

## GRUPO AGRO SEVILLA FACING THE CHALLENGE OF THE NORTH AMERICAN MARKET<sup>1</sup>

Agro Sevilla was established in Andalusia in 1977 as a second-tier cooperative,<sup>2</sup> and by 2017, it was the largest producer, packer, and exporter of olives in the world and one of the most prominent oil distributors in Spain. Agro Sevilla had become a world benchmark in table olives, and since 1994 the company was the top Spanish exporter in the industry.

Based on an organization of agrarian cooperatives, Agro Sevilla controlled each step of the preparation of olives and olive oil: from the plantation and cultivation of the olive grove to the harvest of the olives and the manufacture, distribution, and marketing of the finished product. This guaranteed rigorous traceability and better quality control in all the links of the supply chain, from origin to final destination.

In September 2017, Agro Sevilla comprised 12 cooperatives and over 4,000 member farmers, reaching an annual production of more than 80,000 tons of olives, exporting them to more than 70 countries around the world, and generating an aggregate turnover of 192 million EUR in 2016 (188 of them from olives). All this made Agro Sevilla the largest table olive company in the world.



Several analysts considered that the arrival of Donald Trump in the White House on January 20<sup>th</sup> 2017 was largely due to his advocacy of the American industry against foreign imports. His motto "*America First*" was a protectionist message that had shaken

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<sup>1</sup> Case of the Research Division of San Telmo Business School, Spain. Prepared by Professor Miguel Angel Llano Irusta, of San Telmo Business School, to be used as a basis for class discussion only and not to illustrate any judgment on the effective or ineffective management of a specific situation.

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<sup>2</sup> Cooperative whose members are other cooperatives.

the country's primary trading partners ever since. Among them, Spain had become one of the first hot spots of the North American agri-food industry.

More specifically, two Californian companies had targeted Spanish black olives, a staple in American fast food, imported into the US from the Autonomous Communities of Andalusia and Extremadura. Under the accusation of unfair competition, these companies alleged that black olives were sold in the United States at a price below the European market price.

On June 22<sup>nd</sup> 2017, the two leading American companies involved in the manufacture of black olives, Musco Family Olive and Bell-Carter Foods, filed a complaint with the US Department of Commerce through the *Coalition for Fair Trade in Ripe Olives*. Their allegations were based on alleged dumping<sup>3</sup> practices and the granting of subsidies that, they argued, rendered their products less competitive.

In this situation, it was contradictory that there were no actions against any other European exporter, such as Greece or Portugal, but only against Spain, the primary producer of table olives. *"There is a significant concern in the industry. The European aid model applied to all farmers through the Common Agricultural Policy (CAP) is being called into question. If the anti-dumping and anti-subsidy duties get the green light, they will set a dangerous precedent for any product receiving aid from the European Union,"* lamented the general secretary of the Association of Exporters and Industrialists of Table Olives (Asemesa), Antonio de Mora.

In 2016, Spain exported some 32 million kilos of black olives to the United States, which, according to Asemesa, meant revenues of 70 million EUR. In practice, the lawsuit could endanger black olive exports, which accounted for 10% of the total Spanish exports and 40% of exports to the United States (the rest were green olives).

Many voices in the industry tried to explain that it was not olives nor any other specific product that received the subsidies, but the farmers for being farmers and that this was done with the approval of the World Trade Organization. If the case before the Department of Commerce prospered, sources in the industry warned that it would impact the main market where Spanish exporters sold their product.

The Spanish table olive industry was undergoing a crucial moment that would determine its future. With a very mature domestic market and no apparent changes in sight, exports played a decisive role in the activity of manufacturers. Moreover, the United States was the cornerstone of these foreign markets since it represented 23% of Spain's total exports of table olives and was by far the first destination and a market with much growth potential. In this context, the complaint was putting Spain, the world's leading producer of table olives, in jeopardy.

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<sup>3</sup> *Dumping*: selling a product in the US the at a price lower than the domestic market price; in the case of Agro Sevilla, who did not sell in Spain, the domestic reference was the Italian market.

Faced with the complaint, Antonio de Mora expressed his opinion: *"The dumping complaint can have a very negative impact, because if the black olive market in the United States closes for ten years, the worst case scenario is that we would cease to export 700 million EUR, causing a huge imbalance in the industry and encouraging other competing countries to take a better position in the US market."*

*"Investigations are still in an early stage and information is being gathered. We can expect preliminary resolutions as of November 2017 and final resolutions in July 2018. From the beginning, we are working in full coordination with the EU, Spanish, and Andalusian administrations to provide an appropriate response. We believe that we are working very well, although a political response from the EU will most likely be necessary. The companies that the Department of Commerce of the United States has selected to collaborate in the investigations are Ángel Camacho, Agro Sevilla, and Aceitunas Guadalquivir. However, the entire olive industry will be affected directly or indirectly, since any tariff measures would apply to all exports and the closing of this market would cause a great imbalance at the industry level."*

Asemesa together with the Secretary of State for Trade, the Ministry of Agriculture, the Ministry of Agriculture of the Junta de Andalucía, and the European Commission, were up in arms, buried in paperwork, hiring prominent lawyers and scheduling trips to Washington. They faced the hardest legal battle olive-farmers could recall, and the survival of the Spanish olive prosperous business depended on how it was solved. In 2017, the United States was a key market for the Spanish black olive. If these sales were lost, some companies would be left without a destination for part of their output, which, in some cases, such as that of Agro Sevilla, accounted for more than 20% of the total. They would have to redirect the product to other places, which is never easy. *"It is not possible to offset the consumption potentially lost in the United States by increasing it somewhere else in the world overnight,"* complained José Ignacio Montaña, CEO of Agro Sevilla.

### **AGRO SEVILLA IN 2017**

Agro Sevilla's external outlook was to strengthen its leading position, aiming to remain the top global benchmark in the olive market. Its internal vision was to build an organization whose culture was truly oriented towards process and product innovation and favored integral management of the value chain.

Its mission was to help its member farmers to grow sustainably by guaranteeing that their products would be marketed around the world, contributing value to its customers with healthy products, obtaining an optimal profitability, promoting personal and professional development among employees, and boosting socioeconomic progress in the area, La Roda de Andalucía, in the province of Seville. Exhibit 1 shows a summary of Agro Sevilla's mission, vision, and values.