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Czech Republic

Product Brief

Beer

2000

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Report Highlights: The Czech Republic produces some of the finest beer in the world and is becoming a major player in export markets. Beer exports are nearly ten times larger than imports. While there are few opportunities to export U.S. beer to the Czech Republic, there is a growing market for beer ingredients such as hops.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
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A. Executive Summary:

The Czech Republic is "beer country" and has the world's highest per capita beer consumption. Per capita consumption in the Czech Republic is nearly double that of the United States. The Czech Republic is the sixth largest beer market in Europe and is one of the twenty largest in the world. Beer is the national drink and Czech beer is famous worldwide. Total beer production is 18 million hectoliters a year, out of which 1.5 million hectoliters is exported. There are several large brewing groups in the country - Pilsen Prazdroj with 45% market share, Prague Breweries with 13% market share, Budvar (Budweiser) with 8.5% market share. Many smaller breweries make up the rest of the market. Although only small amounts are imported, there is a niche market for American beer in Prague's international hotels and American bars and clubs. American beer is sold only in bottles and the following brands are available on the Czech market: Rolling Rock, Michelob and Miller. There is also a strong market for U.S. hops and hop extract.

B. Consumption Trends - Little Room for Expansion:

With a remarkably high consumption of roughly 160 liters per year per capita, there is little room for growth in the Czech beer market. Producers are now focusing mostly on market share and exports. Most experts agree that domestic beer consumption will decline in coming years as competing beverages and health concerns erode beer's dominance.

The following table shows per capita beer consumption in 1999:

Country	Per capita beer consumption in liters in 1999
Czech Republic	160
Germany	131
Belgium	99
U.K.	97
Australia	93
U.S.	85
Netherlands	78
Spain	77
Hungary	76

C. Domestic and Foreign Competition:

Domestic Production

Total domestic beer production is around 18 million hectoliters per year. Breweries are divided into two general categories: large breweries producing over 200,000 hl of beer per year and smaller independent breweries (SIBs) with production of less than 200,000 hl. There are (roughly speaking) five types of Czech beer - light beer, dark beer, lager beer, 10% beer and 12% beer. The percentage assigned to a beer refers to malt extract, not alcohol content, which is usually around 3-4% in a 10% beer and around 4-5% in a 12% beer.

The Financial Health of Breweries is not Good

The majority of Czech breweries are financially distressed and industry-wide losses in 1999 are estimated to be one billion CZK ($28 million). The primary cause for the current financial woes is overcapacity. Over the past decade, breweries have invested heavily in modern technology and expanded production capacity. Industry experts also point to poor management in some firms but note that foreign investment and management expertise, coupled with an increasing emphasis on export sales, will make the sector as a whole very competitive in the coming years.

The following table lists the 11 largest breweries (producing over 200,000 hectoliters per year).

Company	Ownership	Number of breweries	Production in 1,000 HLT in 1999	99/98 ratio in %
Pilsen Prazdroj	SAB (South African Breweries)	1	4,753	94
Prague Breweries	British Bass	3	2,333	96
Radegast Brewery	SAB	1	2,307	108
Budvar (Budweiser)	State owned	1	1,259	108
Moravskoslezske Breweries	Czech share holding company	4	970	110
Krusovice	German	1	853	99
South Bohemian Breweries	Czech share holding company	3	656	73
Velke Popovice	SAB	1	643	112
Starobrno	Austrian Brau AG	1	621	99
Ustecke Breweries	Czech share holding company	2	483	97

Louny Brewery	Czech share holding company	1	231	90

(Source: Czech Beer and Malt Association)

Recent Mergers: Pilsen Prazdroj, Radegast and Popovice Account for 45% of Market

In October 1999 South African Breweries (SAB) purchased the Czech breweries Pilsen Prazdroj and Radegast for $629 million. These had been owned by the Japanese investment bank Nomura. The breweries were merged in March 2000 and in June 2000 the group acquired another brewery, Velkopopovicky Kozel, creating a company with a 45% market share and four beer brands (Pilsner Urquell, Gambrinus, Radegast and Velkopopovicky Kozel). The name of the new company is Pilsner Prazdroj. Total production will this year be about 7.8 million hectoliters, out of which 7% will be exported.

One of Pilsner Prazdroj's premium brands is Pilsner Urquell. Last year, the American Beverage Testing Institute gave Pilsner Urquell the title of "Exceptional" at its World Beer Championships. Pilsner Prazdroj expects that over 70,000 liters of Pilsner Urquell will be sold in the United States in 2000.

After four years of losses, British beer giant Bass is negotiating the sale of its shares in Prague Breweries to Belgium's Interbrew. Prague Breweries produces Staropramen, Velvet, Kelt, Branik and other brands. Prazske Breweries, with its 13% market share, is the second largest beer group in the country but it has yet to convert market share into profits.

Budvar (Budweiser): When is a Bud a Bud?

Budvar is the only state-owned brewery and is famous in part for its dispute with American brewer Anheuser Bush over the use of the trademarked name 'Budweiser'. Based on a long-standing (but disputed) agreement, Czech Budvar is not allowed to be sold in the United States and there are restrictions on where Anheuser Bush's 'Budweiser' may be sold. In some countries, such as the U.K., both breweries have a right to sell their products.

Demand for Budvar's products has skyrocketed this year. Compared to last year, domestic sales in the first half of 2000 are up by 18.5% and exports are up by 8%. In contrast to much of the beer industry, Budvar is scrambling to expand production to meet demand. Current production estimates are 1.8 mil hl within two years and 2.7 mil hl within the next three years. Budvar has roughly an 8% market share.

Small Independent Breweries (SIBs): 22 Breweries Produce 10% of Czech Beer

SIBs are, as in the EU, defined on the basis of production. The maximum production of a SIB is 200,000 hectoliters a year. SIB get a break on excise taxes, which is based on production (see

Pricing). The Czech Union of SIBs has 22 members. Total production of all SIBs in 1999 was 1.6 mil hl, which is nearly 10% of total beer production in the Czech Republic.

Geographical Trademarks to be Pushed in Next WTO Round

The Czech Ministry of Agriculture and Ministry of Trade will push for geographical designations for beer during the next round of the World Trade Organization. The protected names would be akin to those used for wine, such as ‘Burgundy’ in France and ‘Chianti’ in Italy. Under one proposal, Pilsen beer could only be made in Pilsen and Budweiser beer only in Ceske Budejovice. It may, however, be too late for such a step since most of the beer brewed globally is categorized as a “pilsner”. The proposal could also heat up the dispute between Anheuser-Busch, which produces Budweiser, and the state-owned Budejovicky Budvar, which makes Budvar in Ceske Budejovice.

Imports: Expanding from a Very Small Base

Czech beer imports are growing by around 8% annually; however, total imports are only about 1% of total domestic production.

Imports by HTS code:

2203 Beer made from malt

Countries supplying beer to the Czech Republic in hectoliters (hlt).

Country	1997		1998		1999	
	HLT	$1,000	HLT	$1,000	HLT	$1,000
Slovakia	49,145	1,237	55,775	1,605	72,770	2,006
Germany	28,330	749	4,783	241	2,548	140
Austria	17,028	263	12,817	267	29,279	823
Great Britain	3,444	205	374	37	242	17
Ireland	1,903	176	2,974	267	2,723	244
Netherlands	1,250	94	1,653	130	1,809	136
Mexico	864	48	1,379	104	1,255	152
Denmark	595	39	718	49	59	4

France	205	40	354	54	612	85
U.S.	**32**	**4,705**	**9**	**1**	**17**	**1**
World Totals	**142,316**	**152,915**	**151,027**	**6,210**	**165,507**	**6,383**

(Source: Czech Statistical Office)

Beer Ingredients Provide Opportunities for More Sales

Although the prospects for imported beer appear fairly limited, there are opportunities for suppliers of inputs into the beer sector. Czech imports of hop extract, hops, and hop pellets appear to be set to increase and some U.S. suppliers have been successful in this market.

Imports of Hop Extract, Hops, and Hop Pellets (HTS 121010, 121020, 130213)

Thousands of US $	**Import**		
	1997	**1998**	**1999**
European Union-15	$3,046	$2,968	$2,920
United States	$510	$24	$448
Other	$2,035	$1,256	$1,682
World	**$5,591**	**$4,248**	**$5,050**

Recently, the Czech Customs Office reclassified hops extract from HTS code 1302 to HTS code 3301. This results in higher import duties and a higher value added tax for products coming from non-EU suppliers. The World Customs Organization definition of hops clearly states that it should be defined under HTS 1302 and the U.S. Embassy has asked Czech Customs to apply this classification.

The MFN tariff on hop extract (HTS 1302 1300) is normally 7.6%, for leaf hops (HTS 1210 1000) 9%, and for hop pellets (HTS 1210 2010) 9%.

Exports:

The following table shows beer exports from the Czech Republic in the past two years. Budweiser is the largest beer exporter.

Country	1997		1998	
	HLT	$1,000	HLT	$1,000
Germany	558,726	25,610	488,695	22,259
Slovakia	553,165	13,611	454,133	12,813
Great Britain	247,817	11,787	200,648	13,305
Russia	238,285	10,534	158,883	7,931
Austria	104,342	3,937	88,252	3,534
U.S.	**79,146**	**7,533**	**85,969**	**8,205**
Netherlands	43,570	1,786	48,152	1,770
Italy	36,870	1,852	42,252	2,280
Total	**2,152,660**	**94,266**	**1,853,110**	**89,284**

(Source: Czech Statistical Office)

D. Distribution Channels:

Large breweries have their own distribution and warehouse systems and distribute their beer to retail chains and restaurant themselves. Small independent breweries tend to supply surrounding areas and distribute beer themselves. Larger independent breweries may distribute their products nation-wide using wholesalers and distributors. Imported beer is distributed through Czech-owned importers and wholesalers (see the section below on Importers).

E. Pricing:

Although Czech beer is some of the best in the world, it is also among the least expensive: the Czech Republic is perhaps only country in the world where beer is cheaper than gasoline. The following table compares the average price of beer in restaurants and the price of gasoline in several countries:

Country	Price of 1L of beer in CZK, ($)	Price of 1L of gas in CZK, ($)
Czech Republic	27 CZK ($0.73)	31 CZK ($0.84)
Hungary	42 CZK ($1.14)	32 CZK ($0.86)
Great Britain	254 CZK ($6.86)	51 CZK ($1.38)
Germany	186 CZK ($5.03)	35 CZK ($0.95)
Austria	201 CZK ($5.43)	36 CZK ($0.97)
France	222 CZK ($6.00)	39 CZK ($1.05)

The wholesale price for one hectoliter of 10% beer is between 950 and 1,200 CZK ($25 - $32). Prices for 12% beer run from 1,200 and 1,600 CZK ($32 - $43) per hectoliter. An average retail price is 20 CZK ($0.54) per liter for both bottled and draft beer. An average restaurant price for 0.5 l beer is around 27 CZK ($0.73). In neighboring countries (Germany, Austria), prices are much higher. Proximity and preferential trade agreements with the EU make these natural growth markets for Czech exports.

Price competition is very strong throughout the Czech Republic and some breweries have introduced very inexpensive brands over the past few years. For example, Primus and Klasic have retail prices of around 5 CZK ($0.14) per 0.5 liter bottle.

The following table shows some retail prices in one of the large hypermarkets:

Retail prices of imported beer:

Item	Content of alcohol in %	Volume in liters	Price in CZK, ($)
Black Death Premium	5	0.33 can	28.90 CZK ($0.78)
Black Death Premium	5	0.33 bottle	20.90 CZK ($0.56)
Corona Extra		0.33 bottle	61.90 CZK ($1.67)
Desperados - with tequila aroma	5.9	0.33 bottle	64.90 CZK ($1.75)
Desperados - with tequila aroma	5.9	0.5 can	79.90 CZK ($2.16)
Draught Guiness	5	0.33 can	42.90 CZK ($1.16)
Heineken	5	0.33 can, bottle	33.90 CZK ($0.92)
Kilkenny	5	0.33 bottle	44.50 CZK ($1.20)
Murphy's Irish Red	5	0.33 bottle	36.90 CZK ($1.00)
Schlossgold	Free	0.33	13.50 CZK ($0.36)
Zipfer	5.4	0.33 bottle	16.90 CZK ($0.46)

Retail prices of domestic canned beer:

Item	Content of alcohol in %	Volume in liters	Price in CZK, ($)
Budweiser Budvar	5	0.33/0.5	13.90/19.90 CZK ($0.38/$0.53)
Gambrinus 10%	4.1	0.33/0.5	10.50/15.50 CZK ($0.28/$0.42)
Gambrinus Premium 12%	5	0.33/0.5	13.50/17.50 CZK ($0.36/$0.47)
Krusovice Lager	5	0.33/0.5	12.00/15.00 CZK ($0.32/$0.41)
Krusovice Light	3.8	0.33/0.5	10.00/13.00 CZK ($0.27/$0.35)
Krusovice Dark	3.8	0.33/0.5	11.00/14.00 CZK ($0.30/$0.38)
Pilsner Urquell 12%	4.4	0.33/0.5	15.90/19.50 CZK ($0.43/$0.53)
Radegast Premium 12%	5.1	0.5	14.90 CZK ($0.40)
Radegast Triumf 10%	3.9	0.5	11.70 CZK ($0.32)
Samson 10%	3.8	0.5	14.90 CZK ($0.40)
Staropramen Lager 10%	5	0.33/0.5	11.90/13.50 CZK ($0.32/$0.36)
Velkopopovicky Kozel 12%	5	0.5	13.50 CZK ($0.36)
Velvet	5.3	0.44	29.00 CZK ($0.78)

Retail prices of domestic bottled beer:

Item	Content of alcohol in %	Volume in liters	Price in CZK, ($)
Bernard Edrink (with vitamin E and whiskey aroma)	6.1	0.33	26.90 CZK ($0.73)
Bernard Light Lager	5	0.5	9.20 CZK ($0.25)
Bernard	4.5	0.5	8.90 CZK ($0.24)
Budweiser Budvar	4	0.5	8.40 CZK ($0.23)
Budweiser Budvar Premium	5	0.5	11.50 CZK ($0.31)
Budweiser Budvar	Free	0.5	5.90 CZK ($0.16)
Gambrinus 12%	5	0.5	12.50 CZK ($0.34)
Gambrinus Dark 10%	3.6	0.5	8.90 CZK ($0.24)
Gambrinus Master	Free	0.5	8.90 CZK ($0.24)
Krusovice Dark	3.8	0.5	7.20 CZK ($0.19)
Krusovice Light Lager	5	0.5	10.50 CZK ($0.28)
Platan	3.8	0.5	5.20 CZK ($0.14)
Primus	4.2	0.5	5.50 CZK ($0.15)
Radegast Premium 12%	5.1	0.5	10.50 CZK ($0.28)
Radegast Triumf 10%	3.9	0.5	7.50 CZK ($0.20)
Radegast Klasik	3.6	0.5	4.90 CZK ($0.13)
Starobrno Premium 12%	5	0.5	7.90 CZK ($0.21)
Staropramen Lager	5	0.5	10.50 CZK ($0.28)
Staropramen 10%	4	0.5	7.20 CZK ($0.19)

Retail prices of beer, which is not canned nor glass bottled:

Item	Content of alcohol in %	Volume in liters	Price in CZK, ($)
Bernard	5	5 barrel	332.00 CZK ($8.97)
Staropramen	5	5 barrel	289.00 CZK ($7.81)
Mestan Triumf	4	1.5 plastic bottle	22.90 CZK ($0.62)

Taxes

The Value Added Tax (VAT) on beer is 22%. For alcohol free beer (up to 0.5% alcohol) the VAT is just 5%. The calculation for the excise tax on beer is as follows: 24 CZK per hectoliter times the percentage of malt extract in the beer before fermentation. (For example, the excise tax on 1 hectoliter of a 10% beer will be 24 x 10 = 240 CZK, on 1 hectoliter of a 12% beer it will be 24 x 12 = 288 CZK.) Small independent breweries receive a reduction in the excise tax and the degree of relief depends on their production.

Reduction in excise tax for small independent breweries according to their production:

Production in 1,000 hectoliters/year	Excise tax is reduced by:
0 -10	50%
10 - 50	40%
50 - 100	30%
100 - 150	20%
150 - 200	10%

(Source: Union of Czech Small Independent Breweries)

According to Mr. Bernard, the owner of Bernard brewery and vice chairman of the Union of Czech Small Independent Breweries, a differentiated tax results in only a small loss to the state budget but it does a great deal to help small breweries survive. Tax relief for small independent breweries amounted to about 140 mil. CZK ($4 million) in 1998.

F. Packaging and Label Requirements:

Label and packaging requirements are listed in 'Law 110/97 on Foodstuffs and Tobacco'. Law 110/97 is available in English on the Internet at www.czpi.cz (see products in paragraphs 5-9). Other requirements for beer may be found in Decree 335/97. To summerize:

A beer label must provide the following information:

- the name of the producer/distributor/importer with address
- the name of the group and the subgroup according to Decree 335/1997 (these groups are listed below)
- net content (liters) (allowable consumer-ready packaging are in bottles, cans, kegs and others in 0.25 liters, 0.33 liters, 0.375 liters, 0.5 liters, 0.75 liters, 1.0 to 5.0 liters sizes)
- alcohol contents in %
- expiration date (day, month, year)
- storage information (e.g. bottled beer must be protected from direct sunshine)
- information if a beer has lower sugar contents or if it is a nonalcoholic beer
- ingredients if beer contains additives (this is not necessary if beer contains only water, malting barley, hops or hop extract)
- nutritional information - only for light beers, which is max. 1,300kJ/liter
- method of fermentation if other than standard yeast was used (Saccharomyces cerevisiae subsp.uvarum (carlsbergensis) yeast is considered standard)
- if mineral water instead of regular water was used, it has to be on the label

Beer is divided into the following groups and subgroups:
Groups:

- light, half dark, dark, cut (e.g., dark&tan, beer that is half dark, half light).

Subgroups:

- draft, lager, special, porter, with lower alcohol contents, with lower sugar contents, wheat, yeast, nonalcoholic, herb, light.

G. Import Regulations:

There are no licences required or quota restrictions on beer imports into the Czech Republic.

According to HTS of Czech Republic 2000, the MFN tariff for beer is 20%, but several countries enjoy lower tariffs as the result of preferential trade agreements.

Tariff No:	Article Description:	Special Tariff (%)
2203	Beer made from malt:	20
	Country:	**Preferential Tariff (%)**
	EU	14
	EFTA (Switzerland, Liechtenstein, Iceland, Norway)	14
	Hungary	10 within quota
	Slovenia	12 within quota
	Bulgaria	12
	Lithuania	10 within quota
	Israel	8
	Turkey	Free within quota

H. Beer Fair

PIVEX International Brewing and Malting Fair and Days of Czech Beer

PIVEX is the most important trade show for the brewing industry in Central and Eastern Europe. It takes place each March in Brno along with Salima, a large regional food exhibition. PIVEX is followed by 'Days of Czech Beer,'a less formal beer show taking place at the same Brno fairgrounds.

More information on PIVEX is available on the following web page:

www.bvv.cz/calendar/pivex

or contact:

PIVEX Project Manager
Ms. Gabriela Vargova
Phone: +420-5-4115-2922
E-mail: pivex@bvv.cz

G. List of Importers and Important Contacts:

a) Importers:

Company:	**Neubauer & syn**
Comp.type:	Importer, distributor
Contact:	Mr. Jan Neubauer
Title:	Director
Address:	Chyne 195, 253 01 Hostivice, Czech Republic
Phone:	+420-311-679963
Fax:	+420-311-670074
E-mail:	neubauer@mbox.vol.cz
U.S. imports:	Rolling Rock - imported from Interbrew, brewed under licence in Belgium
Other imports:	Labatt Ice from Canada, Leffe, Holgaarden, Stella Artois, and Belle-vue Kriek from Belgium

Company:	**West End Banfort**
Comp.type:	Importer, distributor
Contact:	Mr. Paul Dubsky
Title:	Director
Address:	Pod Hybsmankou 10, 150 00 Praha 5, Czech Republic
Phone:	+420-2-5721-4616
Fax:	+420-2-5721-5583
E-mail:	dubsky@terminal.cz
U.S. imports:	None
Other imports:	Heineken from Holland, Murphy's from Ireland, Zlaty Bazant from Slovakia

Company:	**Seagram**
Comp.type:	Importer, representative of Canadian - American company Seagram
Contact:	Mr. Marek Holub
Title:	Director
Address:	Chrudimska 2a, 130 00 Praha 3, Czech Republic
Phone:	+420-2-7217-6111, 7217-6177
Fax:	+420-2-7273-4997
U.S. imports:	None
Other imports:	Mexican beer Corona

Company:	**Yakima Chief**
Comp.type:	Mr. Libor Celeda
Title:	Sales Director
Address:	Ceske druziny 35/1939, 160 00 Praha 6, Czech Republic
Pone:	+420-2-312-2346
Fax:	+420-2-2431-5096
E-mail:	libor.celeda@yakimachief.com

U.S. imports: Hops and hop extract

b) Important Contacts:

Organization: **American Embassy**
Contact: Ms. Petra Choteborska
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Organization: **Czech Agricultural and Food Inspection**
Contact: Mr. Petr Baudys
Title: Vice Director
Address: Kvetna 15, 603 00 Brno, Czech Republic
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E-mail: baudys@czpi.cz

Organization: **Czech Beer and Malt Association**
(Cesky svaz pivovaru a sladoven)
Contact: Mr. Antonin Kratochvile
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(Exchange rate August 2000: 1USD = 37 CZK)