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Dominican Republic

Cocoa

Cocoa Annual Report

1999

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Report Highlights:

MY 1999 cocoa bean production is expected to decline to a thirty five year low after last year's historical high. Total value of exports is estimated at about US\$21 million, down from US\$91 the year before.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Santo Domingo [DR1], DR

Executive Summary

Though MY 1998 cocoa production (October 1997 - September 1998) reached an historical high, MY 1999 production has declined to a thirty five year low, due to the combined affects of the cyclical yield variations and the effects of hurricane Georges. Production for MY 2000 is expected to return to normal levels of 55,000 MY.

Over ninety percent of Dominican cocoa production is exported as dried beans, although low output will restrict the current year exports to only seventy eight percent of production. The rest is processed and consumed domestically. The industry places consumption at slightly over 6,100 MT, fluctuating slightly from year to year. Stock levels vary a good deal during the marketing year.

MY 1999 cocoa beans and products exports are expected to earn US\$21 million dollars (the lowest in ten years), compared to US\$91 million the year before. MY 2000 cocoa exports are projected at over 45,000 MT of beans and over 3,500 MT of butter, cake and other products. If international prices for Dominican raw cocoa return to last years levels and weather conditions are normal, exports should reach US\$60 million.

Tariff levels for imports of cocoa and cocoa products range from 15% to 35% CIF, plus an additional 8% VAT. The Dominican Republic does not subsidize or restrict the trade of raw or processed cocoa, although the import process can be cumbersome. It is recommended that all trade be conducted through a registered Dominican agent.

Most of the bean exports move to the United States (92 percent in CY 1998) because of geographic proximity and price. Other export markets include EU (Italy, France and Holland) Costa Rica and Japan. Cocoa butter is also an important cocoa export product which is primarily (74%) exported to the United States.

The Dominican Government has some modest programs to encourage cocoa production and has had a minor role in the development of this sector. The Secretary of Agriculture has kept nurseries operating and has made some hybrid plants available to producers who were interested in renewing plantations. Government support of the industry has been limited to minimal credit and technical assistance.

The Dominican Republic is a member of the International Cocoa Agreement as well as in the Cocoa Producers' Alliance (COPAL).

Production

Though MY 1998 cocoa production (October 1997 - September 1998) reached an historical high, MY 1999 production has declined to a thirty five year low, due to the combined affects of the cyclical yield variations and the effects of hurricane Georges. Production for MY 2000 is expected to return to normal levels of 55,000 MY.

The record high obtained in MY 1998 was the result of good weather, and timely rains. According to producers, some of the hybrids that have been introduced in recent years (Jamaican and Costa Rican hybrids introduced from the Royal Garden of Trinidad and Tobago) are higher yielding, but at the same time are more sensitive to excess humidity and to stressful dry conditions. Flowering patterns for this years crop indicate a very good harvest. Some producers have indicated that the total output for MY 2000 could even be higher than the last five year average, assuming that the weather resumes a normal pattern and the plantations recuperate quickly.

Cocoa was first introduced into the Dominican Republic in the 17th century. It is cultivated primarily in two areas: a zone that stretches from the central valley to the eastern and northern coasts and a smaller zone in the north eastern and eastern regions. The different topographic and climactic conditions permit two harvests per year. The principal crop is harvested from April through July and usually accounts for over two-thirds of total production. The second harvest historically occurs from October through March. Average yields during the last harvest (430 KG/HA) were below last year's high (477 KG/HA) but remain at the upper end of the decade's range of 315-485 KG/HA. Producers believe that yields could increase substantially if the Agriculture Secretariat (SEA) expanded its extension activities and new hybrids were introduced to the island, such as the CCN 51 from the Cusco Naranjal collection from Ecuador which is a drought resistant strain. Another area which needs improvement is the financing through the GODR Agrarian Bank, since very little of its budget is devoted to cocoa. At the beginning of the season producers may receive some financing for their input needs from processors and exporters.

Cocoa is a traditional crop with relatively good prices and as a result receives very limited government support. The Government has eliminated the dual foreign exchange rate system which was applied to "traditional exports" and indirectly discouraged production by assigning a value of RD\$12.87 per U.S. dollar for traditional exporters versus RD\$13.50 for other transactions in 1997. The official exchange rate is currently RD\$15.85 for all Central Bank transactions, including cocoa exports. In addition, agricultural equipment and inputs are now exempted from duties. This should help the agricultural sector, although prices of some inputs, like fertilizer, have not decreased. Fertilizer distributors claim that the decreased duty helped offset their higher costs and reduced margins.

The most common fungal infestation in Dominican cocoa plantations is black rot. Although the disease is generally present, low humidity levels have prevented any substantial negative affect to pod growth and development. Another major problem is rat infestations which increase on-farm losses. The cocoa varieties in use at the present time include the traditional "Criollo," "Trinitaria," and the "Amelonado," in addition to various hybrids. Industry sources indicate that the proportion of traditional to hybrid varieties is still about two to one.

The Dominican Republic produces two types of cocoa. Over 95 percent of total production is known as "Sanchez," a lower quality non fermented type. The balance is "Hispaniola", which is a better quality fermented type. In 1998 the Sanchez variety farm gate price was RD\$700/50 kg (US\$44/50 kg), while the Hispaniola commanded a slightly higher price at RD\$850/50 kg (US\$53/50 kg). In addition, a small fraction of Hispaniola beans are exported to the European Union and Japan. Currently some of the local processors are beginning to use the fermented type for chocolate production. Although "Hispaniola" cocoa is of better quality and attracts a higher price, the price difference with "Sanchez" reportedly does not justify the additional labor needed to produce it. The most important producers are: Rizek, Hnos. Gonzalez, Francisco Garcia, Isidro Garcia, Mayano and Barcelo.

Consumption

Over ninety percent of Dominican cocoa production is exported as dried beans, although the current year only shows seventy eight percent of fermented or unfermented type. The rest is processed and consumed domestically. Three processors are responsible for practically all the cocoa processing. The industry places consumption slightly over 87,000, 70 kg. bags/year (6,100 MT), fluctuating slightly from year to year. Competition from contraband imports has also slowed local growth. Most of the locally produced products are cocoa cake, sweetened cocoa powder, sweetened cocoa powder with NFDM, unfermented butter based chocolates and some fermented cocoa butter based chocolates. Smaller quantities of cocoa butter and some liquor and paste are also consumed domestically, but mostly exported. Local cocoa product manufacturers (Cortes, Munne and Chocolate Antillano) have not placed a major focus on diversifying their products to attract a larger share of the local market, although there have been some improvements in packaging and the quality of locally produced chocolates.

Prices

Export prices for the "Sanchez" type have dropped from an average low in MY 1998 of US\$68/50 kg. bag to US\$47/50 kg. bag this year (Oct 1998-August 1999). Farm-gate prices continued to decrease in CY 1999 as a reflection of international prices and are listed in the table below.

AVE. FARM-GATE PRICES FOR COCOA, DOMINICAN REPUBLIC

Unfermented Beans ("Sanchez")

CY	RD\$/50 Kg	RD\$/MT	Ave. RD\$/US\$
1998	700.00	14,000	15.85
1997 1/	850.00	17,000	14.02
1996	650.00	14,300	13.80
1995	625.00	13,780	13.60
1994	520.00	11,460	13.24
1993	380.00 2/	8,380 2/	12.62

1/ Through June 1997

2/ Included a GODR subsidy to compensate producers for low international prices.

Source: Secretary of Agriculture and Industry.

Trade

MY 1999 cocoa beans and products exports are expected to earn US\$21 million dollars (the lowest earning in ten years), and about 5 percent of the DR's total agricultural exports (\$400 million). This is a dramatic decrease from the previous year. In CY 1998 cocoa became the DR's second most important source of hard currency from the agriculture sector (over US\$91 million), after sugar and related products (US\$172 million). For many years cocoa occupied the third position after coffee, whose earnings were at \$67 million in 1998. MY 2000 cocoa exports are projected over 45,000 MT of unfermented and fermented cocoa beans, 2,500 MT of butter and more than 1,000 MT of cake and other products. If international prices for Dominican raw cocoa return to last years levels and weather conditions are normal, producers should have a good harvest and exports should earn in excess of US\$60 million.

According to US Customs data, the United States imported \$64.7 million worth of Dominican cocoa product exports in CY 1998, compared to \$48 million in 1997. Imports have been increasing since 1992, when only \$28 million worth of cocoa beans entered the United States. U.S. coffee imports from the DR reached only \$32 million in CY 1998, declining from \$34 million the year before.

Cocoa bean exports during MY 1999 (Oct - July) were dominated by three traders: Rizek (43 percent), Comercial Roig (28 percent) and Munne (10 percent). Other companies included Garcia & Mejia, Paiewonsky and Cacoinsa. Traditional international buyers have included E.D.F. Mann, Mitsubishi, United Cocoa, Atlantic Cocoa & Blomer Cocoa..

Exports of processed cocoa during MY 1999 are dominated by the following processors: Cortes (50 percent), Munne (15 percent) and Paiewonsky (13 percent). Most of the Dominican cocoa is exported to United States and small quantities to the EU and Central America.

The non fermented "Sanchez" bean is classified as "C" grade cocoa and is not traded on the New York Coffee, Sugar and Cocoa Exchange. "Hispaniola" beans are classified on the Exchange as "B" grade cocoa. Because of the lack of uniformity (size, fermentations levels, etc.) neither type of cocoa bean is considered to be of exceptional quality on the world market.

Trade data on cocoa beans (as reflected in the trade matrix) are available from CEDOPEX on a calendar year basis. As a result, the statistics vary from our marketing year data.

Tariffs

Tariffs for cocoa and cocoa products were established in the October 1993 schedule at the following rates:

Description	Tariff Rate
Basic Tax:	
- Raw beans	15 percent on CIF value.
- Roasted beans	20 percent on CIF value.
- Cocoa paste & butter	20 percent on CIF value.
- Powdered cocoa	25 percent on CIF value.
- Sweetened Powdered cocoa	30 percent on CIF value.
- Chocolates & alike	35 percent on CIF value.
- Other preparations weighing	
2 kg. or more.	35 percent on CIF value.

In addition to these rates, there is an additional Value Added tax (ITBIS) of 8 percent CIF Value.

As part of its World Trade Organization (WTO) agreement, the Dominican Republic agreed to bind its maximum tariffs at forty percent for all agricultural commodities. However, it is unlikely the Government will raise tariffs for cocoa products to this level unless local producers are squeezed significantly by imports.

The Dominican Republic does not subsidize or restrict the trade of cocoa raw or processed cocoa. However, the import process can be very cumbersome and it is recommended that all trade be conducted through a registered Dominican agent.

Stocks

Stock levels fluctuate a good deal during the marketing year. Recent industry information indicates that stock that stocks are maintained at slightly higher levels than previous estimates.

Policy

The Dominican Government has very modest programs to encourage cocoa production and has had a minor role in the development of this sector. The Secretary of Agriculture has kept nurseries operating providing some hybrid plants to producers interested in renewing plantations. Government support of the industry has been limited to minimal credit and technical assistance. The Agricultural Credit Bank allocated US\$315 thousands (RD\$ 5 million) to the cocoa sector.

The current Government has indicated that agriculture is one of its top priorities and has exempted taxes on agricultural equipment and inputs and the exchange rate has been unified. However, production continues to need improved availability of financing, and expansion of the extension and research services.

The Dominican Republic is a member of the International Cocoa Agreement as well as in the Cocoa Producers' Alliance (COPAL).

Marketing

About ninety percent of the cocoa produced in the Dominican Republic is exported and the rest consumed locally. Bean exports are dominated by traditional traders including Rizek, Roig, Munne and Paiewonsky. The processors are led by Cortes, Chocolate Antillano and Munne, who together process over 3,000 MT for the export market (butter, liquor and paste) and approximately 5,500 MT for the local market. Small and medium size producers sell directly to the major traders or through intermediaries who handle marketing/distribution within a production area.

The United States normally receives over ninety percent (92 percent in CY 1998) of the DR's cocoa bean exports because of market preferences, geographic proximity and price. Other export markets include EU (Italy, France and Holland) Costa Rica and Japan. Cocoa butter is also an important cocoa export product which is primarily (74%) exported to the United States. Cocoa butter exports to the United States were valued at about US\$3.8 million in MY 1998.

Cocoa and cocoa product exports are not restricted. However, to support the Cocoa Commission and theoretically the sector's development, exports are subject to "contributions" of RD\$0.06/kg. for Hispaniola and RD\$0.12/kg. for Sanchez. The fund supports some plant nurseries which are managed by the Secretary of Agriculture.

Foreign exchange earnings from traditional exports, including tobacco, cocoa, sugar and coffee, now receive the official exchange rate of RD\$15.85 per US\$ Dollar.

Distribution channels for imported cocoa products consist of grocery importers and distributors and major supermarket chains which also import independently. Cocoa products are mostly imported from the United States, with the balance from the European Union (mostly Spain and Italy). The overall market size appears to be about \$3-4 million. Recent U.S. trade data show that the total volume of exports to the Dominican Republic increased from US\$3 million in CY 1996 to about US\$4 million in 1998. About three quarters of the U.S. imports were in the confectionery/retail category, followed by chocolate/ 2 kg. containers and sweetened cocoa powder.

PSD Table						
Country	Dominican Republic					
Commodity	Cocoa Beans				(1000 HA)(1000 TREES)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	122	122	120	120	0	120
Area Harvested	121	121	118	118	0	118
Bearing Trees	83500	83500	81400	73260	0	73260
Non-Bearing Trees	5500	5500	5000	4500	0	5000
TOTAL Tree Population	89000	89000	86400	77760	0	78260
Beginning Stocks	437	437	414	308	389	428
Main Production	40000	40000	27000	17550	0	36000
Mid & Other Production	22400	22400	16000	11500	0	19000
TOTAL Production	62400	62400	43000	29050	0	55000
Bean Imports	0	0	0	0	0	0
Liquor & Paste Imports	0	0	0	0	0	0
Butter Imports	0	0	0	0	0	0
Powder,Cake,Choc. Imp.	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	62837	62837	43414	29358	389	55428
Bean Exports	53300	53300	34500	18300	0	45500
Liquor & Paste Exports	800	800	700	590	0	700
Butter Exports	2200	2200	1700	3800	0	2500
Powder,Cake,Choc. Exp.	23	129	25	140	0	120
TOTAL Exports	56323	56429	36925	22830	0	48820
Domestic Consumption	6100	6100	6100	6100	0	6200
Ending Stocks	414	308	389	428	0	408
TOTAL DISTRIBUTION	62837	62837	43414	29358	0	55428