowers as a “thank you”, for Mother’s Day, and for romance.
- The institutional market has also become a major flower market in the past two decades. The share of companies buying cut flowers increased from 11% in 1994 to 24% in 2002. This share remained stable until 2006.

Trends

- Flowers are increasingly purchased for own use. Between 2001 and 2005, the share of flower purchases for own use increased from 43% to 55%.
- Consumption of mixed bouquets is increasing. It is becoming more common to purchase mixed bouquets for home decoration. The higher prices of mixed bouquets do not hamper the increase in sales of mixed bouquets.
- The popularity of Lilium bunches is increasing.
- A test in supermarkets pointed out that consumers would like to see more exotic flowers in mono-bunches as well as mixed bouquets. They also indicated that foliage made bouquets more beautiful.

Production

The UK production of cut flowers amounted to €77 million in 2005, making the UK the sixth largest producer within the EU. The value of production has remained relatively stable since 2003. The total area for the production of flowers in the UK was estimated at approximately 6 thousand hectares in 2005. The size of the production area also remained relatively unchanged the past 10 years. Approximately 5.7 thousand hectares is open area and 0.2 thousand is protected. The flowers are cultivated by about a thousand growers. The main production areas in England are the Southwest, the East Midlands and Eastern England. Most growers are smaller companies which focus on the regional wholesale markets. There are only modest investments in new up-to-date greenhouse technology, as growers face relative high interest rates in the UK compared to other EU countries. Nevertheless, a number of larger companies has scaled up to supply to the UK supermarkets.

Table 1.2 Production of cut flowers in England and Wales, 2001-2005, volume in ha and value in € million

	2001		2002		2003		2004		2005	
	vol. (ha)	Value (£)	Vol. (ha)	Value (£)	Vol. (ha)	Value (£)	Vol. (ha)	Value (£)	Vol. (ha)	Value (£)
Cut flowers open area										
Narcissus	3,298	19.8	3,900	20.0	3,890	20.5	3,900	20.8	3,900	21.3
Gladiolus	154		100		93		130		130	
Other cut flowers	607	19.5	662	19.3	666	19.2	638	19.8	630	19.8
Total	4,059	39.3	4,622	39.3	4,649	39.7	4,668	40.6	4,660	41.0
Cut flowers under glass										
Dianthus	4	0.4	5	0.7	5	0.5	5	0.4	7	0.5
Alstroemeria	21	8.7	19	8.4	18	7.7	18	7.7	16	9.5
Dendranthema	59	10.4	48	6.0	46	7.1	43	8.5	13	6.7
Other cut flowers	53	6.5	55	7.7	53	6.7	52	5.7	50	6.0
Total	137	29.2	127	24.7	122	23.7	118	24.1	104	23.5

Source: Flower Council of Holland (2005)

Traditionally, the leading product grown in the UK is Narcissus. In the trade they are often referred to as so-called 'pencils', because they are mostly traded without leaves. The area of cultivation under glass in England (amongst others on the Channel Islands) and Wales decreased from 270 hectares in 1994 to 104 hectares in 2005. This was mainly due to the decreasing area of cultivation for Dendranthema.

Trends in production

- A long-term trend over a period of 10 years is the decrease in production of cut flowers and an increase in the production of hardy ornamental nursery stock. This indicates a switch from the former to the latter.
- In the past, many UK growers cultivated a wide assortment of flowers. Nowadays, more and more UK growers focus on a smaller assortment to increase productivity and to pinpoint demand in their target market segment.
- Many growers in the UK lack capital and their materials are mostly outdated. As a result, the number of growers is declining. The remaining growers have increased their scales. Average scales of growers in England increased from 3.3 hectares in 1995 to 4.7 hectares in 2005.

Opportunities and threats

In general, the UK market for cut flowers has experienced healthy growth in recent years and has almost become as big as the number one market in the EU, Germany. Moreover, the low penetration level offers room for continued growth.

Exporters of ready-to-use flower bunches are offered good opportunities by the increased popularity of mixed bouquets. These products have more added value and give higher returns. Exotic flowers also offer good opportunities, especially when they are offered in combination with an appropriate vase.

A number of UK growers is scaling up, professionalising and improving their assortment policies. They are becoming more interesting as suppliers to wholesalers and supermarkets.

Useful sources

- Flowers and Plants Association: <http://www.flowers.org.uk>
- Horticultural Development Authority: <http://www.hdc.org.uk>
- Flower Council of Holland: <http://www.flowercouncil.org/uk/>
- Commercial Horticultural Association: <http://www.cha-hort.com>
- Find growers:

2. Trade structure

Trade channels

Figure 2.1 Distribution of flowers in the United Kingdom, 2004, in €million



Source: Flower Council of Holland (2007)

Note: Figures are indications and can only be applied to obtain an idea of the relative importance of different trade channels.

Figure 2.1 presents the distribution of flowers in the UK, although no clear distribution chain for cut flowers exists in the UK. At the wholesale level, flowers are traded through the 35 wholesale markets or through import wholesalers. The larger supermarket chains, due to their enormous buying power, have directly influenced the way products are sourced. This has caused changes in the distribution chain, leading to implications even in African supplying countries like Kenya. The result is a small number of very large UK-based companies which is specialised in supplying these supermarket channels. Their activities extend from production to wholesale.

An example is World Flowers (part of Oserian Group, <http://www.world-flowers.us>), which has its own production in Kenya and imports from associated farmers in, for instance, Kenya, Zimbabwe, Zambia and Uganda. Most of these products are destined for UK supermarkets like Tesco and Waitrose.

Another example is Flamingo Holdings (<http://www.flamingoholdings.com>). Flamingo has its own farms in Kenya (amongst which Homegrown) and South Africa. Flamingo subsidiaries Zwetsloots and Flower Plus coordinate the supply of bouquets in the UK. Zwetsloots, for instance, supplies Tesco, Morrisons, Safeway and Co-Op. The main client of Flower Plus is Marks & Spencer.

Trade experts foresee that growers and wholesalers will increasingly bypass the traditional wholesale markets. Supermarkets are expected to become more important in the UK distribution of flowers in the future. Wholesale markets, florists and street markets are expected to decrease in importance. According to the Flower Council of Holland, the number of traditional wholesalers will decrease from 450 to 350. Wholesalers offering extra good opportunities to flower exporters are packers supplying directly to supermarkets.

Major wholesalers are: Zwetsloots (<http://www.zwetsloots.co.uk>) in Senny Bedfordshire, World, Flowers in North Warnborough-Hookhants, Winchester Growers, (<http://www.winchestergrowers.co.uk>) in Pinchbeck-Spalding, Lingarden Flower Sales in Weston-Spalding, Lincolnshire and John Austin in London.

Retail trade

Supermarkets are the leading sales channel for flowers in the UK, with a 73% share in 2006, as can be seen in Table 2.1. Supermarkets in the UK play a significantly more important role than in other EU markets. Their market share is expected to remain at this level in the future. The second largest retail channel is the florist, although its market share decreased from 27% in 2002 to 14% in 2006.

Table 2.1 Share of retail channels in the UK, % of total sales, 2002-2006
2002 2003 2004 2005 2006

	2002	2003	2004	2005	2006
Supermarkets	58	64	69	70	73
Florists	27	25	20	17	14
Street and market	6	5	5	7	7
Garden centres / DIY	3	2	2	2	1
Grower	0	0	0	0	1
Others	6	4	4	4	4
Total	100	100	100	100	100

Source: Flower Council of Holland (2007)

The approximately 7,000 florists in the UK are facing a declining market share. Nevertheless, as the total UK consumption showed a strong increase, the florists still managed to expand their sales in absolute terms. They are becoming more professional by offering better service, quality and knowledge. This has resulted, amongst other benefits, in increased sales to the institutional market from which florists derive approximately 25% of their turnover. More than 67% of companies purchases their flowers at a florist. Other purchasing channels are supermarkets (13%) and the market (5%). The major purchasing channels for florists are wholesale markets, where 48% of florists purchase flowers. Other major channels are wholesalers supplying directly from their trucks (38%) and exporters in The Netherlands (30%). The leading organisations of florists are Interflora and Teleflora. 32% and 27% of florists are associated with these organisations respectively.

Supermarket chains are growing fast. The major supermarkets are Tesco, Sainsbury, Safeway, Asda and Marks & Spencer. Consumers mainly purchase flowers at supermarkets because of the convenience, attractive offers and vase life guarantee.

Trends

As supermarkets have become the main sales channel and often prefer to source directly from growers, shorter distribution lines are increasing in importance. Supermarkets are actively seeking reliable suppliers.

Price structure

Different prices and margins apply throughout the various trade channels. The price structure depends on the type of distribution channel and the role of the individual players. The margin of wholesalers can vary from about 25% to 50%. The margin of retailers can even vary more, from 50% to 150%. Supermarkets tend to apply lower margins as they are often supplied by specialised wholesale companies with own production in Africa. Florists mostly purchase flowers at wholesale markets, but margins can vary when products are sourced directly from local growers.

3. Trade: imports and exports

Imports

The UK is a key player in the trade of cut flowers and foliage. The UK is the largest EU importer of cut flowers and foliage, accounting for 24% of total EU imports in 2006. Its total imports decreased by 2% annually between 2002 and 2006, amounting to €806.3 million / 146.7 thousand tonnes in 2006. Comparable importers are Germany, The Netherlands, and France which account for market shares of 23%, 15%, and 12% respectively.

The value of imports sourced in developing countries increased by 6% annually between 2002 and 2006, amounting to €153 million in 2006. This equals a considerable share of 19% in UK imports. The UK sources its flowers in a rather large number of different developing countries.

The most important developing country suppliers are Kenya (10%) and Colombia (6%). Imports from Kenya and Colombia showed an annual increase of 9% and 3% respectively during the review period. Taiwan shows the strongest growth, with imports increasing by 202% annually. Imports amounted to € 1 million in 2006. South Africa also showed a large annual growth, of 51% between 2002 and 2006, with imports amounting to € 2 million in 2006.

The main EU supplier is The Netherlands (76%), followed at a distance by Spain (3%).

Between 2002 and 2006, imports from The Netherlands decreased by 3% annually. Imports from Spain decreased by 13% annually during this period.

Table 3.1 Imports by the UK and leading suppliers to the UK, 2002-2006, €million / share in % of value.

Product	2002	2004	2006	Leading Suppliers in 2006 share in %		Share in UK Imports
Total cut flowers and foliage	758.5	655.6	648.3	Intra-EU:	The Netherlands (76), Spain (3).	80
	3.2	2.5	5.1	Extra-EU excl DC:	Israel (0.5)	1
	119	126.7	152.9	DC*:	Kenya (10), Colombia (6), Turkey (1), India (0.3), Ecuador (0.3), South Africa (0.3).	19
Rosa	66.0	67.2	85.7	Intra-EU:	The Netherlands (68), Germany (1).	69
	0.1	0.1	0.03	Extra-EU excl DC:	-	0
	31.5	24.8	38.4	DC*:	Kenya (28), Colombia (2), Ethiopia (0.4), Zambia (0.3), India (0.2).	31
Dianthus	44.5	32.7	28.2	Intra-EU:	The Netherlands (15), Spain (10), Austria (1).	26
	0	0	0	Extra-EU excl DC:	-	0
	54.1	43.5	79.6	DC*:	Colombia (38), Kenya (29), Turkey (6), Morocco (1), Ethiopia (0.2).	74
Orchids	4.1	4.8	6.1	Intra-EU:	Netherlands (80).	80
	0	0	1.0	Extra-EU excl DC:	Taiwan (13)	13
	0.6	0.3	0.5	DC*:	Thailand (6), South Africa (0.2), Turkey (0.2)	7
Gladiolus	1.2	1.2	2.3	Intra-EU:	The Netherlands (70), Italy (1), Spain (1).	72
	0	0	0	Extra-EU excl DC:	Israel (0.2).	1
	3.0	2.9	0.9	DC*:	Colombia (18), Morocco (6), Kenya (2), Malaysia (1), Brazil (0.4).	27
Dendranthema	124.8	118.3	130.0	Intra-EU:	The Netherlands (97), Spain (1).	98
	0.1	0	0	Extra-EU excl DC:	-	0
	0.3	1.9	2.6	DC*:	South Africa (1), Colombia (0.4).	2
Other fresh cut flowers	485.6	419.6	378.4	Intra-EU:	The Netherlands (88), Spain (3), Italy (1), Belgium (1).	93
	2.8	2.1	3.9	Extra-EU excl DC:	Israel (1).	1
	23.0	48.4	24.9	DC*:	Kenya (3), Colombia (2), Ecuador (1), South Africa (0.3), Costa Rica (0.3).	6

Source: Eurostat (2007) *Developing Countries

As can be seen in Table 3.1, the largest product groups for the UK are Dendranthema, Rosa, Dianthus and 'other fresh cut flowers', which mainly consist of summer flowers. Within the EU, the UK is the largest importer of Dendranthema, accounting for a market share of 51% in 2006, with imports increasing by 1% annually. Furthermore, the UK is the third largest importer of Rosa, accounting for an import share of 13% in 2006. Moreover, Rosa imports increased by 6% annually. The UK is the largest importer of Dianthus, accounting for a market share of 45% in 2006, and imports increased by 2% annually. The UK is also the second largest importer of 'other fresh cut flowers', accounting for a market share of 25%. However, the imports of this product group decreased by 6% annually. The UK imports of Orchids showed the largest increase (13% annually), and the imports of prepared cut flowers showed the largest decrease (16% annually). Finally, imports of Gladiolus decreased during the review period, while imports of foliage slightly increased.

The role of developing countries in UK imports is particularly important for four product groups. Their share in imports is 74% for Dianthus, 56% for foliage, 31% for Rosa and 27% for Gladiolus. UK imports of Dianthus from developing countries increased by 10% annually between 2002 and 2006. The largest suppliers are Colombia (38%) and Kenya (29%), which increased their supplies to the UK by 1% and 41% annually respectively. As a result of the good performance of developing countries, the share of EU countries in the UK imports of Dianthus decreased by 11% annually. Imports from a number of EU countries even decreased sharply. Imports from Spain decreased by 22% annually, imports from Italy by 36% annually and imports from Belgium by 33% annually.

The total share of developing countries in UK imports of Rosa increased by 5% annually during the review period. The largest developing country supplier is Kenya (28%), which increased its supplies to the UK by 8% annually. The Netherlands is still the largest supplier, with imports also increasing by 8% annually during the review period. Ethiopia and Zambia are new suppliers of Rosa to the UK since 2004, although their market shares are still below 1%. Imports from Colombia increased slightly between 2002 and 2006.

Although foliage and Gladiolus are small product groups for the UK, the share of developing countries in UK imports is considerable. The imports of foliage from developing countries increased by 14% annually during the review period. The most important developing country suppliers are India and China, from which the imports increased by 15% and 6% annually respectively. The imports of Gladiolus from developing countries decreased by 26% annually between 2002 and 2006. This decrease was mainly caused by Colombia from which the imports decreased by 30% annually. Imports from Kenya and Malaysia also decreased, by 27% and 30% annually.

Although Dendranthema and 'other fresh cut flowers' are the two largest product groups for the UK, the share of developing countries is rather low. Note that many of these products like summer flowers are purchased from Netherlands wholesalers, who partly import them from developing countries. Despite this low share of direct UK imports, the value of 'other fresh cut flowers' imported from developing countries is still large compared to other product groups. Between 2002 and 2006, imports of 'other fresh cut flowers' from developing countries increased by 2% annually. The largest supplier is The Netherlands (88%) although imports decreased by 6% annually during the review period. Imports from Kenya decreased by 11% annually, whereas imports from Colombia increased by 49% annually.

UK imports of Dendranthema from developing countries increased by 66% annually during the review period. Kenya, South Africa and Colombia showed a very large annual increase in imports, of 92%, 59%, and 72% respectively. Still, The Netherlands is by far the largest supplier (97%), and imports increased by 2% annually.

The UK imports 7% of its Orchids from developing countries. These imports decreased by 3% annually between 2002 and 2006. Most imports come from The Netherlands (80%), of which the imports increased by 14% annually. The Netherlands is a leading European producer particularly of Cymbidium varieties. The most important developing country supplier is Thailand, from which the imports increased by 3% annually. Taiwan is another important exporter of Orchids to the UK, achieving a market share of 13% in 2006.

Finally, the UK imports 12% of its prepared cut flowers from developing countries, with imports decreasing by 17% annually during the review period. However, imports from Colombia, India and China increased during this period, by 16%, 17%, and 5% annually respectively.

Exports

The UK exports only moderate amounts of cut flowers and foliage. Ranked only as the sixth largest exporter of cut flowers and foliage with a market share of 1% in the EU, the UK is a net importer of cut flowers and foliage. However, its exports increased by 5% annually, amounting to €35.5 million / 22.7 thousand tonnes in 2006. Comparable exporting countries are France and Portugal, which also have a market share of 1%.

The leading three export destinations for UK exports are The Netherlands (€18.7 million), and Ireland (€13.7 million). Exports to both countries increased, by 12% and 2% annually respectively between 2002 and 2006.

UK exports are mainly composed of 'other fresh cut flowers' (mainly Narcissus), with exports amounting to €28.2 million.

Opportunities and threats

The UK is an interesting market for developing country suppliers of cut flowers and foliage, because of the following reasons:

- It is the largest EU importer of cut flowers and foliage with a market share of 24%.
- The UK imports consist for a relatively large part of products from developing countries. The import value of developing countries increased annually by 6%, amounting to an import share of 19% in 2006.
- Dianthus and Rosa provide particularly good opportunities to developing country producers, since these are two important product groups in the UK and developing countries have a large and increasing share in UK imports of these flowers.
- Although Kenya and Colombia are, by far, the leading developing country suppliers of flowers and foliage to

the UK, many other developing countries are represented in UK imports. Ethiopia is an important emerging country for Rosa.

- Besides The Netherlands, the UK is one of the European countries which has a number of large importing companies specialised in sourcing products in developing countries. Their main market channels are supermarkets.

4. Price developments

The Netherlands auctions set the price for most flowers sold in the UK. This is because many of the flowers traded in the UK have passed through the Netherlands auction system or have been supplied by Netherlands wholesalers. Refer to the VBN statistical yearbook for average prices paid for the products auctioned: <http://www.vbn.nl>.

Table 4.1 presents the retail prices of flowers in the UK. Between 2001 and 2004, retail prices of flowers in the UK increased by 4.2% annually. Prices increased for mono-bunches and mixed bouquets, as well as for compositions.

Table 4.1 Retail prices of flowers, 2005, in €

	2005
Mono-bunches	14.31
Mixed bouquets	10.91
Compositions	n.a.
Total	10.49

Currency converted from £ to €: £ 1 = € 1.4818 (exchange rate October 2007)

Source: Product Board for Horticulture (2005)

An indication of current supermarket retail prices for cut flowers:

Gladioli (8 stems): £4 GBP

Lily (4 stems): £8 GBP

Mixed Bouquets: £6 GBP

Source: UK Supermarkets (2008)

Prices at florists and for mail orders are higher than in other retail channels. The price at a florist is more than three times higher than at a supermarket, the price of a mail order almost five times higher.

Useful sources

A few European organisations publish prices for cut flowers on a regular basis. ITC in Geneva collects prices at the wholesale level on EU markets and publishes a weekly bulletin. The International Association of Horticultural Producers (AIPH) publishes information on prices and trends for cut flowers in their statistical yearbook.

- ITC Market News Service (MNS): <http://www.intracen.org>
- International Association of Horticultural Producers:

5. Market access requirements

Growers in developing countries preparing to access the UK, should be aware of the market access requirements of trading partners and the UK government. Requirements are demanded through legislation and through labels, codes and management systems. These requirements are based on environmental, consumer health and safety and social concerns. Exporters need to comply with EU legislation and have to be aware of the additional non-legislative requirements that trading partners in the EU might request.

Phytosanitary legislation

The phytosanitary EU regulations are of particular importance. The European Union based its phytosanitary legislation on “protective measures against the introduction into the Community of organisms harmful to plants or plant products and against their spread within the Community” on standards of the IPPC (International Plant Protection Convention). This legislation is applicable to flowers, plants and fresh fruits and vegetables imported into the EU.

A phytosanitary certificate is needed to guarantee compliance of cut flowers and foliage with phytosanitary legislation. Phytosanitary certificates are issued to indicate that consignments of cut flowers and foliage meet phytosanitary import requirements specified by the EU. Inspection and other related activities leading to issuance of phytosanitary certificates is carried out by, or under the authority of, the official national plant protection organization of the country from which



the products are exported.

For more information regarding International Standards for Phytosanitary Measures (ISPM's) please refer to: <http://www.cbi.eu/marketinfo>

Packaging

Packaging is used to protect products against mechanical damage and to create a more favourable micro climate. It is another essential factor in ensuring the product's quality, since it both presents the product and protects it. However, according to the way in which packaging is applied, it can also be a major risk to quality, due to bruising and less than optimum conditions of temperature and humidity.

Different packaging materials are used, depending on the type of product and the function of protection and influence over the micro climate required. Packaging can be divided into sleeves and wraps in paper or plastic materials, and external packaging in boxes, up to the sealed pallet.

The packaging has to satisfy a number of conditions, mainly in the field of handling, and the protection of the quality. The transport volume must be as efficient as possible, and a high level of uniformity is desirable. In order to optimise transportation, it is recommended to use boxes, the measurements of which are in accordance with the EU pallet sizes or the airfreight pallet.

Tariffs and quota

Cut flowers from Nepal are zero-rated.

The general VAT rate in the UK, which is also applied to flowers, is 17.5%.

Quality standards

Due to the extensive offer of flowers by growers and the perfection of flower growing, buyers have become used to the continuous availability of high-quality flowers. They no longer accept flowers of low-quality. The quality requirements mainly relate to colour, flower size, number of flowers per stem, stem length, stem strength and vase life. There is a general EU regulation (Regulation 316/68) which specifies minimum requirements for floricultural products. However, the quality standards of the Dutch auctions (VBN) give a better impression of the general requirements of the European floricultural trade. The Netherlands growers and traders have made agreements concerning the quality of the products which are offered for sale at the auctions. These agreements, which relate to the products' quality, their grade, packaging and the information provided on the product, have been laid down in the VBN product specifications. These product specifications contain the conditions for growers to participate in the sale process at the auctions. The Federation of Dutch Flower Auctions (VBN) issues norm sheets which specify the quality, packing and marking standards required for each product. Note that the VBN product specifications are more detailed and specific than those of other EU markets. If selling via one of the Dutch auctions, compliance with these standards is compulsory. Product specification sheets may be found on the VBN website at:

<http://www.vbn.nl/en/productinfo/productspecificaties/index.asp>

Consumers often determine the quality of flowers in one short glance. The petals are the best visible part of flowers. Their quality is thus of major importance. The petals should not show any discolouration. Temperature control during and after production, pest control and other measures are therefore of great importance.

Flower size is not always important. Roses, for example, come in large sizes and small sizes (so-called 'Sweethearts'). Both have a market in the EU. However, in general, large-budded roses fetch higher prices. In general, a higher number of flowers, longer stems and greater stem strength are also better, quality-wise.

Vase life deserves special attention as it has become a marketable quality. Some retailers currently guarantee a certain vase life to their customers by putting a label on the packaging which indicates the guaranteed vase life. If the flowers do not last as long as was guaranteed, the customer may return the flowers and the costs are passed on to the grower. Although this kind of agreement between grower and buyer is not yet standardised, it might become more common in the future.

Product specifications of the VBN, which are applicable to supplies to the Netherlands auctions, can be found on their website: <http://www.vbn.nl>.

6. Doing business

With consumption of cut flowers continuing to grow, the UK market offers new exporters good opportunities.



UK importers look for new suppliers in developing countries by visiting the country of interest, through recommendations or through trade fairs. The most common ways for exporters to approach UK customers are through direct (e)mail, personal visits as follow up, inviting potential UK customers to visit them, building a network and visiting international trade fairs.

After obtaining contacts, evaluating potential trade partners should be done according to criteria such as information quality, geographic coverage, the kind of trade relation the partner is interested in, the position of the partner and the financial status and credibility.

The following websites can be used to find a trading partner in the UK:

- <http://www.tradeholding.net>
- <http://europe.bloombiz.com>
- <http://www.tradexpro.com>

Useful sources

- The Fresh Produce Consortium: <http://www.freshproduce.org.uk>
- Flower and Plants Association: <http://www.flowers.org.uk>
- Flower Wholesale Trade Association (FWTA): <http://www.fwta.co.uk>
- International Floriculture Online Report: <http://www.pathfastpublishing.com>
- New Covent Garden Market: <http://www.cgma.gov.uk>
- New Smithfield Market: <http://www.manchester.gov.uk/markets/wholesale/>

Sales promotion

Common practices of trade promotion should not differ widely from other European countries. English is the common language used during negotiation. In general, good care should be taken of existing contacts, by using prompt, constant and reliable communication. Letters of inquiry should always be replied to. An essential tool used in sales is a detailed and up-to-date customer database.

In the case of flowers, some importers in the UK are not in favour of trade fairs as a means to promote suppliers from developing countries. However, their opinion is not truly objective as they themselves are threatened by the increasing exclusion of the middle chains in the distribution chain. Visiting or even participating in a trade fair can be an efficient tool for communicating with prospective customers. It can also be a valuable source of information on market developments, production techniques and interesting varieties. Assistance with market entry can also be sought through local trade associations, import promotion organisations such as CBI and branch organisations focusing on the flower sector.

Trade associations

- Flowers and plants association: <http://www.flowers.org.uk>
- Institute of Horticulture: <http://www.horticulture.org.uk>
- Horticultural Trades Association (HTA): <http://www.the-hta.org.uk>
- Horticultural Development Council (HDC): <http://www.hdc.org.uk>
- Commercial Horticultural Association:

Trade fairs

- Four Oaks Trade Show (horticultural trade fair): <http://www.fouroaks-tradeshow.com>
- Chelsea Flower Show (floricultural trade fair): <http://www.rhs.org.uk>
- Spring Flower Show (flower show): <http://www.flowershow.org.uk>
- Spring Florist Event (floriculture wholesale and retail show):
<http://www.springfloristevent.co.uk>
- Full overview of UK trade shows:

Trade press

- Florist & Wholesale Buyer: <http://www.masterflorist.com>
- Grower: <http://www.nexusmedia.com>
- Nurseryman & Garden Centre: <http://www.nexusmedia.com>
- Horticulture Week: <http://www.hortweek.com>
- Comm. Greenhouse Grower: <http://www.actpub.co.uk/greenhousegrower.htm>

1. This report is almost entirely sourced from the CBI Market Survey: The Cut Flowers and Foliage Market in the United Kingdom, November 2007. www.cbi.eu



The Danish and European market for cut flowers and foliage

1. Market description – consumption and production

Market structure for cut flowers and foliage in the EU

The European Union (EU) is believed to consume over 50% of the world's flowers and includes many countries which have a relatively high per capita consumption of cut flowers. Germany is the biggest consumer, followed by the UK, France and Italy in order of importance.

The markets in the EU can be divided into three categories:

- Mature markets like Germany, The Netherlands, France, Belgium, and the Scandinavian countries, including Denmark.
These markets are characterised by relatively high levels of per capita expenditure on flowers. The size of these markets tends to be stable and sometimes even declining. Consumers tend to spend a relatively high share of flower expenditure on personal use. They are familiar with flowers and are interested in new and interesting products.
- Growth markets like Spain and the UK:
These markets are generally of considerable size (the UK for instance is already one of the largest consumer markets), but there it is the expectation that they will continue to grow for the coming years. In some of the growth markets, the per capita spending is still relatively low compared with the mature markets.
- Markets in development like the East-European countries and Greece:
Typically, the economies of these countries are expanding fast. As the purchasing power of consumers is increasing, they tend to buy more flowers. Nevertheless, flowers are still considered a luxury item and are bought mainly as gifts.

Consumption patterns in Denmark

The market for cut flowers and foliage for use in bouquets can be segmented by purpose:

- a) Gifts and special occasions; and
- b) Own use

Flowers bought for own use play a relatively larger role in higher-income countries such as Denmark compared with other countries. In this connection it is worth mentioning that Danes generally pay much attention to interior decoration, an interest which has even increased over the last five to ten years. To a much greater extent than before home has become a place through which people will try to demonstrate their individual style and identity. Fresh flowers are an important element in interior decoration in Denmark, and as opposed to the majority of European consumers Danes are not that fond of artificial flowers, the market for which has declined considerably over the last five years. The ever-changing fads in interior decoration seem to set the trend and cut flowers in fashionable colours and rare species forms are priced higher than the average crop of traditional colour.

Production

The combined production value of EU countries according to the available data is approximately € 4 billion. The Netherlands is by far the major producer in the EU, accounting for half of total production value.

Production development differs strongly between countries. In some Northwest European countries like the UK, Germany and Belgium, production is declining. In The Netherlands, Italy, Spain, Belgium, Sweden and Denmark, the number of active growers is also declining. The average production per company however increases, resulting in stable overall production figures. Furthermore, East-European countries like Poland and Hungary are showing a recovery, and even growth, in cut flower production.

Market Trends in the Danish cut flowers market

Although the European market may show signs of saturation, this does not apply to Denmark most likely due to a combination of strong growth in gross domestic product and declining unemployment rates coupled with an increasing interest in interior decoration. However, Danish importers of flowers note that consumers demand ever more sophisticated products in terms of e.g. innovative wrappings and colour combinations. This is felt even by supermarkets which used to offer a very narrow assortment (with single-species bunches) but are now increasingly offering readymade bouquets.



Notwithstanding, flowers purchased in supermarkets are generally perceived as being of inferior quality in comparison with flowers from a florist. It is worth noting that supermarket sales are exceptionally high in Denmark as opposed to other European countries.

Thus, the trend seems to be towards more expensive and diversified products with an add-on, e.g. mixed bouquets as opposed to simple bunches of one species of flowers, possibly even sold in conjunction with an assorted vase.

According to Danish importers the current limitations to tapping this potential lie in resolving the logistical problems in handling such products, as well as in identifying reliable and competitive business partners capable of taking charge of the additions to the basic product.

Ecological flowers

Although currently a very small niche in the Danish market, there are a limited number of florists offering ecological flowers. Ecological products (primarily food) have in recent years gained considerable popularity in Denmark and a currently being offered on a permanent basis even by some of the discount supermarket chains, even if the range of ecological products permanently on offer there is somewhat limited. It is not unlikely that this trend in customer demand will spread also to cut flowers, not only in reflection to customer demands but also as a marketing brand with a view to differentiate one's products from those of the competitors.

The market for ecological flowers could be a possible way for Nepalese flowers to get into the Danish market. The report will elaborate on this topic later in Chapter 4 "Opportunities and Threats".

2. Trade structure

Distribution in EU and Denmark

The important factors determining chances of success on the European market for flowers, in addition to price and quality (and closely linked with these), are dependable air freight services and adequate packaging and handling facilities in the exporting country. As cut flowers are a highly perishable product, maintaining a cold chain (including cold storage and transportation) is a major determinant of quality and hence price as the product arrives at the retailer.

Although the market for cut flowers is highly competitive and importers are on the look-out for new specialty products to gain market niches from the currently dominant species, they tend not to swap easily from one flower supplier to another.

Three options are open to developing country exporters seeking to enter the European market, at least in theory:

- 1) via one of the Netherlands auctions
- 2) via an import/export wholesaler, or
- 3) directly via a European retail chain

It is of paramount importance to recognize in this connection, however, that the Danish market is a very small one with a population of only 5,5 million. In practical terms, one air carrier of e.g. roses corresponds to two to three weeks' sales by one of the major supermarket chains. Thus, with the limited size of the market it would be difficult for importers importing directly from developing countries to place large quantities of perishable flowers within the short time span available before the quality deteriorates excessively. At the same time, due to the intensity of price competition all cost elements must be cut back to the largest extent possible, and shipping large shipments into one destination such as Amsterdam in the Netherlands is of course economically more advantageous. Similarly, even large retail chains (supermarkets) who have recently taken over considerable market shares from florists cannot support the cost of quality controlling produces (including packaging and storage) on the spot as would be required on a recurrent basis in order to ensure stable and high quality, as the imported volumes are too small to justify the expense. And even if developing country producers were to associate themselves and invest in value-added activities as has been seen e.g. among large, Kenyan growers beginning to supply British supermarkets directly, this does not seem to be a viable option for exporting to Denmark at present, taking into account the limited size of the Danish market.

Hence, even the major Danish importers continue to import via the Netherlands although they may have specific agreements as to which producers (including developing country producers) to source from.

There are app. 10-20 major importers in Denmark, including the two large supermarket chains (Dansk Supermarked and Coop). Of these importers, one or two are import wholesalers the sole purpose of whom is to redistribute to other domestic wholesalers. Thus, as described above in the section on imports the Netherlands (auctions and importing/exporting



wholesalers alike) play a gateway function into the Danish market

3. Trade: Imports and exports

The Danish Market size

This section outlines the total Danish market for imported cut flowers and foliage.

Total imports of cut flowers have increased over the period 2003-2005 from DKK 528,445,000 to DKK 601,193,000 or by 13% over the entire period. By contrast, imports of foliage have decreased over the period 2003-2005 from DKK 54,704,000 to DKK 41,640,000 or by 24%. The volume of imports is only measured in value (Danish Crowns - DKK) as statistics do not account for the products by unit.

It is worth noting that Denmark is a production country itself, as well as an exporter. The main production countries in Northern Europe have in recent years seen scale-enlargement and productivity increasing while the total production area is slowly declining as is the number of growers. Total domestic production of cut flowers in Denmark has decreased by approx. 32% over the period 2000 to 2005. This decrease may reflect the current surplus production of flowers and plants on a worldwide basis which has led to fierce price competition and reduced profitability in most producing countries. In response to this situation the trend might be towards growing flowers in low-cost countries, including developing countries enjoying duty-free status, and flying them into distribution centres in Europe at the expense of European growers' market share.

Danish Imports of cut flowers and foliage

The EU is the world's leading importer of flowers and foliage, with imports amounting to € 3.4 billion in 2006. While the European Union is in general characterised by substantial intra-trade in which products are imported by one member state only for the purpose of re-exporting to another, this is a particularly outstanding feature when it comes to cut flowers and foliage. Thus, the Netherlands plays a massive trading role in distributing imported flowers throughout Europe and enjoys a gateway function into the European market for imports from developing countries as displayed by the fact that developing countries account for a larger share of imports in the Netherlands than in the imports of other EU countries.

The Netherlands is the leading importer when it comes to imports originating from outside of the EU, with 56% of all cut flowers and foliage imported from outside of the EU in terms of value, and 61% in terms of volume. Its exports of cut flowers and foliage account for app. 55-60% of total world trade, and constitute 89% of total EU trade in 2004. However, once a product is imported into Denmark through another EU country such as the Netherlands, its country of origin is no longer featured in the statistics. Hence Danish import statistics are generally likely to give an incomplete picture when it comes to the share of imports from countries outside of the European Union; and even more so in the case of imports of cut flowers where intra-trade with the Netherlands is dominant. Thus, in 2005 the Netherlands enjoyed a market share of 94% of total imports of cut flowers into Denmark.

Table 1. Value of Total Imports of Flowers and Foliage into Denmark (DKK 1,000)

CN Category	Commodity Description	2001	2002	2003	2004	2005	Change in % 2001-2005
<u>0603</u>	<u>Cut flowers and flower buds</u>						
<i>0603 10</i>	<i>Fresh Cut Flowers</i>						
0603 10 10	Roses	99.309	99.207	110.550	117.638	133.593	13%
0603 10 20	Camations (<i>Dianthus</i>)	11.871	12.529	11.212	11.292	13.917	17%
0603 10 30	Orchids	2.983	2.606	5.736	3.441	2.869	-4%
0603 10 40	Gladioli	619	1.031	820	568	742	-9%
0603 10 50	Chrysanthemums (<i>Debranthema</i>)	18.776	25.847	23.009	26.303	32.026	71%
0603 10 80	Other fresh cut flowers	240.032	210.922	210.285	250.968	249.750	4%
<i>0603 90</i>	<i>Other/prepared cut flowers</i>						
<u>0604</u>	<u>Foliage, branches and other parts of plants</u>						
<i>0604 99</i>	<i>Foliage other than mosses, lichens, and parts of Christmas trees</i>						
0604 99 10	Not further prepared than dried	9.424	4.848	6.786	5.296	5.202	-45%
0604 99 90	Other	6.170	5.920	10.005	4.971	6.174	0%
Total		389.184	362.910	378.403	420.477	424.273	9%

Source: Statistics of Denmark and DIPP

Table 2. Total Imports of Cut flowers (DKK 1,000)

<i>CN 0603</i>	2003	2004	2005	% 2003-2005	Market share 2005	Change in % from 2003-2005
Total imports to Denmark	528.445	566.644	601.193			13%
Index (2003 = 100)	100	107	114			
Top 10 exporting countries						
The Netherlands	499.575	532.926	564.816	13%	94%	
Italy	4.486	10.183	10.424	132%	2%	
UK	9.903	9.666	8.812	-11%	1%	
Poland	104	938	5.119	4817%	1%	
Sweden	1.881	2.848	4.532	141%	1%	
Germany	5.332	3.433	3.200	-40%	1%	
Lithuania	0	1.374	1.439		0%	
Belgium	2.630	779	1.019		0%	
Spain	2.461	1.929	933	-62%	0%	
Thailand	1.032	824	291	-72%	0%	
Top 10 total exports to DK	527.404	564.902	600.585		100%	

Source: Statistics Denmark and DIPP

Table 3. Total Imports of Foliage (DKK 1,000)

<i>CN 0604</i>	2003	2004	2005	% 2003-2005	Market share 2005	Change in % from 2003-2005
Total imports to Denmark	54.704	43.075	41.640			-24%
Index (2003 = 100)	100	79	76			
Top 10 exporting countries						
The Netherlands	15.007	16.875	17.772	18%	43%	
Poland	7.342	6.997	6.976	-5%	17%	
Lithuania	3.793	3.972	4.182	10%	10%	
Germany	14.443	3.855	3.542	-75%	9%	
Latvia	2.196	1.762	1.820	-17%	4%	
Italy	4.402	1.404	1.501	-66%	4%	
UK	2.223	2.251	1.493	-33%	4%	
Sweden	1.015	1.075	1.367	35%	3%	
India	972	1.072	881	-9%	2%	
Czech Republic	102	115	485	376%	1%	
Top 10 total exports to DK	51.495	39.378	40.019		96%	

Source: Statistics Denmark and DIPP

Imports from developing countries

The only developing country featuring among the Top 10 in total Danish imports of cut flowers is Thailand which account for 0.05% of total imports of cut flowers in 2005, and India with 2% of foliage (all types) in 2005.

Consequently, although consumption patterns may vary strongly among EU member states, import statistics from the Netherlands may provide some useful indications and insights which might be taken as indicative of the origin of products imported into the EU in general. Leading developing country exporters of cut flowers and foliage into the Netherlands were in 2004 Kenya, Ecuador, Zimbabwe, Uganda, and Colombia. Kenya accounted for 48% of the value of total imports originating from developing countries, followed by Ecuador, Zimbabwe, Uganda, and Colombia with 14%, 12%, 7%, and 6% of total cut flowers imports respectively. Besides The Netherlands, other cut flower suppliers to

the EU contributing major shares were Kenya (9%), Colombia (3%), Ecuador (3%) and Israel (2%). Kenya increased its supply by 12% annually between 2002 and 2006. Israel decreased in importance in the same period, with supplies decreasing by 8% annually.

The total share of developing countries in the supply to the Netherlands of all main flower species increased over the period 2002-2004 from app. 65% to 72%. Although the share declined for a few species (prepared cut flowers, chrysanthemums, and gladioli), developing countries retained a dominant share for most species with 94% of total imports of roses into the Netherlands in 2004, 72% of orchids, 67% of foliage, 62% of carnations, and 45% of other fresh cut flowers.

Patterns of import during the seasons

According to a Dutch market survey, sales prospects for non-EU cut flowers lie essentially in the European winter months as is also reflected in the fact that a very high proportion of imports from developing countries is delivered from November to May, whereas European growers are mostly able to satisfy demand both in quantitative and qualitative terms during the rest of the year. Consequently, demand for imports from developing countries during European summer months is mainly for species not grown in the EU.

It should be noted in this connection that tropical flowers are also cultivated in greenhouses in Europe and the USA and that high transportation costs (due to exceptionally heavy weight or volume of many tropical species) make imports from developing countries relatively less attractive.

Therefore, although tropical flowers constitute a growing niche market, it is far from a captive market for developing country exporters. Similarly, although developing country exporters are generally characterised by low labour costs and hence enjoy a comparative advantage when it comes to labour intensive specialty products such as bouquets, two major difficulties need to be taken into account, viz. ever-varying fashions/trends with regards to colours and combinations; and the strong negative influence on quality of use of dense packing in order to reduce freight costs.

The most important foliage species

The major foliage species imported into the Netherlands are: Asparagus, Hedera, Leather Leaf Fern, Eucalyptus, and Ruscus, with leading suppliers to the EU market being India and certain Central American countries also having gained a strong position. Demand for different foliage varieties (particularly small-leaved foliage for cheap bouquets) seems still to be increasing and importers keen to use tropical foliage.

To sum up, with price competition becoming still more pronounced there seems to be a trend towards growing flowers and foliage in low-cost countries, in particular developing countries enjoying duty-free status. However, with a view to minimising high air freight costs it is more economical to send large quantities to one single destination, primarily Amsterdam when it comes to exports into Europe. Thus, the prospects for direct exports to Denmark may be both very limited and not very profitable as demonstrated by the fact that even the largest supermarket groups in Denmark do not import directly but rather through wholesalers in the Netherlands or from the Netherlands auctions.

4. Opportunities and Threats

Opportunities and threats to exporters from developing countries

In addition to the previous paragraphs it is instructive to summarise and outline the main opportunities for and threats to developing country producers of cut flowers and foliage.

Factors offering opportunities or posing threats for developing countries exporters in general are:

- The market for cut flowers consists of a range of product groups, which offer varying opportunities for developing countries as potential suppliers. It is a highly competitive market in which importers are continually seeking new, special and different products. A speciality can also offer the prospect of making higher profits than those achieved by selling conventional floricultural products.
- Following the increasing flower sales via supermarket chains, a growing demand for mixed bouquets can be recognised. As a consequence, there is also an increasing interest in the main inputs for bouquets, i.e. summer flowers and foliage. In many countries, supermarket channels are becoming more involved in the flower trade. Nowadays, supermarket chains conduct their own quality tests and subsequently impose increasing quality requirements on their suppliers. An increasing number of retail chains require suppliers and products to be certified.



- The number of European growers is declining. However, the ones left over increasingly scale up and apply high-tech production methods, which enable them to increase productivity and grow products of the highest quality. A shift of production can be recognised from central and northern Europe towards peripheral Europe.
- The ACP States are the countries which are signatories to the Lomé Convention. "ACP" stands for "Africa, Caribbean, and Pacific." The terms on which EU and ACP states trade are established in the Cotonou Agreement 2000. The Cotonou agreement states that a new regime must be agreed by end-2007. The Cotonou Agreement, however, foresees a major change in trade that responds to adverse rulings in the WTO on its predecessors. It gives as the preferred, but not only, option the creation of so-called EPAs. EPAs are Economic Partnership Agreements, which are very detailed bilateral agreements between individual countries and the EU. In the case that particular countries are not able to create EPAs in time, the standard GSP regime will apply to their exports, although it is often much less favourable than the Cotonou agreement.

Opportunities and threats to Nepalese export of cut flowers to Denmark

One of the major importers of cut flowers in Denmark with 25-30 years of experience in the business interviewed was somewhat sceptical towards the possibility of exporting Nepalese cut flowers to Denmark at present. According to the importer, flowers from Nepal and the rest of Asia have so far in general turned out to be of a very poor quality. His experience was that too many of the producers in Asia do not have the required experience, education and/or knowledge of how to grow cut flowers. Therefore is it not necessarily the products, but the lack of know-how in general and especially the lack of know-how in the making of the flowers which results in a poor outcome.

In recent years the Danish demand for high quality flowers has grown. The Danes might not buy more flowers than earlier in regards to quantity, but the demand for beautiful flowers which can be kept for a longer time is increasing, and the Danish consumers are willing to pay more for a higher quality. This leads to a higher amount of money spent on cut flowers in Denmark, according to the experienced cut flowers importer.

Regarding orchids and carnations specifically, the importer did not buy many carnations. Regarding the orchids it would need to be specified what kinds of orchids the Nepalese sector wants to export. The lack of ability to distinguish between the different species of cut flowers was in fact one of the importer's other critics of the Asian exporters.

His advice to the Nepalese cut flower producers is to produce flowers of higher quality developed with expertise. Maybe then in about five years or so the Nepalese producers and their products might have the skills and quality to enter the Danish markets for cut flowers, and to change the reputation of the Nepalese cut flowers' quality.

The Danish consumers have started to buy plants as a part of the interior in their houses, and orchids have an important role to play as a part of this trend. However, the Danes do not buy a whole bundle of orchids, but a few pretty ones to beautify their homes. This might offer a great opportunity to the Nepalese producers of orchids, but again it is necessary that these are produced at a certain level of quality to be able to enter the Danish market.

There has been an increasing focus on and demand for fair trade and ecological commodities in Denmark in the recent years. This could be an advantage for Nepalese flowers and their chances of being imported in Europe/Denmark. However, the flowers will need to have the sufficient quality and the producers should be able to document or certify that the flowers are produced under environmental sustainable conditions. The Danish consumers are interested in the story behind the product and this could turn out to be an opportunity for flowers and other products from Nepal. As consumers are demonstrating the will to pay higher prices for ecological food, the same might be the case for flowers, but again, the product needs to have a certain level of quality if the consumers should be willing to pay more for their flowers.

5. Market access requirements

Exporting to Denmark and EU

Goods imported to Denmark are governed by a complex set of EU and national directives, laws, regulations and standards. The aim is to ensure consumer safety, to protect the environment and limit other risk factors. Of particular importance in connection with imports of flowers and plants are phytosanitary issues, e.g. regulations intended to prevent the introduction of plant pests and diseases which are not present in the EU. The importer is responsible for compliance with relevant legislation, and local authorities in Denmark will check compliance. Consequently, the importer will require from suppliers that the products meet requirements.



Generally, it is recommended that specific product requirements and requirements regarding e.g. packaging and labelling always be agreed upon and specified in detail in the contract between the exporter and the Danish importer in order to meet expectations and to comply with EU regulations. Responsibility for compliance with Danish regulations rests with the importer and consequently, the Danish importer usually informs the foreign supplier of his specific product requirements as well as requirements to packaging and labelling.

As a grower in a developing country preparing to access EU markets, the importer should be aware of the market access requirements of the trading partners and the EU governments. Requirements are demanded through legislation and through labels, codes and management systems. These requirements are based on environmental, consumer health and safety and social concerns. You need to comply with EU legislation and have to be aware of the additional non-legislative requirements that your trading partners in the EU might request.

6. Doing Business

Most Danish importers visit different trade fairs in order to meet with potential suppliers and to get an impression of the possibilities in the market. As close, personal relationships are often stressed in international trade relations, this is a very good way of meeting potential business partners for both importers and suppliers. Danish importers are, however, approached rather aggressively by exhibitors at the trade fairs and may receive as many as some 40 invitations for one single fair.

As mentioned earlier the Netherlands is the leading importer in the EU as regards imports of cut flowers and foliage from outside of the EU and play a gateway function into the Danish market as even the major Danish importers import via the Netherlands, either through the Netherlands auctions or through import/export wholesalers based in the Netherlands. For an exporter seeking to export into Denmark it might therefore be recommendable to start by approaching the Netherlands auctions or the import/export wholesalers based in the Netherlands.

Some importers stress that fast communication through e-mails is important as well as having an English-speaking staff. All marketing information, brochures and websites must be in English and professional assistance when translating is recommended. Poor translation will convey an unprofessional impression of the company. Furthermore, importers also increasingly place importance on the existence of a website of the exporter.

It should never be assumed that the Danish importer will follow up on the business offer. The follow-up is always expected to be made by the exporter. A follow-up call will give an idea of the need and purchase pattern of the Danish importer, which may help evaluate the compatibility of the product.

Meeting with the Importer

Personal contact established through a business visit may also be important. Danish importers travel widely and will most likely also at some point in time want to visit the supplier for an inspection of the location and facilities.

If the product is of relevance to the importer's line of business, it will normally not be a problem to set up meetings directly. Danish business people are generally result oriented and well versed within their particular field. Therefore, it is advisable to be well prepared and ready to respond to very direct questions about quality, prices, quantities and deliveries.

Trade Fairs

Participating in international trade fairs is an important activity in order to create contact to future business partners. The Netherlands plays a massive trading role in distributing imported flowers throughout Europe and Danish importers point to the Horti Fair in the Netherlands as one of the most important ones to attend for potential exporters into Denmark (whether exporting via the Netherlands or attempting to export directly), in addition to IPM in Germany.

Before considering to exhibit it is often advisable to participate in the fair as a visitor. A well-prepared and properly executed visit to a trade fair may constitute a very cost-effective means of both market research and promotion since it is possible to meet both future competitors and potential customers at the fairs. If you choose to exhibit in a trade fair it is important to know in advance who the target groups of the fair are. Moreover, relevant importers should be contacted prior to the trade fair in order to set up meetings during the fair, as some of these importers are likely to exhibit themselves. By looking at the list of exhibiting companies printed in trade fair catalogues from previous years it is possible to get a good impression of which companies to contact in order to set up meetings (the catalogue can often be obtained by contacting the trade fair organizers or via the Internet). Some of these companies might not have time for meetings during the fair if they are exhibiting themselves and therefore you should allow yourself to stay a few days after the fair in order to conduct these meetings.



Trade fairs in Denmark and Europe:

Trade Fairs in Denmark				
Name	What	Where	When	Web-site
Fagmessen for Havecentre	Horticultural technology & supplies, flowers and lifestyle products, garden furniture, tools etc. for sale in so-called garden centres	Odense, Denmark	January	www.danskehavecentre.dk/fagmessen/default.asp
European Trade Fairs				
International Horti Fair	Equipment, flowers, and plants	Amsterdam, Netherlands	October/ November	www.hortifair.nl
IPM	Plants, floristry, technology, sales promotion	Essen, Germany	January	http://ipm.messe-essen.de

Source: DIPP

For a number of good tips and ideas about how to get the most out of an exhibition, please refer to

An important source to this report is the Danish Import Promotion Programme (DIPP)

DIPP–Danish Import Promotion Programme

Boersen

DK –1217 Copenhagen K

Phone: +45 33 74 60 00

Fax: +45 33 74 60 80

E-mail: dipp@danskerhverv.com

Other Organisations, Institutions, and Ministries in Denmark:

Danish Ministry of Foreign Affairs

Asiatisk Plads 2

DK- 1448 Copenhagen K

Phone: +45 33 92 00 00

Fax: +45 33 12 37 78

E-mail: um@um.dk

The Danish Customs Authority

Østbanegade 123

DK –2100 Copenhagen Ø

Phone: +45 35 29 73 00

Fax: +45 35 43 47 20

The Danish Plant Directorate

Skovbrynet 20

DK-2800 Lyngby

Phone: +45 4526 3600

Fax: +45 4526 3610

E-mail: pdir@pdir.dk

Danish Environmental Protection Agency

Strandgade 29

DK-11401 Copenhagen K

Phone: +45 32 66 01 00

Fax: +45 32 66 04 79

E-mail: mst@mst.dk

GASA Odense (auction)

Lavsenvænget 1
DK-5200 Odense V
Phone: +45 66 25 60 00
E-mail: fg@gasa-odense.dk
www.gasa-odense.dk

GASA Aalborg (auction)

Frederikstadvej 15,
DK-9200 Aalborg SV
Phone: +45 9818 5179
Fax: +45 9818 8299
E-mail: clb@gasa-odense.dk

Institutions and Organisations Abroad.

Plantenziektenkundige Dienst (Dutch phytosanitary service)

P.O. Box 9012
NL-6700 HC Wageningen
The Netherlands
Phone: +31 (0)317 49 69 11
Fax: +31 (0)317 42 17 01
Internet: www.mininv.nl/pd

Bloemenveiling Aalsmeer (VBA) (international flower auction in Aalsmeer, Netherlands)

E-mail: info@bva.nl

Bloemenveiling Floraholland (international flower auction with branches in five dutch cities)

Middel Broekweg 29
Postbus 220
2670 AE Naaldwijk
Phone: +31 174 63 33 33
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E-mail: info@floraholland.nl
www.floraholland.nl



Coffee

The export potential for coffee is medium. The recent export trend of Nepalese coffee has been very encouraging. Japan and EU are the major export markets for Nepalese coffee, while the USA is also emerging as an important buyer. All the coffee planted in Nepal is Arabica as the climate and soil in the mid and high hills of Nepal are very suitable for the Arabica bean. The total areas under coffee cultivation, total production as well as total yield have been increasing over the last decade. Yields in Nepal are, however, still relatively low compared to their major competitors. There are approximately 15,000 farmers involved in coffee production. They do not appear to be facing any major production problems. While coffee production in Nepal has only emerged recently, it is mostly cultivated under conventional methods. The system of coffee processing is mostly wet process. The major problem currently facing Nepali coffee production is the great variation in the quality of dried coffee beans. The problem comes from the fact that the beans are collected from many small farmers and, in the absence of a quality standard for coffee (other than dry cherries), this has led to great variation. There are eight major processing enterprises handling almost all coffee produced in Nepal. There are a number of reoccurring processing errors in both the wet and dry processing systems. By removing many of these errors it would be possible to significantly improve the quality of the coffee. Traders also reported significant quality loss in transit due to accumulated heat in the containers. A shortage of temperature-controlled containers appears to be the major source of this problem.

Competitiveness prospects are very favourable. There are still large tracts of land, which could be brought under coffee cultivation. Improving the yield rate could increase production. Very significant increases in production can be achieved through improved processing efficiency. In addition, Nepal possesses great potential for product diversification in terms of 'Speciality Coffee' (De-caffeinated coffee, Organic coffee, One estate coffee, One variety coffee, Highland coffee). World market prospects are very favourable. The niche in organic and specialty highland coffee offers real opportunities. For a small producer like Nepal, the fact that these niche products only occupy seven percent of the total world market is not a constraint. An indicator of future potential in this area is the great popularity of Nepalese organic coffee in Japan. The most attractive markets for Nepalese coffee are a number of EU countries and the US. It may also be possible to develop India as a market for Nepalese coffee.

The current socio-economic impact in terms of employment is relatively low. The current socio-economic impact of this sector is relatively low. More than 7,700 people directly involved in this sector are estimated as a full-time employment equivalent (FTEE). While coffee is, as yet, not a very important export commodity for Nepal, in terms of total income, its importance as an agricultural export item has been increasing. Apart from the farmers, there are a large number of ancillary workers dependent on this sector. Coffee farming also contributes towards rural development in several aspects. It has direct impact on the economy of the rural people. In addition, coffee plants contribute towards reducing soil erosion in the mid-hills.

Priority actions

- Increase production and quality by increasing the area under cultivation, improving the processing systems and introducing national grading and quality standards.
- Increase proportion of highland and organic coffee beans.



SWOT analysis for coffee

<p>Strength:</p> <p><i>Resources:</i> Favourable natural conditions for Highland Speciality Coffee. Farmers trained in organic coffee farming technology transferred from the El Salvador and are adopting coffee in large scale in steep landscapes. Technical manpower is developed to extend coffee farming and processing technology among farmers Widespread farmer interest in growing coffee. Only 50% of trees planted have reached fruit bearing age</p>	<p>Weakness:</p> <p><i>Production:</i> Inconsistency of supply quality Processing systems inefficient</p> <p><i>Market:</i> Local market insufficiently explored</p> <p><i>Business Environment:</i> Existing organizational structure of commodity association is poorly backed up with commercially viable service package to generate revenue by benefiting the farmers. Poor physical infrastructure and poor SPS facility. No provision of public warehouse and special transportation facility. Poorly equipped local level commercial processing infrastructures. NCPA and coffee board collaboration is poor to monitor farm level, processing level and marketing level practices Undeveloped grading system</p>
<p>Opportunity:</p> <p><i>World Markets:</i> Demand for specialty coffee continuously increasing</p> <p><i>Product:</i> Bulk coffee in excessive surplus Potential to grow more highland specialty and organic specialty coffee for the international markets.</p> <p><i>Production:</i> Improvement in processing methods will increase production significantly District Coffee Producers' Association (DCPA) and Nepal Coffee Producers' Association (NCPA) can be instrumental to develop data base, establishment of internal control system (ICS), monitoring code of conduct for specialty and fair trade labeling and training and development and policy lobby.</p>	<p>Threat:</p> <p><i>Production:</i> Spreading of epidemic pests may damage the crop Research into the different varieties of coffee and the gains to productivity has not yet been institutionalized.</p> <p><i>Business Environment:</i> Due to the shortcomings in physical and institutional infrastructures, quality of coffee is unpredictable which is detrimental to efforts to acquire brand status in the international market.</p> <p><i>World Markets:</i> Low international price of mainstream coffee</p>

Current export performance

The recent export trend of Nepalese green bean coffee to overseas markets has been very encouraging. Stakeholders in the coffee industry estimate that less than 10% of the total production is for domestic consumption with the remaining 90% going to export. Export growth has been higher than overall world import growth. In terms of quantity it has increased more than 9 fold and in terms of value it has grown by 15 fold in the last five years. The total export of coffee from Nepal increased to 34.5 Mt. (valued at Rs. 10 million) in 2004/2005 from 3.7 Mt. (valued at Rs. 672,914) in 2000/2001.

Japan and the EU (notably Netherlands, UK and Germany) are the major export markets of Nepalese coffee. The EU has been the most consistent and significant market for Nepal coffee, but internally the countries purchasing the coffee within the common market have changed. However, UK and Germany markets have been stable for many years. On the other hand, Japan has been rapidly growing as a market over the years. During the past three years the USA has also emerged as an important buyer. This is very encouraging for Nepal, as the USA, EU and Japan together consume about 75% of

the total world production.

Nepal remains a very small player in the world arena. It produced about 249 Mt. of fresh cheery coffee in the year 2004/05.

Export of Coffee to India and Oversea Markets

Fiscal Year	Country	Quantity (Kgs)	Value (NRs.)
2000/01	Japan	3676	672,764
	Germany	1	150
	Total	3677	672,914
2001/02	Japan	7396	1,263,402
	Germany	371	82,170
	UK	958	929,396
	Netherlands	350	180,282
	India		56,000
	Total	9075	2,455,250
2002/03	Japan	16305	4,604,555
	Canada	500	569,148
	UK	56	30,823
	Total	16861	5,204,526
2003/04	Japan	14388	3,694,379
	Egypt	18	12,798
	Germany	109	5,097
	Czech Republic	7600	331823
	Switzerland	2000	1,868,890
	USA	180	33,903
	Total	24295	5,946,890
2004/05	Japan	14349	3,718,259
	USA	8000	1,821,575
	France	50	97,493
	Germany	1000	7,04,100
	UK	5123	231,3148
	Netherlands		6000 1,385,738
	India	92,704	1,134,200
	Total (India not included)	34,522	10,040,313

Domestic supply conditions

The coffee planted in Nepal is all Arabica as the climate and soil in the mid and high hills of Nepal are very suitable for species of this coffee. The climatic conditions best suited to growing coffee consists of temperatures between 20-25°C, around 70% to 80% humidity, 1600 mm to 2500 mm average rainfall and 10-12 hours of sunshine daily with no-frost conditions. For Nepal, the most appropriate altitude range is between 800 m to 1600m.

Coffee needs adequate shade and grows well on the northern slope of the hills. It is, therefore, feasible to produce coffee in the whole of the mid hills areas (which are relatively easily accessible by road) with the potential to realise high quality production for the international niche markets. At present, the major production is coming from 21 districts in the Mid-hill region but more than 62% of total production comes from six districts (Palpa, Gulmi, Arghakhanchi, Syangja, Kaski and Parbat) of the Western Region of Nepal.

The total areas under coffee cultivation, total production as well as overall yield have been increasing over the last decade. Over the period 1995-2005, the cultivated area and the number of growers have

increased five-fold, the production almost tenfold while the average yield has increased by more than 70% .The total area under cultivation, in 2004/05, was estimated at 1,078 Ha. It is also estimated that less than 50% of the plantations have reached the full fruit bearing stage. Therefore, the total production will increase swiftly as those plants soon come to full fruit bearing age.

Growers, area, production, and yield of coffee in Nepal

Year	Area (Ha)	Growers	Production (Mt)	Yield (kg/ha)
1995-96	220.3	1,984	29.20	132.55
1996-97	259.0	2,590	37.35	144.21
1997-98	272.2	2,723	55.90	205.36
1998-98	277.1	2,751	44.50	160.59
1999-00	314.3	2,822	72.40	230.35
2000-01	424.0	2,993	88.70	209.20
2001-02	596.0	3,654	139.20	233.56
2002-03	764.0	6,384	188.00	246.10
2003-04	925	7,000	218	235.67
2004-05	1,078	10,000	249	230.98

Yields in Nepal are still relatively low compared to major competitors. The average yield of green bean is 231 kg per ha. and varies across districts. This yield is comparatively lower than in major coffee producing countries of the world like Vietnam and Papua New Guinea.

There are about 15,000 farmers involved in coffee production. These farmers are facing few production problems. The inputs necessary for coffee cultivation are mainly the coffee shrubs, organic manure or compost and organic pesticides. The farmers can easily access these inputs. They can prepare their own organic pesticides at the farm with the technical supports from the extension services. Therefore, the respondents did not identify any serious production problem that could interfere with the production of coffee. At some places, there have been cases of attacks from 'stem borers' on the plants. With this exception, pest or diseases are very insignificant.

Coffee production in Nepal is new and is mostly being cultivated by conventional methods. The production process adopted by the farmers is not very advanced mainly because the coffee plantations by most of the farmers are not run on a commercial basis and scale. Instead they are still mainly based on small-scale 'kitchen gardening'. As a result, the farmers are not giving due attention towards improved cultivation practices, proper harvesting and post-harvest handling. The ripe cherries are harvested by hand picking by the farmers. One study has found that, due to inefficient harvesting, the traders end up receiving dry cherries that are unripe and over-ripe cherries in the same mix. This results in the coffee having a non-uniform color, the occasional presence of fruit stalks with dry cherries, the potential for insect and mould infestations, and higher moisture content.

The system of coffee processing adopted in Nepal is mostly wet process. There are two systems of coffee processing adopted in Nepal: dry process and wet process. Out of the total green bean production, 20 to 22% is processed by the dry system and 78 to 80 % by the wet system in Nepal. Farmers sell coffee in two forms: Fresh cherry and dried cherry. Fresh cherry, is generally sold directly to the pulping centers or the coffee processors. There are more than 200 coffee pulping centers where cherries are delivered by the farmers who opt for wet processing. Dried cherry, however, is sun dried by the farmers themselves. The farmer then sells the dried cherries to the local collectors or directly to the processing factory/coffee roasters. Drying is done on the floor and takes about 2-3 weeks depending on the weather condition. Middlemen/local collectors also collect dried coffee beans from the farmers. With the introduction of the wet processing method and the direct linkage of primary producers with pulping centers and with the processors or exporters, the middlemen are being eliminated from the supply chain.

Coffee Product Forms

There are two systems of coffee processing adopted in Nepal: dry process and wet process.



- The dry process, which is also called the natural process, consists of the following steps: Ripe cherry collection •3f Drying (dry cherry production) •3f Hulling •3f Green bean production •3f Sorting (grading) •3f (possibly also: Roasting •3f Grinding •3f) Packing.
- The wet process consists of the following steps: Ripe cherry collection •3f Cherry pulping•3f Fermentation•3f Washing •3f Drying (parchment coffee production) •3f Hulling •3f Green bean production •3f Sorting (grading) •3f (possibly also: Roasting •3f Grinding•3f) Packing.

The major problem at this level is the disparate quality of the dried coffee beans as they are collected from many small farmers. There are around 30 collectors. Differences exist in the size of the beans, their color, the amount of foreign materials mixed in, such as dried leaves, twigs, soil, and differences in the drying process.

The coffee buyers supply the farmers with jute bags to package dried coffee beans to ensure that they get a standardized product package. The dried beans are packed in jute bags and are transported in tractors or trucks (depending on the quantity and distance to be covered) and are then sold to the processing factory.

There are eight major processing enterprises, handling almost all coffee produced in Nepal. All of them are private companies domestically owned and operated by Nepali nationals except for HCPCL, which is a public limited company with the majority of shares owned by the farmers group and related associations. A recent study found that the collection of coffee (green beans equivalent) is dominated by the HCPCL (Highland Coffee Promotion Company Ltd) with a market share of 30%, followed by seven other companies whose market shares range from 2% to 19%. Four companies dominate the exports market. The HCPCL (38 % of export) and the Nepal Coffee Company Limited, NCCL (43% of domestic market) have the highest market share of the export and domestic markets respectively.

It was reported that there are quite a number of common processing errors in both the wet and dry processing systems. These errors could be minimized significantly improving the overall quality of the coffee. Common errors in the dry processing system are: (1) mixing of under-ripe and over-ripe cherries; (2) over-drying and under-drying of beans; (3) storing of un-dried beans; (4) storing beans in a room without good ventilation and insufficiently dried floor; and (5) inefficient hulling. The errors in the wet processing system are the same as in dry processing with the additional problems including: (1) fresh cherries not pulped within 24 hours of picking due to the establishment of pulping centres in distant areas; (2) the fermentation process sometimes not properly followed; (3) use of unclean water; (4) use of un-cleaned equipments; and (5) over-drying and under-drying of the parchment beans.

Traders reported significant quality loss in transit from heat damage caused by poor ventilation in the containers and the lack of temperature-controlled containers.

The Government has already recognized coffee as an important high value crop and has taken some positive steps to encourage its development. One good starting point is the conversion of the Nepal Tea Development Board into the Nepal Tea and Coffee Development Board. Similarly, the Government has embarked on a clear Coffee Policy agenda, which incorporates many of the provisions necessary to encourage the development of coffee. This agenda strengthens the institutions involved in coffee development, extension works, quality testing, fiscal measures such as concessions on tax, tariff rates and other charges, and the creation of the Coffee Development Fund. This policy has also included the founding of a Coffee Board with a defined strategy for financial management, marketing and export promotion. The Government's role so far has, however, been limited to providing a cost rebate of 50% on the selling price of coffee shrubs sold to the farmers.

Currently, no agency, private or government, in Nepal has fixed a quality standard for coffee (other than dry cherries). Also, there are no standard guidelines for grading structures commonly accepted in Nepal. In practice, grading is done on the basis of size, color, uniformity and the existence of pale and broken beans. In Arabica coffee, bigger size beans are preferred. The District Coffee Cooperative Association in Gulmi has established an experimental mechanical process for grading. In this process, the green beans, after hulling, are passed through a sorting machine where they are separated in five grades: Grade A and Grade B coffee are exported to different overseas markets. Grade C contains pea berries and small beans, Grade D medium size beans and Grade E contains smaller sized and broken beans. All the C, D and E grades coffee are consumed in the domestic markets.



Competitiveness prospects are very favorable.

- There are still large tracts of land that could be brought under coffee cultivation. At the same time, the farmers who are already growing coffee only devote 5% of their total land to this crop, a figure which could be expanded to at least 20%. Most farmers also only have on average 50 coffee plants. There is scope to increase the number of coffee plants fourfold. There is further scope to extend the cultivation beyond the areas currently used for coffee plantation; even semi-fertile land could be brought under coffee cultivation. Moreover, there are some institutions assisting the coffee growers and launching programmes for promotion of coffee export. The Tea and Coffee Development Board provides technical assistance such as technology transfers through field demonstrations, exhibitions and training. It is providing technical know-how, information on the pricing of coffee, and monitoring and evaluation of coffee development programs. The District Coffee Growers Associations supplies the necessary information on coffee production. It organizes the farmers' groups and transmits training in coffee plantation, picking and grading. It also buys coffee from the producers. Winrock International is assisting coffee growers by launching the 'farmers to farmers' program and encouraging interaction between foreign coffee production specialists and the local farmers. In the same manner, the HELVITAS Nepal are also assisting coffee promotion, by improving training, conducting farmers' orientations, assisting technology transfers, and helping in market promotion. Similarly, the government's District Horticulture Development Office distributes the coffee shrubs and provides necessary guidance to the coffee growers. Recently, private nurseries have begun to supply the coffee shrubs.
- Production could be increased by improving the yield rate – measured both in terms of land area and per individual tree – as there are large variances in the yield across different districts. Through proper management, adequate shading and correct manuring practices, the productivity level can go as high as 1,800 kg per ha, as is the case in Nicaragua. Farmers have reported that the yield variation per tree ranges from 2-10 kg. However, they also expressed the belief that, with proper care and attention, the productivity can easily reach up to 10 kg per plant and may even reach as high as 20 kg per plant. Thus, total production could be vastly increased by changing farm practices. This could be done by allocating more fertile land, instituting better land preparation, using higher quality inputs and ensuring better cultivation practices (timely pruning and topping). These measures are not difficult to implement, as most of the inputs used in coffee plantation are farm based and the farmers are very receptive to new techniques. A number of respondents, however, did express the concern that the supply of manure, pest and disease control materials are not available on a commercial scale and that they cannot be delivered on demand to farmers. Even improvements in the more basic areas, such as coffee harvesting and picking, could help increase the production as it affects the next season's crop. It would also help improve the quality of Nepali coffee. The present harvesting system results in the final crop including about 3-4% un-ripe and 1- 2% over-ripe cherries.
- Very significant increases in production can be achieved by improving the processing efficiency. At present the return of clean beans from a fresh cherry is calculated at around 16%. However, the Nepali processors, aware of the unsatisfactory situation, believe that with some improvements in the existing technology and processing methods, the same cherries can yield about 21-23%, showing a clear indication that by increasing the processing efficiency, the present output can be increased by 30- 40%. Due to the shortage of fresh cherries, the pulping machines, on an average, are running 75% below their capacity. Therefore, if the production of fresh cherries is increased the processing efficiency, even with the present high losses, can be enhanced more than fourfold. Technical losses could also be minimized to some extent by replacing the wooden pulpers or disc pulpers currently used with drum pulpers. It is estimated that the area under cultivation of coffee, and the total output of coffee, in Nepal will have increased sixfold and twelvefold respectively by 2020.

Forecasts of Coffee Area and Production in 2015 and 2020

	2010	2015	2020
Production (Mt)	5,000	15,000	60,000
Area/Plantation (ha)	10,000	30,000	60,000

Source: Rakesh Munankami, Coffee Processors and Exporters; An Overview, Coffee Promotion Project (CoPP), Helvetas Nepal, May 2005



In addition, Nepal has great potential for product diversification by introducing 'Specialty Coffee' - coffee beans that are produced under special micro-climatic conditions and possess outstanding flavor. Nepal's isolated and variable geo-climatic situation provides them with many great opportunities to specialize their coffee production. Of the five main categories of specialty coffee in the world market, (De-caffeinated coffee, Organic coffee, One estate coffee, One variety coffee, Highland coffee), Nepal is capable of producing all except the de-caffeinated coffee. Nepalese coffee is considered by default, as organic by international buyers. Nepal is trying to ensure that their coffee receives the same treatment by overseas consumers. As a result, the demand for Nepalese coffee has been increasing over the last few years.

World markets

The world is still in the process of recovering from the aftermath of market slump caused by excessive oversupply earlier in the decade. In order to avoid a reoccurrence of the same oversupply, it is essential that coffee producers ensure that domestic demand for coffee is strengthened in their own country as well as in new consuming countries, such as Russia and China, where annual demand is growing by 12% but volumes demanded are small.

So far Nepal has not come across any problems exporting coffee to overseas markets.

The exporters usually need to obtain a Certificate of Origin, Weight Certificate and Quarantine Certificate. However, the Quarantine Certificate is not still needed to export to USA. In the USA, coffee can enter without any duty. The basic regulations that are enforced in the USA are related to insects, filth of any kind and chemicals. Similarly, there is no import duty on coffee entering the EU or Japanese markets. However, there is a Wood Packing Material Regulation in force in the US and EU under an International Standard for Phytosanitary Measures (FAO-ISPM 15).

World market prospects are very favourable.

- The niche in organic and specialty highland coffee offers real opportunities. For a small producer like Nepal, the fact that the market represents only 7% of total world import demand is not an issue. Efforts to curb the oversupply by differentiating the product by different grades of quality have made the consumer exceptionally selective. To quote a study report: "As the consumers in the international markets are increasingly demanding and becoming more sophisticated in terms of both quality and image, there is a good prospect for both specialty and organic coffee. Together with the demand, the price for such coffee is also increasing over years. The share of the specialty coffee in the total world coffee market is about 7%. The largest market for the specialty coffee is USA. The annual consumption of the specialty coffee in US alone is estimated to be valued at more than USD 8 billion. Similarly, the largest consumer of the organic coffee is Denmark followed by Switzerland and Austria. The share of these three countries in the total organic coffee sale is 2.8%, 2.3% and 2.0%, respectively. USA's share in the total organic coffee is about 1%. The total sale of organic coffee was 42,000 Mt. in 2002/2003 (ICO website) and is less than 2% of the world total coffee sale. However, it is reported by the traders that the organic coffee fetches around 10-33% premium in the international markets."
- The interviewed traders reported that they have not been able to meet the demand for Nepali coffee of their client countries due to shortfalls in production. Therefore, export diversification in terms of markets could be easily undertaken with the improvements in the availability.
- A number of EU countries, the US and India are the most attractive markets for Nepalese coffee. Nepal is highly underrepresented in EU markets, except for Belgium and Austria. The Indian market shows a particularly strong growth rates, both much higher than the world average as well as other attractive markets. Nepal's market access conditions to all markets, especially in terms of market openness, is very favourable. However, only India grants high tariff advantage to Nepal through the India-Nepal trade treaty.
- India has potential to become a market for Nepalese coffee as chains like Barrista and Coffee Day (similar to Starbucks) are on the rise reflecting a new taste for exotic specialty coffees in India.
- Organic Nepalese coffee is especially successful in Japan. There is currently only one cooperative in Nepal that has managed to acquire an organic certification from Japan and Australia.

Current socio-economic impact

The current socio-economic impact of this sector is relatively low. More than 7,700 people are estimated to be directly involved in this sector as a full-time employee. Most of the practices used in the cultivation and processing of coffee, at the farm level, are labour intensive. Furthermore, a large number of workers are employed in the total supply chain, mostly in transporting (include the truckers and tractors), cleaning, packaging, loading/unloading the coffee. With the promotion



of export and product diversification into organic and specialty coffee, this sector could generate a much larger amount of employment. ABTRACO study estimated the following projection of new employment opportunities in the Nepalese coffee sector.

Besides the significant employment created by this sector in rural areas, coffee farming contributes towards rural development in several more ways. It brings pulping centers into the rural area, generating income and employment for rural people. Coffee farming helps toward crop diversifications. Apart from helping them meet their cash flow requirements, the income is also often invested into farm improvements. Additional benefits are also generated in coffee farming through the inter-cropping of coffee with “rahar” (peasant pea). The coffee plantation also requires proper shade management. Therefore, fodder trees, softwood, and banana, are normally planted in coffee plantations to create shade. The intercrops, such as pulses and fruits, not only benefit the coffee production process but also create higher income for the farmers. As it is being produced in the whole of the mid-hill area, this crop is very important for the development of this region.

Traders have also reported that the coffee plants help reduce soil erosion in the mid-hills.

Coffee, as an agro-forestry cash crop, and because of its need for shade, conserves soil and water in the mid hills. It does not need tilling which is the prime cause of the loss of topsoil in steep landscapes as well as in the highland terrains. Many poor farmers have entered a vicious circle whereby they are forced to continue growing crops, which accelerate the loss of the top soils of their marginal land. Coffee appears to be the most promising crop to stop this trend.

Coffee has a direct impact on the economy of the rural people. Its development can contribute significantly to the poverty alleviation of the people of the mid-hill areas, as the variety of coffee grown in Nepal is best suited to the areas lying between 3000-6000 ft. above msl. It provides cash income to small and excluded farmers who often have little fertile land and are suffering from further soil erosion. One hectare of coffee provides a net income of about Rs. 200,000 using paid labor or about Rs. 250,000 using family labor. The corresponding income from maize and wheat is only Rs. 35,000 using paid labor and Rs. 92,000 using family labor. Thus the impact on rural income is substantial. Very poor farmers do not have fertile land parcels and often need cash to buy staple foods. Coffee, can grow on these areas and provides a source of cash income, it is therefore, from the perspective of improving the livelihood of poor farmers, a very attractive crop.

The UK Market for Coffee

1. Market Overview

In 2006, the UK imported 1.80 million bags of green bean coffee (bag is 60kg) of which the estimated shares were: 52% arabica, 47% robusta and 1% not specified.

Vietnam, Colombia, Indonesia, Brazil and Peru represented 82% of total 2006 green bean imports. Approximately 333,000 bags of processed coffee were imported as well, the bulk of which was soluble coffee, 37% of which from Brazil.

The UK re-exported 900,000 bags, 94% of which was processed coffee.

Consumption

According to the International Coffee Organisation (ICO), per capita consumption of coffee in the UK was 3.03kg in 2006. Soluble coffee accounts for 87% of the market by value with roast and ground at just 13%. Coffee is a well-established market, with consumption comparable to tea, however consumption has declined year on year, by 2.6% between 2003-7 according to Mintel.

The value of the UK retail coffee market was estimated to be £720 million in 2007. Value growth has been strong, increasing by 2% since 2006, but volumes have faltered as consumption frequency falls. It is forecast that the UK coffee market will grow by an estimated 10% to reach a value of £788 million at current prices over the period 2007-12. In real terms, with inflation for food products taken into consideration, this represents a slight 1% increase in growth. (Mintel)

Market Segmentation

The retail market for coffee segments into three primary sectors:

Instant Coffee: includes standard, premium, super-premium, high quality coffee using Arabica beans that are freeze-dried to maintain flavour and decaffeinated. Instant coffee is by far the biggest contributor to the coffee market. Value sales dropped in 2006 as consumers shift into premium non-instant sectors.



oast and Ground: includes all the coffee that is not instant, comprising: beans (loose or pre-packed), ground products for cafeterias, filter machines. This sector is still small but increased by 65% from 2002, to reach £132 million in 2007.

Ready-to-Drink Coffee: eg. Kenco Iced Cappio. This segment stands at £6 million.

All sectors are offering better quality coffee using provenance of single origin claims. (Mintel)

Trends

Despite being a mature market, coffee continues to grow in value, driven by trends including premium products such as Fairtrade, ethical and pods (a new product for coffee machines).

Coffee Shops: coffee consumption has benefited from the growth of high street coffee shops, leading names are Starbucks, Costa Coffee and Café Nero. These three companies had nearly 1500 UK branches between them by mid 2007. The UK branded coffee chain market continues to expand rapidly, exceeding 3,000 outlets in May 2007. This market is forecast to nearly double over the next decade to reach up to 6,000 outlets within 7-10 years.

This trend has also encouraged British consumers to prepare more fresh coffee at home. However, household demand is still dominated by instant coffee which accounts for more than 80% of sales. Manufacturers of instant coffee – mainly Nestle and Kraft, have been able to fight off the trend towards fresh coffee by improving their ranges, which continue to appeal to the UK consumers desire for convenience. In particular, the advent of coffee pods, eg, Kraft's Tassimo on-demand pod machines have developed the roast and ground sector by offering convenience that was lacking before.

Fairtrade coffee: this is the most lucrative Fairtrade product in the UK and continues to demonstrate very good sales growth. Sales of Fairtrade coffee increased by 23% in the last year to reach £32 million. Spanning both the instant and roast and ground sectors, Fairtrade coffee has captured just over 4% of the coffee market, whilst occupying about 10% of retailer shelf space. Retailers devote a lot of space for two reasons. Firstly, they can demonstrate their corporate social responsibility credentials, and secondly because they are premium products, according to Mintel. A key ingredient for the rapid growth of Fairtrade coffee sales has been the adoption of leading Fairtrade brands such as Café Direct by key supermarket retailers. Secondly, as a result of leading coffee shops promoting or switching to Fairtrade coffee.

Some trade sources believe that sustainable ethics are fast becoming mandatory in the coffee market, particularly for new products, with retailers reluctant to list products that have not addressed production ethics. Sustainability (which includes agronomy, environmental and social aspects of coffee production) is redefining the way companies and retailers do business.

It is fast becoming the industry modus operandi and has the potential to surpass Fairtrade. (Mintel)

As the premium sectors develop in the UK, greater emphasis is placed on Arabica beans, with marketing centred on the provenance and taste credentials of specific beans. Arabica is fast becoming synonymous with premium quality, and this is likely to lead to increased prices, particularly as some countries are seeking to trademark native bean varieties. (Mintel)

Prices

Coffee is traded internationally in US dollars. The price of each shipment is determined by quality as well as supply and demand. A good price trend indicator is the futures market of New York for washed arabicas and that of London for robustas. The International Coffee Organisation collects physical prices for the most important growths and calculates a weighted average, the 'Composite Indicator Price'. It can be found on the ICO website: www.ico.org/prices.

Two thirds of global supply comes from South and Central America. Brazil is the largest producer of Arabica beans. Erratic weather during the growing season 2006-7 led to market nervousness and prices reached around \$2.66 per kg since 2005, according to ICO.

2. Trade Structure

Coffee is generally purchased from the exporting countries by international trade houses, dealers and traders. The very largest roasters in Europe also maintain their own in-house buying companies, which deal directly with origin. In the main, however, roasters tend to buy their coffee from international trade houses or from specialized import agents who represent specific exporters in producing countries. The international trade plays a vital role in the worldwide marketing and distribution of coffee. Coffee is generally sold FOB (free on board) but many roasters, and small roasters often prefer to buy in small lots on a delivered in store or ex-store basis. This allows plenty of scope for the various middlemen involved in the trade to operate and perform useful functions, although the increasing concentration at the roasting end of the industry has led to a substantial reduction in their number.



Essentially the coffee trade assists the flow of coffee from the exporting country to the roaster. Traders and dealers take responsibility for discharging the coffee from the incoming vessel and make all the necessary arrangements to have the coffee delivered to the roaster. Using the futures markets either for hedging or as a price guide, traders offer and provide roasters spreads of physical coffee for shipment 1 month to 18 months in the future. Many of these sales, especially for later shipment positions, are short sales: the seller will source the required green coffee at a later date.

Such positions are more often than not sold at a premium or a discount (the differential) against the price of the appropriate delivery month on the London or New York futures markets (selling price to be fixed – PTBF - see sections 08.00 and 09.00 of the International Trade Centre - Coffee Guide on futures markets and trading). This gives the roaster the right to fix the price for each individual shipping position at their option, usually up to the first delivery day of the relevant month. Some roasters might want a separate contract for each position, while others might have a single contract for six positions, for example July through December. Obviously selling so far ahead carries considerable risk. In some cases the coffee may not even have been harvested yet. To reduce their exposure, traders therefore sometimes offer such forward positions as deliveries of a basket of acceptable coffees rather than committing to a single growth. This is becoming less common today than it was in the past but it remains a significant feature of the trade in many parts of the world.

Not all coffee is always immediately sold to a roaster. Before arrival an individual parcel of coffee may be traded several times before it is eventually sold to a roaster. This trading in physical coffee should not be confused with trading coffee contracts on the futures exchanges and terminal markets. Given the variability of supply, the coffee market is inherently unstable and is characterized by wide fluctuations in price. The futures market therefore plays an important role in the coffee trade, as it does with other commodities, by acting as the institution that transfers the risk of price movements to speculators and helps to establish price levels. These markets do not handle significant quantities of physical coffee, although dealers do occasionally deliver coffee or take delivery of coffee in respect of contracts that have not been closed out. Participants in the industry use the futures markets primarily for hedging. Source: International Trade Centre Coffee Guide (www.thecoffeeguide.org)



3. Trade: imports and exports

Imports of green coffee

Imports into the United Kingdom during 2007 of non-decaffeinated green coffee showed an increase of almost 2.4%.

United Kingdom:

Imports of green coffee non-decaffeinated

- in bags of 60 kilos -

Countries of origin	2006	2007
Vietnam	553.936	589.825
Colombia	378.413	465.603
Brazil	244.554	243.297
Indonesia	228.862	148.731
Peru	78.009	102.829
Kenya	34.316	38.715
Ethiopia	27.446	36.743
Honduras	40.411	33.784
Costa Rica	22.660	19.928
Uganda	16.831	19.918
Guatemala	22.324	18.909
Ghana	0	14.167
El Salvador	15.696	13.630
India	14.164	13.437
Nicaragua	29.327	13.189
Mexico	8.179	8.220
Tanzania	7.754	7.809
Papua New Guinea	3.019	3.356
Zimbabwe	2.489	3.228
Others/Unknown	72.618	48.493
Total	1.801.008	1.843.811

Source: British Coffee Association

The major suppliers remain unchanged. Vietnam, continuing as the leading supplier of non-decaffeinated green coffee again increased its share of the market, this year up from 30,76% to 31,99%. Although remaining in fourth place, Indonesia once again suffered a notable drop in imports from 19,3% in 2005 to 12,71% in 2006 and now down to 8,07%. Colombia continues in second place, this year increasing its share from 21,01% to 25,25%. Imports from Brazil were quite steady, decreasing slightly from 13,58% to 13,19%. Imports from Peru are increasingly significant, whilst the remainder of the suppliers continue to consist of other Centrals plus East Africans and India and Papua New Guinea.

United Kingdom

Percentage distribution of green coffee non-decaffeinated imports by main origin - in %

Countries of Origin	2006	2007
Vietnam	30,76	31,99
Colombia	21,01	25,25
Brazil	13,58	13,19
Indonesia	12,71	8,07
Peru	4,33	5,58
Kenya	1,91	2,10
Ethiopia	1,52	1,99
Honduras	2,24	1,83
Costa Rica	1,26	1,08
Uganda	0,90	1,08
Guatemala	1,24	1,03
Ghana	0,00	0,77
El Salvador	0,87	0,74
India	0,79	0,72
Nicaragua	1,63	0,72
Mexico	0,45	0,46
Tanzania	0,43	0,42
Papua New Guinea	0,17	0,19
Zimbabwe	0,14	0,17
Others/Unknown	4,06	2,62
Total	100,00	100,00

Source: British Coffee Association

United Kingdom: Imports by types of coffee (ICO)
- in % -

Types of coffee	2005	2006	2007
Arabicas	52	52	56
Colombian Milds	23	23	28
Other Milds	14	14	13
Brazilian Naturals	15	15	15
Robustas	47	47	42
Others/Unknown	1	1	2

Source: British Coffee Association

The share of Arabicas increased from 52% to 56% basically due to the larger share of Colombian coffee.

Foreign trade in all forms

United Kingdom: Foreign Trade in Coffee - tons -

	Imports		Exports	
	2006	2007	2006	2007
Green	108.060	110.629	3.266	2.495
Green Decaf	278	212	102	71
Roasted	1.138	1.061	2.898	3.675
Roasted Decaf	142	228	203	339
Soluble/Extracts	7.676	10.388	18.062	18,944

Source: British Coffee Association

Imports of soluble/extracts were again higher, mainly due to an increase in non solids. Brazil continued as the major supplier of soluble, although again with a reduced share of the market from 2,870 tons to 2,680 tons. Ecuador significantly increased its share of soluble from 922 tons to 1,634 tons, whilst Colombia's share again fell, from 818 tons to 541 tons.

Exports of soluble/extracts increased by 4.9%. The major markets continued as the EU followed by Russia.

Roasted imports fell whilst exports increased. Imports of roasted decaffeinated were very much higher as were exports.

Imports of green decaffeinated fell as did exports.

4. The speciality market

It is often neither viable nor possible to add value to green coffee by processing at origin. Many coffees are suitable only for blending or processing into neutral or anonymous end products. For such coffees it is not possible to add monetary value as prices are determined solely by market conditions. However, reliable and consistent grading procedures, strict compliance with contractual obligations, and regular delivery will add value in the sense that the product will be preferred by primary buyers over those from less consistent origins. Certain growths of coffee may be highly prized for their flavour characteristics and attract a suitable premium. Examples include Jamaican Blue Mountain, Hawaii Kona, Top Kenya AA and Guatemalan Antiguas.

Some of these growths attract extremely high premiums. Jamaican Blue Mountain attracts such a large premium that the unit value of coffee exported from Jamaica in 2001 was over 13 times higher than the average of all 'other milds' producers and more than 16 times higher than the average achieved by all origins. The top Kenyan grades regularly achieve prices more than double that achieved by other growths. Colombia has adopted an active marketing and publicity policy which has resulted in many brands throughout the world being labelled as 100% Colombian. Besides the promotional effort, the availability, reliable quality, regular delivery of Colombian green coffee, and on occasion price guarantees have assisted sales, as has consumer acceptance of its taste characteristics. Other potential suppliers could adopt strategies such as those below.

If the coffee is of outstanding flavour or quality, sales should be directed to roasters who buy direct from origin (or through a suitable agent) and who retail single origin coffee either in their shops or through other retail outlets. It should be noted that sales of roasted coffee by producing countries direct to foreign retail outlets are generally expensive and difficult.

If the coffee is of satisfactory quality, but unsuitable either for drinking unblended or for marketing in the premium or gourmet market, sales should be directed to roasters who buy direct from origin or agents. Producers should try to ensure that the label of the blend containing their coffee carries a reference to the composition of the blend. Unfortunately, very few roasters are actually willing to do this. In any case, a roaster who markets such a blend will need to be assured of consistent quality and regular delivery.

Consumer awareness of the origins they drink does lead to product loyalty and the development of a brand image. This results in some (albeit limited) protection from the vagaries of the market. If roasters are unable to obtain regular supplies from one exporter, they will of course be encouraged to seek alternative sources. Source: International Trade Centre Coffee

Guide (www.thecoffeeguide.org)

5. Doing Business

The growing demand in the UK for speciality coffees offers Nepalese coffee good opportunities. In addition, 'Fairtrade' and 'Sustainability' are further trends that would help promote the product in the UK as consumers are increasingly attracted by these attributes. However, the quality and price of coffee are of key importance to success in this very competitive market.

Exporters should approach a prospective trader by initially sending a sample 250g bag of green beans. In the course of this research, two companies were identified as suitable contacts to approach: DR Wakefield (www.drwakefield.com) and The Complete Coffee Company (www.complete.coffee.com).

International trade in coffee would not be possible without general agreement on the basic conditions of sale. The coffee trade has developed standard forms of contract of which the most frequently used are those issued by the European Coffee Federation (ECF -04.04.02;) in Amsterdam and the Green Coffee Association (GCA -04.04.03;) of New York. Although many individual transaction details may still be agreed before a contract is concluded, the basic conditions of sale, unchanging conditions that apply each time can be covered by simply stipulating the applicable standard form of contract. Even so, an offer to sell must of course stipulate the quality, quantity and price, the shipment period, the specific conditions of sale, the period during which the offer or bid is valid.

Trade Associations:

Trade Associations provide much valuable information and contacts.

During 2007 the two key coffee organisations in the UK, the British Coffee Association (BCA) and the Coffee Trade Federation (CTF), progressed their co-operative working relationship and a merger was agreed. This took effect as of 1 January 2008 under the name of the British Coffee Association, whose aim is to provide a representative voice for the UK coffee trade and industry and to promote and safeguard members' interests in all matters relating to the growth, preparation, shipment, warehousing, transport, insurance, manufacture, distribution and consumption of coffee. A list of coffee traders is shown on their website:www.britishcoffeeassociation.org.

The European Coffee Federation is also a useful source of information: www.ecf-coffee.org

Trade Fairs: a list of trade events can be found on the ICO website: www.ico.org.

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The Danish market for coffee

1. Market overview

Consumption

Denmark occupies third place in the world when it comes to the consumption of coffee per capita, only surpassed by Sweden and Finland. Coffee is a national drink only topped by milk. A Danish household spends on average 524 DKK on coffee annually, while it spends 872 DKK on milk, 473 DKK on soft drinks, 870 DKK on wine and 484 on beer. One Danish krone (DKK) is approx. 0,20 USD in August 2008

However, measured according to quantity, the average Dane consumes most of milk and coffee. On average, Danes consume 4 cups of coffee per day or 240 litres annually. On an annual basis every Dane purchases approximately 6.5 kilograms of coffee amounting to a total of 3.5 billion DKK for the entire population. Coffee can be found in 98% of all Danish households. 85% of all Danes over the age of 30 drink coffee, whereas 50% under the age of 30 drink coffee.

The consumption of coffee has been declining the last 15 years. Whereas every household consumed 15.4 kilo grams in 1985 on average, it only consumed 12.95 kilo grams in 1990 and 10.6 kilo grams in 1999. Measured in DKK the decline is even bigger due to the decrease in coffee prices the past few years. In 1985 an average household spent 1,021 DKK on coffee. In 1999 it was only 524 DKK. The decline can be attributed to changing drinking habits, especially among the young generation.

Change in consumer behaviour

A survey from 2007 finds that more and more Danes are deselecting the traditional ground coffee for filter brewing in favour of instant coffee. In 2005-2007 the consumption of instant coffee has grown with 10 pct. while the consumption of filter coffee has decreased with 3 pct.

The changes of the Danish consumers coffee habits are related to the following three tendencies:

- The average age of first time coffee consumers is getting higher
- Many consumers drink coffee "to-go" from coffee shops
- Instant coffee is getting more and more popular

It is especially younger people who have a declining consumption of coffee, but also among the elderly people is there a tendency towards a decline in the consumption. Only among the 50-59 year old consumers an increase in consumption can be identified. Nonetheless, filter coffee is still the most popular type of coffee among the Danish consumers.

Trends

Generally, Danes tend to be very conservative in their choice of coffee, though this might be changing in the years to come as a side-effect of the changing consumers habits as mentioned earlier. Most Danes tend to stick to drinking just one brand of coffee throughout the day, whereas in other European countries it is normal to drink one brand in the morning and another in the evening.

It is estimated that of the total amount of coffee sold on the Danish market approximately 75-80% is sold as regular coffee, whereas the remaining is sold as instant coffee, ecological coffee, fair trade coffee (Max Havelaar) and specialty coffee with aroma added. Moreover, at least 80 % of all coffee sold in Denmark is sold on offer in supermarkets meaning that coffee is an extremely price sensitive product.

Whereas coffee tended to be a natural focus for socialising between family members, friends and colleagues for the older generation, the young generation tended to meet for a soft drink or beer. But today, the whole coffee shop/café culture has changed coffee drinking habits. Coffee is no longer just black coffee but a plethora of different blends, beans, brewing methods, types and complementaries, from the small espresso to the grand cafe latte with added cinnamon syrup.

Organic/Fair trade coffee

A survey from 2008 finds that almost 40 pct. of the Danish coffee consumer state that the conditions of the coffee farmers are important in their choice of coffee brand. Half of the consumers are willing to pay more for their coffee if the additional price benefits the coffee farmer. Almost 75 pct. of the consumers are positive in regards of Danish NGO's supporting coffee producers, and almost half of the respondents answer that they buy organic coffee. The consumers' reasons for buying organic coffee are (in order of priority):

One Danish krone (DKK) is approx. 0,20 USD in August 2008

- environmental considerations
- health
- taste

92 pct. of the consumers who has knowledge about Max Havelaar believe that Max Havelaar is a guarantee of fair trade, and 35 pct. of the respondents have bought Max Havelaar coffee during the last three months.

The sale of fair trade coffee is also increasing in Denmark. From 2005 to 2006 the sale of fair trade coffee in Denmark increased by 15 pct. A survey finds that 63 pct. of the Danish consumers consider it to be important or very important that the product they buy is produced in a sustainable manner. In addition to this, half of the respondents find it is important or very important that their coffee is organic.

2. Trade structure

Distribution

Most coffee is shipped directly to Denmark from the country of origin. Once the green coffee beans arrive at the roasters the beans are cleaned, roasted, grinded, blended into the right mix of coffee beans in order to suit the Danish consumers' taste, and eventually packed before the final coffee products are sent out to the customers.

The roasters normally produce their own special coffee blends as well as private labels of coffee customized to meet the demand of their specific customers.

Green coffee beans are imported to Denmark directly by the Danish roasters. In Denmark, the market for green coffee beans is characterized by oligopoly, meaning that few dominant players hold the majority of the market share. Danish coffee processing is dominated by 6 major roasters – of which 1 is a multinational corporation – holding 80-85 % of the total market. The remaining market share is held by smaller roasters. In Denmark only 7-8 roasters are present today compared to 25 years ago when more than 100 roasters were found on the Danish market. This means that competition among Danish coffee roasters is intense and that price becomes a decisive factor.

Danish roasters generally make use of three different means of purchasing green coffee beans:

- Purchasing through own international purchasing offices located in Europe.
- Purchasing via European agents or European trading houses.
- Direct purchasing of coffee beans from the coffee houses in the country of origin.

Some Danish roasters prefer purchasing through the European trading houses as they perceive their purchasing possibilities to be larger due to the greater variety of coffee exporters represented through the trading houses. The Danish roasters supply the retail market as well as the hotel, restaurant and catering (HoReCa - Hotels, Restaurants and Cafés) market in Denmark.

Two market segments for roasted and instant coffee in Denmark exist, namely the retail sector and the HoReCa sector. It is estimated that approximately 80% of all coffee is sold to the retail sector and the remaining 20% to the HoReCa market. It is normal, though, that smaller companies and offices in Denmark purchase their coffee in supermarkets. With regard to roasted and instant coffee, small and medium sized wholesalers or agents normally import this type of coffee to Denmark. These companies are normally specialised within certain product groups or in selling to specific customers on the Danish market. None of the two biggest supermarket chains that dominate the Danish wholesale and retail trade in the food sector import their coffee directly, but mainly purchase the coffee via the Danish roasters.

The majority of all coffee consumed is purchased in supermarkets. The customers' loyalty towards this segment is very low, and the purchasing of coffee in supermarkets highly depends on price.

In summary, the typical steps that coffee has to go through in order to reach the Danish consumer are:

Foreign coffee grower European trading house Danish roaster Danish retail store Danish consumer

3. Trade (import and exports)

The majority of the coffee imported to Denmark stems directly from raw material producing countries, such as Brazil, Colombia, and Peru. However, as table 1 indicates, increasingly more coffee is imported from other EU countries, predominantly Sweden, Germany, Belgium, Italy and the Netherlands.



Denmark does not grow coffee, thus the small “own production” as well as “export” listed in table 1 below refer to the roasting and grinding of coffee. In the process of importing the raw coffee beans, processing these and re-exporting the ground coffee, “shrinkage” in volume takes place, since 1.2 - 1.5 kilo grams of raw beans (approximately 7,000 beans) are required to produce just one kilo gram of roasted and grinded coffee. Exports therefore weigh comparatively less than imports.

The imports from other EU countries mostly consist of roasted coffee, instant coffee, and other coffee related products, which have been subject to value adding processes. Imports from coffee producing countries, on the other hand, are mainly in the form of green beans, which have only been through a minimum of processing, such as drying and threshing. Thus, in value terms, imports from other EU countries may be relatively large compared to the imports from producing countries. Furthermore, processed products tend to be less vulnerable to changing world prices compared to raw material.

Nonetheless, as no EU country produces coffee, all coffee must be imported from countries outside of Europe in the first place. Hence, all coffee imported to Denmark from other EU countries originates from coffee producing countries.

Although the developments in exports to Denmark currently favour EU countries, the vast majority of the top exporting countries to the Danish market are still developing countries. As table 1 shows, Brazil is by far the largest supplier of coffee to the Danish market followed by Colombia, Peru and Honduras. An explanation for these countries’ high market shares is that Latin American countries have a comparative advantage in producing relatively high quality Arabica coffee, which can be sold at competitive prices. Arabica coffee is the absolute most used coffee type in the coffee mixtures, which are sold on the Danish market (source: www.ms.dk). The rest of the exporting countries, outside the EU, consist of African and Asian countries.

Exporters from producing countries may therefore find it equally interesting to export to other EU countries than Denmark. For more information on the opportunities in other EU countries, see, www.gtz.de (German market) or www.cbi.nl (European market).

Table 1. Top Exporting countries of coffee to the Danish market, 2003-2005 (in DKK)

Country	2003	2004	2005	% Change (2003 – 2005)	% Share of Total Import (2005)
Brazil	177,505,079	204,768,615	218,910,636	23.33	23.43
Sweden	14,133,051	57,728,416	218,036,159	1442.74	23.34
Germany	91,006,594	82,523,510	90,263,179	-0.82	9.66
Colombia	76,175,886	81,129,675	75,509,864	-0.87	8.08
Belgium	14,414,375	23,486,755	27,893,728	93.51	2.99
Italy	18,825,235	20,222,278	22,663,858	20.39	2.43
The Netherlands	19,561,850	25,241,161	22,150,303	13.23	2.37
Peru	28,908,196	26,911,785	21,570,125	-25.38	2.31
Honduras	24,061,921	20,977,349	18,882,053	-21.53	2.02
Vietnam	16,444,649	23,281,857	18,494,577	12.47	1.98
Uganda	9,858,278	8,497,203	11,246,239	14.08	1.20
Ethiopia	8,028,657	8,451,508	10,850,316	35.14	1.16
Indonesia	7,919,490	9,785,429	9,711,462	22.63	1.04
Mexico	20,889,246	14,756,336	6,861,225	-67.15	0.73
Kenya	8,296,750	5,253,036	4,966,486	-40.14	0.53
Rwanda	4,215,402	4,900,284	3,135,130	-25.63	0.34
Guatemala	8,022,538	4,765,924	2,997,157	-62.64	0.32

Source: Statistics Denmark and DIPP

Table 2. Import of coffee from Nepal to Denmark

Import of coffee, tea, cacao, chocolate and spices from Nepal in Denmark (in DKK 1,000)

Year	2003	2004	2005	2006
Import Nepal Coffee, tea, cacao, chocolate, spices	1	1	0	39

Source: Statistics Denmark

As can be seen from table 2 above, the total value of import of coffee, tea, cocoa, chocolate & spices was only DKK 39,000 (approx. 5,200 EUR) in 2006. Internet research has identified only 2 Danish based web-shops selling Nepalese coffee along side a very broad spectrum of other very specialised coffees and gourmet food stuffs, and the shops were not importing directly from Nepal but from specialised coffee wholesalers in the UK. Sales were virtually non-existent.

Given that the figures covers all mentioned categories, it is reasonable to assume that there is currently no direct export of coffee from Nepal to Denmark, and that the value of imports of table 2 is mainly from tea and spices.

Table 3.

Top 5 coffee import articles, 2005 (in DKK)

CN Code	Articles	DKK	Top 5 Export Countries (2005)
09.01.11.00	Coffee, not roasted, not decaffeinated	465,057,515	Brazil Colombia Peru Vietnam Honduras
09.01.21.00	Coffee, roasted, not decaffeinated	259,439,078	Sweden Germany Italy Netherlands Belgium
21.01.11.11	Instant coffee (extracts, essences, and concentrates of coffee, with a coffee-based dry matter content of 95% or more by weight)	174,311,447	Switzerland France Germany Sweden Colombia
21.01.12.92	Instant coffee (preparations with these extracts, essences or concentrates of coffee)	19,785,472	United Kingdom Italy Germany Sweden Belgium
09.01.12.00	Coffee, not roasted, decaffeinated	10,289,739	Germany Netherlands Belgium Turkey Italy

Source: Statistics Denmark and DIPP

Given the import figures from table 3 above, it is no surprise that non-roasted and non-decaffeinated coffee constitutes 50% of the total import value to Denmark, since the producing export countries, such as Brazil, Colombia, Peru etc., take up 43% of total imports. Similarly, it is no surprise that the second largest product group - coffee, roasted and non-decaffeinated - takes up more than 25% of the total import value given the strong presence of EU countries in the top, i.e. Germany, Sweden, Belgium and Italy. Instant coffee consumption is on the rise following changing consumption habits. Instant coffee now constitutes 15% of the total market value and approximately 19% of total imports.

Prices and Mark-ups

Coffee is not a uniform product. The price of each shipment is determined by quality as well as supply and demand in the global market. It is therefore complicated to talk about "the" price of coffee.

However, in 2007/2008 the monthly average of the ICO (International Coffee Organisation) Composite Indicator Price stood at 126.67 US cents per lb. In September 2008 it fell below 110 US cents per lb, representing a 17.7 % decrease compared to the level at the beginning of September. The downward trend in prices continued during September compared

to July and August. Robusta prices recorded – again – the steepest fall declining by 6.4 %. The crisis in the global financial markets is having a direct effect on commodities in general, including coffee, despite the fact that the coffee supply and demand fundamentals remain unchanged.

However, as table 5 tells, prices on coffee have in general been increasing during the last three years in the developed countries. But during 2008 we have experienced a decline in the prices.

Credit restrictions caused by the financial crisis in the United States and Europe are likely to affect producers, who may be forced to cut their investments in coffee growing, principally by reducing the use of agricultural inputs. The total volume of exports in August was 7.36 million bags compared to 8.08 million bags in July 2008, representing a fall of 9 %.

The price structure of coffee throughout the supply chain varies depending on the intermediary buying and selling, the quantities, and the type and processing of the coffee in question. The margins charged by the different intermediaries in the trade are also influenced by different factors such as the current and expected future harvest situation, the availability of the coffee, the level of demand, the fluctuation in prices etc. Therefore, it is very difficult to state the exact margins for the different groups of coffee importers.

In conclusion, it should be noted that coffee prices, as well as those of other commodities, have been negatively affected by the current financial turmoil. Credit restrictions and lack of liquidity caused by the crisis could lead to a reduction in supply while it is expected that the forthcoming winter season will help sustain demand. While coffee fundamentals remain in a tight balance, the price outlook in the short run is likely to continue to be dominated by the instability of world financial markets.

Table 5. Retailed price of roasted coffee in selected importing countries

	March			% change
	2006	2007	2008	2008&2007
<i>European Community</i>				
Austria	406.71	413.23	463.31	12.12%
Belgium	399.62	466.09	563.29	20.86%
Cyprus	511.78	559.23	651.32	16.47%
Denmark	421.08	472.38	536.45	13.56%
Finland	275.86	307.52	378.82	23.18%
France	274.77	326.74	405.58	24.13%
Germany	412.16	440.86	543.58	23.30%
Italy	601.34	668.50	813.96	21.76%
Latvia	393.99	453.59	574.75	26.71%
Luxembourg	597.52	677.51	768.90	13.49%
Malta 1/	1 029.86	1 169.17	1365.30	16.78%
Netherlands	379.45	430.05		
Poland	257.28	306.53	461.23	50.47%
Portugal	461.23	496.12	583.71	17.66%
Slovakia	285.95	365.60	504.48	37.99%
Slovenia	373.33	420.44	521.05	23.93%
Spain	322.75	372.39	445.01	19.50%
Sweden	294.69	339.09	384.96	13.53%
United Kingdom 1/	1 439.24	1 757.85	1 763.13	0.30%
Japan	761.73	847.79	909.08	7.23%
Norway	372.30	435.94	494.62	13.46%
Switzerland				
USA	330.10	347.50		

In US cents per lb

1/ Soluble coffee

Source: ICO

4. Doing Business

Opportunities

The change of behaviour in coffee habits among the Danish consumers can turn out to be an advantage to some coffee producers – and a disadvantage to others. Instant coffee is experiencing a boom especially among the younger consumers in Denmark. In less than two years the sale of instant coffee has risen with approx. 10 pct. The Danes also seem to be more open toward organic coffee and fair trade labelled coffee. 50 pct. of the respondents in a survey have answered that they are willing to pay more for their coffee if the surplus is given to the local coffee producer and to improve the farmer's living standards. The Danish consumers' first priority when buying organic coffee is to protect the environment. These trends illustrate that the consumers in Europe are becoming more socially responsible when they are buying a product like coffee. They want to know the background of the product's production process and of the producer. They also want to make sure the coffee is produced in an environmentally sustainable and responsible way, and quite a few of the "responsible" oriented consumers are willing to pay a higher price for their coffee if they are sure that it is produced under environmentally desirable conditions.

These trends and changes of consumer behaviour might indicate a great opportunity for Nepalese coffee in the Danish and European market. However, it will be important to document that the coffee is organic and produced on fair conditions (for the growers) and in an environmentally sustainable way. The product will also need to be of high quality and to have a taste which is favoured by the Danish and European consumers in order to be a product that you don't buy only once because of curiosity, but keep on buying because of loyalty and because you prefer the taste of this product, and the whole "story" behind it (how it was produced, who has produced it, details about its origin area etc.)

In surveys, two out of three Danish coffee consumers declare that they are positive towards Danish NGO's supporting or assisting coffee producers in developing countries.

All this taken into considerations illustrate that future exporters of coffee to the Danish and the European market in general will have to adhere to the changed coffee behaviour and requirements from the European consumers. The demand for coffee produced under responsible and fair conditions is getting higher, and so is the demand for quality coffee. This can be a gate opener and opportunity to some producers while it might be a threat to others.

It seems obvious that if Nepalese coffee should penetrate the Danish market, it should be as a speciality coffee. This requires a very good connection to a Danish importer which can roast the coffee, do the packing and is willing to invest in branding and marketing of new types of coffees in the Danish market.

Less plausible possibilities are to create a relation with a Danish supermarket chain selling quality coffee, for instance Irma, Magasin, to have business relations with distinctive coffee shops, coffee chains (like Baresso), or to have engagement to individual cafés in Copenhagen and other big cities which offer a great variety of "exotic" coffee brands to their customers. Another possibility might be to get in contact with a NGO like Max Havelaar which promotes fair trade coffee in Denmark.

However, the most obvious opportunity seems to be to get in contact with a Danish importer who can be the gateway to the Danish market.

Threats

As mentioned above the change in consumer trends and demand can turn out to be a threat to some producers.

One obvious threat is the fact that coffee prices have gone considerably up during the spring of 2008. On the one hand higher prices could lead to less consumption of coffee in Europe. On the other hand many consumers have the will to pay more for quality coffee and organic/fair trade coffee. And despite consumers' apparent willingness to pay more for specialty coffees, coffee is still a very price sensitive product which supermarkets' continued use of bargains on coffee to attract customers is evidence of.

It is an obvious threat to coffee exporters that the Danish consumption of coffee in total volume in three years dropped with 5 pct. A market with declining consumption could be a threat to new exporters, and make it difficult to enter the European coffee market.

Even though organic and fair trade coffee is on the rise in Denmark, the majority of Danish consumers still stick to



traditional filter coffee and to one brand. This might make it difficult for new exporters, especially from countries like Nepal which is not among the traditional coffee exporters, to get into a market where the consumers are described as “very conservative” in their choice of coffee. The strong Danish brand loyalty compared to the more flexible consumers in other European countries could be quite an obstacle to new, small producers.

A threat to Nepalese coffee could also be the increasing number of fair trade and organic coffee brands in the Danish market. The competitors are many, and Nepal is not a well-known coffee producing country among Danish consumers. It will probably take time and quite some marketing efforts to penetrate the Danish market and make the consumers aware of Nepalese coffee.

If the quality of the coffee is not as high as the competitors’ from the beginning it is exported to Denmark, it will be very difficult to wake or maintain the interest of the Danish coffee consumers or to even get an agreement with a Danish importer.

Trade associations and relevant links

Max Havelaar

Rymsgade 3F, DK-2200 Copenhagen N, phone: + 45 70 23 13 45

Email:

Kaffeklubben (The Coffee Club, a networking organisation for coffee producers/roasters, NGO’s and research institutions)

The Danish Chamber of Commerce/Danish Import Promotion Programme

Email: dipp@htsi.dk

Danish importers of coffee:

Caffé River Scandinavia

Importer and distributor of coffee solutions

Skudehavnsvej 36B

2100 Copenhagen Ø

Denmark

Estate Coffee

Coffee importer, roaster and café

Dronning Olgas Vej 30

2000 Frederiksberg

Denmark

Farm Mountain Coffee

Importer and roaster

Rosengade 7

8900 Randers

Denmark

Lavazza

Axels Kiers Vej 4

8270 Højbjerg

Denmark

Merrild Coffee Systems

Distributor of coffee solutions

Nyvang 16

5500 Middelfart

Denmark

Kent Kaffe

Importer and roaster of Fair Trade coffee

Fraugde-Kærby-Vej 166

5220 Odense Ø

Denmark



More importers and distributors in Denmark can be found through www.kaffeklubben.net

Crosscutting recommendations

Enterprises in Nepal have to adapt substantially in order to address the changing international environment and the key supply-related challenges mentioned above. The following highlights some of the main priority actions that have been proposed for many sectors.

- Invest in upgrading the infrastructure and technology. It is important to upgrade the infrastructure, as ineffective information, processing and transport infrastructure is a serious constraint to Nepalese exports.
- Diversify markets and develop trade promotion activities. Nepalese exports in some sectors are very concentrated geographically, particularly in India. Market diversification is important to reduce sensitivity to demand-side shocks in individual markets.
- Secure access to raw materials. In several sectors, domestic supply of raw materials and intermediate inputs is insufficient, driving up production costs (at high import tariffs and transport costs) and sometimes disrupting production because of irregular foreign supply. In order to secure their supply to the processing sector, a specific plan is needed to create and develop a sustainable source of raw materials.
- Attract foreign investors. Nepal needs to develop the quality and cost of human resources in order to attract foreign investments. These include the lack of transparency and consistency in the legal and policy framework, for example in relation to taxes, the many restrictions to investment, the general business environment, cumbersome procedures, inefficient bureaucracy and corruption.
- Invest in people. Well-educated and disciplined labour forces are key assets for human capital investment. An adequate supply of trained human resources is vital to the development of any industry. A key strategy to enhance exports is to further strengthen human resources by continuing in investing in basic education, vocational training and language training, especially English.
- Adapt Nepalese standards to international standards and reduce health-related risks for agricultural products. This is particularly important for agricultural products because non-tariff barriers, especially technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS) have become increasingly important in recent years. For example, Nepalese honey faces unfavourable market access to major countries such as EU due to SPS measures. Given health-related problems such as the avian influenza (“bird flu”) and the severe acute respiratory syndrome (“SARS”), it is important for example to develop an effective veterinary system, a system to protect plants and to predict natural disasters.

