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Report Name: COVID19 Pummels German Food Service Sector

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Report Highlights:

The German food service sector has been hit hard by COVID-19, with sales down 50 percent to restaurants, airlines, caterers of public institutions like universities and schools in March 2020 compared to one year ago. April sales may drop 90 percent. The outlook is grim, and U.S. exports of agricultural products destined to the German food service sector may suffer losses.

With the onset of the COVID-19 pandemic, the food industry has been largely successful in supplying retailers with food. In the first few two weeks of widespread quarantine, there was a surge in demand and some hoarding of durable foods such as canned food, flour, and noodles. Despite some logistical challenges, the situation has mostly calmed down with grocery retail shelves largely re-stocked and the food industry is optimistic that it will continue to fulfill consumer demand.

While the food industry successfully deals with the COVID-19 pandemic on food retail level, there is another challenge: the collapse in demand from the food service sector. Products such as pre-cut vegetables and fruits, sauces, condiments, dried products, certain cuts of meat, or fresh fish are facing a precipitous drop in demand. U.S. agricultural exports destined to the German food service sector could suffer losses. This includes fresh fish, beef, alcoholic beverages, etc. The export losses may last longer than the duration of the restricted movements as many restaurants may go out of business and the loss of income may reduce consumers' ability to dine out. The restaurant sector will not recover quickly.

Early industry estimates indicate that sales from the food industry to food service dropped by 50 percent in March 2020 compared to March 2019 with projected sales for April down by 90 percent compared to last year. Besides the closure of restaurants, business is now nearly non-existent with caterers of airlines, trains, universities, schools, and daycares, although supply to hospitals and nursing homes continues.

Not all production is easily converted from food service to retail. There is less impact of the collapse of the food service market for bigger companies, as they can more easily switch production lines since they often supply both retailers and food service. However, small companies are more affected since they are often specialized on single products and the different needs of the food service sector in terms of packaging, size and product specifics.

The sudden surplus of food in the food service industry has left suppliers and food service entities scrambling for ways to use the perishable food. For example, McDonald's and the Arcona hotel group are donating raw materials and fresh produce to local food banks. Numerous restaurants are creating food boxes for pick up or delivery, and some are selling leftover produce via online shops. A Michelin star chef from Berlin's Tulus Lotrek restaurant created a Germany-wide grassroots movement #KochenfürHelden (cooking for heroes), where restaurants deliver to hospitals, medical practices, nursing homes, etc. On a smaller scale, a closed day care center in Berlin is delivering 3 kilograms of fresh produce every other week to the families of the children who must now stay at home.

According to industry sources the main challenge for the food industry besides the collapse of the food service sector is sourcing agricultural commodities. Starting March 25, German borders were closed to seasonal agricultural workers from key countries including Bulgaria and Romania. Germany relies on

close to 300,000 seasonal agricultural workers, which make up nearly 30 percent of the agricultural workforce. This will primarily impact Germany's fruit and vegetable sectors, especially asparagus, strawberries, lettuce, various cabbages and cucumbers. Major suppliers of the German market like the Netherlands, Spain, or Italy face the same problems. Therefore, the outlook for sourcing of agricultural commodities and especially fruits and vegetables is worrisome for the food industry.

Background Information

The German food service sector is large and highly fragmented but can be divided into the commercial and institutional food service markets. The German commercial food service market includes hotels, restaurants, fast food and take-away outlets, bars, cafeterias, coffee shops, and similar channels. The institutional food service market consists of hospitals, universities, nursing homes, and cafeterias. German food service sales reached USD 99 billion in 2018. Restaurants and fast food chains accounted for 53.3 percent of that total, hotels with 35.4 percent, and canteens and caterers for 10.3 percent. Food service suppliers are comprised of over 6,000 companies with 600,000 employees, and most of the companies are family-owned small and medium sized companies.

Attachments:

No Attachments.