

THE CZECH FOREIGN TRADE WITH FOOD: THE DOMESTIC PRODUCERS AT THE RISK?

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Abstract

The Czech foreign trade with food is a testament of positive and negative features of globalization. Its deficit is still worsening in the trend primarily due to trade with the European Union, because more than four-fifths of food imported into the Czech Republic (CR) is from this area. However, EU countries are even more important sales market because they absorb above ninety percent of Czech food exports. The rapid pace of food imports especially during period 2000-2011 was considerably higher than the dynamics of the total imports into the CR. Favorable influence on the consumer inflation due to generally rather lower prices of the imported food was, unfortunately, accompanied by a gradual weakening in the Czech agriculture and in the food industry which operates in the domestic market. This analysis covers balance of foreign trade with food, food exports and imports and the impact on the agriculture (employment). Also the food industry from point of view of the foreign direct investments in the CR and of domestic investment abroad is analysed briefly.

Key words: Foreign trade, food, competitiveness, food industry, insolvency, foreign direct investment

INTRODUCTION

The Czech foreign trade with food is a evidence of the positive and negative features of globalization. In the case of the Czech Republic the deficit in foreign trade with food is still worsening in the trend. The size of the overall deficit is primarily due to a deficit in food trade with the European Union, because more than four-fifths of food imported into the Czech Republic come from it. However, EU countries are even more important sales market, because they absorb for more than ninety percent of Czech food exports.

Extreme growth of imports of meat and meat products - especially pork - compared to the overall dynamics of imports of food has become a determinant for the pace of the food imports to the Czech Republic. The rapid pace of food imports especially in the years 2000-2011 exceeded as the dynamics of the total imports into the Czech Republic and speed of the import of machines or as mineral fuels.

Nevertheless, in contrast to the favorable impact on the consumer inflation due to generally rather lower prices of the imported food, the development of foreign trade with food has weakened logically adversely Czech agriculture. The impact of the massive scaling up of food imports was hard on this sector of economy and also on food production industry which offers the goods in the domestic market. Are they domestic farmers and food producers in the Czech Republic under threat? How intensively?

The following analysis¹ covers the balance of foreign trade with food of the Czech Republic, the food exports and imports and of a brief summary of the development of the sector of agriculture in the field of animal production and employment in this branch of primary sector of the economy. Also the food industry from point of view of the foreign direct investments in the Czech Republic and of domestic investment abroad regarding some enterprises, is analysed. The last but not least other angle of view is

¹ The paper is design as one of the outputs of research project "Research insolvency practice in the Czech Republic in order to create proposals for changes in legislation that would allow an increase in revenues from the insolvency proceedings for creditors and thereby help increase the competitiveness of the Czech economy" registered with Technology Agency of the Czech Republic under registration number TA CR TD020190.

mentioned regarding the problem originating from the intensive flows of the food products across the border especially on the side of imports. It is issue of insolvencies in the Czech food industry from point of view of the deaths of enterprises in this industry.

1. THE BALANCE OF FOREIGN TRADE OF THE CZECH REPUBLIC WITH FOOD

The Czech Republic constantly imports significantly more food than it exports, although since 2005 it achieves each year the increasing surplus in total foreign trade with all goods. Rising surplus in total trade balance of the Czech Republic results from the fact that more than half of the Czech export is carried by of quite thriving exports of machinery and transport equipment. Considerable surpluses in this item of trade are quite determining for the final outcome.

This difference expressed in balance of foreign trade with food was continuously wider and wider as time series beginning since 2000 shows (Figure 1). When in 2000 the food imports to the Czech Republic was higher compared to the food exports by CZK 16.2 billion then in 2010 it was CZK 36.2 billion. As is evident, deficit in food trade doubled during period 2000-2010.

In 2013 the balance of the Czech Republic in food trade CZK 29.1 billion exceeded CZK 29.1 billion. Then the deficit began to mitigate because the pace of food exports was double-digit in 2011 and 2012 and compared to it the pace of imports weakened. Strong growth of the food exports from the Czech Republic especially in 2011 (by 19,8 % y-o-y) was caused by the extreme increase of cereals exports (by 41 % y-o-y). This was made possible by record grain harvest. On the side of imports, the values of the main item of goods which is delivered to the Czech Republic, ie fruit and vegetables, only stagnated in 2011 and 2012.

The Czech households got into worse situation than it was during economic boom in 2005-2008 because Czech economy due to policy of cuts in state budget began to fade and in 2012 it entered to recession. Final consumption expenditure of households stagnated and since the second quarter of 2011 was declining in year on year comparison during other long six quarters. Logically, also the demand for food products from abroad was not so big as it was in period of boom. Year 2013 showed again slight deepening of trade balance with food.

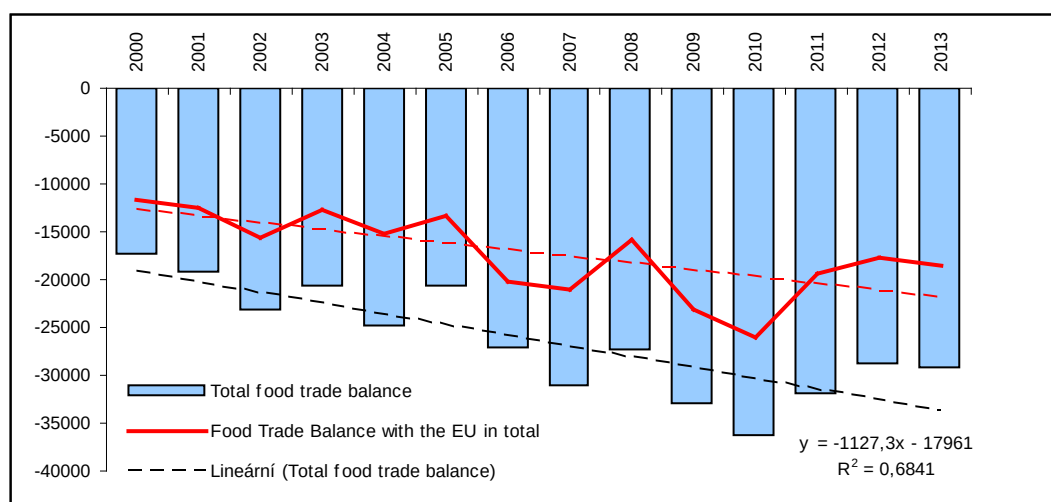


Figure 1: External balance of food trade of the Czech Republic (CZK milion, balance of imports and exports)

Source: Czech Statistical Office

2. FOOD TRADE OF THE CZECH REPUBLIC WITH EUROPEAN UNION

Food trade balance with the European Union (EU) seems to be entirely essentials for movements of the total food balance of the Czech Republic. The countries grouped in EU represent the natural trade ties which are created by the geographic location. The EU is also territory with the very significant purchasing power which probably is not concentrated anywhere in the world in such intensity on relatively small space.

During 2000-2013 deficit in the food trade with the EU participated on the total deficit of the Czech Republic in trade with food approximately by two third (65.6 %). In the years 2000-2004 the analysed share was lower against this average. In 2009 and 2010 this share was roughly on this average level.

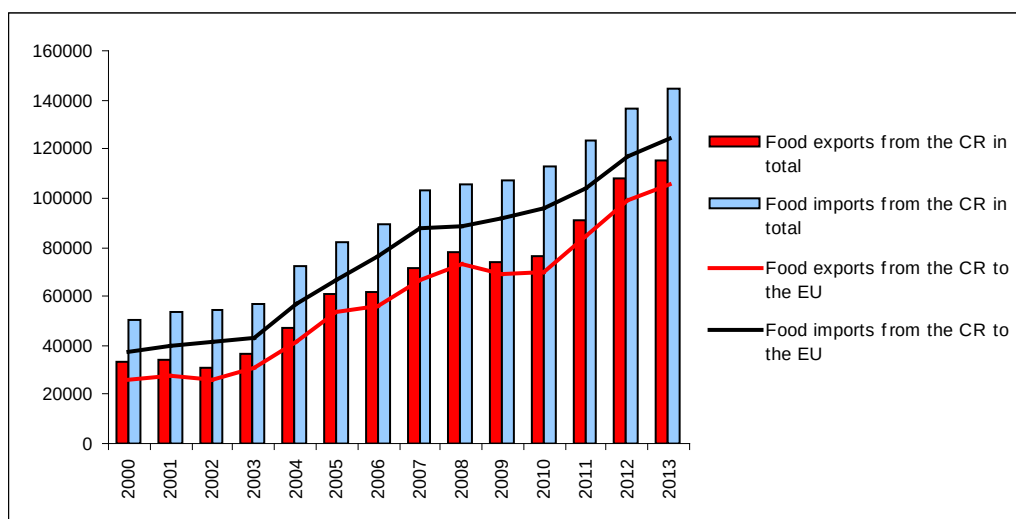


Figure 2: Total imports and exports of food and exports and imports with EU (in CZK million)

Source: Czech Statistical Office

The countries of the EU influenced the deficit of the Czech Republic in food trade in greatest extent in 2006, ie by 77,2 %. In this year the balance in trade with fruit and vegetables worsened sharply (by CZK 3.5 billion) due to mild decrease of export this commodity from the Czech Republic but simultaneously with the strong growth of its imports. However, it did not regard of imports fruit and vegetables from Germany and Slovakia. They grew continuously in previous period 2004-2007 by roughly CZK 0.7 a year and during rest of reporting period they stagnated in the annual totals CZK 4.2 billion. In 2006 namely the import of the fresh vegetables and fruit from Italy and also fruit from France increased significantly. Together with Spain these three countries deteriorated the deficit of the Czech Republic in 2006 by CZK one billion.

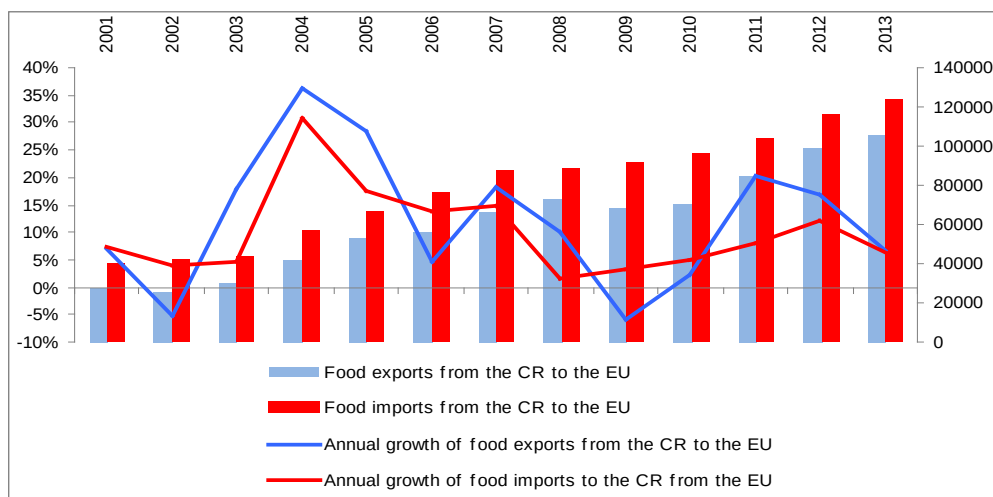


Figure 3: Exports and imports of food in trade of the Czech Republic with the EU (in millions of CZK; change y-o-y in %)

Source: Czech Statistical Office

On the contrary, the deficit in food trade with the EU influenced the Czech Republic's total trade balance with food in the smallest degree in 2008 with a share of 58.1% when food imports went up only by 2.2% in that year. Nevertheless, in that time the main reason was the sharp increase in exports from the Czech Republic to the EU market in almost all items except dairy products and beverages. Above all however, cereals exports was increased significantly that year due to the extraordinary price extremes of agricultural and food commodities on world markets.

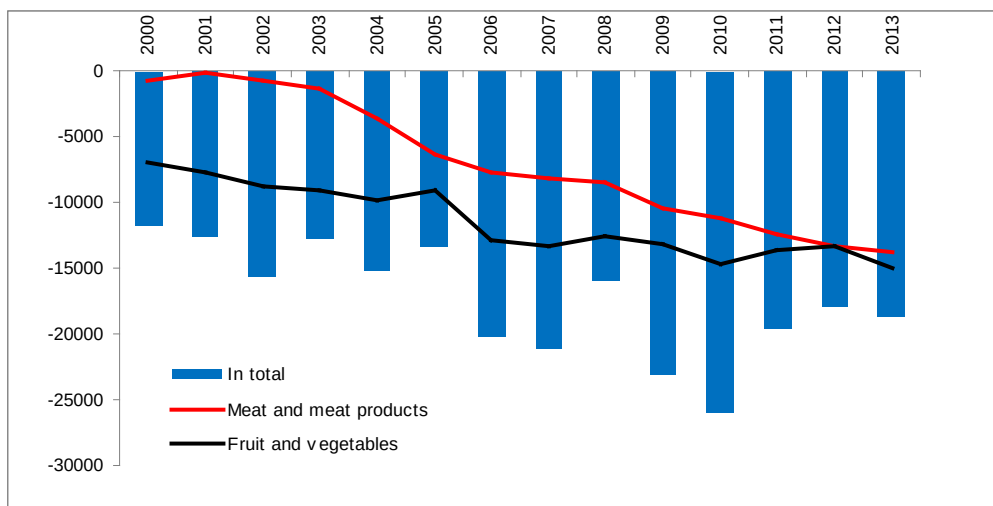


Figure 4: Trade balance with food in the Czech Republic's trade with the EU, main items of deficit (in millions of CZK)

Source: Czech Statistical Office

In total, during the whole period analyzed in this article we can see deterioration in the deficit of food trades with the EU. If in 2000, the Czech Republic had imported from the EU by CZK 11 billion more food against value which had exported to these countries, so in 2010 this difference was CZK 25.9

billion. This was the worst result in a time series 2000-2013 due to the high negative balance in trade in fruit and vegetables and also trade in meat and meat products. After two years of mitigation of deficit ,however, in 2013 its deepening occurred again. An overlap of the rate of exports (+6.6 % change y-o-y) above the rate of imports (+6.2 %) was lower than in the previous two years.

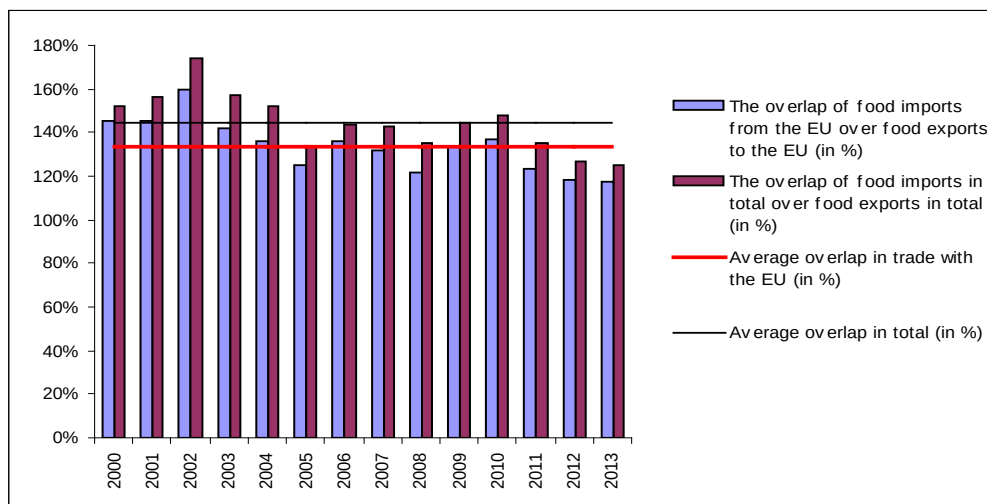


Figure 5: The overlap of food imports over food exports (% of exports; average overlap for the period 2000-2014 in food trade in total and in food trade with the EU 27; an overlap for each of the years)

Source: Czech Statistical Office

Despite strong growth in volume of food imported from countries of the European Union into the Czech Republic, this territory is even more important destination of the Czech food exports. Since 2007, over 90 % of exported food from the Czech Republic was aimed the EU every year. The share of food imported from EU in the total food imports to the Czech Republic was the highest in 2009 when it exceeded 86 %. The reason was that the crisis of the Czech economy with the fall of real GDP by 4.6 % against 2008 did not have too strong requirements for imports. The primary cause, however, was laying in steep downfall of demand from abroad. Especially cars production but also the other machinery production was hit strongly in 2009. Therefore the import-export-oriented Czech economy did not need so much of imported goods for intermediate consumption. In the logic of things, food imports as a less volatile components of imports in periods of economic downturn relatively strengthened its weight also in 2009.

2.1 The shares of exports and imports of food in total exports and imports as compared with the EU 28

The mentioned character of the Czech economy with the relatively strong share of secondary sector on economic performance of the country can result among others also size of the proportion which has the food goods on total exports or imports in trade of the Czech Republic with foreign countries.

According to the charts below with the ranking of countries in the EU 28 and the number of average for the EU 28 it is seen that in the case of the Czech Republic exports and imports of food, beverages and tobacco products (as stated in the aggregate Eurostat) is very small compared with the total exports or imports. In 2013, only 7.1 % of the total imports to the Czech Republic accounted imports of food, beverages and tobacco products. It was the second lowest share in the EU (EU 28 in average 10.5 %). In spite of it this share increased compared to 2003 when the Czech Republic was not the

member of the EU yet. In 2003 the share on imports into the Czech Republic represented 4.9 % although in the group countries EU 28 it was 8.9 %. It means that the share increased faster in the case of the Czech Republic above all as a result of the free market after entry into EU.

The Czech Republic obtain from abroad through imports above all machinery and transport equipment (40.8 % of total imports in 2013), further manufacture goods (17.9 %), mineral fuel, lubricant and related materials (10.7 %) and chemicals (11.4 %). Import of other goods including foods in therefore from this point of view significantly lower.

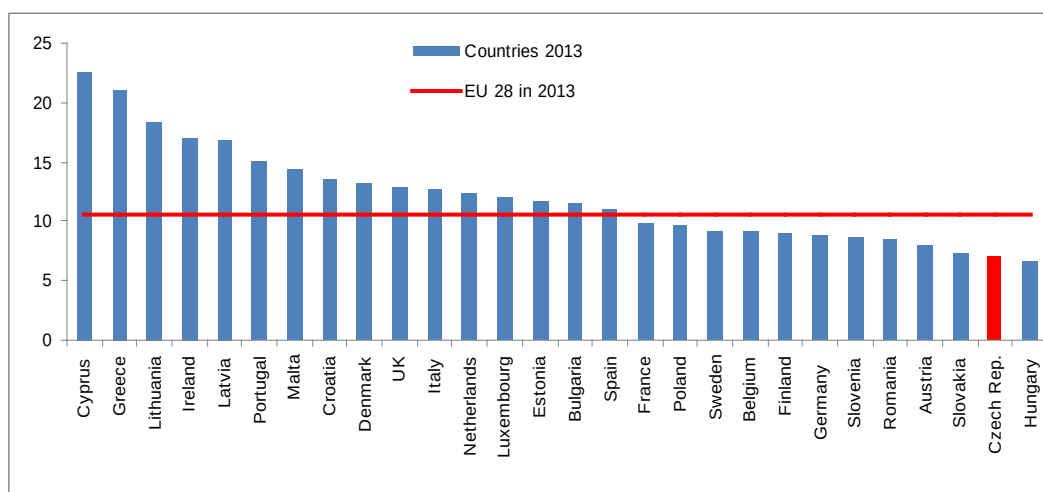


Figure 6 : Share of food, beverages and tobacco products imported from the EU 28 on total imports in the country in 2013 (in %)

Source: Czech Statistical Office

As regards share of the exports the position of the Czech Republic is influenced above all by the built economic structure. Due to very considerable weight of cars and machinery products in structure of exports from the Czech Republic (53.8 % in 2013) the share of food is in relation to them substantially smaller. Similar the structure of economy probably plays the role also in share of Slovakia and Germany (in the case of imports the share is low also in other countries of Central Europe). These countries have also one of the highest proportion industry on overall performance of economy measured by size of production.

According data of Eurostat for the Czech Republic its share of export of food, beverages and tobacco products on total export from the Czech Republic into the EU 28 was only 4.9 % in 2013 against 3.1 % in 2003 while comparable numbers in the case of EU 28 were 10.4 % and 8.8 % respectively.

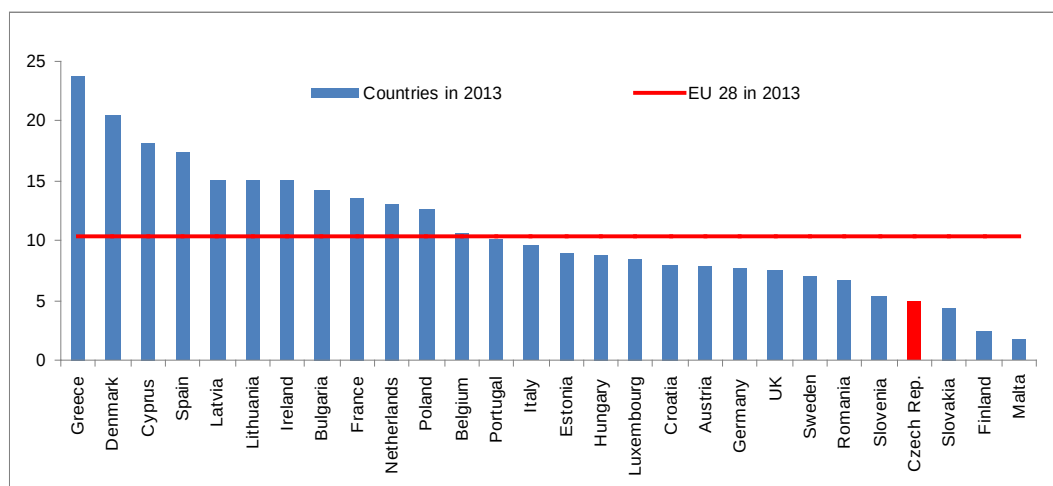


Figure 7: Share of food, beverages and tobacco products exported to the EU 28 on total exports from the country in 2013 (in %)

Source: Czech Statistical Office

The reason of the low share of import food on the total level of import as well as in the case of share on exports seems to be above all the key influence of the economic structure. Maybe better view could be given if only imports for final consumption was used as an indicator and not total import which consists also the imports for intermediate consumption. But it would be necessary to work with symmetric input-output tables and such analysis is not subject of this article.

Besides structure of the economy there are surely some other reasons which might stand behind the reality of divergent shares of food imports or exports in total imports and exports into a country. They could be climatic conditions as well as character of the consumed goods and also existence or non-existence of strategies of self-sufficiency in food on level of national economic policies.

3. COMMODITY STRUCTURE OF THE CZECH EXPORTS AND IMPORTS

3.1 Exports

According data for 2013 the largest items of exports of food from the Czech Republic were cereals and cereal products (almost a quarter, ie 22.2 %), dairy products and eggs (almost one fifth, ie 16.8 %) and weight of other products included in group 0 classification SITC, ie Food and live animals, was less than one tenth. Miscellaneous edible products and preparations partook in total food exports from the Czech Republic from 9,3 %, Meat and meat products from 9 %, Coffee, tea, cocoa, spices and manufacture thereof from 8,9 %. Share of vegetables and fruit was 8,8 %, Forage for animals (excluding unmilled cereals) 8,3 %, Sugar, sugar products and honey 7,8 %, Live animals 6,3 % and Fish 2,5 %.

Weight major items has decreased in a short time because in 2011 their share together, ie cereals and cereal products with dairy products and eggs were 41.5% and in 2013 it was only 39 %. As already mentioned above, but all depends on the quality of the harvest of grain.

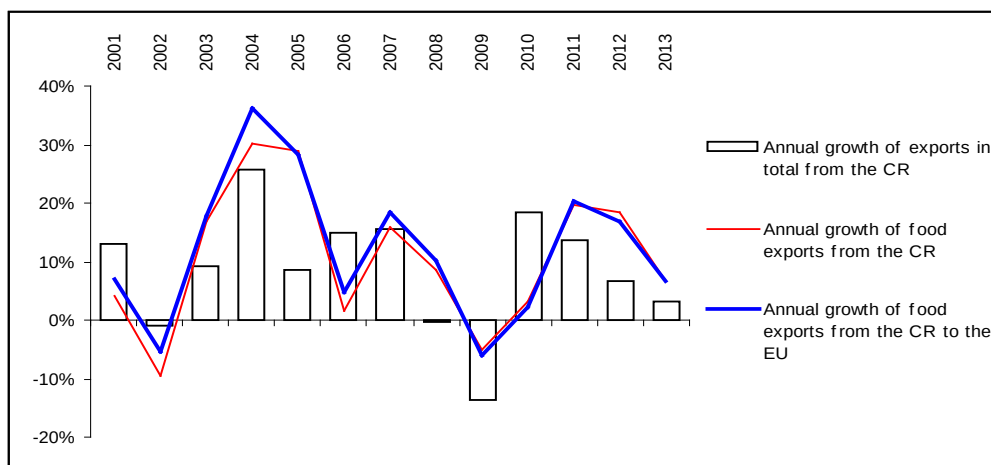


Figure 8: Exports from the Czech Republic (change y-o-y in %)

Source: Czech Statistical Office

3.2 Imports

Extreme increases in imports of meat and meat products had the greatest impact on the deterioration of the trade balance of the Czech Republic in trade with food. As shown in Chart 9, imports meat and meat products in 2013 were higher roughly ten times compared to 2000. In total, they rose by 843 %, but imports of meat and meat products from the EU climbed during that period by 968 %. So the imports were 10.7 times higher. In particular, this change affected crucially Czech agriculture and food industry.

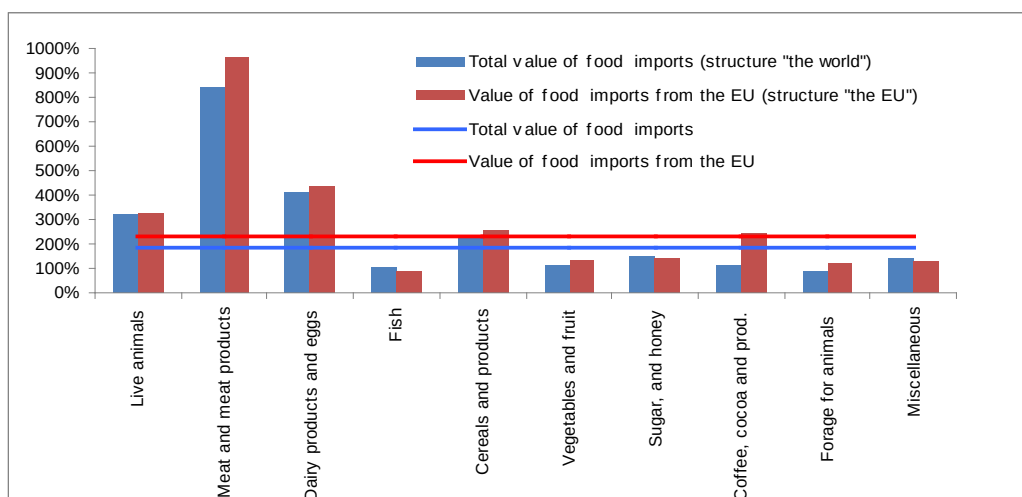


Figure 9: The increase in food imports to the Czech Republic in 2013 compared to 2000 - a total increase for food (line graph), the increase for individual items (bar graph); change in %

Source: Czech Statistical Office

The largest increase in imports of meat and meat products took place after the Czech Republic joined the EU in May 2004. If we compare the growth of their imports with the situation before the country's accession to the EU, then against year 2003, imports meat and meat products from the EU to the

Czech Republic increased 8.9 times (of 789 %) in 2013. It influenced the growth of total imports meat and meat products to the Czech Republic, which increased 6.6 times, ie by 558 %.

However, exports of meat and meat product from the Czech Republic to the EU increased also significantly thanks to removal of trade barriers after the country's accession to the EU. But its dynamics was slightly milder (+513%) and important is that the values of these exports to the EU are not even one third compared to the imports of meat and meat products from the EU to the Czech Republic. In addition, there are some surveys by the Agrarian Chamber of the Czech Republic regarding the difference in the quality of meat according to its species, especially for pork, in the context of imports and exports to the Czech Republic. Trade deficit with the EU in the item meat and meat products in 2003 amounted to CZK1.3 billion. In 2013, however, it spread to CZK 13.8 billion.

It means that deficit in trade with meat and meat products amounted three quarters (74.4 %) of the Czech Republic's deficit in food trade with the EU.

The weight and development of other items of the food imports to the Czech Republic is shown in Figure 9.

4. THE IMPACT OF RISING FOOD EXPORTS ON AGRICULTURE AND FOOD INUSTRY OF THE CZECH REPUBLIC

During the last recession of the Czech economy, ie in 2012 and 2013 the excess of imports over exports was lowest in the time series since 2000 as shown in Figure 5. This follows from the fact that the final consumption expenditure of households began to stagnate and later slightly decrease due to nonincreasing gross disposable income of households, especially due to the decline in real wages and the deterioration of the situation on the labour market when the unemployment rate did not show improving. Therefore people began to save. They tried to purchase fewer goods and it concerned also food. Food products at a lower price began to dominate the structure of their purchases more than ever. In the boom years of the Czech economy which lasted roughly from 2004 to the second half of 2008, however, was very strong household consumption, including food consumption.

4.1 Impact on agriculture sector

4.1.1 Livestock

Rising food imports revealed the fact that their domestic producers are not able in many cases to compete with imported goods due to higher prices. This led to misalignment consumer demand for food towards into the imported goods and enhanced the volumes of imported food. Domestic agricultural production especially in livestock production began to decline. Decreases in the number of farm animals in a historical context are listed in the Table 1.

	<i>Cattle</i>	<i>of which cows</i>	<i>Pigs</i>	<i>of which sows</i>	<i>Sheep</i>	<i>Horses</i>	<i>Poultry</i>	<i>of which hens</i>
1945	3024,7	1518,8	1724,0	202,0	282,0	449,0	14724,0	5942,0
1965	3065,2	1388,3	3859,1	315,6	120,9	115,4	19423,6	15807,6
1985	3502,7	1285,9	4299,0	281,6	372,2	26,8	31898,6	16069,6
2000	1573,5	614,8	3688,0	296,8	84,1	23,8	30784,4	11739,2
2005	1397,3	573,7	2876,8	232,5	140,2	20,6	25372,3	5941,0
2010	1349,3	551,2	1909,2	132,8	196,9	29,9	24838,4	6215,8

2013	1352,8	551,9	1586,6	102,4	220,5	34,3	23265,4	7242,7
2014	1373,6	564,0	1617,1	103,0	225,4	32,9	21463,8	6755,5
2014/1945	-54,6%	-62,9%	-6,2%	-49,0%	-20,1%	-92,7%	45,8%	13,7%
2014/1985	-60,8%	-56,1%	-62,4%	-63,4%	-39,4%	22,7%	-32,7%	-58,0%
2014/2000	-12,7%	-8,3%	-56,2%	-65,3%	168,0%	38,1%	-30,3%	-42,5%
2014/2005	-1,7%	-1,7%	-43,8%	-55,7%	60,8%	60,1%	-15,4%	13,7%

Table 1: Livestock in the Czech Republic (historical time series, in thousands)

Source: Czech Statistical Office

The lower cost competitiveness of the livestock farmers and meat producers in the Czech Republic is apparently affected not only by higher productivity of the EU producers, but also by its policy of higher subsidies. As a result, the local producers in the EU then can successfully compete in the prices of imports.

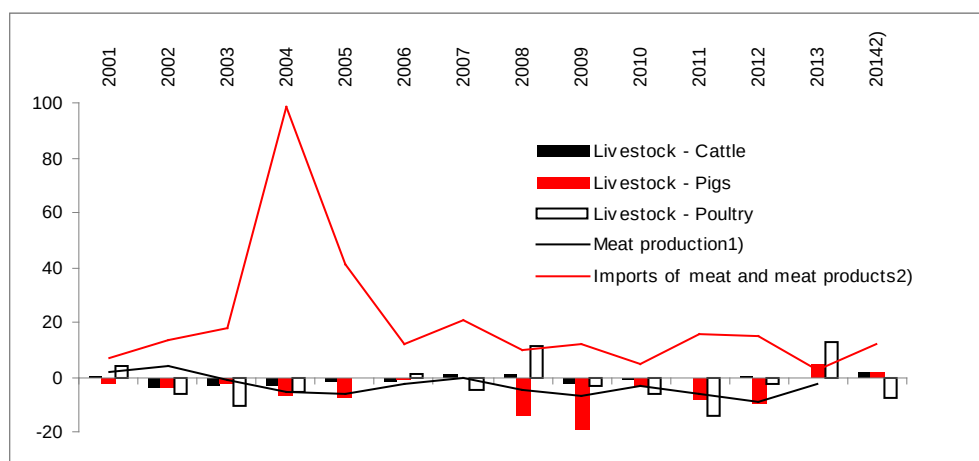


Figure 10: Comparison of the dynamics of imports of the meat and meat products to the Czech Republic with the dynamics of the domestic production and with dynamics of livestock (change y-o-y in %)

Source: Czech Statistical Office

¹ Since 2012 poultry meat without giblets

² 2014 period from January to April

*Note: Livestock 2001 and 2002 as at 1 March; since 2003 as at 1 April

4.1.2 Crop production

As can be seen from Figure 10, a decline of livestock production in nominal terms in the trend is evident during all the previous decade and the context of the increasing imports is quite evident. Conversely, a highly volatile crop production shows in trend growth during this period, which again is associated with the weight of cereals in the exports from the Czech Republic, but also with changes in

the structure of crop production in the Czech Republic and shows very fast growing range of sown oilseed rape for industrial use in biofuels and also on export (new legislation since 2004).

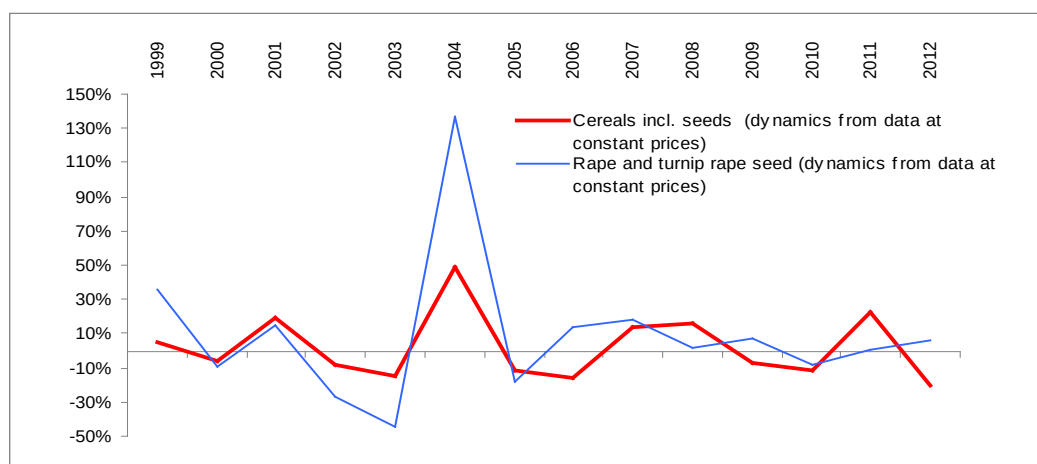


Figure 11: Dynamics of production of selected items of crop output in constant prices (cereals and rape, change y-o-y in %)

Source: Czech Statistical Office

4.1.3 Employment in agriculture sector

Strong food imports replacing domestic agricultural production has affected also employment in agriculture. In 2000, in total 233.3 thousand people were employed in the sector according to data from the national accounts ESA 95. In 2013 it was only 163.4 thousand people which means a decrease of nearly one-third (-30%). Undoubtedly, this shift downward was influenced also by other effects of technological or other nature but it is necessary to assume that the displacement of domestic production by imports belonged to among the important factors affecting employment in agriculture. Loss of jobs in agriculture is in the contrast with a relatively high growth in total employment in the Czech Republic, which during the years 2000 to 2013 increased by 5.6 % with an average annual growth of 0.3 %. The decline of employment in agriculture was averaged 1.8 % per year. The jobs was loosing also the industry and the decreases in the primary and secondary sector were absorbed to the terciary sector, ie services.

The loss of jobs in agriculture was not concentrated only to workers with the status of the employee although their impact on the loss of jobs was evident (-37.4 %, ie loss of 68.7 thousand jobs). As well, the number of self-employed farmers (ie entrepreneurs) fell very slightly by 2.5 %. Since the crisis in 2009, however, their numbers are growing, in contrast to the number of employees in sector agriculture which continue in falling.

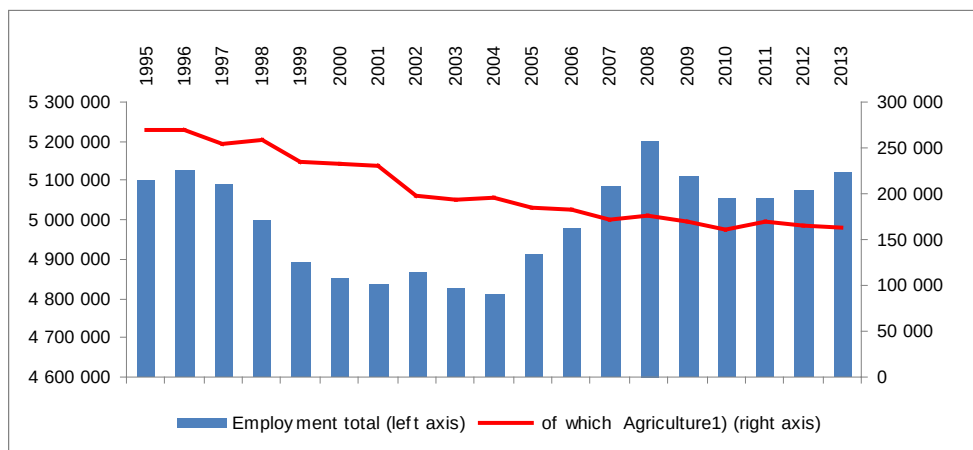


Figure 12: Agricultural employment and total employment in the economy of the Czech Republic (the number of persons employed)

Source: Czech Statistical Office

4.2 Food industry in the Czech Republic

Strong imports of food affect not only the situation in the Czech agriculture sector but also in the food industry of the Czech Republic. As shown in Chart 13, the dynamics of its production has been for a long time significantly less favourable than the dynamics of the entire manufacturing industry, but also than the industry as a whole. The exception was 2009 when the manufacturing as a whole was affected by the sharp drop particularly in production of motor vehicles due to a considerable decrease in foreign demand.

During the years 2000-2013 production of the Czech industry rose by an average annual rate of 3.4 % and manufacturing industry as a whole by 4.4 %, the producers in the food industry of the Czech Republic recorded an average annual reduction of its production by 0.1 %.

Export opportunities offered to them, unfortunately, are not performed in a greater extent. The main item of these exports are namely cereals and cereal products, whose share is roughly between one quarter and one fifth of the total food exports from the country and also exports of live animals rose during last years. weight of products with higher added value, ie of "more finalised" products. In addition, exports of cereals are from logical reasons influenced also by the quality of the harvest in a given year.

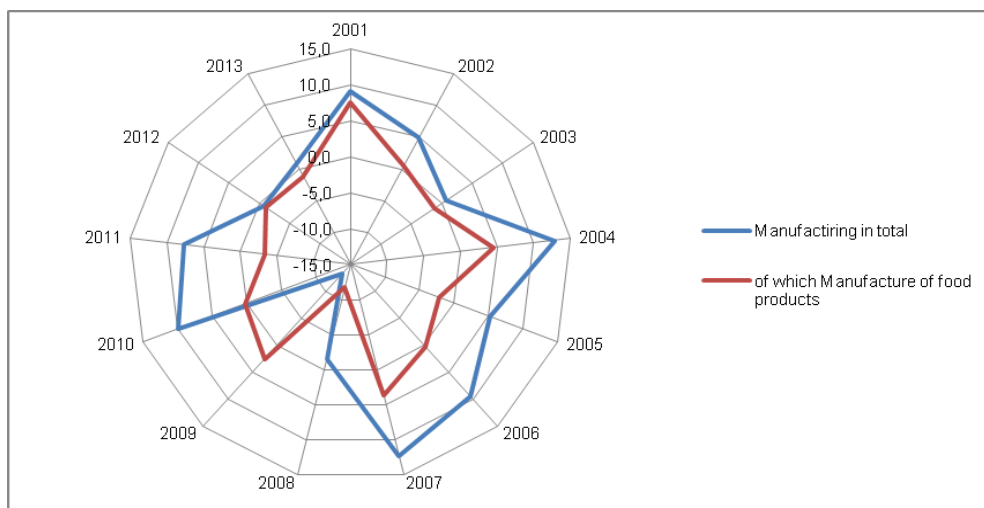


Figure 13: Dynamics of manufacture of food products compared to dynamics of manufacturing industry in total (change y-o-y in %, 2001-2013)

Source: Czech Statistical Office

4.2.1 Foreign direct investment food producers from the Czech Republic (domestic direct investment abroad)

Besides the location of production to foreign markets as exports there is another option for producers of food industry and it is direct investment abroad. Notably some producers of food decided to enter into foreign countries by form of direct investment in the last four years in response to the weak domestic household demand for their products. It regards in particular producers engaged in manufacturing durable and chilled foods (ketchups, pates, canned meat, ready meals, vegetable products, fruit mixes, jams, compotes) as the company Hame with subsidiaries in the Slovak Republic, Russia, Poland, Hungary, Romania and Ukraine. Along with the domestic production for exports and with sales of goods through the establishments located abroad, the company Hame has the prevailing sales and revenues from abroad. Also the buying of the bakery chain Lieken AG in Germany which Group Agrofert gained from the Italian company Barilla was by a big acquisition of the Czech food industry in 2013. In the baking industry operates Agrofert in the Czech Republic and Slovak also in Hungary, but the acquisition of Lieken is six times larger than all of its bakery together in these three countries as Agrofert Group company published in the statement. From the viewpoint the amount of direct investment in the food industry, however, this Czech investment abroad is according the size of the company which was bought rather exceptional.

4.2.1.1 Share on the total foreign direct investment

At the end of 2012 the direct investment by domestic companies in the food sector abroad achieved only about 0.8 % of the total value of domestic direct investment abroad according to the data available so far. If, besides the food industry we consider also a direct investment in the beverage industry, then this share is also only a one percent. On the contrary, foreign direct investment (FDI) into the Czech Republic into the food industry participated on total size of foreign direct investment into the Czech Republic from 1.2%. With the inclusion of direct foreign investments into the production of beverages together this represented a 3.3% share.

In the Czech Republic on total level, the FDI ratio was 7.9 : 1 in favour of foreign direct investment into the country against domestic direct investments abroad at the end of 2012. In the sector of the food industry, including production of beverages and cigarettes, however, this ratio is higher, ie 11.5 : 1. This means that Czech investors are in scope of direct investment in the sector less successful than the investors in other sectors. However, it should be noted that a high weight to domestic investments abroad is in the energy sector.

Even more significant disproportion is seen if we consider the production of food including of beverages. Due to the relatively high level of foreign investment into the production of beverages in the Czech Republic is then the proportion of foreign direct investment in these sectors in the Czech Republic compared to domestic investments abroad into the production of food and beverages full of 26.6 : 1.

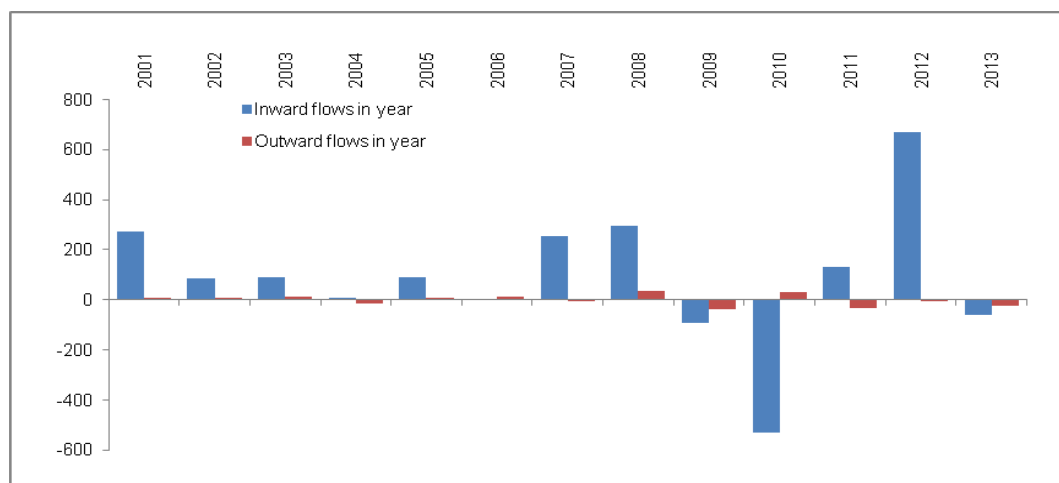


Figure 14: Sector Food products and beverages and tobacco products - Foreign direct investment in the Czech Republic, ie inwards and domestic investment abroad, ie outwards (in EUR million)

Source: Czech National Bank

4.2.2 Death of firms in food industry and problems with solvency

Competitiveness problems and poor sales of products may cause to the companies existential problems and to affect their solvency. According to the analysis carried out in this article it can be assumed that the food industry could be one such industry that has been forced to respond to the reality of the fast rising and cost-competitive food products from abroad, especially in the item of the imported meat and in the structure of this item. In particular, the arising situation in agriculture and the ensuing difficulties and insolvencies of farmers might bring interesting views from an analytical perspective as regards the change in the number of farmers, especially after the country's accession to the EU. However, due to several changes of methodological and organizational character² unfortunately not possible in this time according statistical data about the Czech agriculture to do the correct comparisons. For example in 2009, all entities with legal form "independent farmers" were excluded from Business Register (since 2009, only the agricultural holdings of natural persons), etc.

Data on deaths of companies in the food industry during period 2004-2012 show that the intensity of these deaths has been in this industry more noticeable in comparison with the deaths in manufacturing industry as a whole. In the period from the accession of the Czech Republic to the EU was the speed of the deaths of companies in the food industry, incl. the production of beverages and cigarettes higher than was the speed in the manufacturing industry as a whole. In the years 2004-2012 the number of deaths companies grew annually by an average of 15.7 % while in the manufacturing industry as a whole by 13 %. From Chart 14 it is seen that the largest number of deaths of companies were recorded in the country's accession to the EU. In 2005 then this high statistical base has influenced the dynamics. Years 2011 and 2012 were new period again with above-average numbers of deaths companies in the food industry including production of beverages and cigarettes because the recession began to be seen again with reduction in expenditure on food consumption in the Czech Republic.

Facts about deaths of companies are completing the picture of the impacts of rising food imports into the Czech Republic also as regards insolvency in the firms in food industry.

²Business Register maintained by the Czech Statistical Office in compliance with [Article 20 of Act No. 89/1995 Coll.](#), on the State Statistical Service, is a public list in the scope determined by the Act. An entry to the register has a meaning of registration only. Businesses, which are legal entities and natural persons with the status of an entrepreneur, are recorded in the register on the basis of the data obtained by the Czech Statistical Office in compliance with special regulations or the Act on the State Statistical Service.

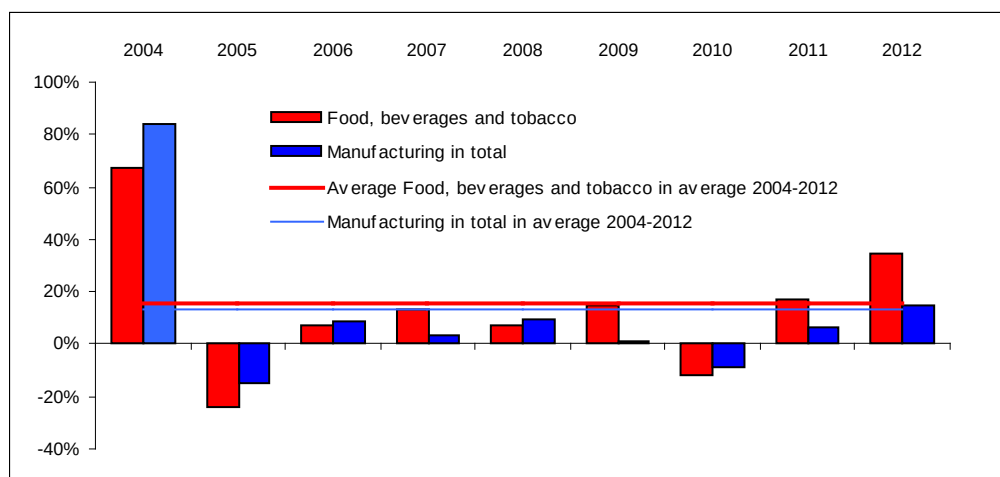


Figure 15: Comparison of deaths of firms in food industry incl. beverages and tobacco with deaths of firms in manufacturing in total since entering of the Czech Republic into the EU (change y-o-y in %)

Source: Business Registr, Czech Statistical Office

5. CONCLUSION

Significant growth in food imports into the Czech Republic and the deficit in food foreign trade was in a sense a "globalization tax" this country. What were the consequences of it? A large part of these imports helped during some years to keep the consumer inflation low due to the fact that prices of the food grew only very modestly. It was caused by the strong competitions on the retail market but also by the fact that almost one half of the total food imports to the Czech Republic was originated from Germany and Poland. The food from Germany is competitive due to policy of subsidies and the food from Poland due to lower cost of the food production compared to the Czech Republic. In contrast to the favourable impact on inflation, however, the development of food imports struck in the logic of things adversely Czech agriculture.

This massive effect of the growing food imports resulted to that it has been very difficult for this sector of the Czech economy to withstand this situation. In the past decade, a large reduction in domestic livestock production and more than one-third decrease in jobs were observed.

High imports of the food are the main reason of the deep deficit of the foreign trade of the Czech Republic in this commodity. It results to a crowding out the animal production of the domestic agriculture. The dominance of the European Union according the share on the total values is very high and in the flows of food it is higher at of exports from the Czech Republic compared to share of imports. It is possible to appreciate positively persistence of the low level of consumer inflation during of the long time due to lower prices of imported food. However, they seemed to exist some negative aspects associated with questionable quality of imported food in some cases.

The Czech agriculture and also food industry responds to movements in the foreign trade by the effort to increase exports. Nevertheless, the main item of the Czech exports of classification SITC group 0 - Food and live animals is exports of cereals, which are long-term one-fifth of total exported value in this group SITC according to annual data.

In the last three years, exports of live animals has been growing, especially into Austria, Germany and Slovakia. However, the export of cereals and live animals does not represent finalized goods which would be desirable to change in trade. Furthermore the Czech Republic imports meat and meat products in the continually more volume. This item begins to partake from one fifth in the total food imports into the Czech Republic. Furthermore the Czech Republic imports meat and meat products in continually more volume. This item begins to partake from one fifth in the total food imports into the Czech Republic. It means that the value added is produced abroad and is not created in the Czech

Republic as we can see on this example of the exports of the live animals and imports of meat and meat products. The factor of price is the main reason because buyers abroad are able to offer the higher price advantage unlike the domestic producers of meat.

Figures show that strong food imports to the Czech Republic, especially after entering to the EU in 2004 have affected the situation in the Czech agriculture. Germany and Poland as the nearest neighbours participate from nearly one-half on the value of the total food imports from the EU to the Czech Republic. In terms of value, the Czech Republic imported stably the most of fruit and vegetables, ie one quarter of the total imports of food and one fifth of food imports from the EU. However, the increase in food imports into the Czech Republic is influenced above all by the growth in item Meat and meat products. During the years 2000-2013 the imports of poultry into the Czech Republic from the EU countries increased ten times, beef twelve times and pork even more than eighteen times while the total food imports to the Czech Republic increased only 3.3 times.

Impact of this on Czech agriculture was masive especially on livestock. During mentioned period, ie 2000-2013, numbers of cattle fell by one-sixth, the number of pigs by more than half and the numbers of poultry by one-quarter. Since 2010, the number of cattle slightly grew and numbers of pigs increased for the first time in 2014, according to recent data. Numbers of poultry were decreasing till 2007 every year and then they fluctuated. The eggs, that the Czech Republic was buying from abroad in average for more than € 50 million every year during 2011-2013 (imports of eggs from Poland increased since entering the EU ten times and imports eggs from Germany more than hundred times) were delivered from the Czech farms in volume less about one-third in 2013 (-9,5 %) compared to 2000. During the years 2000-2013 Czech agriculture lost nearly a third of jobs (-30.0 %) while total employment in the economy grew by 5.6 %.

Production in the food industry grew more slowly than in manufacturing industry, respectively in industry in total (and also the dissolution of companies were more frequent compared to manufacturing as a whole). However, it is important to consider the structure of the Czech economy with significant sectors that drag industrial production through the export (automotive and its suppliers such as rubber and plastics, the production of computers and electronic devices, but still also manufacture metal). They are the industrial branches with the "boom character" in contrast to food industry which usually is not sensitive to business cycle so much.

Domestic food producers seek opportunities in foreign markets not only in exports but also as foreign direct investors in some countries. During 2009-2013 the Czech economy went through firstly by economic crisis and after very modest recovery the country passed a two-year recession. The Czech firms invested abroad into sector of food products, beverages and tobacco products in average € 13.6 million every year in this period. Unfortunately, the share food industry on the total domestic investment of the Czech Republic abroad is very weak, only 0.8 % (the strongest weight is observed at Czech investment into the energy sector abroad). On the contrary, share food industry on the FDI into the Czech economy is 3.3 %.

Also the proportion between the inward flows and the outward flows in the case of foreign direct investment (FDI) is very disadvantageous in food industry compared to proportion of these flows concerning total levels FDI in the Czech economy. Though inflows of investment is twelve times higher than their outflows in the case of food industry if we count all sectors inflows of FDI into all sectors are eight times higher. It indicates that there is still not so intensive penetration towards to the new aquisitions abroad from the side of the Czech firms of food industry.

Nevertheless, some aspects since the beginning of 2014 show that also food industry can expect promotion of competitiveness in penetration to the markets abroad due to weaker currency (CZK). Foreign currency intervention of the Czech National Bank (CNB) from November 2013 which weakened the Czech koruna approximately by 8 % seems to really show the way to the stronger competitiveness of the Czech businesses. Foreign currency intervention of the Czech National Bank (CNB) from November 2013 which weakened the Czech koruna approximately by 8 % seems to really show the way to the stronger competitiveness of the Czech businesses. It has the first positive results in accelerating of the profits of exporters but also in the benefits for their suppliers in the case of

deliveries in euros. The sales in industry grew up with two-digit paces and the dynamics of export prices is faster than dynamics of import prices. Data from the first four months of 2014 showed significant increase in exports of food by +16.4 % annually against +4.2 % compared to corresponding period of the previous year. It enabled to improve the deficit in trade of the Czech Republic with food products.

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