



Limited volumes of olives are still supplied ready sliced to the foodservice industry for toppings, but a major blow was dealt to the economics and viability of these operations when in 2007, the US foodservice company, Sysco, announced that it would no longer be buying its sliced black olives domestically; Sysco's business had until that point typically accounted for between five and six per cent of all California production. Further, repeated bad harvests in California in three out of the four last growing seasons has meant that the proportion of the market traditionally serviced by Bell-Carter and Musco with domestic olive production has decreased due to a lack of volume to meet demand, whilst simultaneously, the consumer demand for olives, both in foodservice and in retail has also declined. This has also led to a decrease in the volume of olives exported, particularly to Canada.

Not only do bad harvests have a catastrophic effect on growers, they also do have the potential to disrupt and change supply chain structures – as to an extent highlighted by the Sysco example above. For instance, if Bell-Carter and Musco can not be guaranteed the volumes that they need locally to satisfy contracts that they have in place with leading retailers and food service establishments in the USA and Canada, then they must secure supply internationally. Not knowing from one season to the next what volume of olives they will require adds to the cost of their operations and also leads to higher than optimal inventory levels – a factor that is effecting the industry in the USA currently.

Similarly, poor harvests also typically mean the supply quality decreases as well – providing further incentive for processors to look to source offshore.

All of these factors create additional risk for the growers of table olives in the USA. If local processors begin to rely more heavily on supply from abroad, when a domestic harvest is strong, and global supply and demand is normal, then the price yield per tonne would have to be greatly reduced for the processors to be able to absorb all available capacity. The 2007 harvest, which was the last unaffected harvest in California, but also happened to coincide with poor harvests in other countries, yielded the best prices ever seen in California with full size Manzanillo olives fetching approximately \$1,275 per tonne, and full size Sevillano olives \$830 per tonne. However, in normal years, average prices paid have been typically no higher than \$450 per tonne.

Even in 2007, when pricing was at its highest, the viability and returns on investment for growers in California is not overly high compared to other cash crops. For example, if it is assumed that the average price per tonne received in that year for each of the approximately 101,000 tonnes harvested was \$900 taking into consideration all varieties and sizes, then the yield per hectare would be around \$8,250 – meaning that the average table olive producer in California would have only received a gross income for the season from his crop of just over \$60,000. As such it is hardly surprising that table olive production in California is being curtailed as at present there is neither the size nor the scale to be able to make the industry viable for farmers with small holdings.

Table Olives – USA & Canada – Regulatory Environment

Product Quality

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.

Quality control for table olives is typically managed by the olive processor, who will manage supply they receive from growers in a manner that is most conducive to the end needs of their customer – be that in foodservice or retail. For example, processors in California will deduct about \$65 per tonne from prices paid to growers if the product they deliver contains between seven to ten per cent of fruit which has to be culled due to discolouration, being broken, severely bruised, diseased or insect infested. If the cull rate is above ten per cent then the deduction rises to approximately \$130 per tonne.

Import Restrictions

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.

As with olive oil, the European Union subsidises exports of table olives to the value of \$135 per tonne, and also assists with subsidies for storage of olives as well. These subsidies remain in place up to 2013, when as with olive oil there is expected to be a decrease in subsidies of around 20 to 30 per cent.

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

Country of Origin

The same regulations apply to table olives as to olive oil in both the USA and Canada.

KEY INSIGHT – TABLE OLIVE SUPPLY CHAIN:

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.

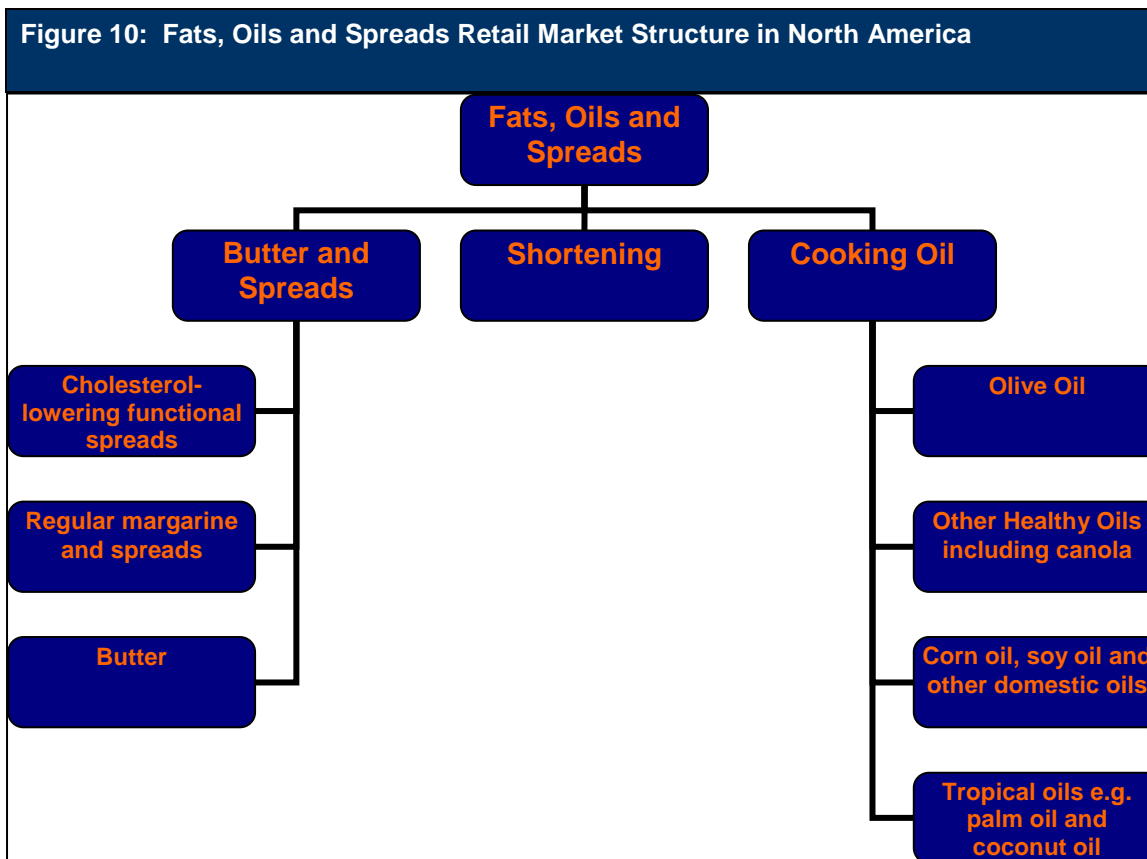
The following section of this report will examine the dynamics of the retail market in the USA and Canada for olive oil, and how olive oil is positioned against its main competitor products in each country. It will also look at how US and Canadian consumers use and perceive olive oil and where the opportunities exist for greater consumer penetration with olive oil, and accordingly where the opportunity exists for the International Olive Council to influence greater levels of consumption through its promotional activities.

Fats, Oils and Spreads

(Analysis and comments are relevant to both the USA and Canada unless otherwise noted).

The consumption of fats, oils and spreads in both the USA and Canada remains high and consumption, as highlighted above, is continuing to increase in both countries, although the emphasis on consumption has moved towards healthier fats in recent years. Overall it is assessed that in kilograms on a per capita basis the US population will consume 30 kilograms of fats, oils and spreads annually, with the average Canadian consuming 27 kilograms. On a calorie basis, adjusted for waste and spoilage, relative to the overall average intake of calories per day in each country, US consumers get 681 calories from fat or 25% of their daily intake, compared to Canadians who get 419 calories from fat or 17% of their daily intake.

The fats, oils and spreads market in both the USA and Canada is essentially, split into three main areas, butter and spreads, shortening and cooking oil, with usage of products in each area largely being dependent on the intended application. However, olive oil largely competes primarily for its share of the market for use in salad dressings, marinades, sautés, grills, deep frying and baking. On a secondary basis, olive oil competes with butter and other spreads for use as a topping on bread, pasta and potatoes for instance, or for some pan-frying applications.



Health is the key driver of both new product formulation and also consumer choice in the fats, oils and spreads market. Indeed, the increasing focus of US and Canadian consumers on a healthy diet is one of the main reasons why olive oil has seen such rapid sales growth over recent years.

However, it took until 2003 for the vast majority of US and Canadian consumers to even become aware that hydrogenated oils and associated trans-fat levels were even bad for them and thereafter government legislation at both a federal and state level was passed relatively quickly to control trans-fat content in foodstuffs. For instance, in 2006, the US government legislated that trans-fat levels must be displayed on nutrition panels, with products containing less than 0.5 grams of trans-fat per serving, being able to claim that they contained “Zero grams of trans-fat”, whilst those products that were fully free of trans-fats could claim that they were “Trans-fat Free.” In 2007, Health Canada proposed a strict limit on trans-fats in oils and processed foods, giving manufacturers two years to make progress towards reducing trans-fat levels, and subsequent legislation has been enacted to severely limit trans-fat levels across all foodstuffs.

In November 2008, the city of New York banned restaurants from using trans-fats in food preparation, while other states and municipalities have also passed similar laws subsequently. However, no federal legislation has been mooted at this stage, and most manufacturers have independently taken steps to remove trans-fats without waiting for regulation, as consumer demand has dictated that in order to retain market share that such steps effectively become mandatory anyway.

While the focus on trans-fat content has been good for olive oil, its image and its sales, it has also not had the effect of eliminating competition from the market place. Products like shortening and margarine for example, have been reformulated and thus remain in competition with naturally trans-fat free products such as olive oil.



Similarly, other fats and spreads are also using the benefits of olive oil as a halo effect for their own products, by infusing small amounts of olive oil into existing formulations, thereby allowing the claim to be made that their products do contain olive oil, and thus, create in the mind of the consumer the idea that the product concerned actually has the same health benefits as olive oil (which due to the quantities of olive oil contained for the vast majority of products is certainly not the case). These types of claims resonate particularly with consumers who do not want to change away from products with which they are familiar, and with consumers who are confused by the diversity of the olive oil category.



Further, what these products also create in the mind of the consumer is confusion about health benefits and health claims and their relative importance – particularly when the main health benefit being promoted is contrary or different to that associated with olive oil. This means that consumers are constantly being asked to absorb new information about fats, which when supported by major brand marketing budgets, ultimately dilutes the positive messages associated with olive oil.



KEY INSIGHT – FATS, OILS AND SPREADS

Effectively, what this means for olive oil is that despite its inherent natural benefits compared to other spreadable fats and shortening products, it can not expect to continue to take share of the US or Canadian market from these categories 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.