Required Report: Required - Public Distribution

Date: October 22,2019

Report Number: UK2019-0011

Report Name: Food Processing Ingredients

Country: United Kingdom

Post: London

Report Category: Food Processing Ingredients

Prepared By: Jennifer Wilson

Approved By: Cynthia Guven

Report Highlights:

Food and drink production is the UK's largest manufacturing sector. Many opportunities exist for ingredient import in all sectors. The UK does not produce all of the ingredients necessary to meet the eclectic tastes and demands of British consumers. Health and wellbeing is the key trend in the market, driving plant-based and "clean-eating" new product development. The UK demands close attention to technical specifications, traceability, and very competitive pricing.

Market Fact Sheet: United Kingdom

Executive Summary

The UK, a leading trading power and financial center, is the third largest economy in Europe, after Germany and France. Agriculture is intensive, highly mechanized, and efficient by European standards but, in terms of gross-added value, represents less than 1 percent of GDP. While UK agriculture produces about 60 percent of the country's food needs with less than 2 percent of the labor force, the UK is heavily reliant on imports to meet the varied demands of the UK consumer who also expect year round availability of all food products. The UK is very receptive to goods and services from the United States. With its $2.92 trillion GDP, the UK is the United States' top European market and the fifth largest market worldwide for all goods, after Canada, Mexico, China and Japan. Consumer oriented food and beverage products remain the most important sector for U.S. agriculture, amounting to $1.03 billion (38 percent of the total) in 2018. Demand for U.S. consumer oriented food products continues to differentiate the UK from many of its European neighbors. The UK is the 11th largest market in the world for U.S. consumer-oriented products. Within this category it is worth noting that U.S. exports to the UK of fresh vegetables, chocolate and cocoa, and condiments and sauces all set records in 2018.

Imports of Consumer-Oriented Products

In 2018, the United Kingdom imported consumer-oriented agricultural products worth USD 49.0 billion. Just over half (54 percent) of these originated from other EU member states.

Food Processing Industry

The food and drink sector is the largest single employer in the UK manufacturing sector. Food and drink is also the largest manufacturing industry in the UK, with an annual turnover in 2018 of $136.2 billion (£104 billion). Around 450,000 people across the United Kingdom are employed in jobs associated with food and drink manufacture and sales. Around 103,000 of these workers are of EU nationality, amounting to about a quarter of the UK workforce.

Food Retail Industry

The sector is saturated, highly consolidated and competitive. The top five retail groups together account for 76 percent of the market. Independent stores continue to face strong competition from modern grocery retailers. Online food sales are showing tremendous growth, with the sector being valued at $15.4 billion (£12.3 billion) in 2018. UK consumers are willing to try foods from other countries but expect quality products at a competitive price.

Quick Facts CY 2018

Imports of Consumer-Oriented Products *(USD billion)*
49.0

List of Top 10 Growth Products in Host Country

1) Ice Cream	2) Whey
3 Cocoa Paste	4) Coffee Extracts
5) Vanilla	6) Cranberry Juice
7) Ginger	8) Dried Fruit Mixtures
9) Baby Food	10) Cucumbers

Food Industry by Channels (USD billion) 2018

Food Industry Output - Turnover	136.2
Food Exports – Agricultural Total	0.98
Food Imports – Agricultural Total	1.7
Retail	273.0
Food Service	71.2

Top 10 Host Country Retailers

1)	**Tesco**	**6)**	**Cooperative**
2)	**Sainsbury's**	**7)**	**Lidl**
3)	**Asda**	**8)**	**Waitrose**
4)	**Morrison's**	**9)**	**Iceland**
5)	**Aldi**	**10)**	**Marks & Spencer**

GDP/Population
Population *(millions)*: 65.1
GDP *(trillions USD)*: 2.95
GDP per capita *(USD)*: 44,300

Sources: Food & Drink Federation, GTA, Kantar Worldpanel

Strengths/Weaknesses/Opportunities/Challenges

Strengths	**Weaknesses**
The UK is one of the biggest markets in Europe with one of the highest income levels in the world.	U.S. exporters face competition from tariff-free products from other EU member states and FTA partners.
Opportunities	**Threats**
Speaking the same language, the UK's affinity with the U.S. and its products and the potential of a free trade agreement make the UK an attractive market.	EU's focus on SPS-related trade barriers (beef, poultry, biotech) in combination with the UK's strict approach to import controls, creates potential for increased number of port of entry issues

Data and Information Sources:
Global Trade Atlas (GTA), Kantar Worldpanel

Contact:
FAS London, United Kingdom
AgLondon@fas.usda.gov

SECTION I. MARKET SUMMARY

The UK is a key market in the EU for U.S. intermediate agricultural products (i.e. those that are lightly processed) such as cereals, dried fruit, nuts, beans, other legumes and seeds. Although some of these products are consumed directly as snacks, the majority are destined to be utilized as ingredients in the manufacture of UK finished goods.

Food and drink is the largest manufacturing sector in the UK. Dominated by large grocery store chains, the $250 billion market (at retail level) offers own-brand/private label at every price point. The UK is an important market for global food and beverage companies. Food retailing and foodservice are sophisticated and dynamic. Continual innovation and re-formulation drives new product development activity and pro-active sourcing of new, smarter, safer, and, healthier ingredients. However, with this comes a high bar for technical specifications, traceability, and compliance with private certification schemes. Chilled convenience food is more dominant than in the United States, driving demand for exotic ingredients to meet ethnic or local flavor requirements in recipe development.

The UK's plan for departure from the EU (Brexit) has led to volatility of raw material pricing following a 15-17 percent de-valuation of British Pound Sterling. While food and drink manufacturers are trying to juggle lower margins and greater uncertainty, British food and drink exports have surged and offset domestic woes, to an extent.

UK consumers are generally willing to try new types of foods and are interested in the latest food trends and international flavors. Health, sustainability, ethics and transparency of ingredient sourcing are the latest mega-trends directing an increasing number of companies to aspire to "clean labels" (no artificial ingredients or synthetic chemicals). These trends have driven an upswing in vegan and plant-based products, reducing meat consumption, increasing fish consumption, free-from (allergens), gut-friendly foods (including pre-biotics), fermented food, and alcohol-free beverages. UK consumers, particularly younger demographics, are increasingly drawing on their personal values when making purchasing decisions.

Given its geographic location and small size, the UK must source a considerable amount of raw material from outside its own shores. National pride in the wake of the Brexit referendum and a history of food-scares means that UK consumers trust their own produce the most, and retailers/foodservice operators have ensured that their sourcing and marketing plays to this bias. However, the UK is only around 60 percent self-sufficient in food, not including exports. Incorporating U.S. ingredients into a British made product is routine but the labeling or marketing will generally not mention the U.S. element, unless it is mis-leading or illegal to leave out that information. There is opportunity for U.S. ingredients if exporters have the right products and can manage the many demands and conditions placed on suppliers to ship tailored products for the UK market.

Advantages and Challenges for U.S. Companies

Advantages	Challenges
UK is fifth largest world economy; consumers have one of the highest income levels in the world	UK consumers demand quality and low prices – U.S. product more expensive following recent pound devaluation
UK climate limits growing seasons and types of products grown	Private certifications requiring third party independent audits are often sought e.g. BRC, GlobalGAP, MSC
UK is a trading nation, food supply chains are sophisticated, common language	U.S. exporters face tariff-free competition from other EU Member States
A large, well-developed food processing industry, requiring a wide range of ingredients, from low-value, unprocessed food to high-value, highly processed ingredients	Non-tariff barriers such as sanitary (animal health) and phytosanitary (plant health) restrictions make exporting to the UK/EU complicated
Scale of many U.S. industries may mean price competitiveness	UK demands high technical specifications, sustainability, ethics and transparency in the supply chain mainly through certification

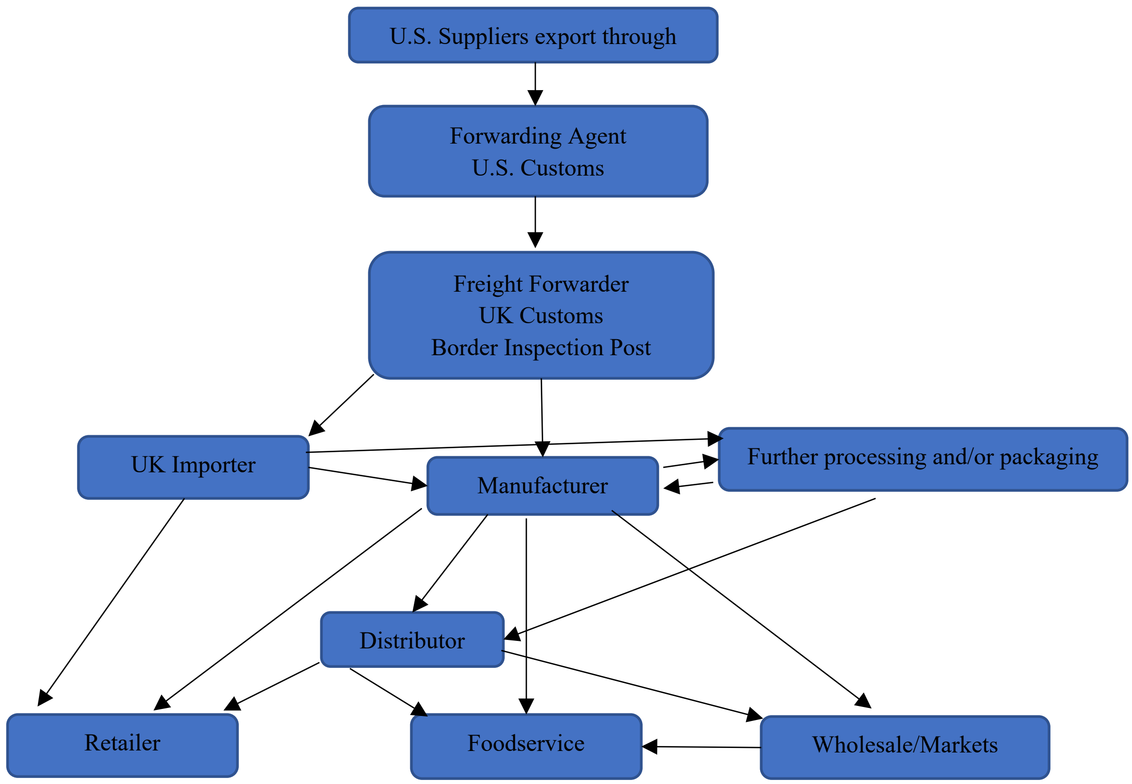
SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy
Market research is vital to success. This can take the form of desk research, travel to the UK, paid consultant reports, or all three. The UK market set-up is different to the U.S. Given its small size and consolidated structure there is usually a small number of buyers and limited route to market options. If you meet (or are contacted by) a UK buyer, be sure to research the buyer and their status in the market.

Import Procedure
UK importers/buyers are responsible for compliance with import and labeling conditions before placing products on the market. In order to do this, UK companies will request information from U.S. suppliers on ingredients, processing aids, processing methods and relevant certifications. Further information on the import requirements for the EU/UK is available in the EU-28 Food and Agricultural Import Regulations (FAIRS) Report and the UK country report by searching the FAS/USDA GAIN Report Database: FAS GAIN Report Database

Distribution Channels
U.S. ingredients can reach the market through retail, foodservice, and wholesale or consumer markets. In most cases, ingredient products are imported directly by a manufacturer who wishes to use them or by an importer who then sells to one or more manufacturers.

Routes to Market Flow Chart



Market Structure

The UK has a dynamic food scene where every type of conceivable food product is available through traditional and online grocery stores, wholesalers, markets, and foodservice outlets. UK manufacturers incorporating U.S. ingredients have all of these as options, depending on the final product characteristics and price-point. Themes that unite all routes to market are provenance, transparency of supply chain actors, clean label ideas, authenticity, ethics, and sustainability. For more information on the UK market structure, please find our retail and exporter guide reports at the FAS/USDA GAIN Report database: FAS GAIN Report Database

Share of Major Segments in the Food Processing Industry

According to government data, the UK consumes fifty percent of the food and drink that it produces domestically. Thirty percent is sourced from other EU Member States on account of their proximity and tariff-free trading relationship. The United States and Canada together have 4 percent market share, as do Africa, South America and Asia. Australasia contributes another 1 percent.

Publicly available statistics about UK manufacturing output are several years behind. Provisional figures for 2018 show that manufacture of food products increased by 2.4 billion (2.7 percent) over the previous year to reach a record of approximately $90 billion. This figure does not include beverages, which are grouped with tobacco in the statistical overview by Office for

National Statistics. The latter category's output is reported to be around $17 billion in 2018, with 1.5 percent growth over 2017. Growth in food product manufacture was seen in all sectors. However, the manufacture of prepared feeds for farm animals increased by 10 percent between 2017 and 2018. Related to this was the increase in processing and preserving of poultry meat which increased by 9 percent in the same time period. 2018 was a year in which domestic feed supplies for agricultural livestock experienced some shortages, necessitating increased imports of animal feed ingredients.

Relative Size of UK Manufacturing Sectors

The largest food manufacturing sectors in order of importance are: meat processing, bakery products, dairy products, animal feeds, processing/preserving fruit and vegetables. The largest drink manufacturing sectors are: soft drinks/mineral waters, beer, spirits, and cider.

The UK runs trade deficits in every food category, but particularly in processed and preserved fruit and vegetables. Conversely, the UK has consistently demonstrated a modest trade surplus in drink products (particularly whisky).

Company Profiles & Company Products

A free database (searchable by product category) of UK Companies is available at: www.grocerdirectory.co.uk

Key players include:

Associated British Foods (ABF)
Bakkavor
Coca-Cola
Danone
Diageo
General Mills
Glencore
Mars
Mondelez
Nestle
PepsiCo
Unilever
Whitbread

Sector Trends

- Health and wellbeing/wellness
- Vegan/ Plant-based, Flexitarian, Meat-reduction
- Clean-eating, raw or barely processed ingredients
- Feel good, indulgence, treats

Mintel research indicates that British consumers are increasingly eating with a conscience. The UK spent over $10 billion on ethical food and drink, including organic, Fairtrade, Rainforest Alliance, and Marine Stewardship (MSC) certified products. Over the past five years, sales of ethical food and drink have increased by 43 percent to reach approximately $10 billion in 2018. Sales of ethically certified food and drink are projected to rise by 17 percent to reach $12 billion between 2019 and 2023.

The table below gives the most recent publicly available data from the Ethical Consumer Markets Report. The data shows the key aspects of ethical shopping and covers a slightly different mix of indicators to the Mintel research. However, the notable growth is the same.

Ethical Food and Drink Category Growth:

	2010 £ million	2016 £ million	2017 £ million	% Growth 2016-2017
Organic	1,475	1,810	2,000	10.50%
Fairtrade	1,094	1,608	1,720	7.00%
Rainforest Alliance	1,198	2,377	2,955	24.30%
Free range eggs	419	677	724	7.00%
Vegetarian products	541	574	657	14.50%
RSPCA Assured (Animal Welfare)	573	1,726	2,050	18.80%
Sustainable fish	121	694	902	30.00%
TOTAL	5,421	9,466	11,008	16.30%
Exchange rates USD:BPS	*1.55*	*1.36*	*1.29*	

Source: UK Ethical Consumer Markets Report 2018

To keep abreast of UK sector trends, the key retail trade publication is The Grocer Magazine . For foodservice see: The Caterer and Hospitality News

SECTION III. COMPETITION

As a general rule of thumb, if the UK or other countries in Europe can produce a raw ingredient there is limited scope to be a supplier for countries outside of the EU such as the United States. However, there are certain times of the year, or when harvests are short, that the United States may be turned to for supply. These are short-term trades and difficult to predict.

In every sector, the United States has historically fared better in providing high quality products that are not readily available in northern Europe, rather than being a low cost supplier.

Since there is a considerable level of production already (as well as trade-protectionist measures) on meat, poultry, and dairy industries within the EU, it is more difficult to supply ingredients into these processing sectors. That said, it may be possible for U.S. ingredients to end up in the dairy sector, if they are not derived from animal products e.g. cranberries in cheese.

As a single country, the U.S. is the largest third country supplier of agricultural, food, and fish products to the UK. Depending on the product category, competition is keen from: China and Vietnam (fish); Canada (dry beans, wheat, corn); South Africa (citrus, apples, grapes); Chile (apples, grapes); Argentina (soybean meal, corn, red meat products); Brazil (soybeans, sugar cane, red meat products); Turkey (dried fruit, pickles).

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

Best opportunities for U.S. products are to be found in high value, high-quality, authentic, innovative, natural, wholesome, health-conscious, planet-conscious, and plant-based products. According to The Grocer, these are the ingredients that grabbed UK headlines in 2018:

- CBD (Cannabidiol), Seaweed, Cacao, Jackfruit and Apple Cider Vinegar

Products Present in the Market which have Good Sales Potential

Wheat products, Rice
Dry beans, Legumes
Dried Fruit & Nuts
Specialty Seeds e.g. Flaxseed, Linseed, Poppy
Natural Colors, Flavors, Additives for processed food and drink manufacturing
Gums and Resins
Fresh Fruit, and Vegetables not grown in UK, organic, or available outside of UK season
Preserved Fruit and Vegetables, Juices and Fruit Concentrates, Essential Oils
Soybeans, Distillers Dried Grains (animal feed)

Products Not Present in the Market in Significant Quantities which have Good Sales Potential

Ingredients for ethical, natural, organic and health food industry
Fresh, Organic herbs and specialty horticultural products with GlobalGAP or similar certification
High quality frozen products with no or minimal animal product content
Products to substitute or help with re-formulation to low sugar, low fat, or other health claim

Product Not Present Because They Face Significant Barriers

Red meat and products [very small amounts do come in but they are the most challenging]
Poultry, Eggs, and their products
Dairy products
Products with food additives or pesticide/herbicide residues not approved by the EU
Products of genetic engineering not approved by the EU

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Foreign Agricultural Service (FAS)/United States Department of Agriculture (USDA)
Embassy of the United States of America
33 Nine Elms Lane
London SW11 7US
Tel: +44 (0)20 7891 3313
Email: AgLondon@fas.usda.gov

Attachments:

No Attachments