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Czech Republic

Food Processing Ingredients Sector

Report

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Report Highlights: The majority of U.S. food ingredients are imported through European importers/distributors. Very few products are imported directly due to low volumes with high transportation costs. The wholesale sector, in a traditional sense, is almost nonexistent in the Czech Republic. Importers are also distributors and sell directly to the retail, as well as the hotel, restaurant, and institutional (HRI) sectors. Heavy promotions of (often more highly priced) U.S. products and ingredients is necessary. The promotions should include seminars, brochures and other materials that persuade buyers from large companies or specialized importers that they should buy a U.S. product and not a local or cheaper one. This report suggest a strategy for introducing products into the market and best product prospects.

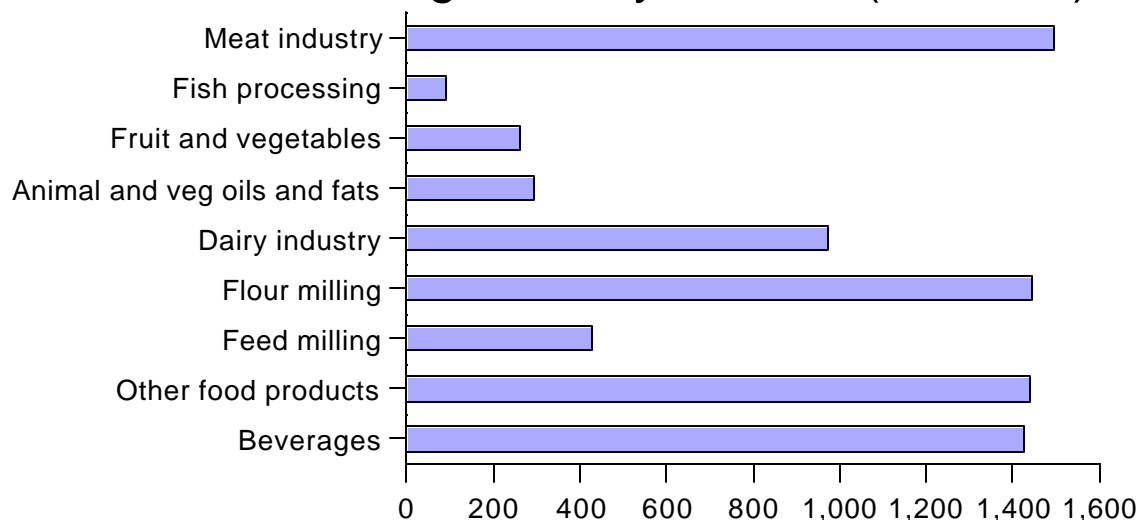
Includes PSD changes: No
Includes Trade Matrix: No
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I. Market Summary

The production value of the Czech food processing industry was \$6.5 billion in 2000, which is a 2.4 percent increase over 1999 (in current prices). The food industry accounts for 14 percent of industrial

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Food Prodcessing Industry in 2000 (mil.USD)



Foreign Trade

The Czech Republic is a net food importer but total domestic production meets about 95 percent of domestic consumption. The following table indicates a higher percentage of imports in the following sectors: fish, fruit/vegetables, oils and fats, bakery products and other food products (tea, coffee, pasta, sweets, etc.)

Industry Sub-sector	Export Orientation	Import Penetration
Meat Industry	4.9 %	7.3 %

Fish Processing	5.3 %	110 %
Fruit & Veg Processing	42 %	119 %
Oils and Fats	16.7 %	40 %
Dairy Products	15.3 %	7.2 %
Bakery Products	9.6 %	23 %
Feed Production	1.7 %	9.5 %
Other Food Products	13.4 %	25 %
Beverages	12.4 %	6.6 %

Structure of the Food Import and Export Markets:

	Import (% of total import)	Export (% of total export)
Germany	22 %	19 %
Slovakia	8 %	27 %
Poland	10 %	10 %
Austria	7 %	4 %
Hungary	7 %	3 %
Netherlands	5 %	4 %
France	6 %	1 %
Italy	5 %	2 %
Brazil	6 %	0.5 %
Russia	1 %	8 %

The number of food processing firms was over 12,000 in 1999. However, over 9,000 are individual entrepreneurs. Firms with less than 9 employees account for just 2 percent of total food processing turnover. The remaining companies are predominantly share holding or public limited liability companies. Companies with 50 - 249 employees have a 38 percent share of total output; firms with over 250 employees have a 28 percent share.

The privatization of the food processing sector was completed several years ago and government ownership accounts for only a few percent of production (e.g., the famous Budejovicky Budvar (Budweiser) brewery). Multinational companies dominate the sweets, soft-drink, vegetable oil and tobacco industries. Processors of meat, poultry, and dairy products and the canning industry are for the

most part Czech companies. The level of technology and the use of modern equipments varies among companies.

Testing of food ingredients imported to the Czech Republic is not required except for “special foods” (baby food, special diet foods etc.). The special foods are tested by the State Health Institute and testing costs range from \$30 to \$140, depending on the food.

Advantages and challenges for U.S. exporters

Advantages	Challenges
Improving economic situation	Enough domestic resources for food production
Many tourist visit the Czech Republic each year, mainly the capital city Prague	Strong competition from EU exporters - closer distance and good prices make a difference
Willingness of Czech consumers, especially young urban people, to try new products	Import tariff rates for certain agricultural and food products favor the EU
U.S. cultural influence (movies, etc.)	High prices of U.S. food products/ingredients
As a landlocked country, the Czech Republic relies on imports of fish and seafood.	Small volumes, high transport costs
Western retail chains carry many international products	Relatively low purchasing power of Czech consumers
Innovative and attractive packaging is important	Low awareness of U.S. food brands

II. Road Map for Market Entry**A. Entry Strategy**

Large multinational companies (e.g. Unilever, Danone, Nestle, Philip Morris) purchase their raw materials or ingredients either directly or through parent companies abroad. Other companies buy raw materials from specialized importers and distributors.

Heavy promotions of (often more highly priced) U.S. products and ingredients is necessary. The promotions should include seminars, brochures and other materials that persuade buyers from large companies or specialized importers that they should buy a U.S. product and not a local or cheaper one.

B. Market Structure

The vast majority of U.S. products are imported through European importers/distributors. Very few products are imported directly due to low volumes with high transportation costs. The wholesale sector, in a traditional sense, is almost nonexistent in the Czech Republic. Importers are also distributors and sell directly to the retail, HRI and institutional sectors. In most cases importing companies are quite small. Please contact the U.S. Embassy (see contact information below) for assistance in locating and approaching importers of specific U.S. food products.

C. Company profiles

The following table shows the number of food processing companies (with at least 20 employees) by sub-sectors. Where there is a number in parenthesis it indicates how many companies out of the total number have over 100 employees. The table also contains sales and growth rate of each sub-sector.

Food Processing Industry Sub-Sector	Number of Companies in 1999	Sales in mil. \$ in 2000	Growth Rate (change in % over the previous year)
Meat and Fish Processing	219	1,531	6.3
Fruit and Vegetables	31 (14)	109	0.7
Vegetable and Animal Oils and Fats	5 (5)	313	-11.4
Dairy Industry	83	982	-2.4
Flour and Starch Milling	100	208	-13.3
Feed Milling	79	512	-9.9
Other Food Products	500 (100)	144	-5.8
Beverages	154 (52)	1,419	18
TOTAL	N/A	6,512	1

Profiles of Major Food Processing Companies in the Czech Republic

Company (Product Types)	Sales in 2000 (\$ mil.)	% Czech ownership	End-Use Channels	Production Location	Procurement Channels
Plzensky Prazdroj (beer)	\$294	0	Retail, HRI	CR	Direct
Unilever (vegetable oils, ice cream, teas)	\$194	0	Retail, HRI	CR, some EU countries	Direct, Import Agents, Distributors
Jihoceske Mlekarny (dairy)	\$166	100	Retail	CR	Import Agents
Zrud (meat and meat prod.)	\$153	100	Retail	CR	Import Agents

Nestle Cokoladovny (confectionery)	\$145	0.4	Retail, Processing	CR, Switzerland	Direct, Import Agents
Setuza (vegetable oils)	\$141	100	Retail,HRI, Processing	CR	Direct, Import Agents
Opavia-LU (biscuits,confectionery)	\$137	0.4	Retail	CR	Import Agents
Nowaco (fish, frozen products, ice cream)	\$119	0	Retail, HRI	CR	Direct
Vitana (instant foods, spices)	\$108	0	Retail, HRI	CR	Direct
Hortim International (fresh fruit, vegetables)	\$100	100	Retail	CR	Direct
Coca Cola (non alcoholic beverages)	\$99 (1998)	0	Retail, HRI	CR	Direct
Kostelecke Uzeniny (meat and meat prod.)	\$96	100	Retail, HRI	CR	Import Agents
Delta Pekarny (baked goods)	\$94	100	Retail, HRI	CR	Direct, Import Agents
Hame (canned products, non- alcoholic beverages, baby food)	\$87	100	Retail	CR	Direct
Taroko (fresh fruit, vegetables)	\$83	100	Retail, HRI	CR	Direct
Danone (dairy products)	\$80	2.2	Retail	CR, France	Direct, Import Agents
Olma (dairy products)	\$79	100	Retail	CR	Direct, Import Agents
Masokombinat Martinov (meat processing)	\$77	100	Retail, HRI	CR	Import Agents, Distributors
Kraft Foods CR (sweets, coffee)	\$75	0	Retail, HRI	Hungary, US, Germany	Direct, Import Agents

Xaverov Holding (meat, poultry)	\$74	100	Retail, HRI	CR	Direct, Import Agents
General Bottlers CR (non alcoholic beverages)	\$70	0	Retail, HRI	CR, other EU countries, US	Direct
Walmart (non alcoholic beverages, spices)	\$69	100	Retail, HRI	CR	Direct
Prazske Pivovary (beer)	\$65	3	Retail, HRI	CR	Direct, Import Agents

D. Sector Trends

On the Production Side:

- the meat processing sector is undergoing restructuring, which includes modernizations of plants to meet EU standards and changes in response to consumer demand (less red meat and more poultry)
- fish processing, even though increasing, accounts for the smallest share in the sector
- the production of vegetable and animal fats is highly concentrated and relies on domestic raw materials (mainly rapeseed)
- the dairy industry is gradually increasing the range of products offered in response to customer demand; of all the food processing subsectors, the dairy industry has the biggest financial problems (on the one hand plants are being modernized to meet EU standards, on the other the dairy industry faces strong pressure to reduce prices from a concentrated retail sector)
- the milling and baking industry is concentrated; starch production relies on government help in the form of export subsidies

On the Consumption Side:

- eating outside the home has increased significantly in the last ten years
- international cuisines are becoming very popular (eating out as a cultural experience), in Prague numerous restaurants not only serve international cuisine, but also have the atmosphere to match; among the favorites are Chinese, Italian, Tex-Mex, French, American (e.g. TGI Friday's), and Mediterranean; even more exotic restaurants are also becoming popular such as Thai, Japanese, Indian etc.

- consumers demand convenience foods - busy people are spending money on frozen prepared meals, frozen pizza, frozen vegetables, canned products and other food items that are easily heated in the microwave
- trend towards healthier eating - consumption of red meat dropped while consumption of poultry reached the EU level with over 20 kg/per capita; vegetable oils are preferred over animal fats; there is slight increase in fruit and vegetable consumption; organic ("bio") products are gaining popularity

Food consumption

Up until 1998, domestic food consumption had been growing; it fell slightly in 1999, and since 2000 it has once again been on the move upward. The following table shows food consumption in the Czech Republic by type:

Food item	Consumption in kg/person in 2000	% change compared to 1999
meat total	79.3	- 4.5
- out of which: - beef	12.3	- 10.9
- veal	0.2	0
- pork	40.7	- 8.9
- poultry	22.2	+8.3
fish	5.5	+5.8
milk and dairy products	214	+3.2
eggs (pieces)	275	- 7.4
butter	4.1	+2.6
animal fats	4.7	- 6
vegetable oils and fats	16.3	- 0.6
sugar	36.6	- 1.3
grains incl. flour without rice	101	+1.3
potatoes total	77	+1.4
pulses (peas, lentils, etc.)	2	0

vegetables	84	- 1.5
fruit of CR's climate zone	49	+5.2
tropical fruit	29	0

III. Competition

The biggest competitor for U.S. food exporters are EU suppliers. Smaller shipping distances, established distribution channels, a weak Euro and, in some instances, tariff differentials, all pose challenges to U.S. exporters. Even products that are not produced in the EU are often transhipped into the Czech Republic via an EU-based broker or distributor.

In addition, it is quite common for Czech food processing companies to initially import an American product and then find cheaper sources for similar ingredients. A good example is popcorn. One Czech company started importing U.S. packaged microwave popcorn, then imported U.S. bulk popcorn for packaging locally, and now imports cheaper Spanish and Hungarian popcorn in bulk.

Some products cannot be imported due to technical barriers of trade. For example, meat, meat products, and poultry from the United States are not allowed to be imported into the Czech Republic because veterinary certificates have not been agreed to by veterinary authorities.

Competition in Food Processing Sub-Sectors

Meat and Fish Processing	domestic production, fish - EU, opportunity for the United States
Fruit and Vegetables	domestic, EU, developing countries (bananas etc.)
Vegetable and Animal Oils and Fats	domestic, EU
Dairy Industry	domestic, EU
Flour and Starch Milling	domestic
Feed Milling	domestic
Other Food Products	domestic, EU, potential for U.S. export - snacks, ingredients, baking mixes
Beverages	domestic, EU, potential for U.S. export of concentrates

IV. Best Product Prospects

A. Products Present in the Market Having Good Sales Potential

some dried fruits and nuts (almonds - 80 percent of almonds available in the Czech Republic are U.S. almonds; pecans, raisins, prunes)
distilled alcoholic beverage (bourbon in particular)
tobacco products
spices and sauces (tabasco, salsa, etc.)
chips, tortillas
popcorn

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

wine
seafood and fish
some dried fruits and nuts (peanuts, pistachios - currently imported from countries like Iran, Turkey etc. for lower prices)
frozen juice concentrates
rice (price is still more important than quality)
frozen meals (would have to be heavily promoted to consumers - price promotions, TV commercials etc.)
baking mixes, ingredients
fresh fruit (red grapefruit)

C. Products Not Present Because They Face Significant Barriers

meat and meat products (no veterinary certificates negotiated)
poultry (no veterinary certificates negotiated)
products produced from genetically modified plants that are not approved and registered in the Czech Republic (Note: as of March 1, 2002, only RoundUp Ready soybean have been approved). For example, products produced from Bt corn cannot be imported)

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(Exchange rate: February 2002: 1USD = 36 CZK)