United States Department of Agriculture
Foreign Agricultural Service

GAIN Global Agricultural Information Network

Required Report: Required - Public Distribution **Date:** April 18, 2022

Report Number: UK2022-0017

Report Name: Food Processing Ingredients

Country: United Kingdom

Post: London

Report Category: Food Processing Ingredients

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Report Highlights:

Food and drink production is the UK's largest manufacturing sector. UK consumers demand products containing a wide range of ingredients, some of which cannot be sourced entirely in the UK. The country, therefore, relies on imports to fulfill this demand. Health and wellbeing are key trends driving the market as the demand for plant-based and natural products increase. In 2020, UK consumers spent $11.3 billion on ethical food and drink, a sign that consumers shop with a conscience. 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. U.S. companies should be aware of new regulations relating to plastic packaging and foods that are high in fat, salt, and sugar that may be introduced later in 2022. Products affected by these changes could see increased taxes and restrictions on the promotion and marketing of products.

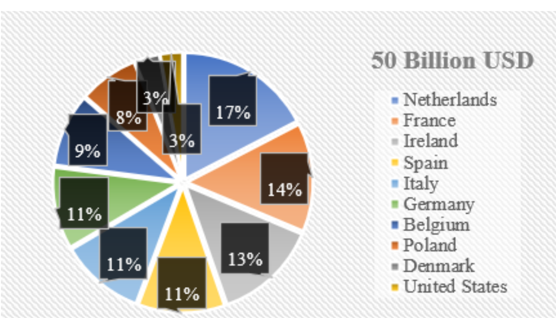
Market Fact Sheet: United Kingdom

Executive Summary:

According to the CIA World Factbook, the United Kingdom (UK) with a population of 67.7 million is a leading trading power and financial center and is the third-largest economy in Europe. Agriculture is intensive, highly mechanized, and efficient by European standards but accounts for less than one percent of the 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 $2.79 trillion GDP in 2020, the UK is the United States' seventh-largest market in the world for all goods. Demand for U.S. consumer-oriented food products continues to differentiate the UK from many of its European neighbors.

Imports of Consumer-Oriented Products

According to TDM, in 2021, the UK imported consumer-oriented agricultural products worth $50 billion, with the United States' market share at two percent or $1 billion.



Food Processing Industry:

According to the Food and Drink Federation, the food and drink sector is the single largest single employer in the UK manufacturing sector. Around 440,000 people across the UK are employed in jobs associated with food and drink manufacture and sales. The food and drink sector had an annual turnover in 2020 of $145 billion.

Food Retail Industry:

The food retail sector is saturated, highly consolidated, and competitive. The top four retail groups (see chart) together account for 68 percent of the market. Independent stores continue to face strong competition from modern grocery retailers and from online retailers. According to the Office of National Statistics, 2020 experienced unprecedented demand for online grocery sales, with sales accounting for 35.2 percent of sales in January of 2021. With consumers returning to shopping in-store, online grocery sales have decreased and now account for 25.3 percent of grocery sales, still higher than the pre-pandemic rate of 19.8 percent. UK consumers are willing to try foods from other countries but expect quality products at a competitive price.

Quick Facts CY 2021

Total Imports of Consumer-Oriented Products: $50 billion

U.K.'s Top Consumer-Oriented Growth Products

1) Non-Alcoholic Beverages
2) Chewing Gum and Candy
3) Distilled Spirits
4) Dog and Cat Food
5) Beef and Beef Products
6) Cut flowers
7) Wine
8) Condiments/sauces
9) Spices
10) Beer

Food Industry by Channels (USD billion) 2021

Food Industry Output	173
Food Exports	67.2
Food Imports	30
Retail	277
Food Service	68.2

Top 10 Host Country Retailers

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

GDP/Population

Population *(millions)*: 67.7 GDP *(trillions)*: $2.79
GDP per capita: 46,000

Sources: CIA World Factbook, TDM, Kantar Worldpanel, UK Government Statistics

Strength	Weakness
UK is one of the biggest markets in Europe with one of the highest per capita incomes globally	U.S. products face competition from tariff-free products from the EU and Free Trade Agreement (FTA) partners.
Opportunity	**Challenge**
Common language and the future potential of a Free Trade Agreement make the UK an attractive market.	UK's strict animal welfare standards create barriers for animal origin products.

SECTION I. MARKET SUMMARY

Food and drink is the largest manufacturing sector in the UK by total sales, making it larger than automotive and aerospace combined. In 2020, the sector employed over 440,000 people. Ninety-seven percent of the UK's 10,990 food and drink manufacturing businesses are small to medium-sized enterprises. Innovation and re-formulation drive new product development and the sourcing of healthier ingredients. According to the Food and Drink Federation, the UK food and drink manufacturing sector reduced food waste by more than 30 percent per capita from 2011 to 2020. As in the United States, high standards require greater technical specifications, traceability, and compliance with private certification schemes. According to Statista, the UK retail grocery sector was valued at $277 billion in 2020 and is an important market for global food and beverage companies and further processed ingredients.

Since March 2020, UK food and drink manufacturers have faced challenges especially for those supplying the hospitality, restaurant, and workplace sector, due to COVID-19 lockdowns. Businesses have experienced increased difficulties getting products into the United Kingdom as a result of Brexit. Despite these challenges, the sector adapted and became more resilient in the way it trades. These issues, in addition to increased interest in sustainability, health, and wellness, are expected to continue in 2022. Below are examples of how the sector is adapting:

- Global transport problems continue, resulting in many UK companies sourcing items such as packaging from the UK rather than overseas. To cut lead times and reduce shipping costs.
- The UK continues to have a labor shortage due to Brexit. If this continues, companies are likely to increase automation.
- With consumers looking for healthier lifestyles, the demand for vegetarian and plant-based ingredients has increased, impacting the types of ingredients used in the manufacturing food sector.
- A higher percentage of the UK population is more environmentally conscious influencing types of products they buy.

In 2022, food and drink products expected to grow in popularity include:

- Products containing ingredients such as oils from almonds and other nuts, coconut, sunflower, linseed, and rapeseed oil as well as products high in vitamins are likely to increase in popularity;
- Plant-based seafood alternatives;
- Functional food and drink with products that have health benefits such as immunity, better sleep, and reduced stress;
- Low and no-alcohol beverages with different flavor combinations; and
- Lightly processed foods 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.

In 2022, several new regulations come into force that will affect the food manufacturing sector. These include:

- On January 1, 2022, new border controls came into effect for animal and plant products imported from the EU or other countries.

- In April 2022, new plastic packaging regulations may come into force. All plastic packaging manufactured in or imported to the UK that does not contain at least 30 percent recycled plastic will be subject to an increased tax.
- Later in 2022, the UK government will introduce legislation to restrict the marketing of food products that are high in fat, sugar, and salt (HFSS). This will bring a new challenge to food manufacturers as companies reformulate their products to avoid these restrictions.

According to Statista, the largest number of food manufacturing facilities in the UK are in London with 1,685 enterprises. This is followed by the South East with 1,280 enterprises, while the North East region has the fewest enterprises.

UK consumers are 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 consumers, are increasingly influenced by their personal values when making purchasing choices.

Advantages and Challenges for U.S. Companies

Advantages	Challenges
The UK is a highly developed economy where consumers have one of the highest income levels worldwide.	UK consumers demand quality and low prices Many U.S. products are more expensive, which means there is greater competition from retailers to stock U.S. products.
UK climate limits growing seasons and types of products which can be grown. The UK needs to import 40 percent of food products to meet consumer demand.	Private certifications requiring third party independent audits are often required e.g., British Retail Consortium (BRC), GlobalGAP, and Marine Stewardship Council (MSC).
The United Kingdom is a trading nation with sophisticated food supply chains.	One of the primary obstacles for U.S. food and farm exports in the UK is the negative perception of U.S. agriculture being large-scale and non-sustainable.
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.
There is considerably more interest in the UK as a country in its own right since Brexit with U.S. companies exporting directly to the UK.	The United Kingdom 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 trade with when they start to export.	Strong trade barriers exist for animal original products including poultry and beef.

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

Market research is vital for success. Desk research, travel to the UK, and/or paid consultant reports are recommended for businesses considering entry to the UK market. The UK market set-up is different than 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, it is recommended to research the buyer and their status in the market. FAS GAIN reports are a useful source for country specific information. Information can be found here.

Import Procedure

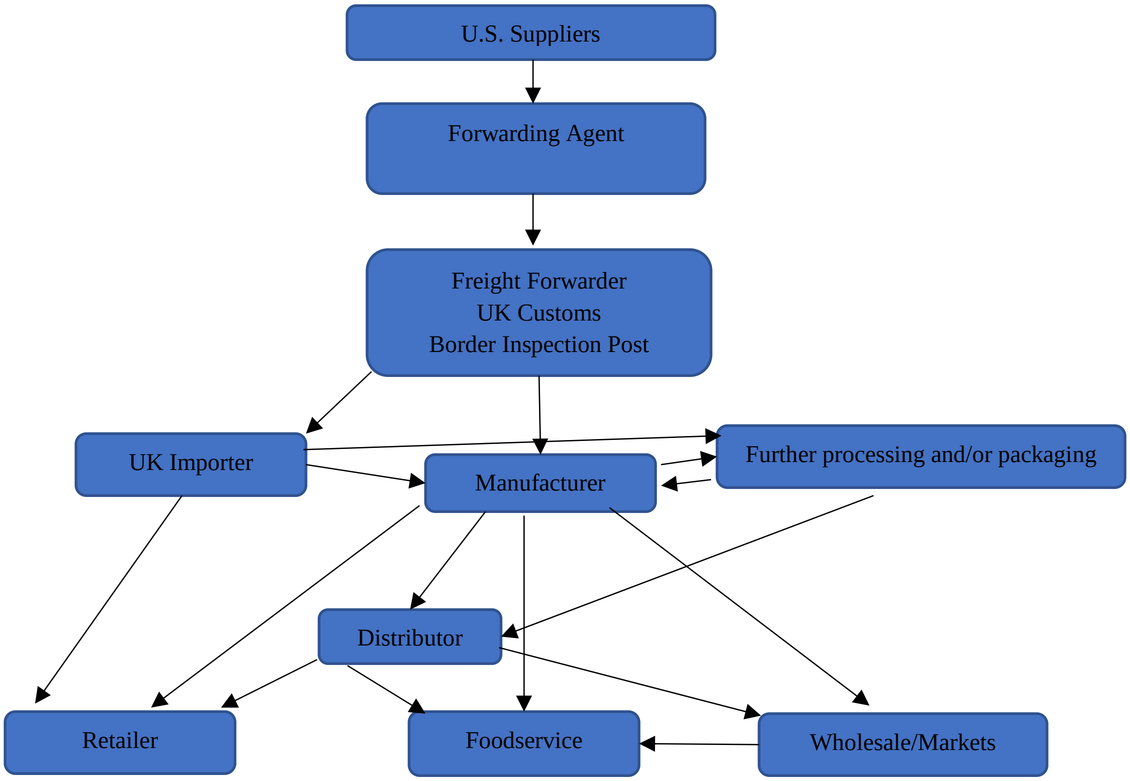
UK importers/buyers are responsible for compliance with import and labeling conditions before placing products in the market. To do this, UK companies will request information from U.S. suppliers on ingredients, processing aids, processing methods and relevant certifications. Further information on import requirements for the UK is available from the UK Food and Agricultural Import Regulations (FAIRS) Report.

Once U.S. companies have acquired this background information, they may consider attending or visiting one of Europe's USDA endorsed trade shows. They serve as a springboard into the market, helping companies to establish new trade contacts and gauge product interests. The International Food Exhibition is a newly endorsed USDA tradeshow and will take place in London, March 20-22, 2023. It is the UK's largest food trade show and includes six shows in one. If you would like information about this show, please send an email to aglondon@usda.gov.

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 that incorporate U.S. ingredients into their products can avail of any of these 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. 26 percent is sourced from the EU on account of their proximity. 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 2020 shows that sales of food products was $102.3 billion, a decrease of $2.9 billion from the previous year. 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 $19.7 billion in 2020. In addition, bread was up 11.1 percent to $4.4 billion, and fresh beef was up 6.3 percent to $6.3 billion. The overall decline in sales of food products was attributed to most foodservice establishments being closed for many months during 2020 due to COVID-19 restrictions.

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 largely due to exports of Scotch 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:

2 Sisters Food Group	General Mills
AF Blakemore and Son	Glencore
Associated British Foods (ABF)	Iglo Group
Bakkavor	Mars
Brakes Group	Mondelez
Coca-Cola	Nestle
Danone	PepsiCo
Diageo	Unilever
Dunbia	United Biscuits
Findus Group	Whitbread

Sector Trends
- Health and wellbeing/wellness
- Vegan/ plant-based, flexitarian, meat-reduction
- Clean-eating, raw or barely processed ingredients
- Feel good, indulgence, treats

The Ethical Consumer Report indicates that British consumers are increasingly eating with a conscience. In 2020, the UK spent $11.3 billion on so-called 'ethical' food and drink, including organic, Fairtrade, Rainforest Alliance, and Marine Stewardship (MSC) certified products. This was an increase of 12.3 percent from 2019, as lifestyle changes linked to COVID-19 and climate change increased demand for plant-based, organic, and vegetarian products. The average household spent $710 in 2020, compared to $293 in 2010. The table below gives the most recent publicly available data and shows the key aspects of ethical shopping.

Ethical Food and Drink Category Growth:

	2010 $ million	2019 $ million	2020 $ million	% Growth 2019-2020
Organic	1,991	3,207	3,535	12.6%
Fairtrade	1,477	2,305	2563	13.6%
Rainforest Alliance	1,617	4,538	4,817	8.5%
Free-range eggs	566	1,205	1,488	26.2%
Vegetarian products	730	1,537	1,902	26.5%
RSPCA Assured (Animal Welfare)	774	3,282	3,500	9.0%
Sustainable fish	163	1,241	1,104	-7.8%
TOTAL	7,318	17,316	19,020	12.3%
Exchange rates USD:BPS	*1.55*	*1.38*	*1.35*	

Source: UK Ethical Consumer Markets Report 2021

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, including the United States. However, during seasonal periods or if supplies fall short, exports from the United States 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, in addition to 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. producers to supply other ingredients to the UK dairy sector that 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.
In 2022, it is anticipated that the following products will increase in popularity: vegetable oils, nuts, plant-based seafood, functional foods, and low and no-alcohol products.

Products Present In The Market, Which Have Good Sales Potential
Wheat Products, Rice
Dry Beans, Legumes
Dried Fruit and 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 industries
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 claims

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

Foreign Agricultural Service (FAS)/United States Department of Agriculture (USDA)
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Department for Environment, Food & Rural Affairs – Government Agency for Agriculture.
Tel: +44 20 7238 6951 E-mail: helpline@defra.gsi.gov.uk Website: www.defra.gov.uk
Food Standards Agency - Government Association on UK food safety standards and policies
Tel: +44 20 7276 8829 Email: helpline@foodstandards.gsi.gov.uk Website: www.food.gov.uk

UK Trade Associations
Institute of Grocery Distribution - Food and grocery chain trade association.
Tel: +44 1923 857141 E-mail: askigd@igd.com Web: www.igd.com
Food and Drink Federation - Trade association for UK food and drink manufacturing industry.
Tel: +44 20 7836 2460 E-mail: generalenquiries@fdf.org.uk Website: www.fdf.org.uk
British Health Food Manufacturer's Association - Association for health products industry.
Tel: +44 20 8481 7100 E-mail: hfma@hfma.co.uk Website: www.hfma.co.uk
British Frozen Food Federation - Trade association for all aspects of the frozen food industry.
Tel: +44 1400 283 090, E-mail: generaladmin@bff.co.uk Website: www.bfff.co.uk

Attachments:

No Attachments