

A Primer on Exporting to Honduras¹

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Introduction

Every year the U.S. Department of State publishes extensive Country Commercial Guides for a large number of countries. These guides provide a great deal of information useful to individuals interested in developing export markets either through direct exports or through direct foreign investment. This paper provides an abridged version of the Country Commercial Guide for Honduras as well as supplemental information of direct relevance to agribusiness firms. It is hoped that the information contained in this report provides a useful starting point for individuals interested in exploring export or investment opportunities in Honduras.

Note: County Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact Stat-USA by telephone (1-800) STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>, <http://www.state.gov>, and <http://www.mac.doc.gov>. They can also be ordered as a hard copy or on diskette from the National Technical Information Service (NTIS) by telephone (1-800) 553-NTIS. American exporters seeking

general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by telephone (1-800) USA-TRADE; or by fax (202) 482-4473.

Economic and Political Overview

The United States is Honduras' chief trading partner, supplying over half of Honduras' imports and purchasing about half of its total exports. In addition, at US\$54.5 million, the United States continues to be the dominant source of foreign direct investment (FDI) in Honduras, representing 38% of total FDI. The Honduran government is generally open to foreign investment. Restrictions and performance requirements are fairly limited. Honduras is the third largest exporter of apparel and textile products to the U.S. market behind Mexico and China, and the first among Central America and countries enjoying Caribbean Basin Initiative benefits.

However, a slowed economy during the last two years has had its effect on the demand for U.S. goods. In 2002, real GDP (Gross Domestic Product) growth fell to 2.5%, down from 2.6% in 2001 and 6.3% in 2000. Since the population growth rate is also about

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2.5%, Honduras has experienced essentially zero real per-capital growth over the last two years. However, Honduras' real GDP growth was the second highest in Central America, following only Costa Rica's 2.8% growth. Construction declined 14.6%, while a 4.8% increase in agricultural activity was led by increased corn production (22.0%), rice (21.2%), and beans (43.8%). Labor conflicts and bad weather conditions negatively affected the banana harvest and sugar production, causing a combined export loss of US\$44.7 million, compared with revenues from bananas and sugar in 2001.

Honduras' national currency, the lempira, remains strong and experienced an annual depreciation of just 6.3% (5.92 lempira = 1 dollar in 2001) (16.92 lempira = 1 dollar in 2002). Coffee has once more become Honduras' top export product, with revenues totaling US\$182.5 million in 2002 (a 14% increase from 2001 but still not equivalent to pre-Hurricane Mitch levels of US\$430 million as reported for 1998). In 2002, banana export revenues dropped below coffee, totaling US\$172.4 million, down from US\$204.2 million earned in 2001. According to Central Bank data, the flow of foreign direct investment (FDI) into Honduras in 2002 totaled US\$143 million. At US\$54.5 million, the United States continues to be the dominant source of FDI in Honduras, representing 38% of all foreign direct investment.

The agricultural and livestock sector, traditionally the most important area of economic activity in Honduras, accounted for about 13% of GDP in 2002, and employed more than 40% of the work force. Aided by mildly recovering world prices, coffee accounted for 21.6% of all Honduran exports in 2002, up from just 12% in 2001. Coffee revenues increased to US\$182.5 million, compared to US\$160 million in 2001, but still well below the US\$340 million recorded in 2000. Banana exports dropped significantly to US\$172.4 million, down US\$31.8 million from the US\$204.2 million in exports recorded in 2001, which is equivalent to a drop of 15.6% in value and 8% in volume. Sugar exports had the largest reported drop in exports, totaling just US\$17.5 million. Sugar exports declined 39% at a loss in value to the Honduran economy of US\$12.9 million.

Marketing U.S. Products and Services

There are a number of factors that should be considered in exporting products to Honduras. This section provides a brief overview of many critical factors that must be considered.

Establishing a Business

Foreign businesses setting up operations in Honduras are subject to the Commercial Code, which recognizes several types of mercantile organizations: individual ownership, general partnership, simple limited partnership, limited liability companies, corporations, and joint stock companies. In July of 2002, the government of Honduras ratified a law on simplification of administrative procedures in establishing a company. Through this new legislation, the government expects to streamline procedures and eliminate a series of administrative obstacles involved in the process, thereby reducing the steps for establishing an office from up to six months to a maximum of 40 days.

The Honduran government has a “one-stop shop” in the Ministry of Industry and Trade to deal with investors, especially with investment registry procedures. To ensure compliance with all the investment protection guarantees established by the 1992 Investment Law, a U.S. company should obtain an “Investment Certificate” from the Ministry of Industry and Trade.

Distribution / Sales Channels

Distribution channels in Honduras are similar to those in the United States. However, Honduras has fewer levels of distribution and a more limited number of specialty, chain, and department stores. Tegucigalpa and San Pedro Sula are the major distribution centers for imported products. The most common alternative channels include selling directly to customers, selling through intermediaries based in the United States, and selling through local distributors/representatives. American firms will find that a single distributor or representative is sufficient to cover all of Honduras, given its relatively small size.

Agents / Distributors: Finding a Partner

Foreigners exporting to Honduras are not required by law to sell through an agent or distributor, except when selling to the government. Although a U.S. firm may export directly to Honduran companies, appointing a local agent, representative, or legal advisor is strongly recommended to help with import procedures, sales promotion, and after-sales service.

Exporters of pharmaceuticals, agro-chemicals, food items, animal feeds, and medicines are required to register their products before they can be sold in the Honduran marketplace. Pharmaceuticals, food items, and medicine-related products must be registered with the Ministry of Public Health. Agro-chemicals and animal feeds must be registered with the Ministry of Natural Resources.

The U.S. Department of Commerce offers several services to U.S. firms interested in finding a partner or distributor for their product or service. The U.S. Commercial Service (USCS) offers free and intensive one-on-one counseling plus low-cost, highly effective programs to help U.S. businesses establish or expand their foreign markets. The Commercial Section of the U.S. Embassy in Honduras can locate interested, qualified representatives in potential markets in Honduras through its International Partner Search (IPS) service. A U.S. firm may also check the background and reputation of a prospective partner through the International Company Profile Report (ICP). Through its Gold Key Service, the Commercial Section can schedule appointments, arrange translators, and make reservations for U.S. businesses searching for partners or customers in Honduras. The IPS and ICP, as well as other valuable services, are also available for a nominal fee through the U.S. Export Assistance Centers (USEAC) of the U.S. Department of Commerce. Additional information on export-related assistance and market information offered by the federal government for U.S. companies is available online at <http://www.export.gov> and by telephone toll-free (1-800-USA-TRADE).

Direct Marketing

Direct marketing is a relatively new concept in Honduras, mainly because telecommunications and mail-delivery infrastructures are not well developed for this type of marketing. Mail advertising of products and services is generally conducted through credit card companies, thus limiting the target market only to their respective credit card holders. Local company listings and mailing information can be obtained through chambers of commerce and industry associations in the country.

Electronic commerce (e-commerce) is gradually evolving in the Honduran market, with local internet connectivity rapidly developing at both the private and government levels. Although local statistics are unavailable, an increasing number of companies are starting to utilize computer sales as an additional distribution channel in Honduras.

Franchising

In recent years the number of U.S. franchises operating in Honduras has grown rapidly. There are about 58 foreign firms now operating in Honduras under franchising agreements. Most of these firms are U.S. fast-food and casual restaurants. In general, demand in this sector has been spurred by the local market need for quick services, convenient hours and locations, quality products, and solid customer service.

The Commercial Section is receiving an increasing number of requests from local entrepreneurs about U.S. franchises. This is an area well worth exploring for growth and expansion of U.S. business. Regional stability and growth in investor confidence have contributed directly to the increase in the availability of U.S. franchises in various economic activities. Some of the positive market entry factors found in Honduras for franchisers include the availability of suppliers and personnel, the absence of trade barriers, and a high receptivity to U.S. goods and services (especially if no equivalent local product or service exists). Honduras has no locally developed franchises.

Joint Ventures / Licensing

A wide variety of opportunities for investment and strategic alliances are offered through joint venture initiatives. The 1992 Investment Law provides that, with few exceptions, there are no limits on the percentage of capital that can be owned by a foreigner. Thus, no special policy exists to regulate joint ventures, except for certain sectors where majority control must be in the hands of Honduran nationals. These include companies that wish to take advantage of the Agrarian Reform Law; wish to obtain commercial fishing rights; are local transportation companies; are representatives, agents, and distributors for foreign companies; or seek to operate radio and TV stations. In general terms, the greatest opportunities for joint ventures can be found in the industrial, mining, agricultural, tourism, power generation, forestry, construction, and service sectors. The Commercial Section regularly reports to the U.S. Department of Commerce about Honduran firms interested in pursuing joint ventures in various industries.

The Foundation for Investment and Development of Exports (FIDE), a private institution dedicated to supporting the development of new export and investment sectors, works with local businesses to strengthen their capacity to attract foreign joint venture partners, and locates appropriate manufacturing facilities for investors.

Selling Factors / Techniques

When selling in Honduras, U.S. exporters must take into account that, for marketing purposes, the country is divided into two regions: the North Coast, including San Pedro Sula (the country's commercial and industrial capital), and the Central region, which includes Tegucigalpa (the political capital and largest city).

Price is among the most important selling factors in Honduras. The sales promotion and customer service efforts of U.S. companies become extremely helpful. American products are often preferred based on quality, technology, reliability, and availability factors.

Because of high local interest rates generally offered only for the short term, importers/distributors and Honduran government agencies often have problems securing funds to purchase imports. American exporters offering attractive financing terms on sales to Honduran traders have the best chances of gaining market share.

As in most Latin American countries, a good personal relationship with prospective customers is basic to penetrating the market. While it may take a little longer than is customary in the United States to consummate a business relationship, the investment in time can pay off in long-lasting and mutually profitable alliances.

Advertising / Trade Promotion

Honduran newspapers are considered one of the best ways for advertising products and services.

In addition to the export promotion programs of the U.S. Department of Commerce, the Commercial Service in Tegucigalpa can assist U.S. companies through trade missions, seminars, conferences, catalog shows, and matchmaker events. These programs are conducted periodically on a cost-recovery basis with pre-approved budgets. There is a limited number of privately organized trade promotion events in Honduras. Located in the city of San Pedro Sula, Expocentro is the biggest local trade exposition center; holding approximately 12 trade shows a year.

Sales Service / Customer Support

The availability of adequate service and support frequently makes a difference in purchasing decisions, especially by the government. In general, it is important to secure sales through an established, reputable distributor that offers an adequate service infrastructure. American companies should consider providing training, technical assistance, and sales support to their local counterparts, particularly for products that require periodic maintenance and service.

Product Pricing

American exporters should keep in mind the relatively small size of the Honduran market and the high elasticity of demand for consumer products when devising marketing strategies. Price is one of the most important elements that influence the receptivity score of most Honduran imports. In many cases, Honduran businessmen buy directly from abroad if they believe the cost of imports available in the local market is too high. American exporters should carefully analyze both the cost approach and the market approach when making pricing decisions.

Price escalation represents another important consideration in terms of export retail pricing. Products imported into Honduras are usually priced based on the CIF value, import duties, in-country transportation costs, and distributor margins.

The Honduran government controls the price for coffee. In addition, it keeps an informal control over prices of certain staple products (e.g., milk and sugar), by pressuring producers and retailers to keep prices as low as possible. The local sales tax is 12% for most goods. Products exempted from the 12% tax include staple foods, purified water, agrochemicals, agricultural machinery and tools, and capital goods (e.g., trucks and tractors). A 15% sales tax is also assessed on alcohol, cigarettes, and tobacco products. The elimination of a 1% tax applied on the FOB value of all articles exported was approved by the government in 2002, whereas export taxes on seafood, sugar and live cattle were eliminated in 2000.

Selling to the Government

The State Contracting Law of 2001 governs government procurement contracts and bidding processes. To participate in public tenders, foreign firms are required to act through a local agent. By law, local agency firms must be at least 51% Honduran-owned, unless the procurement is classified as a national emergency. Foreign companies may also appoint a local representative through a power of attorney. This representative, who will assist in obtaining the tender specifications, meeting deadlines for submission, and preparing bid offers in Spanish, can be a Honduran citizen, a Honduran company, or a resident of Honduras.

In an effort to increase transparency in government procurement practices, various bidding processes of government ministries, state-owned companies, and other public sector agencies are currently being handled by the United Nations' Development Program (UNDP). Despite these efforts, complaints about mismanagement and lack of transparency during participation of U.S. firms in local government tenders are still prevalent. Interested U.S. businesses can access many of these bids through the Trade Opportunities Program (TOP), the National Trade Data Bank (NTDB), and the Electronic Bulletin Board (EBB), which are product services of the U.S. Department of Commerce.

IPR Infringement Protection

The protection of intellectual property rights (IPR) is handled by the IPR Division of the Ministry of Industry and Trade. The Division handles the registration of patents, trademarks, and copyrights, as well as any complaints regarding their infringement. With the exception of new legislation concerning plant varieties and integrated circuits still pending in the National Congress, Honduras is largely in compliance with the Trade Related Aspects of Intellectual Property Rights (TRIPS) Division and Attorney General's office cite procedural problems and a lack of resources as impediments to effective enforcement.

Need for a Local Attorney

Selecting a competent and reliable local attorney is an important first step to doing business in Honduras. The advice and counsel of a local attorney is essential to opening a business and to understanding Honduran judicial and administrative systems. The Economic/Commercial Section maintains a list of attorneys with experience assisting U.S. firms.

Agribusiness Industry Prospects

Corn

Corn is the grain produced on the largest scale in Honduras and is utilized mainly for human consumption. However, production is not sufficient

to satisfy demand. Lack of affordable credit for grain farming, poor seed quality, several consecutive years of weather anomalies, among other factors have prevented Honduras from becoming self-sufficient. Given that production is mostly of white corn, imports of yellow corn from the United States are needed to manufacture feed for the poultry, livestock, and swine industries. According to the government, 60% is for agroindustry (feed, corn meal, and snacks) and 40% is for domestic consumption.

The agricultural situation has been favorable for the development of major crops, despite identification by the scientific community of the “La Nina” weather phenomenon (which causes increased rain); a condition that will not have a major impact in Honduras. However, rains have been scattered, so soil moisture is low, which could affect some crop yield. Preventive actions have been planned by the government, such as the expansion of irrigation systems in key areas.

Government numbers show a total of 500,000 metric tonnes (MT) of corn being produced in 2002. For 2003 production was expected to increase to 520,000 MT. Import needs were 298,000 MT for 2002 and 225,000 MT for 2003. Export prospects for U.S. corn are bright because Honduras will probably need to import higher amounts in the future, with the vast majority of yellow corn imports likely coming from the United States. Honduras is ranked 27th among the 35 country markets of U.S. coarse grains imports (the category in which corn is included).

Rice

Of all the grains produced in Honduras, rice is produced on the smallest scale. Chronic production problems have not allowed domestic rice farmers to increase their output to keep up with demand. As a result, rice imports have become a necessity in Honduras. Historically, virtually all rice imports have been from the United States. Local rice millers prefer to import paddy rice for price reasons and to keep their plants running. However, milled rice is also imported into Honduras. The United States exported 135,573 MT of rice to Honduras in 2001 and 145,441 MT in 2002. Honduran import demand is expected to remain strong. Honduras is ranked sixth among the leading 35 country markets importing U.S. rice.

Wheat

Because its land and climate are unsuitable for commercial wheat farming, Honduras does not produce wheat in any significant quantities. Honduras depends on imports to fill its wheat demand. Total imports were 204,000 MT in 2002, with the vast majority coming from the United States. For 2003, total imports were expected to increase to 206,000 MT. The United States should remain Honduras' main source for wheat, both through commercial channels and donations. Honduras is ranked 25th among the leading 35 country markets importing U.S. wheat.

Soybean Meal

The growing poultry and shrimp sectors in Honduras have triggered increasing demand for soybean meal in recent years. Traditionally, Honduras has filled virtually all of its soybean meal demand from the United States. Domestic production is negligible and is not likely to increase significantly in the near future. The United States exported 71,000 MT of soybean meal to Honduras in 2002 and 76,000 MT in 2003. Continued expansion in the feed industry, particularly poultry production, should continue to fuel the demand for U.S. soybean meal in the coming years. Honduras is ranked 26th among the leading 35 country markets importing U.S. soybean meal.

Consumer-Oriented Products

In 2001, consumer-oriented agricultural exports to Honduras registered the highest export levels since 1970. The United States exported US\$46 million in consumer-oriented products in 2002, and US\$55 million in 2003. Strong demand for imported food products over recent years is due to development in food distribution, particularly at the retail level, and to trade liberalization during the 1990s, which has provided consumers greater access to imported products.

Products present in the market with good sales potential:

- snack foods.

- breakfast cereals and pancake mix.
- dog and cat foods (dry type).
- fresh fruit (especially apples, grapes, pears, and plums).
- red meats, chilled or frozen (specially prime pork and beef cuts).
- processed fruits and vegetables.
- wine and beer.
- other category of consumer-oriented and intermediate products.

Domestically and regionally produced breakfast cereals, snacks, canned goods, juices, and beers may offer a significant degree of competition. Nonetheless, U.S. consumer-oriented products enjoy a significant edge in Central America. A significant number of middle income and wealthy consumers in the area have been to the United States, so they know the quality of U.S. products and are familiar with U.S. brands.

Moreover, many Hondurans have access to U.S. cable TV, which helps influence the purchasing habits and diet of many consumers. Continued expansion of U.S. fast-food franchises and increased development in the tourism sector promise to keep demand for imported food products on the rise. For further information on the Retail Food sector, please refer to the U.S. Department of Agriculture's latest Retail Food Sector Report and Exporter Guide.

Trade Regulations and Standards

Trade Barriers

After the 1990 Economic Reform Program, Honduras moved towards a more liberalized international trade regime, aimed at eliminating trade barriers and strengthening its commercial relations with the rest of the world.

Honduras belongs to the Central American Uniform Tariff Schedule (SAC) and the General Treaty for Central American Economic Integration, both of which govern imports into Honduras. The reduction of import duties has remained an important

item on the agenda of the Central American countries since 1995. Ad valorem duties are applied to most products and, in some cases, selective consumption taxes.

Imports of vegetable and animal origin must fulfill sanitary conditions. Zoo-sanitary permits are obtained through the Ministry of Agriculture and Livestock in accordance with sanitary import/export regulations. When considered harmful, imports are regulated by the Ministry of Public Health. In the case of food and beverage products, these must fulfill the same registration requirements established for national products in relation to residual chemical content, artificial flavoring, coloring, and preservatives. Additional information may be obtained through the U.S. Department of Agriculture's Food and Agricultural Import Regulations and Standards (FAIRS) Report on Honduras.

Customs Valuations

The normative and administrative operations of the local custom system are regulated by the Central American Uniform Customs Code (CAUCA) of April 1, 2003. On February 14, 2000, Honduras implemented the World Trade Organization's (WTO) Customs Valuation Agreement, which relates to invoice value (the price actually paid for the goods).

On August 29, 2000, Honduras, along with Nicaragua, joined the Customs Union formed by Guatemala and El Salvador in 1996. To facilitate Customs' processing, El Salvador and Guatemala established satellite Customs offices at the Honduran port of Puerto Cortés and the El Amatillo border crossing between Honduras and El Salvador. Implementation of the Customs Union is ongoing and expected to be implemented by 2005.

The Honduran Customs Directorate operates under the Ministry of Finance. For further customs information, contact the Customs Directorate (Dirección Ejecutiva de Ingresos, or DEI).

Honduras is a member of the Central American Common Market (CACM). In theory, there are no duties for products traded among CACM members, although exceptions do exist. In 1995, CACM

members agreed to reduce and harmonize the common external tariff (CET) at 0% to 15% for most products, but allowed each member to determine the timing of the reductions. In 2002, Honduras lifted tariffs on capital goods and raw materials for those imports produced outside the CACM. Additionally, tariffs on most non-CACM intermediate goods were reduced to 10%, and tariffs on final goods were reduced to 15%.

A general 12% sales tax is applied to most products. Goods exempted from this tax include staple foods, agro-chemicals, agricultural machinery and tools, and capital goods (e.g., trucks and tractors). A 15% sales tax is applied to beer, brandy, compound liquors, other alcoholic beverages, cigarettes, and other tobacco products. A 10% selective consumption tax is also applied to some products considered non-essential, such as alcoholic beverages.

Several changes in grain duties in 1999 culminated in a combination price band mechanism and absorption agreement for corn, grain sorghum, and corn meal. Under the price band mechanism, duties vary from 5% to 45%, depending on the import price. Rice farmers and millers have also reached a similar absorption agreement. However, in the case of rice, duties have been fixed at 1% for rough rice and 45% for milled rice for signers of the agreement. For everyone else the duty is 45% across the board on all rice products.

Standards

Honduras has been a member of the International Standards Organization (ISO), through the Science and Technology National Council (COHCIT), since January 2000. COHCIT has established an information center to service local firms interested in obtaining all details related to norms and standards for ISO certification. In addition, the Standards and Metrology Division of the Ministry of Industry and Trade has recently established a Quality Management Technical Committee, which is responsible for reviewing ISO 9000 and ISO 14000 technical norms before submitting a formal certification request to the National Council.

Labeling Requirements

Labeling requirements for merchandise in general are established under Article 9 of the Consumer Protection Law, Decree 41-89 of 1990. Enforcement of marking and labeling regulations is conducted by the General Directorate of Production and Consumption of the Ministry of Industry and Trade. Special regulations also apply to medicines and agricultural products under the Health Code and the Phyto Zoo Sanitary Law, respectively.

In general, labels of all consumer-oriented products are required to include the following basic information: name of the product, name of the manufacturer, country of origin, sales price, elaboration and expiration dates, net content, list of ingredients, and any applicable health warnings. Labeling information for products manufactured outside of Honduras should be standardized according to the requirements of their country of origin.

Labeling requirements for food products are very specific. Honduran law requires that all processed food products be labeled in Spanish and registered with the Division of Food Control (DFC) of the Ministry of Public Health.

Temporary Entry Provisions

The Temporary Import Law (RIT) allows exporters to introduce raw materials, parts, and capital equipment into Honduran territories exempt from surcharges and Customs duties as long as the material or part is to be incorporated into a product that is exported outside of the country. This law also provides a 10-year tax holiday on profits from these non-traditional exports, under certain conditions. Interested parties may obtain authorization for this program through the Ministry of Industry and Trade. Amendments made to the RIT law in 1997 allow manufacturers to export their products into other Central American countries. These amendments also enable local importers to resell the machinery and equipment no longer needed, by paying an import duty based on its CIF value.

Temporary entry requirements for goods such as commercial samples, sales displays, and other items

for use at exhibits and trade shows are established under Article 73 of the Honduran Customs Law, Decree 212-87. Customs legislation allows duty-free admission of such products, as well as for items to be used for scientific and entertainment purposes, for up to three months. Temporary entry is granted on making a deposit equivalent to the import duty applicable to the specific product. The guarantee is refunded at the time of re-exporting the product.

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Import Controls

Import/export documentation includes commercial invoice; bill of lading (for ocean or surface freight); airway bill (for air freight); certificate of origin, or certificate of title for vehicles; and phyto- or zoo-sanitary certificate (where appropriate).

The Honduran government insists that sanitary permits be obtained for imported foodstuffs. All

commercial imports must also be accompanied by proof that the dollars used to purchase them were acquired through the Honduran commercial banking system.

Import restrictions are mostly based on phyto-sanitary, public health, and national security factors.

Honduras did not negotiate any tariff rate quotas when it became a member of the WTO. It does however, have limitations on imports of rice and corn to protect local production. Imports of these two products during harvest time are not allowed. In addition, Honduras does not allow imports of fresh, chilled, or frozen poultry meat because of phytosanitary barriers.

In general, all import license requirements have been eliminated. However, in the bilateral negotiations on Honduras' accession to the GATT, the Honduran government committed to using GATT-consistent measures to protect basic grains and poultry. In addition, zoo-sanitary restrictions limit market access to fresh, chilled, and frozen poultry meat.

Imports of raw and processed agricultural products are reviewed by the National Plant and Animal Health Service (SENASA) of the Ministry of Agriculture and Livestock. To obtain an import permit, all importers of food products, additives, and inputs used in food processing must submit the following documents to SENASA: Phyto- or Zoo-Sanitary Import Permit Request provided by SENASA; Certificate of Origin; Pro-Forma Invoice; and Pre-Application of Inspection.

SENASA requests the issuance of Phyto- or Zoo-Sanitary Certificates by a U.S. federal government authority in the plant where the food products have been processed. SENASA does not accept documents from commercial trading companies. Regarding imports of U.S. poultry products, SENASA has requested USDA to add an Additional Declaration (AD) to the phyto certificates. The AD provides an indication that specific poultry or sub-products have originated in areas free of high or low pathogenic avian influenza. The U.S. Department of Agriculture's Animal Plant Health

Inspection Service (APHIS) also provides regular updates to local government authorities in connection to the origin of disease outbreaks within the United States. SENASA typically issues an import license within 15 days of receiving the request for import approval.

Export Controls

Honduran law requires all exporters (except for free trade zone or export processing zone exporters) to inform the Central Bank in advance about the quantity, value, and destination of the goods to be exported, as well as the probable date of export and the value and currency of anticipated export revenues.

Export controls have only been used for sugar exports. Exporters must demonstrate sufficient supplies to meet domestic needs prior to receiving permission to export. Certain restrictions also apply to particular wood and animal species. The only items under price controls are coffee and medicines. Export taxes on seafood, sugar and live cattle were eliminated in 1998. All coffee exports must be registered with the Honduran Coffee Institute.

Free Trade Zones / Warehouses

Free trade zones (FTZ) are non-residential areas designated by the government where companies receive special benefits. FTZs can be managed privately or by the National Port Authority (ENP). The ENP approves all permits to operate in the designated areas and maintains the established guidelines put forth in the FTZ. The FTZ law was originally established to create the Puerto Cortés Free Zone. In 1998, however, the government extended FTZ benefits to the entire nation.

Membership in Free Trade Agreements

The final act of the Multilateral Commercial Negotiations of the Uruguay Round, which established the WTO, was signed by Honduras on April 15, 1995. Honduras has also been a member of the Central American Common Market (CACM) since 1961. As of May of 2003, the harmonized tariff level as common external tariff between CACM countries was 77% of the entire Customs duty schedule.

Members of the Northern Triangle CA-3 signed a free trade agreement (FTA) with Mexico that went into effect in June of 2001. In addition, the CA-3 has had an exchange of a limited trade agreement proposal with the Andean Community. Honduras has also signed limited trade agreements with Colombia and Venezuela. At the regional level, a free trade agreement went into effect with the Dominican Republic in December of 2001. Regional FTA negotiations are also ongoing with Canada, Chile, and the Republic of Panama. Honduras, along with three other Central American countries, reached a free trade agreement with the United States in December of 2003. The CAFTA agreement aims to abolish most trade barriers between participating countries over the next decade.

Since April of 1998, Honduras has continued to participate as a member of the CA-4 block in negotiation rounds for the FTAA (Free Trade Area of the Americas). Preliminary talks for strengthening commercial relationships through FTAs have also taken place with China (Taiwan) and the MERCOSUR and CARICOM countries.

Honduras benefits from three preferential trade arrangements with the United States. Special export arrangements have been established through the Caribbean Basin Economic Recovery Act (CBERA), the Generalized System of Preferences (GSP), and the "9802 Textile Program". Both CBERA and GSP provide unilateral and temporary duty-free trade preferences to designated countries (including Honduras) by the United States. Since 1999, Honduras has ranked first place as a CBI and Central American supplier to the U.S. market.

Investment Climate in Brief

- Honduras' investment climate is hampered by high levels of crime, juridical insecurity, high levels of corruption, low education levels, an antiquated labor code, a troubled financial sector, and a limited infrastructure.
- The 1992 Investment Law, which still largely governs investment conditions in Honduras, guarantees national treatment to foreign private firms in Honduras, with only a few exceptions.

- For all investments, at least 90% of a company's labor force must be Honduran, and at least 85% of the payroll must be paid to Hondurans.
- Government authorization is required for both foreign and domestic investors in the following areas: fishing, hunting, and aquaculture; exploitation of forestry resources; and agricultural and agro-industrial activities exceeding land tenancy limits established by the Agricultural Modernization Law of 1992 and the Land Reform Law of 1974.
- The 1992 Investment Law requires that all local and foreign direct investment be registered with the Investment Office in the Ministry of Industry and Trade.
- The 1992 Investment Law guarantees foreign investors access to foreign currency needed to transfer funds associated with their investments in Honduras. The Central Bank uses an auction system to regulate the allocation of foreign exchange. According to auction system regulations, dollar purchases are conducted at 7% above or below the base price that is established every five days.
- The Honduran government has the authority to expropriate property for purposes of land reform (usually related to a land invasion by farmer groups) or for public use, such as construction of an airport. Land disputes related to actions by the Honduran National Agrarian Institute (INA) are common for both Honduran and foreign landowners. According to the National Agrarian Reform Law, idle land fit for farming can be expropriated and awarded to the landless poor. Compensation for land expropriated under the Agrarian Reform Law (when awarded) is paid in 20-year government bonds.
- There is a proposal for a new property institute (which would combine the national land registry with the cadastral survey) and the geographic institute. The proposed property institute would provide for more security in land titling and ownership in Honduras as well as allow for mortgages and home loans.
- There are relatively few performance requirements in Honduras. The 1992 Investment Law guarantees freedom to export and import to all foreign investors, and eliminates the requirement of prior administrative permits and licenses, except for statistical registries and customs procedures.
- The Investment Law guarantees both local and foreign investors the right to own property without limitations, other than those established by the Honduran Constitution and several laws relating to property rights.
- Investors have the right to freely establish, acquire, and dispose of interests in business enterprises at market prices under freely negotiated conditions and without government intervention. Private enterprises compete on an equal basis with public enterprises with respect to access to markets, credit, and other business operations.
- The Honduran government does not publish regulations before they enter into force and there is no formal mechanism for providing proposed regulations to the public for comment. Regulations must be published in the official "Gazette" in order to enter into force. Honduras lacks an indexed legal code and lawyers and judges must maintain and index the publication of laws on their own.
- There are no government restrictions on foreign investors' access to local credit markets. However, the local banking system is conservative and generally extends only limited amounts of credit.
- Honduras has not experienced major problems with domestic political violence. Political demonstrations do occur sporadically, and they can disrupt traffic, but they are generally announced in advance and are usually peaceful.
- Historically, U.S. firms and private citizens have found corruption to be a problem and a constraint to investment. Corruption appears to be most pervasive in government procurement, government permits, and in the buying and selling of real estate (land titling). With

considerable U.S. help, the government is reforming the Honduran judicial system and reducing elite immunity and corruption, though serious problems remain in these areas.

- The U.S. Overseas Private Investment Corporation (OPIC) provides loan guarantees (which are typically used for larger projects) and direct loans (which are reserved for projects sponsored by or substantially involving U.S. small businesses and cooperatives).
- Honduras has a significant labor force for industries demanding low-skilled workers. There is a limited supply of skilled workers in all technological fields as well as medical and high technology industries.

Business Customs

Travel Advisory and Visas

One important issue to keep in mind when visiting Honduras is security. Street crime is a principal concern, with theft, pick pockets, and armed robberies in urban areas on the rise. In addition, armed car and home robberies have been a problem. As a precaution, one should avoid wearing excessive jewelry and carrying valuables or large sums of money when walking in downtown areas. In the event a passport should be stolen or lost, or when faced with a threatening situation (e.g., robbery), it should be reported immediately to the local police and the U.S. Embassy's Security Office.

One of the main requirements for U.S. citizens when entering Honduras is a valid passport. It is not required that bearers of U.S. diplomatic, official, or regular passports possess a visa as long as the visit does not exceed a period of 30 days. For additional information regarding travel to Honduras, please contact the Honduran Embassy in Washington D.C., or e-mail the Embassy at embhondur@aol.com.

Business Infrastructure

In Honduras, written contracts are used as a means to formalize verbal agreements between trusted colleagues. Unlike the United States, personal relationships are important in creating and maintaining business ties and avoiding possible

disputes. As a result, Honduran businessmen build lifetime relationships and establish close links with clients and customers, creating a reciprocal feeling of obligation and a mutual desire of assistance.

Since Hondurans are hospitable and gracious hosts, the closing of a business deal is similar to a social activity. As a result, many Americans find that going straight to the point when negotiating with Hondurans is not well received. When meeting with Honduran counterparts, it is often best to move into business matters gradually. After the courtesy formalities have been performed, meetings generally turn to a more concrete discussion of business. Hence, unlike the United States, business negotiations tend to be slower and more drawn out in Honduras, placing more emphasis on relationships than on conducting business transactions.

As far as punctuality is concerned, Hondurans tend to be more relaxed than Americans. Waiting to be received for meetings is not unusual. While Americans take pride on timeliness, keeping a schedule is not as important in Honduras. Hence, it is necessary to understand that this approach to scheduling and punctuality is a cultural aspect of Honduras, and should not be taken as discourtesy or disinterest.

Passenger and air-freight services are generally reliable. Passenger ground transportation, including comfortable bus service, is available to various cities in the country, as well as to other Central American destinations.

Spanish is the official language of Honduras. A substantial number of Honduran professionals and business executives speak English, and many high government officials and private sector leaders were educated in the United States.

Telephone service is adequate. Direct-dial, long-distance calling within Honduras and to the United States and several other countries is available. There is a wide variety of hotel and bed and breakfast accommodations in major cities and tourist areas of Honduras.

Summer clothing is suitable year-round in Tegucigalpa. Business attire for men in Tegucigalpa

is coat and tie. Dress for women is the same as in the United States. Business attire in San Pedro Sula and other areas of the country tends to be more casual.

Drinking water must be boiled and filtered. The main health hazards include AIDS, malaria, dengue fever, dysentery, parasites, hepatitis A and B, typhoid, and rabies. Essential medical care service is available in Tegucigalpa, San Pedro Sula, La Ceiba, and Choluteca. Doctors and hospitals often expect immediate cash payment for health services. American medical insurance is not accepted for hospital admission, physician service, or medical testing in Honduras.

The “Foreign Service Posts: Guide for Business Representatives” is available for sale from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (telephone 202-512-1800; fax (202) 512-2250). Business travelers to Honduras seeking appointments with U.S. Embassy Tegucigalpa officials should contact the Commercial Section in advance (telephone 504-238-5114; fax 504-238-2888).

Useful Web Sites

HONDURAS:

- US Commercial Service
http://www.export.gov/comm_svc
- US Embassy
http://www.usmission.hn/english/index_e1.htm
- Honduras Ag <http://www.hondurasag.org>

UNITED STATES:

- USDA Foreign Agricultural Service
<http://www.fas.usda.gov>
- US Export Programs Guide
<http://infoserv2.ita.doc.gov/ticwebsite/tic.nsf/AF34FA880278BDD5825690D00656C6F/F69FD0CF72B7713B58525691900746F18?OpenDocument>
- Internet Guide to Trade Leads
<http://infoserv2.ita.doc.gov/ticwebsite/tic.nsf/504ca249c786e20f85256284006da7ab/>

[ef7db94aef24919885266470049c1cd?OpenDocument](http://infoserv2.ita.doc.gov/ticwebsite/tic.nsf/AF34FA880278BDD5825690D00656C6F/F69FD0CF72B7713B58525691900746F18?OpenDocument)

- US Trade Finance Resources
<http://infoserv2.ita.doc.gov/ticwebsite/tic.nsf/AF34FA880278BDD5825690D00656C6F/F69FD0CF72B7713B58525691900746F18?OpenDocument>
- Basic Guide to Exporting
<http://www.unzco.com/basicguide/index.html>

HEMISPHERIC:

- Hemispheric Guide on Customs Procedures
http://alca-ftaa.iadb.org/hgcp_eng.htm
- Hemispheric Trade and Tariff Database
http://alca-ftaa.iadb.org/eng/ngmadb_e.htm