

The Olive Oil Value Chain: International Prospects and Challenges

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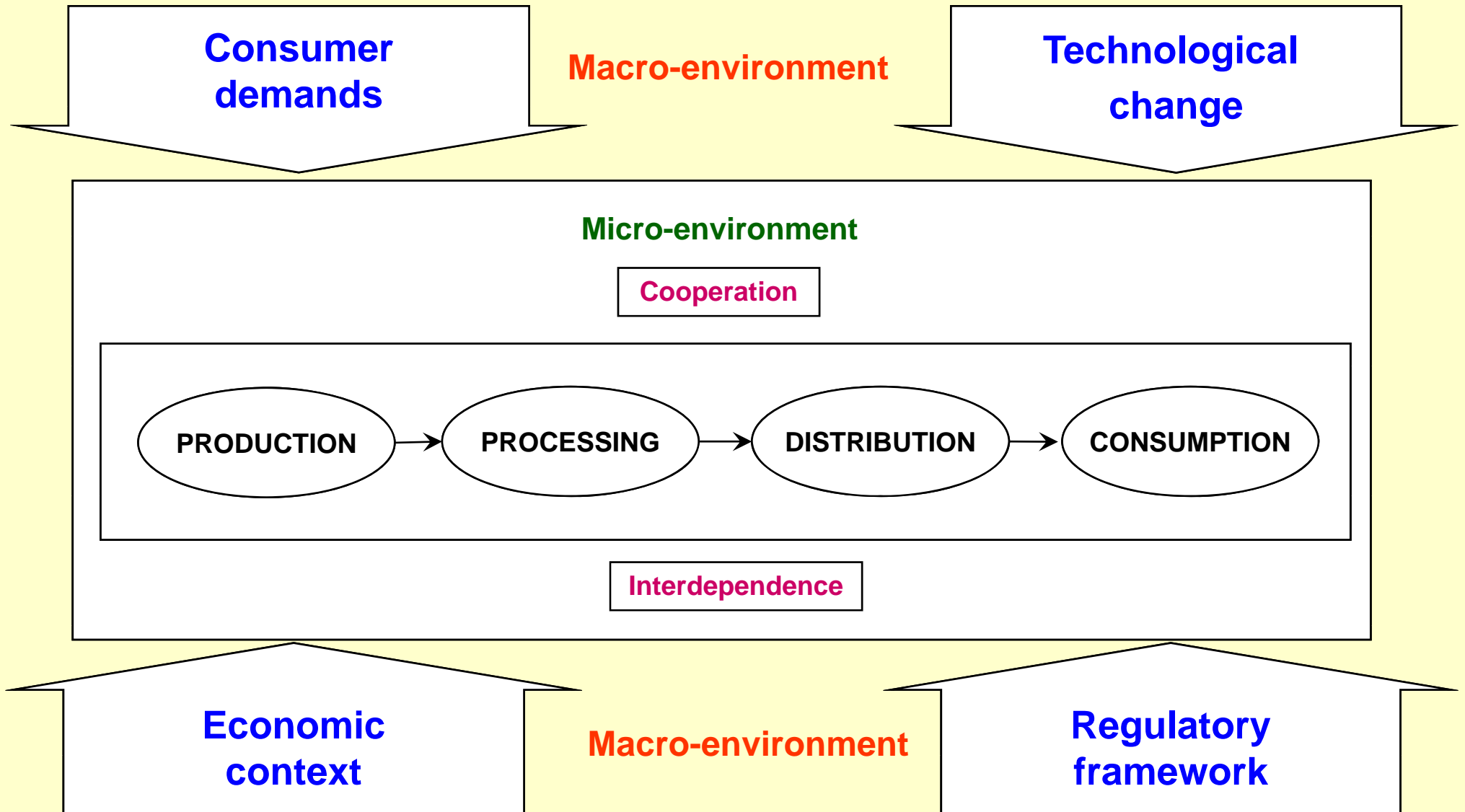
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Outline

- **VC approach and overall trends**
- **World olive oil market**
 - **Chief trend features**
 - **Euro-Med trade**
 - **Traditional vs non-traditional markets**
- **Conclusions and recommendations**

VC approach: Prosperity through collaboration



Overall food trends (1)

Growing globalisation (production, consumption, trade, investment)

Increasing demand in emerging countries vs quantitative saturation in developed countries

- General move towards quality, health, convenience (at reasonable prices)

Sustainability as an imperative

Overall food trends (2)

Change in world trading patterns

- *Positional goods: from 'Ricardian' to reputational advantages*
- *Proliferation of non-tariff barriers*

Growing impact of innovation, new technologies (ICTs, biotechnologies)

Greater vertical integration and contractualisation in the VC

- *Lower transaction costs*
- *More efficient risk management*
- *Enhanced competitiveness*

Overall food trends (3)

Power redistribution in the VC

- *Power shift from producers to distributors*
- *Greater participation of distributor brands*
- *Bigger markups in the final stages of the VC*

Differential behaviour in the face of the economic crisis

- *Greater resilience (inelastic demand, rigid supply)*
- *Price as the principal adjusting mechanism*

World olive oil market

1990-2010	Annual average (1000 t)	Coefficient of variation (%)	Min (1000 t)	Max (1000 t)	Annual growth (%)
Production	2441.2 EU 78%	20.4 22.3	1453.0 993.7	3174.0 2463.7	3.7 4.1
Consumption	2436.7 EU 70%	17.5 16.4	1666.5 1214.5	2923.5 2078.9	2.8 2.3
Exports⁽¹⁾	481.9 EU 54%	30.4 28.4	256.5 146.1	662.0 352.8	3.4 5.2
Imports⁽¹⁾	507.8 EU 32%	29.1 35.8	288.5 42.4	704.5 231.8	3.5 0.2

(1) Extra-EU

(IOC, Faostat)

CMO for olive oil

2004-2013

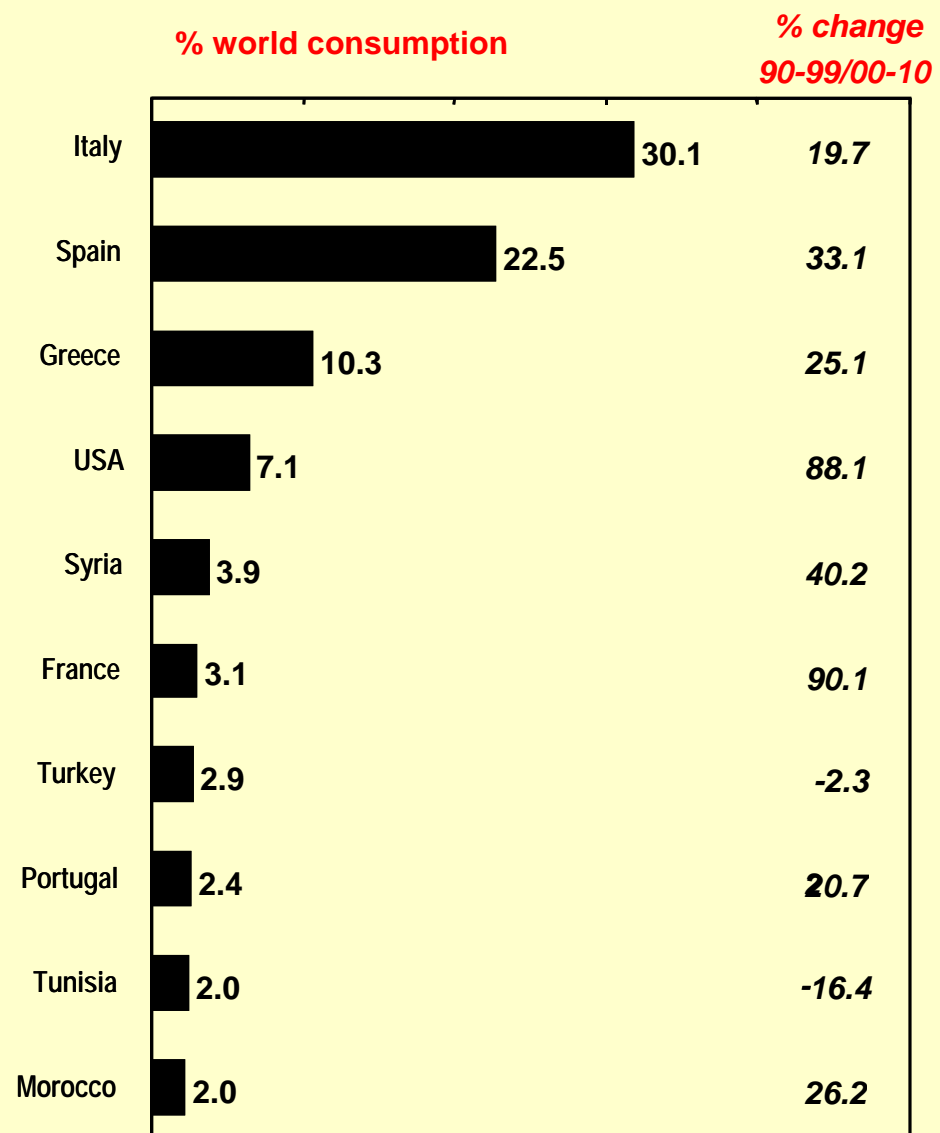
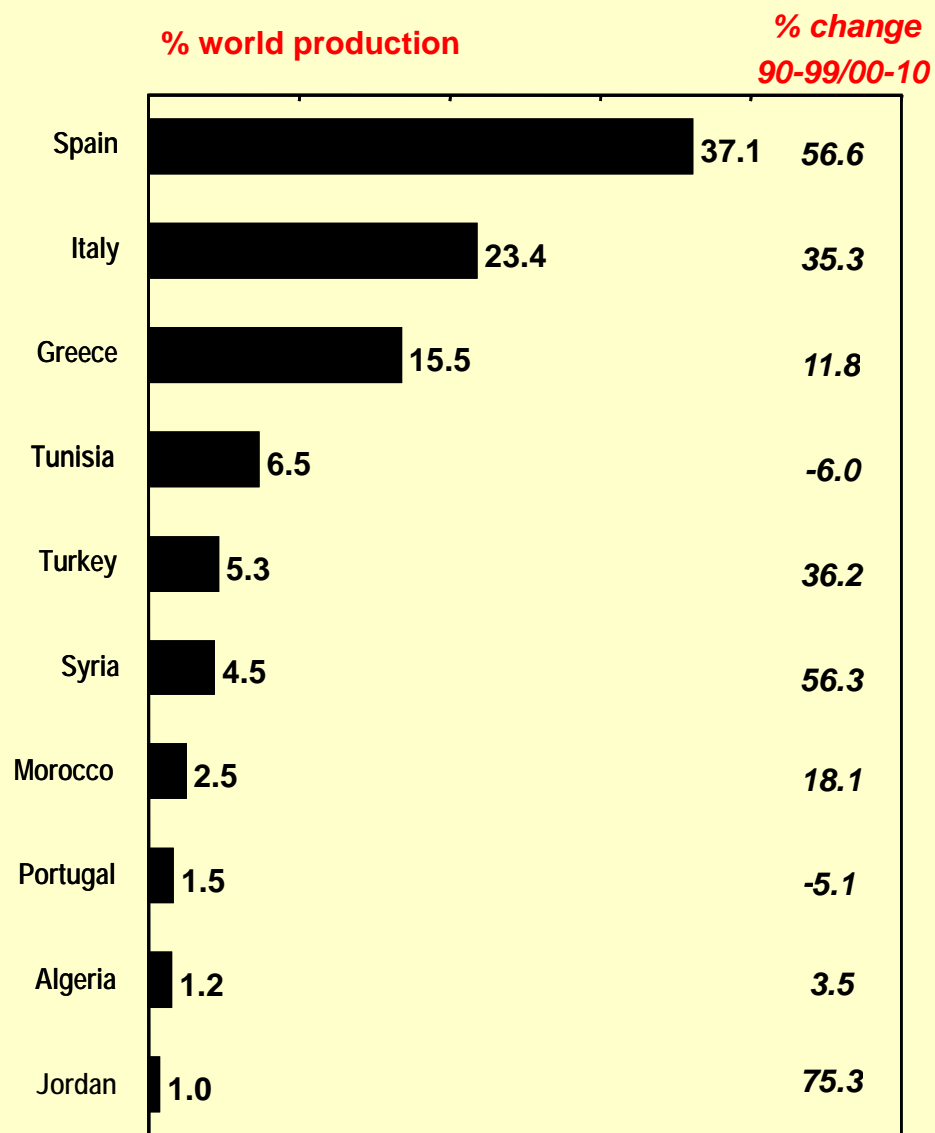
Decoupled aid (100%), market orientation, quality, safety, environment (cross-compliance)

2014 - (??)

- **Future priorities of the CAP (budgetary cycle 2014-)**
 - **Redistribution, less direct support for agricultural income**
 - **More support for the provision of public goods (e.g. biodiversity), climate change, rural development**
- **International commitments (WTO)**
 - **The 2004 reform switched the bulk of aid for olive oil to the 'Green Box'**
 - **Heightened emphasis on market access and GIs (TRIPS)**

Main producer countries 1990-2010

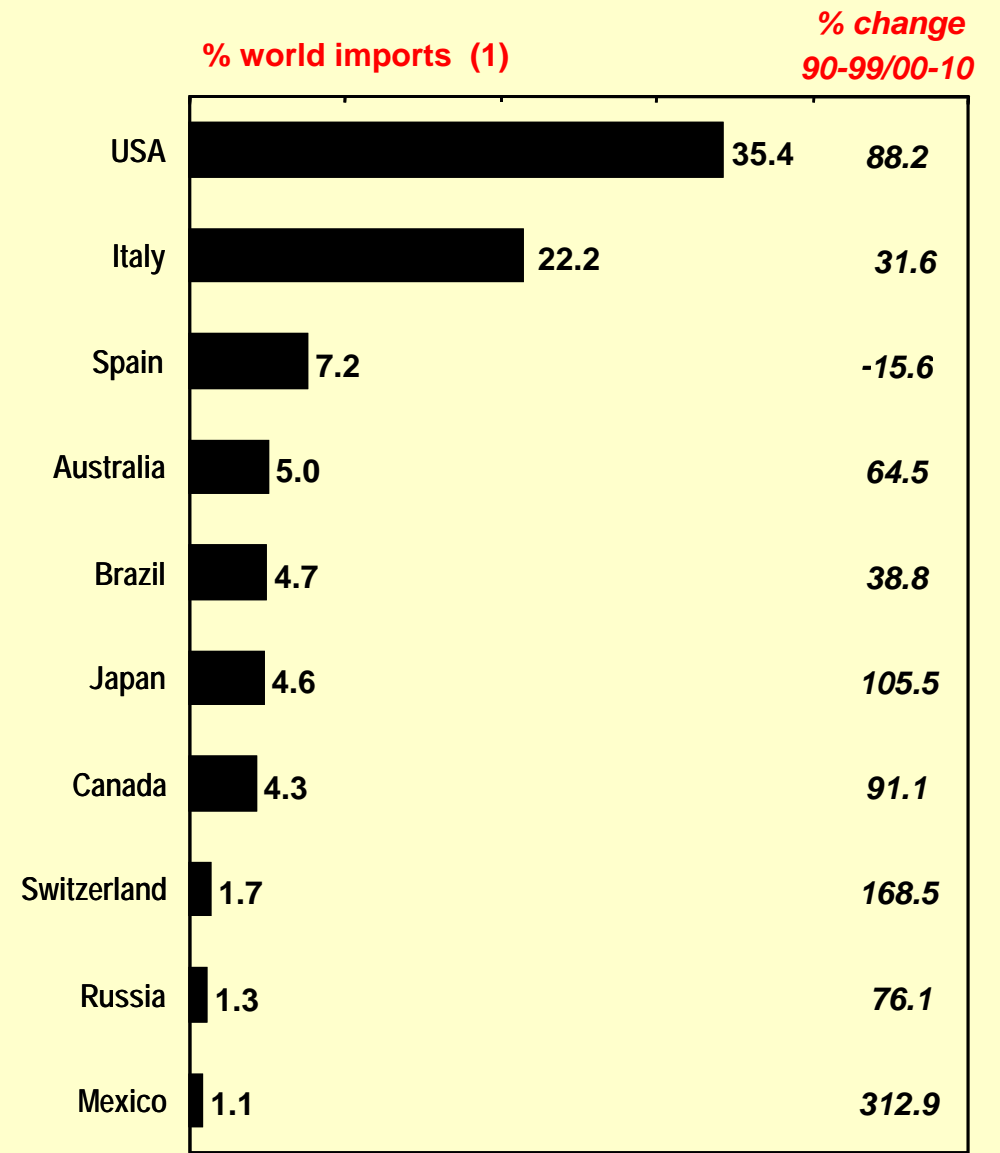
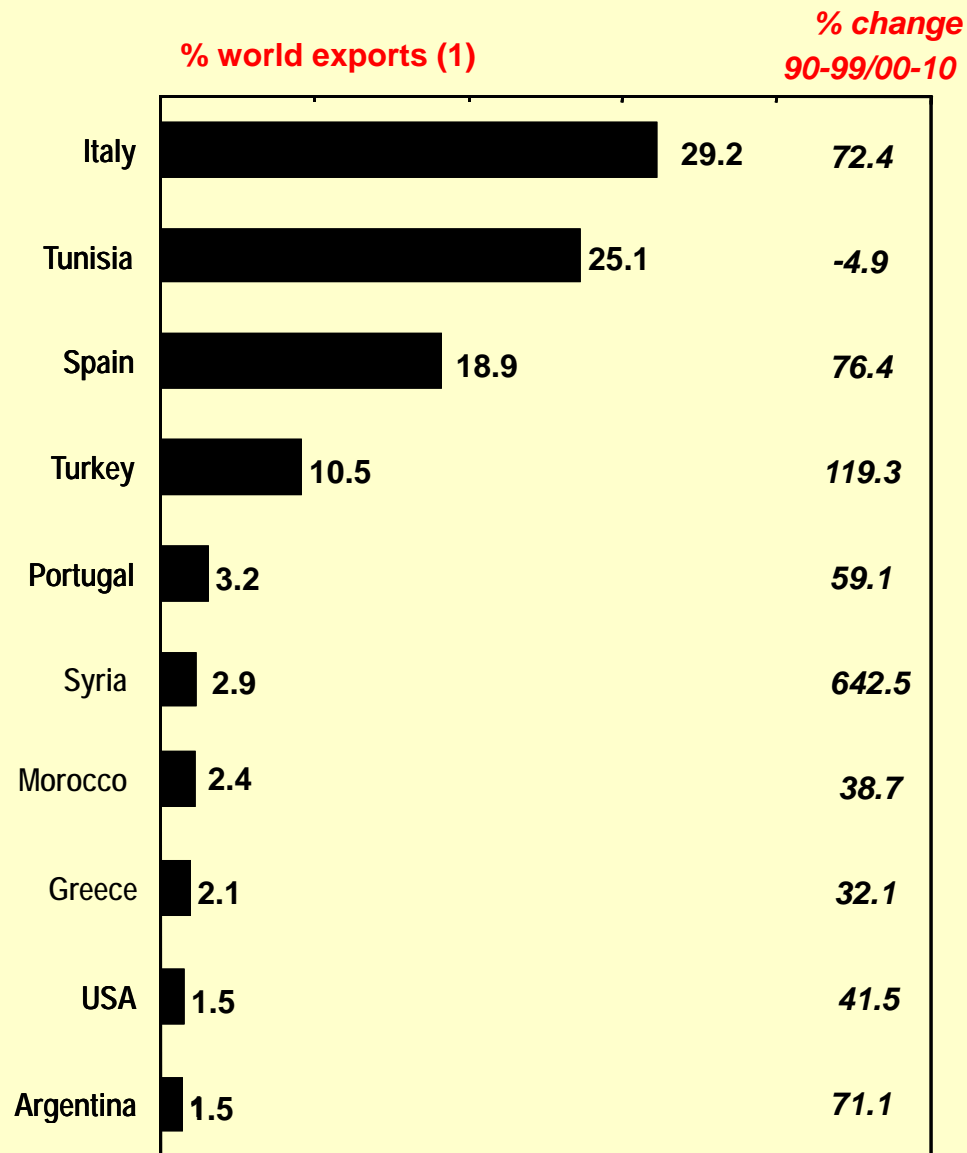
Main consumer countries 1990-2010



(IOC, Eurostat)

Main exporter countries 1990-2010

Main importer countries 1990-2010



(1) Extra-EU

(IOC, Eurostat)

Comparative advantage index 1975-2007

(Estimates based on various international sources)

Tunisia	135.6
Greece	64.7
Spain	32.8
Turkey	19.2
Morocco	13.1
Jordan	10.5
Portugal	7.9
Italy	5.6
Syria	3.9

Export intensity 1990-2008

(based on IOC, Eurostat)

	(Exports / Prod) %
Tunisia	71.3
Turkey	43.6
Syria	12.5
Morocco	17.7
Jordan	10.8
Spain	9.6
Italy	25.4
Greece	2.5
Portugal	40.0
EU	13.7
World	19.4

Euro-Med trade: More favourable to the EU

1. Preferential Tariffs and Quotas Regime (TQR)

Several quotas are in place – only Tunisia's is significant (56 700 t)

2. Inward Processing Regime (IPR)

60%-80% of total EU imports, chiefly from Tunisia, and to a lesser extent from other countries (Turkey, Morocco, Syria)

3. Normal Regime (MFN)

High *ad-valorem* equivalents (65%-120%)

Euro-Med trade liberalisation: Potential asymmetric impacts

Significant impact on southern Med countries

Limited quantitative and qualitative impact on the EU (oligopolistic market structure)

IPR will continue to be the predominant regime

MFN will continue to be a residual regime

Growing influence of NTMs (certification, labelling, rules of origin...)

Growing externalisation of European production

Principal non-traditional purchasers of olive oil 1990-2010

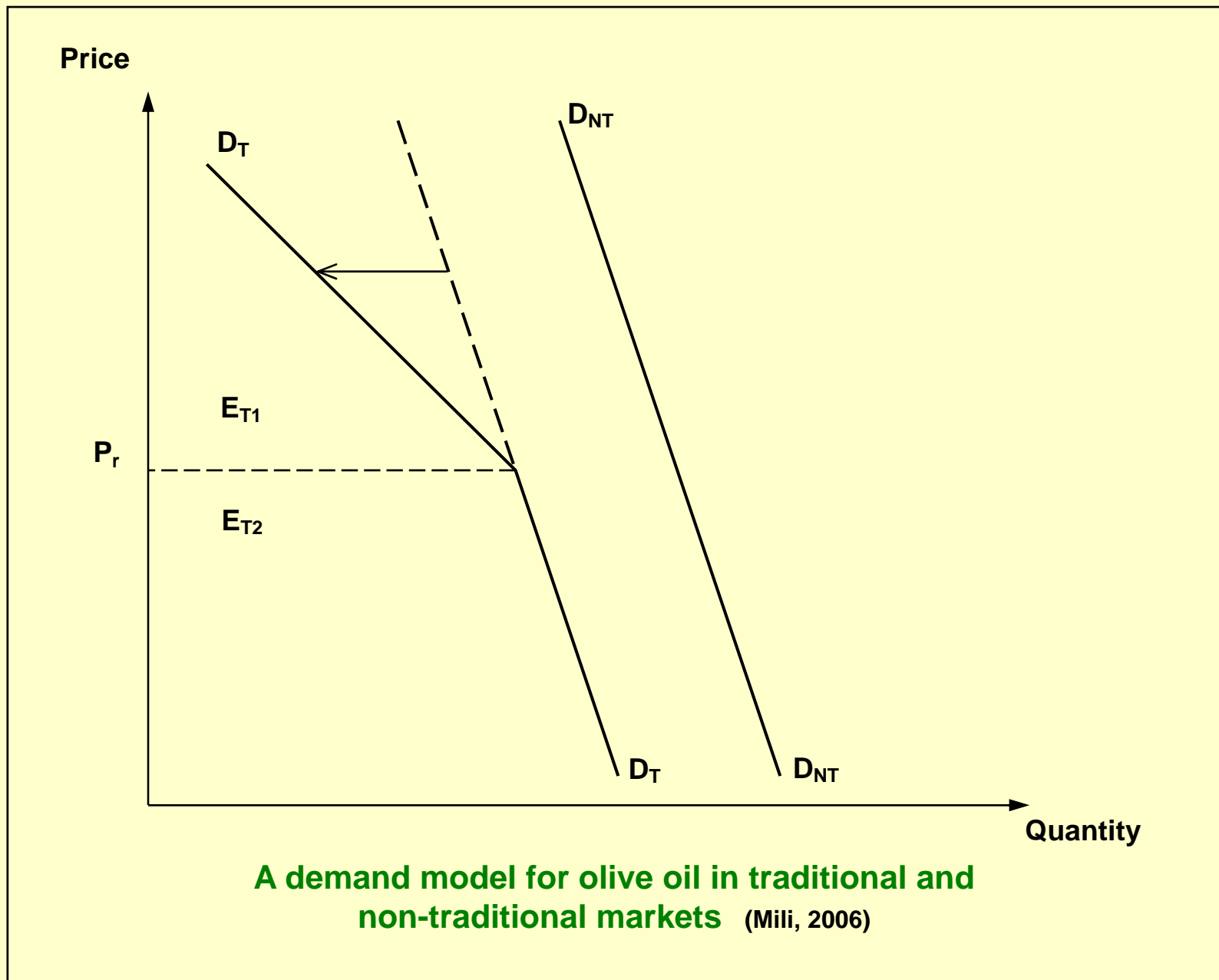
	Annual average (1000 t)	Coefficient of variation (%)	Min (1000 t)	Max (1000 t)	Annual growth (%)
USA	170.1	34.5	87.5	260.0	5.7
UK ⁽¹⁾	29.8	56.7	6.8	71.6	11.7
Germany⁽¹⁾	29.7	52.2	9.8	56.0	8.8
Australia	23.1	31.1	12.5	35.0	3.8
Brazil	22.8	27.1	11.0	34.0	6.2
Japan	22.7	50.6	4.0	34.0	11.1
Canada	21.0	35.1	10.0	32.0	2.8
Switzerland	7.4	49.4	3.0	12.0	7.6
Netherlands ⁽¹⁾	7.1	71.1	1.0	15.0	15.3
Russia	6.5	54.5	1.0	18.0	7.0
Mexico	5.5	72.4	1.0	10.5	10.5
Austria ⁽¹⁾⁽²⁾	4.5	54.2	0.2	9.5	28.7
Sweden ⁽¹⁾⁽²⁾	3.9	49.1	1.0	7.4	14.0
Denmark ⁽¹⁾	2.3	37.7	0.7	4.8	8.8
Ireland ⁽¹⁾	2.1	42.9	0.5	8.3	5.6
Finland ⁽¹⁾⁽²⁾	1.0	42.1	0.2	1.7	4.7

(1) Intra + extra EU (2) 1994-2010
(Faostat, IOC, Eurostat)

Richest countries in 2050: Opportunities for olive oil

(PricewaterhouseCoopers based on UN data, 2008)

Country USA = 100)	GDP (in PPP terms)	
	2007	2050
USA	100	100
Japan	28	19
China	51	129
Germany	20	14
UK	15	14
France	15	14
Italy	13	10
Canada	10	9
Spain	10	9
Brazil	15	26
Russia	17	17
India	22	88
South Korea	9	8
Mexico	10	17
Australia	5	6
Turkey	5	10
Indonesia	7	17



Business internationalisation: Matrix of options

PREPARATION FOR INTERNATIONALISATION	HIGH	To enter new markets	To prepare for globalisation	To strengthen global position
	MODERATE	To consolidate export markets	To expand in international markets	To seek global alliances
	LOW	To stay at home	To develop international niches	To prepare to be purchased
		LOCAL	POTENTIALLY GLOBAL	GLOBAL
		DEGREE OF SECTOR GLOBALISATION		

Formulas for entering new markets

1. Partnerships with importers/distributors on the destination market (*joint ventures, strategic alliances*)
2. Purchase of a company with a market share on the destination market
3. Possession of a trade representative on the destination market
4. Marketing through export consortia
5. Direct sales (international catalogues, Internet...)
6. Creation of packing and marketing facilities on the destination market

Conclusions and recommendations (1)

Ever more complex global and sectorial context

=> *Pertinence of the VC approach (collective action)*

=> *Systematic analysis of the changes in the competitive environment and evaluation of their potential effects on the olive oil VC*

=> *Improvement of sector statistics*

Major economic opportunities

=> *Effective action plans to tap opportunities*

Conclusions and recommendations (2)

Potentially larger increase in production than consumption in the medium and long term

=> Proactive strategies to develop demand: promotion, internationalisation

Imbalanced negotiating power in the VC

=> Concentration of supply, grouping of producers

Unfair competition (fraud)

=> Stronger controls

Conclusions and recommendations (3)

Price crisis

- => Avoid product 'commoditisation' (banalisation)*
- => Enhance product value (differentiation, innovation)*
- => Cost control*

Sustainability, climate change

- => R&D, best practice, multilateral cooperation*

Changes in agri-trade policies (CAP after 2013, Doha Round, bilateral /regional agreements)

- => Ex-ante analysis of possible scenarios and potential impacts*

Thank you