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Czech Republic

Exporter Guide

Czech Republic: Exporter Guide 2018

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Report Highlights:
This exporter guide provides practical tips for U.S. exporters on how to conduct business in the Czech Republic. Although a small market, the country serves as an entry point for companies expanding to the developing markets in the east. With one of the fastest growing economies in the EU and the booming tourist industry, the Czech Republic offers opportunities for U.S. exporters of fish and seafood, dried nuts, food preparations, distilled spirits, wine, and prime beef.

Market Fact Sheet: Czech Republic

Executive Summary

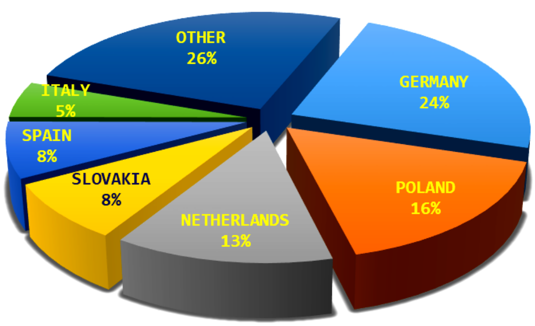
Though with only a population of 10.6 million, the Czech Republic is one of the most prosperous and industrialized economies in Central Europe and serves as an entry point for U.S. companies expanding beyond traditional markets in Western Europe to the developing markets in the east. As an EU member, the Czech market complies with EU market entry regulations.

In 2017, the Czech economy was one of the fastest growing economies in Europe and grew by a robust 4.5 percent. Imports of agricultural and food products totaled almost $10 billion which is six percent of the Czech Republic's total import value. Imports from the United States totaled over $55 million.*

Imports of Consumer-Oriented Products

For consumer-oriented products, Czech Republic imported $22.5 million* from the United States. Dried nuts and fruits, fish, food preparations, wine and spirits are the most widely imported consumer-oriented products imported by the Czech Republic.

Import of Consumer-Oriented Products to the Czech Republic, 2017



Food Processing Industry

The food and beverage industry in the Czech Republic accounts for 2.5 percent of GDP and for 2.6 percent of employment. In 2017, 10,415 companies of the sector generated total sales of $ 17.5 billion and employed 112,000 persons all over the country. The major sub-sectors are meat processing and fodder production, whereas beverages production is dominated by beer brewing and production of beer ingredients, particularly malt.

Food HRI Industry

The hotels/restaurants sector employs 170,000 people in more than 60,000 business units. In 2017, the sector generated $7.5 billion in total revenue.

**Source: Global Trade Atlas. According to Czech Statistical Office data, Czech imports of agricultural and food products from the US are almost double value, i.e. $103.5 million. Refer to Section V Agricultural and Food Imports about discrepancies between U.S. export and Czech import data.*

Quick Facts CY 2017

Imports of Consumer-Oriented Products (USD)
$ 4.87 billion*

List of Top 10 Growth Products Imported from the US

1. Frozen Hake and Alaskan Pollock	
2. Dried Almonds	3. Whiskey and Bourbon
4. Food Preparations	5. Pet Food
6. Beef	7. Cranberries
8. Pistachios	9. Hop pellets
10. Wine	

Host Country Retailing Brands (Companies)

1. *Kaufland (Schwarz)*
2. *Albert (Ahold)*
3. *Lidl (Schwarz)*
4. *Tesco (Tesco Plc)*
5. *Penny Market (Rewe)*
6. *Coop*
7. *Billa (Rewe)*
8. *Globus (Globus Holding)*
9. *Makro Cash&Carry (Metro AG)*

GDP/Population
Population (millions): 10.6
GDP (billions USD): $234.7
GDP per capita (USD): $22,142
2017 Economic Growth Rate: 4.5%
2018 Economic Growth rate (estimate): 3.6%

Exchange rate
1 USD = 21.4 Czech Crown

Sources: GTA, Czech Statistical Office, GfK Czech Republic, Euromonitor Intl

Food Retail Industry

Retailing benefited from the positive performance of the economy in 2017. Retail value sales reported 5.4 percent growth. Grocery retailers have clearly shifted from independent towards chained outlets. E-commerce becomes one of the most important growth channels in food retail. It has created a much more competitive market, challenging stationary retailers to expand or to enhance consumers' shopping experience.

SECTION I MARKET OVERVIEW

As a medium-sized, open, export-driven economy, the Czech Republic is heavily dependent on foreign demand, especially from the Eurozone. More than eighty percent of Czech exports go to EU states, particularly to Germany. Similarly top import source countries are Germany, Poland and Slovakia. The Czech Republic recorded a general trade surplus for the fourth consecutive year in 2017. However, Czech imports of agricultural products outpaced exports by 17 percent.

Services account for 59 percent of the economy, manufacturing for 28 percent and agriculture for 2.5 percent. The Czech agricultural sector is not large but productivity is high by Eastern European standards. It is difficult, however, to compete with Poland, where the agricultural sector is larger and costs are lower.

- **Population and Key Demographic Trends**

In December 2017, the Czech population was 10.6 million, a slight increase since 2016. The Czech Republic is characterized by wide population dispersion. Over 10 percent of the population is centered in Prague, the only city with more than one million inhabitants, while the majority of Czechs live within 30 minutes of other major commercial/industrial hubs (Brno, Plzen, Ostrava, etc.).

Low levels of income inequality have led to the development of a large middle class accounting for 48 percent of the country's total households in 2016, one of the highest in the world. While this share is expected to remain significant during 2018-2030, a moderate rise in income inequality will also support growth of top and bottom income classes. This trend will generate opportunities for premium goods and services including recreation, leisure, hotels, and restaurants.

Czech Republic Demographics 2013-2017

Source: Czech Statistical Office

	2013	**2014**	**2015**	**2016**	**2017**
Birth Rates /1000	10.16	10.43	10.50	10.65	10.78
Fertility Rate	1.46	1.53	1.57	1.60	1.67
Death Rate /1000	10.39	10.03	10.54	10.19	10.50
Age 0 – 19 years (%)	19.57	19.59	19.72	19.91	20.10
Age 20 - 39 years (%)	29.12	28.35	27.50	26.64	25.87
Age 40 – 64 years (%)	33.95	34.22	34.47	34.65	34.80
Age 65+ years (%)	17.36	17.84	18.31	18.80	19.23

Young adults and mid-lifers segments, earning the highest incomes, will decline over next 10-15 years, whereas seniors and teens will experience growth. The median age of the Czech population is constantly rising. In 2017, 19.2 percent of the total population was 65 years and older. Demographic shifts such as growing city-life preferences and increasing portion of older age groups reshape consumer lifestyle and purchasing decisions.

- **Size of Economy, Purchasing Power and Consumer Behavior**

In 2017, the Czech economy was one of the fastest growing economies in Europe and is expected to continue to expand in 2018 (estimated growth of 3.6 percent) and into 2019. Although growth will be slower than in 2017, it will still be higher than in Western European economies. The high growth rate will continue to be driven by domestic demand, investment and trade. Strong economic progression has positively impacted (low) unemployment, wage growth and growing consumer expenditure. In 2017, the unemployment declined to 2.9 percent and is among the lowest in the OECD. The limited labor market has led to shortages of skilled employees in many industry sectors and is becoming the main constraint to future growth.

The Czech Republic has an average per-capita purchasing power of EUR 8,394 (US$ 10,150), which is 60.2 percent of the European average (42 countries including non-EU). Its value is the highest in CEE (Central and Eastern Europe) and has been growing for last four years. Besides the economic growth, the strength of the Czech Crown, i.e. the CZK/EUR exchange rate, is an important factor. Among Czech districts, Prague has the highest purchasing power, 31 percent higher than the national average.

Consumer Expenditures Czech Republic in $USD Per Capita - Value at Current Prices

Consumer Expenditures	2014	2015	2016	2017	*2018**	*2019**
Consumer expenditures	9,737	8,511	8,912	9,905	*11,390*	*12,329*
Consumer expenditures on food and non-alcoholic beverages	1,585	1,369	1,426	1,601	*1,839*	*1,989*
Consumer expenditures on alcoholic beverages and tobacco	806.5	713.4	747.9	834.8	*963.2*	*1044.2*

**Forecast*
Source:Euromonitor Intl

In April 2017, the Czech National Bank removed the currency cap which had kept the crown fixed at 27 CZK to the euro. Since then, the crown has gained around five percent against the euro and more than ten percent against the U.S. dollar. After three years of almost zero value, the consumer price index increased by 2.5 percent in 2017, mainly due to accelerating food prices growth.

In 2018, consumer expenditures on food and beverages (including alcoholic beverages and tobacco) are estimated at $2,802.2 per capita, accounting for 24.6 percent of total consumer expenditures. The 24-25 percent share of food and beverage of the total remains stable over the years.

- **Overall Business Climate**

The Czech Republic is a fully established parliamentary democracy with one of the most advanced economies among CEE countries. Its economic policy is consistent and predictable. An open investment climate is a key element of the economy. Located in the center of Europe, it is a gateway to both eastern and western markets, combining skilled labor force, a good work ethic and greater use of technology. It features high degree of entrepreneurship, good conditions for doing business and high percentage of English-speaking population in large cities. Extensive dependency on exports leaves the country vulnerable to a rise in trade protectionism or other economic shocks. Nevertheless, the investment outlook is encouraging and the International Monetary Fund (IMF) predicts that by 2023 the Czech Republic will be wealthier than Italy on a per capita basis. (*Source: Euromonitor Intl*)

- **Recent Trends**

According to GfK consumer reports, prices of food and non-alcoholic beverages increased by 6.3 percent during 1Q 2018 compared to 1Q 2017. Combining with the 0.9 percent trading-down trend, Czech households paid in average 5.3 percent more for this fast-moving consumer goods (FMCG) segment.

In general, Czech consumers continue to be very price conscious, taking advantage of promotions and changing their retail providers if it means a lower price. Nevertheless, demographic changes have a strong impact on different food preferences and shopping patterns.

Czech millennials enjoy trying food and beverages novelties, new shopping experience, convenience products, and little snacks. Frequently they prefer eating outside the home, i.e. at school/office, on the way, at fast foods or trendy bars. A new trend is apparent when following social media messages posted by young people; followers are no longer impressed by expensive cars and smart phones, but rather by unusual lifestyles, including experience in exotic travel, unique events, and trendy restaurants.

On the contrary, the older generation tends to keep their shopping habits, a preferred retailer and has above-average affinity to promotions. This age group is the major target for weekly and bi-weekly advertising flyers regularly issued by all major hypermarket, supermarket and discounter chains. With promotional purchases accounting for 46 percent of FMCG sales, the Czech Republic ranks first in the EU.

Private labels in packed food are slowly gaining popularity due to the strong position of modern format retail stores, whose layouts and assortments are gradually being enhanced. In 2006 private labels accounted for 17 percent of all FMCG value and the last year their share reached 23 percent. While in the past, private label food products used to have an image of a low-cost alternative, currently these products compete with national and international brands at a higher price level as so-called “premium private label” products.

Czechs are on the top of the list of the number of pets per capita in the EU and pet food market is growing. As disposable incomes rise, pet owners look for wellbeing products and are willing to spend more for higher quality. This trend, together with growing pet population, will drive increase in sales of pet products. Specialized pet shops are the largest distributor of pet food followed by hypermarkets. Internet retailing has recently become a very popular channel of shopping for pet care products, extending a very competitive landscape in this sector.

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

Advantages (strengths and market opportunities)	**Challenges (weaknesses and competitive threats)**
Growing economy and income level	Transatlantic transportation is costly and takes time
One of the largest markets in Eastern Europe	Significant economic reliance on Germany and strong German competition
Solid domestic demand, high employment and	High promotion costs to increase consumer

growing consumer expenditure	awareness
Developed distribution system, highly integrated with Germany	Conservative consumers demanding local and low-price products
A large middle class generates demand for goods/services beyond the basic needs	Czech language labelling requirements
Growth of urban population	Highly open economy can be vulnerable to any future crisis
Change in food consumption habits towards new trends, particularly among younger generations and in tourist areas	High social security and housing costs dent the proportion of discretionary spending of Czech households
Growing segment of consumers seeking out high quality rather than just low-price products and services	Retailers prefer purchasing from other EU countries
New tourism trends encouraging new "gastro" travel concepts	
Growing pet food market	
The Czech Republic, a landlocked country, produces only freshwater fish such as carp and trout. Sea fish and seafood are imported	
The climate limits growing seasons and products	
Currency appreciation could encourage the import	

SECTION II EXPORTER BUSINESS TIPS

- **Market Research and Local Business Customs**

The Czech market offers good opportunities for U. S. exporters of select consumer-oriented agricultural products. The Czech Republic has a developed distribution system in food and beverages segments. A good market entry strategy would be to find and support a strong Czech partner or distributor. The Czech Republic is geographically small with most decision-makers concentrated in the capital city of Prague. An agent or distributor based in Prague can offer good coverage for the entire country, and in many cases for the Slovak market as well. In most cases targeted marketing campaigns are highly recommended when promoting a new consumer product.

Czech firms are very price-sensitive and the market is dominated by cost-conscious consumers. Although Prague is the seventh wealthiest region in the EU (2016 - based on regional GDP per capita expressed in purchasing power standards), retailers complain they are unable to move goods unless they are on sale. However, recently there has been a subtle shift in the consumer market, including food, towards prestigious name brands over low-cost competitors. As the result, price is still the major purchasing factor for most Czech consumers, however awareness of quality, health benefits and food safety issues is increasing. In addition, popularity of organic, raw, glutein-free, and zero-waste (package-free) food products is growing.

The VAT rate is currently 15 percent on all food products, except products classified as essential for child nutrition (reduced to ten percent rate).

- **General Consumer Tastes and Trends**

The traditional Czech cuisine contains a lot of protein and saturated fat and carbohydrates, e.g. pork, dumplings, thick gravies. The changing lifestyle of Czech consumers has led to increased interest in functional and healthier food, including more fresh fruit and vegetables, poultry, fish, wholegrain bakery products, cereals,
and rice. This lifestyle development is, however, mainly a characteristic of the urban and younger population. This change in eating patterns, along with large popularity of chefs' cooking shows on TV, makes Czechs more open-minded when it comes to experimenting with food and trying new tastes.

SECTION III IMPORT FOOD STANDARDS & REGULATIONS AND IMPORT PROCEDURES

See the latest Food and Agricultural Import Regulations and Standards (FAIRS) GAIN reports - The Czech Republic, which can be found on the USDA GAIN database:

Food and Agricultural Import Regulations and Standards - Certification_Prague_Czech Republic_12-19-2017

Food and Agricultural Import Regulations and Standards - Narrative_Prague_Czech Republic_11-9-2017

Harmonized certificates and information related to trade with commodities subject to veterinary controls are available on-line at the website of the State Veterinary Administration: https://en.svscr.cz/trade-with-vet-commodities/general-information/

As a member of the European Union, EU import rules fully apply to the Czech Republic. Complete information on EU import rules for food products may be found at: https://www.usda-eu.org/trade-with-the-eu/eu-import-rules/

SECTION IV MARKET SECTOR STRUCTURE AND TRENDS

Over the past few years there was a strong consolidation trend in both retail and food processing sectors. Although domestic products hold the largest share of the market, a significant share is imported, mainly from Germany, Poland, and the Netherlands.

All leading food retailers in the Czech Republic are part of large German or British retail groups. The top three companies (Schwarz Group, Rewe, Ahold) have a 56 percent market share. In 2017, total retail value sales excluding tax were $38.8 billion. The Czech store retail experienced 6.1 percent turnover growth and the country ranks 5th in the EU. Top ten retailers reported 7.3 percent growth in food and beverages turnover. Hypermarket and supermarket chains dominate the food retail landscape. They benefit from the near 50 percent of household expenditures spent at these locations, especially during larger weekly grocery purchases. In a long-term, share of supermarkets and discounters is increasing whereas small outlets are slowly losing their position. Hyper- and supermarket chains are very powerful, frequently asking suppliers to pay “marketing fee” for introducing a new product.

The Czech Republic has recently experienced the boom of internet retailing including online shopping for all food categories. Online purchases reached a breaking point in 2018, i.e. 10 percent of total retail sales. Grocery online sales has been a very popular trend, showing 70 percent year-on-year growth. With food accounting for 2.5 percent of FMCG internet sales, the Czech Republic ranks third in Europe following the UK and France. Further expansion of food and drink internet retailing is anticipated, changing this shopping channel from a niche alternative to a real competition to traditional grocery outlets. Despite fierce competition, complex logistics and demanding “last mile” management, the largest Czech online food retailer “Rohlik” expects $120 million sales in 2018 and plans to expand their business into other Central and Western European countries. Considering they launched in Prague just four years ago, their growth in turnover, sales territory and customer service quality is a true business success.

- **Top 5 Sectors**

Product Category	**Total Czech Imports 2017 million $USD**	**Czech Imports from the U.S. 2017 million $USD**	**Market Attractiveness for U.S. Exporters**

Fish and Seafood	253.0	12.1	As Czech consumers move toward a healthier diet and lifestyle, fish consumption is on the rise. U.S. fish and seafood products that have good opportunities in the Czech market include: Alaska pollock, Pacific salmon, hake, scallop, shrimp, and lobster. According to Czech Statistical Office and Global Trade Atlas data, U.S. exports of frozen hake fillets for the 1-3Q 2018 increased by 50 percent in both value and quantity compared to the same period in 2017.
Tree Nuts	182.0	21.0	Most tree nuts are used as ingredients by the food processing sector. Almonds are the most important commodity within this category.
Wine & Spirits	384.0	14.5	Consumption of U.S. wines and spirits is on the rise among Czech consumers. The U.S. is a mainstay in the bourbon market, and is seeing its share of wine grow rapidly as the popularity of New World wines expands.
Pet Food	372.0	8.0	46 percent of Czech households keep a dog or a cat and as such are on the top list in number of pets per capita in the EU. The demand for pet food is rising and most of pet food ingredients are imported.
Beef	181.7	2.7	Despite a slight decrease in total beef consumption, Czech consumers have recently discovered the tastiness of high-quality U.S. beef which has become a promising prospective product for the Czech market.
Hop Pellets	10.2	0.7	Czechs have the highest per capita beer consumption in the world, i.e. 138 liters in 2017. Although both Czech beer and hops are major export commodities, niche market opportunities for U.S. export exist. This is because of recent boom of microbreweries and growing popularity of more heavily hopped beer, such as IPAs. Opportunities Exist for U.S. Craft Beer and Hops in Czech Republic

- Retailer Information

Top Retailers	Market Share	Retail Chains
Schwarz Group Kaufland Czech Republic	27%	Kaufland – discount hypermarket Lidl – discount supermarket

+420 251 051 110-114, www.kaufland.cz Lidl Czech Republic +420 800 115 435, www.lidl.cz		
Rewe Billa Czech Republic, Modletice 67 251 01 Ricany u Prahy +420 323 625 111, www.billa.cz Penny Market s.r.o. Pocernicka 257 250 73 Radonice +420 284 096 111, www.penny.cz	17%	Penny Market – discount supermarket Billa – full service supermarket
Ahold Ahold Czech Republic a.s.,Radlicka 117 158 00 Praha 5 +420 234 004 111 www.albert.cz	12%	Albert hypermarket Albert supermarket
Tesco Tesco Stores CR a.s., Vrsovicka 1527/68b 100 00 Praha 10 +420 272 087 111, www.tescocr.cz/en	11%	Tesco full service hypermarket Tesco full service supermarket Tesco Expres – convenience store Tesco online shop
Makro Cash & Carry Makro Cash & Carry CR s.r.o., Jeremiasova 1249/7 150 00 Praha 5 +420 220 389 112, www.makro.cz	8%	13 cash & carry self-service wholesale outlets for registered customers

- Market Opportunities for Consumer-Oriented Products in the Hotel, Restaurant and Institutional, Retail Food and Food processing Sector

The Czech Republic is a large tourist destination. The 2017 season was the first year when the country welcomed the record number of 10 million foreign travelers, the same number as the local population. Particularly the capital city of Prague attracts a constantly growing number of foreign tourists every year, more than 7.5 million in 2017. Popularity of some other regions, e.g. Southern and Western Bohemia, has been recently increasing as well. Tourism contributed almost $13 billion to Czech GDP in 2017, accounting for 5.5 percent. The trend encourages further growth of food service sector, particularly of new and unusual gastro travel concepts, offering new opportunities for U.S. exporters.

Food and beverage production is an important industry accounting for 2.5 percent of the GDP. The most important subsectors include meat, dairy and milling/bakery productions. The key beverage industry is beer brewing and beer-making ingredients production.

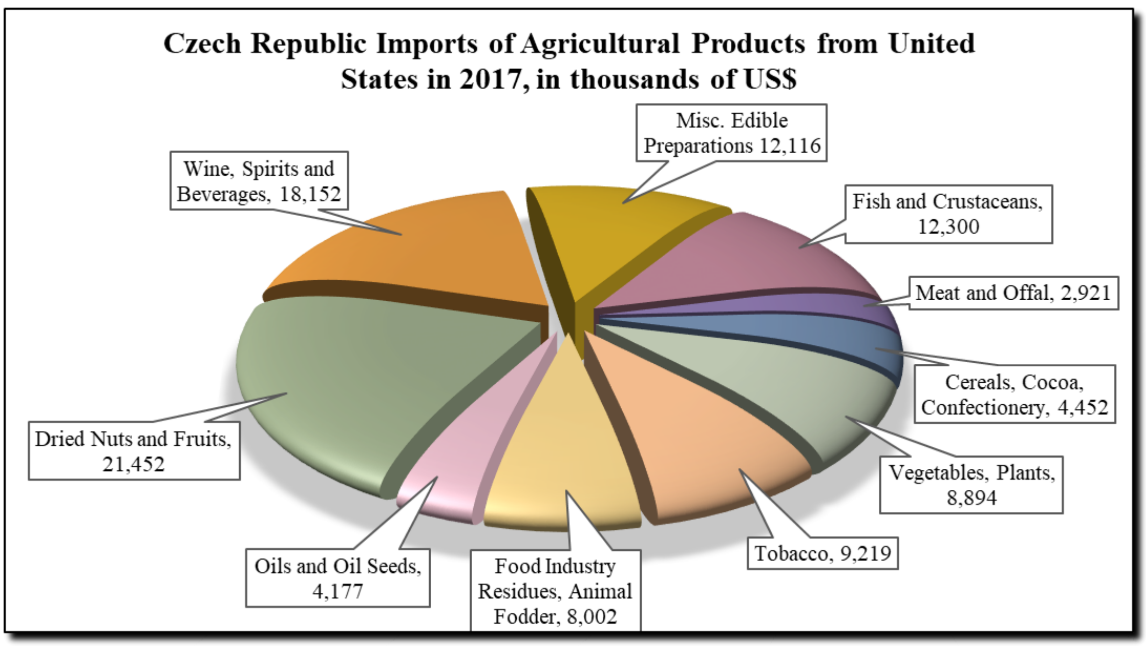
SECTION V. AGRICULTURAL and FOOD IMPORTS

The United States has had a trade deficit with the Czech Republic every year since 1990's. Its value has been slowly decreasing down to $1.billion in 2017. Agricultural products account for 2 percent of U.S. exports.

Although locally produced and EU-imported agricultural products dominate the Czech market, there are good opportunities for U.S. products, particularly at the upper end of the market. In 2017, the consumer oriented sector accounted for 37 percent of total agricultural, fish and forestry imports from the United States, valued at $55.2 million. During the same period, fish and seafood imports from the United States were at $9.8 million. *Source: Global Trade Atlas (GTA)*

Official U.S. export numbers do not include significant transshipments of U.S. products from other EU countries, particularly from the Netherlands and Germany. This means many products imported to the Czech Republic are not included in US–to-Czech export statistics since the first point of entry into the EU is most likely a port of Rotterdam or Hamburg. While direct sales from the United States reflect a stagnant market, indirect sales via transshipments are on the rise, as evidenced by the availability and variety of U.S. food products found in the Czech market today.

As mentioned above, according to GTA data, U.S. exports of agricultural and food products to the Czech Republic valued at $55.2 million in 2017, whereas the Czech Statistical Office reported $103.5 million for the U.S. import of identical HS codes, an increase of 10 percent from 2016. These trade data discrepancies must be considered when evaluating the market potential and making marketing strategy decisions.



Source: Czech Statistical Office

SECTION VI. KEY CONTACTS AND FURTHER INFORMATION

Homepages of potential interest to the U.S. food and beverage exporters are listed below:

Foreign Agricultural Service Prague	https://cz.usembassy.gov/embassy/government-agencies/foreign-agricultural-service/
Foreign Agricultural Service Washington	http://www.fas-usda.gov
USDA/FAS/Europe	http://www.fas-europe.org
U.S. Mission to the European Union	http://www.usda-eu.org
European Importer Directory	http://www.american-foods.org/

See the latest Food and Agricultural Import Regulations and Standards (FAIRS) GAIN reports - The Czech Republic for additional contacts:

Food and Agricultural Import Regulations and Standards - Certification_Prague_Czech Republic_12-19-2017

Food and Agricultural Import Regulations and Standards - Narrative_Prague_Czech Republic_11-9-2017

One tip for U.S. exporters is to approach the governmental trade promotion agency CzechTrade that offers a business partner search assistance.

Please view our Country for more information on exporting U.S. food and beverage products to the Czech Republic and Slovakia, including market and product "briefs" available on specific topics of interest to U.S. exporters.

If you have questions or comments regarding this report, or need assistance exporting to the Czech Republic, please contact the U.S. Foreign Agricultural Service Office in Prague at the following address:

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11801 Prague

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Homepage: www.fas-europe.org