



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 10/02/2000

GAIN Report #UK0042

United Kingdom

Exporter Guide

Insider's Perspective on the UK Food Market

2000

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Report Highlights:

With the UK's historic and political ties to the U.S., and the fact that the UK mirrors closely the trends in the U.S. retail and foodservice markets, the UK presents considerable opportunities for U.S. consumer-oriented products. Healthy choices (organic, is classified in this category), convenience foods and international flavors are the three main driving forces in the UK value-added food market today. All three areas have opportunities to be explored by U.S. exporters.

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SECTION I. MARKET OVERVIEW

Macro Economic Situation

The UK economy is one of the strongest in Europe, and its performance in recent years has been remarkable. Real growth has been high - Gross Domestic Product or GDP is increasing by 3% per annum, unemployment has declined steadily to very low levels (5.4%), and inflation has remained subdued (currently around 3%). With UK manufacturing output at potential or trend levels, consumption demand buoyant, UK exports strengthening (despite the high level of sterling) and labor markets tight, the stability of the UK economic prospects are predicted to augur well over the medium term.

Key Demographic Trends

- ' UK population has grown steadily at an average of 0.35% over recent years to reach 59.2 million in 1998.
- ' The population is expected to peak at 62.9 million in 2036 and then gradually decline reaching 57 million by 2050.
- ' Almost 90 percent of the UK population is to be found in England, one of the most urbanized areas in Europe. Of this total, over 7 million people live in Greater London (the area within the M25 ring-road).
- ' Areas of highest disposable income are South East England (\$16,894) and London (\$17,734). These are also the areas with the greatest population density.
- ' The UK population is getting older: in 1998, 15.7 percent of the population was 65 years of age or older. It is estimated that by the year 2041, 30 percent of the UK population will be over 60. There are more 30-34 year olds in the UK than any other age group.
- ' The UK population comprises an ethnic mix of 3% Indian/Pakistani/Bangladeshi; 2% Black - Caribbean/African/Other; and 0.3 % Chinese
- ' Figures for 1997-98 show 28 percent of UK households are single person households, while 34 percent consist of just two people with no children.
- ' A 1998-99 survey of female main shoppers found that almost 47 percent were working either full or part time.

As a result of these demographic trends, the UK consumer is demanding more convenience foods, increasingly "grazing" on smaller meals throughout the day and "eating on the go". The trend to a time-poor lifestyle (UK average time spent on cooking is 47 minutes per day) and breakdown of the traditional family structure has affected and will continue to drive innovation in packaging, convenience and choice.

The impact of the convenience revolution is, by its very nature, that unprocessed and semi-processed products are decreasing in popularity - the size of the home-baking fixture in UK retail outlets is constantly diminishing. However, niche markets can be found for cake, cookie and bread mixes as specialty items. Although price remains important, UK disposable incomes as a whole are on the rise (average weekly earnings rose 4.4 percent to \$612 in 1998) and the UK consumer is becoming increasingly discerning with quality an important concern. UK consumers are increasingly prepared to pay the value-added price for convenience, particularly in the densely populated South East England region, which includes London. The UK consumer is very conscious of food safety issues as high profile food scares in the UK such as the BSE (Mad Cow) crisis and salmonella provide a backdrop to food purchasing decisions.

Consumer-Ready Food Market Overview

Total expenditure on food and drinks in the UK (including retail and catering expenditure) currently represents just under 20% of total consumer expenditure. Food sales are around \$75 billion a year and alcoholic drinks sales (including tobacco) are over \$45 billion.

There was little significant movement in the UK food and drinks market in 1999, with the strongest growth rates being seen in the chilled foods (+6%), fish and fish products (+5%) and snack foods (+4%). The growth in chilled foods and snack foods reflects the increasing importance of convenience and snacking to the UK's modern consumers.

The under-performing sectors during 1999 were sweeteners and preserves (-6%) and oils and fats (-3%). The common factor with these two sectors is the health issue, with sugar and fats being two of the major food groups being actively avoided by the UK's health-conscious consumers.

The table on the next page gives an overview of the growing and declining sectors of the UK food and beverages market. Please also refer to Table A at the back of this report to compare this information with the trends in U.S. exports to the UK.

UK Food and Drinks Market Sectors by Value, 1998-99

(£ billion)

Product Category	1998	1999	Percentage change
Alcoholic beverages	30.06	30.80	+2
Meat and meat products	11.90	11.69	-2
Dairy products	7.65	7.55	-1
Fresh fruit & vegetables	6.75	6.94	+3
Soft drinks	6.80	6.90	+1
Confectionery	5.40	5.50	+2
Bakery products	5.13	5.10	-1
Frozen food	3.76	3.89	+3
Snack foods	2.50	2.60	+4
Fish and fish products	2.38	2.50	+5
Cereal products	2.35	2.37	+1
Canned foods	1.75	1.72	-2
Hot beverages	1.43	1.45	+2
Chilled food	1.32	1.41	+6
Meal accompaniments	1.21	1.25	+3
Oils and fats	1.11	1.08	-3
Sweeteners and preserves	0.53	0.50	-6

Note: Categories are not mutually exclusive. For example, canned fish sales are included in both "Canned foods" and "Fish and fish products".

Source: Leatherhead Food Research Association

Advantages and Challenges for U.S. Exporters in the UK

Advantages	Challenges
Market dominated by few retailers with strong market penetration. Sophisticated replenishment systems mean U.S. product would be widely distributed.	Retailers demand significant volume and their concentration can make market access difficult initially. Trial listings must give results in a short time or product will be de-listed.
There are a large number of specialist importers.	The UK has well-established brands for mainstream products. Brand building and marketing costs are substantial.
The U.S. has a good brand image in the UK.	Strict (EU) import regulations and labeling/ingredient requirements.
The country is English speaking and is therefore a natural gateway into the rest of Europe for U.S. exporters.	EU competitors do not pay import duty on goods to the UK, the U.S. pays 0-20% import duty, in general, depending on the product.
The U.S. is a popular destination for the UK tourist and familiarity with U.S. products is widespread.	Culture clash - U.S. exporters must appreciate that the UK is not the 51 st state. Wary UK reaction to biotechnology and other agricultural practices commonplace in the U.S. highlight the importance of understanding the market.
Strong purchasing power, sophisticated market. In general, UK tends to mirror U.S. trends in retail and foodservice concepts.	Popularity of specialty products from many EU countries and U.S. competitors is high, e.g. French cheeses, Spanish citrus, Italian pasta, South African wines. In addition to higher transport costs, the U.S. has to compete with the duty free nature of intra-EU trade.
Strong interest in innovative products, interest particularly high in organic, health, specialty and ethnic food categories.	Taste buds do differ in the UK - in general there is not the same affinity for popcorn, peanut butter & U.S. style chocolate

SECTION II. EXPORTER BUSINESS TIPS

Local Business Tips

- ' UK retailers and foodservice outlets prefer to receive U.S. products from a UK importer. This is attributable to the specialist nature of importing - retail/foodservice outlets will not have/or delegate the resources to perform the required ingredients and label check and handle the customs clearance procedures.
- ' The UK importer has legal liability for imported products marketed in the UK and therefore has a strong interest in working with U.S. suppliers to ensure that the product meets all import and marketing requirements.
- ' Finding the right importer/partner is paramount to success in the UK market, alongside ensuring that current market conditions are favorable for the U.S. product and delivering a quality product in suitable packaging at the right price point.
- ' Participating in UK trade shows provide an effective means of finding a UK importer - a list of these can be found in the UK Promotion Opportunities Report #UK0036 on the FAS homepage at <http://www.fas.usda.gov>.
- ' Lists of UK importers and targeted assistance can be obtained from the FAS/USDA London office - contact details can be found in Section V of this report.
- ' After finding 3-5 prospective UK importing companies with distribution links and complimentary portfolio to your product try to arrange a face-to-face meeting with each.
- ' When attending appointments with UK importers treat the meeting the same as if you were meeting with a very important customer - to find the right UK importer you must "sell" the product to that person so that they are filled with enthusiasm to sell your product for you.
- ' Do your homework, try to know the following:
 - % Why will the product work in the UK? - Do basic market research
 - % What is the target sector (retail/HRI/processing)?
 - % If retail, in what category & fixture would the product fit?
 - % What is the import duty, and excise tax (if alcoholic beverage)?
 - % Is the product liable for UK Value Added Tax?
 - % What is the UK final price point you are aiming for?
 - % Will the product label need to be altered?
 - % Are there any ingredients which are not permitted in the EU?

UK importers can assist in obtaining the answers to the above questions, however, it will save time if it is clear from the beginning that the product is a viable option. It also means that the importer can start to sell the U.S. product much sooner from initial interaction, thus ensuring motivation is maintained. The FAS/USDA London office can assist in obtaining the answers to the above questions, contact details can be found in Section V of this report. FAS London can also assist with locating importers through its American Food & Wine Directory which should be available on the Internet from October 2000 at www.usda.org.uk.

Bear in mind that marketing costs from the U.S.A. to the UK may include some or all of the following:

- % Sea/Air freight costs
- % Insurance costs
- % Import duty/Excise duty/Value Added Tax (if applicable)
- % Commission or margin to the importer
- % Customs entry and clearance
- % Handling charge to importer (can be a small charge deducted from wholesale price)
- % Transport to packing house and/or on to depot
- % Packaging and labeling
- % Overheads, wastage and shrinkage allowance
- % Mark-up by supermarket retailer (30-70%)
- % Promotional funds to launch and promote product in UK

General Consumer Tastes and Preferences

The major drivers within the UK food and drinks market have remained similar for several years and include health concerns (low calorie/fat/sugar; organic; functional foods), increased demand for convenient foods (frozen ready meals; ambient microwaveables; snacks), and growing demand for quality foods made to traditional or authentic foreign recipes (ethnic sauces and meal accompaniments). These three factors have a major influence on consumer food choice and present the main areas of opportunity within the UK market.

Healthy eating, or "watching what you eat", is a growing trait - as is the popularity of vegetarian/meat reducing, functional and organic foods. The UK organic market is growing at around 40% per annum and during 1999, organic lines were introduced in virtually all sectors of the UK food and drinks market. There are now more mainstream organic products available in addition to the niche lines, however, opportunities still exist for U.S. products since the UK is relying heavily on imports to meet the demand. Further information on the UK organic market can be found in the UK Organic Market Brief #UK0008 available on the FAS web site: <http://www.fas.usda.gov>.

The influence of the UK's ethnic restaurants, increased global travel and an explosion in TV cookery shows has flowered new taste buds in UK consumers, so that they now enjoy a greater variety of cuisines and specialty foods. UK consumer tastes can vary from region to region and can be dependent upon age. In general, Scotland/Northern Ireland /Northern England is more traditionally oriented with less disposable income in comparison to Southern England. However, there are pockets of adventurous, affluent

consumers in all major cities and indeed in some smaller towns. Established tastes are Italian, Chinese and Indian and while these are still growing sectors of convenience foods, Tex-Mex, Cajun/Caribbean, Thai, Japanese and other Oriental cuisines are increasing in popularity too.

The UK does tend to mirror the U.S. with regard to trends in retail and foodservice, however, tastes are not the same in all cases e.g. generally pretzels; syrups; and U.S. style chocolate have not gained widespread acceptance in the UK, even peanut butter and popcorn, despite significant growth in popular consumption, are not yet main-stays of British choice.

The UK market presents opportunities for U.S. products in niche areas - there is a paradoxical demand for low price food (a "Rip-Off Britain" perception has led to a Competition Commission study of retail margins set by the UK supermarkets), but also a demand for luxury items. UK consumers are often polarized in their buying habits: buying economy staples, while indulging in luxury convenience items.

The UK pub culture remains very strong and the pub is increasingly a place for UK consumers to dine out with family and friends. This presents opportunities for U.S. products such as savory snacks, sauces, dips, tex-mex and, of course, alcoholic and soft beverages.

The UK consumer has experienced an unfortunate number of food safety scares over the past ten years which has led to mistrust of government food policy and regulation. This has created a climate which has inhibited the acceptance of biotechnology but at the same time contributed to the growth of the organic market.

Further information on this area is available in the UK Consumer Trends Report #UK0031 which can be obtained from the FAS homepage at <http://www.fas.usda.gov>.

Food Standards and Regulations/General Import and Inspection Procedures

The UK, as a member of the European Union (EU), conforms to all EU Directives, Regulations and obligations. Based on the EU single market principle, all food products legally imported and distributed in one member country of the EU can also be distributed in all other member countries, except in those cases when a country can prove health concerns about the product intended for import. Information on UK requirements for labeling, ingredients, packaging, pesticides and UK import and inspection procedures is available entitled: Food and Agricultural Import Regulations & Standards Report (FAIRS) #UK0029 and can be obtained from the FAS homepage at <http://www.fas.usda.gov>.

The FAIRS report refers to the role of a new UK government agency - The Food Standards Agency - which came into being April 1, 2000. See also the web site at <http://foodstandards.gov.uk>.

Please be aware that the following U.S. products (and products containing the following) experience certain difficulties when exported from the U.S. to the UK for the reasons shown below:

- % Fresh beef (Exports from "hormone-free" herds and U.S. plants with EU approval only)
- % Dairy (U.S. product must come from an EU approved establishment only)
- % Poultry meat (Effective EU wide ban on U.S. poultry meat imports due to U.S. production processes)
- % Fresh fish (U.S. product must come from an EU approved establishment only)

Section III. Best High Value Product Prospects

U.S. exports of consumer-oriented product to the UK (US\$ thousands)

Product	1996	1997	1998	Trend
Snack Foods (excl. Nuts)	17,353	38,635	48,403	888
Breakfast Cereals & Pancake Mix	2,608	4,131	3,996	8
Red Meats, Fresh/Chilled/Frozen	13,533	15,624	24,891	88
Red Meat, Prepared/Preserved	1,127	335	684	9
Poultry Meat	3,992	4,413	1,210	9
Dairy Products	7,993	10,552	11,436	8
Eggs & Products	2,562	2,478	4,737	88
Fresh Fruit	54,049	62,018	65,021	88
Fresh Vegetables	12,806	17,943	20,629	88
Processed Fruit & Vegetables	120,178	110,074	105,392	9
Fruit & Vegetable Juices	19,675	22,476	23,373	8
Tree Nuts	80,941	59,132	59,623	99
Wine & Beer	102,509	123,841	164,243	88
Nursery Products & Cut Flowers	2,717	3,539	2,806	-
Pet Food (Dog & Cat Food)	36,844	24,302	23,259	99
Other Consumer-Oriented Products	50,896	87,483	82,510	-
Total	529,783	586,976	642,213	88

Source: BICO

Cereal products

The total cereal products market was valued at \$3.8 billion in 1999, up 3 % since 1998. Breakfast cereals dominate the market, accounting for sales of \$1.7 billion, while pasta is the second largest category at over \$950 million. The major growth sectors in the UK cereal products market in 1999 were cereal bars and flour, up 18% and 9% respectively, while the pasta market rose 3%. The breakfast cereal, rice and popcorn categories all showed a slight drop in sales.

The breakfast cereals category is now extremely mature in the UK and is facing increasing competition from a new generation of breakfast foods such as cereal bars and other products that can be eaten on the move. Within the overall market, the sweetened cereals sector appears to be showing the best growth. The most significant product developments in 1999 included children's cereals, organic cereals and healthy cereals.

As implied above, the cereal bars category represents the fastest growing sector in the cereal products market, with sales having been boosted in recent years by the launch of breakfast bars, such as Kellogg's NutriGrain, and bar products based on mainstream breakfast cereal brands, such as Rice Krispies Squares.

There are niche opportunities for breakfast cereals and cereal bars which are organic/low refined sugar and taste great in the UK's health stores, organic/natural stores and delicatessens.

Following a couple of years of significant growth, the UK rice market is slowing with just 3% growth in volume in 1999 and -1% value growth with of \$680 million. Overall, the market has grown by over 100 percent in the past 5 years, with value sales up by 178 percent. Greater consumption of rice is thought to be attributed to the increased popularity of ethnic foods that tend to involve rice, such as Indian, Chinese or Thai cuisine. Also, there is an increased number of varieties available in supermarkets such as Jasmine rice, and many different mixtures involving wild rice, for example, wild and basmati.

The UK popcorn market has grown 38% between 1995 and 1999 to reach nearly \$1 billion. Sales of ready-to-eat popcorn at cinemas and theaters continue to dominate, however, sales at grocery stores and gas station forecourts are on the increase.

Meal Accompaniments

Total sales of meal accompaniments amounted to \$2 billion in 1999, with the largest sectors of the market being sauces at \$1 billion, gravy at \$300 million, and dressings at \$240 million.

In the cooking sauces market, sales are continuing to grow, albeit somewhat slower now as the market has become more mature. However, there is continuing innovation in the market with the introduction of two-compartment jarred sauces, pasta bake sauces without the need for pre-cooking pasta and the launch of a variety of organic sauces.

Consumer demand for truly authentic flavors is also driving product development in this category. Consumers are also looking for more authentic products in the barbecue sauce sector and marinades for grilling and barbecue cooking are becoming increasingly popular.

The major areas of opportunity for U.S. salad dressing products are still to be found in vinaigrettes and other liquid dressings, which offer great scope for introducing a different concept and flavor.

Vegetable and salad oils

The UK vegetable and salad oils market volume decreased slightly in 1999, dropping to 148,000 metric tons, however, value sales increased 2 percent to \$300 million. Overall, the sector has grown significantly in the last 5 years, partly due to the increasing popularity of premium products such as olive and specialty oils. Olive oil now accounts for 40 percent of the oils market by value and is increasingly popular in the form of margarine/butter and blends.

In volume terms, seed oils account for nearly 90 percent of the vegetable and salad oil market, although in value terms olive and specialty oils have a much larger share owing to their premium price. It is this added-value element of the market which presents most opportunity for U.S. product. Herb infused oils and vinegars have become immensely popular, as gift items, as kitchen decorations and as luxury accompaniments to a special occasion salad. Attractive packaging and the healthy perceptions about such products have helped to place these products in a gourmet category.

Confectionery

The total UK confectionery market saw sales increase 2% by value and fall 2% by volume in 1999, reaching \$8.8 billion, equivalent to 860,000 tonnes. Retail distribution in the UK remains very fragmented, with impulse purchasing from CTN's (Confectionery, Tobacco & Newsagents - essentially corner shops), gas stations (forecourts) and variety stores remaining extremely important.

British per capita expenditure on confectionery is over \$140 per year. Volume consumption per head is nearly 16kg, ahead of the UK's nearest rival - Germany with 14kg. This is considerable compared with 10 kg in the U.S., 9kg in France and just 3kg in Japan. The average Briton eats 277g of confectionery a week and spends \$2.74. Women account for 64 percent of confectionery purchases, but only 40 percent of consumption.

Chocolate confectionery continues to represent the largest sector of the market, accounting for 69% of the market value in 1999. Within the chocolate confectionery market, individual bars continue to dominate sales, accounting for 37% of the market, compared with 18% for boxed chocolates and 15% for molded blocks. The strongest growth sector of the market in 1999, however, was the "others" category which includes the many seasonal novelty lines that are introduced for limited periods throughout the year.

The main categories in the UK's sugar confectionery market are fruit sweets, mints and chewing/bubble gum. Children remain the key target customers for sugar confectionery manufacturers. In the chewing-gum market, innovation has focused on sugar-free breath-freshening and tooth-whitening products.

The UK's confectionery market is dominated by top international companies such as Mars, Nestle, Kraft Jacobs Suchard and Cadbury's. There has been little change in their overall shares and positioning in recent years. Opportunities exist for U.S. products which offer original flavors, are seasonal or innovative novelties, are gift ideas, or are pick 'n' mix/to share type formats.

Snack Foods

The total UK snack foods market was worth an estimated \$4.2 billion in 1999, up 4% on the previous year. The largest single sector of the market is chips (crisps), worth around \$1.9 billion, and extruded snacks, worth around \$1.6 billion.

The strongest growth in 1999 was seen in extruded snacks, which rose 5%. Chips and snack nuts showed some growth, while baked snacks and corn snack sales fell 5%. Although, the UK's snack food market is fairly mature, snacking is certainly now a way of life for British consumers. As today's consumers become increasingly busy, there will always be a need for foods that can be eaten conveniently on the move. At present, 23% of snack eating occasions are made at the workplace, compared with 21% at home or "out and about", 15% at the home of a friend or relative, 12% at school, 8% in pubs and restaurants, and 7% while traveling, with "dashboard dining" becoming more and more popular.

Trends in snack product development vary from sector to sector. For example, in the chips market, there is a trend towards traditional, home-made style products and towards lower-fat lines. In the extruded snacks market, children remain a major target, with licensed and novelty products constantly being launched. The baked snacks market is beginning to diversify to include pretzels and products such as Bread Bites. In the nuts market, the major trend is toward novelty flavors, while there is also an increasing demand for cashews and pistachios, instead of standard peanut products.

Dips and Salsa

Allied to the recent snack food market diversity is the tremendous growth in popularity of dips. The dips market is currently thought to be around \$130 million and is growing by 20 percent per year. Salsa sales were estimated to be \$3.5 million in 1998. Large UK brands such as Walkers Doritos and Phileas Fogg are now manufacturing shelf-stable dips and salsas and the UK supermarkets have own-label fresh dips and salsas in the chilled displays. Opportunities for U.S. product exist as consumers are looking for authentic flavors and recipes that cannot be obtained on the domestic supply base - particularly for entertaining and gift ideas.

Frozen Foods

Total sales of frozen foods in the UK for 1999 were worth \$8.2 billion, of which ice-cream accounted for nearly \$2 billion. The UK's frozen food market is continuing to show value growth, although overall volumes remain fairly static. The major growth areas in 1999 were frozen pizza, up 17%, and frozen potato products, up 14%.

In the ice-cream market, take-home products are showing the strongest growth, with sales boosted by

increased demand for luxury and premium tub ice-creams. The frozen fish market in the UK is fairly mature, however, interest is extending beyond standard white fish products, with products such as tuna burgers and salmon fishcakes now appearing. The frozen vegetables market is static - a decline in the standard frozen vegetables is countered by growth in prepared vegetables and vegetable-protein-based vegetarian foods.

Frozen Food Market by Value and Type, 1995-1996
(£ million)

	1998	1999	% change
Frozen desserts	440	438	-
Ready meals	575	600	+4
Pizzas	341	400	+17
Ice cream	1,208	1,224	+1
Potato products	351	400	+14
Vegetables	552	554	-
Fish products	634	630	-1

Opportunities exist in all categories, although meat, fish and dairy products are subject to compliance with EU import regulations. U.S. exporters must also consider the duty rates and the research the final price point for the more commodity type foods which may have EU competition.

Soft Drinks

The total UK soft drinks market was valued at \$11 billion in 1999, with volume sales totaling over 10.7 billion liters. The largest single sectors within the market are carbonates, with 50% of sales by volume, dilutables (dilute volume) with 25%, fruit juices and juice drinks with 15%, and bottled waters with 10%.

The best performing sector in 1999 was that of bottled water, which saw sales increase by around 11%. Low levels of growth took place in all other sectors, with the exception of dilutables, which actually saw sales fall by around 1%.

The carbonated market rose 4% by volume and 3% by value in 1999. Cola continues to dominate, accounting for almost 50% of sales. Largely due to the introduction of Sunny Delight in the UK, the fruit juices and fruit drinks market experienced very strong growth in 1998. Following negative publicity regarding the sugar and color content of the drink, sales of Sunny Delight appear to be leveling off - which sends a clear message about UK consumer's priorities. The fruit juice market is seeing a trend towards chilled products. Fruit smoothies represent a future potential growth sector, with a number of new lines introduced already in 1999.

Flavored waters are proving particularly popular in the UK at present, while the introduction of waters in sports bottles for on-the-go consumption has also been successful. Super-oxygenated water represents

an opportunity for U.S. products, as it has not yet taken off.

Other opportunities for U.S. product are likely to be in adult soft drinks, those products with innovative packaging and flavors, and specialist products (e.g. fruit cocktails).

Wine

The UK market is supplied almost entirely by imported wine. Around two-thirds of consumers drink wine, although many do so infrequently. White wine is most popular, with red being a favorite of the older age group. Traditionally the UK has been supplied with its wine from France, Germany and Italy. However, there is now a growing trend towards sourcing wines from new areas, including the U.S., Australia, Chile, as consumers look for increased variety. There is room for growth given that U.S. imports accounted for only 5.8 percent of the 845 billion liters imported into the UK in 1999. UK imports of U.S. still wine slowed in 1999 following large increases: 51 percent in 1996 and 37% in 1997.

Price is all important in the UK wine market, in order to move volume through retail distribution, price points such as BPS 4.29, BPS 4.49, BPS 4.99 etc would be required to be met. In practice, these are difficult to achieve for U.S. wines. There is a growing number of UK consumers who are prepared to pay more for their wine to the price point of BPS 6.99. Wine above this price is very much a niche market. A report on the UK's wine market is available called the UK Annual Wine Marketing Report on the FAS web site: <http://www.fas.usda.gov>.

Beer

The UK beer market was estimated to be worth \$25.8 billion in 1999. British consumers have an increasing preference for imported premium beers, with imports rising from 5.4 percent of total consumption in 1986 to 9.3 percent in 1996. Imports of U.S. beers have increased significantly during the past few years and currently account for 6.1 percent of total imports by volume. U.S. product will benefit from the GATT agreed tariff reductions, which by 2002 will fall to zero. Major competitors are other EU countries and the Czech Republic. A Market Brief (UK 7058) is available for the UK beer market on the FAS web site: <http://www.fas.usda.gov>.

SECTION IV. MARKET SECTOR STRUCTURE AND TRENDS

For U.S. food and beverage exports to the UK the distribution chain begins with the U.S. producer/manufacturer/exporter sending the product by sea or air freight to a UK importer/agent. The importer will have responsibility for distribution to multiple retailers, independent retailers, foodservice chains or wholesalers as appropriate. For U.S. ingredient products destined for further processing it is most likely that these will be imported directly by the UK food manufacturing company, without the intermediary importer.

Retail Food Sector

The dominance of the five major UK supermarket chains has continued to rise year on year since 1995. In 1998, these five major retailers accounted for nearly 68.9 percent of total retail sales. Tesco is the leading UK supermarket, with 20.5 percent of the market, followed by Sainsbury (18.0 percent), ASDA/Wal-Mart (11.9 percent), Safeway (9.4 percent) and Somerfield (9.0 percent). Tesco is the strongest in the south of the country, Sainsbury in London, ASDA in the North East and Safeway in Scotland.

The purchase by Walmart of ASDA Stores has contributed to strong growth in ASDA's sales and some analysts suggest that ASDA-Walmart will take the number two position from Sainsbury's in the next few years. ASDA-Walmart has initiated price wars which have had "the big four" supermarket groups introducing major price drives. This has impacted on Tesco's marketing and promotion in particular. William Morrison Supermarkets, Waitrose and Iceland Group have also shown improvements in market share and performance. Somerfield has been losing sales following its acquisition of the Kwik Save discounter chain and during 1999 the company announced plans to sell a considerable number of its largest stores.

With the continued consolidation of the UK retail food market and a squeezing of profit margins, the UK's multiples have been seeking alternatives in order to raise their revenues. This has included expansion into home delivery and shopping on the Internet (Tesco has the most successful home shopping program). There has also been a greater focus on non-food retailing and financial services.

The leading supermarket groups have been developing new store formats, ranging from city center convenience driven stores, to neighborhood stores, to gas station forecourt stores. The supermarkets are thus moving back into the UK's city centers and High Street locations. Superstores in the UK are smaller than their counterparts in Germany or France, much of this is a result of tight UK planning law: the stores of the two major players, Tesco and Sainsbury, average around 3,500m². Please turn to next page of this report for an outline profile of the UK's retail chains.

With sophisticated replenishment systems, the UK leaders are able to offer full food range in smaller stores and compete more effectively with the minor multiples, whose share of the market remains fairly static, accounting for 7.9 percent of retail sales in 1998. The two leading minor retailers are Morrisons (3.5 percent) and Iceland (2.7 percent).

The discount market, predominantly Lidl and Netto, has been showing recent growth in the UK. However, the discount market's 2 percent share of retail sales is not expected to show much more growth following the introduction of low cost ranges by some of the major multiples. This move is yet another example of the moves made by the major retailers who are anxious to maintain their stranglehold on the UK retail market.

A key way in which UK retailers stand out against their Continental counterparts is with their own brands. Each retailer looks on the business as a brand. All of the major multiples and some of the smaller retailers have a substantial number of private (or own) label lines. The market leader Tesco has 45.9 percent of its total product lineage as own label, with Sainsbury in front with 50.4 percent, Asda with 46.0 percent, Safeway with 40.5 percent and Somerfield with 37.4 percent (figures are at March 1997). Goods carrying the company's brand are not necessarily cheap but, rather, are often quality goods competing with the brand leader. A good example is Tesco's "Finest" brand. The quality and value for money of these brands are then used by the retailers as marketing tools to attract custom.

As mentioned previously, UK retailers generally prefer to purchase through importers. However, the USDA Office in U.S. Embassy, London does hold details of the buying procedures of individual retailers should exporters prefer to make direct contact. See Section V for contact details for USDA London. USDA London has produced a more in-depth report on the UK's retail market: a UK Retail Market Brief is available on the FAS web site: <http://www.fas.usda.gov>.

UK Retail Company Profiles

Retailer Name	Outlet Type	Operating name	Store Type	Owner-ship	Sales 1998 \$ mn	No. of Outlets	Location	Purchasing Agent Type
Tesco	Major Retailer	Tesco Superstore Tesco Express Tesco Metro Tesco Compact	Large Store Gas Mart Mini Metro Town Store	UK	24010	479 15 40 51	Nationwide South Nationwide Nationwide	Importer, Direct
Sainsbury	Major Retailer	Sainsbury's Sainsbury Local Savacentre	Large Store Mini Store Large Store	UK	20380	391 2 13	Nationwide London Nationwide	Importer, Direct
Asda/Wal-Mart	Major Retailer	Asda Dales	Large Store Discount Store	US	11401	210 7	Nationwide Nationwide	Importer, Direct
Somerfield	Major Retailer	Somerfield/Gateway Food Giant Kwik Save	Town Store Discount Store Discount Store	UK	10185	533 24 871	Nationwide Nationwide Nationwide	Importer, Direct
Safeway	Major Retailer	Safeway	Large Store	UK	9953	422	Nationwide	Importer, Direct
Marks & Spencer	Dept. Store	Food Section	Large Store	UK	5178	289	Nationwide	Importer, Direct
Morrisons	Minor Retailer	n/a	Large Store	UK	3765	95	England	Importer, Direct
Waitrose	Minor Retailer	n/a	Large Store	UK	2742	117	England	Importer, Direct
Iceland	Minor Retailer	n/a	Large Store	UK	2568	734	Nationwide	Importer, Direct
Aldi	Discounter	n/a	Large Store	Germany	1036	180	All but the South	Importer, Direct
Budgens	Minor Retailer	n/a	Large Store	UK	634	177	Midlands & South East	Importer, Direct
Netto	Discounter	n/a	Large Store	Denmark	486	113	England	Importer, Direct
Lidl	Discounter	n/a	Large Store	Germany	448	100+	Nationwide	Importer, Direct

Hotel, Restaurant and Institutional (HRI) Sector

The UK's HRI sector is highly fragmented and is generally referred to as the foodservice or catering sector, and is segmented into both private (profit) and public (cost) outlets. Total consumer expenditure in the private sector came to \$65 billion in 1998, and is averaging 4-5% growth year on year. Most catering markets have benefitted from increased spending generated by stronger consumer confidence and generally improved economic conditions. Increased branding, supported by more advertising support, and the launch of various new catering concepts have also generated interest in the market.

The largest sector of the market, measured by turnover, is public houses (pubs) which has 33% value share. This is followed by hotels (20.5%), restaurants (16.8%) and fast food/takeaways (16.1%). These latter two market segments changed places in order of market share in 1997, following boom times in the UK's restaurant market. Other market sectors are contract catering (6.5%) and licensed clubs, holiday camps/villages and caravan/camping sites (6.7%).

In a buoyant, but competitive UK HRI market, merger and acquisition activity has been strong over the last year and major deals in 1999 have been the purchase of Allied Domecq's pubs by Punch Taverns, the sale of Stakis to the Hilton Group, and the purchase of The Greenalls Group pubs and restaurants by Scottish & Newcastle Breweries.

Independent and small catering chains source primarily through the wholesale markets, often via secondary wholesalers such as Cash and Carry outlets. The national catering chains increasingly source direct from importers.

' Restaurants

The restaurant sector, more than any other UK catering sector, has taken advantage of the increases in UK personal disposable incomes over the last few years and has positioned itself at the center of the growing UK leisure sector. Restaurants have been the best performing catering sector over the last few years, and brand proliferation and improved menu choices have been used to segment the market and encourage more dining out. By 1998, the UK restaurant market was valued at \$11 billion, an increase of nearly 10% on the previous year. In 1999, 62% of all British adults visited a restaurant in the evenings and 50% visited during the day.

In pub-restaurants and roadside catering restaurants, branded outlets have become more important, but many other segments of the restaurant market are still dominated by small, independent operators. The growth in the number of brands on offer hides the fact that many of these brands have been developed by just a handful of key operators led by Whitbread, Bass and City Centre Restaurants.

' Fast food/takeaway

Sales in the fast food/takeaway market increased by 6.7% in 1998, and the market was worth \$10.5 billion. With branded outlets springing up almost everywhere, and strong marketing and merchandising deals supporting the major brands, more consumers are taking the opportunity to eat convenient fast food and takeaways. In 1999, 75% of all adults visited a takeaway and 48% visited a fast food restaurant to eat. This latter percentage increases to 71.9% in 15-24 age group, the core market for global fast food

brands.

The largest share of the fast food/takeaway market is taken by sandwiches (34% of all value sales), and the second largest sector is burgers (24%). Burgers have been increasing their share of the market in spite of the BSE scare three years ago. Other core sectors are fish and chips (13%), pizzas (10.3%) and chicken (6%). The remainder of the market comprises various ethnic food outlets and other miscellaneous outlets (14%). McDonald's claims 72% of all fast food burger sales in the UK, KFC has an estimated 65% of the fried chicken market. Pizza Hut and Burger King are also core brands with 32% and 20%, respectively, of their specific markets.

' **Public Houses**

In 1998, pub food sales were valued at an estimated \$3.5 billion, increasing by 7.5% on 1997. As pub drink sales have declined, food revenues have become more important. Larger pubs are taking a greater share of the market to the detriment of the small traditional pubs. The pub sector experienced something of a transformation in the 1990's, with the number of pubs declining and the ownership of pubs transferred to a small number of national brewers, regional brewers, some large pub retailers which have left brewing to concentrate on retailing, and a number of new pub companies which capitalized on a recent UK Beer Order which forced the large breweries to sell of some of their large pub estates.

' **Hotels**

In 1998, turnover in the UK hotel market increased by just 3.5% producing a market valued at \$13.4 billion. After a stagnant period in the UK's recession of the early 1990's, the UK hotel market has been fairly buoyant in recent years, although annual sales growth is beginning to slow down. Around 64% of hotel users are corporate clients and the other 36% are leisure visitors. The short-break holiday market is one of the most dynamic sectors of the hotel trade, while the budget hotel market continues to be the fastest growing market segment.

' **Contract Catering**

In 1998, the UK contract catering market was valued at \$4.2 billion, a significant increase of 17.4% on the 1997 total. However, only 50% of this increase can be attributed to increasing food sales as UK contract caterers now offer non-food services such as waste disposal, cleaning, security and maintenance. The number of contract catering businesses are increasing: between 1994 and 1998 over 3,200 outlets were added producing a total figure of 18,151 outlets in 1998. The growth in the market is led by the leading UK contractors which are also major international food service companies such as Compass and Gardner Merchant.

The public sector is comprised primarily of institutional catering outlets in health care, education and public service. These establishments are increasingly run by contract catering businesses.

Source: *The above market information on the UK's HRI market has been taken from a Keynote report entitled The Catering Market (UK) published November 1999.*

Catering Outlets in the United Kingdom, 1999

Profit Sector	Approx. No.	% of Total	% Change 1998-99
Hotels	60,949	20.5	-0.1
Restaurants	15,988	5.4	+0.1
Fast food (major chains)	2,221	0.7	+7.5
Cafes/take away	29,272	9.9	-1.8
Pubs/clubs	54,723	18.4	-2.2
Leisure	48,727	16.4	+0.8
Subtotal: Profit Sector	211,880	71.3	-0.6

Cost Sector	Approx. No.	% of Total	% Change 1998-99
Staff catering	20,684	7.0	-1.6
Health Care	24,948	8.4	+1.4
Education	34,430	11.6	-0.1
Subtotal: Cost Sector	80,062	27.0	-

TOTAL	291,942	98.3	-0.4
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Source: The Advertising Association, Marketing Pocket Book 2000, NTC Publications

Major Public House and Hotel Operators in UK

Major Pub Operators	No. of outlets		Major Hotel Groups	- Hotels - Rooms
Punch Taverns	5,008		Granada plc which includes Travelodge/Forte Hotels etc.	- 328 - 30,057
Nomura Principal Finance	4,867		Hilton International & Stakis Hotels & Inns	- 91 - 16,443
Whitbread	3,700		Whitbread Hotel Company incl Travel Inns/Marriott	- 235 - 14,200
Bass	3,300		Thistle Hotels	- 57 - 10,731
Scottish & Newcastle Breweries	2,800		Intercontinental/Crowne Plaza Holiday Inn	- 77 - 10,181
Enterprise Inns	2,500		Jarvis Hotels	- 71 - 7,800
Pubmaster	2,060		Queens Moat Houses	- 49 - 7,000
Wolverhampton & Dudley Breweries	1,810		Accor S.A. incl Ibis, Formule, Novotel	- 44 - 6,500
Greene King	1,708		Swallow Hotel (Vaux Group)	- 38 - 5,067

Source: Marketing Pocket Book 2000, NTC Publications

Wholesale

The main function of the wholesale markets is to break bulk, distribute produce to secondary wholesale operations and to supply regional independent grocers and catering outlets. In 1998 the total wholesale sector produced a turnover of \$24.2 billion, up from \$23.8 billion in the previous year. Cash and Carry rose from \$15.3 billion to \$15.5 billion and delivered trade from \$7.9 billion to \$8.2 billion.

The major London markets are based at New Covent Garden, Western International, Spitalfields, Smithfield (Meat) and Billingsgate (Fish). In addition, most major cities in the UK have smaller wholesale markets, which are serviced by the major importer/distribution companies or the London markets.

The wholesale market system is under considerable pressure, and has been for some time due to a number of factors, including the recent UK economic recession. The main cause of its decline, however, is the role that the multiple retailers play and their dominance.

The role of the wholesale market has been reduced to supplying independent retailers and caterers. Increasingly, wholesalers handling specialty produce supply primarily to the catering trade. As much as 80 percent of customers are thought to be from this sector. The wholesale sector is characterized by a strong “day-to-day” nature of the trading activity, being a price dominant market, with little long term loyalty shown by buyers to suppliers. Promotional activities can stimulate sales in the short term, but often do not sustain long term development.

Domestic Food Processing Sector

Despite its tradition as an agricultural and food producing nation, the UK is a net importer of food. In 1998, the trade deficit in the food sector had reached \$12 billion, up around 20% from 1994. The British food processing sector, with an output of around \$85 billion, is one of the most advanced and developed in the world.

UK companies such as Unilever, Guinness and Grand Metropolitan are among the largest in Europe. Many U.S. companies, for example Pepsico, Kellogg’s, ADM, ConAgra and Cargill also have substantial interests in the UK. Traditionally the UK food market was centered around many small companies, often serving local markets or specialized needs. The 1990's saw the leading operators become larger and industry consolidation has increased. In many commodity sectors, such as milk, fish and meat, industry overcapacity has been reduced more recently through closures and mergers. Many of the larger companies have sold their commodity interests to concentrate on the more dynamic value-added sectors such as convenience foods.

As the UK is around 60 percent self sufficient in all types of food and feed and 75 percent self sufficient in indigenous products, there is substantial demand for imported products. It is estimated that around 20 percent of the UK’s agricultural imports are of unprocessed products, of which almost two thirds are not indigenous to the UK. Lightly processed products account for around 50 percent of agricultural imports, one third of which are not produced in the UK. Of the remaining 30 percent of agricultural imports (highly processed products), around half are not native to the UK.

The major unprocessed commodities that are not commercially produced by the UK are rice, citrus fruit, bananas, maize, coffee, cocoa, stone fruit, tea and some oilseeds and oleaginous fruit. Although the UK produces sugar beet, cane sugar is imported under the Cotonou Agreement (successor to Lome Convention). Processed products that the UK has to import include wine and preserved/frozen fruit and fruit juices.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

U.S. Department of Agriculture

Embassy of the United States of America
24 Grosvenor Square, Box 48 London W1A 1AE
Tel: 011 44 20 7894 0040
Fax: 011 44 20 7894 0031
E-mail: Aglondon@fas.usda.gov

FAS homepage: <http://www.fas.usda.gov>

Embassy London homepage: <http://www.fas.usda.gov>

Embassy London Importer's Directory homepage: <http://www.usda.org.uk>

Food Standards Agency (FSA)

Room 306C, Ergon House
PO Box 31037
London SW1P 3WG
Telephone: 011 44 20 7238 6550
Fax: 011 44 20 7238 6330
Email: helpline@foodstandards.gsi.gov.uk
Website: www.foodstandards.gov.uk

Food and Drink Federation

6 Catherine Street, London WC2B 5JJ
Tel: 011 44 20 7836 2460 Fax: 011 44 20 7836 0580
Web: <http://www.fdf.org.uk>

The Food and Drink Federation represents and promotes welfare of food and drink manufacturers, providing authoritative information to media, consumers, distributors, legislators, health professional, academics and schools. Its services division provides the secretariat for over 36 other food and beverage sector trade associations including the Association of Cereal Manufacturers, Association of Fish Cannerys, the Bakery Allied Traders' Association, British Fruit and Vegetable Cannerys Association, Fresh Produce Association, the Pet Food Manufacturers' Association, the Rice Association and the British Starch Industry Association.

Institute of Grocery Distribution

Letchmore Heath, Watford WD2 8DQ

Tel: 011 44 1923 857141 Fax: 011 44 1923 852531

Web: <http://www.igd.org.uk>

IGD is a prominent source of data and analysis of the grocery industry - retail trade and manufacturing trade supplying the retailers. Its membership is made up of mainly food manufacturers and multiple grocers (national supermarket chains). The Institute offers its services to both members and non-members. Research/Information services fees can run from \$25 for a minimal request (size of a particular product market and the provision of two names within that market) to \$60 per hour for more detailed research/information. Within its publications service, the Institute publishes a monthly Grocery Market Bulletin reporting on the latest trends in national and international manufacturing, wholesaling, distribution and retailing.

Fresh Produce Consortium

Importers Division, 266-270 Flower Market

New Covent Garden Market, London SW8 5NB

Tel: 011 20 7627 3391 Fax: 011 20 7498 1191

Web: <http://www.freshproduce.org.uk>

The Fruit Importers Division of the Fresh Produce Consortium operates through an elected Chairman. It provides market information to members specifically Covent Garden Market prices (3 times a week), customs tariffs, etc.(when implemented), and a circular (once a week) on such items as requests from overseas Countries for contacts with members to handle their fresh produce in the UK, and information on new regulations.

TABLE A. KEY TRADE & DEMOGRAPHIC INFORMATION

Agricultural Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$28,484 / 6%
Consumer Food Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$20,680 / 2%
Edible Fishery Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$2,150 / 5%
Total Population (Millions) / Annual Growth Rate (%)	59.2 / 0.35%
Urban Population (Millions) / Annual Growth Rate (%)	19.95 / 2%
Number of Major Metropolitan Areas	8
Size of the Middle Class (Millions) / Growth Rate (%)	27.3/-2%
Per Capita Gross Domestic Product (U.S. Dollars)	\$ 21,200
Unemployment Rate (%)	5.4%
Per Capita Food Expenditures (U.S. Dollars)	\$1,965
Percent of Female Population Employed	38.7
Exchange Rate (US\$1 = British Pound)	0.6666

TABLE B. CONSUMER FOOD & EDIBLE FISHERY PRODUCTS IMPORTS

United Kingdom Imports (In Million of Dollars)	Imports from the World			Imports from the U.S.			U.S. Market Share		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
CONSUMER-ORIENTED AG TOTAL	19,546	20,041	20,680	656	716	794	3	4	4
Snack Foods (Excl. Nuts)	961	1,003	1,038	14	15	19	1	2	2
Breakfast Cereals & Pancake Mix	62	70	70	2	7	12	3	9	17
Red Meats, Fresh/Chilled/Frozen	1,388	1,367	1,101	15	12	16	1	1	1
Red Meats, Prepared/Preserved	1,828	1,611	1,406	7	10	1	0	1	0
Poultry Meat	720	700	846	1	1	0	0	0	0
Dairy Products (Excl. Cheese)	829	865	879	4	5	6	0	1	1
Cheese	983	936	978	1	1	1	0	0	0
Eggs & Products	63	65	55	3	4	6	4	6	11
Fresh Fruit	2,371	2,431	2,521	79	89	100	3	4	4
Fresh Vegetables	1,477	1,555	1,633	13	15	18	1	1	1
Processed Fruit & Vegetables	1,933	1,878	1,976	122	127	121	6	7	6
Fruit & Vegetable Juices	469	371	441	22	23	28	5	6	6
Tree Nuts	197	212	182	66	59	55	34	28	30
Wine & Beer	2,745	3,135	3,437	132	148	196	5	5	6
Nursery Products & Cut Flowers	686	792	873	13	11	10	2	1	1
Pet Foods (Dog & Cat Food)	207	235	267	45	38	37	22	16	14
Other Consumer-Oriented Products	2,625	2,815	2,978	118	154	168	4	5	6
FISH & SEAFOOD PRODUCTS	1,901	1,916	2,150	113	106	111	6	6	5
Salmon	204	182	174	89	76	77	44	42	44
Surimi	45	36	28	1	2	1	3	5	5
Crustaceans	514	513	567	4	9	6	1	2	1
Groundfish & Flatfish	579	576	711	4	5	11	1	1	2
Molluscs	27	30	28	4	4	4	15	12	13
Other Fishery Products	532	578	643	10	11	12	2	2	2
AGRICULTURAL PRODUCTS TOTAL	28,187	28,554	28,484	1,525	1,630	1,610	5	6	6
AGRICULTURAL, FISH & FORESTRY TOTAL	33,649	34,403	34,391	1,977	2,113	2,047	6	6	6

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

TABLE C. TOP 15 SUPPLIERS OF CONSUMER FOODS & EDIBLE FISHERY PRODUCTS**UNITED KINGDOM IMPORTS****CONSUMER-ORIENTED AGRICULTURAL TOTAL (\$1,000)**

	1996	1997	1998
United States	656,464	715,502	793,732
France	2,955,274	3,220,251	3,411,129
Netherlands	2,895,204	2,753,710	2,995,781
Ireland	2,430,638	2,487,008	2,399,027
Spain	1,373,359	1,583,670	1,683,054
Italy	1,364,823	1,402,521	1,477,971
Germany	1,280,743	1,239,738	1,275,578
Belgium	924,241	939,547	1,063,187
Denmark	1,067,973	1,037,389	933,569
New Zealand	719,937	669,396	597,429
S.Afr.Cus.Un	429,512	436,507	477,790
Australia	342,207	403,670	425,485
Brazil	229,302	244,812	250,246
Turkey	210,691	214,624	216,995
Chile	169,007	171,523	198,110
Other	2,496,612	2,520,847	2,481,062
World	19,546,052	20,040,733	20,680,166

FISH & SEAFOOD PRODUCTS TOTAL (\$1,000)

	1996	1997	1998
United States	112,686	106,148	111,197
Norway	223,822	241,342	297,435
Iceland	270,877	253,112	295,002
Denmark	147,124	130,288	163,762
Thailand	115,593	123,421	157,941
Faroe Islands	170,327	167,752	140,535
Canada	98,560	86,824	100,117
Netherlands	59,608	64,052	65,903
Russian Federation	71,610	61,298	58,723
Spain	33,142	52,090	55,252
Indonesia	21,667	35,551	51,149
France	57,064	45,269	46,708
Germany	37,034	36,023	42,803
Ireland	28,970	31,502	39,781
Ghana	18,420	35,580	39,397
Other	434,752	445,430	484,090
World	1,901,257	1,915,691	2,149,811

Source: United Nations Statistics Division