

Market Study for the United Kingdom for Processed food

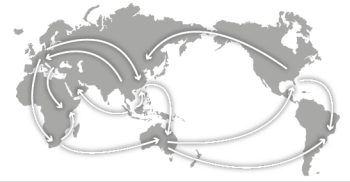
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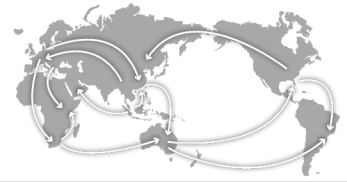


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1 Introduction

1.1 Product description

The market research in this report focuses on processed food in general, which is a very broad category. Given the production of the companies that participated in the supply survey, we have focused our findings to the information applicable for the following products:

- Olive oil (HS code 1509)
- Freekeh (HS code 19049080)
- Couscous (Maftol, HS code 190240)
- Watermelon seeds (HS code 120770)
- Nuts (HS code 0802)
- Dates (HS code 080410)
- Cheeses (HS code 040610)
- Conserved/pickled vegetables (HS code 2001) and tomato paste (HS code 2002)

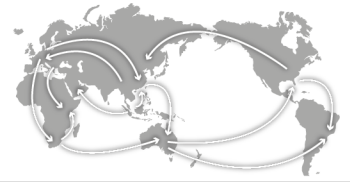
In order to give sufficient depth especially where it comes to a recommended market approach, we have grouped specific findings and written separate recommendations for each product category in paragraph 3.15.

1.2 Objectives and methodology

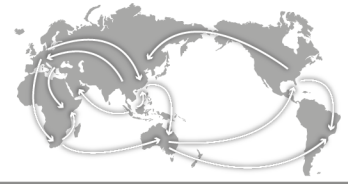
Our primary objective for the Market Study was to gather the information necessary to give Palestinian exporting companies, in particular those who participated in the supply survey, a good overview of the characteristic of the UK market, and a perspective on their chances to sell into this market.

In order to do so, we have used the following approach for each of the topics as highlighted in your Terms of Reference:

| | |
|--|--|
| Describe the characteristics and structure of the UK market; including the identification of potential importers, distributors, end-users etc...; | Compiling existing research reports. We identified the best-selling products currently offered in each category in the market, complete with pictures of the goods and their packaging. Listing leading retailers and wholesalers. |
| Assess the potential for augmenting demand and/or changing to new sources of supply ; | Research on trends and volumes in the market. Calls with industry organizations and various parties in the value chain. |
| Identify impediments affecting imports; | Calls and meetings with |



| | |
|--|--|
| | importers/distributors |
| Determine areas in which specific enterprise-level assistance may be requested such as: licensing, customs duties, taxes, quality control, other rules and regulations affecting imports etc... | Calls and visits with importers in Saudi, and exporters on the Palestinian side |
| Provide information about trade procedures, trade logistics, needed documents and standards to enter UK. | Compiling information obtained from governments, custom authorities, and industry organizations. |
| Identify areas where measures are required to facilitate imports from diversified sources of supply. | Based on the information gathered for the previous points, we can easily identify these and provide recommendations. |



2 Summary of conclusions and recommendations

2.1 Market overview

The UK market for food & beverages is over 200 billion GBP, of which around 20% in terms of value is imported from abroad. The market is growing at a relative constant 3% per year. More important than the overall growth, is the shift towards more healthy food, with strong growth in organic food, where also significantly higher prices are paid.

At this moment only a small percentage from the (food) imports of the UK comes from Palestine. Given the limited size of Palestine itself and the geographical distance this is no surprise, but in the market we also didn't find any negative sentiment towards Palestine. Competition in the market is not concentrated, there are many smaller competitors, but chances differ per product category. In some cases like with Freekeh and Watermelon seeds first market development is needed.

2.2 Distribution channels and import

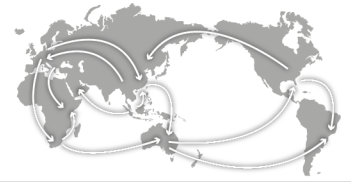
Towards the consumer food & beverages are either sold through foodservice channels like restaurants and caterers, or through retail, in which around 10 big chains of grocery stores dominate. These big supermarket chains can be entry points for Palestinian exporters, but wholesalers/distributors for foodservice and smaller retail may be easier to approach.

There are import regulations and various requirements on food quality and packaging, but there are no export-country specific non-tariff barriers. As long as the UK is part of the EU, there are also no import duties for products coming from Palestine. So there is a level playing field for all.

2.3 Options to enter the market

A substantial number of immigrants in the last century has made the UK population relatively open for new food products. This supports trends like fusion cooking. Alternatively, there is a strong trend for healthy, organic or even vegan products, and the origin of the food is an important aspect.

Palestinian food producers that have organic certification and that have products that can easily linked to the Middle East (like olive oil) can have a good chance in the UK market. However, packaging that is appealing for the UK public and storytelling around the product is highly important. Competing on price or competing with just efficiently packaged processed products will not work.



2.4 Market entry recommendations

Based on the contacts that we had with potential buyers we see that some importers are open to new products. This openness is not a guarantee for closing a deal but can be a good start. However, this requires a good presentation of the companies and the products.

Recommendation 1: help Palestinian exporters to position, package and present their products better.

For the Palestinian companies, it would be the most efficient to have a joint pavilion on one of the bigger trade fairs in London, preferably the IFE in March, or the Organic Products Trade show in April. This would also allow to invite the interested importers to see the products and learn more about the companies.

Recommendation 2: stimulate Palestinian exporters to attend one of these fairs together, with a joint pavilion.

In case this does not lead to direct results, there is the option to do an individual importer search. This allows for more intense interaction with an importer. However, this process requires a local consultant who will be involved for a longer period.

Recommendation 3: do individual importer searches where necessary.

For those products that are new to the UK market, it is important to invest in market development with advertisements, background stories, blogs and sampling. Even without having a strong distributor, it would be useful to make these products countrywide available on online Platforms. Amazon.co.uk is open for food products and offers local warehousing and fulfilment. If a product sells online, it will also be easier to convince potential importers.

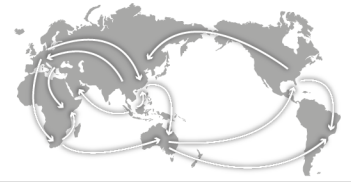
Recommendation 4: facilitate online sales in the UK, and combine this with media publications.

2.5 What Alliance experts can do for you

Recommendation 1: We can provide detailed market insights, packaging and positioning advice

We now know both the products and the market, and our local specialists can easily point out where the current packaging and positioning go wrong. We can advise your packaging designers, bringing in examples of what works well in the market, or consult with a designer in the target country. We can help reformulate your brand story, enhancing those aspects that are commercially important and can be the basis for a marketing campaign.

Recommendation 2: We can advise on how to present yourself at a trade fair and invite potential buyers to come to the Palestinian pavilion



Together with Paltrade and the participating companies in a trade fair we can advise how to best present Palestine and the products of the respective companies. With our current contacts with importers and distributors, we can also personally invite them to visit the Palestinian pavilion and let them meet with the most relevant companies. If necessary, we can also extend this invitation round to more companies. This is a limited extra investment that strongly will increase the yield of participating in the exhibition.

Recommendation 3: do individual partner searches

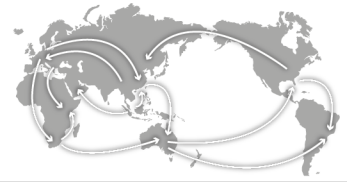
Alliance experts is specialised in selecting the right agent or distributor in the over 30 countries where we are active. We live there, work there, know the culture and speak the language. And we think from the perspective of the local distributor. This helps us to make connections and arrange appointments.

Based on your strategy for your market entry, we draft a partnering profile, describing your company and the type of partner that you are looking for. In parallel, we list a broad range of potential distributors or agents. We discuss this long-list with you, to see what type of companies you want to focus on. We then approach the companies with your profile in hand. We call them in the local language, get through to the right decision maker, send your profile and follow-up to see whether he or she is interested in an appointment. Once we have a short-list of interested companies, we try to arrange meetings for you shortly after one another, so that you can come over and spend your time efficiently.

Recommendation 4: facilitate online sales in the UK, and combine this with media publications.

With our initiative <https://exporteers.online> we help companies to sell their products abroad on local e-commerce platforms. We set up a local company who is formally the seller, do the customer care and manage the fulfillment. The only thing you have to do is to ship your goods per box or pallet to a central warehouse from where the individual packages are shipped. Your goods remain your ownership up to the moment we have sold them to the customers. This way your products are easily available in the market. We will offer this service also in the UK from starting in 2019.

Having your products online does not guarantee sales. You also have to invest in marketing, and this is strongly dependent on the product. We help you get your product under the attention of a blogger, we arrange Facebook postings and can manage your local online advertising. Once your product gets traction, it will also be easier to find a local distributor.

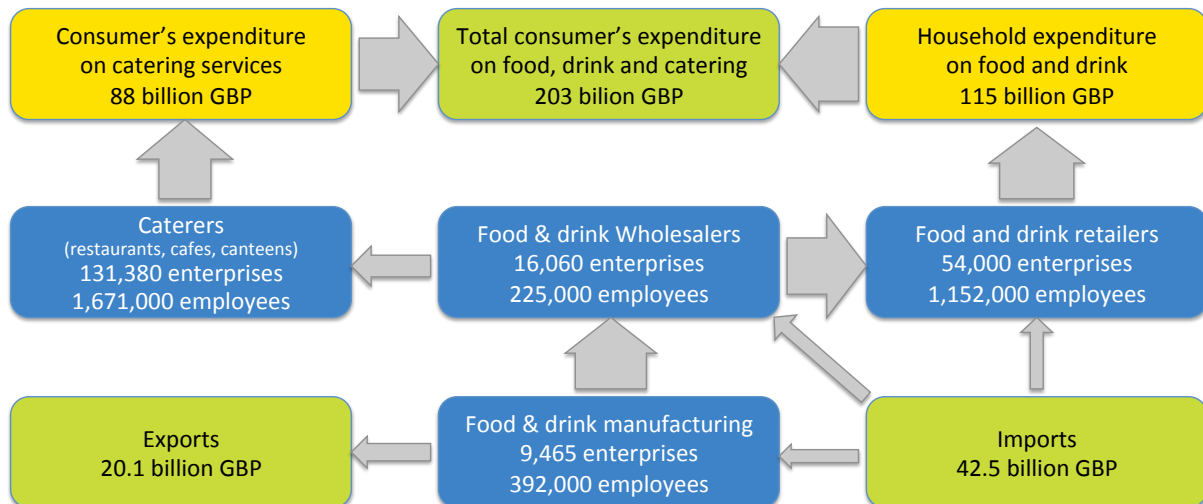


3 Import profile of the sector

3.1 Market size

The total spend of the UK population on food & beverages, both at home and through catering services, was 203 billion GBP (266 billion USD) in 2016. About 60% of the value (but more of the volume) is being spend on products bought from retail chains, the remaining 40% is spent through caterers¹.

About 42 billion GBP is imported, and this 25% in financials represents around 40% in volume, mainly due to the fact that most of it is lightly processed or unprocessed, and that more value is added in the UK.



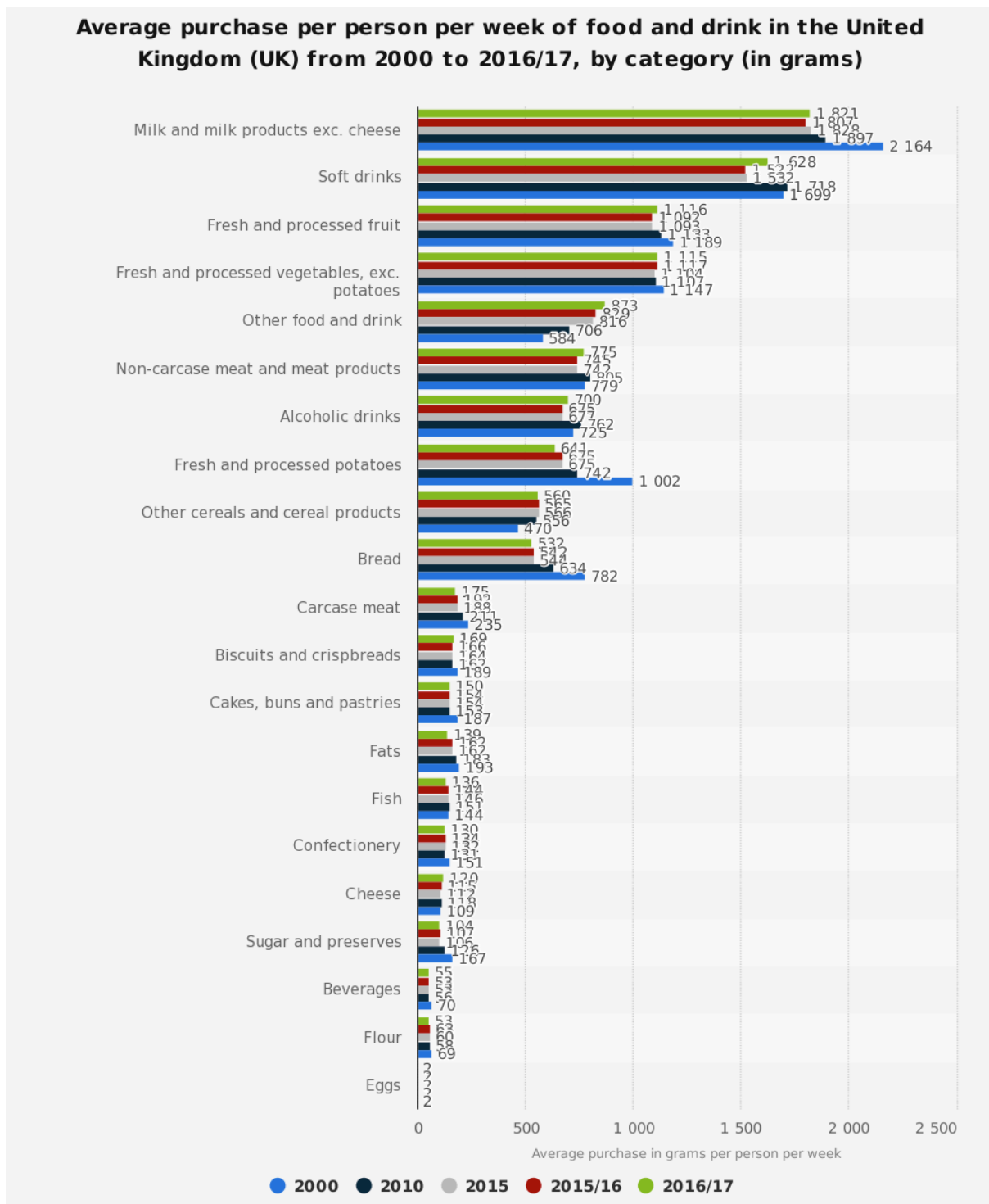
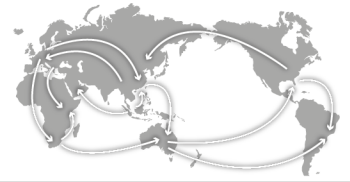
3.2 Growth rate

The general average yearly growth of the market is around 3%². But there are clear changes over time what UK residents spend their money on. This results in different growth rates per category, and may even cause high growth and sharp decline for certain products.

If you look at the overall UK import of food products, this mainly follows the overall food consumption in the market, with a little continuous shift to more imported food.

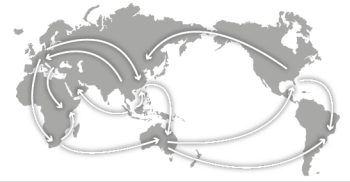
¹ Food statistics pocket book

² Statista



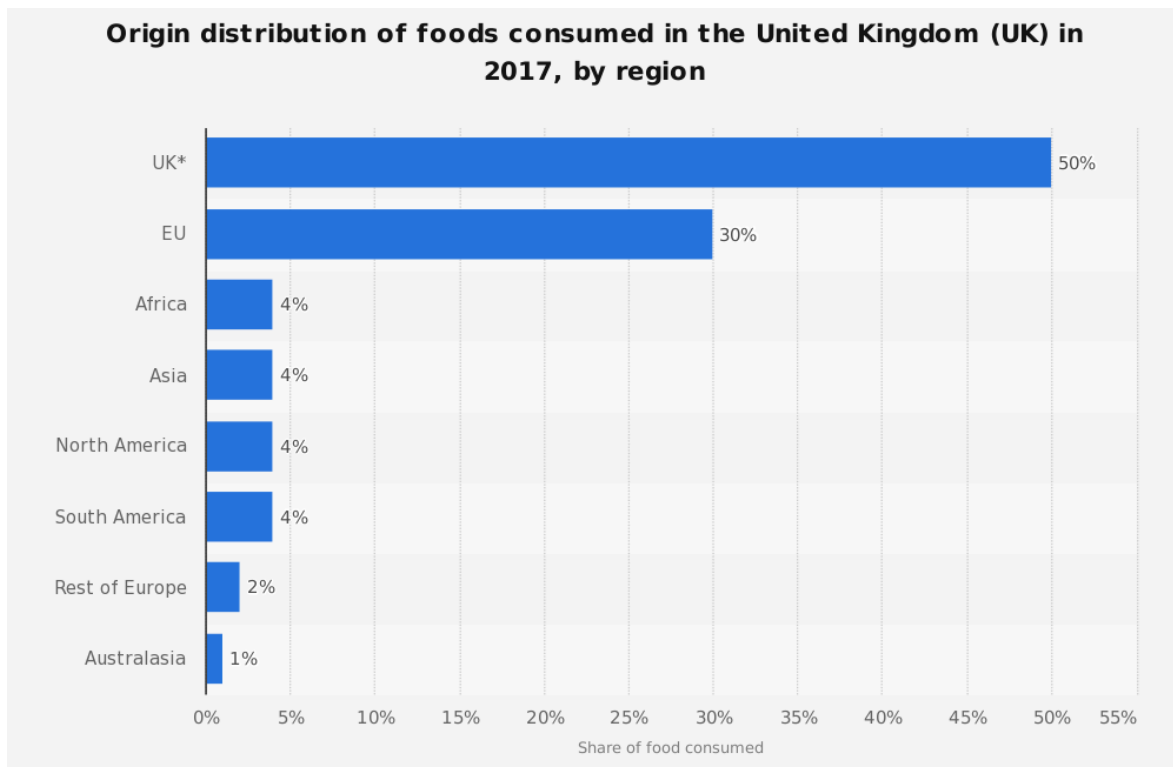
The biggest reductions (percentage wise) are all in unhealthy products³: Sugar and preserves (-38%), potatoes (-36%), bread (-32%), fats (-28%). The gains are in the healthy cereals (19%), cheese (10%) and 'Other food and drink', in which also all products are placed that are new to the UK consumers.

³ Statista



3.3 Market history

If we look where the food that is processed in the UK is being grown, we see that the majority of food is produced in the UK, or alternatively in the EU⁴.

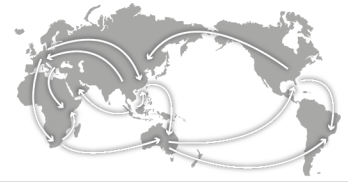


Sourcing food products from abroad was confined to some specialty products up to halfway the 20th century. Most food was grown nearby. Salmon sandwiches, tinned fruit with evaporated milk, fish on Fridays and ham salad for high tea every Sunday were frequently on the menu for 1950s families. People ate four meals a day and relied on gardens and allotments to grow more than double the amount of food they bought.

An appetite for easy to prepare meals began in the mid-1950s, with convenience foods accounting for nearly a fifth of families spend on food. As technology started to improve and more women began to work full-time - frozen foods, ready meals and takeaways began to transform the British diet.

Where after the second world war first all kind of calorie rich products became available and were consumed more, from the seventies onwards people started to become more health-conscious. Purchases of white bread have dropped 75% since 1974, while those of brown and wholemeal bread have risen by 85%. Skimmed milk (referring both to skimmed and

⁴ Statista



semi-skimmed) overtook whole-fat milk in the 1990s and British households now drink four times as much.

In the same period, fresh fruit purchases went up nearly 50% while that of "soft drinks, not low calorie" dropped by a third. An even more spectacular drop was in eating liver. In 1974 a typical household bought 36 grams of it per week. But not by 2014. Then the figure had fallen to just 3 grams - a 92% drop. Pork and mutton also saw more modest falls in popularity, while consumption of uncooked chicken and minced beef rose 62% and 35% respectively.

The UK has a long history of immigration from its former colonies and from other countries.

| Ethnicity | % of population |
|---------------------------------------|-----------------|
| White | 87,1% |
| Black/African/Caribbean/Black British | 3,0% |
| Asian/ Asian British: Indian | 2,3% |
| Mixed / Multiple Ethnic Groups | 2,0% |
| Asian/ Asian British: Pakistani | 1,9% |
| Asian/ Asian British: Other Asian | 1,4% |
| Other Ethnic Group | 0,9% |
| Asian/ Asian British: Bangladeshi | 0,7% |
| Asian/ Asian British: Chinese | 0,7% |

All these immigrants have brought their own food preferences and made a huge range of products and dishes available in the British market. Especially in the last decades, with easier communication and more air travel, this has influenced the food market strongly.

3.4 Market Potential

Although household food & beverage consumption is a quite steady part of overall household spending, the average household income is again growing steadily. Year-on-year growth was about 3% between 1994 and 2004, and after the recession that started in 2008, household income is now again on the rise since 2013.

The UK is self-sufficient in 61% of all food, or 74% if you leave out foods like tropical fruits that we don't generally grow here. This ratio has dropped 11 percentage points since 1995. The UK imports significantly more than it exports, producing a trade deficit in food, feed and drink.

In this case we are talking about imported products. The total import of the UK has grown from 339 billion GBP in 2008 to 497 billion GBP in 2017, which is an average year-on-year growth of 3,9%, and which is about 25% of the GDP. Drilling down further, the import from Palestine was around 3,4 million GBP in 2017, so percentage-wise neglectable.



Given the minimal percentage of UK food imports that comes from Palestine, there should certainly be potential, but with a slow market growth this potential can only be realised at the expense of other suppliers. So there will certainly be competition, and this requires a good market entry plan.

3.5 Competition in market

Competition in the market is existent on various levels:

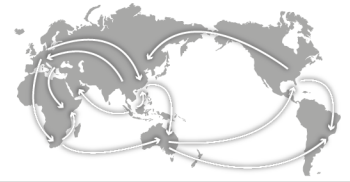
1. On an income spending level, where now around 10 to 11 % of the household spending is being spent on food & beverage products.
2. On a product level, where foreign and more exotic products have to compete with local and more traditional products
3. On a brand level, where one brand of olive oil competes with the other
4. On a distribution level, where one chain of supermarkets competes with the other.

For this research we will first focus on competition on a product level, and then where possible on competition on a brand level.

If we look at the list of products that we focus on, we see that they mostly are not so common in the UK market, and that there will be competition with traditional products:

- Olive oil is relatively known, but compared to butter a traditional cooking oil there is still a world to gain. Palestine is not known as an olive oil producing country, Spain, Italy and Greece are much better known. Only 0,2% of the import of olive oil in the UK comes from Palestine.⁵
- Freekeh is hardly known and will have to fight itself into the market as an alternative for cereal or get its own positioning as super food.
- Couscous (Maftol) is more commonly known as an ingredient, and for household consumption would have to compete with rice, pasta or even flat breads. Promoting this product category would require educating consumer on how to prepare the right dishes with it.
- Watermelon seeds are competing with other seeds, but this is still a niche category. The right flavouring, packaging or mixing with nuts may be the way to grow this category.
- Nuts are an accepted category in the market. Although the peanut is the most consumed, other nut types hardly need explanation. As nuts come from various countries, a Palestine brand should have no disadvantage, but there is broad competition.
- Dates are well known as a product, but growing this category would require creating more consumption moments than as a snack with a drink. Also here there is competition from other Middle Eastern countries.
- Cheeses as produced in the Middle East are in general softer and milder than the yellow hard cheese like cheddar, or the blue cheeses produced in the UK. Also here education is needed when and how to use these cheeses in dishes.

⁵ Trademap.org



- Conserved/pickled vegetables are known, but have the tide against them, since people are looking more for fresh foods. The only exception is in 'traditional, hand crafted' pickled food, preferably positioned as organic or vegan. Tomato paste is more like a commodity, unless it is of exceptional rich taste.

We will detail the possibilities for each product category further in paragraph 3.15.

3.6 Distribution channels

All food, whether imported or not, eventually lands on somebody's plate. Mostly this goes through retail. Food and grocery expenditures account for 51 pence in every £1.00 of retail spending. The other interesting market can be the foodservice market.

3.6.1 Grocery stores

There are 87,141 grocery stores in the UK. These are split into four sectors⁶:

- Supermarket Chains: Supermarkets have a sales area of 3,000-25,000 square feet and sell a broad range of grocery items. Superstores are defined as stores that have a sales area above 25,000 square feet, selling a broad range of grocery and non-food items.
- Convenience Stores: These stores have sales areas of less than 3,000 square feet, are open for long hours, and sell products from at least eight different grocery categories.
- Traditional Retail and Developing Convenience Stores: These stores have sales areas of less than 3,000 square feet, and include news stands, green-grocers, liquor stores and gas stations.
- Alternative Channels: This category includes a wide range of outlets such as internet or catalogue home shopping, farmers' markets, and other produce markets and vending machines.

In number of stores and turnover:

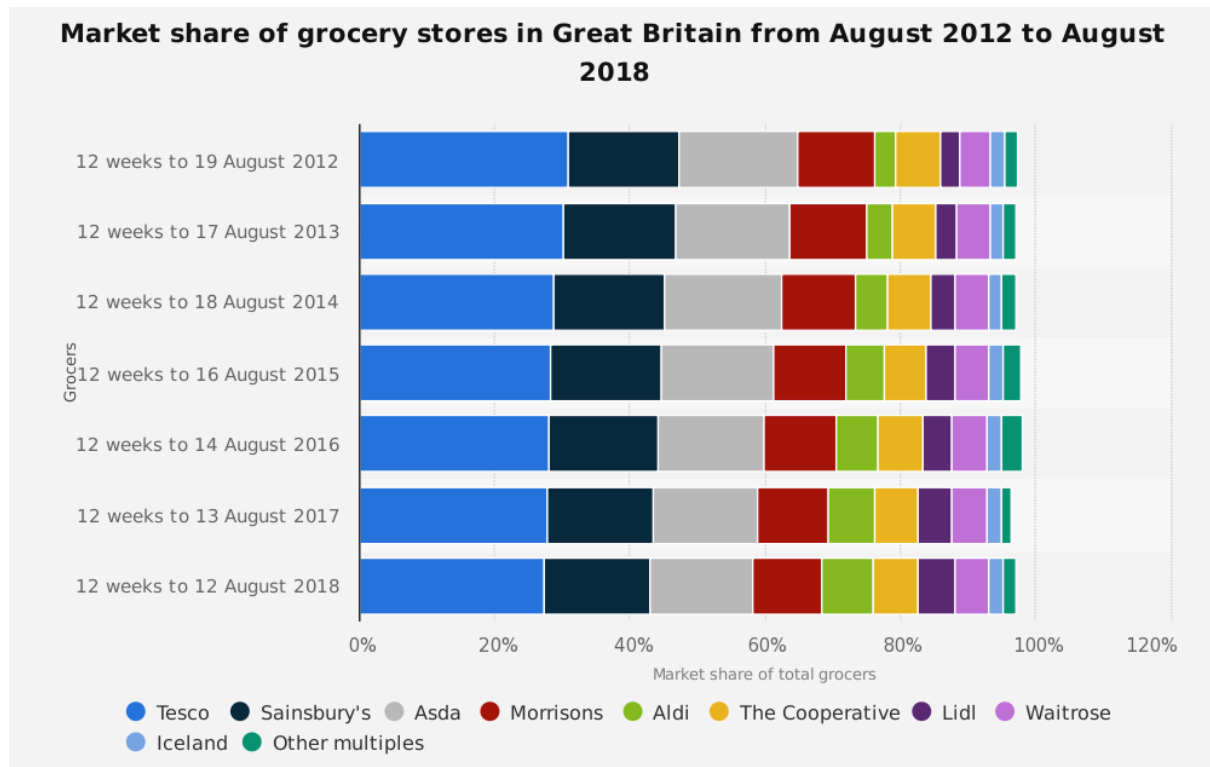
- Hypermarkets: 368 stores, £16.4bn
- Supermarkets: 5,584 stores, £86.3bn
- Convenience Retailing: 46,980 stores, £38.0bn
- Discounters: 4,623 stores, £18.2bn
- Other Retailers: 29,586 stores, £11.8bn
- Online: £9.7bn

This gives a total of 87,141 stores and a total turnover of £180.3bn. However please note that not all sales is food and (non-alcoholic) beverage sales,

⁶ *Institute of Grocery Distribution, 2017*



Four supermarket chains dominate UK food retailing, accounting for 70 percent of the market. Tesco is the market leader, with 28 percent market share, followed by Sainsbury's with 16 percent, Asda/Wal-Mart with 15 percent and Morrison's with 11 percent. Other UK supermarket chains include Aldi, The Coop, Waitrose, Lidl and Iceland⁷.



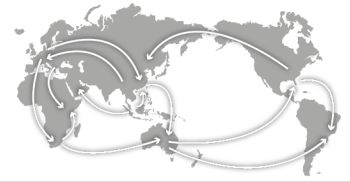
By 2021, the total value of the UK Grocery Market is projected to grow 9.9 percent to £196.9 billion. Online grocery shopping is expected to increase 68 percent over the next 5 years. By 2021 discounters will be worth £24.9 billion and Convenience stores will remain the third fastest growing sector with sales increasing from £37.5 billion in 2016 to £41.9 billion by 2021. Click and Collect sales will continue to increase rapidly⁸.

The discounters Aldi and Lidl continue to gain market share. In the 12 weeks ending November 5, 2017 the discounters combined market share reached 11.8 percent of the British grocery market for the first time. Consumers typically do their shopping in both a main supermarket and a discounter, therefore getting the best offers and prices. Aldi has done a particularly good job in conveying its competitive pricing message through its "Like brands only cheaper" campaigns.

Food prices have decreased in recent years due to the success of the discounters and competition, however, since the UK vote to leave Europe in June 2016, the British pound

⁷ Statista

⁸ USDA, United Kingdom Retail Foods 2017



has weakened significantly. Given that the UK imports around 40 percent of all food consumed domestically, food prices are expected to increase in the near future as a result of the weaker pound.

In the last few years, the UK has witnessed a remarkable shift in how and where consumers choose to buy their food, with the discounters and online shopping being the winners. Online grocery shopping is rapidly growing; the boom in sales of tablets and smart phones has meant more access to online shopping. New players will provide more choice to shoppers. In 2016, Aldi launched “Special buys” and “wine online”. AmazonFresh has also launched in the UK.

The UK convenience sector is thriving as shoppers respond positively to the greater choice of high quality local stores helping them shop a little at a time but often. All the major food retailers are increasing their convenience store openings. Convenience stores are also investing in their stores at a rate that could mean the convenience sector will represent almost a quarter of the grocery market by 2021⁹.

Sales through larger format stores such as hypermarkets and superstores are expected to decline 3 percent over the next five years as consumers choose to shop in alternative places.

How to approach the supermarkets¹⁰:

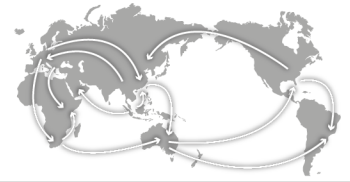
- Most supermarkets and high street retailers now have a structured route to bring them into contact with new small suppliers. Tesco, for example, holds regional road shows for small food producers, where they can meet the supermarket’s senior buyers face to face. Argos occasionally holds open days for inventors and small suppliers to meet the buying team. Sainsbury has a programme called Supply Something New, to make it easier for small suppliers by providing free training days, technical support, and supplier certification. Waitrose’s Locally and Regionally Produced Initiative now includes around 1,200 product lines from small suppliers.
- Smaller supermarket chains can typically be approached more easily, but will focus on having a lower number of products on their shelves. Here you exactly need to know which brand you want to replace, and what would be the benefit for the supermarket in doing so.
- Independent retailers mostly buy from a number of distributors, who provide them mostly with everything in a category. Here you need to target these distributors, and support them in promoting your product. Which should also be worthwhile for them.

3.6.2 Online shopping

The value of the UK online grocery market has seen tremendous growth in recent years and in 2017 was valued at £10.4 billion. Online grocery sales are predicted to reach £16.0 billion by 2022 as the internet becomes more widely used and relied upon by UK shoppers¹¹.

⁹ USDA, United Kingdom Retail Foods 2017

¹⁰ <https://entrepreneurhandbook.co.uk/sell-to-supermarkets-and-retailers/>



When it comes to online shopping, consumers may say that they want products with a long shelf-life, but a recent Harris Poll in the USA found that they are just as likely to buy fresh fruits and vegetables as dry packaged goods online¹²

Online grocery shopping is now offered by UK supermarket chains – Tesco, Sainsbury, Asda, Waitrose and Morrisons. Outside of these suppliers, the market is mainly populated by a wide range of niche, specialized retailers, many of which offer products that are not always available in major supermarkets.

Online sales are being driven by three trends:

- Smart Shopping – shoppers using “smart” devices to buy their groceries.
- Convenient Collection – lockers at train stations for example
- Competitive Pricing – low cost delivery entices more people to use the service.

Twenty eight percent of online shoppers now do all or most of their grocery shopping online.

The Institute of Grocery Distribution (IGD) survey found that two out of five (42%) of UK shoppers buy their groceries online at least once every month, with three out of five shoppers (60%) intending to shop online and get home delivery over the next 2-3 years. Twenty eight percent of existing online shoppers claim to shop once a week or more online up from 20 percent from 2013. Today’s consumers are online all the time, with most sales being conducted on mobile phones.

The highest number of users of internet shopping are located in Scotland, followed by East Anglia and the Midlands. These are all rural areas. London also has a large number of internet shoppers due to long working hours and number of Londoners who do not own a car.

With the increasing popularity of online retailing, supermarkets and other retailers introduced Click and Collect which has become hugely popular and is rapidly growing. Click-and-Collect is a concept, which brings together the benefits of online retailing with the advantages of maintaining a store-based retailing presence. Through these services, customers are able to access a vast catalogue of products which often cannot be stocked by even the largest outlets from the comfort of their home, purchase the items online and then collect the items from a store within easy reach. In the majority of cases, this service is free, making it cheaper than home delivery.

Apart from the online shopping channels of the big retailers, there are numerous specialised stores who focus on a specific market segment. These are the easiest to approach. You can find them by just searching on your own product category, and most have some contact

¹¹ The Grocer, Retail Structure - May 2017

¹² The Harris Poll, Online Food Purchasing, June 2016



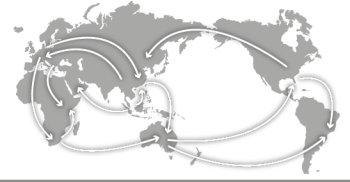
details on the website. Since the stores are specialised, you can often speak to a knowledgeable purchaser who can provide detailed information on what works in the market or not.

3.6.3 Traditional Retail and Convenience Stores

The UK's convenience store market is highly fragmented, with a large number of retail operators. Store operators may be divided into several types¹³:

- Co-operative - UK food co-operatives are moving away from their traditional supermarket-type operations and towards convenience retailing. The largest co-op is The Cooperative Group (1,914 stores), followed by Southern (197 stores) and Mid Counties (178 stores).
- Gas Stations - The largest players in the UK gas station market are Shell (569 stores), Esso (198 stores) and BP (313 stores). The UK supermarket chains are also key players in this market too. Tesco has 504 gas station stores, Asda/Wal-Mart has 306, Morrison's has 334 and Sainsbury's has 308. In total, there are 8,434 gas stations operating in the UK. Collaborative agreements between supermarket chains and gasoline retailers have resulted in joint sites, for example, Tesco Express stores operate at Esso gas stations and M&S Simply food stores operate at BP Connect gas stations.
- Convenience Outlets at Supermarkets - Tesco also dominates the convenience multiple sector with 2,366 Tesco Express and One Stop type stores. Sainsbury's, Asda, Marks and Spencer and Waitrose have followed Tesco into the convenience multiple market with their Local stores. In fact, supermarket chains now own 50 percent of the UK's convenience multiples. Other key players are Martin McColl, Whistlestop (SSP), and Checkers Express.
- Symbol (Convenience) Groups and Franchises - In order to protect against the advance of the supermarket chains in the convenience sector, the number of convenience stores affiliated with a symbol group is growing rapidly. Symbol and buying groups offer small retailers a range of benefits including strong marketing and branding, wider product ranges, and more sophisticated supply chain systems. Major players in this sector are Premier, Londis, Budgens & Booker (5,390 stores), Spar UK (2,474 stores), Nisa (1,049 stores), Landmark (1,490 stores) and Costcutter (2,200 stores).
- Smaller chains of specialist Confectionery, Tobacco and Newsagents (CTNs):
 - Martins, McCool (374)
 - Rippleglen, Supercigs/ Supernews (15)
 - Aleef (24)
- Specialist Grocers
 - Poundland (840)
 - B&M Retail (433)
 - Home Bargains (426)

¹³ The Grocer, Retail Structure - May 2017



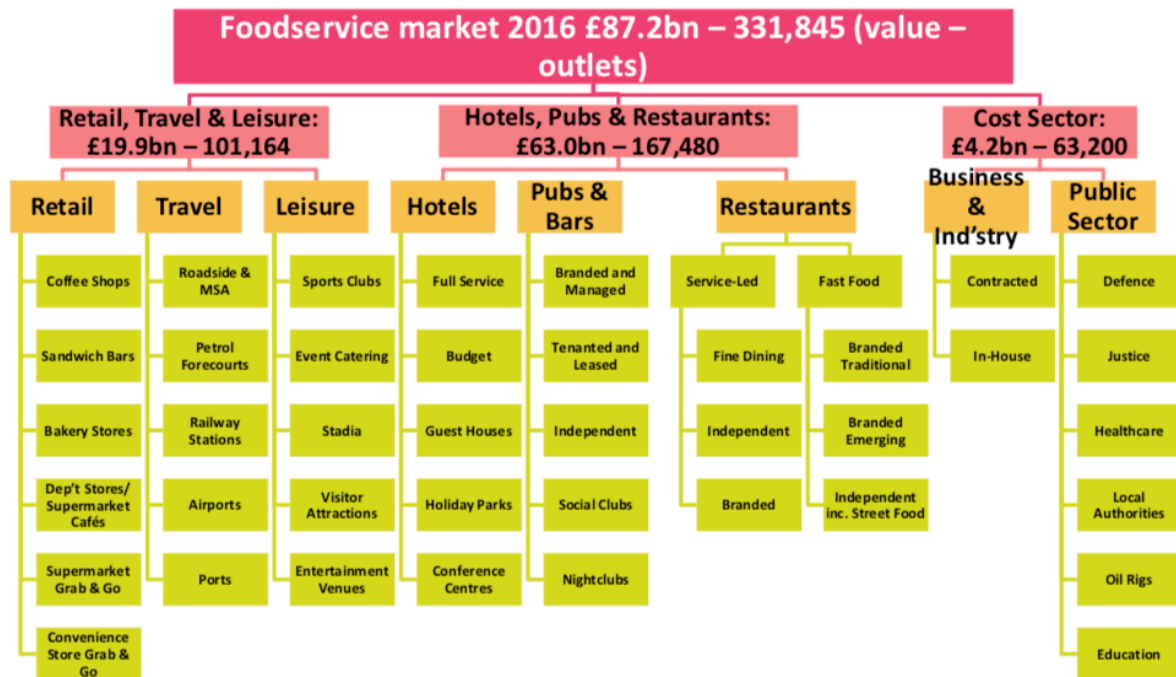
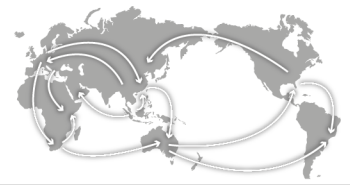
- Wilko (341)
- Food specialists
 - Greggs Bakers (1,764)
 - Holland & Barrett Health Food (764)
 - Thorntons Chocolate (414)
 - Whittard (48)
- Non-Affiliated Independent - There are 18,841 unbranded independent grocery retailers in the UK. There is continued competition which normally results in a number of independent retailers either leaving the sector or affiliating with a symbol operation.
 - Greengrocers (1,832)
 - Butchers (6,690)
 - Fishmongers (907)
 - Bakers (4,801)
 - Farm shops (3,517)
 - Others (3,393)

All these segments are either buying products themselves (in that respect they are comparable to mid-sized or smaller supermarket chains) or buy their products to wholesalers and local distributors. The best approach is to approach the chain that would really have a good match with the product and the positioning that you want.

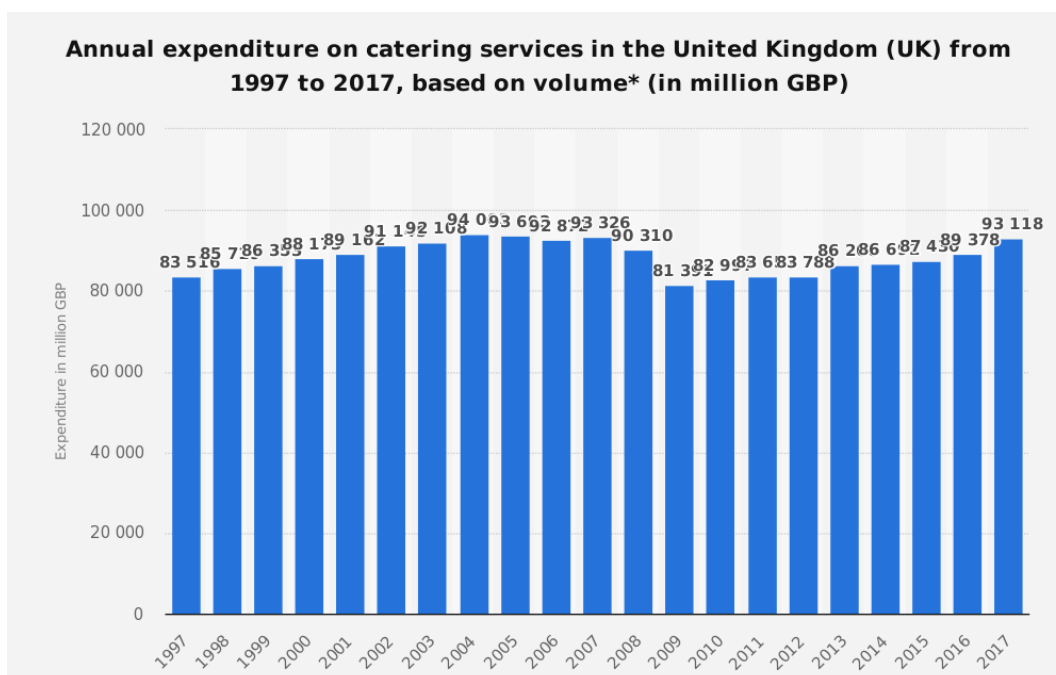
3.6.4 The foodservice market

The foodservice market or catering industry defines those businesses, institutions, and companies responsible for any meal prepared outside the home. This industry includes restaurants, school and hospital cafeterias, catering operations, and many other formats. Although there may be a slight overlap in numbers with the convenience stores and Grab & Go supermarkets, the sector accounted for over 87 billion GBP, which is in the same range as food retail sales¹⁴.

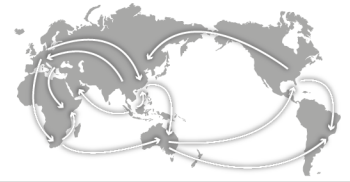
¹⁴ Bord Bia, *The UK Foodservice Market*, Nov 2016



If you look at the total turnover in the foodservice sector, you can see a strong year-on-year growth varying from 3 to 7%. However, if you look at the sector volume based, against 2017 prices, the growth is rather limited. This suggests that consumers were spending more due to a rise in the price of food services (or added value in the preparation of the food or ambiance), rather than due to a rise in the frequency of eating out (although this was likely to also be a contributing factor) or eating more¹⁵.

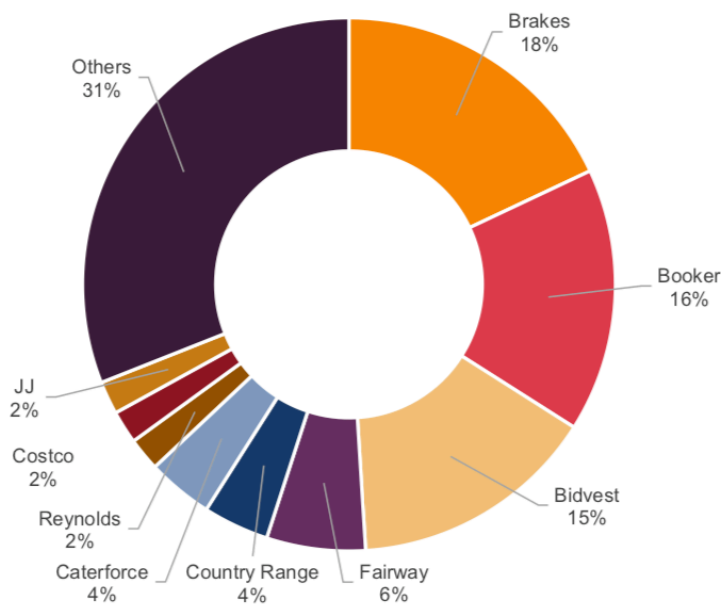


¹⁵ Statista



Since as a rule of thumb in restaurants the purchase value of the ingredients is about one third of the sales price, this still means that for food product manufacturers this still is a market of around 30 billion GBP.

One of the ways to reach foodservice companies it through wholesale distributors. There is a number of leading wholesale distributors in the foodservice market, with a total sales volume amounting up to around 10 billion GBP¹⁶.



The merger with Fresh Direct in 2015, consolidated Brakes' position as the largest wholesaler in the foodservice channel. Now part of the US giant Sysco, it will be expected that further acquisition may add further scale going forward, though its share remained stable in 2016¹⁷.

Meanwhile Bidvest (renamed Bidfood as of April 2017) has been boosted by a number of strategic acquisitions to increase its regional presence. Booker for its part continues to develop its unique multi-platform capability. This includes its specialist delivery service, with its extensive customer base amongst independent operators.

The other approach is to start with the leading catering services, or with restaurant (franchise) chains. This needs a personalised and local approach, and such an approach would only pay off in case there is a larger volume of outlets.

¹⁶ Derived from Food statistics pocket book

¹⁷ IGD research, UK grocery & foodservice wholesaling 2017



3.7 Market characteristics

What are the main characteristics of the UK food market, and where are the best chances for Palestine companies to promote and sell their products?

3.7.1 General trends in the UK food industry

According to the Food Manufacture magazine in January 2018, the following trends will have impact on the UK food market:

1. Brexit will focus food manufacturers' attention on global sourcing in 2018

In case the UK will leave the EU without a clear treaty (a so-called 'hard Brexit'), manufacturers will start looking outside the EU and especially in Commonwealth countries as India, Australia, New Zealand and Canada for their raw materials and imported goods that might become too costly to import from the EU after Brexit.

2. The popularity of vegan products would outpace organic products in 2018

Eurostar research said that "We predict that vegan protein will continue to feature strongly and will perform at a higher level than organic during 2018".

The rise in the number of vegan products consumed by the British public has been driven by brands such as Pret A Manger.

3. Healthy snacks become popular

This year will see a healthy snacks boom as the British public turn away from snacks high in sugar, salt and saturated fats, also according to Food Manufacture magazine.

"Healthy snacks catering for specialist diets are going to come into the mainstream because texture and taste has improved significantly."

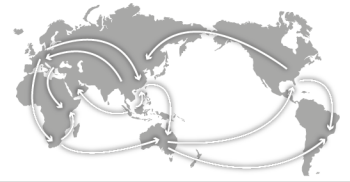
Also pizza bases made from vegetable flours will grow and feature strongly, tying in with the gluten-free trend that will continue to grow using natural ingredients

4. Fusion cooking becomes more popular at home

This means that all kind of typical Asian ingredients become more main stream in the kitchen. This can vary from Vietnamese noodles to Indian spices, but may extend also to Middle Eastern products.

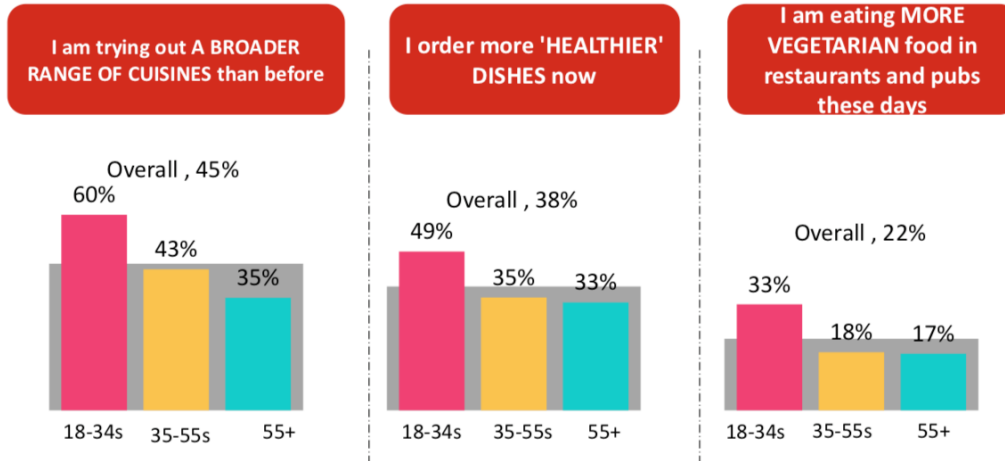
5. Hyper local food

In the UK and many other countries now, there is a growing trend for dishes created with ingredients sourced within short distance. Locally grown food contributes to fewer emissions for transportation, and also makes the origin of what you consume more easily traceable.

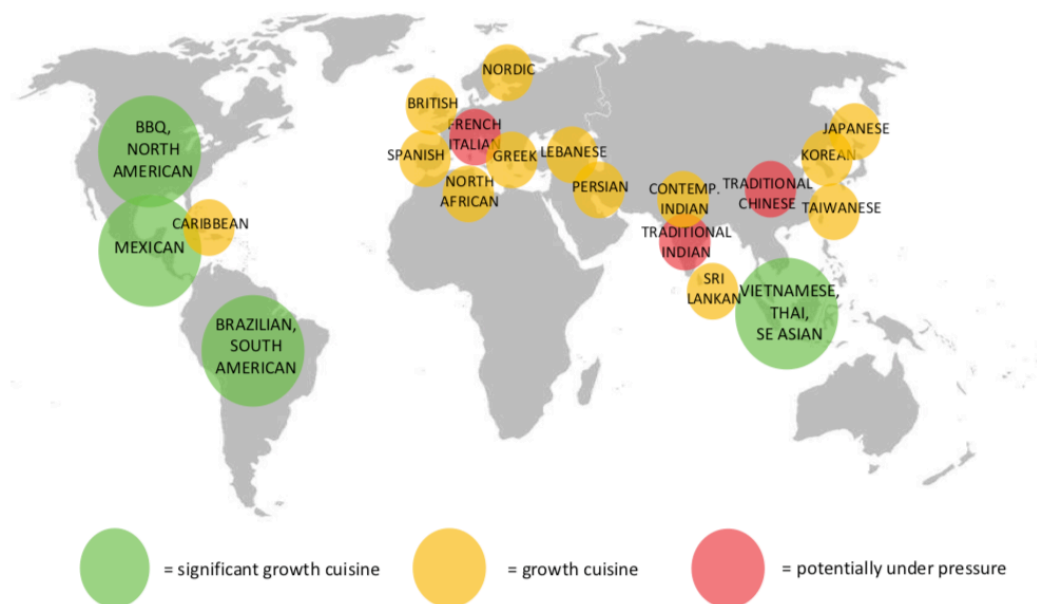


These trends are supported by consumer research¹⁸:

To what extent do you agree with following statements?
% of agreement*



The same research indicates where new cuisines can come from:

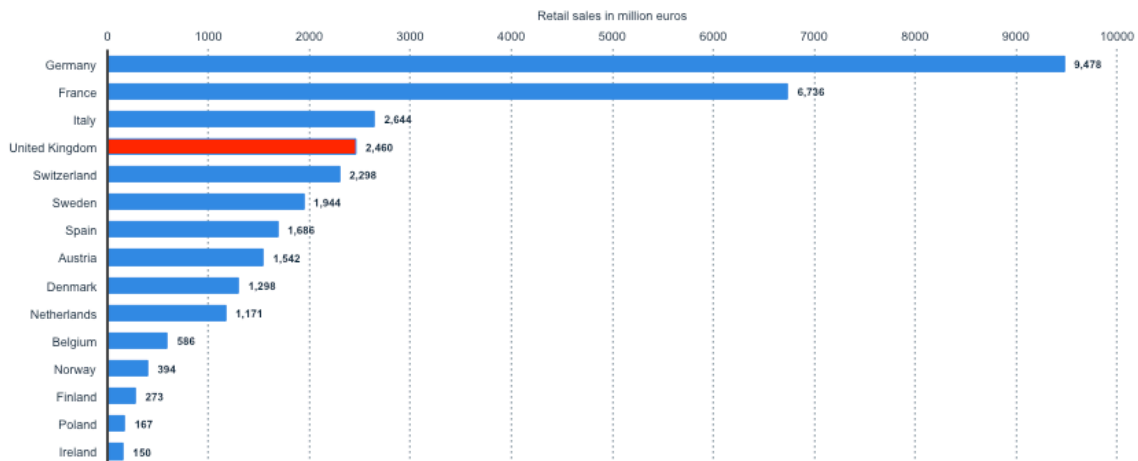
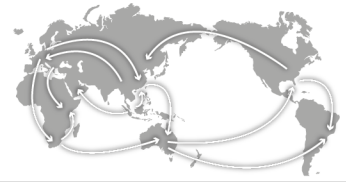


3.7.2 Organic food

One of the major trends worldwide is the growing demand for organic food. This is also the case in the UK, but the market has not developed as much as in Germany or in France, which are countries comparable in size. This gives opportunities for first-mover advantage in certain categories and more growth potential in the long run¹⁹.

¹⁸ Bord Bia, The UK Foodservice Market, Nov 2016

¹⁹ Statista



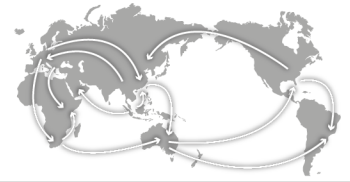
The market for organic food actually decreased in the recession after 2008, but from 2012 the market is growing again at a steady pace of 3 to 6% per year. Sainsbury's and Waitrose are selling relatively more organic food than other big supermarket chains, and also independent retailers sell relatively more. In the canned and packaged groceries category the sales share of organic products is already 15%²⁰.

The major suppliers of organic foods to the United Kingdom retail trade still are the specialists in various product ranges. Many supermarkets and other outlets deal with a handful of well-established wholesalers who operate with overseas as well as domestic suppliers of fresh organic produce. Some wholesalers also sell on to other wholesalers with whom smaller retailers deal (and from whom they receive deliveries). These traditional specialists have often come from the domestic, organic sector and usually supply domestic organic produce.

These larger traders import the bulk organic fruit and vegetables such as potatoes, carrots, brassicas, onions, apples and pears from the rest of the EC, the United States, Israel, Egypt, Turkey, etc. For more exotic produce they buy within the United Kingdom from specialized importers who are established traders of traditional exotics but who now also source organic produce. These latter include Wealmoor and Exotic Farm Produce. It is to these latter specialists that prospective exporters from developing countries should direct their attention. They trade in traditional consignment style but are ever open to offers and enquiries.

Traditional, mainstream organic importers, such as Organic Farm Foods of Wales and The Organic Marketing Company for fresh, and Community Foods and Suma Wholefoods for processed, supply supermarkets, box schemes, health food shops, specialist organic supermarkets, processors and even customers in other European countries with fresh and processed organic fruit and vegetables.

²⁰ [FAO research](#) on the UK



Wholesalers may deal in pre-packed produce and/or operate as a pack house. Although other suppliers proliferate in the United Kingdom, they are either mainly small and specialize by product sector or they are suppliers of conventional produce who are increasing their participation in organics in response to supermarket demand.

Some supermarkets are seeking imported organic supplies from their traditional suppliers. The rationale for the supermarkets using traditional suppliers, especially for imports, has been that such suppliers are familiar with the nature of the supermarket business and have the requisite standards of efficiency. Thus, traditional supermarket produce suppliers, such as Mack Multiples, are seeking to become prominent suppliers of both organic and conventional fresh produce. In this way there has been an attempt to reconcile the rigorous expectations of normal supermarket supply logistics with the more "natural" characteristics of organic supply.

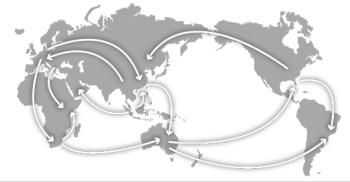
For the time being, however, it is the specialized organic importers that should remain the targets for potential exporters to the United Kingdom.

At the producer and importer levels the premia paid for organic produce have followed a similar pattern to those at the retail level (see below examples for processed foods). In 1997/98, premia were reported to range from 20-100 percent for vegetables and 5-40 percent for fruits. Since then, premia at these levels in the supply chain have reflected the forces of supply and demand. For some products, such as carrots, there have been periods of oversupply in which the premium has virtually disappeared, whilst for others premia have been within a range of 5-50 percent.

| Processed products | Price premium |
|---------------------------|----------------------|
| Soups | 85 |
| Pizzas | 12 |
| Dried fruit | 20 |
| Jams | 15 |
| Cordials | 10 |
| Fruit juices | 35-60 |

3.7.3 Private label

The UK has one of the most advanced private label markets in the world and is seen as a flagship market for private label development. The UK's major supermarket chains dominate the private label market and on average 47 percent of products in their stores are private label. Originally, private label goods were a copy of a branded product but today they are often innovative and marketed as a premium or high quality brand. They give UK retailers the opportunity to diversify their product ranges and develop new revenue



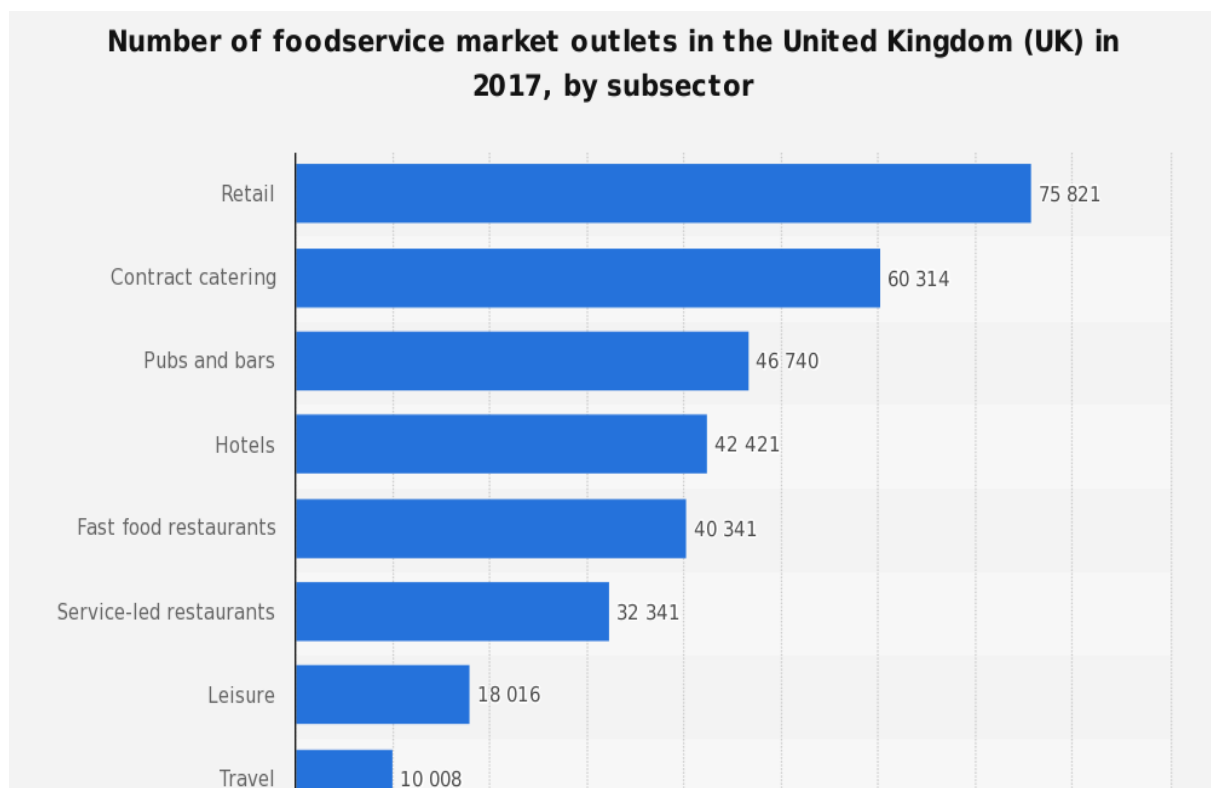
streams. In comparison the Netherlands has 39 percent private label products and the United States has only 18 percent²¹.

In general, each retail chain focuses on specific market segments. For example, Tesco targets the middle market, providing both economy and up-scale products. Sainsbury's is pitched slightly up-market of Tesco, with Asda/Wal-Mart slightly down-market of Tesco. Morrison's and The Cooperative compete at much the same level as Asda/Wal-Mart. Waitrose, part of the John Lewis Partnership, is the most up-market of the leading chains. Iceland, Aldi and Lidl are all price-focused outlets.

The extreme of UK private label grocery shopping can be seen by visiting a Marks and Spencer (M&S) food hall. Eighty-five percent of what M&S sells is own-label goods. Most M&S customers buy the majority of their food from other mainstream grocery retailers. They use M&S for special occasions, for convenience food such as ready-meals and as a top-up to their regular shop by buying a few luxury items. M&S consistently offer innovative, high quality and rigorously checked food.

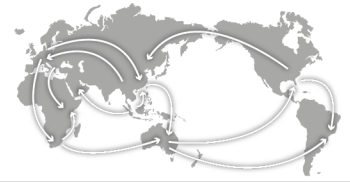
3.7.4 Characteristics of the foodservice market

The foodservice market consists of over 131.000 enterprises, with even more outlets²²:



²¹ IGD research, UK grocery & foodservice wholesaling 2017

²² Statista



The sector puts efforts in the area of responsible hospitality, in particular in promoting the health and wellbeing of customers. Businesses have made considerable investments in reducing salt, sugar and fat, as well as increasing the vegetable content in dishes to offer customers more 'healthy options'.

The growth of 'Street Food' shows no sign of abating; it remains the number one trend and the availability of 'Healthy Options' and better nutritional choices remains second place. Beyond this, there is no clear consensus regarding the next big single market trend²³.

The main stream restaurant scene is very fast-moving but there are some clearly identifiable trends, namely:

- more and more international flavours and tastes from small specialist operators either via pop-ups, street food markets or fixed restaurants, with an emphasis upon authenticity and innovation
- restaurants with smaller core menus that focus on quality of ingredients and cooking
- healthy foods like bone broth that are packed with vitamins, collagen and keratin
- smartphone technology in the form of online or app based ordering, payment and delivery, to increase speed-of- service: Wagamama, for instance has a dedicated app
- 'third wave' cafés offering ethically sourced, locally roasted coffee served by well-trained baristas e.g. Monmouth, Kaffeine, Sensory Notes, Hej and Workshop Coffee

Companies operating catering in the workplace are having to adapt quickly to keep pace with these changing consumer and high street trends. Many are partnering with artisan coffee brands and leading edge chefs to bring innovation to workplace food services. To stay ahead of the competition, the university caterers need to closely monitor the marketplace and come up with similarly innovative responses²⁴.

The UK foodservice market offers various channels for product introduction, especially for those products that are not yet mainstream in the UK. Looking at the number of restaurants and catering services, especially in contract catering and service-led restaurants there may be options to introduce new specific products. However, instead of educating the population, this requires a dedicated sales approach towards chefs and good support, e.g. in providing the right recipes.

3.8 Import policy and procedures

There are different rules about importing goods into the UK. Although the UK recently voted to leave the EU, this process has not yet started in earnest, and for now the rules on importing remain the same.

Food which is intended for human consumption must meet the general food safety requirements of European Union law.

²³ British Hospitality Association, Food Service Management market report 2016

²⁴ Tuco: business models in HE catering



Under [Regulation 178/2002](#) food must not be unsafe, this means²⁵:

- injurious to health
- unfit for human consumption
- food containing animal products includes meat, poultry, fish, eggs, dairy products and honey (also referred to as POAO: Products of Animal Origin)
- food that has no animal content includes fruit, vegetables, cereals, certain bakery products, herbs, spices, mineral water and fruit juices (non-POAO)

Apart from the general provisions of [Regulation 178/2002](#), the specific legislation applying to imported food will depend on whether the food is of animal origin or not.

Most non-POAO may enter through any port, however you must check that the port has the necessary facilities in place to handle the imported produce.

3.8.1 Importing animal products (POAO)

Border Inspection Posts (BIPs) handle products of animal origin which is being imported into the UK. These products must be presented at a designated border inspection post for veterinary checks to be carried out. Goods that fail these checks will not be allowed into the UK and may be destroyed.

Those involved with importing products of animal origin from a non-EU country are required to

- notify the BIP in advance of arrival of any POAO consignments
- submit the relevant documentation to the BIP, including an original health certificate. The type of certification required is dependent on the product type and country of origin
- present the goods to the BIP for veterinary checks to take place
- pay for all charges for the inspection of the goods retain the CVED, issued upon clearance, for one year at the first point of destination of goods in the EU

Food supplements that are packaged for the final consumer containing glucosamine, chondroitin, or chitosan, do not need to be imported through a Border Inspection Post and are not subject to veterinary checks.

European Commission guidance and interpretation of the rules on hygiene of foodstuffs is available. The guidance clarifies rules on food imports and the hygiene of foodstuffs, as outlined in Regulation [852/2004](#), [853/2004](#), [854/2004](#) and on the rules of official feed and food controls as per Regulation [882/2004](#).

The guidance aims to assist food businesses and government authorities to better understand these regulations and to apply them correctly and in a consistent way.

²⁵ food.gov.uk



3.8.2 Importing composite products

A composite product is defined in European Union legislation as a 'foodstuff intended for human consumption that contains both processed products of animal origin and products of plant origin. The EU's definition of composite products includes those products, where the processing of primary product is an integral part of the production of the final product.

Commission Decision 2007/275/EC and Regulation No. 28/2012 (as amended by Regulation No. 468/2012) set out import conditions for importing composite products from non-EU countries.

Import requirements apply to composite products containing any processed meat product, or half or more of their content of other processed products of animal origin such as

- milk products
- egg products
- fishery products

Requirements include that the composite product must come from a third country listed in EU legislation as approved for the product of animal origin contained in the composite product.

The meat product, milk product, egg product and fishery product content of the composite product must also have come from an approved country and where appropriate from an approved establishment listed on the European Commission website.

The composite product must be accompanied by the relevant health certificate in Regulation 468/2012 if they contain processed meat, milk, egg or fishery product. Composite products containing any other animal product must be accompanied by the relevant health certificate required for the particular animal content or in other cases by a commercial document.

Composite products where less than half their content is processed milk product are also subject to these requirements except where the conditions in Article 6 of Decision 2007/275/EC are met.

Composite products referred to above are subject to veterinary checks at EU Border Inspection Posts (BIPs).

A composite product that contains no processed meat product and less than half its substance of other processed product of animal origin is also subject to veterinary checks at BIPs except where they meet the requirements of Article 6 of Decision 2007/275/EC. The milk content must only come from a country approved by the EU for milk. (Note: Palestine nor Israel is on this list of approved countries).



3.8.3 Products not subject to checks

Annex II of Decision 2007/275/EC lists some composite products and foodstuffs which are not subject to veterinary checks and these are

- confectionery (including sweets) and chocolate, containing less than 50 % of processed dairy and egg products
- pasta and noodles not mixed or filled with processed meat product; containing less than 50 % of processed dairy and egg products
- bread, cakes, biscuits, waffles and wafers, rusks, toasted bread and similar toasted products that contain less than 20 % of processed dairy and egg products
- olives stuffed with fish
- soup stocks and flavourings packaged for the final consumer, that contain less than 50 % of fish oils, fish powders or fish extracts
- food supplements packaged for the final consumer, that contain small amounts (in total less than 20 %) of processed animal products other than meat products

Food business operators are reminded that it is their responsibility to ensure any foodstuffs they want to import comply with EU and national rules in place to protect public and animal health. Importers should satisfy themselves that any composite products coming to the UK comply with the import conditions as set out in Decision 2007/275/EC and Regulation No 28/2012.

3.8.4 Financial and administrative aspects

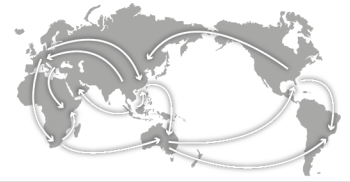
Importing from outside the EU

If you import from outside of the EU, you will need an [EORI number](#), which is issued by the UK government. Getting this can take up to three days, and it is needed before your goods can clear customs. The registration process is slightly different depending on whether your business is VAT registered or not, but can be completed online.

Your goods should have a [commodity code](#), and be declared to customs. Usually your freight forwarder will do this for you. You will usually have to pay import duty (and sometimes associated tariffs) on goods imported to the UK from outside the EU. The exact amount payable depends on what you are importing, and it's country of origin.

VAT

When you have to pay VAT (or import duty) in the UK, you will be paying in GBP. Therefore you need to know the value of your goods in sterling, even if you have paid for them in an alternative currency. The HMRC use a set of [exchange rates](#) which are reviewed and republished on a monthly basis - you must use these when you calculate the cost of your VAT (and any import duty payable, if you choose to arrange this yourself).



VAT is payable on the full value of goods imported from outside the EU. This means that you must convert the cost of goods to GBP, and then add in any other costs associated with their import such as the duty you have paid, and their insurance costs. You then pay VAT on the whole amount, directly to HMRC.

VAT remains at the 20% rate, although there are some exceptions. For example you can pay a lower rate on imports of art or antiques, and you may be able to claim back the VAT paid on business supplies. No VAT is paid on services imported from outside the EU.

Minimum thresholds

All countries, including the UK, set a minimum threshold below which duties (and in some cases VAT) is not payable. In many cases this is set so low that most business imports are effectively above the minimum. In the UK, the minimum threshold depends on both the value of the goods imported, and the means by which they reach the country. For goods imported by air freight, sea freight or road freight, anything with a value over GBP 18 is liable to tax and duty.

International payments (FX payments)

One of the biggest issues with international trade is that if your client may ask you to invoice him in pound sterling. This means that you have to convert your cash at the point of paying, which can come with hidden additional costs²⁶.

This can add uncertainty, because you can't be exactly sure of the cost of your goods until you receive and process an invoice. It makes it difficult to plan, or know exactly the profit margin of the products you're importing - and the added costs can quickly mount up, too. You can see this by comparing the rate your bank offers you, to the mid-market rate. The difference between the cost of your invoice paid at this mid-market rate, and the cost at the rate offered by your bank - plus any fees and charges - is the real cost of paying your international invoice.

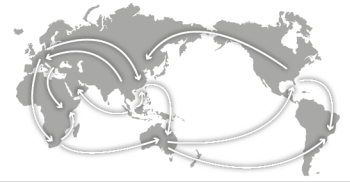
3.9 Import channels

The total food import in the UK is around 42 billion GBP. There are several parties who serve as the formal importer of goods:

- Large and mid-sized supermarket chains
- Smaller supermarket chains for their bigger categories (e.g. tropical fruits)
- Large caterers: hotel chains, restaurant chains, contract caterers
- Food and drink wholesalers
- Food and drink manufacturers
- Specialised importers, servicing the above groups

Each group may consist of a great variety of parties, from big to small, from broad to very specialised.

²⁶ Transferwise



3.10 Packaging and labeling

3.10.1 Packaging

If you package food for sales in the UK, you must use packaging that's suitable for food use. Suitable packaging is marked 'for food contact' or has a symbol on it that looks like a wine glass and a fork.



There are special rules for using plastics, ceramics or cellophane for packaging. You must have written evidence that you've kept to them.

This is known as a 'declaration of compliance' and you can get it from your packaging supplier. You also have to get one if you buy food that's already packaged for sale in any of those materials.

3.10.2 Labelling

To sell food and drink products, the label must be²⁷:

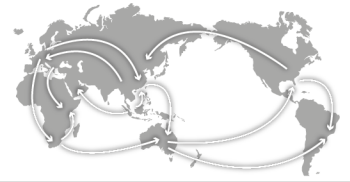
- clear and easy to read
- permanent
- easy to understand
- easily visible
- not misleading

On the label, you must show the following information:

- the name of the food
- a 'best before' or 'use by' date (or instructions on where to find it)
- any necessary warnings, mainly related to certain ingredients
- net quantity information
- a list of ingredients (if there is more than 1). Ingredients must be listed in order of weight, with the main ingredient first. You also have to show the percentage of an ingredient if it is highlighted by the labelling or a picture on a package, for example 'extra cheese' or mentioned in the name of the product, or if it should be logically in the product.
- the name and address of the manufacturer, packer or seller
- the country of origin, if required
- the lot number or use-by date
- any special storage conditions
- instructions for use or cooking, if necessary

You must highlight allergens on the label using a different font, style or background colour. You must also list them in the ingredients. The allergens you need to highlight and list are:

²⁷ <https://www.gov.uk/food-labelling-and-packaging>



- celery
- cereals containing gluten - including wheat, rye, barley and oats
- crustaceans - including prawns, crab and lobster
- eggs
- fish
- lupin
- milk
- molluscs - including squid, mussels, cockles, whelks and snails
- mustard
- nuts
- peanuts
- sesame seeds
- soya beans
- sulphur dioxide or sulphites at levels above 10mg per kilogram or per litre

You must also show these if they apply to your product:

- a warning for drinks with an alcohol content above 1.2%
- a warning if the product contains GM ingredients, unless their presence is accidental and 0.9% or less
- a warning if the product has been irradiated
- the words 'packaged in a protective atmosphere' if the food is packaged using a packaging gas

You must show the country of origin for:

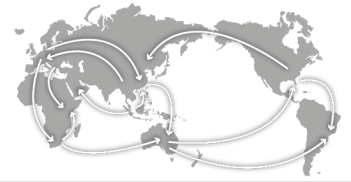
- beef, veal, lamb, mutton, pork, goat and poultry
- fish and shellfish
- honey
- olive oil
- wine
- fruit and vegetables imported from outside the EU

You must also show the country of origin if customers might be misled without this information, for example if the label for a pizza shows the leaning tower of Pisa but the pizza is made in the Germany.

There are special rules for certain products, like honey, chocolate or fats and oils, so have let an expert always advise you on the specific regulations.

3.11 Prices (in relation to potential buyers)

As far as possible, given the broad product ranges that we are talking about, this topic will be covered in paragraph 3.15.



3.12 Commercial practices

If you are considering doing business in the UK, you need to consider the cultural issues you are likely to encounter. Put simply, the British are quick to take offence. Your communication style might be viewed as aggressive, when you thought you were merely being helpfully direct or your negotiating style could appear confrontational when you thought you were offering useful alternatives.

In general, the British value time-keeping for business arrangements. If you set up a meeting for two o'clock, the chances are your counterparts will arrive on time or just before. Since the British are so time conscious, sometimes you may feel their lives are very rushed. In fact, however, they are only doing their best to avoid losing time, which is valued as an economic resource. It is considered very impolite to arrive late for a business meeting.

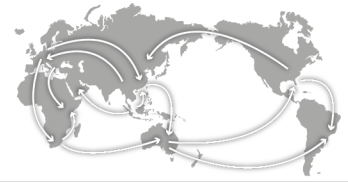
If your delay is inevitable and you arrive late, it is usually sufficient to excuse yourself with an apology. If, however, you are running more than a few minutes late, you should call ahead to apologise and give an indication of how long you will be; in the case of a longer delay that would compromise the value of attending the meeting, you should consider offering to postpone the meeting to a new time and/or day. The busier people are, the greater the likelihood that they will have to leave for another engagement, so respecting their time is very important.

Senior managers and directors will often have personal assistants who plan their diaries and meetings to fit into their working day. It is often necessary to plan a long time ahead when arranging meetings with senior executives, as diaries tend to be booked up well in advance.

When meeting someone for the first time, most managers will value some advance information about the company you represent. This will enable them to establish some basic details about your company, which will save time at the meeting and increase your credibility. It is also useful for you, if visiting a company in the UK for the first time, to find out some information about that company so that you can understand more about their business culture, interests and where there may be opportunities and synergies that can be leveraged.

The traditional greeting among British managers is a light but firm handshake accompanied by a polite greeting. In general, British people are more reserved than continental Europeans and you should refrain from physical contact apart from the initial handshake. Smiling, on the other hand, particularly at the initial stage of an encounter is considered an expression of positive intentions. It is also worth mentioning that it is not normal practice to shake hands with or greet everyone on entering a room full of people.

During the negotiation process, it is necessary to keep in mind that British business professionals often approach their work in a detached and emotionless way. They will tend to look for objective facts and solid evidence, so emotional persuasion techniques are usually a waste of time. Personal bonds also seem to have little relevance for business in the



UK, which differs from other European countries. Aggressive selling techniques such as derogatory remarks about the competition, on the other hand, will probably have very little positive influence on your business partners and may actually be counterproductive. Similarly, any facial expressions tend to be kept to a minimum, thus making it difficult to guess the thoughts and opinions of British negotiators. This behaviour is not suspicious or mistrustful; it is just the typical professional approach.

Also, it is advisable to be aware of the hierarchical structure of the particular organisation with which you are dealing. In the UK, it is common for companies to declare that they value teamwork and democracy even though, in practice, the senior manager is the person who makes the final decision.

Gift Giving is not a usual part of British business etiquette, although reciprocation is good practice when gifts are received. Some organisations are encouraged not to accept any form of gift and some are prevented from doing so on legal grounds. However, where a gift is offered, it is important to ensure that it is not expensive enough to be considered a bribe or so inexpensive as to be considered an insult.

When it comes to business dress codes, classical conservative attire is the norm for both men and women in British culture and dark colours such as black, dark blue and charcoal grey are predominant. It is common for women to wear either trousers or a skirt in an office environment, and head scarves are accepted as part of religious freedom. Many senior managers are fond of quality and express their status through their choice of clothing. Shopping in designer boutiques is popular among British society and bespoke suits, designer shirts, silk ties and hand-made shoes are signs of affluence and status.

Dress code inevitably varies across industries. In the creative sectors (e.g. digital marketing) a more relaxed dress code is common – just a shirt and trousers. Numerous office-based organisations have introduced Casual Friday, Casual Day or Dress-Down Friday, where a more relaxed dress code (and hopefully increased creativity) is encouraged based on the California inspired Dot Com Business Culture.

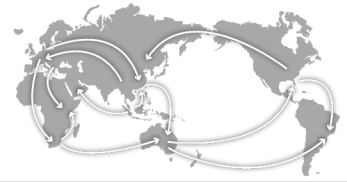
Bribery and corruption are generally taken very seriously in the United Kingdom and the chances of a bribe being accepted are very low. The risks are too high and it is strongly advisable not to try to bribe anyone²⁸.

3.13 Sales promotion

3.13.1 Trade fairs

Trade fairs remain one of the best approaches to introduce new products and make contact with potential buyers. A trade fair can also be an attractive meeting point to meet with prospects that have already been identified.

²⁸ www.businessculture.org



Looking at major UK food & beverage trade fairs, there are the following options²⁹:

| | | |
|--------------------|--|------------|
| 22-23 January 2019 | Great hospitality show – Foodservice show | Birmingham |
| 17 – 20 March 2019 | IFE – International Food & Drink Exhibition, combined with Pro2Pac, the processing and packaging event | London |
| 7 – 8 April 2019 | Europe-Natural and Organic Products Europe Trade Show | London |
| 7 – 9 October 2019 | The Restaurant Show | London |
| 2-4 March 2020 | Hotelympia, the international Hotel and Catering exhibition (bi-annually) | London |

The IFE in March 2019 would actually be the best event to target, since it is the biggest and it would also offer a good orientation on the competition that Palestinian companies would be facing. A joint booth, occupied by a number of companies with each just a few products could be a good option.

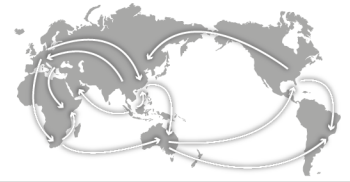
3.13.2 Magazines

One of the options to create awareness for a brand is through advertisements in magazines. As none of the companies on who this research is targeted had an established consumer brand, the focus would be on B2B magazines in the industry. Options here are:

| | |
|----------------------------|---|
| Food Management Today | https://www.foodmanagement.today |
| New Food Magazine | https://www.newfoodmagazine.com |
| Food and Drink Network UK | https://foodanddrinknetwork-uk.co.uk |
| Food Manufacture | https://www.foodmanufacture.co.uk |
| Food Processing | http://www.fponthenet.net |
| Organic & Natural Business | http://www.organic-business.com |
| Health Food Business | http://www.healthfoodbusiness.co.uk |

The interesting question would be whether it is more useful to promote products under a common 'Palestine' brand, than as individual companies. From a cost and efficiency point of view a common branding and sales effort would make sense.

²⁹ www.10times.com



3.13.3 Direct marketing

Direct marketing involves the focused targeting of potential clients, with email marketing, mail marketing, outbound calls and personal sales. Where trade fairs and advertising can be supportive, in B2B this mostly is the right way to proceed.

However, also this requires a good strategy. Purchasers from larger organisations receive daily a huge number of emails from potential suppliers from all over the world. Sometimes with very basic offerings: 'buy this week my processed cheese for only 5 USD per kg'. Essential for larger companies is that they want to have a steady relationship with their suppliers, with a high certainty of delivery, since the lacking of one ingredient may have a strong impact on the production.

So all communication, whether by email, regular mail or more personal, need to highlight that your company can provide a steady, high quality stream of various products, at better price levels than they have now, and that you are easy to work with.

This last aspect, 'being easy to work with', also requires investments: at least being available on the Friday, which is a working day in the UK, and preferably having a local representative, with whom they can easily speak, who they can see and perhaps even have a drink with.

3.14 Market prospects

Market prospects and the right way to approach the market may vary from product to product, and also depends on whether the manufacturer has already established a brand, or typically sells products that are unbranded.

Questions to answer in this respect are:

- Retail or foodservice: this really depends what your product looks like, what packaging quantities you want to provide, and how you want to position your product. Foodservice mostly requires larger packaging, which can be an advantage in sales and handling, and more focused branding.
- Big supermarket chains or smaller retailers: big supermarket chains can bring you huge volumes, but the question is whether you can handle that at once. Also typical for big supermarket chains is that the price pressure is very high, they charge you for every promotion and payment terms can be extremely long. Smaller supermarket chains may have more reasonable terms.
- Branded product or white label: You can either supply the retailer or supermarket with products labelled with your own brand name or, you can supply them with unbranded products. The latter are known as "white label" products, which a retailer will then sell under their own brand or label, for example, Tesco's Finest range, or Sainsbury's Taste the Difference range. Either option is possible, but unless your product is special, the retailers are likely to prefer a white label deal because your



products will boost their own brand range. Supplying white label goods is likely to generate higher volumes but lower profit margins, and as a commodity supplier may leave you vulnerable to aggressive margin squeezing tactics by the retailer.

We have tried to answer this question for specific product categories in paragraph 3.15. For this paragraph, we look in general at the various target groups for Palestine exporters.

3.14.1 Attractiveness of the UK retail market

If we look at the main characteristics of the UK retail market, there are advantages and challenges for food producers from abroad³⁰.

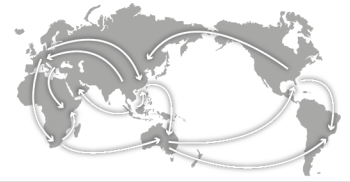
| Advantages | Challenges |
|---|---|
| Market dominated by a few retailers with strong market penetration. Sophisticated replenishment systems mean U.S. products can be widely distributed. | Supermarket chains demand significant volume and their concentration can make market access difficult initially. Trial listings must give results in a short time or product will be de-listed. |
| There are a large number of specialty importers. | The UK has well-established brands for mainstream products. Brand-building and marketing costs are substantial. |
| EU competitors do not pay import duty on goods to the UK but this may end after the Brexit takes effect, creating a level playing field for Palestine | UK import regulations and labeling/ingredient requirements can start to differ from the EU when the Brexit takes effect. |
| The country is English-speaking and is therefore an easier gateway into the rest of Europe. | Popularity of specialty products from many EU countries is high, e.g. French cheeses, Spanish citrus, Italian pasta, South African wines |
| Strong purchasing power and interest in innovative products including organic, health, specialty, and ethnic food categories. | Weakening of pound in 2017 reduced consumer purchasing power. |

3.14.2 Attractiveness of the UK Foodservice and Food manufacturing market

The UK Foodservice market is a very diverse market, and with the exception of a small number of major contract caterers most companies will buy through food wholesalers or direct from local food manufacturers.

The food manufacturing companies on average 4 times as much employees per company as foodservice companies and will handle in general bigger volumes of ingredients. There may be two main reasons for these companies to directly import certain ingredients:

³⁰ USDA Foreign Agricultural Service in a report on the UK retail sector



- The volume is huge, and the costs of importing the product themselves is lower than the margin that a food wholesaler will take. This is typically a purchasing manager's decision.
- The ingredients are rather special, or the quality of the ingredient is so extraordinary that a wholesaler can't provide the exact product. This is mostly a chef's decision.

Given the profile of the Palestinian companies for whom this research is meant, it seems wise to target the professional chefs with arguments like high quality or special taste. Although the market is not growing strongly in terms of volumes, the shift to more exotic products may be a good market driver.

3.14.3 Attractiveness of the UK Wholesale market

The UK wholesale market is the turntable for over 85% of the total food trade in the UK. Most wholesalers are used to working with foreign suppliers and import procedures. Getting into the assortment of one or a few major wholesalers provides physical distribution channels to most of the UK and can strongly drive volumes.

On the other hand wholesalers are professional trading parties who can compare products from all over the world. Quality and supply certainty need to be on par and pricing may never exceed any existing source. Where retailers may favour a product with a nice story in terms of origin or production, wholesalers mostly look at their profit margin. Just as with retailers, contracts may be very tight, with many obligations and long payment terms.

Where it comes to prices, the advantage of Palestine is that labour is still relatively cheap. This means that labour-intensive products can be offered at an attractive price, even when shipping is added.

However, wholesale and trading are in general conservative markets. This means that doing business with a new trading partner needs to be facilitated. Having an English representative on the (UK) ground will strongly facilitate doing business.

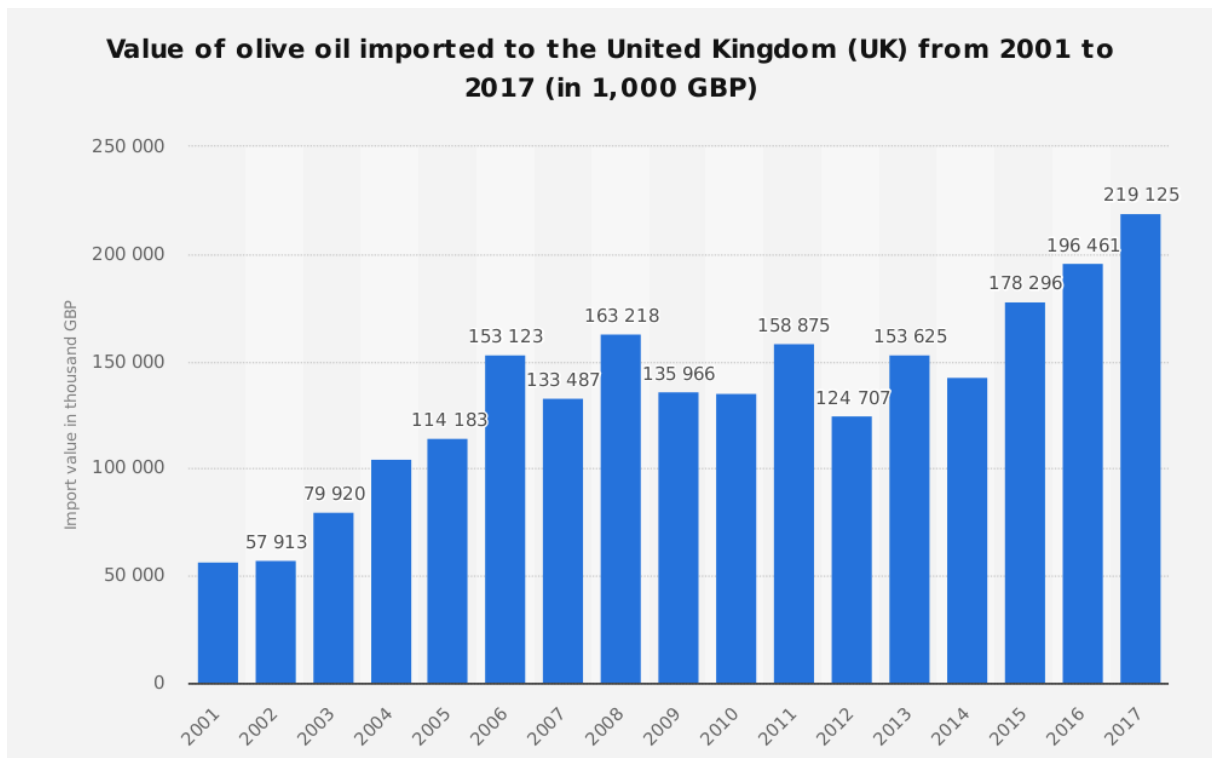
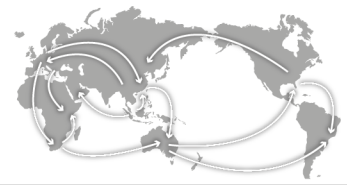
3.15 Guidelines for specific product categories

Given the broad scope of this report, we thought it useful to give specific guidelines on how to approach the UK market for the different product groups.

3.15.1 Olive oil

The consumption and therefore import of olive oil in the UK has gone up significantly in the past few years³¹.

³¹ Statista



Promoting the product category is not the issue here, there are various health trends that support the consumption of olive oil. Most of this production goes to the food processing industry: vegetable oils are used as ingredients for semi-manufactured or final food products, such as margarine, shortenings, filled milk and bakery or confectionery products. Apart from this you have the bottling industry: vegetable oils are bottled as final products for use with cooking, frying or as salad oil

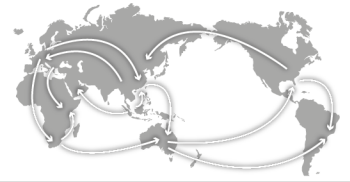
The competition mostly comes from Spain and Italy, where large scale olive production and cost-effective cooperatives keep the prices relatively low. However, there may be chances, since the price of olive oil recently hit a seven-year high in Britain after poor olive harvests in Spain and Italy in 2016, which led to short supplies and to wholesale prices of 648 USD for 100 litres³².

Another way to get higher prices is to compete in the speciality segment that covers products which are traded at low volumes and high prices, such as premium and certified products (organic, fair trade).

Having samples and prices Delivery Duty Paid in London ready and approaching various importers, for example to meet you and taste your products at IFE London 2019, may be the best market approach.

3.15.2 Freekeh

³² Oliveoiltimes.com



Freekeh is a product coming up in the UK, and is being introduced in various recipes on the internet. It is mostly positioned as a superfood, and there competes with quinoa and bulgar wheat. Positioning it this way, the following arguments are used:

- It has more protein per 100g than a boiled egg and four times the fibre of brown rice.
- It also is Low GI which means it can help control blood-sugar level.
- It's also been shown to have prebiotic properties meaning it can help with digestion and it is a rich source of Calcium, Iron, Potassium, Magnesium and Zinc.

As far as it is targeted to the non-Arab community, Freekeh is not distributed broadly. At the moment of this research only the Brand Artisan Grains was available online at the online supermarket www.ocado.com, for 1,65 GBP per package of 200 grams.



The Suma Wholefood brand was available on the website www.souschef.co.uk, with 4,65 GBP per package of 500 grams.

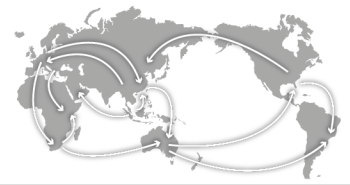
Sainsbury's sells Merchant Gourmet Microwave Ready to eat Freekeh with for 2,00 GBP for a packaging of 250 grams.

Artisan is a UK brand that in the UK developed. Applying his 20 years experience in the health food trade, Sam set about developing a core range of grains and 'good-for-you' ingredients to offer consumers variety and convenience – from novel Multi-Grain Couscous and Greenwheat, Freekeh to Chia Seeds and Quinoa blends. The packaging was then carefully designed to be impactful, informative and inspiring with recipe suggestions and nutritional facts. Pack sizes were also rationalised. Source: www.artisangrains.co.uk.

Suma is the UK's largest worker coop of the UK providing 7000+ products which are all ethically sourced. All their products are organic, vegan, vegetarian, fairtrade and/or eco-friendly.

Merchant Gourmet was founded back in 1995, by brothers Mark and Oliver Leatham, who had a passion for discovering real food. In 2009 they launched their ready-to-eat puy lentils and quinoa pouches – the first of their kind in the UK. Their Simply Cooked range offers a convenient base for creating a meal. There's also a range of pulses and grains infused with globally inspired flavours.

The total import volume is still small, the total import volume of pre-worked grains is around 3.000 tons per year, and Freekeh is only a part of that. As a market approach it would be useful to approach these companies first. Apart from this there are also Middle-Eastern food trading companies, such as www.yaffa.co.uk. This can be a second import channel.



3.15.3 Couscous (Maftol)

Couscous is readily available in the UK supermarkets, and is sold under a large number of brands, including private label. Compared to Freekeh it is much more accepted as an ingredient in cooking, and this is also reflected in price. 500 grams of couscous can be bought for as low as 0,65 GBP in a main stream supermarket. Common brands are Ainsley Harriott, ASDA, Batchelors, Cypressa or Gama.

There is relatively little specific statistic material available about Couscous consumption, since it is often grouped with pasta and macaroni. The UK production itself is around 6,000 tons per year. Based on the HS code (190240) the import volume in 2017 was around 16,000 tons, of which 6 tons out of Palestine. Most import, around 60%, comes from France.

Based on the import statistics, the average import value for couscous is 1 USD per kg, with the lowest prices from France (0,86 USD/kg), China (0,75 USD/kg) and Turkey (0,69 USD/kg). Given the fact that 'couscous is couscous', at least for the UK population, competition will mainly take place on price. A reason to shift to a Palestinian exporter, especially if it is only for this product, should be an import price that is at least at Turkish levels, and preferably lower, and would only be done for a large sales volume (estimate: 1,000 tons per year).

If that would be feasible, the first steps would be to directly target the brands that are mentioned, and supermarkets like Sainsbury's who have their own brand of couscous.

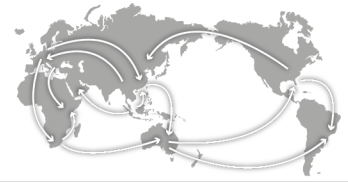
3.15.4 Watermelon seeds

Watermelon seed consumption in the UK is relatively limited. The total import value in 2017 was 406.000 USD, with the majority of supply coming from India and Iran, with an average import value of around 3 USD per kg.

If you look at the availability in mainstream supermarkets, the seeds are only used as a partial component in nut and seed mixes, or in a mild chili roasted variety, under the Mello brand. However, Mello is a brand that makes all kind of products from Watermelons, and this is just a side product for them.



Watermelon seeds can mostly be bought online or through some specialty shops. The best way to approach this market is through specialised edible seed importers, such as Curtis (<https://rmcurtis.co.uk>) or Poortman (<http://www.poortman.com/products/other-products>).



3.15.5 Nuts

Nuts is a broad product category, and also a category with a lot of possibilities to provide a distinguishing product. Especially for high quality nuts there are even options to introduce a new brand in the UK, if there is sufficient investment in packaging and marketing support.

The average consumption of Nuts and edible seeds in the UK is 37 grams per person per week, and a large part of it is peanuts and almonds. Especially the import of almonds in the UK has been growing with on average 5% in the last few years, with an import in 2017 of 23 million kg shelled almonds.

In terms of ways to enter the market, there could be a venue through the large supermarket chains directly. Smaller supermarkets will most likely buy their nuts from a wholesaler, given the broad variety and limited importance compared to other categories. Also most specialty shops will buy through a wholesaler given their limited volumes.

On the one hand a direct approach could work, on the other hand, especially for a company that already has a broader product range, presenting on a trade fair may be useful.

3.15.6 Dates

The United Kingdom imported almost 22.000 tons of dates (both fresh and dried), from which 450 tons from Palestine, for on average 6,6 USD/kg import value³³. In comparison, Israel exported 6 times this volume to the UK, which makes them achieve the biggest financial volume.

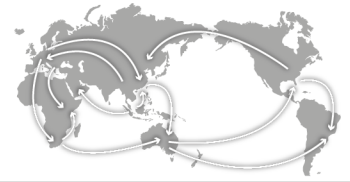
Practically every supermarket chain sells one to three varieties of dried dates, with prices typically around 5 to 13 GBP per kg. Mostly offered are Medjool dates. Most supermarkets sell under their own brand, there are a few specific brands of dates on the market: Forest feast, Tree of life, Alesto (actually a Lidl brand).

Given the limited presence of any specific brands, the best way to approach the market is through either some major supermarkets, but more likely through a select number of specialised fruit or health food importers and wholesalers. As it really comes to the quality of the dates, sampling is needed, or trade show presence could work.

3.15.7 Cheeses

The UK population consumes quite some cheese, in total around 700 million kilogram. These are to a large extent these are hard cheeses, mozzarella or blue-veined cheese. The percentage of 'unripened or uncured cheeses' (HS code 040610) is more limited, especially if

³³ Trademap.org



you exclude the subcategory of mozzarella. The import of this kind of cheese then results in 120 million kilogram in 2017³⁴.

Most of this unripened cheese comes from Germany, France and Denmark. Palestine is not on the exporters list. The average import price level lies between 3 and 4 USD per kg. Given the fact that these cheeses are much used as an ingredient rather than a retail product, targeting food manufacturers and food wholesalers would be the most logical path.

3.15.8 Conserved/pickled vegetables and sauces

The UK household consumption of pickles and sauces is on a relatively constant average 0,42 GBP per person per week³⁵, but with 66 million people this adds up to around 1,38 billion GBP per year. Apart from this there is the usage in the foodservice and as ingredient for other products.

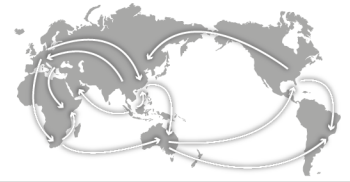
Part of it is imported, for example if we look at tomatoes (HS code 2002) with 435 million USD import value, and 'vegetables preserved by vinegar or acetic acid' (HS code 2001) with 173 million USD import value.

As a relatively low interest category, most of the supermarket chains have their own brand, often sourced from the same factories where branded products are made. Many brands deliver also to other food manufacturers and food wholesalers.

The variety in products and quality is big, and it doesn't make sense to push your specific products. The idea would be more to present yourself as a well-established company, with good supply, having all necessary certifications and able to offer a low price. This way you can be invited to offer on a specific product, which probably will be highly specified.

³⁴ Trademap.org

³⁵ Statista



4 Legal, political and economic factors

4.1 Political climate and stability

The United Kingdom is a state made up of the historic countries of England, Wales and Scotland, as well as Northern Ireland. It is known as the home of both modern parliamentary democracy and the Industrial Revolution.

Two world wars and the end of empire diminished its role in the 20th century, and the 2016 referendum vote to leave the European Union has raised significant questions about the country's global role. Nonetheless, the United Kingdom remains an economic and military power with great political and cultural influence around the world.

Her Majesty Queen Elizabeth II ascended to the throne of the United Kingdom of Great Britain and Northern Ireland in 1952 upon the death of her father, George VI. She is also head of state of 16 independent countries including Canada and Australia. As a constitutional monarch, her role in the legislative process is largely ceremonial.

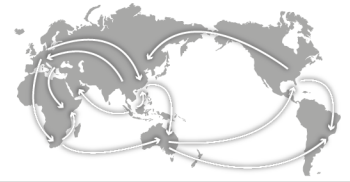
The UK political system is a multi-party system. Since the 1920s, the two dominant parties have been the Conservative Party and the Labour Party. Before the Labour Party rose in British politics, the Liberal Party was the other major political party, along with the Conservatives.

While coalition and minority governments have been an occasional feature of parliamentary politics, the first-past-the-post electoral system used for general elections tends to maintain the dominance of these two parties, though each has in the past century relied upon a third party, such as the Liberal Democrats, to deliver a working majority in Parliament.

A Conservative–Liberal Democrat coalition government held office from 2010 until 2015, the first coalition since 1945.[1] The coalition ended following parliamentary elections on 7 May 2015, in which the Conservative Party won an outright majority of 330 seats in the House of Commons, while their coalition partners lost all but eight seats.

Theresa May became prime minister in July 2016 on the resignation of her predecessor and fellow Conservative, David Cameron, in the wake of a referendum vote for Britain to leave the European Union. Mrs May backed Mr Cameron's support for Britain to remain in the EU, but now faces the task of overseeing its exit.

Her task is made more difficult by her calling an early election in June 2017, which led to the surprise result of a hung parliament and a fragile Conservative minority government, kept in



office through an agreement with the Democratic Unionist Party of Northern Ireland³⁶. At the moment of the writing of this report, a (first) agreement was reached with the European Union on the terms and conditions of the exit, but this was not yet accepted within the UK parliament.

4.2 International trade developments

The United Kingdom (estimated 2017 GDP of \$2.6 trillion) is a major international trading power, with the fifth-largest economy in the world according to the World Bank Group, the second-largest economy in the European Union. While the United Kingdom is geographically relatively small, it has a population of more than 65 million people.

The UK economy grew by 1.7% in 2017, a modest deceleration from previous years, reflecting uncertainty caused by the Brexit vote and what it will mean for the UK economy. Some observers expect the economy to weaken slightly in 2018 as consumer confidence could be suppressed by factors such as rising inflation and potential currency fluctuations.

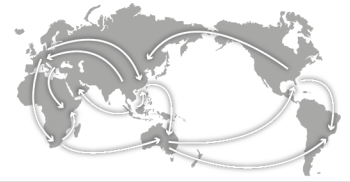
On June 23, 2016, the UK voted to leave the European Union (EU), ushering in a period of economic and political uncertainty that persists as the UK seeks to define a new, post-Brexit, relationship with the EU and its other key trading partners. As part of the Brexit process, the UK Government triggered the two-year exit process by invoking Article 50 of the Lisbon Treaty in March 2017. The UK and the EU are currently negotiating the terms of the UK's withdrawal and will discuss a framework for their future relationship ahead of the UK's scheduled departure from the bloc on March 29, 2019.

Formal Brexit negotiations started in June 2017. In March 2018, both sides agreed to a 21-month transition deal (from March 29, 2019 to December 31, 2020) during which the UK would effectively remain in the EU Customs Union and Single Market. While the UK would be required to continue to follow EU rules without being able to participate in EU decision-making processes, the UK would technically be free to negotiate and sign new trade deals during this time.

The most immediate focus of UK-EU discussions is on agreeing to a final "divorce deal" – the status/rights of citizens (3.2 million EU citizens in the UK; 1 million Britons in the EU); the divorce bill (what the UK will pay to cover long-term commitments made to EU programs while the UK was still an EU member); and the status of the border between Northern Ireland and the Republic of Ireland – before the March 2019 Brexit deadline. Subsequent negotiations will then center on the future trading arrangement between the UK and EU³⁷.

³⁶ BBC.com

³⁷ US Embassy for Export.gov



4.3 Trade agreements (i.e. trade advantages)

As long as the UK is part of the European Union, all rules and regulations of the EU apply, including a preferential treatment of Palestine. This results zero duties for practical all product categories, except for some special cases such as apples, pears and tomatoes.

This is the result of an Interim Association Agreement on Trade and Cooperation concluded between the EU and the Palestine Liberation Organisation (PLO) on behalf of the Palestinian Authority in 1997. The agreement provides for duty-free access to EU markets for Palestinian industrial goods, and a phase-out of tariffs on EU exports to Palestine over five years. An Agreement for further liberalisation of agricultural products, processed agricultural products and fish and fishery products entered into force on 1 January 2012.

Formally, after the UK has left the European Union, there will be no trade agreement at all. However, it is likely that the UK will at least offer to honour all EU trade agreements for the short term, and expect their trading partners to do the same.

4.3.1 The pan-Euro-Mediterranean Convention on rules of origin

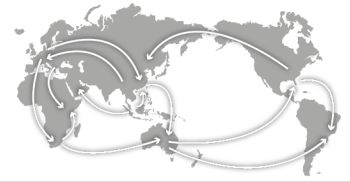
The pan-Euro-Mediterranean cumulation system of origin was created in 2005. It brings together the EU, Palestine, and other partners in Europe and the Mediterranean to support regional integration by creating a common system of rules of origin. Rules of origin are the technical criteria which determine whether a specific product qualifies for duty free or other preferential access under a given trade agreement.

Cumulation of origin means a product coming from one partner country can be processed or added to a product of a second partner country and still be considered an “originating product” of that second partner country for the purposes of a particular trade agreement.

The pan-Euro-Mediterranean system allows for diagonal cumulation (i.e. cumulation between two or more countries) between the EU, EFTA States, Turkey, the Western Balkans, the Faroe Islands, and any countries which signed the Barcelona Declaration of 1995. The system was originally based on a network of Free Trade Agreements having identical origin protocols.

These individual origin protocols are being progressively replaced by a reference to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention), which was established in 2011 to provide a more unified framework for origin protocols. Palestine has acceded to the PEM Convention on 1 July 2014. It has to be noted here that products originating in the Israeli settlements in Palestine (the West-Bank, Gaza Strip, East Jerusalem and the Golan Heights) are not entitled to benefit from preferential tariff treatment under the EU-Israel Association Agreement³⁸.

³⁸ European Committee on trade policies



4.4 Trade barriers (both tariff and non-tariff)

The preferential treatment for Palestine results in effectively no import duties for Palestinian goods being shipped to the EU. Imported goods are only subject to VAT, just as goods from any other countries.

Despite the preferential treatment, the general picture with regards to trade between Palestine and the EU is the following:

- Due to difficult economic situation and restrictions on movement and access, trade with the EU is very limited (€278 million in 2017).
- Imports from Palestine to the EU are very low, only €16 million in 2017. They consist mainly of agricultural products (82.4%), mainly tropical fruits and olive oil, and chemicals (12.1%), mainly pharmaceuticals.
- EU exports to Palestine are composed mainly of machinery and transport equipment (52.7%), as well as agricultural products (23.0%) and chemicals (11.7%), again mainly pharmaceuticals. They amounted to €262 million in 2017.

There are several regulations for the import of food products, these are as follows³⁹:

1. General foodstuffs hygiene rules according to Regulation (EC) No 852/2004 of the European Parliament and of the Council (OJ L-139 30/04/2004) ([CELEX 32004R0852](#));
2. General conditions concerning contaminants in food;
3. Special provisions on Genetically Modified (GM) food and novel food of Regulation (EC) No 1829/2003 of the European Parliament and of the Council (OJ L-268 18/10/2003) ([CELEX 32003R1829](#)) and Regulation (EC) No 258/97 of the European Parliament and of the Council (OJ L-43 14/02/1997) ([CELEX 31997R0258](#));
4. General conditions of preparation of foodstuffs;
5. Official control of foodstuffs;

However, these regulations are not disproportionately heavy and can be complied with by professionally working companies.

If there are any barriers in the trade with Europe, then these most probably have to do with:

- Physical distance
- Cultural differences
- Perception of the quality of the products
- Perception of the stability of the Palestine Territories.

The physical distance can be overcome, and the other points can be dealt with.

³⁹ European Committee Trade Helpdesk