



CBI
Ministry of Foreign Affairs

CBI Competition:

Vegetable Oils in Europe

Introduction

Substitution of vegetable oils continues to put pressure on suppliers. It is one of the most important forces shaping the vegetable oil sector. Rivalry is also strong in this sector, but established suppliers can certainly profit from long-term relationships with buyers. You can investigate where your company stands in relation to your competition and manage the competitive forces in Europe to your advantage.

What are the opportunities and barriers when I try to enter the market?

The minimum legislative requirements in Europe may pose a significant barrier to exporters of vegetable oils, leading to border rejections in cases of non-compliance.

Be aware that buyers are increasingly vigilant towards compliance with legislative and non-legislative requirements and will monitor this closely

The market entry process of vegetable oils is highly influenced by the segment which you aim to access:

- **Commodity segment:** For bulk vegetable oils, entry barriers in terms of volumes, prices and initial investments form the threshold for new suppliers to successfully enter established markets. Commodity buyers generally require high volumes and supply consistency, which can be difficult for small and medium-sized exporters to comply with.
- **Speciality segment:** This segment commands lower volumes at a higher price. This usually means that products must have added value in terms of quality, variety or (certified) sustainability aspects. These come on top of basic quality requirements demanded by buyers in the conventional segment.

Tips:

- Follow European health control procedures strictly. Vegetable oils are subject to specific requirements regarding the level of erucic acid; other requirements related to contamination, composition, labelling, food contact materials and extraction solvents also apply. For further legal requirements, refer to our study on [buyer requirements for vegetable oils in Europe](#).
- Consider getting certified for a quality management system. If you are just starting to export to Europe, certifications for quality control and traceability can be used as proof of complying with certain legislative and non-legislative requirements. Further information on these certifications can also be found in our study on [buyer requirements for vegetable oils in Europe](#).
- Expand your regional market until your production capacity, quality and market experience allows you to export successfully to Europe.

What are substitute products?

Substitution is a very strong force shaping the vegetable oil sector, since products can be used alternatively in similar applications. This is a force determined by a number of drivers:

- **Price:** the vegetable oil sector is highly influenced by price. If the price for a specific oil is on the rise, the food industry tends to switch to other oils or to substitute products. The high degree of substitution in this sector safeguards price stability for the final consumer product.
- **Availability of supplies,** growing demand from emerging markets and/or use in other technical applications, like biofuels: shortage of certain oils might result in their substitution.
- **Health aspects:** oils with a high content of healthy characteristics (e.g. omega-3) might substitute other oils, often supported by strong marketing (e.g. high oleic sunflower oil and virgin coconut oil).
- **Public image:** oils which carry the image of being detrimental to human health (e.g. hydrogenated oils) or to the environment (e.g. palm oil) might be substituted by other oils.
- **Political force:** substitution of certain oils might be necessary if determined by a country's law. One good example is the so-called fat tax, a surcharge which is placed upon fattening food and/or beverages in order to discourage unhealthy diets. So far, however, countries such as Denmark and France have failed in their attempts to introduce and/or sustain such taxes.

Tips:

- Be ready to provide your buyer with complete product documentation, such as technical data sheets and professional samples.
- Promote the health benefits of your vegetable oils, making sure that these claims can be supported by scientific evidence.
- If your technology allows, develop and offer a product range containing different fractions of the same oil.
- Investigate your possibilities to develop and promote environment-friendly production processes, for example: enzymatic processing instead of hydrogenation.

How much power do I have as a supplier when negotiating with buyers?

Buyer power of importers is traditionally strong in the vegetable oil sector, as opposed to fairly weak supplier power. Many vegetable oils are sold as undifferentiated food ingredients, and European importers are known to easily switch to other suppliers without excessive costs. This is proof of the strong bargaining power held by European buyers over their suppliers, who in turn are constantly subjected to strict demands in terms of price, consistent quality and timely delivery.

Nonetheless, this traditional image is changing, and the gap between buyer and supplier power is rapidly decreasing:

- Importers are currently in a position of undersupply, so the position of suppliers automatically becomes stronger.
- The position of importers is also weakened by the growing power of retailers, which have a stronger influence on the choice of suppliers and on requirements. Retailers increasingly adhere to their own codes of conduct; their suppliers have no choice but to follow them.
- The producers/sellers (cooperatives) of crops such as palm, rapeseed and soy have a strong position and high influence on the market, as their crops are widely sold throughout the food industry. For example, large-scale producers can plan their production and product offering according to market demand. Furthermore, they have a strong financial position and support from sector associations.
- Due to the subsidies for biofuels, the price for commodities is artificially high. As such, producing exporters are currently benefitting from these subsidies. However, prices will drop immediately as soon as subsidies are discontinued. The European Commission [will phase out subsidies for biofuels](#) entirely in the period 2020-2030.
- Speciality vegetable oils generally provide better opportunities for smaller exporters when compared to bulk oils, due to the lower volumes required and the value-addition potential which this segment offers. Exporters from developing countries continue to have more bargaining power within this segment as supplies are traditionally tighter.

Tips:

- Develop reliable supply chains to build long-term trade relationships with buyers. Trust is necessary from both sides: the supplier and the buyer! Respond promptly to e-mails and questions and always follow up if you have promised to do so.
- Be strong in Research & Development and technical aspects, which will more easily enable you to partner up with your client in product development.
- Suppliers should comply with the given requirements and promises. Any problems or nonconformity should be communicated immediately!

Who are my rivals?

Rivalry remains strong among suppliers in the mature (Western) European market for most vegetable oils:

- In the commodity segment in particular, many companies from all over the world compete with very similar products and services.
- Niche markets for speciality products (examples: high quality, exotic, certified) are generally less competitive, but require long-term commitment and close cooperation with the buyer.
- In the growing markets in Eastern Europe, the level of rivalry is generally lower, but opportunities in speciality products are very limited since it is a market characterised by lower purchasing power. This makes it difficult for an exporter to supply differentiated, value-added, products.

However, buyers are not easily moved from (regular) suppliers who have proven to be trustworthy. This is especially true in the event of uncertain economic prospects, when stocks are kept at lower levels. This gives a competitive advantage to

small and medium-sized exporters who are keen to establish a professional business and whose business strategy consists of building long-term relationships with their clients.

Tips:

- Invest in quality management systems and develop customer-oriented services.
- Promote interesting properties (e.g. technical, health aspects, origin) which can give you a competitive advantage over your competitors.
- If you export bulk products, target unsaturated markets, especially growing economies in Eastern Europe.



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August 2016