SUMMARY

1. The Honduran trade regime is relatively open, with an average tariff of 6 per cent in 2010, minimal use of non-tariff barriers and an absence of contingency measures. Moreover, the procedures for drafting technical regulations and sanitary and phytosanitary measures have been much simplified in recent years. Since its first Trade Policy Review in 2003, Honduras has also made progress in other areas that affect production and trade; for example, it has adopted legislation on competition policy establishing the Commission for the Defence and Promotion of Competition, and has modernized the government procurement system. During the period under review Honduras concluded new preferential trade agreements, notably the Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA), and the further integration of the Central American Common Market (CACM) continues to be its great priority. Honduras has maintained its traditional strategy of granting refunds to exporters, as well as tax concessions via free zones aimed at developing the manufacturing sector.

(1) ECONOMIC ENVIRONMENT

2. Recent macroeconomic results have been positive for Honduras: the average annual rate of growth of real GDP was 4.5 per cent between 2003 and 2009 (higher than the 3.2 per cent recorded in 1992-2001); the average annual rate of inflation was 7 per cent; the fiscal deficit fell from 5 per cent of GDP in 2003 to 3 per cent in 2009; and the total external debt balance decreased from 71 per cent of GDP to 23 per cent. Despite these positive results, about one third of the population still live below the poverty threshold, and the economy continues to be fragile and exposed to external shocks. Real GDP is estimated to have fallen by 2.1 per cent in 2009, mainly due to the difficult internal political situation and the global economic crisis, which substantially reduced exports and remittances from Honduran workers (which accounted for about 17 per cent of GDP in 2009).

3. The Honduran economy is heavily dependent on international trade. The ratio of trade (exports and imports) to GDP is among the highest in the Central American region, with an annual average of 133 per cent during 2006-2008. The country's merchandise trade deficit quadrupled between 2003 and 2008 due, mainly because the nominal exchange rate remained fixed as from October 2005, which caused the real exchange rate to appreciate thereafter with a consequent loss of export competitiveness. The external current account deficit (as a percentage of GDP) rose from 7 per cent in 2003 to 13 per cent in 2008; it is estimated that this deficit fell to 4 per cent in 2009. To a large extent, the current account deficit has been financed by substantial inflows of remittances and foreign direct investment.

4. Honduran external trade is characterized by limited diversification, in terms of products and trading partners. The country's main export products are those of the *maquila* industry, which accounted for 55 per cent of total merchandise exports in 2009, followed by exports of general goods (44 per cent), and other products (1 per cent). Almost 90 per cent of *maquila* exports are textile products and these also account for about 80 per cent of total *maquila* industry imports. The United States is the destination for almost 80 per cent of Honduran *maquila* industry exports, and the origin of 80 per cent of imports.

5. The *maquila* industry excluded, the main exports are still coffee, bananas, and crustaceans; agricultural products account for about two thirds of general goods exports. Nearly three quarters of the country's total imports (excluding *maquila*) consist of manufactured products, particularly machinery and transport equipment. Since the entry into force of the DR-CAFTA, the United States has consolidated its position as the main market for Honduran exports, absorbing about 40 per cent of general goods exports. Due to

the intensification of the CACM's integration efforts, since 2007 El Salvador, Guatemala, Nicaragua, and Costa Rica have together ranked second as a destination for Honduran exports, relegating the European market to third place. The United States has also consolidated its position as the main source of imports of general goods into Honduras, with more than one third of the total.

6. Honduras is a net importer of services, with an average annual deficit of about US$240 million during 2003-2009. Total income from services (mainly travel services) increased from US$591 million in 2003 to US$896 million in 2009, while total expenditure on services (largely transport and travel services) rose from US$753 million to over US$1.089 billion.

(2) TRADE AND INVESTMENT POLICY FRAMEWORK

7. Honduras is a founding Member of the WTO and attaches great importance to its participation in the multilateral trading system. It regards this system as a fundamental guarantee of non-discrimination and the non-utilization of unilateral trade measures. Honduras grants at least MFN treatment to all WTO Members. It has participated actively in the Doha Development Agenda (DDA), making proposals both individually and collectively with other Members. Honduran interest in the DDA is focused on issues relating to agriculture.

8. Honduras has accepted the Fifth Protocol to the General Agreement on Trade in Services (GATS). Although Honduras did not participate in the negotiations on basic telecommunications and has not signed the Fourth Protocol to the GATS, it adhered to the Basic Telecommunications Reference Paper in 2005 and unilaterally submitted new specific commitments in that subsector. None of its trade practices has been challenged under the WTO's dispute settlement mechanism. On the other hand, Honduras has been a complainant in six cases, two of them initiated during the review period, and has participated in other cases as a third party.

9. Preferential agreements have been converted into increasingly important elements of Honduran trade liberalization. In addition to participating in the CACM, Honduras has free trade agreements with Chile, Colombia, United States, Mexico, Panama, Dominican Republic, and Chinese Taipei. The DR-CAFTA entered into force during the review period, as did the agreements with Colombia, Panama, and Chinese Taipei. Moreover, in May 2010 Honduras and the other members of the CACM completed negotiations on the Association Agreement with the European Union. Honduras has also signed agreements with countries that participate in the Latin American Integration Association (LAIA), notably a Partial Scope Agreement with Venezuela, and together with the other members of the CACM is negotiating free trade agreements with Canada and CARICOM.

10. Honduran investment legislation guarantees national treatment for foreign investors; however, in order to invest in some sectors prior authorization is required from the Government. Prior authorization is also needed, for reasons of public interest, for foreign investment in agricultural and agro-industrial activity that exceeds certain limits, in financial services and insurance, and in educational services provided by the private sector. Honduras has signed several bilateral agreements on the promotion and reciprocal protection of investments; it has not signed any double-taxation agreements.

(3) MEASURES AFFECTING IMPORTS

11. Since its last Review, Honduras has not made any significant changes in its import regime. Honduran customs procedures are governed by the Central American Customs Code, its regulations, and the National Customs Law. Honduras has adopted measures to modernize customs through the introduction of authorized economic operators (AEO) and the adoption of a new automated

system for the administration of customs procedures, which has made it possible not only to reduce clearance times but also to increase revenue. Honduras reserved the right to apply minimum values to imports of several categories of goods until the WTO exemptions expired in 2003. Honduras uses reference prices where there is reasonable doubt concerning the value declared.

12. The average MFN rate applied was 6 per cent in 2009, almost the same as that recorded in the last Honduran Review (6.1 per cent in 2003). Agricultural products (WTO definition) were subject to an average tariff of 11.1 per cent, while the average tariff for non-agricultural products was 5.1 per cent. The price band system continues to be applied for certain staple grains. The tariff rates range from 0 to 164 per cent, but most are less than 40 per cent. All tariffs are bound: about 85 per cent of all tariff lines are bound at 35 per cent, with less than 1 per cent at higher levels and the rest at levels below 35 per cent. The Secretariat has identified seven tariff lines on which the applied rate is higher than the corresponding bound rate.

13. The Central American Regulations on Unfair Trade Practices and on Safeguard Measures, adopted by Honduras in 2007, constitute the relevant legal framework for these measures. Honduras did not apply anti-dumping or countervailing duties or safeguard measures during the review period.

14. Since its last Review, Honduras has taken steps to make the formulation and application of technical regulations and sanitary and phytosanitary measures more transparent. Honduras guarantees the application of sanitary regimes and technical regulations that do not constitute technical barriers to trade and are intended to ensure the quality and safety of products and services, and has continued with the process of harmonization of sanitary and phytosanitary measures at Central American level.

(4) OTHER MEASURES AFFECTING TRADE

15. Honduras has notified the WTO of three subsidy programmes under which it grants tariff and tax concessions. It may maintain these programmes until its per capita gross national product (GNP) reaches US$1,000 in constant 1990 dollars for three consecutive years. Exporters are still entitled to refunds under the drawback system.

16. Honduras has notified the WTO that between 2004 and 2008 there were no subsidies for exports of agricultural products. However, one enterprise continues to benefit from the (now suspended) Agricultural Export Zones (ZADE) regime, established in 2001, and exports 100 per cent of its production. The ZADE are intended to promote exclusively export-oriented agricultural production, through the establishment of "agricultural export enterprises". The enterprises included in this regime are exempt from the payment of all customs duties and other internal taxes on the goods they import and/or export; these enterprises are also exempt from the payment of income tax. Honduras does not tax exports; coffee is subject to an export levy.

17. In addition to incentives for promoting exports, Honduras has support programmes for exporters. These are intended to improve competitiveness and access to international markets and are aimed primarily at agro-industrial products. Despite the emphasis placed by Honduras on promoting exports and supporting the small exporter, the country has no official export financing or insurance programmes.

18. A major change in Honduran trade policy since its last Review in 2003 has been the adoption of legislation on competition policy and the establishment of institutions for its implementation. This is an important initiative since there is a high degree of concentration in the Honduran market. The legal framework for government procurement has not changed substantially since 2003 and

the same procurement procedures are still in place. The Honduran government procurement system has mechanisms designed to favour domestic enterprises and goods.

19. Mainly due to the entry into force of the DR-CAFTA, the Honduran legal framework for intellectual property rights has been amended, primarily with a view to providing greater protection. Honduras has changed the terms of protection while modernizing the institutions responsible for administering intellectual property law and training their staff, with a view to facilitating and streamlining the registration procedure.

(5) SECTORAL POLICIES

20. The agriculture sector's share of GDP declined during the review period and its growth was erratic. Nevertheless, it continues to be of great importance for the development of the Honduran economy, absorbing about one third of the economically active population and generating more than 50 per cent of the foreign currency earned from merchandise exports, *maquila* excluded. Honduras therefore considers it necessary to maintain protection and offers this sector greater tariff protection than other sectors. It has retained the price band system and the "absorption agreements", which permit the importation of certain grains with tariff preferences if the processors also purchase a specific percentage of the national production of these grains. The country has a number of agricultural support programmes that have been notified to the WTO. Despite the measures to promote the sector, it continues to be characterized by low productivity and modest rates of growth.

21. The manufacturing sector's share of GDP, like that of agriculture, declined during the review period. The sector's tariff protection is below the average applied MFN rate. Honduras also maintains the (above-mentioned) special export regimes (*maquila*) and support for export marketing to promote the development of the manufacturing sector.

22. In 2009, the services sector contributed about 53 per cent of GDP (48.1 per cent in 2003). The main subsectors in terms of their contribution to total value added, and in descending order of importance, were financial services, trade, and communications. The composition of the sector has changed since 2003 when the main subsectors were trade and financial services. Honduras is a net importer of services. Exports of telecommunications services increased as a result of the entry into the domestic market of a fourth mobile telephony operator at the end of 2008.

23. Honduras has made limited commitments in services. Its Schedule of Specific Commitments under the GATS includes commitments in only four of the twelve categories. Honduras made specific commitments in business services, financial services, travel and tourism services, and transport services. In 2005, Honduras made commitments with respect to communications services under Article XXI of the GATS. Honduras' commitments do not reflect the present situation, which is more liberal. Foreign capital plays an important part in the Honduran financial sector. Moreover, in the telecommunications sector, mobile telephony is mostly controlled by foreign enterprises. For fixed telephony, there continues to be a single State operator, which has granted concessions to sub-operators for domestic telephony but maintains exclusive control over international telephony.