



Forecasts Proved Wrong

Seven months into the 2005-2006 campaign and with the olive trees flowering in readiness for the next harvest, now might be a good time to take stock of the past and also to look forward to the coming months.

The main point we would like to highlight, once again, is the fact that many harvest forecasts before and during the campaign were much lower than the actual final figures. We now know that final production will be around 825,000 tonnes. This is a 37% and 18% increase on the forecasts of 600,000 and 700,000 tonnes, respectively, which were being touted by the sector specialist just a few months ago.

Also, the production sector has got into the bad habit of “selling two harvests” at the same time, in other words, the availability of olive oil throughout a campaign is measured according to the possible availability of the following campaign, even 10 or 12 months before the first olives from the next harvest have been ground.

Another idiosyncrasy of our sector which hampers a correct analysis of the campaigns is that when we look at the market's situation, the market is considered only to be the production stage at the olive oil mill and the ex mill prices, without taking into account the following stages: transformation, marketing and sale in the retail market and the food service sector. This hap-

pens at most of the meetings we attend in Spain, in the European Union and also on the international stage, and it effectively excludes the real market which will define the campaign's stages.

We must not forget that, as with any other consumer product, it will always be the end buyer who sets the pace of demand. Despite olive oil enjoying a high degree of loyalty in Spain, it would be foolhardy to assume that demand is inelastic, as it has often been proven that (as with other goods) price also plays an important role in the demand for olive oil.

Accordingly, it is not surprising that prices have been volatile during the current campaign, affecting both olive producers and the public, triggering a sharp decline in domestic and foreign sales. Meanwhile, carry-over stock forecasts ahead of the campaign starting on 1 November 2006 stand above 200,000 tonnes, much higher than initially forecast, as it was feared stocks would be at a critical level by this date.

According to recent official figures (1 November 2005 to 30 April 2006) olive oil exports have fallen by 34.87% compared to the same period one year previously. This is due to all-time record high ex mill prices, which are over €4/kg. This will no doubt spur on producers to expand olive growing programmes to other countries, not only in the Mediterranean basin but in other

continents, and will help them break into international markets.

During the first five months of the campaign, domestic consumption had fallen by 11.20% compared to the previous year. This decline has been felt more strongly in the agricultural and food industry and especially in the canned goods industry which, as well as facing price hikes, has had to endure withdrawal of the aid which had enabled it to close the price gap between EU olive oil prices and those in the rest of the world.

The food service have also suffered. Figures show a higher degree of sensitivity to olive oil prices in a sector which is becoming more and more important as it represents more than 25% of the total consumption of olive oils.

During the same period, private consumption has fallen by 8.02%, which proves that the loyalty of the Spanish consumer also has its limits.

continued on page 2 >>



To avoid further setbacks, it is imperative that our sector focus its campaigns on more reliable data, with a longer timeframe and, above all, bearing in mind the national and international markets as a whole, with the market comprising all processing stages, not just production.

In other words, it is essential that harvest forecasts are not, year after year, lower than final production;

that forecasts, which are made too early on and are not based on any clear basis, are not used to establish sales forecasts; elasticity of demand must also be considered, and, finally, it must be remembered that even though Spain is the world's leading producer, the other olive oil producing countries produce more than 50% of the total. It will come as no surprise then that, after this chain of errors in estimating fore-

casts and drawing up the 2005-2006 campaign, this can be considered the worst campaign in recent years in terms of domestic and foreign sales, price volatility, uncertainty amongst the economic agents etc., with the only "consolation" for some being the fact that we have reached an all-time high in terms of ex mill prices. This consolation will be but short-lived: here today, gone tomorrow.

Nutritional Labelling

In Spain, nutritional information is detailed on the labels as per the criteria set out by the legislation passed in July 1992.

Nutritional labelling is not mandatory, however, if a manufacturer wishes to highlight a certain food's nutritional properties on the label or in advertising, this information must be detailed as per the legislation.

Today the labelling or advertising of many foods state their nutritional or healthy properties. Olive oils and other edible vegetable oils often display this information.

Other EU countries have similar but not identical legislation, and this lack of uniformity can lead to undesirable situations. Therefore, a few years ago the EU set out general guidelines forbidding erroneous or misleading information or claims in regard to medicinal properties in foods. Nevertheless, in order to protect consumers and create equal competition conditions, the European Commission has proposed replacing national legislation with a single European regulation applicable across the board.

After years of debate, the European Parliament and Council agreed to ratify the proposal presented by the Commission, applicable to all member states, concerning the labelling of all nutritional and healthy properties in foods.

One of most controversial issues which arose during the debate was the concept of the "nutritional profile of a food", which was already included in the original proposal, whereby a food must offer a specific nutritional profile based on all the nutrients included. Those foods which do not comply with these conditions may not make claims concerning nutritional and health properties.

From a practical standpoint, this criteria now establishes a clear line between "good" and "bad" foods. The food industry in general has rejected this criteria based on numerous studies which have rejected the fact that just one food alone can be considered recommendable or not, as it believes the correct criteria must take diet as a whole into account: a diet may be appropriate or not depending on an individual person's general or particular circumstances.

After lengthy debates, the proposal has included the criteria of "specific profiles" with the possibility that there might be some exceptions which would include olive oil.

Olive oil is subject to a negotiated agreement whereby it will be allowed to continue to highlight the numerous nutritional and health properties which many scientific studies have proven and which, no doubt, will continue to expand with further research, underpinning its importance in the Mediterranean diet. Reaching this settlement was no easy task, since, at one point, scientific criteria concerning saturated fats and used out of context were used to try to place olive oil on the "bad" foods list.

Following publication of the new regulation, scheduled for this autumn, expert panels will begin defining and classifying the information to be used on the labels and the subsequent marketing and advertising of olive oils.

It is ironic that the EU, which produces 75% of the world's olive oil, decided to question its qualities, whilst in the United States olive oils are recognised for their healthy properties.

Half Way Through the Campaign

In the first six months of the 2005-2006 campaign, ANIERAC members have placed 364,472,000 litres of oil in the market, some 10.5 million litres fewer than at the same point in last year's campaign.

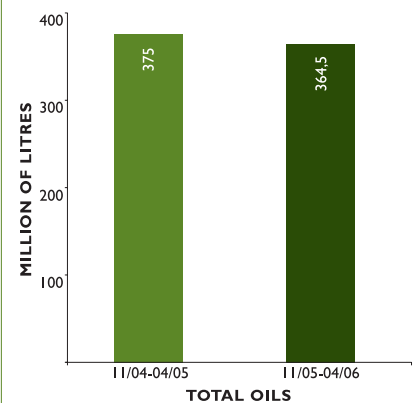
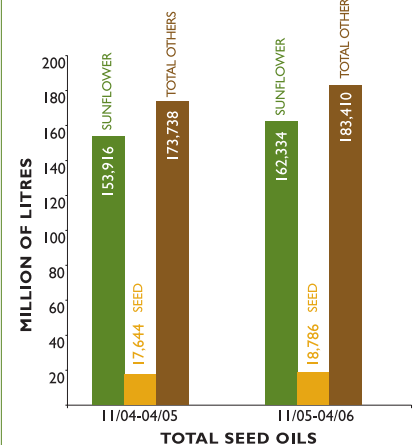
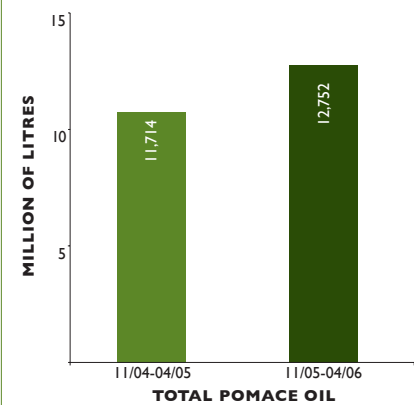
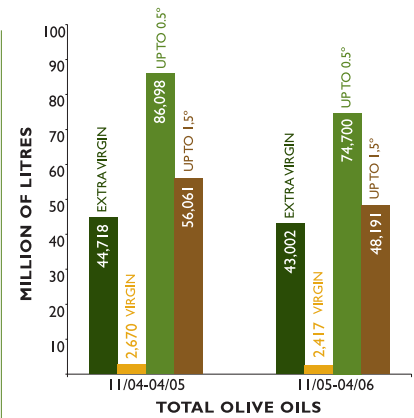
This overall decline in sales of bottled oils is a direct result of the downturn in olive oil sales, which has not been offset at all by the sale of seed oils or olive pomace oil.

Half way through the olive oil campaign, ANIERAC has placed 168.3 million litres of all categories of olive oils in the market compared

to nearly 190 million during the 2004-2005 campaign. This is a 11.20% (21 million litres) decrease which is undoubtedly due to higher retail prices.

On the other hand, sales of olive pomace oil, in a similar price scenario and with a smaller market share, have risen by 8.86%. In these six months, 12.7 million litres have been sold.

Unlike olive oils, the seed oils market has been more positive: 183.4 million litres have been sold, nearly 10 million litres more than the same period in the previous campaign (November 2004 to April 2005).



Interview with Isaías Pérez Saldaña, *Agriculture and Fisheries Minister for the Regional Government of Andalusia*



As you know, the ANIERAC bottling companies sell 85% of edible oils to the Spanish market. Two out of every three litres of extra virgin olive oil are bottled by our companies. What does the future hold for our sector?

Times are rosy for the olive oil sector. In my opinion, the main reason is, apart from specific situations, that olive oil is recognised as being excellent for our health and this is based on medical and scientific research. This comes at a time when we are paying much more attention to our health when we buy food, especially in countries with greater purchasing power,

with many customers who are not regular consumers of olive oil. This is extremely important for Spain and for Andalusia, being leading producers worldwide; and it benefits the whole sector: producers, bottlers and also shops.

Also, the quality of our oils improves every year and, as a result, the percentage of bottled olive oil sold and exported increases. So not only is the future of the sector guaranteed, but it also looks very bright. Not only are we worldwide leaders in terms of production but we are also becoming leaders in sales and this is the target the sector is aiming to achieve.

With regard to exports, companies belonging to ASOLIVA exported 90% of bottled oil and nearly 50% of bulk oil. It looks like we shall soon have large harvests which will bring higher exports. How does the Andalusia Regional Government help the industry?

We have made developing and strengthening the agricultural industry one of our top priorities. During 2000-2006, we have helped modernise the transformation and sales process of agricultural products, helping to boost investment in the food industry which now total €1,791.87, and with €504,015 in subsidies. The olive oil sector has benefited most from this aid, with 859 files processed and €149 million in subsidies paid. This aid has helped optimise the position of olive oil from a technological and quality standpoint, and it has boosted storage and bottling capacity.

We are currently at another stage. In early July I shall sign a new “Compact to Develop the Agricultural Industry” with businesses and trade unions for 2007-2013, which will replace the current 2002-2006 Agricultural Industry Plan for Andalusia. Our common goal is for the aid to help us strengthen our main weakness - the small size and fragmentation of the sector: encouraging alliances between companies, agreements, mergers, to push our companies to the forefront of the Spanish and European agricultural and food industry, at least in those sector such as olive oil where we are clear leaders. We also want to place special emphasis on providing aid for R&D, improving sales and, of course, to continue to support quality.

How important is olive oil for Andalusia's economy?

Along with fruit and vegetables, olive oil is the main sector of agriculture in Andalusia. It contributes 30% to our final agricultural production and occupies nearly 1,500,000 hectares, 32% of our available agricultural land; it also provides the highest number of jobs in the agricultural sector and is Andalusia's third largest exporter, accounting for 10% of total exports. We have more than 700 olive oil mills which employ 10,000 people and it is the leading agricultural-industrial sector. It is therefore of huge importance to the Andalusian economy as well as its landscape, its culture and its identity.

Do you think the Spanish oil industry as a whole is organised enough to respond to an increasingly open market.

We cannot prevent markets opening up. I believe we cannot be defensive in the olive oil sector as we are world leaders and as consumption is increasing in the world, if we are able to keep prices at a reasonable level. However, it is true to say that there is still much to be done to link the image of olive oil with Spain. Generic promotion helps reinforce this link, but the sector does very little in this respect. Working together could be a magnificent tool, but unfortunately it is not helping as much as it should.

It is also important that olive oil sellers follow the example of other companies and look outside of Andalusia and Spain and invest in new producing countries; they must become international and

multinational and, if necessary, join forces. I repeat, we cannot be defensive, quite the opposite, we must go on the offensive and be aware of our strength, which is considerable.

Recently some press reports have highlighted the weak image Spanish products have abroad. How can we structure our promotion in the olive oil sector?

As I mentioned before, I believe generic promotion is very important for olive oil and benefits the whole sector as it relies on consumption. The IOOC and other bodies have organised, or are organising, the generic promotion

to fall. How can we avoid these situations recurring?

Production fluctuations also cause instability in the markets and prices. In this sense, in our economy it is the market which sets the price and nobody should try to curtail market freedom, either downwards or upwards. Free competition must be respected. But in my opinion, some stability is essential for the sector's future, and once again, this can only come from dialogue and commitment within the sector itself. We're all in this together. If the bottlers have a rough time due to excessively high ex mill prices, in the end the whole sector ends up losing out—as we have seen

“Not only are we worldwide leaders in terms of production but we are also becoming leaders in sales and this is the target the sector is aiming to achieve.”

of olive oil, but we must launch generic promotion which reinforces the idea that Spain is the leading producer worldwide, and that the best oils are Spanish oils. In Andalusia we are keen to avoid fragmenting promotion in overseas markets and we are trying to push through a guarantee of origin (Denominación de Origen) for oils from Andalusia, or even Spanish Oils, which we believe would strengthen our presence and help our oils push into other markets.

Prices have been very unstable in recent months and this has caused domestic consumption and exports

with the recent falls in consumption. Unfortunately, these segments do not have much of a history of pulling together and this is one of our weaknesses compared to other countries which have much more structured agricultural-food sectors.

Anyway, I think that the good harvest expected for the next campaign will see prices return to more reasonable levels and consumption will pick up. But it is unwise to jeopardise those gains in consumption and exports which we have strived so hard to achieve. In the medium to long term, instability helps no-one.

ASOLIVA Olive Oil Exports

Exports recorded by ASOLIVA companies during the first six months of the 2005-2006 campaign, which runs from November 2005 to April 2006, show an increase of 1.64%, compared to the first months of the previous campaign, in other words, 110,185 tonnes exported during the 2005-2006 campaign, compared to 108,408 tonnes during the 2004-2005 campaign.

Exports of olive oil which is sold in containers of less than 5 litres to EU countries have soared by 131.29% compared to the previous campaign. In six months, 23,470 tonnes were exported, compared to 10,147 tonnes in the same period the previous year.

Meanwhile, olive oil in containers of less than 5 litres, and exported to non-EU countries, rose 1.38%. A total of 31,116 tonnes were exported, compared to 30,692 tonnes in the previous campaign.

Therefore, exports of olive oil in containers of less than five litres, regardless of where they were exported to, rose by 33.66% during this period. This means that a total of 54,586 tonnes were exported during this campaign, compared to 40,839 tonnes last year.

Exports of olive oil in containers of more than 5 litres, regardless of where they were exported to, fell by 17.71%. This means that a total of 55,600 tonnes were exported

during this campaign, compared to 67,569 tonnes last year.

Regardless of container size, exports of olive oil to EU countries rose by 12.61% during this period, whilst exports to non-EU countries fell by 11.96% (42,619 tonnes exported, compared to 48,409 tonnes during the same period in the previous campaign).

Of the export figures recorded by ASOLIVA members during the current campaign, we would highlight that 54,586 tonnes in containers of less than 5 litres were exported to all destinations, of which 35,818 tonnes were exported as extra virgin olive oil, accounting for 65.26% of the total extra virgin oil exported in containers of less than 5 litres.

Comparison of olive oil exports during the 2004-2005 and 2005-2006 campaigns, and 2005-2006*

Figures in tonnes

| Month/Year | Bottles containing less than 5 litres | | | Bottles containing more than 5 litres | | | Total | | |
|--------------------|---------------------------------------|---------------------------|---------------|---------------------------------------|---------------------------|----------------|---------------|---------------------------|----------------|
| | EU | 3 rd Countries | Total | EU | 3 rd Countries | Total | EU | 3 rd Countries | Total |
| 11/04 | 1,941 | 5,024 | 6,966 | 8,817 | 4,547 | 13,365 | 10,759 | 9,572 | 20,330 |
| 12/04 | 1,467 | 5,110 | 6,576 | 7,673 | 2,546 | 10,218 | 9,139 | 7,655 | 16,795 |
| Total | 3,408 | 10,134 | 13,542 | 16,490 | 7,093 | 23,583 | 19,898 | 17,227 | 37,125 |
| 01/05 | 1,873 | 3,347 | 5,220 | 9,259 | 2,351 | 11,610 | 11,132 | 5,698 | 16,830 |
| 02/05 | 1,430 | 5,404 | 6,833 | 7,475 | 2,795 | 10,270 | 8,905 | 8,198 | 17,103 |
| 03/05 | 1,842 | 5,822 | 7,664 | 7,649 | 3,010 | 10,659 | 9,491 | 8,832 | 18,323 |
| 04/05 | 1,595 | 5,986 | 7,581 | 8,979 | 2,467 | 11,447 | 10,574 | 8,453 | 19,027 |
| Total | 6,739 | 20,558 | 27,298 | 33,363 | 10,623 | 43,986 | 40,102 | 31,182 | 71,284 |
| Campaign T. | 10,147 | 30,692 | 40,839 | 49,853 | 17,717 | 67,569 | 60,000 | 48,409 | 108,409 |
| 11/05 | 2,298 | 6,394 | 8,692 | 5,953 | 2,223 | 8,177 | 8,251 | 8,617 | 16,868 |
| 12/05 | 6,053 | 4,790 | 10,843 | 8,861 | 1,968 | 10,828 | 14,914 | 6,758 | 21,671 |
| Total | 8,351 | 11,184 | 19,535 | 14,814 | 4,191 | 19,005 | 23,165 | 15,375 | 38,540 |
| 01/06 | 3,538 | 4,145 | 7,682 | 6,853 | 1,152 | 8,005 | 10,391 | 5,296 | 15,688 |
| 02/06 | 3,692 | 4,448 | 8,140 | 6,017 | 2,251 | 8,268 | 9,709 | 6,699 | 16,408 |
| 03/06 | 4,313 | 6,630 | 10,943 | 7,604 | 2,660 | 10,264 | 11,917 | 9,290 | 21,207 |
| 04/06 | 3,576 | 4,709 | 8,285 | 8,808 | 1,250 | 10,058 | 12,384 | 5,959 | 18,342 |
| Year Total | 15,119 | 19,932 | 35,051 | 29,282 | 7,312 | 36,595 | 44,401 | 27,244 | 71,645 |
| Campaign T. | 23,470 | 31,116 | 54,586 | 44,097 | 11,503 | 55,600 | 67,566 | 42,619 | 110,185 |
| % Campaign | 131.29 | 1.38 | 33.66 | (11.55) | (35.07) | (17.71) | 12.61 | (11.96) | 1.64 |
| % Year | 124.33 | (3.05) | 28.40 | (12.23) | (31.17) | (16.80) | 10.72 | (12.63) | 0.51 |

* excluding the Canary Islands, Ceuta Melilla and olive pomace oil.



Activities

SEMINAR/TASTING IN ZAMORA

The Entrepiedras restaurant in Castrillo de los Polvazares hosted a seminar-tasting in June. The dinner which was held afterwards for Russian journalists was organised by the ICEX (Spanish Institute for Foreign Trade) and focused on Spanish olive oils.

SEMINAR/OIL TASTING IN SALAMANCA

In May, Salamanca hosted a tasting seminar for Spanish oils at the Michelin starred Víctor Gutiérrez restaurant. The dinner which was held afterwards for Mexican journalists was organised by the ICEX (Spanish Institute for Foreign Trade) and focused on Spanish olive oils.

INFORMATION SEMINAR IN AUSTRIA

In May, the Hofburg Palace in Vienna hosted an information seminar and a tasting of Spanish olive oils as part of a show-room of Spanish gastronomy organised by the Trade Office of the Spanish Embassy in Vienna.

France now has a Website for Olive Oil from Spain

Last June saw the launch of the www.huilesdo-livedespagne.fr website informing the French about Olive Oil from Spain. The page offers extensive information on the product, such as the production processes, the different varieties, the guarantees of origin, health benefits etc. It also offers recipes, tips and practical advice. The website also has certain areas aimed at the professional visitor and the press, with company contacts, a photo gallery, etc.

This website has filled a gap in France for an informative website and helps complete the catalogue of sites about Olive Oil from Spain which ASOLIVA and the ICEX have introduced in other countries in recent years, each one different and adapted to that country's market.

Spanish olive oil has websites in the following countries:

Germany: www.asoliva.de
Australia: www.tertuliaonline.com
Brazil: www.azeite.com.br
USA: www.oliveoilfromspain.com
Japan: www.asoliva-jp.com

In Spain, ASOLIVA (www.asoliva.es or www.asoliva.com) and ANIERAC (www.anierac.es) also have their own websites to complement those listed above and to bring Olive Oil from Spain closer to the Spanish-speaking world.



Overseas Promotion of Olive Oil

There have been various activities in recent months aimed at bolstering the image of Spanish olive oil and making its high quality known in other countries, as well as promoting Spain's potential as a producer.

Ten brands will take part in the 2006 gourmet plan in the USA which is based on a campaign promoting Spanish olive oils and involving activities in supermarkets and gourmet shops across the country.

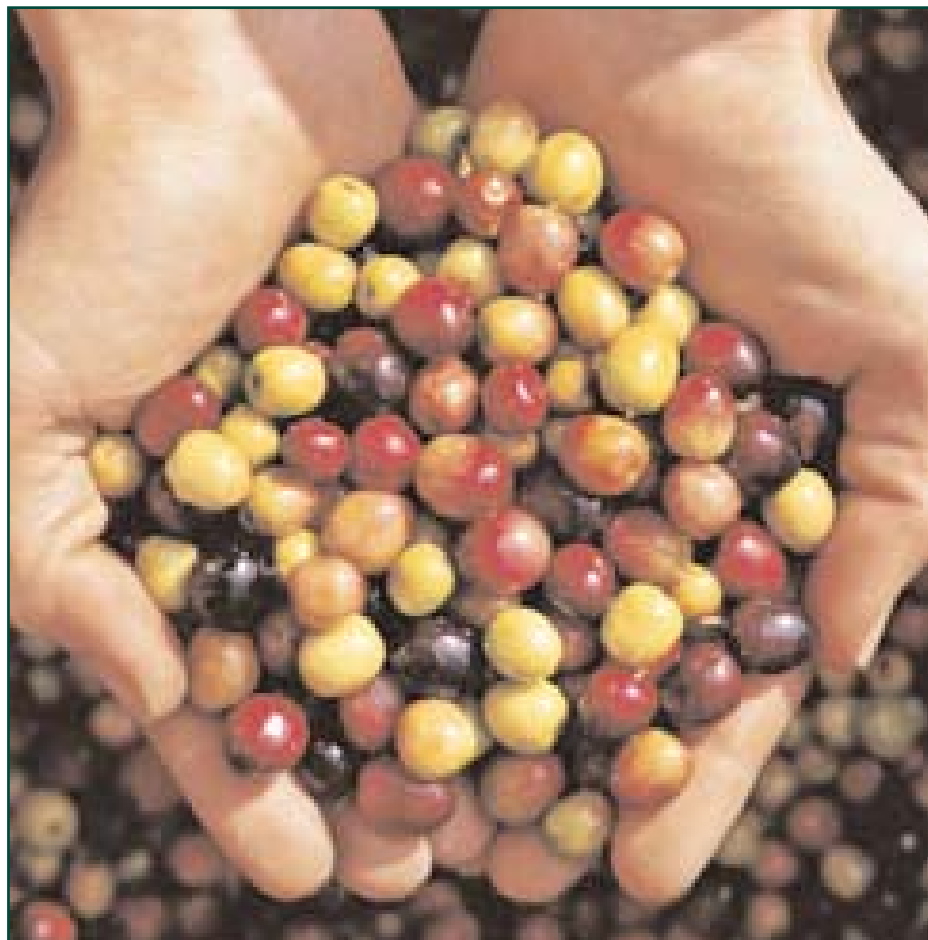
As well as promotional initiatives at shops, there will also be activities in the following areas:

Advertising. An advertisement detailing the brands involved targets the professional public and consumers.

Maintenance of www.oliveoilfromspain.com generic website. There is a special section for those brands taking part in the campaign.

PR. This includes activities such as book sponsorships and gourmet events where visitors can taste all the brands taking part and can consult a list of shops stocking the brands as well as information on each brand.

In April, point of sale activities began as part of the activities planned for this year. Also, Olive Oil from Spain took part in the International Association of Culi-



nary Professionals (IACP) Conference which received more than 1,400 visitors. The activity consisted of sponsoring the opening lunch and preparing the dessert, orange with olive oil. Calling cards and recipes were also distributed among visitors. Bottles of each of the ten brands of olive oil taking part were placed on each table and press packs were handed out containing information on the various aspects of Olive Oil from Spain.

In June, Olive Oil from Spain sponsored the presentation of the book tour for Janet Mendel's book

"Cooking from the Heart of Spain" and took part in 3 Great Match gourmet events (San Diego, San Francisco and Washington) mainly dedicated to wine, where olive oil has also been present for many years.

Events planned for the rest of the year include taking part in another Great Match (New York), an event at the International Culinary Center – Madrid-Fusion in New York and an event at the Culinary Institute of America Worlds of Flavors, dedicated this year to Spanish gastronomy.

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