BEFORE THE U.S. INTERNATIONAL TRADE COMMISSION

CERTAIN RIPE OLIVES FROM SPAIN

TESTIMONY OF JOSEPH SOMERS

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Good afternoon. My name is Joseph Somers. I am Vice President at Informa PLC in the Agribusiness Consulting group in the DC office. I have worked at Informa since 2002. Prior to that I worked 25 years for the Foreign Agricultural Services at the USDA.

I am here today to discuss a study that Informa did to assess the U.S. Table Olive Industry. Using data gathered from a variety of public sources, we assessed the U.S. table olive supply and demand situation taking into account trends in area, production, consumption and imports.

Although the focus of this case is on the years of 2015 to 2017, Informa included additional years in its study because they are informative in explaining trends. In my following comments I will review some of the main findings of the study.

Slide: California Table Olive Area is in Decline.

California olive area has declined by 47% since 2003. Falling from 36,000 acres in 2003 to around 19,000 acres in 2017.

Reasons for the shift are:

- Higher labor costs vis-à-vis other crops.
- Difficulties in adopting mechanical harvesting.
- Other crops are more profitable.
- Limited labor availability.

Slide: Labor Costs are Higher for Table Olives

The study analyzed the production costs of table olives, almonds and olives for oil production using UC Davis Agricultural Issues Center studies. These studies are done periodically on a number of products produced in California.

Since table olives are primarily hand harvested table olive harvest costs are much higher than for other crops that are mechanized such as almonds and olives for oil production. Harvest costs for table olives are more than 6 times greater than for almonds for example.

The problem with mechanically harvesting table olives is many of the groves have low density and thick tree trunks. This tree makeup leads to lower harvest efficiency and greater potential fruit damage.

New olive orchards have been planted since 2005 with mostly Arbequina variety. These groves are high density and planted and pruned so they can be harvested mechanically.

Slide: Labor Costs are Expected to Increase

California has passed legislation to raise the minimum wage annually from $10 per hour in 2017 to $15 per hour in 2023.

California passed legislation to grant farm workers the same right to overtime pay as Californians in other industries.

If table olives continue to be harvested mostly by hand then harvest costs will skyrocket.

Another factor that impacts table olive production is labor availability. The California Farm Bureau Federation conducted a survey in 2017 where 55 percent of respondents indicated they were experiencing labor shortages. Because table olives are labor intensive, finding farm workers is vital.

Slide: Shift to More Profitable Crops

Informa used the same studies from UC Davis for table olives, almonds and olives for oil production to compare net returns for these crops.

Net returns are heavily impacted by harvest costs which are higher for table olives because of the high labor costs.

Net returns for almonds and olives for oil production were substantially above table olives.

Some table olive production takes place on diversified farming operations which means growers are adept to producing other crops so they can shift to other crops more easily. On the other hand, because growers produce other crops they can absorb lower returns for table olives.

Slide: Almond Area Expansion

California almond area has doubled since 2000, rising from 500,000 acres to 1.0 million acres in 2017.

Almonds is one of the crops that have been shifting to almonds.

In examining the change in area for table olives and almonds in Tulare, Tehama and Glenn counties, table olive are has declined by almost 14,000 acres while almond area has increased by more than 40,000 acres. Since both these crops are grown in these counties it is highly likely there has been some shift in table olive area to almond area.

Slide: Production Cyclical and Steadily Declining

Calif. table olive production is cyclical and exhibit shows difficulty for processors to rely on a consistent domestic supply. Production fluctuations can range from low 19,610 tons to high 171,720 tons.

Production is also on a declining trend. To remove the volatility in production and smooth out production highs and lows, the study grouped production into 5-year periods. That data shows that California table olive production has been on a steady decline.

The production decline is primarily the result of declining table olive area and not imports from Spain. The shrinking domestic production base is causing processors to lose sales and revenues.

Slide: US Table Olive Consumption Fairly Flat

Couple of ways to estimate consumption. Use ERS/USDA data which is apparent consumption and includes stocks or use US domestic sales of California table olives reported by the California Department of Agriculture and imports reported by FAS/GATS.

Consumption relatively flat at about 185,000 tons. Imports account for 74% of consumption. Implies processors account for about 26 percent of consumption. This relatively small share makes it difficult for processors to be viewed as reliable suppliers.

California processors primarily produce black olives. More than half of imports are green olives. US buyers looking to purchase a wide range of olive products will likely look to foreign suppliers.

Slide: US Ripe Black Olive Imports Flat to Declining

Data compiled from FAS/GATS based on HS codes used by the US International Trade Commission in "Ripe Olives from Spain" Investigation numbers 701-TA-582 and 731-TA-1377, Publication 4718, August 2017.

US imports of these ripe black olives from all origins is flat to declining. From 2013 to 2017 Spain increased its share of US imports from 58% to 76%. That increase displaced other foreign suppliers.

US imports from Spain for the years under investigation, 2015 to 2017, have been flat to declining.

Spain Import Prices Above Other Competitors

US ripe black olive import prices from Spain have trended upward since the second quarter of 2015 and were above competitors in calendar years 2016 and 2017.

Import prices from Morocco dropped sharply in the second quarter of 2015, started rising in the first quarter of 2016 but remained below those of Spain.

Conclusions

California processors sales and revenues reflect declining domestic production and not because of imports from Spain. Domestic production is declining because growers are switching to other more profitable crops such as almonds.

It is difficult for California processors to be viewed as reliable suppliers because:

- Domestic production is steadily declining and
- California processors account for 26% of sales in the domestic market.

California processors primarily produce black ripe olives and US buyers looking to purchase a wide range of table olive products will likely look to foreign suppliers. More than half of US imports are green olives.

US imports of ripe black olives from Spain in terms of volume are not taking market share away from California processors. Imports from Spain for the years 2015 to 2017 have been flat to declining.