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Report Name: Food Processing Ingredients

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Report Highlights:

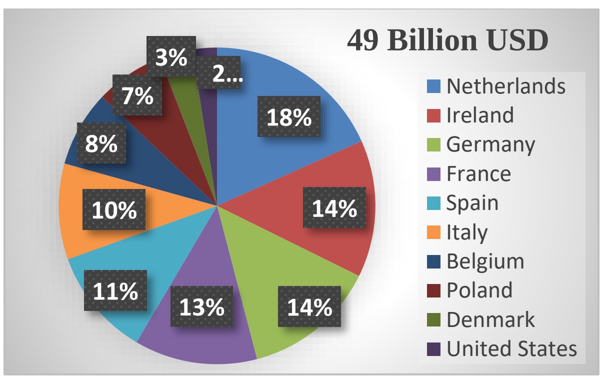
Food and drink production is the UK's largest manufacturing sector. Despite COVID-19 and Brexit, the UK consumer still demands products containing ingredients that cannot be sourced entirely in the UK. The UK relies on imports in order to fulfill the demand for such ingredients. Health and wellbeing are key trends driving the market as the demand for plant-based and 'clean eating' products increase. Many opportunities therefore exist in all sectors of the ingredients market. UK industry standards tend to focus on strict animal welfare, high technical specifications, traceability, and very competitive pricing. Data for 2019 (latest available) shows the manufacture of food products in the UK decreased by $1.2 billion from the previous year to $100.3 billion. The decline was attributed to falling sales of cakes and pastries as well as prepared meals, as a result of consumers being more health conscious. Post anticipates sales of these products to recover and grow in 2021 and onwards.

Market Fact Sheet: United Kingdom

Executive Summary:

The United Kingdom (UK), a leading trading power and financial center, is the second largest economy in Europe. Agriculture is intensive, highly mechanized, and efficient by European standards but represents less than one percent of Gross Domestic Product (GDP). While UK agriculture produces about 60 percent of the country's food needs with less than two percent of the labor force, the UK is heavily reliant on imports to meet the varied demands of the UK consumer who expects year-round availability of all food products. The UK is very receptive to goods and services from the United States. With its $2.82 trillion GDP in 2019, the UK is the United States' largest European market and the fifth largest in the world for all goods. Consumer-oriented products remain the most important sector for U.S. agriculture, amounting to $1 billion in 2020. Demand for U.S. consumer-oriented food products continues to differentiate the UK from many of its European neighbors. The UK is the 12th largest market in the world for U.S. agricultural and related products.

Consumer-Oriented Imports in 2020



Food Processing Industry:

The food and drink sector is the largest single employer in the UK manufacturing sector. Food and drink sector has an annual turnover in 2019 of $145 billion. Around 430,000 people across the UK are employed in jobs associated with food and drink manufacture and sales.

Food Retail Industry:

The food retail sector is saturated, highly consolidated, and competitive. The top five retail groups (see Top Ten Food Retailers chart) together account for 75 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 valued at $15.2 billion (£12.7 billion) in 2019. UK consumers are willing to try foods from other countries but expect quality products at a competitive price.

Population: 66.7 million (2019 est.)
GDP: $2.82 trillion
GDP/Capita: $42,330 (2019 est.)

List of Top 10 Growth Products in the UK

1. Beef & beef products
2. Oilseeds (flaxseed/others)
3. Dairy products
4. Rice
5. Animal fats
6. Eggs
7. Dextrins (Starch), peptones (soluble protein), and proteins
8. Confectionery
9. Food preparations
10. Pulses

Food Industry by Channels

Consumer-Oriented Imports	$49 billion
Food Processing Industry	$145 billion
Retail	$282 billion

Top Ten Food Retailers

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

Strength	Weakness
UK is one of the biggest markets in Europe with one of the highest per capita income globally	U.S. products face competition from tariff-free products from the EU and other FTA partners.
Opportunity	**Challenge**
Common language and shared heritage make the UK an attractive market.	UK's strict animal welfare standards create barriers for animal origin products.

Data sources include: TDM, The World Factbook, and The World Bank. For additional information, contact [aglondon@fas.usda.gov.](mailto:aglondon@fas.usda.gov)

SECTION I. MARKET SUMMARY

COVID-19 has challenged the UK food and drink industry. Manufacturers have been working hard to ensure the supply chain is not substantially affected. Food processing plants have seen several coronavirus outbreaks among staff, with meat plants affected more than other facilities. Possible explanations include the cold working environment, the close proximity of workers over prolonged periods of time, and the need to speak loudly due to noisy machinery. All of these have facilitated the spread of the virus. Outbreaks, however, have been dealt with quickly with premises shut down, deep cleaned, and employees quarantined for two weeks.

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

Food and drink is the largest manufacturing sector in the UK. In 2020, according to Statista, the UK retail grocery sector was valued at $282 billion. 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 drive new product development and sourcing of new, smarter, safer, and healthier ingredients. As in the United States, high standards require greater technical specifications, traceability, and compliance with private certification schemes. Chilled convenience food is more sought after than in the United States, driving demand for exotic ingredient including jackfruit, durian, rambutan, and goji berries.

In London, there are 1,685 food manufacturing enterprises, the largest in the UK. This is followed by the South East with 1,280 enterprises. The North East is the region with the fewest enterprises.

The UK completed its departure from the European Union (EU) on January 31, 2020. The EU now treats the UK as a third country. For U.S. exporters, it is of paramount importance that they understand their importer’s needs. If an importer is re-exporting a product, or reprocessing it, then consideration should be given to ensure these goods reach the final destination with as minimal additional costs as necessary. Third country products transit through the UK and then onto other EU countries could face double duties if they are not substantially altered.

With the UK having secured a trade deal with the EU, any rises in food costs are likely to be very modest. The British pound is starting to increase again, having seen significant devaluation against both the Euro and U.S. dollar following the Brexit vote.

UK consumers are generally willing to try new types of foods and are interested in the latest food trends and international products. 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, as well as free-from (allergens), gut-friendly foods (including pre-biotics), fermented food, and alcohol-free beverages. UK consumers, particularly younger demographics, are increasingly influenced by their personal values when making purchasing choices.

Given its geographic location and small size, the UK must source a considerable amount of raw material from abroad. National pride in the wake of Brexit and a history of food-scares means UK consumers trust their own produce, with retailers/foodservice operators ensuring sourcing and marketing plays to this bias. However, the UK, is only around 60 percent self-sufficient in food. Incorporating U.S. ingredients into a British made product is routine, but the labeling or marketing will generally not acknowledge the U.S. element, unless it is misleading or illegal to leave out such information.

Advantages and Challenges for U.S. Companies

Advantages	Challenges
The UK is a highly developed economy and consumers have one of the highest income levels worldwide.	UK consumers demand quality and low prices – U.S. products are more expensive following recent pound devaluation.
UK climate limits growing seasons and types of products which can be grown.	Private certifications requiring third party independent audits are often required e.g. British Retail Consortium (BRC), GlobalGAP, Marine Stewardship Council (MSC).
UK is a trading nation. The food supply chains are sophisticated.	U.S. exporters face tariff-free competition from EU countries.
The UK has a large, well-developed food processing industry, requiring a wide range of ingredients, from low-value, high processed food to high-value, lightly processed ingredients.	Non-tariff barriers such as sanitary (animal health) and phytosanitary (plant health) restrictions make exporting to the UK complicated.
Scale of many U.S. industries could mean price competitiveness in certain produce.	UK demands high technical specifications, sustainability, ethics, and transparency in the supply chain.
The UK is English speaking and is therefore easier for U.S. exporters to deal with when they start to export.	Strong trade barriers exist for animal original products including poultry and beef.
	Anti-U.S. lobby on food products has intensified with U.S.– UK trade agreement talks.
	‘Rules of Origin’, or double taxing of goods, is enforced if products are transshipped to/from UK without sufficiently further processed.

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

Market research is vital for success. Desk research, travel to the UK, paid consultant reports, or all three are recommended for businesses considering entry to the UK market. The UK market set-up is different to the United States. 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, research the buyer and their status in the market.

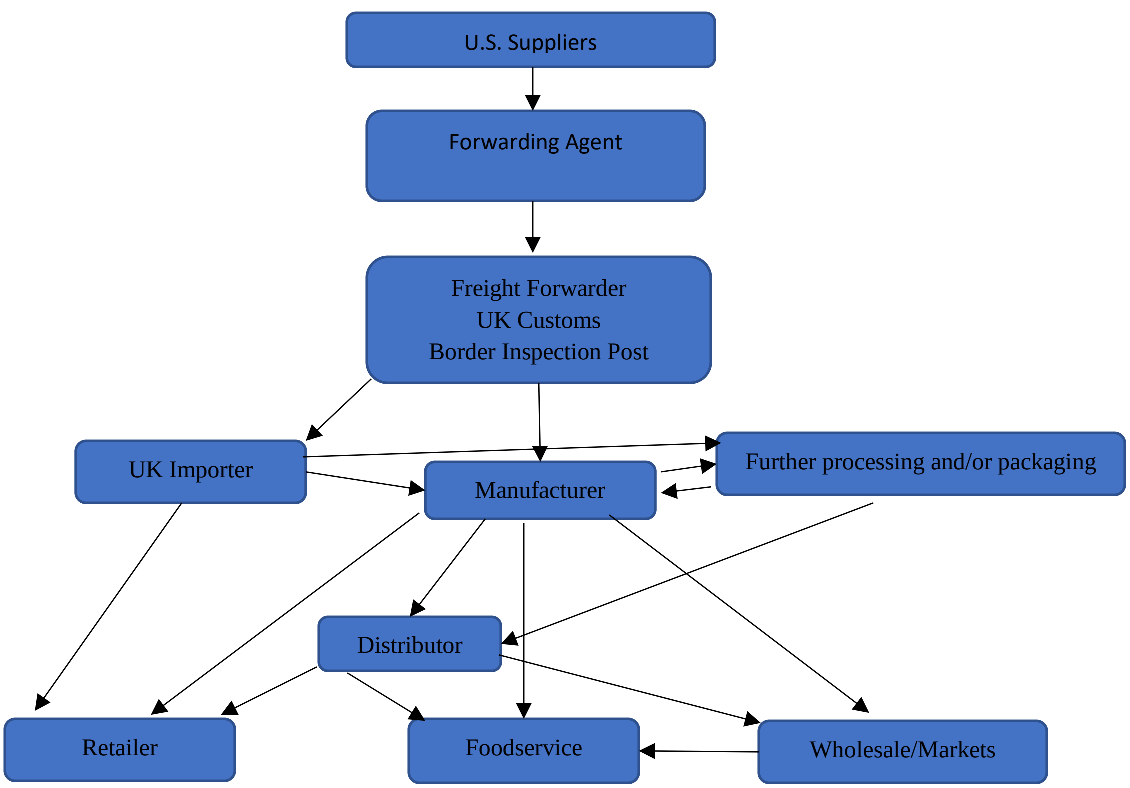
Import Procedure

UK importers/buyers are responsible for compliance with import and labeling conditions before placing products in 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 import requirements for the UK is available from the UK Food and Agricultural Import Regulations (FAIRS) Report.

Distribution Channels

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

Routes to Market Flow Chart



Market Structure

The UK has a dynamic food scene where every type of food product is available through traditional and online grocery stores, wholesalers, markets, and foodservice outlets. UK manufacturers who incorporate U.S. ingredients in their products can avail 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 view our retail and exporter guide reports.

Share of Major Segments in the Food Processing Industry
According to government data, the UK consumes 55 percent of the food and drink that it produces domestically. Twenty-six percent is sourced from the EU on account of their proximity and tariff-free trading relationship. The United States and Canada together have four percent market share, as do Africa, South America, and Asia. Australasia contributes another one percent.

Data for 2019 shows that the manufacture of food products decreased by $1.2 billion from the previous year's total of $100.3 billion (£72.7 billion). This figure does not include beverages, which are grouped with tobacco in the statistical overview by Office for National Statistics. This category's output was reported to be approximately $20.7 billion (£15 billion) in 2019. The largest increase in product sales was whiskey, up by $0.5 billion (£0.4 billion) to $5.6 billion (£4.1 billion). The decline in sales of food products was attributed to declining sales of cakes and pastries as well as prepared meals. It is anticipated that COVID-19 will reverse this trend and increase sales in these sectors will be either reported when 2020 figures are released later this year.

Relative Size of UK Manufacturing Sectors
The largest food manufacturing sectors in order of importance are meat processing, dairy products, bakery products, animal feeds, and grains. The largest drink manufacturing sectors are: soft drinks, 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. In 2018, the UK spent $11.3 billion (£8.2 billion) on ethical food and drink, including organic, Fairtrade, Rainforest Alliance, and Marine Stewardship (MSC) certified products. The average spend per household was $554 (£440) in 2018 compared to $54 (£43) in 1999. Sales of ethically certified food and drink are projected to rise by 17 percent to reach $13 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	2018 £ million	2019 £ million	% Growth 2018-2019
Organic	1,475	2,208	2,298	4.0%
Fairtrade	1,094	1,603	1,671	4.2%
Rainforest Alliance	1,198	3,243	3,288	1.3%
Free range eggs	419	758	873	15.1%
Vegetarian products	541	1,000	1,114	11.4%
RSPCA Assured (Animal Welfare)	573	2,190	2,378	8.5%
Sustainable fish	121	962	899	-6.5%
TOTAL	5,421	11,964	12,521	4.6%
Exchange rates USD:BPS	*1.55*	*1.26*	*1.38*	

Source: UK Ethical Consumer Markets Report 2020

SECTION III. COMPETITION

In general, if the UK or other countries in Europe can produce a raw ingredient, there is limited need to source these ingredients from outside of the EU such as the United States.
However, during seasonal periods or if supplies fall short, exports from the U.S. could benefit by supplying products in demand. These are short-term trades and difficult to predict.

The United States, in every sector, has historically performed better in providing high quality products not readily available in northern Europe such as fruits and nuts.

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 therefore more difficult to supply ingredients to these sectors. It may be possible; however, for U.S. ingredients to supply to the dairy sector if, they have not been derived from animal products, e.g. cranberries in cheese.

The United States is the largest third country supplier of agricultural, food and fish products to the UK followed by China and Brazil. Depending on the product category, competition is high from: Iceland and China (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) and Turkey (dried fruit, pickles).

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

Profitable opportunities for U.S. products can be found in; high value, high quality, authentic, innovative, natural, wholesome, health-conscious, planet-conscious and plant-based products. According to Puratos UK, (leading food manufacturer for baking industry) , power ingredients, such as grains, seeds, cocoa, vegetable and fruit fillings joined plant based ingredients as sought after products in 2020.

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, which contain hormones
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

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Attachments:

No Attachments