

# Olive Oil Snapshot: South Africa



November 2016



## Olives Overview

### Olive oil processing process:



- Olives are cultivated for two purposes, namely olive oil and table olives. The differentiating factor being the chosen cultivar. It is estimated that 90% of all harvested olives are turned into olive oil, while about only 10% is used as table olives.
- Olive oil is a fat obtained from the olive. Oil is produced by pressing whole olives and apart from its use in cooking, olive oil is also commonly used in cosmetics, pharmaceuticals, soaps and as a fuel for traditional oil lamps.

### Table olives

- Table olives are classified by the International Olive Council (IOC) into 3 groups according to the degree of ripeness before harvesting, namely green olives, semi-ripe olives and black olives.
- Raw or fresh olives are very unpalatable and must be cured or fermented in order to be fit for consumption.

### Olive oil classification

- **Extra virgin olive oil** must be produced by mechanical extraction methods, come only from the first cold-pressing, have an oleic acidity level of less than one percent and has a superior taste.
- **Virgin olive oil** also comes from the first pressing, and is produced without refining. Industry practice in producing countries is to maintain under 2% acidity. It's flavour intensity can vary and it's taste is less mild than extra virgin olive oil.
- **Refined olive oil** is obtained from virgin olive oils by refining methods that do not lead to alterations in the initial glycerdic structure. It has a free acidity of not more than 3% and is labelled as Pure olive oil or Olive oil.
- **Olive pomace oil** is the lowest grade of olive based oil. Pomace is that part of the olive that remains after all the oil and water in it has been removed by pressuring or centrifuging processes. To make pomace oil acceptable to consumers, the producer blends it with virgin olive oil.

### History and overview

- The origins of olive cultivation dates back 6,000 years to the Mediterranean
- There is an increasing interest in the olive tree and its products in many areas of the world
- The tolerance of the tree to drought, and its capacity to grow in shallow, poor quality soils make the species among the most interesting for cultivation in arid and semi-arid areas.

# Olive Oil Snapshot

## Olive Production

Olive production in the Mediterranean region



### Global olive production

- Today the ten largest olive producing countries are located in the Mediterranean region and produce 95% of the world's olives.
- Spain and Italy contribute 56% of global production, but interestingly only cultivate 30% of total olive hectares. This can be attributed to exceptional yields of 29 tonnes per hectare under irrigation, almost double the average of non-Mediterranean countries.

### African olive production

- Africa is responsible for 29% of total olive hectares planted worldwide.
- The majority of orchards in Africa are rain fed, due to the high capital investment necessary for installing irrigation systems.
- Tunisia is currently the leading producer in Africa, with 1.8 million ha under cultivation, nearly 13% of the total world's productive hectares.
- Tunisia's extensive production model is reliant on rainwater for irrigation, thus resulting in a low average yield of 4 tonnes per hectare.

African Olive production 2012/13

Country	Irrigated (ha)	Rain fed (ha)	Total (ha)
Algeria	120,000	280,000	400,000
Angola		450	450
Egypt	59,400	59,600	119,000
Libya	12,000	193,000	205,000
Morocco	341,140	580,000	922,000
Tunisia	73,800	1,765,800	1,839,600
South Africa	2,100	3,900	6,000
<b>Total Africa</b>	<b>608,440</b>	<b>2,882,750</b>	<b>3,492,050</b>
<b>Total World</b>	<b>24,473,270</b>	<b>8,638,765</b>	<b>11,132,035</b>

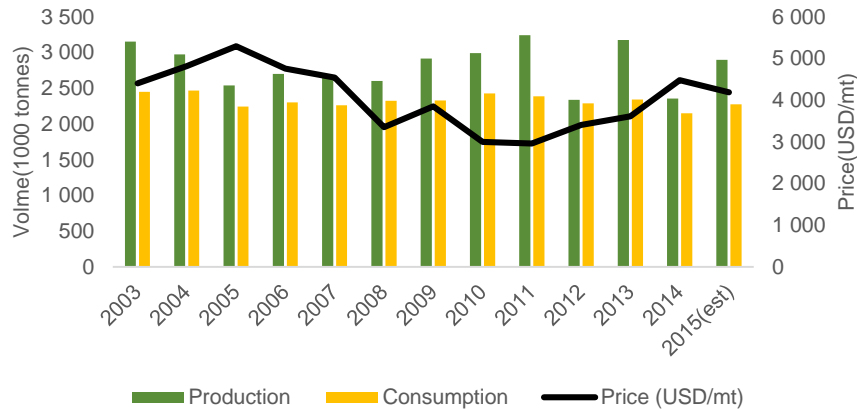
### South African production

- The olive is traditionally grown in areas having a Mediterranean type of climate to which it is ideally adapted. For this reason, most major South African producers are located in the Western Cape.
- By 2014 South Africa had approximately 6,000 hectares of olive trees, of which an estimated 5,000 hectares are for oil production with 80-90% of the trees being of Italian cultivars.
- There was a small increase to an estimated 1,000 hectares of table olives.
- The olive oil producers in this relatively new industry have the advantage of being able to implement the use of the most advanced equipment, which ensures better quality olive oil.
- Based on the rate at which new trees are being planted, olive farming is growing by at least 20% p.a., doubling in size every four to five years, which makes it arguably one of the fastest growing sub-sectors in agriculture.
- Local olive oil production has increased by 140% from 2004 production levels.
- Local production is solely extra virgin at present.

# Olive Oil Snapshot

## The Olive Oil Market

Global olive oil production and consumption



South African olive oil trade performance



### Global olive market

- World consumption of olive oil increased 1.8 fold in volume between 1990/00 and 2015/16.
- The International Olive Oil Council reports that the bulk of olive oil is consumed by the largest producers.
- Olive oil is also heavily consumed in countries such as the USA, Canada, Russia and Brazil.
- Poor production volumes in 2014 from the EU, due to fruit fly infestations, caused lower than anticipated production volumes.
- Increased prices due to the lack of supply caused a drop in consumption during the 2014 season.
- Estimates for 2015 and onwards look normal, with consumption reaching familiar volumes.

### South African olive oil market

- The total South African consumption of olive oil is +-3.5 million litres (only 0,08l *per capita*), of which local production is currently supplying less than 20%.
- Extra virgin olive oil (EVOO) constitutes more than 50% of imports.

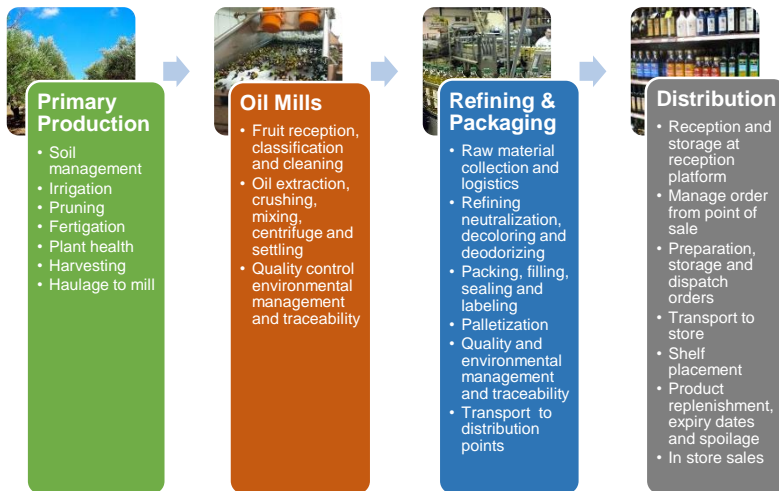
### South African olive oil market (cont.)

- About 68% of South Africa's olive oil consumption comes from European products. The *per capita* use of olive oil in South Africa is however very low when compared to the per capita consumption of 12 – 36 liters of olive oil in Europe.
- South Africa is a net importer of olive oil products, with a negative trade balance of R122 million in 2013 (as illustrated above).
- The country's olive oil imports increased from R21 million in 1996 to over R159 million in 2013. This is equivalent to an annual average growth rate of 14 % for the past 17 years.
- Market outlook:
  - The positive growth in imports accompanied with the major trade deficit provides market potential for local olive producers to exploit.
  - Expanding middle class and low per capita consumption (0,08l v 12 – 36 l for Europe) indicates possible future demand.

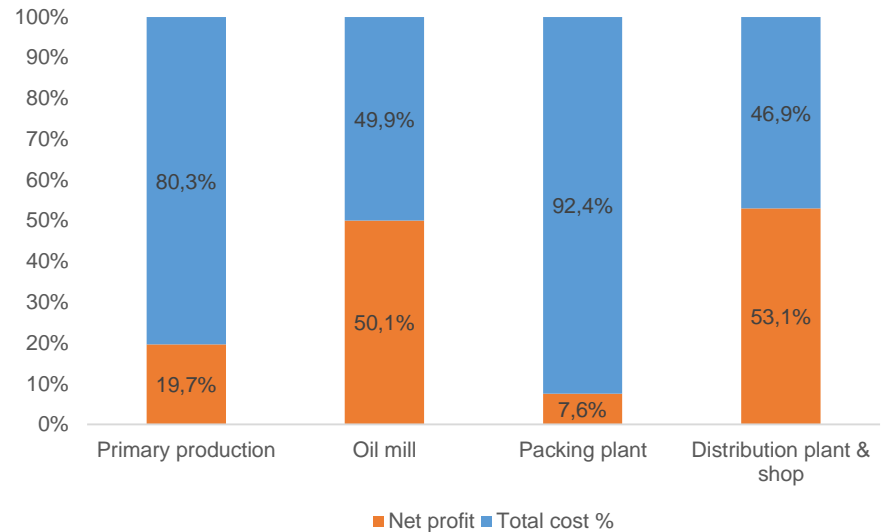
# Olive Oil Snapshot

## Value Chain Analysis

Typical Olive Oil Value Chain



Total cost and net profit for the olive industry



### Value chain analysis

- In determining whether one should get involved in the whole chain, or only in selected segments, a profitability analyses of each link of the chain is required.
- Profitability in the oil mill and distribution (retail) is the highest. The fortunate aspect of this chain is that milling is the next step to production.
- Packaging is the lowest and also requires storage, logistics and admin costs.
- When contemplating value addition for the olive enterprise, it is advisable that an oil mill be established as soon as the trees are in full production.
- Economy of scale will be required and according to calculations, between 500 and 1,000 tons (at maturity of the grove) of olives needs to be processed on an annual basis
- The cost of an olive oil press (cold pressing) at maximum production capacity of 200kg/hr is approximately R580,000 and 500kg/hr of R1.5m.
- Facilities for pressing and bottling must comply with HACCP standards for hygiene and food safety.



*“Afrilogic” is the brand under which a team of dedicated and highly skilled professionals collaborate to provide consulting, financial advisory and risk management services to selected clients. .*



**THE LOGICAL  
CHOICE  
FOR AFRICA**

