

INDUSTRY OVERVIEW

The Food & Beverage Industry in Germany

ISSUE 2022/2023



Germany: Europe's Food & Beverage Market Leader

"We located our production plant for dairy alternatives in Germany as the national market is growing year by year and foods 'made in Germany' unlock export opportunities."

Harry Rønneberg

Rønneberg Group AS founder and PlantA shareholder

83 m

consumers help make Germany the largest retail market for food and beverages in Europe

EUR 227 bn

in retail sales due to increasing demand triggered by Covid-19 pandemic

EUR 185 bn

production value demonstrate the sector's significance for the German economy

EUR 53.6 bn

in food service sales despite strong Covid-19 lockdown measures

1/3

of all processed foods manufactured in Germany are exported

EUR 1.89 bn

innovation spending by German food and beverage companies in 2019

Like most if not all business sectors worldwide, the Covid-19 pandemic affected the food and beverages industry in Germany and its global supply chains. Nevertheless, growing national retail sales fully compensated falling food service sales and a small decline in exports.

National and international companies, operating in almost every subsegment of the German food and beverage market, make more than 170 thousand different food products available to German customers. The industry enlarged production capacities and adjusted supply chains at very short notice to meet changing production and demand patterns.

Germany's food industry is not only driven by a commitment to delivering the very best, but is also highly receptive to new cultural influences and culinary trends: Increasing health awareness, an aging population and the resulting demand for health and wellness products have helped a number of previously niche market actors to become significant industry players. Locally produced foodstuffs and sustainable production methods are now considered as growth drivers. Meat and milk alternatives, for example, play an ever-growing role and offer numerous business opportunities.

Germany's Food & Beverage Industry in Numbers

Germany's industry numbers speak for themselves and for a secure and successful investment in the country.

Europe's Largest Market

Total food retailing revenue grew significantly by 8.2 percent, reaching EUR 227 billion in 2020. Other important distribution channels include exports of processed foods (EUR 61.6 billion) and food service sales (EUR 53.6 billion).

Major Industry Sectors

Germany's food and beverage industry is the fourth-largest industry sector in Germany – generating production value of EUR 185.3 billion in 2020. The industry is best characterized by its small and medium-sized enterprise sector of more than 6,100 companies employing a workforce of around 614,000 people. The largest industry segments by production value are meat and sausage products (24.3 percent), dairy products (15.5 percent), baked goods (9.4 percent), and confectionery (7.8 percent).

Food Service

The German food service market came under pressure in 2020 and in the first half of 2021 due to strict lockdowns implemented to fight the spread of the Covid-19 virus. Industry sales slumped by over 35 percent in 2020, levelling off at around EUR 53.6 billion. In 2020, all major market segments in which the top 100 companies are active were negatively affected by the Covid-19 situation and related restrictions. Despite the difficult market environment, Germany experienced the lowest drop in food services among the biggest five European markets. Trends in the food service market include casual food service concepts such as "Mediterranean" and "Asian" style as well as "better burgers." Vegetarian and vegan nutrition concepts are also becoming increasingly popular.

International Trade

Today, Germany is both the third-largest exporter and importer of agricultural and food products worldwide. In 2020, imports of agricultural and food products grew by 1.4 percent to EUR 88.3 billion. In the same period, exports reached EUR 72.6 billion, making Germany a net importer of agricultural and food and beverage products. Exports of processed foods and agricultural com-



Source: BVE, BMEL 2021

modities declined slightly due to export restrictions and/or border closings to reach EUR 61.6 billion in sales in 2020. One third of all processed foods manufactured in Germany are exported (70.5 percent to other EU member states), underpinning Germany's strong location factors in terms of price and quality.

Recent Investment Successes

Significant investments in the industry include, for example, the EUR 30 million-plus investment of Japanese based Fuji Oil in 2019 in Brandenburg. The manufacturer of vegetable oils and fats co-located its German site next to a German starch producer and will directly process pea fibers produced there. Other recent projects include US-based Active Nutrition International's investment in North Rhine-Westphalia and Swiss SoulSpice's (Meris) cooperation with a regional company in Bavaria.

Market Outlook

The sector has demonstrated its strength and flexibility in a crisis and will benefit from Covid-19 implications in the long term. Food producers are considering alternatives to shorten and diversify their food chains in preparation for any future global supply chain disruptions. This trend is mirrored by growing demand for regional and organically produced foodstuffs. Sustainability and food safety issues will continue to influence global raw material procurement and supply chains. Lastly, the food and beverage sector will profit from a fast economic recovery and low unemployment rates.



Germany is an attractive market location for international investors

Market Segmentation

Germany's food and beverage market is highly diversified, providing significant opportunities in traditional and emerging market segments alike – be it baked goods and dairy produce or health and wellness products.



Germany's baked goods and dairy produce markets remain the biggest in Europe

Baked Goods

Market: With by annual per household bread and bakery product consumption of 56.9 kg in 2020, Germany is the European leader in the production of bread and rolls. Industrial bakery production generated sales of EUR 17.1 billion 2020. Artisanal bakeries created value of a further EUR 14.5 billion. Food retail sales in the bread and baked goods area exceeded EUR 2.8 billion, with major segments including sliced bread and toast. The German biscuit market had a market value of EUR 2 billion, with chocolate cookies the largest sub-segment, followed by cream-filled cookies.

Competitive Landscape: Although the overall number of companies operating in the German baked goods industry has been decreasing for years due to an ongoing consolidation trend, the industry remains home to a wealth of market actors – including SMEs and multinational players alike. Industrial bakery production has, in the meantime, exceeded artisanal production as a result of the nationwide introduction of bake-off stations and in-store baking to cite two examples. Discounters are continuously expanding their market share and account for more than half of the bakery sales in food retailing today.

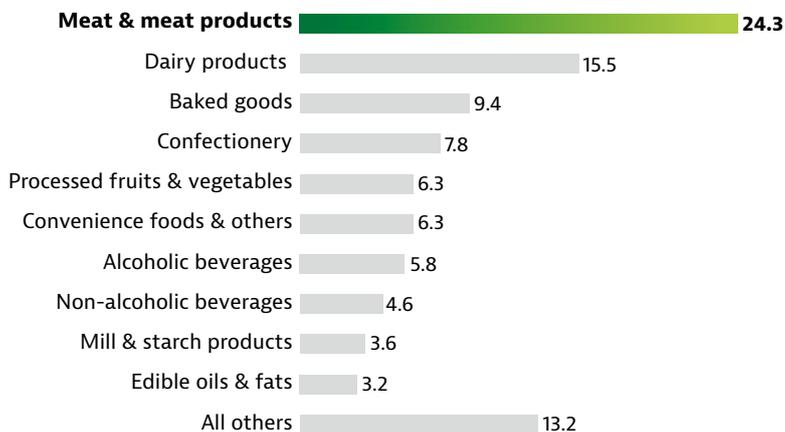
Opportunities: In-store bakeries and discount bakery chains are expected to continue to grow and offer manufacturers of premixes and dough sales opportunities. Further trends include wholegrain products, premium pastries, international delicacies, and healthy snacks. Growth potential also rests on products such as Mediterranean and gluten-free products as well as the expansion of convenience and ready-to-eat baked goods including sandwiches, wraps and bagels.

Dairy Products

Market: Germany is Europe's largest dairy producer. With a milk production volume of 31.8 million tons in 2020, the country ranks fourth globally. A total production value of around EUR 27.2 billion make the German dairy industry the country's second-largest food and beverage sector. Germany is one of the largest markets in Europe. However, per capita dairy consumption is declining slowly but steadily, with consumers expressing growing demand for dairy alternatives. One in ten liters of milk in produced in the country comes from dairy alternatives.

Competitive Landscape: The German dairy industry has witnessed a steady consolidation trend towards larger and more efficient producers for over a decade. The top five players accounted for around 45 percent of the market's revenue in 2019. In value terms, 53 percent of all sales in the German dairy industry are generated by private label products (59 percent in terms of volume).

Food and Beverage Industry by Segment 2020 in percent



Source: BVE Annual Report 2020/21

Opportunities: The health & wellness trend provides excellent growth opportunities for producers with a focus on natural ingredients such as calcium and reduced-fat yogurt and dessert formulas. The market share of organically produced fresh milk exceeded 20 percent in 2020. Plant-based milk alternatives are experiencing dynamic growth in Germany, with sales value of EUR 396 million in 2020. Germany is Europe's biggest market, followed by Spain and Italy respectively. The biggest subsegment is oat milk, with almond and soy-based milk also very popular. Germany is also home to a strong community of around 3.3 million consumers that buy lactose-free dairy products on a regular basis.

Confectionery and Snacks

Market: High innovation levels and low barriers to new product market entry have helped create a EUR 12.7 billion confectionery and snack production market in 2020. The leading segments in terms of market value are cocoa and chocolate products (EUR 5.5 billion), fine pastries (EUR 2.3 billion) and snacks (EUR 1.7 billion). Average annual confectionery per capita consumption is around 28 kg.

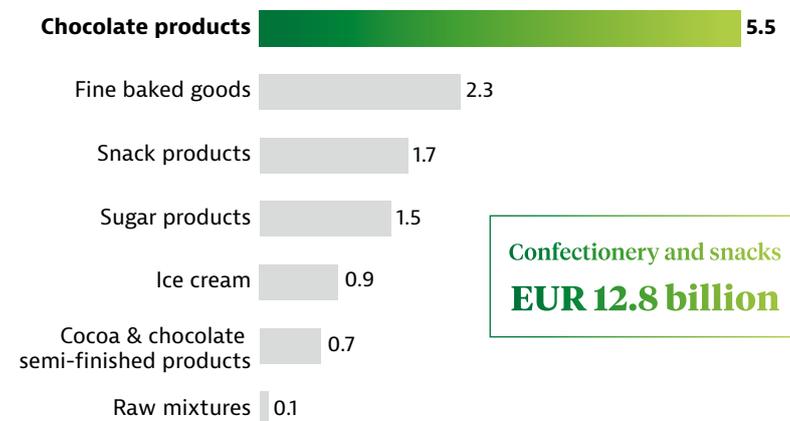
Competitive Landscape: Although 16 companies in the industry might be regarded as large enterprises, around 250 small and medium-sized players are well established with their products, making the industry fairly fragmented. The broad palette of brands available is such that consumer power is not the determining factor in this market. Germany's attractive and competitive location factors are underpinned by an above average export rate of over 50 percent (equivalent to EUR 8.7 billion). Germany has been the world's confectionery export champion for 43 years.

Opportunities: International confectionery producers marketed products worth EUR 5.6 billion in 2020 in Germany. Growth segments include fine pastries and savory snacks. Business opportunities are powered by an ongoing health and wellness trend which has led to increased demand for fat-free, low-sugar and sugar-free confectionery.

Beverages

Market: Germany is Europe's largest market for soft drinks and alcoholic beverages. With an annual per capita consumption level of 168 liters, coffee remains the country's most popular drink. In 2020, average per capita consumption of mineral water and soft drinks reached 134.5 liters and 114.4 liters respectively. In the same year, the industry produced non-alcoholic beverages worth EUR 8.4 billion. Segments with dynamic growth were fruit juice lemonade light (+48.6 percent) and vitamin, mineral & energy drinks (+20.7 percent). Following a global trend, beer consumption in Germany has been declining for years, with per capita consumption amounting to 94.6 liters in 2020. Market volume of alcoholic and non-alcoholic beer was EUR 17.3 billion during the same period. In contrast, the consumption of wine (20.1 liters) sparkling wine (3.4 liters), and spirits (5.3 liters) has remained stable in recent years. Private household spending on alcoholic beverages has grown constantly in recent years, reaching EUR 25.3 billion in 2020.

Confectionery and Snack Production by Value 2020 in EUR billion



Source: BDSI 2021

Competitive Landscape: Although a number of major international players are present in the German soft drinks market, the industry is highly differentiated. Like the German soft drinks industry, the alcoholic drinks market is diversified. There are, for example, more than 1,500 breweries active in the market. This makes the German alcoholic beverage market an attractive business proposition – particularly for niche and value-added products.

Opportunities: Following the health and convenience megatrend, the industry offers opportunities in segments and niche segments such as functional drinks, smoothies, enhanced waters, organic beverages, and sugar-free soft drinks in particular. Companies new to the market also have the chance to record smaller scale successes by stressing health benefits or unique production methods.

Current growth categories in the alcoholic beverages sector include craft beer variations such as pale ale, wheat or lager beer and alcohol-free beers. Asian beer brands also enjoy growing popularity in Germany. Demand for non-alcoholic beer is also increasing, with market volume expected to double to EUR 1.8 billion by 2025. Changes in consumer preferences have also led to a higher consumption of organic wines, beers and spirits.

Confectionery and snacks
EUR 12.8 billion



The highly differentiated beverages market is an attractive market proposition for niche products

Meat and Sausage Products

Market: Despite a slight decrease in production and demand, the meat and sausage products industry remains the largest segment in Germany's food industry. In 2020, it reached a production value of more than EUR 45 billion. The major segments in terms of volume include pork (60.4 percent), chicken (18.6 percent) and beef (13.1 percent) in 2019.

Per capita consumption of meat has been shrinking constantly for years and reached 57.3 kg in 2020. Nevertheless, the demand for organic meat and meat alternatives is growing. The purchase volume of organic meat increased by over 50 percent in 2020 compared to the previous year. Animal welfare continues to be the most frequently cited reason for purchasing organic food. Although overall exports decreased in 2020 due to Covid-19 and import bans to combat the spread of African swine fever, products worth some EUR 7.3 billion were exported in 2020, making Germany a net exporter of meat and meat products.

Competitive Landscape: The German meat processing industry is characterized by an ongoing consolidation trend. The top three industry players account for around 60 percent of all pig slaughtering. The overall competition in Germany can be regarded as strong. Changes in national labor law regulations and hygienic standards have put some additional pressure on the industry. Some retailers follow a backward-integration strategy and operate their own slaughterhouses, putting additional pressure on processors.

Opportunities: The sector remains attractive thanks to traditional nutrition habits and the introduction of product variations including convenience foods and snacks. Organic meat is becoming increasingly popular. The volume of organic poultry sales rose by about 70 percent in 2020, with red meat (beef, pork, goat, lamb) share rising by 51 percent.

The manufacture of meat products in accordance with halal requirements is also becoming more important. A number of major national retailers have announced self-commitments to market only meat from more animal-friendly stock keeping. This requires massive investment in production and will transform the industry in the forthcoming years.

The ongoing trend towards vegetarian and vegan foods has prompted some meat processors to

introduce meat-free product variations including vegetarian/vegan sausages and cold cuts. Overall sales of plant-based meat alternatives have been increasing continuously for a period of some years.

Fruit and Vegetables

Market: The consumption of fresh fruit and vegetable products in Germany transferred from away-from-catering to home consumption due to Covid-19 restrictions in 2020.

Retail sales of fresh fruit and vegetable products profited by this development and grew by almost 16 percent to reach EUR 17.6 billion in 2020. The sales volume of fresh fruit grew by two percent and share of fresh vegetables grew by 12 percent. Prices increased because of a harvest-hand shortage at the beginning of the year as well as spacing and quarantine regulations. Production value of processed fruits, vegetables and potatoes in Germany reached EUR 8.4 billion in 2020. The export quota has stayed stable at 17 percent over the past years, with exports amounting to EUR 1.4 billion in 2020.

Competitive Landscape: The German fruit and vegetable processing industry can still be regarded as fragmented and is dominated by medium-sized companies. Nevertheless, some companies are slowly entering a consolidation phase in order to release synergy effects. The overall industry and employment situation is slightly positive, although companies are effected by shortages in raw material supply and rising logistics costs.

Opportunities: With fresh fruit imports of EUR 4.3 billion, Germany is a significant net importer. Current consumer trends include convenience products including pre-packed fruit and vegetable salads as well as trade-up developments within the segment (e.g. growing sales of seedless grapes, organic and fair trade products). Furthermore, German consumers focus more and more on regional and seasonal grown fruits and vegetables due to sustainability reasons. Local growers, such as farm stores, especially benefit from increased sales of fresh fruits and vegetables. Rising market prices, and a growing demand for regionally grown as well as exotic fruits and vegetables, offer new entrants ample opportunities to position themselves in the market.



Organic meat consumption was up 50 percent in 2020

Health & Sustainability Drive Demand

Germans are becoming more sophisticated and demanding in terms of variety and quality of food products. Recent consumer trends in the German food and beverage market have been influenced by a number of far-reaching changes in society. A more sustainable and ecological friendly lifestyle is fueling demand for alternative and new food products or improved production methods. In addition, consumers pay more attention to seasonal and regionally produced foods as well as fair trade products.

Organic food products have long since reached the mainstream, with fair trade products (such as coffee and cocoa) also enjoy growing popularity. Overall sales reached almost EUR 2 billion in 2020. Ethnic foods, beauty foods, "free from" foods (e.g. lactose and gluten-free products), and regionally grown foods are further trends currently finding favor with Germany's increasingly discerning consumer base.

Organic Foods

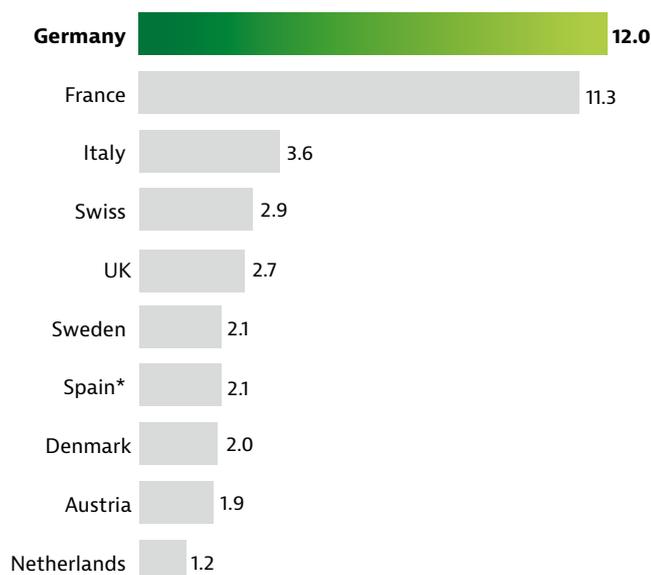
Organic food sales increased by more than 22 percent in 2020 to reach almost EUR 15 billion in sales. Germany is a frontrunner in the production

and consumption of organic food products and the largest market in Europe. Organic food sales grew roughly twice as much as the food market as a whole, as people cooked and ate more at home during the pandemic and opted for healthy, environmentally and animal-friendly food.

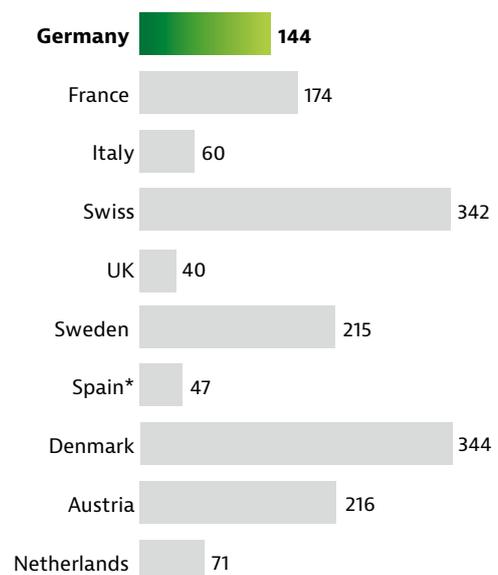
These developments helped organic foods secure a 6.4 percent share of the total food market. Per capita sales of EUR 144 are almost twice as high as the EU-28 average of EUR 81. Although some of this growth can be explained by increased prices, most segments experienced real and significant volume growth. The strongest growth in sales was in the meat and poultry sector as well as fresh fruits and vegetables. Other growth segments include flour, cooking oil, and dairy products such as cheese, curd cheese, yoghurts or fresh milk. The rising demand for organic foodstuffs in the commercial catering sector is further driving the market. The *Bio-Siegel* ("organic seal") logo attached to organic foodstuffs promotes better consumer orientation. Recipients of the seal are subject to food and feed legislation as well as EU organic farming provisions.

European Organic Foods Sales and Consumption 2019

Domestic market sales in EUR billion



Per capita consumption in EUR



* 2018 data; Source: BOLW Branchenreport 2021

MARKET TRENDS

Some 3,500 shops operate in Germany selling solely organic-produced products, of which 500 can be considered organic supermarkets. The EU-wide organic food label eases the import and trade of organic foods in Germany and other EU member states. Today, all German supermarkets and discounters sell organic foods. As well as branded products, most supermarkets and discounter chains have successfully introduced own organic label brands.

Plant-based foods

Germany is not only the largest European market for the plant-based food sector, it is also the strongest growing (+ 53 percent in 2020). Turn-over reached almost EUR 1 billion in 2020.

Meat alternatives

While meat production and consumption is decreasing, meat substitute consumption is growing, in 2020, production of meat substitutes increased by 39 percent to 83,700 tons. Plant-based meat segments with the highest sales value include refrigerated meat, cold cuts and meat spreads and sausages. Some 39 percent of German households consciously reduce certain meat products.

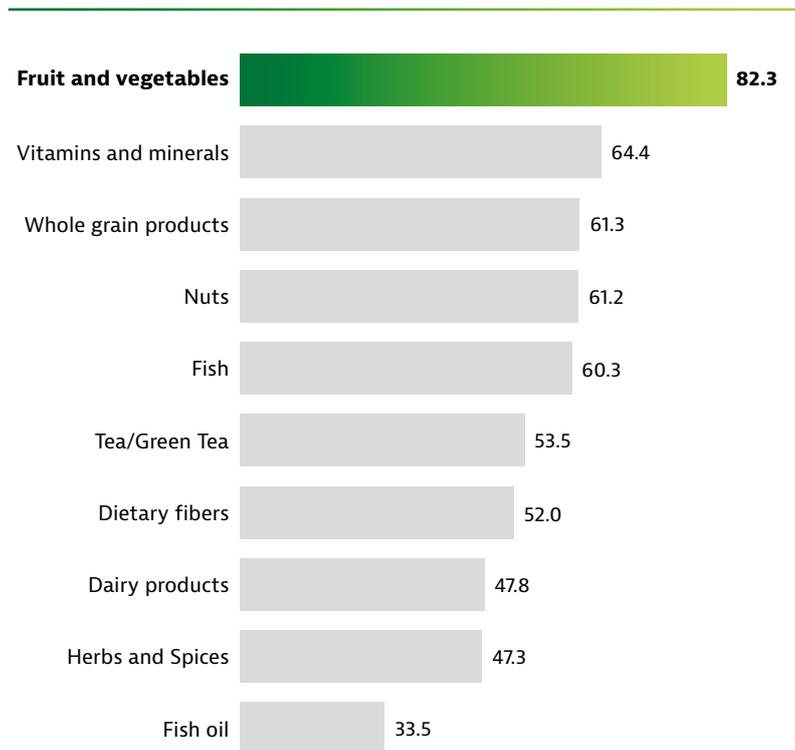
Milk alternatives

A similar development can be seen in the dairy industry. Per capita consumption of milk and milk products is shrinking, while sales of dairy alternatives are increasing strongly. Sales of plant-based-milk grew by 42 percent, reaching around EUR 400 million in 2020. The most popular segment in terms of value was oat-based milk based (EUR 184 million), followed by almond milk (EUR 82 million) and soya milk (EUR 74 million) respectively.

One out of every five households is consciously reducing certain dairy products, with this expected to rise to one-in-three households in the near future. Plant-based plain yoghurt (EUR 70 million), ice cream (EUR 67 million), fruit yoghurt (EUR 58 million), and cheese (EUR 44 million) are also becoming increasingly popular. This is just the beginning of a growing trend that is being driven by young Germans in particular. In a survey conducted by the German Federal Ministry of Agriculture and Food (BMEL), 17 percent of people between 14 and 29 years of age state that they use alternatives to animal products daily or even several times a day. However, it is not just the young; many Germans are currently rethinking their animal-based diet due to reasons of health, sustainability and animal welfare.

Plant-based Food Sector by Country 2020

in EUR million



Source: ProVeg 2021, based on Nielsen MarketTrack

Health & Well-Being

Around three quarters of all Germans see a direct link between nutrition and physical fitness and health. More and more people in Germany also regard food as a way to overcome general health concerns (such as obesity, diabetes, and celiac disease), improve their sense of well-being and even their performance levels. For 41 percent of all Germans aged 60 years and older, healthy nutrition is key. This number increases to 54 percent among people aged 70 years and older.

German customers are increasingly sensitive to conscious shopping as well as healthy and sustainable nutrition. Popular products include functional foods, whereby highly nutritious components like probiotics, fiber, and vitamins are added to make the eating experience more beneficial in terms of positive health effects and taste. Major segments in Germany include probiotic yogurts, yogurt drinks and beverages such as vitamin-enhanced waters. In addition, "free from" products also enjoy growing popularity: In 2020, around 2 million Germans bought gluten-free foods on a regular basis. During the same period, around 1.5 million people regularly purchased lactose-free products.

Innovative Leader

Strong R&D Landscape

The German food and beverage industry as well as public and private institutes alike continuously conduct R&D activities to develop new products, enhance nutrition, and improve general food safety. Research and development and innovation spending in the German food and beverage industry reached EUR 1.9 billion in 2019. Twenty-eight percent of all companies active in the industry are expected to introduce new products or product variations or invest in machinery and equipment to improve processes and increase efficiency.

New or "me-too" products will create about five percent of total revenues. Process innovations will account for an average unit cost reduction of 2.5 percent.

Digitalization

The digitalization of the food industry allows manufacturers to continuously improve the quality of products and processes as well as enhance planning accuracy, traceability of products and customer communication. Real-time quality checks, all-over product identification and traceability as well as improved energy efficiency levels are of specific interest for both manufacturers and consumers. Numerous national and international foodtech start-ups also support the digital transformation of the industry from farm to fork. Technological playing fields include, for example, smart and digital farming applications, individualized food production, options to minimize food waste, and new online delivery providers.

Research Facilities and Institutes

The non-profit Research Association of the German Food Industry (FEI) supports research projects in all fields of food science, food technology and nutritional science. The main focus of the FEI's activities are the coordination and promotion of industrial collective research projects initiated by the Federal Ministry for Economic Affairs and Energy. Germany's federal and regional institutes support R&D activities with EUR 857 million every year.

The federal states of Bavaria, Lower Saxony and Brandenburg have the highest R&D spending on public food science in Germany. The country's strong food industry R&D landscape is supported by world-renowned public institutes such as the Julius-Kühn-Institut (Federal Research Centre for Cultivated Plants), the Max-Rubner-Institut (Federal Research Institute of Nutrition and Food), and several institutions of the Leibniz Association. Main research areas include nutrition science, food technology, plant and animal production, and aquaculture.



Digitalization in the food industry is improving efficiency and quality

→ For further information about the German food supplements market please visit:
www.gtai.com/download-food-supplements

R&D Projects in Food Technology

Sector	Institutes	Ongoing projects	Finished projects	All projects
Food processing	474	276	860	1136
Food chemistry	153	51	415	466
Food microbiology	135	76	329	405

Overview of R&D Projects in Nutritional Science

Physiology of nutrition	165	72	332	404
Nutritional behavior	146	61	207	268
Toxicology	128	90	539	629
Home economics	23	1	25	26

Source: BLE 2021

Market Location Advantage

Retail Landscape

Germany is Europe's largest food retail market and the ideal point of entry into both German and European markets. Retail sales in Germany skyrocketed in 2020 due to extraordinary demand created by the partial lockdown of restaurants and other food service providers. Total sales grew by 8.2 percent over 2019 and reached around EUR 227 billion. Fully fledged supermarkets in particular benefited from the Covid-19 restrictions, increasing their sales by over 16 percent. Discounters also enjoyed an above average growth of 8.8 percent.



Retail and online sales have grown in response to demand created by the Covid-19 pandemic

In 2020, the products with the highest growth rates were fruits & vegetables (+ 16 percent), meat & sausage products (+15.9 percent) and alcoholic beverages (+15.1 percent). The German retail landscape can be described as consolidated and mature. In total, the top four German retailers (Edeka, Schwarz Group, Rewe Group, and Aldi Group) have a market share of around 75 percent. As the leading chains – including Edeka, Schwarz Group, and Rewe Group – operate under more than one distribution channel (e.g. supermarkets and discounters), manufacturers new to the market still have multiple options for marketing and launching products in Germany. In 2020, the overall market share of discounters remained stable at around 42 percent. Conventional supermarkets fight competition by continuously enlarging the

product portfolio including the introduction of premium private labels, value-added services and innovative shop layouts.

Online Food Sales

Although still very much in its infancy, the Covid-19 pandemic led to a massive growth in online food sales in Germany. Turnover reached EUR 2.67 billion in 2020, making it the strongest-growing e-commerce segment with an increase of 67 percent. The share of food in the German e-commerce sales raised within one year from 2.1 percent to 3.2 percent.

The trend of buying food online will most likely intensify in the future. Fifty-two percent of people surveyed state they want to buy food online more often or significantly more in the future. A growing number of established supermarkets and new players are consolidating this trend and increasingly serve customers online. International actors can enter the scene relatively easily as the overall market is growing, with only moderate barriers to entry for cooperation with national wholesalers and logistics providers.

Private Consumption

Despite the Covid-19 crisis, per capita disposable income in Germany actually grew in 2020 by 0.6 percent, reaching around EUR 23,800. Of this sum,

Top 10 Food Retailers in Germany in 2020

Company	Distribution Channel	Type	Gross Sales 2020 EUR billion	Number of Stores
Edeka	Edeka, E-Neukauf, etc.	Supermarket	67.0	11,207
Rewe Group	Rewe, Rewe City	Supermarket	55.6	10,680
Schwarz Group	Lidl, Kaufland	Discounter, Hypermarket	45.3	3,906
Aldi Group	Aldi Nord, Aldi Süd	Discounter	31.6	4,146
dm-drogerie markt	dm, Balea	Drugstore	8.5	2,024
Real	Real	Supermarket	7.8	276
Rossmann	Rossmann	Drugstore	7.3	2,196
Metro	Metro C+C	Hypermarket	5.3	103
Globus	Cash & Carry, Fridel	Supermarket	5.2	47
Bartels-Langness-Gruppe	Bartels-Langness, Citti	Drugstore	4.9	120
Total Top-10			238.5	34,705

Source: Lebensmittelzeitung 2021

EUR 20,560 was allocated for private consumption, a level significantly higher than the EU-27 average of EUR 15,400. In total, Germans spent EUR 226.5 billion on food and beverages in 2020 – an increase of 8.2 percent over 2019. All told, 15.5 percent of private consumption in Germany was spent on food and drinks.

Local Sourcing

Germany's abundant farmland offers countless opportunities for local sourcing and underpins Germany's attractiveness as a production location. In 2019, around 270,000 companies cultivated around 16.7 million hectares of land. Around 70 percent of the total available farmland is used for farming. Approximately 50 percent of the total German land area is used for agriculture.

Producers can benefit from shifting consumer preferences towards more sustainable or regionally produced foods – not only in the fruit and vegetables segment but also across other categories. In a survey conducted by the Ministry of Food and Agriculture, 82 percent of respondents identified regional origin as important, second only to taste (96 percent). The third most mentioned selection was seasonality (78 percent). The number of organic certified farms grew by 3.8 percent in 2020, amounting to 13.4 percent of the total number of all farms. As a result, more than ten percent of all agricultural farmland is used for organic farming.

Reliable Logistics Infrastructure

Providing a regular supply of food to a population of around 83 million people makes significant demands of the food logistics sector: customer deliveries must be fast, secure, and on time. Germany's food logistics capabilities were proven during the Covid-19 pandemic, with full-range supply secured almost all of the time. A high-performance road infrastructure is an essential requirement for customer-oriented delivery of food.

Germany's infrastructure excellence is confirmed by the World Bank: The 2018 Logistics Performance Index of the World Bank ranked Germany first out of 160 countries. Accumulated in this score for Germany are high marks for the quality of roads and air transport, excellent railroads and port infrastructure, as well as its information infrastructure. The study further points out Germany as the best performer over the period 2007 to 2018.

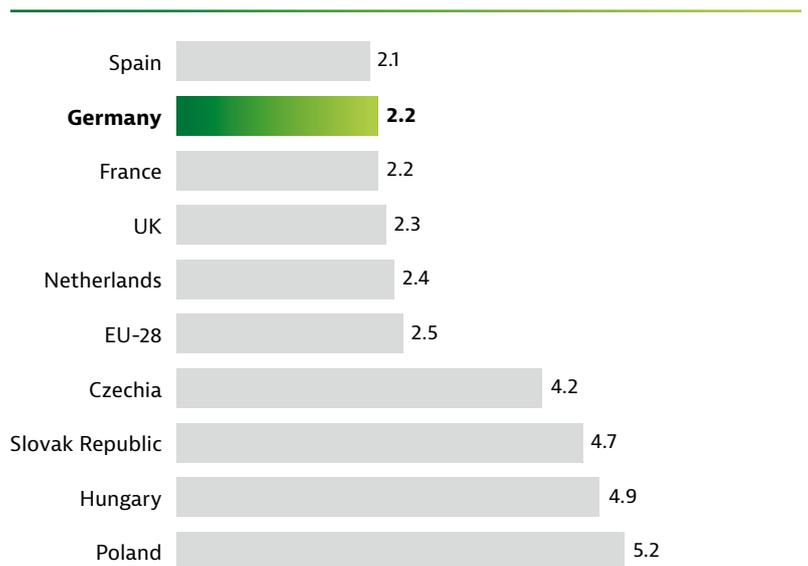
Foreign Trade

With total import and export values of around EUR 88.3 billion and EUR 72.6 billion respectively, Germany was a net importer of processed foods and agricultural commodities in 2020. The rising export share of processed food and beverage products underpins Germany's competitive location factors and its excellent geographical position to serve national and international markets. Germany's main trading partners of processed food products are other EU members led by the Netherlands, followed by France and Italy. Exports to non-EU countries decreased slightly by 0.3 percent, largely due to border closing to combat the coronavirus. The biggest non-EU buyers include UK, China and Switzerland. Exports reached 33.2 percent of the total production value in total, falling by just 0.8 percent.

Competitive Labor Costs

High productivity rates and steady wage levels make Germany an attractive investment location. Since 2010, wages in the business economy have risen in most European countries. While some countries experienced a rise of close to or more than five percent, Germany recorded one of the lowest labor cost growth rates within the EU at just 2.4 percent. Flexible working practices further enhance Germany's competitiveness.

Average Annual Labor Cost Growth 2010-2019
in percent



Source: Eurostat 2020



Germany's logistics excellence has helped maintain supply throughout the Covid-19 crisis

Financing & Incentives in Germany



Please visit our website for more incentives information: www.gtai.com/incentives

Incentives programs in Germany are available through different public funding instruments and for different funding purposes. The individual funding requirements may, for example, result from investment projects, research and development activities, personnel recruitment, working capital needs or other specific purposes. The different incentives instruments including grants, loans and guarantees are generally available for all funding purposes and can ordinarily be combined; thus matching the different business activity needs at different development stages of the company.

Investment Project Financing by Private Equity

Technologically innovative start-ups in particular have to rely solely on financing through equity such as venture capital (VC). In Germany, appropriate VC partners can be found through the *Bundesverband Deutscher Kapitalbeteiligungsgesellschaften e.V.* (BVK – “German Private Equity and Venture Capital Association”). Special conferences and events like the *Deutsches Eigenkapitalforum* (“German Equity Forum”) provide another opportunity for young enterprises to come into direct contact with potential VC partners. Public institutions such as development banks (publicly owned and organized banks which exist at the national and state level) and public VC companies may also offer partnership programs at this development stage.

Investment Project Financing by Bank Loans

Debt financing is a central financing resource and the classic supplement to equity financing in Germany. It is available to companies with a continuous cash flow. Loans can be provided to finance long-term investments, working capital and operational costs (R&D, personnel) and for bridging temporary financial gaps. Besides offers from commercial banks, investors can access publicly subsidized loan programs in Germany. These programs usually offer loans at attractive interest rates in combination with repayment-free start-up years, particularly for small and medium-sized companies. These loans are provided by the federal development bank KfW and also by regional development banks.

Investment and R&D Incentives

When it comes to setting up production and service facilities, investors can count on a number of different public funding programs. These programs complement investment project financing. Most important are cash incentives provided in the form of non-repayable grants applicable to co-finance investment-related expenditures such as new buildings, equipment and machinery. R&D project funding is made available through a number of different incentives programs targeted at reducing the operating costs of R&D projects. Programs operate at the regional, national, and European level and are wholly independent from investment incentives. At the national level, all R&D project funding has been concentrated in the High-Tech-Strategy to push the development of cutting-edge technologies. Substantial annual funding budgets are available for diverse R&D projects.

Labor-related Incentives

After the location-based investment has been initiated or realized, companies can receive further subsidies for building up a workforce or the implementation of R&D projects. Labor-related incentives play a significant role in reducing the operational costs incurred by new businesses. The range of programs offered can be classified into three main groups: programs focusing on recruitment support, training support, and wage subsidies respectively. Labor-related incentives play a significant role in reducing the operational costs incurred by new businesses.

Incentives in Germany

Funding purposes				
Investments	Working Capital	Research & Development	Specific Purposes	Personnel

Financing supported by any of the following public funding instruments (combinations of instruments usually possible)

Public funding instruments				
Grants	Loans	Guarantees	Equity Capital	Mezzanine Capital

Best Practice Example: PlantA GmbH

Germany Trade & Invest provides a range of inward investment services to international investors. After careful consultation with the individual investor, a support program of consultancy and information services is drawn up to help set the stage for investment success. Here we provide a typical example of the services provided to a recent investment project.

A group of industrial investors, led by Norwegian Rønneberg Group AS, established a new company in Germany, PlantA GmbH, in September 2020. After receiving support from Germany Trade & Invest and the state's economic development agency, Invest in Mecklenburg-Vorpommern, PlantA invested in the creation of a state-of-the-art production facility for plant-based dairy alternatives in the city of Anklam.

Project Information

The investment volume is around EUR 8.5 million, creating 25 new jobs. The production area is 2,000 square meters with a capacity of 25 tons per day. Production will be fully automated to ensure efficiency and safe food production. Core activity will be the production of vegan products including yogurt, desserts and beverages with a low-fat content. PlantA's long-term plan is to build more production facilities and develop new products with a greater range.

PlantA's factory will produce oat-, soy- and almond-based vegan food, recognizing the positive trend towards vegan nutrition in Germany. The necessary raw materials will all be sourced from the region, creating high-quality dishes from plant-based ingredients. The manufactured products will then be distributed in Germany, Poland and Scandinavia, mostly to a retailer client base.

Location Factors

PlantA investors decided to establish a production site for dairy alternatives in Germany due to the ever-growing demand for vegan food. Decisive location factors were the increasing demand in Germany and neighboring countries, the availability of investment incentives, an optimal logistics infrastructure – with good transport connections within the country and to other EU members – as well as a lively local economy with potential for synergies and availability of qualified personnel. Food products made in Germany also drive export opportunities.

PlantA Project Overview

Investment project	Production of plant-based yogurt and other food products
Investment volume	EUR 8.5 million
Jobs created	25

PlantA Investment Project Time Line

Dec. 2019	First contact with Germany Trade & Invest Introduction to the project, detailed discussion of potential investment incentives
Jan. 2020	Site selection supported by GTAI and Invest in Mecklenburg-Vorpommern
Feb. 2020	Site visit in Anklam, Mecklenburg-Vorpommern, and introduction to regional and local contacts
Spring and Summer 2020	Feasibility study, application for investment incentives, final location decision
Sep. 2020	Company registration as PlantA GmbH in Germany
August 2021	PlantA GmbH begins construction of the production facility in Anklam
2022	Expected start of production

Germany Trade & Invest Support

Germany Trade & Invest, together with Invest in Mecklenburg-Vorpommern, supported Plant A with information on specific site offers including the organization of site visits as well as substantial tax, incentive and legal information. Relevant labor and building costs indicators were also provided.

→ **Contact our industry specialist to explore the individual investment opportunities available to your business in Germany's fast-moving food & beverages sector:** daniel.lindel@gtai.com

Germany Trade & Invest Helps You

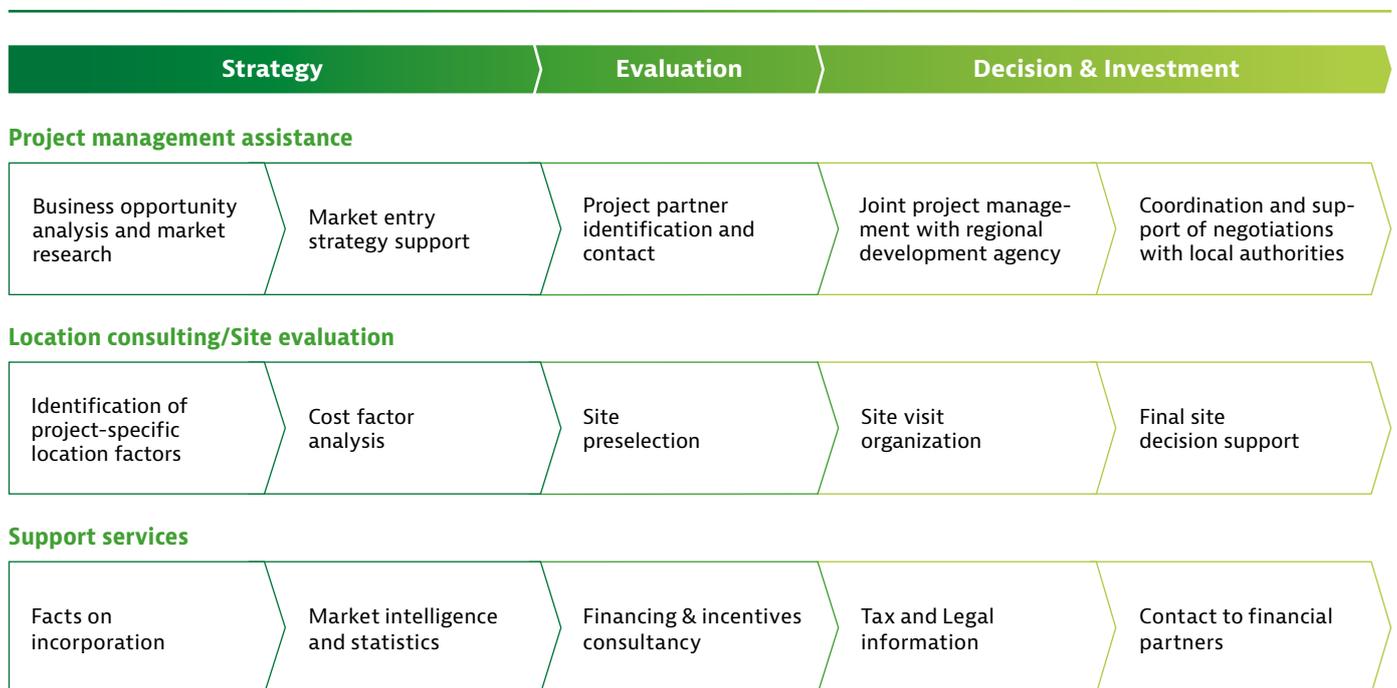
Germany Trade & Invest's (GTAI) teams of industry experts will assist you in setting up your operations in Germany. We support your project management activities from the earliest stages of your expansion strategy.

We provide you with all of the industry information you need – covering everything from key markets and related supply and application sectors to the R&D landscape. Foreign companies profit from our rich experience in identifying the business locations which best meet their specific investment criteria. We help turn your requirements into concrete investment site proposals; providing consulting services to ensure you make the right location decision. We coordinate site visits, meetings with potential partners, universities, and other institutes active in the industry.

Our team of consultants is at hand to provide you with the relevant background information on Germany's tax and legal system, industry regulations, and the domestic labor market. Germany Trade & Invest's experts help you create the appropriate financial package for your investment and put you in contact with suitable financial partners. Our incentives specialists provide you with detailed information about available incentives, support you with the application process, and arrange contacts with local economic development corporations.

All of our investor-related services are treated with the utmost confidentiality and provided free of charge.

Our support services for your investment project



CONTACT

Investor Consulting



Daniel Lindel is the senior manager responsible for the food & beverage industry in Germany Trade & Invest's Digital & Service Industries team within the agency's Investor Consulting division. He is an acknowledged industry expert with a decade of experience and a proven track record in helping international companies set up their business operations in Germany.

For questions on how to establish your business or service center in Germany, please contact Daniel Lindel at daniel.lindel@gtai.com

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Imprint

Publisher

Germany Trade and Invest
Gesellschaft für Außenwirtschaft
und Standortmarketing mbH
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Print

Kern GmbH, 66450 Bexbach
www.kerndruck.de

Picture Credits

Cover: gettyimages/Monty Rakusen
Page 15: Germany Trade & Invest

Notes

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December 2021

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Order Number

20881/2

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About Us

Germany Trade & Invest (GTAI) is the economic development agency of the Federal Republic of Germany. The company helps create and secure extra employment opportunities, strengthening Germany as a business location. With more than 50 offices in Germany and abroad and its network of partners throughout the world, GTAI supports German companies setting up in foreign markets, promotes Germany as a business location and assists foreign companies setting up in Germany. All investment services and related publications are free of charge.

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