



CBI
Ministry of Foreign Affairs

CBI Channels and Segments: Vegetable Oils in Europe

Introduction

The traditional roles of the players in the vegetable oil sector are changing. The presence of large multinationals on the market is increasing, driving up competition and tightening market requirements. The increasing focus on traceability and sustainability leads to a need for stricter control of the supply chain.

Which market segments should you target?

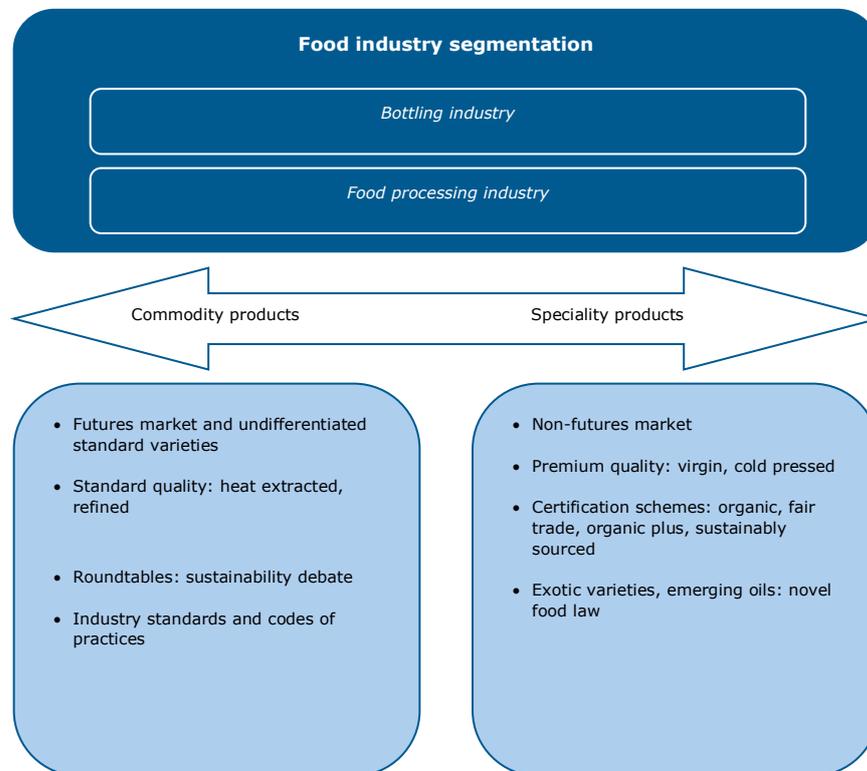
Vegetable oils used in the food industry can be divided into two major segments:

- Food processing industry: vegetables oils are used as ingredients for semi-manufactured or final food products, such as margarine, shortenings, filled milk and bakery or confectionery products.
- Bottling industry: vegetable oils are bottled as final products for use with cooking, frying or as salad oil.

Within these two segments, vegetables oils can be further segmented into commodity and speciality products. The commodity segment covers mainstream products which are traded at high volumes and low prices.

The speciality segment covers products which are traded at low volumes and high prices, such as premium and certified products (organic, fair trade).

Figure 1: Segmentation of vegetable oils in the food industry



Please refer to Annex 1 for more information on requirements and developments in the market.

In addition, the food supplement segment can be identified for the vegetable oils market. Food supplements are concentrated sources of nutrients with a positive effect on health and wellbeing. Examples include linseed oil and chia seed oil sold in the form of capsules for their high omega-3 content.

The share of vegetable oils in food supplements is estimated to be small, but is growing due to the general health and wellness trend in Europe. For further information on food supplements, please refer to CBI's Natural Ingredients for Health Products pages.

Premium market possibilities in Europe

Europe is one of the most interesting markets for premium vegetable oils worldwide. These are special high-quality oils, new exotic oils or oils with a healthy composition.

European consumers, especially in Western Europe, are generally more willing to try new flavours, invest in quality and investigate the origin of the products they purchase.

Keep in mind that:

- The terms 'high quality', 'virgin' and 'cold-pressed' entail special production processes, and are often associated to health and quality, attaining more value to your product.
- Emphasis on the origin of the vegetable oil is becoming increasingly important. This can be related to the place of production or to the profile of producing communities, for example. It is especially relevant for exotic oils such as argan and sacha inchi oils.
- Traceability and sustainability are key words in the food industry, affecting all levels of the value chain. Highly debated products such as soy and palm oil are especially scrutinised due to their environmental and social impact in producing countries.

Tip:

- Invest in the marketing of your product, promoting specific processing methods: 'virgin' and 'cold-pressed'; exotic characteristics; origin; certification.

The importance of sustainability certifications

European consumers are increasingly interested in sustainably-produced vegetable oils carrying certificates such as organic (environmental), fair trade (social) or both.

The organic food market in Europe grew by nearly 8% in 2014. Further growth is expected in the coming years. The largest national organic markets in Europe are Germany (30% of the European market), France (18%) and the United Kingdom (9%) ([The World of Organic Agriculture 2016](#)).

The fair trade market is considerably smaller, but is also growing at a fast pace. In total, the European fair trade market grew by 9% in 2014 ([FLO, 2016](#)).

The UK is by far the largest market for Fairtrade-certified products in Europe (and worldwide), at € 2.1 billion in 2014, which accounted for 40% of total European sales.

Other large markets in Europe are:

- Germany (€ 830 million)
- France (€ 390 million)
- Switzerland (€ 385 million)
- Sweden (€ 301 million)
- Ireland (€ 229 million)
- The Netherlands (€ 215 million)

The organic and fair trade markets in Eastern Europe are still in their infancy. Nonetheless, organic markets in Czech Republic and Poland showed double-digit annual growth figures in recent years.

Tips:

- Consider sustainability certificates to add value to your products. Useful sources to investigate these niche markets in Europe are:
 - [FiBL](#)
 - [Organic Europe](#)
 - [Fairtrade Labelling Organisations](#)
 - [Fair for Life](#)
 - [Ecocert Fair Trade](#)
 - [BioFach](#)
- Stay up to date with the latest developments on East-European markets for certified products, i.e. organic, fair trade.

Through what channels can you get vegetable oils on the market?

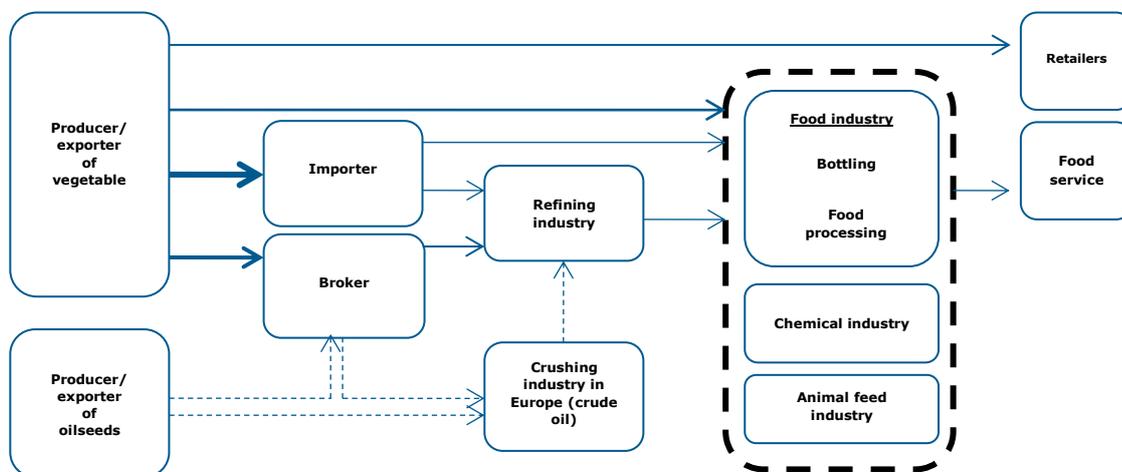
Exporters of vegetable oils in developing countries rarely trade directly with end-using industries. Most exporters sell their oils to the market through importers.

When the importers themselves are not able to refine, they supply the crude oils to refiners. Further processing may also be required for oils which are exported in refined form.

The refined oils reach the food industry or other technical industries. They are then either bottled as a final product or used for the production of final food products. These products are finally distributed via retailers or via the food service industry (examples: restaurants, hospitals, schools and other catering services).

Note that some vegetable oils are not refined, but often go through other filtering / cleaning processes before bottling or use in the industry

Figure 2: Traditional trade structure for vegetable oils



Please refer to Annex 2 for more information on specific chain actors.

Buyers are more connected to producers

Importers are shortening the value chain by eliminating intermediaries in the sourcing countries. This contributes to the traceability and security of supplies, as well as to the reliability of suppliers.

The vegetable oil industry in Europe is also decreasing the role of traders as middlemen, while it is increasing the connectivity between food manufacturers and producers, especially in the commodity segment. This is due to:

- An increase in value addition and processing in producing countries, while traders become more engaged in service provision and technical assistance both upstream and downstream in the value chain.
- Food manufacturers demand further insight into the entire chain; not all importers or brokers are currently able to provide such information.
- Large multinational food ingredient companies, such as DSM and Cargill, increasingly control the entire value chain, from producer to end-using industry.
- Suppliers are increasingly setting up representation in Europe, as in the case of the [Malaysian Palm Oil Council](#).

Importers still play an essential role in quality control, storage and product financing, which makes them the most suitable channel to access the European market for vegetable oils. The role of importers is especially relevant in the speciality segment, where volumes are lower and values are higher.

Tips:

- If you are able to produce large volumes for large multinationals, make sure you have adequate quality control systems.
- If you are dealing with smaller volumes or specialised products, traders are quite certainly the most suitable entry point.
- If you are a starting exporter, brokers can be your entry point into Europe as they are trusted by the European edible oil sector, which can make up the lack of reputation of a starting exporter.

An increasing influence of retailers

Retailers are increasing their influence at earlier stages of the food chain, which is causing significant changes in the vegetable oil sector. When buying directly from producers, retailers make the chain as short as possible, which leads to the following developments:

- Retailers are acquiring greater control of production through contract growth, as well as control of distribution systems.
- Retailers are increasingly influencing the adoption of industry standards, for example: the British Retail Consortium (BRC), which is raising the bar for all producers/exporters.
- The role of producer cooperatives is increasing, since small producers are often not able to individually supply sufficient volumes directly to retailers.

Tips:

- Link up with sector associations and be part of cooperatives if you cannot reach the required volumes by yourself.
- Consider value-addition options for your product and familiarise yourself with the necessary requirements to do so.

The focus on sustainability and traceability

As a reaction to scrutiny from consumers and the industry, roundtables for [sustainable palm oil](#) and [responsible soy](#) have been formed to improve sustainable production and trade of these commodities.

While roundtables for other vegetable oils have not yet been established, the development of the existing roundtables is likely to spill over to other products in the near future. This will influence discussions and lead to the implementation of sustainability standards applicable to different actors in the chain.

In addition, identity preservation (IP) systems are experiencing very rapid growth. These are led by increasing concerns on fraud and loss of product traceability throughout the chain, and the need to ensure the absence of genetically-modified ingredients. Such systems are already common practice in the specialty oil industry (e.g. organic oils), but will also become the norm for commodity oils in the near future.

Tips:

- Comply with sustainability standards required by the industry and stay up-to-date on developments regarding sustainability and traceability.
- Develop an Identity Preservation (IP) system for your products (e.g. by maintaining their segregation and documenting their identity), focusing on the origin and transparency along the chain.
- Learn more about emerging supply chain management solutions such as [SEDEX](#).



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Annex 1: Information boxes for segmentation in the food industry (figure 1)

Commodities:

Futures contracts (agreements to buy or sell an asset at a future date at an agreed-upon price) and undifferentiated characteristics:

Typical properties related to commodity vegetable oils are:

- conventional varieties
- price volatilities
- supplied at high volumes (trade is done per 20 tonnes) with consistent quality
- narrow profit margins



Standard quality: Heat extracted or refined

Heat extracted or refined vegetable oils: methods include expeller pressing and solvent extraction. Highly refined heat extracted oils usually lack colour and flavour, but have a higher smoke point and longer shelf life.

Round tables: sustainability debate

Round tables for sustainable sourcing of [palm](#) and [soy oil](#) have already been established.

Industry codes of practices:

Besides legislation and the minimum standards established in the [Codex Alimentarius](#), the European Oil and Protein Meal Industry Federation (FEDIOL) has formulated several Codes of Practices, which could be relevant if you plan to export to the EU. [For more information](#), refer to the FEDIOL website - 'Publications'.

Speciality:

Non-futures contracts

Speciality oils are not traded as commodities. As such, price-setting does not take place through futures contracts. There are 2 possible systems:

- The oil is still related to the level of commodities. For this oil, the base international price is paid, but with a premium on top.
- Negotiation, combined with real cost price calculation.

Premium quality: virgin, cold pressed

- Virgin oil: single, simple pressing, obtained without using heat
- Cold pressed: Not heated above 80 degrees Fahrenheit

Origin: Products which carry a certain story or emotion, usually focusing on place of production and producing communities.

Certification: Organic, Fair trade, organic plus



- Organic: the European Union and Switzerland have specific legislation on organic production. Within the EU, the leaf-like label must be used on the packaging, sometimes in addition to labels of national certification bodies such as [KRAV](#) (Sweden), [Soil Association](#) (UK), [EKO](#) (Netherlands). In Switzerland, [BioSuisse](#) is the leading organic standard.
- Fair trade: [FLO](#) certification is the leading fair trade certification scheme in Europe, but other schemes such as IMO's '[Fair for Life](#)' and [Ecocert Fair Trade](#) are growing.

- Organic plus: Combining organic and social certification schemes.

Annex 2: Information boxes for the trade structure (figure 2)

Importers source vegetable oils on their own account. They sell the goods to domestic buyers such as refineries, processing industry and distributors, or re-export the products to other countries. Importers can be interesting if you:

- are able to supply large volumes of vegetable oils. Importers need significant volumes to supply the refining industry. If an exporter is able to supply large volumes, this is favourable for importers because they then do not need to source from many different companies. However, there are specialised importers who deal with smaller quantities, since there are also refineries specialised in smaller batches.
- do not have the financial position or knowledge to directly supply the refining or food industry.
- can introduce new or lesser-known vegetable oils. Importers are interested in broadening their assortment with commercially interesting products, especially if they offer exotic, new and healthy opportunities.

Brokers are independent intermediaries in the buying and selling of orders. A broker is not tied to an individual buyer or seller, and often has an office/representative located in the producing countries, more at arm's length than an importer, for instance. Brokers can be interesting if you:

- have limited experience on how to export to European countries and you therefore need guidance on export processes.
- need an intermediary with the knowledge to evaluate and select interesting buyers.
- need a partner who is trusted within the sector and who can make up for your lack of sector reputation.

Refining industry: Supplying directly to refiners is not common for small and medium-sized exporters, as they cannot supply sufficient volumes. Usually, exporters supply to traders who bulk supplies from multiple sources to obtain volumes requested by refiners. Direct sourcing from exporters in developing countries is more common in the speciality segment. Supplying directly to the refining industry is only interesting if you are able to:

- supply large volumes of vegetable oils
- supply a product which is of consistent quality

Food industry: Supplying directly to the food industry is unusual for developing country exporters, although it is increasing as a result of vertical integration. Supplying directly to the food industry is only of interest if you are able to supply specialised vegetable oils which are characterised by:

- frequent and consistent orders
- high-quality vegetable oils
- finished products

Retailers: Supplying directly to retailers is very unusual for DC exporters. However, retailers are increasing their influence on producers, making the chain for vegetable oils as short as possible (bypassing intermediaries). In order to supply directly to retailers, not only do producers need to supply consistent volumes in a short lead time (to avoid large stocks), but they also need to meet very strict quality requirements.