



TRADE POLICY REVIEW

REPORT BY

HONDURAS

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Honduras is attached.

Table of Contents

1 INTRODUCTION	3
2 ECONOMIC AND TRADE POLICY ENVIRONMENT	4
2.1 Macroeconomic policies applied between 2010 and 2015	4
2.1.1 Honduran economic developments	4
2.1.2 Monetary and credit policies	5
2.1.3 Exchange-rate policy	6
2.1.4 Fiscal policy	6
3 COUNTRY VISION AND NATIONAL PLAN	7
3.1.1 Institutional Framework of External Trade Policy	8
3.1.2 Main policy features	8
3.1.3 Attracting investment	8
4 TRADE POLICY DEVELOPMENTS 2010-2015	9
4.1 Multilateral Trading System.....	9
4.1.1 Agriculture.....	9
4.1.2 Trade facilitation.....	9
4.1.3 WTO rules	9
4.1.4 Dispute Settlement Understanding	9
4.1.5 Factual presentations of the Free Trade Agreements in force	10
4.2 Central American Integration	10
4.2.1 Incorporation of Panama into the Central American Economic Integration Subsystem.....	11
4.2.2 Impact of intraregional trade	11
4.2.3 Process of deep integration towards free movement of persons and goods between the Republics of Guatemala and Honduras	12
4.2.4 Central American Strategy for Trade Facilitation and Competitiveness	12
4.3 Regional trade agreements (RTA)	12
4.3.1 Trade agreements currently in force	12
4.3.2 Trade Agreements currently being negotiated and future negotiations	13
5 FUTURE POLICY DIRECTIONS	14

TABLES

Table 4.1 Regional Trade Agreements	13
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1 INTRODUCTION

1.1. Since its last Trade Policy Review (TPR) in 2010, Honduras has adopted and implemented a raft of measures as part of its national policies in the economic, political and social fields. It is continuing to beef up its strategy to consolidate the country's integration into international trade, and to that end is taking a two-pronged approach: (i) active participation in multilateral, regional and bilateral negotiations; and (ii) policies to attract investment in strategic sectors and to promote and facilitate trade. Between 2010 and 2015 Honduras made significant progress in terms of its institutional and legal framework, adopting a set of trade-related regulations in order to pursue the trade policy set out by the Honduran Government in the Country Vision and National Plan.

1.2. During the period under review, Honduras adopted the Law for the Optimization of Public Administration, Improvement of Citizen Services and Strengthening of Government Transparency, renaming the State Secretariat for Industry and Trade as the State Secretariat for Economic Development/PROHONDURAS.

1.3. Honduras continues to develop into a modern, transparent, responsible, efficient and competitive State, as noted by the World Economic Forum in its 2016 report where Honduras ranked 88th, up 12 places on the previous position; the areas that reflect the progress it has made include the quality of its infrastructure, falls in crime and violence, improvements to the road network, and the positive budgetary balance in the State finances.

1.4. Among the various trade processes in which Honduras is participating, progress has been made in Central American Economic Integration, the process of deep integration towards the free movement of goods and persons with Guatemala, regional trade agreements (free trade agreements, economic partnership agreements, economic complementarity agreements and partial preference agreements); the trade facilitation and competitiveness strategy, and the multilateral negotiations at the WTO.

1.5. In the multilateral context, Honduras has been an active participant in the World Trade Organization (WTO) fora. Honduras attaches great importance to the WTO dispute settlement system, considering it the multilateral forum for the defence of Members' trade interests.

1.6. With a view to achieving Honduras's incorporation into the Asia-Pacific region, work is under way to join both the Trans Pacific Partnership Agreement (TPP) and the Pacific Alliance being forged by Mexico, Colombia, Peru and Chile.

1.7. The trade policy pursued by Honduras since it joined the General Agreement on Tariffs and Trade (GATT) continues to prioritize the country's effective integration into the world economy based on a strategy that combines participation in multilateral trade fora, regional integration and strategic alliances with full awareness of new trade-related trends such as the establishment of trading mega-blocs, the formation of value chains and trade facilitation.

1.8. Against that background, Honduras will continue to coordinate its trade policy with the objectives and actions outlined in the Country Vision, National Plan and the "Everyone for a Better Life" Plan. We will continue to promote measures to improve the business climate; increase competitiveness and productivity, particularly in strategic sectors; promote macroeconomic stability; promote and attract investment; generate sources of employment; promote economic recovery; modernize infrastructure by promoting projects to help convert Honduras into a regional logistics hub; modernize the State; exploit natural resources in a socially sustainable and environmentally responsible manner; improve transparency, combat corruption and impunity, and promote action to improve public safety. The underlying aim will be to ensure better living conditions for Honduran society.

1.9. Together with the economic and trade policy environment, trade policy between 2010 and 2015 has been part of efforts to improve transparency and fulfil the obligations Honduras has assumed within the multilateral trading system.

2 ECONOMIC AND TRADE POLICY ENVIRONMENT

2.1. The overriding feature of the period under review is the consolidation of macroeconomic stability as illustrated by the improvement in macroeconomic variables and the recovery in economic growth. This has helped the country regain trust and credibility at international level. Evidence of this can be found in the improved risk profiles published by the principal international ratings agencies and the upswing in the country's global competitiveness indices. It follows therefore that Honduras is on the road to economic recovery and to equitable and sustainable economic growth commensurate with the country's social needs.

2.1 Macroeconomic policies applied between 2010 and 2015

2.1.1 Honduran economic developments

2.2. The Honduran Gross Domestic Product (GDP) grew at an annual average rate of 3.5% between 2010 and 2014, fuelled chiefly by activity in the fields of financial intermediation; agriculture, livestock, hunting, forestry and fishing; manufacturing and commerce; all of which were driven by domestic demand, especially end consumption, and performance in external trade. However, the behaviour of the Honduran economy in recent years has been influenced in part by the effects of climate change and its disruptive effects on production in key economic activities such as coffee-growing, which was damaged by the outbreak of leaf rust in 2012, and shrimp-farming, which was affected by vibriosis in 2014-2015; additionally, agricultural yield from crops of sugar cane, melon and watermelon fell, resulting in lower volumes for processing and export.

2.3. Despite this, in the third quarter of 2015, the year-on-year variation in GDP was 3.9%, leading to an expectation that growth will consolidate on the back of favourable external conditions, generating greater confidence and a recovery in sectors such as communications, agriculture and manufacturing supported by improved terms of trade. It is anticipated that at end-2015 growth in the Honduran economy will be 3.5%.

2.4. Between 2010 and 2015 year-on-year average inflation at each year-end was 5.1%, lower than the rate for the period 2003-2009 (7.4%). In 2010 and 2014 the national economy was affected by adverse climate conditions and the hoarding of agricultural products, generating inflationary pressures through rising food prices, especially for basic cereals. By contrast, in 2015 inflationary pressures were contained, partly through the fall in prices of basic cereals and fuel, the latter as a result of the conditions prevailing in the international oil market.

2.5. In the period under review, sound monetary policy management kept end-of-period inflation each year within the upper limit of the target rates laid down in the Monetary Programmes published by the Monetary Authority, together with a modest depreciation in the nominal exchange rate. It should be noted that the inflation rate recorded in December 2015 (2.36%) is the lowest for the reference period.

2.6. Honduran exports varied considerably, both in general goods (GG) and goods for processing (maquila). The GG are mostly agricultural products, whereas the maquila involves manufactures, mainly made-up textiles. During the period 2010-2014, exports of GG were more buoyant than maquila exports, which were adversely affected by the behaviour of the United States economy, which is the principal export destination of such goods. Average annual growth of GG exports was 12.9% as against 11.2% for maquila.

2.7. At November 2015, total GG exports (excluding maquila) amounted to US\$3,608.9 million, headed by coffee (25.9% of the total), bananas (12.3%), palm oil (6.0%) and shrimp and tilapia fillet (5.9%). External sales of goods for processing (maquila) in the third quarter of 2015 amounted to US\$3,102.7 million in f.o.b. terms, a year-on-year growth rate of 4.4% (US\$131.5 million), mainly in textile products (81.8% of the total) and electrical harnesses (17.0%); the United States was the chief destination for processed goods (77.7% of the total).

2.8. The annual average growth in total imports between 2010 and 2014 was 9.1%, rising from US\$8,907 million in 2010 to US\$11,069.7 million in 2014. Honduran imports of GG, which to November 2015 amounted to US\$8,647 million in c.i.f. terms, consisted mainly of consumer goods

and raw materials for industry and agriculture. Imports of goods for processing posted a value of US\$2,061.8 million in c.i.f. terms, similar to the figure for the same period in 2014, and mainly comprised inputs for the textiles industry and the manufacture of automobile electrical systems. The United States is the origin of the bulk of the raw materials used in processing (68.7% of the total) such as cotton yarns and parts for the manufacture of electrical harnesses.

2.9. In 2016 the Honduran economy should maintain a GDP growth rate of between 3.0% and 3.5%, inflation should remain at around 5.5%; exports of general goods should continue to grow by 6.6%; fiscal discipline should continue, as should progress in reducing the fiscal deficit. Nonetheless the ongoing current account deficit in the balance of payments continues to exert pressure on the exchange rate.

2.1.2 Monetary and credit policies

2.10. The institutional framework for the formulation and implementation of monetary policy in Honduras is set out in Articles 342 and 343 of the Constitution of the Republic of Honduras, the Monetary Law (Decree No. 51 of 1 February 1950, amended by Decrees Nos. 128-66 of 8 November 1966, published in the Official Journal *La Gaceta* on 6 December 1966, 136-94 of 12 October 1994, published in the Official Journal on 28 October 1994, and 164-2007 of 12 December 2007, published in the Official Journal on 26 January 2008), and the Law on the Central Bank of Honduras (BCH) (Decree No. 53 of 3 February 1950, amended by Decree No. 228-96 of 17 December 1996, Decree No. 248-2002 of 17 January 2002 and Decree No. 111-2004 of 17 August 2004 published in the Official Journal on 22 September 2004).

2.11. Pursuant to the Law on the Central Bank of Honduras, the Bank's governing body is the highest authority as far as the formulation of monetary, credit and exchange-rate policy is concerned. In practice, the objective laid down in the Law on the BCH amounts to securing price stability under a biannual Monetary Programme that sets out the thrust of the country's monetary, credit and exchange-rate policy based on an exhaustive analysis of internal and external economic conditions; the resultant measures and introduction of new instruments are geared to strengthening mechanisms for the effective transmission of the BCH's monetary policy stance on interest rates to the financial system, and to improve forecasts and daily management of liquidity with regard to specific inflation targets and a target for the level of net international reserves. Although it does not set exchange-rate targets, the BCH does monitor exchange-rate trends.

2.12. The BCH also uses the monetary policy rate (MPR) to signal its monetary policy stance to the market. The MPR is defined as the maximum interest rate acceptable for BCH bids to purchase at liquidity auctions for Honduran financial institutions, and the minimum acceptable rate for bids to sell; accordingly its aim is to vitalize the interbank market and bring interest rates on that market closer to the prevailing MPR – the latter has changed seven times over the last six years in line with the requirements of liquidity conditions in the economy, and has stood at 6.25% since July 2015.

2.13. A more active monetary policy has helped to mop up excess liquidity through the placement of securities under debt-maturity or tranche-issue schemes; this absorption has totalled around L 21.2 billion over the last six years with the shift from current account deposits to Central Bank Bills (LBCH).

2.14. The direct monetary policy tools have maintained the required levels of reserves and mandatory investment which are calculated on the average of financial institutions' deposit obligations over a 14-day period; they must be fully constituted in demand deposits at the BCH, and a minimum daily amount equivalent to 80% of the deposit must be held.

2.15. Additionally, the Monetary Programme continued to encourage financial placements to finance productive activities that generate greater added value for the country's economy such as housing, production and microcredit, channelling them through banking institutions.

2.16. In 2015, given the lower inflation risk, moderate growth in the monetary aggregates and sustained economic growth, the BCH decided to ease monetary conditions and lowered the MPR on three occasions (February, March and July 2015), cutting it from 7.00% to 6.25%. Rates on LBCH

were also lowered. This triggered a downward trend in the interest rates applied by the financial system, illustrating the efficacy of the monetary policy instruments used.

2.17. Over the last six years international reserves of around US\$1,700.0 million have accumulated, the balance of which stood at US\$3,822.3 million at end-2015. The reserves derive in part from net purchase transactions of foreign currency performed under the electronic system for foreign currency transactions (SENDI) and also from a 48% rise over the last six years (around 18.0% of GDP) in flows of family remittances that are associated with the performance of the US economy, and thus support the balance of payments. The accumulated reserves at end-2015 were sufficient to cover 4.5 months of imports of goods and services.

2.18. The implementation of these measures and the introduction of new instruments in conformity with the guidelines agreed in the economic programme with the International Monetary Fund (IMF) aim to strengthen the mechanisms for effective transmission of the monetary policy stance to interest rates in the financial system and to improve daily liquidity management and forecasting; accordingly it is anticipated that this will stimulate and develop the interbank market and that interest rates there will move closer to the prevailing MPR.

2.1.3 Exchange-rate policy

2.19. Since the last quarter of 2009 the exchange-rate policy of Honduras has been implemented through the electronic system for foreign currency transactions (SENDI), which replaced the System of Public Bidding for Foreign Currency (SAPDI). SENDI enables bids for the purchase and sale of foreign currency to be sent electronically to authorized foreign exchange dealers.

2.20. The exchange-rate banding system that had been in place until mid-2005 was brought back into use in July 2011. Thus, following a lengthy period of exchange-rate stability (2005-June 2011), the lempira began to float again. There followed a pattern of steady year-on-year depreciation against the US dollar, influenced by the trend in the domestic and external inflation differential, changes in the basket of its trading partners' currencies, and the upward trend in the official reserve assets of the BCH.

2.21. In operational terms, the exchange rate of the lempira is determined by currency auctions held by the BCH. Since 4 July 2013 an operating band has been in place that requires the prices of all bids to purchase foreign currency to be within a 7% range above or below the base price; the prices are subject to the requirement that bids must not exceed 1% of the average base price of the seven (7) preceding auctions.

2.22. The base price is calculated weekly having regard to the following variables: (1) the differential between domestic inflation (measured as the year-on-year variation in the Consumer Price Index) and the external inflation rate of Honduras's principal trading partners (weighted average of the inflation rates of Honduras's main trading partners); (2) fluctuations in the exchange rates of those countries against the US dollar; and (3) the performance of official reserve assets.

2.23. The current system in use in the exchange-rate market has helped to anchor expectations of inflation, going some way to ensure that inflation has remained relatively low and contributing to the accumulation of international reserves. In the period between 2010 and 2015 inclusive, the average depreciation of the lempira against the US dollar was around 4%.

2.1.4 Fiscal policy

2.24. Over the period 2010-2015 the aim of fiscal policy was to achieve stability in the public finances by focusing on reducing the fiscal deficit through measures to contain and rationalize public spending and improve tax collection. The fiscal situation improved considerably as a result of economic policy measures that led to a substantially reduced fiscal deficit, the signing of Stand-By Arrangements with the International Monetary Fund (IMF), and the successful completion of the second review by the IMF of Honduras's performance under the economic programme, as approved by the Executive Board of the IMF in 2015.

2.25. During the period under review various laws were passed to correct the fiscal imbalance. These include the Law on Revenue Enhancement, Social Equity and Rationalization of Public Expenditure contained in Decree No. 17-2010 (this law constituted a considerable reform of the Honduran tax system, introducing significant changes to various taxes such as sales tax, excise taxes, green tax and income tax); and Decree No. 278-2013 containing the Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures.

2.26. With respect to the public finances, Honduras has sought to maintain fiscal discipline as a rule of sound public administration to control any widening of the fiscal deficit and maintain it at an acceptable level that is in line with macroeconomic equilibrium for fiscal consolidation and sustainability. Results from the close of the fiscal year 2014 show that the Central Administration closed with a deficit of L 18,000.3 million, equivalent to 4.4% of Gross Domestic Product (GDP), a contraction of 3.5 percentage points of GDP compared to the figure for 2013. This fall in the fiscal deficit is essentially the result of a 19.7% expansion in revenues (6.2% in 2013), and barely a 1.0% increase in spending (14.6% in 2013). The expansion in revenues during 2014 was the result of the fiscal reform adopted in Decree No. 278-2013 (Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures).

2.27. The tax burden in the Honduran economy fell significantly from 2009 as a result of the downturn in economic activity and its knock-on effect on revenue collection. Over the last four years (2011-2014) the tax burden has been rising again, from 14.8% of GDP in 2011 to 16.3% of GDP in 2014; this considerable increase is the result of the returns produced by the reform contained in Decree No. 278-2013, the Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures adopted in December 2013.

2.28. According to the State Secretariat for Finance, the fiscal deficit fell to approximately 3.3% of GDP in 2015.

2.29. The good results that the macroeconomic management of Honduras has produced were recognized at the end of the Second Review of the Program currently in place with the IMF that was carried out in 2015. It stated that macroeconomic performance was better than scheduled and that the outlook for 2016 was positive.

3 COUNTRY VISION AND NATIONAL PLAN

3.1. In conformity with Decree No. 286-2009 containing the Law for the Establishment of a Country Vision and the Adoption of a National Plan (LVPPN), the Country Vision should be achieved by 2038 when its objectives and goals have been attained. The National Plan was established for 2010-2022 and 2022-2034 as a planning instrument to help achieve the envisaged objectives and goals. The LVPPN contains the following objectives:

- i. a poverty-free, educated, healthy Honduras with consolidated social welfare systems;
- ii. a nation that is growing in democracy and security without violence;
- iii. a productive country that generates opportunities and jobs, sustainably exploits its resources and sustainably reduces its environmental vulnerability;
- iv. a modern, transparent, responsible, efficient and competitive State.

3.2. Honduras has been making a major effort to eradicate poverty during the years 2014-2016.

3.3. The principal reference points of the policy for the country's external sector are the objectives in the Country Vision (VP) and the strategic guidelines and progress indicators in the National Plan (PN). Thus, objective 3 of the VP is to achieve "[a] productive Honduras that generates opportunities and decent jobs, that envisages creating 150,000 jobs through public-private partnerships in the short, medium and long term, while sustainably exploiting its resources and reducing environmental vulnerability".

3.4. By implementing the Country Vision, the National Plan and the "Everyone for a Better Life" plan, all of which are supported by the current Government (2014-2018), Honduras is making solid progress towards becoming a modern, transparent, responsible, efficient and competitive State, to paraphrase the words used by the World Economic Forum in its report for 2016 where Honduras is ranked 88th, having climbed 12 places; its progress is reflected in areas such as quality of infrastructure, a substantial reduction in crime and violence, improvements to the road network, and a positive budgetary balance for the State finances.

3.1.1 Institutional Framework of External Trade Policy

3.5. The body responsible for implementing, monitoring and evaluating policy for the external sector is the Sectoral Office for Economic Development (GSDE), through the State Secretariat for Economic Development/PROHONDURAS.

3.6. This framework publicizes and promotes the opportunities available under instruments aimed at increasing and facilitating external trade through the adoption of clear, transparent and non-discriminatory rules and the opening of new markets; harmonizing and implementing trade rules and regulations, eliminating barriers and streamlining export processes to encourage the best competitive conditions.

3.7. The powers available to it include legal instruments to boost economic integration with the other Central American countries, free-trade agreements, dispute settlement and trade defence mechanisms, and mechanisms to promote exports and investment.

3.1.2 Main policy features

3.8. The Sectoral Strategic Plan for Economic Development (PES-DE) provides that the objective of external sector policy is to promote national and international investment, tourism, diversification and placement of Honduran exports on international markets in order to help boost investment in the country as well as exports and tourism.

3.9. The PES-DE has adopted the following strategies to achieve that objective: (i) implementation and consolidation of the PROHONDURAS platform as the basis for a raft of measures aimed at renewing national investor confidence; and (ii) restoration of the country's position for foreign direct investment through intensive international promotion.

3.1.3 Attracting investment

3.10. The measures that the Honduran Government has taken to strengthen the security system and the arrangements it has made to promote investment have enabled foreign investors to regard Honduras as a destination for investment, and have contributed to the continued increase in foreign-currency investment flows.

3.11. In anticipation that its strategic geographical location and specifically its openness will achieve the desired purpose of facilitating investment, Honduras has compiled a portfolio of potential investments that includes projects in strategic areas for sustainable development such as urban road infrastructure, ports, airports, energy, services, agribusiness, mining and information technology.

3.12. Honduras has adopted the Law on the Promotion of Public-Private Partnerships and the Law on Employment and Economic Development Zones (ZEDE) as innovative instruments to increase investors' interest in the country.

3.13. The Commission for the Promotion of Public-Private Partnerships established under Legislative Decree No. 143-210 is the agency with responsibility for this new model for joint ventures in Honduras and will manage it as a sustainable development strategy to increase the country's competitiveness. The portfolio of projects rolled out by the Commission includes roads and urban infrastructure, ports, airports, energy, services and mining.

3.14. Established under Legislative Decree No. 120-2013 of September 2013, the ZEDes are circumscribed areas of national territory subject to a special regime that will allow them to be

administered autonomously and manage their own policy in the areas of fiscal matters, security, investment promotion, dispute settlement, and the management and provisions of services; their purpose is to speed up the process of attracting investment and to create the jobs needed to help reduce social inequalities.

3.15. To that end the ZEDEs have been the subject of feasibility studies and an implementation master plan. As an initial step, the south of the country has been designated as the location for the first ZEDE. The aim is to develop competitive, innovative industries such as logistics hubs, special investment districts and technological development centres.

4 TRADE POLICY DEVELOPMENTS 2010-2015

4.1. In the period under review, Honduras continued to apply a trade policy based on three pillars: active participation in the multilateral trading system under the WTO; the deepening of Central American Integration; and the expansion of its network of preferential trade agreements with strategic partners. Additionally, actions geared to trade facilitation and increased competitiveness have been prioritized, as have trade promotion and the attraction of investment.

4.1 Multilateral Trading System

4.2. With regard to the Doha Development Agenda (DDA), Honduras has sponsored several proposals and contributions reflecting its priority national interests in relation to agriculture, non-agricultural market access (NAMA); trade in services, intellectual property, WTO standards, trade facilitation and dispute settlement.

4.3. Honduras is part of the Small, Vulnerable Economies (SVE) grouping and the G-33 group that are involved in cosponsoring proposals seeking effective special and differential treatment along with other flexibilities commensurate with the specific development needs of SVEs like Honduras.

4.1.1 Agriculture

4.4. These negotiations are a priority if Honduras is to achieve access for agricultural products in international markets, additional flexibility for "special products" and the creation of a new special safeguard mechanism.

4.1.2 Trade facilitation

4.5. As a Member of the WTO, Honduras adopted the Decision on a WTO Trade Facilitation Agreement as part of the wider "Bali Package" with a view to expediting the movement, release and clearance of goods, including goods in transit and trade facilitation issues.

4.6. Under Decree No. 146-2015 of 14 December 2015, the National Congress of Honduras adopted the Protocol Amending the Marrakesh Agreement Establishing the World Trade Organization to insert the Agreement on Trade Facilitation; the same Decree established the National Trade Facilitation Committee, appointing the State Secretariat for Economic Development as the institution with responsibility for working with the other government bodies to coordinate work related to the operation and administration of the Protocol Amending the Marrakesh Agreement in conformity with Article 23(2) of the Facilitation Agreement.

4.7. The Decree in question is yet to be enacted by the Executive and will then be published and deposited with the WTO upon completion of the relevant legal formalities.

4.1.3 WTO rules

4.8. Honduras actively participates in the negotiations that support the mandate to improve the WTO rules. Its positions in this regard are aligned with those set out by the SVEs.

4.1.4 Dispute Settlement Understanding

4.9. Honduras participates in the negotiations conducted in the framework of the Dispute Settlement Body in order to achieve concrete results in areas such as the rights of third parties;

mutually agreed solutions; the interests of developing countries, including special and differential treatment; and effective enforcement of the Dispute Settlement Body's recommendations and rulings.

4.10. Honduras has participated in the Dispute Settlement Body as a complainant in three disputes: (i) "Regime for the Importation, Sale and Distribution of Bananas" and the two related arbitrations; (ii) "Safeguard Measures on Imports of Polypropylene Bags and Tubular Fabric"; and (iii) "Measures Affecting the Importation of Cigarettes". The case relating to "Certain measures concerning trademarks and other plain packaging requirements applicable to tobacco products and packaging" is currently before the Dispute Settlement Body. Honduras has never been involved as a defendant in the dispute settlement mechanism, a fact that demonstrates its strong commitment to, support for and compliance with the disciplines and commitments under the multilateral trade agreements administered by the WTO.

4.1.5 Factual presentations of the Free Trade Agreements in force

4.11. On the basis of the Decision on a Transparency Mechanism for Regional Trade Agreements and pursuant to GATT Article XXIV and Article V of GATS, between 2010 and 2015 Honduras made the following factual presentations on trade agreements in force to the Committee on Regional Trade Agreements:

- i. Free Trade Agreement between El Salvador, Honduras and Chinese Taipei (Goods and Services);
- ii. Free Trade Agreement between Chile and Honduras (Goods and Services);
- iii. Free Trade Agreement between Central America (Honduras, Nicaragua and Guatemala) and Panama;
- iv. Free Trade Agreement between El Salvador, Guatemala, Honduras and Colombia; and
- v. Free Trade Agreement between Mexico and Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua).

4.12. Honduras recognizes the Aid-for-Trade programme and the role it plays through technical assistance activities and in trade capacity building in order to support the country's integration into international trade, promote dialogue between its public and private sectors, and strengthen its trade capacities.

4.2 Central American Integration

4.13. Honduras became a founding member of the economic integration process by signing, on 13 December 1960, the General Treaty on Central American Economic Integration establishing the Central American Common Market (CACM) comprising Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, for the establishment of a Central American free trade zone and the adoption of a uniform Central American tariff. The Treaty also sets out the Parties' commitment to establish a common market among themselves.

4.14. The Protocol to the General Treaty on Central American Economic Integration (Guatemala Protocol) signed on 29 October 1993 establishes and consolidates the Subsystem of Economic Integration, adapting it to the new institutional framework of the Central American Integration System (SICA), and to the new needs of the countries in the region. The Subsystem comprises Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama (Panama joined on 6 May 2013).

4.15. Honduras continues to participate actively in work to improve and deepen Central American Economic Integration, especially with regard to the action needed to make headway in establishing the Central American Customs Union; and to harmonize the regulatory framework in the areas of tariffs, customs, rules of origin, sanitary and phytosanitary measures, competition policy, dispute

settlement, technical requirements, and the procedures, guidelines and controls that apply in the region for the purposes of facilitating trade and achieving mutual recognition of sanitary registers.

4.16. Honduras actively participates in the work arising from the Presidential mandates of 2015 that point the way to progress towards a Central American Customs Union. Accordingly, together with the other Central American countries Honduras adopted a Roadmap to move the Central American Customs Union forward in conformity with the Guatemala Protocol, the Framework Agreement for Establishing the Central American Customs Union and other legal instruments concerning Central American Economic Integration. The Framework Agreement for Establishing the Central American Customs Union provides that the stages leading to its establishment are as follows:

- i. promotion of free movement of goods and trade facilitation;
- ii. regulatory modernization and convergence; and
- iii. institutional development.

4.17. The Roadmap was designed with those stages in mind and a number of activities that will help to speed up the process of establishing the customs union were approved. The aim of promoting free movement and trade facilitation is to increase the competitiveness of Central America as a region, reduce time spent at border posts, and cut the cost of formalities, thereby boosting regional trade; regulatory modernization and convergence aim to update the regulations in force and the functioning of the institutions.

4.18. It is hoped that the Roadmap for the Central American Customs Union will be implemented over the next six years. Consolidation of the Central American Customs Union is a strategic priority for Honduras. When established, it is expected to be the seventh largest economy in Latin America.

4.2.1 Incorporation of Panama into the Central American Economic Integration Subsystem

4.19. Honduras is an active participant in all efforts to incorporate Panama into the Central American Economic Integration Subsystem (SIECA). Since the entry into force of Panama's Protocol of Accession to the Economic Integration Subsystem of the Central American Integration System on 6 May 2013, economic and trade relations between Panama and Honduras have been governed by the legal instruments and rules of the Central American Economic Integration Subsystem and the terms, time-limits and conditions laid down in the Protocol of Accession, without prejudice to the Free Trade Agreement in force.

4.2.2 Impact of intraregional trade

4.20. The regional economic area is Honduras's second trading partner. According to figures from the BCH, at November 2015, 23.4% of exports of goods were bound for Central American markets; and 19.5% of imports originated in Central America. In the third quarter of 2015, Honduras's participation in intraregional exports was 10.6%, ranking it fourth for exports to the regional market which, in the third quarter of 2015, stood at US\$6,899 million according to data from the Secretariat for Central American Economic Integration. Honduras's chief trading partners in Central America are El Salvador and Guatemala.

4.21. The importance of intraregional trade is shown in the considerable benefits it brings to the region; currently a large number of Central American firms, mostly small and medium-sized, do business directly when trading goods, leading to investment of Central American capital, sources of employment, encouragement for new entrepreneurs and the development of trade-related services.

4.2.3 Process of deep integration towards free movement of persons and goods between the Republics of Guatemala and Honduras

4.22. Honduras and Guatemala have taken a key step towards establishing a customs union between their territories that is to be based on the objectives and principles set out in the legal instruments governing regional economic integration.

4.23. The model adopted for the customs union is in line with the provisions of Article XXIV of GATT 1994, which is part of the WTO Agreement; and Article 15 of the Guatemala Protocol. Against that background, both countries have undertaken to work on a bilateral basis to move towards free movement of goods and natural persons between their territories.

4.24. To that end, the legal instrument that will enable the gradual and progressive establishment of the customs union, in a manner consistent with the legal instruments of Central American integration, is an Enabling Protocol for the Process of Deep Integration leading to the Free Movement of Goods and Natural Persons between the Republics of Guatemala and Honduras. The Protocol was adopted by the legislative bodies of Honduras and Guatemala in December 2015 and January 2016 respectively, and its entry into force is pending subject to legal procedures.

4.25. A Roadmap has been agreed for 2016 focusing on implementation of the Customs Union. When the customs union between Honduras and Guatemala becomes operational, it will create the largest economy in Central America (excluding Panama): it will cover 52% of the territory of Central America, 58% of its population and 46% of its GDP (excluding Panama).

4.2.4 Central American Strategy for Trade Facilitation and Competitiveness

4.26. With respect to trade facilitation, together with the other Central American member countries of the Central American Economic Integration Subsystem Honduras is implementing the initiative stemming from the mandate of the Presidents and Heads of States of Central America that was contained in the Presidential Declaration of Punta Cana of June 2014. The Central American Strategy for Trade Facilitation and Competitiveness with Emphasis on the Coordinated Management of Borders was adopted under Agreement No. 01-2015 (COMIECO-LXXIII) of 22 October 2015 by COMIECO; it sets out the action to be taken in the medium and long term. Its principal objective is to promote coordination between public and private sector agencies to improve revenue collection processes, controls, border security and further facilitate movement of goods and people within a framework of effective controls and efficient use of resources.

4.27. Accordingly, as an initial step in improving Central American trade facilitation, five short-term priority measures are being implemented, including the following: (i) advance declaration or processing of the Central American Single Customs Form (FAUCA), Single Customs Declaration (SCD), and Single Transport Declaration (DUT); (ii) streamlining and coordination of immigration controls; (iii) electronic phytosanitary and animal health certificates; (iv) logging of transport movements using radio frequency devices (RFID); and (v) use of camera systems at border crossings.

4.28. The trade facilitation strategy includes measures to help reduce export and import formalities in order to bolster the advantage gained from the Central American market. The intention is to stimulate trade flows and increase the competitiveness of Central American businesses, especially micro- and small businesses in the region. An ECLAC study anticipates that when fully implemented, the impact of the trade facilitation measures is likely to produce a rise of up to 5% in GDP, an increase in tax revenue (through sales and excise taxes) of up to 0.7% of GDP and an increase of up to 24% in exports.

4.3 Regional trade agreements (RTA)

4.3.1 Trade agreements currently in force

4.29. With the dawn of the new millennium, Honduras adopted a strategy that aimed to diversify exports by signing preferential trade instruments. Between 2000 and 2015, the country drew on the momentum thus generated to bring nine new preferential instruments into force in the form of free trade agreements and/or association agreements.

4.30. The strategy meant that Honduras's exports to the world grew significantly. According to the *Aid for Trade at a Glance 2015* report for Honduras, in 2006 38.9% of all exports from Honduras received preferential tariff treatment; by 2013 that figure had risen to 99.5%.

4.31. The signing of preferential trade agreements caused the country to improve its services platform and its facilities for production and export. Thus, the investments it had made in energy, roads, port infrastructure, airport infrastructure, and facilitation of access to credit for production led to the expansion of exports and diversification of export destinations. Under the regional trade agreements in force, Honduras has preferential access for its exports to 41 countries around the world. The various RTAs have enabled the country to increase its preferential trade flows, although more needs to be done in order to take full advantage of them.

4.32. It is important to note that the RTAs in force contain new-generation disciplines including matters not currently subject to regulation under the WTO multilateral trade agreements, such as investment, government procurement, sustainable development and competition policy. In other areas, the matters addressed contain more ambitious provisions and commitments than those currently set out in the WTO Agreements, for example on market access, trade in services and intellectual property. This is based on the balance of the outcomes reached in the agreements.

4.33. There follows a list of the RTAs currently in force:

Table 4.1 Regional Trade Agreements

	Agreement	Date of entry into force
1	Free Trade Agreement between Central America and the Dominican Republic	19 December 2001
2	Free Trade Agreement between the Dominican Republic, Central America and the United States (CAFTA-DR)	1 April 2006
3	Central America-Chile Free-Trade Agreement	19 July 2008
4	Free Trade Agreement between El Salvador, Honduras and Chinese Taipei	15 July 2008
5	Central America-Panama Free Trade Agreement.	8 January 2009
6	Free Trade Agreement between El Salvador, Guatemala, Honduras and Colombia	26 March 2010
7	Free Trade Agreement between the Republics of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, and Mexico ^a	1 January 2013
8	Association Agreement between Central America and the European Union	1 August 2013
9	Free Trade Agreement Honduras - Canada	1 October 2014

a This Agreement merged all the various Free Trade Agreements between Mexico and Costa Rica, Mexico and Nicaragua; and Mexico-Guatemala, El Salvador and Honduras.

4.34. It should be noted that the Free Trade Agreement between Honduras and Peru will enter into force in 2016.

4.3.2 Trade agreements currently being negotiated and future negotiations

4.35. Honduras is currently engaged in trade negotiations with Ecuador and the Republic of Korea. Negotiations to sign a Free Trade Agreement with the Republic of Korea began in 2015 and are being conducted jointly with the other Central American countries.

4.36. Where Ecuador is concerned, negotiations to reach a Partial Scope Economic Complementarity agreement between Honduras and Ecuador began in 2015.

4.37. In order to complement exports to other European countries, in 2012, together with Guatemala, Costa Rica and Panama, Honduras opened negotiations for a Free Trade Agreement with the European Free Trade Association (EFTA) countries. Honduras's negotiation of this agreement has not been completed and is in fact suspended, although the possibility of a resumption in the near future has not been ruled out.

4.38. With regard to the partial scope agreement between Honduras and Cuba noted in the previous TPR, there has been no change in the situation regarding the conclusion of the legal framework of the Agreement, and the negotiation of the tariff reduction schedules is pending.

4.39. Honduras has formally stated at the relevant fora its intention to join the Trans-Pacific Partnership Agreement (TPP) and the Pacific Alliance.

5 FUTURE POLICY DIRECTIONS

5.1. Honduras will continue faithfully to comply with its international commitments, thereby strengthening the national and multilateral trading system; it will also strive to take advantage of the foreign trade platform by promoting exports and investments.

5.2. Honduran trade policy will retain its principal objectives of generating employment, attracting investment, and taking advantage of the opportunities provided under regional trade agreements and the multilateral trading system, with a view to generating sustainable and equitable economic growth.

5.3. Similarly, trade policy will continue to be coordinated with the objectives and actions set out in the Country Vision, the National Plan and the "Everyone for a Better Life" plan. We will continue to promote action to improve the business climate; increase competitiveness and productivity, particularly in strategic sectors; promote macroeconomic stability; promote and attract investment; generate sources of employment; promote economic recovery; modernize infrastructure by promoting projects to help convert Honduras into a regional logistics hub; modernize the State; exploit natural resources in a socially sustainable and environmentally responsible manner; improve transparency, combat corruption and impunity, and promote action to improve public safety. The underlying aim will be to ensure better living conditions for Honduran society.

5.4. We will also continue to maintain close communication with society and national production sectors in order that we can work together, in a transparent fashion, on Honduran trade policy and ensure that the benefits of trade lead to better living conditions.

5.5. In conclusion, Honduras is committed to the multilateral trading system and attaches great importance to monitoring its trade policies because doing so promotes transparency and investment, thus making it possible to become better integrated into world trade.

5.6. Honduras thanks the WTO Secretariat for its support and Members for their interest in its Third Trade Policy Review.
