

# HONDURAS

## TRADE SUMMARY

In 1999, the U.S. trade deficit with Honduras was \$344 million, an increase of \$122 million from 1998. U.S. merchandise exports to Honduras were \$2.4 billion, an increase of \$47 million over 1998. Honduras was the United States' 38<sup>th</sup> largest export market in 1999. U.S. imports from Honduras in 1999 were \$2.7 billion, an increase of \$168 million from the 1998 level. The stock of U.S. foreign direct investment (FDI) in Honduras in 1998 was \$186 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) of zero to 15 percent for most products. With the exception of a limited number of items (e.g., coffee, sugar, corn flour, alcoholic beverages), there are no duties for products traded among CACM members. However, due to recent tension between Honduras and Nicaragua over their Caribbean maritime boundary, the Government of Nicaragua imposed an extraordinary 35 percent tariff on Honduran products in December 1999. To date, the Honduran Government has not retaliated. The Central American Court has instructed Nicaragua to lift the sanctions.

According to the 1997 Tariff Law, Honduras reduced its tariffs to one percent on capital goods, medicines and agricultural inputs, and on raw materials and inputs produced outside of the region. Tariffs on final goods were reduced to 17 percent on December 31, 1999. Honduras intends to reduce its extra-regional tariffs for other goods (intermediate and finished) over the next several years to between zero and 17 percent.

## Non-tariff Measures

Honduras currently implements a price band mechanism for yellow corn, sorghum and corn meal. This price band is calculated from a time series built on international prices for the prior 60 months for the product in question. The 15 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 Government of Honduras also has seasonal import restrictions to protect local farmers during the main harvest. 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 set according to predetermined duty tables for each commodity. Additionally, the Government, farmer groups and importers have agreed to a quasi-tariff-rate quota in which the price band will be in effect until local grain supplies are exhausted, after which a one percent duty will be applied to imports. These policies limit access of U.S. agricultural products.

Honduras committed to comply with its obligations under the WTO Customs Valuation Agreement by January 1, 2000, with very limited reservations (none of which are for agricultural products). This agreement prohibits the use of arbitrary or reference pricing.

## STANDARDS, TESTING, LABELING AND CERTIFICATION

Although Honduras has eliminated all import licensing requirements, imports of certain U.S. agricultural products continue to be blocked or limited by phytosanitary or zoosanitary restrictions. Restrictive zoosanitary requirements have blocked U.S. poultry imports for several years. 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.

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Honduran law requires that all processed food products be accompanied by a translation into Spanish whenever the label is in another language. In addition, these products must be registered at the Division of Food Control in the Ministry of Public Health. Although these laws are inconsistently enforced, though they may discourage some suppliers.

Some import restrictions, based mainly on phytosanitary, public health, public morale and national security grounds, remain. Restrictions are imposed on firearms and ammunition, toxic chemicals, pornographic material and narcotics. Other import restrictions are applied to chicken, meat and cosmetics.

### **GOVERNMENT PROCUREMENT**

Under Honduran contracting law, all public works contracts over \$14,000 must be offered through open competitive bidding. To participate in public tenders, foreign firms are required to act through a local agent. Firms acting in this capacity must be at least 51 percent Honduran-owned, unless the procurement is classified as linked to a national emergency. In theory, foreign firms are given national treatment for public bids. In practice, U.S. firms complain about the mismanagement and lack of transparency in Honduran Government tenders. These deficiencies are particularly evident in the public bidding for telecommunications, pharmaceutical and energy contracts. Honduras is not a signatory of the WTO Agreement on Government Procurement.

### **INTELLECTUAL PROPERTY RIGHTS PROTECTION**

In 1998, Honduras was placed on the Special 301 "Watch List" for its failure to afford adequate protection to intellectual property rights. On April 20, 1998, USTR suspended a portion of Honduras' GSP and CBI benefits because of the failure of the Government of Honduras to take action to curtail broadcast television piracy. These benefits were restored on June 30, 1998, following Government moves to suspend and fine the offending stations. The

Government continues to monitor television stations for broadcast piracy, and no further complaints have been received.

January 1, 2000, was the deadline for Honduras to comply with its WTO obligations under the Trade-Related Aspects of Intellectual Property Rights (TRIPS). Two new laws to correct deficiencies in previous legislation on copyrights, patents and trademarks were passed in December 1999. The Ministry of Industry, the National Telecommunications Commission and the Prosecutor General's Office will have enforcement responsibilities for the new legislation.

Honduras and the United States initialed a Bilateral IPR Agreement in March 1999. Honduras became a member of the World Intellectual Property Organization (WIPO) in 1983 and ratified the TRIPS Agreement in 1994.

#### **Copyrights**

In December 1999, the Honduran Congress passed a new copyright law intended to bring Honduras into compliance with its TRIPS obligations. This law was published in the Official Gazette on January 15, 2000. The updated law adds more than 20 different criminal offenses related to copyright infringement and establishes fines and suspension of services which can be levied against offenders. The piracy of books, sound and video recordings, compact discs, and computer software is still widespread in Honduras; the new law will be important in the Government's effort to reduce these copyright practices.

#### **Patents and Trademarks**

Honduras ratified the Paris Convention for the Protection of Industrial Property in 1994. The Honduran Congress passed a new Industrial Property Law in December 1999, which covers both trademarks and patents. This law was published in the Official Gazette on February 5, 2000. Modifications to the Patent Law of 1993 now include patent protection for

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pharmaceuticals, extending the term of protection from 17 to 20 years to meet international standards. The term for cancellation of trademarks for lack of use has been extended from one year to three years. The illegitimate registration of well-known trademarks has been a persistent problem in Honduras. Efforts to negotiate a TRIPS-compliant Central American Patent and Trademark Treaty have been unsuccessful. Therefore, each country will undertake to meet its TRIPS commitments individually. Draft legislation (the Law to Protect Integrated Circuit Schemes) is pending before Congress, with passage expected in early 2000.

### INVESTMENT BARRIERS

The 1992 Investment Law removed foreign ownership restrictions in most sectors. Companies that wish to engage in agriculture, commercial fishing, forestry or local transportation must be majority-owned by Hondurans.

In addition, special Government authorization is required for foreign investment in the following sectors: forestry, telecommunications, basic health, air transport, fishing and aquaculture, mining, insurance, financial services, private education and agricultural and agro-industrial activities exceeding land tenancy limits established by law.

Foreigners are barred from ownership of small businesses with equity of less than 150,000 lempiras (about \$11,000). Foreign ownership of land within 40 kilometers of the coast and border is constitutionally prohibited, though some exceptions are provided for tourism investments. A proposed constitutional amendment to modify these prohibitions was dropped in 1999 due to opposition by minority groups living along the Caribbean coast. Honduran law mandates that 90 percent of employees and 80 percent of the payroll must be Honduran for all investments.

In the last two months of 1998, Congress passed legislation reforming the mining code; opening

up concessional operation of airports, seaports and highways; providing incentives for renewable energy projects; allowing some 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 51 percent of the state-owned telephone company (Hondutel) to a foreign partner and the auctioning of "Band B" cellular service. A bill authorizing privatization of the National Electric Company's distribution system has been introduced in Congress. The privatization of the telephone company and the concession of airport operations is expected to be completed by mid-2000. Implementation of other incentive laws discussed above has been slow.

### SERVICES BARRIERS

Honduran law limits participation in local transportation, insurance, radio and television stations (and distributorships) to Honduran nationals. Foreigners are prohibited from holding seats on Honduras' two stock exchanges. Honduran professional bodies heavily regulate the licensing of foreigners to practice law, medicine, engineering, accounting and other professions.