

# AGRICULTURAL PRODUCE

## GREEK FOOD

### OLIVE OIL

by Dimitris Miliakos

*Chairman of ATEbank (Agricultural Bank of Greece)*



#### **Agricultural produce and the food industry in Greece**

Rural areas in Southern Europe generally, and in Greece in particular, have undergone rapid economic growth and structural transformation over the last three decades. As a result, agriculture's contribution to the GDP and its role in the country's employment have been diminishing, while internal migration to urban centers has increased considerably.

Presently, the Greek agricultural sector employs 528,000 farmers, 11-12% of the total labor force, while a large number of the country's immigrants are also employed in farming. The latter now produces only 6-7% of the national GDP. Given the new Common Agricultural Policy (CAP) agreement in 2004, the main challenges that Greek agriculture will face in the near future are the need to increase the market orientation of production and the improvement of its relatively poor infrastructure in order to enhance its diminishing competitiveness in the international markets.

The present Government has already taken certain measures to alleviate the CAP's negative decoupling effects in the sector. These measures include new centers to inform and provide technical support for farmers, interest-free or low-interest loans for setting up new farms, a new service for the inspection of imported farm produce, incentives for mergers by farming cooperatives, advisory groups for individual farm products, a reduction of insurance contributions of livestock breeders and an emphasis on contract farming. If new farmers, in particular, take advantage of the above measures the agricultural sector will still continue to play a vital role in the development of rural areas.

The importance of the agricultural sector, especially in Greece, lies in the fact that it is the main supplier of necessary provisions to the food and drinks industry. The latter in the enlarged EU is one of the largest manufacturing sectors, it transforms over 70% of its agricultural production and employs more than 4 million people.

In view of the new CAP and the EU negotiations with the World Trade Organization, the European Commission has consistently underlined the need for the industry in question to become more competitive by allocating more funds to R&D, thus paving the way for the introduction of new products and processing techniques and, above all, for the maintenance of high quality and optimum consumer safety standards. As compared to the other industrial sectors, R&D spending by the food industry has been rather disappointing so far. Nevertheless,

one has to note the positive response of the European food-processing industry to meet the present and future challenges by trying to improve its overall technology level and cost efficiency. Additionally, it has been trying to provide environmentally friendly and innovative food products to consumers.

In Greece the industry of food and drinks covers about a quarter of industrial production and consists of more than 800 enterprises. It also offers employment to 50,000 individuals and a considerable accruing income. The Greek food and drinks industry is a vital component of the economy, representing around 27% of the national industrial output, more than 20% of industrial employment and around 3,5% of total employment. It is a dynamic, competitive and export-oriented sector and has a significant effect on the economic growth of the country. However, Greek firms, just like all firms, irrespective of size, in the corresponding European sector, face an increasing number of challenges with respect to competition in the international markets.

Although Greece has a clear competitive advantage in the production and marketing of food products (mainly fruit and certain vegetables) the food industry has been rather slow in adjusting to the EU's competitive standards. Relatively high prices, low quality, lack of highly demanded products and low levels of standardized marketed quantities resulted in decreasing shares in the major international markets. Only recently has the industry started addressing problems such as storage and packaging, advertising and promo-



*Greek feta*

tion campaigns, brand names and contracts with large retail chains.

Presently the value of annual Greek exports of food and drinks is about 2 billion euros, with the major destinations being Italy (22.2%), Germany (17.6%), the United Kingdom (8%), the United States (5.4%) and Spain (4.6%). Since olive oil is the leading export product, with a share of 11.6% in overall food and drinks exports, it is worth examining in more detail the sector and the particulars of the olive oil market.

### **THE OLIVE OIL SECTOR IN GREECE**

Olive oil, olive kernel oil and table olives constitute Greek traditional agricultural products. Given the fact that Greece is third worldwide, with a 16% share of the international market, in the production of olive oil and second at the European level in the production of table olives, it is self-evident that these products hold an important position in the

national food industry since nearly 450,000 families depend on olive oil production as a primary or secondary source of income.

World olive oil production is approximately 2.2 million tons and most of it, around 77%, is produced in the EU. Spain, Italy and Greece are the key producers in the region and, to a lesser extent, Portugal and France. EU countries have the highest level of consumption – 1.6 million tons annually – whereas global consumption amounts to 2.23 million tons.

A major characteristic of olive oil production is its cyclicity. According to a recent sector study by ICAP (2005), a large business information and consulting firm in Greece, domestic production in 2003-2004 showed a decline of 23.3% as compared to the previous crop season, while in 2004-2005 the annual rate of increase was estimated to be 8.7%. On the other hand, domestic consumption was

stable over the two-year period 2003-2004, then, in the next crop season (2004-2005), it started to pick up by 3% and it is not expected to change considerably in the near future. In the three-year period 2003-2005 the share of sales of standardized olive oil in the domestic market was more or less 27%, but larger market shares (38% and 35%) were associated with non-standardized/packaged olive oil and own consumption respectively.

Domestic production is scattered all over the country, although the regions of the Peloponnese and Crete account for over 65% of total production. Since supply is far greater than domestic demand, large quantities of olive oil are exported abroad. The quantity of exports fluctuates every year, its variation being dependent on the volume produced annually and on foreign demand. In 2005 Greece exported 96,000 tons of olive oil to the EU, valued at 307.7 million euros, while in the previous year the corresponding exports amounted to 37,000 tons valued at 95.5 million euros. Over 80% of the exported product was extra-virgin olive oil, which is the top-ranked classification category in the world and its superior quality is highly appreciated by the international trade. In 2005 83,351 tons of this particular category of olive oil were exported, mainly (90.7%) to the EU, with Italy leading at 67,160 tons.

As suggested by the ICAP study, the basic reason for the sector's low competitiveness is the fact that the bulk of its domestic production (nearly 90%) is exported raw mainly to Italy. Although labeled Greek olive oil has been

slowly gaining a larger market share internationally, its trade in bulk form has considerably inhibited the growth of the sector. Although an EU regulation<sup>1</sup> prohibits the trading of the product in unbranded packs greater than 5 liters, it is a well-known fact that a substantial quantity of exported Greek olive oil is mixed with lower-quality olive oil by companies abroad and subsequently is circulated and sold under foreign brand names in major importing markets.

The domestic market for standardized olive oil is quite concentrated, controlled by a few large firms. On the other hand, there is a good number of unions of agricultural cooperatives that collect the produce of the area and provide storage, processing and marketing services for either the standardized or the raw product. In this respect these partnerships can be encouraged, through technical assistance and proper motivation, to supply standardized olive oil to the international markets at competitive prices. Therefore, what is considered to be of vital importance for the sustainable growth of the sector in question is the standardization of the product, the introduction of Greek brand names and a well-organized promotion campaign abroad.

### THE SECTOR'S PROSPECTS AND OUTLOOK

At this stage it is rather difficult to make any precise forecasts since the growth of the sector in question depends on a number of domestic and external factors. In the domestic market, per capita consumption is the highest in the EU and an av-

average annual rate of increase of demand in the range of 2-3% appears to be a plausible assumption. Although increased brand competition is evident in the domestic market the main problem is still the large sales of raw olive oil. Due to its considerably lower price consumers prefer it over standardized products, despite criticism that in some cases raw produce does not meet quality standards. In the future, however, it is anticipated that the share of standardized olive oil will increase rapidly.

Further research is also needed so that the exported branded standardized produce should be made to meet high-quality standards related to the flavor, color and consistency of the oil. Only then can the corresponding Greek brand names become well known and popular in the international markets. A characteristic example is Messinian olive oil, long renowned for its quality.

Additionally, there are two external factors which, to a certain degree, will have major

implications on the sector's growth and development:

- The EU claims that a current obstacle to an upward trend in the olive oil market is the environmental impact associated with its production and processing due to the large amount of water required and the problem of the disposal or recycling



of residues. However, certain Greek firms have already taken steps to minimize the recycling problem by adopting novel production processes. In this context it is worth mentioning the EU efforts to “modernize and increase the competitiveness” of small and medium-size firms working in the sector. Its latest initiative is TDC-OLIVE, included in the Sixth Framework Program, with “the key target to spread out the latest and environmentally friendly production methods through the creation of a physical and virtual network”.

- In recent years a good many studies have focused on the so-called Mediterranean diet, a basic constituent of which is olive oil, in order to assess its ability to combat heart disease. Two international conferences on the traditional Mediterranean diet have already taken place in Athens and the third one will be held on April 25-26, 2007. World demand for olive oil will certainly be affected by the health findings of this research.



### THE ATEBANK INITIATIVE

ATEbank is now the only Greek bank in which the Greek state is a majority shareholder. Given its public character and its legacy as the bank of the wider agricultural sector, ATEbank’s mandate has a unique additional dimension: to support the sector’s development by providing farmers and their cooperative organizations and companies with tailor-

made financial products and services and, in a more general framework, to be the first choice for the banking public in the countryside.

Thus, ATEbank continues to play its traditional role by providing new financial products, financial advice and credit at very attractive rates to farmers. The Bank’s credit policy gives special attention to investment plans in the food industry and in the agricultural products distribution networks and standardization processes.

The Bank, consistent with its traditional role, has taken the initiative to introduce, register and safeguard the protection of five brand names for extra-virgin olive oil of controlled origin and high-quality standards, produced in several parts of the country. Additionally, the Bank has undertaken the responsibility to offer samples of the above product to its customers. Since organic olive oil and olive oil of controlled origin are becoming a trend in both the domestic<sup>2</sup> and the international markets, it is hoped that the above initiative will pave the way for boosting the marketing of the product and thus enhance the potential for an increase in exports.

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<sup>1</sup> The regulation was issued in November 2003 in order to discourage bulk trading of the product.

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<sup>2</sup> With an annual rate of growth of more than 30%.

### USEFUL LINKS

Ministry of Rural Development and Food  
[www.minagric.gr](http://www.minagric.gr)

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KERASMA – Greek Mediterranean  
Gastronomy  
[www.kerasma.gr](http://www.kerasma.gr)