

## TRANSPORT (AND LOGISTIC) INDUSTRY IN THE CZECH REPUBLIC: SECTOR ANALYSIS

### Executive Summary and SWOT

#### Sector perspectives/Rating

Freight transport sector	- short-term	<i>higher-risk</i>
	- long-term	<i>higher-risk</i>
Passenger transport sector	- short-term	<i>higher-risk</i>
	- long-term	<i>average-risk</i>

#### SWOT analysis

##### Strengths

- Strategic position in the centre of Europe
- Good state and density of railway net, state policy supporting rail transport
- High density of infrastructure
- Good quality of airports (Praha Ruzyně, Ostrava, Brno, Karlovy Vary), Air Navigation Services and airplanes

##### Opportunities

- Use of EU structural funds, governmental incentives for infrastructure improvement
- Travelling and trade due to globalization process
- Combined transport (especially road and rail)
- Foreign expansion (especially in air transport)
- Integration to EU net (TEN-T)

##### Weaknesses

- High sensitivity to business cycle and political, seasonal and natural factors, fuel prices and exchange rates
- Overcapacity as a result of previous boom period
- High energy demanding industry
- Low quality of rail transport and low competition
- Insufficient capacity of motorways and their low quality

##### Threats

- Economic slowdown (problems with oversupply and drop in profit margins)
- Increase in prices of energy, oil
- Strict EU legal regulation (emissions etc.), toll system
- Increasing competition
- Substitution of coach transport by low-cost airlines for longer distances within Europe

#### Basic figures about the industry in the CR

- **Transport sector** (including post and telecommunications) **accounted for 9% of Czech GDP in 2008. The share of employment in the sector on total employment in civil sector of the economy averaged on 5.5% during 2001-2008.**
- **Development of transport sector is highly pro-cyclical** and correlated with GDP development. **Transport sector is also very sensitive to prices of fuels (as a highly energy demanding sector) and policy setting.** Transportation also exhibits a high degree of seasonal volatility.
- The broadly defined transport sector covers (i) **general transport activities (freight transport and passenger transport)**, and (ii) **related services** like supporting and auxiliary transport activities, activities of travel agencies and post and telecommunications.

General transport activities themselves might be further divided according to the means of transport into land transport, transport via pipelines, water transport and air transport. The largest part of the whole sector comprises other land transport (i.e. road transport) sub-sector with 28.6% share on total revenues. Sub-sector of support and auxiliary transport activities and travel agencies (e. g. logistic services) holds the second place with 18.6% share.

- **Market structure significantly differs in each sub-sector.**

**Rail transport is highly monopolised.** Rail freight transport is dominated by ČD Cargo a.s. (94.3% market share) and OKD Doprava a.s. (2.6% share). Rail passenger market is characteristic for the leading position of České dráhy a.s. (99.8% market share). Freight road transport market is operated by plenty of competitors. In 2006, small firms represented 91% of all firms in the sub-sector. The biggest hauler is C.S.Cargo a.s. Other important haulers are ČSAD JIHOTRANS a.s., ČETRANS a.s., ICOM transport a.s., SPEDI-TRANS Praha, s.r.o., SCHENKER spol.s r.o. **Public passenger transport market** remains regionally divided among ČSAD groups. Several mergers took place recently resulting in creation of Veolia Transport, ČSAD Invest, and ICOM transport. **Long-distance passenger transportation market** is mainly controlled by Student Agency. City transport operators are usually owned by cities in which they run their business. No competition exists in **transport via pipe lines**: MERO ČR provides oil transport and storage, ČEPRO provides storage of fuel and RWE Transgas operates in gas distribution; each firm fully covers its segment. **Domestic water freight transport** is dominated by two companies: ČSPL a.s. and Evropská vodní doprava – SPED s.r.o. **Air transport market** is divided between two firms – Czech Airlines (80%; state-owned company) and Travel Service (20%; owner of low-cost airlines Smart Wings). **Logistic and storage sub-sector** is mainly represented by foreign companies

with European or international base such as DHL Exel, Mearsk, Schenker, Gebrüder Weiss, Kühne&Nagel. The biggest and only Czech based firm is Čechofracht. **Post and telecommunications** sub-sector is dominated by Czech Post.

- The **freight transport** exhibited a dramatic drop in volume transported in the second half of 1990s. Nowadays, the largest share of goods is being transported via roads (79% of all freight in tons in 2008). **Rail freight transport amounted to 18.5%** in the same period. Air, pipe and inland water transport have only 2.5% of total volume of goods transported. Generally, rail transport is considered more efficient for longer hauls while road transport is considered more efficient for shorter distances and transport of some goods (fresh food, vegetables etc.).
- **More than 55% of all passenger transport is being realized by public transport**, although the **trend prevails towards growing individual automobile transport**. Total number of transported passengers has not changed significantly since late 1990s, but last two years witnessed a certain increase in number passengers (+5% y/y in 2008 and +2.8% in 2007). In 2008, 80% of all public passengers travelled by **public city transport**, 13.8% by **public bus transport**; **passenger rail transport** has a steady share in public transport around 6.5%. The share of **air transport** is minimal, but grows the most dynamically.

### Recent trends

- Structure of transportation has significantly changed since 1990 as a result of transformation of the whole economy and consequent entrance the EU in 2004. There exist **substantial differences between trends in freight and passenger transport**. In passenger transport, there was a shift from public transport towards individual automobile transportation. In freight transport, significant drop happened in rail transport (from almost 40% share in 1995 fell to 22% in 2008) while position of road transport strengthened (from 54% share in 1995 grew to 73% in 2008).
- **Both types of transport, freight and passenger, are affected by economic downturn, but the drop is not as huge in the passenger transport**. This is caused by demand structure of both transportation types. In freight transport, the demand is closely corresponding to economic activity and related business deliveries. In passenger transport, demand depends not only on business activities but also on overall travel needs.
- **Transport sector (post and telecommunications excluded) exhibited a steady growth of sales over last eleven years** (exceptions in 2002 and 2005); average annual growth amounted to 9% between 1998 and 2008. **In 2008, the growth of sales slowed down to 0.4% y/y only** (compared to almost 10% y/y increase in 2007) **as a result of general economic slowdown**. In broader transport sector (including post and telecommunications) year 2008 already witnessed a drop in sales by 1.3% y/y. The whole transport sector created value added of CZK 114.2 bill. in 2008, representing a 7% y/y fall, again affected by adverse economic climate.
- **During the peak of economic activity in 2007, there was a lack of transportation capacities at the market. Nowadays there exist huge overcapacities in the sector resulting from rapid growth of firms given by the economic boom of previous period. As expected, transport sector has been suffering from the overall economic recession**. In Q4 2008, when economic downturn began, sales of transport firms dropped by 5.7% y/y and amount of goods transported went down by 6.6% y/y, together with a slump of domestic industrial production by 13.2% y/y. In Q1 2009, industrial production recorded further plunge of 21% y/y, sales fell by 14.9% and volume of good transported declined by 27.4% y/y. Road haulers (especially those servicing the automotive sector) were hit the most and had to reduce production and employment considerably.

### Outlook

- **In short- and medium-term horizon**, transport market will suffer from **vacant capacities** that have been created during the previous economic boom (oversupply) and further **dependence on fuel prices**. **Operators will be forced to cut down their profit margins due to weak demand, tougher competition and debt repayment difficulties**. **Small operators (especially road haulers) with low capital base might more probably go bankrupt or merge with stronger subjects**.
- **The sector is generally internationally-competitive in long-term view, although the substantial pro-cyclicality must be taken into account**.

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