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HRI Food Service Sector

Annual

2006

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Report Highlights:

The Dominican Republic is one of the main tourist destinations in the Caribbean region, with over three million tourist arrivals in 2005. Over one million of these tourists were from the United States, 8.24% over 2004. The number of hotel rooms in the country in 2005 was 59,870 and new projects will add about 9,600 rooms this year. Total food consumption in the HRI sector is estimated over US\$900 million. Around 40 percent of the total food and beverage consumption in the country is imported, with 30 to 35% of total coming from the United States.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Santo Domingo [DR1]
[DR]

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HOTEL, RESTAURANT, INSTITUTIONAL (HRI) FOOD SERVICE SECTOR REPORT

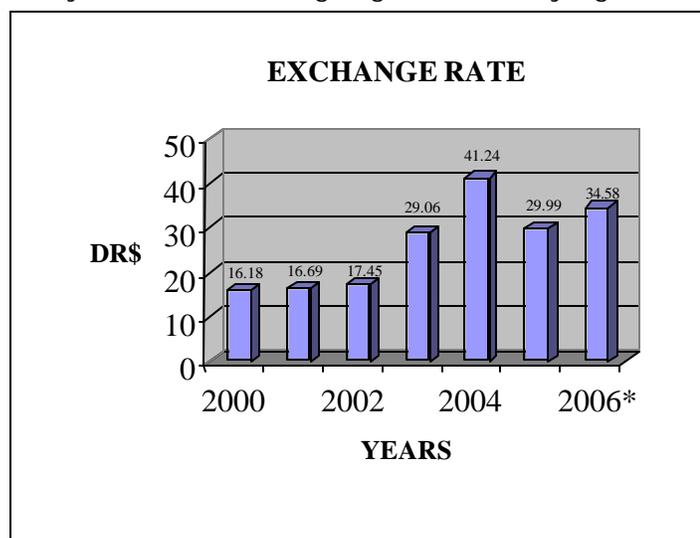
I. MARKET SUMMARY

A. The Economic Situation

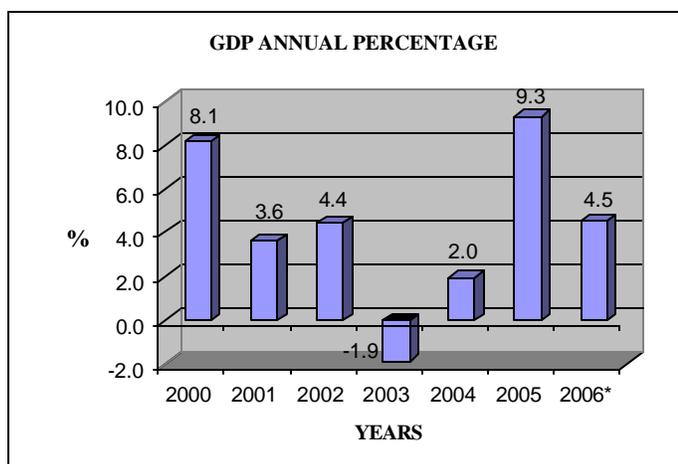
After recovering from the financial crisis in 2003, the Dominican economy has a promising outlook. The Fernandez administration, which took power in August 2004, launched an economic adjustment and stabilization program aimed at restoring macroeconomic stability, a program that was renewed in late January 2005 with the signing of a standby agreement with the International Monetary Fund (IMF). This program has imposed stringent adjustments, especially in public finance and the banking sector, the main sources of the imbalances that undermined stability and encouraged the outflow of capital in recent years.

According to the Economist Intelligence Unit Country Report 2005, the government's main challenge is to consolidate the stabilization process. After a doubling of the public debt/GDP ratio to 57% under the previous administration, the fiscal adjustment has reduced this ratio by 10 percentage points at end of 2005. Policy will continue to be guided by the 28-month stand-by arrangement with the IMF that expires in July 2007.

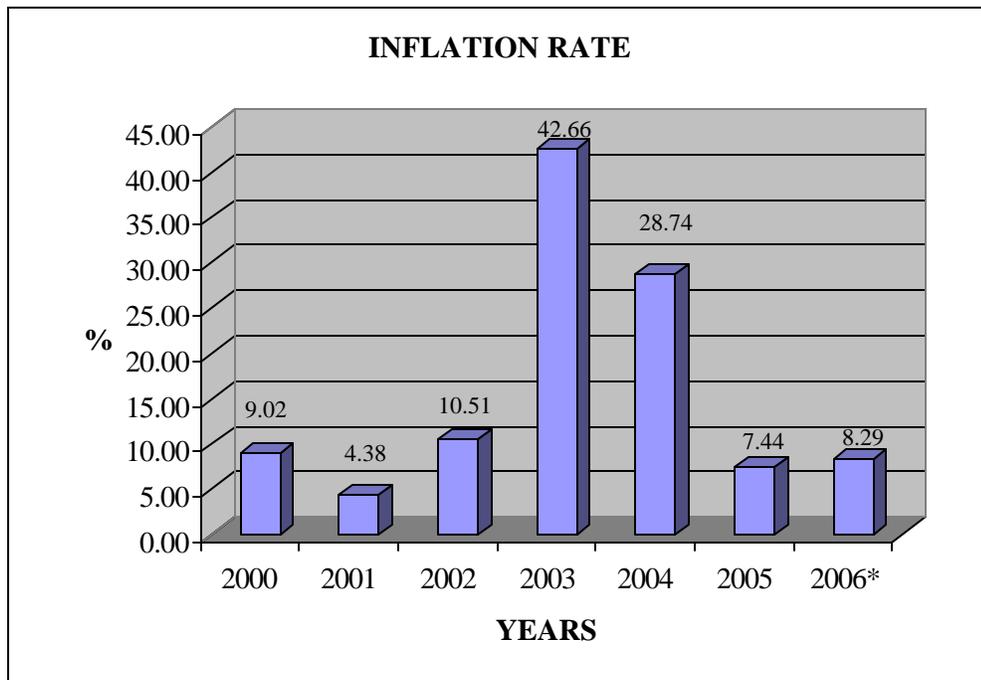
Currently, the exchange rate of the Dominican peso is quite stable ranging between DR\$31.00 and DR\$34.00 to US\$1.00. The International Monetary Fund forecasts that the Gross Domestic Product (GDP) will grow by a 4.5 percent in 2006, with inflation returning to single digit levels (7.44%).



Source: Central Bank of the Dominican Republic and IMF
* IMF Estimates



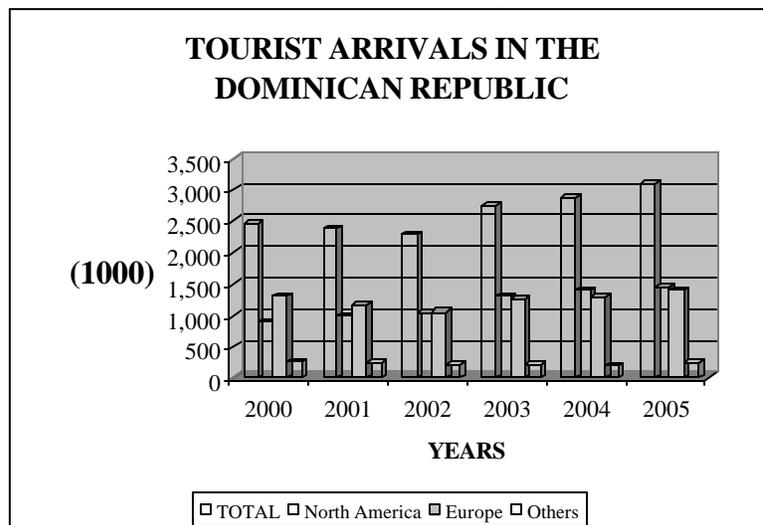
Source: Central Bank of the Dominican Republic and IMF
* IMF Estimates



Source: Central Bank of the Dominican Republic
 * Average from January to April

B. Overview of the HRI Food Service Market

The Dominican Republic is currently one of the main tourist destinations in the Caribbean region, with over three million tourist arrivals in 2005. Over one million of these tourists were from the United States, a 8.25% increase from 2004. The supply of hotel rooms last year was 59,870 rooms. This number is expected to grow by 9,600 rooms in 2006. The average occupancy rate in 2005 was 74%. Since the third quarter of 2002, the Dominican Republic's tourism industry has recovered steadily, with an average growth of foreign tourist arrivals of 10.6% from 2002 to 2005. In 2005, the breakdown of tourist origin was as follows: 47% from North America, 45% from Europe, and 8% from other countries. The percentage from the United States was 33% (1.01 million).



Source: Central Bank and ASONAHORES

ADVANTAGES AND CHALLENGES FACING U.S. PRODUCTS IN THE HRI SECTOR IN THE DOMINICAN REPUBLIC	
Advantages	Challenges
<ul style="list-style-type: none"> • American culture has a great influence on the Dominican Republic, driven by the large number of Dominicans living in the United States and domination of U.S. mass media, such as cable TV. • The growth of tourism in the country is increasing demand for imported products in that sector. • When the DR-CAFTA commences, it will improve access for meat and dairy products and should help to improve Customs clearance. • Fast food chains and other types of restaurants from the U.S. are very popular in the country. • The perception of consumers is that U.S. suppliers can provide products with consistent and reliable quality and quantity, which helps reduce overall food service costs. 	<ul style="list-style-type: none"> • The local Dominican food industry is becoming more efficient and more competitive, as is integrating new technologies into production to take advantage of the DR-CAFTA. • Globalization and the influence of the mass media have given Dominicans access to other cultures, e.g., Europe, Asia, and South America. These different cultures influence consumption habits here and increase demand for food from those countries. • The prices of products offered in fast food restaurants of U.S. origin are relatively high. • In the Dominican Republic, there are currently significant tariff and non-tariff barriers to imports of meat and dairy products. • The Dominican Republic signed a free trade agreement with the other Central American countries, which may increase trade within this area, possibly at the expense of United States.

C. Recent Development and Trends in the HRI Sector

The Dominican Republic is developing an image as one of the premier tourist locations. The Center for Export and Investment (CEI-RD), the National Competitiveness Council (CNC), and the Ministry of Tourism (SETUR) are leading this project. The plan is to improve the image and infrastructure to provide better service to attract tourists with higher purchasing power. The country is also increasing the budget to increase the promotion of the Dominican tourist sector in international trade shows and it is also giving special incentives to investors building hotels to attract high class tourists.

The new projects focusing on building boutique hotels to attract new tourists and the strategic plan developed by the Dominican Republic for the tourist sector are expected to increase the flow of tourists, the average stay, and the amount of money spent. The government is also giving preferential treatment on taxes to all-inclusive resorts. Twenty percent of the rate is being exempted of the value added tax (ITBIS), which is currently 16%. These factors will strengthen the tourist sector and will increase the demand for imported food and beverages.

U.S. suppliers need to keep up with the trends in the sector and take advantage of the new developments to increase their market share. The FAS office in Santo Domingo will continue to monitor the trends in the sector and the demand for specific imported products to continue to provide sound advise to U.S. suppliers.

HOTEL PROJECTS INITIATED IN 2006	
NAME OF THE PROJECT	No. OF ROOMS
SANTO DOMINGO	
El Prado Gran Hotel	200
TOTAL SANTO DOMINGO	200
BAYAHIBE	
La Flor de Bayahibe	200
TOTAL BAYAHIBE	200
SAMANA	
Gran Bahía Príncipe Cayacoa	295
Gran Bahía Príncipe Samaná	103
Gran Bahía Príncipe El Portillo	396
Gran Bahía Príncipe Cayo Levantado	195
TOTAL SAMANA	989
BAVARO PUNTA CANA	
Cap Cana	3800
Melia - Gran Melia Punta Cana	350
Melia - (2da. Etapa Golf Suites)	80
Hotel Ocre Rojo (Uvero Alto)	500
Sandal Hotel (Punta Cana)	360
Hotel Jovero (Miche)	300
Villas Punta Blanca (Bavaro)	216
Hodelpa Ocean Sand	350
Catalonia	300
Ahmsa Marina	800
Hoteles Fiesta	140
Complejo Turístico y Residencia Rõco Ki	296
TOTAL BAVARO PUNTA CANA	7,492
SANTIAGO	
Courtyard by Marriott	60
Gran Hotel Cibao	400
TOTAL SANTIAGO	460
BANI	
Complejo Turístico y Spa ROXANA DEL MAR	68
TOTAL BANI	68
GRAND TOTAL	9,409

Source: National Hotels and Restaurant Association (ASONAHORES)

II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

All-Inclusive Resorts: The majority of all-inclusive resort facilities import through in-house central buying entities. In some cases, central buying entities are located in other countries, such as the United States, Mexico, and Spain. Some products are purchased from local importer/distributors especially when items need to be sourced immediately. Purchasing managers have had some flexibility to source products to control costs. They purchase from domestic producers and local importer/distributors as product quality, price and necessity dictate. Products like meat, cheese, seafood, and wine are sourced through local importers who usually buy these products in the United States, Europe, or other countries. Other products such as vegetables, milk, coffee, vegetable oil, and cocktail mixes are usually sourced from local producers.

Other hotel chains, which are not currently importing, are planning to import products when the DR-CAFTA commences. When the agreement is implemented, it may be more cost efficient for them to import.

Business Hotels/Restaurants: Dominican business hotels and upscale restaurants source almost all of their food products from importer/distributors. To introduce new products, it is useful to approach the food and beverage managers at hotels and restaurant owners directly. If there is interest on the product, it will be turned over to an established supplier to source. We consider that the most efficient manner to enter this segment of the HRI market is through an established importer/distributor. It is also advisable that U.S. companies hire a local representative to promote the products to the major importer/distributors and the purchasing departments of major hotel chains.

Fast Food: Usually, fast food chains from the United States import their own products and ingredients through established franchise channels. Dominican fast food restaurant serve traditional foods, which are almost exclusively sourced domestically.

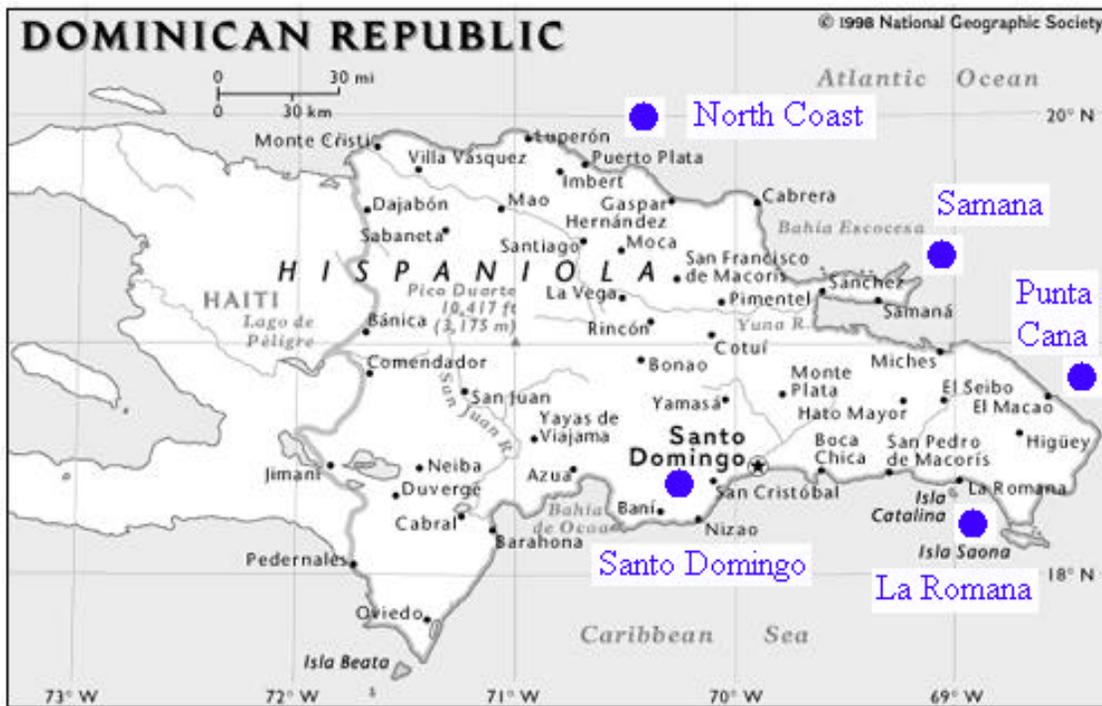
B. MARKET STRUCTURE

There have been major changes in the food operations in resorts over the past five years. Around 80 percent of hotels in the country are now all-inclusive. Offering a relatively low all-inclusive price means that hotels must control food costs, while meeting their guests' expectations for quality and variety. Tour operators have sharply increased demands on hotels to improve the quality and safety of the foods they offer to the point of wielding influence over the type of supplier used. At times they require that specific firms be contracted to ensure that quality control practices are met. Local competition has also increased substantially, due to increases in domestic product quality. There is also a trend towards using semi-processed products to reduce costs.

Usually, intermediaries who handle products for this sector are specialized. As a result, there are suppliers that only handle specific products, such as meats, seafood, frozen vegetables, ice creams, fruit juices and alcoholic beverages. However, there are also some suppliers who deal with a variety of these categories. Most of these intermediaries function as wholesale importers, who handle other types of products to sell to supermarkets and to the country's traditional mom n' pop stores. Also, some intermediaries belong to local processing businesses that round out their product line with other imported products. Furthermore, some local processors are trying to strengthen their distribution system, including imported products.

Local products are mostly handled through the same distribution channels as imported ones. Some local producers have approached distributors or intermediaries that are specialized in this market to try to introduce their products. However, some of the country's largest businesses prefer to sell directly to this sector, avoiding having to depend on intermediaries to introduce new products.

The main tourist beach resort areas in the country are indicated on the map below. Although the Dominican Republic is a small country, each tourist region is different. Bavaro-Punta Cana is currently the place where a large amount of resources are being invested. The hotels and tourist complex that are located in the area try to cater a high-class tourist that is able to stay more days in the area and spend more money than average. Even within the northern region of Puerto Plata there are differences from one place to another. Playa Dorada, which used to be the number one tourist destination in the region, is now introducing the boutique-hotel concept and is developing differently than Susua and Cabarete, which are only a few miles away. Cabarete is being promoted as a paradise for tourists who like extreme sports; therefore hotels promote themselves differently and pursue a different tourist than the one that is being targeted by the hotels in Punta Cana. Because of these differences in each region the food and beverages served, the sizes of the hotels, the rates and services offered will vary.



C. SUB-SECTOR PROFILES

1. All-Inclusive Resorts

The resort/hotel sector is the largest market segment in this area. The Dominican Republic is receiving increasing worldwide recognition as a premier vacation destination, which has made it an attractive venue for fairs, conferences, conventions and international events. These factors contribute to an increasing flow of business people to the country.

MAJOR COMPANY PROFILES				
Name of Resort	Locations	Number of Hotels	Total Rooms	Purchasing Agent
Barceló Hotels	Santo Domingo/ Juan Dolio/ Punta Cana/Bávaro, Barahona,	16	4,323	Importer / Direct
RIU	Punta Cana/Arena Gorda/ Bávaro/Puerto Plata	8	3,490	Importer / Direct
Occidental Hotels/Allegro	Santo Domingo/ Las Pascualas/Sosua / Las Terrenas/Punta Cana/ Bavaro/Puerto Plata/Samana	9	3,486	Importer / Direct
Iberostar	Arena Gorda/ Puerto Plata/ Bayahibe/Punta Cana / Bávaro	5	2,401	Importer / Direct
Fiesta Hotels	Santo Domingo/Bávaro	2	880	Importer / Direct
AMHSA HOTELS	Playa Dorada/Sosua/ Cabarete/Samana/ Las Terrenas/ Bávaro / Punta Cana/Juan Dolio	8	2,431	Importer / Direct
LTI	Punta Cana/Sosua/ Bávaro	3	1,680	Importer
Coral by Hilton	Bayahibe/Juan Dolio/ Boca Chica/Puerto Plata	4	2,002	Importer
Hotetur	Boca Chica/Puerto Plata	3	847	Importer
Princess Hotels	Punta Cana/ Bávaro	3	1,415	Importer
Sol Melia	Punta Cana/Bavaro/ Santo Domingo	3	1,789	Importer
Super Clubs	Sosua/Punta Cana/Bavaro	2	1,169	Importer
Premier Hotels Casa de Campo	La Romana	1	300	Importer

2. Business Hotels

Most of the hotels listed below are in the capital city, Santo Domingo. They are basically business hotels but are used by tourists interested in the Colonial City and other tourist attractions in Santo Domingo. Most are affiliated with international hotel chains.

The Hilton Santo Domingo, located at a prestigious location on the waterfront, was inaugurated in 2005. Malecon Center, where the hotel is located, is a landmark 194,000 square meter residential, commercial, and high-rise hotel complex has three 30-story towers and an ocean view terrace. The Malecón Center features five movie theatres, 175 store locations, office space, and restaurants. The Hilton operates a 22-floor, 228 room hotel in the complex, with gymnasium, casino, and meeting rooms with a capacity for 1,300 persons.

DOMINICAN BUSINESS HOTELS				
Name of Hotel	Locations	Number of Hotels	Total Rooms	Purchasing Agent
Hilton	Santo Domingo	1	228	From importers/local suppliers
Renaissance Jaragua	Santo Domingo	1	293	Importer / Direct
V Centenario Intercontinental	Santo Domingo	1		Importer / Direct
Melia Santo Domingo	Santo Domingo	1	245	Importer / Direct
Hotel Embajador	Santo Domingo	1	286	Importer / Direct
Hotel Santo Domingo /Hispaniola	Santo Domingo	2	215/165	Importer / Direct
Dominican Fiesta	Santo Domingo	1	331	Importer / Direct
Hotel Naco	Santo Domingo	1	106	Importer / Direct
Hotel Clarion (Plaza Naco)	Santo Domingo	1	213	Importer
Barcelo Gran Hotel Lina	Santo Domingo	1	217	Importer
Hotel Courtyard (Marriott)	Santo Domingo	1	146	Importer
Hotel El Gran Almirante	Santiago	1	156	Importer/Distributor

3. Restaurants

Santo Domingo has an extensive up-scale restaurant sector, which caters to the wealthier classes, businesses and tourists. The economic crisis that began in 2003 has hurt business for many of these establishments, but not to the point of forcing extensive closures. The list below is only the main upscale restaurants in Santo Domingo. There are many others. All of them have international menus and individual specialties. Ethnic restaurants include German, Arabic, Argentine, Spanish, French, Italian, Mediterranean, Mexican, and Chinese.

Restaurants offer good opportunities for exporters from the United States. Since these restaurants do not function as chains and purchases are small, they source almost all products through importer/distributors. A few import some products directly. To meet the needs for international dishes, they import beef, fish and seafood, pasta, and pork products.

The general trend towards eating out has led to the opening of many small restaurants focusing on the lunch crowd, independent cafeterias, cafeterias located inside businesses, and cafeterias in supermarkets. These establishments provide local food, sandwiches, and snacks at affordable prices to working-class Dominicans.

DOMINICAN UPSCALE RESTAURANTS			
Name of Restaurant	Locations	Type of Cuisine	Purchasing Agent
La Bricciola	Santo Domingo	International	Importer/Direct
Davy Crockett	Santo Domingo	Steak House	Importer/Direct
Fellini	Santo Domingo	Italian	Importer/Direct
Outback Steakhouse	Santo Domingo	Australian	Importer/Direct
Scherezade	Santo Domingo	Mediterranean	Importer/Direct
Taboo Bamboo	Santo Domingo	Asian	Importer
Bella Cristal	Santo Domingo	Cantonese	Importer/Direct
Juan Carlos	Santo Domingo	Spanish/French	Importer/Direct
Toscana	Santo Domingo	Italian	Importer/Direct
Tony Roma's	Santo Domingo	Steak House	Importer/Direct
Samurai	Santo Domingo	Japanese	Importer
Pepperoni	Santo Domingo	Pastas	Importer
Seasons	Santo Domingo	Creative Foods	Importer/Direct
Vesuvio I & II	Santo Domingo	Italian	Importer/Direct
Porterhouse	Santo Domingo	International	Importer

4. Fast Food

Fast food restaurants are the fastest growing sector in the food service industry. Foreign fast food chains, mostly from the United States, started in the Dominican Republic in 1994 and have been very well received by Dominicans. Over 48 of these establishments have been opened, mostly in Santo Domingo and Santiago. The entry of foreign fast food chains has spurred the development of local businesses, although they tend to specialize in local popular foods. Many of them import their own products, primarily in the case of hamburger, meat, poultry, potatoes, sauces and ice cream. Fresh vegetables and bread are procured domestically.

FAST FOOD RESTAURANT PROFILES			
Name of Restaurant	Locations	Number of Outlets	Purchasing Agent
Burger King	Santo Domingo, Santiago, San Francisco, La Vega, Puerto Plata, Boca Chica, La Romana, Punta Cana	27	Direct
Kentucky Fried Chicken	Santo Domingo	4	Direct
Domino's Pizza	Santo Domingo, Santiago	6	Direct
Pizza Hut	Santo Domingo, Santiago	6	Direct
Taco Bell	Santo Domingo, Santiago	8	Direct
McDonalds	Santo Domingo, Santiago	3	Direct

5. Institutions

Many large businesses have set up cafeterias in order to offer food to their employees. These are independently run. Some free trade zones and industrial parks have also begun to install cafeterias, with the objective of offering inexpensive food of an acceptable quality. These cafeterias are more oriented to serving traditional dishes, with over 90 percent of ingredients being produced domestically. In this category there is limited opportunity for U.S. exporters, except for basic items and condiments offered at cut-rate prices. The handling of food in prisons and public hospitals has not been privatized and most inputs are sourced domestically.

III. COMPETITION

The level and types of competition faced will depend on the sector of the food service industry. There have been problems in obtaining import permits, which have been used to limit imports of meat and dairy products. Generally imports of other processed food products come in without problem. The DR-CAFTA free trade agreement, which is expected to start in July 1 of this year 2006, will provide better access for many products and lower duties. This will make U.S. products even more competitive.

Resorts: A number of resort chains have European ownership, cater to European tourist groups, and therefore, have a strong bias toward European products. However, the all-inclusive style requires that attractive food be served with a close eye on price. This does provide openings for many U.S. food and beverage products, because of competitive U.S. prices and lower transportation costs. Produce and fruit are generally sourced domestically, as well as ingredients for bread and pastry products.

Business Hotels/Restaurants: Although there is a European bias in many up-scale restaurants, the United States has a strong presence. Wine has been especially difficult for U.S. suppliers, mainly because of the bias toward European wines for the perception of quality and from Chilean wines because of their price competitiveness. However, in the free trade agreement, the duties on U.S. wines were lowered from 20 percent to zero, which should increase interest in this sector.

IV. BEST PRODUCTS PROSPECTS

Dominican importers and consumers have shown high interests in the following products:

U.S. EXPORTS TO THE DOMINICAN REPUBLIC (THOUSAND OF DOLLARS)	
PRODUCT	2005
1. Dairy Products	18,540
2. Red Meats, Fresh/Chilled/Frozen	11,047
3. Fresh Fruit	9,084
4. Snack Foods	8,814
5. Wine and Beer	4,601
6. Breakfast Cereals and pancake mix	3,533
7. Red Meats, Prepared/ Preserved	2,129
8. Low Carb and Light Foods	N/A

Source: FAS BICO Report

Products Not Present in Significant Quantities with Good Sales Potential

Usually, the Dominican Republic follows trends in the United States. Diet/healthy products, although not present in large quantities, are increasing in demand.

Products Not Present Because They Face Significant Barriers

Importers of meat and dairy products face some problems in obtaining sanitary and phytosanitary (no objection) import permits. Although these products are not subject to quotas, the import permit process is tightly controlled, making it difficult at times to bring in reliable supplies. In addition, imports for seven major agricultural categories (rice, sugar, garlic, poultry meat, beans, onions and powdered milk) are managed through import quotas.

VI. KEY CONTACTS AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need assistance exporting to the Dominican Republic, please contact us at:

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For more information on the on the HRI sector in the Dominican Republic, you can also contact ASONAHORES, which is the leading organization in the sector.

NATIONAL ASSOCIATION OF HOTELS AND RESTAURANTS, INC. (ASONAHORES)

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