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Press release

Stable development of the confectionery industry in 2019 – profits depressed by rising costs across the board for key raw materials

The Association of the German Confectionery Industry (BDSI) can look back on a stable development for the industry and its delicious products in 2019. The production volume was slightly up on the previous year's level (+1.2%) and turnover increased by 2.3%. However, the statistical data obscures the view of the economic situation in the industry, which is clearly under strain. This is because Germany's over 200 industrial manufacturers of sweets and snacks are currently facing enormous challenges as a result of tough competitive pressure at a national level, uncertainties in the vital export trade, a growing shortage of skilled workers and a substantial rise in the costs of raw materials.

Dramatically increased costs across the range of raw materials used in the confectionery industry

The high costs of important agricultural raw materials in particular are taking their toll on the profits of many of the German manufacturers of sweets and snacks. The price for **cocoa** was especially high in 2019. After a sharp rise in the final quarter of 2019, buyers on London's futures market are having to pay cocoa prices the likes of which have not been seen since 2016. An agreement between Ghana and Ivory Coast comes on top of this price increase. These countries, which together produce over 60% of the world's cocoa, have formed a cartel (an "OPEC for cocoa") and are imposing a surcharge of 400 US dollars per metric ton from 2020, known as the living income differential (LID).

Furthermore, in the second half of 2019 **gelatine** prices rose considerably. African swine fever has drastically reduced pig stocks, particularly in China, meaning that there is also a shortage of gelatine made from animal connective tissue on the world market. There were also substantial price rises especially in the fourth quarter of 2019 as a result of increased global demand for **skimmed milk powder**, **hazelnuts** and **almonds**. In addition, the FAO Food Price Index compiled by the Food and Agriculture Organisation of the United Nations recorded significant increases in the price of **sugar** and **vegetable oils** in December 2019.

Kompetenz in Süßwaren seit 1877

Outlook on 2020:

Major challenges posed by Brexit and US punitive tariffs

There are opportunities on the horizon for the confectionery industry in 2020, but also challenges. The insecurity in the export trade with the United Kingdom due to its imminent departure from the EU (Brexit), for which many practical questions remain unanswered, is currently a cause of particular concern for the industry. The United Kingdom is an important export market for sweets. Approx. 5% of German confectionery production (corresponding to a value of around Euro 800 million), is exported to the United Kingdom.

US punitive tariffs of 25% on sweet biscuits, waffles and wafers exported from Germany to the United States represent a further challenge. These punitive tariffs pose a particular threat to the long-standing involvement of German manufacturers of fine bakery wares in the USA. Family-run companies are having to pay the price for the mistakes of a subsidy policy in the large-scale industrial sector that was contrary to WTO rules. The industry is therefore pressing and hoping for a speedy agreement to be reached in the negotiations between the European Commission and the US government in order to avert, on the one hand, an extension of the punitive tariffs and, on the other hand, the establishment of punitive tariffs from the EU side on important raw materials such as almonds and nuts.

Increasing lack of skilled workers

The confectionery industry is a significant and stable source of jobs in all regions of Germany, especially in rural areas, and it makes an important contribution towards affluence and employment. In spite of the overall good economic situation, the profits of individual businesses have been under strain for years. The central challenges include the recruitment of specialists, especially in production, but also in controlling and sales. In addition, the search for seasonal workers is becoming increasingly difficult.

Economic development of the German confectionery industry in 2019

According to BDSI estimates, the **production** of sweets and snacks manufactured in Germany experienced a slight growth in 2019 at around 3.7 million tons (+1.2%). In terms of value, production remained stable at approx. Euro 12.5 billion (+2.3%). The BDSI estimates are based on the official figures from the German Federal Statistical Office and the market data from the relevant market research institutes.

In terms of volume, the **domestic offer** (= production + imports - exports) stagnated in 2019 at just under 2.6 million tons (+0.9%), whereas the domestic sales volume was estimated to be Euro 8.5 billion (+2.3%).

Growth in export business: sweets from Germany popular all over the globe

The **export business** for sweets and snacks developed positively in 2019 despite many uncertainties relating to global trade. Overall, an estimated 2.2 million tons of sweets and snacks were exported. This represents an increase of +1.7% in comparison with the previous year. Export turnover rose by +3% in 2019 to approximately Euro 8.5 billion.

The quality of sweets made in Germany continues to be valued very highly abroad. With an export share volume of over 50%, more than every second ton of German sweets is destined for export. Around 80% of all exported sweets go to member states of the European Union. However, exports to third countries have been rising steadily for years.

Employment figures: In 2019, the German confectionery industry remained a stable employer, providing jobs to around 50,000 employees, which makes it the fourth-largest sector in the food industry.

Delicious products for little everyday pleasures – innovations in 2020

The sweets and snacks produced in Germany are popular with people of all ages worldwide and among men and women - providing little everyday pleasures. The confectionery industry is one of the most innovative sectors and will present a wide variety of new products at ISM, the International Sweets & Biscuits Fair, in Cologne once again this year. The showcased innovations are set to include products comprising plant proteins as well as natural ingredients like nuts, oats, sesame, ginger and even dried berries. Sweets and snacks designed to be consumed on the go are also on-trend, frequently offered in resealable packaging or as individual portions.

“Custom-made products for individual consumer needs remain important in the confectionery market. These include sugar-free/reduced-sugar, fat-free/reduced-fat or reduced-salt sweets and snacks, as well as organic-quality products or those made from sustainably grown raw materials. This means that consumers are able to find a very broad offering of the most varied products, so that they can arrange their diets according to their individual wishes,” says Bastian Fassin, Managing Director of the BDSI.

The German confectionery industry is showing strong commitment to sustainability

The use of sustainably produced ingredients in sweets and snacks has been intensively promoted by the German confectionery industry for many years. This is especially true for cocoa, the key ingredient in chocolate. The BDSI increased its sustainability targets in 2018 and has since recommended that its members boost the share of certified, sustainably grown cocoa in the sweets sold in Germany to 75% in 2025. However, this goal can only be achieved if all parties involved in the value chain work together - from the governments in the countries where the raw material is cultivated through to the consumer. Certification is an important component in the development of a sustainable cocoa sector. In 2018, the share of certified sustainable cocoa in sweets sold in Germany reached 62%. According to the BDSI's first survey for 2011, this share amounted to only approx. 3%. The confectionery industry is thus on a very good course.

The same applies to the palm oil used in the production of sweets. Around 90% of the palm oil used in Germany's confectionery industry is already certified as sustainable. As such, the sector in Germany is playing a leading role. The companies operating in the confectionery industry are taking a responsible approach in championing environmental protection and species conservation in palm oil production, even though palm oil is used in comparatively small quantities in the German confectionery industry in relation to the total consumption of the product, both domestically (9%) and globally (0.2%).

The BDSI continues to be intensively involved as part of the Sustainable Cocoa Forum, a joint initiative founded in 2012. In addition to members from the chocolate and sweets industry as well as from the food trade, other participants include the German government and standards-setting associations like Fairtrade and the Rainforest Alliance as well as representatives from civil society. The BDSI is

also a committed member of the multi-stakeholder initiative Forum for Sustainable Palm Oil.

Development of the individual product groups

Chocolate products

According to the BDSI's estimates, **production volumes of chocolate items** showed an upward trend in 2019. In total, approx. 1.1 million tons of chocolate products were produced in Germany. This corresponds to a volume increase of +1.4% in comparison with the previous year. The production value rose by approx. +2.6% to around Euro 5.5 billion.

The volume of the **exports of chocolate products** also developed positively in 2019 (+4.2%). The value of the exports of chocolate products rose by approx. +5.1%.

Fine bakery wares

The manufacturers of fine bakery wares recorded a slightly positive development in 2019. Based on BDSI estimates, the **production of fine bakery wares** products increased by 1.5% in terms of volume. In total, 744,000 tons of fine bakery wares were produced.

In terms of value, **production** rose by 2.6% to around Euro 2.1 billion. Autumnal temperatures in the fourth quarter of 2019 meant that seasonal trade with autumn and Christmas cakes and biscuits developed very satisfactorily.

In 2019, **exports** of fine bakery wares also saw an increase of +2.0% in terms of volume and +2.7% in value compared with the previous year's results.

Sweets and confectionery

The manufacturers of confectionery also recorded a slightly positive development in 2019. Compared to 2018, **production** rose by an estimated +1.0% to 566,000 tons in terms of volume and by +1.5% to approx. Euro 1.6 billion in value.

With an increase at a rate of +2.7% in terms of volume and +3.6% in value, the development of the **exports** of sweets and confectionery also experienced positive growth in 2019.

Snack items

The positive trend of the previous years continued for the manufacturers of snack items, who were once again able to record slight rises. According to the estimates of the BDSI, the **production volume** rose by 2.2% to around 360,000 tons. In terms of value, production was able to achieve growth of 3.4% to around Euro 1.5 billion.

The salty snacks category has been considered a growth segment in the German market for years now. This is particularly due to positive trends in the nuts segment. **Exports** of snack items on the other hand saw a negative development in 2019, falling in comparison with the previous year by -5.2% and -9.6% in terms of volume and value respectively.

Chewing gum

Many Germans continue to enjoy chewing gum for refreshment and relaxation. The chewing gum segment remained stable in 2019. Whilst a turnover of Euro 508.8 million* was achieved in 2018, a figure of approx. Euro 510.5 million was reached in 2019, demonstrating that chewing gum was able to hold its own in a difficult market environment. In 2019, chewing-gum lovers had a wide range of products to choose from. While the classic mint flavour continues to be a favourite with consumers, fruity and unusual varieties are also very popular. Furthermore, consumers are attracted by the positive impact that chewing sugar-free gum has been proven to have on dental health. Over 90% of the chewing gum sold in Germany is sugar-free.

*Source: Nielsen Grocery + Drug + Impulse + Scan Gas excl. customer Total + DIY + Pharmacies, 2019

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The industry association: The BDSI represents the economic interests of over 200 mostly medium-sized German sweets companies. It is both an industrial and an employers' association. Boasting a 10% share of the overall turnover, the German sweets industry is the fourth largest branch of the German food industry. Its particular hallmark is its strong focus on exports. The German sweets manufacturers employ around 50,000 people.