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Report Highlights:

London Calling is a synopsis of UK food and beverage trade media reports. It aims to inform U.S. exporters of the current factors influencing the UK market.

If there are any specific product areas that you would like to see included in future editions, then please let us know.

And to ensure that you are on our mailing list for future editions, email ALMT@usda.gov
To view previous editions of London Calling and to access UK specific market information, please visit the FAS London website.

Includes PSD Changes: No
Includes Trade Matrix: No
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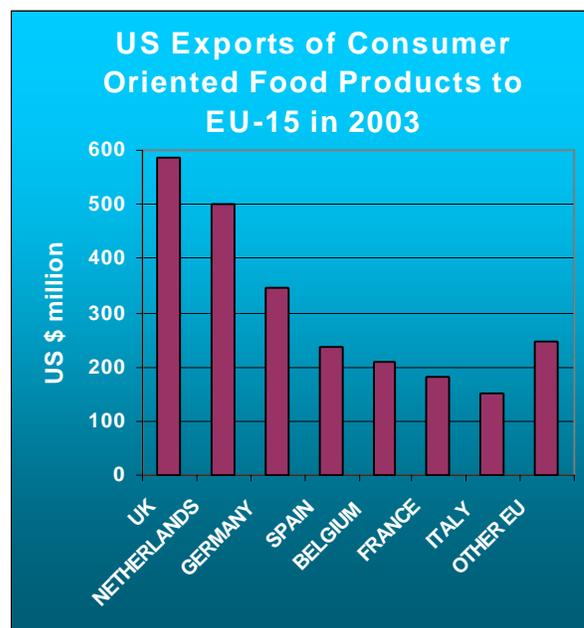
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Trade Data Update

U.S. exports of agricultural, fish and forestry products to the UK again totaled \$1.3 billion in 2003, according to the latest trade data from U.S. Customs. But where the UK really stands out is in its demand for consumer-ready U.S. food products.

The UK remains the largest market for consumer oriented U.S. food and drink products inside the European Union and number 6 in the world. Exports in 2003 increased almost 6 percent over the value of 2002 shipments to \$585 million.

Key product areas for the last 12 months include wine and beer – where exports have reached record levels, fresh and processed fruit, juices and a range of confectionery, bakery products, cooking sauces and snack foods.

**Horticultural Products – UK Certificate of Conformity Scheme extended**

As required under European Commission Regulation (EC) 1148/2001 regulations, a third batch of imported fruit and vegetable products require a certificate of conformity to accompany shipments before release into free circulation within the European Union as of February 4, 2004.

The third group to require certificates includes melons, watermelons, grapes, plums, carrots, leeks, apricots, tomatoes and cherries. They join apples, pears and citrus commodities, for which the certificate requirements were phased in through 2004. The final group of products, mainly vegetables, will require certificates from March 31, 2004.

The UK's Horticultural Marketing Institute has established an electronic Internet based system called the Procedure for the Electronic Application for Certificates from the HMI or PEACH for short. More information is available at the following web site:

<http://www.defra.gov.uk/hort/hmi.htm>

Fruit and Vegetable Program Targets Toddlers

As the UK's National Fruit Scheme (which offers free fruit to children) continues to roll out nationwide, reforms to the UK's Welfare Food Scheme are set to benefit pre-school children.

The scheme, to be known as Healthy Start, will offer parents of young children access to a voucher scheme to buy their toddlers fruit and vegetables. The government estimates around 800,000 people will benefit from the scheme, which will be phased in from the end of this year.

Source: BBC News online

US Foreign Sales Corporations: US products hit by EU countermeasures

March 1, 2004 marked the formal introduction of EU countermeasures on US exports worth an estimated \$4 billion per year. The retaliation list was drawn up in response to the failure of the US to withdraw its Foreign Sales Corporation (FSC) scheme.

The EU regards the scheme as an illegal subsidy, and in 2002, a World Trade Organization dispute panel ruled in favor of the EU. These counter measures on the selected products consist of an additional duty of 5 percent, with the duty rising 1 percent each month until March 2005 (or until the US complies with the WTO ruling).

Some 240 food and agricultural goods are on the list. We will keep you updated on progress towards compliance. More information is available online at www.useu.be/agri/FSC.html

Morrisons planning to sell Safeway stores

UK supermarket group Morrisons is drawing up plans to sell 132 smaller Safeway stores when it completes the £3bn (US\$5.7bn) takeover of its rival. The stores could be sold with the rights to the Safeway brand name and could attract a price tag as high as £300m, the Sunday Telegraph reported.

It is thought that a number of convenience store groups and financial buyers have already expressed an interest in buying the portfolio of stores. Morrisons had originally intended to keep the smaller stores, even though the group has little experience of running convenience stores.

Source: just-food.com

UK Consumers Increase Fine-Food Spend

British consumers have been dubbed the 'poshest' in Europe after research from Datamonitor revealed that the per capita spend on fine foods is over £900 (US\$1,674) per year. And by 2008, this is set to reach over £1,000 per person. In total, the research indicates that UK consumers are currently spending £4.2bn on organic, natural and fresh, high quality produce.

Fine foods are flourishing across Europe as consumers become increasingly uninspired by mass-produced food. France is far and away the biggest market in Europe, followed by the UK, Germany and Italy.

Key drivers to the UK's rising per capita spend include a growing dinner-party culture and a greater propensity for consumers to try and replicate the restaurant experience at home, spurred on by high profile celebrity chefs.

Source: just-food.com, The Caterer

'Free-from' Foods Expansion

According to data from market research analyst Mintel, UK consumers are becoming more aware of food intolerance and allergy. An estimated 30% of the UK population now perceive themselves as suffering from some sort of reaction to food and the number is growing.

Category sales are recording phenomenal growth as a result – showing market gains of 165% between 2000 and 2002. With the UK population ageing and older consumers becoming more concerned about health and nutrition, further growth is anticipated. In the meantime, free-from products are also attracting dieters who are aiming to reduce their intake of certain foods.

Traditionally the province of small producers and health food stores, the category has recently attracted interest from the major retailers. Private label products and dedicated sales fixtures are increasingly commonplace in supermarkets as they take advantage of consumer trends.

Source: The Grocer

Good For You, Better For You...

Also on the rise is the functional food market. Datamonitor forecasts the sector to grow to £507 million (\$943m) by 2007. Consumers are expected to continue to buy into the concept of food and drink products that offer benefits beyond their nutritional value.

Product offerings in the category continue to expand. Recent launches have included a number of cholesterol-lowering and digestion-boosting foods. Significant opportunities for growth exist. The age profile of consumers is falling slightly and data suggests income levels are not a deterrent to purchase.

Source: The Grocer

C-stores Look Convenient for Supermarket Chains

Following last year's battle for the takeover of Safeway, the latest power struggles in the UK grocery sector are being played out on the high street. With increasing restrictions on the development of out of town superstores, the UK's leading supermarket chains are looking at convenience stores as takeover targets.

So far in 2004, Sainsbury has purchased Bells Stores, a chain of 54 convenience stores in the northeast of England and is reported to be in talks over the \$430 m purchase of the TM Group, a convenience store and newsagent chain. Sainsbury currently operate 66 convenience stores under its 'Local' format and a further 15 in partnership with gasoline company, Shell UK.

Tesco, the UK's leading food retailer, further expanded its convenience store portfolio in January, following an agreement to acquire the Adminstore group. The stores, mainly located in central London, are set to be rebranded as Tesco Express outlets. Tesco already operates over 100 Express stores in the UK and purchased 1,200 convenience stores from T&S in 2002. Up to 450 of these outlets are scheduled for conversion to the Express format.

C-stores represent opportunities for the major retailers to tap into the growing consumer trends of eating/drinking 'on-the-go' and 'top-up shopping.' Indeed, some analysts are already observing a blurring of the lines between c-stores and fast food outlets as product portfolios shift to target the eating on-the-go market.

Source: The Grocer, Mintel

Whole Foods enter the UK market

Leading US whole food retailer, Whole Foods Market, has acquired the fledging UK organic chain Fresh & Wild. This represents Whole Foods' first overseas venture and media reports

estimate the deal at £21m (\$38m). Fresh & Wild operates 7 stores in the UK. These are on a small scale compared to typical Whole Foods Market outlets. However, reports suggest that Whole Foods Market will ultimately look to roll out larger, US-style stores.

The UK organic market is the third largest in the world, after the U.S. and Germany. Category sales broke the £1 billion barrier in 2003. Although growth is slowing, the organic market continues to outperform growth rates of the total food sector. With high levels of support from the supermarket sector and a number of loyal customers, the future outlook for the organic market continues to look bright.

Source: Natural Products

Future European Food Trends

Trying to predict the future is undoubtedly a risky business in any industry, and the UK food industry is no exception. But a recent report from Mintel highlights some key areas for growth. Already emerging in the UK retail environment are a variety of low carb products, aiming to capitalize on the popularity of the low carb diets. An extension of this phenomenon could be the addition of glycemic index (GI) labeling on food products, which measures the effect carbohydrates have on blood sugar levels. This is a trend already noted in Australia and research suggests that European consumers could be the next to take note of the GI of certain foods.

Other emerging categories including soy, already familiar to US consumers, and beauty foods – those foods that contain ingredients more commonly found in skincare and healthcare products, such as ceramide and silk protein.

Customized convenience is also tipped as a key trend along with convenient packaging. This focuses on products that can be easily adapted or enhanced at the point of preparation by the customer such as meal kits. We will keep you updated of emerging food trends in future issues of London Calling.

Source: Checkout

Shifting Consumer Attitudes

The latest Consumer Attitudes survey by the UK's Food Standards Agency reveals some interesting facts about consumer behavior and perceptions. Just over six out of ten respondents to the survey claim to enjoy cooking. But only two-fifths cook meals from raw or fresh ingredients on a daily basis – seemingly a response to the increasing time pressures on UK consumers and the increasing availability of prepared foods.

When it comes to healthy eating, over one third of consumers claim they have changed their eating habits for the better over the last year. Awareness of the need to eat healthily has also risen, with more consumers knowing that they should eat 5 portions of a variety of fruit and vegetables each day. Also, consumers are increasingly concerned about the amount of fat, salt and sugar in food. Approximately half of British shoppers indicate that these are concerns and claimed they were affecting eating habits as a result.

The report also implies that consumers are more actively seeking out information about the foods they eat. More consumers claim to look for nutrition information on food labels. However, two fifths of the sample indicated that they had concerns about the accuracy of food labeling and half of the respondents stated they were concerned about the accuracy of health related claims on certain food products.

The full report is available from the Food Standards Agency website – www.food.gov.uk

Forthcoming Events

Various members of the AgLondon Marketing Team will hit the road in the weeks and months ahead. Below is just a selection of some of the events we will be visiting:

- Food & Drink Expo

ALMT will be among the 600 exhibitors at this event, which is the largest UK food and drink show this year. Show organizers are again anticipating in excess of 40,000 visitors. March 14-17

- FMI

We are currently putting together an inward Buyer Mission for the FMI show, taking advantage of its co-location with several other specialist shows. We look forward to seeing you in Chicago! May 2-4

- London International Wine & Spirits Fair

We will again be visiting this essential event in the international wine and spirits calendar, and with the U.S. now the third largest wine supplier of wine to the UK, we are expecting plenty of interest from domestic importers and many U.S. visitors. May 18-20

- Mardi Gras / New Product Showcase

We're currently in the process of planning a New Product Showcase for the summer, based around a Mardi Gras theme. The event will target selected importers and buyers in the retail and HRI sector.

We can't say too much about it right now, as the details are still under wraps. But if you want to be kept updated, send us an email with subject title 'Mardi Gras' and we will update you in the next few weeks.