

# HONDURAS

In 1996, the U.S. trade deficit with Honduras was \$155 million, a decrease of \$6 million from the U.S. trade deficit of \$161 million in 1995. U.S. merchandise exports to Honduras were \$1.6 billion, an increase of \$360 million (28.1 percent) from the level of U.S. exports to Honduras in 1995. Honduras was the United States' forty-fifth largest export market in 1996. U.S. imports from Honduras were \$1.8 billion in 1996, an increase of \$354 million (24.6 percent) from the level of imports in 1995.

The stock of U.S. foreign direct investment (FDI) in Honduras in 1995 was \$236 million, an increase of 26.9 percent from the level of U.S. FDI in 1994. U.S. FDI in Honduras is concentrated largely in the manufacturing, finance, and wholesale 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) between ranging 5 to 20 percent for most products. In 1995 the members of the CACM agreed to reduce the CET to between 0 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.

### Agricultural Price Bands

Honduras implemented a price band mechanism for yellow corn, sorghum, rice, and soybeans in August 1992. Similar to the price band practices of other countries in the region, the Government of Honduras calculates the price band from a time series built on international prices for the prior 60 months on a given product. The fifteen highest and lowest prices are eliminated, with the remaining highs and lows establishing the price band. 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. The United States has strongly opposed this policy, which limits access of U.S. agricultural products.

### Customs Documentation and Clearance Procedures

In accordance with its World Trade Organization (WTO) commitments Honduras no longer requires "consular invoicing." The Honduran Government instructed its consulates in June 1995 to end the practice of charging consular fees for the legalization of commercial import documents and instructed its customs authorities to cease requiring consular certification.

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### **STANDARDS, TESTING, LABELING, AND CERTIFICATION**

Although all import licensing requirements have been eliminated, Honduras has resorted to a sanitary inspection system that effectively denies market access to U.S. chicken parts. The Government of Honduras has committed formally not to use sanitary standards to artificially restrict U.S. imports of chicken, rice, and corn. Despite that commitment, Honduran authorities continue to restrict the issuance of sanitary and phytosanitary permits for chicken parts. Although Honduras has announced that it will discontinue its "discretionary" use of sanitary permits to control chicken imports, to date, the United States has seen no movement on this issue.

During 1996, the Government of Honduras implemented strict phytosanitary restrictions which effectively block U.S. exports of rough rice to Honduras. Honduras requires phytosanitary certificates from the country of origin to state that the rice comes from areas free of the *tilletia barclayana* fungus and that the rice itself is free of this fungus. The United States cannot meet this requirement as this harmless fungus is endemic to the United States and all other major rice producing areas of the world. The U.S. Government has voiced its opposition to these practices with Honduras and in the WTO. Although the Government of Honduras has committed formally not to use sanitary and phytosanitary standards to artificially restrict imports of chicken, rice, or corn, it continues to restrict the issuance of phytosanitary permits for rough rice.

### **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 the mismanagement and lack of transparency of the governmental bid processes. These deficiencies are particularly evident in telecommunications, pharmaceuticals, and energy public tenders.

### **LACK OF INTELLECTUAL PROPERTY PROTECTION**

In 1996, Honduras was identified in the "other observations" category of the U.S. Government's annual Special 301 review due to a lack of effective protection of intellectual property rights (IPR). Since 1992, Honduras has been the subject of a continuing review under the Generalized System of Preferences (GSP) for deficiencies in its IPR regime. On September 1, 1993, the Honduran Congress approved comprehensive copyright, trademark, and patent legislation. The Government of Honduras has drafted and submitted to the Honduran Assembly amendments intended to address shortcomings found in Honduras's 1993 copyright law, but that legislation has been pending for more than two years. The United States continues to work with Honduras to improve patent and trademark laws and to better its enforcement, particularly through negotiations on a bilateral IPR agreement and implementation of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The United States continues to monitor the adequacy and effectiveness of IPR protection in Honduras, particularly in the area of copyright protection.

### Copyrights

The piracy of books, sound and video recordings, compact discs, computer software, and television programs is widespread in Honduras. In 1992 the U.S. Trade Representative accepted a petition filed by the Motion Picture Export Association of America (MPEAA) under the GSP legislation which alleged widespread video/cable television piracy, estimated at \$2.5 million in lost revenue per year. Although Honduras enacted a reformed copyright law in August 1993 that addressed many of the substantive concerns raised in the GSP petition, the law failed to establish effective criminal penalties for copyright infringement and contained some technical problems related to cable television piracy. Since then, significant progress has been made toward curbing cable piracy and currently 85 percent of the cable market is legal. However, the payment of royalties by local cable companies to U.S. copyright holders has been late or, in some cases, local companies have not concluded royalty contracts. In May 1995, the Government of Honduras submitted to Congress major reforms in its copyright laws. This legislation is still under consideration.

A report prepared by the International Intellectual Property Alliance estimated that losses in Honduras due to copyright infringements cost U.S. firms \$5 million in 1996.

### Patents

The patent law enacted in September 1993 provides patent protection for pharmaceuticals, although the patent term of seventeen years from the date of application must be extended by at least three years to meet international standards.

### Trademarks

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

### INVESTMENT BARRIERS

The Honduran Government reserves the right to reject any foreign investment based upon the effect on economic activity, market stability, and other factors. Establishment of banks and life insurance companies is subject to approval by the Central Bank, in accordance with market needs; foreign ownership of other insurance companies is limited to 40 percent. Under Honduran law, special government approval must be obtained to invest in the tourism, hotel, and banking services sectors. In addition, under the 1992 investment law, special government approval must be obtained for foreign investment in the forestry, telecommunications, air transport, and aquaculture industries. This law also requires majority Honduran ownership in certain areas, such as investments in commercial fishing, direct exploitation of forest resources, local transportation, and those areas benefiting directly from the national agrarian reform law. Foreign investors are prohibited from holding a majority stake in foreign exchange trading companies. Moreover, foreign owners may not hold a seat or provide direct brokerage services in either of Honduras' two stock exchanges. Furthermore, the Honduran Government prohibits the establishment of investments of less than 150,000 lempiras (about \$11,500).

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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 recurring following areas: government procurement, performance requirements, the regulatory system, and in the buying and selling of real estate, in particular, land titling. President Reina's "moral revolution" has helped thwart corruption, although it remains a serious problem.

The United States and Honduras signed the U.S.-Honduras Bilateral Investment Treaty (BIT) on July 1, 1995. The BIT has not yet been ratified by either the U.S. or the Honduran Congresses.