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Olive Harvest Begins with Historically Low Oil Stocks

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Report Highlights:

After plummeting in MY2014/15, Spain’s olive oil production is anticipated to return to average levels in MY2015/16. The smaller MY2014/15 crop combined with the steady pace of exports through MY2014/15, lead to the depletion of the olive oil stocks. Hence, should the steady pace of exports continues, the anticipated increased domestic supply will not be sufficient for stock recovery.

Disclaimer: This report presents the situation for olive oil in Spain. This report contains the views of the authors and does not reflect the official views of the U.S. Department of Agriculture (USDA). The data are not official USDA data.

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Abbreviations used in this report

EC European Commission
EU European Union
FAS Foreign Agricultural Service
IOC: International Olive Council
GTA Global Trade Atlas
CAP: Common Agricultural Policy
AAO: Spanish Agency for Olive Oil (since January 2014 it has merged with AICA)
AICA: Spanish Agency for Food Information and Control
ANIERAC: Association of Edible Oil Manufacturers, Packers and Refiners
HRI Hotels, Restaurants and Institutions
ESYRCE: Annual Survey on Crop Area and Yields
MAGRAMA: Ministry of Agriculture, Food and Environment
MS: EU Member State(s)
WMO: World Meteorological Organization
MT Metric ton (1,000 kg)
TMT Thousand Metric Tons
MMT Million Metric Tons
MY Marketing year (November/October)

SPS Single Payment Scheme
CAP Common Agricultural Policy
PS&D Production, Supply and Demand
USD U.S. Dollar
Ha Hectares (One hectare = 2,471 acres)
N/A Not Available

HS Codes: Harmonized System codes for commodity classification used to calculate trade data.

150910: Vegetable oils; olive oil and its fractions, virgin, whether or not refined, but not chemically modified.

150990: Vegetable oils; olive oil and its fractions, other than virgin, whether or not refined, but not chemically modified.

Executive Summary

Total area planted to olive trees in Spain continues to increase driven by the growth in olive groves intended for olive oil production. In **MY2014/15** yields plummeted and production went down to 836,000 MT. While it is still too early to forecast total olive oil production, early estimates for **MY2015/16** indicate that production will reach 1.2 million MT. Normally, higher production levels should follow a lower off-year production in the previous Marketing Year. However, dry and high temperatures prevailing during spring, the heat wave of summer and late autumn with little rains did not allowed for a full recovery of yields.

Olive oil consumption in Spain is fairly stable and represents nearly 70 percent of the country's total household oil consumption; however, statistical data available show how domestic consumption has constrained again in MY2014/15 as a response to the consumers' prices hike.

Spain is the world largest exporter of olive oil with exports largely exceeding imports. Despite the poor domestic crop in MY2014/15, Spanish olive oil exports remained strong. Olive oil exporters have managed use up stocks throughout the marketing year, and to some extent, increase imports originated in the usual trading partners in order to continue to be present in export markets, and supply internal demand.

Intra EU trade has declined at a higher rate than exports outside the EU. While import duties are high enough to disincentive out-of-quota imports to the EU, Inward Processing Relief (IPR) may have played a key role.

As a result of the low MY2014/15 harvest, combined with the steady pace of exports through MY2014/15, MY2015/16 begins with historically low stocks level.

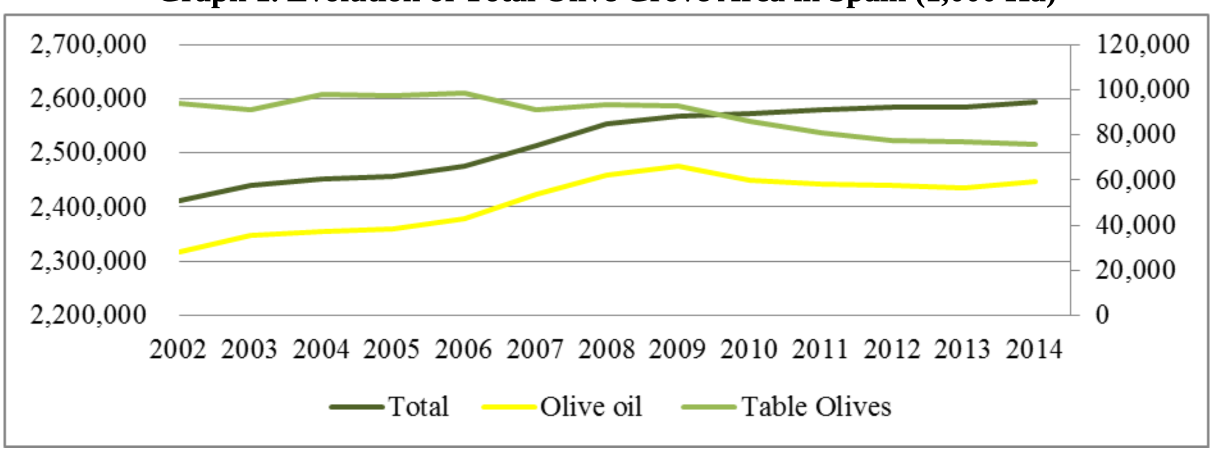
As of 2015, the Single Payment Scheme will be replaced by the Basic Payment as agreed in the recent CAP reform. Permanent crops, such as olive oil groves, will automatically comply with greening and no additional requirements will be needed to be eligible for green payments. No specific coupled payments are foreseen for the olive sector under the new CAP. It is yet to be defined how private storage of olive oil or producer organizations will be incorporated.

At the moment, a Commission Regulation to open an additional annual quota of 35,000 MT of olive oil duty free to the EU until the end of 2017, in addition to the existent 56,700 MT quota, is pending from final approval and publication in the European Union Official Gazette.

Acreage and Production

Olive groves (including table olives and oil production) are a strategic crop as, in many areas, alternatives to this crop are limited. Total area planted to olive trees in Spain continues to increase (**Graph 1**) driven by the growth in olive groves intended for olive oil production. Olive grove area intended to table olive production continues to decline. Over 45% percent of the olive groves intended for table olive production are irrigated, whereas according to ESYRCE, in olive groves solely intended for olive oil production this percentage amounts just to 30 percent.

Graph 1. Evolution of Total Olive Grove Area in Spain (1,000 Ha)



Source: ESYRCE.

Andalusia, Spain's southernmost peninsular olive oil producing region, represents about 80 percent of Spain's total olive oil production (see **Table 1**), followed by Castile-La Mancha with a 6 percent share of domestic production.

Table 1. Olive Oil Production in Spain (1,000 MT)

Marketing Year	2011/12	2012/13	2013/14	2014/15	2015/16e
Andalusia	1,326	471	1,470	667	1,030
Castile-La Mancha	109	40	153	50	67
Extremadura	53	26	60	36	48
Catalonia	28	27	26	37	29
Other	99	47	62	46	76
Total Olive Oil	**1,615**	**611**	**1,771**	**836**	**1,250**

Source: MAGRAMA and FAS estimates.

After hitting record production levels in **MY2011/12**, when olive oil production amounted to over **1.6 million MT**, olive oil production hit bottom in **MY2012/13**, when a severe drought halved yields. Spain's olive oil production hit new record levels in **MY2013/14**, when official statistics peg olive oil production at **1.7 million MT**. In **MY2014/15** yields plummeted again and production went down to **836,000 MT**. This decline is explained by a delayed harvest combined with unfavorable conditions at the end of April and May, which resulted in a poor blooming and fruit setting. Additionally, the fruit fly infestation provoked fruit fall and negatively impacted the olive crop.

While it is still too early to forecast total olive oil production, early estimates for MY2015/16 indicate that production could reach 1.2 million MT.

Normally, higher production levels should follow a lower off-year production in the previous Marketing Year. However, dry and high temperatures in spring impacted the negatively the flowering stage by reducing to some extent the number of flowers. Additionally, the heat wave of summer and late autumn with little rains did not allowed for a full recovery of yields. (See GAIN Report SP1514). Hence, MY2015/16 production levels are seen as just average by most of the industry actors.

According to AICA statistics, harvest of milling olives began in October. Normally harvesting and oil production operations continue through early May. Nevertheless, over 90 percent of olive oil is produced by the end of February. To date, no official data of olive crushing output has been published.

Olive Oil Industry and Value Chain

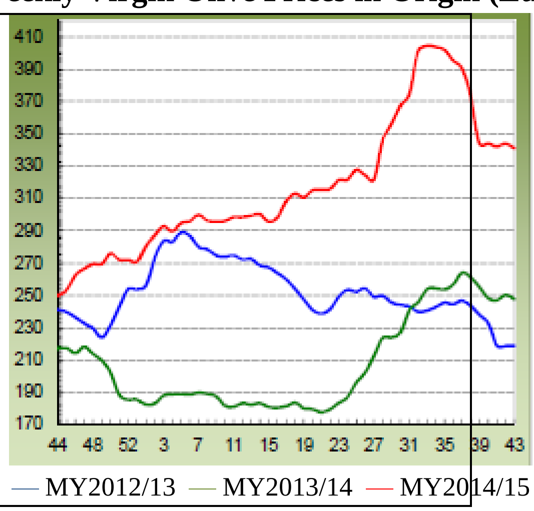
Spain is the world's largest producer of olive oil and represents on average about 40 percent of the world's total production and over 50 percent of the EU's olive oil production.

Spain's olive milling industry is fairly fragmented. According to AICA data, there are over 1,700 olive mills in Spain in distributed among 13 of the 17 autonomous regions that comprise Spain.

A large percentage of olive oil production (nearly 70 percent) is managed by farmers' cooperatives; as a result, prices of olives intended for oil production are virtually nonexistent as farmers who deliver their olive production to a cooperative get paid in oil basis.

The agro-food chain in Spain is dominated by big supermarket chains, which results in inefficiencies in price formation. Producers' prices (**Graph 2**) are not necessarily transmitted to the retail level. For instance, according to industry sources, the nearly 50 percent of increase in olive oil prices in origin (**Graph 2**) is not lineally transmitted to retail prices. Reportedly, consumer prices, with three months of delay, only grew by about 25 percent.

Graph 2. Weekly Virgin Olive Prices in Origin (Euros/100 Kg)



Source: MAGRAMA

Consumption

Olive oil consumption in Spain is fairly stable and represents nearly 70 percent of the country's total household oil consumption. According to the MAGRAMA[1] Consumption Panel and ANIERAC[2] (Spanish Association of Edible Oil Manufacturers, Packers and Refiners) members' sales) consumption of olive oil in MY2012/13 went down (Table 2).

In **MY2013/14** olive oil consumption bounced back most likely due to the ample supplies available. Statistical data available show how domestic consumption has constrained again in **MY2014/15** as a response to the consumers' prices (See **Olive Oil Industry and Value Chain** Section) hike by 12 percent.

Table 2. Spain Household Olive Oil Consumption (million liters)

Marketing Year	MY2010/11	MY2011/12	MY2012/13	MY2013/14	MY2014/15e
MAGRAMA	436	436	415	419	367*
ANIERAC	356	373	342	371	322

Source: MAGRAMA Consumption Panel and ANIERAC
*FAS Madrid estimate based on MAGRAMA data.

Trade

Spain is the world largest exporter of olive oil with exports largely exceeding imports. The large majority of the olive oil exports (70 percent) are directed to other EU MS such as Italy, Portugal, France and the United Kingdom (**Table 3**). Despite the poor domestic crop in MY2014/15, exports Spanish olive oil exports remained strong. Exports to other European Member States have declined in MY2014/15 at a higher rate (-25 percent) than exports outside the EU (-15percent).

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[1] *MAGRAMA Consumption Panel data are based in an exhaustive survey but limited to household consumption.*

[2] *ANIERAC (Spanish Association of Edible Oil Manufacturers, Packers and Refiners) members' sales data cover all oils packed, whose final use can be household (below 5 liters), HRI (below and over 5 liters) and small food industries that buy bottled oil instead of in bulk). In the case of olive oil, the representativeness of ANIERAC amounts to around 65 percent of the total volume traded, whereas in the case of sunflower oil, its representativeness would be nearly 99 percent.*

Table 3. Spain's Exports of Olive Oil by Destination in MT (MT)

Country of Destination	MY2010/11	MY2011/12	MY2012/13	MY2013/14	MY2014/15e
EU-28	**650,087**	**632,232**	**451,437**	**827,681**	**611,100**
Italy	422,021	387,953	203,504	510,987	348,000
Portugal	81,182	91,989	90,017	119,432	92,400
France	71,193	75,434	76,651	92,070	78,400
United Kingdom	35,749	35,486	37,282	47,660	40,100
Extra EU-28	**197,888**	**248,066**	**197,802**	**290,938**	**246,300**
United States	50,307	78,157	43,083	106,334	80,600
Japan	15,029	19,831	19,825	25,759	27,300
China	18,636	26,569	23,909	22,337	25,800
Australia	18,929	22,549	14,793	18,009	12,800
Brazil	14,385	16,771	18,267	13,935	13,200
Others	532,801	468,355	331,560	641,307	451,400
World Total	**847,975**	**880,298**	**649,239**	**1,118,619**	**857,400**

Source: GTA and FAS estimates

The poor domestic crop in MY2014/15 resulted in soaring imports. Olive oil traders have managed use up stocks throughout the marketing year, and to some extent, increase imports (**Table 4**) from the usual trading partners in order to continue to be present in to markets, especially outside the EU, and supply internal demand.

In particular, imports from non-EU countries such as Tunisia registered significant increases in MY2014/15 to contribute to partially make up for the domestic production decline and meet export commitments. While import duties are high enough to disincentive out-of-quota imports to the EU, Inward Processing Relief (IPR) may have played a key role.

Table 4. Spain's Imports of Olive Oil by Origin in MT (1,000 MT)

Country of Origin	MY2010/11	MY2011/12	MY2012/13	MY2013/14	MY2014/15e
EU-28	**29,327**	**49,349**	**71,443**	**47,269**	**56,500**
Portugal	20,184	27,797	31,656	41,656	39,200
France	804	17,404	6,598	1,003	1,300
Italy	3,965	2,894	17,657	3,508	10,600
Extra EU-28	**14,727**	**14,214**	**54,692**	**14,392**	**105,200**
Tunisia	11,118	10,752	30,393	6,894	88,900
Morocco	2,472	113	5,257	801	11,500
Turkey	-	11	13,008	1,574	120
Argentina	-	980	1,881	1,855	600
Egypt	8	962	2,095	-	1,600
Chile	205	790	719	1,010	-
Australia	847	390	390	251	1,200
Syria	-	2	251	1,740	180
Others	-	214	698	267	1,100
World Total	**44,054**	**63,563**	**126,135**	**61,661**	**161,700**

Source: GTA and FAS estimates

Stocks

High beginning stocks in **MY2012/13** were used up throughout the marketing year, which contributed to offset the lower olive oil output obtained. **MY2013/14** began with which at that time industry actors were historically low levels. Those low beginning stocks contributed to countervail the impact in prices of record production registered in **MY2014/15**. As a result of the small production obtained in **MY2014/15** combined with the steady pace of exports through **MY2014/15**, **MY2015/16** begins with historically low stocks level. Data published by AICA indicate that **MY2015/16** beginning stocks are 64 percent below previous season's levels and 47% smaller than the previous ten-year average.

Production, Supply and Demand

Spain's olive oil production is anticipated to recover to average levels in MY2015/16. However, should the steady pace of exports continues, the higher supply will not be sufficient for the depleted stocks recovery. Despite the opening of additional of tariff quota for olive oil originating in Tunisia (See **Policy – Trade Agreements** Section), industry actors do not think that the high imports registered in MY2014/15 would be repeated given the reportedly lower olive oil availability in exporting countries.

The AICA publishes marketing year balance sheets that run October-September and are updated monthly. Latest information available can be checked in **Table 5**.

Table 5. Market Balance (1,000 MT)*

Marketing Year	MY2011/12	MY2012/13	MY2013/14	MY2014/15	MY2015/16e
Beginning Stocks	474	692	301	501	180
Production	1,615	616	1,782	842	1,250
Imports	60	118	58	158	80
Total Supply	**2,149**	**1,426**	**2,141**	**1,501**	**1,510**
Dom. Consumption	581	571	537	494	490
Exports	876	554	1103	826	830
Ending Stocks	692	301	501	181	190
Total Demand	**2,149**	**1,426**	**2,141**	**1,501**	**1,510**

Source: FAS Madrid based on AICA data and FAS Madrid estimates.
*AICA MY year runs Oct/Sep

Policy

Prior to the 2003 CAP reform olive oil producers in Spain received payments based on the amount of olive oil produced. After the 2003 CAP reform (Regulation (EC) 1782/2003) payments linked to production started to be progressively eliminated and replaced by the so-called Single Payment and were thus disconnected from production.

In the 2003 reform, Spain opted for a historical model as opposed to a regional model to allocate Single Payment Rights. The Single Payment Scheme (SPS), which will be applicable up to 2014, pays farmers for the land that they manage or own, regardless the crop they grow to the limit of the Single Payment Entitlements they own. Farmers need to present a hectare of eligible land to claim the payment of each Single Payment entitlement they own.

Since 2006 the calculation of the amount paid to each farmer, is based on the total agricultural subsidies received in the reference period (2000-2003 for olive groves, 2000-2002 for the large majority of crops). This aid is received regardless the actual type of crop grown, as long as the farmer can justify a sufficient amount of eligible cultivated land and provided that Statutory Management Requirements (SMR) or Good Agricultural and Environmental Conditions (GAEC) are met.

In the case of olive oil, only olive groves planted before May 1st, 1998 had access to the single payment scheme (or those planted to replace existing olive groves). That is, new plantations after 1998 are not necessarily subject to public support.

Olive farms smaller than 0.3 ha saw their payments completely decoupled after 2006, whereas larger holdings had 95% of the support decoupled at that time. The remaining aid paid (5%) was retained and allocated depending on the olive grove category. In January 2010, support to olive oil was fully decoupled also for larger farmers, so they would receive directly the full Single Payment support. As support is not linked anymore to the type of crop grown, a farmer could have obtained Single Payment Scheme entitlements in one productive sector (e.g. grains) and switch to other production (e.g. olive oil) and still receive the same amount of money.

In Spain, the value of the Single Payment was linked to amounts received under the previously existing coupled schemes. As a result, the amount received varies tremendously among the different autonomous regions and different farmers depending on the type of their agricultural activity they carried out throughout the reference period considered. The only information available regarding the support received by farmers is Single Payment Scheme Average data (Euros per Hectare).

As of 2015, the Single Payment Scheme will be replaced by the Basic Payment as agreed in the recent CAP reform. Olive oil is one of Spain's most sensitive sectors in regards to the CAP reform as area payments received by olive oil farmers under the Single Payment Scheme were normally above the national average. A flat rate payment would have resulted in an erosion of the support granted to the olive oil sector.

A total of 316 counties in Spain were considered. The Basic Payment calculation for these counties takes into account four different land uses: irrigated land, non-irrigated land permanent crops and pasture land. Other factors such as the amount of support previously received have been considered. As a result, a total of 50 regions have been defined. These regions will be granted with different levels of support, which will only be determined once the 2015 applications are submitted.

Broadly speaking, the amount of the Basic Payment allocated to each region defined will represent the support granted to the type of land use. The amount of support received will be calculated based on the subsidies received in 2014.

Permanent crops, as olive oil groves, will automatically comply with greening and no additional requirements will be needed to be eligible for green payments. No specific coupled payments are foreseen for the olive sector under the new CAP.

Private Storage Aid and Producers Organizations

Under the CAP reform, in order to respond to periods of severe market imbalance, storage by private operators may be appropriate, as exceptional measures, in order to stabilize the olive oil sector. Under the new Single CMO, some changes have been introduced to the PSA scheme. For instance, the so-called "reference threshold levels" can be revised based on production, market conditions and production costs to respond to adverse market situations.

Additionally, in order to strengthen olive oil producers bargaining power with downstream operators which would ultimately contribute to a fairer distribution of added value along the supply chain, under the new single CMO (Regulation (EU) 1308/2013) recognized producers organizations are allowed to negotiate, subject to quantitative limits, the terms of delivery contracts, including prices, for some or all of their members' production, provided that certain conditions are met. However, it is yet to be defined how private storage of olive oil or producer organizations will be articulated.

Trade Agreements

At the moment, a Commission implementing regulation amending Regulation (EC) 1918/2006 is pending from final approval and publication in the European Union Official Gazette. This piece of regulation would open and additional of tariff quota for olive oil originating in Tunisia. In particular, the EC will grant Tunisia with an annual quota of 35,000 MT of olive oil duty free to the EU until the end of 2017, in addition to the 56,700 MT as referred to in the Association Agreement between the two parties.

Related Reports

Report Title	Date Released
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