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ACTION PLAN FOR THE EU OLIVE OIL SECTOR

DG Agri Working Paper

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ACTION PLAN

Olive production is growing rapidly in Europe and worldwide, boosted by a positive image and a rise in consumption.

However, the structure of the industry prevents olive producers from harnessing the full value of their production. The fall in prices has had a significant impact on their incomes.

A more balanced market would be achieved by increasing the sector's competitiveness and emphasising key assets such as the quality and public image of the product.

In the light of these considerations, action should primarily focus on:

- Quality and control, through measures to enhance the public image of European olive oil and to improve consumer protection and information;
- Strengthening the industry, by making use of all the opportunities offered by CAP reform and by engaging all stakeholders.

The action plan looks into the following areas:

- Quality and control
- Restructuring the sector
- Structure of the industry
- Promotion
- International Olive Council (IOC)
- Competition with third countries

It is also based on an analysis of the prospects for the EU market between now and 2020 and the relative competitiveness of the different types of production. The analysis considers a scenario in which the measures advocated in the action plan are not implemented.

- Relative stability in the size of olive growing areas in the EU, but with a gradual increase in irrigated land in Spain, where over half the national production is grown. Since the end of the 1990s there has been an expansion in intensive, irrigated, and more profitable, olive groves that are ineligible for EU funding and preferably planted in plains with access to water and where mechanisation is possible;
- Gradual increase in Spanish production which is estimated to grow between 1.4 and 1.8 million tonnes by 2020. Estimates indicate a slight drop in production in Italy and Greece;
- Good growth in EU exports to third countries, against a backdrop of steadily increasing competition from the Mediterranean basin (Morocco, Tunisia and Turkey) and major traditional importers like the USA and Australia;

- Relative stability in EU consumption;
- Stocks: In Spain, the record stock level estimated at the end of 2011/12 (636 000 tonnes) could progressively rise by 27 000 tonnes a year to 881 000 tonnes by 2020. There should be little or no change to stocks in Italy and Greece;
- Margins and operating income have fallen over the past ten years due to increased production costs, low sale prices and the stability of labour productivity, resulting in low incomes for many olive growers;
- Individual situations vary widely. In the period from 2006 to 2009, 25% of olive farms in Spain earned less than EUR 5 000 of family income per family work unit, rising to 30% in Italy and 37% in Greece. Some 11 % of Spanish olive oil operations earned over EUR 30 000 per family work unit, with 10% in Italy and 30% in Greece.

1. Quality and control

Findings:

- Monitoring of compliance with chemical, organoleptic and authenticity requirements for oils should be reinforced. Moreover, tighter controls are needed with regard to, *inter alia*, deodorised olive oils, the presence of which has been revealed by the additional alkyl esters test adopted by the IOC and the EU. The practice of using deodorised oils in oil blends labelled ‘extra virgin’ is unlawful. This also applies to blends of edible virgin oils with other vegetable oils.
- Large traditional importing countries are expanding domestic production, and the market is gradually becoming more competitive. In this context, control methods that are not recognised by Codex or the IOC have come into use and led to questionable results, particularly with regard to the organoleptic characteristics of exported EU oils.
- In view of this, some industry stakeholders favour more stringent quality and authenticity parameters and want to see the panel (the jury responsible for assessing oils’ organoleptic characteristics) function more effectively. The majority do not oppose these proposals, but require any changes to be supported by solid scientific arguments.

Action to be taken:

In the short term, amend the technical arrangements within the Commission’s (DG AGRI’s) competence with a view to strengthening quality controls, protecting the consumer, improving labelling, and in particular:

- as regards controls:
 - Reinforcement of checks and penalties as well as standardisation of Member States’ mandatory communications on the nature of the irregularities detected and the penalties applied. Checks using risk analysis with minimum requirements are planned;

- Improvement of the sampling and duplicate analysis procedures;
- Uniform application of rules throughout the EU (deadlines, practical aspects of checks).
- as regards protection of the quality and authenticity of edible virgin oils;
- Inclusion, in the coverage of a research programme, of methods enabling the detection of fraudulent blends;
- Request to the IOC to speed up work in the following areas:
 - (1) Reduction in the level of stigmastadienes, which improves detection of other vegetable oils in olive oils;
 - (2) Lowering of the maximum level for alkyl esters, in order further to restrict the use of deodorised oils;
 - (3) Definitive adoption of the overall method for detecting extraneous oils in olive oils¹;
 - (4) Adoption of a method to determine diglyceride and triglyceride levels to help counter the use of fraudulent mixes, and determine the freshness of olive oil.
- as regards labelling and marketing standards:
- Make it compulsory to indicate the storage conditions on labels, improve the display (character size) and positioning of information (visual field);
- Encourage Member States to require the use in the hotel and catering industries of packages that cannot be re-used.

The question of the date of minimum storage ('best-before' date) should be examined in a complementary study. Although legislation provides for an expiry date on labels, it does not establish a storage period. To make progress in this regard, it is necessary to carry out a prior technical analysis of the development of the physical and chemical parameters of the oil over time and/or to agree on an evaluation method.

In the medium term, the request by some industry stakeholders for tougher chemical parameters and improvements to the panel should be examined in detail with a view to providing the IOC with ample material with which to revise the olive oil trade standard;

- Concerning the classification of olive oils into categories, and particularly as regards the physical and chemical quality parameters, oil purity and the functioning of the panel, the Member States are invited to submit detailed and substantiated proposals. The proposals submitted to date have not been supported by technical and economic arguments that justify the suggested modifications. The new contributions requested are intended to enable an assessment of the consequences for the EU industry as a

¹ This method is used to detect the presence of vegetable oils such as soybean, rapeseed and sunflower. The detection level depends on the type of extraneous oil and the olive oil variety used in the blend. This method is particularly effective in the detection of blends with hazelnut oil.

whole so as to reconcile producer, industry and trade demands and produce a road map for the future;

- With regard to the panel's functioning, Member States' authorities will be contacted in order to review how consistent this is within the EU and if necessary to take the appropriate steps. Concerning the review of the value of the robust variation coefficient and the study on the use of the volatile fraction of oils, olive industry stakeholders will be requested to submit supplementary information to enable the appropriate monitoring.

2. Restructuring the sector

The new arrangements under the CAP reform also provide for support to the olive oil sector via the second pillar, notably:

- Targeting a specific geographical zone or theme. The rural development programme must demonstrate that the specific needs at the regional or sub-regional level are taken into account and dealt with in concrete terms through packages of measures or appropriate thematic sub-programmes and include a description of the strategy with clear objectives. Accordingly, the Commission expects the Member States concerned to include an olive thematic sub-programme in their rural development programme that will help to achieve the priority objectives established to meet the sector's specific restructuring requirements.
- Agri-environmental and climate payments to farmers or groups of farmers to meet environmental objectives;
- Support to cover investments with a view to improving operating results; investments may be used for processing, marketing and/or developing agricultural products.

3. Structure of the industry

Findings:

- Spain currently overproduces olive oil. This structural surplus deepens imbalances in bargaining power in the production chain, due mainly to the difference in economic size between the producers/primary processors and downstream operators. The economic crisis has worsened this imbalance and led to producers/primary processors, deprived of access to credit, precipitating falling prices by selling off their production at reduced prices to clear stocks. The commercial practices of the major retailers constantly increase pressure on producer prices, while consumers benefit from a lower, stable price;
- The degree of organisation among producers differs greatly from one Member State to another: 70% of producers in Spain belong to organisations, 60% in Greece, 30% in Portugal and only 5% in Italy. However, in general these producer organisations are too small to have any weight in the face of industry concentration and the retail chains.

Action to be taken:

- Increase the size of producer organisations (POs) to boost the bargaining power of producers in the industry. In that way, these organisations should be better placed to

coordinate the supply and marketing of their members' production. To this end, the current measures and those envisaged under the CAP reform should be implemented to strengthen the POs and encourage the creation of producer groups.

- Use the funding provided for in the second pillar to assist producer groups to adapt their production, ensure joint marketing of products on the market and develop marketing skills. As part of rural development there is also support for physical investment to add to the product's standing through processing, marketing (bottling and placing on the market) and quality control.

4. Promotion

Findings:

- Supply currently exceeds demand in the EU. However, demand remains strong worldwide. Olive oil has a positive image in terms of both nutrition and health. Consequently, it has a privileged position when it comes to promotional activities, with a high return on investment. There is still room for growth in consumption in non-producer countries in the EU and in exports.
- It is noted that the olive sector is a dynamic participant in the EU's promotion activities.

Action to be taken:

Awareness and promotion campaigns on olive products must pursue different aims concurrently, such as enhancing product image, boosting consumption and winning new markets. The CAP provides for various promotional measures as part of the common market organisation and rural development. The EU's future promotional policy will be more attractive and effective. It will be open to a greater number of beneficiaries. Its key features will include:

- Extending the scope of awareness and promotion campaigns to new beneficiaries (producer organisations, producer groups, SMEs) beyond the professional associations. This could result in more and better quality promotional campaigns and measures;
- Inclusion of the country of origin in awareness and promotional campaigns. This extra information, while still secondary to the reference to EU origin, could be advantageous in certain markets. This is authorised for PDO/PGI, but could be extended;
- Designing promotional activities as part of a long-term strategy, which has proven to be more effective. It is very important to ensure the continuity of programmes over time;
- Better coherence and complementarity of CAP promotional measures and better synergy between programmes funded by the EU and IOC. Greater emphasis on broader dissemination of information and the schedule of events for promotional activities could increase their overall effectiveness.

These reforms should give the industry a more effective tool with which to develop promotional programmes in the most promising export markets (USA, Brazil, Canada, Australia and Japan), with a special focus on opening up new markets (China, Russia, India) and non-producer countries in the EU.

5. International Olive Council

Findings:

- The IOC has 17 members including the EU and carries out several tasks, notably establishing regulations and standards for the international olive oil trade, promoting olive oil quality and organising promotion and consumer awareness campaigns;
- The current 2005 agreement expires on 31 December 2014 unless the IOC members decide to extend, repeat or renew it (Article 47);
- IOC member countries account for 95% of world olive oil production.

Action to be taken:

- Review with other IOC council members whether the 2005 agreement should be opened up not only to all producer countries, but also to consumer countries, so as to strengthen the organisation's leadership;
- Should these discussions require additional time to reach such an agreement, the current agreement could be extended for a further two years;
- The EU considers that the IOC standards still constitute the benchmark for international trade. Accordingly, it is necessary to give the IOC as much support as possible and to galvanise discussions within this forum on raising quality.

6. Competition with third countries

Findings:

Since the 1990s, olive oil production has increasingly spread beyond its historical home in the Mediterranean basin. Certain new producer countries continue to be large consumers of EU oils and play, via their oil industries, an important role in the emergence of new quality parameters which deviate from those of the IOC. These parameters essentially reflect the requirements of the countries' own markets.

Action to be taken:

- As it has done to date, the EU should continue to oppose any move away from the Codex standard within the framework of the WTO rules and any measure that may present a technical barrier to trade;
- Concerning its bilateral relations, in cooperation with Member States, the EU should continue to address contentious matters and seek to resolve them in the most appropriate manner.