THE CZECH REPUBLIC

INDUSTRY SECTOR ANALYSIS

FOOD PROCESSING AND MACHINERY

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SUMMARY

Though the Czechs (like other Europeans) are great lovers of food and drink, U.S. companies will find the food-processing sector one of the less promising in the Czech Republic. European – and, to a lesser extent, Czech firms are strong, entrenched competitors, against which U.S. firms have made little effort to compete thus far. European and Czech products are smaller scale than most U.S. equipment and often better suited for the smaller Czech producers. U.S. companies should concentrate on niche products and on possible orders from large U.S. food makers already in the market. A local agent or distributor is crucial to success.

MARKET OVERVIEW

Although agriculture is not a Czech strong point, the food sector represents one of the most important industries in the Czech Republic. Since the Velvet Revolution in 1989, the sector has shifted rapidly from one dominated by regional producers catering to local populations to international players competing for European markets. Adoption of EU standards – and an influx of foreign investment -- brought increased quality and safety standards and acceptable prices. The food industry stood its ground even after the flood in 2002, which devastated large portions of the production and destabilized the whole industry. Strong national and EU support allow continuous growth in the sector. Agriculture has enjoyed a particular boost from EU support.

Share of the food groups According to sales in 2003	%
Manufacture of other food products	24
Production of meat and meat products	23
Manufacture of beverages	20
Manufacture of diary products	15
Manufacture of prepared feeds	7
Manufacture of oils and fats	5
Manufacture of grain mill and starch products	3
Conserving of fruits, vegetables and potatoes	2
Processing of fish and fish products	1

As is evident from the table, “other food products” (meaning mainly bakery, confectionery, sugar, chocolate, and sweets) along with meat production and processing (focused mainly on poultry with decreasing demand for beef) make up a large portion of Czech food production. Czech wine, mineral water, and beer production makes up a healthy 20%. The commodity structure has not witnessed much change for the last 7 years.

MARKET TRENDS

Czechs usually spend 25-35% of their income on food and are more and more open to new products. Since economic conditions are improving, there is an increased demand for luxury products. Frozen, chilled, ready-made meals have become very popular. Over the last 5 years, the typically heavy Czech cuisine has been replaced by lighter international cuisines. Yet still, the consumption of fish and seafood is low, as is consumption of organic food. Continuous growth is recorded in pork meat. Bakeries report a shift to healthier foods.

Czechs are slowly adjusting to the American custom of once-a-week purchases in large retail chains, shopping malls and hypermarkets pushing small retailers out of the business. The most successful players include Dutch Makro (USD 1.43 billion in sales), Dutch Ahold, German Schwarz Group, Austrian Rewe Group, British Tesco Stores and French Carrefour.

Fast food consumption is rapidly increasing, although the market in large cities at least is getting saturated.

The Czech Ministry of Agriculture in cooperation with the Food Chamber of the Czech Republic prepared a plan for 2004 – 2013 to promote further development of the food sector. The plan includes bank support programs and tax holidays for small and medium-size enterprises. The Czech government will support food marketing and determine use of EU funding for food industry support.

MARKET SIZE

Total Czech GDP growth is 3.8%, while agricultural GDP growth is 3.7%. The food sector contributes by 12.4% of value added and by 10.3% to total number of employees. The food processing market is expected to continue growth in sales and value added, while new equipment will cause employment to gradually decrease. (The overall European market for food machinery is valued for USD 18.23 billion.)

FOOD PROCESSING MARKET OVERVIEW In USD billion				
	Market size	Imports	From US	Exports
2002	10.5	1.924	0.0477	1.376
2003	10.1	2.091	0.0459	1.477
2004	9.7	2.789	0.0469	1.947
2005*	9.5	3.35	0.047	2.45

*Estimate Source: Ministry of Industry and Trade

All data are derived from Annual Industry Reports created by Ministry of Industry and Trade and Czech Statistical Office.

The estimated inflation rate is 2-3 percent.
The exchange rate used for this report is 23 CZK = 1 USD.

COMPETITORS

Czech and European companies share this market. Czech machinery is considered of competitive quality only in other emerging markets. However, in more advanced countries, the Czech products are considered to be low-cost, but outdated. U.S. equipment offers the advantages of more sophisticated and offer lower-cost per unit processing. However, European machines are generally smaller and more likely to fit the scale of the Czech buyer.

Major companies in the market:

- FRIP Development Base of Food processing machinery (Czech) – various machines and devices developed and manufactured in the food research Institute (www.vupp.cz)
- STROJEXPORT (Czech) – technological equipment for sugar mills, breweries and meat processing
- ALTA (Czech) – ice cream, brewing, milk processing, fruit and oil culture technologies
- URSCHEL (Switzerland) – precision food cutting (comes directly from Switzerland)
- Fullwood (UK) – milking equipment
- APV (UK) – food processing equipment
- Uniko (Czech) – filling and locking of food products
- CFS Czech s.r.o. (Czech) food industry technologies
- Poly-Clip System s.r.o. (US) - all equipment, esp. meat processing
- Olympia Engineering s.r.o. (Czech) –Various food and gastronomy equipment production
- Denwell, spol. s r.o. (Czech) – equipment for breweries, milking and beverages
- Compo spol. s r.o. (Czech) – All technologies for wine industry
- Prokop Invest, a.s. (Czech) – Milling equipment
- Centec spol. s r.o. (Czech) – Non-alcoholic beverages

Smaller, niche market Czech companies include:

- B-Kontakt - mini-breweries, lines for ice cream
- Ten Art s.r.o. - Lines for production of pasta, biscuits, snacks, bakery, packaging machinery
- Tenez a.s. - Stainless storage tanks, plate heat exchangers, enamel facilities
- V.M.D. a.s. - Technologies and equipment for breweries, soda manufacturing, milking and spirits processes
- I.A.N. Technic, spol. s.r.o. - Various food machinery and conveyors
- PS Mont s.r.o. – Manipulation, detection, weighting, filling
- Alfatech s.r.o. – Cooling, ice-cream equipment, heating equipment
- Intaz-int spol. s r.o. – Sales (storage, trolleys) and cooling equipment
- Manex & Co a.s. – Packaging technologies

END USERS

Large mostly international companies, who exist side-by-side with local processors, especially bakeries and breweries, dominate the Czech food processing market. Most U.S. equipment companies are wise to focus marketing efforts on multinational firms, or local firms with export earnings.

The top 5 companies in the Czech food market are:

1. Plzensky Prazdroj (Netherlands, South Africa) beer – USD 458 mil. in sales
2. Unilever CR (Netherlands) - oils, ice cream, instant products and others – USD 355 mil. in sales
3. Nestles Czech (Switzerland) confectionery – USD 327 mil. in sales
4. Setuza (Czech) vegetable oils – USD 312 mil. in sales
5. Geco – Tabak (Czech) - tobacco – USD 292 mil. in sales

Other major companies include Madeta (Czech – diary products), Nowaco (Denmark - frozen products), Opavia – LU (France), Danone (Yogurt), Vitana (Norway - spices and instant food), and Delta Pekarny (Czech, bakery).

Czech food producers are becoming increasingly active exporters. Diary products and beverages are the strongest exports. Large portions of exports (23%) go to Slovakia. Beer and malt are traditional trading commodities. There are 48 breweries in the CR; beer is the major export commodity. Southern Moravian region has a prestigious reputation in production of wine, especially white wine.

The food processing industry is emerging from a period of shakeout. From 1998 to 2002, 645 bankruptcies occurred, as smaller Czech companies found themselves unable to comply with costly EU safety requirements. Since 2004, the situation is stabilized and the sector is recovering.

Major US companies operating within the Czech market are:

- Phillip Morris (USD 420 mil. investment)
- Whitman Corporation
- Coca-Cola Beverages
- Pepsi/General Bottlers
- KFC
- McDonalds
- Mars Incorporated
- Heinz

U.S. investment in food and beverages industry in the Czech Republic has reached more than $1.6 billion.

MARKET ACCESS

Food business operations must comply with European Union norms and regulations. Food processors, for example, need to conform to integrated prevention and limitation of pollution regulations, though enforcement mechanisms are not always clear. Food safety, veterinary, labeling, and packaging rules may always apply. Food processing machinery must have certification. Products possessing EU CE certification stamps need not be submitted for additional Czech certification. Industrial equipment is governed by quality norms (ISO), although the norms are not laws and not obligatory.

When importing to the Czech Republic, all products are subject to the Customs. US exporters might face in this case higher tariffs in comparison with their European competitors, due to the EU free trade zone agreements and removal of trade barriers with other European countries. The customs rate differs substantially from product to product, and is always calculated from the final amount including transportation. Many agricultural products are protected by higher tariffs to support domestic production. . The rate varies according to the quantity and type of the product. Detailed customs rate for specific products can be found at http://europa.eu.int/comm/taxation_customs/dds/cgi-bin/tarchap?Lang=EN.

All products entering the market in the Czech Republic are subject to VAT. Standard rate is 19 percent. In several rare cases (esp. services) 5 percent rate is applied. A consumption tax on tobacco and alcoholic beverages is also imposed.

MARKET ENTRY

The food processing sector is distributed in all 14 regions of the Czech Republic. The Capital City of Prague, central Bohemia and southern Moravia are the most important regions in this sector. The weakest regions are similarly to the previous 3 years Karlovy Vary and Liberec.

US companies should search for a local partner when attempting to penetrate the Czech market. A local partner has become crucial in managing the complex legal framework and local business practices (especially pricing and competition).

The Czech Republic is a possible place for direct investment in the food-processing sector. However, obstacles (slow judicial processes, complex and not fully transparent administration and concerns about corruption) mean that U.S. investors should approach the agricultural section with caution. The food industry is slowly becoming suitable market for franchisees. Subway has started two franchised outlets in Prague, for example.

US companies interested in entering the Czech food processing market may contact the office of U.S. Commercial Service in Prague. Participating in trade missions and using the Commercial Service's Gold Key program brings excellent results. Both services are effective and efficient ways to meet suitable potential business partners face to face in Prague.

OPPORTUNITIES FOR PROFILE BUILDING

American Chamber of Commerce in the Czech Republic www.amcham.cz

- Association of both domestic and foreign business operating in the Czech market to promote the business conditions.

Economic Chamber of the Czech Republic www.hkcr.cz

- Association of businesses in the CR with aim to support the entrepreneurial and commercial climate.

Czech Food Chamber www.foodnet.cz

- This federation includes food and beverage manufacturers and agricultural processors.

Food Research Institute www.vupp.cz

- This contributory organization deals with research in the field of chemistry, biochemistry, food technology, food engineering and techniques and nutrition.

Institute for Food and Agriculture Information www.uzpi.cz

- This institute focuses on comprehensive transfer of industrial knowledge and information in various sectors including agriculture, food production, nutrition, consumer protection, forestry and environment.

KEY CONTACTS

U.S. Commercial Service Prague
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Ministry of Agriculture
www.mze.cz, info@mze.cz, Mr. Jaroslav Palas is the current Minister.

Ministry of Industry and Trade
www.mpo.cz , info@mpo.cz, Mr. Milan Urban is current Minister.
Wide range of useful guidance, including licensing, EU structural funds and regulatory changes.

Czech Confederation of Commerce and Tourism
www.socr.cz, socr@socr.cz
Voluntary association of businesses, incl. food industry, catering, hotels, restaurants and fast food.

Czech Meat Processors Association
www.cszm.cz, sekretariat@cszm.cz

Czech Directorate of Customs
www.cs.mfcr.cz, podatelna.grc@cs.mfcr.cz

Czech Certification Office – Office for Standards, Metrology and Testing
www.unmz.cz, unmz@unmz.cz

Czech Agriculture and Food Inspection Authority www.szpi.gov.cz
State administration body subordinated to the Ministry of Agriculture responsible for supervision of safety, quality and labeling of foodstuffs.

TRADE SHOWS/UPCOMING EVENTS

Salima
March 7 – 10, 2006 at Brno Exhibition Hall, salima@bvv.cz, www.bvv.cz/salima
Trade show for food, beverages, bakery, confectionery, equipment for food processing or hotels and public places, wine shows

Zeme Zivitelka
August 25 – 31, 2005 at Ceske Budejovice Exhibition Hall, info@vcb.cz, www.vcb.cz
International Agricultural Fair of crop and animal production, agricultural technology, food industry, water and forest industry, ecology and services for agrarian businesses.

Vino a Destilaty 2005 (Wine and Distillates 2005)
May 17 – 19, 2005 at Prague – Letnany Exhibition Hall, vegoprag@volny.cz, www.volny.cz/vegoprag
8th International Trade Fair of Wine and Spirits

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