

1. Processed Foods

Opportunity

Britain's food manufacturing industry is broadly based. The main processors are large British-owned conglomerates.

Experience has shown that British food processors have been quick to adopt new ideas and technology from North America. These trends have resulted in Canadian manufacturers taking up joint ventures in the U.K. which involved packaging from bulk. Despite the dominance of domestic manufacturers, a considerable range (approximately 30 per cent) of processed foods is imported.

Products classified in the processed food sector include meat and poultry, processed fruit and vegetables, dairy products, flour and breakfast cereals, bakery products (including biscuits), the beverages (distillers, brewers, wineries and carbonated beverages), and the miscellaneous food products group (which includes confectionery, vegetable oils and other prepared products, plus honey and maple products).

The principal Canadian processed food exports to the U.K. are indicated in Table 11 (page 27). The export declines in 1982 and 1983 can be attributed primarily to the rise in the exchange rate, which made Canadian products less competitive in the U.K.

Between 1967 and 1982, Canadian exports to the U.K. of processed food products rose 47 per cent, from \$78 million to \$115 million. However, when discounting for inflation, the real value of processed food exports to the U.K. showed a serious decline. At the same time, sales to other countries increased at a more rapid rate than to the U.K. Britain now represents 4 per cent of Canada's total processed food exports, compared to 17 per cent in 1967. The accession of Britain to the EEC can probably be attributed as the major factor in that decline.

Despite those difficulties, there are grounds for optimism about future sales to this market. Canadian exports of processed foods appear to have adjusted to the new trade environment and have stabilized at current levels. Opportunities in the processed foods sector exist for those traditional commodities noted in Table 11. Specialized opportunities exist for aged cheddar cheese and High Quality beef.

Aged Cheddar Cheese

The U.K. is virtually self-sufficient in dairy products and can import other dairy products duty-free from EEC member states. One exception is aged cheddar cheese which is a unique product that cannot be matched in maturity and flavour by British producers. Canada is able to export a certain volume (2,750 tonnes) at a fixed low levy. Without an increase in this quota further Canadian exports are unlikely because of a prohibitive EEC tariff structure.

Processed Meats

The U.K. domestic production of beef, pork and lamb supplies approximately 82 per cent of domestic con-

sumption of all meats and around 65 per cent of U.K. red meat consumption. The EEC regime for meats renders imports mostly non-competitive due to import tariffs plus levies, e.g., beef duty is 20 per cent plus a levy of approximately £0.6 per pound.

Canadian meat exports are traditionally based on offals (approximately 10 per cent of total U.K. imports). On animal health grounds, Canada is one of the few countries eligible to supply pork offals to the U.K.

Packing houses in Alberta have been the most active and aggressive in exploiting opportunities for High Quality (HQ) beef. In 1981, Canada won the right to participate in the 10,000 tonnes beef quota which is subject to specific requirements on feed and age of the animals. The HQ beef business requires a high degree of expertise to comply with the market requirements and to earn the considerable premium in an otherwise protected market. The duty on beef cuts is 20 per cent ad valorem.

Other Products

There may also be opportunities for growth in selected categories for non-commodity products which have unique characteristics and can be marketed on a non-price basis. However, because of the wide variety of market conditions and competitive situations, assessments of prospects for such products must be done on an individual product basis. Canadian firms are encouraged to explore these market opportunities on their own, but also to consult with trade representatives at the Post, in Ottawa or in Regional Offices. Companies with products suitable for the British market may therefore also wish to take advantage of one or more export promotional activities sponsored by the Department of External Affairs.

Several Canadian companies have associations with British firms and other Canadian companies have direct trading links (e.g. Safeway Food Stores U.K., McCain Foods and Western Group). Canada Packers maintains a London sales office for frozen and canned foods, including fish products.

Recent Canadian Marketing Activity

In order to establish a foothold in the retail, institutional or food service market of the U.K., it is important for Canadian processors to access the most productive and economical route for their products. The joint venture or licensing arrangement is a vehicle which can assist Canadian companies with their distribution, production and the necessary marketing services.

The pattern of the U.K. distribution system varies in proportion to the size of the producer and the buyer. The structure follows that of the large U.K. manufacturing conglomerates which have their own national distribution networks, direct to the central depots of the national food chains. This basic pattern is thus dictated by the food chains whose power is increasing as the number of buying points declines.