

**UNITED STATES DEPARTMENT OF  
AGRICULTURE**



LINKING U.S. AGRICULTURE TO THE WORLD

**U.S. Market Profile for Confectionery  
Products**

***October 29, 2004***

COMMODITY AND MARKETING PROGRAMS – AGEXPORT SERVICES DIVISION  
INTERNATIONAL STRATEGIC MARKETING GROUP  
OCTOBER 2004

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## Executive Summary

U.S. confectionery production was 2.840 million tons in 2003, up slightly from 2.832 million in 2002, but well below the peak of 3.183 million tons in 1997. Confectionery products include chewing gum, chocolate, and non-chocolate “sugar-type” candy, and major commodity ingredients are cocoa, sugar, nuts, and milk. Despite the small increase in production volume in 2003, U.S. Census Bureau reports that the value of domestic confectionery shipments was high relative to recent years at \$15.6 billion, growth of nearly 4 percent from 2002. The confectionery industry is highly centralized, with two manufacturers accounting for between 40 and 50 percent of all confectionery sales. Most U.S. candy factories are located in the Northeast, Midwest, and California. The total number of candy factories increased by 8 percent from 1997 to 2002, from 1,486 to 1,602, but over the same period the number of non-chocolate candy factories decreased by 17 percent, from 625 to 518, as manufacturing establishments moved to foreign countries. Industry sources assert this trend will continue as long as U.S. import restrictions result in domestic sugar prices far above world market levels.

Domestic confectionery consumption was 3.249 million tons in 2003, up nearly 4 percent from 3.134 million in 2002, the strongest growth in several years. Using an industry retail margin estimate of 35 percent, U.S. sales of confectionery products were \$25.8 billion in 2003, an increase of almost 6 percent from 2002. Sales have shown steady growth, a trend that is forecast to continue because of population and price increases. Specific growth areas include premium chocolate and confectionery products, “fun” candy that appeals to children, “extreme” flavors designed for niche demographic groups, and other innovations such as sugar-free, fat-free, and “functional” products.

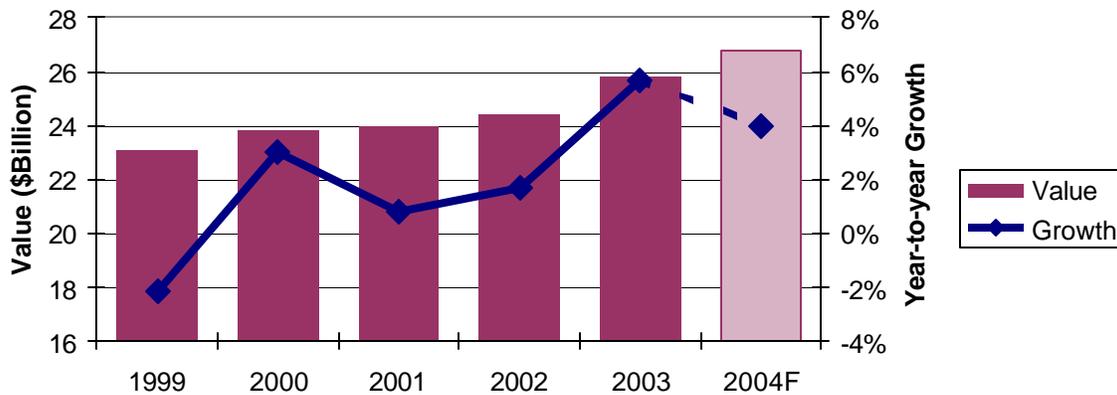
U.S. Customs reports that 2003 confectionery imports were 639,000 tons, valued at \$1.8 billion, while exports were 231,000 tons, valued at \$0.7 billion. This trade deficit has been widening since 2001. U.S. imports represent 11 percent of domestic consumption by value, a share that has been increasing in recent years. Exports represent 4 percent of domestic production, a share that is nearly unchanged from previous years. In 2004, imports are forecast to increase to 720,000 tons, valued at \$2.0 billion, and exports are forecast to be nearly unchanged at 220,000 tons, valued at \$0.7 billion, based on the pace of trade for the first eight months. Major sources of imports are Canada, Mexico, and Europe, while major export destinations include Canada, Mexico, South Korea, Japan, and Philippines. Sugar confectionery imports represented 31 percent of total domestic consumption by volume and 19 percent by value in 2003, compared to 17 and 12 percent respectively in 1999. In general, exports have been flat, despite a weakening dollar and manufacturers’ use of the USDA’s Sugar Containing Products Re-Export Program that helps make U.S. confectionery products more competitive on the world market. Some analysts point to the accelerated movement of U.S. candy production to other countries as a contributing factor to higher U.S. imports and flat exports.

## Overview of the U.S. Market

### **Market Size – sales value and volume, growth, trend description**

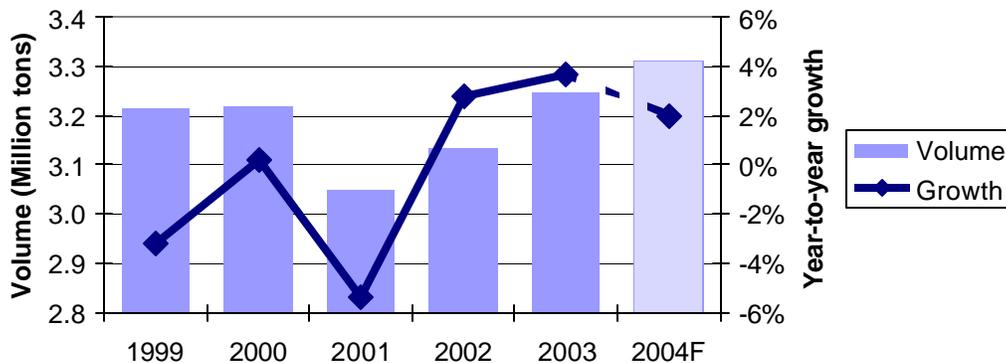
- Retail sales of confectionery products in the U.S. were \$25.8 billion in 2003, an increase of 5.7 percent from 2002, the strongest growth in several years.<sup>1</sup> Figure 1 shows that the market for confectionery products is mature, and growth in 2003 came after three years of very flat sales. Figure 2 shows that sales volume has rebounded from 2001 levels.
- Confectionery sales value and volume growth is expected to be modest in 2004, as there are no major factors, such as supply disruptions, price changes, or revolutionary product innovations, which would disrupt the current trend.
- Value growth is expected to exceed volume growth as U.S. consumers seek to purchase premium confectionery products. Sales value growth is forecast to be 4 percent, to \$26.8 billion, and sales volume growth is forecast to be 2 percent, to 3.3 million tons.

Figure 1. U.S. Confectionery Retail Sales Value and Growth, 1999- 2004



Source: Dept. of Commerce, NCA; Forecast: FAS

Figure 2. U.S. Confectionery Retail Sales Volume and Growth, 1999-2004



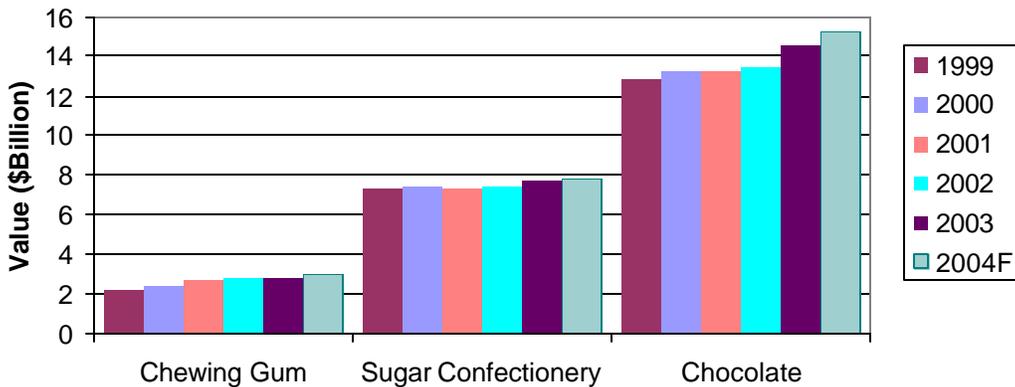
Source: Dept. of Commerce, NCA; Forecast: FAS

<sup>1</sup> The U.S. market for confectionery products is defined as domestic production plus imports less exports.

## Major Product Segments

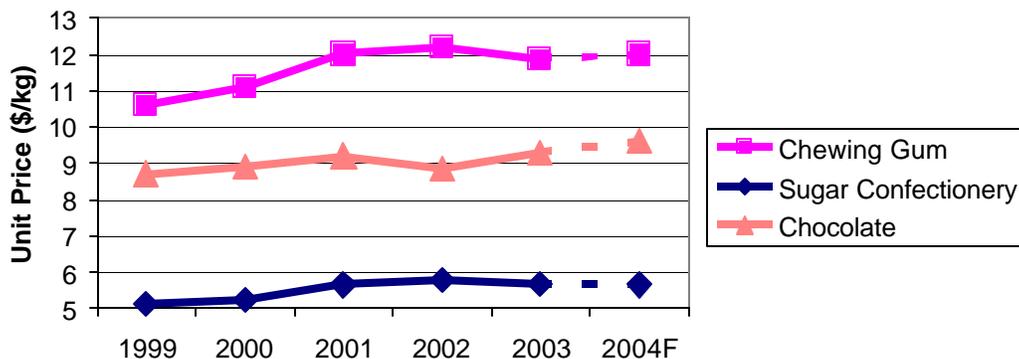
- The major confectionery product segments are chocolate, sugar confectionery, and chewing gum. Retail sales in 2003 were \$14.6 billion, \$7.7 billion, and \$2.8 billion respectively, as shown in Figure 3.
- Chewing gum has the highest retail unit price at \$11.90/kg, followed by chocolate, \$9.30/kg, and sugar confectionery, \$5.70/kg, as shown in Figure 4.
- Chocolate is the most popular confectionery product, based on retail sales value and volume.
- The volume of sugar confectionery sales is nearly the same as chocolate, but its lower unit price translates into retail sales that are roughly half.
- Even though the unit price of chewing gum is the highest of all three segments, its low sales volume constrains the value of retail sales.

Figure 3. U.S. Confectionery Retail Sales Value by Segment, 1999-2004



Source: Dept. of Commerce, NCA; Forecast: FAS

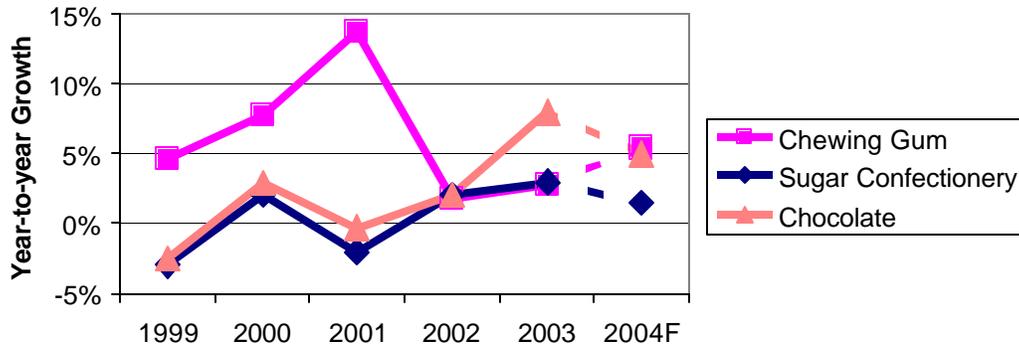
Figure 4. U.S. Confectionery Retail Unit Price by Segment, 1999-2004



Source: Dept. of Commerce, NCA; Forecast: FAS

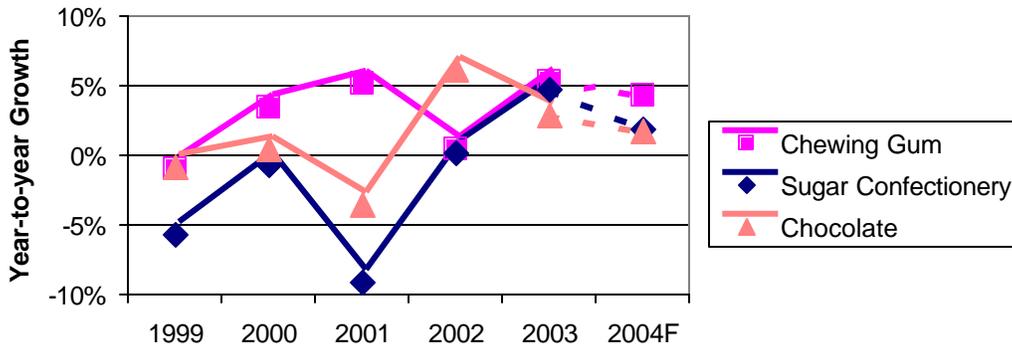
- Sales of chewing gum showed strong growth in 2001 (Figure 5), because of volume growth (Figure 6) and unit price growth (Figure 7). Part of this growth was because of the introduction of functional gum.
- Sales of chocolate experienced moderate growth in 2003 (Figure 5), despite slowing of volume growth (Figure 6) because of unit price growth (Figure 7). This suggests that consumers have shown a preference for premium chocolate, a trend that is forecast to continue.

**Figure 5. U.S. Confectionery Retail Sales Value Growth by Segment, 1999-2004**



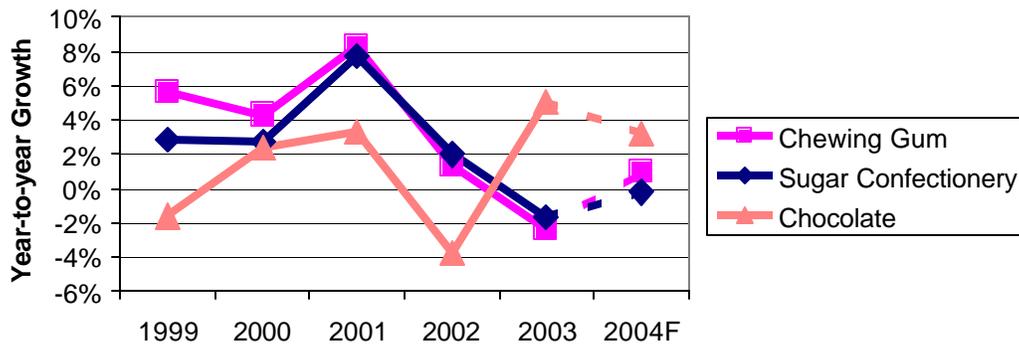
Source: Dept. of Commerce, NCA; Forecast: FAS

**Figure 6. U.S. Confectionery Retail Sales Volume Growth by Segment, 1999-2004**



Source: Dept. of Commerce, NCA; Forecast: FAS

**Figure 7. U.S. Confectionery Retail Unit Price Growth by Segment, 1999-2004**

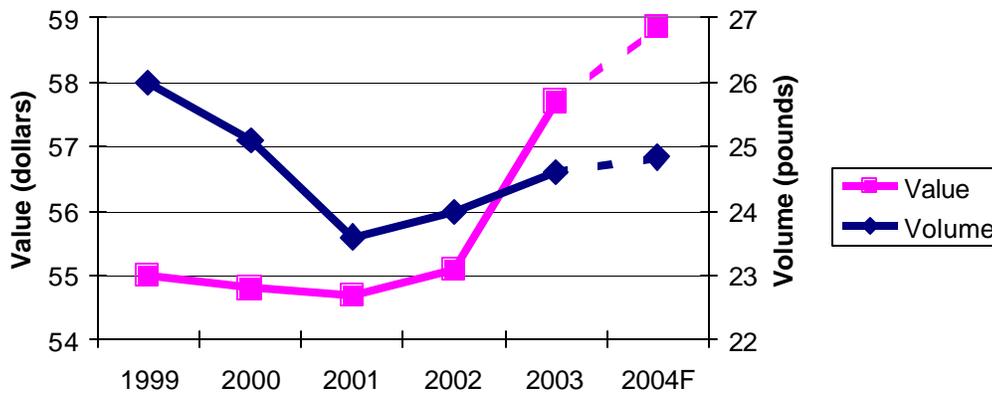


Source: Dept. of Commerce, NCA; Forecast: FAS

## Per capita consumption over 5 years, trends, projection of demand

- After being nearly constant for several years, per capita consumption of confectionery products by value jumped to nearly \$58 per person in 2003, as shown in Figure 8.
- Per capita consumption by volume has increased in recent years (Figure 8), to nearly 25 pounds per person in 2003, but is still below the levels of 1999 and earlier.
- Per capita consumption by value increased more than by volume in 2003 (4.7 percent growth compared to 2.5), indicating that consumers paid a higher price for premium confectionery products, rather than purchasing a larger quantity.
- Assuming 1 percent annual population growth, per capita consumption by value is forecast to grow by 2 percent to \$58.90, and per capita consumption by volume is forecast to increase to by 1 percent to 24.8 pounds in 2004.

**Figure 8. U.S. Confectionery Per Capita Consumption, 1999-2004**



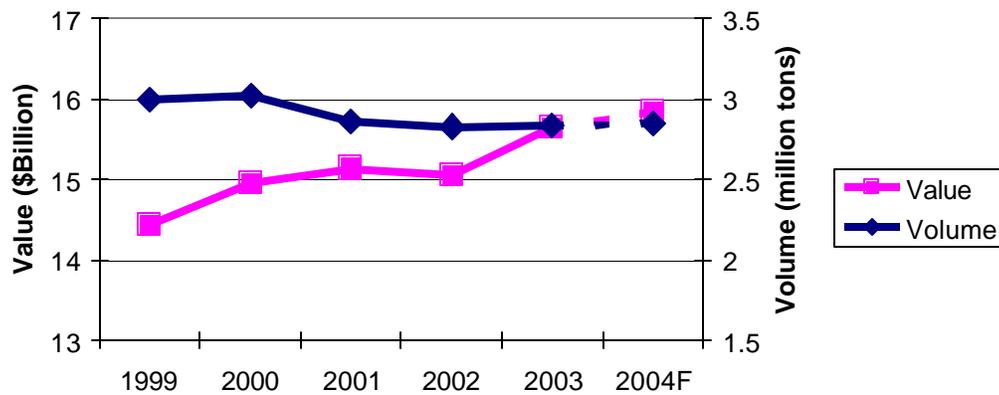
Source: Dept. of Commerce, NCA; Forecast: FAS

## Domestic Production

### Total production by major product segments, last five years, growth projections

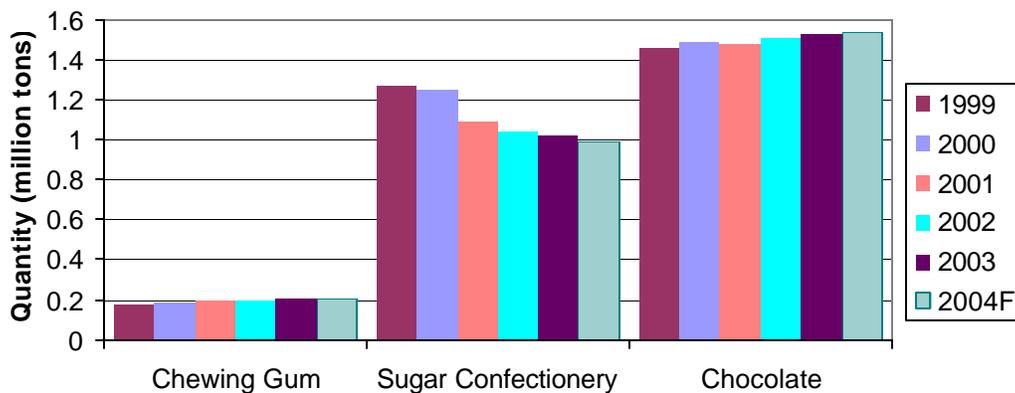
- The wholesale value of domestic confectionery production in 2003 was high relative to recent years at \$15.6 billion (Figure 9), growth of nearly 4 percent from 2002, although production volume growth is flat.<sup>2</sup>
- Domestic chocolate, sugar confectionery, and chewing gum production was 1.5 million tons, 1.0 million tons, and 0.2 million tons respectively in 2003. Confectionery production by segment is shown in Figure 10.
- The dominant ingredient in non-chocolate confectionery products is sugar. Industry sources report that U.S. candy factories have closed because lawmakers support policies that keep U.S. sugar prices high relative to other countries, but do not support policies to keep foreign-made “sugar-type” candy out of the U.S.

**Figure 9. U.S. Confectionery Domestic Production Value and Volume, 1999-2004**



Source: Dept. of Commerce, NCA; Forecast: FAS

**Figure 10. U.S. Confectionery Domestic Production Volume, 1999-2004**



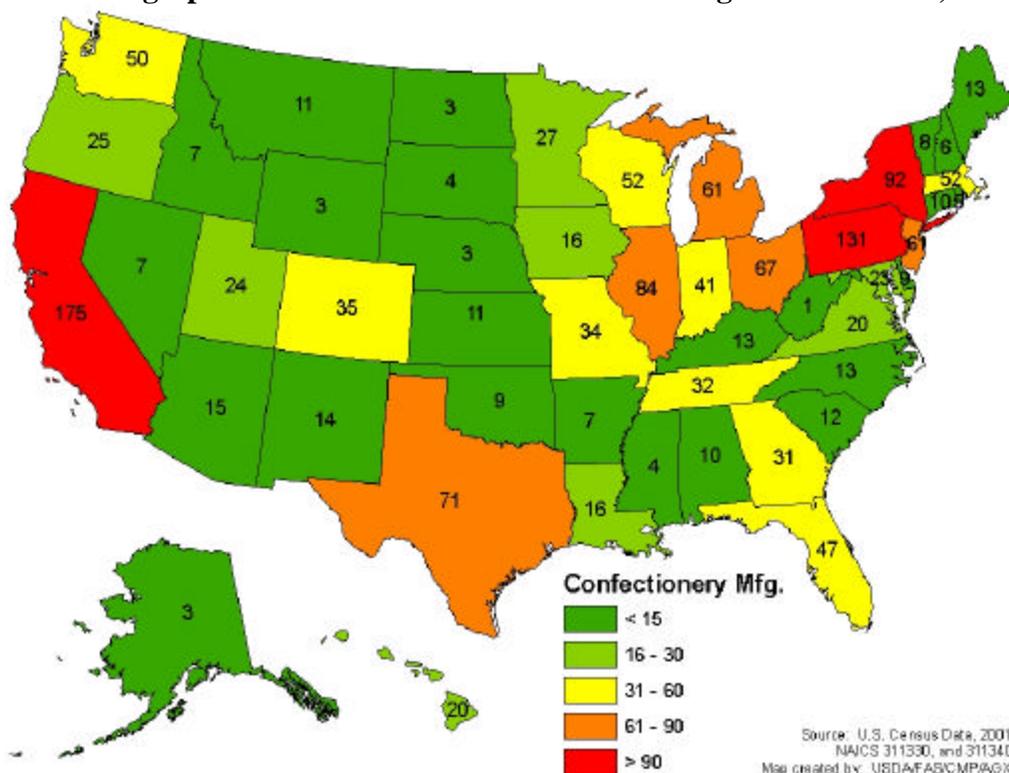
Source: Dept. of Commerce, NCA; Forecast: FAS

<sup>2</sup> Domestic production is reported by the Department of Commerce, in an annual survey of confectionery manufacturers

**Brief description of industry structure (geographic area, number of companies, key players and market share, investment)**

- According to the 2001 U.S. Census County Business Patterns series, the four states with the most confectionery manufacturing establishments are California, Pennsylvania, New York, and Illinois. Figure 11 shows the geographic distribution of manufacturing establishments in 2001.
- The 2002 Economic Census reported that from 1997 to 2002, the total number of U.S. non-chocolate confectionery factories decreased by 17 percent, from 625 to 518. During the same period, the number of establishments that manufacture confectionery products from purchased chocolate increased by 26 percent, from 861 to 1084. Additional data shows that confectionery factories that use purchased chocolate have decreased in average size (by sales), suggesting that they are specializing. Confectionery manufacturing directly employed over 56,000 people in 2002.
- Industry sources report that two companies, Hershey Foods Corporation, and Masterfoods USA (M&M Mars), are the two largest confectionery manufacturers in the U.S. Together, they have between 40 and 50 percent of the U.S. market share, by sales. The next six largest companies, Wrigley, Nestlé USA, Cadbury Adams, Russell Stover, Kraft, and Brach & Brock, when combined have another 20 percent of the market.

**Figure 11. Geographic Distribution of Conf. Manufacturing Establishments, 2001**



Source: Dept. of Commerce, County Business Patterns (NAICS 311330, and 311340)

Mention of a trade name or brand name does not constitute endorsement or recommendation by the Department over similar products not named.

## **Production trends, including special events or conditions that affect supply**

- Industry sources report that confectionery manufacturers have raised prices to offset recent increased labor and raw material costs. Prices of basic commodity ingredients, such as milk, cocoa, sugar, and nuts, can fluctuate considerably.
- Political unrest in West Africa (Cote d'Ivoire, Ghana, Nigeria, and Cameroon), where 65 to 70 percent of the world's cacao (the source of cocoa beans) is grown, creates uncertainty about production stability.

## **Consumer trends, including special events or conditions that affect demand**

- The fastest growing segment of the U.S. population is Hispanic, and products developed for this group represent one of the best opportunities for candy manufacturers. To capture this growing market, U.S. manufacturers have used tropical and spicy flavors as well as bilingual packaging to appeal to Hispanic consumers. U.S. manufacturers are competing directly with experienced Mexican and Central American candy manufacturers for this market.
- Children comprise a large segment of the candy-buying population. They influence their parent's purchases, and have purchasing power of their own. However, sugared bubble gum popularity has declined over the years, possibly because of entreaties by parents.
- The introduction of "functional" products, such as gum that reduces plaque or whitens teeth, has been a recent innovation. Since the discovery of the antioxidant benefits of dark chocolate, this product has also been more appealing to health-conscious consumers.
- Confectionery products made with artificial sweeteners many times sweeter than sugar, such as saccharin, sucralose, and aspartame (Figure 12), are popular with people trying to reduce their calories from sugar, or monitoring sugar intake closely because of diabetes. Artificial sweeteners are most commonly used in chewing gum and sugar confectionery products, which are consumed in small quantities. Until the introduction of sucralose, which is made from sugar, chocolate confectionery manufacturers were not able to replace the bulking properties of sugar with an artificial sweetener. The use of sugar represents a significant expense for domestic producers of confectionery products, so expanding the ability to use sugar-substitutes has implications for the cost structure of the industry.

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**Figure 12. Artificial Sweetener Information**

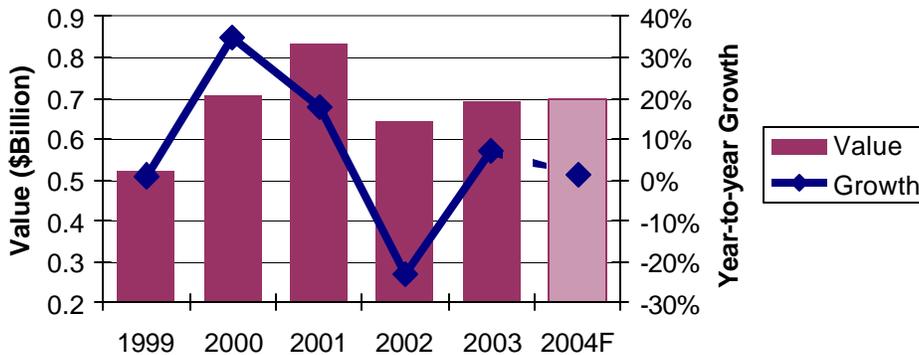
<b>Artificial sweetener</b>	<b>Trade name</b>	<b>Sweetness compared to sugar</b>
Saccharin	Sweet 'n Low	160 to 200x
Sucralose	Splenda	300 to 500x
Aspartame	Equal	600x

## Trade

### Total U.S. exports over 5 years, including growth rates

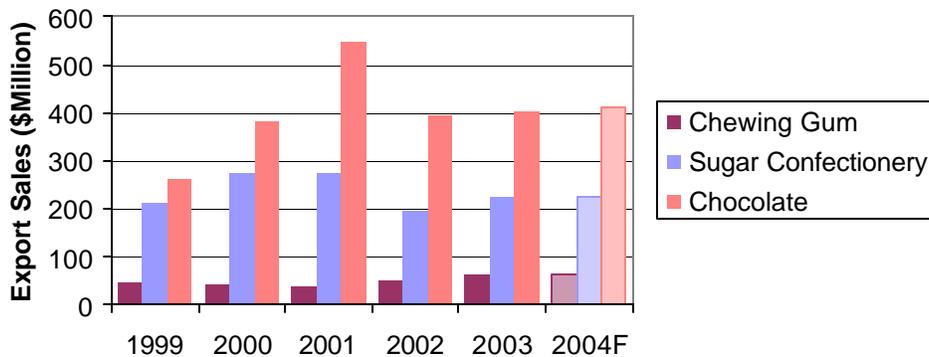
- In 2003, U.S. exports of confectionery products were 231,000 tons, valued at \$695 million (Figure 13), which is nearly 4 percent of domestic confectionery production by value.<sup>3</sup>
- Chocolate is the most popular confectionery export, with sales valued at \$400 million in 2003, followed by sugar confectionery and chewing gum (Figure 14).
- Exports are forecast to decrease slightly by volume to 220,000 tons, but value is likely to be unchanged at \$700 million, based on the pace of trade for the first eight months of 2004.
- Confectionery manufacturers can use the Sugar-Containing Products Re-Export Program to purchase sugar at world market prices for use in products that will be exported.
- Mexico has been a popular relocation destination for U.S. candy factories. In 2002, there was a sharp decrease in chocolate exports to Mexico.

Figure 13. U.S. Confectionery Export Sales Value and Growth, 1999-2004



Source: Dept. of Commerce, Global Trade Atlas; Forecast: FAS

Figure 14. U.S. Confectionery Export Sales Value by Segment, 1999-2003



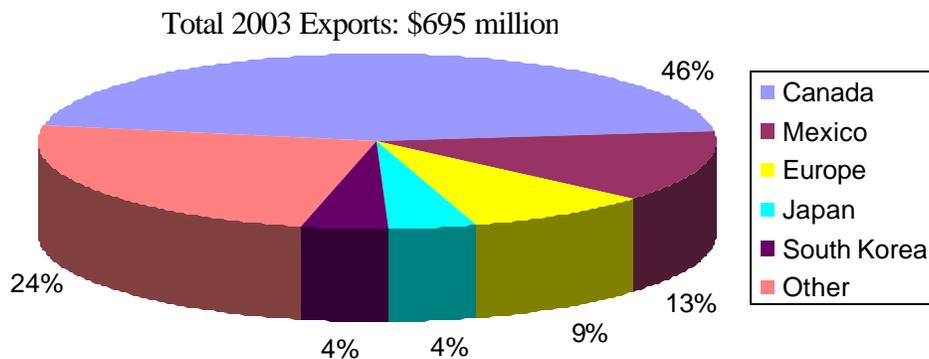
Source: Dept. of Commerce, Global Trade Atlas; Forecast: FAS

<sup>3</sup> Export value represents “free alongside ship” (f.a.s.) which includes cost, inland freight, and insurance.

## Top 5 destinations for U.S. exports (countries), trends; barriers to trade

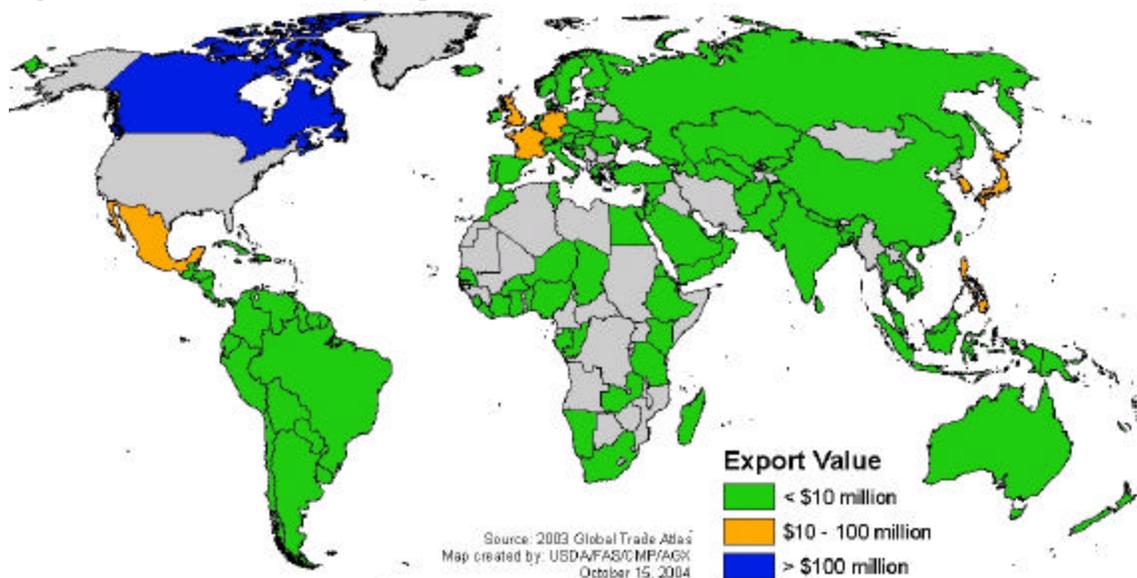
- Over the past five years, around 75 percent U.S. confectionery exports have been sold in the top five markets: Canada, Mexico, Europe, Japan, and South Korea (Figure 15).
- Canada and Mexico, partners with the U.S. in the North American Free Trade Agreement (NAFTA), are the largest export markets for domestically manufactured confectionery products. Other significant export markets include mainland Asia, Australia, and South America (Figure 16).
- Many countries have import tariffs on confectionery products, which reduce the competitiveness of U.S. goods in the local market.

Figure 15. U.S. Confectionery Export Markets by Sales Value, 2003



Source: Dept. of Commerce, Global Trade Atlas

Figure 16. U.S. Confectionery Export Markets, 2003

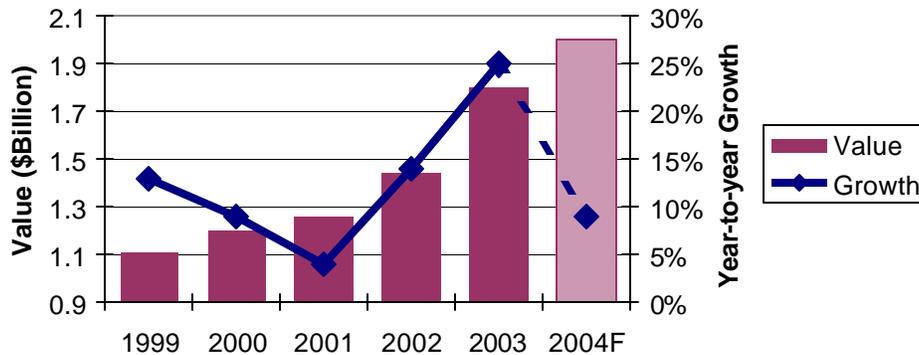


Source: Dept. of Commerce, Global Trade Atlas

## Imports, over 5 years, total and by country of origin, by value; types of products

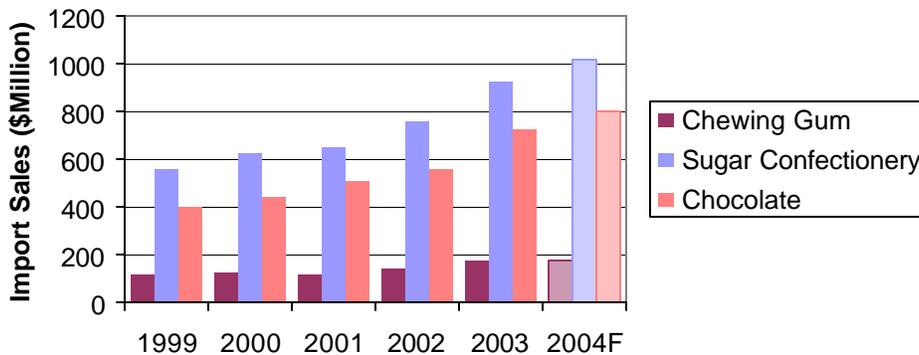
- In 2003, U.S. imports of confectionery products were 639,000 tons, valued at roughly \$1.8 billion, up from 530,000 tons and \$1.45 billion in 2002 (Figure 17).<sup>4</sup> This represents about 11 percent of apparent domestic consumption by value, up from 9 percent the previous year.
- Over half of the total imports by value are sugar confectionery products, followed by chocolate at about 40 percent, and chewing gum represents the remaining 10 percent. The ratio among segments has been roughly the same for the past five years (Figure 18).
- Imports are forecast to increase by volume to 720,000 tons, and value is likely to increase to \$2.0 billion, based on the pace of trade for the first eight months of 2004. The value of imported confectionery products has grown steadily in recent years, at the same time as U.S. candy manufacturers have closed factories.
- Unlike sugar, a major candy ingredient, there are no quotas on U.S. confectionery imports, and tariffs are very low. Industry sources report that this “double-standard” harms U.S. candy manufacturers.

Figure 17. U.S. Confectionery Import Sales Value and Growth, 1999-2003



Source: Dept. of Commerce, Global Trade Atlas; Forecast: FAS

Figure 18. U.S. Confectionery Import Sales Value by Segment, 1999-2003



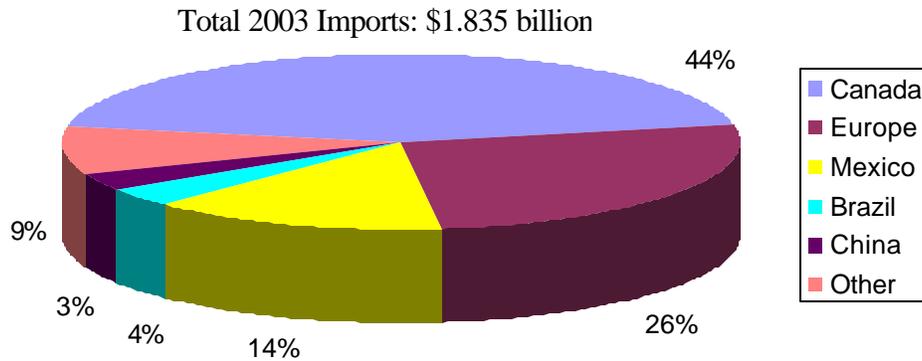
Source: Dept. of Commerce, Global Trade Atlas; Forecast: FAS

<sup>4</sup> Import value represents cost, insurance, and freight (c.i.f.) value at the first port of entry into the United States.

## Top 5 sources for U.S. imports

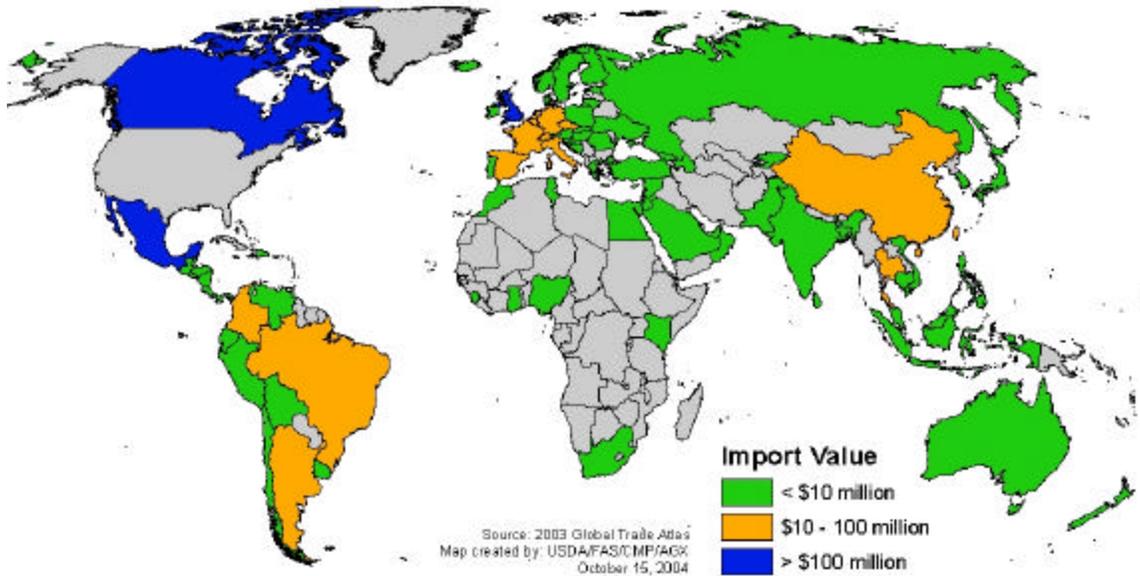
- Over the past five years, around 85 percent U.S. confectionery imports have come from Canada, Europe, and Mexico (Figure 19).
- Other significant import sources that have emerged in recent years include Brazil, China, Thailand, Argentina, and Columbia (Figure 20).

Figure 19. U.S. Confectionery Import Sources by Sales Value, 2003



Source: Dept. of Commerce, Global Trade Atlas

Figure 20. U.S. Confectionery Import Markets, 2003

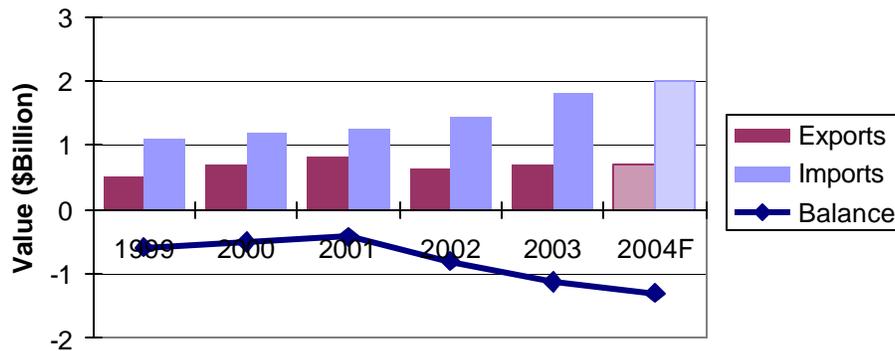


Source: Dept. of Commerce, Global Trade Atlas

## U.S. balance of trade over 5 years

- The U.S. trade deficit for confectionery products was \$1.1 billion in 2003, growth of 54 percent from the previous year, and nearly double the value from 2001 (Figure 21).
- The trade deficit is forecast to grow to \$1.3 billion in 2004 because exports have been stagnant while imports have been increasing.
- The unit price of exports has been between 2 and 10 percent greater than the unit price of imports since 1999, and this spread could increase to 15 percent in 2004.

Figure 21. U.S. Confectionery Balance of Trade by Value, 1999-2003



Source: Dept. of Commerce, Global Trade Atlas; Forecast: FAS  
Export value: f.a.s., Import value: c.i.f.

## Tariff chart for US exports by major regional destinations

- U.S. tariffs on imported confectionery products are low, relative to tariffs on U.S. exports to other countries.
- Philippines have the highest tariffs of the major destinations for U.S. confectionery products (Figure 22).

Destination	Chewing Gum	Sugar Confectionery	Chocolate
Canada	Low	Low	Low
Mexico	Low	Low	Low
Japan	Medium	Medium	Medium
Korea	Low	Low	Low
Philippines	High	High	High
Australia	Low	Low	Low
China	Medium	Medium	Medium
European Union	Medium	Medium	Medium

Source: FAS Online, WTO Tariff Schedules

General values are used because of the complex tariff formulas for products that contain sugar.

Low, <= 10%    Medium, ~25%    High, ~50%

<sup>5</sup> Refer to [http://www.fas.usda.gov/scripts/wtopdf/wtopdf\\_frm.asp](http://www.fas.usda.gov/scripts/wtopdf/wtopdf_frm.asp) for specific tariffs by country.

## Competitive Analysis

### Domestic vs. import market share; products, market position

- In 2003, imports accounted for roughly 20 percent of domestic confectionery consumption by volume, and 11 percent by value, indicating that most U.S. imports are not high-value confectionery products.
- Industry sources say that U.S. confectionery manufacturers would be in a better position to compete with imported products if the U.S. sugar trade were liberalized, allowing lower-priced sweeteners to be used products that are sold domestically. Canada has much lower import tariffs on sugar than the U.S., and Canadian exports of sugar confectionery products to the U.S. have grown by about 20 percent each year for the last five years, to over \$300 million. The U.S. recently signed a free trade agreement with Australia, but the import quota for Australian sugar was unchanged (8 percent of the total). The free trade agreement with Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua (CAFTA), does not grant these countries much additional access to the U.S. sugar market. The CAFTA countries currently have 28 percent of the U.S. import quota for sugar, but they have the potential to export more. The confectionery industry will likely be lobbying heavily for the liberalization of sugar trade in the upcoming trade negotiations with Thailand, a major sugar exporter who has very little access to the U.S. sugar market.
- Figure 23 shows some of the opportunities and challenges facing the U.S. confectionery industry.

<b>Figure 23. U.S. Confectionery Industry Competitive Considerations</b>	
<b>Advantages/Opportunities</b>	<b>Challenges/Constraints</b>
Strong brands	Domestic price of sugar
Premium products	Established premium product competitors
Growth of demographic niches	Position products for niche markets
Popularity of U.S. candy holidays	Manufacturing moving to foreign markets
Reputation for quality	Tariffs

### Price and quality position of competitors

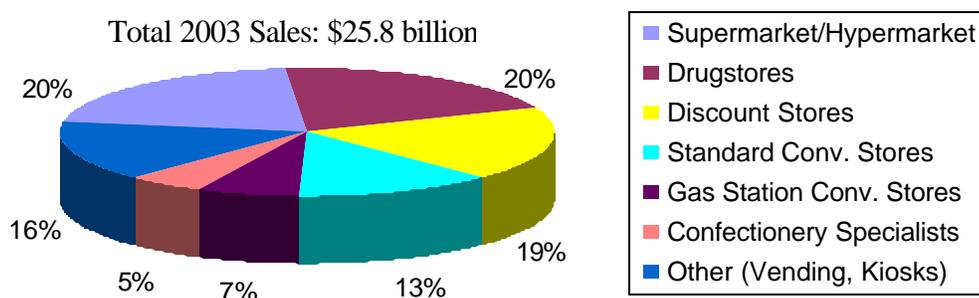
- U.S. confectionery manufacturers say that the high cost of sugar, more than any other production expense (labor, transportation, etc.), puts them at a disadvantage against foreign competition in the domestic market.
- Chocolate manufactured in Europe (especially Switzerland and Belgium) continues to enjoy the reputation of being very high quality, and is generally well known by U.S. consumers.
- The European Union has proposed reforming its sugar regime, which is expected to reduce its domestic sugar production and exports. Some analysts claim EU export refunds have depressed the world price for sugar. A change in policy could affect the price EU confectionery manufacturers pay for sugar.

## Market Organization and Distribution

### ***Description of distribution channels; domestic suppliers, importers/wholesalers, distributors, type of retailers***

- Domestic confectionery manufacturers turn raw ingredients into products for consumers, and they have three avenues to sell to retailers: via brokers, through wholesalers/distributors, or direct to retail.
- The role of the broker is to find retail or wholesale customers willing to place orders at prices set by the manufacturer. In return, brokers earn between 3 and 5 percent from the manufacturer as commission on sales, which is built into the manufacturer's price. The manufacturer has the legal and financial responsibility to deliver the product directly to the retail or wholesale customer.
- Wholesalers/distributors buy confectionery products from manufacturers, stock the products as inventory, search for retailers, and finance every aspect of the transaction. The major differences between wholesalers and distributors are that distributors may have exclusive rights to sell products within a geographic region, they may perform a variety of services for retailers, and they may deal with smaller quantities. According to industry sources, only 22 to 23 percent of confectionery products by volume are handled by wholesalers/distributors.
- When retailers buy directly from manufacturers, they are usually required to purchase a large quantity, such as a truckload. Unless the retailer does a large volume of business, there is a risk that a product could lose freshness by the time it reaches the consumer. Customers may pay a lower price from retailers who purchase directly from manufacturers.
- Confectionery products are sold through many types of retail outlets, including supermarkets/hypermarkets, drugstores, discount stores, convenience stores, and vendors (Figure 24). Retailers are aware that 84 percent of confectionery products by volume are purchased on impulse. Therefore, it is typical to find a range of similarly priced single-serving confectionery products near the cash register in many different types of retail outlets. Wherever customers are waiting, retailers have made it possible to purchase confectionery products. Customers pay a slightly higher price when buying single-serving items on impulse, because there is no comparison shopping or volume discount.

Figure 24. U.S. Confectionery Retail Outlets, Percentage of Retail Sales 2003

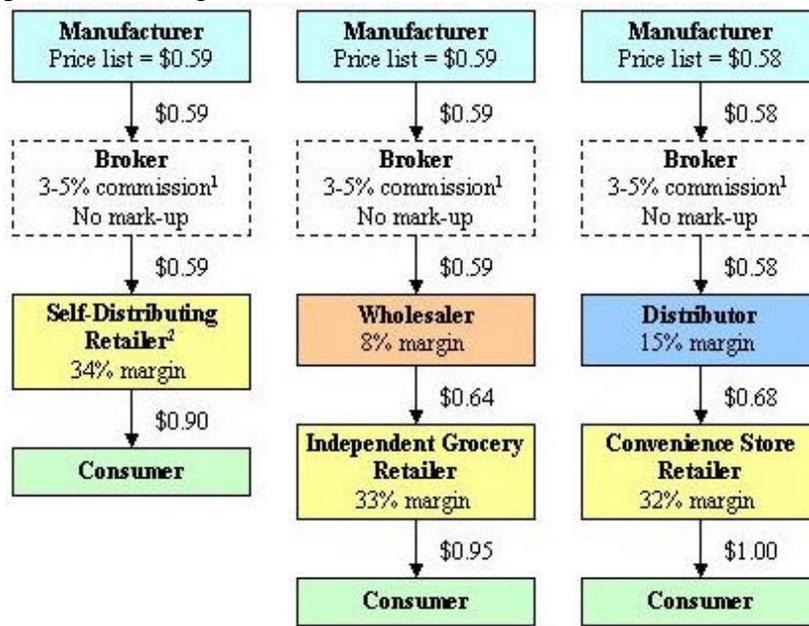


Source: Euromonitor

## Key market segments; Price segments, mark-up structure and other costs within each segment

- The key market segment for confectionery products is retail, but some mints and candies are moved through food service.
- The dominant price segment for confectionery products is around \$1.00. This makes single serving confectionery products inexpensive relative to other products that are perceived as luxuries or rewards (i.e. wine or steak).
- In general, manufacturers like to see their confectionery products with a shelf retail price at around 50 percent above the factory list price (Figure 25). Partners modulate their profit margin depending on the distribution channel.

Figure 25. Typical Gross Margins for Three Common Distribution Channels



$\% \text{ gross margin} = (\text{sales price} - \text{cost}) / (\text{sales price})$

1/ broker's commission is built into manufacturer's price

2/ retailer must order large quantity/full load

source: industry interviews

## Typical marketing and promotion support

- It is common for confectionery manufacturers to directly support the promotion of their products through mass-media marketing channels, such as coupons, print ads, and television commercials.
- The four major seasons for confectionery sales in the U.S. are Valentine's Day, Easter, Halloween, and the winter holidays (Christmas, Hanukkah, New Year's).
- Confectionery products are consumed in small portions, have a low price relative to other luxuries, and are associated with being a reward.
- Most confectionery purchases are made on impulse. Products are often placed close to cash register since consumption depends on how convenient it is to purchase.

## **Regulatory issues**

### **License Requirements**

- The purpose of the USDA's Sugar-Containing Products Re-Export Program is to make U.S. manufacturers of sugar-containing products competitive in the world market. Confectionery manufacturers must be licensed by the Program if they want to purchase sugar at world market prices for use in products that will be exported. They also must be able to prove that they purchased foreign sugar from a refiner licensed by the Refined Sugar Re-export Program.<sup>6</sup>

### **Labeling**

- Confectionery manufacturers who make products containing a “functional” active ingredient, and claim that the product provides a benefit, such as the promotion of dental health, are subject to U.S. Food and Drug administration (FDA) guidelines on labeling.
- Fruit-type confectionery containing artificial fruit flavors must be labeled as such.
- The use of nonnutritive ingredients is prohibited. Alcohol, greater than 0.5 percent, is prohibited, unless sale is permitted under laws of an individual state.
- Artificial colors must be authorized for use in the U.S.
- Other labeling issues include indicating the presence of allergens (like peanuts), and the amount of trans-fatty acids.
- Future labeling issues may include information about the presence of biotech materials, and the country-of-origin.

## **Conclusions**

- The U.S. market for confectionery products, such as gum, chocolate, and non-chocolate candy is mature, but sales are expected to grow steadily as population and prices increase, and new products are introduced.
- Strategies for growth:
  - Market premium chocolate and confectionery products
  - Design candy for specifically for children (toy-like, “extreme” flavor, etc.)
  - Appeal to growing demographic groups, specifically the Hispanic market
  - Offer products that use technical innovations, such as “functional” and “sugar-free”
- Competitiveness of domestic sugar confectionery manufacturers will continue to be hindered by the high domestic price of sugar. The Sugar-Containing Products Re-export Program helps make their products more competitive on the world market; however, sugar confectionery export sales growth have been flat for the past couple of years. Domestic sugar confectionery sales have shown little growth, and some manufacturers have closed their U.S. factories, and relocated abroad. Import sales by volume had 20 percent of the U.S. market in 2003, an increase of 50 percent since 1999.

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<sup>6</sup> For more information, consult the FAS Sugar Imports page:  
<http://www.fas.usda.gov/itp/imports/ussugar.html>

## **Appendix A**

### ***Study Objectives***

The purpose of this study is to give a general description of the U.S. confectionery market. The perspective will be forward looking, using historical data as background.

### ***Definition of Product***

Confectionery products include three major subcategories: gum, sugar confectionery (lollipops, hard and soft candy, mints, etc.), and chocolate. The major commodities used to manufacture confectionery products are sugar, cocoa beans, and corn syrup. Other commodity ingredients are milk, fruit, peanuts, almonds, etc. The U.S. supplies about 85 percent of its demand for sugar using domestic sources. The remainder is imported through quotas allocated to sugar exporting countries, including Brazil, Australia, the Philippines, and the Dominican Republic. With the exception of cocoa grown in Hawaii, all cocoa is imported, mostly from Africa and Southeast Asia. U.S. exports of confectionery products in 2003 were valued at roughly \$700 million, or just over 3 percent of total “consumer oriented” product exports, as defined by the Foreign Agricultural Service Bulk, Intermediate, and Consumer Oriented (BICO) classification.<sup>7</sup>

### ***Methodology and Sources***<sup>8</sup>

Data on confectionery products manufacturing is collected annually using a survey conducted by the U.S. Census Bureau. It is available to the public in the Mining, Manufacturing, and Construction Statistics, Current Industrial Reports, which makes it unique among processed foods. Members of the National Confectioners Association (NCA), who are confectionery manufacturers, suppliers, and brokers, fund this research. The survey gives details on the quantity and wholesale value of manufacturers shipments, in addition to reporting imports and exports. Subtracting exports from the total manufacturers’ shipments plus imports gives apparent consumption. Population statistics are used to calculate per capita apparent consumption.

The U.S. Census Bureau survey reports the manufacturers’ value of confectionery products, but retail value is often of interest. Industry sources estimate that the retail price of confectionery products is around 50 above the factory price. Also, imports include cost, insurance, and freight (c.i.f.) to the first port of entry to the U.S., and exports include cost, insurance, and freight to the U.S. port of exit, where it is considered “free alongside ship” (f.a.s.)

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<sup>7</sup> The BICO report provides U.S. Customs Service import and export data on agricultural, fish, and forestry products. It is used to monitor worldwide trade trends.

<sup>8</sup> This report draws from a variety of sources, including trade databases, industry associations, interviews, U.S. Department of Commerce surveys, and other commercial analysis, and was compiled by James M. Tringe, Agricultural Economist, under the supervision of International Strategic Marketing Group Team Leader Wayne Batwin. The Foreign Agricultural Service, AgExport Services Division, is responsible for all forecasts in this report. Additional information is available from the AgExport Services Division. Telephone: (202) 720-6343, Internet: <http://www.fas.usda.gov/agx/AGX.html>.

## Appendix B

### ***Additional Information***

Harmonized System (HS) codes are used for tracking imports and exports. The industry consensus is that confectionery products include two categories when described by the 4-digit and five categories when described by the 6-digit HS Code.

HS 4	HS 4 description	HS 6	HS 6 description
1704	Sugar confectionery	170410	Chewing gum
		170490	Sugar confectionery
1806	Chocolate	180631	Chocolate, filled
		180632	Chocolate, not filled
		180690	Chocolate, not elsewhere specified or indicated

<http://www.census.gov/foreign-trade/schedules/b/>

The North American Industry Classification System (NAICS) is an industry classification system that groups establishments into industries based on the activities in which they are primarily engaged.

NAICS 3	NAICS 3 description	NAICS 6	NAICS 6 description
311	Food manufacturing	311330	Choc. & conf. mfr. from purchased choc.
		311340	Non-choc. confectionery manufacturing

<http://www.census.gov/epcd/www/naics.html>

### ***Sources***

- National Confectioners Association  
<http://www.candyusa.org/default.asp> or <http://www.ecandy.com/>
- U.S. Department of Commerce, Bureau of the Census  
Manufacturing, Mining, and Construction Stats; Current Industrial Reports  
<http://www.census.gov/cir/www/alpha.html>  
2002 Economic Census, Industry Series Reports, Manufacturing  
<http://www.census.gov/econ/census02/guide/INDRPT31.HTM>  
County Business Patterns  
<http://www.census.gov/epcd/cbp/view/cbpview.html>
- Food and Agricultural Organization, FAOSTAT  
<http://apps.fao.org/default.jsp>
- U.S. Food and Drug Administration  
“What guidance does FDA have for mfrs of Confectionery (Candy)?”  
<http://www.cfsan.fda.gov/~dms/qa-ind4l.html>
- FASOnline, WTO Tariff Schedules  
[http://www.fas.usda.gov/scripts/wtopdf/wtopdf\\_frm.asp](http://www.fas.usda.gov/scripts/wtopdf/wtopdf_frm.asp)
- U.S. Dept. of Agriculture, Foreign Ag. Service, International Trade Policy  
<http://www.fas.usda.gov/itp/imports/ussugar.html>