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The UK Peanut Market

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Report Highlights:

Peanuts are an established part of the UK snacking sector. But peanut products are losing ground to alternative snack foods. Growth in the nuts category is attributed to premium nuts, such as cashews and pistachios. Overall, peanut consumption is considered static. In the current year, imports from the U.S. have fallen dramatically, with China and Argentina filling the void.

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Executive Summary

The UK is the second largest peanut market in Europe, with only the Netherlands consuming more peanuts. The snacking sector has grown over recent years, with a growing snacking culture the key market driver. This has meant strong competition for peanuts from a wide range of new and innovative snack products. Peanuts are increasingly viewed as a standard product category and the leading processors have channeled innovation and new product development towards higher value nuts and snack foods within their portfolio. As a result, although the nuts category is growing as a whole, the market for peanuts is static.

Peanut usage by the food processing trade is considered to be increasing, with confectionery a key user. Large volumes are also utilized in the manufacture of peanut butter, although its popularity is not on the same level as U.S. demand. Market performance has also been hit by the snacking trend. Consumers increasingly eat on the move and skip breakfast, contributing to a decline in sales of all sweet spreads.

Supermarkets are the main sellers of nuts, accounting for approximately half of category sales. They tend to stock private label products and larger pack sizes than convenience stores and independents, where the focus is on generating impulse sales for immediate consumption. Also responding to consumer impulse are sales through the foodservice sector, and particularly through bars and public houses (also known as the on-trade). Branded products and small pack sizes are particularly reliant upon on-trade sales.

The EU's tariff schedule imposes duty rates of between 11.2 and 12.8 percent on processed peanut products and peanut butter. Raw peanuts (shelled and in-shell) are both zero-rated. As a result, the majority of product bought into the UK are raw, shelled peanuts. Trade of packaged/processed peanuts tends to be in relatively small volumes and with other EU member states.

The U.S. has traditionally been a key supplier to the UK market. However, supplies from China and Argentina have eroded U.S. market share. This is particularly true in the year to date, with the high price of U.S. peanuts encouraging UK processors to look at alternative suppliers. U.S. products can command a price premium in the UK due to their high quality and processing characteristics, but alternative suppliers have increased the quality and consistency of their product. The result is that imports of U.S. peanuts have fallen 40 percent in the year to date, while imports from China and Argentina have increased dramatically.

The UK Peanut Processing Sector

The food processing sector as a whole is under pressure from the leading supermarkets to reduce the cost of food products. Asda Wal-Mart is now the number 2 retailer in the UK and their arrival signaled a movement towards Every Day Low Pricing. For example, the UK's number one retailer, Tesco, aims to match Asda Wal-Mart on product retail price. Promotions at the retail level are increasingly focused on offering discounted prices or multi-buy offers to consumers. The entire supply chain has been forced to react accordingly and become similarly cost conscious. Peanut processors have not been immune to this trend, particularly with the current positioning of peanuts as a standard product.

So far, there has been little consolidation in the peanuts sector as a result of this retailer pressure - it is already dominated by relatively few processors. The major processors remain KP Snacks (a subsidiary of United Biscuits), Trigon Snacks and Percy Daltons. Other suppliers include Golden Wonder and Sun Valley.

Processors, on the other hand, have changed the way they do business. They have shifted towards just-in-time ordering and cut back storage capacity given to peanuts. Cold storage in particular is now geared towards higher value nuts. The peanut sector has historically been characterized by low advertising spend, but where funds are available, processors are switching promotional efforts to alternative, premium products. But primarily, the processors have looked towards more competitively priced suppliers of peanuts in an attempt to meet retailers' pricing promises.

Consumption

The Trend Towards Snacking

Peanuts are an established element of the snack foods offering in the UK and there continues to be a general trend towards snacking and casual dining. British consumers are often described as cash rich but time poor, a combination that has led to them being the biggest on-the-go eaters and drinkers in Europe. By 2007, almost a quarter of all eating occasions in the UK will be on-the-go, according to forecasts from market research company Datamonitor. Driving factors of the snacking culture include shifting work patterns, increasing commute times, declining home meal preparation and regular meal times, and the growth in home entertainment.

There are obvious benefits to be expected from being part of a growing category. However, it is important to recognize that it is not only the sweet and savory snacks sector that benefits from current snacking trends. Food manufacturers have invested in new product development and repositioned existing food products to capitalize on snack market opportunities. Perhaps the best example is the growth of cereal-based snack bars. The category has doubled inside five years, with sales of breakfast bars leading growth. Food manufacturers have identified a specific snacking opportunity and developed a specific range of products to meet that gap. In addition, brand extension across categories has become increasingly common. For example, established confectionery brands have leant their names to new products in the dairy, biscuit and bakery sectors. In summary, competition in the snacks category is strong and will continue to strengthen.

As a whole, the UK's sweet and savory snack sector has continued to grow over recent years. The sector is currently valued at US\$ 4.23 billion, according to data from Euromonitor. Potato chips and extruded snacks form the bedrock of this category, accounting for 80 percent of sales by value. The star performers in the category are fruit snacks, pretzels, tortilla chips

and popcorn. All recorded growth of more than 30 percent in the period 1999 – 2003, albeit from a low base.

Trends in the UK Nuts Category

Nuts form the third largest category in the sweet and savory snack sector, with a market share approaching 7 percent. The current value of the nuts category at retail level is estimated at approximately US\$293 million, with foodservice sales generating a further US\$85 million. The nuts category recorded value growth of 17 percent over the period 1998-2002. However, this follows a period of stagnation in the sector, when it was largely considered a mature market. Growth has been predominantly driven by increased sales of mixed and tree nuts. Premium and specialty lines, mainly cashews and pistachios, continue to enter the category and gain market share. Salted, unsalted and dry roasted peanuts are considered standard products and have been characterized by slow sector growth. Such standard products account for an estimated 57 percent of value but three quarters of sales volume in the nuts category. Per capita consumption of packaged peanuts is consistent at a little over 2 kg per year, and is forecast to remain stable in the short term. This is despite news stories about nut allergies raising consumer concerns about the safety of nut products and is a reflection on the broad appeal of peanuts across age and socio-economic ranges.

With static market performance, the leading peanut suppliers have turned to new product development to grow the market. New flavors and coatings are being introduced and manufacturers are attempting to position these products as premium peanut lines. Examples include honey-roasted nuts, new flavorings (tex-mex, oriental, thai) and the addition of organic lines. Product packaging has also been reviewed, with new designs and variants introduced. In keeping with nuts' seasonal positioning (40 percent of annual nut sales occur in the 12 weeks leading up to Christmas), yogurt covered peanuts are currently available in snowman shaped packaging to capitalize on the Christmas market. The majority of new product launches occur in the run up to Christmas to take advantage of this seasonal demand.

Peanut Products

Peanuts are utilized in significant volumes by the food processing sector, particularly in confectionery. Increasing demand for pre-prepared ethnic foods has also contributed to demand for peanuts as an ingredient. Although no specific data exists on peanut usage by the leading food processors, the general consensus among the trade is that usage is increasing, albeit at a slow rate. Peanuts for ingredient use are supplied by the peanut processing industry. Country of origin therefore largely reflects the supplier profile of imports, with food processors not specifying country of origin when ordering supplies.

Significant volumes of peanuts are used in the manufacture of peanut butter in the UK. Household penetration is relatively low, especially compared to its popularity with U.S. consumers. By no means can it be considered a store cupboard staple. Peanut butter accounts for approximately 12 percent of the sweet spreads category. However, the category as a whole is under pressure because UK consumers increasingly skip breakfast, preferring to snack later in the day. As a result, total sweet spread sales fell by 5 percent between 2000 and 2002. Peanut butter sales have fared little better, recording a 3.4 percent decline in sales value over the same period. Sales have also been hit by the concerns over nut allergies. There has been little innovation in the category to date and analysts indicate that the market will continue to decline further.

Distribution

stores, gas station forecourts and the foodservice sector (including the on-trade: pubs, bars, licensed premises) are a significant part of distribution.

Table 1 : Distribution of Snacking Nuts by Outlet Type by Sales Value (US\$ million)

Outlet Type	1998		2000		Sales Growth (1998-2000) percent
	Sales	Market Share	Sales	Market Share	
Supermarkets	151	48	175	49	15.7
Independents	31	10	34	10	11.1
Convenience Stores	26	8	29	8	13.3
Gas Station Forecourts	12	4	12	3	0.0
Off Licenses	2	1	3	1	100.0
On trade (pubs, bars, foodservice)	95	30	104	29	8.9
Total	316	100	357	100	12.9

Source: Mintel Nuts and Dried Fruit, July 2001

Although shrinking (pub numbers fell by 2,000 in the second half of the 1990s), the on-trade remains an important sector for peanuts. Pubs and bars take the bulk of small pack sizes and are key outlets for branded lines. In common with the majority of food products in the UK, the largest retailers of nuts are the leading supermarket chains. They dominate distribution and, by growing sales at a faster rate than competing outlets, look set to strengthen their position.

Peanut pack types vary between outlets. For example, in convenience outlets, pack types will typically be small and positioned near complementary products, such as sandwiches, magazines and videos. By contrast, supermarket stocks tend to focus on larger pack sizes (up to 1kg) and multipacks, that are not intended for immediate consumption. Many of these larger sized packs are typically private label products, and given the dominance of the supermarkets, it is unsurprising that private label products account for approximately 60 percent of the nuts market.

Table 2: Manufacturers Shares in the Nuts Market 2000

	Sales (US\$ million)	Market Share	Sales Growth (1998-2000) percent
KP Snacks	86.7	24	8.5
Other Brands	56.1	16	10
Private Label	214.2	60	15.6
Total	357	100	12.9

Source: Mintel Nuts and Dried Fruit, July 2001

In the branded nuts market, KP Snacks is the market leader, with a 45-50 percent share of snack packet sales. Trigon Snacks is the number two supplier to the market, with their Planters and Big D peanut brands particularly strong in the on-trade. Sun Valley and Golden Wonder both manufacture branded products, whilst Percy Daltons is a large supplier of private label products.

As with peanuts, private label peanut butter products account for a large proportion of sales, but reports suggest consumers are switching to branded products. The leading brand is Sun-Pat (purchased by Premier Foods in 2002 from Nestle) with an estimated market share of 38 percent.

Trade

Import Matrix

Country	United Kingdom		
Commodity	Peanuts		
Time Period	CY	Units:	MT (inshell equivalent)
Imports for:	2001		2002
U.S.	23715	U.S.	36472
Others		Others	
China	46336	China	31327
Gambia	20915	South Africa	8912
Argentina	17554	Argentina	8855
India	8533	Gambia	6299
Nicaragua	7784	Sudan	5162
Sudan	7144	India	4073
South Africa	5558	Netherlands	3861
Senegal	4404	Nicaragua	3688
Australia	2859	Australia	2856
Netherlands	1827	Honduras	2287
Total for Others	122914		77320
Others not Listed	4465		7721
Grand Total	151094		121513

Export Matrix

Country	United Kingdom		
Commodity	Peanuts		
Time Period	CY	Units:	MT (inshell equivalent)
Exports for:	2001		2002
U.S.	90	U.S.	369
Others		Others	
Ireland	2174	Ireland	2557
Sweden	1049	Sweden	802
Germany	846	Norway	237
Netherlands	572	Bolivia	181
Norway	232	Switzerland	131
Poland	139	Germany	98
France	131	Saudi Arabia	81
Saudi Arabia	108	France	59
Hungary	107	Finland	55
Switzerland	86	Romania	52
Total for Others	5444		4253
Others not Listed	453		472
Grand Total	5987		5094

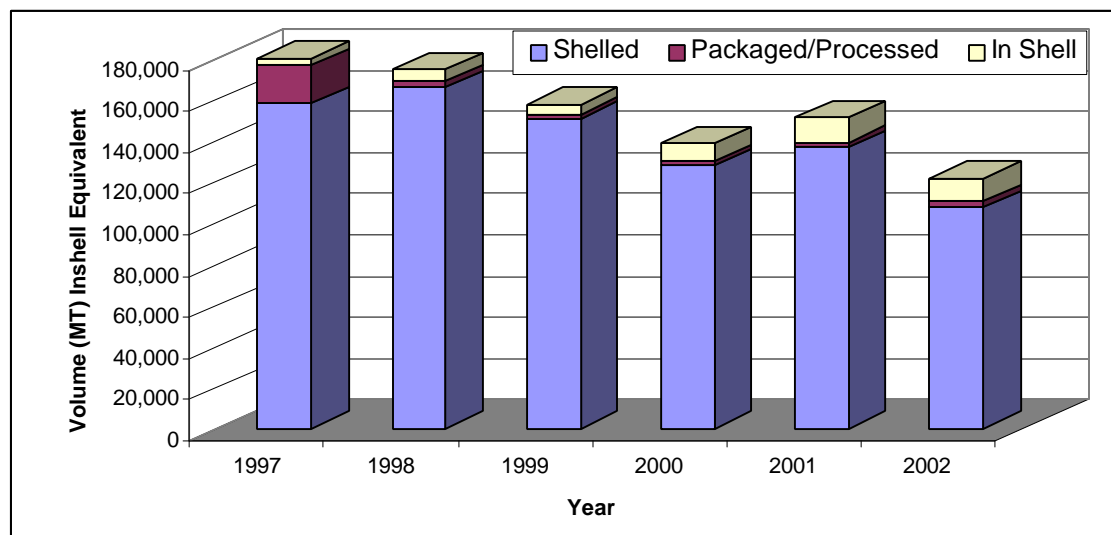
Peanut Trade Trends

The UK is wholly reliant on imports to meet its peanut requirements and re-exports only a small proportion of product, mainly in a processed form. The above trade matrices show how shipments from the U.S. recovered in CY2002. The short U.S. peanut crop in CY2000 meant that exports to the EU fell considerably in CY2001, but recovered through CY2002. However, as the chart over the page indicates, the UK's peanut imports are on a downward trend. Import volumes in CY2002 represented a decrease of one third on 1997 volumes.

Approximately 90 percent of imports are raw, shelled peanuts. At present, a further 7-8 percent of import volumes are raw, in-shell peanuts and the remainder is packaged/processed peanuts. Post does not expect this product split to significantly alter. Raw peanuts, both shelled and inshell, face a tariff of zero percent compared to the 11.2 – 12.8 percent tariff payable on imports of processed/packaged peanuts and peanut butter. With such duty rates, it remains financially beneficial for European manufacturers to import raw, shelled materials and process them further within the EU. Indeed, further analysis of the UK trade in packaged/processed peanuts indicates that this is dominated by transactions between EU member states. Germany and the Netherlands are the key players on the supply side and the UK's main export markets are Ireland and Scandinavia.

The U.S. has historically been a key supplier of raw, shelled peanuts to the UK. Just over 25 percent of raw, shelled peanuts imported between 1997 and 2002 were of U.S. origin. The other major suppliers to the UK over the same period were China, Argentina and India, collectively supplying 53 percent of the UK's requirements. The U.S. does face particularly strong competition from Argentina and China, with both able to supply peanuts at more competitive prices. Indeed, a key element of the American Peanut Council's cooperator

Chart 1: UK Peanut Imports 1997-2002 by Product Type (Volume MT – inshell equivalent)



program in the UK has been targeted at communicating the reliability of supply, processing performance and superior quality of U.S. peanuts in order to justify the price premium paid for U.S. product.

In the current year, imports of peanuts from the U.S. have fallen dramatically. U.S. origin imports in the first three quarters of CY2003 are some 40 percent below import levels over the same period in CY2002. Imports have declined successively in each quarter. It remains to be seen whether the weakening dollar will help improve export performance in the final quarter. Trade data indicates that UK traders are switching to alternative suppliers because of the relatively large price differentials between U.S. and third country suppliers. In the current year to date, average import price of raw, shelled peanuts from both Argentina and China is approximately US\$700/MT, according to trade statistics.

By contrast, the average price of U.S. imports is nearer US\$900/MT. As a consequence, shelled peanut imports from China and Argentina have strengthened, increasing by a phenomenal 68 and 157 percent respectively. Additionally, the average price paid for these supplies has also increased through CY2003. September import prices of Chinese and Argentinean product were more than US\$200 higher than at the start of the year.