

EDIBLE OILS IN SPAIN - ANALYSIS

Country Report | Nov 2022

KEY DATA FINDINGS

- Retail value sales grow by 23% in current terms in 2022 to EUR2.4 billion
- Sunflower oil is the best performing category in 2022, with retail value sales increasing by 28% in current terms to EUR280 million
- Mercadona SA is the leading player in 2022, with a retail value share of 21%
- Retail sales are set to grow at a current value CAGR of 3% (2022 constant value CAGR of 0.3%) over the forecast period to EUR2.8 billion

2022 DEVELOPMENTS

Surge in unit pricing sees significant reduction in demand for sunflower oil

Retail volume sales of edible oils saw a steep decline in 2022, while retail constant value sales exhibited double-digit growth. A sharp rise in the price of sunflower oil provoked by supply-chain disruption arising from the war in Ukraine and subsequent economic sanctions imposed on Russia by the EU was the main driver of this. Prior to the outbreak of the conflict, most of the sunflower oil imported into Spain came from Ukraine. In constant value terms, the unit price of sunflower oil soared by more than three quarters during the year. As a result, retail volume sales of sunflower oil plunged by almost a third during 2022, as consumers switched to alternatives. Nonetheless, retail constant value sales rose at a double-digit rate due to the spike in unit pricing.

March 2022 saw a spike in demand for edible oils, as some local consumers rushed to stockpile these products in the wake of the war's outbreak, despite the Ministry of Agriculture, Fisheries and Food attempting to reassure them that supplies were plentiful. This led some grocery retail chains to restrict the purchase of sunflower oil. Mercadona, for example, established a maximum of five litres per person per day, while Consum and Makro limited purchases to one bottle per person. Although supply had normalized by June, unit pricing remained elevated.

Prior to the onset of the pandemic in spring 2020, retail volume sales of edible oils had been in decline, largely because local consumers were becoming more health conscious. However, severe restrictions on movement led to a spike in demand during the year, as consumers ate more meals at home. Moreover, some stocked up on edible oils in anticipation of a shortage that failed to materialise. However, as restrictions were eased and consumers ran down their stockpiles, most of the gains seen in 2020 were reversed in 2021.

Foodservice volume sales of edible oils continued to recover during 2022 but remained below their pre-pandemic level. Foodservice volume sales of sunflower oil saw a much smaller decline than retail volume sales during 2022, with only limited substitution of olive oil. In spite of the spike in sunflower oil unit price, it remained less than half the price of olive oil.

Sunflower oil's loss is olive oil's gain

Olive oil dominates retail volume sales of edible oils in Spain, and this dominance was reinforced by the shortage of sunflower oil. While the unit price of olive oil also rose significantly in 2022, it nonetheless became relatively cheaper vis-à-vis sunflower oil, which Spanish consumers had heretofore regarded as a cheaper alternative to the more traditional olive oil. As a result, olive oil saw modest growth in retail volume sales and a surge in retail constant value sales during the year.

Apart from increased input costs (particularly for fertiliser and diesel), the rise in the unit price of olive oil was driven by a decline in the olive harvest in some European countries (though not in Spain) and the suspension of a 25% tariff on bottled olive oil imports from Spain to the U.S. There had been a surplus of olive oil in 2021, but this dried up in 2022.

As inflation surges, private label tightens its grip on edible oils

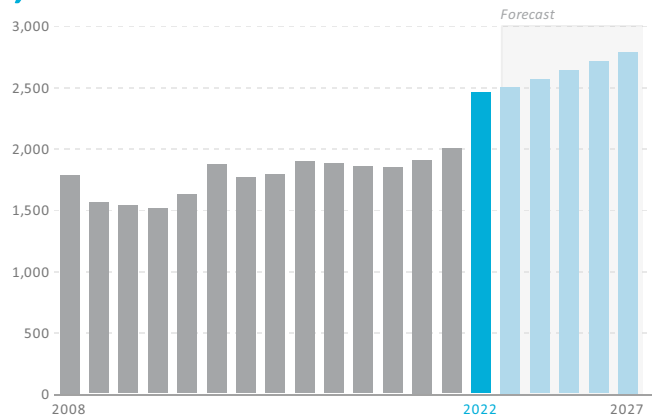
With local consumers squeezed by inflationary pressure, Hacendado, the private label of Mercadona SA, the leading supermarket chain in Spain, reinforced its leadership position in edible oils in 2022. Third-placed Centros Comerciales Carrefour SA also saw its retail value share increase slightly during the year. Indeed, six of the top-ten players

Market Sizes

Sales of Edible Oils

Retail Value RSP - EUR million - Current - 2008-2027

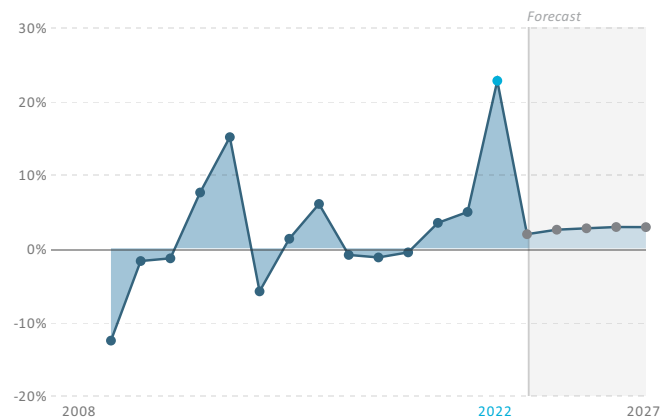
2,446



Sales Performance of Edible Oils

% Y-O-Y Retail Value RSP Growth 2008-2027

22.7%



in edible oils during the year were private label. Between them, private label offerings accounted for close to half of retail value sales in edible oils during 2022.

Most large grocery retail chains offer a wide portfolio of private label edible oil, ranging from super-premium to economy offerings. At the premium end, Mercadona launched Casa Juncal Early Harvest Extra Virgin Olive Oil in early 2022. It is a prize winner at both the New York International Olive Oil and the London International Olive Oil Competitions.

E-commerce sales of edible oils witnessed exceptionally strong growth in 2020 as more consumers opted for contactless shopping from the safety of their home to limit social contact during the epidemic. This included existing customers increasing the number of purchases through e-commerce, as well as many new customers beginning to shop online. While e-commerce held onto these gains in 2021 and 2022, it has not increased them, as most local consumers continue to do their grocery shopping in person. Meanwhile, when it comes to groceries, the country's internet retail infrastructure remains relatively underdeveloped.

Consumers are also becoming increasingly aware of the general relevance of safety and hygiene in packaged food. This is requiring producers to engage in new, complicated processes, including additional analysis, research, and evaluations of their activities to meet the hygiene requirements. The main challenge for producers is to complete this additional work whilst still being able to offer affordable prices.

PROSPECTS AND OPPORTUNITIES

Demand will continue to shift from sunflower oil to olive oil

Retail volume sales of edible oils are expected to decline across the forecast period as a whole. A modest increase in retail volume sales of olive oil will not be enough to compensate for plunging demand for sunflower oil. However, much will depend on the evolution of the war in Ukraine and its spillover effects on the Spanish economy in general and the supply of sunflower oil in particular. During the forecast period as a whole, there will be modest growth in retail constant value sales of edible oils.

Olive oil will drive both retail volume and value growth over the forecast period, with value sales outperforming volume as producers look to increase the quality and cost of their olive oil products, reversing the current olive oil production model in Spain (which prioritises quantity over quality). The emphasis on quality will emerge as consumers become increasingly aware of their health and wellness in the aftermath of the pandemic and seek sustainable, higher-quality domestic products. Olive oil will be a significant beneficiary of this trend, as it is already perceived as healthier than other varieties due to its antioxidant properties.

Sustainability and health and wellness trends will boost demand for organic olive oil

With local consumers increasingly interested in both sustainability and health and wellness, demand for domestically produced organic olive oil is expected to see a significant increase during the forecast period. As Spain's population continues to age, consumers will become more concerned with health, while the pandemic has led many to re-examine their dietary habits. As a result, the product offer in organic olive oil will widen. On the other hand, the current inflationary squeeze will make these products less affordable to many.

The transition from intensive, mechanised production of industrial crops to traditional olive groves is one way forward for manufacturers. Deoleo has launched a campaign called "Let's save the Good Oil," which aims to support traditional olive oil production by granting sustainability certificates to their products.

The sustainability trend will also increasingly impact the packaging of edible oils. For example, in April 2022, Oleostepa launched organic extra virgin olive oil in a bottle made from 100% recycled plastic (R-PET). Smurfit Kappa launched a new reduced-weight, stand-up pouch for olive oil earlier in the review period. This facilitated a significant reduction in the use of plastic, fewer CO2 emissions during transport, and appealed to consumers due to being more cost-efficient. Another example is the GO-OLIVA project by the plastics technology company AIMPLAS and domestic olive oil producer Olivarera de los Pedroches (OLIPE). This collaboration intends to make use of the waste in the olive stoning process to create a biodegradable and compostable plastic compound material that can be used to manufacture new sustainable containers for olive oil. Further developments in terms of environmentally friendly packaging can be expected in the coming years.

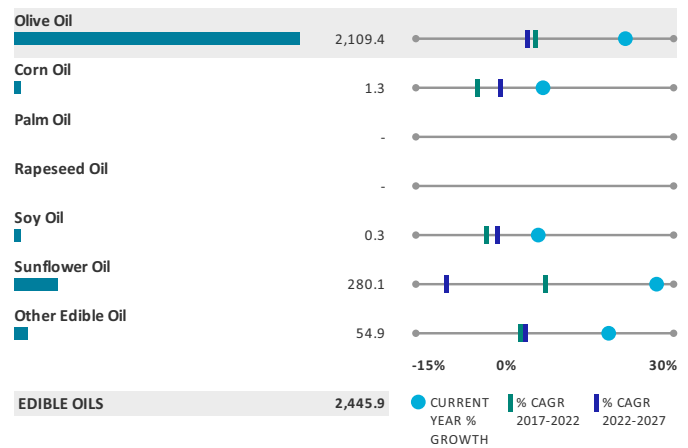
Heightened local interest in exotic cuisine will boost demand for other vegetable oils

Other vegetable oils, such as avocado oil, coconut oil and sesame oil are set to see increased demand during the forecast period. Apart from the previously discussed health and wellness trend, local consumers are becoming more interested in exotic cuisine, which often use such oils as an ingredient. While product awareness remains relatively low, it is growing. However, relatively high pricing means that these products will not be considered as an alternative to sunflower oil by lower-income consumers. The foodservice channel is also likely to emerge as an increasingly important source of

Sales of Edible Oils by Category

Retail Value RSP - EUR million - Current - 2022

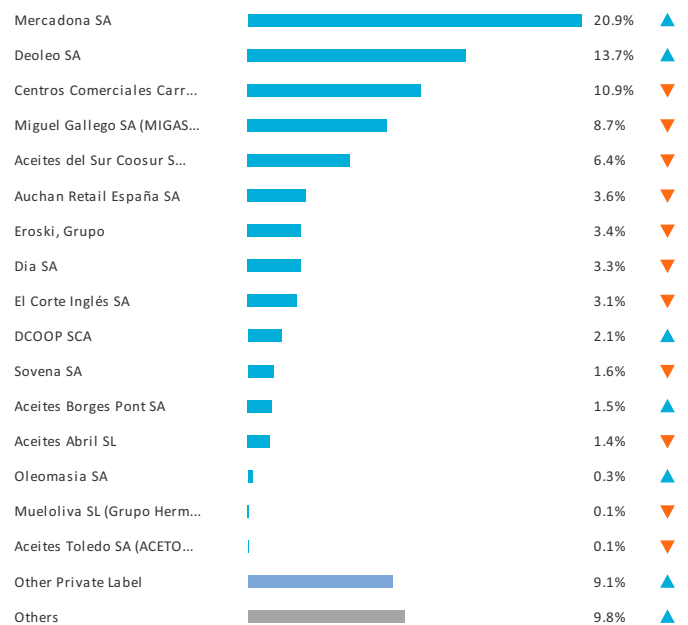
Growth Performance



Competitive Landscape

Company Shares of Edible Oils

% Share (NBO) - Retail Value RSP - 2022



demand for other vegetable oils.

Brand Shares of Edible Oils

% Share (LBN) - Retail Value RSP - 2022

