A systematic analysis of the agribusiness sector in transition economies:

The Albanian olive oil sector
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Executive Summary

This report is organised based on the structure of the olive oil value chain and the EBRD transition assessment indicators of the extent and structure of markets, policies and institutions, and business conduct. It combines information from secondary sources with selected primary sources that include phone and email interviews conducted with Albanian olive oil producers between fall 2006 and spring 2007.

Input level: Olives are a major cash crop in Albania. Olive growers are small on average and the market is fragmented. Farms are typically family-owned and – managed and olive tree yields are low. Olive farmers are poorly integrated into the olive value-added chain – neither are there formal links between them and processors and distributors, nor do they have access to wholesale markets. Olives are mainly sold to markets and traders, processors, or trade associations. Local markets’ inability to absorb the local supply of olive oil and a lack of alternative regional markets are a major constraint on the sector. Farmers have little bargaining power due to a lack of information on prices and limited sales possibilities. Critical is also the scarcity of central collection points and associated services for the standardisation, grading, cleaning and labelling of olives. The delivery process is not formalised – farmers themselves deliver them to local pressing mills, and transport costs are high because of poor rural infrastructure and farms’ dispersion throughout the countryside. Possible solutions for some of these difficulties would include farmers’ organisation in as of yet non-existent associations and cooperatives that in other countries (Greece, Italy) provide crushing mill facilities and ensure a stable supply of olives to processors.

The radical agrarian reform of 1991 led to the break-up of collective farms in Albania, and also resulted in extreme [agricultural] land fragmentation which now makes agricultural mechanisation and modernisation difficult. Olive yields suffer from a lack of scale irrigation, pest management and organic and chemical fertilisation. There is no public ownership left in the sector, but for most of the former state agricultural land there still are no secure and unambiguous property rights. Legislation exists that allows the use of land rights as collateral for credit, but weak legal and administrative procedures to solve property rights still make access to capital difficult for farmers. The challenge is to complete legal and regulatory framework for loan enforcement, including bankruptcy law and transparent property security. So far, most agricultural lending takes place within micro-credit schemes. Albania is highly suitable for organic production, but olive growers do not appear to understand the potential benefits of improved fruit quality. Compliance with and enforcement of legislation for quality control of olives and olive oil are weak. The establishment of a quality certification process backed by a system of [internationally] certified laboratories close to processing facilities could help ensure good fruit and later on good product quality.

So far, olive growers often lack skills and resources to best attend to their harvest. Low fruit quality and insufficient supply to the processing industry ensue. Harvesting is not undertaken in an ecological manner and product marketing is either poor or absent. Equipment and technology (or rather, a lack thereof) at the farm level seems to be the most critical issue; operational restructuring is clearly hampered by a lack of credit. Insufficient pest and disease treatment and management, a lack of efficient pruning and fertilisation, primitive packing and missing hygiene standards, and a lack
of price differentiations by grades and quality further hamper development. There are currently no links with the country’s vocational education and training system that farmers could take advantage of. Projects sponsored by international organisations, the Ministry of Agriculture are gradually stepping in to train sector personnel.

**Processing and distribution:** The processing of olives and the production of oil are small in scale and the market is fragmented. Most of the estimated 130-150 firms in Albania are family-owned and –managed with up to five employees and a modest turnover of up to €10,000 per year. They apply traditional cold pressing methods and rely heavily on the local market. Processors provide a mix of services to farmers such as them pressing and refining the oil and returning it along with the remaining cake. They also pack and bottle the oil and sell the it in the market. Bottling, storage and labelling are typically performed in-house. The processing industry is underutilised. In the early 2000s, the country’s total production was almost entirely consumed domestically and the per-capita supply with olive oil (0.7kg/year) is low compared to EU and especially to its olive-growing member countries like Italy or Greece. Over the past decade, the sector has benefited from significant investment: more than 90 out of the total 130-150 processing plants were recently founded and feature modern processing facilities. Their underutilisation is a result of inefficient input supply, for which processors have to rely on direct deliveries from local farmers. Long-term contracts between olive oil producers and the different entities to whom they sell – wholesalers, middlemen, retailers or to end consumers – are uncommon and the on average small transactions make the various distribution channels additionally inefficient. There are some downstream linkages between processors and local farmers through which those processors who can afford it provide farmers with training and resources. Albania is set apart from other olive oil producing countries by the inefficiency of vertical coordination along its olive oil chain.

Over the last decade, a large number of Albanian agri-processors was privatised, leaving no public ownership in the sector. Rural credit is becoming available to processors, but they have difficulty accessing it due to their small size. Unlike farmers, however, processors are often organised in cooperatives the number of which is steadily rising. There are plans to expand and to increase cooperation in order to meet the growing demand for quality products. The largest challenge on the processing level is that of traceability and quality standards certification, both of which are main objectives of the EU strategy to promote the olive oil sector in its member countries. So far, existing quality standards are seldom enforced. Traceability systems are appearing, but need harmonisation. Some essential features of a quality certification infrastructure, e.g. laboratories, are still rare. The establishment of organic production standards is prevented by similar difficulties. What could prove crucial in improving quality certification systems and in enhancing producers’ competitiveness in Albania are accession prospects to such organisations as the International Olive Oil Council (IOOC) or the EU.

In addition to a lack of investment capital, Albanian olive oil producers suffer from insufficient technological and managerial assistance. Together with the poor state of rural infrastructure, this makes for high production costs and low margins. Production technology is available, but securing and storing a fresh supply of olives and later on of olive oil is difficult for a number of reasons, including poor infrastructure, processors’ unfamiliarity with proper bottling, storage and packaging techniques that
prevent quality loss, and their insufficient knowledge of modern marketing techniques such as labelling. Producers recognise the need to upgrade their skill profiles and there is high demand for skilled personnel such as technicians to serve production lines or chemists to analyse final products. Presently, however, Albania lacks the vocational training infrastructure necessary to improve professional and technical skills. International and bilateral aid is coming in to bridge this gap. As far as the competitiveness of the sector is concerned, experiences of olive oil producers in other countries can serve as good indicators of how Albanian producers may need to adapt their business conduct and skill profiles in order to become more competitive.

**Distribution:** The Albanian retail sector is at an early stage of development, small in scale and fragmented. Five or so top retailers capture not more than 20% of the market and only 20% of total olive oil produced go through formal distribution channels. For the most part, farmers and producers sell their products directly to consumers through small local markets without intermediaries such as wholesalers or retailers. There are no international or any developed retail chains present in the sector and no olive oil exports to speak of. Those retailers who sell olive oil vary in format; they include hyper- and supermarkets, convenience stores, corner shops, and open markets. The largest retail market remains the capital Tirana, but even here small corner shops and open markets are prominent. Rural infrastructure is mostly poor and purchasing power generally low. In the medium term, Albania is expected to converge with other markets at a similar stage of development and to introduce soft discount format stores, among other kinds.

Consolidation is at a very early stage, limited to supermarket chains and only just starting to develop in Tirana. Vertical integration with suppliers and producers is inefficient when existing at all. Since retailers’ competitive strategy is based on low prices, the quality of olive oil is often low as well. Furthermore, poor compliance with health and safety and hygiene standards is common, especially in small supermarkets and convenience stores. The gradual market entry of larger players is introducing some changes, e.g. in terms of stricter quality requirements on local products.

The retail distribution of olive oil is constrained by a difficult business environment, the most significant constraint being the lack of a level playing field for all actors in the market – law-abiding firms get unfair competition from businesses that do not comply with the legal and regulatory framework and/or are favoured by politicians. A culture of competition is generally missing at all levels of the economy. Further obstacles exist in the form of a complex business licensing regime and unclear food safety regulations. The FAO Food Codex is not recognised and institutional capacity is weak as exemplified by entities in charge of food safety that lack skills and equipment to address critical risk limits (e.g. HACCP). In the absence of a clear legislative and regulatory framework, formidable challenges arise in terms of business conduct and corporate governance in an environment of small scales, fragmentation and hardly any intermediation (that is, wholesale or retail). Bribery and corruption are widespread and combined with a lack of modern managerial techniques. Still, there is potential for sector development and consolidation to be driven by new and larger players entering the market. Also, the EU can serve as a provider of benchmarks, both for the regulation of food safety, technical standards and health and safety and more effectively organised retail distribution.
1. Introduction

This analysis of the Albanian olive oil sector combines value chain analysis with EBRD’s transition assessment. Value chain analysis provides a direct link to how business is organised in an economy while EBRD’s transition approach provides a direct link to how EBRD operates in fostering transition in its countries of operation. Per each link in the value chain, three main dimensions of the transition process are identified: i) the structure and extent of markets (i.e., greater competition in the project sector and expansion of competitive market interactions in other sectors); (ii) the institutions and policies that support markets (i.e., more widespread private ownership and institutions, laws and policies that promote market functioning and efficiency); and iii) market-based behaviour patterns, skills and innovation (transfer and dispersion of skills; demonstration of new replicable behaviour and activities; and setting standards for corporate governance and business conduct). The methodology is summarised in a matrix as shown in Table 1.

All data for the present report was collected by the FAO for the purpose of this analysis. Sources of data include secondary sources, such as national statistical agencies, local entities (e.g. farmers associations, chambers of commerce, etc.), and international organisations databases (EastAgri, CEI, FAO, UNCTAD, etc.). Unless otherwise indicated, all data refers to the year 2005. Primary sources have been included on a very selective basis and include phone and email interviews conducted by the FAO with Albanian producers in the period fall 2006 – spring 2007.

The value chain for olive oil is shown in the following table.

<table>
<thead>
<tr>
<th>VALUE CHAIN</th>
<th>ISIC division</th>
<th>ISIC class</th>
</tr>
</thead>
<tbody>
<tr>
<td>INPUTS</td>
<td>A01- Crop production</td>
<td>A0126- Growing of oleaginous fruit</td>
</tr>
<tr>
<td></td>
<td>C10- Manufacturing of food products</td>
<td>C1040- Manufacturing of vegetable oils</td>
</tr>
<tr>
<td></td>
<td>N82- Business support</td>
<td>N8292- Packaging, including bottling</td>
</tr>
<tr>
<td></td>
<td>H52- Warehousing</td>
<td>H5210- Warehousing and storage</td>
</tr>
<tr>
<td></td>
<td>G46- Wholesales</td>
<td>G4630- Food wholesale</td>
</tr>
<tr>
<td>DISTRIBUTION</td>
<td>G47- Retail</td>
<td>G4711- Retail sale in stores</td>
</tr>
<tr>
<td></td>
<td></td>
<td>G4781- Retail sale via stalls and open markets</td>
</tr>
</tbody>
</table>

2. Inputs: Growing of oleaginous fruit

2.1. Structure and extent of markets

Olive tree growing has a long tradition in Albania and the olive is a major crop across the country. Results from household surveys indicate that the olive is a cash crop and it is often reported as one of the most important source of income among Albanian farmers. Recent FAO data shows that up to some 60 per cent of the population is involved in olive cultivation and olive trees grow in 22 of the 33 administrative districts in Albania. The main olive growing regions include: i) the Ionic region, along the Southern Coastline, which accounts for 38.4% of the country’s olive production,
28.5% of total olive groves and 28.8% of total olive trees; ii) the Adriatic region, along the Western Coastline, which accounts for roughly half of the country’s olive production, total olive groves and total olive trees; iii) the Near-Adriatic region which accounts for 14.9% of the country’s olive production, 16% of total olive groves and 20.3% of total olive trees; and iv) the Interior region, the production of which is minimal except for some areas where the microclimate allows for olive cultivation. National production totals some 25,000 metric tons per year, but yields have fluctuated widely in the past four decades, varying from 8 to 45kg per tree. In 2005, there were approximately 4 million olive trees across the country which yielded a total of 44 kilotons of olives.

Albania’s olive tree growers are small and fragmented. FAO data collected in 2005 show that the average farm size is 1.59 ha, and the median farm size is 1.23 ha. Farm sizes range from 0.1 ha to 12.5 ha with some 68 per cent of farms with 1.5 ha or less. Farm size distribution differs greatly across the country with the smallest average size recorded in Kanine and Bestrove, and the largest average size recorded in Panaja, which also had the highest standard deviation (2.7 ha). Household survey data also indicate that olive farms are typically family-owned and -managed. Olive farming families tend to be large and pass olive farming on from generation to generation. The survey covered 200 households with an average size of about 6 members. Farmers’ experience in olive growing ranged from less than 5 years to more than 20 years; some 60 per cent of farmers interviewed had over 20 years of experience.

Albania’s olive farmers are poorly integrated in the olive oil value added chain. They typically have no formal link with processors and distributors and find it hard to access wholesale markets. Farmers sell their olive products to several main sources, including the local market, local traders, non-local markets, processors and trade associations. Farmers’ bargaining power is small due to a lack of information on prices and limited sale possibilities. A major marketing constraint is the inability of local markets to absorb the local supply of olive oil and the lack of alternative regional markets on which to sell olive products for higher prices. One of the critical issues is the lack of collection points and associated services for standardisation, grading, cleaning and labelling of olives. Olive farmers deliver their harvest themselves to local pressing mills. High transportation costs and a lack of adequate packaging make farmers dependent on their local processing plants with which they have tolling arrangements by which farmers take olives to the mill in return for oil. The lack of access to wholesale markets is reflected in Albania’s trade balance for olives, which has been in deficit for most of the last decade.1

The comparison of Albanian olive growers’ structure with that of other more successful countries provides a good indication of the extent to which Albania has to go to establish a modern olive oil value added chain. Relative to bordering Greece, for example, Albania’s olive trees total yield is less than 10 percent. Albania olive tree yield appears similarly low when compared with other oil-producing countries with similar geo-climatic characteristics in the EU, such as Italy and Spain. On the other hand, olive tree growing remains a traditional, family-based activity also in the benchmarks countries, where the relative size of olive growers about equals that in

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1 Albania acquired WTO membership in 2000. In addition, the country signed seven bilateral free trade agreements.
Albania. However, a series of formal arrangements exists (private certified collection points, farmers’ cooperatives) to increase the effective coordination of olive growers with producers and distributors upstream.

2.2. Market institutions and policies

Albania’s 1991 agrarian reform distributed all collective farmland land among the rural population (Law 7501/1991). Olive tree farms and land were also included in the 1991 reform. As a result, there is no public sector ownership left in the sector and no redistribution issues. However, the radical nature of the reform led not only to the complete break-up of collective farms, but also to an extreme fragmentation of agricultural land which prevented modern mechanised agriculture and condemned the sector to a traditional crop structure. Anecdotal evidence suggests that this has been the case for olive tree growers as well. In the village of Karbounara in the north of the country, for example, FAO reports that yields suffer from the lack of large scale irrigation, pest management and organic and chemical fertilisation.

While state agricultural land has been distributed, much of it still lacks secure and unambiguous property rights. Legal and administrative procedures resolving ownership disputes remain weak. This hampers access to rural credit, even though legislation is in place to use land titles as collateral for obtaining credit. Outside of micro-credit type schemes, agricultural lending is entirely under government control, and Albanian olive growers have presently very little access to loans at market rates. In a recent USAID survey of farmers in the Vlora district, only one per cent of the sample reported to have received credit. The challenge is to complete legal and regulatory framework for loan enforcement, including bankruptcy law and transparent property security.

Legislation on quality standards and denomination of origin exists, but its implementation and enforcement are poor. Law 8944/2002 on the production, origin and trade of olive oil reflects international trade requirements and standards for the sector. However, olive growers are mostly not compliant. High quality products are not common and the market is swamped with counterfeited products. Tests conducted by USAID indicate that the real quality of the olives is often non indicated on labels and packaging. Because of its nature and structure, Albania is highly suitable for organic production, but farmers are unaware of the benefits that quality certification could bring. Olive growers do not properly understand the benefits emerging from improved olive fruit quality.

A solution to institutional problems in primary production could be offered by organising farmers in associations and cooperatives. In both Italy and Greece, almost all olives producers are member of a producers’ organisation. These typically provide crushing mills facilities and ensure stable supply to processors. This phenomenon has not been formalised in Albania where olive farmers deliver their harvest themselves to the processing facility. The Italian example is also a good one for the establishment of a quality certification process backed by a system of specialised laboratories close to the processors. With over 14 per cent of all production certified, Italy is now the main producer of organic olive oil in Europe. In addition, the EU has established a computerised system to register olive trees and oil producing areas. The Geographic
Information System (GIS) combines airborne imagery and cultivation registers data to verify crop declarations before granting aid.

2.2. Business conduct and skills

Albanian olive growers often lack the skills and resources to best attend to their harvest. This results in low fruit quality and insufficient supply to the processing industry. The cultivation method is mostly extensive (over 56 per cent of total hectares), with the rest split between not densely planned and wild tree areas. There is no ecological harvesting. Technology at farm level seems to be the most critical problem. Plantations are often subject to serious neglect, including a lack of pest and disease treatment, efficient pruning and fertilization, etc. Pest management is a critical issue as infestation by the olive fruit fly is a major cause of high acidity in olives, which lowers the quality of the product. However, only a small number of Albanian farmers are reported to use pesticides. In a recent USDA survey of the Vlora district, over 56 per cent of farmers do not own spraying equipment. It is crucial to develop pest management tactics and strategies that are economical, socially acceptable and ecologically non-disruptive to existing beneficial natural control agents. Insufficient equipment is also the reason for post-harvest deteriorations in quality when olives are transferred to processing mills. The packing of olives is primitive and lacks hygienic standards. This is also why price differentiation is applied to different grades and qualities of olives produced.

The skill profile of olive growers is low. Although the average reported schooling for Albanian farmers is 9 years, there are currently no links with the existing vocational education and training system. In the early years of transition, an independent agency was established under the Ministry of Agriculture for the provision of technical, marketing and business advisory services to farmers. The so-called Extension Service started its operations in 1993 with a pilot project financed by the European Union that covered six districts and was expanded in the following years to cover up to 18 districts, including olive producing ones. However, the initiative came to a sudden halt in 1997 due to a pyramid scheme scandal and associated social turmoil. Similar efforts are presently under consideration. Other projects aimed at training farmers to increase their tree yield are financed by USAID and by FAO in cooperation with the Albanian Ministry of Agriculture. Projects include training in timing the harvest, improving pruning techniques, timely delivery of supply for processing. In addition, projects also provide farmers with equipment such as harvesting nets and pruning saws.

The remaining transition challenges at the input supply level of the olive oil chain are summarised in Table 3.

Table 3. Inputs: remaining transition challenges

<table>
<thead>
<tr>
<th>A0126</th>
<th>REMAINING TRANSITION CHALLENGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing of oleaginous fruit</td>
<td>Albanian olive growers are small and fragmented</td>
</tr>
<tr>
<td></td>
<td>Olive farms are typically family-owned and managed</td>
</tr>
<tr>
<td></td>
<td>Olive tree yields are low</td>
</tr>
</tbody>
</table>
### INSTITUTIONS & POLICIES

| Market expansion | - No formal links with producers/distributors
|                 | - Lack of olives collection points
|                 | - High transport costs
|                 | - Lack of access to wholesale markets for olives
|                 | - No integration with upstream chain

| Private ownership | - Extreme land fragmentation resulting from radical agrarian reform makes agricultural mechanisation difficult

| Institutions      | - No farmers cooperatives
|                  | - No certification process
|                  | - Lack of access to credit
|                  | - Weak enforcement of legislation for quality control (Law 8944/2002)

| Business conduct | - No ecological harvesting
|                  | - Poor technology affects product quality
|                  | - No pest management
|                  | - No product marketing

| Restructuring    | - Operational restructuring hampered by lack of credit

| Skills           | - Low educational profile
|                  | - Lack of links to VET system

### 3. Processing: Manufacturing of vegetable oils; Packaging, including bottling; Warehousing and storage

#### 3.1. Structure and extent of markets

The processing of olives and production of olive oil in Albania is particularly small-scale. Most of the estimated 130-150 firms are family-owned and managed, employ up to five persons, have a modest turnover of up to €10,000 per annum, apply traditional cold pressing production methods and rely heavily on the local market (see Table 4). Exceptions to this type exist, but they are very few. The processor provides a mix of services to the olive farmers, which includes: i) merely pressing the olives, refining the oil, and returning the oil and remaining cake; ii) packing and bottling the oil in bottles or drums; and iii) selling the end products in the market. Bottling, storage and labelling are typically performed in-house by the processors.

#### Table 4. Olive oil firms: distribution by employment size and annual turnover, 2005

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Annual turnover (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>&lt;5000</td>
</tr>
<tr>
<td>6-10</td>
<td>5000 – 10000</td>
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<tr>
<td>11-20</td>
<td>10000 – 50000</td>
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<tr>
<td>&gt; 20</td>
<td>&gt; 50000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Distribution of oil firms</th>
<th>1-5</th>
<th>6-10</th>
<th>11-20</th>
<th>&gt; 20</th>
<th>&lt;5000</th>
<th>5000 – 10000</th>
<th>10000 – 50000</th>
<th>&gt; 50000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>93.4%</td>
<td>4.9%</td>
<td>1.6%</td>
<td>-</td>
<td>50.8%</td>
<td>15.3%</td>
<td>27.1%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>


Albania’s processing industry is underutilised. According to the FAO Food Balance Sheet, the annual Albanian production of olive oil in the period 2001-2003 was an average 1,000 tons, almost entirely consumed domestically. Per capita supply is estimated at an average 0.7 kg per year, a low level when compared to the 4.4 kg and 13.1 kg per year on average supplied in the EU and Italy, respectively. In the last decade the sector benefited from significant investment, notably in the districts of Saranda, Delvina, Vlora, Berat Fier, Mallakastra. Of the estimated 130-150 processing plants installed, more than 90 are of recent inception and feature modern

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2 One is the prominent OLIM, established in the year 2000 and situated next to Tirana international airport.
processing facilities of the of Peralisi and Alpha-Laval type. However, their capacity remains significantly underutilised due to inefficient input supply. As shown in section 1.1, processors rely on supply provided by farmers directly at the pressing facilities, with no system of organised collection points. This makes input supply unreliable and expensive. After delivery the olives have to be processed quickly in order to avoid quality losses. Obsolete primary production technology exacerbates the difficulties of a seasonal product, even when harvests are good.

Vertical coordination is inefficient. Processors sell oil directly to wholesalers, middlemen, retailers or to the end consumers. As long-term contracts are an exception, the mixture of distribution channels may change over time. The small average transaction size makes distribution channels inefficient. Most processors are linked to farmers in their direct neighbourhood. This at times allows for some downstream linkages in the form of training in harvesting and pruning techniques and the provision of inputs to farmers. However, only a small share of producers has the resources to do this. One such producer is Shkalla SH, a family firm created in 1997 in the Tirana area with a full staff of three to four people and a reputation for high-quality output. The firm trains its suppliers in harvesting activities and periodically provides them with harvesting nets and pruning saws.

In most olive oil producing countries in the EU, processors have characteristics similar to those of Albania: olive oil producers are small-sized, family-run businesses, which are set up in oil producing areas. The main difference, however, is that vertical coordination is more efficient. In Greece, for example, the sector is characterised by the existence of a large number of business units, which vary both in size and activity. Olive growers are organised in cooperatives that ensure stable supply. Most companies which process and/or bottle olive oil are also involved in its distribution in bulk, while there are trading companies exclusively dealing with retail sales within Greece and abroad. Moreover, a number of co-operations and their unions are busy in the production, trading and even the bottling of olive oil.

3.2. Market institutions and policies

A large number of Albanian agri-processors have been privatised over the last decade and no public ownership exists in the olive oil sector. Rural credit is also becoming available, although mostly through micro-credit schemes. In addition, producers are often organised in cooperatives. In Vlore, for example, the “Good Quality Kalinjoti Olives Association” counts some 72 members for a total of some 4,000 olive trees. In the past two years, their average yearly production amounted to 150-200 tons of fresh olives and around 20 tons of olive oil (including about five tons of Extra-Virgin). Their production is of good quality and benefits from quality packaging and effective marketing (labelling). Other similar associations exist in other oil producing regions in the country. Their number is rising and they are planning to expand their processing lines and co-operate with each other in order to meet the growing demand for quality products.

Traceability and quality standards certification represent the largest challenge in the sector. Laws on quality standards exist and are generally in compliance with international practice (e.g., law 8944/2002). However, implementation is poor. Laws
are very specific and indicate technical requirements for extra virgin denomination (max 0.8 acidity; max 20 peroxides number; spectrophotometric characteristics and panel tasting tests). The Albanian Public Institute of Hygiene also supervises the oil and water analyses performed on-site for the washing and processing of the fruits (equipment must be steam-washed only with non-chemical products). In case of olive oil for export, additional analyses may be necessary in the destination country as Albanian laboratories are not yet accredited by international authorities. As a result, only few enterprises respect the provisions of the law. Costs associated with the certification procedures make them impossible for most producers to afford. Specialised laboratories for on-site quality testing are very rare. A lack of resources and poor record keeping are the main challenges to implement traceability. The only exception is represented by a handful of more modern producers that have started to establish a traceability system by compiling a list of olive suppliers, documenting olive processing, and labelling the bottling and selling of organic olive oil.

Similar challenges prevent the establishment of organic production standards. Albania is not included in the Third Country list under the EU regulation 2092/91 on Organic Farming and no Albanian firm has been accredited according to EN45011. Law 9199/2004 on the production, processing, certification and marketing of bio-products is in compliance with EU standards, but its implementation is yet to be tested.

Quality certification and traceability are the main objectives of the EU strategy to promote the olive oil sector in its member countries and beyond. Within the general framework of its Common Agricultural Policy (CAP), the EU has introduced a series of successive reforms and policy measures aimed to achieve a better balance between supply and demand and to improve the quality of the final product. Financial aid is granted to 2.2 million out of the total 2.8 million firms currently recorded as olive oil producers in the Union. Aid is granted exclusively on the basis of the actual quantity produced, and production aid is limited to a set quota or National Guaranteed Quantity (NGQ). Per every breach of the quota there is a proportional reduction of the aid granted to producers. In addition, a share of the aid is retained at the country level to be used for implementing measures to improve product quality and to ensure the functioning of producers’ organizations.

Further policies to support quality certification of the olive oil sector are supported by the International Olive Oil Council (IOOC). Based in Madrid, Spain and counting 23 members, the council promotes olive oil around the world by tracking production, defining quality standards, and monitoring authenticity. The IOOC officially governs 95 percent of international production, and holds great influence over the rest. Olive oil is classified on the basis of how it is produced, by its chemistry, and by its flavor. Albania is currently not a member of the council. As with the EU, accession prospects for the country could prove crucial to improve its quality certification system and enhance producers’ competitiveness.

3.3. Business conduct and skills

Like all agricultural processors in Albania, olive oil producers suffer from a lack of investment capital and insufficient technical and managerial assistance. Combined with the poor status of rural infrastructure, this makes for high production costs and
low margins. Production technology does not appear to be a major problem and over 60 per cent of processors use relatively modern processing lines of the Pieralisi and Alpha-Laval type. More problematic, however, are the storage of the fruits and their classification, the bottling of the final products and the adoption of modern marketing techniques to sell the product on the market.

Firstly, Albanian producers face the challenge to secure and store fresh supply. Olives need to be stored in stainless steel or other inert-material containers, and processed within 48 hours of harvest at the latest. This proves costly given the lack of collection points, the geographic dispersion of olive farms, and the poor status of road infrastructure. Secondly, proper packaging for quality preservation is lacking and bottling equipment is often inadequate. In many reported cases, bottling is carried out with little care for health and hygiene standards and often plastic containers and bottles are used which cause further deterioration of quality. Thirdly, producers lack training in basic marketing techniques such as labelling. As a result, olive oil is not appropriately filtered; it has an unpleasant colour; there is no market incentive/premium for quality products; and consumers are unaware of the contents of the product they are buying.

Albanian producers also recognise the need to upgrade their skill profile. Skilled workers such as technicians to service the production lines and chemists to analyse the final products are much in demand. Albania’s vocational education and training system is ineffective in this respect as there is no direct link with the olive oil sector. The country still lacks vocational training infrastructure and there is a large variance of access and quality of delivery across the country. However, international and bilateral aid is coming in to bridge this gap. Projects by USAID’s Small Business Credit and Assistance (SBCA), for example, are assisting several producers to develop brand identities and to apply modern packaging techniques. SBCA provides training sessions on food and safety standards and quality management, overall marketing strategy, branding, packaging, labelling and sales. Producers involved in such initiatives generally report improved market positions and increasing sales volumes.

The experience of olive oil producers in other countries represents a good indication of how Albanian’s producers may need to adapt their business conduct and skill profiles in order to enhance their competitiveness. In terms of production technology, for example, traditional cold pressing, which is dominant in Albania, is also widespread in Greece, Spain and Italy. In the latter two countries, however, continuous systems by centrifugation, an alternative technology, are also in use. These have the advantage of increasing production capacity and avoiding the need for keeping stocks of olives. In addition, continuous systems improve hygiene and nutrient contents, therefore leading to improved quality of the final product.

Table 5. Processing: remaining transition challenges

<table>
<thead>
<tr>
<th>C1040 Manufacturing of vegetable oils</th>
<th>REMAINING TRANSITION CHALLENGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARKET STRUCTURE</td>
<td>Albanian olive oil producers are small and fragmented</td>
</tr>
<tr>
<td>Competition</td>
<td>Firms are typically family-owned and managed</td>
</tr>
<tr>
<td></td>
<td>Bottling, storing, packaging and labelling are in-house</td>
</tr>
<tr>
<td></td>
<td>Processing industry is underutilised</td>
</tr>
</tbody>
</table>
Market expansion
- Inefficient vertical coordination
- Input supply from local area only
- Some backward linkage with local farmers
- Poor rural infrastructure and farmers dispersion makes for high transport costs

Private ownership
- No remaining public ownership

Institutions
- Producers often organised in cooperatives
- Quality standards exists (Law 8944/2002) but are seldom enforced
- Infrastructure for quality certification (labs, etc.) are rare
- Traceability systems are appearing but need harmonisation
- Limited access to credit due to producers’ small size

Business conduct
- Lack of investment capital
- Insufficient technical and managerial assistance
- Production technology typically good (traditional cold pressing)
- Lack of proper bottling, storage and packaging for quality preservation
- No modern marketing techniques

Restructuring
- Some operational restructuring ongoing but the process is hampered by lack of credit

Skills
- Lack of professional and technical skills
- Lack of links to VET system

The adoption of modern marketing techniques also plays an important role in oil producing countries in the EU. In Greece and Spain, advertising substantially contributes to product sales and scientifically-based national campaigns on the nutritional benefits of olive oil educate consumers and change their consumption patterns. European olive oil producers are also involved in EU-led research and development initiatives of new products and techniques in order to expand the olive oil market. In addition, the Commission Regulation (EC) No. 1019/2002 on marketing standards for olive oil sets the standards for packaging, labelling, presentation and advertising required for marketing in the EU. Packaging rules limit the size of packaging in the retail sector, including direct sales, to five litres. Small packs reduce oxidation, minimise tampering risks and therefore improve quality. Olive oil containers for retail must clearly indicate the grade of the oil. Denomination of origin and optional declarations such as “first cold pressing” are also standardised.

The remaining transition challenges at the processing level of the olive oil chain are summarised in Table 5.
4. Distribution: Wholesale; Retail sale in stores; Retail sale via stalls and open markets

4.1. Structure and extent of markets

Olive oil distribution in Albania is mostly for domestic consumption as there is not much of an export market for Albanian olive oil yet and production is consumed domestically. Albanian-produced olive oil reaches Albanian consumers in a variety of ways, including: i) directly from farmers; ii) from farmers through local markets; iii) directly from processors; from farmers and processors by intermediaries such as: iv) wholesalers; and v) retailers, as shown in Chart 1.

Chart 1. Olive oil: distribution channels

The existing channels of distribution, however, are not efficient and intermediation is severely underdeveloped. Most of the olive oil produced by processors is returned to farmers for consumption and direct sale through tolling arrangements. The Ministry of Agriculture estimates that by far the largest share of olive oil distribution happens without intermediation, directly from farmers to consumers, or from farmers to consumers via local markets in the farmers’ area, or from processors directly to consumers. Distribution through retailers is common, although to a much lesser extent. Wholesale trading, on the other hand, is very limited. Recent FAO surveys of the business environment in the olive oil sector indicate that the lack of wholesale markets is perceived as one of the greatest hurdles for Albanian firms. Alternatives to such inefficient systems are hampered by the poor status of the country’s rural infrastructure and the limited purchasing power of Albanian consumers.

The share of Albanian olive oil distributed through retailers is estimated at some 15-20 per cent of total distribution. The retail sector is at an early stage of development, with no international or any developed local retail chain currently present. Retailers selling olive oil vary in format and include hypermarkets, supermarkets, convenience stores, corner shops and open markets. Retailers typically get their olive oil supply from farmers or processors and bottlers. Tirana remains the largest market and also the target of any food retail operators, but even in the capital, small corner shops and
open markets are prominent. In the medium term, it is expected that Albania will converge with other markets at a similar stage of development and introduce soft discount format stores and other formats.

So far, however, the retail sector remains small in scale and very fragmented, with the five or so top retailers capturing not more than 20 per cent of the market. The largest player is Euromax, of recent inception and the only superstore in Albania, which offers a choice of 14,000 products on a 4,000 square meter shopping floor. Other significant players include the medium-sized supermarkets XHEA, Galaktik and Gjokja, plus a number of small retail centres and specialised food stores that have been opened during the last few years in central locations, but with a small average store size and limited product offerings. At the small end of the retail spectrum, organic retail shops with high quality olive oil products exist although still in small numbers. Local open markets are more widespread and hold a significant share of the food market, including that for olive oil. Consolidation in retail is at a very early stage, limited to supermarket chains and only just starting to develop in Tirana.

Vertical integration with suppliers and producers is inefficient when existing at all. In the largest majority of cases, farmers and producers sell their products directly to consumers or through small local markets. In the remaining 20 per cent or so of olive oil sales through retailers, coordination is highly inefficient. As retailers’ competitive strategy is based on low pricing, the quality of the olive oil sold is often low. In a few documented instances, retailers sell olive and sunflower oil mixes as virgin and extra virgin olive oil. Poor compliance with health and safety and hygiene standards is also common, especially in small supermarkets and convenience stores. The gradual entry of larger players into the market is introducing some change. Euromax, for example, has introduced stronger quality requirements on local products while actively educating local suppliers in co-operation with USAID and other international organizations. In addition, the company makes advance payments to farmers for expenses, seeds, fuel etc in return for a steady supply of goods. As a result, the quality and timing of supply flows have improved.

The olive oil distribution system in the EU and its oil producing members provides a good benchmark for Albania. The increasing concentration of the distribution system makes for a market of buyers who are demanding in terms of quality and regularity of supplies. The first 10 retail holdings represent 36 per cent of the food retail market and the first 50 represent over two thirds of total food sales. As for olive oil distribution specifically, over 50 per cent of all consumed olive oil is distributed through formal channels such as modern-format retailers. Independent retailers and cooperatives represent up to 20 per cent of the market. Remaining distribution happens outside of the formal channels. The market is dominated by name brands, and premium labels can be found in health food shops, market stalls and other such specialist outlets. The bigger-name brands have similar levels and channels of distribution, but the smaller premium and specialist names sell through just one or two retailers and delicatessens. Key grocery chains carry a range of olive oils including their own house brands. Gourmet and specialist stores tend to carry boutique brand products.
4.2. Market institutions and policies

Retail distribution of olive oil in Albania is constrained by a difficult business environment. As indicated by the World Bank’s 2005 Administrative and Regulatory Cost Survey (ARCS), the most significant constraint on business development is the lack of a level playing field for all actors in the market. Law-abiding firms face unfair competition from businesses that do not comply with the legal and regulatory framework and/or are favoured by politicians. Currently, Euromax faces competition from small retail outlets and mini-markets inside the city, most of which still operate in the grey economy with regard to VAT and tax payments, social security payments, employment terms, health and safety regulations, etc. Although the Albanian government has been cracking down on tax evasion by such operators through the establishment of the Millennium Challenge Account in January 2006, the situation has yet to improve.

The business licensing regime offers a clear example of the difficulties affecting the retail sector. For a long time about 30 institutions were involved in the issuance and administration of over 120 licenses, permits, authorizations, certificates or consents which were regulated under different laws, decrees, guidelines, regulations and instructions issued by different ministries and government entities. Recently, procedures have been simplified, but significant effects on new market entries are slow to emerge. In this context, arbitrary behaviour and abuse of law by government officials find fertile ground. Despite the establishment of a Competition Authority and the convergence of competition legislation to EU standards, Albania still lacks a competition culture at all levels of the economy.

Like that of all food products, olive oil retail distribution suffers from a burdensome and complex regulatory framework. Albania is gradually introducing legislation on food safety along the lines of EU standards, but conformity assessment is incomplete and conformity assessment bodies are either very weak or simply non-existent. While EU convergence gradually takes place, the existing legislation is confusing and leaves room for selective enforcement. FAO’s Food Codex is not legally recognized as a food safety reference document yet. In addition, legislation on food quality and safety control is unclear about the division of responsibilities among different monitoring and control agencies and this has resulted in disputes between them. There is no state institution legally mandated with compiling and making public a document on food safety requirements and there is serious concern that sanitary and phytosanitary measures are applied on a selective basis.

Institutional capacity is also very weak and the entities in charge of food safety – the Food Research Institute, the Veterinary Research Institute, and the Hygiene and Epidemiology Research Institute – lack skills and equipment to address critical risk limits. Hazard Assessment and Critical Control Points (HACCP) are almost unknown in the Albanian business community. Practices followed by state-owned laboratories are often questionable and their results not recognized by international laboratories.

In EU member states, food safety, technical standards and health and safety are effectively regulated. Food safety is regulated by the European Food Safety Authority (EFSA), an agency of the European Union, which began operating in 2002. Based in Parma, Italy, its primary responsibility is to provide independent scientific advice on
all matters concerning food safety along the whole food production process from primary production (including the safety of animal feed) to the distribution of food to consumers. In addition, standards and health and safety are regulated by the European Committee for Standardization. Since its inception in 1961, the committee has contributed to establish voluntary technical standards which promote free trade, the safety of workers and consumers, interoperability of networks, environmental protection, exploitation of research and development programmes, and public procurement.

4.3. Business conduct and skills

In the absence of a clear legislative and regulatory framework, the small scale and fragmentation of a distribution sector with very little formal intermediation (wholesale and retail) make for formidable corporate governance and business conduct challenges. As it is common in such situations, Albanian firms survive by exploiting loopholes and bending rules. In distribution as well as in other sectors of the olive oil chain in Albania, bribes and corruption are the norm and organised crime and violence not uncommon. Corporate governance is still an unknown phrase in most of the Albanian distribution sector, not only among the smallest players. By the same token, business conduct rarely meets modern Western standards, especially in direct distribution channels between farmers/ producers and consumers.

The development of the sector, however, and the entry of new and larger formats on the retail side is effecting some change. Euromax, for example, has recently committed itself to introduce standards of transparency, corporate governance and business conduct to its operations. The Euromax management is aiming to introduce defined procedures, a level of corporatisation, and a system of checks and balances in its activities. Specifically, it will introduce the separation of ownership of the company from its management and the establishment of a supervisory board. In addition, Euromax has also introduced modern business practices such as the adoption of IFRS accounting, the introduction of formal budgeting and regular reporting procedures, the implementation of an environmental management system and environmental policies and procedures, and the adoption of arm’s length dealings with its business affiliates. In addition, Euromax is contributing to improving the standards of food supply in Albania by insisting on consistent quality, mandatory introduction of product bar codes (still a novelty by local production standards), and the elimination of under-invoicing. This puts the company in good stand in its transformation towards a modern organised corporate and makes it a benchmark for the rest of the Albanian retail industry.

While Euromax remains a first in Albania, organised retail distribution in Europe has been the standard for a number of years. This has allowed for niche products such as extra virgin olive oil to find a space in large distribution networks and now consumers find quality olive oil in all large retail outlets in the Union. As the European consumer has become more educated about qualitative differences across products, control and certification processes have acquired increasing importance. Some big distribution firms in Europe are beginning to set up certification procedures (e.g. ISO 9002), which facilitate control processes. One of the most recent developments is the establishment of EUREP-GAP, a protocol of Good Practices and use of Hazard
Assessment and Critical Control Points by operators such as Carrefour in France, Safeway in England, and COOP Italia in Italy.

The remaining transition challenges at the distribution level of the olive oil chain are summarised in Table 6.

Table 6. Distribution: remaining transition challenges

<table>
<thead>
<tr>
<th>MARKET STRUCTURE</th>
<th>REMAINING TRANSITION CHALLENGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition</td>
<td>- Formal distribution channels only some 20% of total</td>
</tr>
<tr>
<td></td>
<td>- Albanian retailers are small and fragmented</td>
</tr>
<tr>
<td></td>
<td>- Little or no wholesaler market</td>
</tr>
<tr>
<td></td>
<td>- Firms are typically family-owned and managed</td>
</tr>
<tr>
<td>Market expansion</td>
<td>- Inefficient vertical coordination</td>
</tr>
<tr>
<td></td>
<td>- Some backward linkage with local farmers are being introduced</td>
</tr>
<tr>
<td></td>
<td>- Poor rural infrastructure and little consumers' purchasing power</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INSTITUTIONS &amp; POLICIES</th>
<th>REMAINING TRANSITION CHALLENGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private ownership</td>
<td>- No remaining public ownership and some foreign interest</td>
</tr>
<tr>
<td>Institutions</td>
<td>- Generally poor business environment</td>
</tr>
<tr>
<td></td>
<td>- Lack of level playing field, no culture of competition</td>
</tr>
<tr>
<td></td>
<td>- Complex business licensing regime</td>
</tr>
<tr>
<td></td>
<td>- Unclear food safety regulation</td>
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<td></td>
<td>- Traceability systems are appearing but need harmonisation</td>
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<tr>
<td></td>
<td>- No recognition of FAO Food Codex, weak institutional capacity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUSINESS CONDUCT &amp; SKILLS</th>
<th>REMAINING TRANSITION CHALLENGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business conduct</td>
<td>- Bribery and corruption are widespread</td>
</tr>
<tr>
<td></td>
<td>- Generalised lack of modern managerial techniques</td>
</tr>
<tr>
<td></td>
<td>- No modern marketing techniques</td>
</tr>
<tr>
<td>Restructuring</td>
<td>- Some corporate governance measures and modern business conduct are being introduced by larger players</td>
</tr>
<tr>
<td>Skills</td>
<td>- Sector’s consolidation prospects</td>
</tr>
<tr>
<td></td>
<td>- M&amp;A-driven restructuring expected</td>
</tr>
<tr>
<td></td>
<td>- Lack of professional and technical skills</td>
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<td></td>
<td>- Lack of links to VET system</td>
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</tbody>
</table>

5. Concluding remarks

The analysis highlighted the limited extent of the reform process in the olive oil value chain in Albania. Challenges persist in the way actors operate along each segment of the chain. The small size and fragmented distribution of players make it difficult for them to reach beyond their immediate local areas. In addition, olive growers lack cooperative organisations to achieve some scale effect. Processors, while often organised in cooperatives, do not have access to the resources they need to improve the quantity and quality of their outputs. The distribution sector is by and large of a direct nature and organised formal distribution is limited to large cities. Olive oil wholesale markets are almost non-existent and export is close to nil. All actors along the chain are constrained by poor rural infrastructure and high transportation costs and lack modern management techniques and marketing skills.

The transition challenges appear to be largest in terms of establishing the institutional framework needed to support a modern market for olive oil. The Albanian business environment is a difficult one with cumbersome regulations, weak institutional capacity and a history of malpractice and violations of the rule of law. Although private property rights have long been established, their enforcement is often poor. The extreme fragmentation of the lands plot that results from the privatisation of the
early 1990s makes modern mechanised farming difficult. The regulatory framework for food safety and quality controls is confused at best. The potential for organic production of Albanian olive oil is evident, but hampered by the lack of an effective and internationally recognised certification process. When a legal framework is in place, its enforcement is often random when not lacking altogether.

In such a context, the possibilities for an institution like EBRD to play a significant role are somewhat limited. Firstly, the small size of the sector and its players and the informal nature of most of the market make it difficult to identify bankable projects. In addition, given the nature of some of the challenges, such as the poor business environment, other international financial institutions are possibly better positioned than EBRD to work with local authorities. Some important business opportunities, however, may emerge, notably in the downstream part of the chain, given the prospects for consolidation of the retail sector and the expected entrance of new players, both local and foreign. Specialised teams in the bank, such as the group for small business, may add value further down the chain and provide an incentive for the creation of collection points, both for olive fruits and olive oil, and start up the so far limited wholesale market. Finally, EBRD has a clear role to play in establishing a constructive policy dialogue with Albanian authorities with a view to developing a reliable quality control and certification system for olive oil. In this respect, the experience acquired with the certification of origin of wine production in Georgia would be most useful.