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### **Report Highlights:**

Building on its geographical location and strong industrial base, the Czech Republic has an open, export-driven economy, highly integrated in global trade. Czech consumer trends offer good market opportunities for U.S. exporters of dried nuts, food preparations, frozen fish, pet food ingredients, distilled spirits, wine, and premium beef. As in other EU countries, the COVID-19 pandemic is expected to reverse the trend of economic growth in the Czech Republic and to have a severe impact on food service and tourism-related industries.

# Market Fact Sheet: Czech Republic

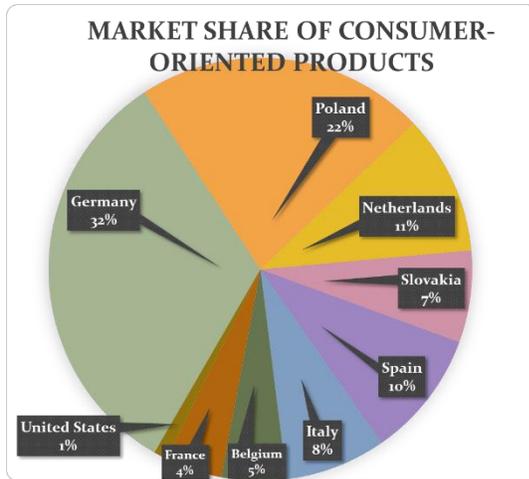
## Executive Summary

The Czech Republic serves as an entry point for U.S. companies expanding beyond traditional markets in western Europe to the developing markets in the east. As a European Union (EU) member, the Czech market complies with EU market entry regulations. In 2019, economic growth slowed to 2.4 percent. Imports of agricultural and food products totaled \$10.7 billion, or about six percent of the Czech Republic's total import value. Top suppliers are Germany, Poland and The Netherlands. The Czech Republic has a population of 10.7 million.

## Agricultural Imports

The U.S. ranks third among non-EU-28 exporters to the Czech Republic after China and Lithuania. Imports of agriculture and related products (HS chapters 01-24) from the United States totaled \$107 million, with consumer-oriented products accounting for \$53 million. Dried nuts and fruits, food preparations, wine and spirits, and frozen fish are the most widely imported consumer-oriented products to the Czech Republic.

## Import of Consumer Oriented Products to the Czech Republic, 2019



## 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 2019, 10,400 companies of the sector generated total sales of \$18.4 billion and employed 120,000 people throughout the country. The major sub-sectors are meat processing and fodder production. Beverage production is dominated by beer brewing and the production of beer ingredients, particularly malt.

## Quick Facts CY 2019

### Imports of Agricultural Products from USA

\$107 million

### Imports of Consumer-Oriented Products from USA

\$53 million

### List of Top 10 Growth Products Imported from the US

- |                   |                                  |
|-------------------|----------------------------------|
| 1. Almonds        | 2. Food Preparations             |
| 3. Frozen Hake    | 4. Pet Food                      |
| 5. Bourbon        | 6. Pistachios                    |
| 7. Alaska Pollock | 8. Beef                          |
| 9. Cranberries    | 10. Dried Fruits & Nuts Mixtures |

### Czech Republic Retail 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): 10.7  
 GDP (billions USD): \$248.9  
 GDP per capita (USD): \$23,283  
 2019 Economic Growth Rate: 2.4%  
 2020 Economic Growth rate (estimate): - 6.6%

### Exchange rate

1 USD = 23.098 Czech Crown (10/30/2020)

## Food Service Industry

The hospitality sector employs almost 200,000 people in more than 50,000 business units. The industry is one of sectors most severely impacted by the COVID-19 pandemic.

## Food Retail Industry

Food retail sales growth has been growing since 2015, with a 4.3 percent year-by-year growth in 2019. Internet retail remains the fastest growing channel. It is also one of few benefitting from social distancing restrictions and from lack of dining-out options. Although still limited to urban areas, online shopping for food has created a much more competitive market, challenging brick and mortar retailers to expand or to enhance consumers' shopping experience.

Sources: Trade Data Monitor, Czech Statistical Office, GfK Czech Republic, Euromonitor Intl, Czech National Bank

## **SECTION I MARKET OVERVIEW**

Building on its geographical location and strong industrial base, the Czech Republic has opened its markets and attracted foreign direct investment. The economy has become highly integrated in global supply chains and economic growth has been strong, though volatile. However, as in most other countries, the COVID-19 pandemic is reversing the trend of economic growth in the Czech Republic. The economy is not expected to fully recover any time soon.

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 Germany. Similarly, top suppliers of imports are Germany, Poland, and Slovakia. The Czech Republic recorded a general trade surplus for the fifth consecutive year in 2019. However, Czech imports of agricultural products outpaced exports by 22 percent.

Services account for 56.2 percent of the gross domestic product, industry for 32 percent, and agriculture for 1.9 percent (*Source: Statista.com*). 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. The sector currently provides about 100,000 jobs, the total number has dropped slightly since last year.

### **Population and Key Demographic Trends**

In 2019, the Czech population reached 10.7 million, a minor increase from 2018. 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. The remaining majority of Czechs live within 30 minutes of other major commercial/industrial hubs (Brno, Plzen, Ostrava, etc.).

The country is one of the most equal societies in terms of disposable income. However, there are large differences among regions as well as industry sectors. Low levels of income inequality, one of the highest in the world, help in forming a strong middle class. Due to COVID-19, the number of low-income earners recently started to grow.

The Czech Republic faces significant challenges of an aging society. The population is aging more rapidly than in most European countries as the population of 20 to 39-year-olds declines. Young adults and middle-aged segments, earning the highest incomes, will decline over the next 10-15 years, whereas seniors and teens will experience growth. The median age of the Czech population is constantly rising. In 2019, almost 20 percent of the total population was 65 years or older. Demographic shifts such as movement to cities and an increasingly aging population are reshaping consumer lifestyle and purchasing decisions.

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

Until 2017, the Czech economy was one of the fastest growing economies in Europe (4.6 percent). The growth slowed down to three percent in 2018 and further decreased to 2.4 in 2019.

A weaker-than-assumed Czech Crown exchange rate resulted in higher inflation and interest rates. Given its high participation in global trade, the Czech economy is highly exposed to the impact of the COVID-19 pandemic. Less productive businesses and highly impacted sectors like tourism, hospitality, logistics, and automotive production are expected to see layoffs and shutdowns. As a result, economic difficulties will put more stress on the country's social security system, further deepened with aging population. Housing, education, and medical care will become the fastest-growth categories of spending.

Although Czechs pay the highest taxes in Eastern Europe, the country's disposable income remains the second highest after Slovenia. Generation X (40-55 years old) dominate the highest-income category.

The Czech Republic has an average per-capita purchasing power of EUR 9,179 (US\$ 10,831). This puts it at almost 34 percent below the European average and in twenty-fifth place among 42 European countries (including non-EU). Its value is the highest in CEE (Central and Eastern Europe) and has been growing for last five years. The capital city of Prague tops the purchasing power rankings. Inhabitants of Prague have more than 30 percent above the national average for their spending and saving. However, it is still almost 14 percent below the European average. The two bordering districts of Prague-West and Prague-East also have above-average purchasing power, as does the Czech Republic's second largest city, Brno.

Despite being hit hard by COVID-19 restrictions, consumer markets are expected to continue to grow during the next decade, led by Prague and its surrounding regions.

In 2019, consumer expenditures on food and beverages (including alcoholic beverages and tobacco) were about \$3,000 per capita, accounting for 24 percent of total consumer expenditures. The 24-25 percent share of food and beverage of the total consumer expenditure has remained 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 a skilled labor force, a good work ethic, and greater use of technology. It features a high degree of entrepreneurship, good conditions for doing business, and a 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.

## Recent Trends

Since the current COVID-19 crisis is much more severe than any other recent economic crisis, the up-to-present trend of economic growth in the Czech Republic is expected to reverse. All service industries have been hard hit by the pandemic, with many businesses having to either reduce staff or remain closed.

The hospitality sector has slumped, as closed borders and social distancing restrictions significantly reduced both travel and social activities. This has been especially apparent in the tourism-focused cities such as Prague, which have been hit hard by the fall in travel and restrictions on movement.

While some restaurants, bars, and hotels are already facing a real risk of filing for bankruptcy, others are trying to keep their places running by providing take-out or home/office-delivery food. Besides loss of business, those businesses that are surviving are facing the challenge of a decline in the professional workforce as many chefs and waiters since decided to change careers to decrease employment uncertainty.

Despite expectations that it will take a long time to get back to pre-crisis levels in tourism and food service sectors, the silver lining is that the slowdown has provided overcrowded cities, such as Prague, a chance to develop a more sustainable tourist policy and to improve quality of life for local residents. Whereas in 2019 the city of Prague attracted approximately 10 million tourists, in a city that is home to just 1.2 million, expected numbers for 2020 are estimated to be 60-70 percent lower. The most obvious decrease in numbers applies to visitors from overseas (e.g. from USA and China, whose tourism numbers dropped to 97 and 99 percent, respectively).

For additional information on the impact of COVID-19 on Czech food service and tourism-related business see the GAIN report [Impact of COVID-19 on the Czech Tourism and Food Service Sectors](#).

In general, food products registered robust growth in value and static growth in volume in 2019 due to a change to higher quality and priced products. This is the result of good economic growth, low unemployment, and rising purchasing power on consumers' behavior. A trend toward healthy eating is also on the rise in the Czech Republic. Shoppers are paying more attention to added-value health benefits, place of origin, and "free-from" indicators.

Czech consumers, particularly the older generations and in rural areas, remain quite price-sensitive, with many actively seeking out discounts and special offers when shopping for food. Seniors are the main target for advertising flyers regularly issued by key retailers. Traditionally, the Czech affection for budget shopping meant that promotional purchases accounted for almost 50 percent of Fast-Moving Consumer Goods (FMCG) sales. However, their share has recently started to drop.

Czech millennials enjoy trying novel food and beverages, new shopping experiences, convenience products, and uncommon food combinations. A new trend is apparent when following social media messages posted by young people. Followers are no longer impressed by

new smart phones, but rather by unusual lifestyles, unique home-made cooking, and revealing local cuisine tips and rediscovered ingredients.

**Table 3: Advantages and Challenges for U.S. Suppliers on the Czech Market**

<b>Advantages (strengths and market opportunities)</b>	<b>Challenges (weaknesses and competitive threats)</b>
Steady economy and growing income level.	The COVID-19 pandemic reversed the trend of the economic growth, which hit the food service and tourism sectors hard.
One of the largest markets in Eastern Europe.	General lack of U.S. brand awareness requires an investment into marketing tools.
Solid domestic demand, high employment and growing consumer expenditure.	Local importers prefer to do business with small orders, a condition many U.S. exporters are not willing to accept.
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.
Growing demand for high quality pet food.	High listing fees that major retailers charge significantly increase the cost of launching new products.
Change in food consumption habits towards new trends, particularly among younger generations and in tourist areas.	Some consumers perceive U.S. products as relatively unhealthy food.
Growing segment of consumers seeking out high quality rather than just low-price products and services, particularly in major urban areas.	U.S. exporters face competition from tariff-free products from other EU member states.
The landlocked country with climate limits. implies need to import seafood, tropical fruits and nuts, red wine etc.	Transatlantic transportation increases costs and delivery time.

Retail chains in the Czech Republic have recognized the growing importance of private labels, which have become a very important communication and competition tool. Private labels of packed grocery items account for 24 percent of value spent. In the past, customers used to purchase these products primarily for their low cost. However, all retailers are now striving to change the image of private labels to be perceived as good price-value purchases.

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

## **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 for food and beverage 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, 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 a result, while price is still the major purchasing factor for most Czech consumers, awareness of quality, health benefits, and food safety issues is increasing. Additionally, the popularity of organic, raw, gluten-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, saturated fat, carbohydrates, e.g. pork, dumplings, and 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 the 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 <https://gain.fas.usda.gov/#/search>.

Harmonized certificates and information related to trade with commodities that are 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**

A strong consolidation trend in both retail and food processing sectors continued in 2020. 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 57 percent market share. The Czech Republic has been experiencing the internet retail boom, including online shopping for all food categories since 2017 and the trend increased during the COVID-19 pandemic. Food and food service delivery have been the most popular business, challenging companies to focus on innovation and a customer-care approach. For this reason, establishing an online presence through food and drink e-commerce is the priority for discounters, one of the most dynamic grocery retailing channels. Discounters recorded growth in both current value terms and number of outlets in 2019/2020. Czech consumers continue to increase their spending in this channel due to favorable price/quality offerings and the growing popularity of private labels.

Major retail chains, including discounters, continue to invest in modernizing and redesigning their stores. For example, *Lidl* is redesigning its stores in line with new concepts aimed at improving the shopping experience and in-store service. This trend is expected to continue in the future. *Lidl* remains the leading discounter in terms of value sales, and one of the major retailers in the Czech Republic.

Although still limited mainly to large cities, home deliveries of food have already announced record-breaking sales in 2020. Additionally, online food retailers made large investments into hygienic and safety measures and recognized the need for flexible changes in logistics including introducing temporary limits on the size of an order or explaining a longer delivery time. In the long run, COVID-19 will most likely speed up consolidation and dominance of big players.

Despite fierce competition, complex logistics and demanding “last mile” management, the largest Czech online food retailer *rohlik.cz* reached \$182 million in sales in 2019, which is a 60 percent year-over-year increase. The company started in 2014 and most retail experts did not believe it would succeed as the Czech market was seen as too small to keep such a business concept profitable. However, not only has the company been reporting 60-70 percent sales increases each year since its founding, it has also started to expand into other EU countries. This includes Hungarian *kifli.hu* launched in December 2019, *gurkerl.at* in Austria in 2020, and *knuspr.de* in Munich, Germany (expected to launch in 2021).

Cash and carry is not wide spread in the Czech Republic, but it is an important trade concept, serving predominantly small businesses and self-employed individuals that are operating smaller restaurants, fast food, or refreshment outlets.

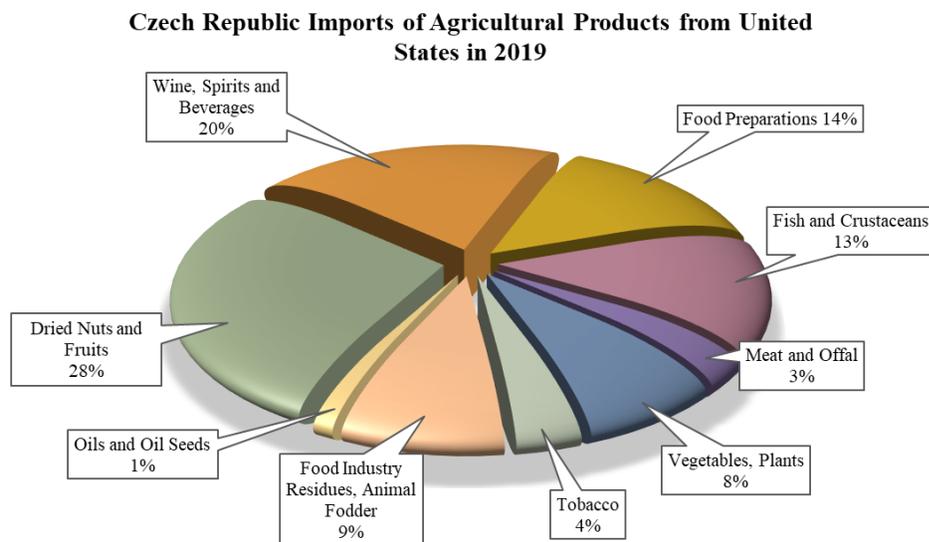
Food and beverage production is an important industry accounting for 2.5 percent of the GDP. The most important subsectors include meat, dairy and milling/bakery productions. The key beverage industry is beer brewing and beer-making ingredients production.

**SECTION V. AGRICULTURAL and FOOD IMPORTS**

The total value of U.S. exports to the Czech Republic has outpaced imports since 2017 (by \$500 million in 2019). Agricultural products account for about 2.5 percent of U.S. exports. 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 U.S. - Czech export statistics since the first point of entry into the EU is most likely the 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.

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 2019, the total agricultural, fish and forestry imports from the United States totaled \$107 million.

**Table 4: U.S. Imports to Czech Republic in 2019**



Source: Czech Statistical Office

**Table 5: Food Imports – Prospects for U.S. Exporters**

Product Category/ HS Code	Total Czech Imports 2019 million \$USD	Czech Imports from the U.S. 2019 million \$USD	Market Attractiveness for U.S. Exporters
<b>Fish and Seafood/ 03</b>	254.0	12.7	Despite preferring any meat to fish/seafood, Czech consumers enjoy U.S. fish products, particularly Alaska hake.
<b>Tree Nuts &amp; Dried Fruit/ 08, 2008</b>	807.0	34.0	Most tree nuts are used as ingredients by the food processing sector with almonds being the most important commodity within this category.
<b>Wine &amp; Spirits/ 2203, 2204, 2208</b>	471.1	15.9	The U.S. is a mainstay in the bourbon market and is seeing its share of wine growing as the popularity of New World wines expands.
<b>Pet Food/ 2309</b>	393.1	8.6	About 46 percent of Czech households keep a dog or a cat, increasingly viewing them as family members. The country tops the list in number of pets per capita in the EU. Pet population growth and the pet humanization trend are driving sales of high-quality products. The demand for quality pet food is rising and most of pet food ingredients are imported.
<b>Edible Preparations/ 21</b>	823.7	13.2	The demand for special food preparations, such as protein concentrates, sauces, mixed seasonings, coffee & tea extracts/concentrates, baking powders, powdered soft drink mixes etc., is growing.
<b>Beef Chilled/ 0201</b>	181.9	2.4	Despite a slight decrease in total beef consumption, Czech consumers have discovered the tastiness of high-quality U.S. beef which has become a promising product mainly for Czech high-end restaurants and grill houses.
<b>Hop Pellets/ 1210</b>	9.6	0.8	Czechs have the highest per capita beer consumption in the world, at 142 liters in 2019. Although both Czech beer and hops are major export commodities, niche market opportunities for U.S. exports exist. This is because of growing popularity of heavily hopped beer, such as IPAs, and aroma beer specials. <a href="#">Opportunities Exist for U.S. Craft Beer and Hops in Czech Republic</a>

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

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](#) website 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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 Homepage: [www.fas-europe.org](http://www.fas-europe.org)

**Attachments:**

No Attachments