Foreign Agricultural Service

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UK ORGANIC FOOD PRODUCT BRIEF

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SECTION I. SUMMARY

The UK organics market is relatively undeveloped compared with some other European countries, such as Austria, Denmark and Sweden, but it has enormous potential. Overall, demand is growing faster (40% per year) than supply (25% per year). In 1999, UK retail sales of organic food reached over £390 million (around $650 million), up from £150 million ($250 million) in 1995. As domestic production is insufficient to meet demand, imports into the UK are substantial, accounting for, on average, 70-75 per cent of retail sales.

The market is dominated by fresh produce, with fruit and vegetables accounting for over 50 per cent of total organic sales. Cereals, dairy products, and increasingly, baby foods are other important sectors. Organic convenience foods are starting to emerge, as a broader range of organic ingredients are available. Given the inability of the UK domestic production to meet demand, there will continue to be opportunities for U.S. fresh produce and breakfast cereals. There is a current domestic shortage of organic fruit, vegetables and cereals/grains for further processing. However, increasingly opportunities for U.S. exports are in organic packaged grocery items such as cooking sauces, salad dressings, beverages, confectionery, snack foods and frozen foods.

As regards competition, the number of UK organic processors is increasing, with mainstream conventional food manufacturers entering the market for the first time, alongside the specialist organic enterprises. The government has increased the aid payments for farm conversion to boost organic output and reduce dependence on imports. However, due to the time required to convert (2-3 years), and the fact that it is starting from a low base of producers, the reliance upon imports will continue for the foreseeable future. The UK is importing a wide variety of organic products from other EU countries, but particularly organic dairy products. The majority of imports are from Sweden, France and Germany.

While the very high growth rates of organic products seen in the UK during the last few years, cannot be expected to continue forever, annual growth rates of 20 per cent are forecast for the next few years. The price differential, coupled with expected slower growth in UK consumers' disposable incomes and the UK economy in general, will be a restraint on the growth of the organic market, but it is certain that it will remain the most dynamic sector of the food business for several years to come.

SECTION II. REGULATIONS AND POLICY

OVERVIEW

U.S. products can be marketed within the UK as organic after an approval process. The UK importer must be granted authorization to market the product under an organic designation by the competent UK authority - the United Kingdom Register of Organic Food Standards (UKROFS). There is no fee for authorization.

The U.S. is not recognized by the EC Commission as having production and inspection rules equivalent to those laid down in the European Community. Until December 31, 2005 UK importers may be authorized by UKROFS to market products imported from the U.S., provided the importer furnishes UKROFS with sufficient evidence to demonstrate that the imported products:

a) were produced according to production rules equivalent to those laid down in Article 6 of Regulation (EEC) No. 2092/91;

b) were subject to inspection measures of equivalent effectiveness to those referred to Article 8 and 9 of Regulation (EEC) No. 2092/91 and that such inspection and precautionary measures will be permanently and effectively applied.

In addition, U.S. products for sale as organic must be shown to be certified by bodies complying with EN45011, or its international equivalent, ISO 65. This European Norm (EN) contains provisions relating to the structure of such organizations and requires, for example, that their certification decisions shall be free of influence from commercial considerations, i.e. undergo independent inspections by third parties. A list of U.S. organic certification agencies that currently meet ISO Guide 65 standards can be found at: www.ams.usda.gov/lsg/mgc/iso65.htm

The UK importer must also provide UKROFS with a statement from the U.S. certification body that the products seeking approval have been produced without the use of genetically modified organisms and/or any products derived from such organisms.

UK companies wishing to import under these arrangements must be registered with an approved UK inspection (certification) body. A list of UK certification bodies is below.

U.S. companies wishing to explore the sale of an organic designated product in the UK should obtain a document entitled "Rules governing the import of organic products from third countries (with application form)", known as "OB6" from UKROFS at the below address. This also contains a copy of the EU certificate for import of products from organic production which must accompany each consignment.

UK Register of Organic Food Standards (UKROFS)
c/o Ministry of Agriculture, Fisheries and Food (MAFF)
Room G47, Nobel House, 17 Smith Square, London SW1P 3JR
Tel: +44 20 7238 6004 Fax: +44 20 7238 6553

UK CERTIFICATION BODIES

The most prominent UK certification body is The Soil Association. It claims that more than 70 per cent of all UK organic products are now certified by its certification and inspection arm - Soil Association Certification Ltd. The Organic Food Federation (OFF) is allied with sister group the Organic Farmers and Growers (OFG). The OFF and OFG have the next largest memberships to the Soil Association. UKROFS standards are minimum standards as set down by the EU regulations, individual organic associations may maintain stricter standards for their members, and most do so.

U.S. exporters also need to consider the certifying body they use in the U.S. - some are more widely respected than others, and are better at providing the information required for product approval. In general, those organizations that have International Federation of Organic Agricultural Movements (IFOAM) status are more highly regarded. It is advisable to consult UKROFS regarding the success of any interaction to date with the relevant U.S. certifying body for your product.

UK and Ireland Organic Certification Bodies approved by UKROFS
(UKROFS is also a Certification Body)

Bio-Dynamic Agricultural Association (Demeter certification scheme)
Painswick Inn Project, Gloucester Street, Stroud GL5 1QG
Tel/Fax: +44 1453 759501
E-mail: bdaa@biodynamic.freeserve.co.uk
Web site: anth.org.uk/biodynamic
Established 1946; No. of registered members: 60 farmers, 20 processors

Irish Organic Farmers' and Growers' Association (IOGFA)
56 Blessingham Street, Dublin 7, Ireland
Tel: +353 1 830 7996 Fax: +353 1 830 0925
E-mail: iofga@tinet.ie
Web site: http://homepage.tinet.ie/∶iofga
Established 1982; No. of registered members: 665

Organic Farmers and Growers Ltd (OF&G)
50 High Street, Soham, Ely, Cambridgeshire CB7 5HF
Tel: +44 1353 722398 Fax: +44 1353 721571
Established 1973; No. of registered members: 160 processors, 500 farmers

Organic Food Federation (OFF)
The Tithe House, Peaseland Green, Elsing, East Dereham, Norfolk NR20 3DY
Tel: +44 1362 637314 Fax: +44 1362 637398
Web site: http://www.organicfood.co.uk
Established 1986; No. of registered members: 250 processors, producers & importers

Scottish Organic Producers' Association (SOPA)

Milton of Cambus Farm, Doune, Perthshire FK16 6HG
Tel: +44 1786 841 657 Fax: +44 1786 841657
E-mail: contact@sopa.demon.co.uk
Established 1988; No. of registered members: 370 producers and processors

The Soil Association
Bristol House, 40-56 Victoria Street, Bristol BS1 6BY
Tel: +44 1179 14200 Fax: +44 1179 252504
E-mail: info@soilassociation.org
Web site: http://www.soilassociation.org
Established 1946; No. of registered members: 1,000 producers, 600 producers

PACKAGING & LABELING

Packaging for organic foods must conform to EU regulations with respect to materials used and labeling. Materials must, where possible, be recyclable (and carry the appropriate symbol) and whilst it is not a legal requirement - organic products should strive to eliminate all unnecessary packaging.

Labeling is considered under E.C. regulation 2092/91 (Article 5). Article 5 classifies processed foods into categories depending on the proportion of organic ingredients in the product:

- organic - more than 95% organic agricultural ingredients
- partly organic - between 70% and 95% organic agricultural ingredients
- non-organic - less than 70% organic agricultural ingredients

Labeling should also include:

- certifying body stamp
- EU accredited registration number
- name of product/brand
- name and address of producer/distributor
- country of origin
- use by date
- weight (in metric)
- ingredients listing

For further information on labeling products for the UK market see the UK Attache Report entitled Food and Agricultural Import Regulations (FAIRS) at: www.fas.usda.gov

TARIFFS

There is no preferential access for organic products. To obtain the appropriate commodity code for your products contact:

Her Majesty's Customs & Excise, Tariff Classification Helpline
Tel: +44 1702 366077 Fax: +44 1702 367342

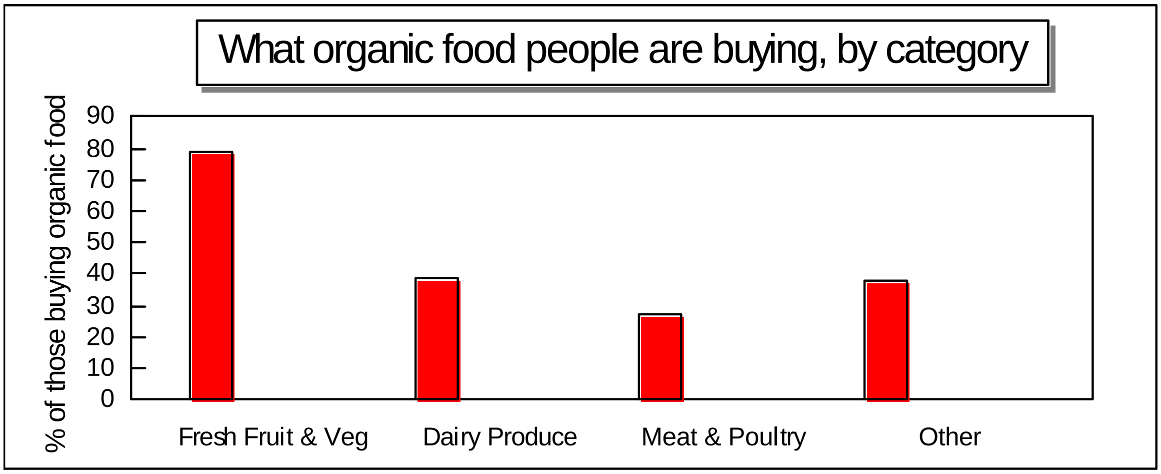
It is possible to obtain a verbal ruling over the telephone or a written legally binding ruling called a Binding Tariff Information.

SECTION III. CONSUMPTION

In the UK, overall demand is growing faster (40% per year) than supply (25% per year). Consumption of organic foods is greatest among the under-30s and among 50-70 year olds. There is a clear bias towards the A, B and C1 socio-economic groups among consumers. Although by a small margin, recent purchasers of organic food are more likely to be female (56%). Health is a primary influence for consumers when purchasing organic food. UK consumer awareness of food safety and environmental issues has increased significantly during the past few years. Highly publicized food scares have led to a growing concern about food eaten, and the environmental consequences. There is a general perception by the UK consumer that organic food is safe, natural and unsullied. This does not appear to have been affected by recent UK press reports and TV coverage which have shown organic in a negative way.

According to MORI Research conducted for The Soil Association in June 1999:

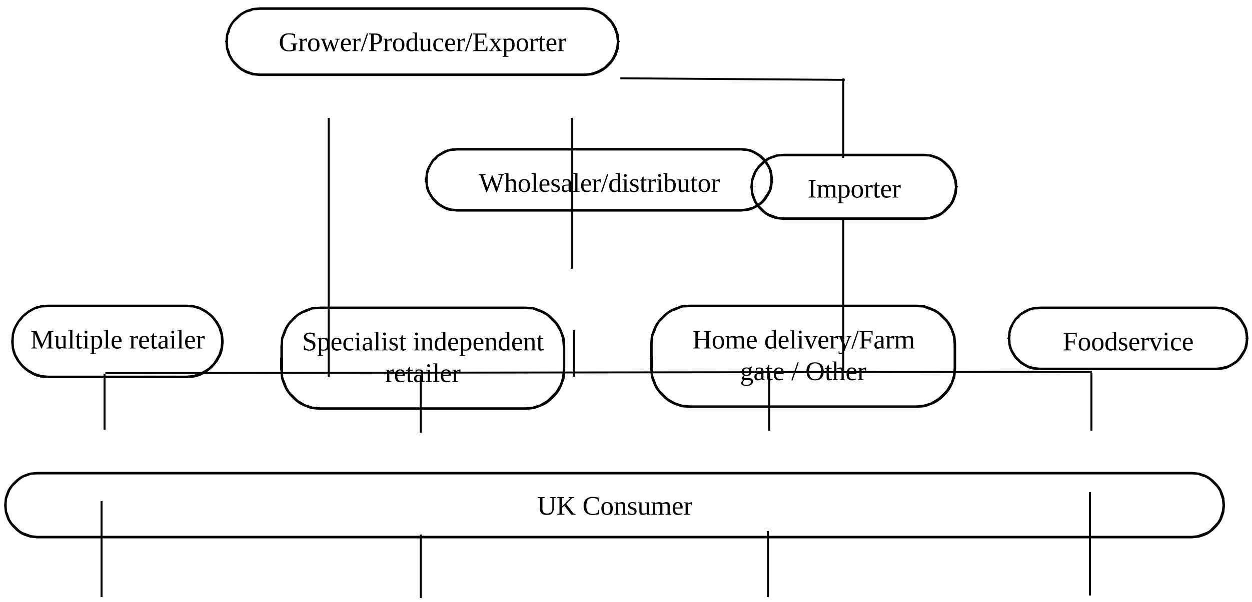
- One third of UK consumers buy organic food
- 40 percent of organic consumers are of AB socio-economic group
- 53 percent of UK consumers buy organic because "it's healthy for you"
- Of those purchasing organic, 43 percent do so because "it tastes better", 28 percent because it is "environmentally friendly" and 24 percent because it is "animal welfare friendly"
- Three in ten UK consumers buy organic specifically because it is free of genetic modification
- Fruits and vegetables are the most commonly purchased organic products (80 percent)
- Consumers are equally concerned with increased availability and range, as price
- Nearly two-thirds of consumers identify organic food as being produced without artificial chemicals, additives and pesticides (59%). Of these people, 65% had bought organic food within the last three months.



Source: The Soil Association Organic Food and Farming Report 1999

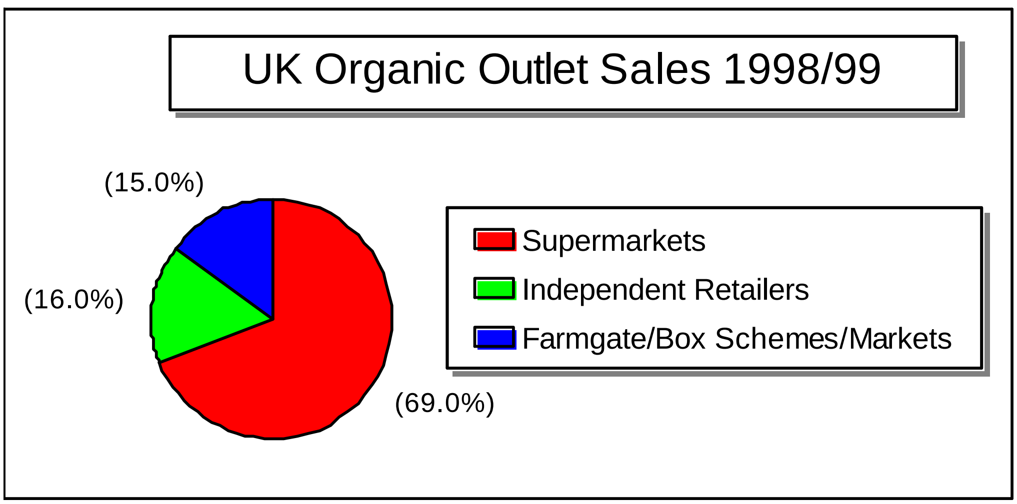
The "Other" category shown on the chart above includes: Baby food, Beer, Bread, Breakfast Cereal, Chocolate, Coffee, Flour, Juice, Tea and Wine.
DISTRIBUTION

Distribution channels for organic foods



As can be seen in the chart below, the multiple supermarkets account for over two-thirds of UK organic sales. Retail distribution in the UK is dominated by a relatively small number of large multiples including Tesco, Sainsbury, Waitrose and Safeway, all of which are active in the organic sector. Sainsbury claims to account for 25 % of total organic retail turnover.

Source: The Soil Association Organic Food and Farming Report 1999



MARKET SECTORS

A. RETAIL

The upsurge in UK consumer demand for organic produce has led all the major retail outlets to recognize the potential of the organic sector. Overall sales of organic food showed an annual rise of 40% to over £390 million (around $650 million) for 1998/99, with the multiples increasing their market share over the last 12 months.

As with other years, on average 70-75% of sales continues to be accounted for by imported products. The import of dairy products has increased, despite the increased UK production of organic milk. Likewise imports of organic meat in 1997/98 were negligible, but have now risen to over 4% of total supply. More than 80% of all organic fruit and vegetables sold in the UK are imported.

There are opportunities in the UK retail market at all levels of organic production and processing. Statistics from UKROFS show, organic produce imported from the U.S. to date has predominantly been fruits, vegetables and salads. In 1999 there was a shift towards high value consumer foods - shelf stable grocery items such as soft and alcoholic beverages, sauces, snacks, confectionery and frozen foods. This area is likely to afford the most opportunity, since composite organic product manufacture is still limited in the UK.

Retailing is dominated by the leading multiples, which account for some two thirds of organic food sales. Most carry an ever-increasing range of products, some own-label goods and a rising number of high value-added products, many of which are imported. The supermarkets are investing heavily in promoting UK organic production and encouraging their suppliers of conventional foods to convert to organic, in order to overcome the present difficulties of inadequate and intermittent supplies. The leading chains all expect to achieve very large increases in their sales of organics.

Each company's attitude to selling organic food is very different, some are adopting positive policies to develop their organic range, others take a more cautious approach and some have little or no interest. Below is the organic food policy from each major supermarket group.

Major Supermarket Chains

Tesco
Tesco are keen to make organic food more widely available in their stores and are currently promoting it in 145 of their 600 stores. They have recently stated their commitment to supporting commercial UK growers who want to convert to organic production, and to increasing their range of organic suppliers.

Sainsbury's
Sainsbury's have been stocking organic foods since 1985. It is committed to providing its customers with a choice of organic food and is working in partnership with organic producers to extend the range of organic fruit and vegetables grown by UK farmers and to achieve a consistency and continuity of supply. It is also seeking to extend the range and number of stores

stocking organic meat and dairy products. The latest news on the organic front is that Sainsbury's has opened its first Organic shop. It is the first UK supermarket to display all its organic products in one place. In addition, Sainsbury has launched a range of 24 own label organic products including a range of pulses, jams, cookies, canned pulses and soups, and dried goods.

Asda
In February 2000, ASDA announced that it is introducing a range of own-label organics it says will be up to 10% cheaper than any of their competitors'. The store was last year bought by US retail giant Wal-Mart and is at the forefront of price competitions in the UK. Asda admitted that product for its own label scheme would come from imports because British capacity could not meet demand at this stage.

Safeway
Safeway was the first supermarket to enter the organic food field by introducing organic fruit and vegetables in 1981. It is committed to offering a range of staple foods, including fruit, vegetables, dairy products, processed foods and beverages.

Somerfield
Somerfield has taken the view that organic food does not provide the company with any commercial opportunity. It does not stock organic food, with a few exceptions.

Marks & Spencer
Although usually at the forefront of quality food initiatives Marks & Spencer, after an early foray into the organic food sector, took the decision to pull out. The company, after reviewing its position, is now playing catch up and has launched a considerable number of organic products covering all sectors. Marks & Spencer retails only its own brand - St. Michael.

Waitrose
Waitrose has a positive policy to develop sales of organic food in all areas and currently stocks over 500 organic products. It has, for the second year running, won the Organic Supermarket of the Year award. It has recently launched Waitrose Organic Direct, from which you can buy organic boxes on-line and, in a year from now aims to increase its organic range to 1,000 products. Waitrose reports that organic sales accounted for 12% of all dairy seals, 10% of all produce sales, 4% of all grocery, and a staggering 52% of all babyfood sales.

Iceland
Traditionally known as a frozen food specialist, Iceland is taking pains to revamp its image by taking a very moral stance on additives, biotechnology and other food safety issues. They aim to put together an affordable range of organic products, which retail at a minimal extra cost compared to the non-organic alternative, to bring organic to all levels of socio-economic group.

Co-op
The Co-op has a general policy of including organic food in its shops, but its range is quite restricted and fresh produce is not currently stocked in all stores.

Independent Retailers

There are an increasing number of independent retailers selling organic products, not only fresh food, but also a wide range of dairy products, bakery goods and other processed foods and drinks. The last few years have also seen the development of dedicated organic shops, selling a full range of exclusively organic products. Examples of independent retailers:

Planet Organic Ltd. Open: 9a.m.-8p.m.
42 Westbourne Grove, London, W2 5SH
Telephone: +44 20 7221 7171   Fax: +44 20 7221 1923

Portobello Wholefoods - Open: Mon to Sat 9.30 - 6.00, Sun 11-5.00pm
Portobello Wholefoods carries a range of vitamins, natural remedies, wholefoods and fresh organic produce.
266 Portobello Rd, Westminster, London W10 5TY
Telephone: +44 20 8968 9133 Fax: +44 20 8960 1840

Wild Oats Wholefoods (now owned by Freshlands) – Open 10a.m.-8p.m.
210 Westbourne Grove, London W11 2RH
Telephone Number : +44 20 7229 1063   Fax Number : +44 20 7243 0988

The Grain Shop – Open 9a.m.-6p.m.
269a Portobello Road, London W11 1LR
Telephone: +44 20 7229 5571
www.grainshop.co.uk

Out of This World (have 5 UK stores, one of which is listed below)
Unit 6, Whiteladies Road
Bristol, Avon BS8 2NN
Tel: +44 117 946 6909

Box schemes

Box schemes have grown rapidly in the last year, from 137 to 195. There are a number of different models but all are based around the central principle of delivering a box of fresh, seasonal organic food for each subscribing household, either directly to the door or to a central drop off point. An individual grower may operate box schemes, or a wholesaler or organic company, which buys in the produce, may operate them. Many box schemes have been established by small specialist organic growers. Box schemes are now supplied to more than 45,000 families in the UK and represent sales of £22 million for the year 1998/99.

One of the best known UK schemes is through:

Organics Direct, 1-7 Willow Street, London EC2A 4BH
Tel: +44 20 7729 2828 Web site: http://www.organicsdirect.com

Farm Shops, Farm Gate Sales and Farmers' Markets

This sector represented £34.3 million worth of organic sales in 1998/99. For those UK consumers within easy reach, all the above offer the opportunity to buy fresh organic food directly from the producer. Some farm shops will buy in produce to supplement what they grow themselves. Many farm shops will keep regular customers in touch through newsletters and open days to help build up a loyal following. The popularity of Farmers' Markets is growing, with some now being held in the parking lots of the mainstream retail chains.

For more information on the UK retail sector, please refer to our home page www.fas.usda.gov for the Attache Report on the UK Retail Sector. A listing of UK supermarket chain head offices is available in the Exporter Guide Report and UK Market Information Report at the web site above.

B. FOODSERVICE

The UK is relatively under-developed as regards organic restaurants and cafes, compared to other EU countries. There are some organic cafes/restaurants centered around London, and a small number in the rest of the UK - particularly in rural areas where the majority of the produce is sourced locally. Often the cafes are incorporated in health food shops/organic food shops which aim to cater for the top end of the market targeting consumers with higher disposable income. Interest has been shown in organics from UK contract catering groups such as Compass, who are currently investigating the potential for an organic alternative alongside conventional foods.

For more information on the UK foodservice sector, please refer to our home page www.fas.usda.gov for the Attache Report on the UK Foodservice Sector.

C. FOOD PROCESSING

The number of UK business licensed for the processing of organic foods increased from just over 500 at the end of 1997, to over 800 by April 1999. This includes businesses licensed to process for human consumption and for animal feed. It also includes licensed importers/exporters, distributors/packers and wholesalers of organic products.

The total value (domestic plus imports) of the organic market in the UK at the processor level was over £300 million ($500 million) for the year ending April 1999. Forty-five percent of this, approximately £135 million ($225 million), was in the fruit and vegetable sector.

Major UK grain traders have highlighted an increased requirement for imported cereals for animal feeds. Given the rapid growth in organic livestock, and the relatively slow growth in organic arable production in the UK, the requirement for imports is expected to increase further. As is stated earlier in this report, the UK will continue to require to source organic ingredients as imports to meet the demand for consumer-oriented organic products.

A listing of UK manufacturers of specified products can be obtained from the U.S. Embassy, London.

SECTION V. UK IMPORTERS

Below is a listing of those UK companies with a history of interest in organic products from the

U.S. A more complete listing of UK importers of U.S. products can be obtained from the U.S. Embassy, London.

F.R. Benson & Partners Ltd
Unit 15, Watford Metro Centre, Tolpits Lane, Watford, Herts WD1 8SS
Tel: +44 1923 204500 Fax: +44 1923 240569 E-mail: sales@frbenson.co.uk
Managing Director: Mr. Richard B. Benson
Products: maple syrup, honey, preserves, dehydrated potato, dehydrated meat & poultry products

Community Foods Ltd
Micross, Brent Terrace, London, NW2 1LT
Tel: +44 20 8450 9411 Fax: +44 20 8208 1803 E-Mail: goodfood@comfoods.telnet.com
Marketing Manager: Mr. C. Winter
Market: Manufacturing, Retail, Wholesale Products: Preserves, Pastas & Ingredients

Congelow Produce
Den Farm Lane, Collier Street, Tonbridge, Kent, TN12 9PX
Tel: +44 1892 730 447 Fax: +44 1892 730 566 E-Mail: congelow@compuserve.com
Managing Director: Mr. Ron Green
Market: Retail Products: Organic Fruit & Vegetables

Griffin & Brand European Ltd
Trophy House, Leacon Road, Ashford, Kent, TN23 4TU
Tel: +44 1233 645 941 Fax: +44 1233 639 340 E-Mail: griffin.brand@dial.pipex.com
Marketing Director: Mr. M.J. Lyons
Market: Catering, Retail, Wholesale Products: Fruit & Vegetables

Hambledon Herbs
Court Farm, Milverton, Taunton, Somerset, TA4 1NF
Tel: +44 1823 401 205 Fax: +44 1823 400 276
Marketing Director: Ms. Gaye Donaldson
Market: Retail, Wholesale Products: Herbs & Spices, Other Ingredients, Hot Drinks

Mack Multiples
Transfesa Road, Paddock Wood, Kent, TN12 6UT
Tel: +44 1892 835 577 Fax: +44 1892 834 890
Managing Director: Mr. W.T. Blackburn
Market: Importers Products: Fruit, Salad and Vegetables

Organic Farm Foods (Wales)
Unit 25, Lampeter Industrial Estate, Tregaron Road, Lampeter, Ceredigion, SA48 8LT
Tel: +44 1570 423 099 Fax: +44 1570 423 280 E-Mail: organicfarm@edi.gis.com
Managing Director: Mr. P. Segger
Market: Importers, Packers, Wholesalers Products: Organically grown Fruit & Vegetables

Shipton Mill Ltd
Long Newton, Tetbury, Glos, GL8 8RP

Tel: + 44 1666 505 050 Fax: +44 1666 504 666 E-Mail: jlister@shipton-mill.com
Managing Director: Mr. John Lister
Market: Retail Products: Bakery Products & Cereals

Stevens & Brotherton Ltd
S&B House, Vinson Close, Knoll Rise, Orpington, Kent BR6 0EG
Tel: +44 1689 877799 Fax: +44 1689 825892
Managing Director: Mr. Paul Stevens
Products: Rice, Dried Fruit, Nuts, Grape juice

SECTION V. PROMOTIONAL OPPORTUNITIES

April 15-16 Natural Products Show, Olympia - London
Full Moon Communications Ltd
58 High Street, Steyning, West Sussex BN44 3RD
Tel: +44 1903 817301 Fax: +44 1903 817311
Web site: www.naturalproducts.co.uk

Oct 11-12 Organex, Olympia - London
Tarsus Organics Ltd, P.O. Box 447, High Wycombe HP15 7YP
Tel: +44 1494 714513 Fax: +44 1494 714513

March 25-28 IFE 2001 - Int. Food & Drink Exhibition -Excel Docklands - London
Fresh RM, 11 Manchester Square, London, W1M 5AB
Tel: 020 7 886 3000 Fax: 020 7 886 3001 IFE 2001
Web site: www.ife.co.uk

SECTION V. POST CONTACT AND FURTHER INFORMATION

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