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Rabo AgFocus

New World versus Old World Olive Oil - Winning in the U.S. Market with Quality

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- **Tightening U.S. olive oil standards are key to this growth if properly enforced and consumers are educated on the merits of high quality olive oil.**
- **The greatest challenge is price competitiveness with Old World European global branded bottlers and private label suppliers flooding the U.S. market with inexpensive, lower quality Spanish product.**
- **U.S. and other New World olive oil producers show promise long term to secure a sustainable premium U.S. market niche, leveraging their high quality and efficiency advantages and following in the footsteps of now globally renowned California wines**.

Introduction

Competition is heating up in the large and growing United States olive oil market, now the world's third-largest in terms of total olive oil consumption. As the battle plays out between New World quality and Old World price, New World olive oil processors and olive growers have a good, yet challenging, immediate opportunity to begin to build a sustainable premium niche segment in the U.S. market.[1] By leveraging their high efficiency advantages and quality differentiation, U.S. producers are likely to achieve a 5 percent aggregate market share over the next five years, up from their current share of roughly 1 percent, provided that sales keep pace with recent and projected U.S. and global production growth. Yet, sales growth will require both a successful tightening of the U.S. regulatory environment via stricter U.S. national olive oil standards now under consideration as well as a major U.S. consumer marketing push focused on olive oil quality and the popular California appellation. Therefore, with the extra virgin olive oil market estimated at over 50 percent of the overall market, U.S. production is expected to command at least 10 percent of the premium market segment, distinguished by higher growth and a more favorable regulatory environment that recognizes U.S. quality advantages.

Emerging high-end New World producers in the U.S., Australia, and Chile are better positioned to compete with leading Old World global branded bottlers and private-label suppliers seeking growth opportunities internationally as U.S. consumers are becoming more aware of a recent University of California at Davis (UC Davis) study showing evidence of the lower quality of many leading European olive oils.[2] However, only the most highly efficient, intensive New World producers can begin to compete with established European Union (EU) and Mediterranean producers on the basis of price over the longer term. U.S. domestic bulk olive oil prices are now nearly double the price of imports from Spain, and Spain is likely to continue to be the price setter for the global olive oil industry in the near to medium term and to determine U.S. and global prices. If U.S. processors can weather the price storm and maintain profitable margins for growers, and if growers can resist pressure to switch to more attractive alternative crops, then strong long-term potential exists for U.S. olives to become a leading New World crop. Driven by the potential of olive oil, this growth will give U.S. and other New World olive oils an opportunity to develop into internationally recognized industries, similar to the success enjoyed by Californian and other New World wines.

Growing U.S. Consumption and Retail Sales Attract Global Competition

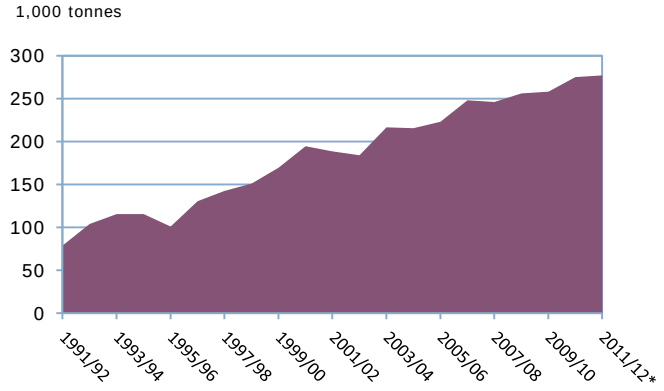
The growing U.S. olive oil market has attracted the attention of established and emerging producers from around the globe. Particularly for the largest European players, demand abroad and in the U.S. is now much stronger than in their own saturated and mature domestic markets. U.S. consumption has grown at a compound annual rate of nearly 6

[1] In the context of this note, Old World refers predominantly to European producers, but also to Mediterranean producers in the Middle East and North Africa (MENA). New World here refers chiefly to the United States, Australia, and Chile, but more broadly includes other emerging producers, such as Argentina.

[2] Frankel, E.N. et al. (April 2011). 'Evaluation of Extra-Virgin Olive Oil Sold in California'. UC Davis Olive Center.

percent over the last two decades, with the most dramatic increase occurring after 2004, when the U.S. Food and Drug Administration approved heart-related health claims on olive oil labeling. The International Olive Oil Council (IOOC) projects U.S. consumption to continue to grow over 7 percent from 258,000 tonnes in 2009/10 to 277,000 tonnes in 2011/12 (9 percent of global olive oil consumption) as U.S. consumers continue to seek healthy cooking oil alternatives (*see Figure 1*).

Figure 1: U.S. Olive Oil Consumption, 1991/92-2011/12



*indicates provisional data

Source: International Olive Oil Council, 2012

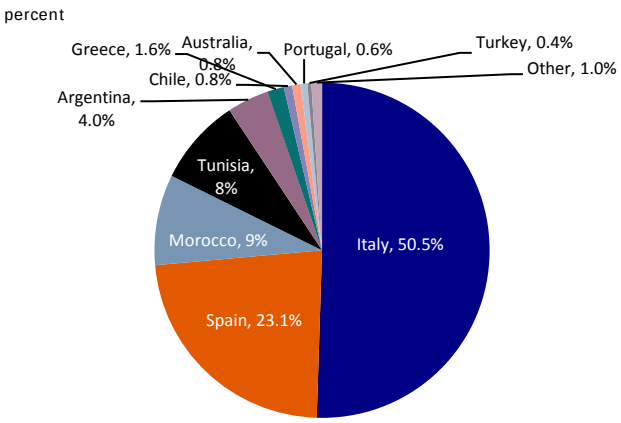
As for retail sales, olive oil led the U.S. retail oils and fats category in 2010. Sales increased more than 2 percent by value over the previous year to USD 1.11 billion, while sales in the overall oils and fats category declined nearly 3 percent, according to the latest figures from Euromonitor International. The weak U.S. economy has been encouraging consumers to eat at home more often. This fact, combined with consumers' perception that olive oil is the healthiest cooking oil, has led to increased consumption of olive oil, despite its higher price. Euromonitor forecasts a 13 percent increase in the value of U.S. retail olive oil sales between 2010 and 2015, growing at a compound rate of 2.5 percent per year.

European Producers and Italian Brands Dominate U.S. Market and Global Exports

For U.S. producers, capturing even a small fraction of the projected U.S. market growth presents an enormous opportunity. Presently, the U.S. olive oil market is almost completely dependent on imports. U.S. olive oil production accounts for only 1 percent of domestic consumption and less than 1 percent of global production. The state of California accounts for nearly all U.S. production.

European producers and Italian brands have historically dominated the U.S. market; with half of the olive oil imported to the U.S. coming from Italy (*see Figure 2*). Over the past five years though, Italy's import share has eroded in favor of lower priced producers, such as Spain, Tunisia, and Morocco. New World producers consider a significant portion of Italy's production to be of good quality and Italian brands enjoy a reputation for high quality among consumers in the U.S. market. But unbeknownst to most U.S. consumers, U.S. imports of olive oil from Italy are often first imported to Italy from other European and Mediterranean sources and repackaged as Italian brands.

Figure 2: U.S. Olive Oil Imports, 2011



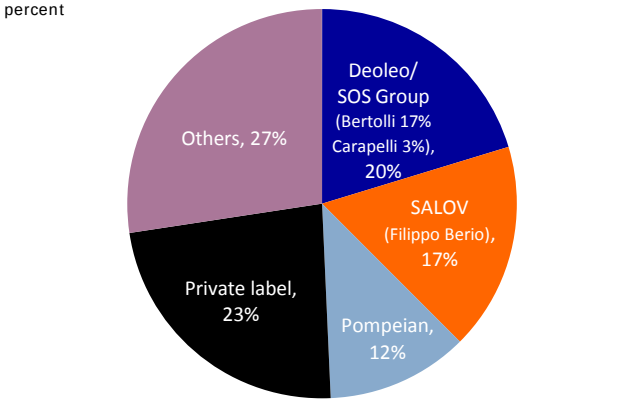
Based on total U.S. olive oil import volumes of 292,800 tonnes.

Source: OIL WORLD – ISTA Mielke-Hamburg (www.oilworld.biz), 2012

Spain is the world's largest olive oil producer, accounting for nearly half of world production in 2009/10, according the IOOC. Together, the three largest European producers (Spain, Italy, and Greece) control 70 percent of world olive oil production and over half of exports. Most growth in global production over the next five years is expected to come from Spain, Mediterranean producers in North Africa (Morocco and Tunisia), the Middle East (Turkey and Syria), and new producers such as the U.S., Australia, and Chile.

The majority of U.S. imports and the global olive oil trade is in the hands of a few large bottlers and private-label suppliers, such as Spain-based Deoleo (formerly SOS Corporacion Alimentaria), Italy-based SALOV (Società per Azioni Lucchese Olii e Vini), U.S.-based Pompeian, Inc., Spain-based Borges Group, Portugal-based Sovena, and Spain-U.S. joint venture Hojiblanca-Cargill. Deoleo markets the Bertolli and Carapelli brands, while SALOV markets the Filippo Berio brand, and Borges markets the STAR brand. The market share of private-label olive oil has grown to nearly a quarter of the U.S. retail market (*see Figure 3*). Currently, the three main competing business segments for olive oil both globally and in the U.S. market are: 1) global branded bottlers (e.g., Bertolli, Filippo Berio, STAR, and Pompeian brands), 2) commodity/private-label suppliers (e.g., Sovena), and 3) high-end niche producers (e.g., niche Italian and New World players).

Figure 3: U.S. Retail Market Shares of Olive Oil Sales by Global Brand Owner and Brand, 2010



Based on total U.S. retail sales values of USD 1.11 billion

Source: Euromonitor International, 2012

Success of New World Producers Depends on Quality Differentiation

As New World producers carve out a defendable market niche by differentiating on the basis of quality, competition in the U.S. market has been intensifying due to the hotly debated results of a recent UC Davis study on the quality of top-selling brands of extra virgin olive oil sold at California supermarkets and large retail stores. The study showed that nearly three-quarters of the samples tested of the top-five imported brands (Bertolli, Filippo Berio, STAR, Pompeian, and Colavita) did not meet international quality standards, while most of

the samples tested of the California and Australian brands did. The majority of brands tested containing olive oil imported from Europe and the Mediterranean were found to be old and rancid, poorly made, or adulterated with cheaper refined oils.

Quality Debate Reveals Contradictory Test Results and Liberal International Standards

A closer look at the results shows that most import samples failed the IOOC-accredited sensory panel portion of the test yet passed many of the chemical test indicators (e.g., free fatty acid (FFA) level, peroxide value (PV), and UV absorption). The sensory test relies on the subjective expertise of qualified olive oil experts. According to the IOOC standard, authentic extra virgin olive oil must have zero defects and fruitiness greater than zero—essentially a light fruity taste and a pleasant fresh aroma. Lower quality olive oil is often heat treated or chemically refined to remove any unpleasant odor or taste. Extra virgin olive oil is the highest quality grade of olive oil, indicating a higher level of heart-health benefits and potential cancer-fighting attributes (e.g., polyphenol antioxidants) than other olive oil grades. Slightly more than half of all olive oil sold at U.S. conventional supermarkets is labeled extra virgin, according to retail scanner data.

The contradiction between imports passing chemical tests and failing sensory tests is explained by the fact that IOOC-approved chemical test standards are considered extremely liberal for extra virgin olive oil. Both the U.S. and Australian olive oil industries believe the IOOC chemical test limits are so high that almost any olive oil can be labeled extra virgin. According to Richard Gawel, a respected Australian research scientist who oversees many Australian olive oil competitions, if the IOOC FFA limit of 0.8 percent oleic acid were reduced to 0.5 percent, much of the Spanish olive oil production would not be considered extra virgin. A lower acidity level indicates higher quality and fewer negative taste effects. In comparison, the more stringent extra virgin certification standards of the California Olive Oil Council (COOC) has an FFA limit of 0.5 percent, the average FFA level of one of the largest intensive U.S. producers is usually below 0.2 percent, and U.S. boutique oils often test as low as 0.1 percent.

Similarly, the IOOC limit of 20 milliequivalents per kilogram for the PV chemical test—a measure of the oxidation state of an oil—is also considered too high. In contrast, U.S. and Australian oils often test at a PV level of around 8 milliequivalents. Overall, European brands often test at right below the IOOC chemical test limits, while U.S. and Australian brands usually test well below these limits in a more credible range, according to U.S. and Australian industry experts. In the UC Davis study, fewer imports passed the UV absorption portion of the chemical test—also a measure of oxidation—because it is a better indicator of how long oil has been sitting and degrading over time. Therefore, quality deterioration due to exposure to light could partly account for the high failure rate of imports. Many of the leading foreign brands are sold in clear bottles to highlight the gold color of the oil, while the U.S. industry uses dark UV-protected bottles, enabling a normal product shelf life of one to two years.

New World Producers Defend Their Quality Niche with Stricter National Standards

In response to the liberal international standard administered by the IOOC and approved by the United Nations (UN), Australia has pioneered a stricter new national olive oil standard. Created in 2011, Australia's standard uses additional test methods that have not been approved by the IOOC. Although lacking a long history of application, the Pyropheophytins (PPP) and 1,2-Diacylglycerol Content (DAGs) tests used in the Australian standard are considered superior by New World scientists in that they are well suited to tracking the age and shelf life of an oil. In addition, the PPP test can detect if oil has been heated or illegally soft deodorized. Deodorization is almost impossible to detect, and the IOOC test has not been effective in doing so. The UC Davis study recommends adding the DAGs and PPP tests to the IOOC standard.

Stricter quality regulations now in the works for domestic U.S. producers could also begin leveling the playing field with imports. According to leading industry players, a new U.S. federal marketing order for olive oil, now under consideration, is intended to clearly define a U.S. olive oil quality standard for U.S. producers. Potentially, as part of the current process or more likely in a future phase, imports could be required to meet the same quality standards as U.S.-produced product as is the case with products such as oranges and tomatoes, which are subject to Section 8e of the Agricultural Marketing Agreement Act of

1937. For now, the U.S. olive oil standard, currently administered by the U.S. Department of Agriculture (USDA), is a voluntary standard which follows the UN-approved IOOC standard. The USDA's new voluntary fee-for-service Quality Monitoring Program measures the standards producers set for themselves.

Similarly, since 2008, Chile has been working on a new law to regulate olive oil grades, labeling, and origin. Although still pending, it is expected to apply to imports as well as domestic production in order to avoid consumer confusion and prevent exports of lower quality foreign oil labeled as Chilean product.

Europe also Worried about Quality of Its Olive Oil

In recent years, Italian producers of extra virgin olive oil have been fighting against product fraud in Europe and worldwide, which they see as ruining the market of smaller high-end players who are competing in the same high-end niche segment as New World olive oils. For example, according to the Olive Oil Times, Italian authorities have not only uncovered cases of inferior product being mislabeled as extra virgin but have also discovered oil imported from other countries being relabeled as Italian. In response, Italy has introduced a law to trace the source of olives used in Italian olive oil as well as monitor the use of geographical indicators on labels certifying this information.

Italy has not been the only country to face this problem. According to The Olive Press, in 2010, a Spanish investigation by the Junta health department found over half of the tested samples of local extra virgin olive oil sold in supermarkets to be of inferior quality. However, regional agricultural officials in Andalusia, which accounts for the majority of Spain's olive oil production, rejected these findings.

Intensive versus Traditional Production in the New and Old World

The definition of intensive production varies by country, ranging from high density (greater than 400 trees per hectare) to highly intensive or super high density (greater than or equal to 800 to 1,200 trees per hectare). Traditional production is usually around 100 trees per hectare. At least 90 percent of U.S. production and an estimated 75 percent of Chile's production is super high density, while more than 95 percent of Australia's production is high density. It is estimated that only a fifth of Spanish production is intensive, with super high density production being a small niche within that, while over three-quarters is traditional production. Intensive plantation systems in both Europe and the New World are irrigated.

As a whole, the global olive oil industry is moving in the direction of more intensive production, but growing New World producers have the advantage of early investment in efficiency and modern mechanization. For example, U.S. super high density production uses a variety of processing techniques to improve oil yields, including deficit irrigation management to lower water content in olives and special mechanized pruning techniques to maximize light exposure and stabilize production of the biennial crop. Super high density plantings are limited to three olive varieties (Arbequina, Arbosana, and Koroneiki) due to the shorter tree height of only around 3.5 meters required for mechanical harvesting. Intensive Australian production of taller traditional trees is also highly efficient and mechanized using the Colossus olive harvesting machine. But while newer intensive producers have higher yields they also have much higher costs due to the additional replanting investment requirement, which occurs every 20 to 25 years in super high density production. In contrast, many traditional European production systems, particularly those in Spain, are already fully depreciated and are permanent crops that will continue to produce olives for more than 100 years.

Comparing olive crop and olive oil yields, the average yields of the most efficient U.S., Australian, and Chilean production systems are competitive with the averages of the main intensive European production systems (*see Figure 4*). However, there are some highly intensive systems in Europe that are more efficient than those in the New World. Most New World production is intensive compared to only a small portion of European production.

Figure 4: Comparison of Olive Crop and Olive Oil Production Yields and Prices

	Production type	Average olive crop yield (tonne/hectare)	Average olive oil yield (tonne/hectare)	Average bulk price (USD/tonne)
Europe*	Intensive	9.0	1.4-1.8	
	Highly intensive	11.0	2.2	
	Traditional, intensive, and highly intensive			2,243
U.S.**	Highly intensive	13.3	1.5	4,471
Australia**	Intensive	11.8	1.9	
Chile**	Intensive and highly intensive	10.8	1.5	

*Olive crop and olive oil yields based on Spain, Italy and Greece in 2010/11; bulk price based on Spain in July 2012
**Based on 2011-2012

Source: International Olive Oil Council, OIL WORLD, industry sources, Rabobank, 2012

U.S. Olive Oil Production Expanding to Serve Growing U.S. Demand

Increasing U.S. olive oil production efficiencies continue to boost production levels. In recent years, California's production of extra virgin olive oil has been expanding at a pace of roughly 20 percent or more per year, according to the COOC. Production reached 4.6 million liters in the winter of 2010/11 and then slowed to 5.3 million liters in 2011/12, when the crop was affected by a late freeze. The COOC expects production will reach 7.6 million liters in 2012/13. At the same time, the COOC estimates 2,024 new hectares (5,000 acres) of olives for extra virgin olive oil will be planted annually in California through 2020, up from approximately 12,146 hectares (30,000 acres) in 2011.

Exchange Rate Shift Turns Australia's Past Export Focus Toward Domestic Market Growth

Historically, Australia's industry has exported a substantial portion of its olive oil production. For example, over the past five years—when overseas markets paid better prices than domestic ones—Australia exported 25 percent to 50 percent of its total production. However, Australian producers have returned to a domestic market focus as the Australian dollar has strengthened vis-à-vis the U.S. dollar. Recently, there has been significant growth in Australian consumption of domestically produced olive oil as domestic product has been taking share from European producers, resulting in a major slowdown in imports.

Most leading Australian extra virgin olive oil brands now sell at very competitive retail prices in Australia compared to imports. While slightly higher priced, they are known for delivering significantly higher quality. Given the exchange rate shift, Australian exports to the U.S. are now mostly in bulk for private-label distribution as glass bottles are expensive to ship. The Australian industry's domestic market success provides a good model for the U.S. industry, which is about five to six years behind Australia's development curve.

Although Australia's most efficient producers are very competitive on the world market, the Australian olive oil industry does not expect any significant new plantings in the near term at current prices. With a poor crop in 2012, yields are expected to recover in 2013, and crop levels are expected to peak toward 2015. Longer term, if prices increase enough for profit margins to attract new investment, plantings could increase by 10,000 to 20,000 hectares by 2020. Consequently, Australia's olive oil production, estimated at 19,000 tonnes in 2011/12 by the IOOC, is expected to continue to rise and then plateau in the coming years.

Chile Continues to Be Highly Focused on Export Growth

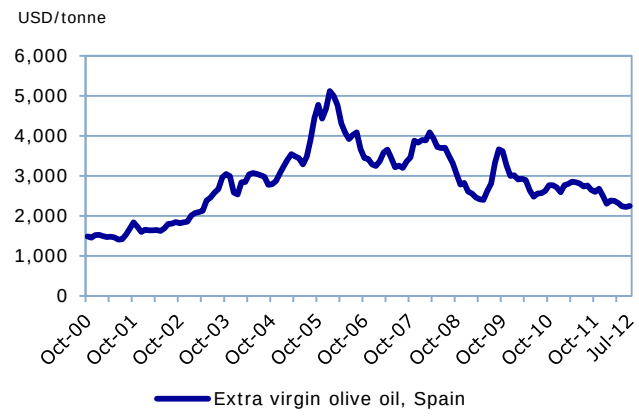
Chile's olive oil industry began to emerge only seven to eight years ago. With its large state-of-the-art, vertically integrated plantations it has gained a reputation for high quality olive oil. Chile now exports more olive oil than Australia, with growth in exports to large markets like neighboring Brazil, the U.S., and expanding Asian markets. However, exports to the U.S. are mostly in bulk form.

As with many other products, Chile's export focus for olive oil has been driven by the small size of its domestic market. While the domestic market for olive oil is still larger than the overall export market, it is unlikely to continue to be able to absorb projected production growth. ChileOliva projects Chile's planted surface for olives for olive oil to grow from 24,000 hectares in 2010 to 29,000 hectares in 2015, and to 33,000 hectares by 2020. Based on this forecast, Chile's overall olive oil production is expected to grow significantly by 2020 from its 2010 level of 12,000 tonnes.

EU Price Competitiveness Poses Greatest Challenge to New World Growth

For New World producers, severe price competition from European suppliers in recent years has continued to intensify. Global olive oil prices have fallen to a nine-year low due in large part to record production in Spain (*see Figure 5*). OIL WORLD forecasts record olive oil production in Spain in 2011/12, after near-record carry-over stocks from the 2009/10 season and very high yields in 2010/11. While Spain has reached its maximum planted area, higher production is still possible since the last trees planted four years ago were the higher yielding intensive production variety. Spain's growers have been suffering from the huge supply that has impacted prices as well as from liquidity issues due to the Spanish banking crisis in which money is not being readily lent to farmers for the harvesting season. This has forced some of the larger growers to sell olives and olive oil at very low prices, and many Spanish producers claim prices have fallen below costs.

Figure 5: Spanish Producer Prices of Extra Virgin Olive Oil, Oct 2000-July 2012



Source: OIL WORLD, 2012

U.S. Bulk Prices Now Nearly Double Price of Imports from Spain

At a bulk price difference of USD 2,228/tonne, prices for domestically produced U.S. extra virgin olive oil are now nearly double the price of Spanish extra virgin olive oil, excluding ocean freight and import duties. This is based on the latest average bulk price of the majority of highly intensive U.S. production and Spain's average bulk price representing the world reference price. This price differential has widened over the last year as Spanish prices have continued to fall. As for retail prices, the top-selling U.S. brand has sold at a USD 2 or greater premium over most of the leading imported brands since 2011, according to retail scanner data and industry observations.

Spain's Production Inefficiencies and Lack of Alternatives to Olive Farming Affect both Quality and Price

Spain's oversupply situation is further exacerbated by the fact that Spanish olive growers have few alternatives to olive farming given Spain's high unemployment rate. They also have limited risk in the near term since both traditional and intensive production investments made approximately 15 to 20 years ago by the fathers of many of the current farmers have already been paid off. In addition, because olive trees can withstand conditions of water scarcity, they are a good fit with Spain's dry climate and help prevent soil erosion.

The biggest problems for Spanish producers are the lack of financial power to purchase the labor force and equipment necessary to harvest olives from the trees before the fruit overripens and the challenge to process over 1 million tonnes of olive oil in only 60 days. Olives are best picked early in the season to retain the highest polyphenol levels, but Spain's fragmented traditional producers are not always able to mechanically harvest their traditional orchards to remove the olive fruit when it is still green. Therefore, most olives are harvested after overripening on the trees. As a result, Spain is still harvesting in December while the U.S. industry has already finished by the end of November. Through April, Spanish growers either use tree shakers to harvest black olives still on the trees or let the fruit fall to the ground and sweep it up mechanically along with dirt and debris.

The inadequate capacity of mills in Spain also causes quality problems for Spanish producers. Limited processing capacity means olives sit in trucks or in piles on the ground for long periods of time and begin fermenting and going rancid faster. To ensure high quality olive oil, olives need to be pressed within a maximum 24 to 48 hours. Major U.S. producers usually process olives within an hour of delivery.

Potential Cuts in EU Olive Oil Subsidies Could Increase New World Price Competitiveness

EU subsidies, which can vary widely across countries and areas within countries, may account for as much as USD 614/tonnes to USD 2,457/tonnes of European bulk prices, according to estimates by Rabobank and U.S. and Italian industry sources and based on an exchange rate of EUR 0.814 per U.S. dollar. The higher end of the estimate range reflects marginal producing areas with extremely low yields, and the overall estimate excludes additional support provided at local and regional government levels. Any reduction in these subsidies could increase the price competitiveness of New World producers.

Against the backdrop of Europe's involvement in the global financial crisis, a major restructuring of all subsidies under the EU Common Agricultural Policy (CAP) is being considered as from 2014, as is done every five years. If olive oil subsidies are reduced, traditional olive farming in Spain and other parts of Europe may no longer be financially profitable, particularly for smaller growers. However, this is not expected to result in abandonment in Spain since olives are mainly permanent crops, most investments are already paid off, and Spain's high unemployment rate leaves few alternatives. In Italy though, some abandonment is expected to occur in the country's marginal production areas, which include many hobby farmers.

Since 2002, subsidies for olive plantings in Spain and the rest of the EU have been decoupled from production levels. While new plantings are primarily modern plantation systems, a flat subsidy amount continues to be shared across both intensive and traditional producers. The EU also subsidizes the storage of olive oil, which creates an artificially induced supply shortage since the market knows there is oil being stored that will eventually be released at lower prices. Many New World industry leaders believe that the majority of the olive oil market in the EU exists because of subsidies and that it would likely be much smaller in the absence of such subsidies. Although the specific degree of CAP reform being proposed and the dates for implementation are still uncertain, more details are expected at the beginning of 2013.

Outlook

Over the next three years, the U.S. olive oil market is expected to continue to grow in terms of consumption and retail demand. However, who will benefit the most from this growth remains to be seen, as does the share New World producers will capture relative to competing global branded bottlers, private label/commodity players, and high-end niche Italian players. Low-cost Spanish and Mediterranean suppliers are in the best price position and Spain will continue to be the price setter. Yet, New World producers are also poised to carve out a stable niche based on quality differentiation and consumer education. Rabobank expects U.S. producers to capture a 5 percent share of the growing U.S. olive oil market over the next five years and to command at least 10 percent of the premium extra virgin market segment (estimated to account for over half of the overall market). This expectation is based on U.S. and global production growth meeting a stricter U.S. olive oil standard and U.S. producers investing much more in consumer education on olive oil quality as well as the promotion of California's strong brand cachet.

Consumer education regarding quality will be key to overcoming price competition. For example, aging baby boomers with relatively higher disposable incomes are likely to pay more for quality-distinguishing taste and health-boosting properties if they are properly educated on the subject. In the end, success will require much greater time and marketing investments in both brand differentiation and consumer education at both the firm and industry levels.

Key Risks and Opportunities

As emerging U.S. and New World olive oil producers continue on their current growth trajectory, the potential to build their industries to a sustainable point depends on a number of success and risk factors. In the U.S. market, some are in control of producers, some in

control of their industries, some in control of the U.S. government and some in control of consumers. The fundamental question is will the growing segment of U.S. consumers already paying more for premium olive oil be willing to pay even more for the proven higher quality of New World olive oils.

Box 1: Summary of Success and Risk Factors for New World Producers Competing in the U.S. Olive Oil Market

Success factors include:

- Ability to promote high-quality product differentiated by fresh taste, aroma, and health attributes
- Potential for greater investments in retail and foodservice sales and marketing
- Growing New World production supporting better orchestrated domestic industries able to promote olive oil quality education for consumers and the trade
- Reduced competition from illegitimate or lower quality extra virgin olive oil as a result of a possible new U.S. marketing order defining stricter standards for U.S. producers
- Increasing price competitiveness based on increasing yields and economies of scale of high efficiency production, and possible reduction in European olive oil subsidies
- Growing consumer interest in local and regional appellations, such as California

Risk factors include:

- Global price competition—due to Spain's market dominance and growing low-cost Mediterranean production—squeezing processors' margins and leaving olive growers vulnerable to pressure from competing alternative crops
- Further price pressure from increasing U.S. consumer demand for private-label products and a possible strengthening of the U.S. dollar
- Crowded U.S. retail market space of national, boutique, and private-label brands
- Lack of U.S. consumer awareness of New World extra virgin olive oil quality differences
- Price sensitivity to the higher cost of legitimate, higher quality products
- Unsuccessful passage of a new U.S. olive oil marketing order and stricter U.S. standards
- Government's inability to enforce existing or new marketing laws

Conclusion

Consumers need to be able to understand the quality level of extra virgin olive oil for sale in the U.S. market and need to know they can trust labels. Therefore, consumer education will need to be accompanied by stricter marketing and labeling laws and greater government enforcement of those laws. A U.S. federal marketing order is a good first step for U.S. producers, following up on Australia's new national standards and similar pending initiatives in Chile.

There also may need to be a split in the premium extra virgin olive oil market for consumers to be able to discern quality standard differences. In the absence of the IOOC's acceptance of a stricter international standard, the liberal "extra virgin" label may not be appropriate for the U.S. market, since this label dilutes the high quality reputation of U.S. and other New World producers. U.S. and other New World producers could consider developing alternative grades, or perhaps even a "non-premium extra virgin" versus "premium extra virgin" branding campaign.

U.S. producers in particular can also take advantage of increasing U.S. consumer demand for locally sourced products by differentiating geographically with local appellations. For example, California's strong brand cachet offers a unique opportunity to develop a home-grown following and to increase marketing to consumers on the East Coast who are more familiar with imported European olive oil brands. Some European producers have recognized this opportunity as well and have begun partnering with California olive growers in order to carry a "grown in California" label. In 2011, STAR Fine Foods of the Borges Group began test marketing its first California-grown extra virgin olive oil on the West Coast, with labels featuring scenes from California, such as the Golden Gate Bridge and the Sierra mountains.

Finally, New World olive oil producers may consider modeling their long-term growth after the success of New World wine industries. For example, it was not so long ago that California's wine industry was considered an inferior niche compared to European wines, but that all changed when California wines won a blind taste test in Paris in 1976. The California wine precedent offers New World olive oil producers the prospect of global consumer market cachet in a growing quality niche with strong domestic U.S. consumption and international demand.