

CBI MARKET SURVEY

THE NATURAL COLOURS, FLAVOURS AND THICKENERS MARKET IN THE CZECH REPUBLIC

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Introduction

This CBI market survey gives exporters in developing countries information on some main developments in the natural colours, flavours and thickeners market in the Czech Republic. The information is complementary to the information provided in the CBI market survey 'The natural colours, flavours and thickeners market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from <http://www.cbi.eu/marketinfo>.

1. Market description: industrial demand and production

Industrial demand

Industrial demand for natural colours, flavours and thickeners is, for a great part, dependent on the presence of a food industry, and in particular food ingredient processors. Compared to other EU countries, the food industry in the Czech Republic is small. The Czech Republic's food industry accounted for 1.1% of the total turnover of the EU food industries in 2007, amounting to € 10 billion. Therefore, industrial demand for raw materials is relatively low. However, increased demand for natural and healthy food is expected to stimulate demand for natural colours, flavours and thickeners.

Table 1.1 presents the sizes of the different sectors within the Czech food industry. As can be seen, when compared to the EU average, the Czech Republic has relatively large beverage and animal feed industries. When looking at sub-sector level, the largest sectors in the Czech Republic are dairy and cheese (13% of total food industry turnover in 2007), feed for farm animals (11%), meat (10%) and bread and fresh pastry (8.9%; falls under 'other food products'). This indicates that demand for natural colours, flavours and thickeners used in these products is relatively large in the Czech Republic.

Table 1.1 Manufacturing of food products, beverages and tobacco in the Czech Republic

Food and drink industry sectors	Share in EU food industry, 2006	Share in Czech food industry, 2007	Average annual change in Czech food industry, 2003-2007
Total	100%	100%	7.4%
Meat	*19.1%	19.0%	6.6%
Beverages	14.1%	*18.1%	n..a
Dairy	12.7%	13.4%	8.4%
Animal feeds	*5.5%	11.4%	10.8%
Grain mill products and starch	3.5%	3.2%	9.0%
Fruit and vegetables	5.6%	2.0%	6.8%
Tobacco	7.1%	n.a.	n.a.
Oils and fats	4.4%	n.a.	n.a.
Fish	2.4%	n.a.	n.a.
Other food products	24.7%	23.0%	7.3%

Source: Eurostat (2009)

* Data from 2005

Interesting subsectors which show a high growth rate in the period 2003-2007 are animal feed for farm animals (31% annually on average), poultry (27%), and mineral water and soft drinks (16%). This implies a growing demand for natural flavours such as citrus oils, which are widely used in the soft drink industry.

Only some local and regionally operating colour, flavour and thickener companies have production facilities in the Czech Republic. The leading company which manufactures flavours in the Czech Republic is Aroco - Aroma Praha (<http://www.aroma.cz>). See the sections on Production and Trade channels for more information on players in the Czech Republic.

Demand for many natural colours, flavours and thickeners slowed down during the first year of the economic crisis, as traders and users reduced their stocks and working capital, and shortened their contracts. Since the second half of 2009, however, trade has picked up again, as inventories ran low and had to be replenished.

The organic food sector in the Czech Republic is growing fast, showing a growth of almost 50% in 2006 and 70% in 2007. In 2007, the Czech organic food market was worth € 52 million; 0.6% of the total food sales that year. Half of the organic market is supplied by products from other countries. The organic food market is forecasted to grow even more in the coming years. A main driver behind the growth is the expanding organic range in supermarkets and hypermarkets, which increased the availability of organic foods.

Trends in industrial demand

- Increased demand for low-energy, low-fat food resulted in a growing demand for healthy (organic) ingredients.
- Industry sources indicate that Czech consumers are becoming more health-aware, thus stimulating the demand for natural colours, flavours and thickeners.
- Convenience food products have also gained in popularity, due to the busier life-styles of the Czechs. These products are important applications for natural colours, flavours and thickeners.

For more information on trends, please also refer to the CBI survey covering the EU market for natural colours, flavours and thickeners.

Production

The Czech Republic does not produce any significant quantities of menthol, locust bean, agar, gum Arabic, or guar gum. The conditions for the production of these products (climate, access to sea) are not favourable in the Czech Republic.

However, pectin production in the Czech Republic is considerable. Although raw materials are not abundant, production is relatively high compared to other EU countries since Danisco, a multinational food ingredient manufacturer, has a production facility in the Czech Republic. However, Denmark and Germany are by far the leading pectin producing countries in the EU and in the world.

The Czech Republic produces starch in 5 plants; 3 of these plants produce potato starch. A small amount of starch is also produced from wheat. Some production of starch, made of genetically modified maize, also takes place in the Czech Republic. The national quota for starch production amounted to 33,660 tonnes in 2006 (Ministry of Agriculture of the Czech Republic, 2006).

Czech farmers also grow caraway seeds but, for several years, the price of caraway seed has been declining, which led to producers switching to other crops. Therefore, because of the current limited supply, prices of caraway are increasing again (Public Ledger, 2009).

Trends in production

- Production of organic food products is increasing, but the domestic market is for 50% supplied by producers from abroad.
- The Czech food industry is suffering from competition by foreign food manufacturers. The Federation of the Food and Drink Industries in the Czech Republic (FFDI) is actively promoting domestically produced products with the KLASA label. Note, however, that the KLASA label still allows natural colours, flavours and thickeners from developing countries.

For more information on trends, please also refer to the CBI survey covering the EU market for natural colours, flavours and thickeners.

Opportunities and threats

- + The food industry in the Czech Republic is growing considerably, indicating that demand for food ingredients is increasing. Heightened health awareness, as well as the rapidly growing organic food sector, is expected to stimulate demand for natural food ingredients even more.
- + Relatively large and fast-growing sectors within the Czech food industry are animal feed and soft drinks, indicating that opportunities exist for natural colours, flavours and thickeners used in these industries. Dairy and cheese could also provide opportunities, being the largest sector of the Czech food industry, as well as the poultry sector which grew considerably during the review period.
- Please note, however, that the Czech Republic remains a relatively small consumer of natural colours, flavours and thickeners in the EU.
- Moreover, as the country produces large amounts of starch, demand for manioc starch is not likely to be high.
- + The presence of Danisco in the Czech Republic generates demand for pectin, which is also reflected in the import and export data, discussed in Chapter 3.

Exporters should take into account that the same trend can be an opportunity for one exporter and a threat to another. Please, review these opportunities and threats according to your own situation. Chapter 7 of the CBI market survey 'The market for natural colours, flavours and thickeners in the EU' presents an example of an analysis of whether a trend/development is an opportunity or a threat.

2. Trade channels for market entry

The Czech Republic is a relatively small market. There are hardly any producers or processors of natural colours, flavours and thickeners and supplies mostly go through other EU countries or through distributors. The multinational flavour manufacturers and traders sell their products on the Czech market through local sales offices or use local agents and distributors. Relevant players are:

- Aroma - <http://www.aroma.cz> - leading manufacturer of colours and flavours in the Czech Republic.
- Ireks Aroma - <http://www.ireks-aroma.hr> - Croatian producer and trader of natural colours, flavours and thickeners, present in the Czech Republic.
- Trumf - <http://www.trumf.cz> - manufacturer of spice oils.
- Danisco Czech Republic AS - <http://www.danisco.com> - producer of pectin.
- Natura - <http://www.natura.cz> - distributor of thickeners.
- Frujo AS - <http://www.frujo.cz> - producer of natural flavours.
- JH Group - <http://www.jhgroup.cz> - trader in ingredients for bakery and confectionery.
- Univar Food Ingredients - <http://www.univareurope.com> - distributor of colours, flavours and thickeners.
- Amerex - <http://www.amerex.cz> - distributor of colours, flavours and thickeners.
- Nordmann, Rassman - <http://www.nrc-czech.cz> - distributor of flavours; agent for Firmenich and CP Kelco.
- Intertrade - <http://www.intertradecs.cz> - distributor of flavours; agent for ETOL.
- Metarom - <http://www.metarom.cz> - Czech distributor for Metarom Group.

- Nutrade – tel. +420 2 35 36 30 18-20 – agent for Firmenich.
- The following multinational food ingredient companies have sales offices in the Czech Republic: Sensient Food Colours Germany, Givaudan, Firmenich, Chr. Hansen, Akras and Döhler.

Some Internet sources providing more information on trade partners in the Czech Republic (importers, agents and processing industries) are the following:

- The Food World: <http://www.thefoodworld.com>
- Ingridnet: <http://www.ingridnet.com> (for ingredient suppliers)
- Europages: <http://www.europages.com> (EU business directory)

Note that many food manufacturers prefer to deal with local agents or distributors instead of dealing directly with suppliers in developing countries. They need advice about product applications and related EU legislation. It is generally difficult for an exporter in a developing country to provide this service, as the distance to the market is too big. If this is the case, it would be best to work through agents or distributors.

3. Trade: imports and exports

Imports

The Czech Republic is a small-sized importer of natural colours, flavours and thickeners, accounting for only 1.8% of total EU imports in 2008. Between 2004 and 2008, Czech imports of natural colours, flavours and thickeners fluctuated, showing an overall increase of 18% annually on average. In 2008, imports amounted to € 37 million or 6.2 thousand tonnes. The increase in imports can be explained by the growing food industry, in combination with the health and convenience trends, which stimulate consumption.

Developing countries accounted for a share of 31% in Czech imports of natural colours, flavours and thickeners, which was somewhat lower than the EU average of 37%. The considerable share of developing countries in Czech imports of natural colours, flavours and thickeners is largely the result of imports of pectins from Mexico. Danisco produces pectins in the Czech Republic, Mexico and Brazil. The imports of pectins from Mexico to the Czech Republic are most likely the result of the collection of pectins in the major market, the EU, by Danisco.

Imports of natural colours, flavours and thickeners from developing countries increased by 54% annually on average during the review period, which resulted in an increased share in imports. Mexico, the leading developing country supplier, accounted for 20% of total Czech imports in 2008. Imports from Mexico increased by 139% annually between 2004 and 2008. The Philippines and India were the other leading developing country suppliers, having shares of 5.3% and 2.4% respectively.

Czech imports of natural colours, flavours and thickeners consisted of thickeners of gums and seaweeds (66%), essential oils (21%), colours (7.6%), menthol, liquorice and locust beans (4.2%) and manioc starch (1.1%). The most important group of thickeners is pectins (56%). Imports of this group increased by 36% annually between 2004 and 2008. The most important group of essential oils is the group of oleoresins. Imports of oleoresins increased by 19% annually during the review period, accounting for 76% of total essential oil imports in 2008.

Exports

The Czech Republic is a small EU exporter of natural colours, flavours and thickeners, accounting for 1.9% of total EU exports in 2008. Between 2004 and 2008, Czech exports increased by 11% annually to € 30 million / 4.2 thousand tonnes. The main countries of destination were Ukraine and Germany.

The composition of exports shows that the Czech Republic's production of natural colours, flavours and thickeners consists almost entirely (97%) of gum and seaweed thickeners.

Further analysis of the production and export of gum and seaweed thickeners shows that pectins comprise 98% of the gum and seaweed exports. Exports of other products are negligible.

Opportunities and threats

- + Developing countries account for a considerable share in Czech imports of natural colours, flavours and thickeners. Moreover, their share in imports increased during the review period, indicating opportunities are increasing.
- The Czech Republic is a small market for natural colours, flavours and thickeners and the significant share of developing countries in Czech imports is mainly the result of one of Danisco's production plants in Mexico.
- Most ingredients for the Czech food industry are supplied by other EU countries; imports from East-European countries, in particular Poland, are increasing. However, developing country exporters of raw materials can supply the Czech Republic market through ingredients manufacturers in those other EU countries.

Exporters should take into account that the same trend can be an opportunity for one exporter and a threat to another. Please, review these opportunities and threats according to your own situation. Chapter 7 of the CBI market survey 'The market for natural colours, flavours and thickeners in the EU' presents an example of an analysis of whether a trend/development is an opportunity or a threat.

Useful sources

- EU Expanding Exports Helpdesk - <http://exporthelp.europa.eu/>
- Eurostat – official statistical office of the EU - <http://epp.eurostat.ec.europa.eu>
- Understanding Eurostat: Quick guide to easy comext → http://epp.eurostat.ec.europa.eu/newxtweb/assets/User_guide_Easy_Comext_20090513.pdf

4. Price developments

Please refer to the CBI market survey covering the EU market for prices of natural colours, flavours and thickeners. The price indications given there are the best reference point for prices in the Czech Republic. If any price differences exist, they are the result of differences in transport costs and individual buyer preferences for product origin, quality, packaging, etc. These differences are considerable, both between countries and within countries. Nonetheless, global market prices as mentioned in the CBI market survey 'The market for natural colours, flavours and thickeners in the EU' are the basis for price calculations in every country including the Czech Republic.

For more detailed information on prices, refer to the survey covering the EU or to:

- The Public Ledger (<http://www.public-ledger.com>): Prices for selected colours, flavours and thickeners
- MCX India (<http://www.mcxindia.com>): Prices for menthol and guar
- Quarterly Review of Food Hydrocolloids (<http://www.hydrocolloid.com>): Prices for hydrocolloids

5. Market access requirements

As a manufacturer in a developing country preparing to access the Czech Republic, you should be aware of the market access requirements of your trading partners and the Czech government.

For information on legislative and non-legislative requirements, go to 'Search CBI database' at <http://www.cbi.eu/marketinfo>, select 'food ingredients' and 'Czech Republic' in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found at the website of ITC on export packaging: <http://www.intracen.org/ep/packaging/packit.htm>

Information on tariffs and quota can be found at <http://exporthelp.europa.eu>

6. Doing business

Information on doing business like approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from <http://www.cbi.eu/marketinfo> - go to search publications. For more information on doing business in the Czech Republic, visit the following websites:

Trade associations

- Federation of the Food and Drink Industries of the Czech Republic / Potravinářská Komora České Republiky (PKCR) - <http://www.foodnet.cz>

Trade fairs

- Top Gastro - <http://www.top-gastro.cz> - Trade fair for the catering industry. Most recent event was held in February 2010.
- Salima - <http://www.bvv.cz/salima-gb> - International Food Fair. The most recent event was held 2-5 March 2010.
- Harmonie - <http://www.terinvest.com> - Trade fair for healthy nutrition, organic food and food additives. The most recent one took place in October 2009.

Trade press

Bio Obchod (Organic Trade) - <http://www.greenmarketing.cz> - monthly B2B communication on the local and global organic food markets (select the English version, and look under Magazine).

This survey was compiled for CBI by ProFound – Advisers In Development

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