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Wine

Wine Market Brief

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Report Highlights:

The Dominican market for wine is estimated at US\$14 million. Some of the major forces driving demand are the strong tourism and increasing consumption by new consumers. The current market share for U.S. wine is estimated at 12%. Major competitors are Spain, Chile, France, and Argentina. Wine consumption is only 3% of total consumption for alcoholic beverages, which was estimated at over 500 million liters in 2008.

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THE MARKET FOR U.S. WINE IN THE DOMINICAN REPUBLIC

I. MARKET OVERVIEW

Consumption of wine in the Dominican Republic is increasing, and it has a good potential for the United States. In 2007, the demand was about seven million liters. The trend for 2008 is a continued increase.

The United States currently holds a market share of 12%. The United States supplied almost one million liters of wine to the market in 2007, valued at over \$1.7 million. The average growth rate of imports from the United States is 46% from 2004 to 2007.

The restaurant sector has the highest potential for exclusive wine. Supermarkets, however, are increasing the volume of wine they sell. All inclusive resorts are another major sector, but mainly for lower price wine.

The following table presents the advantages and challenges of U.S. wine in the Dominican market.

ADVANTAGES	CHALLENGES
<ul style="list-style-type: none"> • Consumers consider U.S. wine as high quality. • Because of the DR-CAFTA agreement, all U.S. wine will be duty free after 2010. • The trend in the Dominican Republic is to imitate the consumption pattern of the United States. • Lower transportation costs from the United States. 	<ul style="list-style-type: none"> • Strong competition (mainly from Spain and Chile). • The Dominican Republic is negotiating free trade agreements with competing countries. • Traditionally, wine consumption in the Dominican Republic has been influenced by Europe. • Strong promotional support from major competing countries

II. MARKET SECTOR OPPORTUNITIES AND THREATS

The Dominican market offers good potential for U.S. wine. However, the market is very competitive. Competing countries have a strong presence and provide significant promotional support to importers for market maintenance.

Tastes and preferences are changing. Non-traditional wine consumers are now increasing consumption. Consumers are now more knowledgeable about wine. Increased consumption is driven primarily by television and written media which projects wine consumption as fashionable, reports of health benefits associated with wine consumption, tastes and preferences transferred to the Dominican Republic by Dominicans having lived abroad, and increasing tourism. The market share for the United States ranks third. It is behind Spain and Chile. France is also a close competitor.

2.1. Market Entry Strategy

The best approach to introduce new wine to the Dominican market is to work with one of the major importers. They know the distribution channels and have the expertise to develop the needed promotional activities to increase sales. One essential aspect to consider is the financial support needed to make sure the wine is known and positioned in the mind of the consumers. Suppliers need to work closely with importers to provide support throughout the distribution channel until reaching the end consumer.

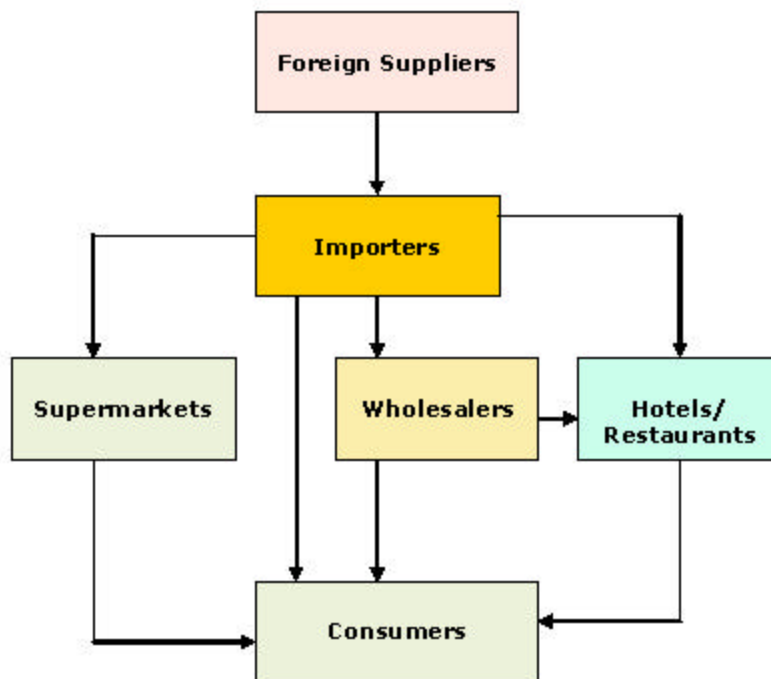
2.2. Market Size, Structure, and Trends

As wine production in the Dominican Republic is minimal and does not compete in quality with imported wine, the market size is estimated considering the amount imported. The consumption of wine in the Dominican Republic is about seven million liters per year. The following table shows wine imports in the Dominican Republic from 2004 to August 2008.

DR WINE IMPORTS (2004-2008) 1/							
YEAR	FROM THE WORLD (US\$)		FROM THE USA (US\$)		U.S. MARKET SHARE (%)		AVERAGE MARKET SHARE (%)
	VALUE (US\$)	QUANTITY	VALUE (US\$)	QUANTITY	VALUE (US\$)	QUANTITY	
2004	7,799,883	5,869,437	574,783	374,884	7.37	6.39	6.88
2005	8,595,316	5,257,011	1,163,675	635,245	13.54	12.08	12.81
2006	12,600,986	6,895,402	2,675,553	1,254,228	21.23	18.19	19.71
2007	14,118,107	6,969,488	1,730,760	894,164	12.26	12.83	12.54
2008	14,399,200	4,983,659	1,407,473	433,055	9.77	8.69	9.23
AVERAGE	11,502,698	5,994,999	1,510,449	718,315	12.83	11.98	12.41

Source: Prepared by FAS based on Dominican Custom Data, 2008
1/ Data for 2008 are from January to August

The major players in the Dominican market are the wine importers, supermarkets, all-inclusive resorts, and restaurants. The following chart shows the distribution channel for imported wine in the Dominican Republic.



2.3 Market Sectors

a) Importers

The market for wine is controlled by a few traditional importers. In addition, there are others that enter and leave the market depending on the conditions. The major wine importers are El Catador, Manuel González Cuesta, Marcas Premium, Alvarez y Sánchez, and Vinos S.A. Each importer represents specific wineries from the United States.

Following is a profile of the major wine importers in the Dominican Republic.

Marcas Premium, S. A.

Marcas Premium, S. A. was established in 1993 to import and distribute quality wine brands, distilled, and products for personal care in the Dominican Republic. Currently, Marcas Premium, S. A. is the exclusive representative for wine, distilled, and liquor from California, France, Scotland, Italy, Chile, Argentina, Spain, and Australia. It is also one of major importers of U.S. wine.

Among its major brands Kendall Jackson, Ferrari Carano, Altas Cumbres Malbec Vintage y Arbor Mist. The company has a portfolio of over one-hundred wine brands.

El Catador, S. A.

El Catador, S.A. was established in 1976. It represents quality wine brands from all over the world. As a complement, it imports other alcoholic beverages.

This company has significantly contributed to the development of the wine culture in the Dominican Republic. It was the first one to have wine tasting and training.

Currently, El Catador, S.A. is the exclusive distributor for wine brands from each wine region in the world. From the United States, it represents Robert Mondavi, Far Niente, Duckhorn, St. Francis, Darioush, ZD, Fetzer, Silverado Vineyards, Rodney Strong, Au Bon Climat, Stag's Leap, Vendange Wine Cellars, Cakebread Cellars, Joseph Phelps, and Sonoma Cutrer.

Manuel González Cuesta, Sucs. C. Por A.

Manuel González Cuesta, Sucs. C. por A., is a company which focus on importing and distributing food products, alcoholic beverages, candies, and home goods. It has over seventy imported brands, including the United States.

The history of this company goes back to 1935 when Mr. Manuel González Cuesta, a Spanish immigrant, established a small food store named "Colmado Nacional" in the Colonial Area of the city of Santo Domingo. In 1945, Mr. José Manuel González Corripio, his son, established Manuel González Cuesta, Sucs. C. por A., to manage the first operations of the business group.

Many of the brands that Manuel González Cuesta, C por A. represents are leaders in their categories in various countries. The company is the exclusive distributor for the Ernest and Julio Gallo winery.

Alvarez y Sánchez, C. Por A.

Alvarez y Sánchez, C. por A. was established in 1979. Its focus is to import and distribute food and beverage products nationwide. It represents over 2,000 product references (SKUs). The company also says that one of its objectives is to contribute to improve the quality of living of Dominican families.

Among its product portfolio, the company has the representation for over fifty wineries. From the United States, it represents Simi and Marimar Torres. It continues to look for other ones to increase the supply from the United States to the Dominican market.

Vinos. S.A.

Vinos, S. A. was established in 1980. In 1995, the company is purchased by the Brugal Group, which is one of the major rum producers in the Dominican. It focus is the import and distribution of wine and other alcoholic beverages. Currently, its product portfolio includes over 150 brands, including wine, vodka, cognac, gin, brandy, whisky, cider, and mineral water. According to them, this is the only company of its kind with two regional distribution centers, one in Santo Domingo, the capital city, and another in Santiago, the second largest one.

The company has four specialty stores. Three of them are under the Punto y Corcho brand and the other one is the La Enoteca. In addition to these stores, it has a wine club, Le Connoisseur, to educate, to inform, and to promote wine consumption. The stores also hold

wine courses and new product launching. The stores are located in Santo Domingo, Bavaro/Punta Cana, and the Casa de Campo marina in La Romana.

b) Supermarkets

Supermarkets represent about 40% to 50 % of wine distribution in the Dominican Republic. They sell a wide variety of wine, ranging from low to high prices. They also use their merchandising techniques to make wine more attractive to consumers. Supermarkets allocate more shelf space to wine from Chile and Spain. Local retail prices for those wine range from \$5.00 to \$7.00 per bottle.

The number of supermarkets is increasing in the country. Overall, more shelf space is being allocated with more price specials. The trend for the largest supermarket chains is to import directly in addition to buying from other importers.

For more information about supermarkets and other retailers in the Dominican Republic, please see our GAIN Retail Food Sector Report DR7042 at <http://www.fas.usda.gov/gainfiles/200711/146292982.pdf> or <http://www.fas.usda.gov/gainfiles/200711/146292982.doc>

c) All-inclusive Resorts

All-inclusive resorts represent about 40% of wine distribution in the Dominican Republic. This sub-sector has huge potential as the number of hotel rooms and the number of tourist arrivals is increasing. In addition, these resorts are focusing on increasing the average amount tourists expend on food per day. They are trying to attract tourists with higher purchasing power. In addition to the regular wine included in the package, they offer other selected wine at an additional charge.

For more information about the hotel and restaurant sector in the Dominican Republic, please see our GAIN HRI Food Service Sector Report DR8003 at <http://www.fas.usda.gov/gainfiles/200802/146293744.pdf> or <http://www.fas.usda.gov/gainfiles/200802/146293744.doc>

d) Restaurants

Restaurants represent about 20% of wine distribution in the Dominican Republic. They sell a wide range of wine from low to medium price served by the glass, to very expensive wine. Wine sold by the glass are dominated by Chile, because of the high quality/price ratio, followed by Spain.

Because of the increasing demand, restaurants have improved the wine selection they offer to customers. They have also improved their storage. In addition to buying from local importers, some restaurants are also importing some wine to lower their costs.

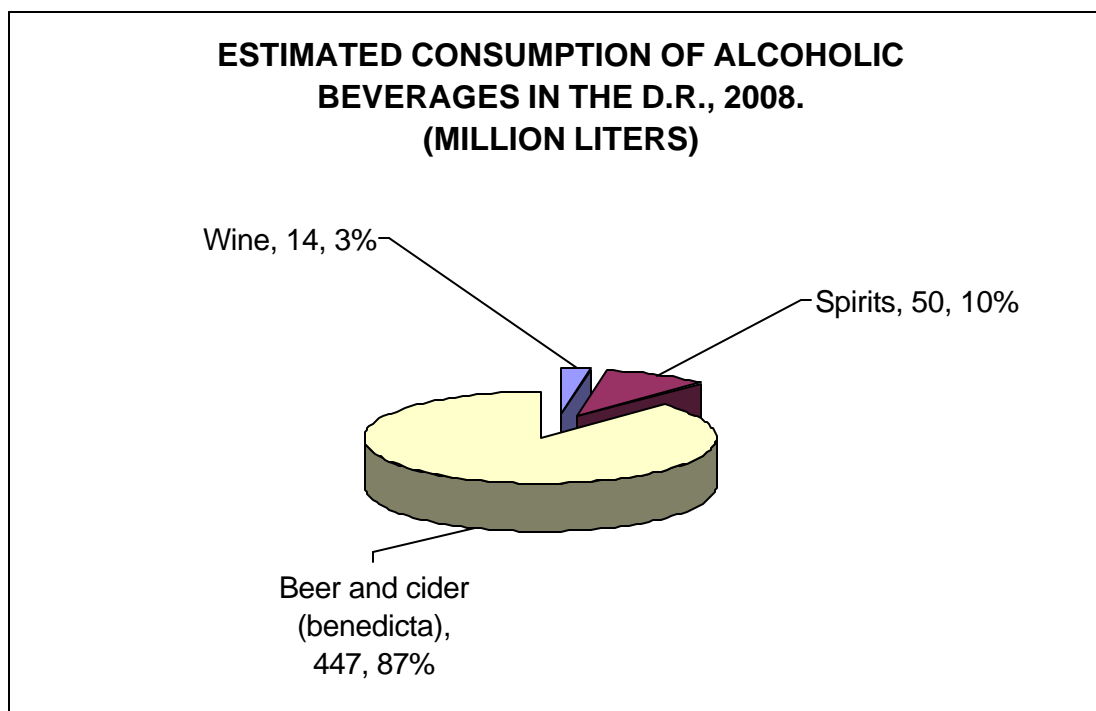
e) Business Hotels

Aside from business hotels that have a gourmet or high-end restaurant, most wine sold at hotels are low price ones served at weddings and other banquets. Only about two percent of imported wine is sold through business hotels. These hotels purchase their wine from local importers.

2.4. Competition

According to The International Wine and Spirits Record (ISWR), the total consumption of alcoholic beverages in the Dominican Republic in 2008 was estimated at 511 million liters. The following chart shows the distribution for the three major categories.

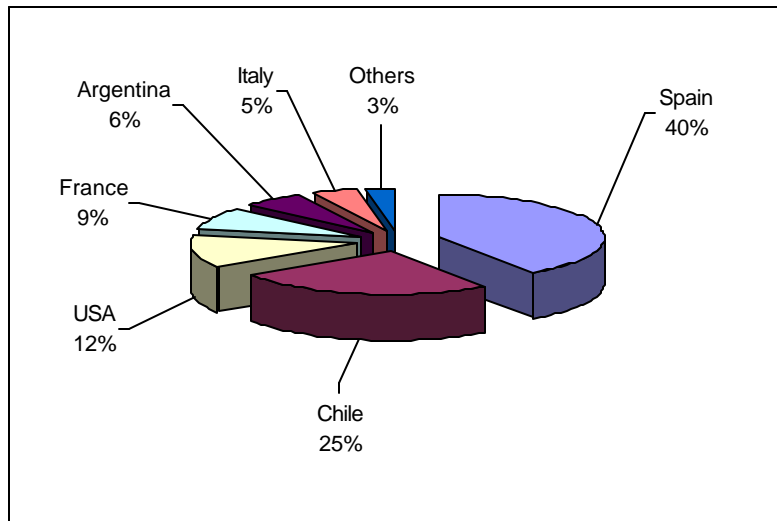
Wine also competes with other alcoholic beverages such as local and imported beer, rum, whisky, brandy, gin, and vodka. Traditionally, the consumption for local rum and beer in the Dominican Republic has been very high. Consumers with higher purchasing power consume imported beer and whisky. However, the trend is to increase wine consumption at the expense of the other beverages. Because of that, a marketing strategy to increase market share should be aimed at current wine consumers and new potential ones who could switch consumption.



Source: The International Wine and Spirits Record (ISWR), 2008.

As wine consumption represents only 3% of the total market for alcoholic beverages, and it has a growing trend, the market potential is very high. The growth for total wine consumption and the share for U.S. wine will depend on how much promotion it continues to have.

The Dominican market for wine is very competitive. The following chart and table show the competitive position of the United States and other wine suppliers in 2007.



Source: Prepared by FAS based on Dominican Custom Data, 2008

Spain is leading the market with a 40% market share, followed by Chile with 25% and the United States with 12%. Other major competitors are France, Argentina, and Italy.

DR WINE IMPORTS IN 2007				
COUNTRY	VALUE (US\$)	QUANTITY (LITERS)	MARKET SHARE BASED ON US\$ (%)	MARKET SHARE BASED ON QUANTITY (%)
Spain	5,701,488	3,212,845	40.38	46.10
Chile	3,579,126	1,525,176	25.35	21.88
USA	1,730,760	894,164	12.26	12.83
France	1,222,393	332,561	8.66	4.77
Argentina	845,563	523,155	5.99	7.51
Italy	645,907	316,936	4.58	4.55
Others	392,870	6,804,837	2.78	97.64
Total	14,118,107	6,969,488	100.00	100.00

Source: Prepared by FAS based on Dominican Custom Data, 2008

In 2007, the market leaders, Spain and Chile, supplied over 3 and 1.5 million liters to the Dominican market, respectively. The United States supplied less than a million liters (894,164).

The promotional support given to importers and passed to distributors is one of the major competing tools that countries like Spain and Chile use to keep their higher market share. This is something that U.S. wine suppliers should consider if they want to increase or, at least, to continue to keep the current market share.

2.5. Best Prospects for U.S. Wine

Red, white, and sparkling wine present good market potential in both the retail and hotel/restaurant segments. With the large middle-income stratum and the new population starting to consume wine, the ones that are retailed in the US\$5.00 to US\$8.00 price range are expected to show the fastest growth in the retail segment. Given the current association of U.S. wine with a single state, it would be strategic to introduce wine with comparable quality from other U.S. territories. Within the hotel sector, with the increased price competitiveness of U.S. wine, products in the medium price/quality range should have significant potential.

III. COSTS AND PRICES

Traditionally, U.S. wine have been considered to be more expensive than comparable competing ones from other countries. The following table shows the average unit price per liter from 2004 to August 2008. The average price for U.S. wine is \$2.14 per liter. This is lower than the price for Argentinean and French, and higher than Chilean, Spanish, and Italian.

F.O.B. COST FOR IMPORTED WINE IN THE DOMINICAN REPUBLIC						
COUNTRY	2004	2005	2006	2007	2008	AVERAGE
Argentina	1.28	1.46	1.46	1.77	13.75	3.95
France	1.53	1.73	2.08	2.35	7.98	3.13
USA	1.53	1.83	2.13	1.94	3.25	2.14
Chile	1.79	2.50	3.41	3.68	2.51	2.78
Spain	1.08	1.39	1.33	1.62	2.71	1.63
Italy	0.81	1.43	1.70	2.04	3.14	1.82
Others	1.81	1.82	1.87	0.06	0.27	1.17
Average	1.41	1.74	2.00	1.92	4.80	2.37

Source: Prepared by FAS based on Dominican Custom Data, 2008

Before the implementation of the DR-CAFTA, the regular duty on wine was 20%. In addition, there are other charges, which will be described below. With the implementation of the agreement, wine was included under category A and B of the tariff schedule, depending on the type. Category A means that duties were removed immediately. Category B means that duties would be removed in five equal annual stages, year 1 through year 5; that is, 20% decrease of the current percentage each year.

As a result of the agreement the duty schedule for U.S. wine is as follows:

TARIFF CODE	DESCRIPTION	CATEGORY	ORIGINAL TARIFF	2008 (%)	2009 (%)	2010 (%)
2204.10.20 2204.10.90 2204.21.00	Sparkling wine	A	20			
2204.29.00	Grape Wine NESOI	B	20	8.00	4.00	0.00
2204.30.00	Grape Must Fermented		20	5.60	2.80	0.00
2205.10.00 2205.90.00	Vermouth Grape Wine		20	8.00	4.00	0.00

Source: Dominican Custom Department's web page. November 2, 2008.
(http://www.dga.gov.do/dgagov.net/uploads/file/Calendario_Desgravacion_DR-CAFTA.pdf)

In addition to the F.O.B price for imported wine, the consumer price is higher because of excessive luxury and value added taxes. These taxes are the luxury tax charged by Custom, the Ad Valorem Tax, and the value added tax (ITBIS). Following there is an explanation on each one of these charges.

a) Luxury Tax for Custom (Impuesto Selectivo al Consumo)

The Dominican has a luxury tax for some non-essential products, which includes wine and other alcoholic beverages. In the calculation of the luxury tax, there is a constant value used. For wine, this value is 372.49. The procedure to calculate the luxury tax is multiplying that constant value time the absolute content of alcohol. The absolute content of alcohol is the number of liters time the percentage of alcohol. This calculation yields a result in local currency.

b) Luxury Tax Ad-Valorem (Impuesto Selectivo al Consumo Ad- Valorem)

This is an additional tax based on the consumer price. This is a tax paid not to Custom, but to DGII. However, to avoid the importer to go to two different government entities to pay taxes, the government decided to charge that tax at the Custom Department during the custom clearance procedure. This value is calculated adding a percentage to the addition of the CIF value, duties, and the first luxury tax. These percentages are 20% for wine, 30% for alcohol, and 10% for tobacco products. Then the value is multiplied time 7%, which is the Ad Valorem Tax. This used to be 15%, but it was lowered to 7% as a tax incentive. On the custom sheet, this tax is calculated together with the first one. The computer system at custom is programmed to do the calculation at one.

c) Value Added Tax (ITBIS)

This is an internal tax of 16% applicable to most products and services in the Dominican Republic. Some of the most essential food products and educational materials are exempted. There is a mechanism to transfer this tax directly to consumers. When companies pay this tax, they are reimbursed con compensated at the end.

Once this tax was paid to the Dominican Internal Revenue Service (DGII), but now it is also charged at custom. The ITBIS tax is applied to the addition of CIF, duties, and both luxury taxes.

d) An illustration of the Procedure

The following table illustrates the procedure to calculate all these charges.

Details	Calculation	US\$
FOB price for 100 liters (US\$1.50/Lt) 10.5% alcohol		150.00
Freight		85.00
Insurance		5.00
CIF (Cost+Insure+Freight) in US\$		240.00
Duty (See tarif Schedule)		0.00
Exchange Rate (US\$ to RD\$)		34.00
CIF (Cost+Insure+Freight) in RD\$		8,160.00
Luxury Tax for Custom	$(372.49 \times 0.105 \times 100)$	3,911.15
Estimated commercialization margin (20%)	$(\text{CIF} + \text{Duty} + \text{Luxury Tax}) \times 0.20$	2,414.23
Ad Valorem Tax	$(\text{CIF} + \text{Duty} + \text{Luxury Tax}) \times 0.20 \times 0.075$	181.07
Duties and luxury taxes		8,003.36
Value Added Tax 16%	$(\text{CIF} + \text{Luxury Tax} + \text{Ad Valorem Tax}) \times 0.16$	1,960.35
Total taxes		9,963.71
Total cost (RD\$)	$\text{CIF} + \text{Luxury tax} + \text{Ad Valorem} + \text{ITBIS}$	18,123.71
Total cost (US\$) per Liter		5.33

This example shows that the cost of a liter of wine purchased in the United States at \$1.50 could go up to \$5.33 in the Dominican Republic. If the margin to the importer is 20%, and it could be much higher, the price to the retailer is \$6.40. Adding the margin to the retailer, we get the consumer price.

The estimated commercialization margins for wine are as follows:

- a) Importer: 40% to 50%
- b) Retailer: 25% to 30%
- c) Restaurant: 100% to 300% depending on the cost of the wine. On average, it is 100%.

IV. MARKET ACCESS

In general, wine imports in the Dominican Republic do not face non-tariff barriers. The only import barriers are the restrictive luxury taxes for alcoholic beverages based on the percentage of alcohol as mentioned above.

For specific details about other import requirements, please see the Export Guide DR8026 which can be found at <http://www.fas.usda.gov/gainfiles/200810/146296078.pdf> or <http://www.fas.usda.gov/gainfiles/200810/146296078.doc> and the FAIRS Report DR8017 at <http://www.fas.usda.gov/gainfiles/200807/146295117.pdf> or <http://www.fas.usda.gov/gainfiles/200807/146295117.doc>

The document with the import requirements issued by the Ministry of Public Health can be found at <http://www.sespas.gov.do/download/docs/Requisitos/ProductosImp.pdf>

For any legal issue, we strongly suggest a review of Law 173 on dealership and representation. For further information, please refer to the Country Commercial Guide, which can be found at <http://www.state.gov/r/pa/ei/bgn/35639.htm>

V. KEY CONTACTS AND FURTHER INFORMATION

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