czech business & trade

economic magazine

CURRENT SITUATION IN THE CZECH AGRARIAN SECTOR

CZECH LOGISTICS PROVIDERS KEEP PACE WITH LATEST TRENDS

LEASING BUSINESS PREMISES

CZECH ECONOMY

GROWTH, LOW INFLATION RATE, SOUND BANKING SECTOR

1
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Questions for Jan Mládek, Minister of Industry and Trade

What are your priorities as the Minister of Industry and Trade regarding the support of exports, business, and investment in 2015?

The principal aim of our export strategy is increasing the volume and diversification of Czech exports. Important instruments in this respect are foreign visits of the leading officials of the Ministry of Industry and Trade (MIT). I myself undertake a number of such visits and, provided the form of the visit allows for it, my wish is to be accompanied by representatives of Czech businessmen engaged in those sectors which have a potential in the particular country.

I would also like to emphasise the importance of sessions of joint bodies for economic cooperation, such as mixed commissions and committees, set up on the basis of inter-governmental or inter-ministerial agreements, whose sessions are usually held at the ministerial or deputy-ministerial level. This is where valuable suggestions are made, which often lead to a real improvement of trade cooperation between the Czech Republic and the country concerned. For example, at the end of January 2015, the Czech-Indian Mixed Commission held a meeting within the framework of my working visit to India, organised by the Czech Chamber of Commerce, which was attended by its 25 members. Similar discussions of mixed commissions and committees to be attended by businessmen will be held, for example, with Turkey, Egypt, China, and Thailand.

The Ministry of Industry and Trade also supports, and will continue to support, the participation of Czech firms in trade fairs and exhibitions throughout the world. Also important are various territorial meetings, export conferences and seminars organised by MIT and the CzechTrade and CzechInvest agencies, often in collaboration with business associations and other entities concerned with the promotion and diversification of Czech exports.

Not only the EU as a whole, but also the Czech Republic itself place special emphasis on competitiveness. How does MIT want to assist in this area?

Measures to raise competitiveness are outlined by the Action Plan to promote economic growth and employment in the Czech Republic. This document responds to the topical economic needs of the country and sets out the tasks for the year 2015, outlining the ways of fulfilling them. The tasks can be divided into three main areas: to support the attractiveness of the business environment, to support investment and export, and to promote the energy industry.

To make the business environment more attractive, MIT is planning to realise 60 measures aimed at reducing the administrative burden for businessmen and to ensure the drawing of the full amounts of money available from EU funds. The two main targets as regards EU funds are the drawing of the full amounts of money available under the Enterprise and Innovation Operational Programme and the calling of new tenders under the Enterprise and Innovation for Competitiveness Operational Programme.

In the framework of its Investment and Export Promotion Programme, MIT is planning to strengthen the financing and insuring of the Czech Export Bank (ČEB) and the Export Guarantee and Insurance Corporation (EGAP), and to improve the offer of export promotion services. It will also be important to better adjust the offer of the services to the needs of businessmen in the specific export markets.

As regards power engineering, I consider it important to update the State Energy Concept, which defines the priorities of the Czech Republic in the power engineering sector and specifies the realisation instruments of the State Energy Policy in relation to the Czech economy. In 2015, MIP is also planning to debate the country's climatic and energy framework until the year 2030 at EU level and the preparation of amendments to the Energy Act and the Act on Supported Energy Sources.

Do you perceive any strong trend or expectation influencing or expected to influence the Czech economy and industry in 2015?

Last year, the Czech economy re-started its economic growth. Its twelve-month rate is estimated at 2.5%. This ranks it among the faster-growing EU countries. In comparison with the EU average, the Czech economy grew about twice as fast. A moderate revival is also expected this year, with domestic demand, which already grew last year, continuing the upward trend. Its further increase is predicted due to the favourable internal environment. On the other hand, external growth factors will only have a minimal effect, which, despite the efforts exerted by our Ministry to promote exports, is the maximum that can be achieved. The progress made in reviving the economy of the Eurozone is still rather insignificant, because international trade is slow, countries have structural problems and some are not competitive enough. The result is wavering confidence which, apart from uncertain economic outlooks, also mirrors current geopolitical risks.

I think that economic growth expectations, based on more balanced proportions than was the case in the recent past, are a promising shift for the better, because they are based on sound foundations and have better prospects for the future. Greater economic activities will also have a favourable influence on the labour market, with a multiplied effect in the form of growing consumption. The revival of investment, which we have witnessed since last year, is an important signal of favourable expectations. An important task for domestic exporters is to achieve a better balance between the different components of economic growth and to prove their competitiveness in the increasingly demanding markets.

I am aware that the current development of foreign trade is burdened by risks, which may operate in both directions. Growth may be supported by a further fall in the exchange rate of the Czech crown, because in general a weaker crown increases the price competitiveness of Czech exporters, whose higher profits will make them more willing to invest. On the other hand, the escalation of the situation in Ukraine, for example, and the resulting problems affecting trade relations of Czech firms with the Russian Federation, may have an opposite effect.

Photo: Ministry of Industry and Trade archives; www.sxc.hu

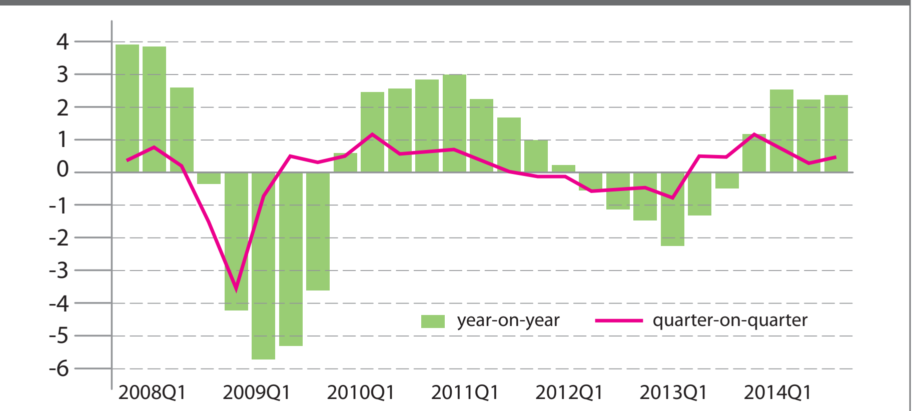
Czech Economy – Growth, Low Inflation Rate, Sound Banking Sector

The Czech economy has a relatively good year behind it, marked by faster economic growth creating new jobs and a record low inflation rate. Much credit for the country's economic growth is due to the automotive industry, supported by the growth of the European new car market and the innovative policy of domestic car factories in placing new successful car models on the market. The growth was accompanied by the renewed investment activity of firms and the public sector and higher household consumption, stimulated by positive consumer expectations. Unemployment continued to decline, with visible signs of real wage increases. The year 2014 was also one marked by record low interest rates, easily available credits and a weak crown, tied by a new exchange rate mechanism introduced after the November 2013 devaluation.

Since the latest recession ended at the beginning of 2013, economic growth has been governed by the manufacturing industry focusing on exports to EU states. In the first 11 months of 2014, industrial production increased by 4.6% in real terms. This growth was supported by all the larger sectors of industry, led by the manufacture of cars, electronics, electrical devices, and plastics. The food industry, one of the Czech Republic´s three strongest industrial sectors, also showed positive results. The growth of production and contracting was accompanied by a positive attitude of industrial firms, as revealed by prosperity surveys conducted by the statistical office and the Purchasing Managers' Index. Foreign trade continued to be unequivocally linked with industry. Throughout the year, the growth of exports and the country´s trade surplus were assisted by the revival of European demand and the growing competitiveness of domestic manufacturers, as well as the development of new manufacturing facilities.

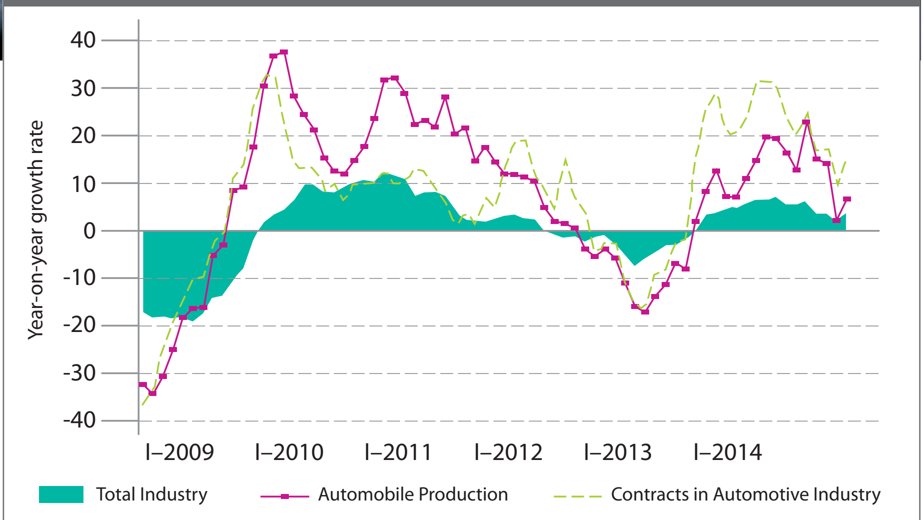
At the end of November, the annual cumulative surplus of the balance of trade reached a new record high of CZK 433 billion (cross-border statistics, which also include re-exports) and CZK 148 billion in national statistics. As in previous years, last year, too, the main export article was cars, whose exports increased by more than one-fifth, thanks to the renewed growth of sales in the European market and successful expansion in Asia. A smaller part of this growth is naturally due to the weakened domestic currency, which in accounting overvalues the crown value of exports. However, in view of the extent of the preceding devaluation, this influence is less significant. Thanks to the favourable development of the Czech Republic´s foreign trade in 2014, the balance of payments in 2014 is most likely once again to be showing a surplus, so that this country remains an attractive locality for foreign direct in-

CZ: ECONOMIC GROWTH (%)



Source: ČSOB

INDUSTRIAL PRODUCTION (3M AVERAGE, %)



Source: ČSOB

vestments, which at the end of September amounted to nearly EUR 118 billion.

HIGHER COMPETITIVENESS IN MANUFACTURING

In 2014, industry continued to be one of the main creators of new jobs, thus participating in cutting down unemployment. Last year again, the Czech Republic maintained its position as a country with one of the lowest unemployment rates within the entire EU. In addition, the trend towards a steady growth in job vacancies continued during the whole year. The offer of vacancies reached a six-year maximum and returned to the level before the first recession started in 2008. Despite the growing economy and decreasing unemployment, no disproportionate growth of wages occurred. Moreover, as a result of the devaluation, labour costs denominated in euros declined, which helped raise the competitiveness of products with a higher labour input and confirmed the country's good position on the ladder comparing labour costs in the EU.

FAVOURABLE RESULTS IN RETAIL TRADE AND LOW HOUSEHOLD INDEBTEDNESS

2014 was a year when, after a nearly six-year decline, the building industry, especially the sector concerned with the construction of the infrastructure and apartments, returned to growth. An indication of the upcoming reversal of the long-lasting negative trend was new contracts from both the public and the private sectors. An additional benefit of this trend is the growth of confidence in the sector, which after 2009 lost nearly one-third of its production. On the other hand, no such improvement has been shown by the services sector. For the time being, the performance of this sector is stagnant, although, in the case of certain specialisations, a very favourable development occurred. This applies especially to leasing and to transport and warehousing, whose real performance is close to that of the strong years of 2007-2008. IT services, too, are on the way up. In terms of real revenues, these services nearly reached their maximum level of 2012. A favourable development was also shown by retail trade, where, thanks to growing household consumption, the upward trend already started in mid-2013. Its characteristic features are the record-high sales of cars, high demand for electronic goods and the rapidly expanding Internet trade. Despite higher consumption, however, Czech households maintain a high (roughly 10%) savings rate, and their indebtedness in comparison with other EU states is relatively low.

As regards demand, the main factor to have contributed to economic growth last year was investments, especially in machinery needed to increase the production capacity of the domestic economy. Besides investments, another factor was the favourable influence of the renewed growth of household consumption, whose real financial situation began to improve, after four years of stagnation, in particular due to declining unemployment, a low inflation rate and a moderate wage growth. The positive effect of net exports on the growth of GDP was weakened by the revival of domestic demand for goods and services, also comprising more expensive imports.

POSITIVE RATING OF THE CR

In 2014, the disinflationary trend started in previous years continued. Its consequence was the lowest inflation rate for the past 11 years (0.4%). The reason, however, was not deflationary pressures in domestic econ-

Photo: www.sxc.hu

omy, but primarily the general decline in electricity prices in Europe, which also affected domestic prices, the continuing fall in the prices of electronic goods, growing competition among mobile operators and a more favourable development of food prices caused by lower agricultural commodity prices. In addition, at the end of the year, inflation was arrested by falling fuel prices in connection with the situation in the global oil market. Despite the preceding devaluation, inflation failed to be actuated, let alone brought back to the target set by the Central Bank. Thus, short-term interest rates last year remained at their historical minimum, while long-term rates began to fall as a result of developments in the European economy. Government bond yields, too, followed a downward trend, assisted by a more favourable management of the state budget, the use of accumulated reserves and the suspension of new government bond issues at the end of the year. Thanks to this development, supported by low indebtedness, the Czech Republic can finance at the lowest cost in history, even more cheaply than some of the big Eurozone economies. This fact is reflected in the positive rating of the Czech Republic, which is higher than that of the neighbouring 'new' EU member states, occupying a position somewhere in the centre of the investment rating scale (A1 from Standard & Poor's, AA - from Moody's).

THE BANKING SECTOR IN PERFECT CONDITION

The low market interest rates were projected into the development of new credit rates. Unlike a number of Western countries, the Czech economy was not affected by the credit crunch; on the contrary, the credit terms and, with them, the easy availability of loans greatly improved, thanks to the perfect conditions of the local banking sector. A strong capital position, liquidity and the quality of the portfolios are long-standing attributes of Czech banks, which continue to be among the most profit-making in the EU and – as the regular stress tests of the Central Bank confirm – remain strongly resistant to any potential shocks affecting the domestic and EU economies. In addition, the latest surveys of credit terms published by the Czech National Bank reveal that the readiness of banks to grant credits to firms and households has not declined, but on the contrary is growing, as shown by figures for the end of the year. However, at the same time this was by no means accompanied by either disproportionate credit expansion or the formation of bubbles in the assets markets, especially real estate. For this reason, the banking sector continues to be one of the solid and sound pillars of the Czech economy, supporting its long-term growth.

OUTLOOK FOR 2015

The Czech economy has a successful year behind it, a year of growth, which, seen from the supply and demand point of view, is based on sound foundations. Thus, this year the economy has a good chance of also continuing this trend. Nevertheless, it will have to cope with a somewhat less optimistic outlook as regards the European economy and a likely recession in Russia. On the other hand, the economy is receiving a very strong boost in the form of cheaper energy prices, in particular as regards crude oil. The massive fall in the price of this commodity, and consequently of fuel, brings about pronounced savings worth many billions of crowns, which firms and households will be able to use for consumption or investment.

This year, the economy will be boosted mainly by domestic demand, moderately supported by net exports. On the side of supply, the main role will continue to be played by the manufacturing industry, followed by construction and certain services. The roughly 2% growth of GDP expected for 2015 is most likely to be sufficient to create new jobs and to participate in the improvement of conditions in the domestic labour market. Unemployment thus could fall back to 7%, provided wage pressures remain within reasonable limits. Anticipations that currency devaluation will bring about inflation and greater wage acceleration in the business sector are unlikely to come true this year.

Therefore, 2015 will most probably be another year with a very low inflation rate, supported by a tangible decrease in energy prices, in particular primary energy raw materials, this time also supported by cheaper agricultural commodities. As the beginning of January 2015 indicates, low inflation, or even a short-term negative inflation, may provoke speculations about a further devaluation of the Czech crown, whose fate is exclusively in the hands of the Central Bank. For the time being, however, there are no indications that such a step is inevitable. What is most likely to happen is that, even in 2015, inflation will not meet the target set by the Central Bank, and that this year will be one with very low interest rates. That is why the current intervention policy preventing the crown from returning below the 27 CZK/EUR level will be upheld.

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Which Tax Changes Await Businessmen in 2015?

Since tax regulations in the Czech Republic change quite often, we would like to inform you about some of those which are to come into force on 1 January 2015, and also what changes are expected to be made in 2016. The article is divided into three areas:

- CHANGES IN VAT REGULATIONS
- CHANGES IN PERSONAL INCOME TAXATION
- CASH PAYMENT LIMITS

CHANGES IN VAT REGULATIONS

1. Changes in VAT Rates

The first change applicable from January 2015 is the introduction of the second reduced, or the third VAT rate, amounting to 10%. This rate will apply to medicines, books and baby food. With the introduction of the second reduced VAT rate, the planned unification of VAT rates at the level of 17.5%, approved in 2012 and planned to come into force in 2016, is abrogated.

2. Amount of Turnover Requiring VAT Registration

The turnover amount requiring compulsory VAT registration remains at the level of CZK one million for a period of 12 consecutive months and will not be reduced to CZK 750 000 for 12 consecutive months, as originally proposed.

3. Broadening of Possibilities to Use the Transferred Tax Liability System

Another change is the broadening of the use of the Transferred Tax Liability system within the Czech Republic. This broadening will apply, for example, to grain and sugar beet supplies without any value limit and also to mobile phone and tablet supplies. This provision, however, will only apply to supplies stated in a single tax document surpassing the amount of CZK 100 000.

4. Control Reports

The Amendment to the Value Added Tax Act (the VAT Act) provides for the mandatory submission, as from 1 January 2016, of Control Reports that will form part of the Tax Return. The purpose of this provision is to prevent tax evasion and to ensure better tax collection. The Control Reports must be completed electronically only; the Ministry of the Interior admits that this will add a further burden to the administrative work of businessmen and place higher demands on their technical equipment. The Control Reports will concern especially the recipients of taxable payments having their place of payment in the Czech Republic:

- who have paid an advance on a future taxable supply,
- who are manufacturers entitled to deduction in the production of investment gold or in the transformation of gold into investment gold,
- who have acquired the goods from another EU member state,
- who have accepted services from a person not residing in the Czech Republic, where the place of supply was located in the CR.

5. Special Rules for Mini One-Stop Shops

Special rules for mini one-stop shops already apply to non-settled persons liable to tax by a third country, who provide electronic services to persons not liable to tax. This provision is intended to simplify VAT collection. In agreement with these special rules, the person liable to tax by a third country (e.g. Russian service provider) is obliged to register in one of the member states (identification state), where he/she electronically files his/her quarterly Tax Returns for the supply concerned and submits his/her Return for the supply under these special rules, e.g. in Poland, the Czech Republic, Austria, and Hungary, with the corresponding Polish, Czech, Austrian, and Hungarian tax authorities, and pays all taxes in the identification state, which are subsequently distributed among the member states in which the service was provided.

As from 1 January 2015, in the case of telecommunication services, radio and television broadcasting services and services provided electronically to a person not liable to tax, the place of supply shall be the recipient´s place of residence irrespective

Photo: www.sxc.hu

of the provider´s address. Under the new legislation, the rules applying to the taxation of the above-mentioned services in the member state of settlement will be broadened to cover cases where the service is provided by a person liable to tax and resident in another member state. Until 31 December 2014, in the case of telecommunication services, radio and television broadcasting services and services provided electronically to a person not liable to tax by a tax-liable person settled in another member state, the basic general rule is applied and the service will be taxed in the state in which the service provider is settled. Therefore, as from 1 January 2015, the mini one-stop shop system will also be

applicable to tax-liable persons settled in another member state.

To summarise, it can be said that the mini one-stop shop system will be divided into the internal EU provider system and the external EU provider system.

CHANGES IN PERSONAL INCOME TAXATION

Here we would like to mention two main changes concerning personal income taxation, which will come into force in 2015 under the Tax Act Amendment.
The changes are the following:

- raising the parenthood tax rebate for the second child by CZK 2 400 per annum to CZK 15 804 per annum, and the tax rebate for the third and subsequent child by CZK 3 600 per annum to CZK 17 004 per annum,
- 60% flat rate expense allowances on the income of self-employed persons will be limited to the amount of CZK 1 200 000, and the 80% flat rate expense allowance for craftsmen's income to the amount of CZK 1 600 000.

LIMITS FOR CASH PAYMENTS

The limit for cash payments, which until 2015 was CZK 350 000, has been reduced to CZK 270 000. A new provision is that, in addition to limiting the amount of cash for the payment of sums due, the Amendment also bans the recipient from accepting cash surpassing the said limit. The limit for cash payments does not apply to current account deposits and withdrawals.

INVESTMENT GOLD

A new obligation has been imposed on payers entitled to tax rebate in the production of investment gold or in the transformation of gold into investment gold: to state, for filing purposes, the trade name of the firm, its tax registration number, file number of the document, extent and object of payment, day of issue, day of payment or receipt of payment, the total amount, the weight and purity of gold, the name, date of birth, and place of residence of the natural person, and the obligation to keep the document on file for 10 years. The investment gold producer is required to issue a receipt to the customer who is a private person not liable to tax (not a businessman or VAT payer). This applies if that person supplies investment gold free of tax and is entitled to a tax rebate from the mediation service, at the purchase of gold which is not investment gold, or is entitled to tax deduction at purchase, acquisition from another member state or at the import of goods or services directly linked with the production of investment gold or the transformation of gold into investment gold.

TAX ADMINISTRATION

As from 2015, it is sufficient for one member of the company statutory body to act for the trade corporation, even in cases where it ensues from the founding documents (Certificate of Incorporation) that the joint action of several persons (members of statutory bodies) is required. Under the new legislation, natural persons have the duty to notify the tax administrator should he/she have accepted a tax-free sum surpassing CZK 5 million before the expiry of the deadline for filing the Tax Return. In the case of such a person failing to do so, he/she shall be liable to a fine of up to 15% of such income. This could signify the taxation of a tax-free income. In certain cases, such a fine could be waived. This duty will apply to income which the taxpayer obtained after 1 January 2015.

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Nearly 75% of Czech People Are Online

In 2014, 72% of Czech households had personal computers and were connected to the Internet. Portable computers are becoming increasingly popular, and in 2014 every other Czech household had one at home. Fifty per cent of Czechs using the Internet are registered on social networks. The most popular type of connection is wireless Wi-Fi (42% of households). In 2014, more than 3.4 million Czechs made their purchases by Internet. This mode of purchasing is especially popular with the younger and middle-aged groups. The most interesting group for Internet trading companies, however, is women on maternity leave. This group accounts for about 64%. Their most frequent purchases are clothing, footwear, and fashion accessories. Men´s most common purchases are electronics and computers.

Prizes for Best Cooperation in 2014

Prizes have already been awarded to the winners of a competition for exemplary cooperation between the research sphere and firms, organised by the Association for Foreign Investment, the American Chamber of Commerce in the CR and the Czech Technological Agency. The prize for Best Cooperation in 2014 was awarded to the cooperation project between the Czech Technical University in Prague and the Kuličkové šrouby Kuřim engineering firm for their motion mechanism for thread-working machines. Second place went to Loschmidt Laboratories, the Institute of Experimental Biology and the Natural Science Faculty of Masaryk University, together with the firms of Photon Systems Instruments and Enantis. Their joint project was a biosensor for monitoring toxic substances in the environment. The third-place award went to the Veterinary Medicine Research Institute and the Bioveta firm for their project: Recombinant vaccine against Lyme disease.

Revival of Building Industry

The building industry in the Czech Republic is expected to grow in the next two years, in continuation of the first post-crisis growth in 2014. For the time being, company directors do not expect any increase hikes in the volume of construction, but rather anticipate a moderate growth, according to the quarterly analysis of the Czech building industry prepared by CEEC Research. This year, orders are expected to grow by 3.3%. "In 2014, public contracts concluded between January and October were worth CZK 93.4 billion, 20.5% more year-on-year, which signifies a strong investment impulse for the building industry from the public sector. In addition, public construction tenders currently under way anticipate more work for building firms," explains Jiří Vacek, Director of CEEC Research.

Interest in New Credits

The favourable image of the Czech economy is also supported by new banking statistics data. According to Eva Zamrazilová, Chief Economist of the Czech Banking Association, enterprises are slowly discarding their caution and beginning to grant new credits. The new credits totalling CZK 53.2 billion, which banks granted to enterprises in October 2014, were a record high in comparison with the situation which prevailed in the market over the past two years. It is very likely that the revival of credit activities has reached the small and medium-sized enterprise sector. Investment demand is reviving, according to the latest GDP data. This, too, is supported by banking statistics, which show that credits qualified by the Czech National Bank as investments amounted to CZK 613.5 billion at the end of October, a nearly 10% increase year-on-year.

The Czech Republic Wins Award for Business Promotion

The Czech Novosad & syn glassworks won an award from the Enterprise Europe Network, an organisation assisting small and medium-sized firms to promote international contacts. The firm based in Harrachov won the award for its successful collaboration with the British Rokos Design Studio. At the inception of the cooperative project was an enquiry and request by the British designer to the Enterprise Europe Network in London to find, from among its partners all over the world, a glassworks capable of realising their design. In the Czech Republic, this enquiry was taken up by the Technological Centre of the Czech Academy of Sciences, which addressed several glassworks in the Czech Republic, among them the Novosad & syn glassworks. The Harrachov glassworks proved to be exactly what the British designer, Jim Rokos, needed. "I am most fascinated by people who know how to do things I don´t," said Jim Rokos about the Harrachov glassmakers at the prize award ceremony. His glass vase named "Gauge Vase" tilts as the water in it is being taken up. "Mr Rokos addressed different glassworks, but none of them could comply with his requirements for quality and price. To his satisfaction, we could and did almost at once. The material Mr Rokos required was crystal glass, which only a few glassworks can manufacture today," explained Petr Novosad, who accepted the award in Brussels for the glassworks. In addition, the vase has a complicated shape, with a very thin neck and a relatively robust body. "Only a few glassmakers are able to inflate a glass piece into shape with a conventional blowpipe. Even in our glassworks," said Mr Novosad.

Photo: www.sxc.hu

Is It Worthwhile for Operators to Invest in LTE?

According to a study by the Accenture company entitled "Does it pay to invest in LTE in the Czech market?" concerning investment in fourth-generation networks, the payback period is estimated to be about nine years. In the past year, the number of people using smart phones, tablets and other mobile applications placing special emphasis on the quality and speed of mobile connection, increased by leaps and bounds. Therefore, in the next few years mobile operators will have to invest massively in the development of 4G networks and high-speed connections. The current situation is that only larger towns are covered by the signal and, in addition, the network capacity is disputable. In three years, high-speed Internet should be accessible in the whole of the Czech Republic. "Our study has shown that the returnability of investment in fourth-generation networks in the Czech market will be nine years on an average," says Michal Novák, Telecommunication Markets Analyses Manager for Europe and Latin America, Accenture CR. The total amount of investment in LTE is estimated at CZK 34 billion, while the sum the operators had to pay to the state for licences for 15 years was CZK 8.5 billion. "Czech, as well as other operators in Europe and worldwide, will have to find ways of achieving reasonable returnability. This does not mean that they will automatically raise prices. Most probably they will focus on providing new services, which will add importance to the mobile applications in our lives," adds Novák. These services could include listening to streamed music or watching films.

Competitiveness of the Czech Republic: Forecasts Augur Well for the Future

The Czech Republic currently occupies 37th position on the competitiveness ladder, according to a recent World Economic Forum survey. In terms of the GDP per capita ratio, the Czech Republic falls within the group of economies pulled by innovations. For this group, the most important valuation factors are the business environment and innovation. According to the 2014 EC report on the competitiveness of EU member states, the Czech Republic could raise its competitiveness by reducing bureaucracy in administration, strengthening the links between industry, the universities and research workplaces and making better use of energies.

Shared Services Centres Like It in the CR

Operators of Shared Services Centres, whose services include, for example, doing accounts for their concern or making purchases for them, are satisfied in the Czech Republic and are not planning to leave the local market in the foreseeable future, although they could certainly find regions with cheaper labour. In a survey conducted by the PwC ČR consulting company, they even stated that their parent companies place greater value on the quality and availability of employees rather than on lower expenses at all costs. If they were to decide anew where to place their Shared Services Centres, their choice would again be the Czech Republic. According to the survey, one of the reasons is the country´s proximity to Western Europe. This is where a large part of the operators of the Shared Services Centres in this country have their central offices or important clients. At the same time, they are satisfied with the quality/ labour cost ratio and other conditions influencing the operation of the Centres. This is supported by the fact that many of them are enlarging their existing businesses and have broadened their services from seven to eleven different kinds of activities over the past two years. Their new services include, for example, managerial reporting, financial planning, IT support, and data processing.

Better Payment Morale of Firms

The payment morale of firms in the Czech Republic is improving slightly, according to a ČSOB Factoring analysis. In the third quarter of 2014, firms covered their liabilities in 73 days on an average – two days sooner than in the preceding quarter, which is three days less than in 2013. The most visible improvement of payment morale could be seen in the food industry, which cut the payment period by 10 days, from 76 to 66 days. In the automotive industry, the payment periods were also shortened by 10 days, but the resulting length was 56 days, actually the best result among all other sectors according to statistics. "Cash flow in the Czech Republic has accelerated, which means faster payments to suppliers. In a number of sectors, we finance by factoring. However, we see that firms are still struggling with lack of operating capital; supplying the capital may release the firms' funds which, in addition, could be used for investment in firms' own development," says Tomáš Morávek, Chairman of the Board of Directors of ČSOB Factoring.

The Czech Republic Improved Its Position on the Tax Liability Ladder

The Czech Republic occupies 119th position on the ladder showing how simple or complicated the work is linked with tax liability calculation, according to a study by the World Bank and PwC. A medium-sized firm in the Czech Republic takes 413 hours to prepare and calculate the amount of taxes it is liable to pay. The result is all the more valuable, as over the past five years, the length of time needed to make the final calculation dropped by an unbelievable 517 hours.

New Rules for Investment Incentives

From 1 July 2014, the European Commission's new General Block Exemption Regulation (the "regulation"), regulating the conditions and rules for state aid, came into force. One significant change resulting from the regulation is a reduction in state aid for large companies down to 25% (previously up to 40%). In practice, this means that an investment of e.g. EUR 10 million can receive a maximum incentive of EUR 2.5 million instead of the current EUR 4 million.

In connection to the new European Commission regulation, an amendment to the Czech Act on Investment Incentives (the "Act") is being prepared; its aim is to improve the attractiveness of investment incentives for investors despite the reduced level of state aid. The amendment will bring a number of changes and its approval is expected in spring 2015.

THE MOST IMPORTANT CHANGES INTRODUCED BY THE AMENDMENT TO THE ACT ON INVESTMENT INCENTIVES

All existing forms of investment incentives, such as income tax relief, cash grant for new job creation and employee training, or support for strategic investment will be kept. In addition, new incentive in the form of an exemption from real property tax in concessional industrial zones, which will be proposed by state authorities will be introduced.

Another positive change is a reduction in the limits for the minimum number of new jobs created in the case of technology centres and strategic services. The limit will be cut from 40 to 20 newly created positions, and in the case of centres for software development and data centres, there will be a reduction from 100 to 70 newly created jobs. In addition to data centres, customer support centres will also be supported activity, the precondition being to create at least 500 new jobs.

For manufacturing projects new basic condition will be established the obligation to create at least 20 new jobs.

For strategic investment projects (for production – a min. investment of CZK 500 million, of which CZK 250 million is for machinery, and the creation of at least 500 new jobs; for technology centres – CZK 200 million, of which CZK 100 million is for machines, and the creation at least of 100 new jobs), which were implemented by the amendment of the Act in 2012, the cash grant should be increased from 5% to 10% for the acquisition of fixed assets. There will be also an increase in cash grant of up to 12.5% of the value of the assets acquired in the case of strategic investment combining investment in manufacturing industry and technology centres.

Regarding cash grant for job creation, it is planned to increase this aid in selected areas by up to CZK 300 000 for each created job. Moreover, it is planned to extend opportunities to receive this support in another areas too.

Apart from changes in the form and terms of aid, the amendment will also bring about interesting changes in the area of sanctions and prohibitions. An important new feature will be the authorization of mergers for the recipients of investment incentives. In such case the recipient will lose the possibility to claim the tax relief for future year but in comparison with current legislation the past incentives will not be lost. At the same time a similar reduction in penalties for failure to properly set transfer prices will be implemented.

Most of the above changes will only be effective for applications submitted after the amendment becomes effective. They will not be applicable for projects whose application was made before the effective date of the amendment. Some of the changes (especially in the case of penalties for non-compliance in the area of transfer pricing and mergers) should, however, also affect existing beneficiaries of investment incentives.

UPDATES IN THE APPLICATION PROCESS FOR INVESTMENT INCENTIVES

The preparation and submission of applications for investment incentives is a time-consuming process, a process that itself will be affected under the new amendment.

Due to the regulation, investment incentives are no longer available for companies which have shut down an enterprise with similar activities within the EEA in the last two years, or if they are planning similar step in next two years. A statutory declaration must be provided to this effect.

Statutory declaration has also been added regarding investment projects implemented by the applicant or their related party within the previous three years on the territory of one region. For those companies affected, the approval process may be quite complicated.

On the other hand, it will no longer be mandatory to provide with the application annual reports for last three accounting periods. Moreover, in connection with the cancellation of the basic condition to provide funding for mandatory part of the investment from equity capital, there will be some simplification of manner in which financing investment projects is documented - providing a description of the method of financing will be sufficient.

Photo: www.sxc.hu

What about state aid from 1 July 2014?
As mentioned above, the permissible rate of state aid for investment projects in all cohesion regions in the Czech Republic is decreasing to 25%, except for Prague, where no level of public support is admissible.

On the other hand the state aid will not be cut back to 75% (i.e. to 18.75%) for investment projects not implemented in selected regions or in specific fields of manufacturing (e.g. electronics, automotive industry, engineering, the manufacture of chemical products and pharmaceuticals).

How do I know whether I am eligible for investment incentives for investment in production?
If you are planning to invest at least CZK 100 million (in some regions just CZK 50 million) in establishment of production or in expansion of current production, at least half of which will be spent in acquiring new machinery and equipment and there will be established at least twenty new jobs, all of it within three years, you can obtain investment incentives in the form of ten-year income tax relief.

In selected regions of the Czech Republic there is also the possibility of receiving cash grant of up to CZK 300 000 for each newly created job or support for training and retraining.

A basic condition of all the investment projects is environmental friendliness.

I am not a producer, but I work in development or strategic services. How do I get hold of investment incentives?
In the case of technology centres, an essential condition for obtaining investment incentives is to create at least 20 new jobs and invest CZK 10 million, of which CZK 5 million must be spent on new machinery.
If you satisfy the conditions, it is possible to obtain tax relief and in some regions also the cash grant for the creation of new jobs or training and retraining.

How long is it mandatory to keep the investment and new jobs?
Fixed assets for which an investment incentive has been used and the newly created job positions must remain for the whole period of the tax relief claiming and at least for a period of five years from the completion of the investment project or from the establishment of the first employment for each new job position.

An important fact set out in the amendment is that the condition of maintaining the supported assets is fulfilled also if it is necessary to replace a supported asset owing to reasons of its failure or obsolescence; the replacement asset must be of equal or bigger value and must be used for the same purpose.

COMBINING INVESTMENT INCENTIVES AND FUNDING

In practice, it often happens that a company plans to make more than one investment during the same period, which raises questions regarding the possibility of combining different types of state aids. Generally, it is possible to use several subsidies and also a variety of investment incentives. In this case it is necessary to divide the investment between various aid programmes, particularly with regard to fulfilling the specific conditions of each cash grant programme or investment incentive, while simultaneously maximising the potential benefit. There is a basic rule for all supports that each cost can be supported only once. It is necessary to consider each combination optimally before submitting the application or investment plan.

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Changes to Czech Employment Law

From January 2015, changes to Czech employment law will have a significant impact on employers' record keeping obligations and administrative offences.

SANCTIONS FOR THE BREACH OF EMPLOYMENT LAW REGULATIONS

The amendment of the Act on Labour Inspection, being effective as of 1 January 2015, introduces important changes to sanctions in cases of the breach of employment law regulations on the part of the employer. It mainly involves a noticeable increase to the maximum amount of penalties rendered by the labour inspectors for a violation of rules covering (mainly) the following areas:

1. Commencement, changes, and termination of the employment relationship

Penalties in the area of breach of the employer´s obligations concerning commencement, changes, and termination of the employment relationship increases up to CZK 2 million (previously CZK 300 000). According to a 2013 report by the State Labour Inspection Office, in this regard, the inspectors mainly focus on the following misconduct of employers: forcing employees to sign an agreement on termination without stating any reason, although the reason of organisational changes has been given; not informing employees about the details of their employment relationship according to Sec. 37 of the Labour Code; (not) organising annual leave; not assigning work within the stipulated working time; etc. Especially in these areas, the employers thus should be thoughtful and take good care of their obligations in order to prevent any penalties from the labour inspection office.

2. Discrimination and unequal treatment

The penalty for discrimination and/or unequal treatment, which can be imposed both based on the Labour Inspection Act and the Act on Employment, is to be unified to the amount of CZK 1 million (previously it was "only" CZK 400 000 according to the Labour Inspection Act). Regarding the checks rendered in this field in 2013, the inspectors completed 183 checks of the potential discrimination towards job applicants and 510 checks of the potential discrimination of disabled persons.

3. Agreements on work performed outside the employment relationship

A penalty of up to CZK 2 million may be rendered to an employer who does not ensure that its employees do not exceed the maximum extent of their agreements to perform work (half of the regular working time on average, i.e. 20 hours per week on average) or agreements to complete a job (300 hours per calendar year). Such a high penalty has been stipulated with respect to the frequent breach of this employer´s obligation – in this regard, also more checks from the labour inspection office can be expected in 2015.

Moreover, during 2015, an amendment to the Act on the Protection of Public Health is expected to be issued. It shall also bring significant changes in sanctions in the field of occupational health and safety and employment-related medical services. In this respect, labour inspectors (as they keep their current responsibility) and now also employees of regional hygiene stations, will be entitled to render penalties for the violation of the employer´s obligations in this field.

INCREASE TO THE MINIMUM AND GUARANTEED SALARY

The amendment to the Government Regulation on the minimum salary and the lowest rates of guaranteed salary increases the minimum salary as of 1 January 2015. The monthly rate rises up to CZK 9 200 and the

Photo: Accenture archives

hourly rate to CZK 55 as compared with the previous monthly rate of CZK 8 500 and hourly rate of CZK 50.60.

Along with the increase of minimum salary, a consequential increase of guaranteed salary also takes place in all 8 groups of work graded by its difficulty, responsibility, and strenuousness. Whereas in the first group, both the monthly and the hourly rate correspond to the minimum salary, in the last (8th) group, the lowest guaranteed salary rate amounts up to CZK 18 400 monthly and CZK 110 hourly.

The above mentioned changes also influence the amount of contributions paid by employers to health insurance in cases of unpaid leave or unexcused absences of their employees. In this respect, if the unpaid leave or unexcused absence lasts for the whole month, the amount of contribution to health insurance arising out of the new minimum salary is CZK 1 242.

CHANGES TO THE ACT ON EMPLOYMENT

In 2014, the Act on Employment became, probably, the most often amended employment law regulation. Earlier during the year, an amendment concerning the regulation of foreigners expressly stipulated the possibility of employers sending foreign employees on business trips.

Later on, being effective as of 1 January 2015, another significant amendment has modified the legal status of disabled persons according to the Act on Employment, including the re-introduction of the category of medically disadvantaged persons, and the rules for alternative performance in this regard. Also, the amendment has expressly stated that those employees who are temporarily assigned by an employment agency to a user are not included in the mandatory proportion of disabled persons which each employer with more than 25 employees is obliged to employ (or replace by alternative performance). Further, the notification duty of employers towards the Labour Office (which must be done before the 15th February each year) has been modified by the amendment. Newly, within the notification document, the employer must provide the following information: identification data of the provider of alternative performance, price of the products/services, date of consumption of the products/services, number of the invoices of the consumption. In case of a breach of the obligation herewith, the penalty from the labour inspection may rise up to CZK 100 000.

POSTPONED EFFECTIVENESS OF THE AMENDMENT TO THE LABOUR CODE

Originally, the recent amendment to the Labour Code was to become effective as of 1 January 2015. The scope of the amendment, however, has been widened during the parliamentary discussions and the legislative process has thus fallen behind its planned course. The amendment should therefore become effective during 2015, not at the very beginning of the year.

In its current form, the amendment, among others, takes into account the cancellation of the Act on Accident Insurance of Employees, which was already issued in 2006, but has never come into effect. According to the explanatory report to the amendment, it is obvious that the Accident Insurance Act does not fit the current needs of securing employees in cases of accidents at work and occupational diseases and will thus be cancelled. In this respect, the regulation of employer´s liability for accidents at work and occupational diseases (which is now contained in the transitory and final provisions of the Labour Code) will be transferred to the part of the Labour Code applying to the compensation for damage.

Further, the recent version of the amendment shall stipulate more detailed rules for the termination of agreements on work performed outside the employment relationship and also eliminate minor faults more of a technical character and consolidate the wording of the Labour Code with the new Civil Code.

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Leasing Business Premises

Since 1 January 2014, the Czech Civil Code has regulated the lease of premises for business purposes, even in relation to lease agreements entered into prior to this date. Compared to general types of property leases, lease of premises for business purposes have several specific features. Landlords, property developers and their tenants who are leasing business premises in the Czech Republic should certainly be aware of them.

REQUIREMENTS OF A LEASE CONTRACT

The essential requirement of a lease contract is now simply an agreement concerning the object of the lease and the amount of rent. The purpose of the lease no longer needs to be specified in the contract. If, however, the object of the lease will not be used at least predominantly for the operation of business, then no specific conditions shall apply. The lease contract does not need to be renegotiated and rewritten, although in practice this continues to be recommended. Neither is it required to have the object of lease approved by the occupancy permit for the contract to be valid.

The regulation of leases in the Civil Code is not mandatory. Parties therefore have the opportunity to manage their mutual rights and obligations according to their own specific requirements and needs.

TERMINATING A LEASE OF PREMISES FOR BUSINESS PURPOSES

Unless the contracting parties agree otherwise, the notice period for a lease with an indefinite term is six months, and three months for a fixed term lease. The notice on a fixed term contract must state the reason for terminating the lease, otherwise the notice is not valid.

Unless the parties set out other reasons, tenants are entitled to give notice on a fixed term lease before the lease expires, if (i) they have lost the capacity to carry out that activity for which the business premises were intended, (ii) the leased premises have ceased, for objective reasons, to be eligible for carrying out the activity for which they were intended, and the landlord does not provide the tenant with equivalent alternative premises, (iii) the landlord has grossly breached his obligations in respect of the tenant, and (iv) the circumstances on the basis of which the parties concluded the lease agreement have changed to such an extent that it would be unreasonable to require the tenant to continue the lease.

It is also possible for the landlord to give notice on a fixed term lease contract, if: (i) the real estate in which the premises for business purposes are located is to be demolished or rebuilt in such a way that prevents the leased premises from being used any further, and where the landlord did not and could not have predicted such situation when entering into the contract, or (ii) the tenant has grossly breached his obligations in respect of the landlord (e.g. the tenant is more than 1 month in arrears with the payment of rent or with services otherwise connected with the use of the business premises), (iii) the tenant is convicted of an intentional criminal act committed against the landlord, a member of his family, or person who lives in the building in which the business premises are located, or against another person's property situated in such building, or (iv) there exists some other similarly serious reason.

Objections can be raised against a notice. Objections must be made in writing and notified within one month of the relevant party having received the notice. If the objections are rejected, the party who raised the objections may ask the court to examine the legitimacy of the notice. If, however, the tenant vacates the business premises in accordance with the notice, then such notice shall be regarded valid and as having been accepted by him without objections.

OTHER CHANGES

The tenant is entitled to furnish, to the appropriate extent, the real estate in which the object of the lease is located with various types signage, provided the landlord has given his consent. The landlord may only withhold his consent for serious reasons. If the tenant requests the landlord in writing to be given such consent and the landlord does not respond within 1 month, it shall be taken that the consent has been given.

One entirely new legal mechanism is the payment of compensation for taking over a customer base, i.e. a group of customers who were regular clients of the tenant, provided that such base was created by the tenant himself. The tenant is entitled to compensation for the take-over of a customer base in cases where the lease is terminated by notice of the landlord and at the same time the customer base is taken over by the landlord or a new tenant and an identical or similar activity as carried out by the previous tenant shall be pursued in the object of the lease. However, the tenant will not be entitled to compensation for the takeover of a customer base if the landlord gave a notice to the tenant for the reason of the tenant's gross breach of obligations.

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Innovations in the Legal Regulation of Czech Joint-stock Companies

In 2014, joint-stock companies underwent fundamental recodification changes. Since 1 January 2014, the legal regulation of joint-stock companies has been contained in the Act on Business Corporations, as well as in the new Civil Code, and provides entrepreneurs with the possibility of adjusting this type of a capital business company more flexibly.

The basic features of a joint-stock company remain unchanged: a joint-stock company is still founded by statutes in the form of a notarial deed, and its registered capital must amount to a minimum of CZK 2 million. The registered capital is divided into shares that may be both bearer and registered shares, and a shareholder is not liable for the company's obligations. Fundamental decisions of shareholders adopted at a General Meeting, such as e.g. an amendment to the statutes or a change in the registered capital, still require the consent of a qualified majority of the shareholders present. What then are the significant innovations?

INCORPORATION OF A JOINT-STOCK COMPANY AND SHARES

A joint-stock company may now be founded by one individual. The law no longer regulates the foundation by a public offering of shares, since this manner was almost never used in practice. Any subsequent amendment to the statutes by the General Meeting must be expressly permitted in the statutes, otherwise such amendment is only possible by agreement among all shareholders.

In addition to ordinary and priority shares, the company may now also issue other classes of shares bearing special rights, such as, for instance, a fixed, differing, or subordinated share in profits or in the liquidation balance. Such special rights and their content must be determined in the statutes of the company. The company may now also issue no-par value shares, i.e. shares that have no nominal value and represent the same proportions of the company's registered capital. Their advantage is an even spread of the share in the registered capital and the facilitation of future changes in the registered capital, which otherwise result in the necessary exchange of shares for new shares. Also the requisite signature on the shares has been simplified: it may be now replaced with its imprint, if the share concerned has elements protecting it from falsification. A shareholder may also request the company to exchange damaged shares, and thus, if applicable, no complex redemption of such shares via a court is required. The statutes may also set out that a share in profits will be paid in a manner other than monetary, e.g. by company products or securities.

GENERAL MEETING

A noticeable facilitation of the decision-making process for the company and its shareholders is the possibility to anchor in the statutes the decision-making "per rollam", during which shareholders cast votes via correspondence, without the necessity of attending the General Meeting. The statutes may also reduce the minimum level of quorum of the General Meeting below 30% and adjust the "cumulative" voting for the election of members of the company's bodies, which places minority shareholders at an advantage. A notice of the General Meeting must be published on the company's website, and the statutes may further regulate a suitable form of delivery of the notice other than by post (e.g. by e-mail).

In order to invoke the invalidity of a resolution of the General Meeting, a shareholder must submit a protest at the General Meeting. An exception is in the event of the protest not having been entered in the Minutes due to a mistake of the Minutes clerk or Chairman of the Gen-

Photo: www.sxc.hu

eral Meeting, or when the person raising the protest was not present at the General Meeting, or when the reasons for the invalidity of the General Meeting could not be established at that General Meeting.

BODIES OF A JOINT-STOCK COMPANY

Shareholders may now select between a monistic or dualistic internal structure. The previous dualistic model, which requires the existence of a Board of Directors and Supervisory Board, no longer requires a minimum number of members of these bodies, and the Supervisory Board may have only one member. However, in view of the incompatibility of posts (offices) in such bodies, it is necessary to have at least two persons to fill such posts. The obligation to have 1/3 of members of the Supervisory Board elected by employees has been revoked without any replacement.

The monistic system consists of a Statutory Director as the statutory body, and an Administrative Board that appoints the statutory Director and monitors the execution of his/ her post. The Administrative Board may have one member, who may also be the statutory Director, and thus one person suffices for filling both posts in a company with a monistic structure. Such structure may be practical e.g. for a company with one shareholder, who will concurrently be Chairman of the Administrative Board and statutory Director.

A member of the bodies of a joint-stock company may also be a legal entity. The post of Chairman of the Administrative Board and statutory Director may only be executed by an individual.

COMPANY WEBSITE

Commencing on 1 January 2014, joint-stock companies are obliged to obtain their websites on which must be published the business name, registered office, Corporate ID No., entry in the Commercial Register, Notices of the General Meeting, and other data set out by law.

TRANSFER OF PROPERTY BETWEEN RELATED ENTITIES

The obligation to obtain a valuation for a transaction between related entities the value of which exceeds 10% of the registered capital of the company, which met with great difficulties in practice, has been fundamentally limited. This obligation now applies to only 2 years from the incorporation of the company, and only to a transfer of property from a shareholder to the company. A valuating expert for such transaction does not have to be appointed by a court; an appointment by the Board of Directors suffices. Any other transactions between related entities will be subject to the general principles governing the conflict of interest, setting the obligation of the persons concerned to inform the applicable body of the company and giving such body the possibility of prohibiting the relevant transaction. In the event of a breach of such duties, the general liability for incurred damage will apply.

OTHER NEWS

Joint-stock companies have been affected by other changes that are valid in general for all Czech capital companies. The statutory reserve fund has been cancelled and no longer constitutes a necessary part of the statutes. Advances for a share in profits are possible, subject to certain conditions, as is the so-called financial assistance. Remuneration of members of the company's bodies must now be agreed in writing and approved by the company's supreme body; if such conditions are not fulfilled, the execution of the post of a member of the joint-stock company's body is performed without remuneration, unlike the previous regulation that awarded the entitlement to a customary remuneration.

With a view of these and other extensive changes that have occurred in the legal regulation of joint-stock companies in 2014, one may believe that the actual practical application of changes will take much longer than the end of the statutory deadline for adjusting the statutes of the joint-stock company and remuneration of members of the companies' bodies, i.e. 30 June 2014.

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Current Situation in the Czech Agrarian Sector

The situation in Czech agriculture and food processing is the result of the combined influence of social, agrarian, and political processes taking place in the country, where the effects of transformation after 1989 and the situation in the period before the Czech Republic´s joining the EU are still to be felt. Real structural and economic changes in this sector took place only after the Czech Republic joined the EU in 2004, when the sector had to adjust to the terms and conditions of the EU Common Agricultural Policy (CAP) and the EU single market.

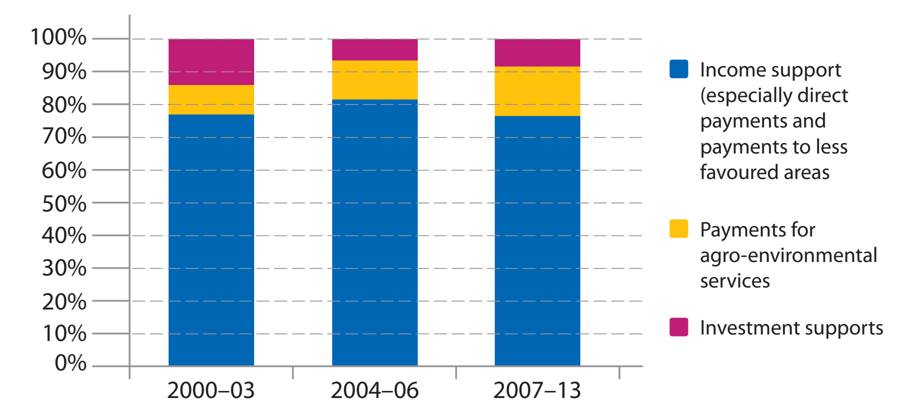
Photo: www.sxc.hu

ESSENTIAL CHANGES IN CZECH AGRICULTURAL POLICY AFTER ACCESSION TO THE EU

- Greater protection of domestic producers as a result of greater protection of the EU market vis-a-vis third countries.
- Massive growth of direct payments (support of the 1st CAP Pillar) and support of rural development (2nd CAP Pillar).
- Continuation of the privatisation of farmland owned by the state (started in the year 2000) and the gradual elimination of barriers in the land market, especially by cadastral land consolidation.
- Emphasis placed on the development of renewable energy sources in the area of bio-fuels and electricity production by bio-gas stations.

Graph 1 illustrates the development of the structure of supports conferred exclusively to agricultural enterprises. The graph shows that the absolute majority of grants made available to agricultural enterprises (70-80%) has the form of income support, i.e. direct payments and payments to agricultural enterprises in less favoured areas. In the past few years, the dominant category in the structure of direct payments has been payments not linked with production (80%, while, in the period before joining the EU, the proportion of such payments amounted to 50%). The amount of support and its character strongly influence the rational behaviour of agricultural enterprises, especially as regards the simplification of their production structure and production efficiency.

GRAPH 1 – STRUCTURE OF SUPPORT TO AGRICULTURAL ENTERPRISES (%)



Source: Database of supports of the Czech agricultural policy (ÚZEI)

Currently, total support to agricultural enterprises amounts to CZK 350 000 - 360 000 per annual working unit (AWU) on an average, or approximately CZK 10 000 per hectare of farmland (eligible for support). This naturally results in the capitalisation of support to agriculture into land prices. The tenancy rate level, which to a considerable extent reflects the farmland market price level, has more than doubled since the Czech Republic's accession to the European Union[1]. Although this increase in land prices in the Czech Republic has reduced the price differences in comparison with the EU average, the level of Czech prices still remains strongly below the land price level in the developed EU countries (e.g. the current tenancy rate level in the CR is one-fourth of its level in Germany).

As regards the price of labour, the supports practically maintain the ratio of the wage level in agriculture to the wage level

1) The tenancy rate level has grown the least in better natural conditions, while, in mountainous areas, it rose more than fourfold (in those areas operational support is about twice as high as that in areas with better natural conditions). The raising of land prices and competition even from non-agricultural capital in the land market stimulates existing users to increase the share of their own land in enterprises (the proportion of own land in enterprises has increased from 11% in 2003 to the current 28% on an average).

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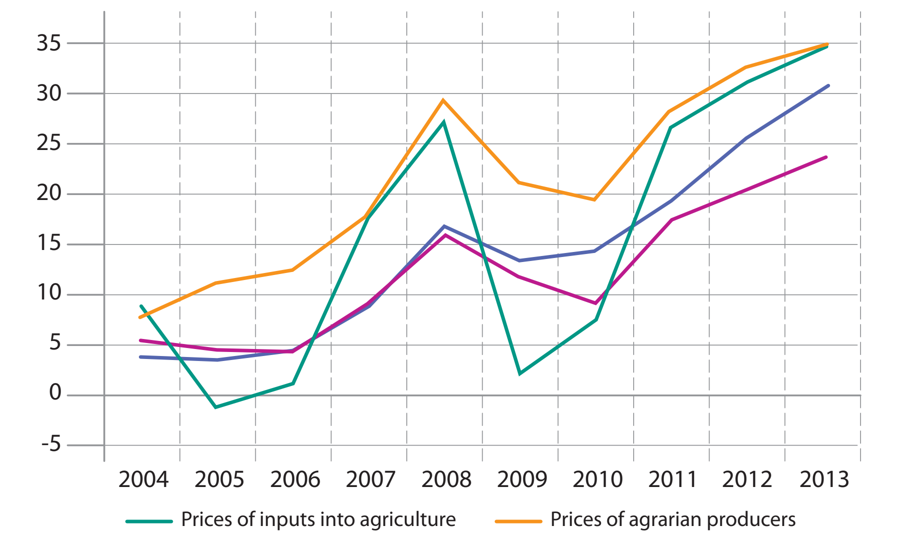
GRAPH 2 – DEVELOPMENT OF PRICES IN THE CZECH AGRARIAN SECTOR (PERCENTAGE YEAR-ON-YEAR CHANGES OF CURRENT PRICES, 2004/2003 = 0; INPUT PRICES DO NOT INCLUDE LABOUR AND LAND PRICES)



Sources: Zprávy o stavu českého zemědělství (Reports on Czech Agriculture).

in the national economy as a whole. The parity of wages in agriculture is about 75-80% on a long-term basis and, on the contrary, is higher than in most developed EU countries. Owing to the changes in the production structure, investment and technological development, employment in agriculture declines by 3-5% each year. Currently it ranges at approximately 105 000 working units. As a result of supports (in terms of the per-working-unit equivalent), average monthly wages of paid workers employed in agriculture are increasing (about 2.5-fold in comparison with the pre-accession period). However, the wage level is about two-thirds of the EU-15 level (but is more than one-third higher than, for example, in Poland).

PRICE CONDITIONS IN THE AGRARIAN MARKET

In addition to the Agricultural Policy and other measures applied by the state, the development of the Czech agrarian sector is influenced by the terms of trade. The relative development of those terms expressed as year-on-year price change cumulation is shown in Graph 2.

Graph 2 shows that agricultural producers' prices (Farm-gate prices - FGP) are the most sensitive to market globalisation and climate change (rapid and frequent alteration of dry periods or flooding). The dynamics of agricultural input prices' development is faster on a long-term basis than in FGP, but in recent years the ratios between the two price categories are nearly on a similar level.

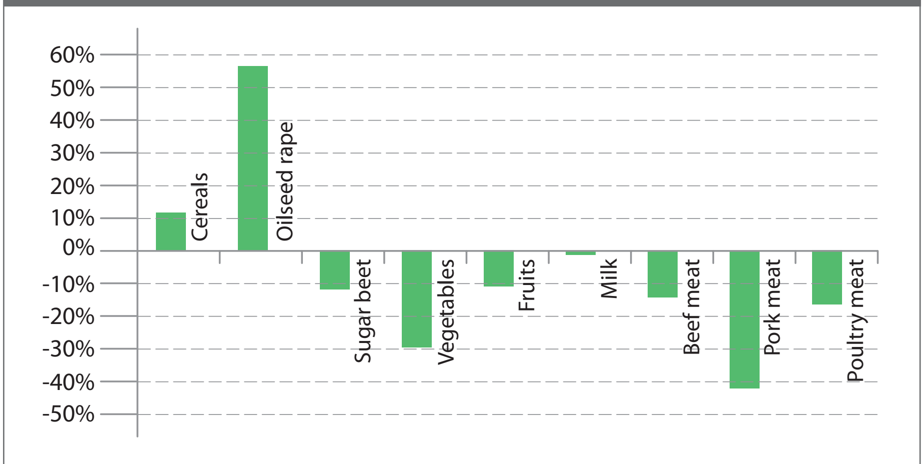
The slowest dynamics of development, albeit in the same direction, are shown by the prices of food producers together with food consumption prices. This naturally has its economic reasons, for example:

- Food processing enterprises in the Czech Republic using Czech agricultural raw materials (especially enterprises processing primary agricultural raw materials) are showing lower economic performance on an average in comparison with food processing enterprises in the developed EU countries[2]. This is one of the obstacles to increasing FGP for domestic farmers.
- Food trading in the CR is mostly in the hands of foreign supermarket chains, which use economic pressure to transfer a greater proportion of the market risks to the food suppliers, including pressure on food prices and FGP.
- In the face of this situation, agricultural enterprises are trying to realise the greatest possible part of their production under better market conditions, for example by forming short chains on the domestic market (e.g. sales from the farm or at farmers' markets, creating small processing facilities on farms, etc.), employing agricultural biomass for non-food use, especially using the raw material as a renewable energy source (RES). Since the 1990s, oilseed rape, grain, and sugar beet have been used for bio-fuels, and in recent years, this biomass (mainly green maize) has come to be used in agricultural bio-gas stations[3].

COMMODITY STRUCTURE

Graph 3 illustrates the changes in the commodity structure, which reflect the market conditions and the supports to individual commodities. The production structure has been simplified: in crop production, the

GRAPH 3 – CHANGES IN THE STRUCTURE OF PRODUCTION IN CZECH AGRICULTURE IN 2009–12/2001–3 (%)



Source: Zprávy o stavu českého zemědělství (Reports on Czech Agriculure)

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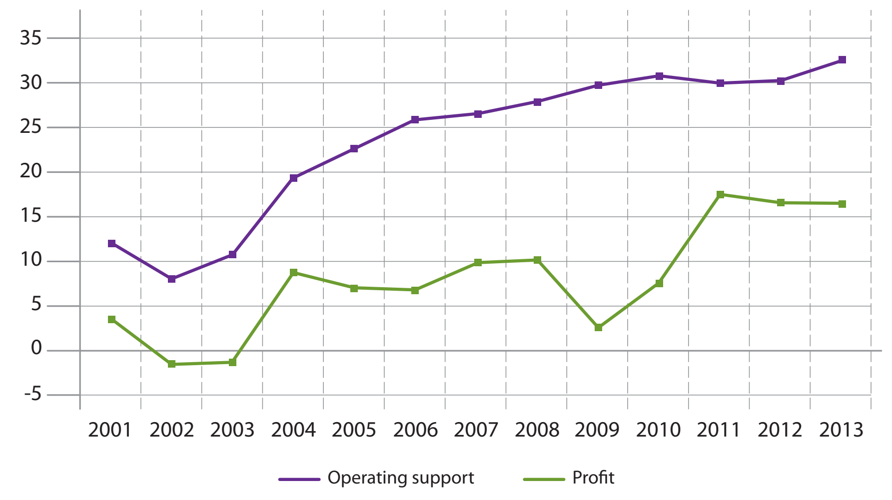
2) Although the efficiency of the Czech food processing industry is increasing, it is still only 40%–50% of the efficiency of the food processing industry in the developed EU countries.
3) he conditions in the RES market are still very favourable for agricultural enterprises. Currently, more than 40% of oilseed rape production and 23% of sugar beet production are used as bio-fuel.
4) Milk production is regulated by quotas. The annual milk yield has increased by more than 30% in comparison with the pre-accession period, which resulted in the continuing reduction of milk cow herds (from 466 000 heads in 2003 to 373 000 in 2013, a decline of 20%). On the other hand, the herds of suckler cows in 2013 increased to 191 000 heads in comparison with 124 000 heads in 2003, an increase of more than 54%.
5) In correct economic terms, this means the operating surplus used to cover unpaid labour and profit.

GRAPH 4 – DEVELOPMENT OF THE PROFIT RATE IN THE AGRARIAN SECTOR (CZK BILLION, CURRENT PRICES)



Sources: Zprávy o stavu českého zemědělství (Reports on Czech Agriculture).

dominant crops are cereals and oilseed rape and the proportion of animal production in the total production has declined. This applies especially to pork and poultry meat production. The herds of milk cows have been reduced, with the simultaneous increase in the herds of suckler cows[4]. The decline in animal production is accompanied by a massive reduction in the acreage of fodder crops on arable land. At the same time, however, an ever larger acreage of fodder crops is being used for the production of biomass as RES.

Changes of the production structure have also become reflected in the level of the self-sufficiency of different commodities, which is especially low in pork and poultry meat production and in the production of fruit and vegetables, commodities which are more labour intensive. Milk and beef production, however, ensures sufficient self-sufficiency (up to 120%). Regrettably, the surpluses, and other products, too, are 'ignored' by domestic processors and have to be exported for processing abroad (and are often re-imported as products made from Czech raw materials; a typical example is the situation on the pork market).

THE ECONOMY OF THE AGRARIAN SECTOR AND ITS ENTERPRISES

Since the Czech Republic's entry into the EU, the economy of the agrarian sector measured by total profit has been improving[5], particularly thanks to operational supports. It has reached a very high level in recent years (see Graph 4), in comparison with regular annual losses in the pre-entry period. When surveying the profit in the agrarian sector, it is necessary to look at its background, with special regard to international comparisons (see Table 1). The Table 1 reveals the following facts in particular:

- The efficiency of the use of production sources in Czech agriculture in terms of the share of intermediate consumption in total production (73%, before entry even 71%) is lower in comparison with the EU average.
- As regards labour input, Czech agriculture is on the level of developed EU countries (but with a lower production per-hectare).
- The real level of support (in terms of purchasing power parity equivalent) is higher than the EU average and is projected into the high level of per-worker income. Since 2005, this level in the Czech Republic rose by more than 70% (in EU15 by 20% and in EU27 by 35%).
- Economic results measured by the income from factors (factor income) are created with more than 60% by supports, which significantly exceeds the adequate ratio in the EU. For comparison, in 2001-2003, this proportion was less than 30%!

FUTURE OF THE CZECH AGRARIAN SECTOR

The development of the Czech agrarian sector to date shows that the sector has maintained considerable potential com-

Table 1 – Selected characteristics of Czech agriculture with international comparisons

Country/Indicator	Intermediate consumption[1] (%)	AWU[2] 100 ha	Income[3]/AWU (EUR thous.)	Operational suppports[4]/ha (EUR thous.)	Operational supports/factor income (%)
EU15	62	4	23.1	347.5	37.8
EU12	64	10	9.6	368.4	38.7
Slovakia	80	3	18.1	495.1	69.9
Poland	64	15	8.6	373.6	39.9
Czech Republic	73	3	25.1	464.7	61.0

1) Intermediate consumption: basically variable inputs 2) AWU (Annual Working Unit) 3) Income: net source to cover labour and land costs and profit creation 4) expressed in purchasing power equivalent
Source: Eurostat, Zprávy o stavu českého zemědělství (Reports on Czech Agriculture)

parative advantages. This includes especially the average size of farms being many times higher than is the case in the EU15 countries, and thus potentials from the economy of scale, accompanied (temporarily) by low labour and land costs. Another positive is the substantial improvement of the economic situation in the entire agrarian sector and in practically all farm categories, and from this a higher opportunity to utilise investment supports or higher profits for rational investment, not only in production, but also in land acquisition, diversification of activities and improving the structure of farms.

The income support for reducing risks in agriculture as a result of price fluctuations or bad weather is of considerable importance. A positive feature is also the increasing energy self-sufficiency in the Czech Republic with the aid of agricultural biomass used as RES, and vertical and horizontal integration in food processing and the development of new market segments.

In future it will be necessary to transfer potential comparative advantages of the Czech agrarian sector into reality. It is necessary to overcome stagnation, or even a worsening of the efficiency of using the sources in comparison with the most developed countries, not only in agriculture, but also, and mainly, in the field of primary processing of agricultural biomass. The current trend towards cost-intensive and at the same time extensive farming must be reversed, although still due to high supports economically successful. This cannot be done without raising the proportion of commodities requiring higher demands on quality and the amount of work and on the use of better technologies. In addition, the current simplification of the production structure and the reduction in the herds of ruminants have an unfavourable impact on employment in rural areas, as well as on the quality of the soil and other components of the environment and the landscape.

Other negative features are, undoubtedly, the reduction of acreage of farmland and the deterioration in the quality of farmland and water management in rural areas and the continuous decrease of biodiversity in the country. These negative effects are further augmented by the high proportion of land being rented by agricultural enterprises, which reduces the motivation to care for the land properly and to preserve it for future generations. The current farm practices still bring high erosion risks and reduce the water retention capacity of farmland. Adding to this are the frequently changing weather extremes, such as droughts and floods.

STRUCTURE OF AGRICULTURAL AND FOOD PROCESSING ENTERPRISES

The transformation of Czech agriculture, together with other factors, has led to an extremely strong dual structure of Czech agriculture, where 8% of the largest farms manage 70% of the farmland. The average size of the Czech farm is more than 150 ha of farmland, many times larger than the EU average (the closest to this size are farms in Great Britain with an average 90 ha of farmland). In the business structure, small and medium-sized family farms have recently been increasing their area of farmland. These enterprises account for approximately 30% of farmland. On the other hand, the acreage of agricultural cooperatives have considerably decreased (to roughly 20% of farmland), to the benefit of other types of business, such as joint stock companies and limited liability companies (each type managing approximately 25% of the Czech acreage of farmland). In the past few years, the favourable economic situation in the Czech Republic has stimulated the development of extremely large agricultural enterprises, mainly by merger and acquisition, especially joint stock companies of the holding type.

The food industry, too, has undergone an ownership transformation, which has resulted in a relatively stable structure of enterprises (with more than 100 employees), with both horizontal and vertical integration processes taking place there. Ownership concentration, however, is not always accompanied by adequate technological concentration, which reduces the competitiveness of the branch and the entire agrarian sector. Nevertheless, a positive role in food industry is played by foreign investments, for example in milk processing.

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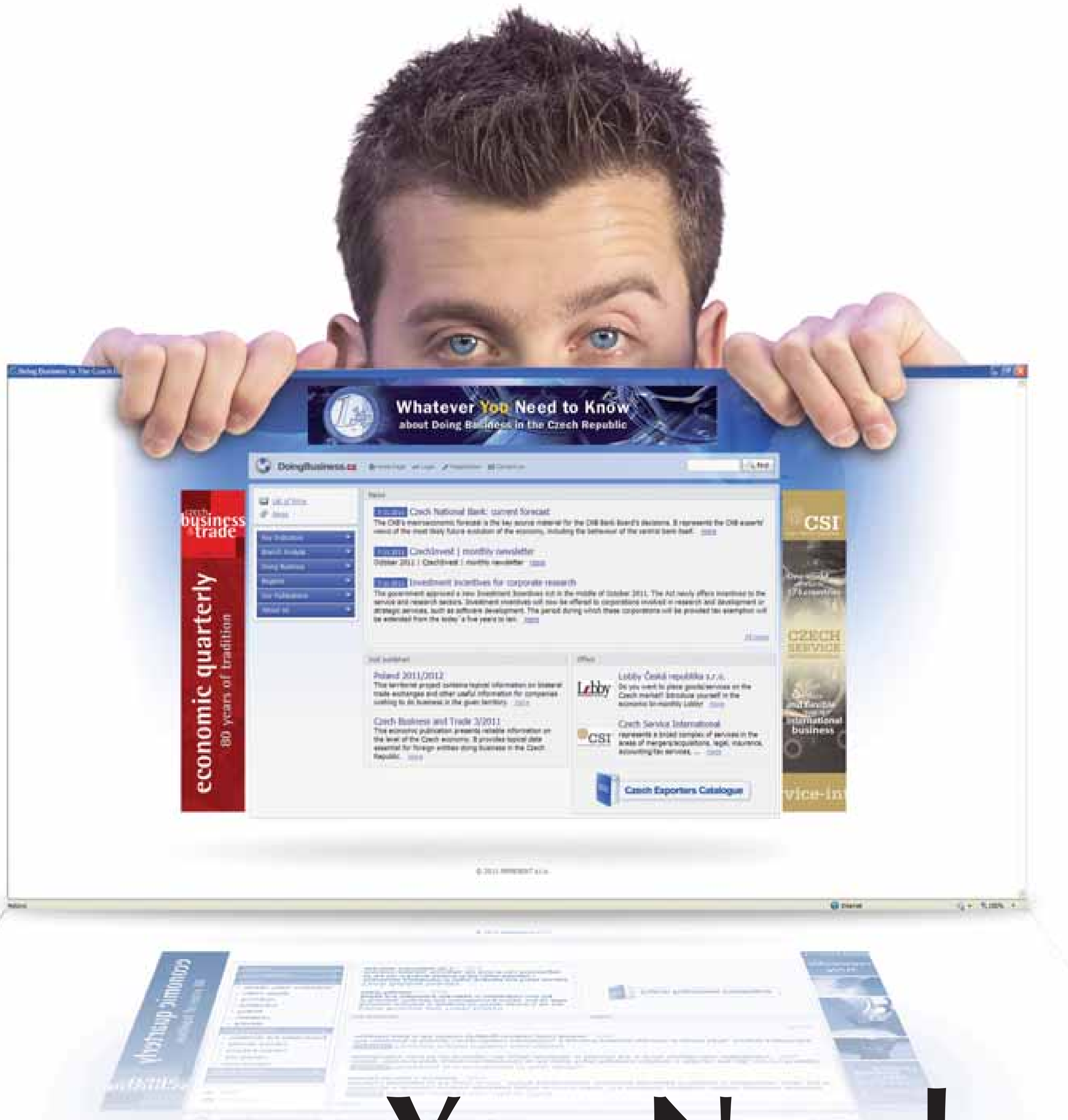

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High-quality Bio Products Gaining Ground in the Czech Market

Bio foods, products of eco-agriculture, are regular items in the shopping baskets of Czech consumers. People are increasingly often looking for the bio label on food items bought in shops. This applies not only to Czech national products, but also to products having their origin in the European Union. This confirms the trend that consumers are becoming increasingly interested in buying the products of environmentally friendly agriculture. "The interest in Czech bio foods in other countries is growing as well, especially as regards bio milk, whose quality is really outstanding, with the product meeting above-standard requirements. Much interest is also shown in vegetable bio products, wine, etc. I think our products have a good chance of success even in the face of foreign competition," says Kateřina Nesrstová, Manager of the PRO-BIO Ecological Farmers' Union, the only Czech national association of eco-farmers, producers, and sellers of bio foods.

The number of eco-farmers in the Czech Republic is growing. In 2013 there were 4 060 of them in this country. The number of bio food producers, too, is growing, currently amounting to 493. What, in your opinion, is the condition of Czech eco-farming and how well are we doing in comparison with the other EU states?

In comparison with the 'new' EU member states, we are doing very well, and I even dare to say that we are the best among them. The eco-land surface in this country is growing steadily, and so is actual production, which is attested to by the number of certified bio producers. However, we are still lagging behind the most advanced Western countries. In my opinion, it is a matter of years, maybe decades, before our conditions become comparable. On the other hand, it has to be admitted that bio producers in this country are in a more difficult situation than, for example, those in Germany. A lot would have to be changed, especially in legislation and the follow-up control practice, before our first bio sausages or bio cheese are placed on

Photo: PRO-BIO Ecological Farmer's Union archives

MORE THAN 41% OF CZECH HOUSEHOLDS BUY BIO FOODSTUFFS

The number of people buying bio food has increased to 41%, according to the Median market research company. The most popular bio foods are dairy produce, which appeal to nearly 70% of families who consume bio foods regularly, followed by vegetables and fruit (66% and 54% respectively), meat and smoked meat products (nearly 40% of those buying bio food). The interest in bio vegetables, fruit, meat and smoked meat products is growing steadily, especially as regards fruit and vegetables (by approx. 20% over the past 6 years). The most frequent places where people buy bio foods are markets, including farmers' markets, which attract more than 60% of customers. Other places are supermarkets, specialised shops, farms where the products are made, and grocery shops. A new feature is buying bio foods through the Internet. This mode of purchase has been tried out by one in every 20 people interested in bio foods. Some 24% of people know the relatively new logo of the European Union appearing on bio foods, in comparison with 9% in 2010. The popularity of the national environmentally friendly product logo (eco-farming product), too, is increasing. In 2010, this logo was familiar to 54% of people in comparison with this year's 75% of the population. What are the barriers to increasing the purchase of bio foods? And what is the reason for some people not consuming bio foods at all? The answer is: the price.

Eco-farming in figures	2012	2013
Number of eco-farms	3 934	4 060
Surface area of farmland under eco-farming (ha)	490 762	493 394
Proportion of eco-farming in relation to total farmland surface area (%)	11.60	11.68
Number of bio food producers	454	493
Source: Ministry of Agriculture.		

Note: In 2012, the bio food market in the Czech Republic grew by 6.7% year-on-year; people spent CZK 1.78 billion on bio foods, which is approximately CZK 200 per head per year, according to Median company.

the market. However, a change must also come about in the minds of consumers, who will need instruction, starting with the smallest consumers – in schools and nurseries; this is where the greatest deal of work must be done.

What are Czech bio food producers focused on most?

The focus is on dairy bio products, as well as meat, wine, and fruit and vegetable products. The range is really wide and customers have a lot to choose from. Regrettably, reasonably priced bio foods are not always easily available.

What risks and opportunities can you see in the CR in the area of eco-farming?

The risk, in my opinion, are the regulations concerning grants in the framework of the EU common agricultural policy. I can see efforts on the part of certain non-governmental organisations in the CR and their representatives to discredit and reduce the

“ sixth taste discovered, eighth sin defined “

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number of eco-farmers, efforts to which the Ministry of Agriculture is regrettably lending its ear. On the other hand, good opportunities rest in the hands of the customers, who, hopefully, will support the eco-farmers, because they know what environmentally friendly agriculture is all about. This is a self-contained concept, which not only ensures the production of high-quality bio foods, but also adds value to them by not polluting ground waters, and, on the contrary, by protecting Nature and the countryside, while offering a dignified and pain-free life to animals. This is naturally reflected in the bio production itself.

Czech bio food producers attend a number of international fairs and exhibitions, such as the BIOFACH organic fair in Nuremberg. Which Czech bio foods have a chance of success abroad, and which bio labels have made their way into the world?

These include in particular bio milk, where the interest on the part of foreign dairies is growing, as our quality is really outstanding and meets above-standard criteria. There is also great interest in vegetable production, wine, etc. I think our products stand a good chance in the face of foreign competition. Regrettably, there is strong patriotism to be felt abroad. Unfortunately, this is not so in our case. It is therefore quite difficult to break through. I myself would opt for consuming as much of our production as possible at home, and exporting less.

Do Czech eco-farmers cooperate with the research sphere, and if so, on what basis?

Their cooperation takes place especially on the basis of the Czech Technology Platform for Organic Agriculture (www.ctpez.cz). The PRO-BIO Ecological Farmers Union (www.pro-bio.cz) is one of its founders and the Platform associates the entire bio sector – research, practical farming, consulting, farmers, producers, etc. Their collaboration, however, is still at an early stage, but is steadily intensifying. It is difficult to reach a situation where research will tackle practical problems and consultants will be able to 'transfer' the knowledge gained by researchers to practising farmers. However, we are working on this and I am confident that in the end we will succeed.

Czech Bio Food 2014

The Czech Bio Food Product of the Year 2014 is Bio Hemp Lard from an eco-farm in the Vysočina Region. The edible lard containing bio dried hemp leaves macerated in dripping bio lard persuaded the jury of its primacy by its fine taste and also by the fact that all the raw materials used, including hemp, are of domestic origin. The lard is taken from select back and inner lard of Přeštice pigs and melted. Hand-picked hemp leaves and flowers of the Polish Bialobrzeskie variety grown directly in Sasov are macerated in the lard. Waste heat from the local bio-gas station is used to ensure an environmentally friendly drying of the leaves. The Best Bio Food Product of Vegetable Origin is Miloš Kurka's Černíkovice Cucumbers. The high quality of the products is due to the use of fresh plants grown with utmost care. In the Food Supplement and Gastronomy Products category, the winner is the Bio Sweet Pea from Horňácko. The main aim of its growers at Hrubá Vrbka is to maintain the highest possible content of important substances in it.

Orange Wine Is the Best

The competition has proved the fact that domestic eco-vine growers are very skilled. The jury agreed that the best bio wine was the Ruland Grey from the 2013 grapes of the Víno Marcinčák company. "Orange wines are made from white wine grape varieties that have spent some maceration time together with cider; in our case, it was 48 hours at a temperature of 40 °C. As a result, more aroma, tannin and dyestuff are loosened from the skins. The wines then acquire bright orange tones," said Petr Marcinčák. This year's competition provided many surprises as regards the range of products. "Many of these, such as the apricot jam with cocoa, and the winning bio food in the form of lard, surprised the jury with their innovative approach, which is very valuable," added Kateřina Nesrstová, Manager of the PRO-BIO Ecological Farmers' Union, organiser of the competition. The jury agreed that, despite not winning prizes, many products came as a pleasant surprise. The sour cream made by Miloslav Zedníček from Kamenice was highly praised for its well-balanced taste. The Matylda bio cheese sticks from the Polabská Mlékárna dairy are an alternative to the popular cheese sticks much favoured by children. The eco-jam from the small family eco-farm in Vlkaneč in Central Bohemia proved to be a successful experiment based on an unconventional recipe with perfect results.

Photo: PRO-BIO Ecological Farmer's Union archives; Budějovický Budvar, n.p. archives

Beer Brewers Are Assisted by Growing Exports

Beer consumption dropped slightly in the Czech Republic in 2013. On the other hand, the overall production of Czech beer rose thanks to exports last year, but failed to achieve the level of 2009, when production slumped due to an excise tax increase and the worsening economic situation.

According to the Czech Beer and Malt Association (CSPS), total sales increased by 0.6% in 2013 over the previous year, domestic consumption dropped by 1.1%.

The total beer production is divided among 6 large brewing companies, 29 independent breweries, and another approximately 215 mini-breweries and restaurant breweries. In absolute figures, beer consumption in the Czech Republic dropped by 171 000 hectolitres, but 291 000 hectolitres more were exported, and thus the total beer sales of Czech brewers increased by 113 000 hectolitres. A major continuing phenomenon is the shift of consumption from restaurants to households, where beer consumption in restaurants dropped to 41%, the lowest ever. The largest shares in consumption are accounted for by tap beers (54%) and lagers (45%), the latter continuously increasing in recent years. The total annual beer production in the Czech Republic exceeds 19 million hectolitres and per capita consumption has dropped slightly from 146 to 144 litres. "Compared with 2012, we have recorded a significant decline in the consumption of beer mixed drinks, with 40% less being consumed. Factors which contributed to this decrease included last year's bad weather and also the floods in June," says František Šámal, CSPS Chairman. Year-on-year consumption in this country dropped by 1% in tap beers, 40% in beer mixed drinks, while consumption of lagers increased. Success in exports was scored mainly by lager beers, with exports 9% higher than in 2012. On the contrary, the export of tap beer declined by 12%. "The trend towards a change in packaging materials continues. The consumption of barrel beer and bottled beer is decreasing, while the consumption of beer in PET bottles is increasing, namely by 11% in relation to 2012, and, in the case of cans, by 8%. The consumption of beer from tanks remains the same. The similar situation exists in exports, where the consumption of canned beer is recording the greatest boom, namely a 24% increase compared with 2012," states Vladimír Balach, CSPS Executive Director.

The most important territories for Czech beer exports still include Germany, although 2% less was exported to that country. On the contrary, exports increased significantly to Slovakia (by 11.5% compared with 2012), to Poland (by 14%), and Russia (by 30%). New countries which have greatly increased their demand include South Korea (total export 18 000 hl) and Moldova (total export 13 000 hl).

OUTLOOK FOR 2014

According to the CSPS, the brewing industry recorded a slight increase in beer sales in the first half of 2014, and the total sales of beer mixed drinks rose as well. In the first half of last year, the total beer sales index was 103% compared with the same period of the previous year, which represents an increase of approximately 226 300 hectolitres in absolute figures. The increase was due to a higher domestic demand, as well as to exports. In absolute figures, beer consumption on the Czech market increased slightly by 175 000 hectolitres, exports rose by 51 000 hectolitres. A slight increase by 14% was also recorded by the sector of beer mixed drinks, in which production totalled 186 000 hectolitres last year. According to CSPS half-year results, the shift of consumption from restaurants to households remains a significant phenomenon, with beer consumption in restaurants dropping to its record low of 41% in 2013, a level continuing in the first half of last year. Compared with the 2013 half-year, the highest increase was recorded by the sales of canned beer (by 14%) and beer in PET bottles (by 10%). In absolute figures, production increases totalled almost 80 000 hl in cans and 85 000 hl of beer in PET bottles.

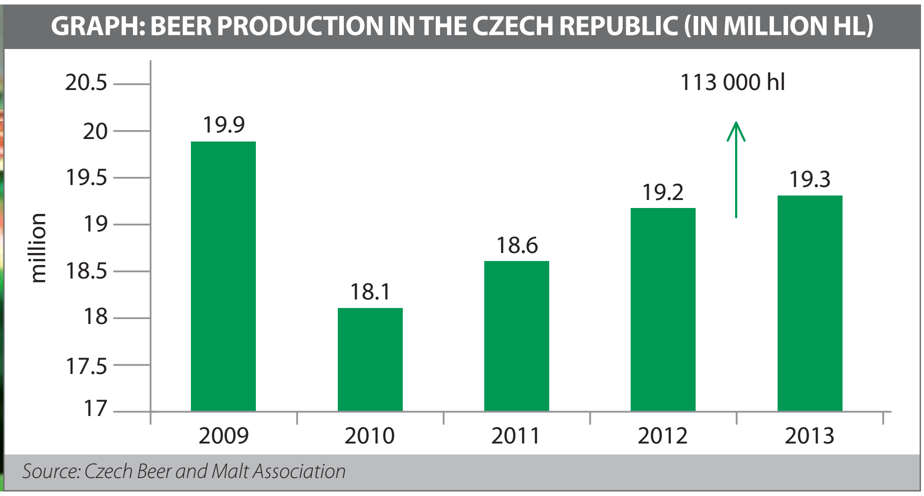
THE CZECH REPUBLIC IS ONE OF SIX LARGEST EXPORTERS OF MALT IN EU

In 2013, Czech malt houses produced 530 000 tonnes of malt, 1.3% more than in 2012. The Czech Republic is also one of the six largest exporters of malt in the European Union, despite the fact that exports in 2013 were 4 500 tonnes lower than in 2012. However, in the last few years, maltsters have faced a new threat in the form of cuts in the areas of the cultivation of malting barley, which may halt the further development of the Czech malting industry. This trend is due to the cultivation of bioenergy crops, primarily maize. The result is declining productivity, an increased incidence of diseases, and excessive multiplication of pests. The largest malt producer is Sladovny Soufflet CR (with malt houses in Nymburk, Litovel, Prostějov, Kroměříž, and Hodonice), with a 65.7% share in domestic production. Brewery malt houses produced 22% of the total malt volume in 2013; the largest is the malt house

Photo: Budějovický Budvar, n.p.

Miscellaneous Information on Production of Czech Breweries

- The undisputed number one in the domestic beer market is Plzeňský Prazdroj (its most famous brand is Pilsner Urquel), which has been in the portfolio of the South African SABMiller concern since 2001. The second largest beer producers in the Czech Republic are the Pivovary Staropramen breweries, now owned by the Molson Coors Brewing Company. Heineken CR is the third strongest group in the domestic beer market, ranking among the most important beer exporters. The Czech Republic features an extensive portfolio of brands, which includes e.g. Krušovice, Zlatopramen, Starobrno, Březňák, the non-alcoholic Fríí, and others.
- Budějovický Budvar (Budweiser Budvar) is not a part of any brewery group, but its 2013 beer production ranked it 4th among breweries in the Czech Republic. Expanding successfully to foreign markets, its export made up 54% of sales. Beer from Budweiser Budvar is available in 65 countries. In terms of the export sales volume, the enterprise was the second largest beer exporter. "The protracted legal disputes with now the AB InBev brewing group also continued in 2013. Over the long term, the company has thus successfully protected its original Budweiser and Budweiser Budvar trademarks against their American imitation all over the world," states the company management's Annual Report. The judicial disputes have been running since 1907, the Czech side has so far been considerably more successful in these.
- The Bernard family brewery added a new beer to its product range in 2014. It is an ale-type beer, top-fermented unlike its former products. Bernard is the first brewery to launch industrial production of ale in the Czech Republic. The fermentation of this beverage is completed in bottles, due to the yeast added during bottling. The development of the new type of beer with 8.2% alcohol content took over two years.
- The first mini-brewery producing beer under licence from the Czech Lobkowicz Breweries has been put into operation in the Chinese city of Tianjin. If the pilot project succeeds, the fifth largest Czech brewing group plans to build a network of mini-breweries, and not only in China.
- The Danish brewery giant, the Carlsberg group, purchased a majority share of the Žatec Brewery in 2014. It was one of the largest investments by a Danish company in the Czech market in the last few years.



of the Plzeňský Prazdroj, a.s. brewery. Out of the types of malt, 97% is accounted for by the Bohemian malt, the rest are the Munich, caramel, diastatic, coloured, and wheat malts. 254 000 tonnes of malt were exported to foreign countries, 4 500 tonnes less than in 2012, and 48% of the total malt production in the Czech Republic. "Traditionally, the largest buyers of malt from the Czech Republic are Poland, Germany and, in the last two years, also Hungary. The most dynamic year-on-year increase was recorded by exports to the UK. On the other hand, exports to Switzerland have declined significantly. Czech malt is exported to a total of 47 countries," says Richard Paulů, Managing Director of Sladovny Soufflet CR. Since 2005, the Czech Republic has overtaken Great Britain in the volume of malt exports and is the fourth largest exporter among the EU countries. While, in 2005, the share of Czech exports made up 5.2% of the total malt exports of the EU countries, five years later it was already 6.4%.

Non-alcoholic Beverages Market Is Becoming Stabilised

Legislation concerning food products has been vastly amended in the Czech Republic, most significantly since the country's entry into the European Union in 2004. The aim of the Amendment, fully complying with EU legislation, is mainly to ensure that consumers are better informed.

The greatest growth of demand, by 21%, was recorded in the energy beverages category. This is one-tenth more than the consumption of nectars the year before. People consumed 6% more sports drinks, and the same applies to juices. Consumption in the syrups category grew by 2%. The main category, comprising carbonated drinks, which account for nearly half the amount of non-alcoholic beverage consumption, decreased by 3% year-on-year, to 10.28 million hectolitres. The consumption of packed water, another important category, decreased by 5%.

"The reason for the slight decline in average non-alcoholic beverage consumption is the continuing economic crisis, with Czech families behaving most rationally, carefully weighing up what to buy," says Zdeněk Huml from the Union of Non-alcoholic Beverages Manufacturers. „On the other hand, the group of consumers who care about their healthy lifestyle is aware of the need to observe sound drinking habits and the fact that they can choose among good-quality beverages those which are in agreement with their way of life and their tastes," he adds.

TREND TOWARDS DRINKING TAP WATER

Although water supply companies keep raising the price of water, tap water still remains incomparably cheaper than bottled water. While water consumption is steadily declining, an increasing number of people drink water from the tap instead of packed water. A specific feature in the Czech Republic is the easy availability of water sources, which has turned non-alcoholic beverages into dispensable items. In addition, ordinary water is becoming increasingly popular. According to the Veolia Voda Česká republika water supplier company, 85% of respondents qualify the quality of tap water as good and 44% of people think that it is comparable with packed water.

An interesting sales category is syrups, which have been showing a slight increase recently. This trend, however, has come to an end. "I think that customers have started diluting juices with tap water rather than syrups," explains Aleš Mrázek from Globus company. Czechs are also becoming more interested in the quality of their food. Jana Ježková, Chairwoman of Svaz minerálních vod (Mineral Waters Union), adds to this: "A long-term trend in customer behaviour is that they are increasingly interested in acquiring healthy lifestyle habits, which influences their preferences." In this respect, one of the ways of responding to this trend is to focus more on fresh juices or juices in glass, drinks evoking higher consumer value. It is to be expected that the consumer interest in preservative- and sweetener-free beverages will continue, and so will their sensitivity to prices. Children's beverages, whose year-on-year sales have increased to reach two-digit figures, is a promising and forward-looking market area.

MANUFACTURERS OF NON-ALCOHOLIC BEVERAGES

The 12 largest beverage manufacturing firms in the Czech Republic employ more than 3 500 people and their revenues amount

Photo: www.sxc.hu, Kofola a.s. archives

Revenues of important non-alcoholic beverage manufacturers (CZK billion)

	2010	2011	2012
Coca-Cola HBC Česká republika, s.r.o.	6.23	5.99	5.98
Karlovarské minerální vody, a.s.	3.02	3.08	3.07
Kofola a.s.	2.40	2.39	2.56
PEPSICO CZ s.r.o.	2.15	1.92	1.74
Poděbradka, a.s.	1.32	1.38	1.31
VESETA spol. s r.o.	0.94	0.91	0.98
LINEA NIVNICE, a.s.	0.82	0.96	0.93
MASPEX Czech s.r.o.	0.58	0.61	0.57
Karlovarská Korunní s.r.o.	0.54	0.52	0.53
Total	**18.01**	**17.77**	**17.66**

Source: ČSOB, annual reports of firms

Consumption of non-alcoholic beverages in litres per head of the population per year

	2010	2011	2012
Mineral waters	66	65	63
Carbonated waters	38	38	35
Lemonades	110	106	104
Other beverages	79	78	76
Total	**293**	**287**	**278**

to approx. CZK 16.5 billion per annum, according to the Union of Non-alcoholic Beverages. Number one in the Czech market is Coca-Cola HBC Czech Republic, followed by Karlovarské minerální vody a.s. (products: Mattoni, Aquila, and Magnesia) and Kofola a.s. The popularity of the different kinds of non-alcoholic beverages differs, depending on customer age, their lifestyle, the weather, etc. That is why manufacturers are trying to include in their production programmes as many different kinds of non-alcoholic beverages as possible to cover the entire market, and to avoid fluctuations in the sale of the different types of non-alcoholic beverages. For example, Coca-Cola, besides its most sold non-alcoholic beverage, also offers the table water, Bonaqua, the lemonade, Fanta, Cappy juices, etc. PepsiCo (occupying 4th position in terms of revenue) has chosen a different strategy: the purchase of the well-established local non-alcoholic beverage brands. Although PepsiCo still offers its global brands, such as Mirinda and Lipton, the world number two also sells Toma juices and table waters on the Czech market.

A specific feature of the Czech market is that the Czech company, Kofola, which did not choose to purchase well-established trademarks as its strategy, but revived Czech beverage trademarks popular before 1989, has managed to wedge its way between the number one and number two companies in cola beverages. For example, it has revived the Kofola beverage, manufactured by the Galena pharmaceutical firm in the former Czechoslovakia and placed on the market in the early 1960s. It is the outcome of research work focused on seeking potential uses for the surplus caffeine from roasting coffee. In the 1960s and 1970s, Kofola was very popular in Czechoslovakia as a substitute for western cola beverages, such as Coca-Cola and Pepsi, which were unobtainable at that time.

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What, in your opinion, is the reputation of Czech products abroad?

On the basis of our experience to date, I can say that Czech products and Czech manufacturers have a very good reputation abroad. Foreign customers appreciate in particular the combination of creativity, seriousness and skill of Czech manufacturers.

Have you managed to penetrate foreign markets? To which territories do you export?

In the past year, exports accounted for 40% of our firm´s turnover. Our traditional foreign customer is Slovakia, and we also have very good experience with the Baltic states, especially Lithuania. For several years now, we have had regular trade contacts, for example, with Belarus, and I can say that there has been no major problem obstructing this collaboration. We greatly value our long-term successful commercial cooperation with Germany.

Which are your greatest achievements that you can be proud of? What can you offer your customers as added value?

We have been building our business in stages. The sale of improving preparations and mixtures for bakers and confectioners requires, among other things, a good technological service, the building up and operation of which is very time consuming and financially demanding. The quality of our technological service and our ability to meet individual requirements, allowing for solutions even for relatively small volumes of production, are our greatest advantage in the face of keen competition from supranational and local manufacturers of comparable commodities.

Food Act Amendment: More Information and Better Labelling

For several years now, the consumption of non-alcoholic beverages in the Czech Republic has been declining. In 2013, for example, it dropped by three per cent in comparison with the previous year, to 21.83 million hectolitres. In that year, according to the Union of Non-alcoholic Beverages Manufacturers, each inhabitant in the Czech Republic consumed 218 litres of non-alcoholic beverages on an average, seven litres less than in 2012 and 40 litres less than in 2008, the year when the economic crisis began.

The outcome is the new Amendment (in the Collection of Laws Act No. 139/2014 –Coll. valid from 1 January 2015) to the Food and Tobacco Products Act, which provides for a high degree of consumer protection and elimination of consumer deception. The Amendment, which reflects the requirements of food and beverages manufacturers and provides for consumers to be better informed, is closely linked with EU law harmonisation. Also linked with the above-mentioned Act is the Amendment to Act No. 146/2002 Coll., on State Agriculture and Food Inspection (in the Collection as Act No. 138/2014 Coll.)

■ NEW OBLIGATIONS

The Food Act now comprises the obligation to state information about food products in the Czech language; this obligation will apply to all operators of food enterprises and will apply to all data in accordance with national and EU legislation. Besides the obligation to supply a certificate, another entry document may be presented proving that the imported food meets the requirements of the directly usable EU regulation. Those documents may also be submitted to the supervisory body concerned, besides the Customs office. The Amendment further strengthens protection against any potential manipulation of expiration dates.

A new provision is that food enterprise operators will be required to report to the Ministry of Agriculture if any vitamins, mineral and other substances with a nutritive or physiological effect have been added to the product before its first launch on the market, in the sense of (EC) regulation No. 1925/2006 on the addition of vitamins and minerals and other substances to food. The same will apply to food supplements.

■ UNPACKAGED FOOD MUST BE BETTER MARKED IN SHOPS

From January 2015, food sellers will be required to state information about unpackaged foods immediately next to the product. "Thanks to the Food Act Amendment, customers will be better informed about foodstuffs and will be better acquainted with what they are buying. For example, the Amendment will assist consumers with an allergy to some of the ingredients contained in the product. If the name of such a component is not part of the name of the unpackaged product, e.g. nuts or soya beans, people will learn about it from the label next to the unpackaged product in the shop," says Kateřina Lacinová, Chief Auditor of Bureau Veritas, which carries out audits in food shops.

■ TEXTS ON PACKAGED FOOD MUST BE PRINTED IN LARGER TYPE

The Amendment also provides for better readability of texts on packaged foods. "This means that the letters or figures may not be blurred or illegible because of an unsuitable base on which they are printed. In our audits, we also check whether any persons are made responsible for applying the changes implemented in the legislation and whether the necessary steps are being taken for the changes in legislation to be worked into the company´s rules and put into practice," adds Lacinová.

The Amendment imposes another obligation on businessmen earning more than CZK 5 billion per year: at the entrance to the shop they must place a notice stating the percentage share of five countries from which the shop obtains packaged and unpackaged foods, e.g. Spain 50%, Poland 25%, etc. Nevertheless, the decisive criterion is the supplier´s registered place of business, not the origin of the food where it was actually produced.

■ HIGHER SANCTIONS FOR UNFAIR MANUFACTURERS AND BUSINESSMEN

As food terminology in the EU will be unified, it should be easier to sanction unfair manufacturers and sellers. "EU legislation is practically transposed into Czech national law, whereby it will be possible to specify the responsibility of ministries. Besides baby food and special food, the responsibility for the entire market will fall exclusively on the Ministry of Agriculture and not on several ministries, as has been the case until now. Misleading or deceiving customers, which means marking foods in a way inconsistent with the requirements of the law, can carry penalties of up to CZK 50 million. Under previous legislation, this subject was not included among administrative offences," Lacinová states in conclusion.

■ SOME OF THE MOST IMPORTANT FACTS WHICH LABELS ON UNPACKAGED FOODS MUST CONTAIN UNDER THE NEW ACT:

- Allergens contained
- Information about the main components of the food
- Usability or minimum durability expiry date
- Name and address of manufacturer
- Information about the origin of foreign foods (unpackaged and packaged)
- Information about potential unfavourable effect on people´s health (e.g. artificial sweeteners, quinine, caffeine, warning against phenylalanine for patients suffering from phenylketonuria, etc.).

Photo: www.sxc.hu, Bílek Filtry archives

Bílek Filtry – Modern Filtration Systems for Breweries

Bílek Filtry (BF) is a leading Czech manufacturer of industrial filters for the food industry, the chemical industry, engineering, and the pharmaceutical industry. This forward-looking firm has been in the market for 25 years and ranks among the top manufacturers in this field – not only in the Czech Republic.

František Bílek, founder, owner, and Director of the firm was among the first to set up in business after 1989. As a vinegrower, he entered the market with a project which he wanted to benefit his profession: a technical device for the chemical protection of vineyards. He realised that this was an area where there was a niche in the market, and, in less than a year, he had scored great success with his project in the form of a series of vineyard spraying machines. Although his product was very successful, he saw that the capacity of the local market was limited, and so he started the development and production of filtration equipment for use in viniculture. At first, his filters were used for filtering wine and other beverages, but soon their use was also extended to cover other sectors, such as engineering and the chemical and pharmaceutical industries.

FLEXIBILITY HAND IN HAND WITH PERFECTION

In time, František Bílek became an expert in filtration equipment for the brewing industry in the Czech Republic. Indeed, his products can be found in renowned breweries, such as Pilsner Urquell, Starobrno, Polička, Chotěboř, Svijany... His collaboration with the Bernard Family Brewery goes nearly 20 years back. This brewery, a pioneer in unpasteurised beer brewing, requires perfect filtration to remove all the unwanted micro-organisms from the ale. And this is what Bílek Filtry can manufacture to perfection. It is therefore no wonder that BF projects can also be found in other countries. BF filters are used in Russia, Ukraine, Lithuania, Moldavia, Kazakhstan, and Turkmenistan. The firm is also well established in western markets, in smaller breweries, for example, in Germany and Iceland. The firm is not even afraid of highly competitive markets. "We can be reached more easily, can deal in greater detail and are more flexible. Every potential customer has his own idea of his supplier-to-be, and we know we can meet that idea," Bílek says. "In addition, our specific technological elements are unique. For example, in comparison with our Italian rivals, the efficiency of some of our equipment is much higher," Bílek points out. Some 60% of the firm´s current output goes to the brewing sector, with the remaining 40% accounting for other applications.

DEVELOPMENT IS A MUST FOR THE FIRM

While the Bílek Filtry firm has taken over the technical principles of the basic structure of its filtering equipment, the equipment must be continuously developed. The first type series in production are the very popular and well tested FKS alluvial filters. The filtration is performed by Kieselguhr filtration on vertical filtration candles. "Kieselguhr candle filters are noted for their high filtration efficiency and very economical operation. Different flow rates and purity levels of the filtered liquid can be achieved by changing the composition of the filtration layer," explains Bílek. The most important construction elements are steel wire mesh filtration candles of a trapezoidal cross-sectional shape. They are extremely stable carriers of Kieselguhr filtration, which is essential for high efficiency. Together with other optimisation and automation elements, the filtration process functions continuously, without any quality fluctuation.

Another BF type series are the FMS microfiltration systems. These are very fine membrane filters for secondary microbiological filtration of beer, the purpose of which is the absolute separation of micro-organisms, sometimes called 'cold beer pasteurisation'. This method can substitute standard beer pasteurisation. Its main advantages are 60% lower operating costs and, in addition, the absence of the unpleasant 'pasteurisation taste'. "The third type series, which is very important strategically, are membrane cross-flow (tangential) filters (FCWB). In filtration applications, these filters can replace both preceding types of series. Membrane FCBs for beer application are specific for their great need for filtration tuning. That is why not many rival firms are interested in them. We have mastered this process and are persuaded that it has good prospects not only in the food industry, but also in other sectors. It is a modern, sophisticated, and efficient method of separating solid particles from liquids with a high degree of automation. Its benefit is that no secondary waste occurs in this process, as the filtration material used in the membranes is stable and can be fully regenerated. Thanks to its universal character, the FCW system is suitable for the filtration of a wide range of liquids, even where other types of filters are inadequate," Bílek adds. Bílek Filtry is the first Czech firm to have technologically mastered the 'FCW cross-flow' system for use in food processing, which it successfully manufactures and applies.

PROSPECTS OF WATER FILTRATION TECHNOLOGIES

František Bílek is persuaded that the reputation of his firm´s products is at least comparable with that of foreign rival manufacturers. "In many cases, we use the same components as advanced foreign firms, but we also use our own unique parts and processes. In addition, we are receiving favourable reviews for our fair approach to the quality of production. We are the only firm in the Czech Republic to give a 10-year guarantee on machines," he adds. The firm´s potential, according to its owner, rests in its further product and capacity development. „To work more with foreign clients, a broader product range with emphasis on filtration technology, water regeneration, and recycling. We realise that there are many problems regarding the purity of the life-giving liquid, water. We want to help make the environment as little burdened with pollution as possible. Our contribution to this is our advanced AQE membrane technology which, in addition can work with the energy charge and molecular grid of water itself, which is quite unique worldwide. This is a challenge to us and definitely a trend for the future," states Bílek in conclusion.

More at **www.filtrace.com**

J4: 20 Years in the Service of Bakers and Confectioners

In the oven-making 'factory' at Předměřice nad Labem in East Bohemia, one gets the impression of what Hephaestus' forge must have been like. Sparks flowing from parts being welded, the smell of fire, the roar, pounding, and other noises of the engineering workshop may, with some exaggeration, sound like a fanfare celebrating the 20th birthday of the successful J4 company which has customers all over the world.

An interesting view and sounds, but we do not find the quiet needed for an interview with Josef Mázl, the co-owner, CEO, and Marketing Director, until we join him in his office one floor up…

How and when did the story called J4 start to be written?

Our company was founded in 1994 by three co-owners (Jiří Černík, Josef Mázl, Jiří Souček), who had almost 20 years' experience in the development, manufacture, repair, servicing, and deliveries of cyclothermic tunnel baking ovens. Jan Dubišar and Jaromír Kolář joined the company management only a few months later. Our original professions (designer, design engineer, technician, electrical engineer, and businessman) gave us an adequate base and the grasp to allow the launch and assembly of the first tunnel baking ovens.

The J4 company has gained a reputation mainly as a supplier of PPP-type tunnel baking ovens for diverse uses. How many of them have you produced and why do your customers like to come back to you?

During the past 20 years, we have made and sold more than 500 ovens which are supplied as stand-alone units, as well as part of complete production lines, not only to classical bakeries, but also to producers of long-lasting pastry and confectionery. For example, the lines for free-set types of bread, bread in forms, batons or other types of bakery products are noted for their high performance (up to 70 000 pc of pastry/h) at stable production quality. We also complete ovens with lines of all types, which comprise the full production process – from flour silos, to dough preparation, dividing, forming, proofing, baking, or cooling and slicing, up to packaging. As we know that success in the bakery trade depends on quality flour ground from good grain, we have also developed accessories – supplying indirectly heated grain dryers, so that we do not focus exclusively on ovens. When the time comes to invest in the purchase of new ovens, our customers are happy to return to us, also owing to the rich innovation programme on the basis of which we meet the various individual requirements of every user.

What properties are characteristic of your ovens?

Single-deck ovens, and lately also those of double-deck design (as an optional solution where space is lacking) have been the J4 crucial product range throughout the company's existence. Ovens of various lengths, widths, and designs can be equipped with wire mesh, wire, slat (link plate), granite plate, or steel bands. They can be used for baking a wide range of bakery and confectionery products – e. g. rye, rye-wheat or wheat bread, various other types of bread and pastry, batons, hamburgers, sponge cake dough, children's sponge cake biscuits, gingerbread, sticks, etc. Those who use our ovens, for instance, appreciate the extensive range of baking temperatures (from 160 to 340 °C) and, in high temperature ovens (for the manufacture of Arabic or pita breads, etc.), even up to 550 °C.

In 2013, the J4 company won the prestigious Czech Exporter of the Year competition in the category of medium-sized firms. What does this prize mean to you?

In any case, it is a confirmation of the correctness of the company's strong export orientation. True, we are at home on the Czech market and have been building long-term friendly and business relations with our bakers, but it is a fact that our market is a small one and a good oven lasts a minimum of 20-30 years before a new one needs to be purchased.

Secondly, the success is not accidental. We have won this prestigious award for the second time in the past seven years, and in addition, we were once placed second. Our export is evenly distributed, 50% of the ovens go to countries of the former Eastern bloc and the same proportion goes to Western markets. Our regular participation in foreign trade fairs presents us with new, often quite exotic destinations. For example, I would mention most recently Azerbaijan, Pakistan, Nigeria, the USA, and Bahrain. We have retained our traditional markets in the CIS countries and have gained additional ones in Asia, Africa, the Arab countries, and also in North and South America. We have supplied clients in Spain, Hungary, Poland, Greece, and other countries. We even have our own representation in Russia. In foreign countries, we use a network of dealers who contact those seeking bakery technologies and direct them to us.

Stanislav Mihulka,
Head of the Pekař a cukrář s.r.o. (Baker and Confectioner Ltd.) specialised publishing house

Photo: J4 archives

Czech Logistics Providers Keep Pace with Latest Trends

The process of Logistics and Transport is the backbone of company management. The life cycles of products are becoming shorter, the requirements concerning the flexibility, steady flows, and costs of the production processes are growing. "I can confirm that logistics providers in the Czech Republic keep pace with the introduction and application of the latest trends in intralogistics and external logistics in the management of material flows and physical distribution," says Václav Cempírek, a renowned Transport and Logistics expert.

Václav Cempírek is a recognised Transport and Logistics expert, and a Member of the Czech Logistics Association Board. In 2010-2014, he was a Member of the Chamber of Deputies of the Czech Parliament, representing the Pardubice Region. He is currently a lecturer at Jan Perner Transport Faculty of the University of Pardubice.

What trends are there currently in Logistics? How would you characterise the developments in the Czech logistics market?

In intralogistics, an increasing role is played nowadays by systems for the effective management of handling technology, with regard to various optimisation criteria, such as the shortest subsequent travel distance, order priority, transport job types, truck functions, trailer capacity, type of handling units, type of truck, exchange model, etc. Self-learning truck control systems permanently record real travelling times on all transport routes between loading and unloading, evaluate them and use the data to optimise future travel. The system adapts automatically to changes in the set processes and routes in a warehouse. Automated trucks travelling on determined routes, with various technologies used for navigation, are increasingly being applied not only in the car-making industry.

Information systems for warehouse management control and realise all movements of goods, from receipt to sorting to preparation up to loading in the Dispatch section. Diverse information on handling units is taken into account, such as the type of goods, minimum durability dates, serial numbers including storage strategy. An important part of the modern systems is the control and management of empty packaging.

The RFID (Radio Frequency Identification) system, the technology of data transfer by means of a defined spectrum of electromagnetic waves, is used increasingly for the tagging of goods. A new class of standards combining RFID technology with communications infrastructure and the EPC code enables automatic identification and tracking of items in the logistics chain on both the local and global levels, with a higher effectiveness and visibility of the individual trade operations and processes. This technology allows contactless, faster, and more detailed identification of the objects moving in the supply chain.

The Just in Time and Just in Sequence (JIT/JIS) logistics technologies, where emphasis is placed on the accuracy of preparation operations, are being improved. The correctness of the prepared components is checked at least twice, or by two methods, before a supply is dispatched. The Pick by Voice, Pick by Light systems or similar systems are used in the preparation operations.

The Czech logistics market uses these and other modern technologies and systems for effective logistics management. Having been engaged in the logistics area for the last 25 years and having been in contact with a number of firms, I can say that their equipment in terms of modern logistics systems and technologies is above-average. Logistics offers interesting job opportunities, but our educational system has so far reacted insufficiently to this offer in the form of preparation of apprentice training and secondary-level study branches.

What changes did the economic recession cause in the logistics sector? Do you think that the crisis brought about something positive for companies?

I would like to make a brief summary of some basic data from the recent past. At the time of the economic recession in 2008 and 2009, performance decreased in Transport and Logistics as well as in the demand for logistics real estate. In some segments, performance has not returned to the level prior to the crisis. During the recession, railway transport recorded drops by 17% in the transport of goods and 20% in transport performance (tkm). If the current development is compared with 2009, then the goods transport and transport performance are 10% and 8% higher, respectively. A similar development has been recorded in road freight transport, where the decrease in goods transport during the recession totalled 12% and in transport performance (tkm) it was 15%. Compared with 2009, the current goods transport is 8% higher and transport performance has risen by 22%. The demand for logistics real estate fell by 27% during the recession, but in 2010 it was already 33% higher; the average vacancy rate ranged at about 15%, at present it is approximately 6.5%. The sale of semi-trailers from domestic manufacturers decreased to one-third during the recession, rising by 40% in 2010, but failing by far to reach the numbers sold before 2008.

Although the general results from the period of the economic recession are bad, most businesses have coped with the difficult situation. One of the methods was a careful analysis of the processes and a search for cuts in economic costs. The decline in performance on the part of logistics services buyers put their providers in a complicated situation. Signed contracts for the provision of logistics services on a regular basis were wiped off during the recession. Clearly defined jobs were a matter of the past and the adjustment to the actual state of affairs resulted in a more flexible use of staff, as well as of the vehicle fleet, handling technology, and logistics real estate.

You are a member of the Czech Logistics Association Board. Could you say what tasks the Association has set for itself for the year 2015?

For this year, I would like to mention several principal events that we offer not only to our members. The Czech Logistics Association (CLA) and the National Certification Board offer ELA (European Logistics Association) certification for logistics jobs in the categories of EJLog – European Junior Logistician at the Supervisory/Operational Management level or ESLog – European Senior Logistician at the Senior Management level. The two categories differ in what is required from the applicants, especially in terms of the applicants' current position, quality and duration of their practical experience, and the level and extent of their theoretical and practical competence. The certification proceedings involve written tests, and, for the senior level, two essays on determined themes are additionally required (see http://www.czech-logistics.eu)

During the year, specialised excursions will be prepared for Association members to companies of high logistics levels, our ambition being to present to members successful theoretical solutions and their successful practical realisations. A national competition for the best logistics project will be prepared again for the membership, with the winner advancing to the European round announced within the ELA framework.

The CLA is one of the partners of the traditional SpeedCHAIN international logistics conference in Prague, which will be held for the 10th year in 2015. In 2015, too, the CLA has decided to join the tradition of the European Supply Chain Day and plans to hold the Czech Supply Chain Day under the aegis of the European Logistics Association on 16 April 2015.

The list of important events for the CLA will again include participation in the Transport Logistics international fair in Munich from 5 to 8 May 2015, where we will present our exposition within what we call "The Czech Street". Czech logistics will be traditionally presented there by a display of the best logistics solutions in the form of a workshop "with a glass of wine". I have listed here the crucial events for the coming year, more information can be found at www.czech-logistics.eu.

You are also a university lecturer, at Jan Perner Transport Faculty of the University of Pardubice. In your opinion, what is the interest in Logistics among Czech students?

We offer the Logistics Technologies specialisation in a Bachelor's degree programme. The study programme lays emphasis on the importance and position of logistics centres in the supply chain systems, their place in the transport network and the determination of attraction zones with regard to the offer of logistics activities for customers. The theoretical and practical bases of knowledge are contained in the branches of Inventory Management, in the area of Loading and Warehousing Operations, Logistics and Transport Technologies, Forwarding and Legal Aspects in Logistics and Transport. Graduates find jobs in transport, forwarding and logistics companies, in logistics centres and industrial zones as professionals on middle management level in transport technology and management, in transport and logistics technologies, and as passenger and freight transport integrators.

After completing the Bachelor's degree programme of study, graduates can continue in the follow-up Master's degree programme of Transport Technologies and Management, where they can specialise in the branch of Transport Logistics with emphasis on Material Flow Management and Physical Distribution.

The interest of students in the study programme focused on Logistics is great and we have not so far noticed that graduates have any problems in finding jobs. They collaborate very closely with a number of transport, forwarding and logistics companies and thus interesting themes are also obtained for students to deal with in their Bachelor's and graduation theses, the results of which are finally used in practice.

Where do you see opportunities or risks for the logistics sector at present?

I see opportunities for Logistics and Transport in the offer of state-of-the-art technical equipment of both mobile and stationary facilities, in automation in intralogistics for the management of handling technology and storage systems, in the adequate offer of logistics real estate tailored to users' requirements, in the offer of advanced information and communication systems, in the adjustment of the navigation systems to clients' needs, etc.

On the other hand, I see risks in the instability of the state administration in which transport ministers are often changing, as are the top managements in institutions under their control. Naturally, this results in flawed legislation, a difficult promotion of legislative changes, incorrect regulatory

Photo: Václav Cempírek archives; Dachser Company archives


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intervention in enterprise (as seen in road freight transport restrictions, the sharing in the financial loss of the Česká pošta – Czech Post state enterprise by companies in the segment of letter and parcel deliveries, the high fees for the use of the railway infrastructure, etc.) Additional risks are brought about by the inadequate transport infrastructure which is nearing its capacity, as can be seen daily in the congestion at bottleneck sections on both the road and rail networks. On the roads, lorry parking capacities are lacking for freight haulage vehicles, so that drivers may observe the internationally valid rules on the work of truck crews. Hand in hand with this goes the safety of traffic, which is endangered in road transport by aggressive drivers of both cars and lorries, without significant punishment.

Do you see any current trends impacting on logistics services in the CR?

Manufacturing, logistics, and trading enterprises need great flexibility in both structure and logistics processes. They must constantly adapt the value-creating systems to the individual processes and changing requirements. At the same time, they address the growing pressure for the economical use of such resources as time, area, staff, energy, and material.

An answer to these requirements comes from new trends in the handling technology, which are targeted at the area of driving mechanisms, cost-cutting per performance unit, and environmental impacts. A qualitative approach is represented by cuts in energy intensity and CO_2 emissions in transport and handling equipment. Hybrid technologies are increasingly being applied, the development of fuel cell drives is another step to greater saving.

In logistics and distribution centres, more extensive use is made of systems of preparation which increase labour productivity, reduce staff in intralogistics and costs, such as Pick by Voice, Pick by Light, Put to Light, Supply of Material, and Picking Cart.

The methods of production supply chain management are being improved, not only in automotive logistics such as JIT (Just in Time), JIS (Just in Sequence), internal and external Kanban, Cross Dock in fast moving components, which organise logistics flows with the aim of minimising transport and storage costs.

In conclusion, I can confirm that logistics providers in the Czech Republic are keeping pace with the latest trends appearing in intralogistics and external logistics in terms of material flow management and physical distribution management.

What do you expect from the sector this year?

I expect that Logistics and Transport will continue to develop successfully and participate significantly not only in the employment rate with an offer of interesting job opportunities, but also in the growth of the economy and GDP and the overall social level. The introduction of modern logistics technologies, the use of information and communication technologies, globalisation of trade and requirements for the knowledge of languages place higher demands on the level of education and personality of staff. I am stating here only briefly what development can be expected in Logistics, the list could be much longer, but I am mentioning only the basic examples.

A 4% increase year-on-year is expected in material flow management for retail, despite a robust gradual transition to on-line consumption, recording an almost 20% growth with the arrival of e-commerce.

E-commerce can be expected to contribute to an increase in the demand for logistics real estate, because in this case a number of activities which usually take place in shops are concentrated directly in the distribution and logistics centres. Businesses engaged in electronic sales need more logistics area than classical distribution activities. The distribution of smaller-sized consignments to final customers will also involve pressure for economic effectiveness, which will be influenced by the challenges of setting optimum distribution routes, optimum use of the loading space of vehicles, correct setting of time windows and, last but not least, advanced information and communication systems.

I am convinced that the demand for reverse logistics will continue, not only from distributors in e-commerce, where the requirements regarding the return of goods are higher for various reasons. Reverse logistics is becoming one of the parts of enterprise logistics, which effectively forms economic and ecological reverse flows and the related information flows. These include tasks of physical, space and time transformation when waste occurs in production and consumption along the full supply chain.

How are other countries in the CEE area progressing in Logistics and Transport?

In 2014, new logistics and industrial areas grew twice as quickly in Central Europe as in the previous year. Interest in their lease increased and the share of vacant space thus dropped below 10% on average. It is a positive trend that almost all space is leased already before the start of construction, and thus there is virtually no speculative construction today. This is the situation primarily in Poland and the Czech Republic. Those wishing to lease are mainly companies from automotive logistics and Internet shops. The greatest surge has been recorded by Poland, where construction in 2014 was the highest of the last five years, leases rose here by 20%. This is why developers are also turning their attention to medium-sized towns located near large conurbations.

The strong market demand pushed down the average vacancy rate of industrial and logistics areas in the whole region by more than 1%, to 9%. The fastest 3% decline in the vacancy rate was recorded in Hungary, dropping below 20%; the lowest shares of vacant area, 4% and 6.5% respectively, are in Slovakia and the Czech Republic. In Poland, the share of vacant area decreased by 2%, to 9%. Poland currently has a total area of 8 million sq.m of modern industrial and logistics buildings, the Czech Republic has 5 million sq.m, Hungary 2 million sq.m, Slovakia and Romania have 1 million sq.m each.

It is expected that the dynamic demand for new areas will continue to be the highest in Poland, not only on the Central European level, but on the Europe-wide scale, with regard to the economic growth and the active approach of the Polish government. The Czech market will continue to be strong, but greater government support needs to be used as in neighbouring countries. The development in Slovakia is pulled by the Bratislava area and several large investments of the VW automobile concern. A boost to the development of Eastern Slovakia would undoubtedly benefit the whole country. The Hungarian and Romanian markets are slowly recovering, due to the favourable development in the Central European region as a whole and in all of Europe.

Central Europe is characterised by growing economic and purchasing power, which makes the region increasingly attractive for manufacturing and logistics business entities. Companies entering the region see it as one large area without state borders. The decisive criteria for these companies are quality, accessibility, price, and loyalty of staff. The main qualifications in terms of logistics are catchment areas and distance from customers. This is why the immediate future of Central Europe must be based on close cooperation.

The logistics system used by ŠKODA AUTO is of the highest standards: in the ´ELA Award – European Gold Medal Logistics and Supply Chain´ competition, ŠKODA AUTO was awarded first place. With its highest award the European organisation ´European Logistics Association´ (ELA) appreciated the top quality and high efficiency of the internationally structured ŠKODA logistics system. "It is indeed an exceptionally valuable success not only for the ŠKODA AUTO logistics team, but also for the entire Czech logistics system. This is the first time in history that a project from the Czech Republic has been placed first in the face of keen competition from all of Europe," says Miroslav Rumler, one of the members of the presidium of the Czech Logistics Association. The ´Simply Clever logistics support for built-to-order production in the automotive industry´ project first won the Czech national round, organised exclusively each year by the Czech Logistics Association and termed ´Logistics Project of the Year´, and was then nominated by the Czech Logistics Association for the European finals.

Road to Success for MEDIAP Company

MEDIAP, a company operating on the market since 1996, currently ranks among stable Czech firms. The growing medium-sized company, focused on the supplies of pharmaceutical goods and services, including such goods as food supplements and deliveries of food and other rations for non-standard nutrition of individuals, has not only gained a name in the domestic market, but is also successfully penetrating foreign territories.

The extent of the company's operations is truly wide. We can mention the manufacture of medicinal products within the scope of primary packaging of solid pharmaceutical forms, as well as within the scope of secondary packaging of medicinal products supplied in primary packaging, comprehensive transport and logistics services in the area of the storage and distribution of medicinal preparations and other health care products, adjustment and completion of various pharmaceutical goods, manufacture of gift sets…

"The company's activities rest on pharmaceutical production and logistics, but an area that has been intensively developing in recent times as well is the manufacture and supply of food rations and kits for NATO forces, where we have been an established supplier, as well as for humanitarian organisations working under the United Nations. In the latter respect, we have been a registered supplier since 2012, as the only company in the so-called Eastern Bloc able to supply food rations," says Luděk Novák, the company's Chief Executive Officer and Director.

STRESS ON STATE-OF-THE-ART TECHNOLOGY

The company places great emphasis on quality technology, its modern machinery and equipment enabling it to offer a wide range of services, from primary and secondary packaging of medicinal products to food supplements. "The machinery and equipment is oriented to the primary packaging of medicinal products in blister packs of various sizes and forms. In order to be able to comply with the demanding standards and requirements for the safety of products in the primary and secondary packaging of medicinal products, we have acquired modern technology from the Italian IMA company, which is considered one of the best suppliers of top pharmaceutical machinery and equipment in our type of business," adds Luděk Novák.

COMPANY PROJECTS

The company has experienced some setbacks in its development, such as the floods which destroyed its storage space after one year of operation in 1997. However, MEDIAP's management and employees refused to be forced to their knees. The transformation from a small trading company to a production and trading firm with a quality technological base and reliable and professionally trained staff, was the result of intensive work and enthusiasm. The company has obtained, and repeatedly regained, extensions of the certifications of Good Manufacturing Practice, Good Distribution Practice, as well as the ISO certification. And more successes followed. Recently, MEDIAP has successfully completed a research task from the Ministry of Defence of the Czech Republic for the design and development of a Food Ration for use by military forces and humanitarian missions in extreme climatic conditions. The company is at present engaged in a research and production project of the highly efficient impact of active substances in food and food supplements, which is being implemented with the University of Pardubice, and will be applied in production in its new manufacturing plant, which was newly reconstructed in 2011–2012.

GOOD NAME OF COMPANY ABROAD

MEDIAP has gained a good name and marks abroad in the complete "just-in-time" transport and logistics services in the area of the storage and distribution of medicinal products and other healthcare goods. Besides the good position of its Logistics Centre, close to the borders of the Czech Republic with Slovakia, Poland, and Hungary, and the ample capacity of its pallet storage, customers are additionally attracted by quality client services in the Good Distribution Practice system. The ability to cope with problems that may arise, and the individual approach of the company employees to all clients are great assets of the company, which bear fruit. MEDIAP newly provides import-type services, namely in the logistics of medicines from third countries to the EU area, which is in great demand by clients. "In pharmaceutical production, for example, we ensure the production of medicinal preparations for markets in Central and Eastern Europe for the TEVA Pharmaceuticals a.s. company. In pharmaceutical logistics, we ensure complete logistics and storage services for companies operating from Germany, where I can mention, for example, STADA A.G., and from Serbia for the HEMOFARM A.D. firm – again in their supplies to countries of Central and Eastern Europe," Luděk Novák says.

FUTURE GOALS

With its dynamic development, MEDIAP has proved the ability of finding its place in the present as well as future market and has the qualifications for the further expansion of its business activities. The company's strategic goals include the construction of a more extensive Logistics and Production complex for pharmaceutical logistics to countries of Eastern Europe, with sophisticated, modern management. At the same time, it plans to complete a number of research projects which it is currently leading and working on. MEDIAP wants to be a quality supplier of humanitarian kits to UN structures. Offers are being prepared for tenders for the supplies of food rations. MEDIAP plans to extend its certifications essential for manufacturing and distribution.

The Director sees the company's main potential in supplies to the United Nations, in the manufacture of highly efficient substances for the food supplement sector, and in an ever improving quality customer service, both in pharmaceutical production and in pharmaceutical storage and logistics.

Photo: MEDIAP archives

Transport Setting out in Europe's Footsteps

The Czech Republic's transport policy finds itself at a turning point. The stage programmed for 2005 to 2013 has ended, the next one is planned for the years 2014 to 2020. The latter is related to the White Paper on Transport until the year 2050, which was presented by the European Commission in March 2011.

The document entitled "White Paper on Transport – Roadmap to a Single European Transport Area – Towards a Competitive and Resource-efficient Transport System" reacts to the main challenges in the area of transport, specifically the limited energy resources, carbon dioxide (CO_2) emissions, the unsustainable situation in transport safety, the fragmentation of territory, traffic congestion, and noise caused by transport. The objectives of the White Paper can generally be characterised as a significant attempt to increase the efficiency of European transport. It should consume less energy, use cleaner energies, and improve efficiency in the utilisation of the existing as well as newly built transport infrastructure.

According to the White Paper, the objectives to be achieved by 2050 include:

- 50% shift of medium-distance travel in intercity passenger and freight transport from road transport to rail and water-borne shipments
- 60% reduction of carbon dioxide (CO_2) emissions from transport
- gradual phasing out of conventionally fuelled vehicles from the centres of cities

The Transport Policy of the Czech Republic for 2014–2020 with the Prospect of 2050 is a top strategic document of the Czech Republic's Government with a decisive effect on the transport policy process. It defines the objectives, priorities, and measures concerning the transport sector as a whole and outlines the basic directions of its development. The transport sector is indeed one of the important branches of the national economy which impacts practically on all areas of public life as well as on the business sphere. The sector is very capital intensive but, on the other hand, contributes significantly to the income side of public budgets. It is a sector which is essential for increasing the competitiveness of the Czech Republic. The Czech Republic is situated in the heart of Europe and may thus appear to have all the prerequisites for quality transport accessibility. However, this is only ostensibly so, because the transit potential is limited by the natural conditions. Important routes from Western Europe to Russia pass through the more favourable terrain of the Polish lowlands, while connections between Western Europe and the Balkans are more advantageous via the easier terrain along the Danube. The Czech Republic is thus crossed only by transit routes of lesser importance (Dresden–Vienna / Bratislava and Vienna – Katowice).

SOME ASPECTS OF THE TRANSPORT POLICY:

Specifics of Road Transport

Road transport is essential for the comprehensive servicing, collection, and distribution in an area. However, it is also currently intensively used in those segments of the transport market where other modes of transport are more advantageous from the point of view of society as a whole. Discussion is currently taking place in Europe on the introduction of so-called modular combinations on roads, known in short as "gigaliners". With respect to the fact that gigaliners require quite large consignments, it is preferable to seek solutions which are focused on the use of rail transport. In the further process, it will also be appropriate to address the issue of the possible regulation of night freight transport travel by differentiated toll rates. During the night hours, freight transport contributes significantly to the noise in populated areas, with night-time noise impacting much more severely

on human health than daytime noise. It should also be considered that, despite the regular regimen of rest, a driver's biorhythm is at a minimum during night hours, posing a risk factor for road traffic safety, particularly in the case of trucks with a high kinetic energy. However, the measures should be compensated for by the possibility of using the regular lines of combined haulage, enabling long-distance transport of semi-trailers.

Specifics of Rail Transport

The potential of rail freight transport can be utilised only if the transport flows are sufficiently intensive. Collection, distribution, and transhipment make rail and waterborne transport more expensive and are thus profitable only for longer distances. Medium-distance transport is possible only with the use of certain technologies of horizontal transloading – in this case, the possibility is handling which involves interchangeable units or containers. Such systems can be introduced in practice in the Czech Republic only if the number of interchangeable units used by freight forwarders or hauliers is increased. A precondition for greater utilisation of rail transport is quality railway infrastructure with sufficient capacity for 24-hour freight transport. Getting long-distance freight transport through the suburban and urban areas of large conurbations poses a problem. This is why the Regulation (EU) 913/2010 defines so-called "freight corridors" which should ensure sufficient capacity for freight transport when implemented. For the same reason, the main routes for passenger and freight transport are defined separately in the TEN-T network. Rail transport also has the potential for express cargo shipments over distances of approximately 1000 kilometres, which can help to free up air space for intercontinental air traffic. A prerequisite is the development of a high-speed rail network with direct connections to the main international airports. The Euro Carex project focused on this market segment is currently undergoing trial operations in Western Europe.

Specifics of Waterborne Transport

The proportion of waterborne transport in the Czech Republic is not high, mainly due to an insufficiently reliable infrastructure. If adequate conditions were created, waterborne transport could become part of the regular lines of combined transport, thus putting competitive pressure on the reduction of prices in rail and road transport. According to the Czech Machinery Cluster, the sale of Czech machinery products and their competitiveness could be boosted by a Danube-Oder-Elbe water corridor. The project, which has both supporters and resolute opponents, continues to arouse strong passions.

Specifics of Air Transport

Air cargo is an important segment in the freight transport market, focused on long-distance express deliveries. Its further development is contingent on the quality interconnection of specific airports with the road and rail infrastructure, as well as with the TEN-T airports network and with logistics centres, all of which can help increase the effectiveness of goods transport as well as reduce the environmental burden. A network of airports with a potential for the development of air cargo will be determined in the Czech Republic within the Air Transport Concept. The Czech Republic has 91 civilian airports which can be divided into three categories: airport of state-wide importance (Prague-Ruzyně Airport), regional airports of major importance (Brno, Ostrava, Pardubice and Karlovy Vary), and regional airports of minor importance, known as aero clubs or sport airfields. Twenty-four have the status of international airports, seven of them public, the rest non-public or military airports.

■ MAXIMUM EFFECTIVENESS AND MINIMISATION OF COSTS

The motto of the present time in transport, forwarding and logistics is "maximum effectiveness and minimisation of costs". This is why the use of combined transport on the road, railway, and waterways is ever more frequently mentioned. The problem is that the Czech Republic is too small for its full-scale implementation which would guarantee the desired economic effect. In spite of that, combined transport has experienced a great boom in recent years. Its growing importance can best be documented by its constantly increasing share in overall freight transport. While, in 1995, this share was only 0.55 % in the Czech Republic, by 2013 it had risen to 2.55 %. An effective solution appears to be the construction of logistics multimodal public centres, making use of more than one transport mode in freight haulage, and cooperating with similar centres abroad. Their operation should help to ensure an adequate economic effect on domestic exporters and importers.

Photo: Tatra Trucks archives; Cushman & Wakefield archives

The Warehousing Market Is Gathering Pace

Busy construction activities, which in 2013 gave new impetus to the industrial real estate market in the Czech Republic, continued also in the third quarter of 2014, when 102 100 sq. m of new warehousing surface area were completed, increasing the offer of warehousing and manufacturing rental space of the highest (A) category to 4 773 400 sq. m.

From January to October 2014, nearly 271 200 sq. m of industrial halls to rent were built in the Czech Republic, 17% more than in the same period in 2013, when a record size of space was put on offer; in comparison with 2012, the growth was as much as 58%.

Pre-letting construction continues to prevail in the market; nevertheless, speculative construction is steadily growing. Of all the new industrial spaces placed on the market between January and October 2014, 77% were rented before completion. The Industrial Research Forum estimates that during the whole of 2014, more than 300 000 sq. m of new halls were built, more than in the 2013 record year (269 000 sq. m), which means that 2014 is a year with the highest offer of new industrial space since 2009.

The largest industrial halls completed in the second half of 2014 included a fourth building in the Kosmonosy D+D Park, constructed by D+D Real and partly rented to Škoda Auto, and spaces for Johnson Controls in CTPark in Bor, occupying an area of 12 400 sq. m. Although not included in the IRF offer of industrial space to let, worth mentioning because of its size is a new hall for the Steelcase Company, built in Panattoni Park in Stříbro and covering an area of 26 300 sq. m. One of the most important reconstruction projects was the completion of the first phase of Westgate Park in Rudná (23 800 sq. m), realised by Charnwood Company. In September 2014, the American FEI concern enlarged its premises in CTPark Brno by 40 000 sq. m more, at a cost of EUR 15 million. Last year, Sanmina, a global manufacturer of electronic equipment and services provider based in the USA, rented more than 7000 sq. m of top-standard office and service space in the Czech Technological Park in Brno. It uses the space for the repair of manual scanners, portable computers, wireless LAN technology equipment, and the repair of printed circuits. Currently the Park has approximately 52 000 sq. m of surface area available for hi-tech production and administration purposes. Its long-term renters include firms such as Motorola Solutions, Vodafone, and IBM. The Park directly neighbours the premises of the Brno Technical University, which can supply the firms in the Park with skilled workers.

ACQUISITION OF WAREHOUSING AND INDUSTRIAL REAL ESTATE

The warehousing facilities offer excellent diversification possibilities to international investors with excess capital. For example, two of the largest transactions conducted in the 3rd quarter of 2014 fall in the industrial real estate segment: PointPark Properties purchased the VGP Parks portfolio for EUR 523 million, and Prologis acquired the Rudná Business Park for EUR 80-100 million. Some of the parks, for example Panattoni Park Prague Airport and Tulipán Park Prague, have new owners. "In the third quarter of 2014, new acquisitions of warehousing and industrial real estate rose by 84%," says Lenka Šindelářová from the DTZ real estate services company. Warehousing facilities with long-term guaranteed income from rent are yielding revenues of about 7.5%. The exceptional sale of the logistic parks portfolio produced a lower revenue owing to its size. Revenues from first-class office space generate revenues amounting to 6%, shops in shopping streets yield approx. 5.5% and top shopping centres 6%.

RENTALS

In the third quarter of 2014, the highest rental yields from industrial and logistics real estate (prime headline) in the Czech Republic remained stable and were at the level of EUR 4.25/sq. m/month. Rental rates for office space were EUR 8.00-9.00/sq. m/month, with the customary amounts of

service fees ranging between EUR 0.50 and 0.65/sq. m/month.

FUTURE TRENDS

According to a survey conducted by 108 Agency, whose respondents were the companies of CTP, ILD, Goodman, Panattoni Czech Republic, PointPark Properties, Prologis, SEGRO and VGP, clients operating in warehousing usually search for new warehousing space 6 months in advance, while, in the case of manufacturers, the period is 12 months. The survey revealed that current clients of industrial real estate developers are mainly foreign companies, with the proportion of Czech managers in those companies increasing. Their clients are firms concerned with logistics and retail trading, and e-commerce firms, which operate warehouses on the basis of shorter rental contracts, usually for periods under 3 years, and firms operating in the automotive industry and electronics, with rental contracts for 7 years and more. The most popular localities are Prague and Brno and localities directly connected to motorways. Recently, the Ústí nad Labem Region and West Bohemia in the vicinity of the German frontier have become attractive, due to growing investment opportunities and the geographic closeness to Germany. "The survey also examined the ratio of new contracts in relation to the prolongation of existing ones, and showed that the ratio is balanced as a result of the growing availability of rentable land in the market and the stability of the main players. The contract periods have been getting shorter in recent years, as developers are more willing to accede to concluding shorter contracts because of competition and the flexibility of banks in granting credits. An important factor is the sector in which the tenant operates; for example, in the case of manufacturing companies, rent contracts are concluded for longer periods, usually 7 to 10 years. The reasons are the more expensive preparation of the manufacturing spaces for production and the cost of relocating firms. As regards warehousing, the contract periods are between 3 and 5 years, depending on the locality," says Ondřej Konopásek, Senior Consultant of 108 Agency's Industrial Real Estate department.

The average size of rentable surface areas is difficult to calculate in modern parks and must be fixed individually. Most in demand are smaller surfaces of under 3000 sq. m. Recently, however, rentals of surfaces of over 10 000 sq. m have become more frequent, mainly in connection with the arrival of new companies in the market and new orders from logistics companies. According to developers, clients are not adequately informed about the market situation. However, this is improving thanks to real estate and consulting agencies, which look after their clients and keep them informed. "It often happens that clients' ideas are absolutely wrong. For example, they believe that spaces to rent are the cheapest outside regional centres. The truth, however, is quite the opposite. As a result of low demand, competition in regions is low as well, and prices are slightly higher than in other localities," says Konopásek, adding: "In the regions, real estate has low liquidity and investment is more risky in the event of the lessee getting into difficulties. This puts pressure to bear on developers, who prefer investments with the shortest possible payback periods, which results in higher rentals. Real estate agencies therefore must first explain to clients what the market situation is like and what possibilities exist." As regards warehousing, after the slowdown in recent years, the much discussed speculative construction is coming back on the scene again, although not as intensely as before. Strong developer groups are feeling the economic revival, and if they have enough capital, they build to get ahead of potential competitors. Of course they do not build without forethought. Firms have learned their lesson from the crisis and are more prudent. Although not all developers are inclined to speculative construction, this trend is expected to gain momentum again. "Today, industrial real estate is in good shape and the mood prevailing in the market is very positive from the point of view of developers," Konopásek states.

WINNING PROJECTS IN 2014

In the prestigious 'BEST OF REALTY' competition, in the Warehousing and Industrial Real Estate category, the 2014 winner was the D2.1 – FEI project, CTPark Brno, which convinced the jury with its high standards and excellent realisation of the building. The structure meaningfully complements the concept of the entire area in the Černovice Terrace locality of Brno. Second place was won by Ingersoll Rand Ovčáry, Ovčáry-Kolín Industrial Park, with SEGRO Logistics Park Prague in Hostivice gaining third position.

Photo: Crest Communications archives

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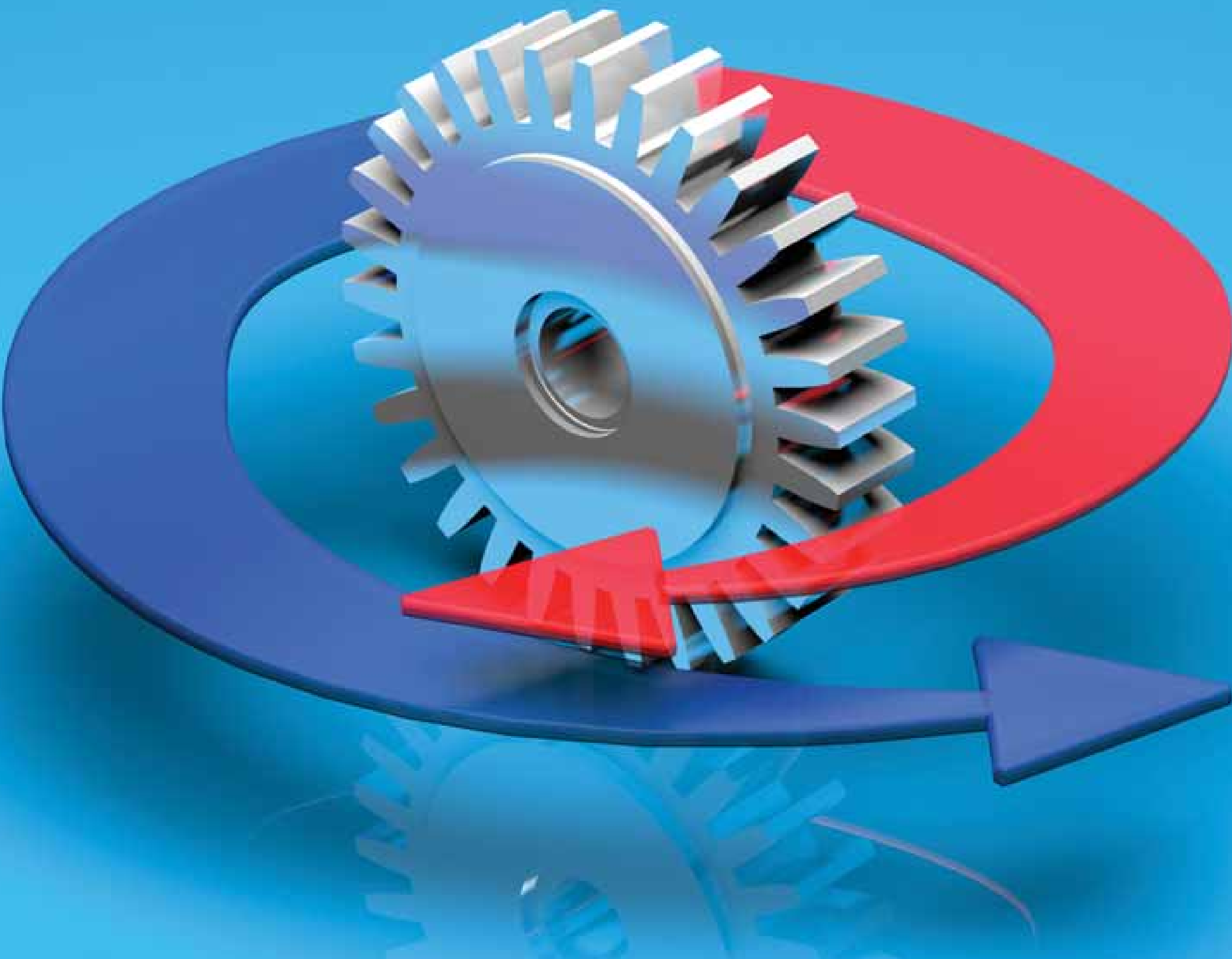

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