

HONDURAS

In 1998, the U.S. trade deficit with Honduras was \$222 million, an increase of \$87 million from 1997. U.S. merchandise exports to Honduras were \$2.3 billion, an increase of \$309 million (15.4 percent) over 1997. Honduras was the United States' 38th largest export market in 1998. U.S. imports from Honduras in 1998 were \$2.5 billion, an increase of \$223 million (9.6 percent) from the 1997 level. The stock of U.S. foreign direct investment (FDI) in Honduras in 1997 was \$183 million, concentrated largely in the manufacturing and service sectors.

IMPORT POLICIES

Tariffs

Honduras is a member of the Central American Common Market (CACM), which also includes Costa Rica, El Salvador, Guatemala and Nicaragua. CACM members are working toward the full implementation of a common external tariff (CET) ranging from 1 to 19 percent for most products. In 1995, the members of the CACM agreed to reduce the CET to between zero and 15 percent, but allowed each member country to determine the timing of the changes. With the exception of certain items, there are no duties for products traded among CACM members. In 1997, tariff rates were reduced to one percent on capital goods, medicines and agricultural inputs, and on raw materials and inputs produced outside of the Central America region. Honduras also intends to reduce its extra-regional tariffs for other goods (intermediate and finished) over the next several years to between 10 and 17 percent.

Agricultural Price Bands

Honduras implemented a price band mechanism for yellow corn, sorghum, rice and soybeans in August 1992. In recent years, corn flour has also been added to the list of products subject to this tariff mechanism. Similar to the price band mechanisms of other countries in the region, the Government of Honduras (GOH) calculates the price band from a time series built on international prices for the prior 60 months on a given product. Imports entering with values within the defined band are assessed a 20 percent tariff. Imports entering with prices above the band are assessed lower duties, according to a predetermined schedule; those imports priced below the band are assessed a higher tariff. Recently the GOH has added a seasonal restriction to the price band. From September to January the minimum allowable duty is 20 percent for corn and 15 percent for all other products. From February to August duties are allowed to fluctuate freely according to the predetermined duty tables of each commodity. This seasonal restriction has been added to provide additional protection to local grain farmers during the main harvest. The United States has strongly opposed this policy, which limits access of U.S. agricultural products.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Although Honduras has eliminated all import licensing requirements, imports of certain key U.S. agricultural products continue to be blocked or limited by phytosanitary and zoosanitary restrictions. Restrictive zoosanitary requirements have blocked U.S. poultry imports for several years. Honduras has also blocked imports of rough rice from the United States by imposing arbitrary phytosanitary requirements which could not be met by U.S. suppliers. After nearly a year, the GOH finally lifted the restriction, but only after the local harvest had passed. More recently, the GOH has begun requiring that U.S. corn shipments to Honduras be inspected at the port of origin by a Honduran official. Although this new requirement does not entirely block U.S. corn shipments to Honduras, it does create a burden to the import process and adds to its cost as

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well. Frequent changes in sanitary and phytosanitary requirements are seldom reported to the WTO as required, and create a great deal of uncertainty among U.S. suppliers and Honduran importers.

Honduran law requires that all processed food products be labeled in Spanish and registered with the Ministry of Health. The laws are inconsistently enforced at present. However, these requirements may discourage some suppliers.

GOVERNMENT PROCUREMENT

The Government Procurement Law (Decree No. 148.5) governs the contractual and purchasing relations of Honduran state agencies. Under this law, foreign firms are given national treatment for public bids and contractual arrangements with state agencies. In practice, U.S. firms frequently complain about mismanagement and lack of transparency of governmental bid processes. These deficiencies are particularly evident in public tenders in telecommunications, pharmaceuticals and energy.

After Hurricane Mitch in October 1998, Congress passed an emergency law allowing the Government to dispense with the normal bidding process and execute direct purchases in reconstruction-related projects. The government is exploring options for a consolidated bidding process for reconstruction related projects.

LACK OF INTELLECTUAL PROPERTY PROTECTION

In 1998, Honduras was placed on the "Watch List" category of the U.S. Government's annual Special 301 Review. A report prepared by the International Intellectual Property Alliance (IIPA) estimates that copyright infringements in Honduras cost U.S. firms \$8.3 million in 1997. There is widespread piracy of many forms of copyrighted works -- movies, sound recordings, software. The illegitimate registration of well-known trademarks has also been a problem. Honduras saw a portion of its trade preferences under the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI) suspended on April 20, 1998 because of its failure to control broadcast television piracy. However, these benefits were restored on June 30, 1998 following government action to suspend and fine the offending stations. In December 1998, the government reaffirmed its commitment to comply fully with the Trade Related aspects of Intellectual Property Rights (TRIPS) Agreement by the January 1, 2000 deadline. Progress is being made in the negotiation of a bilateral IPR agreement with the United States.

Copyrights

The piracy of books, sound and video recordings, compact discs, computer software and television programs is widespread in Honduras. Despite some progress, copyright protection remains problematic. A TRIPS-compliant reformed copyright law should be presented to Congress in early 1999.

Patents

The patent law enacted in September 1993 provides patent protection for pharmaceuticals, although the term of seventeen years from the date of application must be extended by at least three years to meet international standards. Honduran law contains overly broad compulsory licensing provisions and provides no protection for products in the pipeline. A TRIPS-compliant Central American patent and trademark treaty is pending before the Congress.

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Trademarks

The illegitimate registration of well-known trademarks is a persistent problem in Honduras, in spite of 1993 modifications to the trademark law.

SERVICES BARRIERS

Honduras is overdue in providing to the WTO an acceptance of the Fifth Protocol to the General Agreement on Trade in Services, which is necessary to bring its commitments on financial services into effect.

INVESTMENT BARRIERS

Several restrictions exist on foreign investment in Honduras, despite the 1992 investment law. For example, special government authorization is required for foreign investment in the following sectors: forestry, telecommunications, basic health services, air transport, fishing and aquaculture, exploration of sub-surface resources, insurance and financial services, private education services, and agriculture and agro-industrial activities exceeding land tenancy limits established by the Agricultural Modernization Law of 1992 and the Land Reform Law of 1974. The law also requires Honduran majority ownership in certain types of investment, including beneficiaries of the National Agrarian Reform Law, commercial fishing and direct exploitation of forest resources and local transportation.

Honduran law also prohibits foreigners from establishing businesses capitalized at under 150,000 lempiras (about \$11,000). In all investments, at least 90 percent of a company's labor force must be national, and at least 80 percent of the payroll must be paid to Hondurans. Finally, while a one-stop investment window has been instituted in the Ministry of Industry and Trade to facilitate investment, the Ministry has not provided complete information or assistance to the foreign investor. The newly-formed Tourism Ministry has tried to facilitate foreign investment, and in December 1998 Congress passed the first vote (of two required) of a constitutional amendment to allow foreign ownership of coastal land for tourism development purposes.

Since the disaster caused by Hurricane Mitch Honduras has redoubled its efforts to provide a favorable climate to foreign investment. In the last two months of 1998, Congress passed legislation reforming the mining code; allowing concessional operation of airports, seaports, and highways; providing incentives for renewable energy projects (many by U.S. investors); allowing foreign tourism development in coastal areas; and, allowing unrestricted sale of agricultural land regardless of size. Congress earlier passed a law authorizing the sale of 50 percent of the state-owned Honduran telephone company (HONDUTEL) to a foreign partner and the auctioning of band B cellular service. The Government also pledged to accelerate the privatization of the National Electric Company's (ENEE) distribution system.

Historically, U.S. firms and private citizens have found corruption to be a problem and a constraint to foreign direct investment. Corruption appears to be most pervasive in the following areas: government procurement, performance requirements, the regulatory system, and the buying and selling of real estate, particularly land titling. In May 1998, Honduras ratified, adopted and opened for signature the Inter-American Anti-Corruption Convention.

A Bilateral Investment Treaty (BIT) signed with the U.S. in 1995 was ratified by the Honduran Congress and is expected to be sent to the U.S. Senate for ratification in 1999. Provisions for bilateral investment are included in commercial treaties Honduras is negotiating with Costa Rica, El Salvador, Guatemala, Panama and the Dominican Republic. In addition Honduras, along with Guatemala and El Salvador, are in the

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process of negotiating a free trade agreement with Mexico that is expected to include investment provisions. The GOH also has bilateral investment agreements with the UK and Spain.

ELECTRONIC COMMERCE

There is no electronic commerce conducted within Honduras, though several companies are exploring possibilities and Internet users can make purchases from companies in other countries. There are no known barriers to electronic commerce.