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Report Highlights:

What's happening in the UK?

The first outbreak of Foot and Mouth Disease in the UK for over 20 years leads to the slaughter of hundreds of thousands of animals. In the retail markets, standards could be set to rise following the results of the Competition Commission, Asda's performance exceeds expectations, Safeway turns to entertainment, tinned vegetables maintain their place on consumers' shopping lists, and the latest IGD report cautions forecasting foodservice trends as the National Food Service produces its latest figures on out of house consumption.

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Agricultural Policy Issues/Food Safety

Foot & Mouth Disease Outbreak Hits the UK

Foot and Mouth Disease (FMD) is a highly infectious viral disease in which fever is followed by the development of vesicles or blisters, chiefly in the mouth or on the feet. It affects cattle, sheep, pigs and goats. Endemic in some parts of the world, the disease is easily spread amongst livestock and has no cure. FMD has no health implications for the human food chain.

The first case of FMD in the UK for twenty years was confirmed on Tuesday, 02/20/01. Since then, outbreaks have continued to occur in the UK and by Tuesday, 03/20/01, the number of confirmed FMD cases in the UK had reached 379. The last major outbreak in the UK was in 1967, when over 400,000 livestock were slaughtered over the six month period it took to contain the disease. So far, in the region of 320,000 livestock have been killed, in efforts to contain the disease spread. With the expectation that more cases will follow, this number will rise. FMD does not affect humans.

The number of daily cases has accelerated as the disease spread continued. This is despite controls to confine the disease, particularly the enforcement of a livestock movement ban (02/23/01). With a relatively short incubation period, original beliefs were that the number of FMD outbreaks would decline approximately 2 weeks after the enforcement of the movement ban. While this has not proved correct, it is still MAFF's belief that the majority of new cases are linked with movement of infected livestock, vehicles and people prior to the movement ban. Amid rising consumer concerns about the possible shortage of domestic meat to retailers, a scheme to allow the licensed movement of pigs, cattle and sheep from premises outside infected areas direct to slaughter, under stringent controls was announced Friday, March 2. Whilst livestock movement is not back to its pre-FMD levels, the Meat and Livestock Commission estimate that domestic pork and beef sectors are at approximately 80 per cent of normal production, although lamb is only at about 30 per cent of normal. Further livestock movement restrictions have been relaxed over the last two weeks, to allow the localized movement (within 5 km) of livestock and once-only transport of livestock over longer distances. The main goal of these movement schemes is to alleviate concerns surrounding livestock welfare, particularly at a time when the majority of the national flock begin lambing.

More recently, the UK's Ministry of Agriculture, Fisheries & Food (MAFF) announced a pre-emptive strike against foot and mouth disease, with the cull of livestock in areas where there have been a high concentration of FMD outbreaks. All sheep and pigs within a 3 km radius of infected premises in the North West of England and the South West of Scotland will be slaughtered to create firebreaks, to avoid the risk of further spreading FMD. Although, this move has met with a certain amount of farmer resistance in the areas concerned, MAFF has not ruled out using a similar policy in the county of Devon where the number of outbreaks is also high.

Approximately one month after the outbreak, it remains difficult to ascertain the full costs of the FMD outbreak in the UK. However, according to the UK's Meat and Livestock Commission (MLC), the loss of export sales of British meat and livestock is alone estimated at US\$ 12 million per week. The MLC also estimate that a one week halt in all livestock sales results in an

estimated loss of US\$ 72 million. The livestock movement ban brought livestock movement to a complete standstill for over a week. Movement restrictions were eased the week beginning 03/05/01, allowing animals in areas free from the disease to be moved to abattoir under strictly licensed conditions. However, the stringent controls at abattoirs, which includes a one in - one out policy for vehicles and supervised disinfecting of vehicles, means that plants that are operating are running below capacity. So although limited livestock movement has commenced, trading is some way below its normal level, and the lost revenues accumulate. There are also industry reports that abattoirs are paying less for domestic meat than they were prior to the livestock movement ban, despite shortages of domestic meat and significant increases in the price of imported meats.

Other knock on costs dramatically bump up the bill that will land on farmers' doorsteps. The National Farmers Union (NFU) estimates the reduction in the value of animals could cost US\$ 6 million a month with extra feed and housing costs due to keeping animals on farm of another US\$ 6 million. At the beginning of March, the NFU estimated that if the foot and mouth outbreak was not brought under control in three months, the cost to the farming and food industry will be three quarters of a billion pounds (US\$ 1.1 billion). These provisional figures were based on a number of assumptions about the length, breadth and severity of the outbreak, and given the number of cases through March, this estimate is likely to be revised upwards.

The long term structural implications of the loss of livestock cannot yet be evaluated. With MAFF openly admitting they have yet to get the disease spread under control, there will be more cases of FMD. Farmers are not the only part of the supply chain to suffer as a result of FMD. Some of the costs to the rest of the supply chain include the cost of disinfectant, overtime for the delivery and collection of milk and feed and the extra costs to abattoirs, auctions and food companies. Only premises where FMD cases have been confirmed are likely to be compensated for their losses.

And it is not just agriculture- related businesses which are suffering; the tourism industry is vital to the countryside and has estimated that it stands to lose about US\$ 150 million a week until the disease is contained. As well as local tourism in the UK being hit by FMD there are concerns that foreign tourists are being deterred from visiting the UK.

With the costs of the FMD outbreak being felt across the economy, a task force has been set up by the UK government to help rebuild the rural economy in the wake of the foot and mouth crisis. The Rural Relief panel will look at all aspects of the impact of FMD, including what help can be given to businesses, such as tourism, that are not directly agricultural.

More information on the current spread of the disease is available from MAFF's website -

<http://www.maff.gov.uk/animalh/diseases/fmd/default.htm>

U.S. action taken as a consequence of the FMD are available from USDA's website -

<http://www.aphis.usda.gov/oa/fmd/index.html>

(Source: Embassy/London)

Seeds of Opportunity Conference Aims to Present Biotech in a Balanced Light

Agricultural biotechnology is one of the most contentious issues facing the UK and Europe. The Seeds of Opportunity conference will bring together leading international figures in agricultural biotechnology in order to demistify this technology and to discuss its potential advantages and disadvantages, the increasing importance of consumer understanding of science, and consumer awareness of scientific achievement.

The conference is being hosted by the U.S. Embassy London, the School of Oriental and African Studies (SOAS) and Queen Mary (both of the University of London), along with the Royal Agricultural College. The two-day event will feature 2 Nobel Laureates amongst its speakers, as well as leading policy makers, eminent academics, top scientists and senior business figures from the world of food and biotechnology. The conference begins 31st May 2001, and is held at the Brunei Gallery at School of Oriental and African Studies (SOAS). For further information, contact the conference administrator, Andrew Kendall, via telephone (020 7824 8681) or view the conference website (<http://www.seedsofopportunity.com>).
(Source: Embassy/London)

Market Intelligence

Code to Raise Retail Standards?

Following on from the UK Competition Commission's study into retailing (reported in the last issue of *London Calling*), the Department of Trade & Industry (DTI) is to introduce a legally binding code of trading practice. It will be tougher than the industry's voluntary version facilitated by the Institute of Grocery Distribution (IGD) last year, although there are obvious similarities with the voluntary version drawn up by major supermarket chains last year. However, the new rules for trading arrangements between retailers and suppliers are far stronger and more specific.

In many cases, the code outlaws practices which have been a bone of contention between medium sized suppliers and big retailers over the years. The third, and probably final draft of the 24 point code says the multiple retailers must not force suppliers to make a lump sum payment in order to secure better (shelf/store location) positioning for any products unless payment is made in relation to a promotion. The code also decrees that multiples should not unreasonably force suppliers to pay more than 50% of the costs of a promotion. (Source: *The Grocer*, January 13, 2001).

Asda Performance Exceeds Hopes, but Tesco Stays Out Front

Wal-Mart has singled out its UK Asda operation as a top performer in reported final quarter results for 2000. The UK retail operation exceeded its dollar plan for the year and for the quarter despite a weak British pound. Asda also continued to grow market share, ending the most recent 12 week period with a food market share of 14.7%. By the end of 2000, Asda had 241 stores across the UK, including three new Asda/Wal-Mart supercentres. At least a further nine stores are planned to open this year. The three supercentres in the UK were reported to be trading ahead of plan and Asda will introduce some of their features thought the chain and add speciality

departments to 50 stores.

However, Asda is still losing ground to Tesco, according to the latest market share figures from TNS Superpanel. Tesco was named Retailer of the Year in the Retail Week Awards, reflecting its achievements in pulling further ahead of its competitors at home and abroad, and in becoming the world's biggest internet grocer.

In the TNS Superpanel data, only Safeway and Morrison showed an increase on last month. Safeway pushed up from 9.9% in the four weeks to January 7 to 10.9% in the four weeks to February 4, and Morrison rose 0.3% to 5.4%. Some of Safeway's increase has been attributed to a more accurate method of collecting data introduced last month, but analysts still believed Safeway was back on course for growth. Month on month, Tesco and Asda were the biggest losers, with Tesco slipping 1.4% to 24.6% and Asda going down 0.6% to 14.5%. But analysts said the rolling average for Tesco suggested it was growing sales by about 11.5% annually, increasing its lead over all its competitors. (*Source: The Grocer, February 24, 2001*)

All Change at Iceland

Following the departure of company chairman and co-founder, Malcolm Walker, shares in the UK frozen food retailer have dropped in value by 20%. Last year's merger with Booker, the cash and carry specialist, progressed slower than originally anticipated, with synergy savings from the merger of US \$ 12 million realized, compared to an expected US \$ 30 million. With pre-tax profits forecast at US \$ 90 million and additional charges of US \$ 51 million analysts were forecasting a tough time ahead for Iceland.

The company have also revised their organic policy, with the new chief executive describing the replacement of conventional frozen vegetables with organic as "fundamentally misguided." Last year, Iceland banned Genetically Modified ingredients from its own-brand products and signed contracts to source 40% of the would's organic vegetables. It promised to keep organic prices on a par with those for non-organic. The price differential, however, crept up, with sales falling. Own-label non-organic vegetables are to be reintroduced to the stores, and the new chief executive is likely to focus on the Buy One Get One Free (BOGOF) policy which has been historically successful for the chain. (*Source : The Grocer, Health Food Business*)

Safeway Entertains the Customers

Safeway is not a supermarket group usually associated with the cutting edge in retail trends. But with the development of a new-style food hall at a London flagship store, Carlos Criado-Perez, the Safeway chief executive, hopes that the chain might incite a 21st- century revolution in the way food is sold by the large retailers. Offering high quality, take-away food at competitive prices is yielding healthy gross margins for Safeway, who say its food court concept is "the way of the future." Competing retailers already inspecting the takeaway counters as well as the regular grocery side of the business at the St Katharine Docks store. Safeway plans to expand the concept to other convenience-size stores in the London area, with key elements set to be incorporated into 50 outlets across the South-east of England.

The development and success of Safeway's food court concept is a reflection on the changing lifestyles of the UK population. The consumer trend to reduced cooking times and increased food consumption outside of the home is just part of our "desire to out-source just about everything." Other multiples already retail pre-cooked dishes in stores, but so far this is focused on ethnic foods, with few stores involved in the supply of hot, take-home meals at present. However, it is not just the "fresh-to-go" concept that is likely to be taken up by rivals; the entertainment aspect of in-store food preparation at the St Katharine Docks outlet is one of the reasons given for its success. (Source: *The Times*, February 2001)

Alcohol Consumption Up in 18-34 Age Group

Young British consumers are drinking more alcohol than ever before. Young British adults aged 18 to 34 drink just over 2,676.5 million litres of alcohol a year, according to a recent Datamonitor report. The majority of alcohol consumption (over 2,300 million litres) is beer. The report forecasts that total consumption will increase to 3,026.9 million litres, of which more than 2,700 million litres will be beer. Promotions in bars and pubs to encourage drinking during the week have been increasingly successful at persuading young adults to drink alcohol on nights outside the usual high consumption periods (Friday and Saturday nights). Much of the additional consumption is coming from women drinkers, with a significant proportion of new product development targeting young female drinkers. The growth in alcopops and spirit-based beverages is an example of this trend. However, although total consumption is rising, young people are increasingly taking a more responsible attitude to drinking and becoming more sophisticated. One key indicator of this is the shift from beer to wine of some young consumers. (Source: Drink Buyer Europe, Jan/Feb 2001)

Organic Co-op Folds

The growth of the organic sector has been well documented in recent times, with increased consumer demand outstripping supply. The result is that UK retailers turn to overseas markets for many organic products. The supply-side is attempting to meet demand, but large-scale supply of organics is not a viable option for all, and many specialist organic retailers are experiencing competition from the multiples. The Organic Marketing Company, sought shareholder approval for voluntary liquidation on 25 January 2001. Last year, the co-op had a turnover of US \$ 6 million, and is blaming its demise on the recent move by supermarkets to mass marketing of organic produce.

The Organic Marketing Company's target market were small businesses, and these have been hit by the dramatic expansion in organic produce offered by the major retailers. The business had attempted to develop markets outside the big retailers for its organic farming members since its formation in 1992. However, the accessing of mainstream markets, in the form of trading with supermarkets over the last three years, has proved to be financially unsustainable for the farmer co-operative. (Source: *FWi*)

Tinned Products Retain a Place on Modern-day Shopping Lists

With advances in food technology, some commentators felt that tinned goods might not be able

to compete against frozen, chilled and microwaveable products. A recent report found that the tinned vegetables sector, at least, remains healthy and has a bright future, and not just as a last minute standby, but also as an ingredient. Consumers value tinned vegetables highly, and regard them as a stalwart of the store cupboard.

The most popular sort of tinned vegetables are tomatoes, bought at least once a month by two-thirds of all adults - probably because of their popularity and versatility as an ingredient for pasta sauces and casseroles, as well as an accompanying vegetable. Two other sorts of vegetables, sweetcorn and peas, were bought by more than four out of 10 adults.

Tinned vegetables are very popular with men, who make up two-thirds of frequent users and 55 per cent of those eating two or three times a week. Research has also showed that 67 per cent of adults use tinned vegetables more than once a month and 10 per cent of adults eat them four or more times a week. As one would expect, there is social and regional bias, with lower socio-economic consumers and people from the North of England and Scotland using tinned vegetables on a more frequent basis than higher socio-economic consumers and 'Southerners.'

Part of the popularity of tinned vegetables must be attributed to their diversity of use. During the research, 78 per cent of consumers revealed they use tinned vegetables to go with a main meal, whilst even more - 82 per cent - use them as a "cooking ingredient for a main meal". Despite their versatility and evident popularity, consumers still view them very much as an understudy meal solution - nearly seven out of 10 regular users agreeing strongly that "tinned vegetables are a great standby in the store cupboard. Although consumer perceptions of tinned vegetables may still be stuck in the past, consumer purchasing behaviour means that tinned vegetable products are likely to remain a valuable category for retailers. (*Source: Checkout, March 2001*)

UK Leads the Way in European E-Grocery

UK grocers are enjoying success online according to the latest report from UK research group, Datamonitor. The grocery sector is set to become the largest business to consumer sector in the coming years. The report found that UK retailers have the highest proportion of internet grocery sales compared to sales in seven other EU countries, with internet grocery sales worth approximately US \$900 million. Of the successful online retailers, Tesco was found to be top of the tree, having last year extended its coverage to 90% of the country. Recent developments also include delivery of shopping by Range Rover, as opposed to the company-branded delivery van, to enable wealthy customers to keep up appearances! Arch rivals Sainsbury and Asda/Wal Mart are intent on catching up with their web-based shopping services. However, smaller retailers such as Budgens and Somerfield have abandoned their internet strategies having failed to win a critical mass of shoppers. Tesco is reported as the only retailer currently covering the overheads of its online service. (*Eurofood, 13 February, 2001*)

Forecasting Foodservice Trends

A new report from the Institute of Grocery Distribution (IGD) cautions that one of the hardest food sectors to forecast with accuracy is the foodservice market. The influence of fashions,

consumer habits and the impact of new technology are largely unknown factors in future market trends. The table below lists some of the numerous factors which will help determine growth in the foodservice market.

Positive	Negative
Growing affluence	Home meal Replacements
Changing cooking skills	Sourcing and food scares
Market forces	Snacking habits
Demand for convenience	Growing cost gap
VAT reduction (VAT is the UK's value added tax' on goods and services)	New leisure pursuits

Overall, the IGD believes the market will grow by 17% (at constant prices) over the next ten years. The market will then be worth over US \$57 billion by 2010, up from US \$33 billion in 1999. By 2019, the report predicts that foodservice sales will equal those of the retail sector. And the value of the market is not the only future change; IGD says the market will become increasingly competitive, with more demanding consumers, and large and efficient new entrants. The latest data from the UK government's National Food Survey (NFS) supports IGD's growth forecasts. The foodservice sector showed significant growth in the second half of the last decade; money spent on food eaten outside the home shot up by 23% from the mid-Nineties according to the NFS statistics. This means that one third of food expenditure is now spent on food consumption outside of the home.

Interestingly, there is one item where the importance of household consumption is increasing - this is alcohol. According to the NFS money spent on alcohol outside the home has been drifting down, but money on alcohol for the home has risen sharply, up 40% since 1994. One of the nation's top eating out experiences remains ethnic food which continued to increase with more purchase of Indian and Chinese dishes (except curry). Consumption of rolls and sandwiches was similar to 1998, but confectionery, ice creams, desserts and cakes both continued their downward movement. Per capita consumption of beverages outside the home fell to its lowest level recorded. This was mainly due to a fall of seven per cent in the recorded volume of coffee consumed outside the home.

There are marked regional and demographic differences in the UK on money spent eating out. As might be expected the highest earning households spend more than twice the UK average on eating out, whilst the English spend more on eating out than the Scottish and the Welsh. Having children puts the brakes on eating out expenditure, according to NFS results. Total expenditure on food and drink eaten out was highest in adult only households, with expenditure generally declining with an increasing number of children. Households with children consumed more meat products, especially burgers and sausages, rice, pasta and noodles, chips, confectionery and ice creams, desserts and cakes. The NFS also demonstrates how age is an important indicator of eating out behavior. (*Source: Food Business, Jan/Feb 2001*)

McDonald's Go For a Sandwich

US fastfood giant McDonald's has agreed to buy a minority stake in UK sandwich bar operator Pret a Manger. It has taken out a 33% stake in the sandwich retailer. Pret a Manger was established in 1986 and operates over 100 sandwich shops in the UK with an annual turnover of US \$300 million. Last year, Pret a Manger opened its first store in New York and it has performed well, with its characteristic pre-packed, high quality, and freshly prepared sandwiches. With the McDonald's deal allowing Pret a Manger to facilitate growth plans, the sandwich company hopes to open further stores in America and is also considering expansion in to Asia. (Source: Eurofood, February 13, 2001)

Foot & Mouth Disease to Impact on Fish Sales?

With the worsening foot and mouth crisis, the fish industry is bracing itself for an upturn in demand for fish. However, this is one of the toughest times of the year for the catching and landing of fish in the northern hemisphere because of bad weather. With fish from British waters likely to remain in short supply in the near future, there are export opportunities for U.S. fish as the UK looks to the world market for supplies. (Source: The Grocer, March 3, 2001)

Energy Surge

Energy drinks are the biggest moneyspinner in the soft drinks market for UK retailers, according to a report by drinks consultancy Zenith International. Zenith's report on the UK energy drinks market showed UK sales of energy drinks rose more than 23% by volume in 2000 and 39% by value. (Source: The Grocer, February 10, 2001)

UK Sweet Potato Production Could Become Reality

Sweet potatoes grown under unheated glass in the UK could become the latest niche vegetables, according to scientists. The sweet potato market was last year valued at around US \$4.5 m for some 5000 tonnes. These supplies are imported, mainly from Jamaica, South Africa, the United States and Israel, with most imports supplying the demand from the UK's ethnic communities.

Field scale sweet potatoes are already being grown by Hampshire farmer Peter Barfoot, but they are susceptible to cold weather. Robin Wood, site manager at the horticultural research station, HRI Kirton, which has been running trials for four years based on tissue cultures, says at least one major multiple has already shown an interest in the new crop technology to meet growing demand. (Source: The Grocer, January 27, 2001)

Food Retailer Actions on GMO's

Marks & Spencer and Asda have stepped up the campaign against genetically modified foods, by placing restrictions on livestock feed. Asda will absorb the costs of sourcing soya meal for animal feed from non-GM sources to support the introduction of a range of GM-free fresh chicken, pork and eggs and this summer. Marks & Spencer also accelerated its anti-GM drive by

announcing plants to source all pork and beef from animals fed on GM-free diets. (Source: *The Grocer*, January 27)

U.S. Trade and Consumer Marketing & Program Announcements

It's a Healthy Nut to Crack

The California Pistachio Commission plans to promote pistachios as a healthy snack in its new 'Health in a Nutshell' campaign. It has put together a series of information and recipe cards including an A-Z of pistachios, Healthy Snacks, Understanding Fats and Did You Know? The Commission is using a nutritional marketing message to emphasize to the consumer that pistachios are high in healthy unsaturated fats and contain vitamins and minerals such as potassium and iron, therefore providing a healthier alternative to other cholesterol-ridden snacks. (The Grocer, January 13, 2001)

Prunes Make a Go if It

The California Prune Board designated February 2001 California Prune Month, and has released details of its upcoming generic marketing campaign. The campaign will target women aged 25-44, promoting Californian prunes as a healthy snack, using research findings, which showed prunes to have the highest anti-oxidant levels of all fruits and vegetables tested. The campaign will involve a series of national roadshows in Brighton, Exeter, Cardiff, Leeds, Newcastle and Glasgow; local radio support will be supplemented by regional TV and press coverage; and offers to readers of magazines such as Chat, Women's Health, Top Sante' and Slimmer and point of sale materials. (Source: *Freshproduce Journal*, January 2001)

Sweet 'n' Juciy Florida Grapefruit

This season, Florida grapefruit are particularly sweet and juicy and are available in all the leading retailers, mainly with the pink variety although red and white are also being imported. To convey these key attributes to UK consumers, tastings of Florida grapefruit as well as orange and grapefruit juices took place last month in five of the top seven multiples. Throughout the season, there will be strong in-store branding of Florida. The in-store tastings were supported from the beginning of February with a national radio campaign to support Florida citrus, with individual retailer "tags" included on a regional basis. There is also an integrated UK public relations campaign to highlight the unique taste properties of Florida citrus and to emphasize the health benefits of consuming it daily, which should further enhance grapefruit sales; they are already reported as 20 per cent ahead of last year. (Source: *Florida Department of Citrus*)