

HONDURAS

TRADE SUMMARY

U.S. goods exports in 2014 were \$5.9 billion, up 10.4 percent from the previous year. Honduras is currently the 42nd largest export market for U.S. goods. Corresponding U.S. imports from Honduras were \$4.6 billion, up 2.2 percent. The U.S. goods trade surplus with Honduras was \$1.3 billion in 2014, an increase of \$458 million from 2013.

The stock of U.S. foreign direct investment (FDI) in Honduras was \$901 million in 2013 (latest data available), up from \$849 million in 2012. U.S. FDI in Honduras is led by the manufacturing sector.

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, for the Dominican Republic in 2007, and for Costa Rica on January 1, 2009. The CAFTA-DR significantly liberalizes trade in goods and services and 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 environment.

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, as of 2015, 100 percent of U.S. consumer and industrial goods enter Honduras duty free. Nearly all textile and apparel goods that meet the Agreement's rules of origin also enter Honduras duty free and quota free, creating opportunities for U.S. fiber, yarn, fabric, and apparel manufacturers.

In addition, more than half of U.S. agricultural exports currently enter Honduras duty free. Honduras will eliminate its remaining tariffs on virtually all U.S. agricultural products by 2020 (2023 for rice and chicken leg quarters, and 2025 for dairy products). For certain products, tariff-rate quotas (TRQs) permit some 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. 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.

Honduras established the Presidential Commission for the Modernization of Customs Services (COPREMSA) to improve the transparency and efficiency of customs procedures. COPREMSA's board of public and private sector representatives is developing more efficient permitting (licensing) processes

and deploying interoperable management systems. The United States supports COPREMSA's work through the Pathways to Prosperity "Customs Modernization and Border Management" program.

The Dirección Ejecutiva de Ingresos (DEI), the Honduran customs and tax authority, has assumed responsibility for verification of origin. The DEI verifies that claims of origin comply with the requirements of the CAFTA-DR and other international agreements. DEI has implemented a much stricter and more rigorous approach to customs compliance in the last year. Honduran importers are charged a duty and fines whenever DEI does not accept the claim of origin. U.S. exporters and Honduran importers report that DEI has also begun to charge duties, as well as fines for minor errors that would have been overlooked in the past, and that DEI does not always make clear which information in a claim of origin is in error.

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 procurements covered by the Agreement. Under the CAFTA-DR, U.S. suppliers are permitted to bid on the procurements of most Honduran government entities, including those of key ministries and state-owned enterprises, on the same basis as Honduran suppliers. The anticorruption provisions in the CAFTA-DR require the Honduran 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. Implementation of the CAFTA-DR eliminated the requirement that U.S. firms act through a local agent (with at least 51 percent Honduran ownership) to participate in public tenders.

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. Further, information on public tenders frequently is not available in a timely fashion and official bidding processes are not always followed. The United States will continue to monitor Honduras' government procurement practices to ensure they are applied in a manner consistent with CAFTA-DR obligations.

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.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

Honduras did not appear on the Watch List or Priority Watch list in the 2014 Special 301 Report. Although Honduras maintains its intellectual property rights (IPR) prosecutor's office as an independent entity within the Public Ministry, and despite some successes in seizing counterfeit goods, the United States remains concerned about effective IPR enforcement in Honduras given that its IPR enforcement office lacks necessary personnel and resources to wage a truly effective campaign. Reports of cable signal theft are an additional and growing concern. The United States has engaged extensively with Honduras as it prepared

legislative amendments governing protections for geographical indications, and has stressed the need for use of CAFTA-DR consistent protections and processes, including providing public notice and opportunity for opposition and cancellation, and transparency and impartiality in decision making. The United States will continue to monitor Honduras' implementation of its IPR 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, foreigners are allowed to purchase properties (with some acreage restrictions) 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 registration 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. An especially problematic area has been the north coast, in particular the Bajo Aguan Valley.

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), and the regulatory system. The telecommunications, health, and energy sectors appear to be particularly problematic. The Hernández Administration has undertaken several measures in an effort to address these concerns, including pursuing indictments against former government officials; signing international transparency initiatives, such as the Construction Sector Transparency Initiative; and dedicating resources to bolster existing commitments under initiatives such as the Open Government Partnership, and Extractive Industry Transparency Initiative.

When undertaking large-scale, national capital investments, Honduras relies on its principal public-private partnership mechanism, the Commission for the Promotion of Public Private Partnerships (COALIANZA). By its own estimate, COALIANZA currently is responsible for projects worth approximately US\$4 billion. However, lack of transparency into COALIANZA's processes, its omission from the national budget, and a series of personnel improprieties have diminished its public standing and raised concerns about its efficacy and making it difficult for business to participate in such investments. In response to these concerns, the Honduran National Congress passed reforms to the COALIANZA's enabling legislation that require greater oversight from the Ministry of Finance and devolve its authority to generate its own revenue.