

A Datamonitor report

**Report title**

# Study on the promotion of consumption of olive oil and olives in the USA and Canada

**Report sub-title**

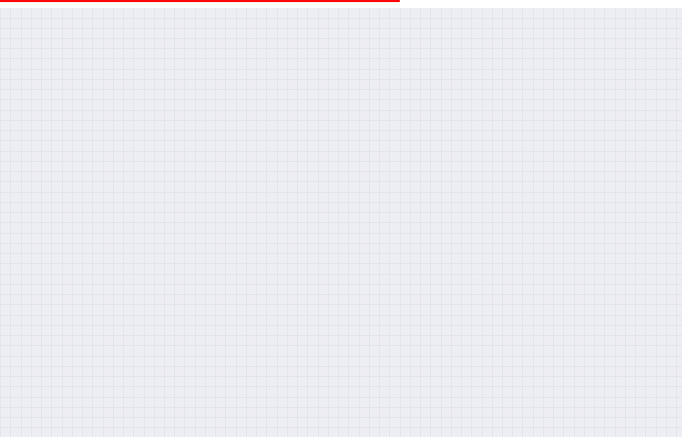
A custom solution prepared by Datamonitor for the International Olive Council – Pro.6/CO/9/09

**Report code**

CYCM0372

**Report publication date**

January 20<sup>th</sup> 2010



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## ***Executive Summary and Key Findings***

### ***Market Size – Supply and Consumption***

**Outside of Europe, North Americans represent the largest consumers of table olives and olive oil globally.**

In 2009, consumers in the US and Canada used nearly 3.3 million hectolitres of olive oil, and ate over 218,000 tonnes of table olives. This compares to 2.8 million hectolitres of olive oil and 238,000 tonnes of table olives in 2004. Over that five year period, both countries have seen steady increases in olive oil consumption, particularly in retail, as opposed to foodservice, but despite the Canadian table olive market remaining relatively steady, there has been a steady decline in the volume of table olives consumed in the USA, resulting in an overall market contraction.

Indeed, the US market for table olives is forecast to continue to decline up until 2013, with overall consumption of table olives having fallen in North America to 207,000 tonnes by the end of that year. Conversely, olive oil will continue to grow strongly, with growth expected to continue to outpace the overall growth of the food market in North America, reaching over 3.6 million hectolitres over the same period.

With regards to olive oil, in both the USA and Canada, forecast volume growth and revenue growth between 2010 and 2013 will come from retail. Of the forecast 374,000 hectolitre increase in overall volumes during this period, 203,000 hectolitres, or 54.2 per cent, of the growth will come from retail sales. Similarly, retail sales growth will bring about higher prices for growers and distributors, and therefore by definition better profit margins.

As such, additional marketing activities sponsored by the International Olive Council should be focussed at driving growth through retail, a channel at this juncture of market evolution which can be more directly influenced through promotional and marketing activities, compared to foodservice, where much of the oils market in total is effectively beyond the reach of olive oil.

There are distinct differences between the USA and Canada when it comes to table olive consumption from both a cultural and perception perspective. This is reflected by the fact that the US market is in a steady state of decline, whilst the Canadian market is continuing to grow at a slow but steady pace. Overall, however, the North American market will have contracted by 31,000 tonnes by 2013 compared with 2004, with the bulk of this decline being directly attributable to the decline in production among US table olive growers.

As with olive oil, additional marketing activities sponsored by the International Olive Council should also be focussed towards driving growth through retail. The dynamics of the foodservice market in the USA are such that it will be difficult to do more than arrest the declines being seen in consumption, as the over arching convenience trends being seen are only likely to continue for the foreseeable future. In Canada, the more traditional nature of the market also means that volumes will continue to grow in foodservice.

However, in retail, the consumer can be more directly influenced and as table olive volume declines in the USA are slowing, there exists an opportunity to arrest the decline in volumes with well targeted messaging and promotion. Similarly, in Canada, greater volume increases than currently forecast can also be driven via a similar campaign.

***Market Structure – Supply Chain***

**The supply chain dynamics for imported olive oil and table olives do not differ greatly between the USA and Canada. However, there is an added level of complexity in the USA when it comes to domestic supply.**

In 2009, there were over 3.4 million hectolitres of olive oil imported into North America, as well as nearly 142,000 tonnes of table olives for consumption. In addition, a further 26,000 hectolitres of olive oil were produced in the USA and nearly 57,000 tonnes of table olives.

By 2013, it is forecast there will be some relatively significant shifts in these supply balances. In that year, nearly 3.6 million hectolitres of olive oil will be imported into the USA and Canada, representing a 4.6% increase in volume over 2009, but only 131,000 tonnes of table olives will be imported, an effective decrease of 7.5%. However, there will be a major change in the structure of the US domestic olive industry, with the emphasis and focus being placed increasingly on the production of olive oil compared to table olives. Olive oil production will increase to 145,000 hectolitres, nearly a six fold change compared with 2009, whilst conversely table olive output will also increase to 77,000 tonnes, a notional increase on 2009, but actually representative of an overall declining trend in the US table olive market, which will continue to see a slow and steady reduction in output compared to its 2006 production peak of over 116,000 tonnes.

The supply chain for olive oil in the USA and Canada is effectively at a crossroads. US domestic producers are presently not of sufficient size or scale to embrace significant supply chain efficiencies, with the exception of California Olive Ranch, and therefore will continue for the foreseeable future to be niche, artisanal producers, or conversely their business will evolve into being solely suppliers of olives for the major Californian mills.

However, the biggest change that is likely to effect the industry will come from the consolidation of supply from companies such as Hojiblanca in ready bottled formats to major retail chains or to wholesalers with national distribution infrastructures. The cost effectiveness and sheer scale of these operations will place increasing pressure on the traditional US and Canadian olive oil import and processing industry, potentially resulting in a consolidation of distribution points in both countries.

The key outcome of this change will be that olive oil will become more affordable for US consumers relative to the price points of other cooking oils, with the trade off that there will possibly be less brand choice available, making it more difficult for small producers globally to gain access to the market with any scale.

In order to take full advantage of these changes, the International Olive Council needs to ensure that consumer confusion about the origins, the varieties and benefits of olive oil is mitigated so as to create a market in the USA and Canada where there is a clear understanding of the benefits and differences between the multitude of different types of olive oil. Without this there is a danger that olive oil may become commoditised, and whereas the implied changes in supply chain dynamics can be positive for the industry and for growers, if consumers can see no benefits in using olive oil over and above other cooking oils, the focus will become one that is purely price driven.

The key difference between the supply chain for table olives in the USA and Canada and between that for olive oil is the fact that the domestic USA industry is no longer in a position of strength to be able to invest



and promote in the growth of its product and output. With growers leaving the industry due to poor profit outcomes, other stakeholders in the local industry are being forced to adjust their business models in order to absorb greater volumes of imported olives. This means that from a promotion and marketing perspective the real emphasis rests with processors and canners, and their brands, to further develop the US and Canadian table olive industry – as opposed to local growers – particularly when it is considered that the Californian table olive industry appears to be past its prime, and that the domestic market for table olives in the USA is in decline.

For the International Olive Council, this would imply that promotion of table olive consumption should not be a high priority in the formulation and development of any activity to drive overall olive consumption in the USA and Canada, as support from industry players due to declining revenues may be difficult to secure. However, more importantly, from a volume perspective, a strong focus on olive oil will also ensure that greater volumes of olives overall are utilised and sold – whether that be from imported olive oil production, or increasingly from local olive oil production.

### ***Retail and Competitive Landscape – Olive Oil***

**The retail landscape for fats, oils and spreads in both the USA and Canada is extremely competitive, with both countries having dominant locally produced alternatives to olive oil.**

In 2009, retail consumers in the US and Canada spent nearly \$10.2 billion on the fats, oils and spreads, made up of nearly 1.3 billion tonnes of solid and spreadable fats, and 1.4 billion litres of oils. Olive oil accounted for nearly 8.0% of total oil sales by volume, and 11.3% of total fats, oils and spreads sales by value across the two countries. Impressively, for what is by and large an imported product, in competition with other protected crops grown locally and supported heavily by grower associations and government lobbyists, olive oil whilst only being the fourth most consumed oil in volume terms, will be the number one oil consumed in value terms on present forecasts by the end of 2010. Indeed, the growth in the consumption of olive oil has been over double that of any other fat, oil or spread product over the period 2004-2008, with annual average value growth rates approaching 13.0%, compared to a category average of 3.4%.

The good news for the olive oil industry, is that both value and volume growth will continue to outstrip that of all other fats, oils and spreads up to 2013, with average value increases expected to be 7.8%, and volume growth 3.9%. This compares to overall industry value growth of only 3.7%, highlighting that consumers understand the health benefits associated with olive oil and are increasingly willing to pay premiums to achieve those benefits.

However, despite this positive outlook and despite its inherent natural benefits when compared to other spreadable fats and shortening products, olive oil can not expect to continue to take share of the US or Canadian market from other products based on the assumption that consumers will miraculously continue to switch products and brands, and without the expectation that incumbent brands will continue to innovate and adapt their messages to satisfy consumer need states. It can only be expected that other spreads and fats will continue to evolve their products and adopt more aggressive market behaviours over the next few years in order to protect brand and company shares, making it more difficult for olive oil to gain penetration in secondary usage applications in particular. Olive oil accordingly needs to ensure that its messages are at the forefront of consumer thinking and are constantly evolved to resonate with consumer need states.

Accordingly, the real battleground for share of the cooking oil market in North America based on the long-term health benefits of the products available will be between canola oil and olive oil. Because of the embedded presence of canola in both Canada and the USA, and the health claims that canola can make to rival olive oil, it will be extremely difficult for olive oil producers to be able to secure retail volume growth at the expense of canola oil.

The opportunity for olive oil volume growth will largely have to come from encouraging users of less healthy oil products, such as soy oil to switch to olive oil instead of switching to canola. This represented 391 million litres of oil in 2009 across the North American market. However, it is the US retail consumer that provides the greatest potential for growth, with 52% of the average US household's usage of cooking oils being available for conversion. With usage of olive oil per capita being only a quarter of Australian levels, and less than half UK levels in the USA, the key opportunity for the International Olive Council lies in encouraging US consumers to incrementally increase their usage of olive oil beyond existing levels – a rise in consumption of 200 millilitres per annum would grow the size of the olive oil market by 614,000 hectolitres – equivalent to 63% of the total retail market in 2009. As such, any North American marketing activities should focus primarily on the US consumer first, with increases in Canadian volumes being treated as almost being incremental. The added benefit of such an approach will be that the growth of the olive oil market domestically in the USA will encourage the development of the local olive oil industry in California, and will also ensure that within the bounds of the overall competitive market for cooking oils that a price premium is maintained for imported olive oil too.

As with wine however in the 1970s and the 1980s, there is no cultural heritage of olive oil consumption in the USA and Canada, except among the French community in Quebec. As such, knowledge of olive oil, its varieties, flavours and uses is at best limited among US and Canadian consumers. It could also be reasonably assumed that even those consumers who claim to have knowledge of the category are probably to a certain extent misinformed.

With a growing number of US and Canadian consumers changing to olive oil because of its acknowledged health benefits, it is vital that if consumption of olive oil is to increase and if olive oil is to be used in a wider variety of applications in the home, that consumer knowledge of the category is improved. This will encourage consumers to trade-up and will ensure that the correct benefit is derived from their olive oil choice and selection – ensuring that purchases are not limited solely to a brand and flavour combination, and therefore less likely to be subject to price cannibalisation as cheaper products and private label attempt to increase their share of a growing category.

The lack of an authoritative voice that can guide and educate consumers is a void that the International Olive Council needs to fix, but any such communication directly to consumers can only be conducted in tandem with producers, manufacturers and wholesalers in order to ensure that there is commonality of message and a standard that consumers can reference when judging the merits of which olive oil they should buy. The most effective way of communicating this information would be through a dedicated North American olive oil website and an in-store pamphlet campaign that reaches consumers in an unbiased and un-brand specific manner, preferably supported and by leading brands and producers in the market.

If this can not be achieved, then the olive industry will potentially make the same mistakes as the wine industry. Despite the relative success of the wine industry to secure and drive volumes, since the 1970s, particularly due to the development of a strong local industry, sales continue to be lost, particularly by European suppliers to the market, as many French, Italian and Spanish producers and brands refuse to comply with labelling and branding norms needed to succeed in the USA and Canada. Given the competition from other cooking oils this is a mistake that the olive oil industry can not afford to make.

As such the olive oil industry needs to be mindful of the mantra for much of the fast moving consumer products industry, which is innovate or die. This is something that the olive oil industry can not ignore, in spite of the fact that the core product seemingly has irrefutable benefits and advantages to consumers. Consumer and shopper purchasing decisions are influenced by a variety of often competing and conflicting trends and as such it is important that olive oil endeavours to satisfy as many of these trends as possible in terms of packaging, flavour, convenience as well as health. As such, the olive oil category must look to leverage the influences and drivers of behaviour in a manner that keeps the category alive and relevant to consumers in order to avoid commoditisation and ensures that price premiums, as the category goes mass, are maintained and justifiable. This can be achieved by ensuring consistency and clarity of messaging, as outlined above and also through ensuring that product offerings, particularly at the higher end of the category are innovative and of continuous appeal to pioneer and early adopters, who by definition are always looking to seek out new and sensory experiences.

While the International Olive Council can not directly influence or impact the new product development strategies of olive oil producers, it can use tools such as sections of a consumer focussed information website (including sponsored links), category influencers (such as high profile chefs) and social media sites to raise awareness of new drivers across the category in order to keep the category alive and to ensure that product relevance is maintained. Uniquely, among cooking oils, olive oil is able to highlight these points of difference and straddle the divide between indulgence, luxury and practical application.

### ***Foodservice Landscape – Olive Oil***

**The foodservice market, while being significantly larger than the retail market, due to the predominance of US consumer out-of-home dining occasions, does not provide the opportunities offered by retail consumption in either the USA or Canada.**

In 2009, the foodservice market in the US and Canada for olive oil was worth \$742 million at operator buying prices (the price that a foodservice establishment pays for the olive oil it receives), while food service establishments used over 2 million hectolitres of olive oil. The USA accounted for 92 per cent of the volume used, and 90 per cent of the value spend. Overall, foodservice absorbed 64% of the olive oil used in North America.

However, volume growth opportunities are not as readily apparent in the foodservice industry as they are in retail – and what opportunities do exist will be far more difficult to influence than in the retail market. This is largely due to the structure of the foodservice industry in North America, and in particular in the USA, which is dominated by quick service and takeaway establishments, which use the majority of the oil they purchase for repeated deep frying at high temperatures – an application for which olive oil is not best suited. An indication of the change in the market dynamic that further supports the assumption that the best target market for olive oil growth is in retail, can be seen by the fact in 2004, foodservice consumption accounted

for nearly 66 per cent of total volumes, a figure which will decline to below 62 per cent by 2013. This shift in the market is taking place before the International Olive Council commences any promotional activities in the USA and Canada, and essentially looks to be irreversible as the effect is driven by the structure of the food service industry overall and is not a factor that olive oil in itself can influence.

Despite the decline in foodservice volumes as a proportion of overall sales, volumes of foodservice olive oil will continue to rise at an average annual rate of two per cent between 2008 and 2013, with nearly 172,000 additional hectolitres being used by 2013 compared with 2009. However, average annual value increases will be well under two per cent, signalling a period of real price decline for operators dependent on foodservice for the bulk of their volume sales.

Olive oil does not have the same applicability and headroom for growth in foodservice that it has in retail and at-home meal preparation and occasions in the USA and Canada. This is because in its traditional market of high-end full service restaurants it is already to a greater or lesser extent the cooking oil of choice. Conversely, it will be very difficult for applications in quick service restaurants to be changed to use olive oil due to reasons of cost and also due to the types of usage for which olive oil is largely unsuitable.

As such the growth areas for olive oil in the foodservice sector will come from the emerging and growing casual dining market, leveraging the growing consumer desire for healthy servings and options, not just in consumer packaged foods, but increasingly on restaurant menus.

It is difficult to change and drive trends in the foodservice industry and as such the International Olive Council should look to explore how it can work within the frameworks of existing initiatives such as the tripartite association project to increase fresh produce volumes in foodservice, while simultaneously promoting the health benefits and health messages that olive oil can uniquely communicate.

This could involve the creation of a healthy certification programme for participating restaurants, and could involve the training of chefs, particularly in target casual dining establishments about the uses of olive oil in specific types of recipe or formulation.

As with other suggested activities, such a move would allow once again for consistency of messaging to reach consumers, and would also ensure that olive oil is able to maintain its premium status among cooking oils as it would broaden the awareness of consumers in terms of the uses and applications of olive oil – potentially having the double benefit of spurring greater at-home usage as consumers look to further replicate their out-of-home dining experience.

In order to assist in this regard, menu suggestion cards could be provided as point-of-sale materials in retail outlets, referencing restaurants that are participating in the certification programme as well – thereby maximising cross-promotional activities and the associated benefits.

***Retail and Competitive Landscape – Table Olives***

**There is a clear divergence between table olive consumption in the USA compared with table olive consumption in Canada. Whereas, the Canadian table olive market is continuing to grow slowly, the US table olive market is in a steady state of decline.**

In 2009, retail consumers in the US and Canada spent nearly \$623 million on table olives, in so doing buying nearly 64,000 tonnes of product. However, volumes across North America have fallen by over 7,000 tonnes since 2004, and are expected to remain at best static compared to current levels when forecast out to 2013. This means that per capita consumption will continue fall by close to 5 per cent over the next five years once population growth is taken into consideration.

The US market, which in 2004 represented 87 per cent of retail consumption in North America is driving the decline in volumes and by 2013 will only have 82 per cent of total consumption – marking a significant variance between typical patterns of Canadian consumption for food and beverage products relative to the USA (with few exceptions across most product categories, the Canadian market is generally 10 per cent of the US market, indicative of the homogenous cultural nature of the two countries in many respects and their respective population sizes and standards of living). Even more alarmingly for suppliers of table olives to the US market, per capita consumption will have decreased by over 22 per cent between 2004 and 2013, while in Canada per consumption over the same period will have increased by 6.2 per cent.

Almost in parallel with the decline in table olive consumption in the USA, there has been a series of harvest failures in the Californian olive industry, resulting in a decline in domestic output, meaning that the domestic table olive industry has not been in a strong position to assist in arresting the seemingly inexorable decrease in volumes, and due to lack of supply has not been able to maintain export volumes to Canada, therefore taking advantage of that country's growing market.

Compared with olive oil there are few positive factors and influencers that are driving the consumption of table olives and therefore the bulk of North American consumption volumes in the USA, and as such the main focus needs to be understanding the occasions and locations of current consumption and ensuring that remaining table olive volumes are stabilised and not lost to substitute products.

Significant changes have taken place in North American retail with regards to how table olives are merchandised and sold over the past twenty years. In part these changes have been driven by overall positive shifts in consumer behaviour, with greater emphasis being placed on fresh, chilled and frozen foods, as well as a desire by consumers to purchase better quality and premium products. The downside is that traditional olive retail formats, such as jars and cans, now appear to be old-fashioned and can increasingly be found in less regularly visited parts of supermarkets, where in order to maximise profitability, shelf-space is dominated by private label offerings.

The trade off for the table olive industry in this change has been greater visibility for the product through olive bars and greater dollar spend among consumers who do consume olives on a regular basis – and hence better returns per kilogram and a market that is growing in value terms. The downside is that overall table olive consumption volumes in the USA are declining and will continue to do so for the foreseeable future. In Canada, the reverse is true and table olive consumption continues to rise as do average prices as consumers indulge in a wider variety and greater selection of olives.

The challenge for the US table olive industry is to work to stabilise consumption volumes in the short term through increased consumption frequency among already converted olive consumers, and to encourage more supermarkets to install olive bars in an attempt to offset the decline in centre aisle sales. In this case, it is the establishment of a business-to-business presence that is critical, and not a focus on the consumer. The International Olive Council can play an active role in working with the US olive industry to build a proposition that can be presented to retailers to encourage the construction of olive bars, and may also consider providing subsidies or similar marketing support to encourage their installation.

There is not a lot that the International Olive Council or indeed table olive producers can do to influence the demographic make up of a country, or indeed the palette of individual consumers. However, the fact that a quarter of accessible table olive consumers across the USA and Canada do not feel inclined to purchase olives for at-home consumption at any point in the year means that the industry is failing to understand and satisfy the key needs of its consumer base. For example, the lack of compelling health messages associated with table olives means that there is little or no incentive for consumers to look to substitute olives for other foods in their diet. Similarly, even if there was an inclination to purchase the fact that olives are not presented or packaged in a way that would encourage or drive consumption in a manner that is conducive with everyday lifestyles, becomes a major barrier for many consumers.

As such promotional activity should be focussed on ensuring, in the first instance, that seasonal consumption occasions are maximised, creating an even greater association between the holiday season and home entertainment occasions and table olives. In so doing, known olive consumers can be targeted at times when they are most likely to purchase, whilst similarly those consumers who do not buy olives for consumption at home will hopefully receive a call to action that will drive incremental sales volumes. Every one per cent of household penetration that can be secured will yield at 2009 levels an additional 1,211 tonnes in sales volumes.

### ***Foodservice Landscape – Table Olives***

**Similarly to the retail table olive market, the foodservice market in the USA for table olives is in decline, while the Canadian market continues to grow – albeit slowly. Unlike the foodservice market for olive oil however, the consumption drivers for table olives are more difficult to directly influence.**

The foodservice market in the USA and Canada for table olives absorbs 72 per cent and 40 per cent of all consumption volumes respectively, representing nearly 149,000 tonnes per annum. However, as with the retail market, volumes are declining in the USA and rising slowly in Canada. The US will lose nearly 11,000 tonnes in volume by 2013, declining at an average annual rate of two per cent per annum, a rate of decline that has remained steady since 2004, when nearly 153,000 tonnes of olives were used in foodservice preparation in the country. Further, the increase in volume in Canada will not compensate for the losses in US consumption as only a further 400 tonnes will be added over the next five years.

Unlike with olive oil there is prima facie no silver bullet that can be used to influence or restore table olive consumption and demand in foodservice, particularly in the USA. The market is evolving in a manner that is not conducive to substantial increases in olive consumption and as such it would require a substantial change in the emerging demographics of the country to reverse many of the declines seen since 2004.

However, there are small opportunities that the industry must grasp if it is to have any chance of stabilising volumes, and potentially over the long term look to reverse declines seen in recent years. The promotion of olives as a healthy snacking alternative to hotel chains and bar chains offers a relatively interesting opportunity, particularly given that barriers to consumption based on health benefits and convenience can be readily and easily overcome.

It is also possible that if convenience packaging can be created and also robust health benefit literature can be produced for olives, that institutional channels such as the school and hospital system could also become viable outlets for table olives in the future – replacing other less healthy products that may currently be on the menu.

**Health Claims – Olive Oil and Table Olives**

One of the key drivers behind the increase in olive oil consumption in not only the USA and Canada, but also globally in recent years has been the perception that olive oil is truly a “better-for-you” product that can provide health benefits in excess and advance of other cooking oils in particular. However, as shown in the table below, the advantages which olive oil once had are slowly being eroded by other products, particularly canola oil.

| Type of Oil >>  | Olive  | Canola | Smart Balance | Pompeian OlivExtra Plus | Crisco with Omega-3 | Mazola Plus! |
|---|--------|--------|---------------|-------------------------|---------------------|--------------|
| High in monounsaturated fat                               | Orange | Orange | Orange        | Orange                  | Orange              | White        |
| ≥10% RDV of vitamin E                                     | White  | Orange | Orange        | Orange                  | Orange              | Orange       |
| Omega-3 ALA   | White  | Orange | Orange        | Orange                  | Orange              | Orange       |
| Enriched with Omega-3 DHA for healthy brain, heart, eyes  | White  | White  | White         | Orange                  | Orange              | Orange       |
| Low Omega-6 to -3 ratio                                   | White  | Orange | Orange        | White                   | Orange              | White        |
| Chemical-free milling                                     | Orange | White  | White         | White                   | White               | White        |
| Richest in olive oil’s natural antioxidants / polyphenols | Orange | White  | White         | White                   | White               | White        |
| Qualifies for the MedMark seal (Mediterranean Diet)       | Orange | White  | White         | White                   | White               | White        |

Indeed, olive oil is no longer the only oil with a US Food and Drug Administration (FDA) approved heart-health claim, with both canola and corn oils able now to make similar claims.

**Effective November, 2004, the US FDA allowed OLIVE oil products to carry the following claim:**

*Limited and not conclusive scientific evidence suggests that eating about 2 tablespoons (23 grams) of olive oil daily may reduce the risk of coronary heart disease due to the monounsaturated fat in olive oil. To achieve this possible benefit, olive oil is to replace a similar amount of saturated fat and not increase the total number of calories you eat in a day. One serving of this product contains [x] grams of olive oil.*

**Effective in 2007, the US FDA allowed CANOLA oil products to carry the following claim:**

*Limited and not conclusive scientific evidence suggests that eating about 1 1/2 tablespoons (19 grams) of canola oil daily may reduce the risk of coronary heart disease due to the unsaturated fat content in canola oil. To achieve this possible benefit, canola oil is to replace a similar amount of saturated fat and not increase the total number of calories you eat in a day. One serving of this product contains [x] grams of canola oil.*

**Effective in 2007, the US FDA allowed CORN oil products to carry the following claim:**

*Very limited and preliminary scientific evidence suggests that eating about 1 tablespoon (16 grams) of corn oil daily may reduce the risk of heart disease due to the unsaturated fat content in corn oil. FDA concludes that there is little scientific evidence supporting this claim. To achieve this possible benefit, corn oil is to replace a similar amount of saturated fat and not increase the total number of calories you eat in a day. One serving of this product contains [x] grams of corn oil.*

Accordingly, if olive oil is to maintain the price premiums it commands over other cooking oil products, health benefit messaging needs to be clearly differentiated from other products, otherwise consumption growth will slow down and sales opportunities will be lost to canola in particular.

Conversely, whereas, olive oil is seen as being a healthy product to use, table olives have almost the opposite image. For example, 19 per cent of US consumers and 21 per cent of consumers who have eaten olives at home in the past three months stated that their table olive consumption was limited by the fact that olives contain too much sodium. Reduction in salt intake is a major public health message being promoted in both countries currently, and as such consumers are taking pro-active steps to minimise sodium intake – in much the same way as they are looking to avoid bad fats.

Further, the percentage of calories in table olives derived from fat averages between 75 per cent and 90 per cent. This combined with the high sodium levels means that olives do not count towards the recommended “5 a day” servings of fruit and vegetables, according to the Food and Nutrition Service of the US Department of Agriculture. In spite of both of these points however, 75 per cent of at home olive consumers in the past three months believe that olives are healthy, despite having no supporting evidence to support this assertion. In contrast, only 55 per cent of non-olive consumers believe the fruit to be healthy.

When olives are compared to other popular snack foods in the USA, such as string cheese or potato chips for example, olives do contain better fats and similar levels of sodium, and as such could be positioned as a reasonable and satisfying alternative. However, without strong claims that can prove the health benefits of table olives, the ability of the US olive industry to be able to robustly defend its position in this regard would be extremely difficult.



## ***Regulatory Environment – Olive Oil and Table Olives***

### **Product Quality**

The major difference between the USA and Canada in terms of regulation of olive oil supply is the fact that the US has not as of yet universally adopted the International Olive Council's standard definitions for what classifies olive oil and its varieties. This lack of quality regulation would appear to have had some negative effects in terms of products supplied to US consumers, both by local producers and also by distributors of imported products. For example, given the US consumer's preference for extra virgin olive oil, both domestic and import suppliers have allegedly in some instances been found to be selling oil with an extra virgin olive oil claim, despite it not actually meeting the International Olive Council's definition, and further oil blends have been sold as being 100% olive oil in some cases as well.

As such, the US Department of Agriculture in 2008 issued a draft revision to the US Standards for Grades of Olive Oil, which will conform to International Olive Council standards, with aim that this would take effect in 2010. The adoption of these standards would bring greater regulation to the industry, both from a domestic production perspective and also for imported oil. In anticipation of this national change, a number of states have already passed their own regulations to ensure that products sold already comply with International Olive Council standards. For example, laws in California and Connecticut came into effect in 2009, with New York, Oregon, New Jersey, Rhode Island and Texas expected to follow suit over the course of 2010 and 2011.

In Canada, where guidelines for the sale of olive oil are legislated for by the Food and Drugs Act, and are enforced by the Canadian Food Inspection Agency, regular checks and tests of imported consignments of oil are made to ensure compliance. Penalties for non-compliance are potentially severe, with fines of up to \$225,000 and prison sentences of up to three years being available to the authorities.

Unlike olive oil there are no standards or regulations which are mandated for table olives, other than those that cover all foodstuffs, concerning health regulations and other similar concerns.

### **Import Restrictions**

Despite having a domestic olive oil industry, the duty applicable to olive oil imports is not overly punitive, particularly when production subsidies in the European Union are taken into consideration. For instance, the effective rate of duty per litre, applicable to countries with which the USA does not have a free trade agreement such as Australia and Morocco, for olive oil imported in containers under 18 kilograms is 4.6 cents per litre and 3.15 cents per litre for oil imported in containers over 18 kilograms. By contrast, the effective European Union subsidy is around 75 cents per litre for exports, while US growers do not benefit from any government subsidies themselves.

There is presently no import duties levied in Canada on olive oil imports, although it was mooted back in 2005 to impose a 10% rate of duty on imports as part of a nascent trade dispute with the European Union.

Compared with the olive oil industry, table olive produces are afforded a greater level of protection by US authorities. Depending on the extent of processing, import duties applied to green table olives in brine, range from 3.7 cents per kilogram up to 8.6 cents per kilogram – with more heavily processed olives attracting higher rates. For black olives, the rates range from 9.3 cents per kilogram up to 10.1 cents per kilogram.

There are presently no import duties levied in Canada on table olives.

**Country of Origin**

In 2009, the US Department of Agriculture issued rules in relation to the country of origin status of perishable agricultural commodities, such as fresh meat and produce. However, these rules did not cover olives, nor did they cover olive oil. As such the only country of origin compliance that applies for exports to the USA is governed by the Tariff Act of 1930 which states that products entering the USA must be labelled with their country of origin and accordingly, in the case of olive oil, must indicate where the oil’s olives were sourced from, and not just the country where the olive oil was processed or packaged. However, as this information is usually provided in very small print on labels and packaging, it is quite legitimate for Spanish olive oil, for instance, to be shipped to Italy for packaging, and then exported to the USA and sold as Italian olive oil.

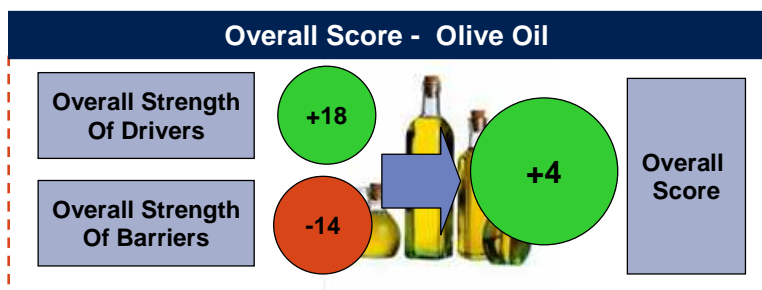
In Canada, the rules are even less transparent. There is no need to indicate the name of the country of origin where the table olives or olive oil was prepared or processed as long as the name of the Canadian importer prefixed by the statement “imported by” or the foreign producer is detailed.

***The Mind of the Consumer***

**No activity happens in consumer markets without the permission of the consumer. As such understanding how consumers relate to given product categories is essential to determining how and where to target marketing expenditure in order to capitalise on the inherent advantages that a product may have against adjacent or competing categories. In this regard, olive oil and table olives are no exceptions.**

In order to succinctly assess the key drivers and barriers towards increased consumption for olive oil and table olives, a Harvey Ball ranking system was applied to both categories in order test and understand the levels of resistance towards increased consumption amongst consumers and the influence that increased promotional activities could have on the market.

**Driver and Barrier Summary**

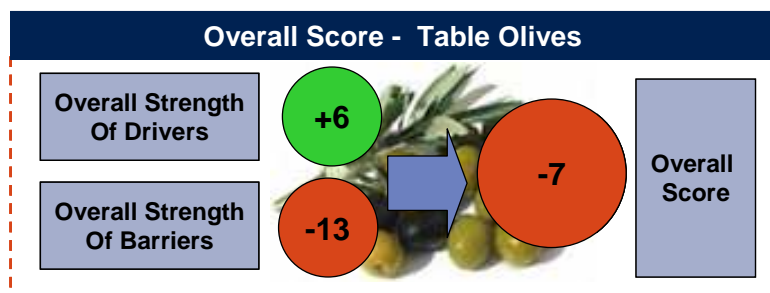


For olive oil, a positive score of +4 highlights the current strength of the olive oil category and why in spite of any additional promotional efforts from the International Olive Council there is sufficient forward momentum in the category to continue to drive strong value and volume sales growth up to 2013.

Encouragingly, there is only one barrier to growth that it will be difficult for the International Olive Council to influence and that is the ongoing decline in at home meal occasions. However, olive oil is not alone in facing

this challenge, as by definition it is a problem that confronts all other fats, oils and spreads to greater or less extents. This is why it is important for the olive oil industry in the short- to medium-term to focus on securing greater volumes from existing olive oil users to the exclusion of other oils – and hence, why it has been identified that driving increased usage among consumers who already understand some of the benefits of olive oil is critical.

### Driver and Barrier Summary



A negative score of -7 highlights why the table olive market is declining across North America as a whole, and why the extent of the problems facing the table olive industry, as previously emphasised.

It also underscores why promotional activities for table olives should be linked to those of olive oil as the halo effect of olive oil will ensure that there is a pull through effect into the table olive category. However, this does need to be carefully managed as the negative perceptions around table olives from a health perspective and also from a taste perspective need to be controlled in order not to jaundice the views of potential new olive oil consumers. The International Olive Council needs to ensure that the health benefits of table olives are made more apparent to consumers, as at present this information is clearly lacking in the US and Canadian markets.

As already stated the main area that can be controlled through promotional activities by the International Olive Council is the marketing of table olives for special events and seasonal occasions, actually turning a barrier to increased consumption into a positive message, that will in turn hopefully spur consumers to actually increase the frequency of their olive consumption beyond the obvious target occasions.

### Promotional Activities

Taking all of the above into consideration, the following table outlines the key activities which it is recommended that the International Olive Council undertake in order to optimally promote olive oil and table olives in the USA and Canada. The campaign has been designed around addressing the requirement for a single authoritative voice that consumers can trust when it comes to understanding olive oil and table olives, with the emphasis on securing greater volume purchases from existing olive oil and table olive consumers through the substitution of other products that they already have in their kitchens. The primary focus will be on the promotion of retail olive oil sales, as this is where the real volume opportunity lies, however, as the site will be focussed on olive products in general, there will also be opportunities for the enhancement of olive oil’s position within foodservice, as well as for the promotion of table olives when the time and opportunity is suitable to do so.

The activities detailed are based upon the timings allowed by the International Olive Council's budget and are based upon the commencement of the promotional campaign in October 2010 to coincide with the traditional North American holiday season.

| <b>Fazed Promotional Activities and Associated Costs 2010 and 2010</b>                  |                 |                   |
|---|-----------------|-------------------|
| <b>Activity</b>   | <b>Year 1</b>   | <b>Year 2</b>     |
| Creation of website and corporate identity, inclusive of hosting and updating the site. | €367,000        | €192,000          |
| Securing of consumer and celebrity endorsements   | €123,000        | €77,000           |
| PR Launch Event:  |                 |                   |
| • Option 1 (single event):  | NIL             | NIL               |
| • Option 2 (multiple events):   | €185,000        |                   |
| PR, media and launch event press activities   | €77,000         | NIL               |
| In-store promotional campaign   | NIL             | €461,000          |
| National press and lifestyle magazine advertisements                                    | €134,500        | €134,500          |
| Search Engine Optimisation  | €19,250         | €77,000           |
| Banner Advertising  | NIL             | €115,500          |
| On-going PR Campaigns   | NIL             | €192,500          |
| <b>Total Expenditure:</b>   |                 |                   |
| <b>PR Event Option 1:</b>   | <b>n/a</b>      | <b>n/a</b>        |
| <b>PR Event Option 2:</b>   | <b>€905,750</b> | <b>€1,249,500</b> |

## ***Market Size – Supply and Consumption***

**Outside of Europe, North Americans represent the largest consumers of table olives and olive oil globally.**

In 2009, consumers in the US and Canada used nearly 3.3 million hectolitres of olive oil, and ate over 218,000 tonnes of table olives. This compares to 2.8 million hectolitres of olive oil and 238,000 tonnes of table olives in 2004. Over that five year period, both countries have seen steady increases in olive oil consumption, particularly in retail, as opposed to foodservice, but despite the Canadian table olive market remaining relatively steady, there has been a steady decline in the volume of table olives consumed in the USA, resulting in an overall market contraction.

Indeed, the US market for table olives is forecast to continue to decline up until 2013, with overall consumption of table olives having fallen in North America to 207,000 tonnes by the end of that year. Conversely, olive oil will continue to grow strongly, with growth expected to continue to outpace the overall growth of the food market in North America, reaching over 3.6 million hectolitres over the same period.

Accordingly, the following section of this report will examine the dynamics of both the US and Canadian markets individually and will highlight the key reasons for the difference in growth rates for both olive oil and table olives in the two countries, and what these differences potentially mean in terms of promotion focus and activity for the International Olive Council.

### **USA – Olive Oil Supply**

In 2009, the USA represented 88.7 per cent of North American olive oil consumption (2.9million hectolitres), compared with 89.3 per cent in 2004, and is forecast to represent 88.5 per cent of consumption in 2013.

Despite having a domestic olive industry, current market supply of olive oil is almost solely based on imports, with only 0.8 per cent of olive oil supply being sourced locally. However, due to the financial attractiveness of oil olives, production is being switched away from other crops, including table olives, towards oil olives, with just over 2,000 new hectares of super high density crops coming on-stream before the end of 2010. As such, it is estimated that by 2013, domestic production will supply 4.4 per cent of the US market, and thereafter will plateau at about 5 per cent of total demand.

However, this increase in domestic production will not in absolute hectolitre terms reduce US reliance on imports. Domestic production will only represent 145,000 hectolitres by 2013, meaning that given supply side growth of 193,000 hectolitres, an additional 119,000 hectolitres will still need to be imported compared to 2009 levels.

It should also be noted that US domestic production, even with the benefits and advent of super high density planting systems and mechanical picking processes, will remain costly compared with traditional import supply nations. As such, any increase in volumes will only be used to service what will remain relatively niche artisanal extra virgin olive oil markets, due to the price premiums that are required to cover high production costs. For instance, in 2009, California bulk olive oil currently returns around \$8.20 per litre to a domestic grower, compared with average CIF import prices of \$2.91 per litre. Whilst, this price differential will narrow by 2013, domestic production will remain almost twice as expensive as imported olive oil.

| Category                    | Price Point | Unit        | 2004      | 2008      | 2009      | 2013      | CAGR 04-08 | CAGR 08-13 |
|-----------------------------|-------------|-------------|-----------|-----------|-----------|-----------|------------|------------|
| <b>Value</b>                |             |             |           |           |           |           |            |            |
| Domestic Production         | Grower      | 000s, \$US  | 10,554    | 17,241    | 20,945    | 96,615    | 13.1%      | 41.2%      |
| Net Imports for Consumption | CIF         | 000s, \$US  | 721,666   | 1,042,798 | 892,869   | 1,098,049 | 9.6%       | 1.0%       |
| <b>Volume</b>               |             |             |           |           |           |           |            |            |
| Domestic Production         | Produced    | hectoliters | 11,590    | 18,930    | 25,550    | 144,720   | 13.0%      | 50.2%      |
| Net Imports for Consumption | Imported    | hectoliters | 2,563,850 | 2,851,970 | 3,068,280 | 3,141,980 | 2.7%       | 2.0%       |
| <b>Price Per Litre</b>      |             |             |           |           |           |           |            |            |
| Domestic Production         | Grower      | \$US        | \$9.11    | \$9.11    | \$8.20    | \$6.68    | 0.0%       | -6.0%      |
| Net Imports for Consumption | CIF         | \$US        | \$2.81    | \$3.66    | \$2.91    | \$3.49    | 6.8%       | -0.9%      |

Source: Datamonitor, United States Department of Agriculture

Italy is the largest supplier of olive oil to the USA. On a CIF value basis, in 2009, it is forecast to represent 59 per cent of the import market, with sales worth \$525 million. However, its share of the market has declined steadily since 2004 when it accounted for 71 per cent of import supply to the USA. Over the same period, Spain has grown its share of the market from 18 per cent to 21 per cent, but combined both of Europe's traditional major growers of oil olives have seen their share of the market decrease from 89 per cent to 80 per cent, as new sources of olive oil globally have come on stream, and thus have challenged the traditional dominance of both countries. For example, Argentine exports of olive oil have grown from 0.5 per cent of supply in 2004, to over 3.0% in 2009, and Australian imports now account for 1.5% of the market as well.

However, the largest growth in imports has been seen from Tunisia, which now accounts for 13.1 per cent of the market, compared with only 5.6 per cent in 2004. More importantly, as imports in value terms to the US actually decreased in 2009, compared with 2008, the fact that Tunisia actually recorded a 3 per cent increase in its export values underlines the inroads the country is making as a cost effective and quality supplier to the market. Its average CIF price of \$266 per hectolitre is 26 per cent lower than the price for Italian olive oil.

|              |                    | 2004             | 2008             | 2009             | Share of Market 2004 | Share of Market 2009 |
|--------------|--------------------|------------------|------------------|------------------|----------------------|----------------------|
| Italy        | Hectolitres        | 1,729,031        | 1,650,192        | 1,573,940        | 67.4%                | 51.3%                |
| Spain        | Hectolitres        | 452,826          | 641,556          | 650,258          | 17.7%                | 21.2%                |
| Tunisia      | Hectolitres        | 164,625          | 305,517          | 438,372          | 6.4%                 | 14.3%                |
| Argentina    | Hectolitres        | 12,513           | 67,219           | 98,879           | 0.5%                 | 3.2%                 |
| Greece       | Hectolitres        | 36,285           | 45,443           | 54,557           | 1.4%                 | 1.8%                 |
| Turkey       | Hectolitres        | 107,731          | 37,077           | 80,549           | 4.2%                 | 2.6%                 |
| Other        | Hectolitres        | 60,840           | 104,966          | 171,725          | 2.4%                 | 5.6%                 |
| <b>Total</b> | <b>Hectolitres</b> | <b>2,563,850</b> | <b>2,851,970</b> | <b>3,068,280</b> |                      |                      |

Source: Datamonitor, United States Department of Agriculture

**Table 3: Leading Exporters of Olive Oil to USA by Value 2004-2009**

|              |                   | 2004           | 2008             | 2009           | Share of Market 2004 | Share of Market 2009 |
|--------------|-------------------|----------------|------------------|----------------|----------------------|----------------------|
| Italy        | 000s, \$US        | 515,252        | 665,732          | 525,728        | 71.4%                | 58.9%                |
| Spain        | 000s, \$US        | 129,749        | 229,026          | 190,067        | 18.0%                | 21.3%                |
| Tunisia      | 000s, \$US        | 40,070         | 106,393          | 116,620        | 5.6%                 | 13.1%                |
| Argentina    | 000s, \$US        | 3,804          | 23,897           | 26,410         | 0.5%                 | 3.0%                 |
| Other        | 000s, \$US        | 32,791         | 17,750           | 34,045         | 4.5%                 | 3.8%                 |
| <b>Total</b> | <b>000s, \$US</b> | <b>721,666</b> | <b>1,042,798</b> | <b>892,869</b> |                      |                      |

Source: Datamonitor, United States Department of Agriculture

## USA – Olive Oil Consumption

There are two distinct markets for olive oil in the USA – retail and foodservice.

US consumers spend considerably more on dining out of home than in any other country in the world, with 51 per cent of food dollars being spent at a food service institution (in sharp contrast to Canada where the figure is only 25 per cent). However, this does not necessarily make food service the most natural market fit for olive oil in the USA, and nor does it necessarily mean that the channel should be the main focus for sales volume growth. This is because a large proportion of US food service usage requires repeated deep-frying of relatively low priced foods sold through quick service restaurant chains such as McDonalds and Burger King. This means that given the relatively high price point of olive oil compared to other oil and fat products, that olive oil does not necessarily have a distinct advantage in the foodservice market compared to other products.

**Table 4: US Olive Oil Domestic Consumption, 2004-2013**

| Category                      | Price Point | Unit        | 2004      | 2008      | 2009      | 2013      | CAGR 04-08 | CAGR 08-13 |
|-------------------------------|-------------|-------------|-----------|-----------|-----------|-----------|------------|------------|
| <b>Value</b>                  |             |             |           |           |           |           |            |            |
| Retail                        | Retail      | 000s, \$US  | 587,900   | 954,700   | 984,643   | 1,347,072 | 12.9%      | 7.1%       |
| Foodservice                   | OBP         | 000s, \$US  | 586,903   | 824,758   | 670,705   | 869,115   | 8.9%       | 1.1%       |
| <b>Volume</b>                 |             |             |           |           |           |           |            |            |
| Retail                        | Retail      | Hectolitres | 786,000   | 919,000   | 983,330   | 1,150,360 | 4.0%       | 4.6%       |
| Foodservice                   | OBP         | Hectolitres | 1,736,400 | 1,878,720 | 1,916,300 | 2,074,260 | 2.0%       | 2.0%       |
| <b>Price Per Litre</b>        |             |             |           |           |           |           |            |            |
| Retail                        | Retail      | \$US        | \$7.48    | \$10.39   | \$10.01   | \$11.71   | 8.6%       | 2.4%       |
| Foodservice                   | OBP         | \$US        | \$3.38    | \$4.39    | \$3.50    | \$4.19    | 6.8%       | -0.9%      |
| <b>Consumption Per Capita</b> |             |             |           |           |           |           |            |            |
| Retail                        |             | Litres      | 0.268     | 0.302     | 0.320     | 0.360     | 3.0%       | 3.6%       |
| Foodservice                   |             | Litres      | 0.593     | 0.618     | 0.624     | 0.650     | 1.0%       | 1.0%       |
| Total                         |             | Litres      | 0.861     | 0.920     | 0.944     | 1.010     | 1.6%       | 1.9%       |

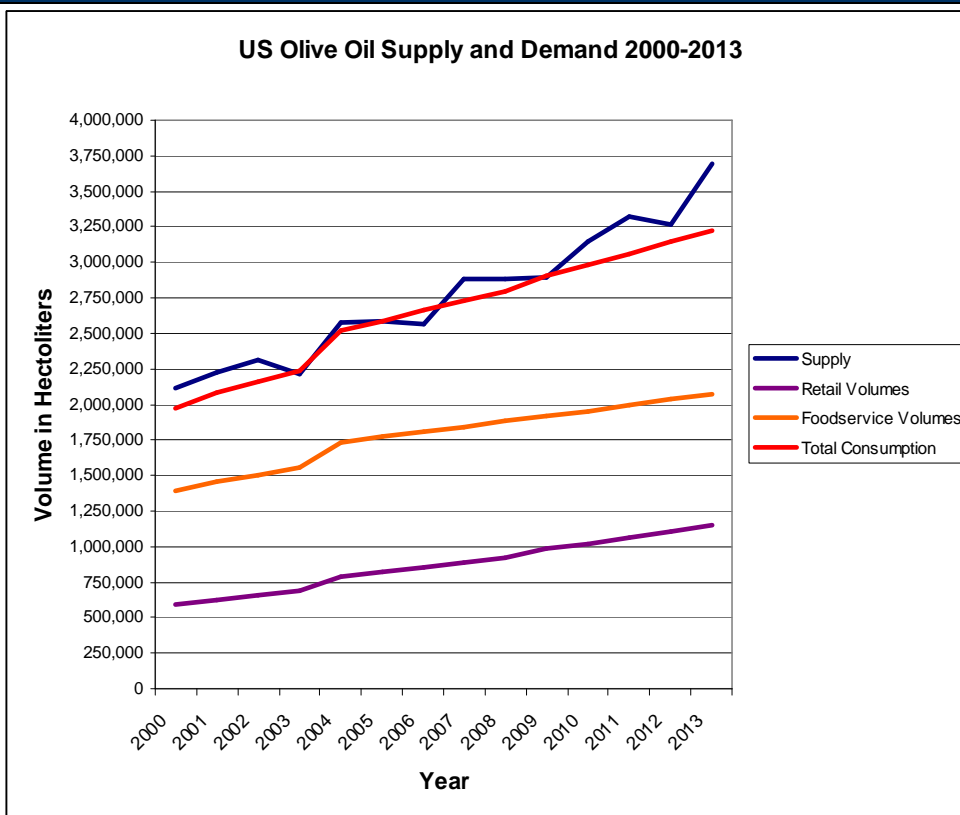
Source: Datamonitor, United States Department of Agriculture

It should be noted however, that in spite of this, two-thirds of all olive oil consumed in the USA is consumed in a food service environment. Indeed, it was the use of olive oil as healthy oil and fat replacements, and the concurrent embracing of the Mediterranean diet by US consumers that initially heightened the awareness of

US consumers to olive oil. However, for the reasons noted above, and elaborated on further later in this report, the volume growth opportunity that can be readily influenced for olive oil in the USA does not rest in foodservice, but through retail sales. Indeed, up to 2013, over 51 per cent of all new consumption volume in the USA will come from retail sales, with average annual growth rates running at 4.6 per cent in retail compared to only 2.0 per cent in food service.

Overall, the USA is the fourth largest market for olive oil globally, but on a per capita basis, across both foodservice and retail, only 940 millilitres of olive oil is consumed. This falls to 320 millilitres of olive oil per capita sourced through retail, and given that olive oil only has a US household penetration rate of 44 per cent, the implication is that each household that currently buys olive oil is only purchasing 1.9 litres annually.

**Figure 1: US Olive Oil Supply and Demand 2000-2013**





## Canada – Olive Oil Supply

In 2009, Canada represented 11.3 per cent of North American olive oil consumption (370,000 hectolitres), compared with 10.7 per cent in 2004, and is forecast to represent 11.5 per cent of consumption in 2013.

| Category                    | Price Point | Unit        | 2004    | 2008    | 2009    | 2013    | CAGR 04-08 | CAGR 08-13 |
|-----------------------------|-------------|-------------|---------|---------|---------|---------|------------|------------|
| <b>Value</b>                |             |             |         |         |         |         |            |            |
| Net Imports for Consumption | CIF         | 000s, \$US  | 86,382  | 157,872 | 121,267 | 174,909 | 16.3%      | 2.1%       |
| <b>Volume</b>               |             |             |         |         |         |         |            |            |
| Net Imports for Consumption | Imported    | Hectolitres | 275,980 | 378,590 | 334,600 | 418,430 | 8.2%       | 2.0%       |
| <b>Price Per Litre</b>      |             |             |         |         |         |         |            |            |
| Net Imports for Consumption | CIF         | \$US        | \$3.13  | \$4.17  | \$3.62  | \$4.18  | 8.2%       | 2.0%       |

Source: Datamonitor, Statistics Canada

Canada does not have a domestic olive industry, be that for olive oil or for table olives. It does re-export a small proportion of the olive oil it imports each year though, although this represents much less than one per cent of total volume imports. Despite, the lack of a domestic industry, and given the dominance of the local canola oil lobby, there has been strong growth in the use of olive oil over the past five years in Canada. Indeed, overall consumption rates have grown at nearly twice the rate in Canada (4.7 per cent on average), compared with the USA (2.6 per cent).

As with the USA, Italy is the dominant supplier of olive oil to Canada, accounting for 71.7 per cent of all imports on a CIF value basis in 2009 (estimated to be \$86.9 million in 2009). Italy's share of the market has remained largely unchanged when compared to 2004, when it accounted for 71.0 per cent of the market. Overall supply to Canada has remained relatively constant in terms of country of origin over the past five years, with only Turkey of the top five supplying nations seeing a noticeable decrease in share – down from 10.2 per cent to 3.4 per cent - and as such falling from being the second ranked supplier to the fifth ranked supplier over the period behind Greece, Spain and Tunisia.

|              |                   | 2004          | 2008           | 2009           | Share of Market 2004 | Share of Market 2009 |
|--------------|-------------------|---------------|----------------|----------------|----------------------|----------------------|
| Italy        | 000s, \$US        | 61,297        | 100,307        | 86,947         | 71.0%                | 71.7%                |
| Greece       | 000s, \$US        | 5,820         | 11,886         | 10,898         | 6.7%                 | 9.0%                 |
| Turkey       | 000s, \$US        | 8,810         | 10,163         | 4,090          | 10.2%                | 3.4%                 |
| Spain        | 000s, \$US        | 4,178         | 7,338          | 5,659          | 4.8%                 | 4.7%                 |
| Tunisia      | 000s, \$US        | 2,482         | 4,540          | 6,335          | 2.9%                 | 5.2%                 |
| Other        | 000s, \$US        | 3,795         | 23,638         | 7,338          | 4.4%                 | 6.1%                 |
| <b>Total</b> | <b>000s, \$US</b> | <b>86,382</b> | <b>157,872</b> | <b>121,267</b> |                      |                      |

Source: Datamonitor, Statistics Canada

Exports to Canada typically yield higher CIF prices per hectolitre than those of the USA. For example, in 2009, the average price per hectolitre for exports to Canada was \$362 compared with \$291 to the USA. The main reason for this higher yield is due to higher proportion of oil imported for sale into retail compared to foodservice. In 2009, 57 per cent of all Canadian oil imports were destined for retail sale, compared to only

a third of olive oil supply in the USA. This factor goes some way to explaining why Italian olive oil has managed to maintain a dominant position in the Canadian market, as the retail market tends not to be as price sensitive, and more demanding of quality, than the foodservice industry. Accordingly, it also explains why the success of emerging producers such as Tunisia has not been replicated in the Canada.

### Canada – Olive Oil Consumption

As with the USA, Canada has two distinct markets for olive oil – retail and foodservice.

However, as referred to above, there is a major difference between the two countries and that is Canadians do not eat out of home anywhere near as much as their US counterparts. Indeed, only 25 per cent of food consumption is out home, compared to 51 per cent in the USA. This is largely because in Canada there are only 2,355 quick service restaurants – one for every 14,000 inhabitants, compared with 222,294 outlets of this type in the USA – or one for every 1,382 inhabitants.

This in turn prima facie means that there is a greater opportunity to increase consumption of olive oil in foodservice in Canada as by definition the remaining foodservice market should have a greater fit with olive oil than in the USA. Indeed, this is seemingly confirmed by the fact that foodservice oil olive consumption per capita is actually nearly 30 per cent lower in Canada than it is currently in the USA. The major caveat with this assertion is that the overall size of the opportunity in Canada is significantly lower in foodservice than it is in the USA, by the pure fact that not only is the Canadian market significantly smaller than the US market, but also due the inherent lower spend across foodservice as a whole, the ultimate size of the opportunity is much smaller as well.

Despite this, it is foodservice demand that has led olive oil consumption growth since 2004. The foodservice market grew by 6.4 per cent per annum to the end of 2008, as a result of the same consumer trends seen in the USA – consumer attention to a healthier diet, and also the greater proclivity for a Mediterranean diet. However, as with the US, foodservice market growth is expected to slow in the years leading up to 2013, with growth only averaging 2.0 per cent per annum.

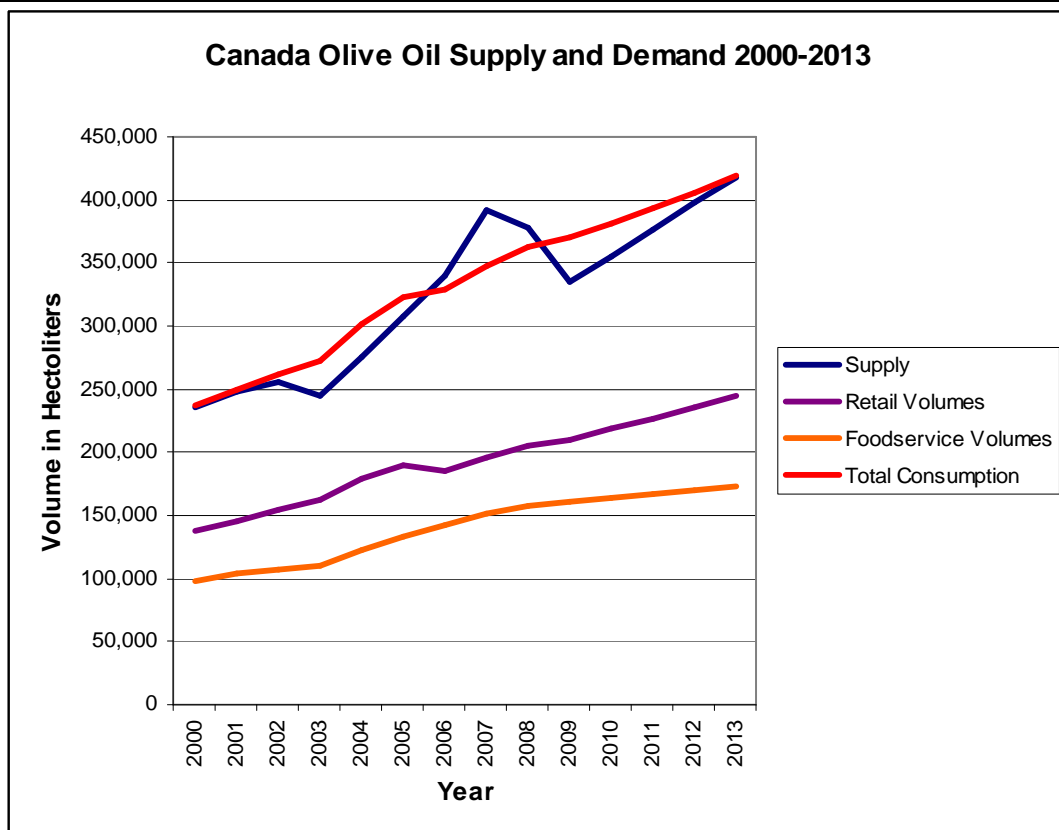
| Category                      | Price Point | Unit        | 2004    | 2008    | 2009    | 2013    | CAGR 04-08 | CAGR 08-13 |
|-------------------------------|-------------|-------------|---------|---------|---------|---------|------------|------------|
| <b>Value</b>                  |             |             |         |         |         |         |            |            |
| Retail                        | Retail      | 000s, \$US  | 119,707 | 167,100 | 164,177 | 224,688 | 8.7%       | 6.1%       |
| Foodservice                   | OBP         | 000s, \$US  | 46,988  | 80,190  | 71,125  | 88,794  | 14.3%      | 2.1%       |
| <b>Volume</b>                 |             |             |         |         |         |         |            |            |
| Retail                        | Retail      | Hectolitres | 178,800 | 205,060 | 209,870 | 245,520 | 3.5%       | 3.7%       |
| Foodservice                   | OBP         | Hectolitres | 122,610 | 157,060 | 160,200 | 173,410 | 6.4%       | 2.0%       |
| <b>Price Per Litre</b>        |             |             |         |         |         |         |            |            |
| Retail                        | Retail      | \$US        | \$6.70  | \$8.15  | \$7.82  | \$9.15  | 8.6%       | 2.4%       |
| Foodservice                   | OBP         | \$US        | \$3.83  | \$5.11  | \$4.44  | \$5.12  | 6.8%       | -0.9%      |
| <b>Consumption Per Capita</b> |             |             |         |         |         |         |            |            |
| Retail                        |             | Litres      | 0.565   | 0.625   | 0.634   | 0.715   | 2.6%       | 2.7%       |
| Foodservice                   |             | Litres      | 0.387   | 0.478   | 0.484   | 0.505   | 5.4%       | 1.1%       |
| Total                         |             | Litres      | 0.952   | 1.103   | 1.117   | 1.220   | 3.8%       | 2.0%       |

Source: Datamonitor, Statistics Canada

Volume retail sales growth has been at lower rates than in the USA since 2004, averaging only 3.5 per cent in Canada, compared with 4.0 per cent, and is also expected to grow at a slower rate up to 2013, 3.7 per cent compared to 4.6 per cent. Similarly, value sales growth has also lagged behind the USA since 2004. Indeed, Canadian consumers benefit from significantly lower prices than their US counterparts in retail, with the average price per litre in 2009 in Canada being \$7.82 compared with \$10.01 in the USA. This 28 per cent price differential is not expected to narrow leading up to 2013, and is driven by the fact that US consumers tend towards premium extra virgin olive oil purchases, which in part is seemingly reflective of a better cultural knowledge of olive oil and where and how to use different types of olive oil among Canadian consumers.

It should also be noted that consistently over the past five years nearly 30 per cent of olive oil supply on a CIF value basis has arrived into the province of Quebec, which accounts proportionately for only 23 per cent of Canada’s population – highlighting the different culinary history of the province compared to the rest of Canada. Indeed, 94 per cent of French olive oil that was imported into Canada in 2008 was supplied to Quebec further emphasising this difference.

**Figure 2: Canada Olive Oil Supply and Demand 2000-2013**



**KEY INSIGHT – OLIVE OIL SUPPLY AND CONSUMPTION:**

In both the USA and Canada, forecast volume growth and revenue growth for olive oil between 2010 and 2013 will come from retail. Of the forecast 374,000 hectolitre increase in overall volumes during this period, 203,000 hectolitres, or 54.2 per cent, of the growth will come from retail sales. Similarly, retail sales growth will bring about higher prices for growers and distributors, and therefore by definition better profit margins.

As such, additional marketing activities sponsored by the International Olive Council should be focussed at driving growth through retail, a channel at this juncture of market evolution which can be more directly influenced through promotional and marketing activities, compared to foodservice, where much of the oils market in total is effectively beyond the reach of olive oil.

**USA – Table Olive Supply**

In 2009, the USA represented 87.8 per cent of North American table olive consumption (191,000 tonnes), compared with 90.0 per cent in 2004, and is forecast to represent 86.7 per cent of consumption in 2013.

The US domestic olive industry is currently largely focussed on the supply of table olives. However, as noted above, the focus of the market is likely to change in coming years to the planting of more oil olives. This is largely due to the crop failures that have affected the Californian olive industry in three of the last four years (2006, 2008 and 2009), as well as the inherently high costs of production in California. Furthermore, there is an increasing awareness that the water intensity of other crop production, such as almonds, in what is traditionally a state that suffers from drought and hence water shortages, makes oil olives a viable, and potentially highly profitable alternative.

As such, although the overall share that the domestic olive industry will have of the table olive market will not have declined too dramatically when comparing 2004 with 2013 – 47.7 per cent to 43.1 per cent - the absolute volume of olives produced will have decreased from 102,000 tonnes to only 77,000 tonnes – highlighting not only the shift in production focus, but also the fall in demand for table olives in the US domestic market overall as consumers steadily abandon the category both in retail and foodservice.

While not as dramatic, there will also be a decline in import volumes as well, over the same 2004 to 2013 period, with imports for consumption reducing from 112,000 tonnes to 103,000 tonnes, meaning that in total, the overall US table olive market would have declined by 16.3 per cent in ten years.

| Table 8: USA Table Olive Supply, 2004-2013 |             |               |         |         |         |         |            |            |
|--|-------------|---------------|---------|---------|---------|---------|------------|------------|
| Category                                   | Price Point | Unit          | 2004    | 2008    | 2009    | 2013    | CAGR 04-08 | CAGR 08-13 |
| <b>Value</b>                               |             |               |         |         |         |         |            |            |
| Domestic Production                        | Processor   | 000s, \$US    | 475,054 | 508,272 | 294,259 | 280,142 | 1.7%       | -11.2%     |
| Net Imports for Consumption                | CIF         | 000s, \$US    | 281,861 | 408,701 | 343,194 | 343,512 | 16.3%      | 2.1%       |
| <b>Volume</b>                              |             |               |         |         |         |         |            |            |
| Domestic Production                        | Processor   | Metric Tonnes | 102,395 | 111,528 | 56,607  | 77,311  | 2.2%       | -7.1%      |
| Net Imports for Consumption                | CIF         | Metric Tonnes | 112,312 | 127,651 | 116,920 | 103,482 | 3.3%       | -4.1%      |
| <b>Price Per Kilogram</b>                  |             |               |         |         |         |         |            |            |
| Domestic Production                        | Processor   | \$US          | \$4.64  | \$4.56  | \$5.20  | \$3.62  | -0.4%      | -4.5%      |
| Net Imports for Consumption                | CIF         | \$US          | \$2.51  | \$3.20  | \$2.94  | \$3.32  | 6.3%       | 0.7%       |

Source: Datamonitor, United States Department of Agriculture

Conversely, the value of table olives supplied to the USA, depending on source and also the final destination has broadly risen over the 2004 to 2008 period. However, there have been wide variances. For example, the processor price received for locally grown olives declined by 0.4% per annum on average, compared to a 6.3 per cent average annual increase seen for imported olives – highlighting the price pressures affecting local producers. Further, as domestic production volumes decline it is anticipated that grower returns will continue to suffer as customers become increasingly used to working with overseas suppliers (modifying their supply chains accordingly) – resulting in an average annual price decrease of 4.5 per cent for California’s processors leading up 2013. In contrast, import prices are expected to rise by an annual average of 0.7 per cent - with the result that the premium per kilogram commanded by local growers over CIF prices will have decreased from 85 per cent in 2004, to only 9 per cent by 2013.

Of the import countries, Spain is the largest supplier of table olives to the USA. On a CIF value basis, in 2009, it is forecast to represent 57.7 per cent of the import market, with sales worth \$198 million. However, as with olive oil, its share of the market has declined steadily since 2004 when it accounted for 62.4 per cent of import supply to the USA. In contrast, to the olive oil market though, no single country has managed to secure a major slice of the market at its expense, with there being an overall uplift in volumes sourced from a wider range of countries. So, even though, Argentina, for example, has increased its share of the import market from 2.7 per cent to 6.1 per cent, and Egypt its share from 0.2 per cent to 1.7 per cent, there has broadly been incremental increases in supply across another 27 country markets.

| <b>Table 9: Leading Exporters of Table Olives to USA by Value, 2004-2009</b> |                   |                |                |                |                             |                             |
|--|-------------------|----------------|----------------|----------------|-----------------------------|-----------------------------|
|  |                   | <b>2004</b>    | <b>2008</b>    | <b>2009</b>    | <b>Share of Market 2004</b> | <b>Share of Market 2009</b> |
| Spain  | 000s, \$US        | 175,764        | 235,151        | 197,890        | 62.4%                       | 57.7%                       |
| Greece   | 000s, \$US        | 58,969         | 80,377         | 74,453         | 20.9%                       | 21.7%                       |
| Morocco  | 000s, \$US        | 28,577         | 46,264         | 32,178         | 10.1%                       | 9.4%                        |
| Argentina  | 000s, \$US        | 7,500          | 20,490         | 21,077         | 2.7%                        | 6.1%                        |
| Italy  | 000s, \$US        | 6,177          | 11,514         | 9,450          | 2.2%                        | 2.8%                        |
| Other  | 000s, \$US        | 4,874          | 14,905         | 8,147          | 1.7%                        | 2.4%                        |
| <b>Total</b>   | <b>000s, \$US</b> | <b>281,861</b> | <b>408,701</b> | <b>343,194</b> |                             |                             |

Source: Datamonitor, United States Department of Agriculture

Based on US Federal Agriculture import data there is a wide variance in terms of pricing achieved by table olive exporters to the USA. At the top end of the market, Italian olives achieved a CIF per tonne price of \$4,550 in 2009, whilst at the bottom end of the market Mexican olives were only commanding a price of \$720. Overall, pricing for imported table olives rose on average by 4.0 per cent per annum over the 2004-2009 period, with only olives supplied from Greece, out of the major suppliers falling over from a 2004 peak of \$4,670 per tonne to \$3,490 in 2009.

| <b>Table 10: Leading Exporters of Table Olives to USA by Volume, 2004-2009</b> |                      |                |                |                |                             |                             |
|--|----------------------|----------------|----------------|----------------|-----------------------------|-----------------------------|
|  |                      | <b>2004</b>    | <b>2008</b>    | <b>2009</b>    | <b>Share of Market 2004</b> | <b>Share of Market 2009</b> |
| Italy  | Metric Tonnes        | 71,119         | 66,203.40      | 60,882         | 63.3%                       | 52.1%                       |
| Greece   | Metric Tonnes        | 12,631         | 18,916.10      | 21,352         | 11.2%                       | 18.3%                       |
| Morocco  | Metric Tonnes        | 15,606         | 17,050.00      | 11,859         | 13.9%                       | 10.1%                       |
| Mexico   | Metric Tonnes        | 4,714          | 11,581.10      | 4,532          | 4.2%                        | 3.9%                        |
| Argentina  | Metric Tonnes        | 4,974          | 8,597.20       | 12,584         | 4.4%                        | 10.8%                       |
| Other  | Metric Tonnes        | 3,268          | 5,303          | 5,712          | 2.9%                        | 4.9%                        |
| <b>Total</b>   | <b>Metric Tonnes</b> | <b>112,312</b> | <b>127,651</b> | <b>116,920</b> |                             |                             |

Source: Datamonitor, United States Department of Agriculture

As with the olive oil market this divergence in pricing is predicated by market consumption of the table olives imported. For example, it is apparent that high end olives for retail in premium outlets such as Whole Foods will command higher prices, whilst olives for supply to fast food restaurants, in particular pizza parlours as a generic topping, will command significantly lower prices.

## USA – Table Olive Consumption

As with olive oil, there are two distinct markets for table olives in the USA – retail and foodservice, and as with olive oil there is a significant bias in terms of consumption towards foodservice, with in 2009, 72 per cent of all table olives being supplied into the out-of-home catering industry.

However, in contrast to the olive oil market, the table olive market in the USA is in decline, with consumption volumes declining by 2.4 per cent per annum between 2004 and 2008, and average declines forecast to continue at a rate of 1.6 per cent per annum up to 2013. Overall, this means that the US table olive market will have contracted by nearly 35,000 tonnes in a decade, with 25,000 tonnes of this decline coming at the expense of US domestic table olive producers.

The sharpest declines up to 2009 have been in retail sales of table olives. This is because table olives have ceased to be part of middle-America's diet as a stand alone product and as an ingredient for addition to home prepared meals. Accordingly, table olive consumption is increasingly limited to higher income group consumers or olives are viewed as only being required for consumption on special seasonal occasions. On a per capita basis the decline in retail consumption is even more dramatic than the decline in overall retail table olive volumes. With the population of the USA effectively growing by one per cent per annum, the average annual decline in retail volumes of 3.5 per cent between 2004 and 2008 becomes a decline of 4.4 per cent - with consumption per head reducing from 211 grams to 164 grams by 2013. The only positive that can be taken from an examination of table olive consumption is that the decline in absolute volumes is actually slowing, decreases averaging 0.5 per cent per annum from 2009 to 2013, and per capita consumption declining similarly by 1.5 per cent.

The table olive market in foodservice has also seen negative growth since 2004 with an average decline of 2.0 per cent per annum having been seen up to 2008, and forecast decline at the same rate set to continue up to 2013. The reasons for this decline however are less apparent than in retail, as pizza, for example,

which has typically used olives as a fairly standard topping, is one of the fastest growing foodstuffs in the USA.

| Table 11: USA Table Olive Domestic Consumption, 2004-2013 |             |               |         |         |         |           |            |            |
|---|-------------|---------------|---------|---------|---------|-----------|------------|------------|
| Category  | Price Point | Unit          | 2004    | 2008    | 2009    | 2013      | CAGR 04-08 | CAGR 08-13 |
| <b>Value</b>  |             |               |         |         |         |           |            |            |
| Retail  | Retail      | 000s, \$US    | 482,286 | 537,516 | 548,262 | 595,830   | 2.7%       | 2.1%       |
| Foodservice   | OBP         | 000s, \$US    | 589,250 | 903,845 | 728,261 | 1,044,522 | 11.3%      | 2.9%       |
| <b>Volume</b>   |             |               |         |         |         |           |            |            |
| Retail  | Retail      | Metric Tonnes | 61,836  | 53,628  | 53,306  | 52,248    | -3.5%      | -0.5%      |
| Foodservice   | OBP         | Metric Tonnes | 152,671 | 140,819 | 138,002 | 127,289   | -2.0%      | -2.0%      |
| <b>Price Per Kilogram</b>                                 |             |               |         |         |         |           |            |            |
| Retail  | Retail      | \$US          | \$7.80  | \$10.02 | \$10.29 | \$11.40   | 6.5%       | 2.6%       |
| Foodservice   | OBP         | \$US          | \$3.86  | \$6.42  | \$5.28  | \$8.21    | 13.6%      | 5.0%       |
| <b>Consumption Per Capita</b>                             |             |               |         |         |         |           |            |            |
| Retail  |             | Kilogram      | 0.211   | 0.176   | 0.174   | 0.164     | -4.4%      | -1.5%      |
| Foodservice   |             | Kilogram      | 0.521   | 0.463   | 0.449   | 0.399     | -2.9%      | -2.9%      |
| Total   |             | Kilogram      | 0.733   | 0.639   | 0.623   | 0.562     | -3.4%      | -2.5%      |

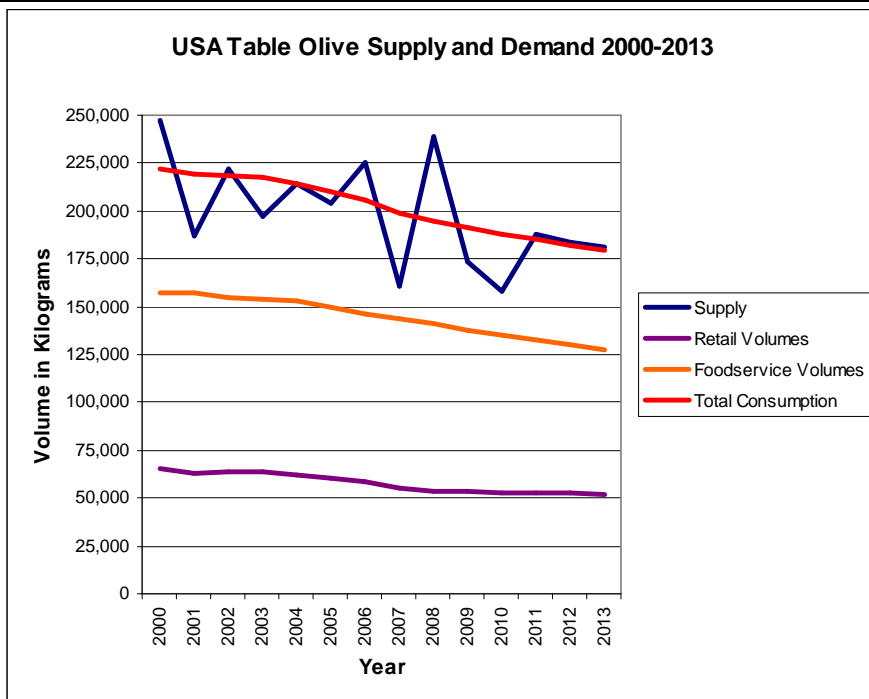
Source: Datamonitor, United States Department of Agriculture

As such, the most likely reasons for the decline are due to three main factors, all of which are linked to a reduction in US consumers who have a taste for table olives, and to a shift in actual consumption behaviours:

- A major user of olives in the USA is the bar industry, which uses olives in the preparation of martinis. However, the martini as a cocktail has reduced in popularity in recent years, due to a combination of being perceived as old-fashioned particularly among younger consumers, and also due to the reinvention of the martini cocktail category, with new non-traditional combinations of martinis being created by bars – the vast majority of which do not call for the inclusion of olives;
- Pizza parlours have increasingly allowed US consumers to customise their pizza toppings, meaning that to a greater or lesser extent there are no longer fixed pizza servings. Table olives seem to have suffered in favour of other toppings as a result; and
- The increased popularity of the Mediterranean diet among US consumers has not translated into dishes which include olives. Indeed, as with retail table olive sales, the uses of olives in dishes such as salads seems to have increasingly become the preserve of more upmarket restaurants and foodservice establishments, particularly as the ethnic demographic mix of the USA changes, and Mediterranean immigrant groups become more homogenised within the generic US cultural mix, have changed their menus accordingly to better service this new and growing consumer base.

Overall, between 2004 and 2013, the decline in foodservice volumes will amount to 25,000 tonnes, or 73 per cent of the volume lost. On a per capita basis, out of home table olive consumption will fall from 521 grams to 399 grams over the same period.

**Figure 3: USA Table Olive Supply and Demand, 2000-2013**



### Canada – Table Olive Supply

In 2009, Canada represented 12.2 per cent of North American table olive consumption (27,000 tonnes), compared with 10.0 per cent in 2004, and is forecast to represent 13.3 per cent of consumption by 2013.

All of Canada’s table olives are imported, and unlike the USA, table olive consumption has actually been rising in Canada at an average annual rate of 2.1 per cent up to 2008, and is forecast to continue to rise at a rate of 1.2 per cent up to 2013. This means that compared with 2004, by 2013 an annual additional 4,447 tonnes of table olives will be shipped to Canada.

|              |                   | 2004          | 2009          | Share of Market 2004 | Share of Market 2009 |
|--------------|-------------------|---------------|---------------|----------------------|----------------------|
| Spain        | 000s, \$US        | 24,431        | 25,916        | 44.2%                | 40.6%                |
| Greece       | 000s, \$US        | 16,730        | 22,589        | 30.2%                | 35.4%                |
| USA          | 000s, \$US        | 5,348         | 4,587         | 9.7%                 | 7.2%                 |
| Morocco      | 000s, \$US        | 2,480         | 2,395         | 4.5%                 | 3.7%                 |
| Argentina    | 000s, \$US        | 654           | 2,010         | 1.2%                 | 3.1%                 |
| Other        | 000s, \$US        | 5,678         | 6,370         | 10.3%                | 10.0%                |
| <b>Total</b> | <b>000s, \$US</b> | <b>55,321</b> | <b>63,867</b> |                      |                      |

Source: Datamonitor, Statistics Canada

In 2009, Spain and Greece were the two major suppliers of table olives to Canada, controlling 49 per cent and 26 per cent of the market respectively on a volume basis. On a value basis, Spain’s share of the market



decreases to 41 per cent and Greece's rises to 35 per cent due to the price premium that Greek table olives are able to attract within the market, \$3420 per tonne, compared to \$2270 per tonne. Spain's overall exports to Canada in 2009 were worth \$24 million.

|              |                      | 2004          | 2009          | Share of Market 2004 | Share of Market 2009 |
|--------------|----------------------|---------------|---------------|----------------------|----------------------|
| Spain        | Metric Tonnes        | 12,091        | 11,429        | 52.5%                | 48.8%                |
| Greece       | Metric Tonnes        | 4,329         | 6,000         | 18.8%                | 25.6%                |
| USA          | Metric Tonnes        | 2,427         | 1,585         | 10.5%                | 6.8%                 |
| Morocco      | Metric Tonnes        | 1,303         | 1,001         | 5.7%                 | 4.3%                 |
| Argentina    | Metric Tonnes        | 438           | 1,051         | 1.9%                 | 4.5%                 |
| Other        | Metric Tonnes        | 2,445         | 2,352         | 10.6%                | 10.0%                |
| <b>Total</b> | <b>Metric Tonnes</b> | <b>23,033</b> | <b>23,418</b> |                      |                      |

Source: Datamonitor, Statistics Canada

Compared with 2004, the biggest decline in import volumes has been experienced by US suppliers to Canada. This is in line with the overall decline being seen in US table olive production in general, with volume share declining from 10.5 per cent to 6.8 per cent - 2,426 metric tonnes to 1,585 metric tonnes. This decline has been arrested somewhat by an increase in CIF pricing per tonne, which has risen by 30 per cent over the period, but nevertheless is symptomatic and representative of the problems experienced by the US industry.

| Category                    | Price Point | Unit          | 2004   | 2008   | 2009   | 2013   | CAGR 04-08 | CAGR 08-13 |
|-----------------------------|-------------|---------------|--------|--------|--------|--------|------------|------------|
| <b>Value</b>                |             |               |        |        |        |        |            |            |
| Net Imports for Consumption | CIF         | 000s, \$US    | 55,321 | 61,717 | 63,867 | 69,003 | 2.8%       | 2.3%       |
| <b>Volume</b>               |             |               |        |        |        |        |            |            |
| Net Imports for Consumption | CIF         | Metric Tonnes | 23,033 | 24,565 | 23,418 | 27,720 | 1.6%       | 2.4%       |
| <b>Price Per Kilogram</b>   |             |               |        |        |        |        |            |            |
| Net Imports for Consumption | CIF         | \$US          | \$2.40 | \$2.51 | \$2.73 | \$2.49 | 1.1%       | -0.2%      |

Source: Datamonitor, Statistics Canada

As also seen in the olive oil market, export prices to Canada are also lower than export prices to the USA, with the average price per tonne being \$2,940 in the USA, compared with \$2,476 in Canada. As a result, the average retail and foodservice operator buying prices for table olives are also lower in Canada. However, there is no discernible reason, including import duties and taxes why this should necessarily be the case, except for the fact that in the USA, prices have historically been set against the backdrop of local production accounting for nearly 50 per cent of total supply, and hence a price ceiling has been set in the USA against which exporters have had to price their goods accordingly in order to potentially avoid anti-dumping or similar actions.

## Canada – Table Olive Consumption

As with olive oil in both countries, and with table olives in the USA, there are once again two distinct markets for table olives in Canada – retail and foodservice. Foodservice does however, have an overall greater proportion of the market than olive oil in Canada, accounting for 40% of all olive consumption, compared to 60% in retail. These proportion splits have remained relatively unchanged since 2004 and are similarly not forecast to change to any great degree by 2013 either.

The biggest difference when comparing the table olive market in the USA with the table olive market in Canada is while table olives in the USA have steadily lost ground over recent years, Canada's market has continued to grow – albeit not at the rate experienced by olive oil. Indeed, whilst absolute volume growth has risen by an average 2.1% to 2008, per capita consumption has also grown by 1.2% as well – indicating that the dynamics of the market in Canada are quite different from those seen south of the border.

The main identifiable reason for this difference is the more European aspect to Canadian culture in general, particularly given the influence of the large French community in the country. Further, there are also differences in immigration patterns to Canada, which tends to attract new citizens, particularly in the East, from former British Commonwealth countries and the United Kingdom, as opposed to Latin and South America. Therefore, many of the consumption habits and behaviours seen in Canada are more akin to Europe and Australia than to the USA.

This is also shown in foodservice, where the convenience aspect of food consumption, so prevalent in the USA, is offset to a greater or lesser extent by a greater desire for a quality dining experience. As noted above, there is a much greater number of quick service restaurants in the USA compared to Canada, and the consumption of other convenience food service products is also much lower in Canada – with a greater emphasis being placed on a café culture and full service dining. This means that more traditional and authentic menu options are adhered to and are more widely available to consumers.

| Table 15: Canada Table Olive Domestic Consumption, 2004-2013 |             |               |        |        |        |        |            |            |
|--|-------------|---------------|--------|--------|--------|--------|------------|------------|
| Category   | Price Point | Unit          | 2004   | 2008   | 2009   | 2013   | CAGR 04-08 | CAGR 08-13 |
| <b>Value</b>   |             |               |        |        |        |        |            |            |
| Retail   | Retail      | 000s, \$US    | 56,673 | 77,967 | 74,627 | 90,377 | 8.3%       | 3.0%       |
| Foodservice  | OBP         | 000s, \$US    | 21,628 | 32,568 | 28,236 | 33,713 | 10.8%      | 0.7%       |
| <b>Volume</b>  |             |               |        |        |        |        |            |            |
| Retail   | Retail      | Metric Tonnes | 14,351 | 15,624 | 15,936 | 16,583 | 2.1%       | 1.2%       |
| Foodservice  | OBP         | Metric Tonnes | 9,568  | 10,416 | 10,624 | 11,056 | 2.1%       | 1.2%       |
| <b>Price Per Kilogram</b>                                    |             |               |        |        |        |        |            |            |
| Retail   | Retail      | \$US          | \$3.95 | \$4.99 | \$4.68 | \$5.45 | 6.0%       | 1.8%       |
| Foodservice  | OBP         | \$US          | \$2.26 | \$3.13 | \$2.66 | \$3.05 | 8.4%       | -0.5%      |
| <b>Consumption Per Capita</b>                                |             |               |        |        |        |        |            |            |
| Retail   |             | Kilogram      | 0.453  | 0.476  | 0.481  | 0.483  | 1.2%       | 0.3%       |
| Foodservice  |             | Kilogram      | 0.302  | 0.317  | 0.321  | 0.322  | 1.2%       | 0.3%       |
| Total  |             | Kilogram      | 0.755  | 0.793  | 0.802  | 0.805  | 1.2%       | 0.3%       |

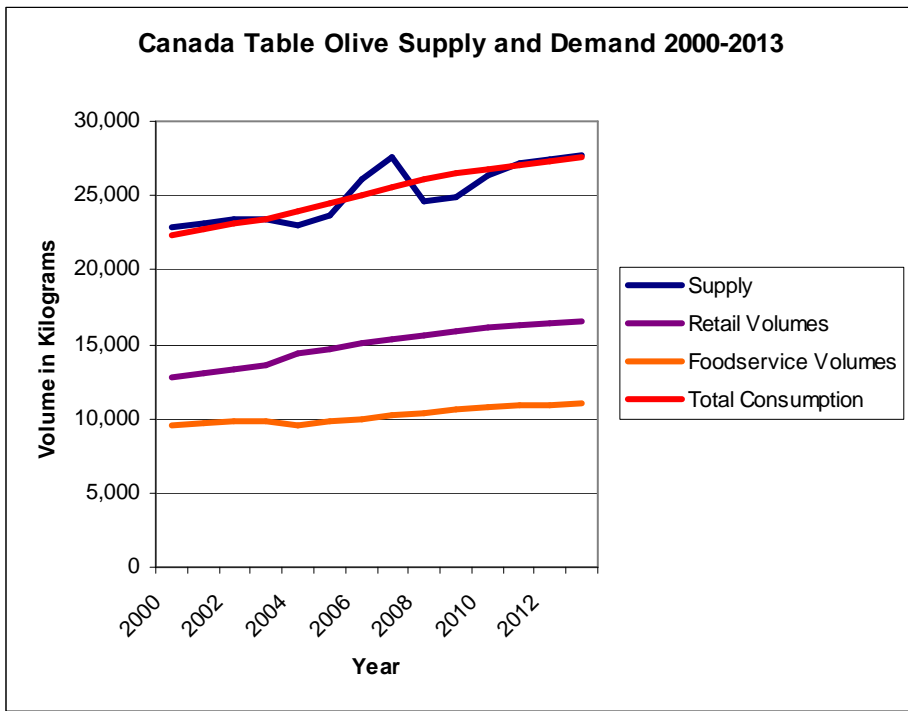
Source: Datamonitor, Statistics Canada

Similarly, because of the fact that Canadians are more likely to dine at home and prepare meals from scratch compared to US consumers, there is a greater propensity for the use of olives as a meal ingredient, and also for at home consumption of olives as a snack food or as an accompaniment when entertaining guests – whereas in the US, it would be more likely that savoury snacks, both traditional and ethnic, would be offered.

Despite the fact that the Canadian market has for the reasons given above benefitted from lower prices for table olives compared to the USA, this gap is narrowing at a retail level, where average price growth per annum in the USA has been stymied by declining volumes and averaged only 2.7% between 2004 and 2008, compared with 8.3% in Canada. Average price increases in retail in Canada are also set to rise faster than in the USA up to 2013, however, by a much smaller margin, 3.0% compared to 2.1%.

Overall, Canadian consumers by 2013, will eat 805 grams of table olives per capita, nearly 50% more than US consumers, whereas in 2004 the gap in consumption was only 22 grams (or less than 3%) – 755 grams in Canada compared to 733 grams in the USA.

**Figure 4: Canada Table Olive Supply and Demand 2000-2013**



**KEY INSIGHT – TABLE OLIVE SUPPLY AND CONSUMPTION:**

There are distinct differences between the USA and Canada when it comes to table olive consumption from both a cultural and perception perspective. This is reflected by the fact that the US market is in a steady state of decline, whilst the Canadian market is continuing to grow at a slow but steady pace. Overall, however, the North American market will have contracted by 31,000 tonnes by 2013 compared with 2004, with the bulk of this decline being directly attributable to the decline in production among US table olive growers.

As with olive oil, additional marketing activities sponsored by the International Olive Council should also be focussed towards driving growth through retail. The dynamics of the foodservice market in the USA are such that it will be difficult to do more than arrest the declines being seen in consumption, as the convenience trends being seen are only likely to continue for the foreseeable future. In Canada, the more traditional nature of the market also means that volumes will continue to grow in foodservice.

However, in retail, the consumer can be more directly influenced and as volume declines in the USA are slowing, there exists an opportunity to arrest the decline in volumes with well targeted messaging and promotion. Similarly, in Canada, greater volume increases than currently forecast can also be driven via a similar campaign.

## ***Market Structure – Supply Chain***

**The supply chain dynamics for imported olive oil and table olives do not differ greatly between the USA and Canada. However, there is an added level of complexity in the USA when it comes to domestic supply.**

In 2009, there were over 3.4 million hectolitres of olive oil imported into North America, as well as nearly 142,000 tonnes of table olives for consumption. In addition, a further 26,000 hectolitres of olive oil were produced in the USA and nearly 57,000 tonnes of table olives.

By 2013, it is forecast there will be some relatively significant shifts in these supply balances. In that year, nearly 3.6 million hectolitres of olive oil will be imported into the USA and Canada, representing a 4.6% increase in volume over 2009, but only 131,000 tonnes of table olives will be imported, an effective decrease of 7.5%. However, there will be a major change in the structure of the US domestic olive industry, with the emphasis and focus being placed increasingly on the production of olive oil compared to table olives. Olive oil production will increase to 145,000 hectolitres, nearly a six fold change compared with 2009, whilst conversely table olive output will also increase to 77,000 tonnes, a notional increase on 2009, but actually representative of an overall declining trend in the US table olive market, which will continue to see a slow and steady reduction in output compared to its 2006 production peak of over 116,000 tonnes.

Accordingly, the following section of this report will examine the dynamics of the supply chain for both olive oil and table olives in the USA and Canada, highlighting the differences between domestic and imported supply, as well as looking at the potential for the Californian olive oil and table olive market in the future. The key aim will be to provide the International Olive Council with a clear perspective on the structure of the market, the regulatory environment affecting the market and the core steps necessary to get product to market in both countries.

### **Olive Oil – USA and Canada - Imported Supply**

The relatively high price of olive oil in the USA is in part due to the often convoluted supply chains involved in getting product to market. This is in part due to historical factors, as olive oil until recently was still considered to be a relatively niche product in the USA, and as such there were and still are literally dozens of importers and distributors, who work with small olive producers to bring bulk supplies to the USA for bottling and redistribution, mainly to high-end food retailers and specialty shops. However, in recent years these dynamics have begun to change as olive oil has well and truly entered the mainstream in the USA, and as such has become a must have product from a stocking perspective for all major US supermarkets and hypermarkets.

This change in the volume dynamic has also changed how olive oil is bottled and redistributed in the USA. Whereas, the traditional model detailed above, involved bottling taking place in the USA, there is now a move towards bottling at source, which not only provides greater efficiencies for the producer, but also greater flexibility for the retailer or wholesaler in North America to influence the retail format of the product.

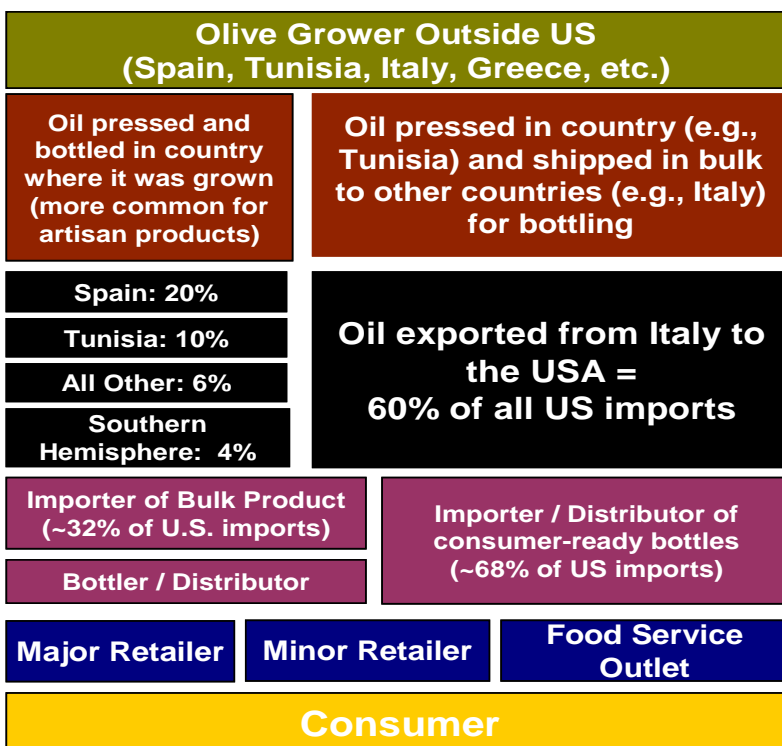
The Hojiblanca / Cargill co-operative near Malaga in Spain is one producer that is embracing this change in supply dynamic. The growth of private label brands, not just in the USA and Canada, but across Western Europe, means that retailers can increasingly work directly with producers, bypassing bottlers, wholesalers and distributors, to source products often at a lower cost, but of similar quality to those provided by traditional

brands. Through leveraging the vertical integration of its operations, and its existing reputation for supplying high quality products, Hojiblanca has a corporate aim to dominate the global private label market.

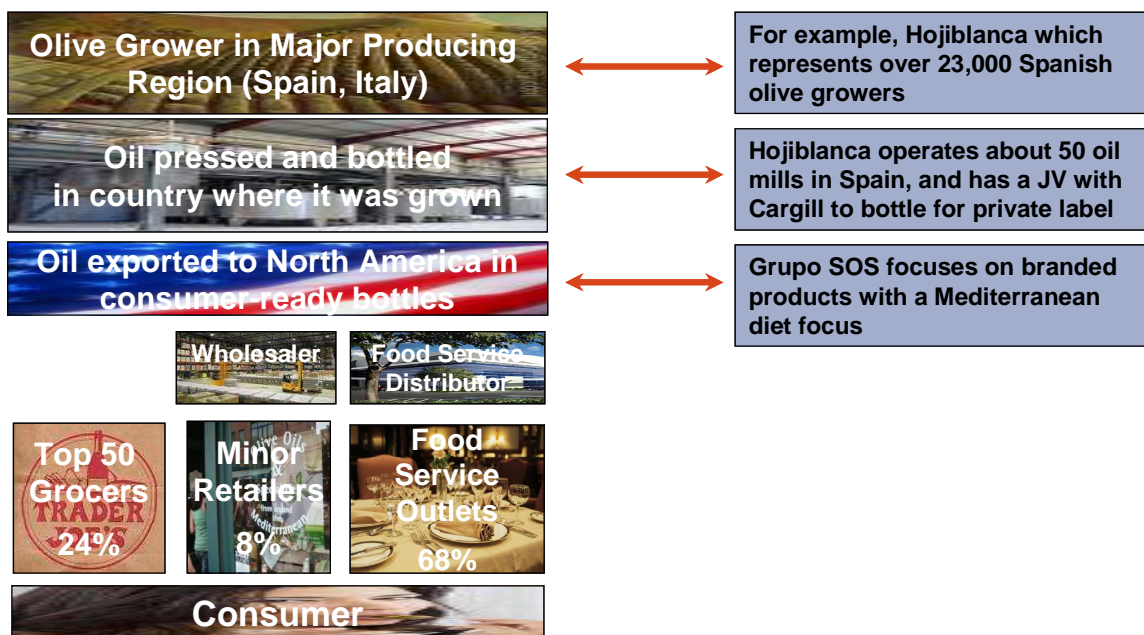
The co-operative itself represents over 35,000 olive oil farmers, has fifty oil mills, and is already the second largest supplier of tinned and packaged olives globally. Further it has the capacity to produce 1.4 million hectolitres of olive oil, giving it the scale to work in partnership with major global retailers such as Walmart, thereby creating products that are specifically tailored to the demands of specific and individual customers.

Scale of this nature also allows Hojiblanca and similar producers to create “white label” products that can be modified and adapted from a branding and labelling perspective to service smaller retailers in markets such as Canada, and also to provide bottling services for existing brands using Hojiblanca produced oil.

**Figure 5: Supply Chain for smaller volume olive oil exports to the USA and Canada**



**Figure 6: Supply Chain for larger volume olive oil exports to the USA and Canada**



This potential improvement in supply chain efficiency means that, in theory, margins at each step in the supply chain can be improved, importantly providing growers with better returns, but also reducing the retail price gap between olive oil and other cooking oils against which it competes in the USA and Canada. With the largest opportunity for mass market sales growth for olive oil being potentially available through the substitution of other cooking oils, such as soy and canola, in the US and Canadian shopping basket, any steps that can be taken to mitigate the barrier in the minds of consumers posed by the olive oil price premium needs to be taken.

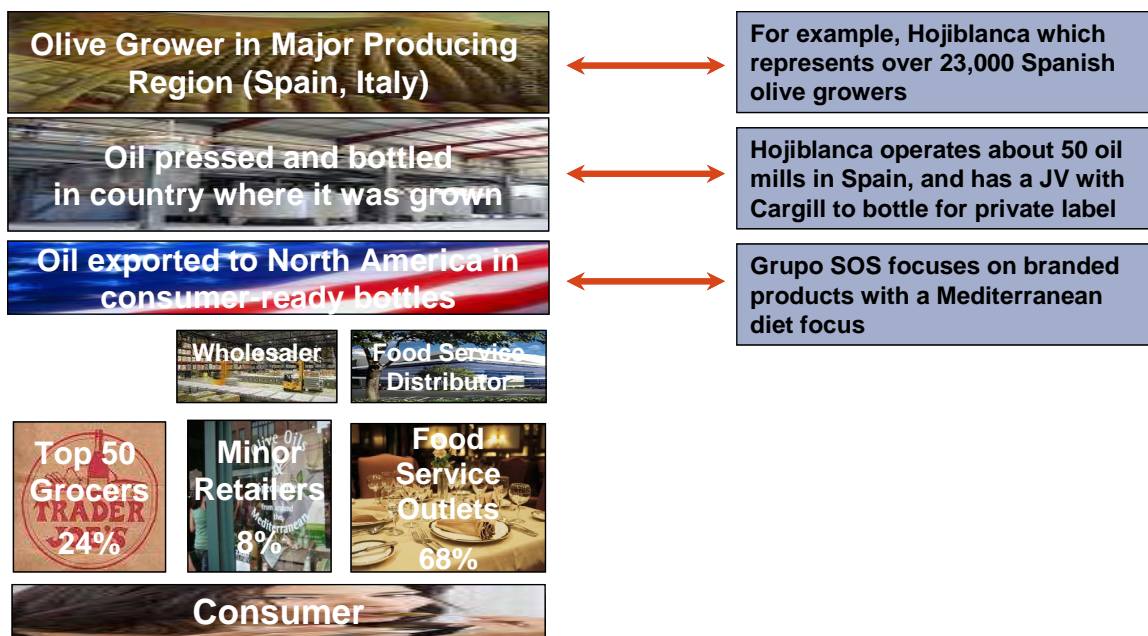
### Olive Oil – USA - Domestic Supply

Heading up to 2013, it should be noted that US domestic supplies of olive oil, even with an expected six fold increase in production volumes, will not have sufficient weight in the market to move beyond servicing niche and artisanal markets. Therefore, the emphasis and focus will need, as is the case today, to be on the provision of high quality products which command high end prices.

However, there are more than just economies of scale which will potentially limit the expansion of domestically produced olive oil into the mass market. Californian olive growers also need to overcome factors such as high land prices, high costs and a shortage of labour relative to other countries, EU subsidies to olive growers (particularly in Spain, Italy and Greece) and increasingly the threat of failing harvests. For example, a well run modern mill in Turkey, Morocco or Tunisia can produce and ship a litre of high quality oil to the USA at less than half the cost of production in California. Similarly, the cost of production in Italy, Spain and Greece becomes even lower once the effect of European Union subsidies is taken into consideration.

At present, California has 8,500 hectares dedicated to growing oil olives, with a further 4,000 hectares of supply becoming available by 2020. Most of the new production capacity coming on stream will be planted to enable mechanical picking in an effort to reduce high labour costs. However, if the full potential from this increase in capacity is to be realised, then the oil olive industry needs to hope that it is not affected by the same adverse conditions that have caused harvest failure in three of the last four years – a factor that has almost certainly had a part to play in the decline in the US table olive market.

**Figure 7: US Domestic Production Supply Chain for Olive Oil**



As can be expected, most US growers of oil olives are small scale producers with typically around only 40 hectares under production. The only company that has any real scale, and as such can produce olive oil at close to the price points required by the mass market, is California Olive Ranch, which is owned by the Spanish company, Agromillora. With currently over 4,000 hectares in production for both oil olives and table olives, California Olive Ranch, also operates the largest of the state’s 27 oil mills, with a projected output capacity in 2010 of approximately 110 tonnes per hour.

Of the remaining mills, 16 operators have a capacity of less than 2,500 hectolitres and account for a combined total of only seven per cent of California’s annual production. By contrast, the largest six mills, including California Olive Ranch, account for over 80% of current output.

There are three typical routes to market for growers in California:

- If the grower has its own mill, the olive oil produced can be marketed through a website, sold at the mill door, via limited distribution in specialty stores and restaurants, or via farmers’ markets;
- If the grower does not have a mill, then they can contract with a mill owner to produce the oil on their behalf, and then market the product in a similar manner to producers who do own their mills; or



- A grower can sell its crop to California Olive Ranch, who will then take on responsibility for marketing and selling the oil produced. California Olive Ranch is presently the only producer operating at this scale and typically it looks to return 70% of the oil's sale price to the grower.

As can be seen, there are great marketing and cost differences between the few large firms producing over 5,000 hectolitres per annum, and the many smaller firms producing less than 750 hectolitres a year, and accordingly a wide difference in terms of the products that are endeavoured to be made. Larger firms typically will look to manufacture products that have a consistency from year-to-year, while smaller producers make small batches of oil which they then blend in order to create "boutique oils". As such, production costs can range from as little as \$3 per litre up to as much as \$7.50 per litre.

A good comparison as to the likely evolution of the Californian olive oil industry can be taken from the experience in Australia. Australians consume the most olive oil per capita outside of the Mediterranean, due in part to the strong Greek and Italian communities present in the country, which does provide Australian producers with a readily available domestic market – which is effectively matched in the USA by the sheer potential size and scale of the opportunity presented by the population. In 2004, the Australian olive oil industry produced 27,000 hectolitres of oil. By 2008, production had reached 140,000 hectolitres, and by 2014 the country is forecast to produce 270,000 hectolitres. These growth projections mirror very closely what is anticipated to happen in California over similar time windows, with California effectively producing the same amount of oil as Australia will in 2014 by 2020.

## Olive Oil – USA & Canada – Regulatory Environment

### Product Quality

The major difference between the USA and Canada in terms of regulation of olive oil supply is the fact that the US has not as of yet universally adopted the International Olive Council's standard definitions for what classifies olive oil and its varieties. This lack of quality regulation would appear to have had some negative effects in terms of products supplied to US consumers, both by local producers and also by distributors of imported products. For example, given the US consumer's preference for extra virgin olive oil, both domestic and import suppliers have allegedly in some instances been found to be selling oil with an extra virgin olive oil claim, despite it not actually meeting the International Olive Council's definition, and further oil blends have been sold as being 100% olive oil in some cases as well.

As such, the US Department of Agriculture in 2008 issued a draft revision to the US Standards for Grades of Olive Oil, which will conform to International Olive Council standards, with aim that this would take effect in 2010. The adoption of these standards would bring greater regulation to the industry, both from a domestic production perspective and also for imported oil. In anticipation of this national change, a number of states have already passed their own regulations to ensure that products sold already comply with International Olive Council standards. For example, laws in California and Connecticut came into effect in 2009, with New York, Oregon, New Jersey, Rhode Island and Texas expected to follow suit over the course of 2010 and 2011.

In Canada, where guidelines for the sale of olive oil are legislated for by the Food and Drugs Act, and are enforced by the Canadian Food Inspection Agency, regular checks and tests of imported consignments of oil are made to ensure compliance. Penalties for non-compliance are potentially severe, with fines of up to \$225,000 and prison sentences of up to three years being available to the authorities.

It should be noted that the North American Olive Oil Association (NAOOA) has endeavoured in recent years to ensure a degree of industry self regulation, whereby membership of the association was conditional on agreeing to adhere to International Olive Council standards. Similarly, the NAOOA also introduced a certification programme for its members, whereby brands could apply for quality assurance seals ratified either by itself or by the California Olive Oil Council. Pompeian, the Maryland based importer and bottler of olive oil, was the first brand to achieve this level of recognition in the USA.

### Import Restrictions

Despite having a domestic olive oil industry, the duty applicable to olive oil imports is not overly punitive, particularly when production subsidies in the European Union are taken into consideration. For instance, the effective rate of duty per litre, applicable to countries with which the USA does not have a free trade agreement such as Australia and Morocco, for olive oil imported in containers under 18 kilograms is 4.6 cents per litre and 3.15 cents per litre for oil imported in containers over 18 kilograms. By contrast, the effective European Union subsidy is around 75 cents per litre for exports, while US growers do not benefit from any government subsidies themselves.

It is anticipated that subsidies provided under the European Union Common Agricultural Policy will reduce post 2013 by 20-30%, with greater emphasis also being placed on environmentally sustainable practices. This should in theory in the future make US producers more competitive than they are currently.

There is presently no import duties levied in Canada on olive oil imports, although it was mooted back in 2005 to impose a 10% rate of duty on imports as part of a nascent trade dispute with the European Union.

### **Country of Origin**

In 2009, the US Department of Agriculture issued rules in relation to the country of origin status of perishable agricultural commodities, such as fresh meat and produce. However, these rules did not cover olives, nor did they cover olive oil. As such the only country of origin compliance that applies for exports to the USA is governed by the Tariff Act of 1930 which states that products entering the USA must be labelled with their country of origin and accordingly, in the case of olive oil, must indicate where the oil's olives were sourced from, and not just the country where the olive oil was processed or packaged. However, as this information is usually provided in very small print on labels and packaging, it is quite legitimate for Spanish olive oil, for instance, to be shipped to Italy for packaging, and then exported to the USA and sold as Italian olive oil.

In Canada, the rules are even less transparent. There is no need to indicate the name of the country of origin where the olive oil was prepared or processed as long as the name of the Canadian importer prefixed by the statement "imported by" or the foreign producer is detailed.

Regulations in both countries are therefore now somewhat behind those in the European Union where from July 2009, all olive oil sold within the EU must be marked with country of origin and also must indicate whether the olive oil was made from multi-country blends.

This lack of labelling and origin clarity in North America is a reason for consumer confusion and understanding of the types and varieties of olive oil. As such consumers are unable to make clear associations with regions and flavours when it comes to olive oil product choice and selection, and as a result dilutes the ability of the olive oil industry generally to begin to create points of differentiation that are readily understandable by current and potential olive oil consumers.

**KEY INSIGHT – OLIVE OIL SUPPLY CHAIN:**

The supply chain for olive oil in the USA and Canada is effectively at a crossroads. US domestic producers are presently not of sufficient size or scale to embrace significant supply chain efficiencies, with the exception of California Olive Ranch, and therefore will continue for the foreseeable future to be niche, artisanal producers, or conversely their business will evolve into being solely suppliers of olives for the major Californian mills.

However, the biggest change that is likely to effect the industry will come from the consolidation of supply from companies such as Hojiblanca in ready bottled formats to major retail chains or to wholesalers with national distribution infrastructures. The cost effectiveness and sheer scale of these operations will place increasing pressure on the traditional US and Canadian olive oil import and processing industry, potentially resulting in a consolidation of distribution points in both countries.

The key outcome of this change will be that olive oil will become more affordable for US consumers relative to the price points of other cooking oils, with the trade off that there will possibly be less brand choice available, making it more difficult for small producers globally to gain access to the market with any scale.

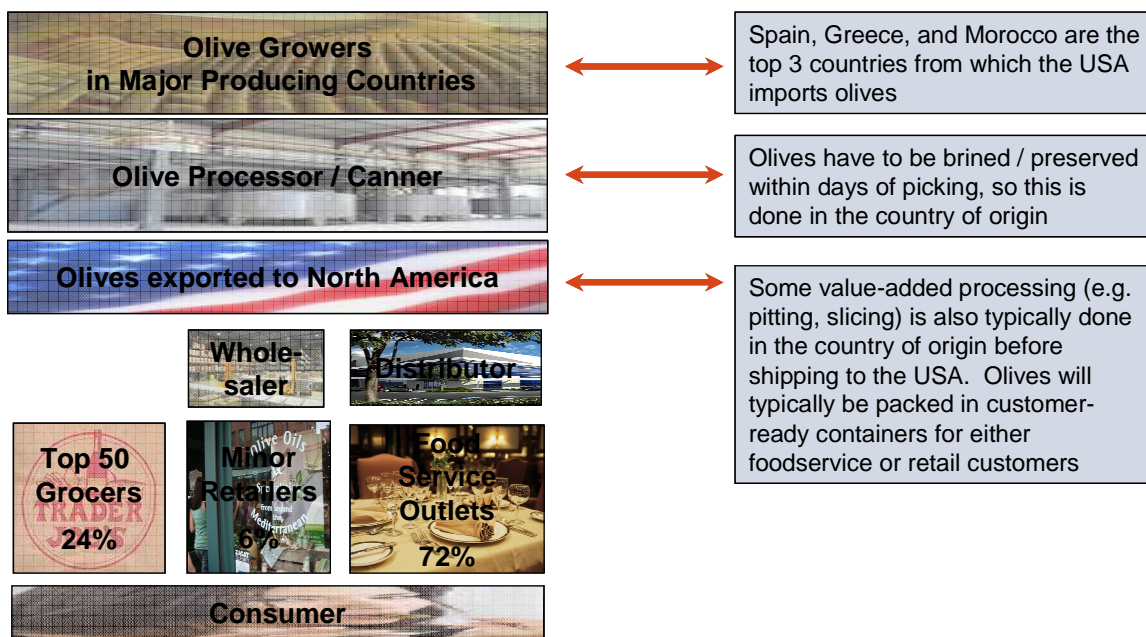
In order to take full advantage of these changes, the International Olive Council needs to ensure that consumer confusion about the origins, the varieties and benefits of olive oil is mitigated so as to create a market in the USA and Canada where there is a clear understanding of the benefits and differences between the multitude of different types of olive oil. Without this there is a danger that olive oil may become commoditised, and whereas the implied changes in supply chain dynamics can be positive for the industry and for growers, if consumers can see no benefits in using olive oil over and above other cooking oils, the focus will become one that is purely price driven.

**Table Olives – USA and Canada - Imported Supply**

In comparison to the supply chain for olive oil, imported table olive supply to the USA and Canada is not as complicated. This is because by definition table olives must be brined and preserved within days of being picked in order to be suitable for consumption. As such, the vast majority of table olives exported to the USA are already supplied by organisations, such as Hojiblanca and Aceitunas Sevillanas, who have fully vertically integrated production. This means that olives shipped to the USA have typically already been pitted and sliced, as well as packaged in customer ready containers for supply to either foodservice or retail customers.

A major proportion of olives exported to the USA are pre-sliced black ripe olives from Spain and Morocco, which are used predominantly in the foodservice industry for the likes of pizza toppings, where the taste of the olive is often disguised by other products such as meat, cheese or sauces, meaning that lower quality olives can be supplied and used. Conversely, imported olives are also most prevalent where quality and taste is of paramount importance to the consumer being found in bulk supply at salad bars and olive bars at high-scale supermarket chains and delicatessens for example.

**Figure 8: Supply Chain for Imported Table Olives to the USA and Canada**



### Table Olives – USA - Domestic Supply

In 2009, there were slightly less than 11,000 hectares under plantation for table olives in California, supporting around 1,500 growers. Given the less than favourable market environment for table olives in the USA, the number of hectares under production for table olives is expected to decrease to approximately 9,500 by 2013. (It should be noted that not all of these hectares will be lost to olive production completely however, with oil olives actually being planted as replacement crops in a lot of cases).

Unlike oil olive plantations all table olive production in the USA is harvested manually, making the industry dependent on relatively high cost immigrant labour each year for a six to eight week window from mid-September to early November.

Table olive growers in California do not process or can their own production, and accordingly are represented by a co-operative, the Olive Growers Council of California, which undertakes price negotiations on behalf of growers, with the two olive processing and canning plants in the USA – Bell-Carter and Musco. As well as selling and marketing US table olives directly to retailers and foodservice establishments in the USA and Canada, Bell-Carter and Musco are also leading wholesalers of imported table olives.

Manzanillo is the number one olive variety grown in California, at approximately 76% of total production, followed by Sevillano at 8% of total production, with the majority of all US table olives being sold whole for stand alone consumption, usually from tins or jars, or for supply to the foodservice industry for use in beverages such as martinis for example.