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THE INFLOW AND FOREIGN DIRECT INVESTMENT RESOURCES LOCATED IN THE CZECH FOOD INDUSTRY

NAPŁYW I ZASOBY BEZPOŚREDNICH INWESTYCJI ZAGRANICZNYCH ULOKOWANE W CZESKIM PRZEMYSŁE SPOŻYWCZYM

Key words: foreign direct investment, food industry, Czech Republic

Słowa kluczowe: bezpośrednie inwestycje zagraniczne, przemysł spożywczy, Republika Czeska

Abstract. The objective of the paper is to present the changes in capital resources (in the form of foreign direct investment), which were located in the Czech food industry and the assessment of development trends in the inflow of FDI into the food industry in the years 2002-2011. The analyses conducted show that in the period considered, the Czech food industry was neglected by foreign investors, if compared with other manufacturing industries. The cumulative value of foreign investment in this industry estimated at the end of 2011 amounted to EUR 2.3 billion, which accounted for 7.9% of the capital resources (in the form of FDI) invested in the manufacturing sector.

Introduction

The Czech Republic is seen as an attractive location for foreign investment. According to the report *European Attractiveness Survey* [2013] prepared by Ernst & Young, the Czech Republic ranks twelfth in Europe in terms of the number of jobs created by foreign direct investment, and thirteenth in terms of the number of new investment projects realized. The ranking position occupied by the Czech Republic should be deemed high, since the absolute values were taken into account (the number of projects and jobs created), and geographically the Czech Republic is a relatively small country.

The presence of foreign capital plays an important role in dynamising the Czech economy as a whole and its individual sectors. Due to foreign investment made it was possible to supplement the shortage of capital resulting from poor internal savings. It must also be noted that production resources have been modernized technologically, management methods have been advanced, products' quality has been improved and overall efficiency has been increased. As a result, the invested foreign capital has contributed significantly to the improvement of the competitive position of the Czech Republic in foreign markets [Jahn 2008].

The objective of the study, material and method

The objective of the paper is to present the changes in capital resources (in the form of FDI), which were located in the Czech food industry and the assessment of development trends in the inflow of foreign direct investment into the food industry in the years 2002-2011. The study covered three manufacturing divisions: CZ-NACE 10 – manufacture of food products, CZ-NACE 11 – manufacture of beverages, CZ-NACE 12 – manufacture of tobacco products. All of the analyses conducted were based on data published by the Czech National Bank (*Česká národní banka*). The descriptive and comparative methods were used for the purposes of the present study.

Capital resources in the form of FDI in the Czech food industry

Within the structure of FDI inflows to the Czech Republic the manufacturing industry occupies an important place. According to the ČNB (*Česká národní banka*), the cumulative value of capital in the form of foreign direct investment in the manufacturing sector of the Czech Republic reached

29.5 billion at the end of 2011. This represented 31.7% of the capital invested (in the form of FDI) in the Czech Republic. Foreign investors showed the greatest interest in the automotive industry. The cumulative value of foreign investment in this industry amounted to EUR 7.8 billion. From the point of view of foreign direct investment, the chemical industry was considered important, too. The cumulative value of FDI in three divisions forming the Czech chemical industry (CZ-NACE 20-22) at the end of 2011 amounted to EUR 4.2 billion [*Prímé zahraniční investice* 2013].

The food industry was characterized by a slightly lesser interest on the part of foreign investors. The cumulative value of foreign investments in the production of foodstuffs, beverages and tobacco amounted to EUR 2.3 billion, at the end of 2011. This represented only 7.9% of the capital resources (in the form of FDI) invested in manufacturing.

According to the Czech National Bank (*Česká národní banka*), the first foreign direct investments in the food industry in the Czech Republic were realised in 1993 and amounted to CZK 2.5 billion. The early 1990s was the time when the largest number of foreign entities appeared in the Czech Republic, including such companies as Unilever, Nestlé or Danone and that happened mainly through privatization of state enterprises in the Czech food sector. In the late 1990s and just before the Czech Republic joined the European Union, investments were carried out mainly in the form of modernization and expansion of production. However, most investments in the Czech food industry were made in the late 1990s. A major event was the privatization of the Pilsner brewery by one of the world's largest brewing companies - SABMiller group. Soon after the Czech Republic's accession to the European Union other foreign companies invested in the food industry, and the examples include: Effem Holdings from the UK, an Israeli Tivall company, a Dutch company CUHO [*Przemysł spożywczy... 2011*].

The analysis of the current structure of the capital invested in the Czech Republic, performed by the type of activity conducted by enterprises investing directly, indicates that foreign companies showed great interest in the manufacture of beverages (see Table 1 and Figure 1). The largest companies in the Czech Republic belonging to this industry and producing soft drinks have their foreign investor. These are Kofola a.s., Coca-Cola HBC ČR, s.r.o., PEPSICO ČR, s.r.o. The largest producers of beer in the Czech Republic are also owned by foreign entities. Pilsner Urquell Investments BV located its capital in Plzeňský Prazdroj, a. s., Pivovary Staropramen, s. r. o. belongs to Molson Coors Brewing Company. Heineken Česká Republika, a.s, and Drinks Union are also possessed by foreign capital, as the same holds true for companies producing beverages with a high alcohol content. One of the biggest companies - Stock Plzeň-Božkov, s.r.o has been part of the Stock Spirits Group since 2007 and the group, in turn, is owned by Oaktree Capital Management. In the case of food production, foreign capital is present in many of these companies, especially in those with a long tradition and producing foodstuffs valued among consumers.

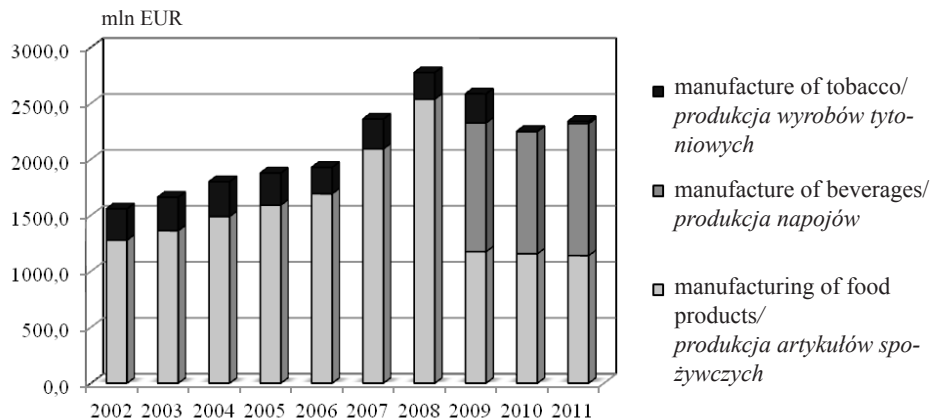
Table 1. The cumulative value of foreign direct investment in the food industry in the Czech Republic (as of 31 December, 2011)

Tabela 1. Skumulowana wartość bezpośrednich inwestycji zagranicznych w przemyśle spożywczym w Republice Czeskiej (stan na 31.12.2011 r.)

| Specification/ <i>Wyszczególnienie</i> | Value/ <i>Wartość</i> [mln EUR] |
|--|------------------------------------|
| Total, of which/ <i>Ogółem, w tym:</i> | 93 184.2 |
| - manufacturing, of which/ <i>przetwórstwo przemysłowe, w tym:</i> | 29 497.6 |
| CZ-NACE 10 manufacture of food products/ <i>produkcja artykułów spożywczych</i> | 1 138.8 |
| CZ-NACE 11 manufacture of beverages/ <i>produkcja napojów</i> | 1 178.1 |
| CZ-NACE 12 manufacture of tobacco products/ <i>produkcja wyrobów tytoniowych</i> | 21.9 |

Source: own study based on: [*Prímé zahraniční investice...*, for 2002-2011]

Źródło: opracowanie własne na podstawie: [Prímé zahraniční investice... za lata 2002-2011]



Note: since 2009 a new classification of the so-called CZ-NACE has been used in the Czech Republic and this new classification is based on the current EU classification of economic activities – NACE Rev. 2, from which the manufacture of beverages was excluded/*Uwaga: Od 2009 roku w Republice Czeskiej obowiązuje nowa klasyfikacja działalności, tzw. CZ-NACE oparta na obowiązującej w UE klasyfikacji działalności NACE Rev. 2, w której z produkcji artykułów spożywczych wyłączono produkcję napojów*

Figure 1. The cumulative value of foreign direct investment in the food industry by type of activity in the Czech Republic in the years 2002-2011

Rysunek 1. Skumulowana wartość bezpośrednich inwestycji zagranicznych w przemyśle spożywczym według rodzaju działalności w Republice Czeskiej w latach 2002-2011

Source: see tab. 1

Źródło: jak w tab. 1

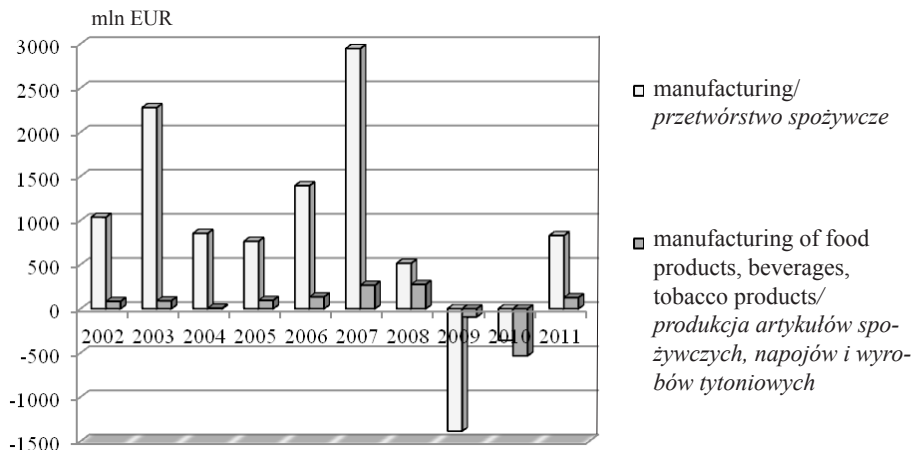


Figure 2. The inflow of foreign direct investment into the manufacturing industry and food industry in the Czech Republic in the years 2002-2011 [mln EUR]

Rysunek 2. Napływ bezpośrednich inwestycji zagranicznych do przetwórstwa przemysłowego i przemysłu spożywczego w Republice Czeskiej w latach 2002-2011 [mln euro]

Source: see tab. 1

Źródło: jak w tab. 1

Table 2. The inflow of foreign direct investment into the food industry in the Czech Republic in the years 2002-2011
 Tabela 2. Napływ bezpośrednich inwestycji zagranicznych do przemysłu spożywczego w Republice Czeskiej w latach 2002-2011

| Specification/Wyszczególnienie | Investment [mln EUR]/Inwestycje [mln euro] | | | | | | | | | |
|--|--|--------|--------|--------|--------|--------|--------|---------|--------|--------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Total, of which/Ogółem, w tym: | 8787.6 | 1830.5 | 4196.4 | 9625.3 | 4489.2 | 7961.8 | 4089.5 | 2108.2 | 4679.8 | 1589.6 |
| - manufacturing, of which/przetwórstwo przemysłowe, w tym: | 1036.8 | 2278.1 | 853.5 | 763.4 | 1393.2 | 2946.5 | 514.8 | -1385.9 | -357.7 | 828.2 |
| manufacture of food products, beverages, tobacco products, of which/produkcja artykułów spożywczych, napojów i wyrobów tytoniowych, w tym: | 82.4 | 90.2 | 6.5 | 93.8 | 133.5 | 266.4 | 275.5 | -93.3 | -533.2 | 125.9 |
| - equity capital/kapitał własny | 74.6 | -30.1 | -43.3 | 62.3 | 54.1 | -7.1 | 20.2 | -171.1 | -133.2 | -29.1 |
| - reinvested profits/reinwestowane zyski | 130.7 | 49.2 | 90.8 | 83.3 | 91.2 | 238.1 | 119.3 | 74.2 | 19.9 | -7.6 |
| - other capital transactions/pozostałe inwestycje | -122.9 | 71.1 | -41.0 | -51.8 | -11.8 | 35.4 | 136.0 | 3.6 | -420.0 | 162.6 |

Source: see tab. 1

Źródło: jak w tab. 1

The inflow of foreign direct investment into the Czech food industry in the years 2002-2011

In the years 2002-2011 capital inflows due to foreign direct investment in the manufacturing industry in the Czech Republic amounted to EUR 8.9 billion, of which 5% of the capital was located in the food industry. The amount of capital in the form of FDI that flowed into the food industry in the period considered was differentiated depending on the year (Fig. 2). After joining the European Union, investors' interest in the companies of the Czech food industry was steadily increasing. However, in 2009, as a result of the global economic crisis, there was a breakdown of the positive trend in the inflow of foreign capital into the Czech food industry.

The next two years saw a negative value of foreign investments amounting to -93.3 million (2009) and -533.2 million (in 2010). This does not mean, however, that there was no new investment realised at the time, though it is clear from the analysis of data published by the Czech National Bank (ČNB) that they were largely reduced. In 2010, there was a negative balance of -420 million euros in the total capital circulation, which means that the amount of loans borrowed from foreign shareholders by direct investment enterprises greatly exceeded their repayment. The negative balance of foreign direct investment in the food industry was also a consequence of the withdrawal of shares/stocks and reselling them to residents (Tab. 2). The next year was more favourable for the Czech food industry. In 2011, the influx of capital (in the form of FDI) was worth 125.9 million euros. It should be noted, however, that there was a decrease in reinvested profits, which in 2011 was negative, which means that the balance sheet losses attributable to foreign shareholders exceeded the profits.

Conclusions

Foreign investors showed much less interest in the Czech food industry than in other divisions of manufacturing. The cumulative value of foreign investment in this industry, estimated at the end of 2011, amounted to EUR 2.3 billion, which accounted for 7.9% of the capital (in the form of FDI) invested in manufacturing. It should be emphasized that nowadays the majority of Czech companies in the food industry have foreign capital. These are generally companies that make products that have a long tradition and are recognised brands not only in the Czech Republic, but also abroad. Companies involved in the manufacturing of beverages were very popular among foreign investors. With the support of foreign investment the Czech food industry has achieved technological modernization and has increased its export capacity.

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Streszczenie

Celem badań było zaprezentowanie zmian w zasobach kapitału (w formie bezpośrednich inwestycji zagranicznych) jaki został ulokowany w czeskim przemyśle spożywczym oraz ocena tendencji rozwojowych w napływie BIZ do przemysłu spożywczego w latach 2002-2011. Z przeprowadzonych analiz wynika, że czeski przemysł spożywczy odznaczał się w badanym okresie znacznie mniejszym zainteresowaniem inwestorów zagranicznych niż inne działy przetwórstwa przemysłowego. Skumulowana wartość inwestycji zagranicznych w tym przemyśle oszacowana na koniec 2011 r. wyniosła 2,3 mld euro, co stanowiło 7,9% zasobów kapitału (w postaci BIZ) ulokowanego w przetwórstwie przemysłowym

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