HONDURAS

TRADE SUMMARY

The U.S. goods trade surplus with Honduras was $1.1 billion in 2012, down $559 million from 2011. U.S. goods exports in 2012 were $5.7 billion, down 6.7 percent from the previous year. Corresponding U.S. imports from Honduras were $4.6 billion, up 3.3 percent. Honduras is currently the 41st largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Honduras was $930 million in 2011 (latest data available), down from $999 million in 2010.

Free Trade Agreement

The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR or "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. The CAFTA-DR significantly liberalizes trade in goods and services as well as 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 United States hosted a Free Trade Commission (FTC) meeting on January 23, 2012 in Miami. At that meeting the CAFTA-DR countries recognized continued growth in trade and integration, and acted to further strengthen CAFTA-DR institutions and initiatives.

In 2012, the Parties implemented changes to a number of the Agreement's rules of origin for textile and apparel goods to enhance the competitiveness of the region's textiles sector. The changes to these rules of origin were made pursuant to a Decision of the first FTC meeting in February 2011, and are aimed at facilitating regional sourcing and encouraging greater integration of the textile and apparel supply chain in the region. The new rules became effective on October 13, 2012, after the other CAFTA-DR countries had completed their respective domestic procedures, and the U.S. Congress passed legislation implementing the changes for the United States.

IMPORT POLICIES

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.

Under the CAFTA-DR, however, 100 percent of U.S. consumer and industrial goods 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 virtually 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 continual expansion of a TRQ, rather than by the reduction of the out-of-quota tariff.

Nontariff Measures

Under the CAFTA-DR, all CAFTA-DR countries, including Honduras, committed to improve transparency and efficiency in administering customs procedures, including the CAFTA-DR's rules of origin. Honduras passed a law in August 2011 establishing a new inter-institutional Presidential Commission for the Modernization of Customs Services (COPREMSA in Spanish) with the intent to improve the transparency and efficiency of customs procedures. All CAFTA-DR countries, including 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 trans-shipment.

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

GOVERNMENT PROCUREMENT

The CAFTA-DR requires that procuring entities use fair and transparent procurement procedures, including advance notice of purchases and timely and effective bid review procedures, for procurement covered by the Agreement. Under the CAFTA-DR, U.S. suppliers are permitted to bid on procurements of most Honduran government entities, including key ministries and state-owned enterprises, on the same basis as Honduran suppliers. The anticorruption provisions in the CAFTA-DR require each government to ensure under its domestic law that bribery in matters affecting trade and investment, including in government procurement, is treated as a criminal offense or is subject to comparable penalties. Since the CAFTA-DR came into effect, Honduran government agencies have routinely declared "emergencies" to circumvent competitive bidding procedures for public procurements, including for large infrastructure projects. 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. A positive development was the decision of the Honduran Public-Private Partnership Commission, responsible for designing and implementing public infrastructure tenders, to announce in 2012 that it would offer the construction of a new commercial airport as an international bid covered under CAFTA-DR rather than sole source the construction to an existing concessionaire.

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

EXPORT SUBSIDIES

Honduras currently employs the following export incentive programs: Free Trade Zone of Puerto Cortes (ZOLI), Export Processing Zones (ZIP), and Temporary Import Regime (RIT).

Honduras 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. The U.S. Government is working with the Honduran government in an effort to ensure compliance with its CAFTA-DR obligations.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

In 2010, Honduras reestablished its intellectual property rights (IPR) prosecutor's office as an independent entity within the Public Ministry, reversing a 2009 decision to merge it into the common crimes office. While the IPR prosecutor's office has achieved successes in seizing counterfeit goods, 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. In 2012, the United States engaged extensively with Honduras as it was redrafting its trademark law. The United States will continue to monitor Honduras' implementation of its IPR obligations under the CAFTA-DR.

SERVICES BARRIERS

Telecommunications

Hondutel, the government-owned incumbent telecommunications operator, officially lost its monopoly on fixed-line telephony services on December 25, 2005. The government of Honduras is currently engaged in a tender offering to private investors of 49 percent of *Empresa Hondureña de Telefonia Movil* (Ehmovitel), a new mobile services subsidiary of Hondutel. Although there are regulations in place that allow the government to grant licenses, permits, and concessions for different telecommunications services in Honduras, competitive services continue to be provided through sub-operator agreements signed between Hondutel and private companies.

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 the development of tourism and the economic potential of Honduras' coastal and island areas, foreigners are allowed 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 in Honduras. Resolving disputes in court can be very time consuming. 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 impediment to 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. Although widespread concerns remain regarding the protection of land rights, in 2012 the primary supplier of a U.S. company successfully negotiated with the National Land Institute (INA) to avoid the expropriation of its land. However, this type of resolution typically requires involvement by the highest level government officials and rarely occurs through the normal judicial or legislative procedures.

OTHER BARRIERS

Some U.S. firms and citizens have reported corruption in government, including in the judiciary, to be a significant concern and a constraint to successful investment in Honduras. These reports suggest that corruption is pervasive in government procurement, issuance of government permits, real estate transactions (particularly land title transfers), performance requirements, and the regulatory system. The telecommunications, health, and energy sectors appear to be particularly problematic. In response to concerns expressed by investors and the donor community, the government is currently implementing the first four year (2011-2014) transparency and anticorruption plan to address transparency in government processes, including in contracting, hiring, permitting, and procurement. In addition, the government is working to improve transparency and good governance at the municipal level and within federal ministries and has succeeded, for example, in reducing the time it takes to award environmental licenses.

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 antitrust enforcement commission, the Commission for the Defense and Promotion of Competition, to combat such conduct. The Commission commenced operations in 2007, and it has been active in investigating complaints and has fined Honduran firms for price collusion. In November 2010, after a two-year investigation, the Commission fined two cement companies lempiras 87 million (approximately USD $4.6 million) and six sugar companies a total of 62 million (approximately USD $3.1 million) for the violation of competition law applying collusive prices. From January 2009 to December 2010, the Commission initiated investigations into the six complaints that were filed. In November 2011, the Commission had resolved all outstanding cases. In 2012, the Commission began reviewing two new cases and those investigations, as of March 2013, remain open.

Some U.S. firms operating in Honduras have expressed concern about a December 2011 Ministry of Transport decree issued without notice and opportunity to comment that set rates for trucking services within Honduras. The companies are particularly concerned about the precedent of government intervention in private contracts as well as the impact on Honduras' international competitiveness. A lawsuit was filed by several in the international shipping industry to challenge the decree.