PN-ADC-545

Agriculture-Led Export Businesses

Supporting Egypt's Processed Foods Export Industry

ALEB/MIS Market Intelligence Series

Updated

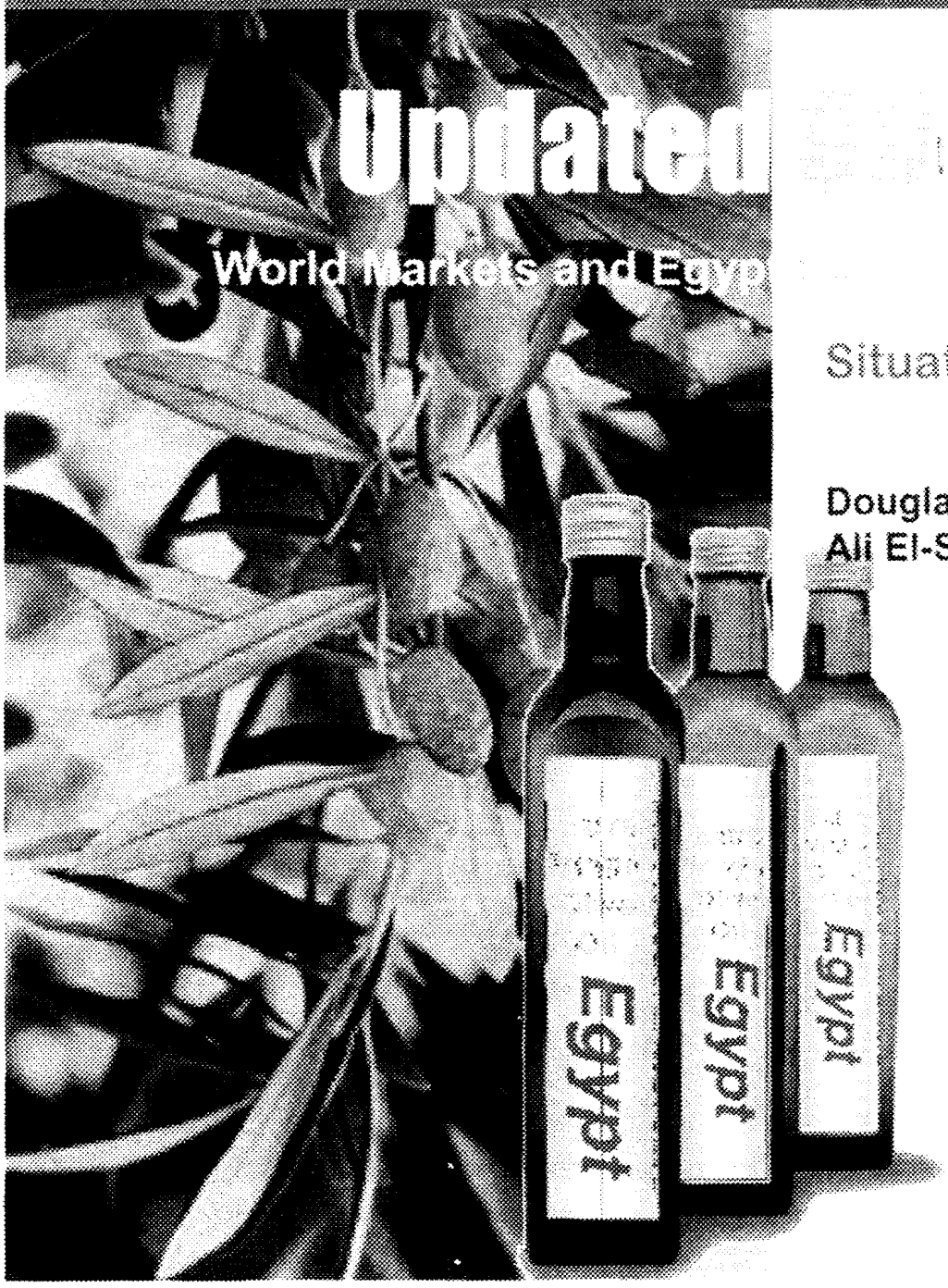
World Markets and Egyp

Situation & Outlook

2003

Douglas Anderson, MBA

Ali El-Saied, Ph.D.



Abt

October 2002

Egyptian Olive Oil Situation and Outlook Report Update

Agriculture-Led Export Businesses (ALEB) is funded by the United States Agency for International Development (USAID) to improve global competitiveness of the Egyptian food processing industry, related services industries and associations to achieve sustainable export growth. The project is implemented by Abt Associates Inc, Bethesda, MD.

For the past four and a half years, the Agriculture-Led Export Businesses (ALEB) project has been working closely with the Egyptian food processing industry to help strengthen the capacity of promising companies in specific product clusters to compete effectively in world markets. In order to strengthen Egyptian food processing companies, complementary service firms and their private sector member-based associations, the ALEB project offers a variety of training interventions and technical assistance to food processing companies and ancillary stakeholders. Further information on ALEB's activities and the services we provide can be gleaned from our website at http://www.aleb.org

Background: In May of 2000, ALEB's Business Development Services conducted a rapid market assessment to identify potential market opportunities for Egyptian processed foods. Preliminary results showed enough promise and helped us to focus on a selected list of commodities where Egypt has competitive advantages. These included herbs and spices, essential oils, juices and jams, table olives and olive oil, specialty foods and selected frozen vegetables for the ethnic market. A final four-volume publication entitled *Findings of a Phase II Rapid Industry Analysis (IRA) Of Trade, Market Trends And Opportunities in the United States of America* was published in March 2001. Conferences, workshops and focus groups were utilized to disseminate this information. In July of 2000, only twelve ALEB clients were exporting to the USA. Today there are seventy-six. Egyptian successes include significant market shares – as much as 80% - in herbs and spices, number three position in tropical juices and closing fast on Ecuador, number three position in strawberry jams and number one position in jams NESOI (fig and mixed jams).

In July of 2001, we also published two separate reports on market opportunities for table olives and olive oil, including contact details for importers in the USA. And we held special workshops and focus group sessions with table olive and olive oil processors – industries in their infancies in Egypt – to promote export opportunities for the products in the USA and to start building capacity. Both sectors have shown significant growth since we presented our findings.

This report is a capsule comparative market update to the Situation and Outlook Report for Olive Oil that was published in November of 2002. It is specifically at the request of the GTG Sector of USAID. The full report is longer and will be published soon to the ALEB website. Another Situation and Outlook Report has been completed for table olives and will be published soon as well.

Situation: Consumer demand for olive oil continues to grow in the United States with double-digit growth in consumption per annum. While California olive growers produce over ninety-nine percent (99%) of the United States domestic olive oil – 325,000 US gallons - they provide less than one percent (1%) of total US consumption and less than one tenth of one percent (.1%) of total worldwide production. The US imports twenty-nine percent (29%) of the olive oil that is in international transit.

In 1999 the United States imported $368.2 million of olive oil and olive oil products. Total quantities of these product imports into the U.S. market increased 36% from 1997 through 1999 to annual levels in excess of 162,000 metric tons in 1999. Import growth trends of olive oil have now increased to 54% over six years, representing $436.5 million in value and 184,000 metric tons in volume in CY2001. CY2002 imports are estimated at 212,000 metric tons. The table below shows comparative growth of this important market between 1999 and 2002, ranked in order of importance (market share).

Table 1. Top six suppliers of olive oil to the USA

Country	1999			2002		
	Volume (MT)	Value/US$ (MM)	Market Share %	Volume (MT)	Value/US$ (MM)	Market Share %
Italy	110000	249.5	68%	130,000	315.9	72%
Spain	22,500	59.1	16%	35,300	83.6	16%
Turkey	16,500	30.8	8%	12,000	12.0	2.74%
Greece	3,119	9.3	2.5%	3250	10.8	2.48%
Morocco*	6,434	7.6	2%			
Tunisia	2,245	5.0	1.4%	5234	2.89	0.66%
Portugal				2,314	3.85	0.88%

* Morocco dropped out of the top six in 2002

Italy has gained market share at the expense of Turkey, Greece and Tunisia. While Tunisia's exports to the USA have doubled in volume, they have had to discount their prices significantly – almost by 50% – while still losing market share in a growing market. Much of this can be attributed to a failed Tunisian marketing scheme, heavily countered by Italy.

Turkey, too, while losing market share, has seen significant erosion in price, from $1866 per ton to $1000 per ton. Much of this has to do with dumping of excess inventory and incremental sales, due to heavy internal consumption of olive oil and emphasis on table olive production and sales. Nevertheless, this does establish a benchmark price due to the volume entering the market.

Egyptian prices will need to be competitive with those of these major five supplying countries listed above, with particular attention to Turkish prices. Turkey is the major exporter of institutional size olive oil products to the U.S., and the average CIF import prices of their olive oil products shipped to the U.S. market during 2002 were the lowest of all major suppliers for all the various olive oil products, except for olive-residue oil and blends of olive-residue oil and olive from Morocco.

Due to the dominance of Italian exports of retail pack consumer-ready olive oil products to the U.S. market, and the high cost of successfully entering this market segment, ALEB recommended that Egyptian olive oil exporters initially concentrate on penetrating the HRI (hotel, restaurant and institutional) market in ≥18kg packages or bulk sales for repackaging. Due to the benchmark price set by the Turks, we recommend that our olive oil processor clients promote their product as bulk for repackaging, while at the same time promoting their bottled brands through the specialty food market segment. Indeed, ALEB assisted one of the Egyptian major olive oil processors at the Fancy Food Show in New York City in July 2003 to land a 600MT order worth US$1.2mm.

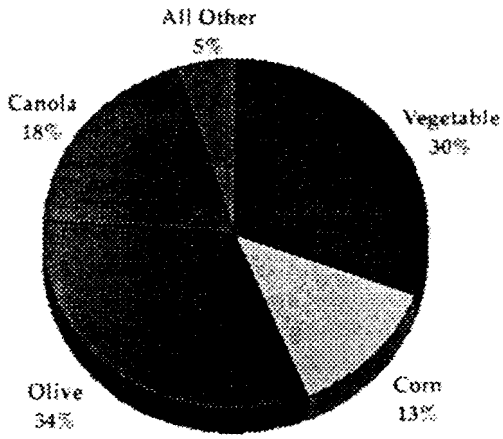
We also took olive oil processors to SIAL Montreal in April of 2003, which is a "mini" Canadian Fancy Food Show. Two olive oil processors report potential sales to Canada.

Although a small market, Canada could potentially absorb over 1000 tons of Egyptian olive oil without upsetting the majors' market share and inviting retribution.

And while we hesitate to recommend it, there is a demand in the olive oil blends market, which is a very large volume market on the institutional side. Popular blends are olive oil with either canola or safflower oils, with the olive oil portion consisting of 10 to 20 percent of the blended oil product. Moreover, we have seen a channel shift by consumers to the Dollar Store market segment, which is price sensitive. Importers that cater to this market require 250ml bottles of blended olive oil. If Egyptian olive oil processors choose to enter this market, they need to do so wisely and with an eye on not compromising a growing reputation for quality extra virgin olive oil. Blended olive oils should not be marketed as Extra Virgin Olive Oil and labels should clearly state the ingredients.

Figure 1. US Olive Oil Market Brief

Total US Retail Grocery Dollar Sales in 2001
(AC Nielson June 9, 2000 - June 9, 2001)



1. Olive oil has taken the lead in the pourable oils industry with over $386 million in retail sales — overtaking vegetable oil, the traditional leader.

2. Since 1995, sales of olive oil in the U.S. have grown more than 35% from $259 million to over $400 million.

3. Since 1995, the volume of olive oil imported into the U.S. has increased 54%.

4. The average growth rate of olive oil imports from 1966-1983 was 0.5%. The average growth rate from 1984-2000 was 8.2%. IOOC promotional activities began in 1983.

5. In 2001 it is estimated that 186,000 metric tons of olive oil were imported into the U.S. — an 11% increase over year 2000.

6. The Northeast U.S. accounts for 50% of U.S. grocery store retail volume for olive oil products.

7. Extra-virgin olive oil accounted for an estimated 40% of olive oil retail volume sales in the U.S. in 2001.

Figure 2. US Olive Oil Import Trends

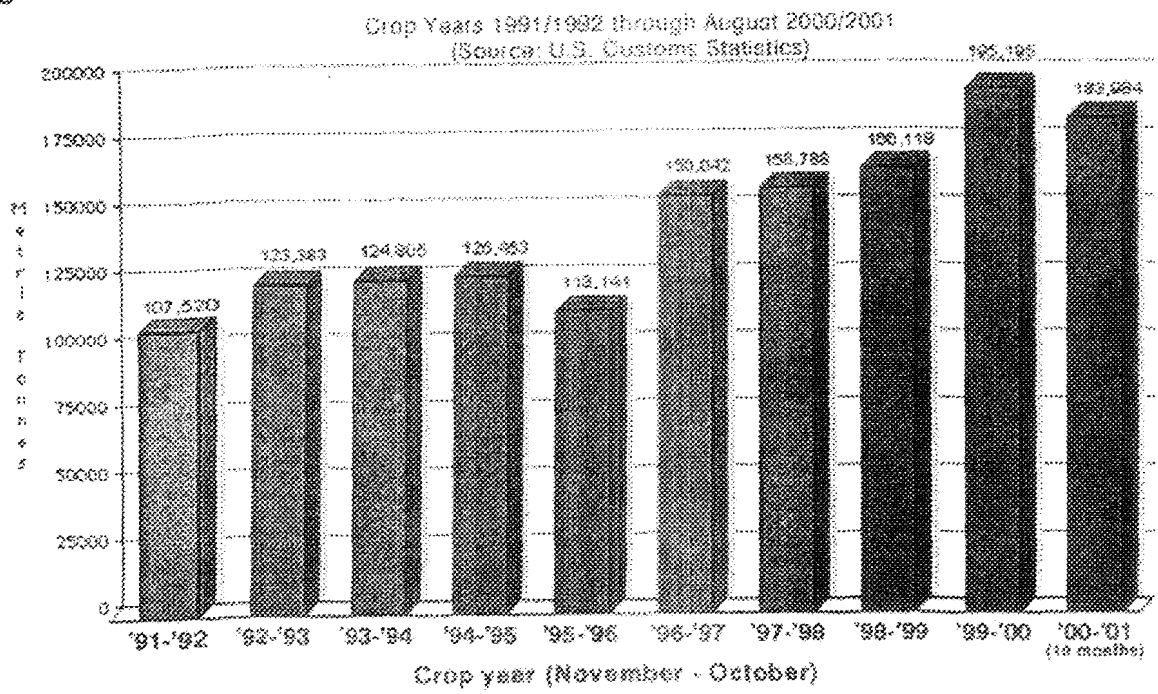


Figure 3. Structure of imports of olive oils and olive-pomace oils into the U.S.A
(Based on Department of Commerce statistics (General Imports) – Washington, DC)

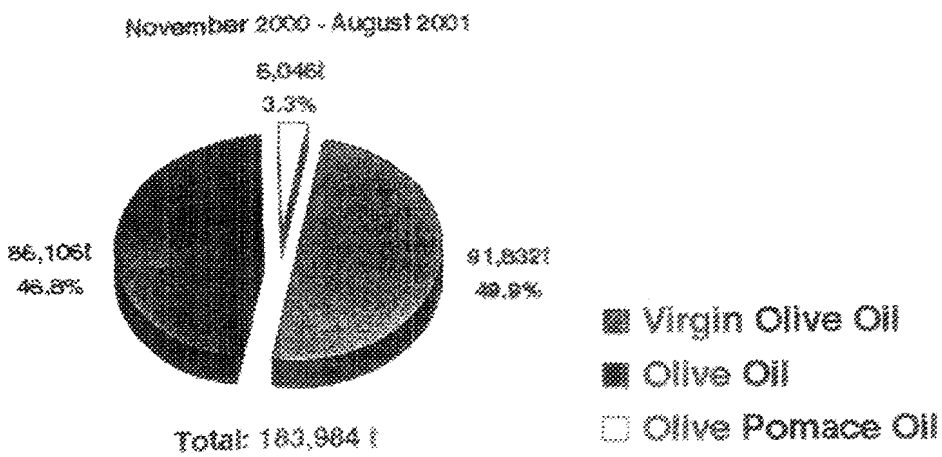


Figure 4. Canadian Olive Oil Market Overview

Structure of Imports - Olive Oils and Olive-Pomace Oils, four-month comparison

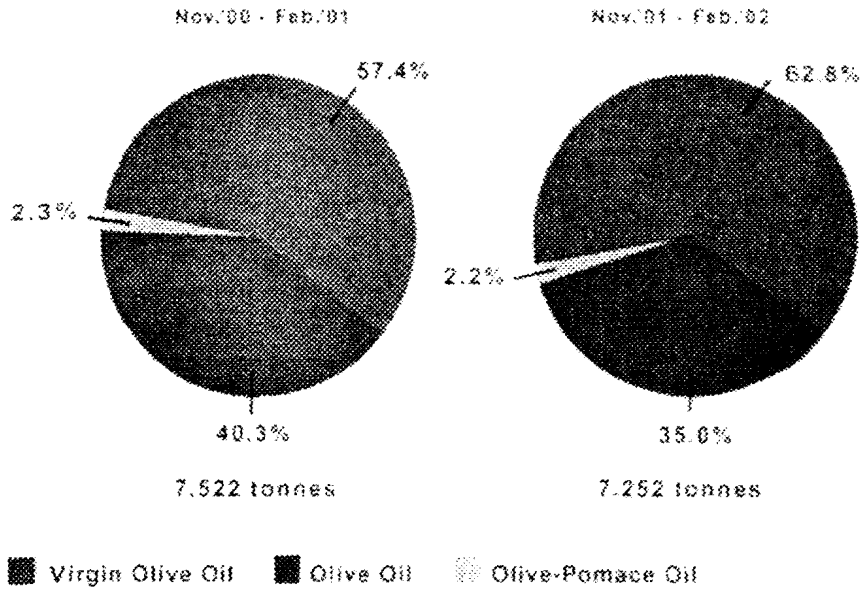
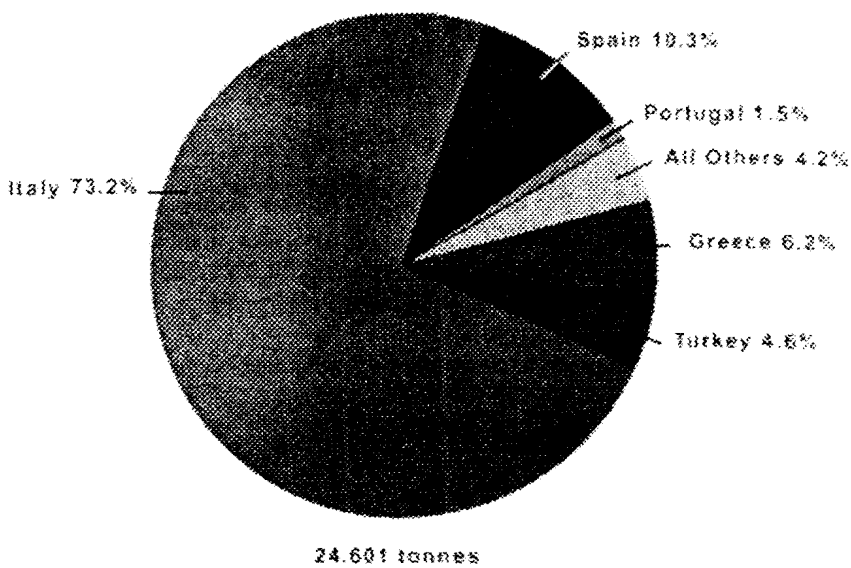


Figure 5. Canada Olive Oil Imports by Country of Origin, 2000/2001



Results of past ALEB recommendations and Technical Assistance

Sixteen olive oil processors and traders are listed in ALEB's database but only five are major producers, demonstrating how small this industry is. Based on world demand, current Egyptian processors know that they have to increase production capacity, which presently stands at 5,000MT per annum, but with minimum investment could be tripled to 15,000MT. But this is still significantly undersized. ALEB has consistently received inquiries for Egyptian olive oil, including one inquiry from a US buyer for 150 containers. In April 2003, we promoted the Verona Olive Oil Conference (Italy) for the Egyptian Italian Business Council,

where one Egyptian processor attended and was inundated with demands totalling 50,000 tons!

ALEB published three hundred of our Olive Oil Situational and Outlook Report in November 2002. All of these were snapped up quickly and resulted in a number of approaches to ALEB asking for additional information, including assistance with business planning, feasibility reports, access to credit facilities and technology transfer. Offshore interest (FDI) included companies from the UK, Saudi Arabia, the United Arab Emirates, Spain and Germany. Nine companies are developing investment plans to enter this product cluster. At least two companies are planning to develop a total of 16,000 acres of olive trees for oil.

Over the seven -year period from 1995 through 2001, Egypt's only olive oil shipments to the U.S. market occurred in 1998 and 2001. In those years, the U.S. imported slightly more than $13,000 and $6,000, respectively, in CIF terms. However, in 2002, Egypt's exports jumped from four tons in 1998 to over 55 tons valued at $132,561, which put Egypt in the top fifteen suppliers to the US market.

But the real success story in this sector consists in the recognition of the quality and growing capacity of the Egyptian olive oil industry by the Italians. Much like the world cut flower market outgrew Holland's ability to produce and export based on their domestic capacity, forcing them to obtain supplies from other countries to keep their supply pipeline full to meet their market demands, Italy has been forced to do the same concerning olive oil. And because they consume most of their own extra virgin olive oils internally, they need to import supplies to keep their export market pipeline full.

Italy enjoys tremendous world brand acceptance. This is not due to superior olive oils. Indeed, Italy is known to dilute their oils with vegetable oils without declaration. Instead, they are superior at marketing, which includes sophisticated packaging. Italy has been aggressive at buying up olive oil in bulk from the northern African (Mediterranean) countries. They blend this superior, extra virgin olive oil with their own for export, sometimes adding vegetable oil to increase yield. Accordingly, exports of olive oil from Egypt to the world, and Italy primarily, have increased exponentially. Other countries Egypt exports to include Israel, United Arab Emirates, United Kingdom, Greece and Saudi Arabia.

Changes to baseline

Egypt exported 765 tons of olive oil worth $1,250,667 to the world in 2001. In 2002, they exported 2117 tons worth $3,207,803. We estimate exports for this season to exceed 3500 tons and $7,350,000 in value.

World Production of Raw Olives

The following pages present an overview of the world production of raw olives, from which table olives and olive oil is produced. Following this overview, we look at Egyptian production and how it fits into the scheme of world production. Based on empirical data and plotted growth trends, predicted at almost 97% accuracy, the potential for growth in this industry bodes well for Egypt.

In 2002, worldwide production reached a record level of more than 15 million tonnes. This record harvest was mainly the result of favorable weather in olive producing countries, particularly Spain. In 2002 production fell by 12.3 per cent; however it was still well above the 1995-2000 average.

Figure 6. World Raw Olive Production, 1980 – 2001

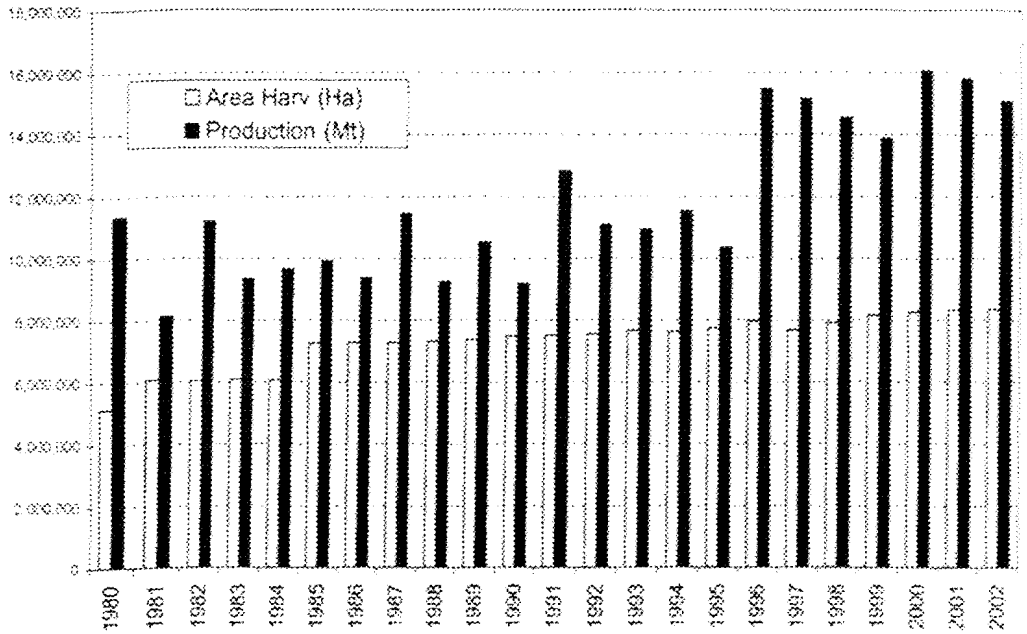
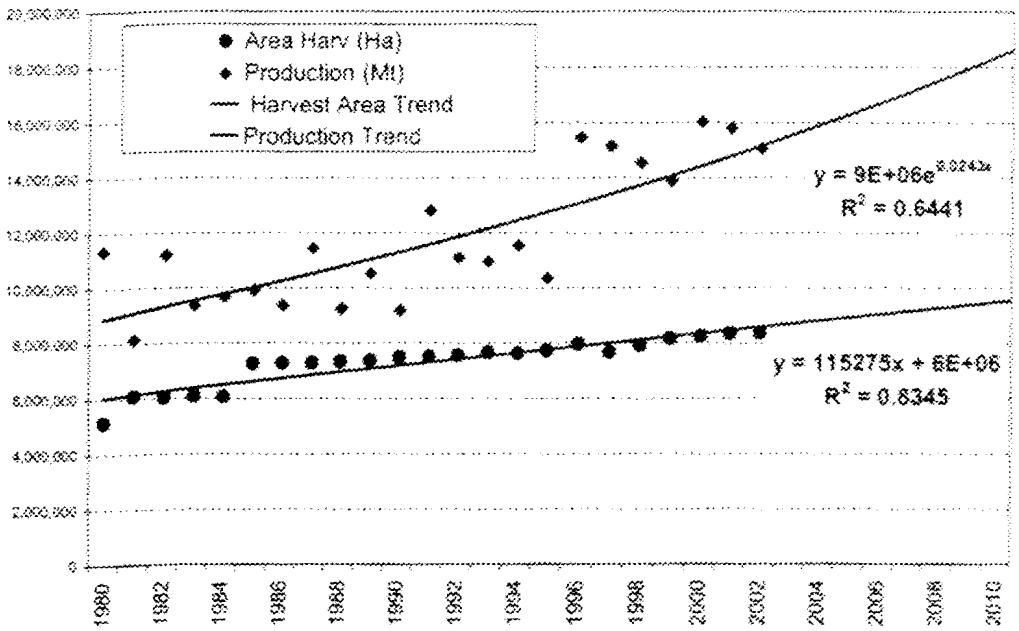


Figure 7. World Raw Olive Production Expected Growth Trend, 1980 - 2010

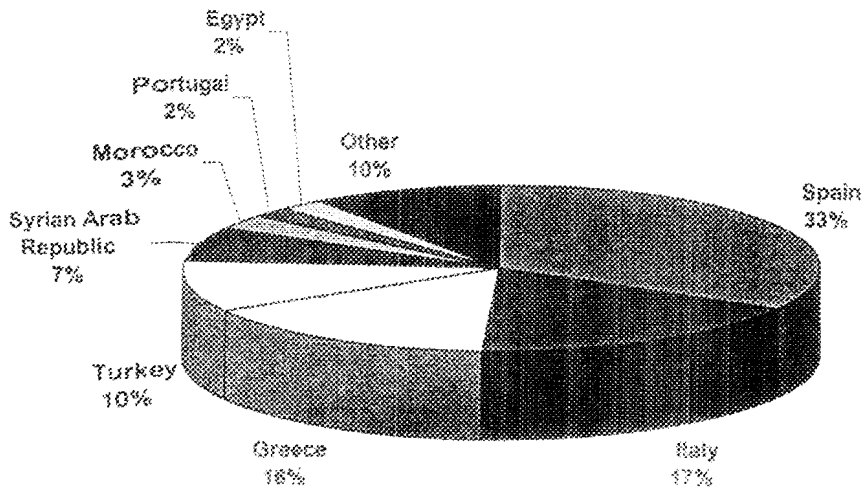


According to this data it is expected for the global harvested area of olives to reach a record of 9 million hectares by 2010, while production volume is expected to record a level of 19 million tons.

Spain and Italy are by far the major olive producing countries, with 33 per cent and 17 per cent respectively of total world production in 2002. Greece (16%), Turkey (10%) and Syrian Arab Republic (7%), Morocco (3%), Portugal (2%), and Egypt (2%) are also major producers.

In terms of area harvested, Spain held first place in 2002 with 28 per cent of the total. Spain had more than 167 million trees planted in 1990.

Figure 8. World Raw Olives Major Producers in 2002



According to the IOOC there are 789 million trees worldwide, 95 per cent of them in the Mediterranean region (Mesa). European estimates in 1998 indicate that there were 460 million productive trees in the European Union and around 2 million farms engaged mainly in olive growing (EU).

The European Commission recently expressed concern at the record levels of olive production. According to the Commission 'when new trees come into production (which can take three or four years), there is the serious risk that European production would outstrip demand at home and abroad' (Smith; EC).

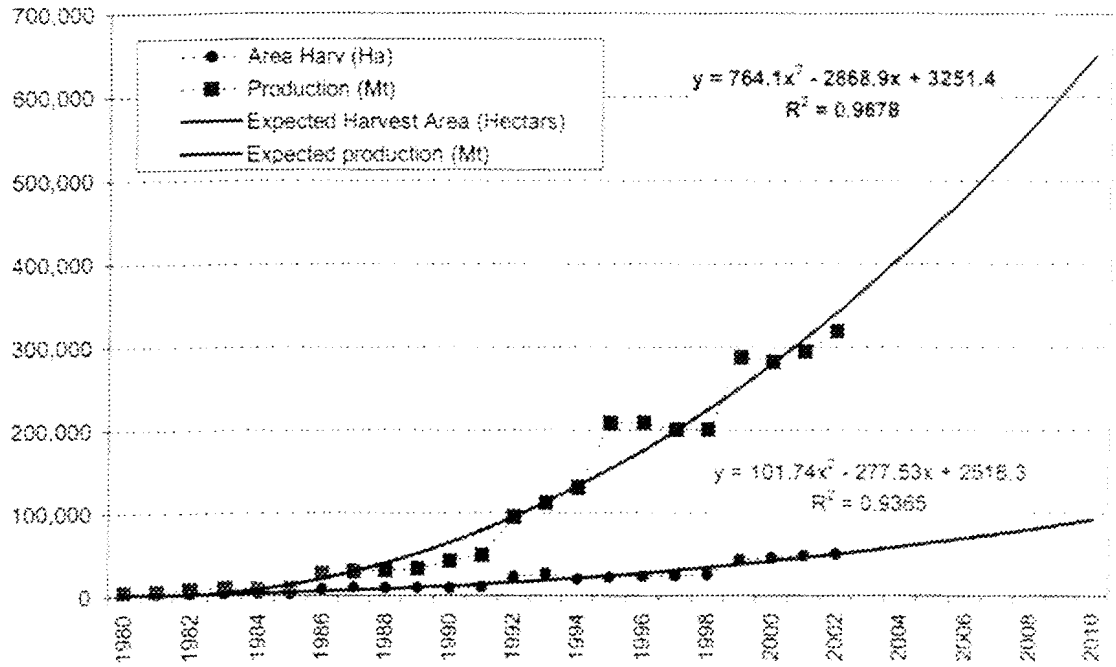
Egypt Olive Production and Trends

Egypt is ranked number 8 worldwide of the top olive (raw) producer's with a record of 318 thousand metric ton in 2002. Area harvested and resultant production showed very rapid increase in the last few years and is expected to increase significantly within the next few years. New olive cultivations in the new land areas are expected to place Egypt as the third most important producing country of olives by the year 2010.

Harvested area is expected to record a level of 100 thousand hectares and production volume is expected to reach more than 800 thousand metric tons by the year 2010 as indicated in the following graph. These expectations are supported by the following factors:

- Expected increase of land devoted for olive production in the new Mega projects in Toshka and Owienat.
- Tendency of producers to grow new superior varieties with higher yields

Figure 9. Egypt Olive Production and Expectations



Egypt has one of the highest olive yields in the region - about 5.37 t/ha (McEvoy et al.). The main olive-producing area is in the northwest coastal region between Alexandria and Salum; the most popular variety is Chemlal, but Kalamata, Hamid and Mission are also produced. There are a number of other varieties, including "Azizi" – an olive similar to Queens – and Manzanilla.

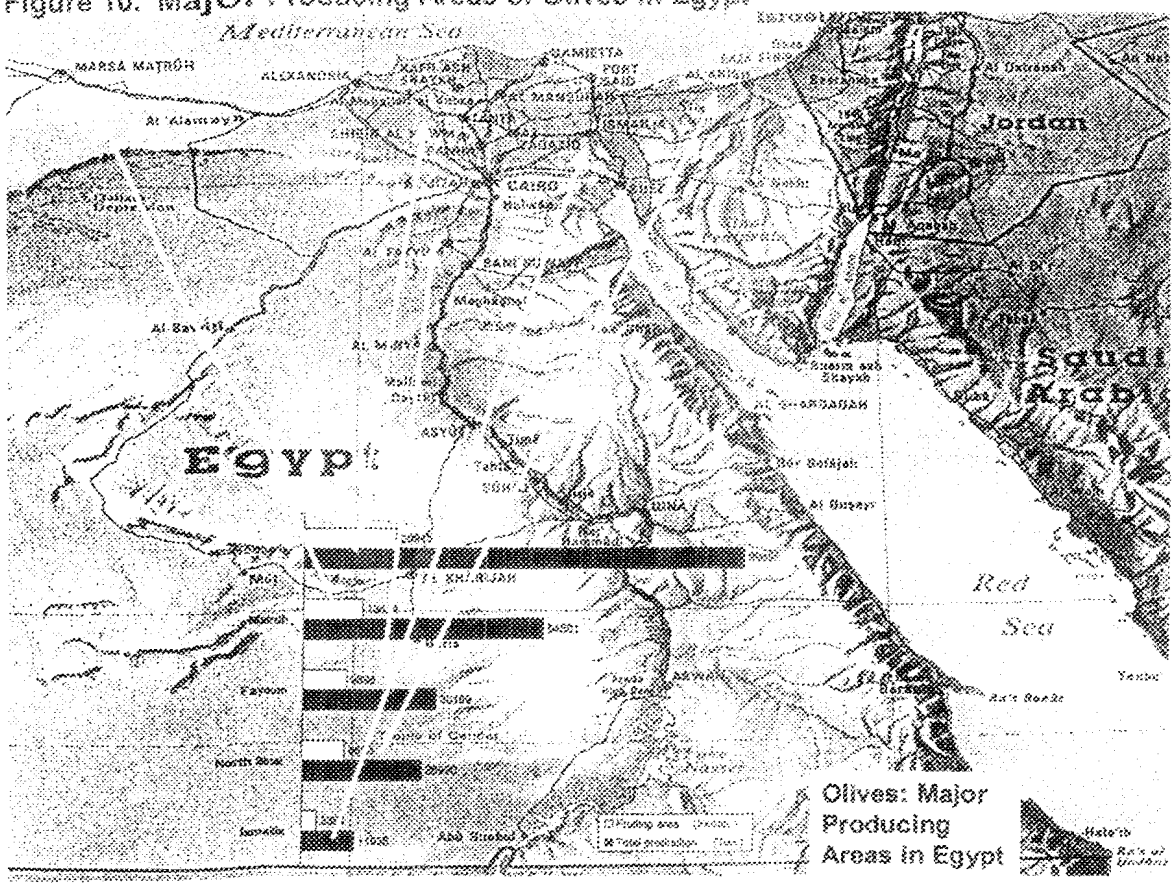
Olive yields per tree vary between 10 kg and 35 kg, depending on the system of irrigation used. Some areas in the Martrouh region reach 50 kg to 60 kg per tree (15-year-old trees under irrigation). In 2002 Egypt had 9.2 million trees, most of them producing table olives for local consumption.

The Egypt olive industry is oriented towards the production of table olives, mainly for the local market. On occasions, Egypt has also had to import olives to meet its requirements. Most of its olive product trade is in preserved olives with Spain the main export market and France and Germany minor destinations.

The government has taken measures to improve olive cultivation. Among such measures are the new orchards being planted under the General Organization for the Development of the Desert programs. It is estimated that there are 8.4 million trees not yet of bearing age, and a further planting of around 1.4 million trees is planned in the near future.

Olive processing still uses traditional methods and equipment in Egypt. However, there is a trend towards modernisation of the processing sector and the construction of more modern facilities.

Figure 10. Major Producing Areas of Olives in Egypt



The International Olive Oil Market

European countries, particularly those in the Mediterranean basin, dominate world production and consumption of olive oil. This region is home to the olive tree, with olive oil playing a major part in the Mediterranean diet and culture. Post Second World War migrants from this region have helped spread the tree's distribution and introduced olive oil to the diets of other countries. Now there is widespread interest in producing olives for import substitution and regional trade development.

Prices in the three representative markets of the European Union, namely Bari (Italy), Herakilon/Messina (Greece) and Jaen (Spain) are regarded as important as these three countries account for around 75% of world olive oil production. Their market performance has an impact on prices in other regions of the EU, as well as in other producing countries, especially on the prices of oils exported by these other countries to foreign markets.

Lower prices may lead to increased consumption, which is needed to avert an oversupply of olive oil in the future. The International Olive Oil Council (IOOC) has addressed this need by launching promotional

European Union olive oil prices declined by 13% in 2001, (Agence Europe, Brussels), reaching their lowest levels in June. This was due to high EU stocks at the start of the 2000/01, combined with higher than estimated world production. Using Australia as an indicator market, international bulk (refined) olive oil prices recovered in July/August 2000 ($A3.10/kg or US$1.78/kg) but were still below the levels at the start of the crop year and throughout 1998/99.

Prices may also drop following the European Union's current market liberalization process. However, Brussels is proposing to extend the current common market organization (CMO) for olive oil for two years in line with requests from the Spanish government and parts of the olive-growing sector (El Pais).

campaigns in countries where market opportunities have been recognized, such as Australia, Japan and the United States of America.

Projections indicate that due to new plantings around the world, there may be a surplus of olive oil in 2007/8. The potential surplus size is not yet established, however increased consumption in major importing countries is important.

Production

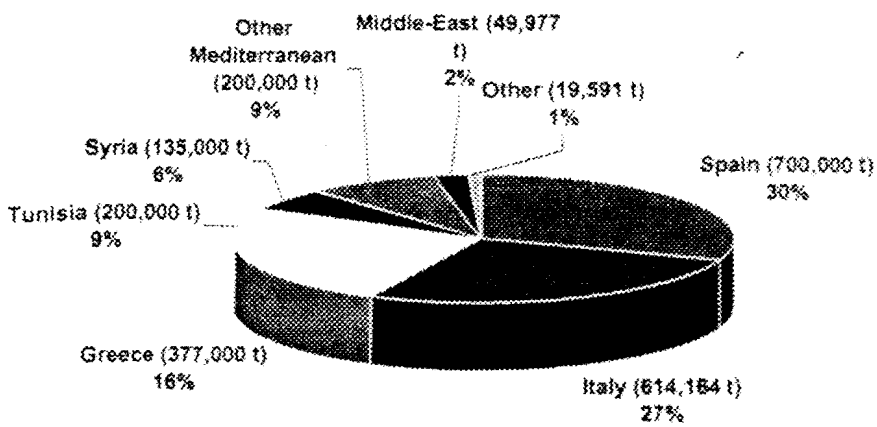
Spain, Italy and Greece are the world's leading producers and exporters of olive oil, collectively representing nearly three-quarters of world production ranked respectively in 2001. World olive oil production has increased by an average of 11% per annum since 1995. The main contribution to this increase was in 1996, which followed a year of drought in the Mediterranean.

Olive oil production is concentrated in the Mediterranean basin countries: Spain, Portugal, Italy, Greece, Turkey, Tunisia and Morocco. These seven countries alone account for 90% of world production.

Olive oil production from trees planted prior to May 1998 in the European Union is currently subsidized at over US$1.11/Litre. Advance aid for olive oil production has been set at 117.36 Euro/100kg for Spain, France and Portugal; 103.38 Euro/100 kg for Greece; and 84.98 Euro/100 kg for Italy (European Report). This is on top of EU aid for producing table olives.

Figure 11. World Olive Oil Production, 2001

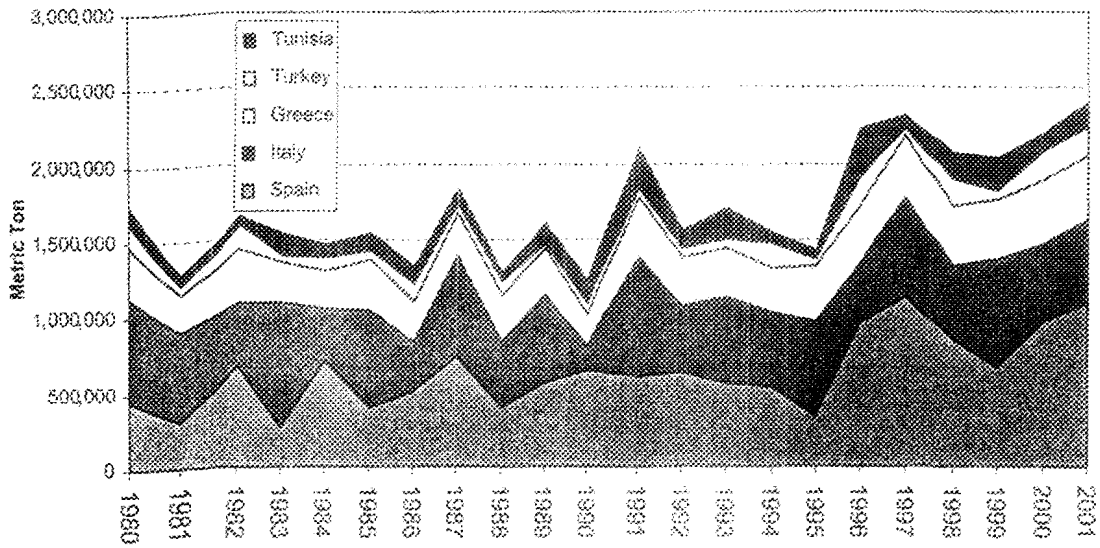
Total world 2,295,732 ton



Other Mediterranean includes France, Morocco, Turkey, Algeria, and Portugal.
Middle East includes Libya, Israel, Afghanistan, Jordan, Palestine, Lebanon, Iran, and Egypt

The evolution of world production during the last ten years is shown in the graph below. Production trend by country is ascending but the great influence of the two major producing countries introduced a high level of uncertainty in the production level. Indeed, the fact that production in Italy and Spain changed much more than one of the other producing countries explains the high volatility of global production.

Figure 12. Olive Oil Production: Top 5 Producing Countries, 1980-2001

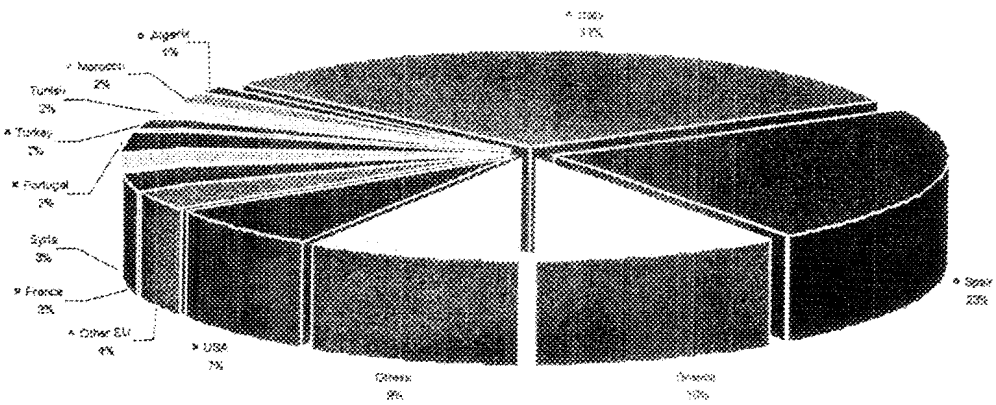


Finally, it should be mentioned that the production of other countries (not included in the graph), such as Australia and the United States, is increasing.

Consumption

Main consuming countries are also the main olive oil producers, as can be seen from the next graph. The European Union accounts for 71% of world consumption.

Figure 13. Olive Oil Main Consuming Markets 2001



Mediterranean basin countries represent 77% of world consumption. Other consuming countries are the United States, Canada, Australia and Japan (see the Annex Table A1 on import trade flows).

The evolution of production and consumption shows a slight growth from the 1970s to the early nineties. In the mid 1990s there was a strong increase both in production and consumption. Despite the production fall that came afterwards, consumption did not decrease.

The strong correlation between European and world consumption curves explains the significance of European consumption. However, the increasing convergence recently observed between the two curves (Production and Consumption) is the result of the emergence of new markets for olive oil.

Figure 14. Production and consumption of olive oil in the World and in the European Union

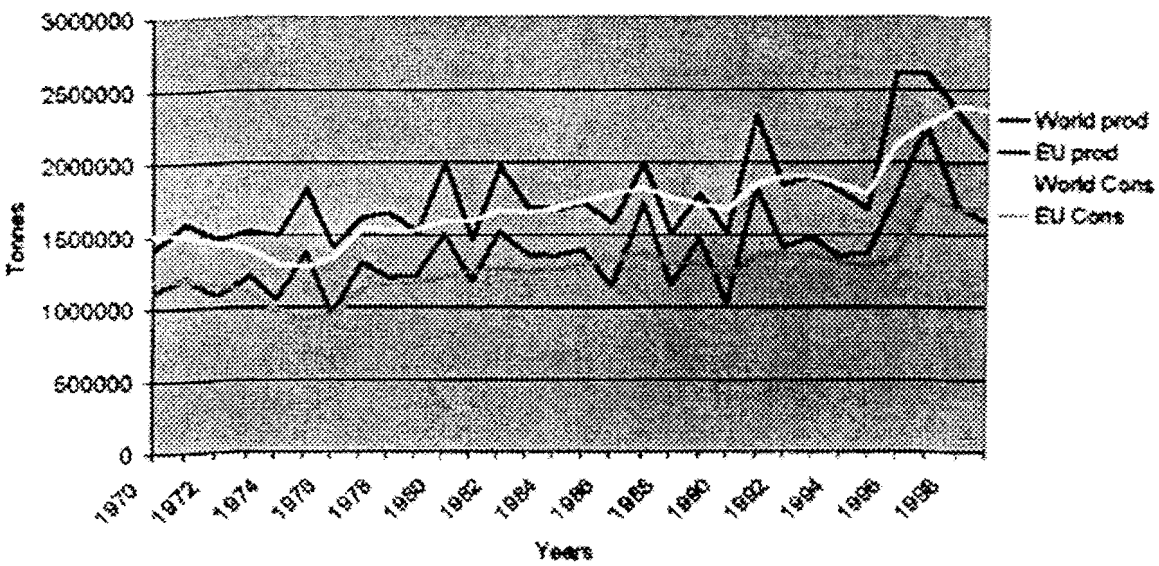
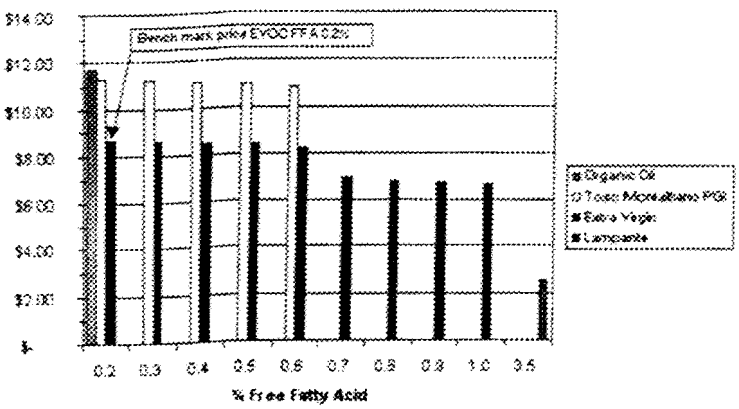


Figure 15. Organic Olive Oil



Vendors using olive oil in their products have increased demand for olive oil. Depending on the retail outlet, the price difference between organic and conventional olive oils can be slim to nearly 50%. Egyptian growers intending to follow this trend by producing organic oil, should make sure that they use recognized certification processes.

World consumption is expected to rise by 60,500mt from 2,422,000mt in 2000/01 to 2,482,500mt in 2001/02. End-of-season stocks are expected to reach 508,000mt, set against previous expectation of the IOCC of 443,500mt, and are the equivalent of world consumption requirements for two and a half months.

World olive oil consumption volume grew by an average of 4% (approximately 74,000mt per annum) over the past five years (FAO and IOOC). The European Union and the United States represented approximately 78% of olive consumption in 2000/01. If projected Asian consumption is included, then the EU, USA and Asian markets represent 86% of world olive oil consumption.

Estimates indicate that olive oil consumption in the USA increased by 56% between 1996 and 2001, with an average increase of 9% (9.3 million mt) per annum. Total US consumption was estimated at 1.58 million mt in 2000 and 1.6 million mt in 2001.

Asian imports increased by 63% over the same period (1996-2001), with an average increase of 15% (5.8 million mt) per annum. This may include re-exported olive oil, as consumption increased by 9% over the same period to 250,729mt in 1996 (FAO). If the 9% trend continues, consumption may rise to 297,891mt.

The percentage increase in olive oil consumption in the European Union was lower than the US and Asia over this period (3% per annum), however the volumetric increase was larger than either region (20,506mt per annum). Total EU demand was 1,534,993mt in 1998. Estimated EU consumption for 2001 is 1.7 million mt. Actual consumption in the EU may be higher than this due to subsistence consumption (olive oil consumed by producers) in countries such as Morocco, Tunisia, Turkey, Egypt, and southern Italy and Spain, which represents an unknown level of latent demand.

New economic support systems are being established in the European farming sector. An increase in the overall quality of oils, due to EU aid to Spain this year being dedicated to quality improvement, could have a gradual effect on prices. Whether the increased supply of higher quality oils raises or lowers the average price will depend on changes in consumer preference for oil quality.

The North American Olive Oil Association recently released a study that indicates 56% of non-olive oil users do not use the oil because they feel they don't know how. The study also found that 48% don't buy the oil because it is expensive, while 44% consider it special occasion oil (percentages don't add up to 100% because survey participants were able to indicate more than one reason for not buying olive oil).

Despite this, US olive oil household penetration rose 2.4% in the past two years, when prices were at an all-time high. Olive oil accounts for 7% of all oil sold at retail in the US and 27% of all dollar sales in this category.

Figure 16. World trade

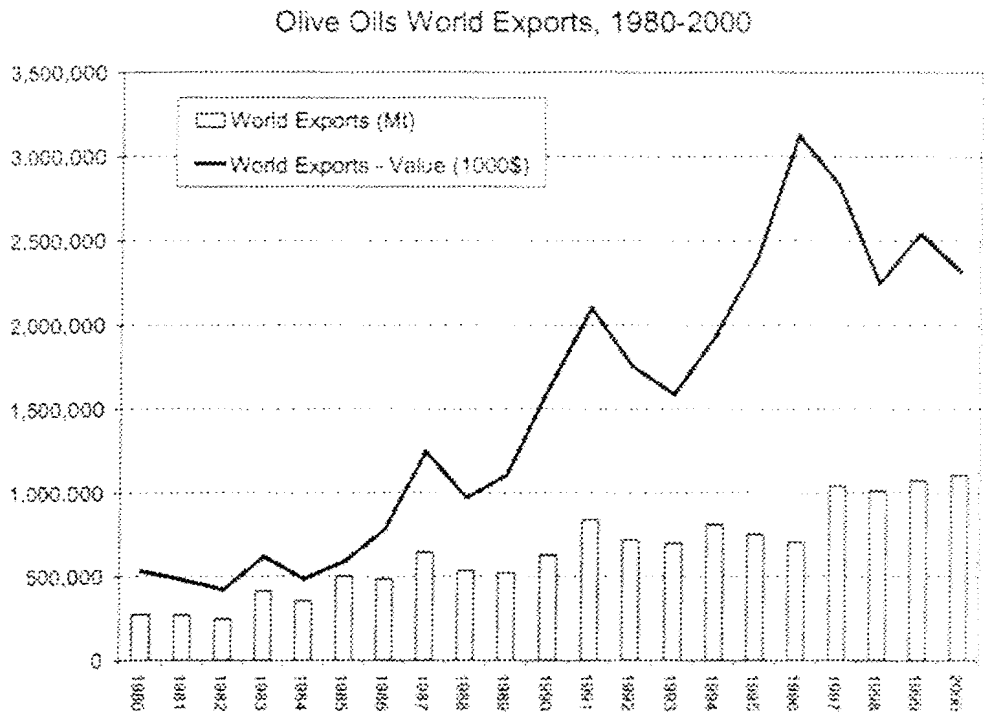


Figure 17. World Olive Oil Exports: Top 10 Exporting Countries, 1980-2000

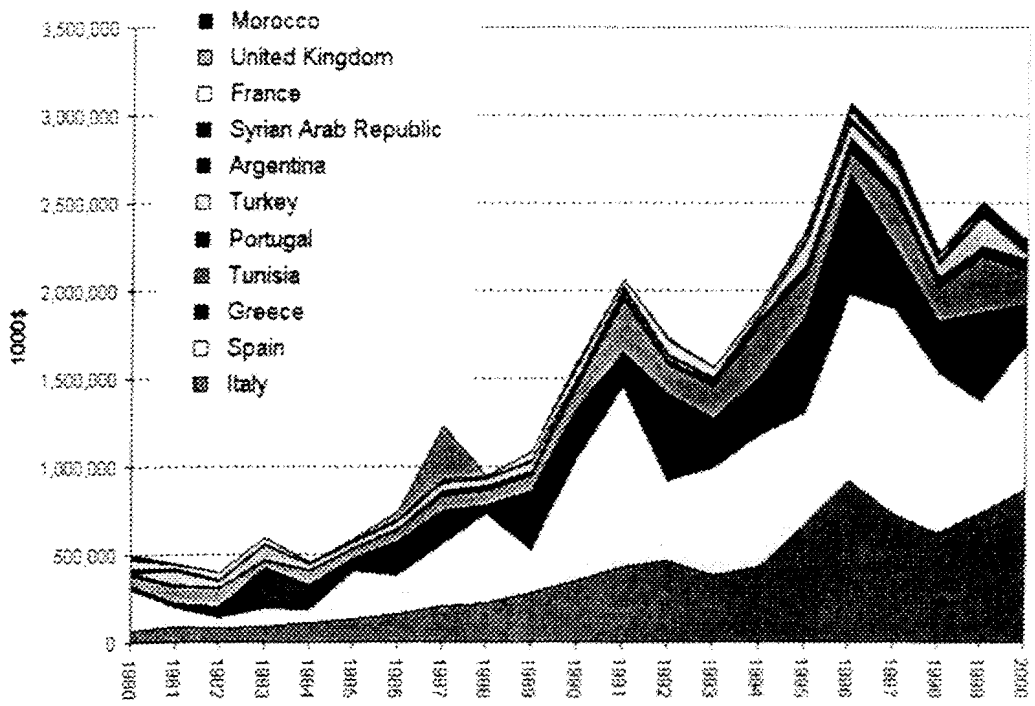


Figure 18. Olive Oils: World Imports, 1980-2000

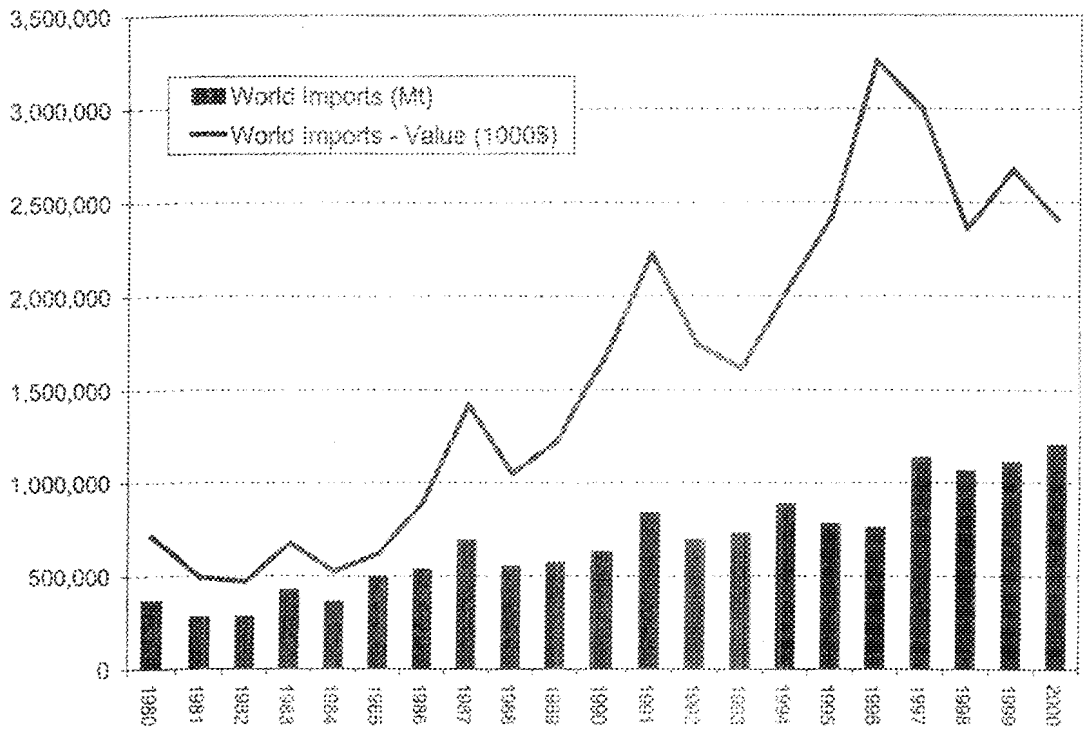
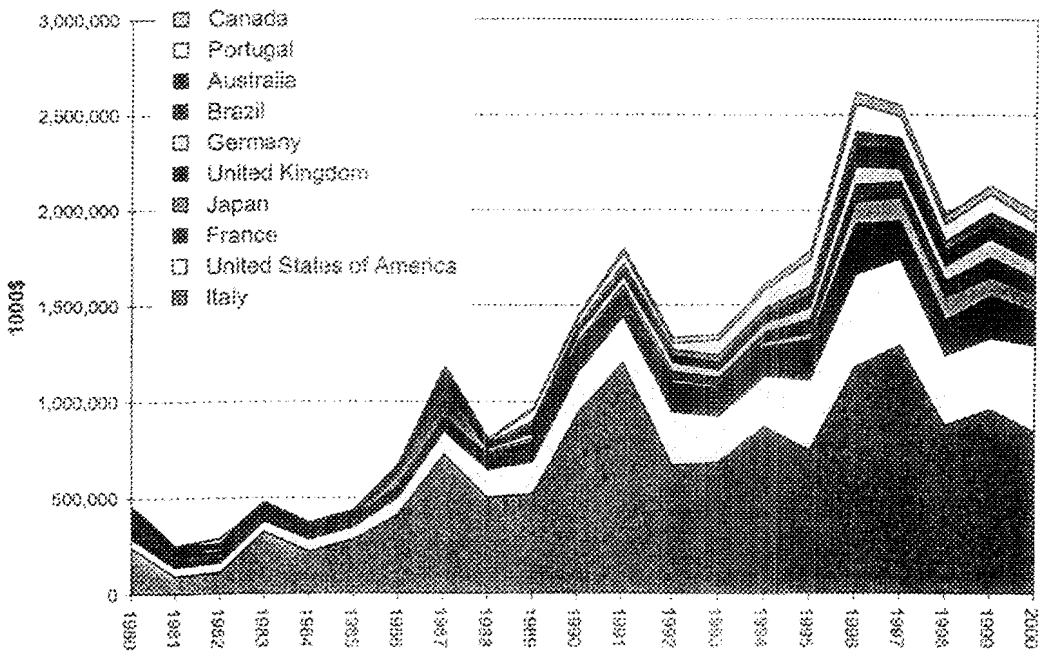


Figure 19. World Olive Oil Imports: Top 10 Importing Countries, 1980-2000

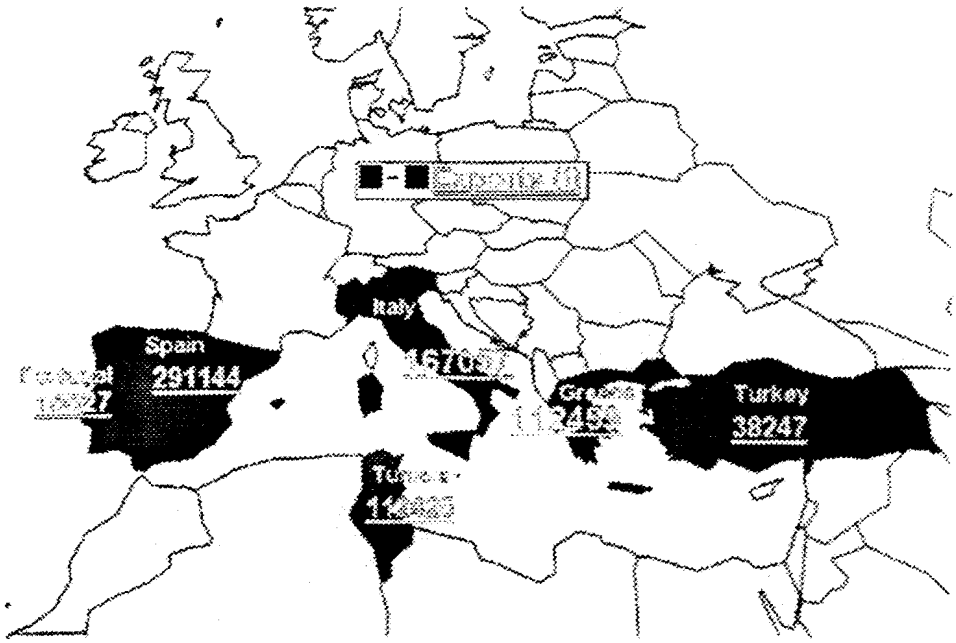


Trade Flow

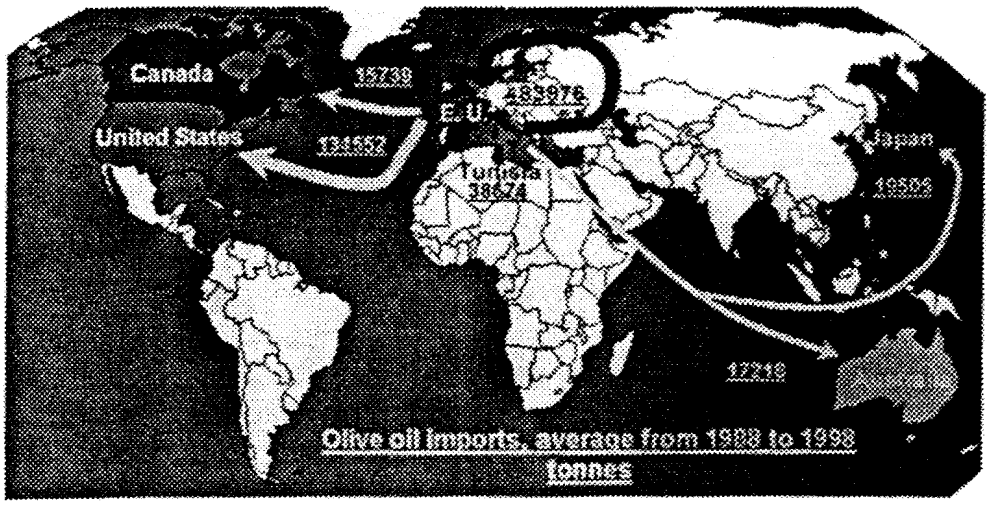
Main producing countries are also the main exporting counties as can be seen from the graph below. Once again, the Mediterranean basin countries concentrate more than 95% of total exports.

The following map confirms the conclusions drawn from the analysis of world consumption. Olive oil trade is mainly an intra European trade, although there are also trade flows with industrialized countries out of the Mediterranean area.

Figure 20. Olive Oil Trade is mainly an Intra-European Trade



Trade flows with industrialized countries



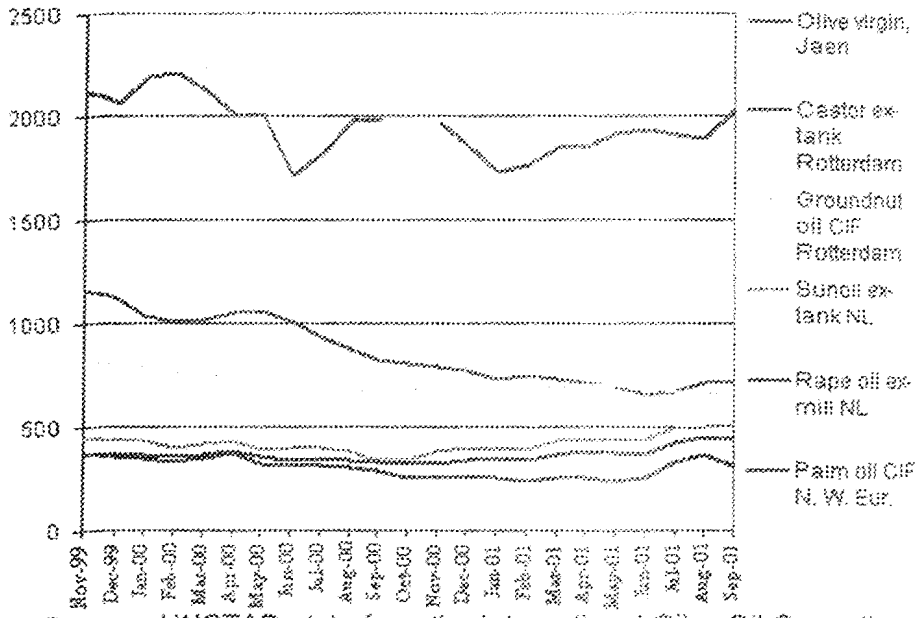
Olive Oil Prices

Olive oil is relatively expensive oil compared to other kinds of oil since it needs special production treatment: producing an olive crop is a long process (commercial yields are

realized only after the maturity of the tree; that means after five years). Harvest is still made by hand in most of the regions. Finally, processing is an advanced technology, particularly in large producing areas.

A comparison of six consumption oils prices is presented in this graph:

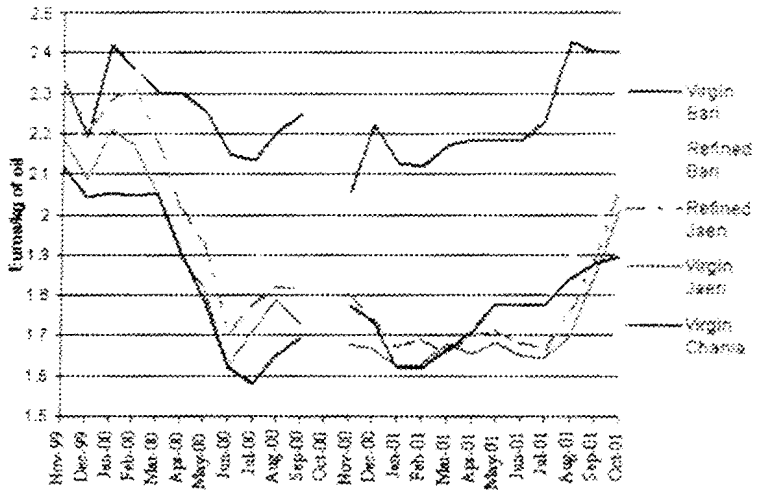
Figure 21. Prices for various edible oils, 1999-2001, in US$ per tonne



Source: UNCTAD, data from the International Olive Oil Council.

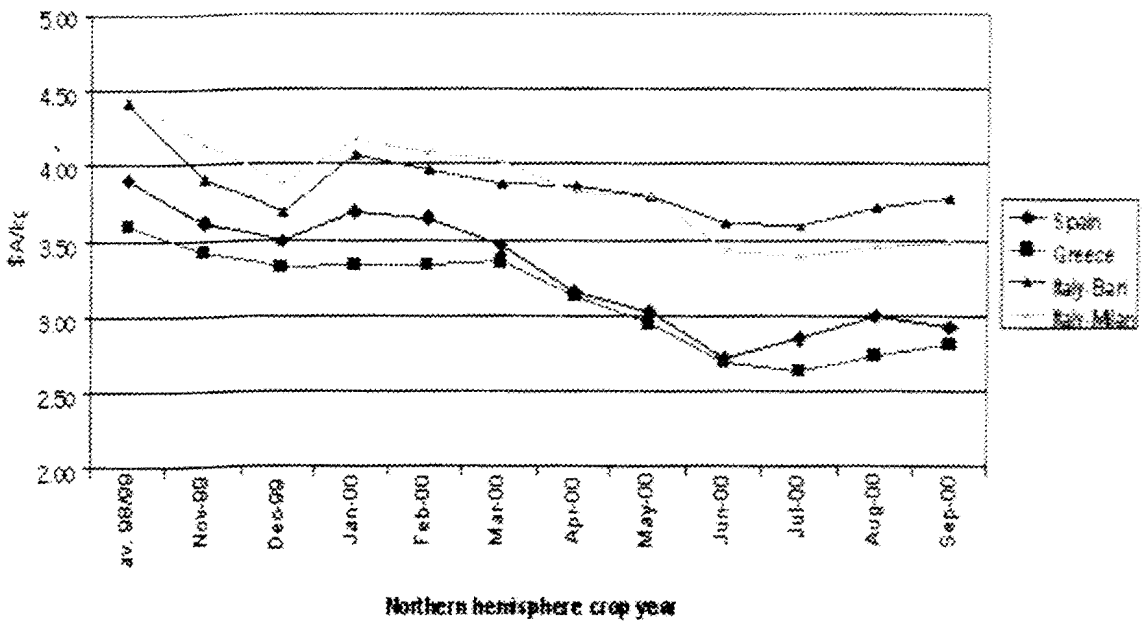
Prices paid to producers are quite unstable, mainly due to the change in the quantities produced from one year to another and the level of stocks. However, it is difficult to assess the price formation mechanism. Refined olive oils are generally less expensive than virgin oils. Refined olive oil from Jaen is an exception. A possible explanation would be an insufficient amount of lampante oil to meet demand of refining industry given the good quality of produced virgin oil and as a result an increase in lampante oil prices.

Figure 22. Price of olive oil paid to producers 1999 to 2001



Source: UNCTAD, data from the International Olive Oil Council.

Figure 23. Northern Hemisphere Prices Jan. 1999 –Sep 2000



Marketing Chain

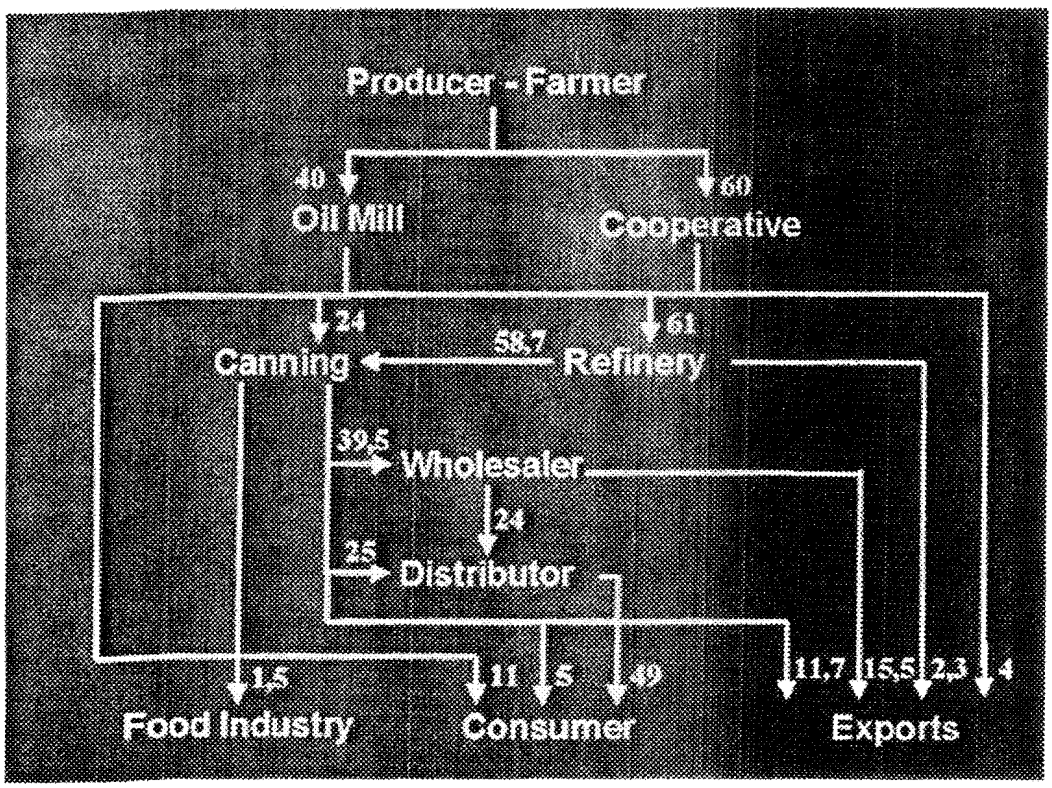
The present structure of the production and marketing chain is influenced by the importance of olive oil crops in the Mediterranean area. Production is highly fragmented. It is divided into a number of small properties, which grow olives for oil production. This is particularly the case in Spain, Italy, Greece and Portugal. These farms are organized into cooperatives in order to process the olives and obtain oil or sell the olives directly to processing companies.

Refining operations are more concentrated. However, in the case of Spain there were 80 refining companies in 1995 (cooperatives included).

The market is very competitive and entry barriers are quite strong.

The following diagram represents Spanish marketing chain and a flow of an equivalent of 100 tonnes of oil.

Figure 24. Spanish marketing chain – Flow of equivalent 100 tonnes of oil



EU Common Market Organization for Olive Oil

On the following page is an example of an international policy with a strong influence on the olive oil market – the European Union Common Market Organization (CMO) for olive oil.

It was established by Regulation n° 136/66/CEE of 22 September 1966. This CMO had as its main objective the support of production and commercialization of olive oil, particularly by granting export restitutions, support production prices and consumption aids. The reform of this CMO became necessary taking into account the evolution of the oil market and prices and particularly as a result of World Trade Organization agreements, which stipulated a 20% reduction in the total support during the period 1996-2002.

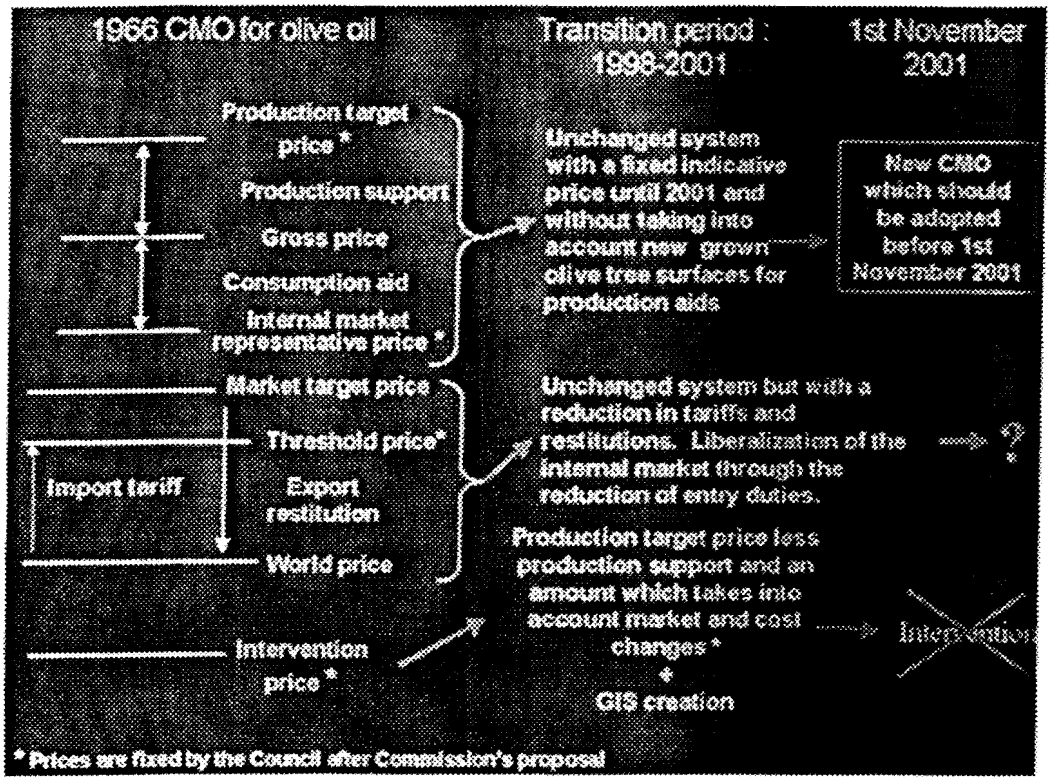
Regulation (CE) n° 1638/98 of 20 July 1998 of the Council established a transition regime which was replaced by the new CMO regulation by 1 November 2001 at the latest.

This transition régime abolishes intervention prices and substitutes them for an eventual stockage aid decided by the Council in case of important market crises. As a result, a minimum price is not automatically guaranteed, as was the case with intervention prices. However, olive growers are granted a production aid. The amount of this aid is 132.25 euros/100kg up to the 2000/2001 campaign, without distinguishing between small and large

producers. This aid is of the same order from previous campaigns. It is limited to a total production of 1,777,261 tonnes per campaign and distributed among the different producing countries.

Finally, since olive is a perennial crop, the new orientation during the transition period is to create a geographical information system (GIS) for European olive trees. The aim of this GIS is to control production and limit fraud. By 1 November 2001, articles of Regulation 136/66/CE concerning production target prices, intervention agencies, export subsidies and import tariffs will be abolished. The following scheme gathers the changes from the former CMO to the new one:

Figure 25. Common Market Organization transition scheme



For more information, please consult the European Commission site herewith: Directory of Commodity Legislation in force on oil and fats, 03.60.59. [1]

[1] http://europa.eu.int/eur-lex/en/lif/reg/en_register_036059.html

EU Olive Oil Industry Organization

The Italian olive oil industry is at a competitive disadvantage in relation to the Spanish and Greek industries due to low productivity of groves and mills, and high production (labor) costs. They have identified the need for better organization of production and aggregation of supplies for processing in order to achieve their objectives of producing high-quality oils at competitive costs.

The Spanish and Greek industries are better positioned due to the aggregated nature of their production areas and smaller number but greater processing (throughput) capacity of their mills. The industries in these countries are looking at creating 'macro-business' organizations made up of associations of producers, processors/packers and marketers. These aim to create an integrated supply system from production to trading, and could help in adding value to products and avoiding costly supply fragmentation (Olivae, October 2000).

Egyptian Export Strategy

Marketing Aspects

The world's dominant olive oil consumers in the Mediterranean are very quality conscious, which explains why the best oil is retained in those countries (mainly Italy, Spain and Greece). Their exports often comprise aged, lesser quality and/or blended product.

Up to 80% of the retail value of a product is captured beyond the farm gate by processors, wholesalers, distributors and retailers (Davies & Cook). Vertically integrated enterprises control most aspects of the supply chain from production through to marketing and sometimes up to the retail level. Direct retail can take the form of mill door sales, mail order and Internet or electronic commerce.

The four recognized steps in marketing are pricing, product, placement and promotion. These points are outlined below along with the implications for growers and processors

Pricing

Pricing involves deciding whether the product is aimed at the low budget, mid-range or boutique market sectors. This decision will be influenced by the sufficiency of volumes to consistently supply these sectors and the availability of capital to develop different product lines and brand image.

Pricing will affect decisions regarding lifestyle and profits, as the approach to production will influence input costs and thus profit margins. The supermarket olive oil market dominant structure indicates the range of prices and market shares that marketers need to consider. High prices in 1996 were due to drought induced European supply shortages.

Growers should note that the wholesale price does not take into account the costs of processing and packaging. Packaging costs may range from US$0.50 to US$1.00 per package, depending on labels and bottle types. This price range represents the minimum expected cost.

Product

The product aspect covers variety, quality, packaging and branding. The relative importance of all these aspects differs significantly between target consumers. Smaller growers will find it hard to gain market leverage and capture value-added benefits with limited volumes. This is because the large volumes marketed by multinationals like Unilever and Bertolli allow them to make price sacrifices, enabling the retention of diverse market share. Therefore, marketing groups and processors with sufficient volumes to supply selected outlets with good consumer exposure will be at an advantage.

The International Olive Oil Council (IOOC) defines five grades of olive oil quality.

1. **Virgin grade** oils (3 quality levels) that can be used without further processing.
    - Extra virgin olive oil is the highest quality olive oil and can be used without further processing. It has acidity not exceeding 1%, well-balanced flavors and no taste faults.
    - Virgin olive oil is the next quality level than can be used without further processing. It has a higher acidity level than extra virgin grade and a few minor faults with its taste.
    - Ordinary virgin olive oil is the lowest quality olive oil that can be used without further processing. It has an acidity level not exceeding 3.3% and more taste faults than either of the preceding oils.
2. **Lampante** virgin olive oil that is inedible without further processing due to its "off" flavours or acidity levels.
    - **Olive Oil** results from Lampante grade oil that has been subjected to further processing to remove the "off" flavors or acidity that made it inedible. The refining usually involves neutralizing the acid, bleaching and deodorizing the oil so as to leave an oil that it basically, tasteless, colorless and odorless. It still has the same fat content as the virgin grade oils and there is growing medical evidence to suggest that it doesn't have the same health properties as the virgin grade oils.
    - **Pure** olive oil is olive oil with a mix of virgin oil (10-30%) to improve the color and flavor. The left over paste (pomace) resulting from the virgin olive oil extraction process contains a small percentage of residual olive oil, which is extracted by refining.
    - **Refined Olive-Pomace** oil is the oil extracted from the pomace using solvents. This oil is commonly used for manufacturing soap, lubrication and is sometimes used in cooking.
    - **Olive-Pomace Oil** is refined olive-pomace oil with a mix of virgin olive oil and is used in cooking. Most olive oils found on non-producing (import) countries' supermarket shelves are likely to be varietal blends, while varietal oils are usually found in specialty and gourmet stores. Estimates of yields, oil content and oil quality of some varieties are given in the table below.

Processing

The freshness of fruit at processing and processing methods are the keys to producing high quality extra virgin olive oil (EVOO). The fastest oil extraction methods used by the major oil companies involve hammer mills and centrifugal separators. Hammer mills raise the temperature of the olive paste, with anything over 30°C having the potential to affect oil quality, depending on the variety of olive. Therefore the technique, and not necessarily the process used in extraction, is likely to influence the oil quality.

Consistencies of quality and food safety are issues of great importance to retailers and thus all supply chain participants including producers. Olive quality depends on:

- Tree variety
- Growing conditions
- Pests and disease
- Maturation state of fruit when picked
- Post harvest handling
- Processing
- Storage

Fresh EVOO is generally fruity and aromatic with a low free fatty acid – about 0.2%. All olive oil declines in quality once it has been extracted from the fruit, however olive oil from poor quality fruit or that which is stored for prolonged periods under the wrong conditions (i.e. exposed to air and/or light) declines most rapidly.

The two main considerations for food retail outlets are consistency of quality and supply. The Hazard Analysis Critical Control Point (HACCP) quality management system has been introduced to the Egyptian Olive Industry, enabling the product to be traced back through the supply chain to the olive grove. This is required for independent auditors to assess food safety and for the product to be certified under quality assurance codes such as SQF2000CM. These quality assurance systems are increasingly in demand from retailers and represent a critical constraint (or opportunity) to Egyptian processors.

Placement

Placement is a broad issue covering areas of intermediate and end consumer location, as well as distribution channels through warehousing and transportation. Based on current capacity and low volumes, the major potential market segments for Egyptian olive oil are the ethnic aisles in supermarkets, ethnic grocery stores, the specialty food trade including delicatessens and the food service sector, which all require consistency of volume and safety. The trend towards globalization of supermarket chains and their expectations of consistently full product lines means that supply consolidation will be required to fulfill the demands of major export markets. The retail sector usually demands margins of 30% on wholesale price, however this varies according to proven sales volumes and supply competition. Proven high volume products may attract lower margins, but new product suppliers should expect retailers to retain at least 30% margin on sale price.

Market Research

The health benefits of olive oil and its distinctive taste were found to be the two main factors influencing olive oil consumption, and according to qualitative research they seem to be connected (McEvoy et al, 1999). This research found that consumers who buy olive oil because of its health benefits later become accustomed to its flavor. This implies possible consumer education in developing a taste for good quality oil. Oils with greater health benefits are those with bitter or pungent flavors, characteristic of the phenolic components in the oil. Consumers were unable to explain the differences between poly-unsaturated and mono-unsaturated fats and why certain types of fats are detrimental to their health.

Although some consumers knew of cold pressed virgin olive oil, they did not fully understand the implications of this process. However, the fact that consumer perception of olive oil as being 'healthy' provides the base for a promotional campaign emphasizing such benefits and possibly explaining the reasons for them.

Egypt Olive Oil Export: Challenges and Potential

The outlook for the industry is positive, with extensive plantings currently taking place. However, there are a number of challenges to be faced. Apart from the fact that unsubsidized Egyptian producers are disadvantaged by heavy European Union government subsidies to growers, processors and packers, they also face the challenge of inferior-quality imports brought in at low prices. However, as more and more consumers become informed, not only of the health benefits of olive oil, but of the meaning of terms like "extra virgin" and "virgin", and the quality difference from chemically-refined oils labeled "pure olive oil" and "olive oil", prospects for increased production of high-quality, locally produced oils should improve.

Implications. After all this, what does this mean to the Egyptian processor?

A case study of the Gulf market is indicative of the consumer awareness problem that Egyptian processors, and for that matter, all Maghreb producers, must overcome if they are to overcome dominant market share by the EU producers, primarily Italy, Spain and Greece. The Gulf is a price sensitive market and the Egyptian processors find themselves about 40% too high in price, attributing it to the EU subsidies. This is anecdotal as ALEB's market studies contradict this to a certain extent. World market prices for Extra Virgin Olive Oil consistently run around US$1800/mt - US$2100/mt bulk. ALEB's market basket survey in Saudi Arabia in April 2000 of various brands by country of origin shows packaged prices as follows. The wholesale prices below in US Dollars are predicated on about a 35% return on the retail price to the processor.

500 ml bottles

Country of Origin	US$ Price per kilogram	US$ Effective wholesale price to the processor/kg
Spain	$5.34	$1.87
Saudi Arabia	$4.24	$1.55
Spain	$3.76	$1.32
Saudi Arabia	$5.36	$1.88
Turkey	$3.68	$1.29
Spain	$4.10	$1.44

1 liter can

Country of Origin	US$ Price per kilogram	US$ Effective wholesale price to the processor/kg
Spain	$3.95	$1.38

4.7 liter can

Country of Origin	US$ Price per kilogram	US$ Effective wholesale price to the processor/kg
Spain	$4.76 ($21.94/4.7kg tin	$1.64

Virgin Olive Oil

Country of Origin	US$ Price per kilogram	US$ Effective wholesale price to the processor/kg
Spain	$5.70	$2.00

There are two provisos to the above, which may support the Egyptian processors' claims to their inability to compete:

1) Note that the olive oil is not virgin or extra virgin except for the last price. Spain is especially notorious for blending their olive oils, subsequently reducing their costs substantially. Moreover, the individual conducting our market basket surveys was not an olive oil expert and therefore may not have accurately reported the type. We suspect that the "olive oil" reported was a lesser grade, such as "pure" olive oil, which is actually pomace oil, or a fourth pressing which is achieved by mixing with benzine & firing to extract the last bit of oil. This is fourth-class oil. Our suspicions are validated by the boycott last year in the Gulf States & the Far East markets against Spanish olive oil due to high traces of benzine in the oil, which is toxic and a potential carcinogen.

2) Retail prices may be price points based on what the market will bear, rather than actual cost, supporting importers' resistance to price points offered by Egyptian processors, who only process Extra Virgin olive oil - a product that is more expensive than virgin or pure olive oil. Note the last price at $2.00/kg is still just virgin, not extra virgin.

Our conclusions are that the Gulf market is price-sensitive based on lack of knowledge or lack of preference for a premium product. Unfortunately, based on consumer lack of awareness in this market as well as other importing countries concerning the various grades of quality coupled with lower price points for "pure" olive oil, which Egyptian olive oil processors do not process, the constraint to penetrating the market remains a consumer awareness issue – getting them to recognize superior oil and paying for it. Fortunately, there are olive oil purists that will pay for a high end product and the potential size of this market segment may fit the Egyptian olive oil industry's ability to produce.

Concerning the US market, there is a 4% duty on olive oil from the EU while Egypt enjoys zero tariffs under the General System of Preferences for a Developing Country (GSP/DC) into the USA. This is probably not enough to make a difference in terms of price competitiveness. The real opportunity lies in the size of the market in the USA. Given Egypt's capacity - presently about 5000mt but ability to go to 15000mt with little or no investment - they represent less than a 2% threat to the market share at current levels of production. Their opportunity lies in marketing their product as a premium product, as their peroxides and pH are low, meeting or beating the International Olive Oil Council's standards. Egyptian olive oil has a distinctive peppery taste and many are starting to do heat infusion with flavors or adding herbs and spices. This was initiated by the ALEB project. If Egyptian

olive oil processors can get their packaging spruced up, differentiate their product & target their market, they could obtain a premium price for their product, which would offset their low volume constraints.

An excellent example of this is an Italian olive oil with the brand name Merlano. A small, family owned estate of 7.5ha between Florence & Rome produces this. They package in a conventional shaped green bottle, with a distinctive black label and production dates & expiry entered by hand on the label. The bottle comes with a hangtag and a corked pour spout attached and packaged in a distinctive green gift box. A 500ml bottle wholesales for $15.00. Their target market is the corporate gifts market in the specialty foods market segment.

The biggest constraint to this effort is the Egyptian import duties & tariffs for imported packaging. Little capacity exists here to produce the requisite packaging needed to target the specialty foods market for olive oil producers.