



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 6/1/2006

GAIN Report Number: DR6010

Dominican Republic

Solid Wood Products

Annual

2006

Approved by:

Jamie Rothschild, Agricultural Attaché
U.S. Embassy

Prepared by:

Carlos G. Suarez, Senior Agricultural Specialist

Report Highlights:

The U.S. holds a solid position in the market with softwood lumber exports equal to 100,000 cubic meters with some competition from South America. The U.S. has about a quarter of the market share for softwood panel products with heavy competition from South America and Asia. Central and South America have a major share of the hardwood market due to the D.R. preference for tropical hardwoods such as Mahogany. The U.S. has potential to increase its market share of semi-processed products such as veneers and flooring products for the hotel construction industry.

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

Index

Executive Summary.....3

PRODUCTION..... 4
Forest Situation and Outlook
Solid Wood Product Situation/Outlook

TRADE.....4
Overview/Outlook
Competition

MARKET SEGMENT ANALYSIS.....5
Construction Sector
Furniture and Interior Sector
Material Handling Industry
Residential House Segment
Hotel Construction
Government Infrastructure development

STATISTICAL INFORMATION.....8
Softwood Lumber
Softwood Plywood
Hardwood Lumber

Executive Summary

Reconstruction in a hurricane risk area is one of the major factors driving demand for forest products in Dominican Republic. The country experienced an all time high exports of U.S. wood products the following year after the devastating effects of hurricane George in 1998. U.S. export data show for 2005 over US\$32 million exports of wood products out of a total of approximately US\$55 million. Economic stability and an extraordinary growth in GDP (9.3 percent in 2005) guarantee higher demand for imported wood products, particularly softwood lumber and panel products. Preliminary U.S. trade data for 2006 (January-March) indicate that U.S. exports of soft/treated lumber and panel/plywood products to country are up almost three fold when compared to the same period in 2005.

PRODUCTION

Forest Situation and Outlook

The Dominican Republic has a high population density among Latin American countries (190 inhabitants/km²). Of a total population of 9.1 million people, near half live in rural areas and are beginning to feel the extraordinary growth in GDP (9.3 percent, according to the Central Bank, December 2005) experienced in 2005 as the economy stabilizes. Unfortunately the rural poor continue to depend heavily on forests resources for fuel wood, used both as firewood and charcoal. In addition, subsistence agriculture creates additional pressure to the Dominican Republic's limited and decreasing forest resources.

Starting in the late 1800s, Dominican Republic's forest resources were threatened mainly by land clearing for sugar production and other agricultural uses, commercial timber harvesting, and the collection of wood for fuel. Beginning in the 1960s, as supplies dwindled, the country became a net importer of wood. In an effort to preserve its remaining forests, the government banned the harvest of all forest products, however, enforcement of this ban is less than perfect. Today, the remaining forests tend to be found in small patches, with very few large expanses remaining beyond those in remote areas and/or under the protection of national parks.

Solid Wood Products Situation/Outlook

Limited forest resources and the ban on logging have made the Dominican Republic an important importer of wood products. The annual U.S. exports of softwood lumber to the Dominican Republic has varied widely in recent years with a solid five year average of US\$34 million per year (2001-2005). The historical import high was reported in 1999, a year after hurricane George's reconstruction efforts. After the initial surge in reconstruction, imports gradually leveled off and reached a low in 2004. The country's current economic recovery during the last two years has created additional demand for wood product infrastructure. This trend has shifted consumption to a positive 19 percent increase in 2005 over 2004. Preliminary data for the first quarter of 2006 show an even higher increase when comparing the first quarter data for 2005 and 2006.

Construction projects, which use mainly softwood and plywood, occupy an important role in Dominican economy. Although interest rates are high (18-20 percent per year), sixty percent of the construction is privately financed, while the rest are built as government projects. In the actual building though, the vast majority of urban construction is cement based, while wood is used extensively in roof base (joists for tin sheet roofing), doors, windows, and kitchen and bathroom cabinets and furniture making. The use of hardwoods other than mahogany is not significant. Although there is great potential in using less expensive hardwoods, very little has been done to explore and expand this market.

TRADE

Overview/Outlook

Reliable data are not available, but major importers indicate that the wood market in the Dominican Republic is divided into 66 percent, softwood lumber (pine), 20 percent hardwood (mostly Mahogany and Cedar from Central and South America) and the rest is panel products (plywood).

The wood product market in the Dominican Republic was estimated at US\$55 million in 2005 and is all imported and is directly dependent on concrete housing projects, including hotels,

private and public housing projects and infrastructure development. The Dominican Republic prefers U.S. products for quality and holds over half of the market share in softwood products with some competition from South America. In 2005, U.S. exports of forest products to the Dominican Republic were almost 100 thousand cubic meters, valued at US\$32 million. By the first quarter of CY 2006, the DR showed considerable growth making the Dominican Republic occupy the third position as the most important trade market in soft and treated lumber. It is the third-largest export market in the Western Hemisphere and the fourth largest market for U. S. softwood and treated lumber in the world.

Industry sources indicate that in 2005 the market for softwood panel products including plywood is approximately 31 thousand cubic meters, valued over US\$12 million. The Dominican Republic has a softer position as a panel product importer with 25 percent of the market, with heavy competition from less expensive products from South America and Asia. U.S. exports of panel products in 2005 were almost US\$4 million. The country is the 22th U.S. most important trade partner in panel products the world.

In hardwood products, there is a historic tradition, difficult to overcome, of utilizing mahogany and cedar in the Dominican Republic. U.S. market-share is insignificant (less than 800 cubic meters) in a 40-46 thousand cubic meters market. There is room to grow in the non-traditional construction sector such as the hotel construction industry, which uses international standards that allow the use of other types of wood products. Hardwood flooring, molding and veneers could present faster installation and perhaps less expensive products when compared to the hardwoods traditionally used.

There are no restrictions on wood imports in the Dominican Republic. All woods (softwood, hardwood and plywood) have a basic tariff of 3 percent on CIF Value. Additional taxes include a 16 percent value-added tax (ITBIS) and a 13 percent foreign exchange fee on the CIF value. This last 13 percent foreign exchange charge is expected to be eliminated by July 1, 2006.

The furniture industry in the Dominican Republic is not well developed or integrated. There are only a few organized furniture manufacture companies, such as COMUDID, S.A. (Constructora de Muebles, Diseños y Decoraciones), Decoraciones y Muebles, C x A, HECO Muebles and VON C x A.

Competition

The softwood market in the Dominican Republic valued at US\$35 million in 2005 continues to be dominated by U.S. products (65% market share) with competition from South America, mainly Brazil (27 percent) and Chile (8 percent). U.S. panel products hold only 25 percent of the Dominican total market value of US\$12 million, with strong competition with less expensive South American: Brazilian (20%) and Asian products from China (33%) and Taiwan (22%) products. The US\$12 million hardwood market is almost evenly divided between Mahogany and Cedar coming from Peru (56 percent), Brazil (36 percent), Nicaragua (5 percent) and the very little from the United States.

MARKET SEGMENT ANALYSIS

Southern Yellow Pine (SYP) is the softwood lumber of choice in most of the Caribbean region. In terms of volume, the Dominican Republic is the fourth largest importer in the world of U.S. SYP, with almost US\$28 million imports in 2005, only after Canada, Mexico and Japan. The Dominican Republic has shown a dramatic increase during the first quarter of 2006 of imported softwood and treated lumber from United States valued over US\$11 million, over four fold when compared to the same period last year.

Construction Sector

The Dominican construction sector's main use for SYP plywood in construction is formwork for casting concrete. SYP lumber is used in building roof structures and some smaller "temporary" housing in rural areas. Treated lumber is commonly imported in the country, but not as much as other countries in the region because of several pressure treating facilities in operation (about twenty percent of the imported softwood is treated). According to industry sources, about 65 percent of the softwood and treated lumber is used in the construction of new facilities with extensive use of SYP in less expensive interior sectors of housing constructions.

Large-scale developers are more likely to have a distinct preference for SYP than other solid wood products, based on their quality. A good indicator of current and future major development plans in the tourism sector, which continue to demand better quality lumber for their construction requirements. Not so encouraging has been a recent news release reporting an increase in price of cement and steel. Portland cement factories have announced a 47% price hike (from RD\$85 to RD\$125 [US\$2.62 to US\$3.84]) in their 100 weight unit (100 lb bag) and steel metal rods were up from RD\$1,400 to RD\$1,750, a 25 percent increase.

There are a handful of retail outlets which appear as a smaller versions of U.S. retailers like Home Depot but small hardware stores are popular in the Dominican Republic. However, since these stores mainly cater to individual homeowners and small businesses, they tend to carry more price competitive wood products, mainly Chilean, Honduran and Brazilian softwoods.

Some Dominican construction companies attend annual trade shows in the United States (including CONEXPO in Las Vegas, Nevada and MIACON in Miami, Florida). A source of indirect information on the market is the ASONAHORES (Dominican Association of Hotels and Restaurants), which represents 70 percent of the hotels (130 hotels) with over 38,500 rooms in the Dominican Republic with information of new development projects in the sector. These are important sources of information and sources where larger contractors handle budgets and can consider better quality U.S. products and SYP in their projects or lower quality from other sources.

Furniture & Interior Sector

The softwood products used for furniture and cabinetry vary uses 20 to 25 percent of the total imports from country. The Dominican Republic has a larger base of manufacturers when compared to other markets in the region and do not import as much manufactured and/or unassembled furniture. SYP products are also the softwood of choice in the interior manufacturing sector. About half of the hardwood imported by the Dominican Republic, such as Mahogany is imported from Brazil (40%) and Peru (60%), while the other half, cedar is mostly from Brazil. Hardwoods are used in furniture and interiors sector.

Material Handling Industry

Foreign pests present in Solid Wood Packing Material (SWPM) has become a worldwide problem that requires attention from the exporting nations, particularly now that international standards have been created to control these materials. These restrictions are making some of the exporting countries fumigate the SWPMs or consider alternative more expensive materials, such as plastic, for their export pallets. Regulations to control the spread of pests in (SWPM), such as crates and pallets have been fully publicized in the

Dominican Republic. Although, they are not currently enforced for the local movement of products, they are required for products moving to the United States. The Secretary of Agriculture has authorized several companies to operate pallet construction facility (treat and/or fumigate) as self certified for the U.S. market. According to Secretary's officials the three authorized companies are meeting U.S. SWPM.

Residential House Segment

There continues to be a shortage of residential houses in Dominican Republic, particularly in the middle and lower income segments of the population. The stabilization of the economy and the reduction of the interest rates in the banks (from above 30 to 14 percent) have triggered an increase in private and public residential construction. Although there has been a recent hike in construction materials (over 25 percent in steel and cement) it is only expected to slow down the rate of new construction but, as mortgage rates have also come down the construction rate will recover promptly. There are many private contractors operating in the residential housing market, targeting the entire socioeconomic spectrum. The upper and upper-middle-income segments exhibit a preference for larger apartments, while the lower quintile occupies smaller low-income apartments and small detached units. With respect to construction materials you can say that there are several major factors to be considered: economic, geological and psychological variables. The geographic location of the country dictates the necessity to build with construction materials sufficiently durable to withstand repeated hurricanes and possibly flooding and earthquakes. The majority of residential houses in the country are constructed with block and steel, followed by a combination of blocks and tin and wooden roofs.

Hotel Construction

By the end of 2005, the Dominican Republic had almost 60,000 hotel rooms in service and construction plans for another 9,500. Within the hotel construction segment, hardwood products are used extensively in interior design and decorating. Hardwood veneers, molding and hardwood floors are used more in new hotel facilities. Softwoods (plywood and form wood) are used during the building construction process. The rapid expansion in the Dominican hotel sector and the continued renovation of existing properties will create a respectable demand for both hardwood and softwood products over the short to medium term. Major hotel projects that are being undertaken or will be undertaken in the short-term will increase Dominican Republic's lumber wood products demand.

Government Infrastructure Development

The Government of the Dominican Republic has been actively supporting a wide variety of projects in the construction sector. Generally these projects consume a reasonable volume of softwood and plywood products. The major projects that are currently being undertaken, or are advanced in conceptualization, include:

- The mega transportation project of a train/subway going across (North/South and East/West) Santo Domingo.
- Two major highways linking San Pedro de Macoris (southeast) with La Romana and San Cristobal to Bani (Southwest).
- The privatization of operations at the Las Americas and Puerto Plata Airports, which included extensive renovations and the operation of the new Santiago and La Romana international airports.
- A new and major highway linking Santo Domingo with Samana (north).
- A new infrastructure to support the national games in Monte Plata (stadium, swimming pools, etc. in a North Eastern province).

STATISTICAL INFORMATION

TRADE TABLES: Softwood Lumber, Softwood Plywood and Tropical Hardwood

Source: U.S. Census Bureau, Foreign Trade Statistics, and Post and industry estimates.

PSD Table

Country	Dominican Republic						UOM
	Softwood Lumber						
Commodity	1000 CUBIC METERS						MM/YYYY
	2005	Revised	2006	Estimate	2007	Forecast	
Market Year Begin	USDA Official	Estimate[1]A	Official	Estimate[1]A	Official	Estimate[New]	
	01/2005			01/2006		01/2007	
Production	0	0	0	0	0	0	1000 CUBIC METERS
Imports	0	152	0	184	0	192	1000 CUBIC METERS
TOTAL SUPPLY	0	152	0	184	0	192	1000 CUBIC METERS
Exports	0	0	0	0	0	0	1000 CUBIC METERS
Domestic Consumption	0	152	0	184	0	192	1000 CUBIC METERS
TOTAL DISTRIBUTION	0	152	0	184	0	192	1000 CUBIC METERS

PSD Table

Country	Dominican Republic						UOM
	Softwood Plywood						
Commodity	1000 CUBIC METERS						MM/YYYY
	2005	Revised	2006	Estimate	2007	Forecast	
Market Year Begin	USDA Official	Estimate[1]A	Official	Estimate[1]A	Official	Estimate[New]	
	01/2005			01/2006		01/2007	
Production	0	0	0	0	0	0	1000 CUBIC METERS
Imports	0	31	0	35	0	37	1000 CUBIC METERS
TOTAL SUPPLY	0	31	0	35	0	37	1000 CUBIC METERS
Exports	0	0	0	0	0	0	1000 CUBIC METERS
Domestic Consumption	0	31	0	35	0	37	1000 CUBIC METERS
TOTAL DISTRIBUTION	0	31	0	35	0	37	1000 CUBIC METERS

PSD Table

Country	Dominican Republic						UOM
	Temperate Hardwood Lumber						
Commodity	1000 CUBIC METERS						MM/YYYY
	2005	Revised	2006	Estimate	2007	Forecast	
Market Year Begin	USDA Official	Estimate[1]A	Official	Estimate[1]A	Official	Estimate[New]	
	01/2005			01/2006		01/2007	
Production	0	0	0	0	0	0	1000 CUBIC METERS
Imports	0	46	0	47	0	48	1000 CUBIC METERS
TOTAL SUPPLY	0	46	0	47	0	48	1000 CUBIC METERS
Exports	0	46	0	47	0	48	1000 CUBIC METERS
Domestic Consumption	0	0	0	0	0	0	1000 CUBIC METERS
TOTAL DISTRIBUTION	0	46	0	47	0	48	1000 CUBIC METERS