



TRADE OPPORTUNITIES IN GERMANY

For Ukrainian food sector

PART I: OVERVIEW OF THE GERMAN ECONOMY – 2017/2018



Situated at the centre of the European markets, Germany's optimal geographic location is beyond question: Over half of the EU population lives within 500km of Germany's borders; more goods pass through Germany than in any other European country; and almost all of Europe is reachable within three hours by air and 24 hours by road. Germany is the largest economy in Europe. It constitutes 21% of European GDP and is home to 16% of the Eus population.

Fig.1

Germany's EU Trade Relations

In EUR billion

	2015		2016		2017	
Exports	693	+6.8%	706	+1.9%	750	+6.3%
Imports	622	+4.5%	632	+1.6%	683	+7.9%
Balance	+71		+74		+67	

Fig.2

The German economy is both highly industrialized and diversified, with an equal share of GDP output in services and production. Germany's strong economic performance in recent years has been based on increased domestic demand and high export performance. The economic growth of the German economy continues to be robust and stable.

Low Unemployment and real wage value have increased consumer spending. German exports benefit from industrial output that is in high demand in high-growth emerging economies.

Wages have been growing moderately while labour unions increasingly negotiated non-wage benefits to ensure a better work life balance that maintain Germany's high living standards. As an outlook, the continued recovery in the euro area will sustain exports and investment in

equipment, whilst private consumption and housing investment may decelerate due to reduced activity on the job market.

Basic Economic and Trade Statistics

Economic Development

	2015	2016	2017
GDP (nominal in EUR billion)	3,044	3,144	3,263
Per capita GDP (in EUR)	37,260	39,745	38,183
Inflation rate	0.3%	0.5%	1.8%
Unemployment rate	4.3%	3.9%	3.7%

Fig.3

Germany's recovery from the global financial crisis has been stronger than in the eurozone. Past structural reforms such as the reform of the labour market (Agenda 2010) or the implemented structural employment policy increased the resilience of the German economy.

GDP Growth

Real annual change in percent

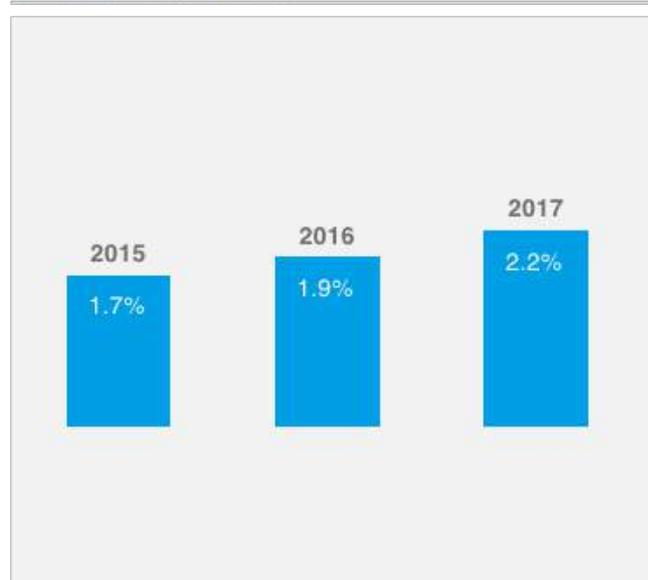


Fig.4

GDP Formation 2017

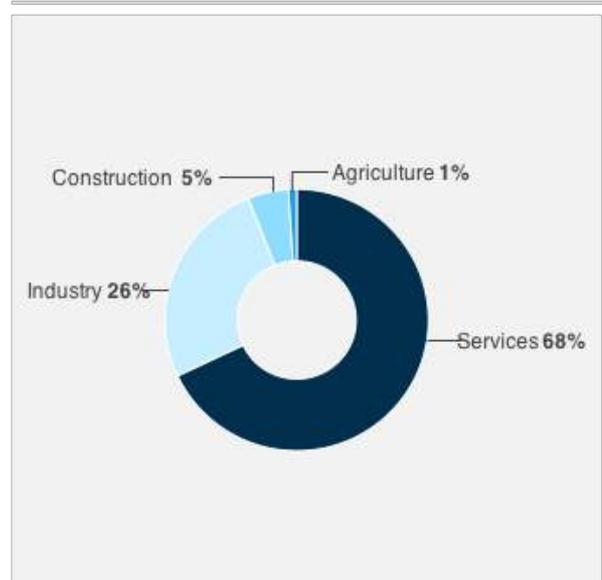


Fig.5

Gross domestic product, 1st quarter of 2018

- +0.3% on the previous quarter (price, seasonally and calendar-adjusted)
- +1.6% on the same quarter a year earlier (price-adjusted)
- +2.3% on the same quarter a year earlier (price and calendar adjusted)

B. Real GDP and its Components

(Index 2007 = 100)

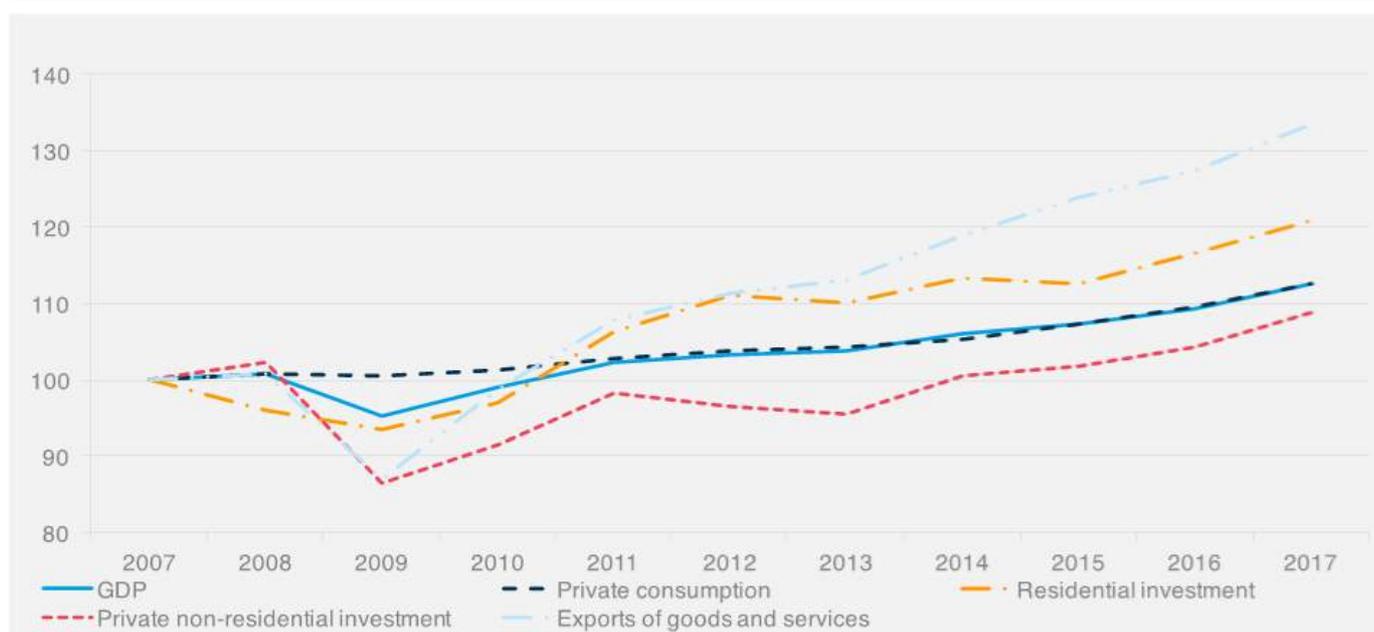


Fig.6

Year-on-year comparison shows slightly lower economic growth: The price-adjusted GDP rose by 1.6% in the first quarter, following increases of 2.2% in the third quarter of 2017 and 2.3% in the fourth quarter of 2017.

The main contribution to economic growth came from domestic demand. In particular, fixed capital formation in machinery and equipment rose 1.2% on the fourth quarter of 2017. Investment in construction was up by as much as 2.1%. Household consumption expenditure increased (+0.4%), too. Government consumption expenditure, however, decreased for the first time in almost five years (-0.5%) and had a downward effect on GDP growth.

Foreign Trade

In EUR billion

	2015		2016		2017	
Exports	1,194	+6.2%	1,204	+0.9%	1,279	+6.3%
Imports	949	+4.3%	955	+0.6%	1,035	+8.3%
Balance	+ 245		+249		+244	

Export goods * (2016)

Automotive 19%, machines 14%, chemical goods 9%, IT-hardware, electronics, optical goods 8%, electrical goods 6%
pharmaceuticals 6%, other vehicles 5%, food and feed 4%, metals 4%, rubber and plastics 4 %

Import goods * (2016)

Automotive 11%, IT-hardware, electronics, optical goods 11%, machines 8%, chemical goods 8%, electrical goods 6%, metals
5%, pharmaceuticals 5%, oil and natural gas 5%, food and feed 5%, other vehicles 4%

Fig.7

Development of foreign trade was less dynamic, according to provisional calculations. Total exports of goods and services were down 1.0% compared with the fourth quarter of 2017. Imports decreased to a similar extent (-1.1%) at the beginning of the year. Arithmetically, the balance of exports and imports had a downward effect of -0.1 percentage points on economic growth.

Exports have gained momentum and business investment is accelerating in the context of the eurozone recovery. The strong export performance of Germany relies on and has benefited from a large, productive and innovative manufacturing sector reinforcing its position in sectors of long-standing comparative advantage – notably cars, chemical products and machine tools. Germany's products continue to be exported worldwide. In 2017, German export levels reached almost EUR 1.3 trillion – compared to imports of EUR 1 trillion. 67% of all exports are exported to European countries, of which 58% go to EU member states.

C. Export Performance³

(Index 2007 = 100)

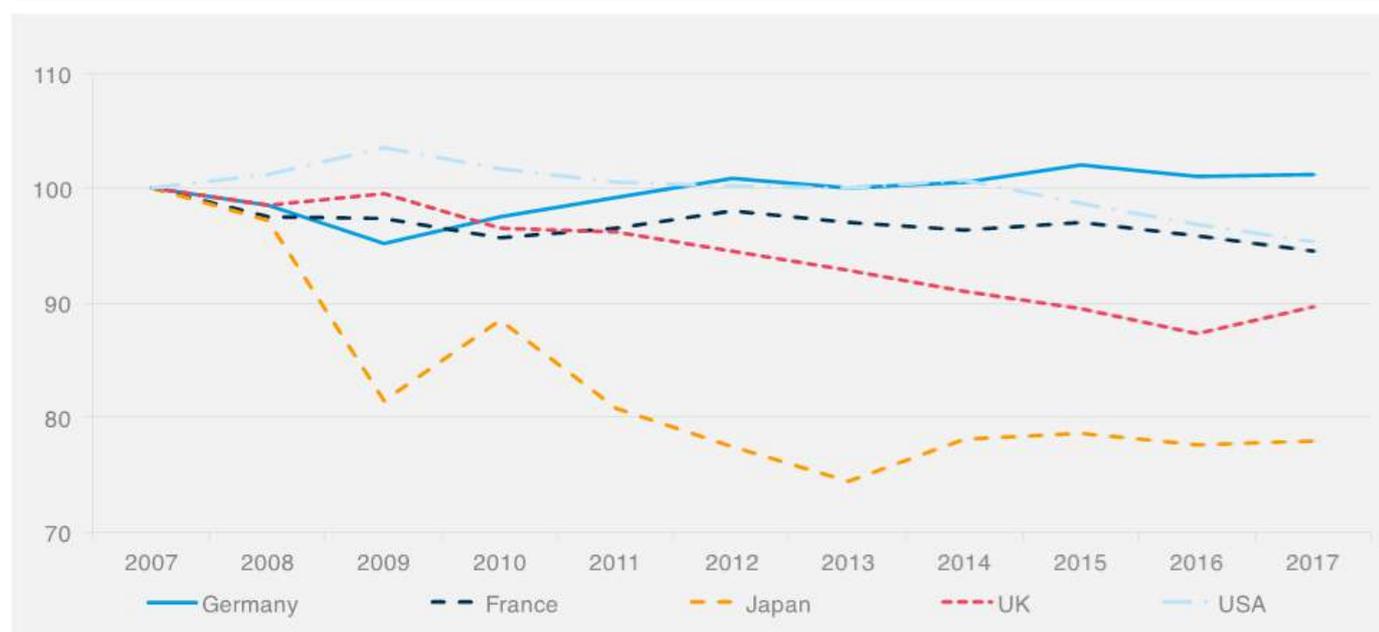


Fig.8

Exports are driven by Germany's backbone of highly innovative small and medium-sized enterprises (SMEs) – the renowned 'Mittelstand'¹. SMEs constitute 99.6 % of all companies, employing around 60 % of the German workforce.

In recent decades, foreign trade has steadily grown in importance for the German economy as a whole. As a result, the country now has a foreign trade to GDP ratio of 86% positioning among the top 10 economies leading the world on trade. In Germany one in two jobs, more than 15 million employees, now depend directly or indirectly on foreign trade. This means that Germany is more firmly embedded than almost any other country in the global value chains and commodity flows, making it a clear beneficiary of international trade and globalisation.

In order to ensure that Germany remains in the top tier of economies in terms of intensity of research and development, the aim is to further assist the growth of innovative young companies and support SMEs so that they take full advantage of the potential of digitalisation. SMEs play a key role in terms of Germany's capacity for innovation.

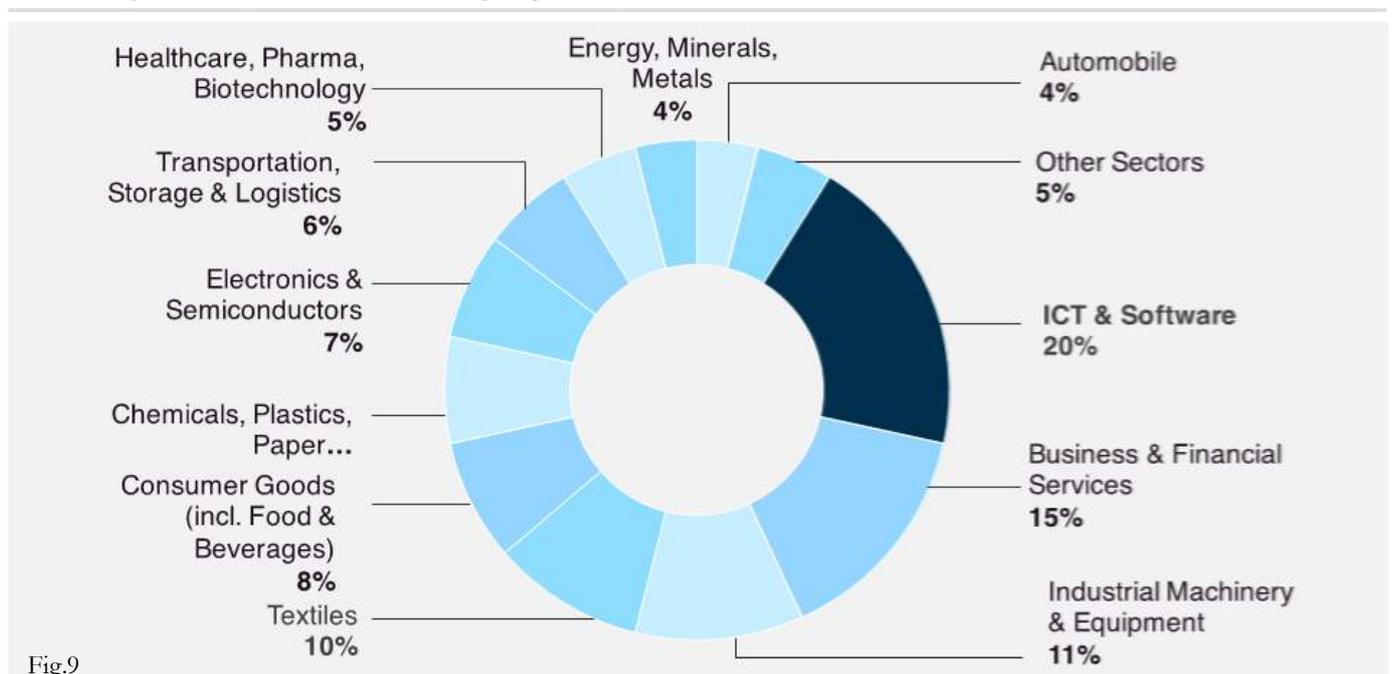
Rising wages, especially at the bottom of the wage distribution, are welcome as this will reduce relative worker poverty and further strengthen domestic demand. Immigration, mostly from other EU countries, remains strong and includes many highly skilled young workers.

¹“Mittelstand“ refers to all companies of all sectors, which do not exceed a certain size. Annual sales, the number of employees and/or the total balance are used to define and determine the size.

Germany as International Business Location

According to the United Nations Conference on Trade and Development (UNCTAD), Germany ranks among the world's leading countries for foreign direct investment (FDI) with EUR 731 billion in inward FDI stock in 2016, holding the 6th place in global comparison. According to official Bundesbank (German Central Bank) statistics for 2015, some 59% of all FDI stocks in Germany originate from within the EU – further 8% derived from the remaining European non-EU countries.

FDI Project Share in Germany by Sector 2010-2016



In the north, Germany's seaports are an important conduit for trade – especially with the UK, Scandinavia, and the Baltic states. In the west, an extensive network of roads, rail links and inland waterways feeds into France and the Benelux countries. To the south, Germany has strong commercial ties with Switzerland, Austria and Italy supported by road, rail and water links, similarly with the Balkan states. Turning eastwards, Germany's borders with Poland and Czech Republic open up roads to the more distant and expanding European and Asian markets.

Main countries exporting to Germany

in %

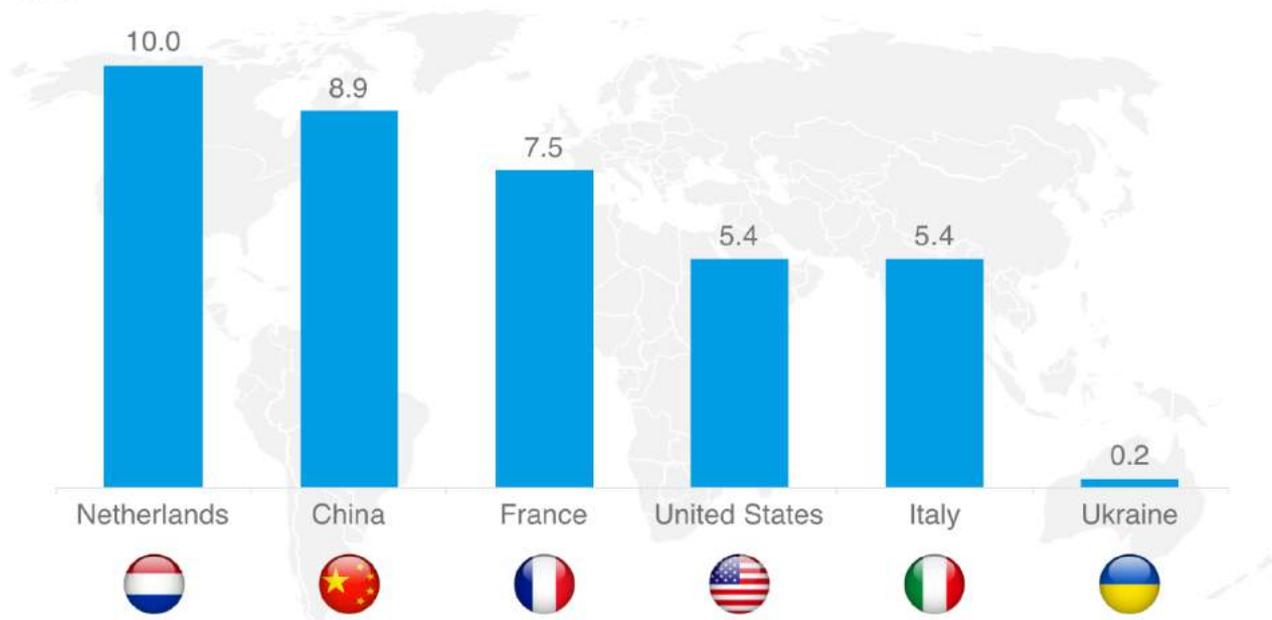


Fig.9.1

In 2016, Germany imported \$973 billion, making it the 3rd largest importer in the world. Germany is an open economy and has a broad spectrum of goods that it imports. German businesses add value to components and raw products. Germany overwhelmingly imports in the following commodities: machinery; data processing equipment; agricultural products, food, metals, vehicles, chemicals, oil and gas, electrical equipment and pharmaceuticals. 64.4% of Germany's total imports by value in 2017 were purchased from other European countries. Asian trade partners supplied 22.1% of import sales to Germany while 7% worth of goods originated from North America.

Ukraine Exports to Germany

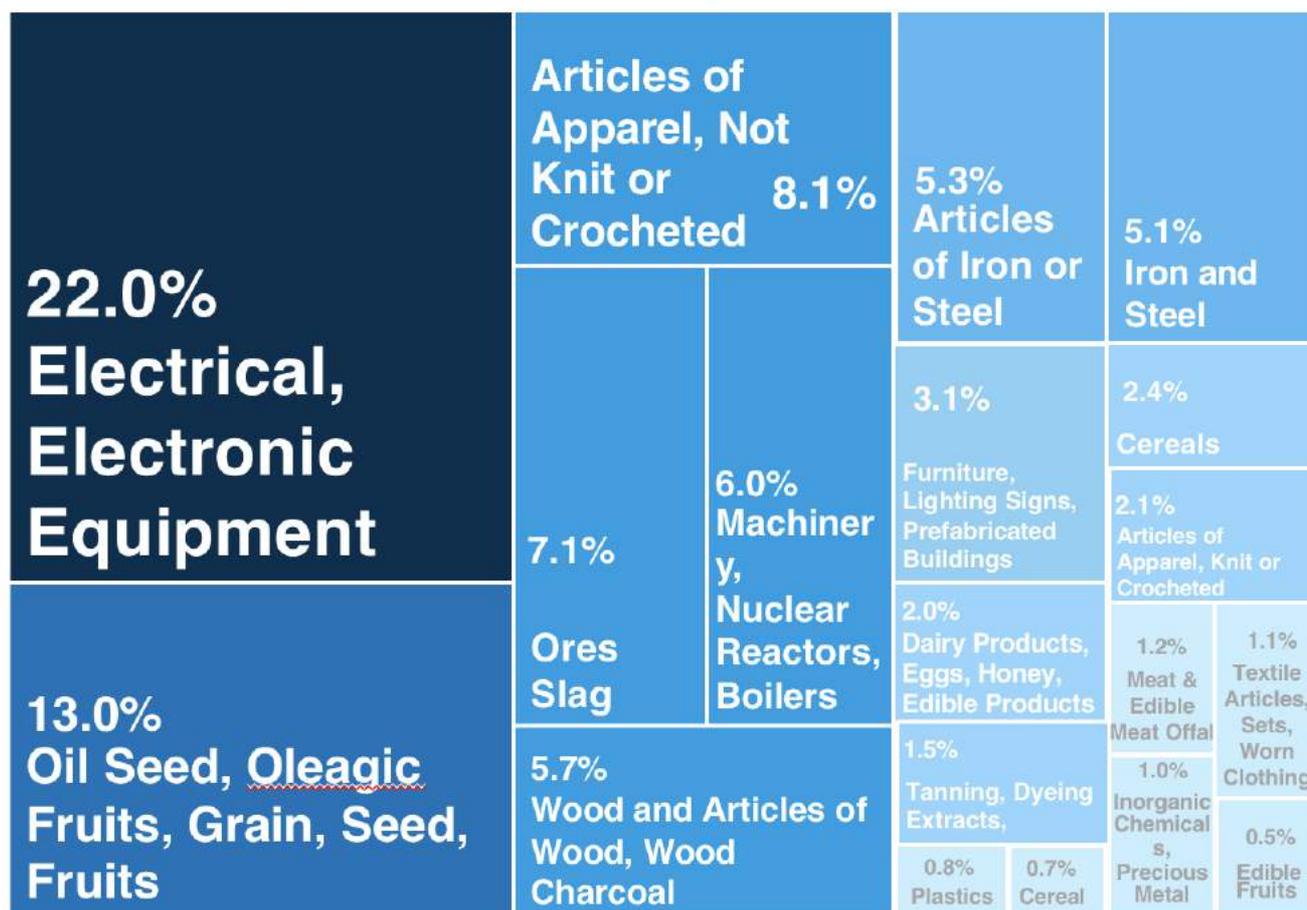


Fig.10

Overview of the Ukraine-EU Association Agreement

The Ukraine–European Union Association Agreement is an agreement between the European Union (EU), Euratom, Ukraine and the EU's 28 member states. It establishes a political and

economic association between the parties. The agreement fully entered into force on 1st of September 2017. The parties committed to co-operate and converge economic policy, legislation and regulation across a broad range of areas, including equal rights for workers, steps towards visa-free movement of people, the exchange of information and staff in the area of justice, the modernisation of Ukraine's energy infrastructure and access to the European Investment Bank. Furthermore the agreement establishes a Deep and Comprehensive Free Trade Area (DCFTA) between the parties. The agreement commits Ukraine to economic, judicial and financial reforms to converge its policies and legislation to those of the European Union. Ukraine commits to gradually conform to EU technical and consumer standards. The EU agrees to provide Ukraine with political and financial support, access to research and knowledge and preferential access to EU markets. Each party will reduce or eliminate customs duties on originating goods of the other party. Ukraine will eliminate customs duties on imports for certain worn clothing and other worn articles. Each party is restricted from maintaining, introducing or reintroducing export subsidies or other measures with effect on agricultural goods destined for the territory of the other party. The parties will establish an expert-level *Dialogue on Trade Remedies* as a forum for cooperation in trade remedies matters. The Dialogue will seek to enhance a party's knowledge and understanding of the other party's trade remedy laws, policies and practices; improve cooperation between the parties' authorities having responsibility for trade remedies matters; discuss international developments in the area of trade defence; and to cooperate on any other trade remedies matter. Moreover, the parties will strengthen their cooperation in the field of technical regulations, standards, metrology, market surveillance, accreditation and conformity assessment procedures with a view to increase mutual understanding of their respective systems and facilitate access to their respective markets. In their cooperation, the parties will seek to identify, develop and promote trade-facilitating initiatives and to seek solutions to trade barriers that may arise; coordinate their positions in international trade and regulatory organisations such as the WTO and the United Nations Economic Commission for Europe (UN-ECE).

The agreement comes after more than two decades in which both parties sought to establish closer ties with each other. Ukraine hopes to increase its exports by benefiting from free trade with the European Union while attracting desirable external investments, as well as establishing closer ties with a socio-political entity to which many Ukrainians feel a strong cultural connection.

Summary

- The German market is open for investment in practically all industry sectors and business activities are free from restrictive regulations.
- Germany is a market with numerous opportunities for companies from all around the world.

- The Ukraine-EU Association Agreement offer support in terms of regulations, procedures, tax, etc.
- Germany has been a leader and pioneer in the organic food sector. Almost every German supermarket has a diverse offer of organic food. As the demand is still significantly greater than internal production, Germany must rely on imports, which in the majority of cases come from other European countries. In this segment the Ukraine export share to Germany has considerable growth opportunities.

PART II: FOOD SECTOR – GERMANY AS EUROPE’S FOOD AND BEVERAGE MARKET LEADER

As Europe’s largest food and beverage market Germany offers considerable opportunities and choice for consumers and above all for producers. National and international companies make more than 170 thousand different food products available to German customers. Due to its high receptiveness to new cultural influences and culinary trends the German food market offers business opportunities on various sides. Further, increased health awareness and an ageing population have increased demand for health and wellness products permitted a number of previously niche markets to become significant industry players. In fact, consumers are tending to buy less and less often but demanding higher quality including organic, fair trade and health and wellness food products. The domestic food sector has profited from both the strong German economy and low unemployment. In addition, increasing international demand for food made in Germany will drive market growth.

The Sector in Numbers (Size & Key Developments)

German Food and Beverage Production Value

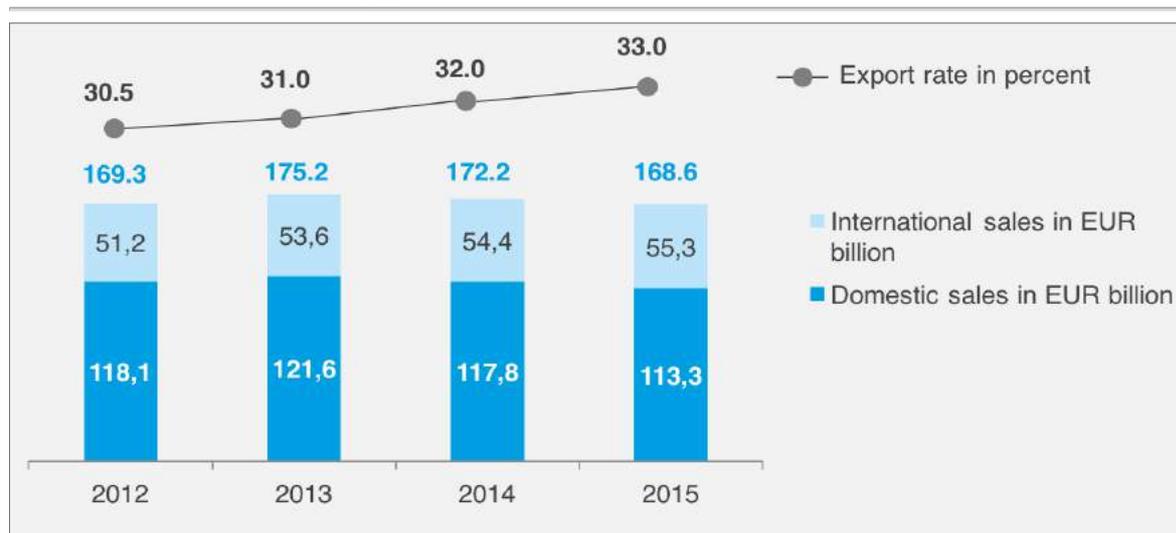


Fig.11

Around 82 million consumers make Germany the largest food retail market in Europe. Total food retailing revenue grew by 2.3 percent, reaching EUR 191 billion in 2015. Further important distribution channels are food service sales (EUR 73.6 billion) and the export of processed

foods (EUR 55.3 billion). Comparing industry sectors in Germany food and beverage is the third largest sector – generating a production value of EUR 168.6 billion throughout the last years and having a promising outlook for 2019 and beyond. In fact, the industry is best characterized by its small and medium-sized enterprise sector of more than 5,800 companies employing approximately 560,000 employees.

The largest industry segments according to production value are meat and sausage products (24 percent), dairy products (14 percent), baked goods (10 percent), and confectionery (9 percent).

Consumer spendings in the food-service sector 2015 - Total revenue €73.6bn (+3.5%)

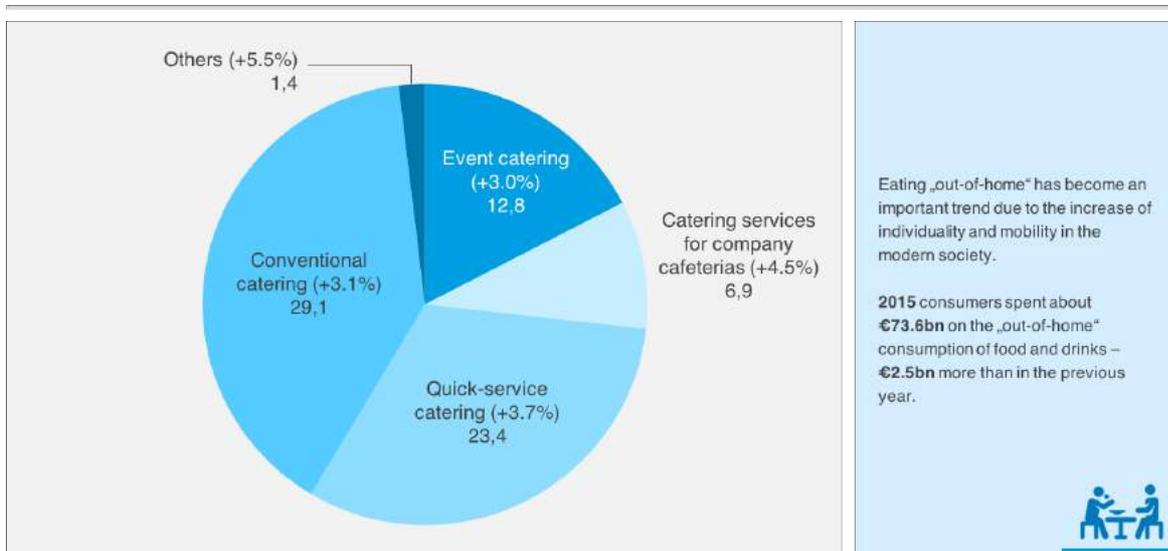


Fig.12



Opportunities: The German food service market is already the second most important distribution channel within the German food industry. An ever-growing share of consumers enjoy eating in restaurants, cafes and snack bars. In 2015, food service sales grew by 3.5 percent and reached EUR 73.6 billion.

Market Segmentation

Share of the single industries on the total turnover of the German food and drink industry 2015

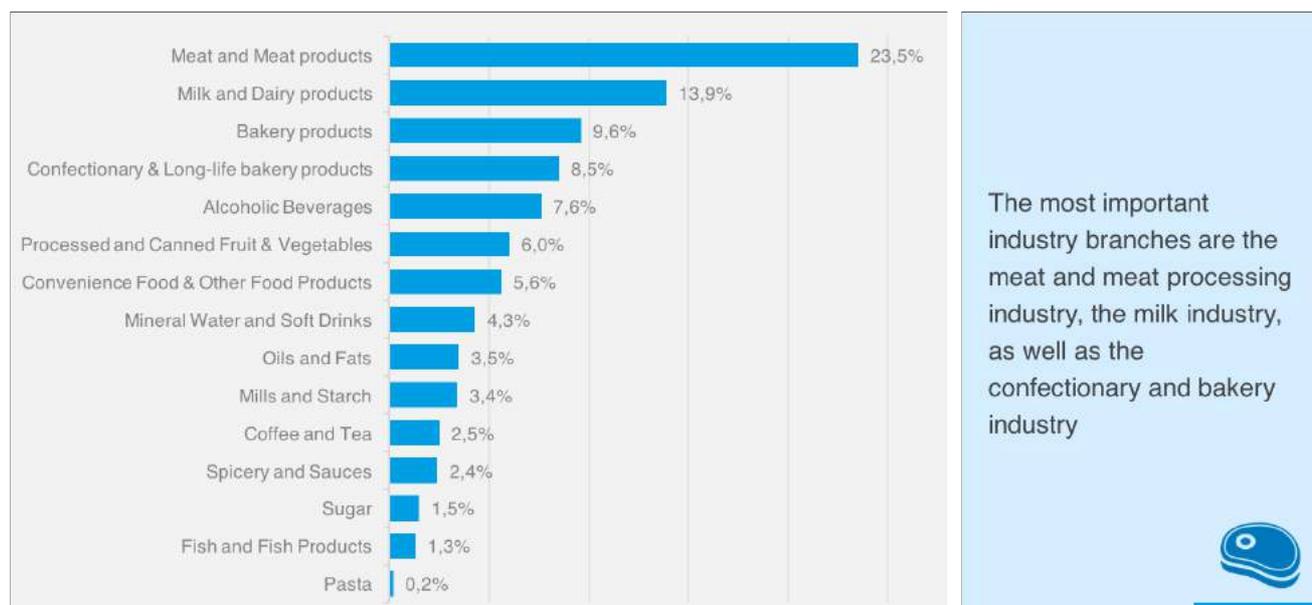


Fig.13

The **MEAT AND SAUSAGE PRODUCTS** industry is the largest sub-sector in Germany's food industry. In 2015, it reached a production value of almost EUR 40 billion. The major segments include pork (67 percent), chicken (19 percent), and beef (14 percent). With a total meat consumption of 60 kg per capita in 2014, including over 38 kg of pork and more than 11 kg of poultry. In general, the German meat processing industry is characterized by an ongoing consolidation trend. The top three industry players account for around 55 percent of all pig slaughtering. Overall competition in Germany is strong, therefore companies are prompted to develop new products and explore export markets.



Opportunities: Sausage in glass or can, pre-packed meat, pre-packed barbecue, and regular sausages have increased in popularity. Although organically produced meat and sausage products have been small markets in the past, demand is now rapidly growing and producers are shifting to organic production. The ongoing trends towards vegetarian and vegan foods has prompted some meat processors to also introduce meat-free product variations including vegetarian/vegan sausages and cold cuts.

With annual per household consumption at 62.4 kg of bread and bakery products in 2015, Germany is the European leader in the **BAKED GOODS** production. In 2015, industrial bakery production generated sales of more than EUR 16 billion. Food retail sales in the bread and baked goods area is estimated to reach around EUR 2.4 billion. There has been a nationwide introduction of bake-off station and in-store baking. Low cost supermarkets are continuously

expanding their market share and today account for more than half of the bakery sales in food retailing.

Moreover, the German biscuit market had a market value of EUR 2 billion in 2015, with chocolate cookies the largest sub segment (20 percent), followed by butter-based biscuits (18 percent).



Opportunities: The production of artisanal bread still accounted for the biggest value of the German bread market (56 percent) in 2015. However, traditional production is increasingly replaced by industrial production. In-store bakeries and discount bakery chains are also expected to continue to grow. Further trends include premium pastries, international delicacies and healthy snacks. Growth potential has also been identified for Mediterranean and gluten-free products as well as the expansion of convenience and ready-to-eat baked goods.

High innovation levels and low barriers to new product market entry have driven the development of a EUR 11.9 billion **CONFECTIONERY AND SNACK PRODUCTION** market. The leading segments in terms of market value are cocoa and chocolate products (EUR 6.1 billion), fine pastries (EUR 2.0 billion), and sugar confectionery (EUR 1.5 billion). The top three market actors in the German confectionery industry occupy around 40 percent of the total market value. But the industry still has a lot of variety with many different brands. Consumer power is not the determining factor in this market. During the last years international confectionery producers increased their exports to Germany by more than 8.4 percent. Growth segments include savoury snacks and chocolate products.



Again, business **opportunities** are powered by the health and wellness trend, which has led to increased demand for fat-free, low-sugar and sugar-free confectionery.

Germany is Europe's largest producer of **DAIRY PRODUCTS**. With milk production volume of 32.6 million tons in 2015, the country ranks fifth globally. The milk, cheese, and fresh dairy products produced by the German dairy industry make a major contribution to the well-being of German consumers, underpinning the sector's important role in the promotion of a healthy lifestyle.



Opportunities: The German dairy industry is largely made up of small to medium-sized players and is regarded as fragmented; the top four players holding near 30 percent of the total market value (DMK Group; Arla; Müller; FrieslandCampina). Thus, international companies can enter the marketplace fairly easily. Furthermore this industry is one of Germany's most innovative food industry sectors. Companies are constantly

improving existing products through the application of new technologies and innovations. The trend for health and wellness food products provides excellent growth opportunities. Product variations such as Greek-style yogurt are also experiencing growing popularity in Germany. In addition, sales of lactose-free dairy products grew by around 90 percent in the last 10 years.

The production of **PROCESSED FRUITS AND VEGETABLES** is the sixth largest category of the food industry in Germany, holding 6 percent of total food industry sales in 2015 on this area. Almost 240 fruit, vegetable and potato processing companies (with 20+ employees), employing in total 31,100 workers, generated sales of around EUR 10.1 billion in 2015. As in all German industries, these companies are mainly SMEs, including many family businesses. Many companies in the processed fruit and vegetable industry exist close to the (often associated by contract) agricultural producers in order to guarantee fast processing of freshly harvested goods and short transport routes. For example, there are many large potato-processing enterprises in Lower Saxony, the federal state with the largest potato crops. Most manufacturers of sour cucumbers are located in Bavaria or in the 'Spreewald'. Baden-Wuerttemberg having large fruit growing areas in the Lake Constance region is home to a variety of fruit juice manufacturers. The third and largest category of this industry is the processing of fruits and vegetables with a turnover of around EUR 5.4 billion in 2015 in approximately 135 enterprises. According to the Federal Statistical Office this segment includes the conservation of fruits, nuts and vegetables to canned food, the production of jams, jellies, jams, fruit spreads and fruit preparations and the production of perishable, prepared food from fruits and vegetables (e.g. salads, packaged salad mixes, peeled or sliced fruit and vegetables and tofu). This category does not include frozen ready meals or ready meals in cans. The products of the fruit-processing companies are split into two categories, one being frozen fruits and fruit preserves, the other being fruit preparations (e.g. yogurts, ice cream or other dairy products) and so-called fruit spreads (jams, marmalades, etc.). In terms of quantity the two main product groups in this segment are the fruit-containing spreads and the preserved canned fruits. In 2013 consumers spent over EUR 400 million on each segment. Zentis GmbH & Co. KG in Aachen (about 1,050 employees approximately) and Schwartauer Werke GmbH & Co. KGaA in Ostholstein (800+ employees) are two of the major companies in this segment.

Between 2010 and 2014, the German **CHILLED AND DELI FOOD** market grew by close to one percent per year. Deli foods such as fresh pasta, dips and pickled vegetables account for two thirds of the market value followed by chilled meat products, fish and seafood.



Opportunities: Growth markets within this segment are fruit juices, soups and sauces, fresh pasta, desserts, ready-made meals, and savory snacks.

Continuing several years of steady growth, **ORGANIC FOOD** sales increased by more than eleven percent in 2015 to reach EUR 8.6 billion. Taking this into account Germany is by far the largest market in Europe in terms of production and consumption of organic food. Of course, some of the growth needs to be explained by increased prices. Nevertheless, most segments experienced significantly real volume growth. Among those organic food categories with significant sales growth are flour (27 percent increase), cooking oil (27 percent increase), curd (18 percent increase), and milk drinks (17 percent increased). Other future growth segments include convenience foods, dairy products, confectionery, and non-alcoholic beverages. Further, there is a rising demand for organic food in the commercial catering sector.



Opportunities: All German supermarkets and low-cost supermarkets sell organic foods. As well as branded products most supermarkets and low cost chains have successfully introduced their own organic brands. Finally, there is an increasing number of organic food shops. Around 2,500 shops operate in Germany selling solely organic-produced products.

Sector Trends and Consumer Behaviour

All recent sector trends and changes in consumer behaviour have been influenced by a number of far-reaching changes in society. Firstly, an ageing population is driving demand for health and wellness as well as functional food products to prevent or overcome conditions including diabetes, high blood pressure and cholesterol. People are becoming more sophisticated and demanding in terms of variety and quality of food products. Secondly, an increasingly fast-paced society and rising number of single households is pushing the demand for highly convenient food and dishes including ready-to-eat meals, desserts, and baked goods. In recent years, the out-of-home market has grown dynamically. Consumers are cooking and eating less at home. Starting with breakfast-to-go continuing with lunch at work or school canteen. Parallel

to dining out is the food-to-go market, products supplied by retail food trade suitable for consumption while walking. Fair trade products, in particular coffee and fruit juices, also enjoy growing popularity. Moreover, ethnic foods, beauty foods, “free from” foods (e.g. lactose and gluten-free products), and regionally grown foods are trends currently finding favour with Germany’s increasingly discerning consumers.

How Germans choose the food they buy.

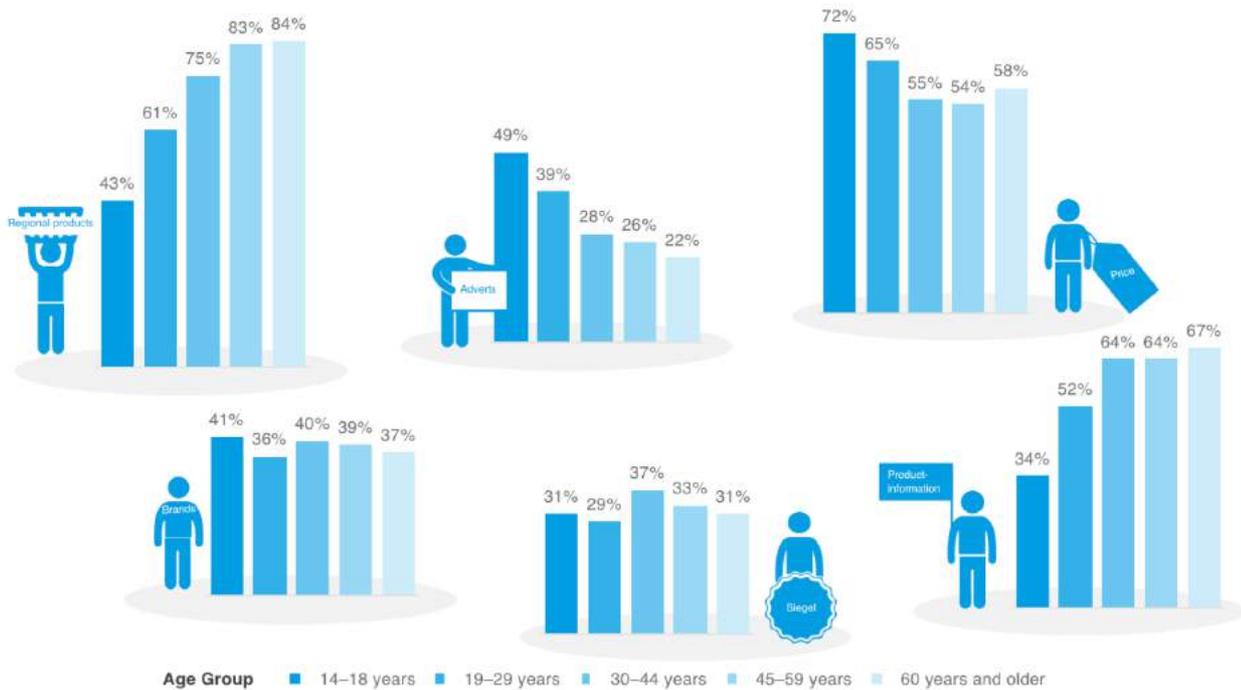


Fig.14

Around three quarters of all Germans see a direct link between nutrition, physical fitness and health. Popular products include functional foods, whereby highly nutritious components like probiotics, fibre, and vitamins are added to make the eating experience more beneficial in terms of positive health effects and taste. Major wellbeing market segments in Germany include probiotic yogurts, yogurt drinks and beverages such as vitamin-enhanced waters.

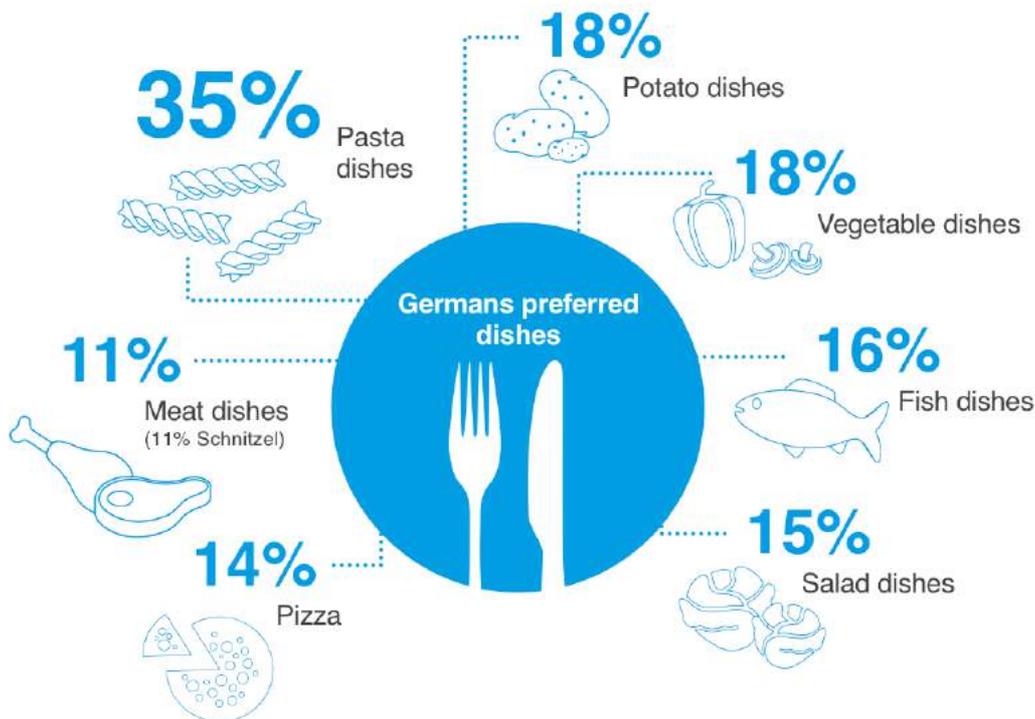


Fig.15

German consumers are critically aware of both quality and cost. Staple foods are bought at low cost supermarkets and often purchased during sale promotions. However high earning consumers are willing to pay more for more quality.

Without any suggestions given, 35 percent of Germans nominated their preferred dishes as: spaghetti, spätzle & pasta in general. Vegetable and potato dishes followed by a clear distance at 18 percent then then fish dishes at 16 percent. However, meat and sausages are still immensely popular – four in five people asked (83 percent) eat meat products several times a week. However, a reduction or complete abstinence from meat consumption can, to a certain extent, be seen as a way to improve health and strengthen sustainable nutrition. German-wide sales of vegetarian and vegan food alternatives doubled between 2010 and 2015 and reached EUR 454 million.

Bold and exotic flavours, snacking and health and wellness are all at the forefront for consumer food preferences in 2018. The millennial generation is largely responsible for the choice options with their adventurous palates. Subscription food home delivery will also continue to evolve, keeping in mind consumers' wishes to be part of the meal making process with easy-to-follow recipes and healthy, fresh ingredients. Likewise, on-the-go, convenient packaging, such as bowl-based choices featuring kale, quinoa and chia, will be in demand as eager consumers look for quick but healthy eating options. Staying on top of these shifting lifestyle preferences will be essential for relevant and profitable food and beverage companies. As witnessed in 2017, large packaged food companies that haven't been on-trend with healthy snacking resulted in declining sales. Thus, in 2018 many companies will add new product lines or

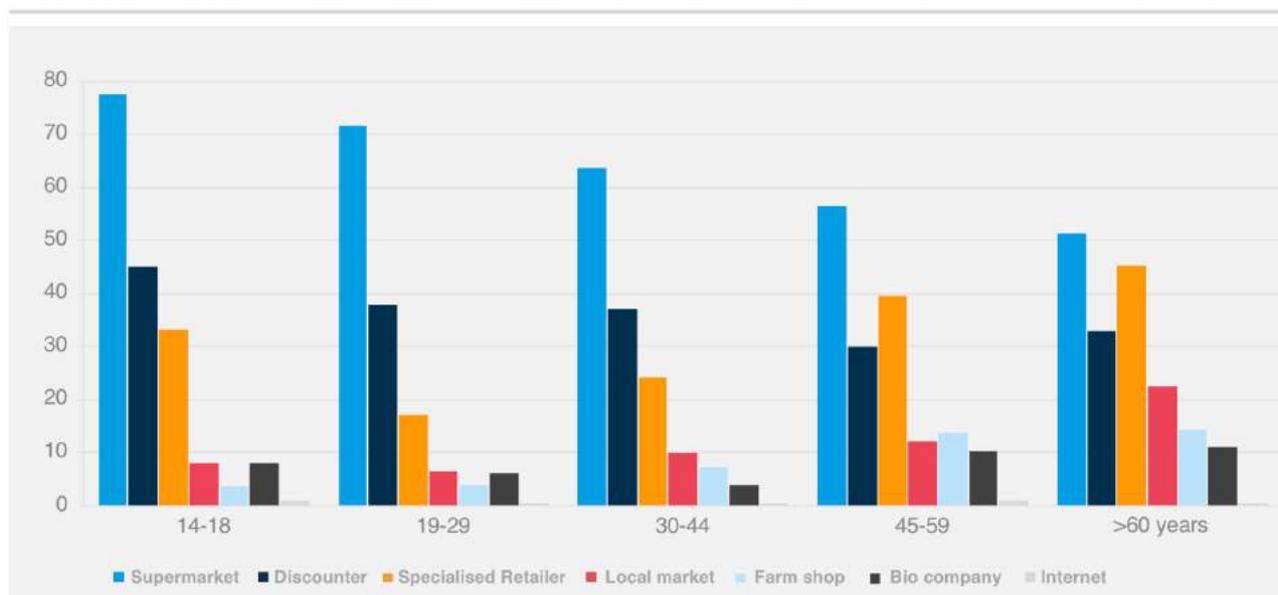
introduce healthier products and ingredients to their existing food and drinks. Rather than developing new products within the business' existing operations, more and more, companies acquire businesses that are producing the type of foods or ingredients they are targeting. These acquisitions are frequently done at a lower cost than spending the time and resources in internal research and development to create new products.

More and more consumers, particularly millennials, want to know their food producers are green, charitable with their excess product, control their water consumption, use alternative energies like solar power, reduce wasteful packaging and more.

In 2018, consumers will research before they buy more than ever, including food and beverages. With a quick search on smartphones, consumers can make informed and speedy choices about the products they consume. What foods provide the protein and energy boost needed for a workout? Which drinks promote healthier skin? Where is this food grown? What are the core values and history of the company manufacturing the product? Successful food and beverage businesses will use digital and social platforms to connect with consumers, providing robust product research avenues, tips, stories, forums and more for the information hungry consumer.

In addition, the rising number of single households, as well as an increasingly mobile society, are changing food and beverage consumption patterns in favour of the convenience food industry. Today, Germany already has the largest frozen food market in Europe. The largest retail segments in terms of volume are bakery products (22 percent), followed by frozen vegetables (14 percent), and ready meals (13 percent). Currently growing segments include frozen fruits as well as snacks and pizza. The recent growing demand for vegetarian and vegan products is expected to additionally boost the frozen food market in the future.

Where Germans from different age groups prefer to buy their food (in %)



Main Companies Within the Sector

The German food and beverage market including food service sales was worth EUR 264.6 billion in the last years, making Germany the European leader in the food and beverage sector. Contributing factors are a growing population with increasing purchasing power, a strong local agricultural sector, high productivity and state-of-the-art infrastructure.

Top 10 Food Retailers in Germany in 2015

Retailers	Retail brands	Food sales (in EUR billion)	Share of food sales (in %)	Change of sales over 2014 (in %)
Edeka Group	Edeka, Marktkauf, Netto, Plus, Treff 3000	48.3	90.6	2.7
Rewe-Group	Penny, REWE, Kaufpark, Fegro, Selgros	28.6	72.1	3.7
Schwarz-Group	Lidl, Kaufland, Handelshof	28.0	81.2	1.4
Aldi-Group	Aldi Nord, Aldi Süd	22.8	82.0	1.5
Metro Group	Real, Metro C+C	10.3	39.3	-2.7
Lekkerland	Lekkerland, others	9.0	99.0	3.2
DM-Drogeriemarkt	Drugstore	6.3	90.0	9.8
Rossmann	Drugstore	5.2	90.0	6.4
Globus	Globus, Hela, Alpha Tecc	3.2	67.0	1.9
Bartels-Langness Group	Markant, Familia, Bela C&C	3.1	77.7	2.3
Total Top 10		164.8	77.7	2.5

Fig.17

Concerning food retail markets and opportunities for export oriented Ukrainian companies, the German landscape is consolidated and mature. Compared to other European countries it remains relatively diversified. In fact, this provides manufacturers with numerous options for marketing products. The top four German retailers – Edeka, Rewe Group, Schwarz Group, and Aldi Group – have a combined market share of 67 percent, having more than one distribution channel (e.g. supermarkets and low cost supermarkets). The overall market share of low cost is relatively stable at around 42 percent. Recently food retailers and specialty food shops are more and more launching and expanding online offerings due to the fact that more and more people do their grocery shopping online. Although Germany's online grocery market is still relatively small, it is increasing as interest among shoppers grows fast. International actors can easily enter the scene as the overall market is growing and barriers to entry are moderate, considering for instance, the cooperation with national logistics providers.

Share of revenue for food & drink retailing 2015 - Total revenue €191bn

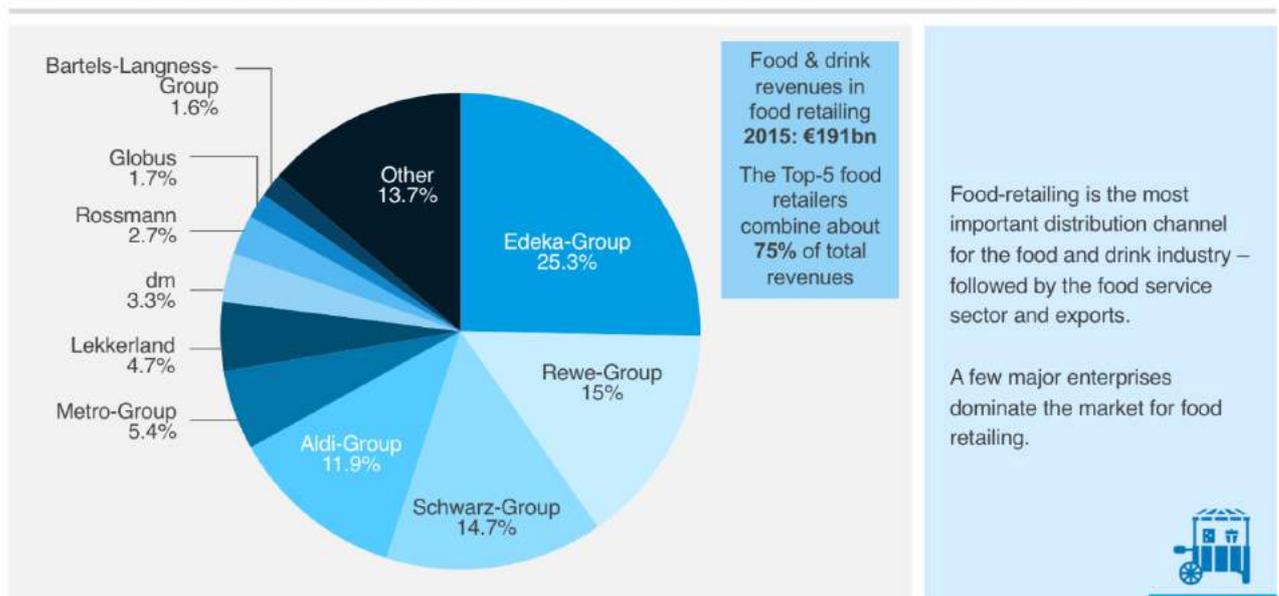


Fig.18



Opportunities: Additionally, the segment of organic retail markets is growing.

The three biggest German retail markets of organic food are: **Denn's bio (Denree); Super Natur Markt (Alnature) and the BioCompany.** Leading companies in the German food sector above all include well-known brand names such as Nestlé, Dr. Oetker, Vion Food Group, Tchibo, Coca-Cola, and Mondelez International, Unilever.

However, just like the entire German economy, the food sector is built on SMEs. The following enumeration does not include all German SMEs in the food sector, it is an impression to better understand German food companies (sorted by state).

Baden-Württemberg

The **Alfred Ritter GmbH & Co. KG** is a German food manufacturer from Waldenbuch in Baden-Württemberg (Southwest Germany), best known by its chocolate brand Ritter Sport. Alfred Ritter GmbH & Co. KG is the first major chocolate bar manufacturer to switch to sourcing the cocoa for its entire assortment completely from certified sustainable cocoa, effective as of now. This means that for every bar of Ritter Sport chocolate that leaves the Waldenbuch production site in southern Germany, the company sources only cocoa that has been cultivated and processed under sustainable conditions. Although the German chocolate bar market as a whole declined slightly in 2017, the strength of the export business, with a two-digit plus (12%), contributed to a growth of nearly 2.5 percent. For 2017, Alfred Ritter GmbH & Co. KG is anticipating a total revenue of around EUR 482 million (2016: EUR 470 million). Meanwhile, Ritter Sport lost ground slightly in the highly competitive 100-gramme chocolate bar market in Germany. Excluding the share of hard discounts, whose promotional pricing had a significant influence on the share of the market in Germany, Ritter has achieved a plus of approximately 0.5 percent in the food retail industry. The company was also able to report a very positive development in the travel retail business.

K&U Bäckerei GmbH is the fourth largest bakery in Germany and has its headquarters in Offenburg (Southwest Germany). It is a 100% subsidiary of Edeka Südwest and thus mainly located in the southwest of Germany in Edeka stores. However, it also has additional branches.

Knorr is a well-known food manufacturer in Heilbronn – today part of the Unilever Group – holding around 30 percent market share. In addition to soups, Knorr's product range includes food seasonings such as aromas, sauces, side dishes, bouillons, salad dressings, other cooking ingredients, smoothies, frozen foods and, to an increasing extent, ready meals.

Landliebe Molkereiprodukte GmbH is a manufacturer of dairy products, which sells its products under the Landliebe brand. It is among the ten biggest dairy product manufacturers measured by sales. Today, it is a subsidiary of FrieslandCampina Germany – part of the Dutch parent company Royal FrieslandCampina.

Seitenbacher GmbH Naturkost is a German food company with its headquarters in Buchen (Southwest Germany). Seitenbacher offers various organic foods. Muesli varieties account for the largest share of the assortment, also including pasta, sour dough, baking mixtures, cereal burgers, fruit gums, bars, seeds, snacks, chocolate cereals, honey, biscuits, soups, vitamin capsules and edible oils.

Bavaria

Andechser Molkerei Scheitz GmbH is with around 190 employees and 630 suppliers the largest German organic dairy producer. Since 2009, they have been producing organic products exclusively and are sold under the label “Andechser Natur”. For their production they cultivate 15 percent of the total organic area in Bavaria.

The **Ehrmann AG** is one of the biggest German dairy producers. The annual sales worldwide amounted to circa EUR 750 million. The market share in the production of yoghurt in Germany is near 12.8 percent. Thus, in the yoghurt sector, Ehrmann is the German market leader. Daughters of the Ehrmann AG include Gabler Sliter; Dairy Hainichen-Freiberg and the Fleischwerke Zimmermann.

The Maintal Konfitüren GmbH in Haßfurt produces jams, jellies and fruit spreads. Today the company markets a total of 600 different products in more than 20 countries. Since 2000 they offer an extensive organic segment.

Meggle AG is a dairy processing group of companies based in Wasserburg am Inn. Worldwide, the group employs 2,500 people (2017) and the group's sales amounted to EUR 1 billion in 2017.

Mymuesli GmbH is a German company based in Passau, selling cereals via internet, in its own shops and through its partner companies. In particular, customers can also have individual mixtures made via mass customization production. The company took a pioneering role in this segment. Meanwhile, around 350 companies in the food industry use this principle. According to their own information, the company uses only organic food. Other brands of the company are: Oh!Saft: service for juices; Green Cup Coffee as an online shop for fair trade coffee; Tree of Tea and Nilk a shop for milk alternatives.

Rapunzel Naturkost GmbH produces and sells vegetarian organic food and is leading producer in this segment.

Wolf Group has developed over the years from a small craft business to a well-known company in the sausage industry. With a total of 1,200 employees Wolf generates at its production sites in Schwandorf, Nürnberg, Schmöln and Burglengenfels annual sales of EUR 300 million. It is thus ranked among the top ten sausage manufacturers in Germany.

Berlin

August Storck KG is a confectionery producer based in Berlin. Mamba, Lachgummi, Knoppers and Toffifee among others belong to this company. It also produces certain brands exclusively for the discount supermarket Aldi.

Bremen

Frosta AG is a medium-sized German company in the frozen food industry. In the field of frozen food, Frosta claims to be the German market leader for frozen complete meals with 25 percent market share.

Hachez Chocolate GmbH & Co. KG produces chocolate and confectionary.

Hamburg

Carl Kühne KG is a German food manufacturer mainly producing vinegars and delicacies. As one of Europe's largest producers of vinegar, pickled cucumbers and mustards, the family-owned company sells its products in more than 50 countries. Additionally, Kühne supplies the system catering industry and the food industry.

Hessen

Lorenz Bahlsen Snack-World GmbH & Co KG produces biscuits and other snacks such as crisps, stacked crisps, salty sticks and peanut products.

Wilhelm Brandenburg GmbH & Co. OHG belongs to the REWE trading group and manufactures meat, sausage and ham products. The company generates annual sales around EUR 600 million and employs 1,700 people.

Lower Saxony

The cake shop **Coppenrath & Wiese KG** is a food processing company producing frozen bakery products including pies, cakes, desserts and bread rolls. In 2017 the company employed 2,600 people. Since March 2015, the company is part of the Oetker Group.

North Rhine-Westphalia (NRW)

Brandt Zwieback-Schokoladen GmbH & Co. KG is the German market leader manufacturing zwieback.

Dr. Oetker GmbH is nowadays a global food company and the head of numerous Dr. Oetker production and sales companies, active in about 40 countries. In the German retail trade it is represented by 1,000 different products. Worldwide the company employs 11,640 people – 4,500 of them work in Germany for the German core company. The sales are EUR 2,424 million.

Tönnies Holding ApS & Co. KG is the largest slaughterhouse for pigs and cattle in Germany. The company also processes and improves the meat.

The main product of **Zentis GmbH and Co. KG** include fruit preparations, jams and sweets. The company supplies products for the end user and for further processing e.g. in the milk processing industry.

Schleswig-Holstein

Harry-Brot GmbH is a German wholesale bakery achieving a turnover of EUR 950 million with over 4,000 employees in 2015. Harry-Brot is Germany's largest producer of baked goods. Subsidiaries of the GmbH are the Backshop GmbH as well as the gastronomy company Back-Factory.

Schwartauer Werke produces jam, fruit spreads, cereals and fruit bars, as well as dessert sauces, chilled fruit preparations, coffee and fruit syrup.

Importation to Germany

In Germany, in accordance with Art. 1 Sec. 1 of foreign trade law, the following principle applies: 'In principle, goods, services, capital, payments and other business transactions with foreign countries as well as foreign assets and gold within member countries (external trade transactions) may be transported freely. They are subject to the restrictions detailed in this law, or those prescribed by ordinance based on this law.' Import restrictions are dictated by European community law and the German Foreign Trade Ordinance from 2 August 2013. As part of **import clearance**, checks will be made to ensure that all legal provisions regulating the import of the goods in question have been observed. There are a large number of regulations governing imports into the European Union and to Germany. Besides **custom regulations and foreign trade regulations**, attention must also be paid to prohibitions and restrictions, most of which serve non-commercial interests such as protecting human health interests or environmental protection. The most important legal frameworks are the **Union Custom Code**, the **Customs Code Implementing Provisions**, **German foreign trade law** and the **German Foreign Trade Ordinance**.

In principle, quantitative restrictions on imports are no longer imposed. However, for particular goods originating from particular countries, import permits are needed, and quantitative restrictions can on occasion be imposed (e.g. in the textile industry). Using the customs tariff number, you can check in the electronic customs tariff of duties to see which goods are affected. For customs clearance within the EU, you will need an **EORI number** to register and identify the economic operators. This replaced German customs numbers on 1 July 2009, and is issued by the IWM Zoll (Customs Information and Knowledge Management) on application. Under certain circumstances, import clearance can also be transferred to other companies (i.e. customs agents, freight forwarders).

To calculate the total amount of import duties payable and prohibitions and restrictions on imports, you will need your 11-digit **customs tariff number**, which you will also need to enter for the electronic import registration. You can also research the first eight digits of the 11-digit customs tariff number in the 'Warenverzeichnis für die Außenhandelsstatistik' (index of goods for foreign trade statistics). A revised version of the index of goods comes into force each year on 1 January and is available from publishers specialising in foreign trade. The total amount of import duties payable can also be researched in the electronic customs tariff. Here you will need to enter your customs tariff number and the country of origin of the goods in question. The electronic customs tariff (EZT) will also tell you about any import restrictions on quantity as well as so-called prohibitions and restrictions on import.

- **Customs duties:**

When imports come from different countries or groups of countries (EFTA members, developing countries, et.al.), preferential tariffs can often apply instead of the otherwise applicable third country customs tariff.

- **Import VAT (Import Turnover Tax):**

This is a special VAT tax, that equals the current VAT rate of 19 percent – reduced rate: 7 percent for e.g. food products – and is paid to the customs authority. However, this tax can be deducted as input tax. As a prerequisite, the company must have the necessary import documents with customs proof of payment (import declaration). For import companies which are not entitled to input tax deductions, this levy does not actually result in additional costs, as import VAT can be deducted in full as input tax.

- **Excise tax** (for tobacco, spirits, beer, alcopops, sparkling wine / intermediate products, coffee, power)
- **Absorption tariff** (special customs duties for certain agrarian products).
- **Additional customs duties** and agricultural components
- **Anti-dumping customs duties** and **countervailing duties**

Important measures importing food to Germany (EU)

FOOD SAFETY - The legal framework on food safety was established by the European Union. The European Food Safety Authority plays a key role in the risk assessment of food. Many developments of the previous years were aimed to increase transparency and consumer confidence, by providing better information on food ingredients. Traceability of food products is also of utmost importance. For example, the country of origin must always be listed on food labels and all intermediaries (suppliers, distributors, etc.) that joined the food chain must be included as well.

NOVEL FOODS - Novel food imports in Germany must undergo a safety assessment before being brought to the market. Importers of novel foods must apply for a license to sell these products at the **Federal Office for Consumer Protection and Food Safety (BVL)**. This responsible federal authority will perform the necessary testing and send the results to the European Commission and the Member States for final approval.

FOOD LABELING - Food labelling requirements are laid down in EU legislation. This means that uniform standards apply throughout all EU Member States. In December 2014, the new EU Regulation No. 1169/2011 on food entered into force. This directive requires that consumers are clearly informed about the nutritional value, ingredients, and instructions for use before they purchase a food product. In addition, the regulation improves the legibility of

information on packages by imposing the highlighting of allergens and specifying a minimum font size.

PRODUCT PACKAGING - Exporting companies should be aware that product packaging is very important to German consumers since they are highly environmentally conscious. Manufacturers, importers, distributors and retailers must make sure that their packaging materials for their food products comply with the EU's and Germany's domestic regulations in terms of recycling and disposal. There are several dual system companies licensed in Germany offering various waste disposal schemes. Foreign exporters are free to choose which dual system they join. It is not mandatory to display any dual system membership seal on sales packaging.

HEALTH CLAIMS – The European Food Safety Authority (EFSA) maintains a register of all authorized health and nutrition claims, which applies across the entire European Union. This register is accessible online and any food business operator may use the claims contained therein for the purpose of their operations within Germany. However, the use of claims is subject to control by the competent German authorities (see above) and, where applicable, certain conditions and restrictions must be respected. One important provision is that health claims should only be used for the nutrient, substance, food or food category for which they have been authorized and not for any products containing them. In addition, food business operators should never make use of unauthorized claims.

Trade fairs

Germany hosts some of the largest trade shows in the world. 150 of the so called international 'Fachmessen' (German for trade fair) are taking place each year attracting 180,000 exhibitors and 10 million visitors. A good source of information to get a quick overview is the Association of the German Trade Fair Industry (AUMA). Below you will find some of the most important food related trade fairs in the country.

ANUGA – Place: Cologne – Date: 05.-09. October 2019

Description: The world's leading food fair for the retail trade and the food service and catering market. ANUGA is also recognised as the most important food and beverage fair.

ProWein – Place: Düsseldorf – Date: 17.-19. March 2019

Description: ProWein is the international leading trade fair for the wine and spirits business.

Fruit Logistica – Place: Berlin – Date: 06.-08. February 2019

Description: The trade fair covers every single sector of the fresh produce business and provides a complete picture of the latest innovations, products and services at every link in the international supply chain.

IBA – Place: Munich – Date: 15.-20. September 2018

Description: IBA has been the meeting point for experts of the baking, confectionery and snack in-industry since 1949. Exhibitors present the industry's latest innovations, trends and technical developments.

BOIFACH – Place: Nuremberg – Date: 13.-16. February 2019

Description: Each year the international organic sector meets at the World's Leading Trade Fair for organic food. The comprehensive range of certified organic products shows the sector's diversity – from fresh products such as dairy produce and cheese, to fruit, vegetables, dry products such as cereals and pulse fruits, nuts and confectionery up to beverages.

PART III: DOING BUSINESS WITH 'ZE GERMANS'

Traditions and shared values are the foundation of every country's culture and can be reflected in local business culture; Germany is no exception to this. For 'first timers' doing business in Germany it can be seen as slightly different from previous experiences with other European counterparts. Two of the most common preconceptions are that Germans are very detail oriented and extremely direct in their use of language. Indeed, there is some truth in both points. The positive consequence of these traits is that Germans are very business oriented and result driven. Hence, a serious foreign business with a unique value proposition will not be dismissed easily.

The following key points will help foreign companies manoeuvre confidently while doing business with 'Ze Germans'. Note the following content provides general guidelines for the successful interaction with German counterparts:

Meeting guide

Germans can be described as meticulous planners who put a considerable amount of time into preparing for meetings in order to be in the position to argue their point of view thoroughly and support it with well-researched data. Germans tend to discuss details even in a first meeting in order to evaluate the chances for a long-term partnership as well as to set the tone for future discussions. Meetings can sometimes seem to be quite tense, which can easily be misinterpreted. Don't feel discouraged if your German counterpart asks one question after another.

Do's

- Be punctual
 - Punctuality is essential. Arriving even five or ten minutes after the appointment time is considered late and disrespectful. If you run late for an appointment it is strongly advised to notify the person.
- Be prepared
 - In German business environments, it is important to provide solid facts and examples to back up proposals, given the German preference for analytical thinking and rational explanations. Ensure to know your proposal and present it in a confident and thoughtful manner. It is not unusual that your proposal will be challenged during your first meeting.
 - Meetings always aim for decisive outcomes and clear follow-up steps, rather than providing a forum for open and general discussion.
- Consumption of alcohol
 - Although alcohol may be offered at a business lunch, many Germans will refrain from drinking during the working day – take the lead from your host

Don'ts

- Don't expect immediate results after the first meeting
 - Decision-making is often a slow and detailed process. Do not expect significant conclusions to be reached during your first meeting – but expect a clear timeline developed and to be adhered to. In German business dealings, it is important to provide solid facts and examples to back up proposals, given the German preference for analytical thinking and rational explanations. Often the decision to enter a business relationship will be decided only after thorough internal discussions.

Communication

Germans put truth and directness before diplomacy, believing that the fact is the important issue and that personal emotions should not deflect the truth from being spoken. For Germans direct speaking is a sign of respect and therefore a fundamental in the search for the correct answer to a problem. You can generally take a German at his word. Humour has little place in German business meetings. Remember that what is funny in one culture can come across as nonsense in another.

Do's

- Respect someone's privacy
 - Business and private life are strictly separated in Germany. Do not aim to become your prospective business partners 'friend'. Stick to the facts and keep a professional distance. It takes time to forge more personal relationships.
- Follow up by email
 - Usually you will receive a follow up email stating the key points noted at the meeting and next steps agreed upon. Following up by email first will put you into the driving seat during the negotiation cycle.

Don'ts

- Address your counterpart with their last name
 - Always use last names and appropriate titles, particularly during a first interaction unless offered otherwise. i.e. if your counterpart is Dr. Thomas Müller, you should address with Herr Dr. Müller. It is only common practice to use first names with family, close friends and some colleagues.
- Don't take criticism as a personal attack
 - Openly-expressed criticism tends to be directed at aspects of the problem; it should not be considered as personal disapproval.
- Language
 - Don't use exaggerated or indirect communication styles during business meetings, it creates an impression of evasion and insincerity.

Presentations

Do's

- Be straight to the point
 - Lengthy or wordy presentations are seen as misleading. Try to stick to the point and avoid lengthy justifications.

Don'ts

- Have all data available
 - Not supplying supporting details may make you seem unprepared, and you do not show the respect your German counterpart would expect from you.

Working practices

Germany is a nation that is very individualistic and demands the utmost respect at all times, therefore the highest standards are expected always. Any unethical behaviour will seriously diminish all future business negotiations. Germans do not like surprises. Sudden changes in business transactions, even if they may improve the outcome, are unwelcome.

Germans are most comfortable when they can organise and compartmentalise their world into controllable units.

Do's

- Keep eye contact
 - Maintain a good level of direct eye-contact when addressing your counterpart, it demonstrates confidence and respect

Don'ts

- Stick to your agreement
 - Don't attempt to continue negotiations after a contract has been signed
- Gifts
 - Gift giving among business associates is not common in Germany. If you would like to leave a sample of your product though, it would not be considered a gift.

Negotiations

Be fair, German business people are very accommodating. Their best offer is usually their first and they don't mind laying their cards on the table. Don't haggle too hard, as this may seem disrespectful and might diminish your standing with your German counterparts. Note that most of the power in German companies is vested in the hands of a few senior managers or owners.



EXPORT PROMOTION OFFICE

EXPORT PROMOTION OFFICE (EPO) – is an advisory and consultative body under the Ministry of economic development and trade of Ukraine that has been founded to help Ukrainian exporters in opening new markets.

OUR STRATEGIC GOAL is to help Ukrainian companies become successful in the international markets by:

- Developing export competencies of Ukrainian business;
- Ensuring partnership and cooperation between Ukrainian and foreign businesses;
- Develop full scale export promotion institution as a single window entry point;
- Promoting Ukrainian products and services abroad.

EPO provides assistance in the following areas:

Export Education, Business Opportunities and Export Consulting, B2G Platform (aimed to develop an effective dialogue between business and government), and the SheExports Program aimed to support female entrepreneurs and exporters.

EPO is supported by the Western NIS Enterprise Fund, The Expert Deployment for Governance and Economic Growth (EDGE) Project and EU4Business initiative



info@epo.org.ua
www.epo.org.ua



[@exportpromotionoffice](https://www.facebook.com/exportpromotionoffice)



[@EPOukr](https://twitter.com/EPOukr)



European Bank
for Reconstruction and Development

The program is being implemented by the European Bank for Reconstruction and Development (EBRD) and funded under the EU4Business initiative of the European Union.

EU4BUSINESS INITIATIVE



EU4Business

The EU4Business initiative brings together all EU programs aimed at supporting small and medium-sized enterprises in the Eastern Partnership region, which includes the EU, its member states and six partner countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. More detailed information on the official website

www.eu4business.eu