

A Primer on Exporting to Honduras

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Abstract

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 exports 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 in this report provides a useful starting point for individuals interested in exploring export or investment opportunities in Honduras.

Keywords: Honduras, agribusiness, export guide, trade, foreign investment

Introduction

Every year the U.S. Department of State publishes extensive Country Commercial Guides for a large number of countries.¹ 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 in this report provides a useful starting point for individuals interested in exploring export or investment opportunities in Honduras.

Economic and Political Overview

The U.S. is Honduras' chief trading partner, supplying over half of Honduras' imports and purchasing about half of its total exports. In addition, at USD 54.5 million, the U.S. continues to be the dominant source of foreign direct investment (FDI) in Honduras, representing 38 percent 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. Real GDP growth fell to 2.5 percent from 2.6 percent in 2001 and 6.3 percent in 2000. Since the population growth rate is also about 2.5 percent, Honduras has experienced essentially zero real per-capital growth over the last two years. That said, Honduras' Real GDP growth was the second highest in Central America, following only Costa Rica's 2.8 percent growth. Construction declined by 14.6 percent, while a 4.8 percent increase in agricultural activity was lead by increased corn production (22.0 percent), rice (21.2 percent) and beans (43.8 percent). Labor conflicts and bad weather conditions negatively affected the banana harvest and sugar production respectively causing a combined export loss of USD 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 percent from 15.92 lempira to the dollar at the end of 2001 to 16.92 lempira to the dollar at the end of 2002. Coffee has once more become Honduras' top export product with revenues totaling USD 182.5 million in 2002; a 14 percent increase from 2001 but still not equivalent to pre-Hurricane Mitch levels of USD 430

¹ "County Commercial Guides are available for U.S. exporters from the National Trade Date Bank's CD-ROM or via the Internet. Please contact Stat-USA at 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 in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRADE or by fax at (202) 482-4473" (U.S Department of State, 2001, p. 2).

million as reported for 1998. Banana export revenues dropped below coffee again totaling USD 172.4 million, down from 204.2 million earned in 2001. According to Central Bank data, the flow of foreign direct investment (FDI) in Honduras in 2002 totaled USD 143 million. At USD 54.5 million, the U.S. continues to be the dominant source of FDI in Honduras, representing 38 percent of all foreign direct investment.

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

Distribution and Sales Channels

Distribution channels in Honduras are similar to those in the U.S. 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. U.S. firms will find that a single distributor or representative is sufficient to cover all of Honduras, given its relatively small size.

Using An Agent/Distributor: 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 [Embassy](#) 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 (USEACs) of the U.S. Department of Commerce. For additional information on export-related assistance and market information offered by the federal government, U.S. companies may visit www.export.gov or call 1-800-USA-TRADE.

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 most importantly, 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 the 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.

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 is gradually evolving in the Honduran market, as local internet connectivity is in a rapidly developing stage at both 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.

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 that in certain sectors 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 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.

Steps to Establishing An Office

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 company, corporation and joint stock company. In July 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, 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. In order to ensure compliance with all the investment protection guarantees established by the 1992 Investment Law, the U.S. company should obtain an "Investment Certificate" from the Ministry of Industry & Trade.

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, where Tegucigalpa, the political capital and largest city, is located.

Price is among the most important selling factors in Honduras. The sales promotion and customer service efforts of U.S. companies become extremely helpful. U.S. 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, as well as Government of Honduras agencies, often have problems in securing the funds to purchase imports. U.S. exporters that offer 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 U.S. 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 are 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.

Pricing Products

U.S. 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 businesspeople buy directly from abroad if they feel that the cost of imports available in the local market is too high. U.S. 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 C.I.F. 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, such as 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 such as 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 has been approved by the government for 2002, whereas, export taxes on seafood, sugar and live cattle were eliminated in 2000.

Sales Service/ Customer Support

The availability of adequate service and support frequently makes the 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. U.S. companies should consider providing training, technical assistance, and sales support to their local counterparts, particularly for products that require periodic maintenance and service.

Selling To The Government

The State Contracting Law, which entered into force in October 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 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](#).

Protecting Your Product From IPR Infringement

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). The IPR 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 that have 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, and other factors have prevented Honduras from becoming self-sufficient. Given that production is mostly of white corn, imports of yellow corn from the U.S. are needed to manufacture feed for the poultry, livestock and swine industries. According to the Government 60 percent is for agroindustry (feed, corn meal and snacks) and 40 percent for domestic consumption.

As of mid-July, the situation of agriculture has been favorable by normal climate conditions for the development of major crops, despite identification by the scientific community of the “La Nina” weather phenomenon (which causes rain increase), condition that will not have major impact in Honduras. However, as rains have been scattered soil moisture is low and could affect some crop yield. Preventive actions have been planned by the government such as expansion of irrigation systems in key areas.

Government numbers show a total of 500,000 MT of corn being produced in 2002. For 2003 production is expected to increase to 520,000 MT. Import needs for 2002 were 298,000 MT; in 2003 imports are expected to be 225,000 MT. Export prospects for U.S. corn are bright, as it is expected that Honduras will need to import higher amounts in coming years, and the vast majority of yellow corn imports are likely to come from the U.S. Honduras is ranked 27th place among the leading 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 and keep up with demand. As a result, rice imports have become a necessity in Honduras. Historically, virtually all rice imports have been from the U.S. 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. In year 2001 the U. S. exported 135,573 MT of rice to Honduras, in 2002 exports increase to 145,441 MT. Honduran import demand is expected to remain strong in 2003. Honduras is ranked 6th among the leading 35 country markets for U.S. rice imports.

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 U.S. During the 2003, total imports are expected to increase to 206,000 MT. The U. S. should remain Honduras' main source for wheat, both through commercial channels and donations. Honduras ranks 25th among the leading 35 country markets for U.S. wheat imports.

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 with U.S. product. Domestic production is negligible and is not

likely to increase significantly in the near future. During calendar year 2002 the U.S. exported 71,000 MT of soybean meal to Honduras and in 2003 it is expected to export 76,000 MT. Continued expansion in the feed industry, particularly for poultry production, should continue to fuel the demand for U.S. soybean meal in coming years. Honduras ranks 26th among the leading 35 country markets for U.S. soybean meal exports.

Consumer-Oriented Products

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

Products present in the market with good sales potential:

- * Snack foods
- * Breakfast cereals & 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 & vegetables
- Wine and beer
- 'Other' category of consumer-oriented and intermediate products

* Products established highest exports levels during 2001 since at least CY1970.

** Products established highest exports levels during 2002 since at least CY1970

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 U.S. They know the quality of U.S. products and they 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. The continued expansion of U.S. fast food franchises and considerable 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 USDA'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 [Food and Agricultural Import Regulations and Standards \(FAIRS\) Report](#) on Honduras.

Customs Regulations

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 WTO Customs Valuation Agreement, which relates to the 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. In order 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 the year 2005.

The Honduran Customs Directorate operates under the Ministry of Finance. For further customs information, contact the [Customs Directorate \(Direccion Ejecutiva de Ingresos – DEI\)](#).

Tariff Rates and Import Taxes

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 exist. In 1995, members of the CACM agreed to reduce and harmonize the common external tariff (CET) at zero to 15 percent 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 of the CACM. Additionally, tariffs on most non-CACM intermediate goods were reduced to 10% and 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 such as trucks and tractors. A 15% sales tax is applied to beer, brandy, compound

liquors, and 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.

Import License Requirements

In general, all import license requirements have been eliminated. However, in the bilateral negotiations on Honduras's accession to the GATT, the Honduran Government committed to using GATT-consistent measures to protect basic grains and poultry. In addition, zoosanitary 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. In order 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 [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.

Temporary Entry Requirements

The Temporary Import Law (RIT) allows exporters to introduce raw materials, parts, and capital equipment into Honduran territory 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 C.I.F. 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 3 months. Temporary entry is granted upon 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.

Import/Export Documentation

Documents required for import/export include the following: 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.

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.

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 & 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.

Prohibited Imports

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 in order 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 due to phytosanitary barriers.

Export Controls

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 control 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.

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.

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 \(E.N.P.\)](#). The E.N.P. 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 Arrangements

The final act of the Multilateral Commercial Negotiations of the Uruguay Round, which established the World Trade Organization (WTO), was signed by Honduras on April 15, 1995. Honduras is also a member of the Central American Common Market (CACM) since 1961. As of May 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 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 2001.

Regional FTA negotiations are also ongoing with Canada, Chile and the Republic of Panama. Honduras, along with other three Central American countries, reached a free trade agreement with the U.S. on December 2003. The CAFTA agreement aims to abolish nearly all trade barriers between participating countries over the next decade.

Since April 1998, Honduras continues to participate as a member of the CA-4 block in negotiation rounds for the Free Trade Area of the Americas (FTAA). Preliminary talks for strengthening commercial relationships through FTAs have also taken place with China (Taiwan), 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. For the consecutive period 1999-2003, Honduras has had the first place rank as 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 educational levels among the population, an antiquated labor code, a troubled financial sector and 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 percent of a company's labor force must be Honduran, and at least 85 percent 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 percent above or below the base price established every 5 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 landless poor. Compensation for land expropriated under the Agrarian Reform Law, when awarded, is paid in 20-year government bonds.

- As of July 2003, a proposal is before congress 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 Honduras' 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 availability of labor for industries with a demand for relatively low skilled workers, given the low level of education of a significant portion of its population. There is a limited supply of skilled workers in all technological fields, as well as in medical and high technology industries.

Business Customs

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 business people build lifetime relationships and establish close links with clients or 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 taken care of, 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 conducting a business transaction.

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.

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 that one's passport should be stolen or lost, or should one experience a threatening situation, it should be reported immediately to the local police and the [US Embassy's security office](#).

One of the main requirements for United States 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 will not exceed a period of 30 days. For additional information regarding travel to Honduras, please contact the Honduran Embassy in Washington D.C. For additional inquiries, please contact the Honduran Embassy's email address: embhond@aol.com.

Business Infrastructure

Passenger and air - freight services are generally reliable. Passenger ground transportation, including comfortable bus service, is also available to various cities in the country, as well as to some 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 U.S. and several other countries is available. Visitors can choose from a wide variety of suitable hotel and bed and breakfast accommodations in major cities and tourist areas of Honduras.

Summer clothing is suitable year-round in Tegucigalpa. Business attire in Tegucigalpa normally consists of coat and tie. Dress is the same for women as in the U.S. However, San Pedro Sula and other areas of the country tend 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. U.S. 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 by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; Tel (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 by telephone at (504) 238-5114, or by fax (504) 238-2888.

Useful Web Links

Honduras:

[U.S. Commercial Service](#)

[U.S. Embassy](#)

[Honduras Ag](#)

US:

[USDA Foreign Agricultural Service](#)

[US Export Programs Guide](#)

[Internet Guide to Trade Leads](#)

[US Trade Finance Resources](#)

[Basic Guide to Exporting](#)

Hemispheric:

[Hemispheric Guide on Customs Procedures](#)

[Hemispheric Trade and Tariff Database](#)