HONDURAS

TRADE SUMMARY

The U.S. goods trade surplus with Honduras was $677 million in 2010, up $628 million from 2009. U.S. goods exports in 2010 were $4.6 billion, up 36.8 percent from the previous year. Corresponding U.S. imports from Honduras were $3.9 billion, up 18.4 percent. Honduras is currently the 42nd largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Honduras was $844 million in 2009 (latest data available), up from $787 million in 2008. U.S. FDI in Honduras is mostly in the manufacturing, finance/insurance, and banking sectors.

IMPORT POLICIES

Free Trade Agreement

On August 5, 2004, the United States signed the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR or Agreement) with five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic (the Parties). Under the Agreement, the Parties are significantly liberalizing trade in goods and services. The CAFTA-DR also includes important disciplines relating to customs administration and trade facilitation, technical barriers to trade, government procurement, investment, telecommunications, electronic commerce, intellectual property rights, transparency, and labor and environmental protection.

The Agreement entered into force for the United States, El Salvador, Guatemala, Honduras, and Nicaragua in 2006 and for the Dominican Republic in 2007. The CAFTA-DR entered into force for Costa Rica on January 1, 2009.

In 2008, the Parties implemented amendments to several textile-related provisions of the CAFTA-DR, including, in particular, changing the rules of origin to require the use of U.S. or regional pocket bag fabric in originating apparel. The Parties also implemented a reciprocal textile inputs sourcing rule with Mexico. Under this rule, Mexico provides duty-free treatment on certain apparel goods produced in a Central American country or the Dominican Republic with U.S. inputs, and the United States provides reciprocal duty-free treatment under the CAFTA-DR on certain apparel goods produced in a Central American country or the Dominican Republic with Mexican inputs. These changes further strengthen and integrate regional textile and apparel manufacturing and create new economic opportunities in the United States and the region.

In February 2011, the CAFTA-DR Free Trade Commission (FTC), the central oversight body for the agreement, met for the first time in San Salvador, El Salvador. The FTC reviewed the implementation of the agreement and its trade and economic impact on the region and agreed to certain changes to strengthen the agreements operation. The FTC discussed a broad range of ways to enhance competitiveness in the region and endorsed several initiatives to generate new opportunities for all of the countries to realize the benefits of the CAFTA-DR Agreement, with a heightened focus on small- and medium-sized businesses.

Tariffs

As a member of the Central American Common Market, Honduras applies a harmonized external tariff on most items at a maximum of 15 percent with some exceptions.

However, under the CAFTA-DR, 100 percent of U.S. industrial trade will enter Honduras duty-free by 2015. Nearly all textile and apparel goods that meet the Agreement's rules of origin became duty-free and quota-free immediately, thus creating new opportunities for U.S. fiber, yarn, fabric, and apparel manufacturers.

Under the CAFTA-DR, more than half of U.S. agricultural exports now enter Honduras duty-free. Honduras will eliminate its remaining tariffs on nearly all agricultural products by 2020 (2023 for rice and chicken leg quarters and 2025 for dairy products). For certain products, tariff-rate quotas (TRQs) will permit some immediate duty-free access for specified quantities during the tariff phase out period, with the duty-free amount expanding during that period. Honduras will liberalize trade in white corn through expansion of a TRQ, rather than by tariff reductions.

Nontariff Measures

Under the CAFTA-DR, Honduras committed to improve transparency and efficiency in administering customs procedures, including the CAFTA-DR's rules of origin. Honduras also committed to ensuring greater procedural certainty and fairness in the administration of these procedures, and all CAFTA-DR countries agreed to share with each other information to combat illegal transshipment of goods.

The *Dirección Ejecutiva de Ingresos* (DEI), the Honduran customs and tax authority, has taken over verification of origin certifications from the Ministry of Industry and Trade. The DEI verifies that the origin certifications from producers, exporters, or importers comply with the minimum requirements according to the CAFTA-DR and other international agreements.

GOVERNMENT PROCUREMENT

Under the Government Contracting Law, all public procurement with a value of over one million Lempiras (approximately $53,000) must be conducted through public competitive bidding. Public procurements with a value between 500,000 and 1 million Lempiras (approximately $26,000 - $53,000) can use closed tendering, and contracts less than 500,000 Lempiras (approximately $26,000) are exempt from the bidding requirements. Implementation of the CAFTA-DR eliminated the requirement that U.S. firms must act through a local agent (with at least 51 percent Honduran ownership) to participate in public tenders.

The CAFTA-DR requires the use of fair and transparent procurement procedures, including advance notice of purchases and timely and effective bid review procedures. Under the CAFTA-DR, U.S. suppliers are permitted to bid on procurements covered by the agreement for most Honduran government entities, including key ministries, on the same basis as Honduran suppliers. The anticorruption provisions in the CAFTA-DR require each government to ensure that bribery in matters affecting trade and investment, including in government procurement, is treated as a criminal offense, or is subject to comparable penalties, under its law. Since the CAFTA-DR came into effect, government agencies have routinely declared "emergencies" to circumvent competitive bidding procedures for public procurements, including for large infrastructure projects.

Honduras is not a signatory to the WTO Agreement on Government Procurement.

EXPORT SUBSIDIES

There are no known export subsidies provided by the Honduran government, but it provides tax exemptions to firms in free trade zones. Under the CAFTA-DR, Honduras may not adopt new duty waivers or expand existing duty waivers that are conditioned on the fulfillment of a performance requirement (*e.g.*, the export of a given level or percentage of goods). However, Honduras may maintain such duty waiver measures for such time as it is an Annex VII country for the purposes of the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement). Thereafter, Honduras must maintain any such measures in accordance with Article 27.4 of the SCM Agreement.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

In 2010 Honduras reestablished its IPR prosecutors' office as an independent entity within the Public Ministry in 2010, reversing a 2009 decision to merge it into the common crimes office. However, the United States remains concerned about the prospects for effective IPR enforcement in Honduras given that its IPR enforcement office lacks necessary personnel and resources to wage a truly effective campaign. The United States will continue to monitor Honduras' implementation of its IPR obligations under the CAFTA-DR.

SERVICES BARRIERS

Under the CAFTA-DR, Honduras granted U.S. services suppliers substantial access to its services market, including financial services.

Hondutel, the government-owned incumbent telecommunications operator, officially lost its monopoly on fixed-line telephony services on December 25, 2005. Although there are regulations in place that allow the government to grant licenses, permits, and concessions for different telecommunications services in Honduras, many services continue to be provided through sub-operator agreements signed between Hondutel and private companies. The Honduran Congress is reviewing several draft telecommunications laws. The United States will continue to monitor efforts to introduce new telecommunications legislation to ensure that any new legislation is consistent with Honduras' obligations under the CAFTA-DR.

INVESTMENT BARRIERS

Honduran law places certain restrictions on foreign ownership of land within 40 kilometers of the coastlines and national boundaries. However, recognizing that the constitutional prohibition of foreign property ownership in Honduras was a barrier to development of tourism and the economic potential of Honduras' coastal and island areas, the Honduran National Congress passed a law in 1990 to allow foreigners to purchase properties in designated tourism zones established by the Ministry of Tourism in order to construct permanent or vacation homes.

Inadequate land title procedures have led to numerous investment disputes involving U.S. nationals who are landowners. Resolution of disputes in court often takes several years. There have been claims of widespread corruption in land sales and property registry and in the dispute resolution process, including claims against attorneys, real estate companies, judges, and local officials. The property registration system is highly unreliable, which represents a major constraint on investment. In addition, the lack of implementing regulations can lead to long delays in the awarding of titles in certain regions. A law passed in April 2008 authorized the government to award certain agricultural lands that have been under dispute for more than two years to squatters with only nominal compensation to legal titleholders. A number of properties owned by U.S. citizens are potentially subject to confiscation under this law.

OTHER BARRIERS

Some U.S. firms and citizens have found corruption in government, including in the judiciary, to be a significant concern and a constraint to successful investment in Honduras. Corruption appears to be pervasive in government procurement, issuance of government permits, real estate transactions (particularly land title transfers), performance requirements, and the regulatory system. The telecommunications and energy sectors have proved particularly problematic.

U.S. industry has expressed concern that some investors in Honduras have at times been subject to practices that might be considered anticompetitive. In 2006, the Honduran Congress enacted a competition law, establishing an anti-trust enforcement commission to combat such conduct. Commissioners commenced operations in 2007. From January 2009 through December 2010, six complaints were filed with the commission, and the commission initiated two investigations. All eight cases were investigated; as of December 2010, seven were resolved and one was still pending. In November 2010, after a two-year investigation, the commission fined two cement companies 87 million Lempiras (approximately $4.6 million) for violating the competition law by engaging in collusive pricing. These issues have affected Honduras's ability to attract foreign investment.