



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

Agri-Food Past, Present & Future Report

Czech Republic

October 2005



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Canada 

Czech Republic

Past Present & Future Report September 2005

Overview

The Czech Republic, a country with over 10.2 million residents represents one of the most stable and economically successful nations of the post-communist states of Central and Eastern Europe. Established on January 1, 1993, the Czech Republic holds a growing economy and has made significant economic progress to date in the machinery and equipment, transportation, and automobile industries.

Successes in the Czech Republic are built on a sound economic and political framework, well-established research and development institutions, a highly educated workforce, and strong industrial capability. For instance, the Czech Republic is the largest automobile producer in the Central and Eastern European region.

Canada – Czech Republic Relations

Canada and the Czech Republic maintain excellent relations. Canada offered political support throughout the Czech Republic's communist period, has provided monetary aid since 1993, and enjoys a growing trade relationship with the country. Canadian investment in the Czech Republic is valued at over US\$1 billion with approximately 50 Canadian firms operating in the country.

Canada and the Czech Republic share numerous treaties and agreements that govern such areas as double taxation, social security, air transportation, and investment protection.

Canada-Czech Republic Bilateral Trade (2004)	
Czech Republic Total Trade	US\$132 billion
Exports	US\$65.3 billion
Imports	US\$66.7 billion
Trade balance	(US\$1.4 billion)
Canada-Czech Republic Trade	\$349.7 million
Exports	\$114.3 million
Imports	\$235.4 million
Trade balance	(\$121.1 million)
Canada-Czech Republic Ag Trade	\$41.1 million
Exports	\$25.4 million
Imports	\$15.7 million
Trade balance	\$9.7 million

- Canada-Czech Republic bilateral trade totalled over \$349 million in 2004. This value has been steadily increasing from \$261 million in 2002 to \$276 million in 2003.

- Top Canadian exports to the Czech Republic are medicine (18%), dog and cat food (7.8%), and plants (4.7%) primarily used for pharmaceutical use.

- Top Canadian imports from the Czech Republic include rail vehicle axles and wheels (7.3%), computer parts and accessories (4.3%), and iron and steel rails (3.9%).

Agricultural Trade

Total agricultural trade between Canada and the Czech Republic was valued at over \$41 million in 2004, and has increased at an average rate of 45% year on year since 2000. Canadian agri-food exports to the Czech Republic have increased over the past several years, with intermediate and consumer oriented exports showing immense growth. Such goods comprised almost all Canadian agri-food exports to the Czech Republic at 96% in 2004. Canada's agricultural exports to the Czech Republic increased by 25% between 2002 and 2003, and again by 53% between 2003 and 2004, mainly due to large increases in intermediate and consumer oriented exports. As of July 2005, total agricultural exports were valued at over \$15 million, surpassing July 2004 end totals by \$2 million. Canada currently accounts for 0.3% of the Czech Republic's total agri-food imports.

Canada's agri-food imports from the Czech Republic have steadily increased over the past few years from \$5.8 million in 2002 to \$8.7 million in 2003, and \$15.7 million in 2004. Beer has remained Canada's top import commodity from the Czech Republic over the past decade. However, in 2004, beer fell behind casein imports at 29%. Beer typically accounts for over 40% of total agri-food imports from the Czech Republic.

Canada's Top 5 Agricultural Exports to Czech Republic (2004)	
Dog or cat food	\$9 million
Plants , pharmaceutical use	\$5.4 million
Food preparations	\$4.6 million
Lentils, dried, shelled	\$1.3 million
Flour	\$1 million

Complete statistical summary available at: http://ats.agr.ca/stats/czech_e.pdf

- Total Canada/Czech Republic agricultural trade represents approximately 11.7% or \$41 million of all trade between the two countries.
- Top Canadian exports to the Czech Republic in 2004 were dog or cat food totalling just over \$9 million and representing approximately 35% of total agri-food exports, plants primarily used for pharmaceutical use at over \$5.4 million or 21% of total exports, and food preparations worth over \$4.6 million and 18% of exports. Lentils and flours accounted for roughly \$1.3 million and \$1 million respectively, or 5% and 4% of exports.
- The Czech Republic's non-alcoholic beverage market saw a downturn in sales between 2002 and 2003. Due to a trend towards healthier eating and lifestyles, demand for these products has rebounded. Recent imports from Canada escalated from \$100,000 in 2004 to just over \$1 million by July 2005.
- 2004 bulk exports to the Czech Republic totalled \$1 million, increasing by \$332,000 from 2003, while intermediate exports totalled \$9 million and showed 164% growth from 2003. Consumer oriented exports were valued at \$15 million in 2004, a \$2.7 million jump from 2003.
- Top Canadian imports from the Czech Republic in 2004 were casein valued at over \$6.8 million and making up over 43% of all agri-food imports, and beer

valued at over \$4.5 million or 29% of total imports. Sugar confectionary was another major Canadian import worth over \$1.4 million or 9% of total imports.

Economy

The Czech Republic's economy has expanded and modernized over the past seven years in order for the country to complete its entry into the European Union (EU) in 2004. The drive for accession obliged the government to change and implement new laws in order to secure its entry, which ultimately transitioned the Czech Republic into a more prosperous nation.

The Czech Republic's impressive economic growth between 2000 and 2004 was largely attributed to exports to EU countries, primarily Germany, and a strong upturn in foreign and domestic investment. Increased restructuring in private enterprises, developments in the financial sector, and efficient use of available EU funds are expected to strengthen future output growth.

The Czech Republic's economy is stable and slowly growing. The country attracted US\$10 billion in 2003; the most foreign direct investment (FDI) per capita of any Central European country. However, this number slowed to US\$4.5 billion in 2004 due to other markets competing for FDI with attractive investment proposals and wage plans. Moving forward, the Czech government hopes to shift FDI from manufacturing to the services sector as some manufacturing investors are expected to move further east as Czech wages rise (Euromonitor, 2004).

Domestic demand is currently playing a vital role in supporting economic growth as interest rates drop and the availability of credit cards and mortgages increase.

Gross Domestic Product (2004)	
GDP	US\$107 billion
GDP growth	(2004) 4% (2005) 4.1%
GDP/capita	US\$10,495
GDP/capita (PPP)	US\$16,800

Current

- GDP reached a value of US\$107 billion in 2004 and is forecast to reach over \$119 billion in 2005.
- Inflation fell to 1.3% in May 2005 from 2.8% at the end of 2004. It is expected to remain stable into 2006.
- The 2004 unemployment rate was estimated at 10.2%. It has dropped to 8.9% as of September 2005.
- There is an ongoing push towards the privatization of many large government-owned companies. The telecommunications sector was privatized in June 2005.
- The Czech Republic has seen about 32% growth in GDP per capita (PPP) since its 2000 value of \$13,929.

Forecast

- GDP growth reached 4% in 2004 and is forecast at the same annual average rate for 2005 and 2006 due to growth in exports, capital investment, and domestic demand.
- General price levels are forecast to rise by 3.2% in 2005 (Euromonitor, 2004).

Consumer Market

There are a number of trends and changes in the Czech Republic's consumer market that are currently impacting exporters' approaches to entering the marketplace. The demand for traditional Czech dishes is decreasing, and healthier foods are becoming increasingly popular. Consumer demand for convenience products, frozen foods, and ready-made meals are also on the rise as the number of single and childless households is growing. Snacking and spread out meal times are also more frequent with changing work and family patterns. As is the case in many countries, traditional eating habits are modified as cultural and social changes surface.

- With a push for healthier foods, Czechs' consumption of red meat, such as beef, has been declining and poultry sales, primarily chicken, have increased. Between 1998 and 2003, consumption of red meat fell by almost 10% while that of chicken increased by 37%. There are many factors attributed to this shift including price sensitivity, healthier eating habits, and cases of bovine spongiform encephalopathy (BSE) (Euromonitor, 2004).
- Czechs are using vegetable oil and margarine in place of butter, and increasing their consumption of vegetables, pulses and fruit.
- Consumption of soft drinks increased by 42% between 1998 and 2003. Even more impressive was bottled water consumption, which more than doubled at 63% over the five year period. This market characteristic is directly influenced by a desire for healthier eating among Czech consumers (Euromonitor, 2004).
- Key opportunities within the Czech Republic's food and beverage market include convenience food products, health foods and snacks, organic foods, and seafood.
- Approximately 18% of household expenditure is allocated to the purchase of food and beverages (Euromonitor, 2004).
- EU accession is expected to increase consumer purchasing power and create demand for higher quality import products, especially organic health products.
- A strong market for organic products exists as many retailers want to ensure the quality of their goods and keep their stores free of genetically modified products. However, this is not yet a general concern for consumers.
- Organic products with great market potential include cereals, eggs, fresh fruit, herbs and spices, meat, peas, and vegetables.
- The Czech Republic's organic consumers typically have a higher level of education and income than those that do not purchase organic products.
- Consumer brand-recognition and demand for variety and quality is increasing; however, product price still remains a major factor in influencing purchasing decisions. This may therefore, have some impact on the sale of organic products.
- As Czechs are becoming wealthier, travelling more, and are exposed to new tastes and cultures, retailers are widening their selections with deli-style shops, ready-made meals, and ethnic foods.
- The Czech middle class is quickly growing as evidenced by the development of large multi-product stores and shopping centres that service middle class concentrations within the country.
- Consumer demand for goods is increasing as interest rates drop and the availability of credit cards and mortgages increase.
- Per capita expenditure on over-the-counter healthcare products is still very low in the Czech Republic; however, it is increasing. This increase in

consumption levels of over-the-counter healthcare products is expected to continue into 2007, creating an area of opportunity to penetrate the market.

Competitors

As a member of the EU, the Czech Republic relies heavily on its European neighbours as import sources, making the country a more challenging market for Canadian products and companies to penetrate. The Czech Republic's principal import sources, Germany (31.8%), Slovakia (5.4%), China (5.3%), Italy (5.2%), and Poland (4.8%), represent Canada's top competition in the Czech export market.

Since its accession into the EU, the Czech Republic's range of trade and investment opportunities has grown, making for numerous economic changes. Major infrastructure improvements in pollution control equipment, telecommunications equipment and services, energy production and distribution, housing and municipal infrastructure, and medical services are expected to benefit foreign exporters.

Access Issues

The Czech Republic remains a country of constant trade and investment interest for Canadian and foreign investors, and holds strong potential for Canadian companies wanting to penetrate the EU and/or Eastern and Central European markets. To facilitate successful market entry, Canadian exporters are encouraged to develop market entry strategies that include working with a local importer and distributor to develop a presence, gain valuable market advice, and best position a product to meet local tastes, laws and pricing.

The Czech Republic is member of the EU, the Organization for Economic Co-operation and Development (OECD), and the World Trade Organization (WTO), and implements international accords and policies from these bodies. The majority of the Czech Republic's requirements governing imports are co-ordinated with EU regulations, while others are specific to the country. It is recommended that Canadian exporters contact the Czech customs authority when checking import duties on individual products.

The Customs Authority

Budejovicka 7, Praha 4, 140 96

Tel: (011 420) 261 331 111

E-mail: podatelna@cs.mfcr.cz

The Czech Republic's duty structure imposed on imports is highly transparent and stable. Export duty is not imposed on any kind of goods; therefore, import duties are assessed depending on the kind of goods and country of origin.

- Agricultural products are sensitive commodities in the Czech Republic and are protected by higher tariffs, ranging from 50% to 200%. However, some goods can be imported at lower tariffs with tariff quotas in an effort to preserve competition and increase product selection.
- All agricultural vegetable-derived products crossing Czech borders must have a phytosanitary certificate from their country of origin. For information on obtaining phytosanitary certificates consult the Czech Republic's State Phytosanitary Authority <http://www.srs.cz>.

- The Czech Republic maintains strict regulations concerning the importation of live animals, fish, feed and animal products. Such commodities must have veterinary certificates. All import regulations for veterinary goods and the transportation of animals are available from the Czech State Veterinary Authority <http://www.svscr.cz>.
- In addition to customs tariffs, imported goods are subject to taxes (i.e. value added tax and excise tax on some goods). In accordance with the Czech Republic's international obligations, tax rates are the same for both domestic and imported goods.
- In 2004, the Czech government increased the basic rate of the value added tax from 19% to 22%, while the reduced rate remained static at 5%.
- The Common Customs Tariff applies to customs duty rates, and rates frequently change. Consult the European Commission's Taxation and Customs Union for what rates of customs duties (in respect to third countries) may look like after accession http://europa.eu.int/comm/taxation_customs/dds/en/tarhome.htm
- For more detailed information on customs procedures, tariffs, and labelling requirements consult International Trade Canada – Trade Commissioner Service <http://www.infoexport.gc.ca/ie-en/DisplayDocument.jsp?did=11213>.

Agriculture Sector & Policies

Comprising only 3.4% of the Czech Republic's GDP and employing 4% of the population, the country's agricultural sector is not large but it is quite efficient. With its abundance of exportable meat and self-sufficiency in wheat, barley, vegetables, potatoes and fruit, the Czech Republic's agricultural productivity is high by Eastern European standards (Euromonitor, 2004).

The Czech Republic's primary agricultural commodities include hops, fruit, pigs, potatoes, poultry, sugar beets and wheat. Arable land comprises over 70% of total agriculture land. Approximately half of the Czech Republic's cattle are bred on arable land, and 0.3% of land is unused. There are 240 square km of irrigated land.

The Czech government finalized its ten-year agricultural strategy in 2004, which will ensure continued restructuring of the farming sector and an extension of the country's grassland area. The Czech Republic's agricultural sector is expected to show slow growth through to 2013. Farms are also forecast to grow in size and primarily become co-operatives.

There are over 810 farmers that produce organic products in the Czech Republic. Production, however, does not currently meet domestic demand and such high quality products are often imported. Organic foods make up 1% of the country's total food market.

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