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Report Name: Food Processing Ingredients

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Report Highlights:

The UK has a large, well-developed food processing industry, requiring a wide range of ingredients, from low-value, highly processed food to high-value, lightly processed ingredients. This provides many opportunities for U.S. exporters, including wellness and health products. Innovation and re-formulation drive new product development and demand for healthier ingredients. The UK is currently experiencing a cost-of-living crisis with food and drink prices increasing by almost 17 percent in 2022 and inflation at a 40 year high. Prices across all product categories have risen rapidly with inflation, resulting in increased prices, smaller pack sizes, and manufacturers sourcing cheaper ingredients. Current trends include innovation, sustainable packaging, food with health benefits, and plant-based products. The UK climate limits growing seasons and products that can be grown, resulting in the UK importing 42 percent of food products to meet consumer demand.

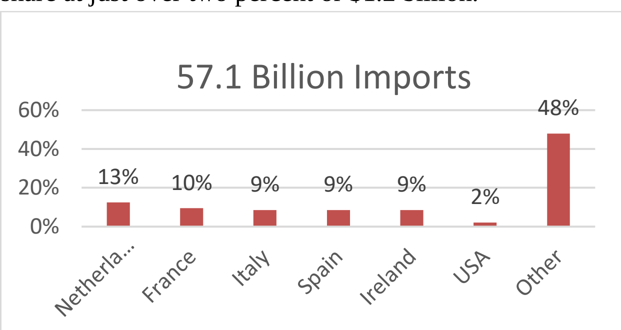
Market Fact Sheet: United Kingdom

Executive Summary:

According to the Office of National Statistics (ONS) data, the United Kingdom (UK) has a population of 67.1 million. It is a leading trading power and financial center and the third-largest economy in Europe, according to CIA World Factbook. 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 58 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 $3.1 trillion GDP in 2022, the UK is the United States' fifth-largest market in the world for all goods and services. 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 Trade Data Monitor (TDM), in 2022, the UK imported consumer-oriented agricultural products worth $57.1 billion, with the United States' market share at just over two percent or $1.2 billion.



Food Processing Industry:

According to the latest Food and Drink Federation Factsheet, the food and drink sector is the single largest employer in the UK manufacturing sector. In 2021, around 468,000 people across the UK were employed in jobs associated with food and drink manufacturing, an increase of 3.4 percent from 2020.The food and drink manufacturing sector's output was valued at $36 billion with an annual turnover of $134 billion, up 4.2 and 4.8 percent, respectively.

Food Retail Industry:

The food retail sector is saturated, highly consolidated, and competitive. The top four retail groups (see chart) together account for 65 percent of the market. Independent stores continue to face strong competition from grocery retailers and online retailers. Online sales are predicted to increase to become the second fastest-growing channel post-2024, as rapid grocery deliveries between 30 minutes and an hour become increasingly popular. UK consumers are willing to try foods from other countries but expect quality products at a competitive price. Aldi has recently overtaken Morrisons to become the fourth-largest UK supermarket chain for the first time.

Quick Facts CY 2022 ($1=£0.83)

Total Imports of Consumer-Oriented Products:
$57.1 billion

UK's Top Consumer-Oriented Growth Products

1) Eggs	6) Bakery Goods
2) Coffee	7) Food Preparations
3) Poultry	8) Chocolate
4) Non-Alcoholic Bev	9) Processed Fruit
5) Processed Vegetables	10) Condiments/Sauces

Food Industry by Channels (USD billion) 2022

Food Industry Output - Turnover	134
UK Ag Total Exports to United States	2.9
UK Ag Total Imports from United States	2.5
Value of Grocery Retail Market	271
Value of Food Service Market	40

Top 10 Host Country Retailers

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

GDP/Population

Population (2021) *(millions)*: 67.1 GDP *(trillions)*: $3.1
GDP per capita: $45,000

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**
Demand for sustainable, healthy, free-from, vegetarian, and convenience products are growing.	Higher cost-of-living causes consumers to spend less on non-essential items and switch to more private-label products.

SECTION I. MARKET SUMMARY

According to the UK's Food and Drink Federation, food and drink is the largest manufacturing sector in the UK by total sales, making it larger than automotive and aerospace combined. In 2021, the sector employed over 468,000 people, up 3.4 percent from 2020. In 2022, 97 percent of the 11,675 food and drink manufacturing businesses were small to medium-sized enterprises. Innovation and re-formulation drive new product development and demand for healthier ingredients. The UK food and drink manufacturing sector reduced food waste by more than 30 percent per capita from 2011 to 2021. As in the United States, high standards require greater technical specifications, traceability, and compliance with certification schemes. According to the Institute of Grocery Distribution, the UK retail grocery sector, which is the most important market for ingredients, was valued at $271 billion in 2022 and is an important market for global food and beverage companies and further processed ingredients.

The war in Ukraine, higher energy costs, inflation, and supply chain disruptions have all contributed to the UK's cost-of-living crisis. According to the Office of National Statistics (ONS),food and drink prices increased by 16.9 percent in 2022 and inflation was at a 40-year high. Prices across all product categories have risen rapidly, especially for wheat, dairy, eggs, and mainstream grocery products. Inflation has resulted in not just increased prices, but also smaller-pack sizes and manufacturers sourcing cheaper ingredients. Certain product shortages affected both manufacturers and consumers as the price of key ingredients soared. With continued pressure from supermarkets to keep prices low, cheaper ingredient substitutions are being used so that consumers can continue to buy the products they like. This could be an issue for U.S. exporters as exports from the United States tend to be at the higher end of the price scale due to higher tariffs and shipping costs. Some companies are also looking to source locally, as opposed to importing products. This supports locally grown products and is more sustainable. This trend brings its own problems, however, as many ingredients are not grown year-round in the UK and therefore must be imported to meet demand.

Current trends in this market sector are:

Innovation - a very important part of the processed food sector as processors want to cut costs in the face of rising ingredient costs.

Sustainable Packaging - there is increased demand for sustainable, environmentally friendly packaging, with many consumers actively trying to reduce plastic waste.

Functional Food – there is increased demand for functional foods (foods that claim to improve health). The UK is an innovator in this sector, sourcing ingredients proven to have health benefits.

Plant-Based Products – vegetarian and vegan diets continue to grow in popularity with manufacturers creating more plant-based alternatives. In 2022, according to Statista, 14 percent of the UK population followed a meat-free diet, including vegetarian (six percent), pescatarian (five percent), or vegan (three percent).

In 2023, according to Food Manufacture Magazine, food and drink products that are expected to grow in popularity include:

- Seaweed products. Seaweed is recognized as a sustainable superfood and has gained in popularity. The product is versatile and is used as an alternative to fish or as a flavoring.
- Products with Innovative Flavors. UK manufacturers are experimenting with smoky flavors using caramelization, searing, and blackening ingredients. Spicy flavors such as sansho pepper, habanero chili, and sriracha will also remain popular. Blood orange, blond chocolate, jalapeno, and Biscoff (caramel) are expected to be used by more manufacturers this year.
- Plant-based seafood alternatives.
- Functional food and drink products that have health benefits, such as boosting immunity, providing better sleep, and reducing stress.
- Indulgent products. Although the cost-of-living crisis means consumers will be watching how much they spend, many would still want to treat themselves every so often. As an alternative to going out to restaurants, these consumers would potentially buy more expensive grocery products or bakery items as a treat.

In 2023, several new regulations will come into force that will affect the food manufacturing sector. These include:

- On October 1, 2023, the UK government will introduce legislation to restrict the marketing of food products that are high in fat, sugar, and salt (HFSS) by volume price, meaning that multibuy offers will no longer be allowed. This regulation has been delayed several times with many feeling that it unfairly affects those with lower incomes. However, in October 2022, a restriction of HFSS products by location came into force. This meaning that food falling into this category can no longer be sold at key store locations, such as store entrances, aisle ends, and checkouts. This will bring a new challenge to food manufacturers as companies reformulate their products to avoid these restrictions. These regulations do not currently apply to smaller convenience stores, creating an advantage for U.S. companies selling products that fall into this category. The HFSS regulations will extend to the ban of marketing and promotion of these products starting in 2024.
- On December 31, 2023, thousands of EU laws will be brought onto the UK statute book after Brexit. Power will be given to ministers to decide which of the 4,000 pieces of legislation should remain or go. The Brexit Freedom Bill will enable the UK government to potentially remove burdensome EU regulations in favor of a more proportionate UK regulatory approach. The Food Standards Agency is the trade association that is in the process of advising ministers on how to incorporate important rules within domestic legislation to safeguard food safety.

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 and increasing fish consumption. This has led to higher sales of free-from (allergens), gut-friendly (including pre-biotics) and fermented foods, as well as 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 than local alternatives, due to taxes and higher shipping costs.
UK climate limits growing seasons and types of products that can be grown. According to government statistics, the UK needs to import 42 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 UK historically 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, highly processed food to high-value, lightly processed ingredients.	Non-tariff barriers, such as burdensome sanitary (animal health) and phytosanitary (plant health) restrictions, make exporting to the UK complicated.
There is considerably more interest in exporting to the UK as a potential trading partner since Brexit.	The 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 trade with when they start to export.	Strong trade barriers exist for animal-origin 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 smaller 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 that you research the buyer and their market position and network. FAS GAIN reports are a useful source for country specific information. Information can be found here.

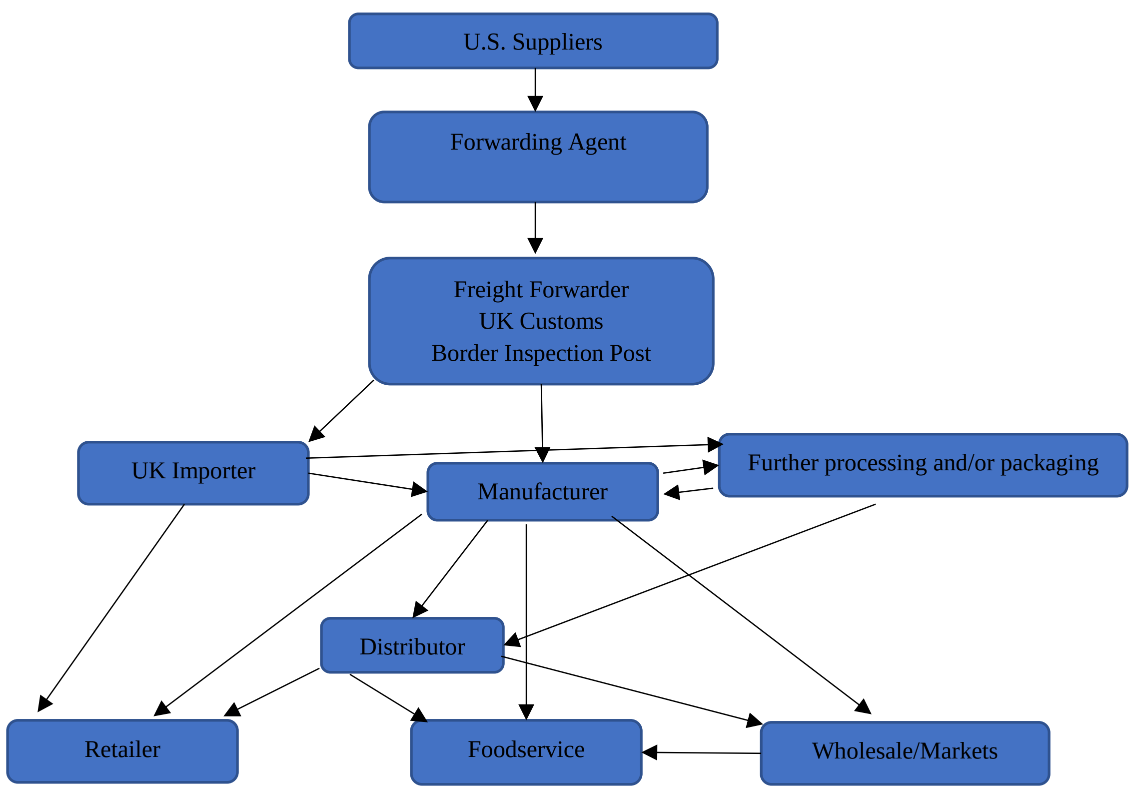
Import Procedure

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 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 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 establish new trade contacts and gauge product interests. The International Food Exhibition is an USDA-endorsed tradeshow that takes place in London during March each year. 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 to 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 use any of these options, depending on the final product characteristics and price point. Themes that unite all routes to market are provenance, traceability, clean labels, 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 58 percent of the food and drink that the UK consumes is produced domestically. Twenty-three percent is sourced from the EU due to their proximity. Five percent is from Africa, four percent is from the United States and Canada together, four percent is from Asia, three percent is from South America, and one percent is from Australasia.

Data for 2021 shows that sales of food products were \$95.4 billion (£79.5 billion), an increase of \$6.9 billion (£5.5 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 total value was reported to be \$19.9 billion (£15.9 billion) in 2021. In addition, bread was up 8.8 percent to \$8.2 billion, and prepared meals was up 7 percent to \$4.6 billion. The increase in overall sales of food products was largely attributed to the reopening of foodservice establishments after many had been closed for months during 2020/2021 COVID-19 pandemic.

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, spirits, beer, and cider.

The UK runs trade deficits in every food category, but particularly in fruit and vegetables. Conversely, the UK has consistently demonstrated a modest trade surplus in drink products largely due to exports of Scotch whisky, which increased by 10 percent in 2021.

Company Profiles & Company Products
A free database (searchable by product category) of UK Companies is available here.

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

Latest data from 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 has historically performed better in sectors where it is able to provide 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 in 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 second-largest foreign supplier of agricultural, food and fish products to the UK, with China as the largest. 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).

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

Opportunities for U.S. products can be found in high-quality, innovative, health-conscious, planet-conscious, and plant-based products.

Products Present in The Market, Which Have Good Sales Potential

- Wheat products and rice
- Dry beans and 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 that 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)
Embassy of the United States of America 33 Nine Elms Lane, London SW11 7US
Tel: +44 (0)20 7891 3313 Email: AgLondon@usda.gov

Please review and follow FAS London's social media sites:
Twitter: @USagricultureUK, Instagram: @SavortheStates, Website: www.savorthestates.org and LinkedIn account.

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: +44 330 332 7149 Email: helpline@food.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
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