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Report Highlights:

This report contains detailed information on how to import food products into the Czech Republic, market prospects, and points of contact. The economic outlook for 2003 is positive with expected GDP growth at 1.6%. The country is becoming a wealthier market, and the standard of living and per capita disposable income continue to rise. In May 2004, the Czech Republic will join the EU and adopt the EU tariff system and Common Agricultural Policy. The affects on U.S. exports will be mixed and driven mostly by tariff changes.

Includes PSD Changes: No
Includes Trade Matrix: No
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SECTION I. MARKET OVERVIEWSummary:

The Czech economic situation continues to improve as the Czech government prepares for the EU accession in May 2004. The food distribution system changed dramatically in the 1990s with an infusion of foreign capital into the food retail sector (see Section III.).

Consumers demand variety, and although price still plays a key role for many customers, quality is becoming increasingly important. In the early 1990s, many U.S. food products were available on the Czech market (e.g. nuts, rice mixes, tex-mex foods). At present, such products are less available due to pricing difficulties or legal trade barriers (retailers demand that all products be certified as GMO-free).

With the EU accession there will be changes in the food consumption: increased purchasing power will create demand for higher quality U.S. product, and demand for organic and healthy products will increase. There is a potential for U.S. organic and high quality beans, lentils, rice, nuts, frozen juice concentrate, etc. After accession, tariffs will be higher for tobacco, dried fruits, nuts, and fish. U.S. suppliers will see lower tariffs for whiskey, cigars, and wood products (see GAINS report #EZ3007)

Overall business climate:

The negative economic situation in the late '90's started to improve in 1999. This trend continued in 2000 and generated a renewed economic growth. Positive economic development continued in 2001. However, the second half of the year showed a deceleration of the general economic growth. Year 2002 brought very low growth in consumer prices, which even caused deflation at the beginning of the year. Positive values were restored in June 2003. The economic analysts forecast growth of consumer prices for 2004.

The economic development in the past years resulted in a raised GDP, strengthening of the Czech currency (Czech crown, CZK) toward Euro and USD, the growth of real incomes and final consumption of households. On the other hand state debt is increasing, and there is an unfavorable demographic situation (aging of population).

The table shows main economic indicators of the CR:

	1998	1999	2000	2001	2002
GDP growth (%)	-2.2	-0.8	3.1	3.6	2.0
Inflation rate (%)	10.7	2.1	3.9	4.7	1.8
Unemployment rate (%)	7.5	8.6	9.0	8.9	9.8
Income growth (%)	-1.3	6.0	1.9	3.2	5.1

The Czech Republic is a net importer of agricultural products (live animals, food, drinks, and tobacco). Total import of agricultural products in 2002 was \$1.9 bill, out of which \$55 mil was from the U.S. (structure of imports is shows in the table in Section IV.) Total export in 2002 was \$1.2 bill, out of which \$200 mil to the U.S. (mainly beverages and confectionery).

Consumer Food Market:

The percentage of disposable income spent on food is slightly declining. In 1999 it was 23.2% while in 2002 it dropped to 22.2%.

The table shows different eating habits in 1996 and in 2002:

Item	Consumption in kg per capita in 1996	Consumption in kg per capita in 2002	% Index (2002 compared with 1996)
Meat total	85.3	79.1	92.7
Out of which: Pork	49.2	40.5	82.3
Beef	18.2	10.9	59.9
Veal	0.3	0.2	66.7
Poultry	13.6	23.9	175.7
Fish total	5.2	5.2	0
Vegetable edible fats and oils	15.8	16.0	99.4
Milk and milk products	199.2	220.6	110.7
Eggs (pieces)	276	298	107.9
Cereals (in flour)	113.8	101.51	89.5
Sugar	39.5	40.0	101.3
Potatoes	77.2	76.0	98.4
Pulses	2.0	2.1	105.0
Vegetables	79.5	84.0	105.7
Fruit	73.5	69.4	94.4
Spirits (40%)	8.0	8.2 (2001)	102.5
Beer	157.3	156.9 (2001)	99.9
Wine	15.8	16.2 (2001)	102.5
Non-alcoholic beverages	127.0	220 (2001)	173.2

The biggest changes reflect trends towards what's believed to be healthier: decreased consumption of red meat, especially beef; increased consumption of poultry, mainly chicken; substitution of butter and other animal fats with vegetable oils and margarine; increased consumption of vegetables, pulses and some fruit.

Much higher consumption of non-alcoholic beverages and slightly increased consumption of milk and dairy products are a result of a wider supply of these products on the market. Multinational companies (Coca-Cola, Pepsi-Cola, Danone) sell most of their production in the new supermarkets and hypermarkets.

Key demographic developments and their impact on consumer buying habits:

The number of single and childless households is on the rise. Primarily due to young people waiting longer before they have a family and more women entering the professional job market. The result is a higher demand for convenience products and frozen foods. Recently fresh, chilled, ready-made meals have become popular. Additionally, with the boom in

hypermarkets and larger home refrigerators, once-a-week food shopping is quickly replacing daily purchases of fresh food items.

Advantages and Challenges for U.S. Suppliers on the Czech Market:

Advantages	Challenges
Improving economic situation and growing purchase power	U.S. exporters have to compete with EU exporters that have better conditions (closer distance, free trade with many agricultural Commodities) and domestic producers (cheaper products)
After the EU accession in May 2004 some products will have lower import duty (e.g. wine, spirits)	After the EU accession in May 2004 some products will have higher import duty (e.g. seafood, nuts)
New investments throughout the country will create new demand in smaller cities and rural areas	Relatively small volumes with high transportation costs
Changing lifestyle, eating habits – eating out is more and more popular	Low appreciation of high quality of U.S. products (e.g. nuts); price still plays a key role
Boom of large and modern hypermarkets that carry a wide range of products (30-50,000)	Food safety issues (fear of GMO; import restrictions for hormone treated beef)
Willingness to try new products; innovative products and packaging increase demand	Lower purchase power compare to the EU

SECTION II. EXPORTER BUSINESS TIPS

Local Business Customs:

The Czech system of duties imposed on imports is transparent and stable and the customs system generally respects the country's obligations in the WTO. In May 2003 Double Profit Agreement, which liberalizes trade of 95% of agricultural commodities between the EU and the Czech Republic, came into force.

General Consumer Tastes and Preferences:

Demand for typical Czech cuisine which is quite heavy, usually consisting of meat and dumplings with sauce, has been declining and is being replaced with healthier eating habits (see Consumer Food Market part). Demand for organic products is on the rise. General public is not concerned much about GMOs, however, retailers require a certification from suppliers that their products are GMO free (which is a imitating factor for export of some U.S. food products, e.g. tortilla chips).

Food Standards and Regulations:

Food Act no. 274/2003 replaced Act no. 110/97 and establishes basic rules for food production in the Czech Republic.

Act no. 153/2000 on Genetically Modified Organisms (GMOs) is currently being replaced by a new act (still in the Parliament). For more information on biotechnology regulations, see EZ3012.

General Import and Inspection Procedures:

All imported products must comply with Czech food safety regulations (Food Law 110/97 along with the relevant amendments). Products of animal origin are subject to certification and the State Veterinary Administration has specific requirements for importing poultry, beef, pork, horsemeat, and fish products. These products must be accompanied by appropriate USDA Food Safety and Inspection Service (FSIS) certificate. Fresh/frozen red meat and poultry are not eligible for export from the U.S. at this time (go to <http://www.fsis.usda.gov/OFO/export/explib.htm> for a current listing of certification requirements).

Veterinary law requires administrative fees for veterinary checks on animals, animal products, and fodder imported into the Czech Republic. The fee for a veterinary check per metric ton of live animal is 170 CZK. The fee for one metric ton of animal product and fodder is set at 110 CZK. The minimum fee per consignment is 1,120 CZK and the maximum 11,900 CZK.

The State Agricultural and Food Inspection Service (SAFI) is a government organization that regulates food safety for products that have already been imported and are being sold in stores, restaurants etc. SAFI inspects the quality of the foods including its; shelf life, expiration dates, prices and other characteristics.

Tariffs and tariff rate quotas (TROs):

Information regarding the fill rate of a particular TRQ is published regularly and can be found on the Internet at: www.cs.mfcr.cz. TROs are generally administered on an MFN basis (i.e. they are not earmarked for a specific country).

As off May 2003 Double Profit Agreement between the Czech Republic and the EU liberalizes trade with 95% of agricultural products between the CR and the EU.

Taxes:

The Czech Republic has two VAT rates: 5% on foodstuffs, and 22% on tobacco, alcoholic beverages and seafood. VAT for public catering was reduced from 22% to 5% in April 2000. In addition to the VAT, some products are subject to excise tax. However, the Czech Republic is going to change VAT and excise taxes based on the EU rates prior to the EU accession in May 2004.

The following list shows the 2003 rates for selected products:

cigars and cigarillos	0.36 CZK/piece + 5% from retail price
cigarettes	0.36 CZK/piece + 22% from retail price
beer	24 CZK/hectoliter for each percent of original malt extract (e.g. 10% beer = 240 CZK, 12% beer = 288 CZK)
alcohol and spirits	234 CZK/liter
grape wines	2.5 CZK/liter
fortified wines	16.40 CZK/liter
sparkling wines	23.40 CZK/liter

A listing of the product categories subject to excise taxes was published in the government's Excise Tax Act No. 587/1992 Col., a copy of which may be obtained through the American Embassy in Prague.

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

Food retail sector

The size of the food retail sector in 2002 was around \$12 bill. The sector has been growing, but its pace has already slowed down. The biggest boom of retail sector came with multinational retailers in the second half of the 1990s. In 1996 the Czech Republic had 2 hypermarkets, in 2002 there were 127 hypermarkets). Market share of the top 10 companies accounts for more than 50% of the sector sales.

The largest players on the Czech retail market are:

Retailer	Ownership	Food Sales in 2002 (\$mil.)
Makro - cash and carry (part of Metro)	Dutch	\$976
Ahold - supermarkets, hypermarkets	Dutch	\$978
Kaufland – hypermarkets	German	\$620
Rewe Group – supermarkets, discounts	German	\$712
Tesco – supermarkets, hypermarkets	U.K.	\$376
Tengelmann – discount stores	German	\$393
Globus – hypermarkets	German	\$342
Carrefour – hypermarkets	French	\$264
Delvita - supermarkets	Belgium	\$379

The table below shows where Czech consumers prefer to shop (in %):

Type	2001	2002	Note
Hypermarkets	29	30	large and mid size cities, higher incomes, higher education
Supermarkets	26	21	mid size cities, higher incomes, secondary education
Discount stores	18	18	mid and small size cities, lower incomes, lower education
Small stores	20	22	rural areas, older people with lower education
Other	7	9	

Hotels, Restaurants and Institutions sector (HRI)

The size of the HRI sector in 2002 was \$1.9 bill., up 6% from 1998. Hotel sales account for 24% (14% middle class, 7% luxury), restaurants 50% (23 middle class, 10% top class) and institutions 26% (10% schools, 2% hospitals, 12% company cafeterias, 2% army and police). While most hotels and restaurants are independent, there are some Western chains operating in the Czech Republic: hotels (Marriott, Hilton, Intercontinental, Holiday Inn, Best Western), catering companies (Eurest, Sodexo, GtH) and fast food restaurants (McDonald's, Pizza Hut, Kentucky Fried Chicken, Little Caesar's, Subway).

While in the early 1990s many western hotels and restaurant chains opened their establishments in the Czech Republic, the restaurant industry focused on upgrading during the second half of the 1990s. Several conditions have helped stimulate this sector: increased purchasing power that let towards increased eating out, a lower VAT (the value-added tax fell from 22 to 5 percent) and a demand for convenience foods.

While the majority of foods consumed in restaurants are domestic, imports account for 20-25%. Most come from the EU because of lower duties and close distance: seafood, produce, nuts, dairy products, pastas and sauces, breakfast cereals and spirits. Upper class hotels

offer some U.S. food products (e.g. wine – Robert Mondavi, Beringer, Ironstone; cranberry juice; seafood; appetizers – almonds).

Food processing sector

The size of food processing sector in 2002 was around \$10 bill. After a decline in 1999, the sector has been growing 6-9% a year. The largest share on the total sector size has the following sub-sectors: meat, beverages, other products (bakery, confectionery, pasta, coffee, tea, spices) and dairy.

Czech food processing sector is not consolidated yet. Privatization of the food processing industry sector was competed 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 drinks, 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 equipment vary among companies. There is an over capacity of production and many companies that do not meet food standards of the EU (especially meat production, dairy and milling industry). In the future there will be a lower number of more efficient companies that are modern and comply with food safety requirements.

The Czech Republic is a net food importer. In 2002 the CR imported 21.5% of its total domestic consumption and exported 13.5% of its domestic production. The following tables show export orientation and import penetration in 2002 and shares of countries that export food to the CR and countries that import food from the CR.

	Export Orientation (in %) (export/domestic prod.)	Import Penetration (%) (import/domestic consumption)
Meat Industry	6.7	9.9
Fish Processing	11.5	69.2
Fruit & Vegetable Processing	25.6	59.4
Oils and Fats	13.6	32.4
Dairy Products	13.6	11.3
Bakery Products	21.1	35.5
Feed Production	4.4	14.9
Other food products (confectionery,tea,cofee,past a)	21.7	35.2
Beverages	14.0	10.3

Import and export territories in 2002:

	Import (% of total import)	Export (% of total export)
Germany	24	17
Slovakia	11	25
Poland	9	13
Austria	5	4
Hungary	5	4
Italy	5	U.K. 3
France	4	Russia 3
Netherlands	4	3
Other	33	28

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

The following high value products are considered to have good market prospects:

1. Dried fruits and nuts (almonds, raisins, prunes, pistachios, pecans, peanuts)
2. Fish and seafood (live lobster, scallops, squid, salmon, mussels)
3. Alcoholic beverages (distilled liquor, wine, alcohol mixtures for cocktails)
4. Rice (wild rice, rice mixes)
5. Various mixes and ingredients (e.g. for ice cream, baking ingredients)
6. Spices
7. Frozen juice concentrate
8. Tropical fruit (red grapefruit)
9. Sauces and spreads (salsa, peanut butter)
10. Meat (horse, after negotiating import certificates also high quality beef)
11. Instant food (frozen)
12. Petfood
13. Tobacco products

Imports to the Czech Republic in 2002:

HTS Number	Item	Czech total import in MT	U.S. share in % (compared in volume)	Czech total import in mil. USD
0303	Fish, frozen, excl. fillets	8,912	2	9.2
0304	Fish fillets, chilled or frozen	19,185	7	29.8
0802	Nuts	6,421	37	18.0
080620	Grapes, dried	4,714	9	3.6
1005	Corn	15,530	3	13.5
1006	Rice	55,518	3	14.7
2106	Food preparations, nonspecific.	41,448	5	106.5
2204	Wine	103,422	0.1	44.8
2208	Spirits and liqueurs	16,948	9	35.0
2309	Pet food	102,727	1	71.5
2401	Tobacco unprocessed	12,143	24	45.3
4407	Wood sawn/chipped/sliced	248,907	0.3	57.2
4408	Veneer sheets/sheets of plywood	11,867	6.5	25.1
5201	Cotton not carded or combed	68,570	2	77.6

Source: Czech Customs Directorate (http://web.cs.mfcr.cz/cesta3_init_en.html)

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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TABLE A. KEY TRADE & DEMOGRAPHIC INFORMATION

The following table shows data from 2002:

Agricultural Imports From All Countries (\$Mil)/ U.S. Market Share (%)	2,239 (3)
Consumer Food Imports From All Countries (\$Mil)/ U.S. Market Share (%)	1,396 (2)
Edible Fishery Imports From All Countries (\$Mil)/ U.S. Market Share (%)	82 (3)
Total Population (Millions)/ Annual Growth Rate (%)	10.2 (-0.1)
Urban Population (Millions)/ Annual Growth Rate (%)	7.4 (-0.1)
Number of Major Metropolitan Areas	1
Size of the Middle Class (Millions)/ Growth Rate (%)	N/A
Per Capita Gross Domestic Product (U.S. Dollars)	\$5,650
Unemployment Rate (%)	9.2%
Per Capita Food Expenditures (U.S. Dollars) – food and beverages	\$700 (yr 2001)
Percent of Female Population Employed	56%
Exchange Rate (US\$1 = X.X local currency)	27.4

TABLE B. CONSUMER FOOD & EDIBLE FISHERY PRODUCT IMPORTS

Czech Republic Imports (In Millions of Dollars)	Imports from the World			Imports from the U.S.			U.S Market Share		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
CONSUMER-ORIENTED AGRICULTURAL TO	1.048	1.150	1.396	21	23	25	2	2	2
Snack Foods (Excl. Nuts)	126	144	163	1	1	1	0	0	0
Breakfast Cereals & Pancake Mix	8	8	11	1	1	1	1	3	1
Red Meats, Fresh/Chilled/Frozen	36	38	52	0	0	0	0	0	0
Red Meats, Prepared/Preserved	14	15	18	1	1	1	0	1	1
Poultry Meat	21	25	33	0	0	0	0	0	0
Dairy Products (Excl. Cheese)	40	48	66	1	0	1	0	0	0
Cheese	31	36	47	0	0	0	0	0	0
Eggs & Products	5	5	4	1	1	1	9	9	6
Fresh Fruit	148	167	206	1	1	1	0	0	0
Fresh Vegetables	95	105	137	0	0	1	0	0	0
Processed Fruit & Vegetables	93	98	118	3	3	3	3	3	2
Fruit & Vegetable Juices	24	21	28	1	1	1	2	1	1
Tree Nuts	16	18	22	4	5	7	25	28	33
Wine & Beer	36	43	56	1	1	1	0	0	0
Nursery Products & Cut Flowers	46	51	65	1	1	1	2	2	2
Pet Foods (Dog & Cat Food)	12	17	22	1	1	1	1	6	3
Other Consumer-Oriented Products	296	313	348	12	12	12	4	4	4
FISH & SEAFOOD PRODUCTS	68	78	82	1	1	3	0	1	3
Salmon	2	3	4	1	1	1	3	5	8
Surimi	3	3	4	0	0	0	0	0	0
Crustaceans	2	3	3	0	0	1	0	0	0
Groundfish & Flatfish	23	30	27	1	1	2	0	2	8
Molluscs	1	1	1	0	0	0	0	0	0
Other Fishery Products	36	38	43	1	1	1	1	0	0
AGRICULTURAL PRODUCTS TOTAL	1.798	1.937	2.239	67	68	57	4	4	3
AGRICULTURAL, FISH & FORESTRY T	2.153	2.303	2.660	74	73	65	3	3	2

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

TABLE C. TOP 15 SUPPLIERS OF CONSUMER FOODS & EDIBLE FISHERY PRODUCT

Czech Republic imports

CONSUMER-ORIENTED AG TOTATL (\$ 1,000)			FISH & SEAFOOD PRODUCTS (\$1,000)				
	2000	2001	2002		2000	2001	2002
Germany	125785	141445	174635	China (Peoples	14705	16534	12148
Slovakia	101454	124647	148144	Poland	7928	7249	9387
Poland	103649	117309	137438	Thailand	6841	6787	7091
Spain	86144	88633	120953	Denmark	6368	6938	6230
Italy	83998	90348	104728	Norway	3157	4428	4602
Netherlands	65069	76142	93121	Ireland	1443	3209	4062
Hungary	63456	58393	77087	Italy	1913	3014	3781
Austria	55572	58460	64443	Germany	4585	3422	3704
France	41197	38011	58035	Netherlands	3352	3196	3629
Belgium	32058	33830	45017	Argentina	556	976	2908
Brazil	31321	33097	35811	United States	327	949	2661
Denmark	24780	24051	27895	Spain	1560	2077	2381
Colombia	26636	24410	26946	Estonia	2123	2370	2368
Greece	19073	24927	26714	Canada	294	2292	1993
United States	21461	23184	25230	Latvia	988	2281	1922
Other	166276	193237	229348	Other	11466	12217	13152
World	1048025	1150189	1395623	World	67621	77945	82024