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Trade Policy Review Body

TRADE POLICY REVIEW

REPORT BY THE SECRETARIAT

HONDURAS

This report, prepared for the third Trade Policy Review of Honduras, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Honduras on its trade policies and practices.

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Document WT/TPR/G/336 contains the policy statement submitted by Honduras.

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**CONTENTS**

<b>SUMMARY .....</b>	<b>7</b>
<b>1 ECONOMIC ENVIRONMENT .....</b>	<b>11</b>
1.1 Economic structure and structural adjustment .....	11
1.2 Production and employment.....	14
1.3 Fiscal policy .....	14
1.4 Monetary and exchange-rate policy and prices.....	17
1.5 Balance of payments and external debt .....	18
1.6 Goods trade and investment flows .....	20
1.6.1 Composition of trade .....	20
1.6.2 Geographical distribution .....	21
1.6.3 Trade in services .....	24
1.6.4 Foreign direct investment.....	25
1.7 Outlook.....	27
<b>2 TRADE AND INVESTMENT REGIME .....</b>	<b>28</b>
2.1 General framework .....	28
2.2 Trade policy objectives .....	31
2.3 Trade agreements and arrangements .....	32
2.3.1 WTO .....	32
2.3.2 Regional and preferential agreements.....	33
2.3.2.1 Regional trade agreements.....	33
2.3.2.1.1 Central American economic integration and trade relations with Panama .....	34
2.3.2.1.2 Association Agreement with the European Union.....	35
2.3.2.1.3 Free Trade Agreement with Mexico .....	35
2.3.2.1.4 Free Trade Agreement with Canada.....	36
2.3.2.2 Other agreements and preferential arrangements .....	36
2.4 Investment regime .....	36
<b>3 TRADE POLICIES AND PRACTICES BY MEASURE.....</b>	<b>41</b>
3.1 Measures directly affecting imports .....	41
3.1.1 Procedures, documents and registration.....	41
3.1.2 Customs valuation .....	42
3.1.3 Rules of origin .....	42
3.1.4 Tariffs .....	43
3.1.4.1 Structure and levels .....	43
3.1.4.2 Price band system.....	45
3.1.4.3 Preferential tariffs .....	46
3.1.4.4 Tariff concessions.....	47
3.1.5 Other charges affecting imports .....	47
3.1.6 Prohibitions, licensing and other restrictions .....	48
3.1.7 Contingency measures .....	50

3.1.7.1	Anti-dumping and countervailing measures.....	50
3.1.7.2	Safeguard measures.....	52
3.1.8	Standards and technical regulations .....	53
3.1.9	Sanitary and phytosanitary measures .....	55
3.2	Measures directly affecting exports .....	60
3.2.1	Procedures, documents and registration.....	60
3.2.2	Export taxes and charges.....	60
3.2.3	Prohibitions, licensing and other restrictions .....	61
3.2.4	Export support .....	61
3.2.5	Export promotion.....	63
3.2.6	Financing, insurance and guarantees .....	64
3.3	Measures affecting production and trade.....	64
3.3.1	Incentives .....	64
3.3.1.1	Employment and Economic Development Zones .....	65
3.3.1.2	Financing of production sectors and MSMEs .....	65
3.3.2	Competition policy and price controls.....	66
3.3.2.1	Competition policy and consumer protection .....	66
3.3.2.1.1	Competition policy.....	66
3.3.2.1.2	Protection of consumers .....	69
3.3.2.2	Price controls .....	69
3.3.3	State trading and State-owned enterprises .....	70
3.3.4	Government procurement .....	71
3.3.5	Intellectual property rights.....	74
3.3.5.1	New varieties of plants.....	75
3.3.5.2	Other industrial property rights .....	75
3.3.5.3	Copyright and related rights .....	76
3.3.5.4	Enforcement.....	77
<b>4</b>	<b>TRADE POLICIES BY SECTOR.....</b>	<b>78</b>
4.1	Agriculture .....	78
4.1.1	Main features .....	78
4.1.2	Agricultural policy .....	79
4.1.2.1	General policies .....	79
4.1.2.2	Measures affecting imports.....	82
4.1.2.3	Domestic support.....	83
4.1.2.4	Measures affecting exports .....	88
4.2	Electricity .....	89
4.2.1	General features.....	89
4.2.2	Legal and institutional framework.....	90
4.3	Services.....	93
4.3.1	Financial services.....	93

4.3.1.1 Banking .....	93
4.3.1.2 Insurance .....	97
4.3.2 Telecommunications.....	99
4.3.3 Transport .....	101
4.3.3.1 Air transport.....	101
4.3.3.2 Maritime transport .....	103
4.3.4 Tourism.....	105
<b>5 APPENDIX TABLES .....</b>	<b>107</b>

### CHARTS

Chart 1.1 General merchandise trade by main products, 2010 and 2014 .....	22
Chart 1.2 Trade in goods for processing ( <i>maquila</i> ), 2010 and 2014 .....	23
Chart 1.3 Merchandise trade by trading partner, 2010 and 2014.....	24
Chart 2.1 Participation in regional trade agreements as of December 2015.....	34
Chart 3.1 Distribution of tariff rates, 2015 .....	44
Chart 3.2 Procedure for dumping and subsidy investigations, 2015 .....	51
Chart 3.3 Procedure for preparing Honduran standards .....	54
Chart 3.4 Procedure for preparing technical regulations .....	54
Chart 4.1 Private banking indicators, 2010-2014 .....	94
Chart 4.2 Insurance subsector indicators, 2010-2014.....	98
Chart 4.3 Telecommunications services penetration rate, 2010-2015.....	99

### TABLES

Table 1.1 Structure of the economy, 2010-2015.....	11
Table 1.2 Financial accounts of the central government, 2009-2014 .....	15
Table 1.3 Main taxes applied in 2015 .....	16
Table 1.4 Balance of payments, 2010-2015 .....	19
Table 1.5 Balance of trade in services, 2010-2015 .....	25
Table 1.6 Foreign direct investment flows by economic activity, 2010-2015.....	26
Table 1.7 Foreign direct investment flows by country of origin, 2010-2015 .....	26
Table 2.1 Main trade-related legislation.....	29
Table 2.2 Some State Secretariats involved in trade policy formulation .....	32
Table 2.3 Disputes in which Honduras participated, 2010-2015 (to 31 December 2015) .....	33
Table 2.4 Tariff reduction programmes adopted by Honduras since 2010 .....	34
Table 2.5 Guarantees offered under the Investment Promotion and Protection Law.....	37
Table 2.6 Activities reserved to the State, 2015.....	37
Table 2.7 Investment guarantees stipulated under the Investment Promotion and Protection Law.....	38
Table 3.1 Registration of importers, 2015 .....	41

Table 3.2 Principal provisions on preferential rules of origin applied since 2010 .....	43
Table 3.3 Structure of MFN tariffs, 2010 and 2015 .....	44
Table 3.4 Products with applied tariffs higher than the bound rates, 2010-2015 .....	45
Table 3.5 Lines subject to the price band system, 2010 and 2015 .....	46
Table 3.6 Analysis of applied tariffs for countries with which trade agreements have been negotiated, 2015 .....	46
Table 3.7 Other import charges in 2015 .....	47
Table 3.8 Details concerning import licences in 2015.....	49
Table 3.9 Principal legal instruments regulating the sanitary and phytosanitary system, 2015.....	56
Table 3.10 Entry requirements based on the sanitary and phytosanitary risk analysis .....	58
Table 3.11 Export taxes in 2015.....	61
Table 3.12 Export subsidy schemes in 2015.....	62
Table 3.13 Export promotion programmes .....	63
Table 3.14 Incentives .....	64
Table 3.15 Thresholds for business mergers, 2010 and 2015.....	68
Table 3.16 Activities of the Commission for the Defence and Promotion of Competition, 2010-2014.....	68
Table 3.17 Thresholds for the application of government procurement procedures, 2015.....	73
Table 4.1 Main indicators for the agricultural sector, 2010-2014 .....	78
Table 4.2 Summary of agricultural measures .....	79
Table 4.3 Products subject to price bands, 2015 .....	83
Table 4.4 Domestic support measures implemented by Honduras in 2009-2014 (June-May) .....	84
Table 4.5 BANDES funds for micro, small and medium-sized arable, livestock and industrial producers, 2015 .....	87
Table 4.6 Main electricity subsector indicators, 2010-2015.....	89
Table 4.7 Minimum fixed capital for the establishment of insurance companies, 2010 and 2015.....	98
Table 4.8 Types of authorization for the provision of public telecommunications services .....	101
Table 4.9 Requirements for the provision of air transport services.....	102
Table 4.10 Modalities of the bilateral agreements on air transport services .....	103
Table 4.11 Port operations, 2010-2014 .....	104
Table 4.12 International tourism indicators, 2010-2013.....	105
Table 4.13 Tourism incentive regimes .....	106

## BOXES

Box 2.1 Employment and Economic Development Zones (ZEDE).....	31
Box 3.1 Sanitary measures relating to Newcastle disease .....	58
Box 4.1 Composition of the Honduran electricity subsector.....	89

**APPENDIX TABLES**

Table A1.1 General merchandise exports by main products, 2010-2015 .....	107
Table A1.2 Exports of goods for processing (maquila), 2010-2015 .....	107
Table A1.3 General merchandise imports (c.i.f.) by main products of the Central American Tariff System (SAC), 2010-2015 .....	108
Table A1.4 Imports (c.i.f.) of goods for processing (maquila), 2010-2014 .....	109
Table A1.5 General merchandise exports by trading partner, 2010-2015.....	110
Table A1.6 General merchandise imports (c.i.f.) by trading partner, 2009-2015.....	111
Table A2.1 Notifications to the WTO, 1 January 2010 to 31 December 2015 .....	112
Table A3.1 Analysis of the MFN tariff, 2014.....	114
Table A3.2 Conditions for loans granted by BANHPROVI .....	115
Table A4.1 Import quotas applied by Honduras in 2015 .....	116

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**SUMMARY**

1. The Honduran economy suffered from the global financial crisis and the slump in external demand and in the price of its main exports, in particular coffee and bananas. Although it has recovered since, its average annual GDP growth rate of 2.5% between 2009 and 2014 has not been sufficient to improve living conditions or reduce poverty. In fact, GDP per capita remained practically at a standstill during that period, reaching US\$2,236 in 2014, one of the lowest in Latin America. For 2015, the estimated GDP growth rate is 3.5%. Although the economic outlook is positive, Honduras is faced with the highest level of economic inequality in Latin America and is vulnerable to external shocks. The country's economic structure has not changed substantially since the last review in 2010, although the GDP share of the manufacturing industry, including the maquila industry, has declined slightly. The agricultural sector continues to play a major role as a source of employment.

2. During the review period, Honduras generally kept its inflation rate within the fluctuation band established by the Central Bank. The average annual inflation rate in 2010-2014 was 5.6%, while for the third quarter of 2015 the rate was 3.2%. This was thanks to a cautious monetary policy coupled with lower prices for oil and other raw materials. Honduras applies a crawling band exchange rate system, the rate being determined daily in auctions. The real effective exchange rate depreciated between 2010 and 2015.

3. In 2013, Honduras introduced a tax reform aimed at reducing the fiscal deficit and boosting tax revenue. This involved eliminating a number of exemptions and duty free arrangements and reducing certain expenditures. In spite of this, the central government deficit remained high during the review period, fluctuating between 4.4% and 7.9% of GDP. The 2014-2017 Reform Programme seeks to restore fiscal discipline and put the public debt onto a sustainable path. The current account of the balance of payments continued to post a large deficit during the review period. Although it fell from 9.5% of GDP in 2013 to 7.4% in 2014 as a result of fiscal consolidation, improved terms of trade and a marked increase in remittances, it remained well above the 4.3% recorded in 2010. The Honduran economy continues to depend heavily on family remittances from abroad, which accounted for 17.2% of GDP in 2014 and played a key role in sustaining domestic demand.

4. The Honduran economy is largely dependent on international trade. The ratio of trade (exports and imports) to GDP increased during the review period from 99.6% in 2010 to 103% in 2014. In spite of policies aimed at promoting exports and diversifying markets for Honduran products, neither the composition of Honduran exports nor the markets have varied substantially since 2010. Honduras continues to be an exporter of agricultural products and clothing manufactured under the maquila regime. Its main agricultural exports remain coffee (20.6% of the total), bananas (11.2%), palm oil (7.6%), and shrimp and lobster (7.1%). From 2010 to 2014 exports, excluding the maquila industry, grew at an annual average rate of 9.6%, while the rate for maquila exports was 3.8%. Honduras's main export market continues to be the United States - as has been the case since the entry into force of CAFTA-DR - followed by Central America (especially El Salvador, Guatemala and Nicaragua) thanks to the strengthening of the CACM, and the European Union, in particular Germany.

5. As with exports, the composition of imports remained stable between 2010 and 2014, and they grew at an annual average rate of 8.9%. Imports consist mainly of manufactures, in particular machinery and equipment and mineral products. As in the case of exports, the United States is also the main source of Honduras' imports, followed by the countries of the region, in particular Guatemala and El Salvador.

6. During the review period, Honduras introduced reforms to increase the transparency of the civil service. As part of the process, it implemented a system for evaluating government bodies, and some State Secretariats were regrouped while others were created. In the trade sphere, as of 2013 the State Secretariat for Economic Development (PROHONDURAS) replaced the State Secretariat for Trade and Industry, and is now responsible for formulating and implementing Honduras' trade policy. At the same time, efforts were made to enhance citizen participation in public management and in the legislative process by allowing citizens to file complaints regarding poor performance of a public duty, and since 2011, they have been able to submit draft laws.

7. Honduras also introduced a number of amendments to the Constitution during the review period, notably the amendment providing for the creation of Employment and Economic Development Zones (ZEDE). These are considered to be extraterritorial fiscal and customs zones, and may develop their own internal policies and regulations, including fiscal and monetary policies. The ZEDE would apparently replace the Free Zones and other fiscal regimes currently available in Honduras. At the same time, Honduras enacted and amended other trade-related laws during the review period, including the Law on Fiscal Consolidation, the new Investment Law, the new Law on the Protection of Plant Varieties and the Law on the Energy Sector. These and other reforms were introduced to modernize the legislative system. However, there have been a number of obstacles and delays in implementing some laws, for example the new Energy Sector Law.

8. Honduran trade policy is largely determined by the commitments made in the framework of the Central American Common Market (CACM), and more recently by those arising from the CAFTA-DR negotiations. The main objectives include: boosting Honduras' share in international trade; increasing its export supply; and forging strategic alliances with trading partners in order to promote innovation and production chains.

9. Although trade agreements are important in determining the country's trade policy and trade flows, Honduras is particularly keen to participate in the multilateral trading system, which it considers to be fundamental to the small and vulnerable economies. Under the Doha Development Agenda (DDA), Honduras has advocated the implementation of special and differential treatment provisions along with other flexibilities that help to protect the most sensitive sectors of developing economies. Under the DDA, it has also supported the elimination of agricultural distortions.

10. Honduras participates in a number of regional trade agreements (RTAs). Together with the other members of the CACM Honduras signed an agreement with the European Union in 2010, and also signed a bilateral agreement with Canada. During the period under review, the Central American integration process was further deepened. In 2011, CACM members signed a second Protocol to the Treaty on Investment and Trade in Services (TICS), and Honduras signed an agreement with Guatemala creating a customs union that is currently being implemented. Moreover, the Central American countries and Mexico renegotiated and consolidated three old agreements into one. Together with the other Members of the CACM, Honduras is currently negotiating an agreement with the Republic of Korea as well as a Partial-Scope Economic Complementarity Agreement with Ecuador.

11. During the period under review, Honduras enacted the Investment Promotion and Protection Law, which repealed the 1992 Investment Law, and introduced new guarantees for investors, such as stability contracts and property protection regimes. Certain requirements were also eliminated, such as prior authorization for investment in Honduras. The main limits on investment relate to the State's reserving the exclusive right to operate certain basic industries and public services for reasons of public order or public interest. No new restrictions or prohibitions were imposed on foreign investors during the review period. Honduras maintains special regimes to promote both domestic and foreign investment. Most of these programmes apply across the board, though some of the incentives target specific sectors, especially the promotion and development of clean energy and tourism. To simplify investment formalities, Honduras is setting up a single window for investment, and has streamlined and digitalized a number of formalities.

12. Honduras has a relatively open trade regime, as evidenced by the high foreign trade to GDP ratio. While there have been no major changes to the regime since 2010, a number of measures have been introduced to facilitate trade. Honduras has streamlined its customs procedures by introducing a variety of electronic systems, particularly for exports. However, the single window has yet to be fully implemented. Honduras has notified the WTO of its Category A commitments under the Agreement on Trade Facilitation (TFA) and has begun the formalities for ratifying the TFA.

13. The average applied MFN tariff rate in 2015 was 5.9%, virtually the same as the rate recorded in the last Honduran review (6% in 2010). However, the revenue collected from customs duties represented only 1.5% of goods imports, reflecting the fact that 48.1% of MFN tariff lines have a zero tariff, and that Honduras has preferential agreements with its main trading partners. Applied tariffs vary from 0 to 164%, the most common rate being 0%. Agricultural products (WTO definition) were subject to an average tariff of 10.7% (11.1% in 2010) while the average rate for non-agricultural products was 5.1% (the same as in 2010). The highest tariff rate

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continues to be applied to imports of certain poultry meat, followed by cigarettes at 55%. Honduras has bound its entire tariff in the WTO. About 85% of its tariff universe is bound at 35%, with less than 1% bound at higher levels and the rest at levels below 35%. As in 2010, the Secretariat identified seven tariff lines whose applied rate exceeds the bound rate.

14. Honduras has a price band system for imports of yellow maize, grain sorghum, maize flour and other worked grains. The authorities pointed out that in practice, the mechanism was not used during the period under review, and that the applied tariff for these products was 15%. In August 2015 the system was modified and the price bands were no longer used for imports of white maize: the applied tariff for white maize was raised from 15% under the price band to 50%, the bound rate.

15. Honduras makes little use of non-tariff barriers. Certain imports are prohibited in order to protect public health, morals, animal and plant health, the environment and national security, and in order to comply with international commitments. For the same reasons, both automatic and non-automatic import licensing have been maintained. The licensing regime, which applies to all imports regardless of their origin, has not changed substantially since 2010, and is not designed to restrict the volume or value of imports. The list of goods requiring import licences is the same as in 2010.

16. Honduras did not impose any anti-dumping or countervailing duties during the period under review. However, it did impose a safeguard measure in February 2015 to tackle "disruption" in the domestic market for iron and steel products. As a result, the tariffs on certain iron and steel products increased to 35%. This measure was not notified to the WTO.

17. The development of technical standards and regulations and sanitary and phytosanitary measures is governed by the principles of consensus and transparency, and generally follows international standards. During the review period, Honduras also set up new institutions for the development of these measures in order to enhance cooperation and the transparency. In view of the importance of the agricultural sector for the country, Honduras has maintained strict sanitary controls which apply both to domestic production and to imports. Non-automatic licences are required to import plant and animal products and byproducts as well as inputs for agricultural or veterinary use. Honduras also reserves the right to ban the import or transit of goods from countries deemed to be affected by epidemics that could impact animal or plant health in the country.

18. Honduras has notified the WTO of a number of programmes under which it continues to grant tariff and tax concessions, namely the Temporary Import Procedure, the Free Zones and the Industrial Export Processing Zones (ZIP). These schemes were already running in 2010, and the ZIP scheme is no longer operating. The aim of the concessions granted through these programmes is to promote exports, attract investment and create jobs. In addition to these general programmes, Honduras also operates a number of sectoral programmes: the Agricultural Export Zones regime which, although suspended, continues to grant retroactive benefits, and two programmes for the promotion of tourism. Under the fiscal reform of 2013, some of the tax benefits that had been granted under the various programmes were eliminated. However, since the reform was not retroactive, those who received benefits prior to the reform continued to receive them. One of the more significant changes in trade policy since the last Review was the introduction, in 2013, of a new incentive scheme, the Employment and Economic Development Zones (ZEDE), although no ZEDE is in operation to date. Honduras does not currently have any official programmes to finance or insure its exports.

19. The regulatory framework for government procurement underwent a number of changes during the review period. A new electronic government procurement system was introduced in 2014 to streamline procedures and foster transparency and economies. Honduras continues to maintain measures to encourage Honduran companies and professionals to participate in government procurement procedures.

20. The main change in the legal framework for the protection of intellectual property rights has been the enactment of a Law on the Protection of New Varieties of Plants. There have been no major changes to the provisions on other industrial property rights and copyright and related rights. Honduras is continuing its efforts to improve compliance with intellectual property rights

both at the border and within the country. To that end, it has revised the legal framework in order to impose more severe penalties, and has organized campaigns to promote awareness among civil society and to train government officials.

21. Agriculture in Honduras is relatively concentrated: coffee and bananas accounted for more than 40% of agricultural production in 2014. Other leading products are vegetables and fruit, palm oil and livestock products. Agriculture continues to be a major source of foreign exchange: in 2014, agriculture accounted for 33.8% of foreign exchange generated by merchandise exports. In recent years, the objective of Honduran agricultural policy has been to increase productivity and promote exports without neglecting production for the domestic markets, with a view to ensuring food security. The authorities have tried to reduce the distortions in the domestic market by introducing a price stabilization mechanism and measures to improve food safety. To promote agricultural exports, Honduras has continued to adopt a strategy aimed at opening up new or niche markets. Tariff protection in the agricultural sector continues to be greater than in the manufacturing sector. The price band system has also been maintained, as well as the "absorption agreements" under which certain grains can be imported at preferential rates if the processors purchase a specific percentage of the domestic production of those grains.

22. State involvement in the services and public services sector continues to be significant, particularly in the electricity, telecommunications and maritime transport subsectors. However, a number of measures have been taken to increase private sector participation. In 2013, for the first time, a concession was granted for the operation, expansion and modernization of the country's biggest port (Puerto Cortes). A new General Law on the Electricity Industry abolishing the State's exclusive transmission rights and liberalizing the electricity market was enacted in 2014. At the same time, in order to promote tourism, foreigners were allowed to carry out projects throughout the country, including in the areas reserved for the exclusive use of Hondurans. In the other services subsectors, market access conditions are similar to what they were in 2010. For example, cabotage services are still reserved for national operators in the case of both air transport and maritime transport.

## 1 ECONOMIC ENVIRONMENT

### 1.1 Economic structure and structural adjustment

1.1. With a population of around 8.7 million and still growing by about 2.5% per year, Honduras' per capita GDP of some US\$2,236 in 2014 remains one of Latin America's lowest. Per capita national income in that year was US\$1,798. According to the World Bank, the country's development indicators have worsened in the period reviewed, as a result of the slow growth and stagnation of per capita GDP; 64.5% of the population were living below the poverty line in 2013, compared to 60% in 2010.<sup>1</sup> As was identified in previous reports and is reaffirmed in the Government's 2014-2018 Strategic Plan, the causes of poverty are a lacklustre rate of economic growth, a low level of social inclusion measured by a skewed income distribution, a low level of schooling, inadequate coverage of health services, infrastructure shortcomings, and low labour productivity. The Government has proposed implementing policies to address the challenges on all of these fronts (see below).

1.2. The agriculture sector's contribution to GDP stayed broadly constant in real terms during the period under review, accounting for 13.9% in 2014 (Table 1.1), or 15.2% of gross value added at basic prices. Agriculture remains a very important job creator in Honduras, since a high percentage of the active labour force is employed in farming or related activities, mainly raising livestock and growing coffee, basic grains, pulses, vegetables and fruit.

1.3. The GDP share of the manufacturing sector, including *maquila* industry, declined slightly during the reporting period, from 19.8% in 2010 to 19.3% in 2014. This represented 21.1% of gross value added at basic prices. Services accounted for 63.3% of GDP in the same year (or 72.5% of gross value added at basic prices). Among these, financial intermediation, communications and trade each represented over 10% of GDP at market prices in 2014.

**Table 1.1 Structure of the economy, 2010-2015**

	2010	2011	2012	2013	2014 <sup>a</sup>	2015 Q3 <sup>a</sup>
<b>Gross domestic product (GDP)</b>						
GDP at current prices (market prices, L million)	299,286	335,028	361,349	376,539	409,612	n.a.
GDP at current prices (market prices, US\$ million)	15,839	17,703	18,514	18,498	19,506	n.a.
Real GDP (L million at 2000 constant prices)	159,828	165,958	172,810	177,634	183,115	141,492
Real GDP (annual percentage change)	3.7	3.8	4.1	2.8	3.1	3.0 <sup>b</sup>
Per capita GDP (current US\$)	1,969	2,155	2,208	2,162	2,236	n.a.
Per capita GDP (current L)	37,197	40,782	43,094	44,013	46,946	n.a.
<b>Share of GDP by activity (% of GDP at constant prices)</b>						
Crop farming, livestock breeding, hunting, forestry and fishing	12.7	13.0	13.8	13.9	13.9	13.9
Mining and quarrying	0.3	0.2	0.2	0.2	0.2	0.2
Manufacturing	19.8	19.9	19.5	19.6	19.3	19.3
Electricity and water supply	2.6	2.6	2.6	2.4	2.4	2.5
Construction	3.5	3.5	3.4	3.2	2.9	2.7
Commerce, repair of motor vehicles, motorcycles, and personal and household goods	9.8	9.8	9.8	9.8	9.7	11.8
Hotels and restaurants	2.2	2.2	2.2	2.2	2.2	0.0
Transport, storage	3.9	3.9	4.0	3.9	3.9	3.9
Communications	9.1	9.5	9.7	9.9	10.1	10.2
Financial intermediation	14.1	14.7	15.1	15.5	16.3	16.8
Housing	4.5	4.4	4.3	4.3	4.2	8.2
Real estate and business activities	4.2	4.1	4.1	4.0	4.0	0.0
Public administration and defence; compulsory social security	5.9	5.6	5.5	5.6	5.5	5.4
Education services	5.2	5.0	5.0	5.0	4.9	7.7
Social services and health	3.1	3.1	3.0	3.0	3.0	0.0
Community, social and personal services	2.6	2.5	2.5	2.5	2.5	2.5
Less: financial intermediation services indirectly measured	11.3	12.2	12.6	12.8	13.4	14.1
Gross value added at basic prices	92.0	91.9	92.0	92.2	91.4	90.9
Plus: taxes net of production and import subsidies	8.0	8.1	8.0	7.8	8.6	9.1
<b>Real growth rates (%)</b>						
Crop farming, livestock breeding, hunting, forestry and fishing	1.8	6.5	10.7	3.4	2.7	3.8
Mining and quarrying	-4.0	-10.6	-3.2	-6.8	-5.1	-7.4
Manufacturing	4.5	4.4	1.8	3.4	1.5	3.3
Electricity and water supply	-0.2	3.6	2.9	-2.5	1.3	10.0

<sup>1</sup> Online information from the World Bank. Viewed at: <http://data.worldbank.org/country/honduras>.

	2010	2011	2012	2013	2014 <sup>a</sup>	2015 Q3 <sup>a</sup>
Construction	-2.4	4.4	2.4	-2.5	-8.2	-4.1
Trade, repair of motor vehicles, motorcycles, and personal and household goods	3.3	4.3	4.1	2.3	2.0	2.8 <sup>e</sup>
Hotels and restaurants	3.6	3.8	2.3	1.6	2.1	n.a.
Transport, storage	5.7	4.4	4.4	2.5	2.1	3.4
Communications	8.2	7.6	6.5	5.6	5.2	-73.8
Financial intermediation	8.3	8.7	6.7	5.3	8.3	8.7
Housing	1.9	1.7	1.9	2.0	2.1	2.9 <sup>d</sup>
Real estate and business activities	1.8	2.5	2.9	2.3	2.2	n.a.
Public administration and defence; compulsory social security	3.8	-1.1	2.5	3.9	1.3	1.2
Education services	0.9	1.1	2.4	2.8	1.9	1.3 <sup>e</sup>
Social services and health	5.8	1.6	3.2	2.8	1.2	n.a.
Community, social and personal services	3.4	1.9	2.4	2.9	2.2	2.7
Less: financial intermediation services indirectly measured	7.1	11.7	7.2	4.4	8.3	9.6
Gross value added at basic prices	3.7	3.7	4.2	3.0	2.1	3.0
Plus: taxes net of production and import subsidies	4.3	4.9	3.1	-0.1	14.9	9.5
<b>GDP by expenditure category (% of GDP at constant prices)</b>						
Final consumption expenditure	89.0	88.1	87.9	88.7	87.8	87.4
Private sector	73.7	73.5	73.6	74.3	74.0	74.0
Public sector	15.3	14.6	14.3	14.4	13.8	13.4
Gross fixed capital formation	19.6	22.1	22.0	21.0	20.0	22.8 <sup>f</sup>
Private sector	16.6	19.0	19.3	17.9	17.9	n.a.
Public sector	3.0	3.1	2.6	3.0	2.1	n.a.
Variation in inventories	0.3	1.7	0.2	-1.8	-0.2	n.a.
Exports of goods and services, f.o.b.	54.6	56.9	60.1	57.7	56.8	57.2
Less: imports of goods and services, c.i.f.	63.4	68.8	70.2	65.5	64.5	67.4
<b>GDP by expenditure category (real growth rate)</b>						
Final consumption expenditure	2.8	2.8	4.0	3.7	2.1	3.0
Private sector	3.6	3.6	4.3	3.8	2.7	3.4
Public sector	-1.0	-1.0	2.3	3.2	-1.1	0.3
Gross fixed capital formation	1.4	16.9	3.7	-1.9	-1.4	23.7 <sup>f</sup>
Private sector	4.7	19.0	6.0	-4.7	2.9	n.a.
Public sector	-13.6	5.1	-10.3	18.8	-27.1	n.a.
Variation in inventories	-118.6	509.8	-85.3	-877.6	-87.8	n.a.
Exports of goods and services, f.o.b.	15.7	8.4	9.8	-1.3	1.6	4.0
Less: imports of goods and services, c.i.f.	15.2	12.7	6.3	-4.1	1.5	9.2
<b>Monetary indicators</b>						
Consumer price index (annual average, 1999=100)	4.7	6.8	5.2	5.2	6.1	3.2 <sup>g</sup>
Consumer price index (end of period, 1999=100)	6.5	5.6	5.4	4.9	5.8	2.4 <sup>g</sup>
Exchange rate (L per US\$, annual average)	19.0	19.0	19.6	20.5	21.1	22.1 <sup>g</sup>
Real effective exchange rate (index 2009=100), end of period	103.8	104.7	103.4	103.0	104.8	105.2 <sup>h</sup>
Real effective exchange rate, annual variation, end of period	3.8	0.9	-1.2	-0.4	1.7	0.8 <sup>b</sup>
Interest rate on loans in national currency, end of period	19.0	18.1	19.2	20.3	20.7	20.7
Interest rate on deposits in national currency, end of period	8.7	7.9	10.5	11.3	10.5	9.2
Monetary base, broad definition (net foreign assets + domestic assets), L million	63,648	69,033	68,731	76,106	88,491	n.a.
Monetary base, narrow definition, L million	31,993	34,280	36,053	39,694	45,450	n.a.
<b>Employment</b>						
Employed labour force ('000 persons) <sup>i</sup>	3,254	3,226	3,244	3,487	3,461	n.a.
Open unemployment rate (%)	3.9	4.3	3.6	3.6	5.3	n.a.
<b>Other economic indicators</b>						
Current account balance (% of GDP)	-4.3	-8.0	-8.6	-9.6	-7.5	n.a.
Family remittances (US\$ million)	2,609	2,798	2,892	3,083	3,353	2,718
Total external debt (US\$ million)	3,785	4,208	4,861	6,709	7,180	7,193
Total external debt (% of GDP)	24.1	23.9	26.4	36.5	37.0	n.a.
Net international reserves of the BCH (L million)	51,382	53,730	51,322	62,945	75,648	n.a.
Net international reserves of the BCH (US\$ million)	2,701	2,821	2,613	3,071	3,579	n.a.
Population ('000)	8,046	8,215	8,385	8,555	8,725	n.a.

n.a. Not available.

a Preliminary figures.

b Variation between the current quarter and the same quarter of the previous year.

c Includes hotels and restaurants.

d Includes real estate activities.

e Includes social services and health.

f Includes variation in inventories.

g 2015 data.

h June 2015.

i The total employed labour force declined in 2014 due to adjustments made by the National Institute of Statistics (INE).

Source: Central Bank of Honduras and INE.

1.4. The Government's 2014-2018 Strategic Plan is targeted on improving welfare and social inclusion levels, modernizing and simplifying the State, and fostering competitiveness and sustainable use of the country's human and material resources. The Plan aims to reduce extreme poverty through conditional monetary transfers and improvements to basic housing conditions and the quality of education and health services. It also seeks to increase employment and reduce poverty by promoting investment and competitiveness, stimulating external trade and supporting the development of small urban and rural enterprises.

1.5. The Plan contains a medium-term economic programme that aims to consolidate the country's public finances, boost economic growth and invest in programmes to reduce and alleviate poverty. It also aims to strengthen the country's infrastructure and logistics development, through public and private investment in transport projects that facilitate more streamlined and lower-cost connection at the regional and international levels, and the development of renewable energy and telecommunications projects that reduce business costs in Honduras. To achieve all of this, 14 global strategic goals have been defined, which include the following: the reduction of poverty by 1% per year; progressive implementation of a universal social security system; an expanded and better quality education coverage; universal and free coverage of health services to be achieved gradually; faster growth of GDP and per capita GDP than in the previous five years; a reduction in underemployment; improved competitiveness; a reduction of the fiscal deficit to 2.9% of GDP by 2018; infrastructure improvements; reduction of insecurity and corruption; and modernization of the Government.<sup>2</sup>

1.6. Following the general guidelines of the Government's Strategic Plan, the authorities designed the 2014-2017 Economic Programme, for which it sought support from the International Monetary Fund (IMF). This programme aims to conserve macroeconomic stability, strengthen the confidence of investors and bolster the fiscal and external positions, while at the same time improving the conditions needed for sustainable inclusive growth. The Government has endeavoured to achieve this by reducing the fiscal deficit. In this connection, a set of fiscal measures was approved in December 2013, mainly aimed at boosting revenue (see below).

1.7. In December 2014, the Executive Board of the IMF approved a Standby Arrangement for Honduras of US\$113.2 million, and an agreement under the Standby Credit Facility amounting to US\$75.4 million.<sup>3</sup> These agreements, which the Honduran authorities view as precautionary, aim to provide backing to the aforementioned economic programme.

1.8. In the fiscal domain, the 2014-2017 economic programme seeks to restore discipline and contain the growth of the public debt, which would mean reducing the consolidated public-sector deficit from about 7.5% of GDP in 2013 to around 2% of GDP by 2017. To that end, the authorities announced their intention to reduce the share of wages in GDP in 2014-2017, while maintaining the same level of expenditure on key social programmes. The authorities also undertook to introduce structural reforms, including improvements in tax administration and reforms to the electricity sector, including the National Electricity Company (ENEE); the Honduran Telecommunications Company (HONDUTEL); and the Honduran Social Security Institute.<sup>4</sup>

1.9. In relation to the programme implemented by Honduras, the IMF considers that "[s]ustained fiscal consolidation will be necessary to reduce the country's large fiscal deficit and contain public debt". The actions undertaken by the authorities thus far are aimed in this direction. Nonetheless, additional efforts will be needed to further reduce current expenditure, improve tax administration and bolster the finances of the electricity company. The IMF also stresses that "structural reforms are an essential component of the authorities' programme".<sup>5</sup> In a July 2015 review of the implementation of that programme, the IMF noted that the Honduran economy had continued to strengthen in that year, expanding at a solid pace with real GDP posting a growth rate of 4% in

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<sup>2</sup> Government of the Republic of Honduras, State Secretariat for Finance (2015), *Lineamientos de Política Presupuestaria 2016*. Viewed at: [http://www.sefin.gob.hn/wp-content/uploads/2015/07/Lineamientos\\_de\\_Politica\\_Presupuestaria\\_2016\\_junio\\_2015.pdf](http://www.sefin.gob.hn/wp-content/uploads/2015/07/Lineamientos_de_Politica_Presupuestaria_2016_junio_2015.pdf).

<sup>3</sup> IMF (2014), *Press Release No. 14/545*, 4 December 2014. Viewed at: <http://www.imf.org/external/spanish/np/sec/pr/2014/pr14545s.htm>.

<sup>4</sup> IMF (2014), *Honduras: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding*, 19 November 2014. Viewed at: <http://www.imf.org/external/np/loi/2014/hnd/111914.pdf>.

<sup>5</sup> IMF (2014), *Press Release No. 14/545*, 4 December 2014. Viewed at: <http://www.imf.org/external/spanish/np/sec/pr/2014/pr14545s.htm>.

the first quarter. At the same time, inflation remained on the low side, at 3.6% in June, supported by declining fuel prices and sound macroeconomic policy management. The solid growth of exports and remittances had enabled the authorities to meet the June target for net international reserves (NIR) by a wide margin, and to increase reserve coverage to 4.5 months of imports. The Fund further noted that fiscal performance had also continued strengthening, as had tax administration, thus contributing to the growth in revenue and the improvement in the fiscal accounts.<sup>6</sup>

1.10. Since 1999, Honduras has been among the 39 countries officially included by the World Bank and the IMF in the Heavily Indebted Poor Countries (HIPC) Initiative. Honduras is one of the 35 countries to have attained the completion point and is now eligible for debt reduction through the Multilateral Debt Relief Initiative (MDRI).<sup>7</sup>

## 1.2 Production and employment

1.11. The Honduran GDP grew at an average annual rate of 2.5% between 2009 and 2014, which means that per capita income flatlined during the period. The domestic economy was hard hit by the global crisis and the slump in external demand. At the same time, the delay in the structural reform process prevented growth from quickening until the country's main trading partners, particularly the United States, started to recover. Despite the structural reform effort, the growth of the Honduran economy has been ponderous and unstable in recent years, largely owing to the effects of natural disasters. These made themselves felt particularly in 2013, when GDP growth slowed because of a fall in goods and services exports and the substantial cutback in public investment that occurred in that year.

1.12. Macroeconomic conditions improved in 2014 and 2015. GDP expanded by 3.1% in 2014 and at a year-on-year rate of 3.0% in the first half of 2015, with growth of between 3.0% and 3.5% expected for the year as a whole. Private investment was up by 22% in the first half of 2015, mainly owing to an increase in capital goods imports. The authorities expect growth to consolidate on the back of favourable external conditions, greater confidence and recovery in the coffee sector — factors that will counteract the recessionary effects of the fiscal adjustment.

1.13. The expenditure composition of Honduran GDP reveals a relatively high level of private consumption, financed partly by remittances from abroad (Table 1.1). In 2014, final consumption absorbed 87.8% of GDP, with private consumption accounting for 74.0%. Gross capital formation behaved erratically during the period and its GDP share has not regained the levels attained prior to the global crisis: gross fixed capital formation represented 19.8% of GDP in 2014, down from 32.2% in 2008. After surpassing 60% in 2012, exports of goods and services saw their GDP share decline in 2013 and 2014, owing to a reduction in coffee exports. The behaviour of imports was similar.

1.14. According to the INE, total employment grew from 3.25 million in 2010 to 3.46 million in 2014. The open unemployment rate rose from 5.1% to 5.4%, although this partly reflects the adjustments made by the INE in 2014. Levels of visible and invisible underemployment have stayed high, with estimated rates above 30%. The informal economy continues to play a preponderant role in Honduras, owing to its size and employment effects.

## 1.3 Fiscal policy

1.15. The State Secretariat for Finance continues to have responsibility for formulating and implementing fiscal policy in Honduras. The aim of current fiscal policy, according to the authorities, is to keep the public finances in balance, rationalizing current expenditure in non-priority areas and increasing it in domains such as education, health, social security, and economic and social infrastructure. The authorities have stressed that, in keeping with the 2010-2014 Government Plan (*Plan de Todos Para Una Vida Mejor* – the "Everyone for a Better Life" plan), Honduran fiscal policy aims to ensure that the country has the resources needed to finance the social and investment expenditure that is prioritized in the National Plan; and to fulfil

<sup>6</sup> IMF (2015), *Press Release No. 15/339*, 16 July 2015. Viewed at: <http://www.imf.org/external/spanish/np/sec/pr/2015/pr15339s.htm>.

<sup>7</sup> Under HIPC rules, debt relief is assigned as a proportion of annual debt service over a period of between eight and 15 years, depending on the creditor. The resources made available each year by this reduction in debt service must be used to finance programmes and projects included in the Poverty Reduction Strategy.

obligations arising from the public debt, ensuring that the available resources are invested efficiently and transparently, while underpinning fiscal sustainability.<sup>8</sup>

1.16. The central government accounts are traditionally in deficit (Table 1.2), which has led the Government to implement a fiscal consolidation programme for which it requested support from the IMF. The remainder of the public sector generally posts a surplus, fuelled above all by the earnings of the social security institutes. The central government deficit fluctuated between 4.4% and 7.9% of GDP during the review period, attaining a peak in 2013, after gathering pace in 2012 and 2013 particularly. Partly as a result of the programme of expenditure cuts, the central government deficit shrank to 4.4% of GDP in 2014.

**Table 1.2 Financial accounts of the central government, 2009-2014**

(L million and % of GDP)

	2009	2010	2011	2012	2013	2014
<b>Total income</b>	<b>17.1</b>	<b>16.9</b>	<b>17.0</b>	<b>16.7</b>	<b>17.0</b>	<b>18.7</b>
Current income	15.2	15.5	15.9	15.7	16.3	18.0
Tax revenues	14.2	14.4	14.8	14.5	14.8	16.3
Income tax	4.1	4.3	5.0	4.8	5.1	5.5
Sales tax	6.3	5.5	5.9	5.7	5.6	6.9
Production and consumption tax	0.7	0.3	0.4	0.4	0.4	0.4
Selective consumption tax	0.6	0.2	0.2	0.2	0.2	0.2
Import duties	1.1	0.8	0.8	0.8	0.7	0.7
Nontax income	0.8	1.0	1.0	1.1	1.5	1.6
Current transfers	0.3	0.1	0.1	0.1	0.0	0.0
Capital income	1.8	1.4	1.1	1.0	0.8	0.8
Transfers (grants)	1.8	1.4	1.1	1.0	0.8	0.8
<b>Current expenditure</b>	<b>18.6</b>	<b>17.9</b>	<b>16.9</b>	<b>18.3</b>	<b>19.8</b>	<b>17.9</b>
Consumption expenditure	13.8	13.1	12.0	12.3	12.7	11.5
Remunerations	10.9	10.7	9.6	9.6	9.7	9.1
Goods and services	3.0	2.5	2.4	2.7	3.0	2.5
Interest and commissions	0.7	1.0	1.3	1.7	2.3	2.5
External	0.3	0.7	0.3	0.3	0.5	0.9
Internal	0.4	0.2	1.1	1.3	1.7	1.6
Current transfers	4.1	3.8	3.6	4.3	4.9	3.9
Current account saving	-3.4	-2.4	-1.1	-2.6	-3.5	0.0
Capital expenditure and net lending	4.5	3.6	4.6	4.4	5.1	5.2
Real investment	2.8	2.0	1.7	1.6	2.5	2.1
Capital transfers	2.4	1.7	3.0	2.7	2.7	3.1
Net lending	-0.7	-0.1	0.0	0.1	-0.1	0.0
<b>Total net expenditure</b>	<b>23.1</b>	<b>21.5</b>	<b>21.6</b>	<b>22.7</b>	<b>24.9</b>	<b>23.1</b>
<b>Surplus (+) deficit (-)</b>	<b>-6.0</b>	<b>-4.7</b>	<b>-4.6</b>	<b>-6.0</b>	<b>-7.9</b>	<b>-4.4</b>
<b>Financing</b>	<b>6.0</b>	<b>4.7</b>	<b>4.6</b>	<b>6.0</b>	<b>7.9</b>	<b>4.4</b>
Net external financing	0.9	2.9	2.7	3.0	8.3	2.5
Net external credit	1.1	2.6	2.7	2.5	8.3	2.5
Other	-0.2	0.3	0.0	0.5	0.0	0.0
Net domestic financing	5.1	1.8	1.9	3.0	-0.4	1.9
Overall balance of the public sector	-4.5	-2.8	-2.8	-4.2	-7.6	-5.9
Public-sector debt	n.a.	29.8	32.1	34.4	45.1	47.8
Of which: external debt	n.a.	18.0	18.1	19.7	28.1	29.7
Public external debt service (% of exports excluding <i>maquila</i> )	n.a.	3.9	4.4	3.0	2.8	7.3

n.a. Not available.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding.

Source: Government of the Republic of Honduras, State Secretariat for Finance (2015), *Memoria Institucional 2012*. Viewed at: <http://www.sefin.gob.hn/?p=49716>, Central Bank of Honduras and IMF.

1.17. Total income held steady around 17% of GDP in 2010-2013, but expanded to 18.7% in 2014 as a reflection of the fiscal adjustments made towards the end of the previous year (see below), which generated additional revenue. Income tax and sales tax are the predominant revenue categories, accounting for about 5.5% and 6.9% of GDP respectively in 2014. Revenue obtained from customs duties represented just 3.7% of current income and 0.7% of GDP in the same year. The revenue obtained from customs duties represented 1.5% of goods imports, compared to an average most-favoured-nation (MFN) tariff of 6%. Table 1.3 summarizes the main taxes applied in 2015.

<sup>8</sup> Government of the Republic of Honduras, State Secretariat for Finance (2015), *Lineamientos de Política Presupuestaria 2016*. Viewed at: [http://www.sefin.gob.hn/wp-content/uploads/2015/07/Lineamientos\\_de\\_Politica\\_Presupuestaria\\_2016\\_junio\\_2015.pdf](http://www.sefin.gob.hn/wp-content/uploads/2015/07/Lineamientos_de_Politica_Presupuestaria_2016_junio_2015.pdf).

Table 1.3 Main taxes applied in 2015

Description	Tax base
<b>Direct taxes</b>	
Income tax	Income from capital, work, or a combination thereof, whether the income source is located in the country or outside it, and irrespective of where the income is distributed or paid.
Solidarity contribution	A 5% income tax surcharge, paid on income above L 1 million.
Net assets tax	Assets less reserves in respect of accounts receivable, cumulative depreciations allowed by the Income Tax Law.
<b>Indirect taxes</b>	
Sales tax	All sales made in Honduras; applied cumulatively to imports and at each stage of the sale. In the case of beer, carbonated water and soft drinks, it is levied on the selling price at the distributor stage, either at the time of importation or at the domestic production level. In the case of cigarettes and other tobacco products, the tax is calculated in relation to the wholesale price.
Production and consumption tax	Applied per litre in the case of domestic or imported carbonated, alcoholic and other prepared or fermented beverages, including the domestic production and importation of undenatured ethyl alcohol with an alcohol content of at least 80% by volume, and ethyl alcohol and denatured alcohol of any degree. In the case of cigarettes, a fixed and single amount is set on the basis of every 1,000 cigarettes sold or imported, or fraction thereof.
Contribution for road maintenance, social programmes and tourism	Applied per gallon of fuel or equivalent, in US\$ (1.4089 premium-grade gasoline; 1.2416 regular-grade gasoline; 0.8606 diesel; 0.4267 fuel oil; 0.15 kerosene and LPG; 0.03 AvJet).
Selective consumption tax	Applied <i>ad valorem</i> to all products in general.
Eco-tax	Fixed, single, and definitive amount depending on the c.i.f. value of each used vehicle.
Forestry production tax	Board feet recorded in the previous year, or else establishment capacity in the case of a new establishment.
Import duties	C.i.f. value
<b>Charges and contributions</b>	
Tourist services charge	Daily price of a hotel room, rental of vehicles for tourism purposes, and services provided by tourist agencies.
Administrative instruments	Issuance of administrative permits.
Special contribution levied on the financial system	Levied on all withdrawals in national and foreign currency, from demand deposits or checking accounts held in financial institutions by natural or legal persons, with a monthly average balance in the previous month greater than L 120,000, or the foreign currency equivalent thereof.
Special mobile telephony contribution	Monthly gross revenue from mobile phone calls (airtime) received by firms operating in the sector.
Special contribution levied on the mining sector	Industrial mining of non-metal ores and gemstone/precious stone mining: 1% on the f.o.b. value or on the basis of the plant or ex-factory value. Mining of metal ores, oxides and sulphides (non-metal) from which metals are extracted: 2% on the f.o.b. sale or export value.
Special contribution levied on the food and drinks sector	Monthly gross revenue received by commercial companies selling food and drinks in Honduras under international franchises that are governed by any special regime.
Special contribution levied on casinos and slot machines	Monthly gross revenue from the activities of casinos and slot machines.
Special contribution levied on the cooperative sector	Annual net surpluses equivalent to income less expenses from cooperative activity.

Source: Information provided by the authorities.

1.18. On the other side of the equation, expenditure grew between 2011 and 2013, to reach a maximum share of 19.8% of GDP in the latter year, before slipping back to 17.9% in 2014, despite attempts to boost revenue. The fiscal deficit was mostly financed through borrowing, both external and domestic; most external financing was obtained under preferential conditions, while domestic borrowing was mainly funded through bond issues, generally at market interest rates. As a result of financing the deficit by borrowing, the public debt (external and domestic) rose during the period from 29.8% of GDP in 2010 to 47.8% in 2014.

1.19. In December 2013, Honduras approved the implementation of a tax reform through the Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures (Decree No. 278-2013). The law aims to reduce the fiscal deficit and boost revenue, for which purpose: it eliminated

a number of exemptions and duty-free arrangements; set a 10% tax on increases in property values, which was later repealed by Article 1 of Decree No. 65-2014; and it amended the general rate of sales tax to 15% and to 18% for alcoholic beverages, beer, cigarettes, and executive-class airline tickets. At the same time, it exempted goods in the basic shopping basket from this tax.<sup>9</sup> Measures were also introduced to rationalize expenditure, control the management of the public debt, and improve tax administration.

1.20. In the framework of its 2014-2017 Reform Programme, aimed at restoring fiscal discipline and putting the public debt onto a sustainable path, Honduras adopted a fiscal strategy to stabilize the public debt ratios for 2017-2018, and reduce them thereafter. To achieve this, the programme has sought to reduce the general public sector deficit to 1.8% of GDP by 2017, for which it sees tax revenue growing by about 2% of GDP in 2014-2017. It aims to fulfil this objective through an expansion of the tax base; an increase in the number of taxpayers; and improvements to speed up customs clearance. The government programme also includes public expenditure cuts, by reducing payroll expenses and cutting expenditure on goods and services by 0.5% of GDP, while prioritizing capital spending. In this connection, it was decided to freeze the nominal wages of public-sector employees in 2014-2015. The programme also provides for the adoption of measures to bolster the ENEE, which posted a deficit equivalent to 1.8% of GDP in 2013. This will be done by raising rates and reducing the high levels of operating losses, and by promoting private-sector participation in the transmission and distribution segments. The goal is to eliminate the ENEE deficit by 2018.

1.21. The 2016 budget seeks to grow tax revenue through more efficient management and greater geographical coverage and fiscal presence; and to expand the base of potential taxpayers by supporting census programmes and arresting taxpayers who fail to declare. The total public debt stock (external and domestic) should not exceed 52.5% of GDP in nominal terms by late 2019. In addition, a deficit of 3% of GDP is projected for central government, and 1.7% for the consolidated public sector.<sup>10</sup>

#### 1.4 Monetary and exchange-rate policy and prices

1.22. The institutional framework for the formulation and implementation of monetary policy in Honduras has not changed since the previous review. In practice, the objective established in the Law on the Central Bank of Honduras (BCH) is to obtain price stability under an annual monetary programme with specific targets for inflation and for the level of net international reserves. The BCH monitors the behaviour of the exchange rate without setting targets.

1.23. The main monetary policy tools deployed by the BCH are open-market operations and its management of required reserves. Open-market operations consist mainly of selling Central Bank Bills (LBCH) in competitive auctions. In its conduct of monetary policy, the BCH uses short-term interest rates as an operational variable, while the monetary aggregates serve as indicative targets. The policy instrument is the Monetary Policy Rate (TPM), which sets the maximum interest rate permitted for bids to purchase government securities at 1- to 14-day maturities in BCH auctions, aimed exclusively at financial entities. In that connection, daily LBCH auctions have been held since 19 October 2015, with a view to improving market signalling and optimizing monetary policy transmission channels. The legal reserve is calculated on the average of deposit obligations in the immediately preceding fortnight; it must be fully constituted in demand deposits at the BCH, and a minimum daily amount equivalent to 80% of the deposit must be held.

1.24. The authorities' strategy is to maintain an adequate level of liquidity. To regulate the daily liquidity of commercial banks, it uses permanent investment and credit facilities (both overnight). In May 2013, Primary Investment Certificates (CIP) were created as short-term investment instruments that can be purchased directly by private individuals and private legal entities, other than banks. Their aim is monetary absorption and stabilization. The BCH is authorized to extend credit to banks, saving and loan associations, and financial corporations to meet their temporary

<sup>9</sup> These goods are listed in Annex I to the Law and cover 75 eight-digit tariff subheadings. They include certain types of meat, milk, cheese, potatoes, green vegetables, beans, certain fruits, maize, sugar, coffee, bread, and salt, among others.

<sup>10</sup> Government of the Republic of Honduras, State Secretariat for Finance (2015), *Lineamientos de Política Presupuestaria 2016*. Viewed at: [http://www.sefin.gob.hn/wp-content/uploads/2015/07/Lineamientos\\_de\\_Politica\\_Presupuestaria\\_2016\\_junio\\_2015.pdf](http://www.sefin.gob.hn/wp-content/uploads/2015/07/Lineamientos_de_Politica_Presupuestaria_2016_junio_2015.pdf).

liquidity shortages, subject to prior certification of their compliance with current capital adequacy requirements issued by the National Banking and Insurance Commission (CNBS). Financial entities may also avail themselves of the permanent credit facilities (FPC) and repurchase agreements (repos), by signing a specific agreement with the BCH.

1.25. During the review period, BCH monetary policy continued to be targeted on controlling inflation and maintaining an adequate level of international reserves. The 2015-2016 Monetary Programme forecasts year-on-year inflation at the end of 2015 and 2016 at 5.5% with a fluctuation range of  $\pm 1\%$  for both years, based on current projections for the international prices of oil and imported raw materials, and the implementation of an active monetary policy. However, this forecast was revised in July 2015 to a range of  $4.75\% \pm 1.0$  percentage points (pp) for 2015, and  $5.5\% \pm 1.0\%$  pp for 2016. The BCH estimates that economic growth is likely to be in a range of 3.0%-3.5% for the two years in question, given current levels of investment and of domestic and external demand.

1.26. The Monetary Programme proposes the following policy measures to achieve the objectives of price stability and protection of the country's external position: (a) continuing to use the TPM as the benchmark operational variable, keeping it positive in real terms; (b) maintaining liquidity levels consistent with the goal of price stability and strengthening the country's external position; (c) continuing to manage liquidity in the banking system by providing the FPC service; (d) maintaining the exchange rate band mechanism and online auction of foreign exchange dealing; (e) maintaining a level of international reserves that provide coverage for at least 3.5 months of imports; (f) stimulating economic activity in priority productive sectors by making efficient use of the funds held in the BCH- BANHPROVI Trust Fund<sup>11</sup>; (g) improving coordination between monetary and fiscal policies; and (h) strengthening oversight of the financial system.<sup>12</sup>

1.27. The BCH has kept inflation generally within the established fluctuation band. The average annual inflation rate in 2010-2014, measured by the consumer price index (CPI), was 5.6%, compared to 7.4% in 2003-2009. This reduction has been possible thanks to a cautious monetary policy and the effect of lower prices for oil and other raw materials. The year-on-year inflation rate in September 2015 fell to 2.76%, the lowest level for more than 25 years. In 2015, given lower inflation risk, moderate growth in the monetary aggregates together with still contained economic growth, the BCH decided to ease monetary conditions by lowering the TPM on three occasions (February, March and July 2015), which dropped from 7.00% to 6.25%. Rates on LBCH placements were also lowered.

1.28. Honduras applies a crawling band exchange rate system. The BCH maintains an online system for currency transactions (SENDI), as an instrument for allocating the foreign exchange needed by economic operators. The exchange rate is determined in daily auctions, but may not deviate by more than 7.0% from the base exchange rate, which is adjusted every five auctions according to the spread between Honduras' inflation rate and the rates estimated in its main trading partners, while also taking account of the trend of the exchange rate of those countries with respect to the United States dollar and the behaviour of official reserve assets. The weighted-average exchange rate of successful auctions is used as the benchmark (official) exchange rate for the following day. The real effective exchange rate depreciated by 5.2% between 2009 and June 2015. All transactions in foreign currency, both inside Honduras and abroad, must be channelled through the BCH or through authorized foreign exchange dealers. The banks and foreign exchange bureaus are required to surrender 100% of their daily foreign exchange purchases to the BCH at the benchmark foreign exchange market rate prevailing on the day of purchase. The BCH must offer at least 60% of the average of its foreign exchange purchases over the previous five days.

## 1.5 Balance of payments and external debt

1.29. The current account of the balance of payments continued to post large deficits during the review period, with a US\$1,444 million gap in 2014, equivalent to 7.4% of GDP. This was below the 9.5% recorded in 2013, but well above the 4.3% of 2010 (Tables 1.1 and 1.4).

<sup>11</sup> Legislative Decree No. 91-2013 authorized an increase in funding to L 13 billion.

<sup>12</sup> Central Bank of Honduras (2015), *Programa Monetario 2015-2016*. Viewed at: [www.bch.hn/programa\\_monetario.php](http://www.bch.hn/programa_monetario.php).

1.30. Goods imports grew vigorously between 2009 and 2012, before declining somewhat. However, the average annual rate of growth of imports between 2010 and 2014 was 5.6%, whereas exports grew by an average of 6.5% per year. The export figures include the earnings of the *maquila* industry, which are recorded as part of merchandise exports (see below).

1.31. Net transfers from abroad continued to grow on a sustained basis in the most recent years of the review period, rising to US\$3,572 million in 2014 (Table 1.4), equivalent to 18.3% of GDP. Family remittances are particularly important in this category — totalling US\$3,353 million, or 17.2% of GDP in 2014, up by nearly 36% on the 2009 figure. Private transfers are essential for sustaining domestic demand and particularly for financing much of domestic consumption.

1.32. The financial account of the balance of payments is generally in surplus, and it recorded net income of US\$1,651 million in 2014 (8.5% of GDP), largely owing to direct capital investment flows for private investment and loans to general government and the financial sector. Net international reserves held in the financial system stood at US\$3,517 million in late 2014 — equivalent to 4.0 months of imports. The level of reserves rose in October 2015, to represent an estimated 4.3 months of imports.<sup>13</sup>

**Table 1.4 Balance of payments, 2010-2015**

(US\$ million)

	2010	2011	2012	2013	2014 <sup>a</sup>	2015 T3 <sup>a</sup>
<b>I. Current account<sup>b</sup></b>	<b>-682</b>	<b>-1,409</b>	<b>-1,581</b>	<b>-1,763</b>	<b>-1,444</b>	<b>-875</b>
<b>Balance of goods</b>	<b>-2,643</b>	<b>-3,149</b>	<b>-3,012</b>	<b>-3,147</b>	<b>-2,998</b>	<b>-2,194</b>
<b>Exports (f.o.b.)</b>	<b>6,264</b>	<b>7,977</b>	<b>8,359</b>	<b>7,806</b>	<b>8,072</b>	<b>6,223</b>
General goods	2,735	3,866	4,295	3,788	3,958	3,020
Goods for processing	3,432	3,999	3,939	3,890	3,980	3,103
Other goods	98	111	125	128	135	100
<b>Imports (f.o.b.)</b>	<b>8,907</b>	<b>11,126</b>	<b>11,371</b>	<b>10,953</b>	<b>11,070</b>	<b>8,417</b>
General goods	6,606	8,356	8,620	8,385	8,500	6,495
Goods for processing	2,301	2,769	2,748	2,560	2,561	1,915
Other goods	1	2	3	9	9	7
<b>Balance of services</b>	<b>-193</b>	<b>-423</b>	<b>-591</b>	<b>-668</b>	<b>-698</b>	<b>-545</b>
<b>Revenue</b>	<b>976</b>	<b>1,023</b>	<b>1,056</b>	<b>1,013</b>	<b>1,087</b>	<b>851</b>
Transport	57	80	79	102	98	71
Travel	626	637	679	608	630	510
Other services	293	307	298	303	359	270
<b>Expenditure</b>	<b>1,169</b>	<b>1,446</b>	<b>1,647</b>	<b>1,681</b>	<b>1,784</b>	<b>1,397</b>
Transport	588	796	903	902	956	762
Travel	321	354	454	404	412	331
Other services	261	296	290	374	417	304
<b>Balance of goods and services</b>	<b>-2,836</b>	<b>-3,572</b>	<b>-3,603</b>	<b>-3,815</b>	<b>-3,695</b>	<b>-2,739</b>
<b>Balance of income</b>	<b>-727</b>	<b>-974</b>	<b>-1,266</b>	<b>-1,353</b>	<b>-1,322</b>	<b>-976</b>
<b>Revenue</b>	<b>54</b>	<b>59</b>	<b>62</b>	<b>48</b>	<b>47</b>	<b>47</b>
Interest	45	46	34	33	30	35
Other income	9	13	29	16	16	12
<b>Payments</b>	<b>781</b>	<b>1,033</b>	<b>1,328</b>	<b>1,401</b>	<b>1,368</b>	<b>1,022</b>
Interest	73	90	99	153	198	149
Direct investment	681	910	1,192	1,208	1,129	839
Other income	27	33	36	41	42	35
<b>Balance of goods, services and income</b>	<b>-3,563</b>	<b>-4,546</b>	<b>-4,869</b>	<b>-5,168</b>	<b>-5,017</b>	<b>-3,715</b>
<b>Balance of transfers</b>	<b>2,882</b>	<b>3,138</b>	<b>3,288</b>	<b>3,405</b>	<b>3,572</b>	<b>2,840</b>
Income from family remittances	2,609	2,798	2,892	3,083	3,353	2,718
<b>II. Capital account</b>	<b>85</b>	<b>166</b>	<b>101</b>	<b>133</b>	<b>145</b>	<b>104</b>
<b>Credit</b>	<b>85</b>	<b>166</b>	<b>101</b>	<b>133</b>	<b>145</b>	<b>104</b>
Capital transfers	85	166	101	133	145	104
<b>Debit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>III. Financial account<sup>c</sup></b>	<b>1,463</b>	<b>1,143</b>	<b>1,426</b>	<b>2,495</b>	<b>1,651</b>	<b>838</b>
<b>Direct investment<sup>d</sup></b>	<b>971</b>	<b>1,012</b>	<b>851</b>	<b>992</b>	<b>1,120</b>	<b>759</b>
Direct investment abroad	1	-2	-208	-68	-24	-89
Direct investment in Honduras	969	1,014	1,059	1,060	1,144	848
<b>Portfolio investment</b>	<b>-41</b>	<b>88</b>	<b>1</b>	<b>1,007</b>	<b>41</b>	<b>-22</b>
<b>Assets</b>	<b>-19</b>	<b>46</b>	<b>-12</b>	<b>0</b>	<b>20</b>	<b>-21</b>
<b>Liabilities</b>	<b>-22</b>	<b>42</b>	<b>13</b>	<b>1,007</b>	<b>20</b>	<b>-1</b>

<sup>13</sup> IMF (2015), "IMF Staff Concludes Visit to Honduras", *Press Release No. 15/339*, 16 July 2015. Viewed at: <http://www.imf.org/external/english/np/sec/pr/2015/pr15339e.htm>.

	2010	2011	2012	2013	2014 <sup>a</sup>	2015 T3 <sup>a</sup>
<b>Other investment</b>	<b>534</b>	<b>43</b>	<b>574</b>	<b>497</b>	<b>491</b>	<b>102</b>
<b>Assets</b>	<b>66</b>	<b>-437</b>	<b>217</b>	<b>-79</b>	<b>38</b>	<b>-93</b>
Commercial credit	-4	-3	-31	44	13	55
Loans	23	1	-3	-4	-18	2
Currency and deposits	54	-427	260	-90	53	-140
Other assets	-7	-8	-8	-28	-10	-9
<b>Liabilities</b>	<b>468</b>	<b>480</b>	<b>357</b>	<b>575</b>	<b>453</b>	<b>194</b>
Commercial credit	-11	18	-247	-85	-89	164
Loans	491	443	588	665	548	38
Currency and deposits	-10	25	22	3	10	-13
Other assets	-2	-7	-6	-8	-16	6
<b>IV. Net errors and omissions<sup>e</sup></b>	<b>-300</b>	<b>179</b>	<b>-237</b>	<b>-393</b>	<b>108</b>	<b>80</b>
<b>Overall balance</b>	<b>567</b>	<b>80</b>	<b>-291</b>	<b>473</b>	<b>459</b>	<b>147</b>
<b>V. Reserves and related headings</b>	<b>-567</b>	<b>-80</b>	<b>291</b>	<b>-473</b>	<b>-459</b>	<b>-147</b>
BCH reserve assets <sup>f</sup>	-592	-86	283	-485	-459	-152
Special financing	25	6	8	12	-1	5

a Preliminary figures.

b A positive (negative) sign means an inflow (outflow) of capital for the country.

c Net variation in assets: a positive (negative) sign means a reduction (increase) in claims on non-residents. Example: Reduction in deposits by residents abroad (positive sign). Net variation in liabilities: a positive (negative) sign means an increase (reduction) in liabilities to non-residents. Example: Increase in deposits by non-residents in the country (positive sign).

d Includes shares and capital participations, profits, and reinvested dividends or other capital.

e A positive (negative) sign means an inflow (outflow) not recorded in the balance of payments.

f A positive (negative) sign means a reduction (increase) in claims on non-residents.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding.

Source: Central Bank of Honduras.

1.33. The country's public external debt reached a level of US\$5,564 million in 2014, equivalent to 28.5% of GDP. Of Honduras' total external debt in that year, about 63.8% was owed to multilaterals, 13.0% to bilateral organizations, and the rest to commercial entities. All of the debt is medium- to long-term. Public external debt service in 2014 was equivalent to 7.6 months of export earnings, including *maquila*. The public external debt balance rose during the review period even though Honduras benefited from the HIPC and MIDR initiatives, which enabled it to reduce its external debt with the Paris Club, the IMF, the Inter-American Development Bank (IDB) and the World Bank. The total external debt (both public and private) represented 37% of GDP in 2015.

## 1.6 Goods trade and investment flows

### 1.6.1 Composition of trade

1.34. The composition of Honduran exports varies considerably between exports from national territory and those emanating from the *maquila* sector. In the first case, they are mostly agricultural products, whereas in the *maquila* sector, they are manufactures, mainly clothing. In 2010-2014, general exports were more dynamic than *maquila* exports, growing at an average annual rate of 9.6%, while *maquila* exports grew by an average of 3.8% per year.

1.35. General exports from Honduras in 2014 (excluding *maquila*) totalled US\$4,070 million, compared to US\$2,819 million in 2010. The main export products were: coffee (20.6% of the total), bananas (11.2%), palm oil (7.6%) and shrimp and lobster (7.1%) (Table A1.1 and Chart 1.1).

1.36. *Maquila* exports totalled US\$3,980 million in 2014, compared to US\$3,432 million in 2010. The main export products were made-up articles (64.1% of the total), machinery and electrical appliances (15.6%) (Table A1.2 and Chart 1.2).

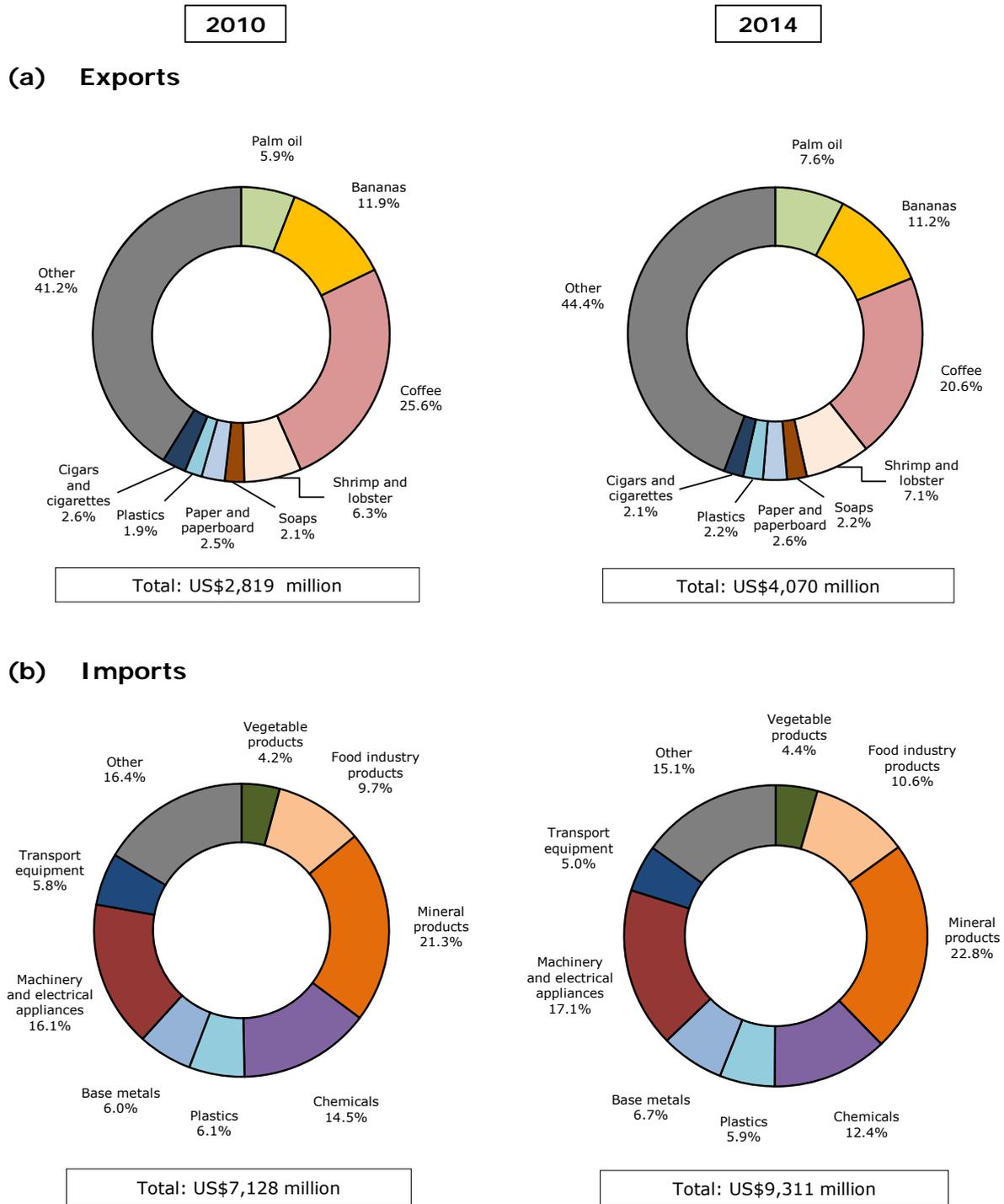
1.37. Honduran imports, which amounted to US\$9,311 million in c.i.f. terms in 2014, consist mainly of manufactures, particularly machinery and equipment and mineral products (Table A1.3 and Chart 1.1). Import patterns remained broadly stable between 2010 and 2014, growing at an average annual rate of 8.9%. Imports for processing (*maquila*) totalled US\$2,738 million in 2014, over 75% of which consisted of textile materials (Table A1.4 and Chart 1.2).

### 1.6.2 Geographical distribution

1.38. The main market for Honduran exports is the United States, which absorbed 34.8% of the total (excluding *maquila*) in 2014 — slightly down from the 36.5% recorded in 2010 (Table A1.5 and Chart 1.3). The next most important export market is Central America, accounting for 22.9% of the total, led by El Salvador, Guatemala and Nicaragua. Exports to Europe represented 22.1% of the total in 2014, the leading country being Germany, which absorbed 8.4% of the total.

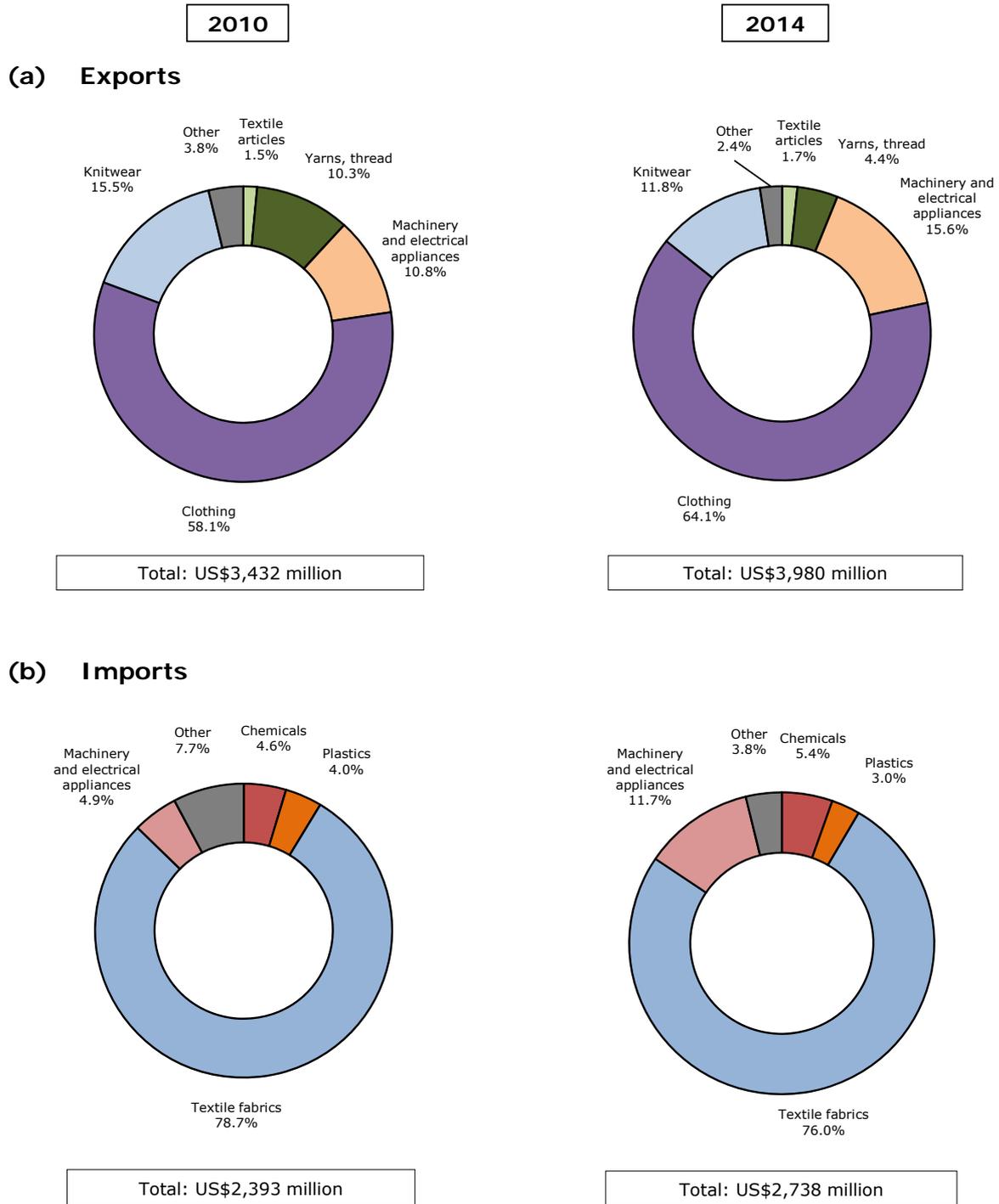
1.39. The United States are also the main source of imports, accounting for 43.2% of total imports in 2014, again excluding imports for use in the *maquila* industry. This percentage is above the 40.5% recorded in 2010. Among Central American countries, El Salvador and Guatemala increased their share of total imports (Table A1.6 and Chart 1.3). Other major trading partners on the import side are the countries of the European Union, along with China and Mexico.

Chart 1.1 General merchandise trade by main products, 2010 and 2014



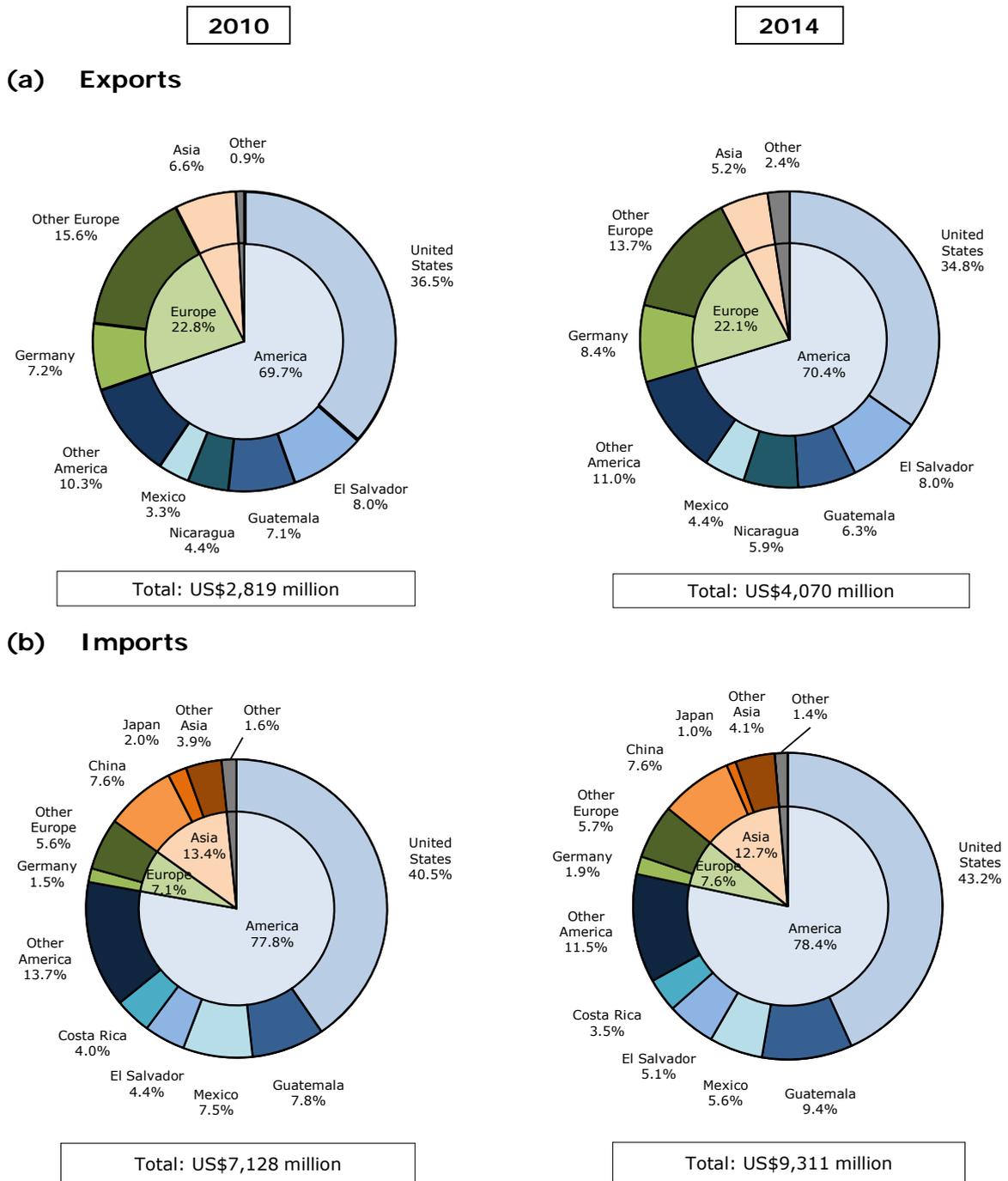
Source: Central Bank of Honduras.

Chart 1.2 Trade in goods for processing (*maquila*), 2010 and 2014



Source: Central Bank of Honduras.

Chart 1.3 Merchandise trade by trading partner, 2010 and 2014



Source: Central Bank of Honduras.

1.6.3 Trade in services

1.40. The services trade balance in Honduras is normally in deficit; and the gap widened substantially in the review period, from US\$193.3 million in 2010 to US\$697.5 million in 2014 (Table 1.5). The categories posting the largest deficit are transport, royalties and insurance, while the travel sector is in surplus.

**Table 1.5 Balance of trade in services, 2010-2015**

(US\$ million)

	2010	2011	2012	2013	2014 <sup>a</sup>	2015 T3 <sup>a</sup>
<b>Balance of services</b>	<b>-193.3</b>	<b>-423.3</b>	<b>-591.2</b>	<b>-667.7</b>	<b>-697.5</b>	<b>-545.4</b>
<b>Credit</b>	<b>975.6</b>	<b>1,023.0</b>	<b>1,055.9</b>	<b>1,012.9</b>	<b>1,086.9</b>	<b>851.2</b>
<b>1. Transport</b>	<b>56.9</b>	<b>79.6</b>	<b>78.9</b>	<b>101.8</b>	<b>98.3</b>	<b>71.0</b>
Maritime	40.3	61.7	48.8	61.3	62.6	48.7
Air	6.6	12.6	19.1	32.7	33.8	17.8
Other transport <sup>b</sup>	10.0	5.3	11.0	7.8	2.0	4.6
<b>2. Travel</b>	<b>625.5</b>	<b>636.7</b>	<b>679.0</b>	<b>608.2</b>	<b>629.5</b>	<b>510.0</b>
Business	227.7	218.4	n.a	n.a	n.a	96.8
Personal	397.8	418.3	n.a	n.a	n.a	413.2
<b>3. Other services</b>	<b>293.1</b>	<b>306.7</b>	<b>298.1</b>	<b>302.9</b>	<b>359.1</b>	<b>270.2</b>
Communication	208.7	214.3	223.0	222.4	230.0	179.2
Construction	0.0	0.0	0.0	1.2	0.0	0.0
Insurance services	25.0	20.0	0.0	0.0	15.1	0.0
Financial services	0.0	0.3	0.1	0.5	3.1	2.7
Computer and information services	4.5	9.4	8.1	8.4	8.5	6.4
Royalties and licence fees	0.0	0.0	0.0	0.0	2.2	0.9
Other business services	11.4	24.0	22.6	24.4	52.2	47.7
Personal, cultural and recreational services	11.7	6.0	6.6	7.0	7.2	5.4
Government services	31.8	32.7	37.6	39.1	40.9	27.9
<b>Debit</b>	<b>1,168.9</b>	<b>1,446.2</b>	<b>1,647.1</b>	<b>1,680.6</b>	<b>1,784.5</b>	<b>1,396.6</b>
<b>1. Transport</b>	<b>587.6</b>	<b>796.4</b>	<b>903.1</b>	<b>902.4</b>	<b>955.7</b>	<b>761.7</b>
Maritime	327.8	492.9	492.8	500.8	568.7	460.8
Air	115.5	142.8	152.2	162.5	154.5	108.9
Other transport	144.4	160.6	258.1	239.1	232.5	191.8
<b>2. Travel</b>	<b>320.7</b>	<b>354.4</b>	<b>454.2</b>	<b>404.0</b>	<b>412.2</b>	<b>331.1</b>
Business	129.5	100.3	n.a	n.a	n.a	59.6
Personal	191.2	254.1	n.a	n.a	n.a	271.5
<b>3. Other services</b>	<b>260.5</b>	<b>295.4</b>	<b>289.8</b>	<b>374.2</b>	<b>416.6</b>	<b>303.9</b>
Communication	41.8	53.1	61.3	64.3	68.7	50.8
Construction	3.1	9.5	10.0	2.5	0.0	0.0
Insurance services	90.5	90.8	72.1	99.7	107.2	92.1
Financial services	17.5	12.8	10.6	20.0	15.4	12.3
Computer and information services	3.2	8.2	9.0	9.6	15.0	11.4
Royalties and licence fees	30.4	35.2	38.7	85.3	91.5	36.0
Other business services	41.9	49.7	47.4	47.3	70.8	55.0
Personal, cultural and recreational services	6.0	6.8	7.6	8.2	8.7	8.0
Government services	26.2	29.4	33.1	37.3	39.3	38.3

n.a Not available.

a Preliminary figures.

b Includes road transport.

Source: Central Bank of Honduras, Macroeconomic Statistics Department, Foreign Trade in Services.

#### 1.6.4 Foreign direct investment

1.41. Foreign direct investment flows increased during the review period, from US\$969.2 million in 2010 to US\$1,144 million in 2014 (Table 1.6). Between 2010 and 2015, the transport, storage and telecommunications sector and the manufacturing sector (including *maquila*) received the largest volumes of investment (30% of the total each), followed by the services sector (commerce, hotels and restaurants).

**Table 1.6 Foreign direct investment flows by economic activity, 2010-2015**

(US\$ million)

	2010	2011	2012	2013	2014 <sup>a</sup>	2015 T3 <sup>a</sup>
Transport, storage and telecommunications	260.0	316.9	295.4	358.9	361.1	245.1
Goods processing industry ( <i>maquila</i> )	214.1	148.4	164.3	173.2	178.5	159.6
Services <sup>b</sup>	136.1	90.5	103.0	97.2	199.0	158.6
Commerce, restaurants and hotels	136.2	103.1	142.4	118.9	109.2	103.6
Manufacturing	126.8	243.4	273.9	152.1	168.0	88.8
Electricity, gas and water	12.6	44.8	33.3	73.8	61.5	43.2
Mining and quarrying	62.4	45.6	23.0	50.9	45.3	33.0
Agriculture, forestry, hunting and fishing	21.1	16.6	18.0	18.9	19.8	14.5
Construction	-0.2	5.0	5.1	15.8	1.7	1.2
<b>Total</b>	<b>969.2</b>	<b>1,014.4</b>	<b>1,058.5</b>	<b>1,059.7</b>	<b>1,144.1</b>	<b>847.7</b>

a Preliminary figures.

b Includes financial institutions, insurance, real estate and business services.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding. Negative values mean disinvestment, owing mainly to acquisitions of businesses or a decrease in liabilities.

Source: Central Bank of Honduras, Macroeconomic Statistics Department, Balance of Payments Section.

1.42. Mexico and the United States are the leading sources of foreign investment in Honduras, accounting for 13.4% of total FDI inflows in 2014. These countries are followed by Luxembourg and Canada, with just over 10% each, and then by Panama, Guatemala, and Costa Rica. Other major investors are El Salvador and Colombia (Table 1.7).

**Table 1.7 Foreign direct investment flows by country of origin, 2010-2015**

(US\$ million)

	2010	2011	2012	2013	2014 <sup>a</sup>	2015 T3 <sup>a</sup>
<b>Total</b>	<b>969.2</b>	<b>1,014.4</b>	<b>1,058.5</b>	<b>1,059.7</b>	<b>1,144.1</b>	<b>847.7</b>
<b>America</b>	<b>598.2</b>	<b>658.5</b>	<b>684.1</b>	<b>720.4</b>	<b>837.0</b>	<b>692.7</b>
<b>North America</b>	<b>467.7</b>	<b>482.2</b>	<b>496.8</b>	<b>507.5</b>	<b>469.1</b>	<b>409.3</b>
United States	181.9	141.4	173.2	127.5	153.5	159.9
Canada	158.9	186.9	132.1	114.3	114.7	101.9
Mexico	123.8	153.9	191.5	265.7	200.8	147.6
<b>Latin America</b>	<b>130.6</b>	<b>176.3</b>	<b>187.2</b>	<b>213.0</b>	<b>367.9</b>	<b>283.4</b>
<b>Central America</b>	<b>98.2</b>	<b>120.0</b>	<b>116.7</b>	<b>109.5</b>	<b>167.4</b>	<b>128.8</b>
Guatemala	60.7	43.7	51.5	37.1	73.2	60.9
El Salvador	17.4	20.9	24.8	26.2	28.8	22.8
Nicaragua	3.7	10.3	2.9	3.9	10.7	8.4
Costa Rica	16.5	45.0	37.6	42.3	54.6	36.8
<b>Caribbean</b>	<b>18.2</b>	<b>20.9</b>	<b>27.3</b>	<b>4.9</b>	<b>23.5</b>	<b>19.9</b>
Bermuda	11.2	12.3	15.2	16.0	15.2	12.3
Bahamas	7.0	8.5	9.2	10.4	4.9	5.2
British Virgin Islands	0.0	0.0	2.8	-21.7	2.3	1.9
Dominican Republic	0.0	0.1	0.1	0.1	1.1	0.6
<b>Rest of Latin America</b>	<b>14.1</b>	<b>35.4</b>	<b>43.2</b>	<b>98.6</b>	<b>177.1</b>	<b>134.7</b>
Panama	14.1	15.9	21.7	63.3	109.0	68.0
Colombia	0.0	19.5	21.5	31.4	63.5	59.1
Argentina	0.0	0.0	0.0	1.9	1.0	0.7
Brazil	0.0	0.0	0.0	1.9	3.6	6.8
<b>Europe</b>	<b>336.0</b>	<b>376.7</b>	<b>369.2</b>	<b>325.7</b>	<b>275.3</b>	<b>139.9</b>
Germany	19.0	29.2	32.3	-5.0	38.2	27.8
Italy	14.5	5.0	11.7	28.4	13.4	8.1
Netherlands	2.8	5.5	7.4	0.4	6.2	5.7
Switzerland	24.9	68.1	85.7	2.6	30.7	-24.6
France	11.7	11.7	12.2	6.5	n.a.	n.a.
United Kingdom	109.1	84.6	93.5	97.3	33.5	19.3
Spain	-0.7	1.9	2.0	4.0	3.4	5.0
Luxembourg	132.5	149.2	124.4	150.2	147.3	96.6
Finland	n.a.	n.a.	0.0	41.3	2.7	2.0
Ireland	22.2	21.5	n.a.	n.a.	n.a.	n.a.
<b>Asia</b>	<b>13.2</b>	<b>-21.5</b>	<b>5.2</b>	<b>13.5</b>	<b>31.6</b>	<b>14.8</b>

	2010	2011	2012	2013	2014 <sup>a</sup>	2015 T3 <sup>a</sup>
Republic of Korea	3.1	-21.5	5.2	13.5	-2.6	-3.7
Philippines	n.a	n.a	n.a	n.a	34.2	18.4
<b>Other countries</b>	<b>21.8</b>	<b>0.6</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.3</b>

n.a. Not available.

a Preliminary figures.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding. Negative values mean disinvestment, owing mainly to acquisitions of businesses or a decrease in liabilities.

Source: Central Bank of Honduras, Macroeconomic Statistics Department.

## 1.7 Outlook

1.43. In July 2015, the BCH revised its 2015-2016 Monetary Programme, downgrading the year-on-year projection for the CPI to a range of 4.75% ± 1.0 pp for 2015 and 5.5% ± 1.0 pp for 2016, but reaffirming the GDP growth projection of between 3.0% and 3.5% for both years.<sup>14</sup> For 2016, the IMF is forecasting GDP growth of 3.6%, inflation around 5%, and a smaller balance-of-payments current account deficit.<sup>15</sup>

<sup>14</sup> Central Bank of Honduras (2015), *Revisión del Programa Monetario 2015-2016*. Viewed at: [http://www.bch.hn/download/programa\\_monetario/revision\\_programa\\_monetario\\_2015\\_2016.pdf](http://www.bch.hn/download/programa_monetario/revision_programa_monetario_2015_2016.pdf).

<sup>15</sup> IMF (2015), "IMF Staff Completes Review Mission to Honduras", *Press Release No. 15/462*, 5 October 2015. Viewed at: <http://www.imf.org/external/spanish/np/sec/pr/2015/pr15462s.htm>.

## 2 TRADE AND INVESTMENT REGIME

### 2.1 General framework

2.1. The Honduran Constitution was amended during the period under review. The constitutional reforms introduced changes relating to the composition of the Judiciary, the powers of the Legislature, the law-making process, mechanisms for citizen participation, and the administrative division of the territory. The Constitution was also amended to allow for the creation of Employment and Economic Development Zones (ZEDE).<sup>1</sup>

2.2. The President of the Republic is the head of the Executive Branch. In his absence, his functions are discharged by an appointee of the Office of the President. The presidential term of office is four years, without the possibility of re-election. The Council of Ministers, comprising the State Secretaries, is also part of the Executive Branch. The powers of the State Secretariats were reorganized during the review period in order to enhance their performance and promote transparency. Accordingly, 2013 witnessed the creation of the State Secretariat for Economic Development (PROHONDURAS) which replaced the State Secretariat for Industry and Trade.<sup>2</sup>

2.3. The Legislature is unicameral. The members of the National Congress are elected by direct suffrage.<sup>3</sup> The Judiciary consists of the Supreme Court of Justice, courts of appeal and lower courts. During the review period, courts with exclusive jurisdiction in the ZEDes (see below) were added to the Judiciary.<sup>4</sup>

2.4. Reforms were introduced during the review period to increase the transparency of the civil service. Thus, in 2012 Honduras introduced the notion of "impeachment" into the Constitution, a mechanism through which to monitor top government officials and other senior civil servants of the Republic. The introduction of "impeachment" enables the National Congress, the Executive Branch, the Supreme Court, the Supreme Electoral Tribunal and citizens to file complaints regarding poor performance in office. It falls to the National Congress to investigate and rule on such complaints.<sup>5</sup>

2.5. The Constitution is the supreme law of the Republic, followed, by order of importance, by international treaties, laws (decrees) and their implementing regulations (executive decisions), executive decrees, and lastly, agreements and other resolutions issued by the State Secretariats. International treaties become part of domestic law once they have been approved by Congress and ratified by the Executive Branch.

2.6. Draft laws are discussed and approved by the National Congress, and once approved, are submitted to the Executive Branch, which sanctions, promulgates or objects to them.<sup>6</sup> Draft laws may be initiated in the National Congress or introduced into the Congress by the Executive Branch, the Supreme Court of Justice, the Supreme Electoral Tribunal or by citizens. As from 2011, a number of initiatives were implemented in order to raise citizen participation in the legislative

<sup>1</sup> The 1982 Constitution is contained in Decree No. 131-1982 of 11 January 1982 and amendments thereto. During the period under review, the Constitution was amended through Decrees No. 273-2010, No. 275-2010, No. 282-2010, No. 283-2010, No. 106-2011, No. 269-2011, No. 270-2011, No. 273-2011, No. 231-2012, No. 234-2012, No. 235-2012, No. 236-2012, No. 237-2012 and No. 283-2013. Consolidated version of the Constitution, as at December 2014, viewed at: <http://www.poderjudicial.gob.hn/CFDIJ/Leyes/Documents/Constituci%3b3n%20de%20la%20Rep%3b3lica%20de%20Honduras%20%28Actualizada%202014%29.pdf>.

<sup>2</sup> Article 29 of the General Law on Public Administration (Decree No. 146-86) of 27 October 1986, as amended by Decrees No. 31-2010, No. 177-2010, No. 78-2011 and No. 266-2013.

<sup>3</sup> Article 189 of the Constitution, as amended by Decree No. 235-2012.

<sup>4</sup> Article 303 of the Constitution, as amended by Decree No. 236-2012.

<sup>5</sup> Articles 205 and 234 of the Constitution, as amended by Decree No. 231-2012. See also the Special Law on Impeachment (Decree No. 51-2013) of 5 April 2013.

<sup>6</sup> Under Articles 214-216 of the Constitution, a draft law to which the Executive Branch has objected must again be debated by the Congress. If it receives renewed congressional approval, the Executive Branch may not object to it and must publish it "without delay". If the objection is made on grounds of unconstitutionality, the Supreme Court of Justice will be requested to rule on the matter.

process. Since 2011, for example, citizens have been able to submit draft laws if they are able to collect at least 3,000 signatures.<sup>7</sup>

2.7. Congressional approval is required for some measures directly affecting international trade, such as the imposition of taxes and other duties; the approval of tax incentives, exemptions and concessions; the opening of ports; the opening and closing of customs offices and free zones; the regulation of maritime, air and overland commerce; and the creation of Employment and Economic Development Zones (ZEDE).

2.8. Honduras does not have a foreign trade law *per se*. There are, however, a number of laws that contain elements relating to international trade (Table 2.1). Several laws have been enacted since the preceding review, including the new investment law, the new law on the energy sector, the law on fiscal consolidation, the law on quality control, and the Organic Law on Employment and Economic Development Zones. Other laws have been substantially amended, for example, the law regulating government procurement. Despite efforts by Honduras to modernize its legislative system, there appear to be obstacles to and delays in the implementation of some laws, and it is therefore not clear in some instances what law is in force or applicable and which institution implements it.

**Table 2.1 Main trade-related legislation**

Law	Decree No. <sup>a</sup>
<b>Investment</b>	
Investment Promotion and Protection Law <sup>b</sup>	51-2011
<b>Incentives</b>	
Law establishing Industrial Export Processing Zones	37-1987
Law establishing Agricultural Export Zones	233-2001
Law on Financial Support for Production Sectors in Honduras	175-2008
Law on the Promotion of Call Centres and Outsourcing of Business Services	90-2012
Law on the Promotion of Sustainable Rural Tourism	126-2011
Law on Tourism Incentives	314-98
Law on the Tourism Free Zone in the Bahía Islands Department	181-2006
Law on the Promotion of Electricity Generation from Renewable Resources	70-2007
Law on Free Zones	356-1976
Law on the Honduran Production and Housing Bank	5-2005
Law on the National Agricultural Development Bank	903-1980
Law on the Temporary Importation Procedure	37-1984
Law on the System of Mutual Guarantee Funds for the Promotion of MSMEs, Social Housing and Technical/Vocational Education	205-2011
Organic Law on Employment and Economic Development Zones	120-2013
Law on the Production and Consumption of Biofuels	144-2007
Law on the Promotion and Development of the Competitiveness of Micro, Small and Medium-Sized Enterprises	135-2008
Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures	278-2013
<b>Customs and foreign trade</b>	
Central American Uniform Customs Code	Decision No. 023-2003
Customs Law	212-1987
<b>Anti-dumping, countervailing and safeguard measures</b>	
Central American Regulations on Safeguard Measures	Resolution No. 194-07
Central American Regulations on Unfair Business Practices	Resolution No. 193-07
<b>Sanitary and phytosanitary measures</b>	
Central American Sanitary and Phytosanitary Directive on Trade Facilitation in Respect of Shipments and Goods	Resolution No. 175-2006 157-94
Law on Plant and Animal Health	Resolution No. 37-99
Central American Regulations on Sanitary and Phytosanitary Measures and Procedures	Decision No. 1.618-97 Decision No. 06-2005
Regulations on Agricultural Quarantine	Resolution No. 175-2006
Regulations on the Sanitary Control of Health Products, Services and Establishments	
Regulations on Wood Packaging Material in International Trade	
<b>Technical barriers to trade</b>	
Central American Regulations on Standardization Measures, Metrology and Authorization Procedures	Resolution No. 7-99 29-2011
Law on the National Quality System	

<sup>7</sup> Article 213, as amended by Decree No. 275-2010.

Law	Decree No. <sup>a</sup>
<b>Government procurement</b>	
Government Procurement Law	74-2001
Law on Efficient and Transparent Procurement using Electronic Means	36-2013
<b>Competition and consumer protection</b>	
Consumer Protection Law	24-2008
Law on the Defence and Promotion of Competition	357-2005
<b>Intellectual property rights</b>	
Industrial Property Law	12-99-E
Law on Copyright and Related Rights	4-99-E
Law on the Protection of New Varieties of Plants	21-2012
<b>Agriculture, fishing, forestry</b>	
Law on Fishing <sup>c</sup>	154-1959
Law on the Protection of the Coffee Industry	199-95
Law on Forestry, Protected Areas and Wildlife	98-2007
<b>Energy</b>	
Law on Biofuels	144-2007
Law on Hydrocarbons	194-84
General Law on the Electricity Industry <sup>d</sup>	404-2013
General Law on Mining <sup>e</sup>	238-2012
<b>Financial services</b>	
Law on Insurance and Reinsurance Institutions	22-2001
Stock Market Law	8-2001
Law on the Financial System	129-2004
<b>Telecommunications</b>	
Framework Law on the Telecommunications Sector	185-95
<b>Transport</b>	
Civil Aviation Law	55-2004
Organic Law on the National Merchant Marine	167-94
<b>Tourism</b>	
Law on the Honduran Tourism Institute	103-93

a Unless otherwise indicated.

b Repeals the Investment Law (Decree No. 80-1992).

c According to the authorities, the Congress approved the new law on fishing and aquaculture in September 2015. At the end of 2015, its submission to the Executive was still pending and its implementing regulations were being prepared.

d Repeals the Framework Law on the Electricity Subsector (Decree No. 158-94).

e Repeals the General Law on Mining (Decree No. 292-98).

Source: WTO Secretariat, based on the Virtual Library of the High Court of Auditors (<http://www.tsc.gob.hn/biblioteca>).

2.9. The Constitution was amended during the period under review so as to establish Employment and Economic Development Zones (ZEDE) (Section 3.3.1.2). According to the authorities, constitutional change was required in order to lend legal predictability to the project. Following the 2012 constitutional amendment, the Law on Employment and Economic Development Zones (ZEDE) (Decree No. 120-2013) was enacted.<sup>8</sup> The creation of a ZEDE must be approved by the National Congress, provided that the following requirements are met: The ZEDE may be established in areas of low population density if this is approved by the National Institute of Statistics, or in areas of high population density if it is approved by referendum.<sup>9</sup> Like departments and municipalities, ZEDes represent an administrative subdivision in Honduran national territory.<sup>10</sup> ZEDes will be governed by the provisions of the Constitution and the laws of the Republic on national sovereignty, justice, national defence, foreign affairs, elections and the issuance of identity documents and passports.<sup>11</sup> They will nonetheless be set up under a special regime that will allow them a degree of autonomy, as they are considered as extraterritorial fiscal

<sup>8</sup> Any amendment to the law on Employment and Economic Development Zones requires a qualified majority in Congress and a referendum in areas with more than 100,000 inhabitants.

<sup>9</sup> According to authorities, at the end of 2015 the National Institute of Statistics had not yet established the method for determining areas of high and low population density (Article 38 of Decree No. 120-2013).

<sup>10</sup> Article 294, as amended by Decree No. 236-2012 and online information on the ZEDes. Viewed at: [http://zede.gob.hn/?page\\_id=18](http://zede.gob.hn/?page_id=18).

<sup>11</sup> Article 329, as amended by Decrees No. 283-2010, No. 236-2012 and No. 283-2013, and Article 1 of Decree No. 120-2013 of 12 June 2013.

and customs zones and may formulate their own internal regulations (Box 2.1).<sup>12</sup> No ZEDE had yet been established as of the end of 2015 (Section 3.3.1.1).

### Box 2.1 Employment and Economic Development Zones (ZEDE)

Under the Law, ZEDEs:

- Are subject to the provisions of the Constitution, international treaties, and the Organic Law on Employment and Development Zones (ZEDE), in that order, and to some domestic laws.<sup>a</sup> They are nevertheless empowered to formulate their own policies and regulations.
- Are operationally and administratively autonomous.
- Have independent autonomous courts with exclusive jurisdiction in each ZEDE. These courts apply ordinary law. The Council of the Judiciary and the Judicial Career<sup>b</sup> is empowered to set up these courts and appoint judges as proposed by the ZEDE's Committee on the Adoption of Best Practices (CAMP).<sup>c</sup> ZEDE courts may turn to courts of others jurisdictions, including foreign ones, when a ruling must be executed outside the Zone.
- Operate in accordance with a policy of free trade and competition that guarantees the free movement of goods, intangible assets and capital.
- Have an independent financial regime and are permitted to use their income as they deem necessary but must be financially self-sustaining.
- Benefit from an independent tax regime based on "a low-tax policy". The Law sets ceilings on the taxes that may apply. The ZEDEs administer and collect their own taxes.
- May incur obligations in Honduras and abroad, provided that no government guarantee is required.
- Must not apply exchange controls.
- Are authorized to limit the use of means of payment and to have an independent monetary policy.
- May regulate maritime shipping and air traffic as well as control ports and airports within their jurisdiction.
- Are authorized to manage the use of the radio spectrum that is within their jurisdiction.

a For further information, see Articles 8 and 41 of the Organic Law on Employment and Economic Development Zones (ZEDE).

b A constitutional organ of the Judiciary (Law on the Council of the Judiciary and the Judicial Career (Decree No. 219-2011) of 17 November 2011, as amended by Decree No. 291-2013).

c The institutions that manage the ZEDEs are the CAMP and the Technical Secretariat. The CAMP will comprise 21 members from the private and public sectors and academics of "recognized integrity, leadership and international prestige".

Note: According to the authorities, provision is made for annual audits in each ZEDE, to be entrusted by the CAMP to entities of international renown.

Source: Article 329, as amended by Decrees No. 283-2010, No. 236-2012 and No. 283-2013, and the Organic Law on Employment and Economic Development Zones (Decree No. 120-2013) of 12 June 2013.

## 2.2 Trade policy objectives

2.10. The State Secretariat for Economic Development (PROHONDURAS), which replaced the State Secretariat for Trade and Industry (SIC) in 2013, is responsible for laying out and implementing trade policy. PROHONDURAS is also tasked with export and investment promotion. Through the Under-Secretariat for Economic Integration and Foreign Trade, PROHONDURAS formulates, coordinates, implements and evaluates economic integration policy, including the negotiation, signing and implementation of regional and multilateral trade agreements. PROHONDURAS represents Honduras before the WTO and other bilateral and multilateral trade agencies.<sup>13</sup>

<sup>12</sup> Article 32 of Decree No. 120-2013.

<sup>13</sup> Online information from PROHONDURAS, viewed at: <http://www.prohonduras.hn>, Article 29 of the General Law on Public Administration (Decree No. 146-86) of 27 October 1986, as amended by Decree No. 266-2013, and Article 4 of Executive Decree No. PCM-018-2014 of 22 April 2014.

2.11. In framing trade policy, PROHONDURAS coordinates with the other State Secretariats and other institutions such as the Central Bank of Honduras (BCH), the National Banking and Insurance Commission (CNBS) and the National Telecommunications Commission (CONATEL) (Table 2.2). The private sector also takes part in trade policy formulation through the various professional bodies and chambers. The main partner for dialogue between the public and private sectors is the Honduran Private Enterprise Council (COHEP), which brings together the chambers of commerce and business associations. These institutions and associations also assist PROHONDURAS in trade negotiations.<sup>14</sup>

**Table 2.2 Some State Secretariats involved in trade policy formulation**

State Secretariat	Functions
Foreign Affairs and International Cooperation	To formulate, coordinate, implement and evaluate foreign policy To monitor foreign trade operations through the Research Centre
Finance	To formulate, coordinate, implement and evaluate public finance policy
Agriculture and Livestock	To formulate, coordinate, implement and evaluate policy on: (a) food production, preservation and marketing; and (b) promotion and modernization of agriculture and animal and plant health
Energy, Natural Resources and the Environment	To formulate, coordinate, implement and evaluate policy on: (a) protection and harnessing of energy resources; (b) energy generation, transmission, distribution, and (c) mining and hydrocarbons
Infrastructure and Public Services	To formulate, coordinate, implement and evaluate transport policy
Health	To formulate, coordinate, implement and evaluate health, phytosanitary and food safety policy

Source: WTO Secretariat.

2.12. PROHONDURAS is also responsible for regulating tariffs in accordance with the law.<sup>15</sup>

2.13. The 2010-2038 Country Vision and the various National Plans and Government Plans<sup>16</sup> lay out Honduran trade policy, which is still oriented towards greater integration in world trade. Trade policy continues to be of paramount importance in fostering the development of sectors with high production potential, technology transfer and job creation.<sup>17</sup> The main objectives of Honduran trade policy include: boosting the participation of Honduras in international trade; increasing export supply; providing logistical and trade facilitation services; and forging strategic alliances with trading partners in order to promote innovation and production chains.

2.14. According to the authorities, there is no formal trade policy monitoring mechanism, but there is a results-based system for the evaluation and management and follow-up of the targets set by government bodies under the National and Government Plans.

## 2.3 Trade agreements and arrangements

### 2.3.1 WTO

2.15. Honduras is an original WTO Member and accords at least most-favoured-nation (MFN) treatment to all its trading partners. The WTO has conducted two reviews of Honduran trade policy, the most recent being in 2010.

2.16. Honduras participates in the Information Technology Agreement. It is not an observer in the Committee on Government Procurement, and is not considering accession to the Agreement. Neither is it party to the plurilateral Civil Aircraft Agreement. In 2011 Honduras accepted the 2005 Protocol amending the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights.

<sup>14</sup> Article 4 of Executive Decree No. PCM-018-2014 and online information from COHEP. Viewed at: <http://www.cohep.com>.

<sup>15</sup> Article 245 of the Constitution.

<sup>16</sup> The National Plan is formulated for successive 12-year periods. The Government Plan extends over four years. Law for the Establishment of a Country Vision and the Adoption of a National Plan for Honduras (Decree No. 286-2009) of 13 January 2010.

<sup>17</sup> Government Plan 2010-2014. Viewed at: <http://www.redeplan.info/documents/10157/da90cced-9067-4ffd-a900-9e9d3f0116d5>.

2.17. During the review period Honduras submitted a number of notifications under the WTO Agreements. It has notified its category A commitments under the Trade Facilitation Agreement (TFA) (Table A2.1) and has begun the formalities for ratifying the TFA.<sup>18</sup>

2.18. Since 2010 Honduras has participated in two disputes as a complainant and in nine cases as a third party (Table 2.3). Honduran trade practices have not been the subject of any dispute settlement procedures.

**Table 2.3 Disputes in which Honduras participated, 2010-2015 (to 31 December 2015)**

Defendant	Complainant	Subject of dispute	Current situation (as of January 2015)	WTO document series
Dominican Republic	Honduras	Safeguard measures on imports of polypropylene bags and tubular fabric	Report(s) adopted with the recommendation to bring measure(s) into conformity no later than 22 February 2012	WT/DS417
Australia	Honduras	Certain measures concerning trademarks and other plain packaging requirements applicable to tobacco products and packaging	Panel constituted on 5 May 2014	WT/DS435

Source: WTO Secretariat.

2.19. In the framework of the Doha Round negotiations, Honduras is a member of the group of Small, Vulnerable Economies and of the G33 (agriculture). Honduras advocates the implementation of provisions on special and differential treatment along with other flexibilities making it possible to protect the most sensitive sectors of developing economies. Honduras furthermore supports the elimination of agricultural distortions and calls for the continuation of negotiations on the special agricultural safeguard mechanism, bearing in mind the food security and well-being of farmers.

### 2.3.2 Regional and preferential agreements

#### 2.3.2.1 Regional trade agreements

2.20. Honduras maintains a number of regional trade agreements (RTAs), most of which are multi-party agreements (Chart 2.1). The RTAs in which Honduras participates encompass trade in both goods and services and include provisions on foreign investment and non-tariff measures, such as customs procedures, trade defence, government procurement and competition.<sup>19</sup> These agreements have been notified to the WTO.<sup>20</sup>

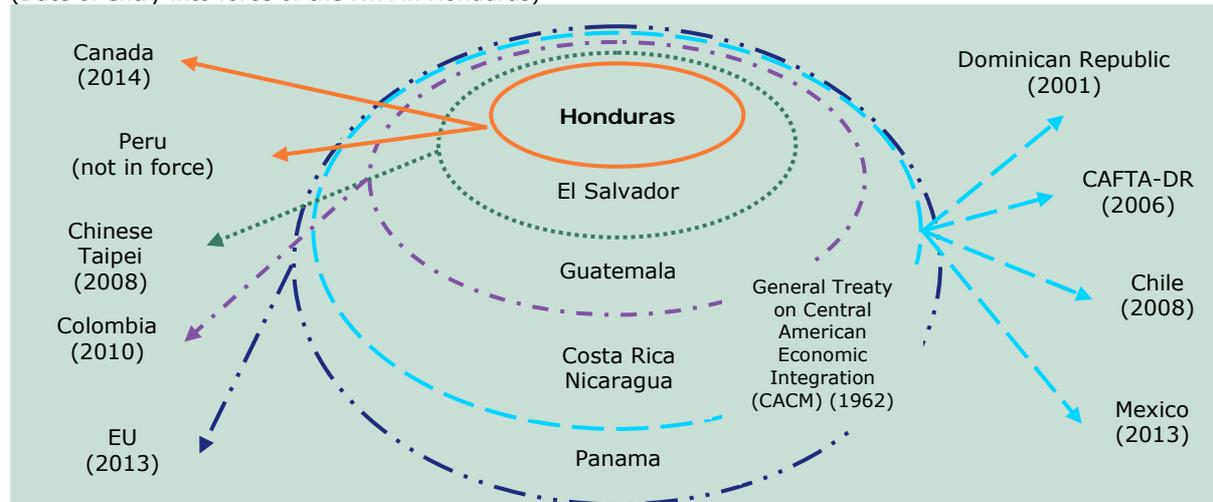
<sup>18</sup> Online information from the Office of the President of the Republic. Viewed at: <http://www.presidencia.gob.hn/?p=5846>.

<sup>19</sup> As pertains to Central American integration, trade in services and investment were not covered by the General Treaty on Central American Economic Integration but were the subject of subsequent negotiations culminating in the 2002 Treaty on Investment and Trade in Services.

<sup>20</sup> For further information, see the WTO's RTA database. Viewed at: <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>.

**Chart 2.1 Participation in regional trade agreements as of December 2015**

(Date of entry into force of the RTA in Honduras)



Source: WTO Secretariat.

2.21. The preferential agreements negotiated by Honduras with Canada, Mexico and the EU (Table 2.4) took effect during the review period. The process of integration between the countries of Central America and Panama continued to move forward and Honduras signed a free trade agreement with Peru (2015). At the end of 2015, Honduras was negotiating a bilateral agreement with Ecuador (in the LAIA framework) and a trade agreement with the Republic of Korea, together with other countries of the region.

**Table 2.4 Tariff reduction programmes adopted by Honduras since 2010**

	Canada	Mexico	EU
Signing of the Agreement	05.11.2013	22.11.2011	29.06.2012
Effective date	01.10.2014	01.01.2013	01.08.2013
Coverage			
Goods	Yes	Yes	Yes
Services	Yes	Yes	Yes
End of tariff reduction period	2028	2022	2027
	(% of tariff lines)		
Lines with zero tariff			
Immediate access	68.2	94.8	47.9
Less than ten years	8.1	0.07	7.4
Ten years	13.1	1.1	36.3
More than ten years	8.0	N/A	4.2
Lines with preferential tariff higher than zero	N/A	0.3	N/A
Lines excluded from preferential treatment	2.14	3.57	3.8
Preferential quotas	0.2	0.01	0.3

N/A Not applicable.

Source: WTO Secretariat, based on online information from PROHONDURAS. Viewed at: <http://www.prohonduras.hn/dgiepc>, and information provided by the authorities.

### 2.3.2.1.1 Central American economic integration and trade relations with Panama

2.22. The Central American integration process was further deepened during the period under review.<sup>21</sup>

2.23. In 2007, the members of the Central American Common Market (CACM) signed the Framework Agreement Establishing the Central American Customs Union, which became effective in 2011.<sup>22</sup> Accordingly, in 2015 Honduras and Guatemala signed an agreement to establish

<sup>21</sup> For further information on the CACM, see WTO document WT/TPR/S/234/Rev.1 of 15 October 2010.

<sup>22</sup> Online information from SIECA. Viewed at: <http://www.sieca.int/Documentos/DocumentosMostrar.aspx?SegmentoId=2&DocumentoId=2357>.

a customs union; it has not been implemented. The customs union will allow for the free movement of goods and persons. However, a total of 38 products, including sugar, coffee and fuels, were excluded from the union.<sup>23</sup>

2.24. In 2011 the CACM members signed a second Protocol to the Treaty on Investment and Trade in Services (TICS), also incorporating provisions on electronic trade. The Protocol is now in the process of ratification.<sup>24</sup>

2.25. Since 2013 when Panama adopted the General Treaty on Central American Economic Integration (TGIEC), trade between Honduras and Panama has been governed by the TGIEC and the Protocol to the Free Trade Agreement between Panama and Central America of 2002.<sup>25</sup> With the entry into force of the TGIEC, tariffs on Panamanian goods were eliminated immediately, with some agreed exceptions.<sup>26</sup>

### 2.3.2.1.2 Association Agreement with the European Union

2.26. The Association Agreement between Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) and the European Union was signed in 2012. The Agreement consists of three pillars: trade, political dialogue and cooperation. The Agreement guarantees better access to the European market for Honduran products while consolidating and improving the unilateral preferences that were already being granted by the EU. In the negotiations the EU undertook to reduce tariffs on Honduran products included in the GSP+ to 0% as soon as the Agreement entered into effect.<sup>27</sup>

2.27. The Central American countries for their part undertook to eliminate tariffs on 95.8% of the tariff universe at the end of the tariff reduction period (Table 2.4). Some 47.9% of all tariff lines will remain duty free when the Agreement takes effect. The Agreement allows Honduras to continue applying the price band system (Section 4.1). Preferential tariff quotas have also been negotiated for agricultural products; Honduras negotiated quotas for powdered milk and cheese.<sup>28</sup>

### 2.3.2.1.3 Free Trade Agreement with Mexico

2.28. During the period under review, the Central American countries and Mexico renegotiated and consolidated three old agreements into a single free trade agreement (Free Trade Agreement between Central America and Mexico).<sup>29</sup> For Honduras, the Agreement between Central America and Mexico took effect on 1 January 2013, repealing the Agreement between Mexico and the Northern Triangle as far as Honduras is concerned, except for some transitional provisions.<sup>30</sup> As of the entry into force of the Agreement, with some exceptions, all tariffs were eliminated on

<sup>23</sup> For further information on the functioning of the customs union, see the enabling protocol for the process of deep integration towards the free movement of goods and natural persons between the Republics of Guatemala and Honduras.

<sup>24</sup> SIECA (2014), *Estado de Situación de la Integración Económica Centroamericana*, March. Viewed at: <http://www.sieca.int/Documentos/DocumentosMostrar.aspx?SegmentoId=2&DocumentoId=3325>.

<sup>25</sup> This treaty contains a bilateral protocol on tariff reduction for each of the countries. The protocol between Honduras and Panama was signed in 2007 and took effect in 2009.

<sup>26</sup> Article 4 of the Protocol Incorporating the Republic of Panama into the Economic Integration Subsystem of the Central American Integration System.

<sup>27</sup> Online information from the European Commission. Viewed at: [http://exporthelp.europa.eu/thdapp/display.htm?page=cd/cd\\_AmericaCentral.html&docType=main&languageId=ES&newLanguageId=EN](http://exporthelp.europa.eu/thdapp/display.htm?page=cd/cd_AmericaCentral.html&docType=main&languageId=ES&newLanguageId=EN), and State Secretariat for Industry and Trade (2013), *Acuerdo de Asociación entre Centroamérica y la Unión Europea, Documento Explicativo de los Resultados de la Negociación del Pilar Comercial (Parte IV Comercio)*. Viewed at: <http://www.prohonduras.hn/dgiepc/files/DOCUMENTO-EXPLICATIVO-ADA-CA-UE-Rev5-ACTUALIZADO-22-AGOSTO-2013.pdf>.

<sup>28</sup> Section B of Annex I and Appendix 1 to Annex I of the Association Agreement between Central America and the EU.

<sup>29</sup> The agreements were: Mexico and Costa Rica; Mexico and Nicaragua; and Mexico and the Northern Triangle (El Salvador, Guatemala and Honduras) (Fact sheet from the Ministry of the Economy of Mexico, November 2011. Viewed at: [http://www.economia.gob.mx/files/comunidad\\_negocios/comercio\\_exterior/TLC\\_Unico\\_ficha.pdf](http://www.economia.gob.mx/files/comunidad_negocios/comercio_exterior/TLC_Unico_ficha.pdf)).

<sup>30</sup> WTO document WT/REG/GEN/N/7 of 29 January 2014. For further information on the transitional provisions, see Article 21.8 of Free Trade Agreement between Central America and Mexico.

originating goods. Some 94.8% of tariff lines enjoy a 0% preferential tariff. Honduras negotiated preferential tariff quotas for cigars and cigarettes.<sup>31</sup>

#### 2.3.2.1.4 Free Trade Agreement with Canada

2.29. The Free Trade Agreement between Honduras and Canada became effective on 1 October 2014. This Agreement is the first bilateral trade agreement signed by Honduras and also includes cooperation commitments relating to labour and the environment.

2.30. Under the Agreement, Honduras will eliminate tariffs affecting 97.4% of the tariff universe at the end of the tariff reduction period (Table 2.4). Preferences will also be granted for goods produced in free zones. Some agricultural products are subject to tariff quotas. Honduras negotiated preferential quotas for sugar, beef and pork. Under the Agreement, Honduras may make use of the special safeguard for certain agricultural goods (namely vegetable oil, onions, pork, and some dairy products).<sup>32</sup>

#### 2.3.2.2 Other agreements and preferential arrangements

2.31. In the context of this review, the authorities stated that Honduras is negotiating a Partial-Scope Economic Complementarity Agreement with Ecuador.

### 2.4 Investment regime

2.32. During the review period, Honduras modified its investment regime in order to meet the objectives of the 2010-2014 National Investment Promotion Programme. Noteworthy among them are the modernization of the regulatory and legal system governing investment and the creation of new investment promotion and protection institutions.<sup>33</sup> The new reforms include the enactment of a new law, the creation of a new institution to promote investment, and the establishment of a single window for investment.

2.33. The National Investment Council (CNI), a public-private entity created in 2014 under the Investment Promotion and Protection Law, is tasked with promoting investment.<sup>34</sup> The CNI is drawing up the National Investment Promotion Policy, the National Investment Promotion Plan and the National Investment Promotion Strategy.<sup>35</sup> PROHONDURAS is responsible for implementing the investment policy formulated by the CNI. The Directorate-General for Investment Promotion, which is attached to the State Secretariat for Foreign Affairs and Cooperation, is responsible for coordinating investment policy.

2.34. In 2011 Honduras promulgated the Investment Promotion and Protection Law, which repealed the 1992 Investment Law.<sup>36</sup> In that same year Honduras approved the Law on the Promotion of Public-Private Partnerships in order to promote private-sector cooperation in the execution, development and management of major infrastructure and services projects.<sup>37</sup>

2.35. The 2011 Investment Promotion and Protection Law provides some of the same guarantees granted to domestic and foreign investors under the old investment regime and introduced new guarantees such as stability contracts and protection regimes (Table 2.5). The rights accorded

<sup>31</sup> Annex 3.4 of the Free Trade Agreement between Central America and Mexico.

<sup>32</sup> Annex 3.15 of the Agreement.

<sup>33</sup> The 2010-2014 National Investment Promotion Programme can be viewed at: <http://www.hondurasopenforbusiness.com/SITEv2/flv/pnpi.pdf>.

<sup>34</sup> Article 43 of Decree No. 51-2011, as amended by Article 26 of Decree No. 284-2013.

<sup>35</sup> *Ibid.*, Article 42.

<sup>36</sup> Investment Promotion and Protection Law (Decree No. 51-2011) of 3 May 2011, as amended by Decree No. 284-2013. See also the Regulations implementing the Investment Promotion and Protection Law (Executive Decision No. 22-DGTC-2014) of 22 October 2014.

<sup>37</sup> Law on the Promotion of Public-Private Partnerships (Decree No. 143-2010) of 11 August 2011, and General Regulations implementing the Law on the Promotion of Public-Private Partnerships (Executive Decision No. 02073-2010) of 21 December 2010.

under the previous regime will be guaranteed up to the end of 2016, as of which time the new investment regime will automatically take effect.<sup>38</sup>

**Table 2.5 Guarantees offered under the Investment Promotion and Protection Law**

<b>Domestic and foreign investment</b>
Unrestricted access to foreign exchange
Right to open bank accounts and to withdraw deposits in freely usable currency
Protection of intellectual property rights
Protection of ownership rights
Right to repatriate all of the compensation for expropriation
Freedom of production and marketing
Right to take out insurance in Honduras and abroad
<b>Foreign investment</b>
National treatment
Unrestricted market access
Free repatriation of invested capital, earnings, royalties and considerations
Access to credit in the national financial system
Freedom to hold company shares
Commercial presence through branches, subsidiaries, representative offices and joint ventures

Source: Article 4 of Decree No. 51-2011 and information provided by the authorities.

2.36. Domestic and foreign investors should be registered in the PROHONDURAS National Investment Register; registration is not mandatory but does facilitate the requisite investment formalities. For statistical purposes, there is also an Investors' Register managed by the Public-Private Partnership Promotion Agency (COALIANZA).<sup>39</sup>

2.37. As of 2011, prior authorization was no longer required in order to invest in Honduras. This had previously been compulsory for investment in projects in the agricultural and agro-industrial sector which exceeded the "limits of a large estate (*latifundio*)"; hunting, fishing and aquaculture; electricity generation; mining; hydrocarbons; and financial intermediation services and insurance, telecommunications, air transport and tourism, as well as in education and health.

2.38. The State reserves the right to the exclusive operation of certain basic industries and public services for reasons of public order or public interest.<sup>40</sup> Private investment is therefore not allowed in some sectors, though concessions may be granted to private entities (Table 2.6), and the service linked to the investment may be put out to concession. For example, although private investment in drinking water supply is not allowed, the private sector does participate under concessions (Section 3.3.3). Similarly, as of 2014 the private sector has been permitted to take part in electricity transmission<sup>41</sup>; the State nevertheless continues to be the sole provider of the service (Section 4.2).

**Table 2.6 Activities reserved to the State, 2015**

<b>Activity</b>	<b>Legal framework</b>
Activities relating to public health	Article 3 of Decree No. 51-2011
Manufacture, import, distribution and sale of arms and ammunition	Article 292 of the Constitution Article 3 of Decree No. 51-2011
Lottery	Article 5 of Decree No. 438 of 1977
Management of dangerous or toxic waste	Article 3 of Decree No. 51-2011
Auxiliary air navigation services	Article 95 of Decree No. 55-2004
Postal services	Articles 3-4 of Decree No. 120-93
Public drinking water supply, waste management, sanitation and hygiene services	Articles 13 of Decree No. 134-90 and 29 and 67 of Decree No. 104-93

Source: WTO Secretariat.

2.39. In addition to the aforementioned restrictions, Honduras continues to maintain other limitations on foreign participation. Foreigners are not allowed to engage in retailing or in small-scale industrial activities.<sup>42</sup> Similarly, only Hondurans by birth may hold senior positions in

<sup>38</sup> Articles 60-61 of Decree No. 51-2011.

<sup>39</sup> Online information from COALIANZA. Viewed at: <http://www.coalianza.gob.hn/en>.

<sup>40</sup> Article 332 of the Constitution.

<sup>41</sup> General Law on the Electricity Industry (Decree No. 404-2013) of 20 January 2014.

<sup>42</sup> Article 337 of the Constitution and Article 3 of Decree No. 51-2011.

the mass media. There are restrictions on the participation of foreign capital in local companies engaged, for example, in the distribution of petroleum products, commercial fishing and the provision of air and maritime services (Section 4.3.3). Honduras permits foreign investment in public telecommunications services but does not allow direct participation by foreign State-owned enterprises.<sup>43</sup>

2.40. Honduras guarantees the right of ownership, unless there are public interest reasons to the contrary or if there is a need for land reform or to create tourist zones or Employment and Economic Development Zones (ZEDE).<sup>44</sup> Indirect expropriations of investments under the Investment Promotion and Protection Law must be decided by the courts.<sup>45</sup> According to the authorities, no expropriations have taken place since 2010.

2.41. Generally, foreigners are not allowed to purchase rural or urban real estate located less than 40 km from the border or the coast.<sup>46</sup> Nevertheless, the purchase or renting of urban real estate is allowed if it is intended for tourism projects. Foreigners may purchase urban real estate inside the prohibited zone only if it will be used for housing projects.<sup>47</sup>

2.42. To encourage investment, more particularly in priority sectors<sup>48</sup>, the Investment Promotion and Protection Law introduced a number of guarantees, chief among which are: (a) legal stability contracts; (b) fiscal incentives; and (c) protection regimes in the case of disputes over ownership rights (Table 2.7). Originally, the fiscal incentives accorded under the Law included partial exemption from income tax, though the authorities have indicated that this was discontinued in 2014.<sup>49</sup> Stability contracts are offered only to investors that commit to investing upwards of US\$2 million in Honduras. In addition to the incentives envisaged under the new law, Honduras maintains other special regimes to promote both domestic and foreign investment (Section 3). Most of these programmes apply generally, though some incentives are maintained in order to promote investment in specific sectors, especially in clean energy generation<sup>50</sup> and tourism (Section 4.3.4).

**Table 2.7 Investment guarantees stipulated under the Investment Promotion and Protection Law**

Guarantee	Description
Stability contract	It ensures that the legal and tax conditions in force at the time of investing in Honduras remain unchanged for a period of 15 years. The contract may be extended to 25 years for investments in forestry.
Fiscal incentives	Amortization of pre-operational expenditure (maximum of five years). Possibility of using various depreciation methods. Partial exemption from income tax for a period of 15 years (abolished in 2014).

<sup>43</sup> Article 26 of the Framework Law on the Telecommunications Sector (Decree No. 185-95) of 5 December 1995.

<sup>44</sup> Articles 103 and 106 of the Constitution, Article 1 of the Special Regulations for the Transfer of Titles to the State or Expropriation of Real Estate in Tourist Areas (Decision No. 236-81) of 26 March 1981 and Articles 25-26 of the Organic Law on Employment and Economic Development Zones (Decree No. 120-2013) of 12 June 2013.

<sup>45</sup> The Investment Promotion and Protection Law distinguishes between direct and indirect expropriation. Direct expropriation occurs when an investment is nationalized directly through the formal transfer of the right of ownership to the State. Indirect expropriation occurs when State actions have an effect equivalent to direct expropriation without formal transfer of the right of ownership to the State (Articles 33-36 of Executive Decision No. 22-DGTC-2014).

<sup>46</sup> Article 107 of the Constitution.

<sup>47</sup> Articles 4-5 of the Law on the Purchase of Urban Property in the Areas Delimited by Article 107 of Constitution of the Republic (Decree No. 90-90) of 14 August 1990, and Article 16 of the Law on the Identification, Planning and Development of Tourism Areas (Decree Law No. 968) of 14 July 1980.

<sup>48</sup> Article 13 of Executive Decree No. PCM-018-2014 of 22 April 2014.

<sup>49</sup> Article 38 of the Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures (Decree No. 284-2013) of 21 December 2013.

<sup>50</sup> Law on the Promotion of Electricity Generation from Renewable Resources (Decree No. 70-2007) of 2 October 2007, as amended by Decree No. 138-2013.

Guarantee	Description
Protection regimes	The Dispute Prevention Regime enables an investor to register as the owner of real estate so that third parties may not file ownership claims. The Guarantee Regime for the Completion of Projects on Disputed Real Estate protects investors aggrieved by a judicial or administrative action initiated by third parties, which could affect the right of ownership of the property.

Source: Decree No. 51-2011, as amended by Decree No. 284-2013, Executive Decision No. 22-DGTC-2014 and Decree No. 284-2013.

2.43. Honduras is setting up a single window for investment, which will be managed by PROHONDURAS. The first stage consists of the National Investment Register, which began operating in 2015. Furthermore, the CNI and the Foundation for Investment and Development of Exports (FIDE), a private non-profit entity, provide assistance to investors in completing the formalities.<sup>51</sup>

2.44. Reforms were also adopted during the review period to simplify company incorporation procedures.<sup>52</sup> Currently, the special single form (FUE) is in use. This form consolidated several formalities into a single one, including the incorporation and registration of companies in the Business Register, registration with the Chamber of Commerce and Industry, registration in the National Tax Register and obtaining the municipal operating permit. The FUE is processed on the MiEmpresaEnLínea website. Investment projects deemed to be "of national interest" are exempt from a series of company incorporation procedures. In these cases, the President of the Republic issues a certificate of incorporation and feasibility, which includes all the permits and licenses required under Honduran law. This procedure takes a maximum of 30 days and is known as the "expedited procedure".<sup>53</sup> The establishment of companies in state-regulated and supervised sectors (namely financial services, telecommunications, security and the exploitation of natural resources)<sup>54</sup>, and enterprises for the specific purpose of executing a public-private partnership contract are governed by other provisions.<sup>55</sup>

2.45. Foreign-incorporated companies wishing to operate in Honduras must comply with the provisions of the Commercial Code.<sup>56</sup> Honduras allows cooperatives set up abroad to operate in the country with prior authorization from the National Council for the Supervision of Cooperatives (CONSUCOOP).<sup>57</sup>

2.46. Honduran legislation promotes the hiring of Honduran workers. Consequently, the number of foreign workers that may be hired is capped at 10% of the total workforce or 15% of the total wage bill.<sup>58</sup> This restriction also applies to managers when more than two of them are foreigners.<sup>59</sup>

2.47. Honduras is a member of the Multilateral Investment Guarantee Agency (MIGA) and of the International Centre for Settlement of Investment Disputes (ICSID). Moreover, Honduras applies the New York Convention (recognition and enforcement of foreign arbitral awards) and the Inter-American Convention on International Commercial Arbitration. Honduras is party to

<sup>51</sup> Article 42 of Decree No. 51-2011, as amended by Article 26 of Decree No. 284-2013. See FIDE's Invest in Honduras Programme. Viewed at: <http://www.investinhonduras.hn>.

<sup>52</sup> Law on Employment Generation, Promotion of Entrepreneurship, Business Formalization and Protection of Investors' Rights (Decree No. 284-2013) of 8 January 2014, and Regulations implementing Legislative Decree No. 284-2013 (Executive Decision No. 679-2014) of 23 October 2014.

<sup>53</sup> The expedited procedure was initially intended for national interest projects worth more than US\$50 million. The minimum amount requirement was eliminated in 2013 (Articles 40 (as amended by Article 26 of Decree No. 284-2013) and 41 of Decree No. 51-2011).

<sup>54</sup> Article 4 of Executive Decision No. 679-2014.

<sup>55</sup> The provisions governing public-private partnership contracts are contained in the Law on the Promotion of Public-Private Partnerships (Decree No. 143-2010) of 11 August 2010 and in the General Regulations implementing the Law on the Promotion of Public-Private Partnerships (Executive Decision No. 02073-2010) of 21 December 2010.

<sup>56</sup> Articles 308-310 of the Commercial Code and amendments thereto.

<sup>57</sup> Article 19 of the Law on Cooperatives (Decree No. 65-87) of 30 April 1987, as amended by Decree No. 174-2003.

<sup>58</sup> The Executive Branch may even exclude foreign worker participation when the circumstances so warrant.

<sup>59</sup> Article 137 of the Constitution and Article 11 of the Labour Code.

nine bilateral investment agreements.<sup>60</sup> According to the authorities, Honduras has not signed any agreements for the avoidance of double taxation, though it has signed agreements on the exchange of tax information. Honduras has two agreements of this kind, one with Central America and the other with the United States.

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<sup>60</sup> Chile; France; Germany; Republic of Korea; Netherlands; Spain; Switzerland; United States; and United Kingdom. Two agreements (Cuba and Chinese Taipei) have not entered into force.

### 3 TRADE POLICIES AND PRACTICES BY MEASURE

#### 3.1 Measures directly affecting imports

##### 3.1.1 Procedures, documents and registration

3.1. There were no major changes to import procedures and requirements during the period under review. The customs regulations comprise the 1987 Customs Law, which was revised in 2010, and the Central American Uniform Customs Code (CAUCA IV) and its implementing regulations (RECAUCA IV).<sup>1</sup> Where it is not contrary to the Central American regulations or in areas not covered by them, the Customs Law still applies. The Executive Directorate of Revenue (DEI), through the customs service, is in charge of overseeing customs administration and issuing the regulations governing customs clearance and tariffs.<sup>2</sup>

3.2. Importers must be registered in order to import certain goods (Table 3.1).<sup>3</sup>

**Table 3.1 Registration of importers, 2015**

Goods	Registration
Alcohol; cigarettes	State Secretariat for Finance/DEI
Methyl bromide; seeds; dairy produce; agricultural chemicals, medicines and veterinary products, and feed concentrates for animal feed. In the case of products for human consumption (meat, dairy produce, shellfish, etc.), only the importer has to be registered, except for those goods which, because of their nature, must be registered with the State Secretariat for Public Health. Foreign natural and legal persons must be registered with the SENASA's various departments.	State Secretariat for Agriculture and Livestock
Refrigerants	State Secretariat for Energy, Natural Resources, the Environment and Mining
Cosmetics; medicines; food products; toxic chemicals	State Secretariat for Health

Source: WTO Secretariat.

3.3. The documents to be forwarded for imports vary depending on the origin of the import. The Central American single customs form (FAUCA) is used for goods imported from other CACM countries. It serves as both the commercial invoice and the certificate of origin. The single customs declaration (DUA) applies to other imports, including those of Central American origin which do not enjoy preferential treatment. The DUA is submitted electronically and must be accompanied by: the commercial invoice, the bill of lading, a declaration of the goods' value, as well as other documents, for example, a certificate of origin, a phytosanitary or animal health permit, an import licence (Section 3.2.3), or documents attesting to the exemption regime.<sup>4</sup> This procedure may be undertaken prior to arrival of the goods. The goods are cleared according to the channel assigned to the DUA: green channel (immediate clearance), yellow channel (inspection of documents) and red channel (inspection of documents plus physical inspection).<sup>5</sup>

<sup>1</sup> The CAUCA is set out in Resolution No. 223-2008 (COMIECO-XLIX) of 25 April 2008. The RECAUCA IV can be found in Resolution No. 224-2008 (COMIECO-XLIX) of 25 April 2008, as amended by Resolution No. 306 2013 (COMIECO-EX) of 15 May 2013. The amendment concerns the submission of documents accompanying the single customs declaration for definitive exports, temporary exports and re-exports.

<sup>2</sup> Technical Secretariat for Planning and External Cooperation (2013), *Agenda Digital Honduras 2014-2018*. Viewed at: <http://www.scgg.gob.hn/sites/default/files/Agenda%20Digital%20de%20Honduras%202014-2018.pdf>.

<sup>3</sup> Articles 30 and 39 of the Law on Revenue Enhancement, Social Equity and Rationalization of Public Expenditure (Decree No. 17-2010) of 28 March 2010, as amended by Decrees No. 71-2010, No. 205-2010 and No. 281-2013.

<sup>4</sup> Articles 78 and 80 of the CAUCA and Articles 317-318, 321 and 330 of the RECAUCA.

<sup>5</sup> DEI, *Manual de Procedimientos Aduaneros CAUCA IV – RECAUCA IV*, of 1 February 2010. Viewed at: <http://www.dei.gob.hn/website/uploaded/content/category/1268580696.pdf>.

3.4. The automated customs revenue system of Honduras (SARAH) has been in operation since 2009 and is still used for online payment of customs duties, for which the import declaration has to be submitted electronically. The SARAH was modified during the review period. Previously, only the import declaration could be submitted electronically, but since 2010 it has also been possible to forward the cargo manifest electronically and the system also allows importers to obtain information on goods in transit to free zones. At the regional level, the SARAH has been interconnected to the Unified Customs Information System for Central America (SIAUCA), thus enabling the FAUCA to be forwarded electronically.<sup>6</sup> In 2014, an agreement was reached among various agencies to introduce Honduras' single window for foreign trade (VUCEH), but by January 2016 it had not yet started to operate.<sup>7</sup>

3.5. The regional regulations contain provisions regarding authorized economic operators (AEOs).<sup>8</sup> In December 2015, however, the Honduran regulations needed for their implementation were still being prepared so at present there are no AEOs in Honduras. Once the domestic legislation has been adopted, the DEI will be entrusted with approving AEOs.

3.6. According to the authorities, there have been no changes to the import regimes since 2010. They remain: (a) definitive importation; (b) customs transit; (c) temporary importation for re-exportation in the same state; (d) temporary admission for inward processing; (e) customs warehousing; (f) re-importation; and (g) free zones.<sup>9</sup>

3.7. Customs agents must be Honduran citizens by birth or nationals of other Central American countries. It is usually compulsory to use the services of a customs agent to clear goods.<sup>10</sup> Customs carriers have to be approved by the DEI and, according to the authorities, the requirements for approval are the same for national and for foreign carriers.<sup>11</sup>

3.8. Honduras has notified the WTO of its category A commitments, provisions which will be implemented when the WTO Agreement on Trade Facilitation comes into force, and the procedure for ratifying the Agreement has been initiated (Section 2.3.1).<sup>12</sup>

3.9. Appeals against decisions by the customs service may be made either by requesting the DEI for a review or by lodging an appeal with the State Secretariat for Finance.<sup>13</sup> If there is an objection to the decision taken through administrative channels, an appeal may be made to the administrative litigation courts. According to the authorities, appeals against the rulings handed down by these courts may be made to a higher court.

### 3.1.2 Customs valuation

3.10. Goods continue to be valued in accordance with the WTO Customs Valuation Agreement and the RECAUCA. The authorities have indicated that the RECAUCA provisions on customs valuation follow the lines of the WTO Agreement.

3.11. Honduras still makes use of price guides, irrespective of the origin of the goods imported, for the purpose of determining value if there is any "reasonable" doubt regarding it.<sup>14</sup>

### 3.1.3 Rules of origin

3.12. Honduras does not apply any non-preferential rules of origin.

<sup>6</sup> DEI (2011), *Boletín Informativo de la Dirección Adjunta de Rentas Aduaneras*, Volume 1, No. 1, December. Viewed at: <http://www.dei.gob.hn/website/uploaded/content/article/1694470821.pdf>.

<sup>7</sup> Executive Decree No. PCM 002-2014 of 6 January 2014.

<sup>8</sup> Article 28 of the CAUCA and Articles 159-166 of the RECAUCA.

<sup>9</sup> Title VI, Chapter II, of the CAUCA and Title VI of the RECAUCA.

<sup>10</sup> A customs agent is not required for cross-border trade or for travellers' luggage (CAUCA, Articles 87 and 88).

<sup>11</sup> Decision No. 1959 of the State Secretariat for Finance of 24 May 2007.

<sup>12</sup> WTO document WT/PCTF/N/HND/1 of 18 July 2014.

<sup>13</sup> Articles 623 and 625 of the RECAUCA.

<sup>14</sup> Article 205 of the RECAUCA.

3.13. Since 2010, Honduras has signed trade agreements with Canada, Mexico and the European Union and therefore applies the preferential rules of origin contained therein; it has started to implement the Central American Regulations on the Origin of Goods for products originating from Panama (Table 3.2).<sup>15</sup> According to the preferential rules agreed, for those goods not subject to specific rules of origin, the criteria conferring origin are a change in tariff heading or the regional value content. The use of non-originating materials that do not result in a change in heading is also allowed provided that they do not exceed a percentage of the good's total cost or weight. Diagonal cumulation of origin allows inputs from non-party States to be considered as originating.

**Table 3.2 Principal provisions on preferential rules of origin applied since 2010**

	Canada	Panama	EU	Mexico
Criteria	Change in tariff heading or regional content value (RVC)			
RVC <sup>a</sup>	25% or 35%	41.66% or 50%	20% to 50%	30%
Tolerance rule	10% of the value or weight of fibres or yarn in the case of textiles and made-up articles			10% of the value or weight of fibres or yarn in the case of textiles and made-up articles, except for elastomeric materials (7%)
Bilateral or full cumulation	Yes			
Diagonal cumulation of origin <sup>b</sup>	United States and Mexico in respect of yarn	No	Allowed for the Plurilateral State of Bolivia; Colombia; Ecuador; Peru; the Bolivarian Republic of Venezuela for any product <sup>c</sup>	United States in the case of textiles (HS Chapter 62)

a The RCV may vary depending on the calculation method used.

b WTO document WT/REG/W/45 of 5 April 2002.

c Materials originating from Mexico, South America or Caribbean countries are also considered as originating from Central America if preferential agreements between them are in force.

Source: WTO Secretariat, based on information provided by the authorities and online information from PROHONDURAS. Viewed at: <http://www.prohonduras.hn/dgiepc>.

3.14. The other trading partners to which Honduras continues to apply preferential rules of origin are: Chile; Chinese Taipei; Colombia; Costa Rica; Dominican Republic; El Salvador; Guatemala; Nicaragua; and the United States.

### 3.1.4 Tariffs

#### 3.1.4.1 Structure and levels

3.15. In 2015, Honduras' tariff contained 6,974 eight-digit lines of the 2012 HS. In general, Honduras only applies *ad valorem* tariffs, except for tariffs applicable to products subject to the price band, namely: yellow maize, white maize, grain sorghum, corn flour and other processed grains. The average applied MFN rate was 5.9% in 2015, virtually the same as that in 2010 (6%) (Table 3.3). Applied tariffs range from 0 to 164%. The most common rate is 0%, which applies to 48.1% of tariff lines (47.2% in 2010) (Chart 3.1). Rates of 5%, 10% and 15% apply to the majority of goods (99.2% of all tariffs). The maximum rate of 164% still applies to imports of poultry meat of subheadings HS 02.07.13, HS 02.07.14 and HS 16.02.32.10, while the second highest rate of 55% still applies to cigarettes (HS 24.02.20.00.00).

<sup>15</sup> WTO documents G/RO/N/134 of 2 October 2015, G/RO/N/93 of 9 April 2013 and G/RO/N/114 of 2 April 2014.

**Table 3.3 Structure of MFN tariffs, 2010 and 2015**

(%)

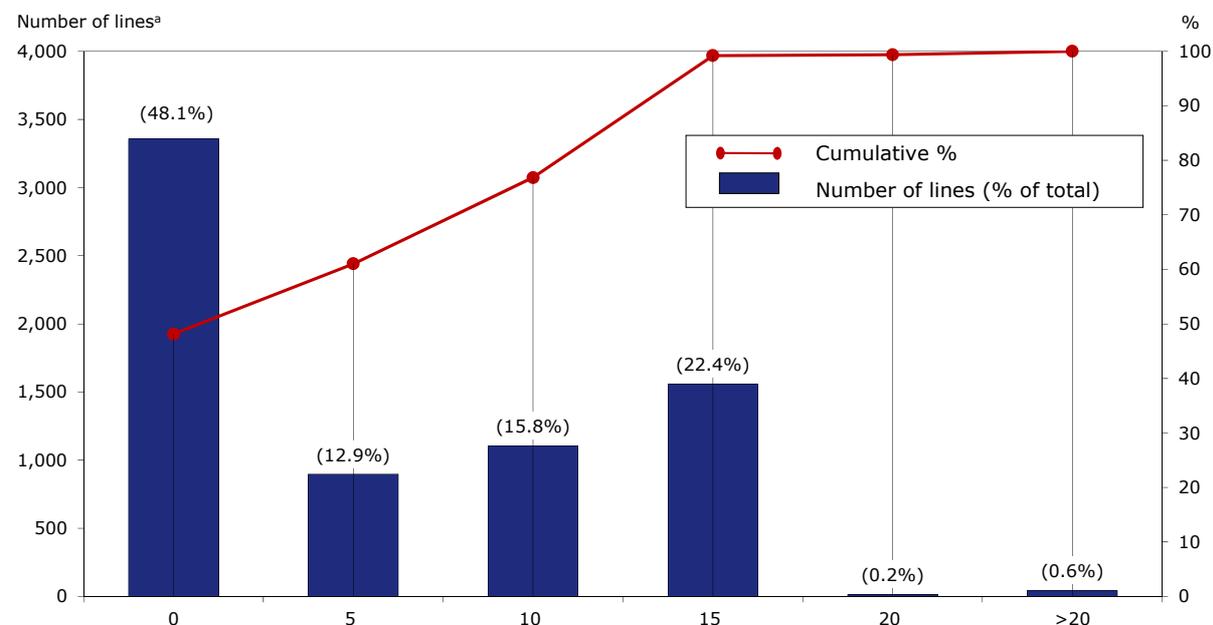
		2010 (HS07)	2015 (HS12)
1.	Total number of lines	6,566	6,974
2.	Non- <i>ad valorem</i> tariffs (% of all tariff lines)	0.1 <sup>a</sup>	0.1 <sup>a</sup>
3.	Non- <i>ad valorem</i> tariffs with no AVEs (% of all tariff lines)	0.1 <sup>a</sup>	0.1 <sup>a</sup>
4.	Tariff quotas (% of all tariff lines)	0.0	0.0
5.	Duty-free tariff lines (% of all tariff lines)	47.2	48.1
6.	Average of lines exceeding zero (%)	11.3	11.4
7.	Arithmetic average	6.0	5.9
8.	Agricultural products (WTO definition)	11.1	10.7
9.	Non-agricultural products (including petroleum, WTO definition)	5.1	5.1
10.	Domestic tariff "peaks" (% of all tariff lines) <sup>b</sup>	0.8	0.8
11.	International tariff "peaks" (% of all tariff lines) <sup>c</sup>	0.8	0.8
12.	Overall standard deviation of applied rates	7.9	7.8
13.	Bound tariff lines (% of all tariff lines)	100.0	100.0

a Corresponds to lines subject to the price band.

b Domestic tariff peaks are defined as rates exceeding three times the overall simple average applied rate.

c International tariff peaks are defined as rates exceeding 15%.

Source: WTO Secretariat estimates, based on data provided by the Honduran authorities.

**Chart 3.1 Distribution of tariff rates, 2015**

a The total number of lines is 6,974.

Source: WTO Secretariat calculations, based on data provided by the Honduran authorities.

3.16. In Honduras, the protection given to agricultural products (WTO definition) remains higher than that for non-agricultural products. In 2015, an average tariff of 10.7% applied to the former, lower than that in 2010 (11.1%), whereas an average rate of 5.1% applied to non-agricultural products. The highest average tariff by WTO category was applied on agricultural products, specifically animals and animal products and dairy produce, with rates of 18.4% (20.2% in 2010) and 22% (21% in 2010), respectively (Table A3.1).

3.17. Honduras bound all its tariff lines during the Uruguay Round, with around 85% bound at 35%, 1% bound at higher rates and the remaining lines at levels below 35%.

3.18. For the purpose of this review, the Secretariat identified seven tariff lines whose applied rate exceeds the bound rate (Table 3.4).<sup>16</sup> These products had already been identified as having an applied tariff above the bound rate at the time of the previous review in 2010.

**Table 3.4 Products with applied tariffs higher than the bound rates, 2010-2015**

Eight-digit HS Number	Description	Applied tariff %		Bound tariff %
		2010	2015	
04051000	Butter	20	20	8
04062090	Other cheese	35	35	20
04063000	Processed cheese, not grated or powdered	35	35	20
04069020	Cheddar-type cheese, in blocks or slabs	35	35	20
72106110	Flat-rolled products of aluminium of a thickness of 0.16 mm or more but less than or equal to 2 mm	15	15	8
72106910	Flat-rolled products of aluminium of a thickness of 0.16 mm or more but less than or equal to 2 mm	15	15	8
85299010	Furniture and casings (cabinets) of wood	15	15	0

Note: Only lines that are identical in HS2007 and HS2012 were compared.

Source: WTO Secretariat estimates, based on data provided by the authorities.

3.19. Pursuant to Article XXVIII:5 of the GATT 1994, Honduras reserved the right to modify its bound tariffs for a period of three years as of 1 January 2015.<sup>17</sup>

#### 3.1.4.2 Price band system

3.20. Honduras continues to implement a price band system based on international benchmark prices. Until August 2015, the system applied to imports of yellow maize, white maize, grain sorghum, maize flour and other worked grains (Table 3.5). In August 2015, white maize was removed from the system and its applied tariff was raised from 15% (under the price band) to 50%.<sup>18</sup> The price band system operates as a variable tariff that changes according to international benchmark prices.<sup>19</sup> Its main purpose is to cushion the domestic-market impact of international price fluctuations. Each year, before the first harvest, the Honduran Agricultural Marketing Institute (IHMA) sets the band's floor and ceiling prices on the basis of world prices for the product in question over the previous 60 months. If the world price falls below the floor benchmark price, the MFN applied import tariff of 15% is raised *ad valorem* by the percentage difference between the two prices. The sum of the MFN applied tariff and the surcharge may not exceed the bound tariff rate. It would appear that during the review period the price band system was not used for most of the products concerned as the applied tariff for all products, except other worked grains, was 15% over this period.

<sup>16</sup> In undertaking this analysis, the Secretariat only took into account those tariff lines in Schedule LXXXVIII - HS1996 that are strictly comparable to those in HS2007 and HS2012.

<sup>17</sup> WTO document G/MA/305 of 21 November 2014.

<sup>18</sup> Decision No. 089-2015 of 6 August 2015.

<sup>19</sup> Regulations on the Marketing of Agricultural Products, Decision No. 0105-93 of 26 February 1993.

**Table 3.5 Lines subject to the price band system, 2010 and 2015**

Code	Description	MFN %		Bound rate (%)
		2010	2015	
1005.90.20	Yellow maize	15	15	45
1005.90.30	White maize <sup>a</sup>	15	15 <sup>b</sup>	50
1007.90.00	Other grain sorghum	15	15	45
1102.20.00	Maize flour	15	15	35
1103.13.10	Pre-gelatinized maize flour (for example: used as an additive in breweries)	15	15	35
1103.13.90	Other groats	15	15	35
1104.23.00	Other grains of maize, worked	5	5	35

a White maize was removed from the system in August 2015.

b Since 6 August 2015 the tariff rate applied to white maize has been 50%.

Source: WTO Secretariat estimates, based on data provided by the authorities.

3.21. Some of the products subject to price bands are also subject to "absorption agreements" (Section 4.1).

### 3.1.4.3 Preferential tariffs

3.22. Honduras grants preferential tariff treatment to imports from other CACM members. Most products of Central American origin enter duty-free, with the exception of sugar, unroasted coffee, petroleum products, ethyl alcohol and distilled alcoholic beverages from El Salvador, and roasted coffee from Costa Rica.

3.23. Honduras also extends preferential treatment to imports from countries with which it has preferential agreements: Canada; Chile; Chinese Taipei; Colombia; Dominican Republic (Central America – Dominican Republic FTA); Mexico; Panama; and the CAFTA-DR (Central America, United States and Dominican Republic FTA) (Table 3.6).

3.24. The average preferential tariffs in the agreements negotiated by Honduras are all well below the average MFN rate. Preferential tariffs range from 0.3% to 4.2% and are lower for non-agricultural products, between 0% and 2.4%. Duty-free entry under the CAFTA-DR FTA and the agreement with Mexico account for over 95% of the tariff universe (Table 3.6).

**Table 3.6 Analysis of applied tariffs for countries with which trade agreements have been negotiated, 2015**

	Nomenclature	No. of lines	Total		WTO categories			
					Agricultural products		Non-agricultural products (excluding petroleum)	
			Average (%)	Duty-free lines (%)	Average (%)	Duty-free lines (%)	Average (%)	Duty-free lines (%)
CAFTA	HS12	6,974	0.3	97.1	2.1	80.6	0.0	100.0
Canada	HS12	6,974	2.9	69.4	7.7	43.0	2.1	74.1
Chile	HS12	6,974	0.8	89.2	3.6	71.7	0.4	92.2
Colombia	HS12	6,974	2.2	75.4	6.7	49.8	1.5	79.8
Mexico	HS12	6,974	0.7	95.6	3.4	84.5	0.2	97.7
Panama	HS12	6,974	2.0	81.5	3.9	75.4	1.7	82.4
Chinese Taipei	HS12	6,974	3.1	65.9	7.3	46.0	2.4	69.1
European Union	HS07	6,561	4.2	49.8	8.4	36.6	3.5	52.0

Note: In this analysis, where the preferential tariff exceeds the MFN tariff, the latter has been used to calculate the average.

Source: WTO Secretariat estimates, based on data provided by the authorities.

3.25. Honduras also applies preferential tariff quotas under certain regional agreements.

### 3.1.4.4 Tariff concessions

3.26. In general, import duty has to be paid on all goods imported into Honduras, with the exception of goods specifically declared exempt by law. Exemptions apply to imports of goods for use by, *inter alia*, public bodies, foreign service officials, international organizations, teaching and social welfare institutions, religious communities and air and maritime transport companies, as well as to donations and samples of goods of no commercial value.

3.27. Honduras also continues to grant tariff concessions under various export promotion programmes: the Temporary Importation Procedure (RIT), Free Zones (ZOLI) and Agricultural Export Zones (ZADE) (see below).

3.28. Under the "Purchase and Sale Agreement" (an agreement between staple grain producers and processors), staple grains may be imported at a tariff below the MFN, which may be as low as 0% if the processor purchases a certain quantity of grain on the domestic market (Section 4.1). Moreover, in order to be eligible for this exemption, the products imported must be processed by an industry that is party to the agreement. The preferential import terms do not extend to products intended for direct sale on the domestic market such as whole grain for human consumption.

3.29. Honduras does not have any data on fiscal revenue foregone as a result of its tariff concessions.

### 3.1.5 Other charges affecting imports

3.30. Both imported and domestic goods are subject to a number of internal taxes, namely: the sales tax, the production and consumption tax, the selective consumption tax and the tax on petroleum products (Table 3.7). Since May 2010, an eco-tax that varies according to the vehicle's price has been levied on imports of used vehicles.

**Table 3.7 Other import charges in 2015**

Tax and goods	Rate in 2015
<b>Sales tax</b>	
General rate	15%
Beer, spirits (" <i>aguardiente</i> "), blended spirits and other alcoholic beverages, cigarettes	18%
<b>Production and consumption tax</b>	
Carbonated and other prepared beverages, excluding natural juices	L 0.6787/litre
Beer	L 4.8214/litre
Wine	L 6.0500/litre
Brandy, cognac, vermouth and whisky	L 32.6725/litre
Aged rum 36°	L 17.9043/litre
Aged rum 38°	L 18.8990/litre
Aged rum 40°	L 19.8937/litre
Spirits (" <i>aguardiente</i> ") 30°	L 7.0213/litre
Spirits (" <i>aguardiente</i> ") 38°	L 9.7830/litre
Spirits (" <i>aguardiente</i> ") 40°	L 11.7022/litre
Spirits (" <i>aguardiente</i> ") 45°	L 14.2182/litre
Gin and Geneva, vodka, tequila and ready-made spirits and creams	L 32.6725/litre
Cigarettes	L 409.58 per thousand or fraction thereof
<b>Selective consumption tax<sup>a</sup></b>	
Aquarium fish; chewing gum; coffee; tea; alcoholic beverages (excluding beer, " <i>aguardiente</i> " and rum); olive oil; perfumery and cosmetic products; jewellery; toys; lighters; perfume atomizers	10%
Vehicles	10% to 60%
<b>Tax on petroleum products</b>	
Premium-grade gasoline	US\$1.4089
Regular-grade gasoline	US\$1.2416
Diesel	US\$0.8606
Fuel oil (Bunker C)	US\$0.4267
Kerosene	US\$0.1500
LPG	US\$0.1500

Tax and goods	Rate in 2015
AvJet	US\$0.0300
<b>Eco-tax on used vehicles</b>	
≤ US\$15,000	L 5,000
US\$15,001-25,000	L 7,000
> US\$25,001	L 10,000

a This tax applies to some 50 products.

Source: Information provided by the authorities.

3.31. The general rate of sales tax rose from 12% to 15% over the review period. For beer, spirits ("aguardiente"), blended spirits and other alcoholic beverages, as well as cigarettes, it increased from 15% to 18%. Some goods and services are exempt from sales tax. In 2015, the list of goods exempt included: goods and services that form part of the basic shopping basket<sup>20</sup>; inputs such as fertilizers, pesticides, tools and seeds used in the agricultural sector; milk and milk products; manufactured goods such as pharmaceuticals, and machinery and equipment used to generate energy; services such as electric power, drinking water, construction, health, passenger land transport and financial services; hydrocarbons; and inputs and equipment used in industry. According to the authorities, these exemptions apply to both domestic and imported goods.

### 3.1.6 Prohibitions, licensing and other restrictions<sup>21</sup>

3.32. Honduras continues to apply import prohibitions and a licensing regime to protect public health, animal and plant health, the environment and national security, and in order to comply with international agreements and conventions. Since 2010, Honduras has banned the import of incandescent lamps, methyl bromide for agricultural use, and air-conditioning or refrigeration systems which employ CFCs. It also continues to ban the import of products such as: aerosols containing CFCs, with the exception of the pharmaceutical products authorized by the State Secretariat for Health; asbestos; anti-personnel mines and anti-detection devices or parts thereof; and motor vehicles over 10 or 13 years old.<sup>22</sup>

3.33. There were no major changes to Honduras' import licensing regime during the review period.<sup>23</sup> Import licensing is not designed to restrict the volume or value of imports and applies to all imports irrespective of origin. Import licences may be either automatic or non-automatic. The list of goods requiring import licences has not changed since 2010 and includes: arms and ammunition and explosive materials; medicines and chemical precursors; dairy produce; plant and animal products and by-products; inputs for agricultural or veterinary use; and methyl bromide and refrigerants.

3.34. In order to request an automatic or non-automatic import licence, importers usually have to be registered with the competent State Secretariat (Table 3.8). The time required for granting a licence is between 24 hours (for import licences for products of plant origin) to 30 days (for firearms, ammunition and explosive materials). Nevertheless, in special cases, for example, dairy produce, licences may be granted immediately. Licences may only be used for a single shipment and are usually valid for a set period which may not be extended. If the licence is not utilized within its period of validity, a new licence has to be requested. There are no financial penalties for failing to use a licence, but there is a cost for issuing a licence, determined by the competent State Secretariat. Licences may be transferred. The Executive may modify the list of products subject to import licences without the need for authorization from the National Congress. An appeal may be made against a decision to refuse a licence.

<sup>20</sup> In 2015, the basic shopping basket consisted of 271 goods and two services. The goods included: meat, fish, milk, eggs, fruit and vegetables, coffee, staple grains (rice, beans, maize and wheat) and sugar (information provided by the authorities).

<sup>21</sup> This section is based on WTO documents G/LIC/N/3/HND/1 of 12 November 2007; G/LIC/N/3/HND/1/Add.1 of 26 March 2010; G/LIC/N/3/HND/8 of 10 December 2013; G/LIC/N/3/HND/9 of 12 August 2014 and WT/TPR/S/234/Rev.1 of 15 October 2010.

<sup>22</sup> Information provided by the authorities.

<sup>23</sup> According to the authorities, the word "licence" is used in Honduras to refer to the import certificate or sanitary registration or permit, depending on the issuing body.

Table 3.8 Details concerning import licences in 2015

Description	Type of licence	Special requirement	Time required	Cost	Period of validity	State Secretariat
Firearms and ammunition	Automatic	n.a.	5 days	n.a.	1 year	National Defence
Explosives and pyrotechnic devices	Non-automatic	Application	30 days	L 500 (for each consignment of pyrotechnical devices) L 1,000 (for each consignment of explosive materials)		
Psychotropic medicines and narcotics and chemical precursors	Non-automatic	Registration	15 days	L 155	150 days	Health
Dairy produce	Automatic	Registration	5 days	US\$10 <sup>a</sup>	60 days	PROHONDURAS
Plant products and by-products and inputs for agricultural use	Non-automatic	Registration (only for seeds and veterinary inputs)	24-72 hours	L 250	30 days (renewable)	Agriculture and Livestock
Animal products and by-products and inputs for veterinary use			72 hours -15 days			
Methyl bromide	Non-automatic	Registration	5 days	Free	Reasonable period (3-6 months)	Agriculture and Livestock
Natural and artificial refrigerants				n.a.	Variable (15-30 days)	Energy, Natural Resources, the Environment and Mining

a Since 2010; previously the licence was free of charge.

n.a. Not available.

Source: WTO documents G/LIC/N/3/HND/1 of 12 November 2007, G/LIC/N/3/HND/1/Add.1 of 26 March 2010 and G/LIC/N/2/HND/1-3 of 12 November 2007 and information provided by the authorities.

3.35. Two types of licence apply to the import of arms, ammunition and explosive materials. Automatic licences are required if the goods are imported by the Armoury or the two other firms authorized to import firearms and ammunition for distribution or sale in the domestic market.<sup>24</sup> Non-automatic licences must be requested by other importers seeking to import explosive materials or pyrotechnic devices.

3.36. Non-automatic licences are needed to import medicines and chemical precursors in order to comply with the international commitments laid down in various United Nations conventions. The licences are used to administer quotas for the import of narcotics. The import of methyl bromide and refrigerants is also subject to non-automatic licensing in order to comply with Honduras' Montreal Protocol commitments. There has been no major change to the procedure for obtaining such licences since 2010. Licences must be issued before the goods arrive, although a licence may be granted when the goods arrive if the quantity lies within the permitted limits. The validity of licences for the import of refrigerants varies depending on the distance from the country of origin, the means of transport and the port of entry, and are granted for the import of a specific quantity. Licences for the import of methyl bromide are usually valid for three to six months because of the product's properties. If the importer does not import the goods within the time limit and requests a new licence, he has to explain the reasons for which the original import

<sup>24</sup> The Armoury is a unit of the Military Provident Institute and its main activities are the manufacture, import, distribution, purchase and sale of arms and ammunition.

did not take place. A licence may be refused if the quota attributed to the importer has been exhausted and sufficient technical information to enable a new substance to be identified and classified is unavailable.

### **3.1.7 Contingency measures**

#### **3.1.7.1 Anti-dumping and countervailing measures**

3.37. The Central American Regulations on Unfair Business Practices date back to 2007 and have not undergone any important changes since then. They still regulate the provisions on anti-dumping and countervailing measures.<sup>25</sup> The competent authority is the State Secretariat for Economic Development (PROHONDURAS), notably the Under-Secretariat for Economic Integration and Foreign Trade. There has been no change to the procedures for conducting dumping or subsidy investigations since the time of the previous Trade Policy Review in 2010 (Chart 3.2).

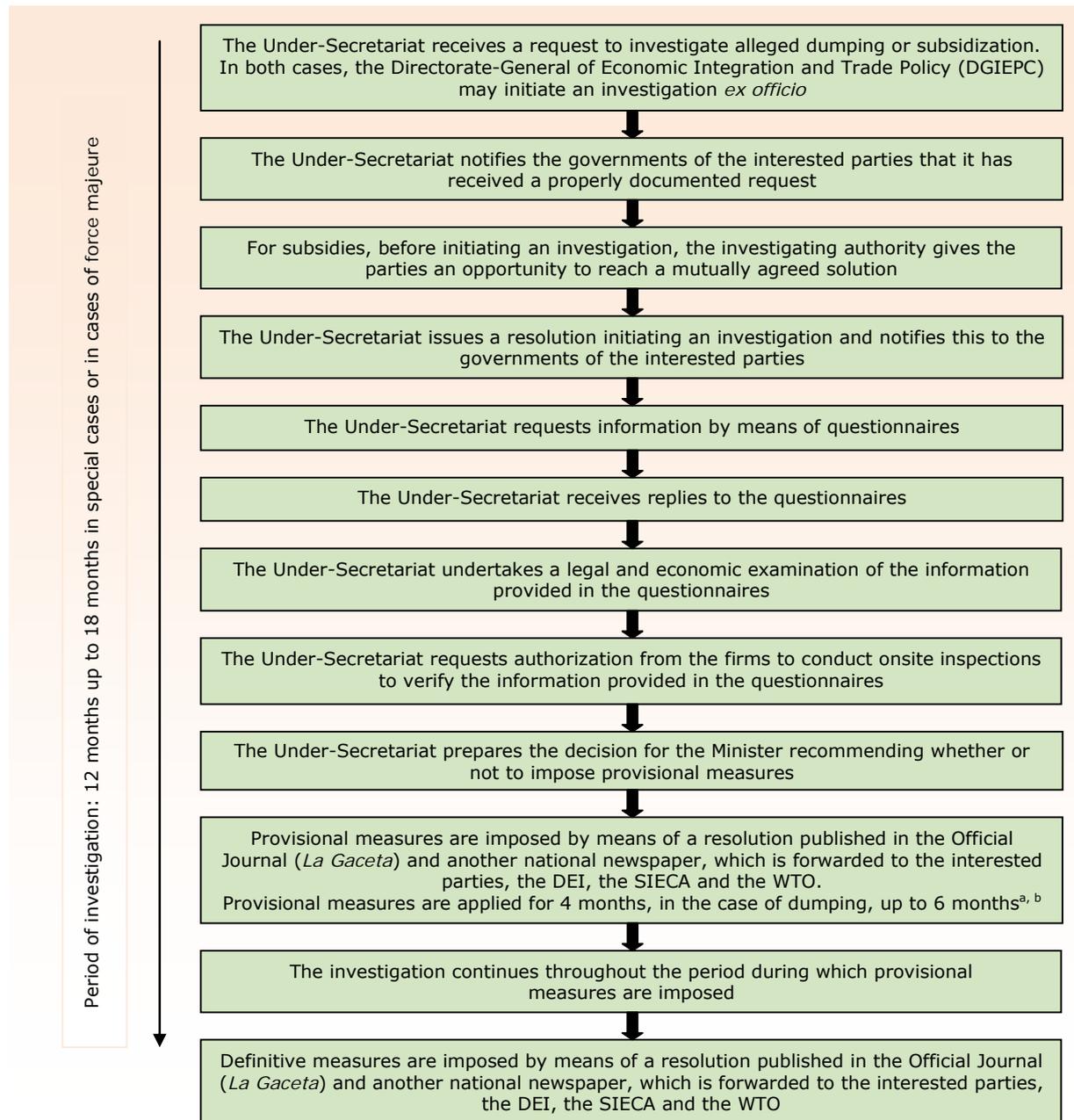
3.38. During the period under review, Honduras notified the WTO of the initiation of an investigation in order to impose anti-dumping duties on imports of aqueous and non-aqueous paint produced in El Salvador, the United States and Guatemala. The investigation was requested by the firm KATIVO de Honduras S.A. and ended in 2011 following the preliminary technical report issued on 20 October 2011, with no measure being imposed. According to the authorities, other requests have been made but no investigations have been initiated as the complaints were unfounded.

3.39. Honduras did not initiate any subsidy investigation during the review period.

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<sup>25</sup> Resolution No. 193-2007 (COMIECO-XLIV).

Chart 3.2 Procedure for dumping and subsidy investigations, 2015



a In the case of dumping, the period may be extended by means of a decision by the Under-Secretariat and at the request of a group of exporters representing a significant percentage of trade in the goods concerned.

b If the Under-Secretariat considers during an investigation that a duty lower than the margin of dumping would suffice to remedy the injury, these periods may be six and nine months, respectively.

Source: Online information from PROHONDURAS. Viewed at: <http://www.prohonduras.hn/dgiepc/files/Flujoograma.pdf>; and information provided by the authorities.

### 3.1.7.2 Safeguard measures

3.40. The procedure for imposing safeguard measures on imports from countries outside the CACM is governed by the Central American Regulations on Safeguard Measures (Resolution No. 194-2007 (COMIECO-XLIV)).<sup>26</sup> The Under-Secretariat for Economic Integration and Foreign Trade is empowered to conduct safeguard investigations, whose purpose is to determine whether or not safeguard measures need to be applied. The period of investigation is three years, although the investigating authority may extend or shorten this period.

3.41. Initiation of an investigation must be requested by representatives of the domestic industry suffering injury as a result of the imports. After it has received a request, the investigating authority has no more than 30 days in which to examine it and decide: whether to accept it, if it complies with the requirements in the Regulations, and to declare the initiation of an investigation; to request further information if the application is incomplete; or to reject it in the form of a reasoned decision if the request does not contain sufficient evidence justifying the initiation of an investigation or if it has not been made on behalf of a domestic industry. The decision rejecting the request must be notified within ten days following the date of its issue.

3.42. An investigation must be concluded within six months, except in special cases decided by the investigating authority, in which case the maximum period is 12 months from the date of initiation. Provisional measures may be imposed during the investigation period in the form of tariff increases, guaranteed by means of a bond. The maximum period for provisional measures is 200 days. The amounts received as a result of provisional measures must be returned if the investigation fails to determine that the increased imports have caused or threaten to cause serious injury to a domestic industry. The Regulations provide that the WTO Committee on Safeguards must be notified before a provisional measure is adopted and, after it has been imposed, Honduras must hold consultations with other WTO Members having a substantial interest in the measure. The decision adopting a provisional measure must be notified to interested parties within ten days of its publication.

3.43. The investigating authority must forward a copy of the decisions to apply provisional and definitive safeguard measures to the SIECA if they consist of tariff increases, as well as decisions modifying the measures, within a period of not more than ten days after their publication so that the SIECA can convene the Council of Ministers to allow it to examine and approve the measures adopted.

3.44. Definitive measures must be of "an exceptional and temporary nature", and only remain in force for as long as necessary to prevent or remedy the serious injury caused and to facilitate adjustment. The measures may not be applied for more than four years, unless they are extended in accordance with the provisions in the WTO Agreement on Safeguards.

3.45. Special safeguard measures may also be imposed if Honduras finds itself facing: serious balance-of-payments difficulties; repeated and generalized shortages of raw materials and basic finished goods; market disruption; unfair trade practices; or any other situation that may turn into a national emergency. In such cases, the measure may be imposed for a maximum period of 30 days. The situation is reviewed during this period in order to determine whether the measure should be suspended, modified or extended. If the imports come from CACM member countries, requests are forwarded to the SIECA's Executive Committee, which examines them and makes the relevant recommendations.

3.46. In February 2015, Honduras issued Decision No. 030-2015, imposing a "safeguard" measure to tackle "disruption" in the domestic market for iron and steel products, with Honduras unilaterally increasing tariffs on some iron or steel products to 35%. This measure was not notified to the WTO.

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<sup>26</sup> WTO document G/SG/N/1/HND/3 of 16 March 2009.

### 3.1.8 Standards and technical regulations

3.47. In 2010, Honduras adopted the Law on the National Quality System, the only specific law on standardization, metrology, certification and verification.<sup>27</sup> The WTO Agreement on Technical Barriers to Trade (TBT), together with the Central American Regulations on Standardization Measures, Metrology and Authorization Procedures of 1999, form an integral part of Honduras' domestic legislation.<sup>28</sup> In addition, in 2013 the Interinstitutional Technical Regulation Council (CIRT) was set up to coordinate the preparation of technical regulations.

3.48. The Standardization and Metrology Department of the Directorate-General of Consumer Protection in the State Secretariat for Industry and Trade, and the Sanitary and Environmental Regulation Unit in the State Secretariat for Health are Honduras' national enquiry points for matters relating to technical barriers to trade. The State Secretariat for Industry and Trade has accepted the TBT Agreement's Code of Good Practice for the Preparation, Adoption and Application of Standards.<sup>29</sup>

3.49. Honduras notified 29 measures to the WTO Committee on Technical Barriers to Trade between 1 January 2010 and 31 December 2015, covering areas such as environmental protection, consumer protection and labelling, *inter alia*.<sup>30</sup>

3.50. The Law on the National Quality System created the National Quality System as the technical body responsible for promoting the use of conformity assessment and demonstration mechanisms, the adoption of quality management practices and training, as well as for fostering public and private coordination among the competent entities. The Law also set up the National Quality Council, which proposes quality policies.<sup>31</sup>

3.51. The Honduran Standardization Agency (OHN) was also established during the review period as the technical arm of the National Quality System. The OHN represents Honduras in regional and international standardization organizations such as the ISO, the IEC and the Pan American Standards Commission (COPANT). It follows international standards and is responsible for preparing, approving, publishing and disseminating standards. During the review period, the OHN published 44 standards regulating various areas.<sup>32</sup> The OHN publishes an annual national standardization work programme, which identifies areas in which new standards are required. According to this programme, Honduras is currently preparing standards in the following areas: general vocabulary, laws, organic chemicals, energy efficiency, lighting, melons, toys and conformity assessment.<sup>33</sup>

3.52. The procedure for preparation of OHN standards is governed by the principles of consensus and transparency and comprises various stages (Chart 3.3). The public and private sectors, consumers and members of academia all take part in drafting standards. To guarantee transparency, the procedure involves a 60-day consultation stage. During this period, a notice is put on the OHN's website and in one or more national newspapers so that all those interested may comment on the document. Honduran standards are periodically reviewed. According to information provided by the authorities, standards are reviewed every five years, although they may be revised sooner if circumstances change. Revision may be *ex officio* or following a request.

<sup>27</sup> Decree No. 29-2011 of 29 March 2011.

<sup>28</sup> Resolution No. 3799 (COMIECO-XII) of 17 September 1999.

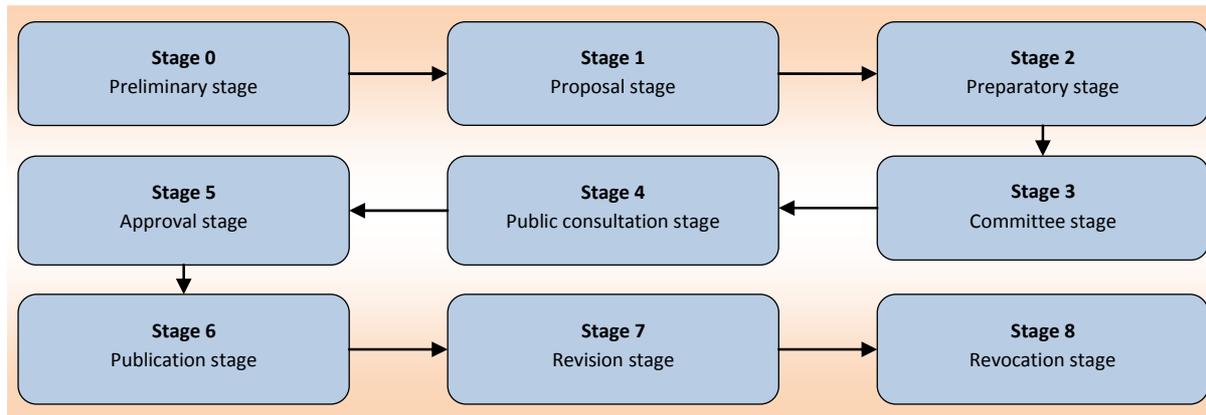
<sup>29</sup> WTO document G/TBT/CS/N/165 of 27 March 2006.

<sup>30</sup> WTO documents G/TBT/H/HND/61 of 19 May 2010 - G/TBT/H/HND/86 of 4 February 2015.

<sup>31</sup> More specifically, the Council recommends the conclusion of bilateral or multilateral agreements or conventions in areas within its sphere of competence; advises the Office of the President of the Republic, the official in charge of the Technical Secretariat for Planning and External Cooperation, and other bodies belonging to the National Quality System; it proposes quality policies and defines the general guidelines needed for compliance with the Law on the National Quality System.

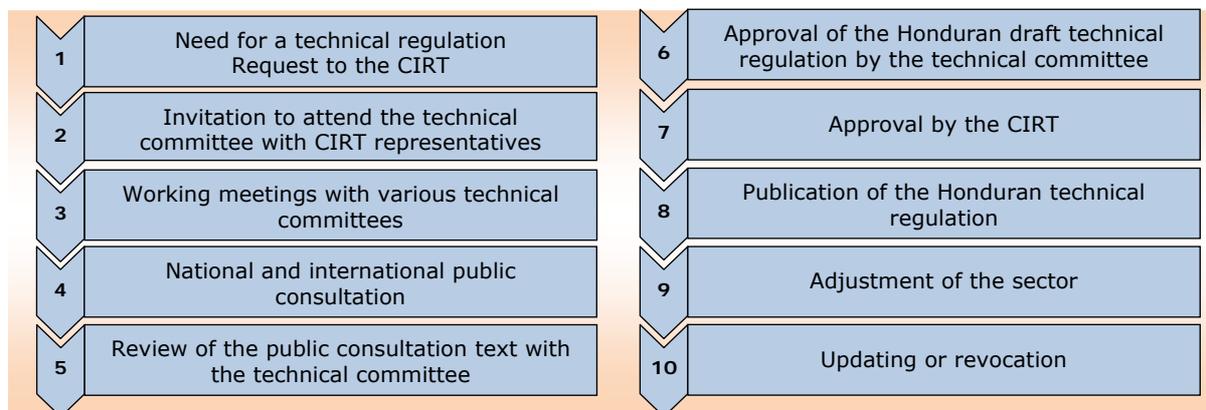
<sup>32</sup> These standards concern: the environment; coffee; quality; jams, jellies and marmalades; energy; gender equality; conformity assessment; beans; hotels; toys; dairy produce; melons; plastics; social responsibility; doughnuts; and tour operators. Information viewed at: [http://ohn.hondurascalidad.org/117\\_normas\\_publicadas\\_2015-03-12.pdf](http://ohn.hondurascalidad.org/117_normas_publicadas_2015-03-12.pdf).

<sup>33</sup> The national standardization work programme for 2015 can be viewed at: [http://ohn.hondurascalidad.org/ptnn/OHN-PTNN-2015-II\\_2015-08-19.pdf](http://ohn.hondurascalidad.org/ptnn/OHN-PTNN-2015-II_2015-08-19.pdf).

**Chart 3.3 Procedure for preparing Honduran standards**

Source: Information provided by the Honduran authorities.

3.53. Honduras' legislation distinguishes between standards and technical regulations.<sup>34</sup> The State Secretariats and other government authorities are responsible for issuing technical regulations within their spheres of competence. The CIRT was set up in 2013 to coordinate the preparation of technical regulations and started operating in 2015. The procedure for preparing technical regulations is similar to that used to prepare standards (Chart 3.4), the only difference being that technical regulations are mandatory and are implemented by means of a decision. They are reviewed every two years and not five years, as is the case for standards. By the end of 2015, the CIRT had issued two technical regulations concerning tourism and health.<sup>35</sup>

**Chart 3.4 Procedure for preparing technical regulations**

Source: Information provided by the authorities.

3.54. The Law on the National Quality System created the Honduran Metrology Centre (CEHM) as the national body responsible for metrology. The CEHM prepares, maintains and keeps the national standard units of measurement. It has to promote the use, calibration, verification and adjustment of measuring instruments, as well as the traceability of the standards of the international unit system and ensure the traceability of measuring instruments. The CEHM currently has several laboratories dealing with specific areas, namely, chemicals, temperature and small and large masses.<sup>36</sup> The Centre also represents Honduras in international and regional organizations. In carrying out its work, the CEHM abides by the international criteria and standards defined by the International Bureau of Weights and Measures (BIPM).

<sup>34</sup> For further information, see: [http://ohn.hondurascalidad.org/mas\\_info\\_general.html](http://ohn.hondurascalidad.org/mas_info_general.html).

<sup>35</sup> Information provided by the authorities.

<sup>36</sup> Information viewed at: <http://cehm.hondurascalidad.org/laboratorios.html>.

3.55. The Law on the National Quality System also created the Honduran Accreditation Agency (OHA), which is responsible for voluntary accreditation activities.<sup>37</sup> The OHA observes the international criteria established in the international standards, guides and guidelines for accreditation bodies. The OHA is the only Honduran institution that may accredit testing and calibration laboratories, inspection and control entities, certification and other such bodies, according to international standards, guides and guidelines. Its responsibilities also include developing and maintaining relations with regional and international accreditation organizations.

3.56. The Law determines that all public institutions requiring laboratory services in order to obtain an accreditation must use accredited laboratories or those recognized under recognition agreements between the OHA and equivalent international bodies. It also provides for the creation of a network of inspection, testing, analysis, calibration and certification bodies, composed of public and/or private entities, to determine conformity with standards or technical regulations.

3.57. The general accreditation procedure defines the stages to be followed by each institution in order to be accredited as a conformity assessment body.<sup>38</sup> Once accredited, however, conformity assessment bodies are subject to ongoing evaluation and supervision in order to ensure that they maintain the necessary technical skills to remain accredited. They may request renewal of accreditation. The accreditation granted by the OHA is valid indefinitely, but is subject to annual visits to monitor the institutions accredited and to evaluation of the accredited body within five years following accreditation.

3.58. Honduras does not have any special law on labelling, although the Consumer Protection Law defines general labelling requirements.<sup>39</sup> The authority responsible for implementing the Consumer Protection Law proposes to government bodies the adoption of the technical regulations required to protect consumers' rights with regard to the labelling of goods for consumption or those with a potential impact on health that are marketed in Honduras. It should also be emphasized that some Central American sanitary and phytosanitary technical regulations also include provisions on labelling.<sup>40</sup>

### 3.1.9 Sanitary and phytosanitary measures

3.59. In Honduras, the 1994 Law on Plant and Animal Health and the 1991 Health Code constitute the key legislation in the area of sanitary and phytosanitary (SPS) measures.<sup>41</sup> The 2005 revision of the Law also forms part of Honduras' SPS legal framework, together with the applicable CACM legislation, notably the Central American Regulations on Sanitary and Phytosanitary Measures and Procedures, revised in 2011<sup>42</sup>, which harmonize SPS measures at the Central American level. Under these Regulations, SPS measures must be based on technical and scientific principles and must not have the objective or effect of creating unnecessary obstacles to trade.<sup>43</sup> Honduras also has other legal instruments for the implementation of special sanitary and phytosanitary measures in relation to animal health, plant health and food safety (Table 3.9).

<sup>37</sup> Prior to the establishment of the Honduran Accreditation Agency, Honduras had an agreement with Costa Rica's accreditation body, dating back to 2005, for the joint accreditation of conformity assessment bodies. The list of bodies accredited under this agreement can be viewed at: [http://oha.hondurascalidad.org/oec\\_acreditados\\_oha-eca/oec\\_acreditados\\_oha-eca.html](http://oha.hondurascalidad.org/oec_acreditados_oha-eca/oec_acreditados_oha-eca.html).

<sup>38</sup> For further details, see: [http://oha.hondurascalidad.org/servicios\\_acreditacion/Procedimiento\\_General\\_de\\_Acreditacion.pdf](http://oha.hondurascalidad.org/servicios_acreditacion/Procedimiento_General_de_Acreditacion.pdf).

<sup>39</sup> Under this Law, prepackaged or wrapped goods for consumption or those with a potential impact on health must show the following on the final packaging: name or designation; origin or source; net contents, quantity or specification of measurements; date of manufacture and expiry or recommended time-limit for use or consumption if so required; and nutritional information if appropriate, together with instructions, warnings and contraindications relating to their use or consumption (Article 23, Decree No. 24-2008).

<sup>40</sup> See: RTCA 65.05.51:08, RTCA 65.05.52:11, RTCA 65.05.61:11, RTCA 65.05.54:09 and RTCA 65.05.53:10.

<sup>41</sup> Law on Plant and Animal Health (Decree No. 157-94) of 4 November 1994, as amended by Decree No. 344-05, and the Health Code (Decree No. 65-91) of 28 May 1991, as amended by Decrees No. 191-91 and No. 194-96.

<sup>42</sup> Resolution No. 271-2011 (COMIECO-LXI).

<sup>43</sup> An exception may be made if a State party needs a higher level of protection. The Regulations also stipulate that, where a sanitary or phytosanitary measure is not underpinned by an international reference standard, it must be founded on a risk-based analysis. This risk analysis must be conducted in accordance with the WTO Agreement on the Application of Sanitary and Phytosanitary Measures, the standards, directives and recommendations of the OIE, the IPPC and the Codex Alimentarius, as well as the relevant regional regulations (Article 4 of Resolution No. 271-2011 (COMIECO-LXI)).

**Table 3.9 Principal legal instruments regulating the sanitary and phytosanitary system, 2015**

<b>Animal health</b>	<b>Legal framework</b>
Sanitary regulations for the operation of poultry-fattening farms at the national level	Decision No. 894-01 (SAG)
Sanitary regulations for the operation of egg-producing poultry farms at the national level	Decision No. 916-13 (SAG)
Regulations on controlling the eradication of brucellosis and bovine tuberculosis	Decision No. 1735-97 (SAG)
Regulations on fishing and aquaculture health	Decision No. 1418-00 (SAG)
Regulations on epidemiological animal health surveillance	Decision No. 1419-00 (SAG)
Regulations on the control of veterinary products	Executive Decision No. 08-96
Regulations on application of the Convention on International Trade in Endangered Species of Wild Fauna and Flora	Decision No. 966-03 (SAG)
Regulations on the prevention, control and eradication of Newcastle disease	Decision No. 403-13 (SAG)
Regulations on the prevention, control and eradication of avian salmonellosis	Decision No. 402-13 (SAG)
Regulations on epidemiological surveillance, prevention and control of bovine spongiform encephalopathy (BSE) and other transmissible spongiform encephalopathies (TSEs)	Decision No. 401-13 (SAG)
Central American sanitary and phytosanitary directive on trade facilitation in respect of shipments and goods	Resolution No. 338-2014 (COMIECO-EX)
Procedure for recognition of sanitary registration of products used in animal feed	Resolution No. 304-2013 (COMIECO-EX)
Central American regulations on sanitary and phytosanitary measures and procedures	Resolution No. 271-2011 (COMIECO-LXI)
Central American Technical Regulations (RTCA) on veterinary and related products: sanitary registration and control requirements	RTCA 65.05.51:08
RTCA on products used in animal feed and facilities: sanitary registration and control requirements	RTCA 65.05.52:11
RTCA on products used in animal feed: good manufacturing practices	RTCA 65.05.63:22
<b>Plant health</b>	<b>Legal framework</b>
Law on Seeds and its implementing regulations	Decree No. 1046 of 1980 and Decision No. 1942 of 1982
Biosafety regulations with emphasis on transgenic plants	Decision No. 1570-98 (SAG)
Regulations on agricultural quarantine	Decision No. 1618-97 (SAG)
Regulations on diagnosis, surveillance and phytosanitary campaigns	Decision No. 002-98 (SAG)
Regulation on the inspection and certification of fruit	Decision No. 256-2014 (SAG)
Regulations on wood packaging material in international trade	Decision No. 487-05 (SAG)
Regulations on organic farming	Decision No. 163-03 (SAG)
Regulations on the registration, use and control of pesticides and related substances	Decision No. 642-98 (SAG)
Technical regulations on the production, import and marketing of potato seeds	Decision No. 873-2009
Regulations on the registration, use and control of fertilizers and raw materials	Decision No. 002-02 (SAG)
RTCA on agricultural inputs: requirements for the production and marketing of certified staple grains and soya seeds	RTCA 65.05.53:10
RTCA on fertilizers and soil improvers for agricultural use: registration requirements	RTCA 65.05.54:09
RTCA on microbiological pesticides for agricultural use: registration requirements	RTCA 65.05.61:11
RTCA on commercial varieties: listing requirement	RTCA 65-05-34:06
<b>Food safety</b>	<b>Legal framework</b>
Regulations on fishing and aquaculture health	Decision No. 1418-00 (SAG)
Regulations on the inspection and safety of fruit and fresh and processed vegetables	Decision No. 632-03 (SAG)
Regulations on the inspection and health certification of milk and dairy produce	Decision No. 656-01 (SAG)
Regulations on the inspection and animal health certification of fishery and aquaculture products	Decision No. 728-08 (SAG)
Regulations on the inspection of meat and meat products	Decision No. 078-00 (SAG)
Regulations on the inspection, approval and health certification of fruit and fresh and processed garden produce	Decision No. 256-14 (SAG)

Source: WTO Secretariat, based on online information from the SENASA. Viewed at: <http://www.senasa-saq.gob.hn/reqlamentos-vigentes-en-senasa>; and on the basis of information provided by the authorities.

3.60. The State Secretariat for Agriculture and Livestock (SAG), through the National Agricultural Health Service (SENASA), is responsible for developing and implementing Honduras' sanitary and phytosanitary policy. Honduran legislation, however, provides for close cooperation between the public and private sectors. The SENASA is in charge of planning and coordinating the implementation of animal and plant health and food safety programmes. It also decides on the standards and sanitary procedures for the import and export of agricultural products, such as: diagnosis and epidemiological surveillance of pests and diseases, quarantine control of imported and exported products, and programme coordination.<sup>44</sup> It acts as the government's contact point with international organizations, and is one of the three enquiry points designated by Honduras in the context of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). The others are: the National Enquiry Point in the Directorate-General of Consumer Protection in PROHONDURAS for technical regulations, and the Directorate for Monitoring the Regulatory Framework in the State Secretariat for Health.<sup>45</sup>

3.61. Honduras is a member of the Codex Alimentarius and the World Organisation for Animal Health (OIE), and is a contracting party to the International Plant Protection Convention (IPPC). According to the authorities, the sanitary and phytosanitary measures applicable in Honduras follow the guidelines and recommendations of the OIE International Health Code, the IPPC and the Codex Alimentarius, in accordance with the SPS Agreement.

3.62. Between 1 January 2010 and 30 June 2015, Honduras notified the WTO of 20 sanitary and phytosanitary measures, all of which were regular notifications.<sup>46</sup> Most of these (14) were measures adopted to protect human health (in areas such as the use of additives in food and the use of pesticides) or measures relating to marking and labelling.

3.63. The basic objectives of Honduras' sanitary and phytosanitary policy include: protecting human health and life, as well as Honduran territory, from the introduction and/or propagation of diseases and pests affecting animals, plants, their products and by-products, thus providing the sanitary, phytosanitary and safety conditions necessary for the production and marketing of Honduras' agricultural products.

3.64. Honduras reserves the right to ban the import or transit through its territory of goods coming from countries deemed to be affected by epidemics that may have an impact on plant or animal health in Honduras. Non-automatic licences are required for the import of plant and animal products and by-products and inputs for agricultural or veterinary use. The aim is to ensure that these products do not constitute a potential risk to plant or animal health. Importers must be registered with the SAG before they can apply for an import licence. In special cases, import licences for plant products may be issued immediately if the goods are at the port and their condition and phytosanitary certification has been verified. Depending on the plant or animal health situation in the country of origin, licences may be modified or cancelled.<sup>47</sup>

3.65. Microbiological pesticides for agricultural use, fertilizers and soil improvers for agricultural use have to be registered with the SENASA before being imported. A certification procedure with the SENASA applies to seeds used to produce staple grains (rice, beans, sorghum and maize) and soya before they can be imported.<sup>48</sup>

3.66. With the aim of facilitating regional trade, Honduras adopted the Central American Sanitary and Phytosanitary Directive, which governs trade in "shipments" and "goods".<sup>49</sup> This determines a series of procedures to streamline the entry and exit of these products, based on a risk analysis concerning both the product and the systems and facilities used to process it. Shipments and

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<sup>44</sup> Online information from the SENASA. Viewed at: <http://www.senasa-sag.gob.hn/que-es-senasa>.

<sup>45</sup> WTO document G/SPS/ENQ/26 of 11 March 2011 and information provided by the authorities.

<sup>46</sup> WTO documents G/SPS/N/HND/33 of 31 May 2010 and G/SPS/N/HND/52 of 6 May 2014.

<sup>47</sup> WTO document G/LIC/N/3/HND/1 of 12 November 2007.

<sup>48</sup> RTCA 65.05.61:11, Annex to Resolution No. 297-2012 (COMIECO-LXIV); RTCA 65.05.54:69, Annex to Resolution No. 314-2013 (COMIECO-EX) and RTCA 65.05.53:10, Annex to Resolution No. 259-2010 (COMIECO-LIX).

<sup>49</sup> Shipments are: plants and plant products and/or other articles transported from one country to another and covered by a single phytosanitary certificate. A shipment may comprise one or more products or batches (Annex to Resolution No. 338-2014 (COMIECO-EX)). Goods are: live animals, products and byproducts of animal origin, genetic material of animals, biological products, animal feed and pathological material (Annex to Resolution No. 338-2014 (COMIECO-EX)).

goods are divided into three categories depending on the risk analysis, which serve as the basis for defining the entry requirements (Table 3.10).

**Table 3.10 Entry requirements based on the sanitary and phytosanitary risk analysis**

Classification	Sanitary and phytosanitary risk	Entry requirements
Category A	High risk	Phytosanitary or animal health permit authorizing import, sanitary or phytosanitary certificate issued by the country of origin, and inspection upon entry into Honduras
Category B	Medium or moderate risk	Sanitary or phytosanitary certificate and random inspection upon reaching the destination
Category C	Insignificant or low risk	Random inspection upon reaching the destination

Source: Central American Sanitary and Phytosanitary Directive on Trade Facilitation in Respect of Shipments and Goods (Annex to Resolution No. 338-2014 (COMIECO-EX)).

3.67. Honduras is in the process of implementing an electronic phytosanitary and animal health certification scheme which will eventually be used in the rest of Central America. According to the authorities, once implemented, this scheme will allow plant and animal health certificates to be processed electronically.

3.68. During the review period, Honduras adopted regulations to prevent the transmission of bovine spongiform encephalopathy (BSE) and other transmissible spongiform encephalopathies (TSEs). Honduran legislation prescribes that any outbreak of BSE or TSE must be notified to the competent authority immediately.<sup>50</sup> The risk analysis to assess the possibility of transmission of such diseases is based on the provisions in the OIE Terrestrial Code.<sup>51</sup> The SENASA keeps a register of authorizations to import ruminants, products and byproducts and feed for bovine production.

3.69. The goal of the National Poultry Farming Programme is to protect the health status of poultry breeding by improving epidemiological surveillance. The Health and Safety Commission for the poultry farming chain ensures that the directives laid down in the Programme are observed. In order to implement the health measures laid down in the Programme, the SAG has, for example, adopted Decision No. 403-13, which determines provisions for the prevention, control and eradication of Newcastle disease (Box 3.1).

### Box 3.1 Sanitary measures relating to Newcastle disease

All owners of poultry must be registered with the competent authorities and comply with the epidemiological surveillance provisions and procedures determined in the National Poultry Farming Programme.

To be able to export poultry products to Honduras, an application must be made to the SENASA in writing. The latter defines the procedure to be followed according to the health status in the country of origin as regards Newcastle disease. Before approving the entry of poultry and poultry products or byproducts into Honduran territory, the SENASA inspects and verifies the operation of veterinary services in the country of origin, and also evaluates their diagnostic and epidemiological surveillance and risk analysis systems for detecting Newcastle disease. The SENASA requires that all imports of poultry and poultry products be accompanied by a veterinary certificate. Moreover, it carries out random controls at the border in order to prevent the entry of any product presenting a risk of introducing Newcastle disease into Honduras. The SENASA also periodically conducts clinical inspections and serological and virological testing of poultry in areas adjacent to a country or zone infected by Newcastle disease. Any outbreak of the disease must be notified immediately.

Honduras also regulates the transport of poultry sector products. Lorries used to transport such products must be cleaned and disinfected prior to loading and after unloading, using the procedures prescribed by the SENASA. In addition, lorries used to carry poultry from farms to processing plants must be used exclusively for this purpose and must be cleaned and disinfected after each journey. The materials used to transport poultry must also be cleaned and disinfected daily.

Any production unit may be placed in quarantine as a precautionary or definitive measure if an outbreak of the disease is suspected or confirmed. Quarantine measures may only be suspended by the SENASA. If there is an outbreak of the disease, the SENASA follows the procedures and guidelines established by international organizations for its control and eradication.

<sup>50</sup> Regulations on epidemiological surveillance, prevention and control of bovine spongiform encephalopathy (BSE) (Decision No. 401-13).

<sup>51</sup> The country-risk categories determined by the OIE are also recognized.

All owners of poultry must be registered with the competent authorities and comply with the epidemiological surveillance provisions and procedures determined in the National Poultry Farming Programme.

The Health and Safety Commission for the poultry farming chain is responsible for drawing up vaccination programmes against Newcastle disease. Only vaccines approved by the SENASA (lentogenic live-virus or inactivated vaccines) may be used. The owner or the person in charge of the poultry farm must keep a detailed logbook of the vaccines used, specifying: the make, the batch, the date of manufacture and the expiry date, the type of vaccine, the administration method and the company from which it was purchased; and the phial's label must be stuck in the logbook.

Source: Decision No. 403-13 establishing provisions for the prevention, control and eradication of Newcastle disease.

3.70. The Central American Technical Regulations on veterinary and related products specify the provisions for the sanitary registration and control of medicines for veterinary use and related products, as well as the facilities manufacturing and marketing them.<sup>52</sup> Such products and facilities must be registered with the competent national authority (in Honduras' case, the SENASA). In addition to registration, veterinary medicines and related products based on GMOs or biotechnology products, as well as biological products from countries where exotic diseases exist, have to undergo a risk analysis. According to the authorities, when conducting such analyses and controlling quality, Honduras uses as a reference: (a) the provisions of the Codex Alimentarius, the OIE and the Association of Official Analytical Chemists (AOAC); and (b) analyses validated by the manufacturer. Honduras also follows the guidelines established by international organizations when determining the maximum residue limits for veterinary medicines.

3.71. The registration and sanitary control of products used as animal feed, and of the facilities producing, marketing, repackaging or storing it, are also regulated by Central American legislation.<sup>53</sup> The analytical methods, the methodologies and benchmark quality specifications used are those laid down by the AOAC, by other recognized institutions, or by the SENASA if validated by the producer. It is also specified that facilities must keep a logbook to facilitate the identification and traceability of raw materials and animal feed so that if there is any risk to animal or human health, the product may be withdrawn from the market.

3.72. Furthermore, the Central American Regulations also establish good manufacturing and hygiene practices (BMP) for products used as animal feed.<sup>54</sup> They prescribe, in particular, that the goods must be inspected before being unloaded in order to determine the transport conditions and discount any deterioration or contamination caused by poor handling during transport. The goods may be kept in quarantine while the necessary analyses are being carried out. The SENASA may also conduct inspections, visits or assessments in any facility for the purpose of ascertaining to what extent the BMP are being implemented.

3.73. In 2014, Honduras approved the National Food Safety Policy, whose main objectives are: to improve scientific capacity, transfer and exchange of information, at both national and international levels; and to update the food control and monitoring systems.

3.74. The Food Safety Division (DIA) in the SAG has responsibility for inspecting the import of fruit and fresh and processed garden produce, as well as the facilities where they are packaged or processed. It is also in charge of certifying compliance with good agricultural practices in primary production and best manufacturing practices (BPM) in facilities importing animal and plant products, and of implementing the Hazard Analysis and Critical Control Point (HACCP) system when processing operations so require.

<sup>52</sup> Central American Technical Regulations on veterinary and related products: sanitary registration and control requirements (RTCA 65.05.51:08).

<sup>53</sup> Central American Technical Regulations on products used in animal feed and facilities: sanitary registration and control requirements (RTCA 65.05.52:11), Annex to Resolution No. 282-2012 (COMIECO LXII).

<sup>54</sup> Central American Technical Regulations on products used in animal feed: best manufacturing practices (RTCA 65.05.63:11).

## 3.2 Measures directly affecting exports

### 3.2.1 Procedures, documents and registration

3.75. There have been no major changes to export procedures and requirements since the previous review in 2010. Export formalities are still carried out at the Export Processing Centre (CENTREX), in which all institutions involved in the export process are represented: the SENASA, the Regional International Organization for Plant and Animal Health (OIRSA), the Central Bank of Honduras (BCH), the DEI, the State Secretariat for Health, PROHONDURAS and the Honduran Geology and Mining Institute (INHGEOMIN).<sup>55</sup>

3.76. Exporters of certain goods have to be registered with the competent authority. Exporters of seeds and methyl bromide must be registered with the State Secretariat for Agriculture and Livestock (SAG) and those exporting ozone-depleting chemicals with the State Secretariat for Energy, Natural Resources, the Environment and Mining.<sup>56</sup>

3.77. Exports to the CACM are processed using the FAUCA, while the DUA is used for other exports. The following documents have to be attached to the DUA: the bill of lading (or equivalent document); the commercial invoice; the certificate of origin; the animal or plant health certificate; the "eligibility" certificate for sugar exports to the United States; the free sale and use certificate<sup>57</sup>; the documents required by the BCH; the documents attesting to the exemption regime; and other documents required by law according to the nature of the goods or the customs procedure.

3.78. A number of electronic systems started to be used during the review period in order to speed up export procedures: in 2012, the Honduran Electronic Foreign Trade System (SECEH) was introduced and in 2015 the Honduran Electronic Payment Management System (SAPEH) came into operation. The SECEH is administered by PROHONDURAS and allows export declarations and certificates of origin to be submitted electronically, while the SAPEH allows online payment for administrative procedures or services.<sup>58</sup>

3.79. Before shipping the goods, exporters must declare to the BCH the quantity, value, destination and date of export, together with the currency of payment. Such a declaration is not necessary if the exports are going from free zones or to the CACM.<sup>59</sup>

3.80. According to the authorities, the export procedures have not changed since 2010. They consist of: (a) definitive exportation; (b) temporary exportation for re-importation in the same state; (c) temporary exportation for outward processing; (d) re-exportation; and (e) free zones.<sup>60</sup>

### 3.2.2 Export taxes and charges

3.81. In Honduras, export tax has to be paid on coffee and some minerals (Table 3.11). When registering a purchase with the Honduran Coffee Institute (IHCAFE), either for export or for sale on the domestic market, producers, coffee roasters and/or exporters have to pay US\$9 per quintal of green coffee to the IHCAFE. This sum is earmarked for paying the coffee growers' debt and funding a trust to revitalize the sector.<sup>61</sup> Coffee exports must also have an export certificate issued by the IHCAFE, which costs US\$2.75 per bag (46 kg) of green coffee exported or US\$3.25 per bag (46 kg) if the exporter has a debt with the IHCAFE.<sup>62</sup> Exports, as well as sales of some minerals on

<sup>55</sup> PowerPoint presentation by PROHONDURAS. Viewed at: <http://www.ccichonduras.org/website/descargas/presentaciones/2014/Importaciones-Exportaciones/Presentaciones%20Desarrollo%20Economico/Presentaci%C3%B3n%20Direcci%C3%B3n%20General%20de%20Tr%C3%A1mites%20Empresariales%20Shiara%20Duran.pdf>.

<sup>56</sup> Article 5 of the Law on Seeds (Decree No. 1046) of 15 July 1980 and Article 2 of the General Regulations on the Use of Ozone-Depleting Substances (Decision No. 907-2002) of 15 October 2002.

<sup>57</sup> Certificate issued by the State Secretariat for Health for the export of certain food products.

<sup>58</sup> Information provided by the authorities.

<sup>59</sup> Information provided by the authorities and Law on the Entry of Foreign Currency Earned from Exports (Decree No. 108-90) of 20 November 1990.

<sup>60</sup> For further details, see Title VI, Chapter II, of the CAUCA and Title VI of the RECAUCA.

<sup>61</sup> Law on Financial Revitalization of the Coffee Production Sector (Decree No. 152-2003), as amended by Decree No. 56-2007.

<sup>62</sup> Decree No. 297-2002 of 4 September 2002.

the domestic market, pay a tax which varies depending on the product (Table 3.11). The sums collected as a result of levying this tax are shared out among several government institutions, among which are the Mining Authority and municipalities.

**Table 3.11 Export taxes in 2015**

HS code	Description	Rate in 2015
0901.11.30	Green coffee	US\$9/quintal
7102.10.00; 7102.21.00; 7102.29.00; 7102.31.00; 7102.39.00; 7103.10.00; 7103.91.00; 7103.99.00	Gems or precious stones	2.5% of the f.o.b. value <sup>a</sup>
2821.10.00; 2825.80.00; 7106.10.00; 7106.92.10; 7106.92.90; 7108.11.00; 7108.12.00; 7108.13.00; 7112.91.00	Mining of metal ores, oxides and sulphides (non-metal)	6% of the f.o.b. value <sup>b</sup>
2505.10.00; 2505.90.00; 2517.10.00	Industrial mining of non-metal ores	2.5% of the f.o.b. value <sup>a</sup>

a 1% of the f.o.b. value collected by the DEI.

b 2% of the f.o.b. value collected by the DEI.

Source: Information provided by the authorities, Law on Financial Revitalization of the Coffee Production Sector (Decree No. 152-2003), as amended by Decree No. 56-2007, and General Law on Mining (Decree No. 238-2012) of 23 January 2013 repealing the General Law on Mining (Decree No. 292-98).

3.82. Pursuant to the Sales Tax Law, a sales tax of 0% applies to exports.

### 3.2.3 Prohibitions, licensing and other restrictions

3.83. Honduras bans the export of some products for the following reasons: (i) to protect public, animal or plant health and the environment; (ii) to ensure supplies of basic products for the domestic market; and (iii) to comply with international commitments. For example, since 2010, owing to shortages on the domestic market, the export of red beans has been prohibited. The export of harmful foodstuffs is not allowed for reasons of public health<sup>63</sup>, and endangered plants or animals may not be exported in order to comply with the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Honduras does not allow the export of wood of latifoliate species from natural forests if it has not been worked or processed.<sup>64</sup>

3.84. Previously, cement could be exported or re-exported to Central America provided that the Honduran market had sufficient supplies. Cement exports also required a special permit from PROHONDURAS valid for one year. According to the authorities, from 2012 onwards this special permit has no longer been required for exports of cement and it would appear that they are not subject to any restrictions.

### 3.2.4 Export support

3.85. Honduras has notified the WTO that in 2009 and 2014 it did not subsidize agricultural exports.<sup>65</sup>

3.86. Honduras has the right to maintain certain export promotion schemes until its per capita gross national product (GNP) reaches US\$1,000 in constant 1990 dollars for three consecutive years. This limit was not exceeded between 2011 and 2013 (the most recent three consecutive years for which information is available).<sup>66</sup> In 2001, faced with the possibility of exceeding this limit, Honduras requested an extension of the transition period for dismantling these schemes.<sup>67</sup>

3.87. In 2013, Honduras notified the WTO of two export subsidy schemes, i.e. the Temporary Importation Procedure (RIT) and Free Zones (ZOLI).<sup>68</sup> In 2011, Honduras notified a third scheme

<sup>63</sup> Article 76 of the Health Code.

<sup>64</sup> Article 102 of the Law on Forestry, Protected Areas and Wildlife (Decree No. 98-2007) of 19 September 2007.

<sup>65</sup> WTO documents G/AG/N/HND/36 of 15 May 2014, G/AG/N/HND/39 of 22 July 2014 and G/AG/N/HND/443 of 12 October 2015.

<sup>66</sup> WTO document G/SCM/110/Add.12 of 6 July 2015.

<sup>67</sup> WTO documents G/SCM/N/74/HND of 4 December 2001 and G/SCM/39 of 20 November 2001.

<sup>68</sup> WTO document G/SCM/N/253/HND of 17 October 2013.

(Industrial Export Processing Zones (ZIP)), which had already been in existence in 2010 and still exists, but is no longer operating (see below).<sup>69</sup> These schemes were already operating in 2010 with the aim of boosting exports, investment, production, competitiveness and job creation. PROHONDURAS and the DEI are responsible for their administration.

3.88. Benefits under the RIT and the ZOLI have not changed to any great extent since 2010.<sup>70</sup> Nevertheless, in 2013 it was decided that the fiscal incentives granted under the ZOLI would be for a maximum period of 12 years, whereas previously they had been for an indefinite period (Table 3.12).

**Table 3.12 Export subsidy schemes in 2015**

	RIT	ZOLI
<b>Beneficiaries</b>	Natural or legal persons (Honduran or foreigners resident in Honduras)	
<b>Customs duties</b>	Suspension of tariffs and import duties	Exemption from tariffs and import duties
<b>Other taxes</b>	No fiscal incentives	Exemption from income tax and municipal taxes for a period of 12 years

Source: WTO document G/SCM/N/253/HND of 17 October 2013 and Article 23 of the Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures (Decree No. 278-2013) of 30 December 2013.

3.89. The RIT allows certain goods to be imported with suspension of tariffs and other import charges so that the goods can be processed in Honduras and then exported or, in the case of machinery, can be used for a project in Honduras and then exported in the same state. The list of goods eligible for this incentive was modified in 2011. In 2015, it included: (a) raw materials, semi-finished goods, containers and packaging, as well as other inputs used in production; (b) machinery, equipment, moulds, tools, spare parts and other parts needed for production; and (c) samples and instructions, patterns and models.<sup>71</sup> The authorities have indicated that the time-limit for using and exporting or re-exporting raw materials and other inputs is 12 months. Machinery and other equipment imported under the RIT may enter the domestic market in the same State after five years, if so authorized by the DEI. Companies eligible for the RIT may sell their output on the Honduran market provided that they have received authorization from the DEI and that they pay the tariffs and other charges applicable.<sup>72</sup>

3.90. There have been no significant changes to the ZOLI provisions since 2010. Making up textile articles remains the main activity in the ZOLI (Section 1). A percentage of the goods and services produced in the ZOLI may be sold on the domestic market, provided that the applicable tariffs and other charges are paid. The authorities have indicated, however, that a company under the ZOLI regime may sell all its output on the domestic market if the goods are not produced in Honduran customs territory, provided that it has been given an authorization by the DEI and that it pays the corresponding tariffs and other charges.

3.91. The ZIP regime has not been used since the late 1990s because the incentives under the ZOLI regime are broader, inciting companies benefiting from the ZIP regime to transfer to the ZOLI. The main difference between these two regimes is that, under the ZOLI regime, companies may set up in any part of Honduras. The ZIP regime did not operate during the review period but nevertheless remains in force.<sup>73</sup>

3.92. According to information provided by the authorities, the total amount of fiscal exemptions granted to companies under the RIT and the ZOLI regime rose by 65% between 2010 and 2014.

<sup>69</sup> WTO documents G/SCM/N/220/HND of 1 September 2011 and G/SCM/N/220/HND/Rev.1 of 4 October 2012.

<sup>70</sup> Decree No. 37-84 of 20 December 1984, as amended by Decrees No. 113-2011 and No. 261-2011, and Law on Free Zones (Decree No. 131-98) of 20 May 1998 and its implementing Regulations (Decision No. 43-2009) of 21 December 2009, and amendments thereto.

<sup>71</sup> Article 1 of Decree No. 37-84, as amended by Article 30 of Decree No. 113-2011 and Article 1 of Decree No. 261-2011.

<sup>72</sup> PowerPoint presentation by the Special Commission for the Examination and Control of Waivers, Exemptions and Duty-Free Entry, "Special Regimes", March 2013. Viewed at: [http://www.fosdeh.com/exoneraciones/archivo/analisis\\_final\\_subcomision\\_tecnica\\_01\\_marz\\_2013.pdf](http://www.fosdeh.com/exoneraciones/archivo/analisis_final_subcomision_tecnica_01_marz_2013.pdf).

<sup>73</sup> PowerPoint presentation by the Central Bank of Honduras in 2014, "Special Foreign Trade Regimes". Viewed at: <http://www10.iadb.org/intal/intalcdi/PE/2014/13539a23.pdf>.

In 2014, fiscal exemptions amounted to L 3,600 million, 87% of which corresponded to concessions given to companies in the ZOLI.

3.93. In 2015, a single enterprise was still benefiting from the Agricultural Export Zones regime (ZADE), which was abolished in 2003. This enterprise is exempt from tariffs and other import charges, as well as from income tax. Under the ZADE regime, products could be sold on the domestic market provided that PROHONDURAS gave an authorization, that the applicable tariffs and other import charges were paid and that the goods were not produced in Honduran customs territory.<sup>74</sup> The authorities have indicated that in 2015, as was the case in 2010, the company benefiting from the ZADE exported all its output.

3.94. The drawback procedure consists of total or partial reimbursement of tariffs paid or deposited when certain goods are imported. Reimbursement is granted provided that the product has been re-exported after processing, alteration or incorporation into products for export.<sup>75</sup> According to the authorities, even though the drawback procedure has not been abolished, it has fallen into disuse as exporters prefer to use the RIT, which offers greater benefits.

### 3.2.5 Export promotion

3.95. Honduras' export policy is defined in various documents, namely: the National Export Promotion Policy, the National Export Promotion Plan, and the National Export Promotion Strategy (Table 3.13).<sup>76</sup>

**Table 3.13 Export promotion programmes**

	Principal aims
National Export Promotion Policy	<ul style="list-style-type: none"> <li>To increase the volume of exports by 25% by 2018</li> <li>To make Honduras the largest exporter in the region</li> </ul>
National Export Promotion Plan	<ul style="list-style-type: none"> <li>To build export capacity for the ten leading export products</li> <li>To diversify export supply by incorporating five new high-value products in high international demand</li> <li>To increase exports of processed textile goods</li> </ul>
National Export Promotion Strategy	<ul style="list-style-type: none"> <li>To broaden, consolidate and diversify products and markets</li> <li>To improve the competitiveness of exporting firms</li> <li>To provide exporters with services and strategic information</li> </ul>

Source: Information provided by the authorities.

3.96. The Under-Secretariat for Economic Integration and Foreign Trade in PROHONDURAS has responsibility for promoting exports through business and trade events. At the sectoral level, the State promotes agricultural exports through the Agribusiness Unit (formerly the Agricultural Business Promotion Centre (CPNA)) in the SAG and through the Interinstitutional Agribusiness Commission, which brings together public and private entities.<sup>77</sup> The Unit and the Commission provide information on the various markets and give exporters advice to facilitate market access.

3.97. In addition to government institutions, other institutions also provide support for exporters. For example, the Foundation for Investment and Development of Exports (FIDE), a non-profit entity, gives exporters technical advice through the "Honduras Sí Exporta" programme. Honduras also has several other private entities which help companies to market their goods and services on international markets, for example: the National Association of Industrialists (ANDI); the Honduran Private Enterprise Council (COHEP); the Federation of Honduran Agroexporters (FPX); the Honduran Foundation for Agricultural Investment (FIA); and the National Association of Exporters of Honduras (ANEXHON).

<sup>74</sup> Law establishing Agricultural Export Zones (Decree No. 233-2001) of 29 December 2001, repealed by the Tax Equity Law (Decree No. 51-2003) of 3 April 2003, and PowerPoint presentation by the Central Bank of Honduras in 2014, "Special Foreign Trade Regimes". Viewed at: <http://www10.iadb.org/intal/intalcdi/PE/2014/13539a23.pdf>.

<sup>75</sup> WTO document WT/TPR/S/234/Rev.1 of 15 October 2014.

<sup>76</sup> Article 12 of Executive Decree PCM-018-2014 of 22 April 2014.

<sup>77</sup> Online information from the Interinstitutional Agribusiness Commission. Viewed at: <http://www.agronegocioshonduras.org>; FAO/IICA (2013), *Apoyo del Sector Público para el Desarrollo de los Agronegocios Incluyentes: Análisis del modelo institucional de Honduras*. Viewed at: <http://www.fao.org/3/a-i4078s.pdf>, and online information from the SAG. Viewed at: <http://agronegocios.sag.gob.hn>.

3.98. There are also programmes to promote the export of goods produced by MSMEs. FIDE has training programmes for exporting SMEs or SMEs with export potential, coordinating with foreign trade facilitation offices and with national and regional public bodies (PROHONDURAS, SAG and the Inter-American Institute for Cooperation on Agriculture (IICA)). The National Programme for the Development of Production and Competition in MSMEs has subprogrammes to build export capacity. The objective is to create industrial parks where MSMEs, when setting up, can take advantage of economies of scale for the production, packaging, labelling and export of goods to markets offering preferential access.

### 3.2.6 Financing, insurance and guarantees

3.99. Honduras does not have any official programmes on financing, insuring or guaranteeing exports.<sup>78</sup>

## 3.3 Measures affecting production and trade

### 3.3.1 Incentives

3.100. Honduras offers a series of exemptions or duty-free arrangements to non-profit development associations, travellers, Hondurans resident abroad returning to the country and naturalized foreigners. It also gives various sectors of the economy a number of incentives (Table 3.14).

**Table 3.14 Incentives**

Legislation	Exemption or duty-free arrangement
Article 8 of Decree No. 70-2001 of 30 May 2001 (National Coffee Fund)	Exemption from payment of tariffs and sales taxes, as well as other levies on equipment and parts used for the Programme for Construction and Maintenance of Roads and Works for Social Development in Coffee-Growing Zones, administered by the National Coffee Fund
Article 47, as amended, of Decree No. 213-2000 of 1 November 2000 (Honduran Coffee Institute (IHCAFE))	Exemption from payment of tariffs on fertilizer
Article 37 of the Investment Promotion and Protection Law (Decree No. 51-2011) of 3 May 2011	Tax exemptions
Article 4 of the Law on the Promotion of Sustainable Rural Tourism (Decree No 126-2011) of 9 August 2011	Five-year exemption from payment of tariffs on the import of goods and inputs needed for the creation or improvement of tourism-related companies; and three-year exemption from payment of sales tax on the purchase of goods and inputs needed for the creation or improvement of tourism-related companies
Law on Tourism Incentives (Decree No. 314-98) of 18 December 1998, and amendments thereto	Exemption from payment of income tax for seven or ten years, depending on the project, and exemption from payment of import taxes on imported equipment
Temporary Importation Procedure (RIT), contained in Decree No. 37-84 of 20 December 1984, and amendments thereto	Suspensive tax regime for the processing of goods
Law on Free Zones (ZOLI) (Decree No. 35) of 19 July 1976, and amendments thereto	Exemption from payment of fiscal and municipal taxes
Law on the Promotion of Electricity Generation from Renewable Resources (Decree No. 70-2007) of 31 May 2007, and amendments thereto	Exemption from taxes and other levies on both imports and local purchase of equipment, spare parts and other materials needed and directly related to the generation of electricity. Exemption from income tax for a period of ten years
Customs Law (Decree No. 212-87) of 29 November 1987, and amendments thereto	Temporary total or partial suspension of customs duty on specific goods to be re-exported within a period of six months

<sup>78</sup> Information provided by the authorities.

Legislation	Exemption or duty-free arrangement
Law on the Expression of Thought (Decree No. 6) of 26 July 1958	Exemption from taxes on the import of machinery, spare parts, accessories, including ink and paper, for newspapers, in sheets or in reels, and other materials used as a means of expressing and disseminating thought, including materials needed to produce films, books, periodicals and booklets, reams of A4, legal-size or any size paper; as well as tapes, diskettes, compact disks and films, provided that they are not intended for commercial distribution
Law on the National Fund for Agricultural Competitiveness (Decree No. 143-2013) of 23 July 2013 and its implementing Regulations	Exemption from sales tax

Source: Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures (Decree No. 278-2013), its implementing Regulations (Executive Decision No. 462-2014) and information provided by the authorities.

3.101. In 2012, Honduras introduced fiscal and tariff incentives to promote call centres and centres for outsourcing business services. These are intended for companies with fixed capital exceeding L 1 million.<sup>79</sup> The fiscal incentive consists of total exemption from income tax. Originally, this incentive was given for an indefinite period, but since 2014 it has only been available for 12 years (with no extension).<sup>80</sup> Currently, only one company is taking advantage of this exemption, although other customer service centres and business service outsourcing centres could benefit from exemptions under the ZOLI regime (Section 3.2.4).

### 3.3.1.1 Employment and Economic Development Zones

3.102. In 2013, Honduras introduced the Employment and Economic Development Zones (ZEDE) regime. The Organic Law on Employment and Economic Development Zones provides that the ZEDE may establish a fiscal regime independent of that prevailing in the rest of Honduras, with the emphasis on a "low tax policy". The ZEDE administration will determine rates for the various taxes, including: tariffs, income tax, sales tax, property tax on unused land and real estate tax. The Law, however, sets ceilings on the taxes to be paid in the ZEDE: income tax may not exceed 16% for companies (and 12% for natural persons) and sales tax may not be more than 5%.<sup>81</sup>

3.103. The purpose of the ZEDE is to develop international logistics centres, international commercial courts, special investment areas, renewable energy areas, special economic zones, zones under a special legal system, special agro-industrial zones and special tourism zones. Although no ZEDE has yet been established, a number of sites where they could be installed have been identified.<sup>82</sup>

### 3.3.1.2 Financing of production sectors and MSMEs

3.104. The Honduran Production and Housing Bank (BANHPROVI) is a State-owned body attached to the BCH and provides financing for production sectors<sup>83</sup>, social housing and MSMEs.<sup>84</sup> It was set up in 2005 as a second-tier bank, although since 2014 it has been able to grant loans directly.<sup>85</sup> According to the authorities, at the end of 2015, however, the BANHPROVI was still acting as a second-tier bank and had not yet granted any loans directly.

<sup>79</sup> Law on the Promotion of Call Centres and Outsourcing of Business Services (Decree No. 90-2012) of 14 June 2012. There are still no implementing regulations for this Law.

<sup>80</sup> Article 23 of the Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures (Decree No. 278-2013) of 30 December 2013 and information provided by the authorities.

<sup>81</sup> Article 29 of the Organic Law on Employment and Economic Development Zones (Decree No. 120-2013) of 12 June 2013.

<sup>82</sup> Article 2 of Decree No. 120-2013 and online information on the ZEDE. Viewed at: [http://zede.gob.hn/?page\\_id=2](http://zede.gob.hn/?page_id=2).

<sup>83</sup> According to the authorities, production sectors are those which process raw materials, natural resources or other inputs in order to produce goods and services, but do not include micro, small or medium-sized enterprises. The "production sectors" only comprise large enterprises.

<sup>84</sup> In Honduras, enterprises are classified as micro, small or medium-sized depending on their number of employees. Law on the Promotion and Development of the Competitiveness of Micro, Small and Medium-Sized Enterprises, Decree No. 135-2008 of 1 October 2008.

<sup>85</sup> Law on the Honduran Production and Housing Bank (Decree No. 6-2005) of 26 January 2005, as amended by Decree No. 358-2014 and its implementing Regulations (Executive Decision No. 23-2014).

3.105. The BCH finances the BANHPROVI in accordance with the provisions in the Law.<sup>86</sup> The BANHPROVI grants long- and short-term loans. The ceiling on loans to "production sectors" is L 50 million, with a maximum term of 12 years, and for MSMEs it is L 2 million with a maximum term of 10 years.<sup>87</sup> Market interest rates or those determined by the BANHPROVI are payable on the loans. According to the authorities, the factors taken into account in determining and/or revising the interest rates are the market conditions, terms and production levels. In 2014, the BANHPROVI set annual interest rates of 10% to 12% for production sectors and 6% to 10.5% for MSMEs, whereas the commercial banks' average lending rate was 14.4%.<sup>88</sup>

3.106. The BANHPROVI also administers the Rural Financing in Support of Food Safety Programme (FINSA), intended to finance agricultural MSMEs. The maximum amount of each loan granted under the FINSA is L 250,000 at market interest rates.<sup>89</sup>

3.107. Between 2010 and 2014, loans granted to production sectors and MSMEs rose from L 1.4 to L 1.9 million. In 2014, 53% of the loans went to MSMEs (Table A3.2). There is no breakdown of loans granted by production sector or by type of enterprise.

3.108. In 2011, the Small and Medium-Sized Enterprises Guarantee Fund (FOGMIPYME) and the Agricultural Mutual Guarantee Fund (FAGRE) were created in support of MSMEs.<sup>90</sup> The guarantees available under the FOGMIPYME and the FAGRE are up to 50% of the amount of the loan, but not more than US\$25,000 (or its equivalent in lempiras). By 30 August 2015, 90 guarantee certificates had been issued for the amount of L 2.5 million; 90% of these were issued through the FOGMIPYME and 0.8% through the FAGRE.<sup>91</sup> There is also the Fund for the Promotion of Micro, Small and Medium-Sized Enterprises (FOMIPYME), set up in 2008.<sup>92</sup> The authorities have indicated that this Fund is used to finance projects and programmes to promote the competitiveness and productivity of MSMEs.

### 3.3.2 Competition policy and price controls

#### 3.3.2.1 Competition policy and consumer protection

##### 3.3.2.1.1 Competition policy

3.109. Competition in Honduras is chiefly governed by the Law on the Defence and Promotion of Competition (LDPC) of 2005, but also by the Constitution and the Commercial Code.<sup>93</sup> The Constitution prohibits monopolies, monopsonies, oligopolies, cornering and similar practices in industrial and commercial activities, but it allows the State to reserve the right to engage in certain basic industries, undertakings and services of public interest for reasons of public or social order.<sup>94</sup> The Commercial Code defines what is meant by unfair competition in Honduras.

3.110. The LDPC prohibits anti-competitive trade practices, but it may allow exceptions for reasons of economic efficiency and consumer welfare, except in the case of horizontal agreements. The Law is generally applicable and covers all activities (even when these are regulated by special laws), as well as all economic operators, whether public or private, whether or not domiciled in Honduras.<sup>95</sup> In 2015, the LDPC was amended as regards the imposition of fines and the income of

<sup>86</sup> Law on Financial Support for Production Sectors in Honduras of 2008, and online information from the BANHPROVI. Viewed at: <http://banhprovi.org/productos-servicios.html>.

<sup>87</sup> For further details, see <http://banhprovi.org/productos-servicios.html>.

<sup>88</sup> Online information from the BANHPROVI. Viewed at: <http://banhprovi.org/productos-servicios.html>. National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf).

<sup>89</sup> Online information from the BANHPROVI. Viewed at: <http://banhprovi.org/mipymes.html>.

<sup>90</sup> The Social Housing Guarantee Fund (FOGAVIS) was also set up. Law on the System of Mutual Guarantee Funds for the Promotion of MSMEs, Social Housing and Technical/Vocational Education (Decree No. 205-2011) of 15 November 2011.

<sup>91</sup> The remainder were guarantees issued through the FOGAVIS.

<sup>92</sup> Law on the Promotion and Development of the Competitiveness of Micro, Small and Medium-Sized Enterprises (Decree No. 135-2008) of 1 October 2008.

<sup>93</sup> Law on the Defence and Promotion of Competition (Decree No. 357-2005) of 16 December 2005, as amended by Decree No. 4-2015, and its implementing Regulations (Decision No. 001-2007) of 6 July 2007.

<sup>94</sup> Articles 332 and 339 of the Constitution.

<sup>95</sup> Articles 3 and 4 of Decree No. 357-2005.

the Commission for the Defence and Promotion of Competition (CDPC).<sup>96</sup> The reform introduced an administrative clemency procedure and payment of a tax for verifying business mergers.

3.111. The CPDC is the body responsible for monitoring compliance with the LDPC. It investigates whether or not there is anti-competitive behaviour and determines the appropriate measures to be taken, as well as controlling and approving business mergers.<sup>97</sup> In order to control the latter, the Commission cooperates with sectoral regulatory entities such as the National Telecommunications Commission (CONATEL) (Section 4.3.2) and the National Banking and Insurance Commission (CNBS) (Section 4.3.1.1).<sup>98</sup> The CDPC carries out sectoral studies in order to make recommendations on competition policy.

3.112. The LDPC prohibits practices which distort competition by reason of their nature or their effect. The former mean agreements between competing economic operators (horizontal agreements), whose effect is to fix prices, restrict supply, divide up the market and coordinate bidding positions. Such agreements are prohibited *per se* and are considered non-existent. The latter mean agreements between economic operators not competing amongst themselves (vertical agreements), whose effect is unjustifiably to exclude other market operators, prevent access to the market or give exclusive advantages to third parties.

3.113. Vertical practices are illegal if the operator involved has a "notable" share of the market (or a dominant position), but may be considered non-restrictive if they can be proved to lead to significant improvements in economic efficiency and consumer welfare. A company's share of the relevant market is "notable" when it exceeds the percentage threshold determined by the CDPC.<sup>99</sup> Although the Law does not specify the threshold, allowing it to be determined according to the relevant market in question, the market share established for the control of business mergers is used as the benchmark, namely 25%.<sup>100</sup> Market share does not, however, in itself determine the dominant position of an economic operator and other criteria also have to be taken into account, for example, its ability to act unilaterally to prevent competition or the existence of barriers to entry.<sup>101</sup>

3.114. The CDPC initiates investigations into possible restrictive practices either *ex officio* or following a complaint. If there are sufficient indications of a prohibited practice, the Commission orders remedial measures and imposes a fine of up to a maximum of three times the amount of the profit gained or, if this is not known, 10% of the gross sales profit for the previous fiscal year.<sup>102</sup> When deciding on the amount of the fine, the characteristics of the conduct, for example, its gravity, repeated occurrence, scope or duration, are taken into account. The amount of the fine may be reduced if the charges are accepted or as a result of administrative clemency. The administrative clemency procedure was introduced in 2015 and consists of total or partial reduction of the fine for companies taking part in horizontal agreements. Total exemption depends on whether or not the company cooperates with the CDPC, providing proof of the existence of the agreement in which it is participating, as long as it was not the instigator and that it terminates its participation in the agreement. An appeal may be made against decisions by the CDPC, firstly, through administrative channels and, if the appeal is rejected by the Commission, before the administrative litigation courts. An appeal to the court does not dispense the company from paying the fine.<sup>103</sup> According to information provided by the authorities, appeals were lodged against five decisions by the CDPC during the review period.

3.115. With regard to the examination of business mergers, those which exceed one of the three thresholds determined by the Commission must be notified in advance to the CDPC (Table 3.15).<sup>104</sup> During the review period, the CDPC lowered the thresholds in order to examine

<sup>96</sup> Articles 51-A, -B, -C, -D and -E and 63-A, -B and -C added by Decree No. 4-2015.

<sup>97</sup> Article 34 of Decree No. 357-2005.

<sup>98</sup> Online information from the CDPC. Viewed at: [https://www.cdpc.hn/?q=www.coperacion\\_inter](https://www.cdpc.hn/?q=www.coperacion_inter).

<sup>99</sup> Articles 5-9 of Decree No. 357-2005.

<sup>100</sup> OECD/IDB (2011), *Competition Law and Policy in Honduras: A Peer Review*. Viewed at: <http://www.oecd.org/daf/competition/49733270.pdf>.

<sup>101</sup> Article 8 of Decision No. 001-2007.

<sup>102</sup> The Commission may adopt provisional measures to terminate the practice during the investigation (Article 40 of Decree No. 357-2005).

<sup>103</sup> Articles 37, 39, 44 and 45 of Decree No. 357-2005.

<sup>104</sup> Articles 13, 37 and 41 of Decree No. 357-2005.

a larger number of business mergers after finding that some of these, in sensitive sectors<sup>105</sup>, had remained outside the examination process.<sup>106</sup> This process includes an economic, technical and legal evaluation. Mergers may be refused or authorized or conditions may be imposed in order to prevent any action that distorts competition.<sup>107</sup> Honduran legislation provides that the Commission must approve some merger operations, for example, in the case of strategic alliances or corporate reorganization.<sup>108</sup> It also has to approve business mergers that yield benefits in terms of economic efficiency and consumer welfare.<sup>109</sup> Since 2015, the Commission has been levying a tax for conducting the examinations.<sup>110</sup>

**Table 3.15 Thresholds for business mergers, 2010 and 2015**

	2010	2015
Total assets	> 10,000 minimum wage units	> 4,000 minimum wage units
Sales volume	> 15,000 minimum wage units	> 5,000 minimum wage units
Share of the relevant market	> 20%	> 25%

Source: Resolution No. 04-CDPC-2014-AÑO-IX of 16 June 2014 and WTO document WT/TPR/S/234/Rev.1 of 15 October 2010.

3.116. The CDPC does not penalize business mergers and horizontal agreements which promote economic efficiency and consumer welfare. According to the authorities, it is the CDPC's responsibility to evaluate these benefits, which must be credible and quantifiable. Its evaluation must take into account improvements in the production, distribution, supply, marketing or consumption situation for the goods and services.

3.117. Between 2010 and 2014, most of the investigations initiated by the CDPC stemmed from a complaint (Table 3.16). The markets investigated concerned agro-industry (sugar, coffee and beer), cement, electric power and telecommunications and transport services. The practices penalized were collusion in order to fix prices and divide up the market, and abuse of a dominant position. The Commission did not prohibit any business merger, but imposed conditions on the terms under which some of them had to operate and penalized six companies for late notification of the merger (Table 3.16). The Commission also determined the existence of business mergers in the agro-industrial and energy sectors, and in distribution, financial and telecommunications services.

**Table 3.16 Activities of the Commission for the Defence and Promotion of Competition, 2010-2014**

	2010	2011	2012	2013	2014
<b>Investigations</b>					
Initiated ex officio	1	2	1	0	1
Initiated following a complaint	5	1	1	1	3
Penalties imposed	2	1	0	0	0
<b>Business mergers</b>					
Examined and approved	7	7	3	4	2
Examined and conditions imposed	5	4	0	0	1
Refused	0	0	0	0	0
Penalty for late notification	3	2	1	0	0

Source: CDPC (various years), *Memoria Institucional*. Viewed at: [https://www.cdpc.hn/?q=www.memoria\\_int](https://www.cdpc.hn/?q=www.memoria_int); and information provided by the authorities.

<sup>105</sup> The sensitive sectors include: private education, health or broadcasting services (information provided by the authorities).

<sup>106</sup> Resolution No. 04-CDPC-2014-AÑO-IX of 16 June 2014.

<sup>107</sup> Article 18 of Decree No. 357-2005 and online information from the CDPC. Viewed at: [https://www.cdpc.hn/?q=www.concentraciones\\_eco](https://www.cdpc.hn/?q=www.concentraciones_eco).

<sup>108</sup> Article 13 of Decision No. 001-2007.

<sup>109</sup> Article 12 of Decree No. 357-2005.

<sup>110</sup> Article 63-B added by Decree No. 4-2015.

### 3.3.2.1.2 Protection of consumers

3.118. Consumers' rights are protected by the Constitution and by the Consumer Protection Law of 2008.<sup>111</sup> PROHONDURAS, through the Directorate-General of Consumer Protection (DGPC), is responsible for implementing the Law,<sup>112</sup> which determines what abusive practices are prohibited and the contractual clauses that are deemed to be abusive.<sup>113</sup> The DGPC may initiate proceedings against suppliers which engage in such practices, either *ex officio* or following a complaint. In the case of a complaint, the DGPC tries to reconcile the parties. If there are indications of a violation, the DGPC imposes one or more penalties, which range from a warning up to the imposition of fines, temporary closure of the establishment or temporary suspension of the service. Appeals may be made against the DGPC's decisions before the administrative litigation courts, but this does not dispense the offender from paying the fine. Between 2010 and 2013, the DGPC dealt with over 3,000 complaints.<sup>114</sup> No information is available on the outcome of these complaints.<sup>115</sup>

### 3.3.2.2 Price controls

3.119. The Consumer Protection Law prohibits any practice whose purpose is to cause an increase in the retail selling price of goods essential for consumption and health, and inputs used to produce them.<sup>116</sup>

3.120. The DGPC is empowered to fix the price, the rate or the maximum retail margin for goods and services in the basic shopping basket; the inputs needed to produce or supply them; and the agricultural and industrial inputs required for economic activities in times of emergency, disasters or catastrophes, or if there are monopolies or oligopolies for the sale of any product. If unfair or anti-competitive practices are determined, a favourable decision has to be obtained from the CDPC before the price can be fixed.<sup>117</sup> During the review period, the DGPC did not fix prices for any of these reasons.

3.121. In practice, the DGPC only monitors prices weekly for products in the basic basket, which in 2015 comprised 273 goods and services: 240 food products, school supplies (24 articles), seven non-food products and two forms of transport.<sup>118</sup> By means of this monitoring, the DGPC determines prices for those goods considered to be for seasonal consumption so as to prevent speculation, hoarding or supply shortages. It also fixes retail selling prices based on average weighted prices over a period between 60 and 90 days. The prices fixed by the DGPC remain in effect for a renewable period of 30 days.<sup>119</sup>

3.122. The 240 food products in the basic basket form the List of Food Security Products, whose prices are monitored by the National Food Security Observatory, a body set up by the DGPC in 2015 for the sole purpose of monitoring the price of goods in the List. The DGPC revises the List each year, taking into account requests made by consumers.<sup>120</sup>

3.123. Honduras operates a temporary market stabilization mechanism for products in the List of Food Security Products. This mechanism is triggered when the retail selling price (on the market) for any of the products in the List exceeds the rate of inflation for the preceding month by more than 10%. If such an increase occurs, the DGPC fixes a temporary ceiling price based on a calculation of weighted prices over a period of 60 to 90 days. This price remains in effect for a

<sup>111</sup> Consumer Protection Law (Decree No. 24-2008) of 1 April 2008 and its implementing Regulations (Decision No. 15-2009) of 15 April 2009.

<sup>112</sup> See: <http://www.prohonduras.hn/dgpc>.

<sup>113</sup> For further details, see Articles 68 and 69 of Decree No. 24-2008.

<sup>114</sup> Figures from the DGPC, viewed at: <http://www.prohonduras.hn/dgpc/logros.html>.

<sup>115</sup> Articles 76-83, 88 and 94 of Decree No. 24-2008.

<sup>116</sup> Article 68 of Decree No. 24-2008.

<sup>117</sup> Articles 72 and 73 of Decree No. 24-2008.

<sup>118</sup> For further details, see Executive Decision No. 005-2014 of 7 February 2014 (viewed at: [http://www.hondurasysueconomia.com/wp-content/uploads/2014/04/Acuerdo-05-2014Listado\\_de\\_productos\\_canasta\\_basica\\_La\\_Gaceta.pdf](http://www.hondurasysueconomia.com/wp-content/uploads/2014/04/Acuerdo-05-2014Listado_de_productos_canasta_basica_La_Gaceta.pdf)).

<sup>119</sup> Articles 8 and 74 of Decree No. 24-2008.

<sup>120</sup> Article 1 of Decision No. 383-2014 of the State Secretariat for Economic Development of 19 December 2014.

period of 30 days, during which the Directorate looks into the possible existence of speculation.<sup>121</sup> If it is found that a violation has occurred, the DGPC reintroduces the fixed price for a further 30-day period (renewable). Suppliers may request that the maximum selling price be reviewed or eliminated if, for example, the price of the raw materials used to produce the good has increased.<sup>122</sup> According to the authorities, this mechanism was used in 2015.

3.124. The DGPC imposes fines if the prices that it has fixed are not respected. Speculation in essential goods in order to raise the selling price or cause shortages on the market may result in imprisonment.<sup>123</sup>

3.125. The Petroleum Administration Commission regulates the selling price of imported refined fuels<sup>124</sup> and since 2007 has been using an import parity price mechanism in order to establish the selling price.<sup>125</sup> Likewise, the Law on Hydrocarbons specifies a mechanism for determining the selling price of hydrocarbons produced in Honduras.<sup>126</sup> This mechanism is not applied, however, as Honduras does not produce hydrocarbons.

### 3.3.3 State trading and State-owned enterprises

3.126. Honduras does not have any State trading enterprises within the meaning of Article XVII of the GATT 1994.<sup>127</sup>

3.127. Most of Honduras' State-owned enterprises are in the services sector and the major ones are: the National Electricity Company (ENEE), the National Agricultural Development Bank (BANADESA), the BANHPROVI, the Honduran Telecommunications Company (HONDUTEL), the *National Ports Company* (ENP) and the National Autonomous Water and Sewerage Service (SANAA).

3.128. The new General Law on the Electricity Industry (Decree No. 404-2013) came into force in 2014 and allows the private sector to participate in the electricity market.<sup>128</sup> Nonetheless, pursuant to the Law, as of 1 July 2015 the ENEE was to be split into a parent company and three subsidiaries (one responsible for generation, one for transmission and one for distribution), which would remain under State ownership.<sup>129</sup>

3.129. The 2003 Framework Law on Drinking Water and Sanitation determined a transitional period up to 2008, which was extended until 2013, during which the SANAA would transfer the systems that it operated to local authorities and would become a technical support body for the new suppliers.<sup>130</sup> The authorities have indicated that, at the end of 2015, the SANAA was continuing to operate 13 systems and that the remainder were being operated by local authorities under various management models. Only one local authority (San Pedro Sula) has given a concession for the services in question to the private sector.

3.130. As regards telecommunications, HONDUTEL remains the sole supplier of international long-distance fixed telephone calls. The ENP still manages and operates Honduras' international ports, except for Puerto Cortés, where these services were put out to concession in 2013. The ENP continues to provide auxiliary port services, but may subcontract them (Section 4).

<sup>121</sup> The investigation process ex officio consists of convening the major suppliers of the good (production, distribution and marketing) in order to determine the reasons for the price increase.

<sup>122</sup> Article 2 of Decision No. 383-2014.

<sup>123</sup> Article 5 of Decision No. 383-2014 and Articles 94 and 95 of Decree No. 24-2008.

<sup>124</sup> Decree No. 94-83 of 28 April 1983 and its implementing Regulations in Executive Decision No. 25-07 of 6 September 2007.

<sup>125</sup> Executive Decree No. PCM 02-2007.

<sup>126</sup> Articles 54 and 56 of Decree No. 194-84 (Law on Hydrocarbons of 25 October 1984).

<sup>127</sup> WTO document G/STR/N/15/HND of 1 September 2014.

<sup>128</sup> Repeals the Framework Law on the Electricity Subsector (Decree No. 158-94). Online information from the ENEE. Viewed at: <http://www.enee.hn/index.php/noticias/92-salud-feria-2/447-honduras-liberaliza-el-mercado-de-la-energia>; and PowerPoint presentation by M.A. Figueroa Rivera, "Marco legal del sub-sector eléctrico, Parte III", Institute of Electrical and Electronics Engineers. Viewed at: [http://www.andi.hn/wp-content/uploads/2014/11/1\\_marcolegal-3\\_sn.pdf](http://www.andi.hn/wp-content/uploads/2014/11/1_marcolegal-3_sn.pdf).

<sup>129</sup> Article 29 of the General Law on the Electricity Industry (Decree No. 404-2013) of 20 January 2014.

<sup>130</sup> Framework Law on Drinking Water and Sanitation (Decree No. 118-2003) of 20 August 2003, as amended by Decree No. 112-2008.

3.131. According to the authorities, in 2014 the contribution of State-owned enterprises to GDP was 0.8%. There are no data available on employment in these enterprises.

### 3.3.4 Government procurement

3.132. There were some changes to the regulatory framework for government procurement during the review period. The Law on Efficient and Transparent Procurement using Electronic Means came into force in 2014, introducing a new method of procurement in order to streamline procedures and foster transparency and economies.<sup>131</sup> Furthermore, the Government Procurement Law (LCE) of 2001<sup>132</sup> was revised, mainly by:

- a. totally excluding from its scope contracts unrelated to public works, supply and consultancy;
- b. creating dispute settlement mechanisms and including penalty clauses in contracts, as well as requiring contractors to provide a bank guarantee in order to have access to dispute settlement mechanisms relating to fulfilment of a contract;
- c. requiring that the budget allocation be presented to the National Congress, together with the contract<sup>133</sup>;
- d. empowering the State Secretariat for Finance to declare a contract null and void if there is no financing; and
- e. prohibiting the purchase of used machinery and equipment in government procurement, unless so authorized by the President in the Council of Ministers.<sup>134</sup>

3.133. Honduras' commitments on government procurement under the various regional agreements that it has signed take precedence over the domestic legal framework. In the WTO, Honduras is neither an observer at the Committee on Government Procurement nor considering accession to the Agreement.

3.134. The LCE specifies that Honduras guarantees free competition among suppliers and national treatment for foreign suppliers under regional trade agreements or, in their absence, under the principle of reciprocity.<sup>135</sup> Nevertheless, Honduras maintains measures to encourage Honduran companies and professionals to participate in government procurement procedures. Accordingly, it has a system of preferential margins for domestic suppliers and suppliers from countries with which it has signed agreements. The preferential margin corresponds to the price offered by the foreign supplier increased by: (a) 7.5% for public works projects; and (b) the tariff and other import charges or, in their absence, 15% for the supply of goods and services. In applying the preferential margin, there is also a national content requirement and goods must have 40% national content.<sup>136</sup> The Law on the Promotion and Development of the Competitiveness of Micro, Small and Medium-Sized Enterprises provides that 30% of government procurement must go to MSMEs.<sup>137</sup> No data are available on the percentage of government procurement contracts awarded to MSMEs during the review period.

<sup>131</sup> Law on Efficient and Transparent Procurement using Electronic Means (Decree No. 36-2013) of 21 March 2013 and its implementing Regulations (Executive Decision No. 641-2014) of 28 October 2014.

<sup>132</sup> Government Procurement Law (Decree No. 74-2001) of 29 June 2001, as amended by Decrees No. 266-2013 and No. 35-2014. See also the Regulations implementing the Government Procurement Law (Executive Decision No. 055-2002) of 15 May 2002.

<sup>133</sup> The Annual Procurement and Contracting Plan for each institution must appear in the General Budget to be approved by the National Congress. According to the authorities, it is mandatory for any contract signed to have the corresponding budgetary approval.

<sup>134</sup> Articles 2, 3, 27, 121, 128 and 153 of Decree No. 74-2001, as amended by Decree No. 266-2013, and Article 84, as amended by Decree No. 35-2014.

<sup>135</sup> Article 7 of Decree No. 74-2001.

<sup>136</sup> Article 53 of Decree No. 74-2001 and Article 128 of Executive Decision No. 055-2002.

<sup>137</sup> Article 25 of the Law on the Promotion and Development of the Competitiveness of Micro, Small and Medium-Sized Enterprises (Decree No. 135-2008) of 1 October 2008.

3.135. Honduras has adopted other measures to promote increased participation in government procurement by domestic suppliers, particularly in the case of activities of "public interest".<sup>138</sup> For example, the LCE provides that international bidding procedures are not allowed if the contracts are financed solely and wholly by domestic resources. Moreover, in Honduras consultancy contracts awarded to foreign companies must be carried out by Honduran professionals.<sup>139</sup>

3.136. The Office for the Regulation of Government Procurement and Purchasing (ONCAE), attached to the State Secretariat for General Coordination of Government, is the regulatory body for the government procurement system. It prepares the standards and tools needed to promote efficiency, transparency, harmonization and economies in government procurement.<sup>140</sup>

3.137. Honduras has a digital information system on government procurement and purchasing (HonduCompras), managed by the ONCAE, through which contracting entities publicize and manage procurement procedures.<sup>141</sup> The national and international press are nevertheless still used.

3.138. Listing in the ONCAE's Register of State Suppliers and Contractors is compulsory for all Honduran and foreign suppliers wishing to take part in government competitions and bidding. Registration is free-of-charge and is valid for three years, renewable. The registration requirements are the same for Honduran citizens and foreigners.<sup>142</sup> In order to be registered, however, companies incorporated overseas must obtain an authorization to do business in Honduras, pursuant to the Commercial Code; unless permitted by the contract specifications, bids must be accompanied by documents proving that the company has been legally incorporated in its country of origin.<sup>143</sup> During the review period, the ONCAE created two special registers in order to enhance transparency: one in 2010 for MSMEs and the other in 2012 for the health sector.<sup>144</sup>

3.139. In 2014, the Electronic Catalogue for government procurement in Honduras was introduced, and its use is compulsory for all government procurement under a framework agreement or in the case of joint procurement or reverse bidding. The Catalogue contains bids from various suppliers for each type of good or service included therein. The suppliers in the Electronic Catalogue are chosen by the ONCAE by means of a public invitation to bid. The evaluation criteria include the price, operating or maintenance costs, delivery time and reliability of the suppliers. Contracting entities may manage purchase orders to selected suppliers directly through the Catalogue.<sup>145</sup> In 2015, the Electronic Catalogue included 5,000 goods and, according to the authorities, the economies achieved by using the Catalogue in 2015 amounted to L 22 million.

3.140. The other government procurement methods, which have remained unchanged since the previous review in 2010, are direct contracting, public or private bidding and public or private competitions. Use of each of these depends on the good or service concerned or to be contracted and the thresholds determined in the State's annual budget (Table 3.17). Private bidding,

<sup>138</sup> Article 147 of Decree No. 74-2001 states that "the development of technical and professional activities relating to the supply of professional services is declared to be of public interest, together with the promotion of building capacity and business experience in the country for the construction of public works, the supply of consultancy or accountancy services and other professional services in general, in order to boost domestic production".

<sup>139</sup> Articles 114-116 and 151 of Decree No. 74-2001.

<sup>140</sup> Decree No. 74-2001, Executive Decree PCM-02-2014 of 3 February 2014, and online information from the State Secretariat for General Coordination of Government. Viewed at: <http://www.sccg.gob.hn/book/export/html/6>.

<sup>141</sup> Executive Decree No. 010-2005 of 29 September 2009. See HonduCompras at: <http://www.honducompras.gob.hn>.

<sup>142</sup> Articles 34-37 of Decree No. 74-2001 and Articles 54-69 of Executive Decree No. 055-2002 and online information from the ONCAE. Viewed at: <http://www.oncae.gob.hn/index.php/material-oncae/respuestas-oncae> and <http://www.oncae.gob.hn/index.php/material-oncae/manuales-proveedores>.

<sup>143</sup> Articles 23 and 24 of Executive Decision No. 641-2014.

<sup>144</sup> ONCAE (2012), *Gestión 2011*. Viewed at: <http://www.oncae.gob.hn/docm/memoria/ONCAE%20Gestion%202011.pdf>, and ONCAE Circular No. 12/2012 of 24 July 2012.

<sup>145</sup> Decree No. 36-2013; Executive Decision No. 641-2014, and online information from the ONCAE. Viewed at: <http://oncae.gob.hn/index.php/material-oncae/2014-10-08-16-28-18>.

however, may be used for other reasons such as scarcity of suppliers, urgency<sup>146</sup>, security or supply shortages. In such cases, authorization by the President (centralized entities) or the highest authority (decentralized entities) is required.<sup>147</sup>

**Table 3.17 Thresholds for the application of government procurement procedures, 2015**

	Direct contracting		Private bidding	Private competition	Public bidding	Public competition
	2 bids	3 bids				
<b>Goods and services</b>	≤ L 75,000	> L 75,000 ≤ L 240,000	= L 240,000 < L 550,000		≥ L 550,000	
<b>Works</b>		< L 1,000,000	= L 1,000,000 < L 2,000,000		≥ L 2,000,000	
<b>Consultancy</b>		< L 1,000,000		= L 1,000,000 < L 2,000,000		≥ L 2,000,000

Source: Article 62 of the General Budget of Revenues and Expenditures of the Republic for fiscal 2015 (Decree No. 140-2014) of 17 December 2014.

3.141. In general, an unlimited number of bidders may take part in public bidding, but in some cases a prequalification procedure is required. Prequalification is mandatory for public works contracts and supply contracts when highly specialized goods or services are purchased. The prequalification procedure leads to the establishment of a list of three to six suppliers, which are invited to submit bids.<sup>148</sup> According to the authorities, preselection of suppliers is based on legal, administrative, technical and financial criteria and the suppliers' capacity and experience.

3.142. International public bidding may be used when special technology is required or there are other justifying reasons.<sup>149</sup> The invitation must be issued in accordance with conditions in the Honduran professional market and the availability of budgetary and financial resources.<sup>150</sup>

3.143. Private bidding involves a limited number of bidders (at least three) and participation is by invitation.<sup>151</sup> The contract is awarded to the supplier which receives the best technical evaluation (including the lowest price) and with which the terms of the procurement procedure are agreed. If no agreement is reached with the first supplier chosen, the second is invited to negotiate and so on.<sup>152</sup>

3.144. In a bidding procedure, whether public or private, the contract is usually awarded to the supplier offering the lowest price. When domestic and foreign suppliers are competing, the price to be compared is determined taking into account the preferential margin. Other criteria in addition to price may be taken into account when evaluating bids, for example: financing terms, delivery time and environmental impact. If the contract is not awarded to the bidder offering the lowest price, the decision has to be properly substantiated and approved by the official in charge of the institution concerned (for example, the State Secretariat or the mayor).<sup>153</sup>

3.145. Direct contracting may be used for a variety of reasons, especially for small-scale procurement. This type of procurement involves the submission of quotations. At least two or three suppliers are directly invited to submit bids (Table 3.17). The lowest bid is selected or the bid that is considered the most economical or advantageous. Direct contracting is also used in cases of emergency or to procure special goods or services, or goods or services that are

<sup>146</sup> Unforeseen circumstances which, without counting as emergencies, require urgent attention in order not to hinder the normal supply of public services (Article 7 of Executive Decision No. 55-2002).

<sup>147</sup> Article 60 of Decree No. 74-2001.

<sup>148</sup> Articles 61 and 95 of Decree No. 74-2001, and Article 160 of Executive Decision No. 055-2002.

<sup>149</sup> Articles 42, 43 and 95 of Decree No. 74-2001, and Article 85 of Executive Decision No. 055-2002.

<sup>150</sup> Article 75 of the General Budget of Revenues and Expenditures of the Republic for fiscal 2015 (Decree No. 140-2014) of 17 December 2014.

<sup>151</sup> Article 60 of Decree No. 74-2001.

<sup>152</sup> Article 61 of Decree No. 74-2001, and the ONCAE's 2010 handbook of procedures for procurement through bidding and consultancy. The ONCAE's handbooks can be viewed at: <http://www.honducmpras.gob.hn/Info/Normativa.aspx>.

<sup>153</sup> Articles 51-53 and 55 of Decree No. 74-2001, and the ONCAE's June 2010 handbook of procedures for procurement through bidding and consultancy.

exclusively sold, in which case only a quotation from the exclusive supplier is required.<sup>154</sup> In any event, direct contracting requires authorization from the President of the Republic (centralized entities) or the highest authority (decentralized entities). Foreign suppliers of goods and services may participate in special cases<sup>155</sup>, provided that they have no commercial presence in Honduras.<sup>156</sup>

3.146. Contractors may lodge a complaint if they consider that their rights have not been respected or there have been irregularities either during the contracting procedure or in fulfilment of the contract. After exhausting administrative appeals channels at the ONCAE, they may turn to the administrative litigation courts. Rulings handed down by these courts are not subject to appeal.<sup>157</sup>

3.147. According to the information provided by the authorities, in December 2014 the amount of government procurement by the central administration amounted to L 41.9 million (10% of GDP). Some 19% was for procurement of goods, 65% for services (including consultancy) and 16% for works.

### 3.3.5 Intellectual property rights

3.148. The main change in the regime for protection of intellectual property rights since 2010 has been the enactment of the Law on the Protection of New Varieties of Plants. There have been no major changes to the provisions on other industrial property rights and copyright and related rights. The key legal instruments in this area are still the Industrial Property Law and the Law on Copyright and Related Rights. According to the authorities, these laws incorporate: the provisions in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS); the commitments made under the CAFTA-DR; and the WIPO-administered treaties to which Honduras is a contracting party, notably the Patent Cooperation Treaty (PCT), the Copyright Treaty (WCT) and the Performances and Phonograms Treaty (WPPT).

3.149. The Directorate-General of Intellectual Property (DIGEPIH), attached to the Property Institute (IP), still acts as the intellectual property office. The DIGEPIH keeps the Industrial Property Register and the Copyright and Related Rights Register, while the SAG, through the SENASA, is responsible for the National Register of Plant Varieties.

3.150. Honduras is a contracting party to ten WIPO-administered treaties.<sup>158</sup> During the review period, it signed other international treaties: WIPO's Beijing Treaty on Audiovisual Performances (2012) and the Marrakesh Treaty to Facilitate Access to Published Works for Persons who are Blind, Visually Impaired or Otherwise Print Disabled (2015).<sup>159</sup> In the WTO context, in 2011 Honduras accepted the 2005 Protocol amending the TRIPS Agreement. In addition, Honduras has begun the process of acceding to the International Convention for the Protection of New Varieties of Plants.<sup>160</sup>

<sup>154</sup> Article 63 of Decree No. 74-2001, and the ONCAE's 2010 handbook of procedures for small-scale procurement. See also the ONCAE's 2010 handbook of procedures for direct procurement and contracting using domestic funds.

<sup>155</sup> For example, in situations where goods or services are needed urgently in order not to hinder the normal supply of public services or in situations of emergency.

<sup>156</sup> Article 21 of Decree No. 74-2001.

<sup>157</sup> Article 142 of Decree No. 74-2001, the ONCAE's 2010 handbook of procedures for procurement through bidding and consultancy, and Response by the Republic of Honduras to the questionnaire on the provisions of the Inter-American Convention against Corruption selected in the second round and for follow-up on the recommendations formulated in the first round. Viewed at: [http://www.oas.org/juridico/spanish/mesicic2\\_hnd\\_resp\\_sp.pdf](http://www.oas.org/juridico/spanish/mesicic2_hnd_resp_sp.pdf).

<sup>158</sup> Copyright and related rights: Rome Convention; Berne Convention; Phonograms Convention; WIPO Copyright Treaty; WIPO Performances and Phonograms Treaty. Industrial property: Paris Convention. Patents: Budapest Treaty, Patent Cooperation Treaty. Trademarks: Trademark Law Treaty. Programme-carrying signals transmitted by satellite: Brussels Convention.

<sup>159</sup> Information provided by the authorities, and online information from the National Congress of Honduras. Viewed at: <http://www.congresonacional.hn/index.php/2014-02-10-22-24-42/congreso/item/1210-congreso-nacional-aprueba-tlc-con-peru-y-tratado-de-marrakech-para-beneficiar-a-personas-ciegas.html>.

<sup>160</sup> UPOV Publication No. 437(EN) of 26 November 2015. Viewed at: [http://www.upov.int/edocs/pubdocs/en/upov\\_pub\\_437.pdf](http://www.upov.int/edocs/pubdocs/en/upov_pub_437.pdf).

3.151. In 2013, Honduras' National Intellectual Property Strategy was adopted with the aim of strengthening the intellectual property regime. This is a five-pronged strategy: (i) education and culture; (ii) science and innovation for health; (iii) biodiversity and the environment; (iv) productivity and competitiveness; and (v) management and enforcement of intellectual property.<sup>161</sup>

### 3.3.5.1 New varieties of plants

3.152. The Law on the Protection of New Varieties of Plants<sup>162</sup>, enacted in 2012, was drafted along the lines prescribed by the International Union for the Protection of New Varieties of Plants (UPOV).

3.153. The scope of the Law is currently limited to a minimum of 15 plant species, but ten years after it has entered into force protection will be extended to all species. For a variety to obtain protection, it must be new, distinct, stable and uniform. The SENASA is in charge of examining the formal and substantive aspects of applications for registration. Foreigners not resident in Honduras have to appoint a legal representative domiciled in Honduras to file the application.<sup>163</sup> According to the authorities, registration takes around one and a half years. By the end of 2015, no applications for registration had been received.

3.154. A breeder's right is granted by means of a breeder's certificate. The term of protection is 25 years from the date on which the certificate was issued for perennial species and 15 years for other species, with no possibility of extension in either case.<sup>164</sup>

3.155. The Law provides that emergency licences may be issued when exploitation of a variety is deemed essential in order to meet the basic needs of a segment of the population and availability or supplies do not suffice. Licences are granted following a public bidding procedure convened by the SENASA and the licence holder is given financial compensation. Emergency licences are issued for a specific period, after which the licence holder automatically recovers his rights.<sup>165</sup> According to the authorities, no emergency licence has yet been issued in Honduras.

### 3.3.5.2 Other industrial property rights

3.156. The Industrial Property Law regulates the protection of patents (inventions, utility models and industrial designs), trademarks and other distinctive signs, as well as appellations of origin and geographical indications.<sup>166</sup>

3.157. There have been no significant changes to the registration procedures laid down in the Law since 2010. The changes that have occurred since 2010 as regards industrial protection concern: (a) the period during which objections to a patent notification may be made, which changes from three consecutive periods of 30 days to a single period of 90 working days; and (b) the method for publishing such notifications, which must be through the DIGEIPH's website and not through publication in the Official Journal (*La Gaceta*), as was previously the case.<sup>167</sup> The Law was also amended to allow the recognition and protection of geographical indications. Before 2012, only appellations of origin could be registered.<sup>168</sup>

3.158. Patent rights are granted, as of the date of filing the application, for periods of: (a) 20 years for patents for inventions (non-renewable); (b) 15 years for patents for utility models (non-renewable); and (c) five years for patents for industrial designs, which may be renewed for two successive five-year periods. For marks, the term of protection is ten years and may be

<sup>161</sup> Executive Decree No. 013-2013 of 9 October 2013.

<sup>162</sup> Law on the Protection of New Varieties of Plants (Decree No. 21-2012) of 13 March 2012.

<sup>163</sup> Articles 4, 6, 13 and 18 of Decree No. 21-2012.

<sup>164</sup> Articles 11 and 15-24 of Decree No. 21-2012.

<sup>165</sup> Articles 29-32 of Decree No. 21-2012.

<sup>166</sup> Industrial Property Law (Decree No. 12-99-E) of 19 December 1999, as amended by Decrees No. 16-2006, No. 51-2011 and No. 219-2012. There are no implementing regulations for this Law.

<sup>167</sup> Articles 55 and 60 and 61 of Decree No. 12-99-E, as amended by Decree No. 51-2011. Notifications can be viewed at: <http://digeiph.webs.com/publicacionespatentes.htm>.

<sup>168</sup> Articles 126-133 of Decree No. 12-99-E, as amended by Decree No. 219-2012. Viewed at: [http://www.wipo.int/geo\\_indications/en](http://www.wipo.int/geo_indications/en).

renewed indefinitely, although failure to use the mark may entail loss of the right. The registration of an appellation of origin or a geographical indication has an indefinite term.<sup>169</sup>

3.159. The time required to grant a patent for an invention must not be more than five years. The legislation does not specify what period is required for granting patents for utility models or industrial designs. Nevertheless, the authorities have indicated that, in practice, they are granted within three and a half years and eight months, respectively.

3.160. As far as patents are concerned, Honduras grants compulsory licences for reasons of public interest, emergency, national security, nutrition or public health. They may also be granted if the patented invention has not been worked in Honduras within four years of the date of the application or three years from the date on which the patent was granted. The applicant for a compulsory licence must prove that he has requested the patent holder for a contractual licence, which was not granted on reasonable terms and within a reasonable period of time.<sup>170</sup> According to the authorities, Honduras has not so far granted any compulsory licences. Parallel imports are not allowed unless for research purposes or personal use.<sup>171</sup>

3.161. Honduras is not party to the Nice Agreement, but uses the Nice classification for the registration of marks. Trademarks and service, certification and collective marks may all be registered in Honduras.<sup>172</sup> The owner of a mark may grant a third party a licence to use the mark without losing the exclusive right in the mark. A user's licence may not be granted in the case of collective marks.<sup>173</sup>

3.162. The procedures for examination, publication, opposition and registration of appellations of origin and geographical indications are governed by the provisions applying to the registration of marks.<sup>174</sup> Honduras has recognized and protected geographical indications since 2012.

3.163. The Industrial Property Law also protects industrial and business secrets<sup>175</sup> and is enforced by means of internal instructions from the State Secretariat for Public Health and the SENASA as there are no implementing regulations for the Law.

3.164. Layout-designs of integrated circuits are not protected in Honduras.

### 3.3.5.3 Copyright and related rights

3.165. There have been no changes to the Law on Copyright and Related Rights since 2010.<sup>176</sup> It protects literary and artistic works, computer programs, performers, phonogram producers and broadcasting organizations. The copyright of non-residents whose works have been published for the first time abroad and performances, phonograms and broadcasts owned by non-resident foreigners are protected under international conventions or, in their absence, by the principle of reciprocity.<sup>177</sup>

3.166. Works are protected for the author's lifetime and 75 years after his death. Rights of performers, phonogram producers and broadcasting organizations are protected for 75 years. Protection of copyright and related rights is automatic without the need for any official registration, which has purely declaratory value.<sup>178</sup>

<sup>169</sup> Articles 15, 27, 33, 92 and 106 of Decree No. 12-99-E, and Article 131 of Decree No. 12-99-E, as amended by Decree No. 219-2012.

<sup>170</sup> Articles 66, 67 and 70 of Decree No. 12-99-E.

<sup>171</sup> Information provided by the authorities.

<sup>172</sup> Article 79 of Decree No. 12-99-E, and online information from the DIGEPIH.

<sup>173</sup> Articles 102-104 and 115 of Decree No. 12-99-E.

<sup>174</sup> Article 129 of Decree No. 12-99-E.

<sup>175</sup> Article 73 of Decree No. 12-99-E.

<sup>176</sup> Law on Copyright and Related Rights (Decree No. 4-99-E) of 2 December 1999.

<sup>177</sup> Articles 4 and 8 of Decree No. 4-99-E.

<sup>178</sup> Articles 44, 120 and 130 of Decree No. 4-99-E.

3.167. The Association of Authors, Composers, Performers and Musicians of Honduras (AACIMH) is responsible for protection, collecting fees and administering the rights of Honduran authors and those foreigners affiliated to like associations with which the AACIMH has signed reciprocal representation contracts.

#### 3.3.5.4 Enforcement

3.168. The institutions responsible for enforcing intellectual property rights are the DIGEPIH, at the administrative level, and the Public Prosecutor's Office, through the Special Prosecutor's Office for Intellectual Property, at the judicial level. The Interinstitutional Commission against Piracy (CICOMPI), composed of public and private bodies, also assists the public sector in protecting and safeguarding industrial property rights and copyright.

3.169. As regards measures at the border, Honduras applies the provisions in the CAUCA, the RECAUCA, the TRIPS Agreement and the CAFTA-DR, which are implemented by the DEI through the Intellectual Property Department, in collaboration with the DIGEPIH and the Special Prosecutor's Office for Intellectual Property. Honduras' National Intellectual Property Strategy lists a series of measures to improve compliance with intellectual property rights, which include: revising the legal framework in order to impose more severe penalties; promoting awareness among civil society; and training government officials.<sup>179</sup>

3.170. During the review period, Honduras took part in Operation Tigre, conducted by the World Customs Organization at several ports in the region in order to seize counterfeit goods.<sup>180</sup> According to the authorities, as a result of this operation, large quantities of counterfeit, pirated and smuggled goods were seized, although there are no estimates of their value. Since 2010, there has been an increase in the confiscation of counterfeit and pirated goods both at the border and in trade. The goods seized are destroyed or donated to charities. At the same time, 340 complaints have been lodged with the courts and fines of L 50,000 to 100,000 and terms of imprisonment of three to six years have been imposed.

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<sup>179</sup> Executive Decree No. 013-2013 of 9 October 2013.

<sup>180</sup> WCO Press Release of 9 December 2011. Viewed at:

<http://www.wcoomd.org/en/media/newsroom/2011/december/latin-america-unites-to-launch-operation-tigre-2-to-fight-counterfeiting-and-piracy.aspx>, and online information from the WCO. Viewed at: <http://www.wcoomd.org/en/media/newsroom/2014/may/tons-of-fake-goods-intercepted-under-operation-tigre-3.aspx>.

## 4 TRADE POLICIES BY SECTOR

### 4.1 Agriculture

#### 4.1.1 Main features

4.1. The agricultural sector has retained its relative importance for the Honduran economy and during the review period grew at an average annual rate of 3.8%.<sup>1</sup> During the period in question the sector's performance was uneven, with a contraction in real terms in 2009 and weak growth in 2010 being followed by two years of strong growth in 2011 and 2012. The agricultural sector's share of GDP increased slightly during the review period (2009-2014); thus, in 2009 the sector's share of GDP at constant prices was 12.9%, while in 2014 it was 13.9% (Table 4.1). These figures relate to the agricultural sector *per se* and do not include the value of agro-industrial production, input production or services, activities which fall within the industrial sector or the services sector. The agricultural sector continues to be a major generator of employment, although during the review period its importance declined. In 2014, the sector provided work for about 30% of the country's economically active population, as compared with 37.1% in 2009.

**Table 4.1 Main indicators for the agricultural sector, 2010-2014**

	2010	2011	2012	2013	2014 <sup>a</sup>
<b>Crop farming, livestock breeding, hunting, forestry and fishing</b>					
Share of GDP (% at current prices)	11.6	14.2	13.6	12.2	12.7
Share of GDP (% at 2000 constant prices)	12.7	13.0	13.8	13.9	13.9
Real rates of growth (% at 2000 prices)	1.8	6.5	10.7	3.4	2.7
Gross value added (growth rate)	16.3	37.3	2.9	-6.4	13.2
Share of agricultural production (%)					
Coffee	26.7	37.2	35.6	25.7	26.7
Bananas	13.5	11.9	13.7	16.1	14.7
Tubers, vegetables, pulses and fruit	16.8	10.7	10.5	12.3	12.0
Bovine cattle	9.0	7.0	8.7	11.2	10.9
Other crops and agricultural activities <sup>b</sup>	9.1	7.6	8.6	9.8	9.7
Employment (% of total, end of period)	37.5	36.6	38.2	35.8	30.0 <sup>c</sup>
<b>Exports</b>					
Value (US\$ million)	1,933	2,890	3,095	2,551	2,727
09 – Coffee, tea, mate and spices	37.5	47.2	45.5	29.6	30.9
15 – Animal or vegetable fats and oils	8.9	9.6	10.7	11.9	12.4
08 – Edible fruit and nuts; peel of citrus fruit or melons	20.9	16.5	17.0	20.6	20.1
24 – Tobacco and manufactured tobacco substitutes	6.1	4.5	4.5	5.6	5.0
17 – Sugars and sugar confectionery	3.8	2.3	2.8	4.0	3.9
<b>Imports</b>					
Value (US\$ million)	1,185	1,479	1,553	1,581	1,612
10 – Cereals	15.3	19.0	16.6	16.4	15.4
21 – Miscellaneous edible preparations	12.9	13.0	14.8	15.1	14.8
19 – Preparations of cereals, flour, starch or milk	12.7	11.4	11.3	11.6	11.9
23 – Residues and waste from the food industries	12.5	11.6	12.5	14.1	15.4
22 – Beverages, spirits and vinegar	5.9	5.9	7.0	6.4	5.9
<b>Agricultural trade balance (US\$ million)</b>	<b>748</b>	<b>1,411</b>	<b>1,542</b>	<b>970</b>	<b>1,115</b>

a Preliminary.

b Tobacco and sugar cane crops, agricultural services, production of live-animal and other products.

c The total employed labour force declined in 2014 due to adjustments made by the National Institute of Statistics (INE).

Source: WTO Secretariat estimates, based on data from the Central Bank of Honduras.

4.2. The Honduran agricultural sector is characterized by its relative concentration. Coffee and bananas accounted for 41.4% of agricultural production in 2014. Other leading products are fruit and vegetables, palm oil and livestock products. Coffee is the principal agricultural product in Honduras and during the review period it increased in relative importance, rising from 21.8% of agricultural production in 2009 to 26.7% in 2014. Honduras has concentrated on producing high-grade coffee, which has enabled it to maintain a stable position on the quality bean markets at competitive costs. In 2014, bananas accounted for 14.7% of agricultural production. In Honduras, banana growing yields high returns, having benefited from projects to improve

<sup>1</sup> Information provided by the authorities.

competitiveness and reduce the risk of pests and diseases (see below). The most important industrial crops are sugar cane, African palm and cocoa, which together accounted for about 10% of agricultural output in 2014.

4.3. Agriculture continues to be a major source for the generation of foreign exchange. In 2014, agriculture accounted for 33.8% of the foreign exchange generated by merchandise exports. Agricultural exports increased from US\$1,933.3 million in 2010 to US\$2,727.3 million in 2014. Honduras remains a net exporter of agricultural products and the agricultural trade balance recorded a growing surplus during the review period, rising from US\$748.4 million in 2010 to US\$1,115.1 million in 2014. The main export products continue to be coffee, bananas, palm oil, farmed shrimp, tilapia, sugar, and fruit, pulses and vegetables. In 2014, imports of agricultural products accounted for 14.6% of total merchandise imports. Cereals, in particular maize, were Honduras' leading agricultural import.

#### 4.1.2 Agricultural policy

##### 4.1.2.1 General policies

4.4. The State Secretariat for Agriculture and Livestock (SAG), created by Decree No. 218-96, is the agency responsible for designing and implementing agrifood sector and rural environment policies. The SAG's objective is to ensure that domestic agricultural production is competitive, sustainable and capable of integration into the international economy, while meeting the needs of the domestic market and playing its part in a plan for the sustainable development of natural resources.<sup>2</sup> The SAG coordinates the process of planning and implementing agricultural public sector policy, performs functions relating to the country's farming areas and represents the sector at the regional and international levels. At sector level, the SAG coordinates aspects relating to the sectoral policies implemented by the institutions that make up the agricultural public sector, specifically those concerned with land tenure, rural financing, marketing, forestry, crop and livestock production, and rural and forest development. The SAG is a member of various bodies including, in particular: the Central American Agricultural Council (CAC), the Tropical Agricultural Research and Higher Education Centre (CATIE), the Inter-American Institute for Cooperation on Agriculture (IICA), the United Nations Food and Agriculture Organization (FAO) and the International Fund for Agricultural Development (IFAD).

4.5. Other institutions that make up the agricultural public sector are the National Agrarian Institute (INA), the Honduran Agricultural Market Institute (IHMA), the National Agricultural Development Bank (BANADESA), the State Forestry Administration (AFE) and the Honduran National Institute for Forest Conservation and Development, Protected Areas and Wildlife (ICF).

4.6. In recent years, the objectives of the State Agricultural Policy for the Agrifood Sector and Rural Environment in Honduras 2004-2021 have been to increase productivity and promote exports without neglecting production for the domestic market, with a view to ensuring food security. The authorities have tried to increase productivity in the sector by improving the operation of the domestic market, by establishing a price stabilization mechanism and through measures to improve food safety (Table 4.2). To promote exports of agricultural products, Honduras has continued to adopt a strategy aimed at opening up new or niche markets by negotiating new FTAs and improving their administration and implementation.

**Table 4.2 Summary of agricultural measures**

Scope	Measures/results
	<b>Efficient, Fair and Competitive Trade</b>
	This policy has been entrusted to the Agribusiness Centre of the National Agrifood Development Programme (PRONAGRO) implemented by the SAG, the Trade Negotiations office of the CAFTA-DR and the SENASA, in coordination with public and private sector institutions. Its objective is to help to improve marketing and to open up more markets for domestic agricultural production.
	The policy has been implemented by:
	<ul style="list-style-type: none"> <li>• disseminating information on market opportunities and conditions at national and international levels by means of documents, publications, a documentation centre and a web page;</li> <li>• organizing national trade fairs in support of small and medium-sized agribusinesses;</li> <li>• providing coordination and training to facilitate the participation of small businesses in international trade fairs;</li> </ul>

<sup>2</sup> Online information from the SAG. Viewed at: <http://saq.gob.hn/acerca-de-la-sag/quienes-somos/que-es-la-secretaria-de-agricultura-y-ganaderia>.

Scope	Measures/results
	<ul style="list-style-type: none"> <li>organizing national and international business conferences;</li> <li>concluding legal instruments for the entry into force of the CAFTA-DR;</li> <li>providing for the establishment and operation of the Committee on the Admissibility of Agricultural Products to the International Market;</li> <li>authorizing the Honduran Agricultural Marketing Institute (IHMA), to purchase maize and beans to constitute a national strategic food reserve;</li> <li>advising and exchanging information on international standards and regulations;</li> <li>participating in the negotiation of free trade agreements with Chinese Taipei and Colombia;</li> <li>commissioning the Comayagua hydrothermal treatment plant for the export of fruit and vegetables and the plant for packing rambutan for export; and</li> <li>helping small producers to purchase agricultural product processing equipment to add value.</li> </ul>
	<p><b>Sustained improvement in agricultural health and food safety</b></p> <p>This policy has been implemented through:</p> <ul style="list-style-type: none"> <li>the issuing of phytosanitary and animal health permits with the support of the Export Processing Centre (CENTREX);</li> <li>the implementation of Resolution No. 175-2006 of the Council of Ministers for Central American Economic Integration (COMIECO XXXVIII), to facilitate the free import and export of 150 products and by-products of plant origin;</li> <li>the implementation of diagnostic audits of good agricultural practices for small farmers and packers in order to certify exports of oriental vegetables;</li> <li>epidemiological surveillance at national level to prevent the introduction of exotic diseases;</li> <li>the strengthening of the diagnostic and laboratory analysis system, by adopting quality management and health facilitation systems to export melons to European markets;</li> <li>the nutritional evaluation of fodder and raw materials for animal consumption with the support of the International Atomic Energy Agency (IAEA); and</li> <li>the structure and design of ISO/IEC Standard 17025 for managing the quality of products and services.</li> </ul>
	<p><b>Integration of agrifood chains</b></p> <p>Seven priority agrifood chains have been defined: staple grains; fruit and vegetables; fishing and aquaculture; livestock; beekeeping; coffee and cocoa; and African palm.</p> <p>This policy has been implemented by:</p> <ul style="list-style-type: none"> <li>providing technical assistance for small and medium-sized basic foods producers;</li> <li>implementing the Agricultural Education Service;</li> <li>developing agribusiness centres; and</li> <li>developing rural infrastructure and irrigation through the National Rural Infrastructure and Irrigation Service.</li> </ul>
	<p><b>Promotion of technological innovation, diversification and value added</b></p> <p>The Generation and Access to Technological Innovation policy has been implemented mainly through the Science and Agricultural Technology Directorate (DICTA), by:</p> <ul style="list-style-type: none"> <li>providing technical assistance for small and medium-sized basic foods producers;</li> <li>building the technical capacity of the small fruit and vegetable producers of the Tegucigalpa highlands with the support of the Foundation for Rural Enterprise Development (FUNDER);</li> <li>validating prototypes of animal-drawn implements through the Latin American Animal Traction and Appropriate Technologies Network (RELATA);</li> <li>generating improved varieties of maize, beans, rice and sorghum;</li> <li>reactivating the Seed Production Programme for the benefit of small producers;</li> <li>establishing the National Seed Potato Production Programme with the support of the Millennium Challenge Account and FUNDER; and</li> <li>establishing strategic alliances, through the National Agrifood Technology System (SNITTA), with: the Central American Agricultural Technology Integration System (SICTA); the Regional Agricultural Technology Fund (FONTAGRO); the Latin American Rice Fund (FLAR); the Zamorano Pan-American Agricultural School (EAP); the Tropical Agricultural Research and Higher Education Centre (CATIE); the National Agricultural and Food Research Institute (INIA/Spain); EMBRAPA/Brazil, MT, the Millennium Challenge Account (MCA); and the International Maize and Wheat Improvement Centre (CIMMYT).</li> </ul>
	<p><b>Sustainable access to agricultural credit and rural financing</b></p> <p>This policy has been implemented by generating financial instruments and mechanisms for accessing credit and rural financing by:</p> <ul style="list-style-type: none"> <li>financially strengthening the National Agricultural Development Bank (BANADESA), to take care of the agricultural sector;</li> <li>issuing the Law on Financial Support for Production Sectors in Honduras, implemented through the Honduran Bank for Production and Housing (BANHPROVI), to cover 14 products, with an investment of L 1,378 million, through private banking;</li> <li>drafting and presenting the Executive Decree establishing the Agricultural Insurance Committee in Honduras, through which it is intended to reduce the climatic and biological risks faced by agricultural producers in making their productive investments;</li> <li>strengthening alternative rural financing for small subsistence producers through rural savings and loan associations supported by rural development projects.</li> </ul>

Source: Government of Honduras, State Secretariat for Agriculture and Livestock.

4.7. The Strategy for the Agrifood Public Sector, drawn up in 2009, established a series of quantitative targets to be met by 2014. These included, in particular: (i) achieving an average increase in agrifood GDP of 4% per year (this target was partially met, inasmuch as a growth rate of more than 4% was recorded only in 2011-2012); (ii) helping to reduce poverty and extreme poverty by 10 percentage points by 2014 (the target was not met as the growth rate for 2010-2014 was 3.2%); (iii) increasing agrifood exports by 70%, from US\$1,663 million in 2009 to US\$2,827 million in 2014 (the target was not met, but a substantial increase of approximately 41% was achieved, with the value rising from US\$1,933 million in 2010 to US\$2,727 million

in 2014); (iv) increasing the value of fruit and vegetable exports, from US\$440 million in 2009 to US\$572 million in 2014 (target met); (v) increasing coffee exports through the value chains by a cumulative 5% per year, from US\$532 million to US\$644 million (target exceeded); (vi) helping to replace US\$18 million of imports of onions, potatoes, carrots and garlic by 2014 (target met); (vii) building or resurfacing 5,000 km of rural roads (the resurfacing of 159 km of tertiary roads has been approved); (viii) increasing staple grains production by 15% by 2014, from 15.9 million quintals to 18.4 million quintals (target not met, as staple grains production for 2014 was estimated at 15.2 million quintals); (ix) increasing the strategic reserve of maize and beans by 10%, from 80,704 quintals in 2009 to 89,000 quintals in 2014 (there is no information available concerning the achievement of this target); and (x) increasing the area under irrigation by 30% by 2014, from 90,000 new hectares incorporated into agricultural irrigation in 2009 to 117,000 in 2014 (target exceeded).<sup>3</sup>

4.8. To achieve one of the general objectives of the Strategy, a National Investment Plan for the Agrifood Sector 2011-2014 (PIPSA) was drawn up. The purpose of the PIPSA was to help to reduce poverty levels by raising the income of the beneficiaries through inclusive economic growth, job creation and sustainable food and nutritional security. To this end, efforts have been made to improve productivity and competitiveness through investment, both public and private, aimed at modernizing and improving the infrastructure, transferring technology to producers, and extending value chains. As an objective for 2014, the PIPSA established a 10-point reduction in the percentage of rural families living in conditions of both poverty (from 72% to 62%) and extreme poverty (from 60% to 50%).<sup>4</sup> This was to be associated with a 4% increase in nominal agricultural GDP (from US\$1,022 million to US\$1,196 million). This target was met, since the rate of growth for the period 2010-2014 was 7.7%, while agricultural GDP rose from US\$1,835 million in 2010 to US\$2,475 million in 2014. The SAG has drawn up five main strategic programmes for achieving the national targets for economic growth and rural poverty reduction: (i) competitiveness and growth in the agricultural sector; (ii) expansion of market access; (iii) intersectoral support (resources and productive infrastructure); (iv) a facilitative environment for agribusiness; and (v) multisectoral/cross-cutting areas (food security, gender, youth and job creation). The total cost of investment under the PIPSA has been estimated at US\$790.39 million, with current financial commitments estimated at US\$139.9 million financed by resources from the IFAD, the Central American Bank for Economic Integration (BCIE) and the OPEC Fund for International Development (OFID) and an investment gap of US\$650.5 million.<sup>5</sup> The authorities have noted that the target has not been met and that only 17.7% of it is covered by the funds mentioned.

4.9. The National Coffee Council (CONACAFE), established in 2000, is the body responsible for formulating national coffee policy and advising the President of the Republic on matters related with the coffee industry.<sup>6</sup> The Council has the following functions: to formulate, approve and evaluate national coffee policy; to represent the country, domestically and internationally, in matters relating to coffee; to approve the establishment of mechanisms for the stabilization, defence and protection of domestic coffee production; to adopt coffee-related control and emergency measures in connection with the protection of the public interest; to set production targets, with account for Honduras' international commitments, and establish domestic coffee consumption policy, with a view to helping to achieve greater price stability on the domestic market.

4.10. The Honduran Coffee Institute (IHCAFE) is a private non-profit organization that performs administrative and public service functions, by delegation under the law (Article 1 of Decree No. 213-2000). Its purposes and objectives are: to implement the policy and policy measures approved by CONACAFE which fall within its jurisdiction; to provide technology generation and technology transfer services for all the participants in the agro-industrial coffee chain; and to apply the regulations and resolutions designed to improve agricultural production techniques and methods of grading and processing, packaging, transporting, registering, manufacturing and

<sup>3</sup> SAG, Strategy for the Agrifood Public Sector and Implementation Plan. Honduras for Sustainable Development. Viewed at: <http://www.sag.gob.hn/dmsdocument/2>.

<sup>4</sup> SAG (2011), *Plan de Inversión del País para El Sector Agroalimentario (PIPSA) 2011-2014*, June 2011. Viewed at: <http://www.sag.gob.hn/dmsdocument/3>.

<sup>5</sup> Out of these funds, 26.05% is earmarked for sectoral competitiveness and growth; 10.79% for market access; 34.51% for sector support; 8.41% for the facilitative environment for agribusiness; and 20.25% for cross-cutting areas, such as food security and gender-related issues. See SAG (2011), *Plan de Inversión del País para El Sector Agroalimentario (PIPSA) 2011-2014*, June 2011. Viewed at: <http://www.sag.gob.hn/dmsdocument/3>.

<sup>6</sup> Decree No. 145-2000, Official Journal of 21 November 2000.

marketing coffee. The IHCAFE's mission is to promote the Honduran coffee grower's socio-economic return by developing the competitiveness of the agribusiness coffee chain.<sup>7</sup>

4.11. The Central American Agricultural Policy (PACA), approved in 2007, is an integral part of Honduran agricultural policy. Apart from Honduras, Costa Rica, El Salvador, Guatemala and Nicaragua participate in the PACA, as well as Belize and Panama. The PACA's objective is to establish a coordinated regional policy which: (i) promotes conditions for the development of a modern, competitive, fair and regionally articulated Central American agriculture; (ii) contributes to the development of a sustainable Central American agriculture from the economic, social, environmental and institutional points of view; and (iii) provides for follow-up and evaluation mechanisms that ensure its effective implementation.<sup>8</sup> To this end, the PACA defines five priority areas: intra- and extra-regional trade; agricultural health and food safety; technological innovation; financing; and risk management. In the Strategic Plan for the Agrifood Sector of Honduras 2010-2014 (PEAGROH) provision is made for measures designed to achieve the PACA's objectives. The normative instruments deriving from the PACA are binding on the countries involved in the process of formation of the Central American Customs Union and wholly or partially optional for Panama and Belize.

#### 4.1.2.2 Measures affecting imports

4.12. The agricultural sector benefits from tariff protection greater than that granted to industrial products. In 2015, agricultural products (WTO definition) were subject to an average tariff of 10.7%, as compared with an average MFN applied duty of 5.9%, and an average tariff of 5.1% applied to non-agricultural products, excluding petroleum. On average, the highest duties per WTO category were applied to dairy produce and products of animal origin, with tariffs of 22.2% and 18.4% respectively. The maximum tariff is still 164% for imports of poultry meat of HS subheadings 02.07.13 and 02.07.14. The second highest rate (55%) is that applied to cigarettes (HS 24.02.20.00.00).

4.13. Honduras continues to use a price band system for products classified in seven tariff lines, such as yellow maize, white maize (up to August 2015), grain sorghum, maize flour and other worked grains (Table 4.3).<sup>9</sup> The price band system operates as a seasonal tariff that varies with the international benchmark prices of the respective products and its main purpose is to cushion the domestic-market impact of international price fluctuations. The Honduran Agricultural Marketing Institute (IHMA) is the body responsible for administering the system and monitoring price trends. Each year, the band's ceiling and floor prices are set on the basis of world prices for the product in question over the previous 60 months. Every January, the price band limits have to be approved by the IHMA Executive Committee and submitted to the Agricultural Development Council. The limits remain in force for 12 months from 1 September each year. If the world price falls below the floor benchmark price, the import tariff is raised *ad valorem* by the percentage difference between the two prices. Otherwise the MFN tariff is applied. Under Honduran legislation, the sum of the MFN tariff and the surcharge may not exceed the bound tariff rate. In such cases, the tariff is applied at its WTO bound level.

<sup>7</sup> Online information from the IHCAFE. Viewed at:

[http://www.ihcafe.hn/index.php?option=com\\_content&view=article&id=104&Itemid=116](http://www.ihcafe.hn/index.php?option=com_content&view=article&id=104&Itemid=116).

<sup>8</sup> Central American Agricultural Policy 2008-2017. Basic document for national and regional consultation, April 2007. Viewed at: <http://www.saq.gob.hn/dmsdocument/11>.

<sup>9</sup> Regulations on the Marketing of Agricultural Products, Decision No. 0105-93 of 26 February 1993.

**Table 4.3 Products subject to price bands, 2015**

Code	Description	Tariff Rate (%)	
		MFN	Bound
1005.90.20	Yellow maize	15	45
1005.90.30	White maize	15 <sup>a</sup>	50
1007.00.90	Other	15	45
1102.20.00	Maize flour	15	35
1103.13.10	Pre-gelatinized maize flour	15	35
1103.13.90	Other groats	15	35
1104.23.00	Other grains of maize, worked	5	35

a Since 6 August 2015 the tariff rate applied to white maize has been 50%.

Source: WTO Secretariat estimates, based on data provided by the authorities.

4.14. The National Staple Grains Board is tasked with developing programmes to promote the production of staple grains and forecasting domestic demand and exportable surpluses. Honduras applies a preferential import policy to maize and rice for processing, subject to a domestic market purchase requirement.<sup>10</sup> To guarantee a secure price for the producer and a fair price for the consumer, the SAG establishes purchase agreements between agribusiness and maize, sorghum and rice producers, setting quotas for purchase commitments and guaranteed minimum prices. There is a so-called "Purchase and Sale Agreement" between staple grain producers and processors that allows staple grains to be imported for processing at preferential tariffs of as low as 0%. The quantity that can be imported under preferential conditions varies in accordance with domestic supply estimates. In the case of white maize (HS 1005.90.30) a processor that buys one quintal on the domestic market can import one quintal tariff-free, while in the case of yellow maize (HS 1005.90.20) a processor that buys one quintal can import four quintals tariff-free.<sup>11</sup> In the case of rice, the quantity that can be imported duty-free is proportionate to the percentage purchase of domestic production. The preferential conditions apply only to firms that have signed the agreement. Products imported tariff-free have to be used for processing and cannot be sold on the domestic market as whole grain for human or industrial consumption to an industry that is not a party to the agreement.

4.15. Honduras does not apply tariff quotas for agricultural products within the framework of the WTO. However, it does apply preferential quotas for some products under bilateral agreements (Table A4.1).

4.16. Some products of agricultural origin, including the food products in the basic shopping basket, along with agricultural inputs, are exempt from sales tax, which is generally levied at 12%, except for certain alcoholic beverages, cigarettes and other processed tobacco products, which are taxed at 15%.

4.17. Honduras maintains a system of automatic and non-automatic import licences for the purpose of protecting plant and animal health. The importation of products and by-products of plant and animal origin also requires a non-automatic import licence.

#### 4.1.2.3 Domestic support

4.18. In the course of the review period, Honduras notified a series of agricultural support measures for implementation during the period 2009-2014, as well as the amendment of some existing measures and the introduction of other new ones.<sup>12</sup> Several of these programmes expired during the review period. In July 2015, Honduras was maintaining three domestic support programmes notified as reduction-exempt measures within the green box: the Honduras rural competitiveness project (COMRURAL); the project for improvement of the competitiveness of the rural economy in the department of Yoro (PROMECOM); and the rural development and competitiveness programme for the Southern Region (EmprendeSUR). Honduras has also maintained three measures notified as measures exempt from the reduction commitment as development programmes: the competitiveness and sustainable rural development project in the

<sup>10</sup> Decision No. 648-98, Official Journal of 28 April 1998. Viewed at: [http://faolex.fao.org/docs/pdf/hon18\\_438.pdf](http://faolex.fao.org/docs/pdf/hon18_438.pdf).

<sup>11</sup> Decision No. A-788-14 of 1 September 2014.

<sup>12</sup> WTO documents G/AG/N/HND/34 of 9 October 2013 and G/AG/N/HND/41 of 6 July 2015.

Northern Zone of Honduras (Northern Horizons) (project in the process of closing down in 2015); the production solidarity voucher project; and the agricultural irrigation development project (PDABR).<sup>13</sup>

4.19. Table 4.4 summarizes the domestic support programmes implemented during the period 2009-2014 and notified to the WTO.

**Table 4.4 Domestic support measures implemented by Honduras in 2009-2014 (June-May)**

Category	Name and description of measure	Monetary value (US\$) 2009-2014
<b>Measures exempt from the reduction commitment - "Green Box"</b>		
<b>Research services</b>		
Strengthening of local management of natural resources in the Patuca and Choluteca river basins (FORCUENCAS)	The FORCUENCAS (2009-2012) project was aimed at the conservation and sustainable management of natural resources in the Choluteca, Patuca and Negro river basins, through the strengthening of local organizations, proper application of related legislation (Forestry Law, Land Use Planning Law, Water Law) and funding to support environmental management investment projects.	99,834,670.6
<b>Training services</b>		
Honduras rural competitiveness project (COMRURAL)	Focuses on operationalizing processes and mechanisms to facilitate productive alliances, as well as on promoting organizational procedures, training, information, studies and technical support, infrastructure and productive investment so as to encourage the participation of small and medium-sized producers and create a favourable climate for them to invest in productive alliances. Co-finances viable demand-driven business plans defined on the basis of market mechanisms (see below).	24,900,000
Improvement of the competitiveness of the rural economy in Yoro (PROMECOM)	Strengthening of producers' economic organizations to create opportunities for them to increase their existing equity capital (see below).	13,400,000
EmprendeSUR project	Seeks to contribute to increased income, employment opportunities and food security for small-scale producers by facilitating their participation in value chains. To be developed over six years as from 2011.	30,000,000
<b>Marketing and promotion services</b>		
Agribusiness development programme for small and medium-sized African palm producers (PROPALMA)	Putting 7,206 ha of African palm into production, as the first stage in 28,000 ha of replanting and expansion. Implemented by the SAG, in support of small and medium-sized African palm producers by means of a palm oil production, processing and marketing chain. Setting up two oil extraction plants.	4,600,000
PYMERURAL programme	To contribute to job and income creation in rural areas in the context of rural MSMEs, by means of action to promote their integration into agribusiness chains and tourism clusters.	2,089,245
<b>Pest and disease control services</b>		
Prevention and control of highly pathogenic avian influenza	Capacity building and strengthening of the implementation of the national action plan for the prevention, control and early detection of highly pathogenic avian influenza.	292,047.61
<b>Extension and advisory services</b>		
Santa María del Real project	Preparation of the study for the Santa María del Real agricultural development project involving the creation of efficient, customized agro-industrial villages in rural areas.	74,546.55
<b>Infrastructure services</b>		
Irrigation microsystem project	Construction of 102 irrigation microsystems of less than one hectare each, in municipalities of the Francisco Morazán, Intibucá and La Paz departments.	181,490.31
<b>Measures exempt from the reduction commitment - Special and differential treatment - "Development Programmes"</b>		
<b>Investment subsidies generally available to agriculture</b>		
Irrigation enhancement project for the western Comayagua Valley micro-watershed (PROMORCO)	Seeks to raise income levels and improve food security for 1,222 families and sustainable management of natural resources on 5,188 mz (3,626 ha) of land under irrigation in the western Comayagua Valley.	7,000,000

<sup>13</sup> WTO document G/AG/N/HND/41 of 6 July 2015.

Category	Name and description of measure	Monetary value (US\$) 2009-2014
Production solidarity voucher	Seeks to contribute to food security for the rural population and generate production surpluses by increasing staple grain production through the use of appropriate technology by small producers.	26,133,573
Creation and operation of a fund for financing improved agricultural implements for small-scale staple grain producers	Provides access to credit for small and medium-sized producers in eligible departments to buy animal-drawn agricultural implements for sowing staple grains.	115,667.72
Rural Savings and Loan Associations Project (FONADERS)	Offers technical and financial support for the operation of rural savings and loan associations as a micro-finance organization, at community level, thus contributing to poverty reduction in Honduras	561,122.40
Competitiveness and sustainable rural development project in the Northern Zone of Honduras (Northern Horizons)	To increase the income, employment and food security of poor rural households in the departments of Atlántida, Cortés and Santa Barbara, while reducing their environmental vulnerability.	8,720,000
Agricultural irrigation development project (PDABR)	To improve the standard of living of the beneficiary families through increased income, job creation and greater food security, by promoting the development of agricultural irrigation.	55,190,000

Source: State Secretariat for Agriculture and Livestock; WTO documents G/AG/N/HND/34 of 9 October 2013 and G/AG/N/HND/41 of 6 July 2015, and information provided by the authorities.

4.20. The domestic support provided by Honduras between June 2009 and May 2014 totalled US\$273.9 million. The main programme in terms of disbursements was FORCUENCAS, which ended in 2012, with 36.7% of the total, followed by EmprendeSUR with 20% and COMRURAL with 14.42%.

4.21. The EmprendeSUR project is aimed at helping to increase the income and employment opportunities and food security of small-scale producers by facilitating their participation in value chains through capacity building and has three components: market access, human development and the project management unit. It is focused on the departments of Francisco Morazán, Choluteca, Valle, La Paz and El Paraíso and is funded by the International Fund for Agricultural Development (IFAD), the Organization of the Petroleum Exporting Countries (OPEC), the Central American Bank for Economic Integration (CABEI) and the Government of Honduras. The total cost has been estimated at US\$30 million. The project entered into force in June 2011, for six years, until September 2017.<sup>14</sup>

4.22. The rural competitiveness project (COMRURAL) is a Government of Honduras initiative led by the SAG, with financial support from the World Bank and the Swiss Agency for Development and Cooperation (SDC) and technical support from the United Nations Food and Agriculture Organization (FAO), within the framework of the Land Access Programme (PACTA) of the National Agrarian Institute (INA). The total funds allocated to COMRURAL amount to US\$24.9 million.<sup>15</sup>

4.23. The COMRURAL programme seeks to improve the productivity and competitiveness of the rural sector within a context of social, environmental, economic and institutional sustainability. To improve competitiveness COMRURAL employs three mechanisms: (i) the establishment of strategic productive alliances, with mutual benefit arrangements, between producer organizations and one or more commercial partners. To this end, it is proposed to establish formal ties between producers and links in the value chain; (ii) the provision of technical (financial and non-financial) services; and (iii) business plans that include investments and in which the private sector and COMRURAL both participate.

4.24. The support for productive alliances component includes the provision of technical advice for the preparation of viable business plans based on alliances between producer organizations and commercial partners in the value chain. The activities to be financed by this component include a plan for communication, information and promotion of implementation involving the various players participating in COMRURAL. Studies and research relevant to the definition of productive alliances may also be financed.

<sup>14</sup> WTO document G/AG/N/HND/40 of 28 July 2014.

<sup>15</sup> The World Bank contributed US\$22.7 million; the SDC US\$4 million; the Government of Honduras US\$1.2 million; the private sector US\$7.9 million; and rural producers US\$3.6 million.

4.25. COMRURAL also provides non-reimbursable funds for the purpose of co-financing viable business plans based on productive alliances within the framework of value chains and drawn up under the previous component. The resources of this second component must serve to supplement the financing previously granted by the private financial sector and commercial partners and the contribution made by the producer organizations. The investments that can be financed include minor infrastructure projects on farms, working capital, technical assistance and training for participating groups. Only producer organizations that receive loans from private financial institutions to co-finance business plans will be eligible to receive funds (seed capital) for support for productive investments.

4.26. COMRURAL also supports efficient project management, monitoring and evaluation, as well as the dissemination of information. The funds from this component can be used to finance management services, office equipment, and the administrative and operating expenses necessary to ensure the efficient implementation of COMRURAL and resource management activities.<sup>16</sup> The total amount received may not exceed 60% of the total cost of the business plan, with a ceiling of US\$3,500 for each participating member. At least 30% of the total funding for the project must consist of a loan from a private financial institution, while the contribution made by the beneficiary of the project must amount to at least 10% of its cost and may consist of cash and/or labour for the construction of productive infrastructure to be developed under the business plan.

4.27. According to the authorities, by mid-2015, the rural producers' organizations (OPRs) in the seven departments in which COMRURAL operates had submitted 126 business profiles, of which 78, in nine value chains, were approved.<sup>17</sup>

4.28. The PROMECOM project aims to reduce poverty among the rural population of the Yoro department. It is designed to improve the organizational capacity of small producers, position the products of the rural and indigenous poor in the market, implement land management practices and improve environmental conditions in the area. It seeks to expand the opportunities for poor rural families to generate income by financing the enterprises of participating families and their organizations.

4.29. The Northern Horizons programme consists of three components: (i) human and social development; (ii) value chains and competitiveness; and (iii) project management. The first component is centred on promoting and strengthening the production organizations and business management, building human capacity for business management and for employment and improving the living conditions of the rural poor. The value chains and competitiveness component is focused on the development of agribusinesses and rural micro-enterprises with market potential. The aim is to reduce food insecurity and environmental vulnerability and to improve capitalization and rural financial services. The rural savings and loan association are used to provide short-term financing and for identifying vulnerable groups and linking them up with rural micro-enterprises, and organizations of producers having an agribusiness with potential for incorporation in the value chains and those of the new agro-industries receive support with investment in productive assets. The programme is in the process of being closed down, with closure scheduled for November 2015, and the resources will be redirected into the PROLENCA project being negotiated, since the financing for the investment has not been finalized.

4.30. The Agricultural Irrigation Development Project (PDABR), which was set up within the framework of the Poverty Reduction Strategy and the Law for the Establishment of a Country Vision and the Adoption of a National Plan for Honduras (Decree No. 286-2009), aims to promote agricultural irrigation development at national level, thereby generating sources of employment and steady income in the rural areas and guaranteeing food and nutritional security; in addition, it is hoped to improve production levels in the areas incorporated in irrigated agriculture, thereby increasing the contribution of agricultural GDP. To achieve all this, the PDABR will facilitate access to irrigation water for 3,071 families at national level, irrigating 8,476 ha. The estimated cost

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<sup>16</sup> Viewed at: <http://www.comrural.hn/web/fuentes-de-financiamiento>.

<sup>17</sup> The nine value chains are: vegetables (28 profiles approved); special coffee (51); beekeeping sector (7); fruit trees (7); rural tourism (7); aquaculture sector (1); staple grains (6); livestock (8); and cultural products. Online information from the SAG. Viewed at: <http://www.sag.gob.hn>.

of the measure is US\$55.19 million. The PDABR entered into force in May 2013, with an implementation period ending in December 2019.<sup>18</sup>

4.31. In addition to these general programmes, small producers are being helped by means of the production solidarity and direct assistance voucher of the rural development projects. The voucher involves the donation of inputs (seed and fertilizers) for planting one *manzana* of maize, beans, rice or sorghum.<sup>19</sup> For medium-sized and large producers, the public and private banking systems offer special lines of credit, for example, through BANADESA and the Alternative Rural Financing System (SIFAR).

4.32. Agro-industrial cooperatives are exempt from payment of tariffs, including customs duties and other levies on agricultural machinery and essential inputs, provided that the items in question are not produced in Honduras under suitable conditions in terms of price, quantity and quality. These enterprises also enjoy a ten-year renewable exemption from income tax and local and municipal taxes.<sup>20</sup> The Special Law on Agricultural Investment and Rural Job Creation exempts "certain" new investment projects from the net assets tax.<sup>21</sup>

4.33. The National Agricultural Development Bank (BANADESA) is a State institution created in 1980. BANADESA provides financial resources for micro, small and medium-sized producers in the agricultural sector, as a basic source for promoting and strengthening food security and agro-industrial development. BANADESA also offers savings and loan facilities and administers trust funds.<sup>22</sup> BANADESA provides financing for staple grains, vegetables, coffee, livestock, poultry, fishing, industry, trade, African palm, irrigation, machinery and other sectors through the BANDES funds for micro, small and medium-sized producers. The funds available in 2015 totalled some US\$566.9 million.<sup>23</sup> The terms vary according to the product, with interest rates that range from 9% to 12% and repayment periods of between 1 and 10 years (Table 4.5).

**Table 4.5 BANDES funds for micro, small and medium-sized arable, livestock and industrial producers, 2015**

Item	Interest rate (%)	Term	Amount (US\$ million)
Coffee			55
Maintenance	10	Up to 1 year	35
Planting	9	Up to 7 years	20
Vegetables			
Oriental	12	Up to 1 year	15
Traditional	12	Up to 1 year	15
Root crops	12	Up to 1 year	5
Potatoes	10	Up to 1 year	5
Staple grains			32
Maize	9	Up to 1 year	10
Beans	9	Up to 1 year	10
Sorghum and maicillo	9	Up to 1 year	2
Rice	9	Up to 1 year	10
Fruit for export			40
Bananas	12	Up to 7 years	20
Rambutan and passion fruit	10	Up to 7 years	5
Melons, including watermelons	12	Up to 7 years	5
Citrus fruit, mango and avocado	10	Up to 7 years	10
African palm crops	10	According to production cycle	65
Irrigation systems	9	Up to 10 years	55
Drying and storage	9	Up to 10 years	70
Purchase of grains	9	Up to 1 year	30
Construction of storage centres and silos	9	Up to 10 years	40
Purchase of agricultural machinery	9	Up to 10 years	60
Livestock	10		40
Breeding		Up to 7 years	20
Dairy		Up to 7 years	20

<sup>18</sup> WTO document G/AG/N/HND/42 of 6 July 2015.

<sup>19</sup> The *manzana* (mz) is a unit of area approximately equal to 0.70 ha.

<sup>20</sup> Decree No. 101-87, Official Journal of 22 August 1987.

<sup>21</sup> Decree No. 322.98, Official Journal of 20 January 1990, and Decree No. 20-99, Official Journal of 7 May 1999.

<sup>22</sup> Online information from BANADESA. Viewed at: <http://www.banadesa.hn/misionvision.html>.

<sup>23</sup> Online information from BANADESA. Viewed at: [http://www.banadesa.hn/fondos\\_bandes.html](http://www.banadesa.hn/fondos_bandes.html).

Item	Interest rate (%)	Term	Amount (US\$ million)
Minor species (poultry, fishing, beekeeping, pig breeding)	10	Working capital: Up to 18 months Investment: Up to 5 years	41,856
Micro, small and medium-sized agricultural processing enterprises	10	According to ability to pay and production cycle	25
Small and medium-scale agricultural industry	12	According to ability to pay and production cycle	43
<b>Total</b>			<b>566,856</b>

Source: BANADESA, viewed at: [http://www.banadesa.hn/fondos\\_bandes.html](http://www.banadesa.hn/fondos_bandes.html).

4.34. The National Basic Products Supply Company (BANASUPRO) is an autonomous organization responsible for selling products in the basic shopping basket to regulate their prices.<sup>24</sup> Specifically, BANASUPRO: (a) purchases or manufactures consumer products for sale at reasonable prices and on appropriate conditions to the rural and urban populations; (b) organizes and operates a marketing system; (c) signs contracts with unions, cooperatives, farmers' associations, federations, and other social or professional entities to supply products for the end consumer; and (d) signs contracts with domestic and foreign enterprises for the purchase of consumer goods. BANASUPRO is authorized to import the articles it needs for its purposes completely tax-free, subject to obtaining the appropriate permit.<sup>25</sup> The authorities note that in 2015, the list of products whose prices are regulated contained 543 active items. The main agricultural products with regulated selling prices include rice, sugar, some cheeses, tomato paste, butter, milk, beans and maize flour.<sup>26</sup>

#### 4.1.2.4 Measures affecting exports

4.35. The Agricultural Export Zones (ZADE) regime was set up in 2001 to promote exports of agricultural products by establishing "agricultural export enterprises".<sup>27</sup> This regime has been suspended; however, its suspension was not made retroactive for existing beneficiaries. On 1 January 2015, there was only one beneficiary (Sociedad Mercantil Exportadora del Atlántico S.A.).<sup>28</sup> ZADEs could be located anywhere in the country. Eligible enterprises were exempt from all import duties and internal taxes on the goods they imported and/or exported; they were also exempt from income tax.

4.36. Honduras has notified the WTO that it did not subsidize any agricultural exports between 2009 and 2013.<sup>29</sup> The promotion of agricultural exports is the responsibility of the Agricultural Business Promotion Centre (CPNA), whose priorities are to provide information about markets and facilitate marketing and financing for exporters.

4.37. Honduras does not impose taxes on exports. Coffee exports and production for roasting are subject to a levy of US\$9 per quintal intended for the Honduran Coffee Institute (IHCAFE). This levy can be deducted as an expense against income tax.<sup>30</sup>

<sup>24</sup> Decree-Law No. 1.049, of 15 July 1980, Law on the National Basic Products Supply Company (BANASUPRO) (Official Journal No. 23179 of 13 August 1980).

<sup>25</sup> Online information from BANASUPRO. Viewed at: [http://www.banasupro.org/files/funciones\\_de\\_banasupro.pdf](http://www.banasupro.org/files/funciones_de_banasupro.pdf).

<sup>26</sup> Online information from BANASUPRO. Viewed at: [http://www.banasupro.org/files/lista\\_de\\_precios.pdf](http://www.banasupro.org/files/lista_de_precios.pdf).

<sup>27</sup> Decree No. 233-2002 of 1 February 2002.

<sup>28</sup> Online information from the State Secretariat for Finance. Viewed at: [http://www.sefin.gob.hn/wp-content/uploads/2015/01/Registro\\_ZADE.pdf](http://www.sefin.gob.hn/wp-content/uploads/2015/01/Registro_ZADE.pdf).

<sup>29</sup> WTO documents G/AG/N/HND/36 of 15 May 2014 and G/AG/N/HND/98 of 22 July 2014.

<sup>30</sup> The export duty of US\$13.25 is used as follows: US\$2.75 as a contribution to the IHCAFE and the Coffee Fund (Decree No. 213-2000); US\$0.5 for loan repayment (Decree-Law No. 292 297-2002); US\$9 for the producer trust fund and voluntary capitalization fund (Decree No. 152-2003 and Amendment No. 56-2007); and US\$1 to repay other debt (Decree No. 143-2008).

## 4.2 Electricity

### 4.2.1 General features

4.38. Electricity, which in Honduras is classified together with gas and water, accounted for 2.4% of total GDP in 2014. The subsector has undergone major changes since the previous Trade Policy Review. These changes include the approval of a new law and the creation of a new regulator.

4.39. The electricity subsector continues to be dominated by the operations of the National Electricity Company (ENEE), a vertically integrated autonomous State-owned company which has been responsible for generating, marketing, transmitting and distributing electricity in Honduras since 1957. The ENEE still has a monopoly on the last three of the above-mentioned activities, but not on generation, where several private Honduran-owned companies participate under contracts with the ENEE and are responsible for generating more than 60% of the country's power (Box 4.1). Power is mainly generated and supplied through the National Interconnected System (SIN). SIN operations are coordinated through the ENEE's National Dispatch Centre, which is tasked with determining the amount of power that has to be generated by the power plants. The Dispatch Centre coordinates generation in Honduras and energy trading with Nicaragua, Costa Rica, Panama and El Salvador.

#### Box 4.1 Composition of the Honduran electricity subsector

The generating stations of the Honduran electrical system have an installed capacity of 1,899 MW (August 2015). Out of this total capacity, 24.5% (464.4 MW) corresponds to ENEE-owned hydroelectric plants, 8.8% (167.3 MW) to private hydroelectric plants, 4.5% (84.6 MW) to ENEE-owned thermal plants, 20.2% (385.9 MW) to private thermal plants, 8.8% (171.3 MW) to private biomass plants, 9.2% (175.5 MW) to private wind-power plants, and 24% (455.2 MW) to private photovoltaic plants.

The following private generating companies are operating in Honduras:

- ELCOSA (medium-speed diesel plants) with 80 MW of generating capacity;
- EMCE II with 55 MW (medium-speed diesel plants) and 86 MW (medium-speed diesel plants, owned by ENEE, but operated by EMCE);
- LUFUSSA I with 39.5 MW (gas turbine), LUFUSSA II with 80 MW (medium-speed diesel plants) and LUFUSSA III with 231 MW (medium-speed diesel plants);
- ENERSA with 220 MW (medium-speed diesel plants). In addition, private leasing accounts for 82.4 MW.

Source: ENEE.

4.40. The main indicators for the Honduran electricity subsector are set out in Table 4.6.

**Table 4.6 Main electricity subsector indicators, 2010-2015**

	2010	2011	2012	2013	2014	2015 <sup>a</sup>
Installed capacity (MW) <sup>b</sup>	1,610	1,781	1,783	1,806	1,850	1,899
National Interconnected System SIN (MWh)	6,746,760	7,168,586	7,578,263	7,938,355	8,092,068	5,688,046
State hydroelectric	2,707,504	2,468,570	2,399,389	2,275,066	1,882,110	1,119,894
State thermal	23,379	25,431	38,069	131,467	40,752	29,738
Purchased power	4,015,713	4,673,680	5,140,805	5,531,821	6,169,206	4,538,415
Private hydroelectric	372,782	346,539	387,310	464,147	720,268	435,250
Private thermal	3,472,674	4,001,644	4,157,857	4,450,480	4,595,330	3,097,857
Biomass	148,109	164,539	181,521	192,371	176,789	247,188
Wind	n.a.	116,668	338,283	310,234	398,306	499,823
Photovoltaic	n.a.	n.a.	n.a.	n.a.	n.a.	164,199
International purchase	22,148	44,289	75,833	114,590	278,513	94,098
Maximum demand (MW)	1,245	1,240	1,282	1,336	1,383	1,445
Generation (GWh) (SIN)	6,724	7,123	7,502	7,824	7,814	5,565
Hydroelectric	3,080	2,815	2,787	2,739	2,602	1,555
Public	2,708	2,469	2,399	2,275	1,882	1,120
Private	373	347	387	464	720	435
Thermal	3,496	4,027	4,196	4,582	4,636	3,128
Public	23	25	38	131	2	30
Private	3,473	4,002	4,158	4,450	4,595	3,098
Biomass	148	165	182	192	177	247

	2010	2011	2012	2013	2014	2015 <sup>a</sup>
Wind	0	117	338	310	398	500
Photovoltaic	0	0	0	0	0	135
Energy purchased by ENEE (US\$)	2,013,123	6,648,744	13,952,674	114,590	45,702,164	8,566,356
Net imports (MWh)	22,148	42,734	75,833	19,468,900	320,360	94,098
Number of customers	1,273,020	1,334,604	1,401,507	1,481,599	1,552,951	1,629,474 <sup>c</sup>
Total investment by ENEE (L 1,000)	481,101	1,820,326	1,771,877	1,272,620	1,958,983	1,676,615
Average price, residential sector (L/KWh)	2.29	2.61	2.82	2.8	2.9	3.2

n.a. Not available.

a January-August.

b Total of local production and net electricity imports.

c October 2015.

Source: Information provided by the Honduran authorities.

4.41. Honduras participates in the SIEPAC (Central American Electrical Interconnection System) project, which involves the creation and implementation of a Central American wholesale electricity market and the development of the first regional transmission system. Honduras, together with Guatemala, El Salvador, Nicaragua, Costa Rica and Panama, has ratified the Framework Treaty on the Central American Electricity Market, in force since January 1999, which is aimed at establishing a regional electricity market (MER) for the transmission and the buying and selling of electricity. The Regional Electrical Interconnection Commission (CRIE) is tasked with ensuring implementation of the principles of the Framework Treaty and the subsequent regulations, while the Regional Operating Entity (EOR) is responsible for the technical operation and the commercial aspects of the regional market. Both entities were formally established in 2000.

#### 4.2.2 Legal and institutional framework

4.42. The formulation and approval of electrical subsector policies is the responsibility of the Energy Cabinet, consisting of the President of the Republic and the State Secretaries for Natural Resources and the Environment; Economic Development; Finance; and Infrastructure and Public Services. The State Secretariat for Natural Resources and the Environment (SERNA) is responsible for approving energy purchase and sale contracts with generating companies, as well as bidding contracts. The National Congress has an Energy Committee which oversees electricity legislation.

4.43. At the end of 2015, the National Energy Commission (CNE), a decentralized SERNA agency, was still the body responsible for implementing and monitoring compliance with the laws and regulations governing the activities of the electricity subsector, as well as for submitting the short-term marginal cost (generating cost) to SERNA for approval and for putting it into effect. The functions of the CNE included approving busbar tariffs and those for the end consumer, together with their respective adjustment formulas.

4.44. During most of the review period, the industry's activities (electricity generation, transmission, distribution and marketing) were governed by the Framework Law on the Electricity Subsector (Decree No. 158-94) of 4 November 1994 and by its implementing Regulations (Official Journal No. 27.953 of 11 May 1996), as amended by Decrees No. 131-98 and 89-98. Under this legal framework, electricity generation was opened up to public, private and semi-public companies, with no restrictions on nationality. Distribution was also opened up to the private sector; distributors had to sign power supply contracts with the generating companies for terms of not less than five years and could not have generating facilities. Transmission was reserved by law for the State, which managed the operation of the Transmission System and the Dispatch Centre. The ENEE was the only entity authorized to import electricity.

4.45. The 1994 Law stipulated that the user tariff was to have three components, namely: generation, transmission and value added for distribution; the busbar tariff (calculated as the average marginal cost over a period of five years) included the generation and transmission components. Under the Law, the busbar tariffs had to be calculated by the generating companies and approved by the CNE, but in practice the generation cost was determined by the ENEE in

accordance with a dynamic model. The transmission and distribution components were added to obtain the total tariff.

4.46. The Framework Law on the Electricity Subsector provided for the application of cross-subsidies for residential users consuming less than 300 kWh per month. As a result of this cross-subsidy, users consuming between 101 and 300 kWh were charged 80% of the total cost and those consuming between 0 and 100 kWh were charged 45%. These subsidies were financed from the payments made by non-residential users or large residential users. In addition, the Government granted another subsidy, amounting to L 275 million per year, to residential customers consuming less than 300 kWh per month.

4.47. The main change during the review period was the enactment of the General Law on the Electricity Industry (Decree No. 404-2013) of 20 January 2014, which replaced the previous law of 1994. This Law abolishes the exclusive rights assigned to the ENEE in relation to transmission and liberalizes the electricity market. In general, the new Law is intended to regulate: the generation, transmission, distribution and marketing of electricity in Honduras; the importing and exporting of electricity (in a way that supplements the provisions of the relevant international treaties); and the operation of the national system, including its relationship with those of neighbouring countries and the Central American regional power system and electricity market. The Law identifies the generating, distributing and marketing companies, together with the consumers, as actors in the national electricity market.

4.48. The new Law creates the Electricity Regulatory Commission (CREE), as a decentralized entity of the Sectoral Ministry of Economic Management and Regulation, with operational and budgetary independence and administrative powers sufficient to ensure the technical and financial capacity necessary to achieve its objectives. The Law stipulates that the CREE is to consist of three commissioners appointed by the President of the Republic, on the proposal of a Nominations Committee.<sup>31</sup> The commissioners must remain in office for a period of seven years, renewable for another equal term.

4.49. The CREE performs the following functions: to enforce and monitor compliance with the laws and regulations governing the electricity subsector; to impose the appropriate sanctions on enterprises and users governed by the Law in the event of infringements; to issue the rules and regulations necessary to improve the implementation of the Law and the proper functioning of the electricity subsector; to grant operating licences for transmission and distribution; to define the methodology for calculating transmission and distribution tariffs, oversee their application, and approve, publish and put into effect the resulting tariffs; to establish the discount rate, the unit cost of the energy not supplied, and the hourly blocks to be used for calculating tariffs; to approve bidding conditions, to supervise the processes for the purchase of power and energy by distributors and to approve the power and energy contracts that result from these processes; to approve requests from customers to be classified as a qualifying consumer; to approve, for distributors, the volume of energy to be invoiced monthly under the heading of street lighting; and to prevent anti-competitive, monopolistic or discriminatory behaviour by the participants in each stage of the electricity supply service, including producers and users.

4.50. The CREE is also responsible for maintaining the Public Register of Electricity Sector Companies. In the interests of greater transparency, the law stipulates that the CREE must publish the decisions it adopts and submit to the Government and the National Congress an annual report on its activities. Under the General Law on the Electricity Industry (LGIE), the CREE is responsible for preparing draft rules of procedure, to be submitted to the President of the Republic for approval. This draft was prepared by the CREE within the period laid down by law, approved by the President of the Republic on 23 October 2015, and later published in the Official Journal (*La Gaceta*).<sup>32</sup> These rules reaffirm the obligation upon the CREE to publish its acts and decisions.

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<sup>31</sup> The Nominations Committee will consist of: a person appointed by the Rectors of the national universities, public and private, who will preside; a person appointed by the Honduran Federation of Private Development Organizations (FOPRIDEH); a person appointed by the Honduran Private Enterprise Council (COHEP); a person appointed by the Honduran Institute of Mechanical, Electrical and Chemical Engineers (CIMEQH); and a person appointed by the Federation of University Professional Associations.

<sup>32</sup> Rules of Procedure of the CREE (Executive Decision No. 017-2015) of 23 October 2015.

4.51. The CREE is financed by imposing a monthly electricity sales tax on every distributor. All the distribution companies, or the National Electricity Company (ENEE) while these companies are being created, must make available to the CREE, in the first five days of each month, 0.25% of the total amount they have invoiced in the month prior to the preceding month. This charge may be transferred to the final electricity distribution tariffs, if authorized by the CREE.

4.52. To operate in the electricity subsector, companies must be authorized by the CREE. The authorization may impose conditions on the companies with regard to leaving the subsector or taking their installations out of service or reducing their capacity. Generating and marketing companies must be enrolled in the CREE's Public Register of Electricity Sector Companies. Generating companies that use hydro resources must obtain the corresponding water utilization rights concession, in accordance with the provisions of the Law on Incentives for Renewable Energy Generation (Decree No. 70-2007) and amendments thereto, and the General Water Law. The concession specifies the period, conditions and scope and the corresponding area in which the renewable natural resource is located and the process infrastructure. For all generating companies that use renewable energy sources the duration of the respective concession, the licence to use the non-hydro renewable resource and the environmental permit will be equal to the economic life of the project, as defined by the CREE by means of regulatory provisions. Transmission and distribution companies, in addition to being enrolled in the Public Register of Electricity Sector Companies, must request and obtain a public electricity service operating licence from the CREE.

4.53. Operating licences for transmission and distribution services are granted by the CREE, subject to verification of the applicant's technical and financial capacity, for a minimum period of 30 years and are renewable provided that application is made at least one year before the licence expires. Renewal is quasi-automatic, since the CREE can refuse only for good cause on the basis of a technical and legal opinion. If it can be anticipated that, for some reason, an operating licence for transmission or distribution is going to come to an end, without renewal or extension, then the State must, sufficiently in advance, issue an international public invitation to tender for the purpose of awarding the licence to another company. The CREE must supervise this process.

4.54. Under the new Law the CREE may grant study permits for building generating plants that have to use renewable natural resources. The permits are valid for two years, once renewable for the same period of time, and confer exclusivity; the granting of these permits may be made subject to economic conditions.

4.55. The Law provides for an entity known as the "System Operator" to be responsible for the operation of the national electrical system. This will be a non-profit public, private or semi-public entity with technical capabilities. The stake in the equity of the System Operator which can be held by any company with electrical systems that form part of the Regional Electricity Market may not exceed a maximum of 5% of the voting shares of the equity in question and no economic group may hold or control more than 10% of the capital or have the power of appointment to the management bodies. The structure of the System Operator will include a Market Agents Committee to provide periodic assessments of its performance and propose measures for improving the functioning of the electrical system and the market. The Committee consists of representatives of the generating, distributing and marketing companies and the qualifying consumers.

4.56. The main function of the System Operator is to guarantee a safe and continuous supply of electricity and the proper coordination of the generation and transmission system at minimum cost over the full range of electricity market operations. The Operator must also exercise supervision and control over the operations of the SIN and is required to administer a "casual" electricity market on which the price for each operating interval is equal to the marginal cost determined on the basis of the dispatching at minimum cost realized by the Operator. All owners of generating plants and buyers who have acquired the right to their output are obliged to place all the available capacity of their plants at the service of the System Operator, by submitting their variable costs.

4.57. The new Law separates the various activities of the electricity industry. It stipulates that distributors may not own generating plants, except in exceptional cases which must be certified by the CREE. Moreover, a distributor's total installed generating capacity may not exceed 5% of its maximum power demand. It is also specified that transmission companies may not participate, directly or indirectly, in companies engaged in electricity generation, distribution or marketing activities.

4.58. The Law requires that the tariffs reflect the generation, transmission, distribution and other costs of providing the electricity service and that their discount rate be the real rate of the cost of capital determined by the CREE. The new Law does not contain any provisions with respect to subsidies or cross-subsidies. The State abolished the application of subsidies to electricity tariffs as from the end of 2014; however, it grants subsidies to those users who consume less than 75 kWh per month, the subsidy being provided directly through the State Secretariat for Social Development and applying only to families identified by the Government as living in poverty or extreme poverty.

4.59. In August 2015, the CREE was not yet operational. In June 2015, the President of the Republic had appointed the members of the CREE.

4.60. The authorities have been promoting the implementation of renewable energy projects by means of a series of tax incentives. These include: exemption from sales tax on equipment, accessories and spare parts during the pre-investment and construction period; exemption from the payment of import taxes, charges, tariffs and levies, during the pre-investment and construction period; for projects of up to 50 MW, exemption from the payment of income tax, the temporary solidarity contribution, the net assets tax, and all taxes related to income over a ten-year period from the commencement of commercial operation; relief from taxes on temporary importation; exemption from income tax and withholdings on payments for services or fees agreed with foreign natural or legal persons, necessary for studies, development, installation, engineering, administration and construction, and monitoring of the renewable energy project.

4.61. Incentives are also granted with regard to the sale of energy through concession of the right to sell to the ENEE under a renewable energy supply contract (PPA), with a maximum duration of 20 years for projects up to 50 MW and 30 years for those that exceed that capacity. The Law stipulates that projects of less than 3 MW may be exempted from the need to sign an operating contract under a simplified procedure to be established by the SERNA.<sup>33</sup> The base price for the energy is established in the contracts in accordance with the short-run marginal cost (CMCP) in effect at the time of signature. For the first ten years, there is an incentive of 10% above the base price for projects of up to 50 MW. The base price is indexed annually in accordance with the United States inflation index, up to an annual maximum of 1.5%.

### 4.3 Services

#### 4.3.1 Financial services

##### 4.3.1.1 Banking

4.62. At the end of 2015, the national financial system (SFN) comprised 92 banking and non-banking institutions, including the Central Bank of Honduras (BCH).<sup>34</sup> The financial assets of the SFN amounted to a total of L 406,673.3 million in 2014.<sup>35</sup> In 2015, the following were operating in Honduras: 17 commercial banks, 11 of them foreign-owned; one State bank (National Agricultural Development Bank (BANADESA)); two second-tier State-owned entities (Honduran Bank for Production and Housing (BANHPROVI)<sup>36</sup> and Private Contributions Regime); and two representative offices of foreign banks. In 2014, the commercial banks managed around 96.8% of the total assets of the SFN, with 58.7% being concentrated in the foreign-owned banks. Since 2010, the banking market has been characterized by a high level of concentration. In 2014, the six biggest commercial banks were handling 79.3% of assets, 79.1% of the loan portfolio and 81.2% of deposits.<sup>37</sup>

<sup>33</sup> Online information from the CNE. Viewed at:

<http://www.cne.gob.hn/proyectos/incentivos?download=76%3Aincentivos-fiscales>.

<sup>34</sup> The list of institutions can be viewed at: <http://www.cnbs.gob.hn/files/boletines/listainst.pdf>.

<sup>35</sup> National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf).

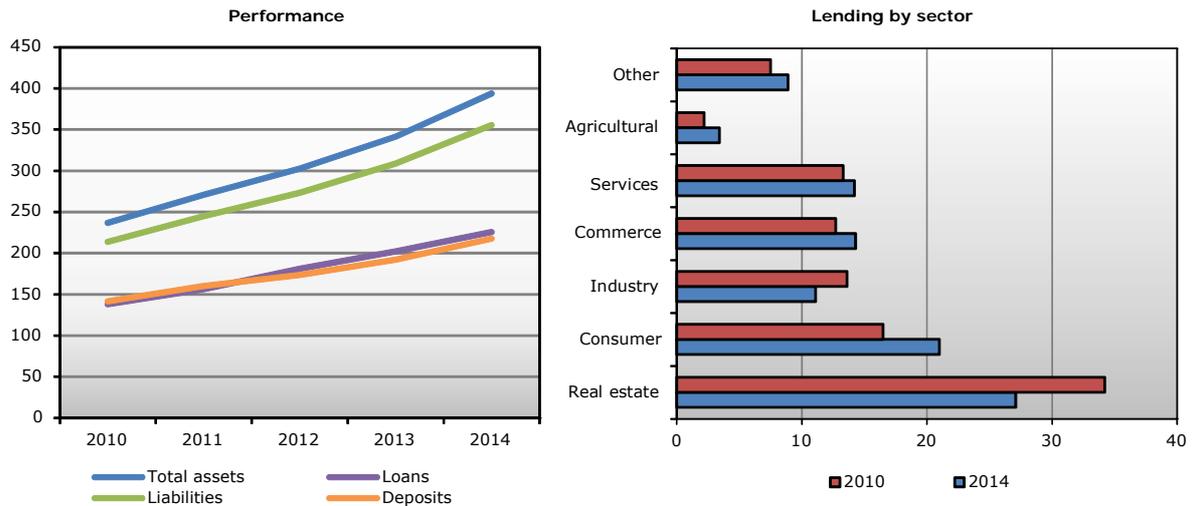
<sup>36</sup> Since 2014, BANHPROVI has been able to grant direct loans, but at the end of 2015 had not yet operated as a first-tier bank (Section 3.3.1.3).

<sup>37</sup> National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf) and Central American Monetary Council (2015), *Informe del Sistema Bancario de Centroamérica, República Dominicana y Panamá 2014*. Viewed at: <http://www.secmca.org/INFORMES/11%20EFR/EFR2014.pdf>.

4.63. The total assets of the commercial banks amounted to L 393,763 million in 2014 (Chart 4.1). During the review period, there was no substantial change in asset structure: in 2014, the loan portfolio was still the most significant asset with a 57.4% share of total assets, followed by investments (15.2%) and liquid assets (11.2%). Funds deposited by the public amounted to L 217,891 million in 2014, representing 61.3% of total liabilities (Chart 4.1). During the period 2010-2014 both total assets and deposits were mostly denominated in the local currency. However, the percentage share of foreign-currency assets and deposits increased over the period in question.<sup>38</sup> The majority of lending was in the local currency.

**Chart 4.1 Private banking indicators, 2010-2014**

(L million and % of total loans)



Note: The authorities point out that the services sector relates to tangible goods (for example, electricity, transport, and communications).

Source: National Banking and Insurance Commission (various years), *Memoria*. Viewed at: <http://www.cnbs.gob.hn/index.php/publicaciones/memorias-anuales>, and information provided by the authorities.

4.64. In 2014, direct loans<sup>39</sup> granted by the commercial banks amounted to L 208,467 million, while total loans reached L 225,694 million.<sup>40</sup> There were no significant changes in the destination of the loans during the review period (Chart 4.1). Lending to industry and for real estate transactions decreased, while lending to finance other activities increased.

4.65. Financial spreads continued to be relatively high. In 2014, the weighted average lending rate (in both currencies, local and foreign) was 14.4% while the weighted average deposit rate was 5.2%, corresponding to a spread of 9.2% (Section 1).<sup>41</sup>

4.66. Between 2010 and 2014 the total capital of the commercial banks increased from L 22,932 to L 38,172 million. Since 2010, the commercial banks have had sound balance sheets with a capital adequacy ratio (CAR) that exceeds the minimum requirement of 10%.<sup>42</sup>

<sup>38</sup> National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf) and National Banking and Insurance Commission (2011), *Memorias 2010*. Viewed at: <http://www.cnbs.gob.hn/files/memoria/MEMORIA2010.pdf>.

<sup>39</sup> Include only the capital (not interest).

<sup>40</sup> National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf).

<sup>41</sup> National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf).

<sup>42</sup> Regulations on the capital adequacy of banks, savings and loan associations and finance companies. Circular CNBS No. 005/2009 of 13 January 2009.

In December 2014, the CAR stood at 14.6%. In 2014, all the banks met the minimum CAR requirement.<sup>43</sup>

4.67. In December 2014, the Honduran banking system had not yet returned to the levels of return on assets (ROA) and return on equity (ROE) recorded before the international financial crisis. The ROA was 1.9% (2.5% pre-crisis) and the ROE was 16.8% (25.7% pre-crisis). In 2014, the commercial banking system had a liquidity ratio of a little over 20%, which comfortably met the prudential requirements in force. Default risk improved substantially over the review period. The non-performing loan ratio, which had reached 6.9% in December 2010, fell to 3.3% in December 2014.<sup>44</sup>

4.68. Where prudential standards are concerned, the Honduran banking system makes use of the Basel principles.<sup>45</sup> According to the CNBS, Honduras applies the Basel principles; however, according to the authorities, it has not yet been possible to implement all of them.<sup>46</sup> The CNBS is taking steps to implement Basel II and III.

4.69. The banking system's regulatory bodies are the CNBS, through the Supervisory Authority for Banks, Finance Companies and Savings and Loan Associations, and the BCH. The Supervisory Authority oversees 32 financial institutions: 17 commercial banks, one State-owned bank, ten finance companies, two representative offices of foreign banks, and two second-tier institutions. The CNBS is authorized to determine the prudential requirements, in particular the solvency ratio. The Commission may order the compulsory liquidation of a bank whose solvency ratio is less than 60% of the level required.

4.70. The financial institutions continue to be governed by the 2004 Law on the Financial System.<sup>47</sup> No amendments were made to this law during the review period.

4.71. Honduras authorizes the commercial presence of foreign banks through legally established branches and representative offices; both are subject to the national legislation and the reciprocity principle. Branches must have two legal representatives permanently domiciled in Honduras. The CNBS resolution authorizing the operation of a financial institution must be recorded in the Business Register.

4.72. The CNBS authorizes the establishment of commercial banks, subject to a favourable opinion from the BCH based on an economic needs test. Applications for authorization require security equivalent to 10% of the fixed capital it is planned to invest to be deposited in the BCH or invested in government securities. Moreover, foreign institutions must invest their fixed capital in Honduras.<sup>48</sup>

4.73. Commercial banks, both Honduran and foreign, must be set up as a closed-end public limited company. The minimum fixed capital must be paid up before operations begin and is determined by the CNBS, subject to a favourable opinion from the BCH. In 2013, the Commission increased the minimum amount required for commercial banks, which rose from L 300 million to L 400 million, and gave already established banks a period of up to two years in which to comply

<sup>43</sup> National Banking and Insurance Commission (2011), *Memorias 2010*. Viewed at: <http://www.cnbs.gob.hn/files/memoria/MEMORIA2010.pdf>, and National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf).

<sup>44</sup> National Banking and Insurance Commission (2011), *Memorias 2010*. Viewed at: <http://www.cnbs.gob.hn/files/memoria/MEMORIA2010.pdf>, National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf), and Central American Monetary Council (2015), *Informe del Sistema Bancario de Centroamérica, República Dominicana y Panamá 2014*. Viewed at: <http://www.secmca.org/INFORMES/11%20EFR/EFR2014.pdf>.

<sup>45</sup> Online information from the CNBS. Viewed at: <http://www.cnbs.gob.hn/index.php/marco-legal/normas-y-practicas-internacionales/29-principios-basicos-para-una-supervision-bancaria-efectiva-principios-basicos-de-basilea>.

<sup>46</sup> The authorities have noted that three of the 25 principles were rated materially non-compliant (these were: country and transfer risks; market risk; and interest rate risk). The other principles are rated largely compliant.

<sup>47</sup> Law on the Financial System (Decree No. 129-2004) of 21 September 2004.

<sup>48</sup> Articles 6-8 and 20 of Decree No. 129-2004.

with the new threshold.<sup>49</sup> The CNBS can adjust the minimum every two years, but this period may be reduced if the macroeconomic situation so requires, subject to the prior opinion of the BCH.<sup>50</sup>

4.74. Commercial banks, both Honduran and foreign, may open (and/or close) branches, agencies and other types of institutions for offering financial services, provided that they inform the CNBS. The Commission may limit or prohibit the opening of branches or agencies for lack of capital or reserves.<sup>51</sup> According to the authorities, no opening of an office has been limited or prohibited since 2010.

4.75. Mergers and acquisitions between commercial banks are permitted.<sup>52</sup> In the case of a merger, application must be made to the Commission for the Defence and Promotion of Competition (CDPC), which transmits it to the BCH. If the BCH expresses a favourable opinion, the application is forwarded to the CNBS, which authorizes the merger. The share transfer requires the authorization of the CNBS if it presupposes a change of control in the institution or if a single shareholder acquires an amount equal to or greater than 10% of the registered capital.

4.76. Banks are required to notify the CNBS if they intend to make investments amounting to 5% or more of their registered capital. Moreover, some investments must be kept within certain limits; banks may not invest more than 20% of their capital and reserves in shares or more than 40% in the cost of their movable property, equipment or real estate. Likewise, loans extended to persons domiciled abroad must be approved by the BCH.<sup>53</sup> Furthermore, a bank may not grant loans for more than 30% of its capital to related parties.<sup>54</sup>

4.77. Deposits in commercial banks are insured for a maximum of US\$9,632.92 (or its equivalent in local currency).

4.78. In addition, Honduras has five private financial development organizations (OPDFs), which, on 31 December 2014, held L 1,564.9 million in assets. The credit granted by these five organizations amounted to L 1,095 million. Most of these loans were made to finance coffee trading and coffee growing. According to the authorities, the requirements for establishing an OPDF have not changed since 2010. The minimum capital varies between L 1 million and L 10 million, depending on whether the OPDF is first- or second-tier. Foreign capital may be invested and there is no minimum percentage for foreigners.<sup>55</sup> Moreover, at the end of 2014, there were four remittance companies in operation, transferring funds inside and outside the country. These companies received L 28,724.2 million in family remittances, an increase of 39.3% as compared with 2013.<sup>56</sup>

4.79. The Law on the Financial System continues to govern "authorized financial groups", which are regulated by the CNBS. The Law allows two or more legal persons engaged in activities of a financial nature to organize as an "authorized financial group" provided that: (i) at least one of them is a financial system institution authorized under the Law; and (ii) there is common control in matters of ownership, management, administration or use of corporate image, or if there are no such relationships, then under an agreement they decide to maintain common control or act as a decision-making unit. At the end of 2014, there were eight authorized financial groups operating in Honduras, involving a total of 39 companies. According to the authorities, each group was headed by a bank. In September 2014, the eight financial groups had L 268,463.5 million in assets and L 236,696.1 million in liabilities.

<sup>49</sup> The minimum requirements were also increased for savings and loan associations (from L 70 million to L 90 million) and finance companies and other institutions habitually involved in financial intermediation (from L 50 million to L 60 million).

<sup>50</sup> Articles 5 and 36 of Decree No. 129-2004, CNBS Circular No. 080/2013 of 3 May 2013, and WTO document WT/TPR/S/234/Rev.1 of 15 October 2010.

<sup>51</sup> Article 16 of Decree No. 129-2004.

<sup>52</sup> OECD/IDB (2011), *Competition Law and Policy in Honduras: A Peer Review*. Viewed at: <http://www.oecd.org/daf/competition/49733321.pdf>.

<sup>53</sup> Articles 47 and 48 of Decree No. 129-2004.

<sup>54</sup> Article 63 of Decree No. 129-2004.

<sup>55</sup> WTO document WT/TPR/S/234/Rev.1 of 15 October 2010.

<sup>56</sup> National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf).

#### 4.3.1.2 Insurance

4.80. The insurance market consists only of private companies. At the end of 2015, there were 11 active insurance companies, six of which were foreign-owned. In Honduras, insurance companies may offer personal insurance (life, health, disability) or insurance against damage to property, or both types of insurance.<sup>57</sup> There are no local reinsurance companies.<sup>58</sup> During the review period, the insurance market remained highly concentrated. In 2014, six insurance companies were managing 81.3% of total assets and 84.6% of premiums.<sup>59</sup>

4.81. Between 2010 and 2014, the assets of the Honduran insurance companies increased by L 9,131 million to L 12,477 million. Total net premiums reached L 8,000 million in 2014 (Chart 4.2). Although premiums increased during the review period, the insurance penetration rate (or percentage of premiums in relation to GDP) remained below 2%.<sup>60</sup> During the review period, despite having decreased, damage insurance accounted for the largest share of the market (Chart 4.2). In 2014, the annual per capita expenditure on insurance was L 912.43. In the same year, reinsured premiums accounted for 45.6% of total premiums.<sup>61</sup>

4.82. The subsector's legal and institutional framework has not undergone any substantial changes since 2010. Insurance and reinsurance services are governed by the Law on Insurance and Reinsurance Institutions<sup>62</sup> and the resolutions of the CNBS. The Commission, through the Insurance and Pensions Supervisory Authority, supervises and monitors the activities of the insurance and reinsurance companies, together with those of intermediaries.

4.83. Honduras allows the commercial presence of foreign insurance companies in the form of legally established branches. Branches may be established if the parent company is subject to prudential standards similar to or stricter than those employed in Honduras and has sufficient capital to meet the obligations contracted in Honduras.<sup>63</sup> The establishment of insurance companies is authorized by the BCH, subject to a favourable opinion from the CNBS based on an economic needs test. In addition to meeting the requirements applicable to local companies, foreign companies must deposit security equivalent to 10% of the fixed capital that it is planned to invest. This sum must be deposited in the BCH or invested in government securities. Likewise, the fixed capital must be invested in Honduras.<sup>64</sup>

<sup>57</sup> Article 8 of Decree No. 22-2001.

<sup>58</sup> A.M. Best Company (2013), *Latin America Insurance Regulators Evolve With Growing, Changing Markets*, May. Viewed at: [http://www.ambest.com/latinamerica/pdfs/SR\\_2013\\_453\\_LatAm\\_Regulations\\_esp.pdf](http://www.ambest.com/latinamerica/pdfs/SR_2013_453_LatAm_Regulations_esp.pdf).

<sup>59</sup> National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf).

<sup>60</sup> MAPFRE Foundation (2013), *El mercado asegurador latinoamericano 2012-2013*, December. Viewed at: [https://www.fundacionmapfre.org/fundacion/es\\_es/images/mercado-asegurador-ltinoamericano-2012-2013-esp\\_tcm164-49381.pdf](https://www.fundacionmapfre.org/fundacion/es_es/images/mercado-asegurador-ltinoamericano-2012-2013-esp_tcm164-49381.pdf).

<sup>61</sup> National Banking and Insurance Commission (2015), *Memorias 2014*. Viewed at: [http://www.cnbs.gob.hn/files/memoria/Memoria\\_2014.pdf](http://www.cnbs.gob.hn/files/memoria/Memoria_2014.pdf).

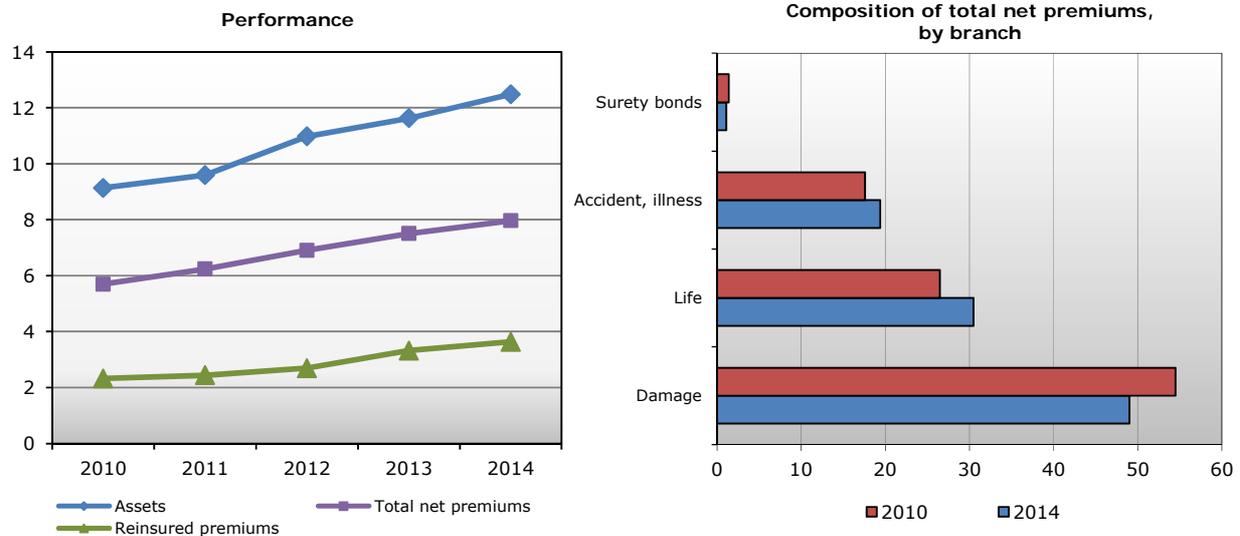
<sup>62</sup> Law on Insurance and Reinsurance Institutions (Decree No. 22-2001) of 30 April 2001.

<sup>63</sup> Articles 21 and 22 of Decree No. 22-2001. The authorization requirements, procedure and requirements for the establishment of branches of foreign institutions in Honduras are contained in Decree No. 22-2001 and the Regulations on the Establishment of Branches of Foreign Insurance Institutions issued by the BCH (Resolution No. 448-12/2003 of 18 December 2003).

<sup>64</sup> Articles 10-12 and 22 of Decree No. 22-2001.

**Chart 4.2 Insurance subsector indicators, 2010-2014**

(L million and % of total)



Source: National Banking and Insurance Commission (various years), *Memoria*. Viewed at: <http://www.cnbs.gob.hn/index.php/publicaciones/memorias-anuales>, and information provided by the authorities.

4.84. Insurance and reinsurance companies must be set up as closed-end public limited companies.<sup>65</sup> These require a minimum amount of fixed capital determined by the BCH, subject to a favourable opinion from the CNBS. In 2013, the BCH increased the minimum amount of capital and accorded a period of up to one year for already established companies to meet the new requirements (Table 4.7). The minimum capital must be deposited at the commencement of operations.

**Table 4.7 Minimum fixed capital for the establishment of insurance companies, 2010 and 2015**

	2010	2015
Companies offering general and personal insurance services	L 25 million	L 60 million
Companies offering all types of insurance	L 50 million	L 120 million
Reinsurers	L 70 million	L 165 million

Source: Central Bank Resolution No. 30-1/2013 of 29 April 2013, and WTO document WT/TPR/S/234/Rev.1 of 15 October 2010.

4.85. To be able to practice as an insurance agent or broker it is necessary to obtain the authorization of the CNBS and to be registered in the Public Register of Insurance Agents and Brokers; foreigners must show that they have resided in Honduras for three consecutive years.<sup>66</sup>

4.86. Insurance companies may sign reinsurance contracts inside or outside Honduras but only with reinsurers registered with the CNBS.<sup>67</sup> Foreign reinsurers must have at least a BBB-rating (or equivalent) to be able to provide services. Insurers may not provide reinsurance services. However, they may offer some financial services, depending on the amount and the term, such as loans for natural or legal persons resident in Honduras.<sup>68</sup>

4.87. The CNBS regulates the types of policy that can be sold, but the insurance companies set the premium rates.

<sup>65</sup> Article 9 of Decree No. 22-2001.

<sup>66</sup> Articles 94 and 96 of Decree No. 22-2001 and Regulations on Insurance and Surety Bond Intermediation (CNBS Circular No. 084/2009).

<sup>67</sup> Article 77 of Decree No. 22-2001.

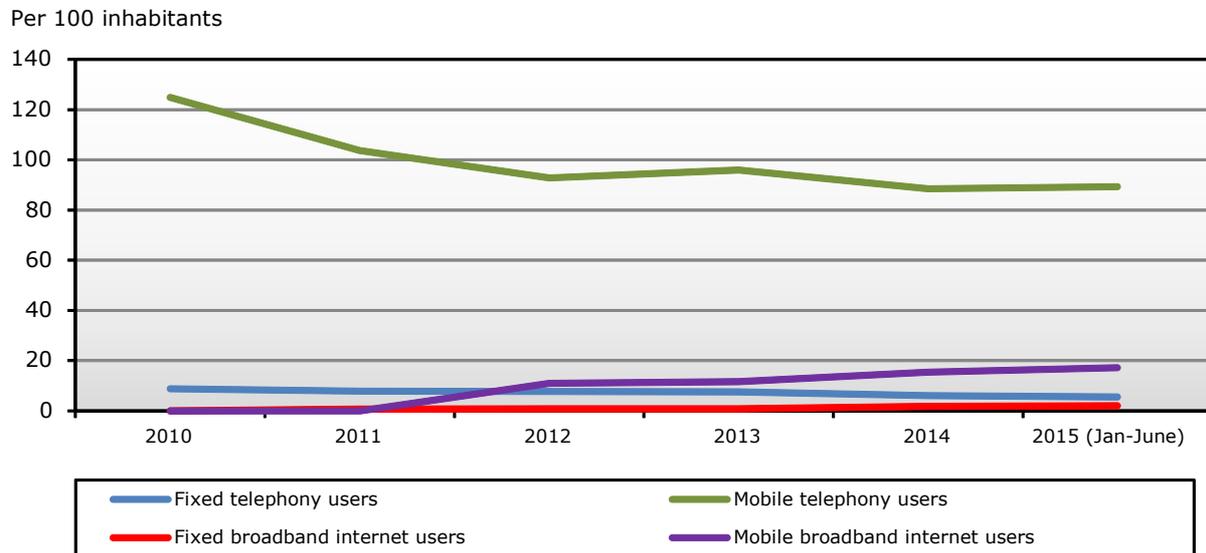
<sup>68</sup> The credit limit is fixed at 20% of the capital and capital reserves. They may also provide loans with a fiduciary guarantee which are unlimited in amount but repayable within not more than 25 years. For further information, see Article 69 of Decree No. 22-2001.

4.88. Applications for mergers and takeovers are submitted to the CDPC, which forwards them to the CNBS. If the CNBS gives a favourable opinion, the application is sent to the BCH for approval. Mergers between insurers operating in different branches or between insurers and reinsurers are not permitted if the intention is to operate in both markets. Mergers which concentrate more than 25% of total premiums are prohibited. If a natural person acquires shares equivalent to more than 10% of a company's subscribed and paid-up capital, the BCH and the CNBS must be notified.<sup>69</sup>

#### 4.3.2 Telecommunications

4.89. According to the authorities, in 2014 telecommunications contributed 4.6% to GDP and absorbed 28.3% of total FDI. Since 2010, the fixed telephony penetration rate has remained stable, while that of mobile telephony, although high, has decreased (Chart 4.3).<sup>70</sup> The use of mobile broadband services increased during the review period. At the end of 2014 there were 1.4 million users and the penetration rate was 15.5%. The authorities have pointed out that this increase was partly due to the expansion of 4G coverage. However, fixed broadband internet use continues to be limited by the low level of penetration of fixed telephony and the small proportion of households that have computers (some 20.6% at the end of 2014).

**Chart 4.3 Telecommunications services penetration rate, 2010-2015**



Source: National Telecommunications Commission (CONATEL) ([http://www.conatel.gob.hn/?page\\_id=464](http://www.conatel.gob.hn/?page_id=464)), ITU (<http://www.itu.int/net4/itu-d/icteye> and <http://www.itu.int/net4/itu-d/icteye/CountryProfile.aspx>), and data provided by the authorities.

4.90. The Honduran Telecommunications Company (HONDUTEL), a 100% State-owned enterprise, provides telecommunications services. In 2014, there were 17 fixed-telephony public service operators, three mobile-telephony public service operators and 33 internet access providers. The market is also composed of sub-operators and resellers that sell public telecommunications services after signing a contract with the authorized operators. The sub-operators are enterprises that market exclusively some of the services offered by HONDUTEL. At present, there are nine Honduran and foreign sub-operators.

<sup>69</sup> Article 56 of Decree No. 22-2001.

<sup>70</sup> IDB (2012), *Sector de Telecomunicaciones en Honduras*. Viewed at: <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=37085065>.

4.91. The mobile telephony market is dominated by private companies, while HONDUTEL holds 78% of the fixed telephony market. HONDUTEL is still the only provider of international long-distance fixed telephony services, although since 2010 sub-operators have also been allowed to offer them. International long-distance mobile telephony services have been liberalized since 2006.<sup>71</sup>

4.92. The provision of telecommunications services is governed by the Framework Law on the Telecommunications Sector of 1995, which was amended in 2011 and 2013.<sup>72</sup> The subsector is also governed by the regulations issued by the National Telecommunications Commission (CONATEL). In 2013, in accordance with commitments assumed under the CAFTA-DR, Honduras enacted the Law on Number Portability in mobile telephony services.

4.93. The Government formulates telecommunications policy and CONATEL implements it. Since 2010, the objective of telecommunications policy has been to increase the use of telecommunications and to reduce the cost and improve the quality of the services.<sup>73</sup> In 2013, to improve access to telecommunications services, Honduras established the Fund for Investment in Telecommunications and Information and Communications Technologies (FITT). The FITT, managed by CONATEL, is used to subsidize or finance projects in neglected areas and social inclusion projects or to narrow the digital gap. The Fund is financed, in particular, from a contribution equivalent to 1% of operators' incomes.<sup>74</sup> According to the authorities, the main projects supported by the FITT have been the increased use of the internet in schools and of the Wi-Fi network in public places. Projects are awarded on the basis of a bidding process.

4.94. CONATEL, assigned since 2013 to the Office of the President of the Republic, regulates and supervises the provision of telecommunications services. CONATEL also administers and monitors the use of the radio-frequency spectrum everywhere in the country, except in the Employment and Economic Development Zones (ZEDE), where there is provision for CONATEL to cede the administration of the unallocated spectrum to the Zone Administration.<sup>75</sup>

4.95. Honduras does not impose restrictions on access to the public telecommunications services market for private providers, whether domestic or foreign, but foreign State-owned enterprises may not participate directly (Section 2.4).

4.96. CONATEL authorizes the provision of public telecommunications services by means of a concession, a permit or registration (Table 4.8). If the provision of the service entails the use of the radio-frequency spectrum, then a licence, likewise issued by the Commission, is also required. Licences to use the radio-frequency spectrum are awarded automatically upon application; however, if there is a shortage of frequencies, a public competition is organized. The licence is valid for the same length of time as the concession, permit or registration with which it is linked. To be allowed to operate, foreign companies must be established in Honduras and have a local representative. As a rule, providers of public telecommunications services do not benefit from exclusive rights, unless CONATEL so decides, on the basis of technical or economic criteria. So far, no exclusivity has been granted.

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<sup>71</sup> CONATEL Resolution NR011/10 and State Secretariat for Foreign Affairs (2011), *Programa Nacional de Promoción de Inversiones: Oportunidades de Inversión - Sector Infraestructura*. Viewed at: [http://www.hondurasopenforbusiness.com/SITEv2/files/pdf/Oportunidades\\_de\\_inversion\\_Infraestructura.pdf](http://www.hondurasopenforbusiness.com/SITEv2/files/pdf/Oportunidades_de_inversion_Infraestructura.pdf).

<sup>72</sup> Framework Law on the Telecommunications Sector (Decree No. 185-95) of 5 December 1995, as amended by Decrees No. 118-97, No. 112-2011 and No. 325-2013, and General Regulations of the Framework Law on the Telecommunications Sector (Executive Decision No. 141-2002) of 23 December 2002.

<sup>73</sup> Government Plan 2010-2014 and State Secretariat for Foreign Affairs (2011), *Programa Nacional de Promoción de Inversiones: Oportunidades de Inversión - Sector Infraestructura*. Viewed at: [http://www.hondurasopenforbusiness.com/SITEv2/files/pdf/Oportunidades\\_de\\_inversion\\_Infraestructura.pdf](http://www.hondurasopenforbusiness.com/SITEv2/files/pdf/Oportunidades_de_inversion_Infraestructura.pdf).

<sup>74</sup> Articles 24-B and 24-C of Decree No. 185-95, added by Decree No. 325-2013.

<sup>75</sup> Articles 13 and 14 of Decree No. 185-95, as amended by Decrees No. 118-97 and No. 325-2013.

**Table 4.8 Types of authorization for the provision of public telecommunications services**

	Carrier services	Basic end-user services	Supplementary end-user services	Radiocommunication and broadcasting services	Value-added services
<b>Authorization</b>	<b>Concession</b>		<b>Permit</b>		<b>Registration</b>
Duration	25 years		15 years		5 years
Awarding procedure	Public bidding		At the request of the applicant or by public competition, as decided by CONATEL on the basis of technical or strategic criteria		-

Note: Authorizations may be renewed.

Source: Articles 25 and 27 of Decree No. 185-95.

4.97. In general, the rates for telecommunications services are set by the market, but CONATEL may regulate them by means of a maximum price system, depending on whether or not "effective competitive conditions" are present or for reasons of social interest.<sup>76</sup> CONATEL determines the rates for the services offered by HONDUTEL.

4.98. CONATEL must ensure free competition in the telecommunications market by investigating restrictive practices and taking appropriate remedial action. In 2011, the competition regime was reformed and since then economic concentration transactions have had to be approved by CONATEL, after obtaining the opinion of the CDPC. The purchase of shares amounting to less than 10% of the total does not require authorization, but CONATEL must be notified. Up until 2011, a concession could be revoked if an operator acquired more than 10% of the capital of another company offering the same services. CONATEL is also responsible for settling disputes between operators and handling complaints from users.<sup>77</sup> CONATEL's decisions may be appealed through administrative or legal channels.

4.99. Since 2013, number portability has been available in Honduras for mobile telephony. Where fixed telephony is concerned, number portability has not been introduced due to the low level of usage of these services.

### 4.3.3 Transport

#### 4.3.3.1 Air transport

4.100. Honduras has four international airports and is building a fifth. At the end of 2014, Honduras had international air links that included 160 scheduled and another three non-scheduled (charter) routes.

4.101. Air transport is regulated by: the Civil Aviation Law<sup>78</sup>, its implementing Regulations, issued by the Honduran Civil Aviation Board (AHAC), the Joint Rules on Civil Aviation, issued by the Central American Air Navigation Services Corporation (COCESNA), and the international conventions and other air services agreements signed by Honduras. There were no amendments to the Civil Aviation Law during the review period.

4.102. Air transport policy is formulated by the State Secretariat for Infrastructure and Public Services (INSEP). According to the authorities, Honduras does not have a clearly defined commercial aviation policy. However, the Civil Aviation Law stipulates that Honduras has an open skies policy which unilaterally grants fifth-freedom traffic rights. Despite this policy, Honduras may invoke the reciprocity principle to refuse or cancel authorizations to operate.<sup>79</sup>

<sup>76</sup> Article 31 of Decree No. 185-95, as amended by Decree No. 325-2013, CONATEL Resolution No. 12/12 and Articles 4-5 and 7 of the Regulations on Telecommunications Services Rates and Costs (CONATEL Resolution No. 28/99). The Regulations also contain the formulas for determining the maximum rates.

<sup>77</sup> Articles 229 and 236 of Executive Decision No. 141-2002.

<sup>78</sup> Civil Aviation Law (Decree No. 55-2004) of 5 May 2005, and Regulations implementing the Civil Aviation Law (Decision No. 00645-A) of 14 October 2005.

<sup>79</sup> Articles 4 and 116 of the Civil Aviation Law (Decree No. 55-2004) of 5 May 2005.

4.103. In 2014, the Directorate-General of Civil Aviation (DGAC) was replaced by the Honduran Civil Aviation Board (AHAC).<sup>80</sup> The National Aviation Council continues to implement the Civil Aviation Law, but without taking powers away from the AHAC.

4.104. The AHAC is responsible for regulating and supervising aviation activities. COCESNA, a regional institution, has the exclusive right to provide air traffic control services, together with aviation telecommunications and information and radio-navigation services. COCESNA controls air traffic at altitudes above 20,000 feet, below which the AHAC provides the service.<sup>81</sup> The Administration of an Employment and Economic Development Zone (ZEDE) is responsible for aerial navigation and airport control within the zone.

4.105. The international airports are managed and operated by the private sector under a concession system. A concession has also been awarded for the construction, maintenance and operation of the future Palmerola international airport, which will replace the Toncontín airport. The new airport will have to comply with International Civil Aviation Organization (ICAO) standards. Measures are also being taken to improve the operational safety of the other airports.<sup>82</sup>

4.106. There have been no changes in terms of access to the air transport services market since 2010. Under the law, domestic and cabotage flights have to be operated exclusively by national airlines. Airlines are considered national if more than 51% of the capital and effective control (including the management body) are in the hands of Hondurans.

4.107. The AHAC authorizes the provision of air transport services. Air carriers must complete the formalities through a legal representative duly enrolled in the National Aviation Register. Foreign airlines must also have authorization to trade, in accordance with the provisions of the Commercial Code.<sup>83</sup>

4.108. To provide air transport services in Honduras an operating certificate or permit, issued by the AHAC, is required (Table 4.10). To obtain an operating certificate national and foreign airline companies must meet similar requirements; the only difference is the amount of the bank guarantee that has to be deposited. With the authorization of the AHAC, airlines that operate scheduled flights may operate other flights on or off their routes.<sup>84</sup>

**Table 4.9 Requirements for the provision of air transport services**

	Scheduled services	Charter services
Type of authorization	Operating certificate	Permit
Duration	10 years, renewable	1 year, renewable
Requirement for issuing authorization	Traffic needs	Not constitute "undue competition" for scheduled services
Other requirements to operate	Obtain an air operator's certificate (COA)	Obtain an operating certificate

Note: The COA and the operating certificate show that the airline meets the technical operational safety requirements.

Source: Decree No. 55-2004.

4.109. To operate in Honduras all aircraft must have certificates of registration and airworthiness. Honduras recognizes certificates granted abroad provided that they are in accordance with international standards. Only Honduran natural and legal persons may register aircraft for commercial transport purposes in the National Aviation Register. Honduran airlines may operate with foreign-registered aircraft subject to AHAC approval.<sup>85</sup> Charter and leasing contracts must be recorded in the National Aviation Register. The temporary or outright exportation of a Honduran civil aircraft requires authorization from the AHAC. Honduras allows Honduran-registered aircraft to be maintained in foreign workshops certified by the AHAC.

<sup>80</sup> Executive Decree No. PCM-047-2014 of 4 August 2014, Article 1 of Executive Decree No. PCM-047-2014, and Article 17 of Decree No. 55-2004.

<sup>81</sup> Online information from COCESNA. Viewed at: <http://www.cocesna.org/index.php?lng=0>.

<sup>82</sup> Online information from Aeropuertos de Honduras. Viewed at: <http://www.interairports.hn>.

<sup>83</sup> Article 142 of Decree No. 55-2004.

<sup>84</sup> Articles 129 and 134 of Decree No. 55-2004, and Articles 112 and 123 of Decision No. 00645-A.

<sup>85</sup> Article 131 of Decree No. 55-2004.

4.110. The temporary hiring of foreign technical aviation personnel is permitted if there is a shortage of local personnel, but this is subject to reciprocal treatment. In these cases, the AHAC issues a special permit for a renewable three-month period, during which Honduran personnel must be trained. To serve on board Honduran-registered aircraft foreign crews must hold a licence accredited by the AHAC.<sup>86</sup>

4.111. Foreign airlines that operate in Honduras may market their products directly, without restrictions. For example, there is no limit on the number of points of sale.

4.112. Air transport operators may set their fares freely, but have to register them with the AHAC. According to the authorities, the concession contract stipulates that, each year, the concession holder may adopt new airport charges, if so authorized by the Supervisory Authority for Public-Private Partnerships (SAPP).

4.113. Honduras is promoting the development of aviation activities by granting incentives, namely: (a) imports of aircraft, engines and other parts are exempt from tariffs and other charges; (b) a zero rate is applied to aviation fuel and lubricants; (c) aviation fuel and lubricant imports are exempt from the administrative services charge and from production and consumption tax; and (d) aviation gasoline is exempt from the tax on petroleum products.<sup>87</sup>

4.114. According to the authorities, Honduras has signed only three bilateral agreements on air transport services (Table 4.10).

**Table 4.10 Modalities of the bilateral agreements on air transport services**

	Signature	Entry into force	Freedom of the air <sup>a</sup>			Articles:					Statistics <sup>g</sup>
			Fifth	Seventh	Eighth (cabotage)	Cooperation <sup>b</sup>	Designation <sup>c</sup>	Denunciation <sup>d</sup>	Rates <sup>e</sup>	Capacity <sup>f</sup>	
Ecuador	1954	n.a.	No	No	No	No	M	PCME	ND	B1	No
United States	1997	n.a.	Yes	No	No	No	M	PCME	DD	FD	No
Panama	1987	n.a.	No	No	No	No	M	PCME	DA	PD	No

n.a. Not available.

a Yes = rights are granted, even though limited.

b Yes = there are articles permitting cooperation between airlines, for example, code sharing.

c M = multiple.

d PCME = majority ownership and effective control.

e DA = double approval. DD = double disapproval. ND = not determined.

f B1 = Bermuda 1. FD = free determination. PD = predetermination.

g Yes = the agreement provides for an exchange of statistics.

Source: WTO Secretariat database on air transport services agreements, and information provided by the authorities.

#### 4.3.3.2 Maritime transport

4.115. Maritime transport is used to carry 90% of Honduran foreign trade. Between 2010 and 2012, activity in Honduran ports steadily increased, but since 2013 there has been a slight decline in movements of vessels and cargo (Table 4.11). In 2014, bulk cargo accounted for 57% of the total cargo handled in the ports, followed by container traffic (32.5%). Honduras' main port is Puerto Cortés.<sup>88</sup>

<sup>86</sup> Decision No. 00645-A.

<sup>87</sup> Article 44 of Decree No. 55-2004.

<sup>88</sup> Central American Maritime Transport Commission (2014), *Resumen Estadístico 2013*. Viewed at: <http://www.cocatram.org.ni/redmarport.html>; COCATRAM statistics for the fourth quarter of 2013-2014. Viewed at: <http://www.cocatram.org.ni/redmarport.html>.

**Table 4.11 Port operations, 2010-2014**

	2010	2011	2012	2013	2014
Movement of vessels	2,252	2,570	2,338	2,281	2,043
Movement of cargo (1,000 tonnes)	10,582	12,137	13,057	14,117	13,936
Movement of containers (TEU)	612,844	662,672	663,945	671,467	682,859

Source: Central American Maritime Transport Commission data. Viewed at: [http://www.cocatram.org.ni/Serie\\_Historica\\_Buques\\_Carga\\_TEU\\_s\\_2001\\_2014.pdf](http://www.cocatram.org.ni/Serie_Historica_Buques_Carga_TEU_s_2001_2014.pdf), and data provided by the authorities.

4.116. All Honduran ports are owned by the State; they fall under the jurisdiction of the National Ports Company (ENP), which can operate them directly or by putting them out to concession. When the ENP gives out a port on concession, it becomes the body responsible for regulating the operators. There are six international ports in Honduras. The ENP continues to manage and operate the ports of La Ceiba, Castilla, San Lorenzo and Tela. The port installations of the port of Roatán (cruise ship port) and those of Puerto Cortés are operated by concession holders.

4.117. The subsector's legal and institutional framework has not changed since the last TPR in 2010. According to the authorities, the Organic Law on the National Merchant Marine of 1994<sup>89</sup> is being reviewed. The subsector is regulated by the Directorate-General of the Merchant Marine (DGMM), which is part of the State Secretariat for Security and Defence.<sup>90</sup>

4.118. There was no change in the conditions of access to the maritime transport services market during the review period. Honduras allows foreign shipping companies to operate international maritime transport services, with the State reserving the right to impose restrictions on economic or defence grounds. Honduras observes the principle of reciprocity in the provision of international maritime transport services.

4.119. Under the law, only domestic shipping companies may provide maritime transport services in territorial waters and cabotage services.<sup>91</sup> A domestic shipping company is one that belongs to Hondurans (51% of the capital) and is domiciled in Honduras. In addition, transport services in territorial waters and cabotage services must be operated by Honduran-registered vessels; however, where there are no Honduran vessels available, the DGMM may authorize goods to be transported on foreign-flag vessels, in which case preference will be given to Central American vessels.

4.120. DGMM registration is mandatory for domestic shipping companies; international companies are not obliged to register, but may do so. Foreign vessels can also be registered, thereby acquiring Honduran nationality under a navigation permit valid for four years.<sup>92</sup>

4.121. Honduran legislation allows shipping companies participating in maritime conferences to provide regular international maritime transport services.<sup>93</sup> Maritime conferences that include Honduran ports must permit free entry for Honduran shipping lines. Where a conference applies a traffic-sharing agreement, Honduran shipping companies may opt to be treated as a single group. Conferences must register with the DGMM and have an agent in Honduras. There is no obligation to register tariffs.

4.122. The ENP continues to set the charges for port services and related activities in the ports that it manages. The Government, the armed forces and social welfare bodies are totally or partially exempted from payment for these services. Honduran shipping companies are eligible for a discount on the annual tonnage tax if they employ Honduran crews on international maritime transport vessels.<sup>94</sup> The discount percentage varies according to the number of crews of Honduran nationality that are hired.

<sup>89</sup> Organic Law on the National Merchant Marine (Decree No. 167-94) of 18 November 1994, as amended by Decrees No. 200-97, No. 86-2004 and No. 131-98, and Maritime Transport Regulations (Decision No. 000764-1997) of 13 December 1997.

<sup>90</sup> Articles 91 and 92 of Decree No. 167-94.

<sup>91</sup> Articles 5 and 6 of Decision No. 000764-1997.

<sup>92</sup> Articles 54 and 59 of Decree No. 167-94.

<sup>93</sup> Articles 43-59 of Decision No. 000764-1997.

<sup>94</sup> Article 78A of Decree No. 167-94.

4.123. The ENP is responsible for providing or subcontracting auxiliary port services, except for pilotage services.

#### 4.3.4 Tourism

4.124. Honduras has a Tourism Satellite Account by means of which it has been determined that tourism value added amounted to L 21,251 million in 2013 (6% of national value added). In 2013, income from tourism reached US\$608.2 million, or 6.8% of total exports of goods and services and consolidated its position as the fourth source of foreign currency after family remittances, *maquila* industry and coffee.

4.125. The international tourism indicators have not changed much since 2010 (Table 4.12). During the review period, the annual number of visitors remained below 2 million and consisted largely of day visitors arriving mainly by sea. Most tourists come from the rest of Central America and their main mode of entry continued to be by land.<sup>95</sup>

**Table 4.12 International tourism indicators, 2010-2013**

	2010	2011	2012	2013 <sup>a</sup>
Arrivals (1,000)	1,965	1,852	1,904	1,857
Tourists <sup>b</sup>	862	872	895	863
Day visitors <sup>c</sup>	1,103	980	1,009	994
Average expenditure per stay (US\$)	632.9	645.8	685.6	641.7
Average stay (nights)	9.9	10.4	10.5	9.9

a Preliminary data.

b Visitors who stay overnight.

c Visitors who stay only for the day.

Source: Honduran Tourism Institute (2014), *Boletín de Estadísticas Turísticas 2009-2013*. Viewed at: [http://transparencia.iht.hn/?q=system/files/Boletin\\_de\\_Estadisticas\\_Turisticas\\_2009-2013.pdf](http://transparencia.iht.hn/?q=system/files/Boletin_de_Estadisticas_Turisticas_2009-2013.pdf), and data provided by the Honduran authorities.

4.126. The subsector continues to be regulated by the Law on the Honduran Tourism Institute of 1993, which remained unchanged during the review period.<sup>96</sup> There were changes in the State institutions that govern the subsector as a result of the reorganization of government services. In 2013, the State Secretariat for Tourism was abolished and replaced by the Honduran Tourism Institute (IHT), under PROHONDURAS. The IHT formulates and implements sectoral policy; regulates and supervises the provision of tourism services; and promotes tourism.

4.127. Policy in the subsector is defined by the National Sustainable Tourism Strategy 2006-2021 (ENTS) and the four-year tourism plans. Honduras is implementing an integrated tourism model, which takes the local communities and the environment into account, while consolidating existing tourism products and designing new ones.<sup>97</sup> In 2014, tourism was declared a priority sector for socio-economic development and the promotion of investment.<sup>98</sup>

4.128. The market access conditions have not changed since 2010. Honduras permits foreigners to carry out tourism projects in connection with all subsector activities and throughout its territory, including in the areas reserved for the exclusive use of Hondurans (Section 2.4.2). In general, both Hondurans and foreigners require only an identity certificate, obtainable automatically by enrolling in the National Tourism Register of the National Chamber of Tourism, in order to provide tourism services. To act as a guide, foreigners have to be permanently resident in the country and

<sup>95</sup> Honduran Tourism Institute (2014), *Boletín de Estadísticas Turísticas 2009-2013*. Viewed at: [http://transparencia.iht.hn/?q=system/files/Boletin\\_de\\_Estadisticas\\_Turisticas\\_2009-2013.pdf](http://transparencia.iht.hn/?q=system/files/Boletin_de_Estadisticas_Turisticas_2009-2013.pdf).

<sup>96</sup> Law on the Honduran Tourism Institute (Decree No. 103-93) of 27 May 1993, as amended by Decree No. 360-02 of 5 November 2002, and its implementing Regulations (Executive Decision No. 030-05) of 4 July 2005.

<sup>97</sup> ENTS. Viewed at: <http://ents.iht.hn>.

<sup>98</sup> Executive Decrees No. PCM-011-2014 of 10 April 2014 and No. PCM-018-2014 of 22 April 2014.

possess a work permit.<sup>99</sup> Articles 41 and 47 of Decree No. 103-93 guarantee the free pricing of tourism services. Tourism services are subject to a 4% tax.<sup>100</sup>

4.129. Honduras grants incentives for tourism under the Law on Tourism Incentives (LIT) and the Law on the Tourism Free Zone in the Bahía Islands Department (ZOLITUR) (Table 4.13). The LIT and the ZOLITUR regime are administered by the IHT and the State Secretariat for Finance, respectively. In 2014, Honduras reformed both regimes to eliminate some tax concessions, such as the exemption from income tax.<sup>101</sup> These reforms did not have retroactive effect, so that there are still companies that benefit from the exemption. Moreover, in the case of ZOLITUR, under which tax concessions were being granted, the reform limited the term to 12 years. At the end of 2015, 94 and 336 companies were benefiting from the regimes available under the LIT and ZOLITUR, respectively. In addition, some companies continue to benefit from the incentives granted under the Tourism Free Zones (ZOLT) regime, even though the latter was repealed by the LIT in 1998.

**Table 4.13 Tourism incentive regimes**

	LIT	ZOLITUR
<b>Legal framework</b>	Law on Tourism Incentives (Decree No. 314-98) of 18 December 1998 as amended by Decrees No. 194-2002, No. 135-2006, No. 17-2010, No. 113-2011 and No. 278-2013. Regulations implementing the Law on Tourism Incentives (Decision No. 001-2004) as amended by Decision No. 145-2005	Law on the Tourism Free Zone in the Bahía Islands Department (Decree No. 181-2006) of 26 November 2006 Regulations implementing the Law on the Tourism Free Zone in the Bahía Islands Department (Decision No. 1097) of 3 September 2007
<b>Beneficiaries</b>	Activities directly linked with tourism <sup>a</sup>	Natural and legal persons with their legal domicile in the Bahía Islands
<b>Tariff exemptions</b>	Tariffs and other charges levied on imports of new goods and equipment (once only, until the equipping is complete) and spares (10 years) as well as promotional material (15 years)	Tariffs and other charges levied on imports <sup>b</sup> of goods and services for own use or for marketing, processing, storage or re-exportation
<b>Tax exemptions</b>	Up until 2014 there was exemption from income tax for 12 years for hotels and 7 years for other activities	Up until 2014 the activities were exempted from all national taxes, with a few exceptions

a Hotels and other types of accommodation, passenger transport by air and water, craft shops, inbound travel agencies, convention centres, vehicle hire companies, recreation centres, restaurants, land passenger transport, wholesale travel agencies, discotheques and casinos, and diving establishments.

b Also includes imports from free zones and industrial export processing zones.

Source: WTO Secretariat, and information provided by the authorities.

4.130. In 2011, in order to promote tourism, Honduras enacted the Law on the Development of Sustainable Rural Tourism, which also provides for a series of tax incentives. However, it has not yet been implemented, since implementing regulations have still to be enacted.

<sup>99</sup> Article 6 of the Honduran National Regulations on Tourist Guides of 8 June 2006, and Article 93 of Executive Decision No. 030-05.

<sup>100</sup> IHT transparency web page. Viewed at: <http://transparencia.iht.hn/?q=node/6>.

<sup>101</sup> Law on Fiscal Consolidation, Control of Exemptions and Anti-Evasion Measures (Decree No. 278-2013) of 21 December 2013.

## 5 APPENDIX TABLES

Table A1.1 General merchandise exports by main products, 2010-2015<sup>a</sup>

(US\$ million and %)

Description	2010	2011	2012	2013	2014 <sup>b</sup>	2015 T2 <sup>b</sup>
	(US\$ million)					
<b>Exports</b>	<b>2,819</b>	<b>3,960</b>	<b>4,402</b>	<b>3,886</b>	<b>4,070</b>	<b>2,294</b>
	(% of exports)					
Palm oil	5.9	6.8	7.3	7.4	7.6	4.0
Sugar	1.6	1.0	1.3	1.7	1.8	1.9
Bananas	11.9	10.0	10.2	12.6	11.2	10.5
Coffee	25.6	34.3	31.9	19.3	20.6	36.1
Shrimp and lobster	6.3	5.2	5.1	7.0	7.1	3.2
Cigarettes	1.0	0.8	0.7	0.8	0.8	0.6
Soaps	2.1	1.7	1.8	2.5	2.2	1.9
Vegetables and garden produce	1.7	1.8	1.3	1.6	1.7	1.7
Wood	0.8	0.4	0.5	0.6	0.8	0.6
Articles of wood	0.7	0.4	0.4	0.6	0.6	0.6
Melons and watermelons	1.5	1.4	1.2	1.5	1.6	2.4
Wooden furniture	0.1	0.2	0.1	0.1	0.2	0.2
Paper and paperboard	2.5	1.6	1.9	2.4	2.6	3.1
Plastics and articles thereof	1.9	2.0	2.2	2.3	2.2	1.9
Pineapples	0.6	0.5	0.5	0.5	0.5	0.6
Silver	0.9	1.0	0.5	0.7	0.8	0.4
Lead and zinc	2.5	1.6	0.9	1.1	1.2	0.7
Preparations of vegetables and fruit	1.1	0.9	0.9	1.1	1.7	1.5
Cigars	2.6	2.1	2.0	2.4	2.1	1.9
Tobacco	0.6	0.4	0.4	0.5	0.4	0.4
Textiles	1.6	1.5	1.8	2.2	2.1	1.9
Tilapia	2.0	1.6	1.4	1.7	1.8	1.6
Other	21.5	20.3	23.4	26.8	25.5	19.8
Non-monetary gold	3.0	2.4	2.4	2.5	2.8	2.2

a Excluding maquila.

b Preliminary figures.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding.

Source: Central Bank of Honduras.

Table A1.2 Exports of goods for processing (maquila), 2010-2015

(US\$ million and %)

Description	2010	2011	2012	2013	2014 <sup>a</sup>	2015 T2 <sup>a</sup>
<b>Exports</b>	<b>3,432</b>	<b>3,999</b>	<b>3,939</b>	<b>3,890</b>	<b>3,980</b>	<b>2,030</b>
Textile articles other than clothing	1.5	1.7	1.9	1.6	1.7	1.6
	% of exports					
Transport equipment	2.0	1.7	2.0	1.6	1.3	1.4
Yarns, threads and fabrics of textile fibres	10.3	6.1	5.2	4.5	4.4	3.7
Electrical machinery and apparatus and parts thereof	10.8	11.7	14.0	17.6	15.6	16.2
Other manufactured articles	0.1	0.0	0.0	0.2	0.2	0.3
Newsprint, other paper and paperboard	0.0	0.1	0.1	0.1	0.1	0.1
Clothing	58.1	60.8	63.4	63.0	64.1	63.5
Plastic products	0.6	0.3	0.1	0.1	0.1	0.1
Knitted fabrics	15.5	16.8	12.8	10.7	11.8	12.5
Other	1.1	0.9	0.6	0.6	0.7	0.7

a Preliminary figures.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding.

Source: Central Bank of Honduras.

**Table A1.3 General merchandise imports (c.i.f.) by main products of the Central American Tariff System (SAC), 2010-2015<sup>a</sup>**

(US\$ million and %)

Description	2010	2011	2012	2013	2014 <sup>b</sup>	2015 T2 <sup>b</sup>
<b>Imports</b>	<b>7,128</b>	<b>9,016</b>	<b>9,395</b>	<b>9,152</b>	<b>9,311</b>	<b>4,836</b>
	(US\$ million)					
	(% of imports)					
Live animals; animal products	1.6	1.4	1.5	1.5	1.6	1.7
Vegetable products	4.2	4.8	4.4	4.6	4.4	4.0
Animal or vegetable fats and oils	1.1	1.2	0.9	0.8	0.7	0.7
Prepared foodstuffs	9.7	9.0	9.7	10.5	10.6	10.4
Mineral products	21.3	23.9	24.3	25.2	22.8	15.5
Fuels and lubricants	20.9	23.3	23.9	24.7	22.4	14.9
Other mineral products	0.4	0.6	0.4	0.5	0.4	0.6
Products of the chemical or allied industries	14.5	13.6	13.6	12.9	12.4	12.8
Plastics and articles thereof	6.1	5.6	5.9	5.8	5.9	5.8
Raw hides and skins, leather, furskins and articles thereof	0.2	0.2	0.2	0.2	0.2	0.2
Wood and articles of wood; wood charcoal; cork and articles of cork	0.3	0.3	0.3	0.3	0.3	0.3
Pulp for manufacturing paper and articles of paper	5.1	4.4	3.8	4.3	3.9	3.9
Textiles and textile articles	2.8	2.4	2.6	2.4	3.0	2.6
Footwear, headgear, feathers and flowers	0.9	0.8	0.8	0.8	0.8	0.7
Articles of stone, plaster, cement or glass	1.2	1.1	1.2	1.2	1.2	1.2
Pearls, precious stones, metals and articles thereof	0.2	0.1	0.1	0.1	0.1	0.2
Base metals and articles of base metal	6.0	6.8	6.5	6.1	6.7	8.4
Machinery and mechanical appliances; electrical equipment	16.1	15.3	14.5	14.7	17.1	23.6
Transport equipment	5.8	5.5	6.1	5.3	5.0	5.1
Optical, photographic, cinematographic, medical, surgical and other instruments	1.0	1.5	1.3	1.3	0.9	0.8
Arms and ammunition	0.1	0.2	0.1	0.1	0.1	0.1
Miscellaneous manufactured articles	1.8	1.7	2.2	2.1	2.2	
Works of art, collectors' pieces	0.0	0.0	0.0	0.1	0.0	0.0

a Excluding maquila.

b Preliminary figures.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding.

Source: Central Bank of Honduras.

**Table A1.4 Imports (c.i.f.) of goods for processing (maquila), 2010-2014**

(US\$ million and %)

Description	2010	2011	2012	2013	2014 <sup>a</sup>
	(% of imports)				
<b>Imports</b>	<b>2,393</b>	<b>2,880</b>	<b>2,856</b>	<b>2,674</b>	<b>2,738</b>
Vegetable products	0.0	0.0	0.0	0.0	0.0
Mineral products	0.1	0.2	0.1	0.3	0.2
Other mineral products	0.1	0.2	0.1	0.3	0.2
Products of the chemical or allied industries	4.6	3.5	4.5	5.0	5.4
Plastics and articles thereof	4.0	3.4	3.2	3.4	3.0
Wood and articles of wood; wood charcoal; cork and articles of cork	0.1	0.1	0.2	0.1	0.1
Pulp for manufacturing paper and articles of paper	1.8	1.4	1.7	1.7	1.5
Textiles and textile articles	78.7	78.7	76.7	72.9	76.0
Articles of stone, plaster, cement or glass	0.0	0.0	0.0	0.0	0.0
Pearls, precious stones, metals and articles thereof	0.0	n/a	0.0	0.0	0.0
Base metals and articles of base metal	3.8	1.2	0.2	0.3	0.3
Machinery and mechanical appliances; electrical equipment	4.9	9.9	11.6	14.2	11.7
Transport equipment	0.9	0.9	1.1	1.5	1.0
Optical, photographic, cinematographic or medical instruments	n/a	n/a	0.0	0.0	0.0
Miscellaneous manufactured articles	0.8	0.7	0.6	0.7	0.6
Other products	0.0	0.0	0.0	0.0	0.0

n/a Not applicable.

a Preliminary figures.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding.

Source: Central Bank of Honduras.

**Table A1.5 General merchandise exports by trading partner, 2010-2015<sup>a</sup>**

(US\$ million and %)

Description	2009	2010	2011	2012	2013	2014 <sup>b</sup>	2015 T2 <sup>b</sup>
	(US\$ million)						
<b>Exports</b>	<b>2,362</b>	<b>2,819</b>	<b>3,960</b>	<b>4,402</b>	<b>3,886</b>	<b>4,070</b>	<b>2,294</b>
	(% of exports)						
<b>America</b>	<b>72.6</b>	<b>69.7</b>	<b>67.0</b>	<b>63.6</b>	<b>71.1</b>	<b>70.4</b>	<b>66.9</b>
Canada	1.9	2.2	2.1	1.7	2.1	1.4	1.3
United States of America	40.0	36.5	35.1	32.5	35.3	34.8	33.7
Central America	23.1	22.6	22.8	20.3	23.3	22.9	19.5
Costa Rica	2.6	3.1	3.0	2.4	2.8	2.8	2.2
El Salvador	8.5	8.0	7.7	6.8	8.6	8.0	7.5
Guatemala	7.5	7.1	6.9	6.0	6.7	6.3	5.1
Nicaragua	4.6	4.4	4.2	5.2	5.3	5.9	4.6
Brazil	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Colombia	0.1	0.8	0.2	0.2	0.3	0.3	0.3
Ecuador	0.1	0.1	0.2	0.2	0.3	0.5	0.5
Mexico	2.6	3.3	3.2	2.8	3.5	4.4	2.2
Panama	0.6	0.8	0.7	0.9	1.4	1.2	2.4
Peru	0.0	0.0	0.0	0.3	0.1	0.1	0.1
Venezuela, Bolivarian Republic of	0.6	0.0	0.0	2.0	1.6	1.5	2.3
Other America	3.2	3.0	2.8	2.6	2.9	3.1	4.3
<b>Europe</b>	<b>22.4</b>	<b>22.8</b>	<b>21.9</b>	<b>29.5</b>	<b>20.3</b>	<b>22.1</b>	<b>28.5</b>
Germany	6.9	7.2	6.9	11.3	7.0	8.4	11.6
Belgium	4.2	4.6	4.5	6.7	3.5	2.1	4.1
Spain	2.3	1.9	1.9	1.3	1.2	1.1	0.8
France	1.3	1.6	1.5	1.2	1.2	1.5	2.0
Holland	1.1	1.7	1.6	3.3	2.9	4.0	3.1
Italy	1.5	1.8	1.8	1.8	1.1	1.2	2.5
United Kingdom	2.5	1.9	1.8	1.8	1.7	1.8	1.7
Russian Federation	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Sweden	0.8	0.7	0.7	0.7	0.5	0.6	1.1
Other Europe	1.6	1.2	1.1	1.2	1.1	1.2	1.5
<b>Asia</b>	<b>4.4</b>	<b>6.6</b>	<b>9.8</b>	<b>6.0</b>	<b>6.9</b>	<b>5.3</b>	<b>3.1</b>
China	1.8	2.2	3.5	2.6	3.3	1.8	0.4
Japan	0.8	0.9	1.8	0.8	0.7	0.9	0.8
Korea	1.3	2.5	3.2	1.6	1.3	1.1	1.3
Chinese Taipei	0.3	0.9	0.5	0.6	0.9	0.9	0.2
India	0.2	0.1	0.7	0.4	0.6	0.6	0.4
Malaysia	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Thailand	0.0	0.0	0.1	0.0	0.1	0.0	0.0
Rest of world	0.7	0.9	1.5	1.0	1.6	2.4	1.5

a Excluding maquila.

b Preliminary figures.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding.

Source: Central Bank of Honduras.

**Table A1.6 General merchandise imports (c.i.f.) by trading partner, 2009-2015<sup>a</sup>**

(US\$ million and %)

Description	2009	2010	2011	2012	2013	2014 <sup>b</sup>	2015 T2 <sup>b</sup>
	(US\$ million)						
<b>Imports</b>	<b>6,224</b>	<b>7,128</b>	<b>9,016</b>	<b>9,395</b>	<b>9,152</b>	<b>9,311</b>	<b>4,836</b>
	(% of imports)						
<b>America</b>	85.3	77.8	84.7	83.5	83.6	78.4	67.5
Canada	0.5	0.7	0.4	0.4	0.4	0.4	0.4
United States of America	37.9	40.5	46.7	44.0	43.4	43.2	34.2
Central America	23.7	17.0	19.0	19.6	19.8	19.3	18.7
Costa Rica	4.9	4.0	4.0	4.1	3.9	3.5	3.2
El Salvador	6.4	4.4	5.4	5.9	5.7	5.1	4.9
Guatemala	10.6	7.8	8.9	8.6	9.0	9.4	9.4
Nicaragua	1.8	0.8	0.7	1.0	1.2	1.2	1.2
Netherlands Antilles	2.1	0.2	0.0	0.0	0.0	0.0	0.0
Argentina	0.4	0.4	0.3	0.3	0.5	0.4	0.2
Brazil	1.5	1.5	0.9	1.0	0.9	1.5	1.4
Chile	0.5	0.6	0.5	0.6	0.6	0.7	0.6
Colombia	2.6	2.5	3.5	2.9	3.6	2.0	1.2
Ecuador	1.9	1.2	2.5	2.5	2.0	0.5	0.7
Mexico	5.9	7.5	5.4	5.7	5.6	5.6	6.4
Panama	4.9	1.1	3.8	3.8	3.7	2.8	1.6
Peru	1.0	1.8	0.3	0.8	1.1	0.8	0.8
Venezuela, Bolivarian Republic of	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Other America	2.4	2.8	1.2	1.8	2.0	1.2	1.1
<b>Europe</b>	6.2	7.1	6.3	5.6	6.0	7.6	9.3
Germany	1.0	1.5	1.6	1.4	1.7	1.9	1.8
Belgium	0.3	0.3	0.4	0.4	0.5	0.4	0.3
Spain	0.9	0.9	0.9	1.0	0.9	1.5	2.7
France	0.4	0.6	0.3	0.3	0.4	0.4	0.5
Holland	1.1	0.4	0.4	0.4	0.4	0.4	0.3
Italy	0.4	0.8	0.7	0.5	0.5	0.9	1.0
United Kingdom	0.1	0.3	0.1	0.1	0.2	0.2	0.3
Russian Federation	0.2	0.3	0.7	0.5	0.6	0.5	0.9
Sweden	0.7	0.5	0.2	0.1	0.1	0.3	0.2
Other Europe	1.2	1.5	0.9	0.9	0.8	1.2	1.3
<b>Asia</b>	7.5	13.4	7.8	9.3	9.3	12.7	23.3
China	3.1	7.6	3.7	4.6	4.9	7.6	14.8
Japan	1.3	2.0	1.2	1.3	0.9	1.0	1.5
Korea, Rep. of	0.8	1.1	1.0	1.0	0.8	0.9	0.9
Chinese Taipei	0.5	0.8	0.4	0.4	0.6	0.8	1.1
India	0.7	0.6	0.6	0.9	0.9	1.2	2.0
Malaysia	0.2	0.3	0.1	0.2	0.2	0.3	0.6
Thailand	0.9	1.0	0.8	1.0	0.9	0.9	0.9
Rest of world	1.1	1.6	1.2	1.6	1.1	1.4	1.4

a Excluding maquila.

b Preliminary figures.

Note: The sum of the parts is not necessarily equal to the total, owing to rounding.

Source: Central Bank of Honduras.

Table A2.1 Notifications to the WTO, 1 January 2010 to 31 December 2015

Agreement and Article	Requirement	Frequency	Document (most recent if submitted regularly)	Date
<b>Agreement on Trade Facilitation</b>				
Article 15, Section II	Category A commitments	Once only	WT/PCTF/N/HND/1	18/07/2014
<b>Agreement on Agriculture</b>				
Articles 10 and 18.2, ES:1 and ES:2	Export subsidies	On an annual basis	G/AG/N/HND/43	12/10/2015
Article 18.2, DS:1	Domestic support	On an annual basis	G/AG/N/HND/41	06/07/2015
Article 18.3, DS:2	Domestic support	On an annual basis	G/AG/N/HND/42	06/07/2015
<b>General Agreement on Trade in Services</b>				
Article III:3	Laws/regulations (transparency; new, or changes to existing, laws, regulations or administrative guidelines which significantly affect trade in services)	Ad hoc	S/C/N/804	26/03/2015
Article III:4 and/or IV:2	Enquiry and contact points	On an annual basis	S/ENQ/78/Rev.15	04/02/2015
Article V:7(a)	Economic integration agreement	Ad hoc	S/C/N/791	05/02/2015
			S/C/N/717/Rev.1	28/01/2014
			S/C/N/680	27/02/2013
			S/C/N/646	03/09/2012
			S/C/N/614	09/01/2012
			S/C/N/612	01/12/2011
S/C/N/544	08/04/2010			
<b>GATT 1994</b>				
Article XXVIII:5	Modification of schedules (reservation of the right to modify schedules for a 3-year period)	Triennial	G/MA/305	21/11/2014
<b>Agreement on Implementation of Article VI of the GATT 1994 (anti-dumping)</b>				
Article 16.4	Anti-dumping actions (preliminary and final)	Ad hoc	G/ADP/N/205	23/09/2010
Article 16.4	Anti-dumping actions (taken during the preceding six months)	Semi-annual	G/ADP/N/272	15/06/2015
Article 16.5	Authorities competent to initiate and conduct investigations referred to in Article 16.5 of the Agreement, and domestic procedures governing the initiation and conduct of such investigations	As appropriate (upon entry into force of the WTO Agreement for the Member concerned)	G/ADP/N/14/Add.30	22/10/2010
<b>Agreement on Implementation of Article VII of the GATT 1994 (customs valuation)</b>				
Article 22.2	Changes in laws/regulations and administrative arrangements	Ad hoc	G/VAL/N/1/HND/1	06/11/2014
<b>GATT 1994</b>				
Article XVII:4(a)	State trading activities	On an annual basis	G/STR/N/15/HND	01/09/2014
Article XXIV:7(a)	Formation of a customs union	Ad hoc	WT/REG283/N/1	08/04/2010
Article XXIV:7(a)	Formation of a free trade area	Ad hoc	WT/REG364/N/1	05/02/2015
			WT/REG349/N/1/Rev.1	28/01/2014
			WT/REG332/N/1	27/02/2013
			WT/REG316/N/1	03/09/2012
			WT/REG305/N/1	09/01/2012
WT/REG303/N/1	01/12/2011			
<b>Agreement on Import Licensing Procedures</b>				
Article 5.1, 5.2 and 5.3	Import licensing procedures and changes thereto	Ad hoc	G/LIC/N/2/HND/4	18/01/2010
Article 7.3	Replies to questionnaire on import licensing procedures	On an annual basis	G/LIC/N/3/HND/9	12/08/2014

Agreement and Article	Requirement	Frequency	Document (most recent if submitted regularly)	Date
<b>Agreement on the Application of Sanitary and Phytosanitary Measures</b>				
Article 7, Annex B	Sanitary/phytosanitary measures	Ad hoc	G/SPS/N/HND/52 - G/SPS/N/HND/33	06/05/2014 - 31/05/2010
<b>Agreement on Rules of Origin</b>				
Article 5 and Annex II, paragraph 4	Changes in preferential rules of origin; new preferential rules of origin	Ad hoc	G/RO/N/134 G/RO/N/114 G/RO/N/93	02/10/2015 02/04/2014 09/04/2013
<b>Agreement on Technical Barriers to Trade</b>				
Article 2.9	Technical regulations	Ad hoc	G/TBT/N/HND/86 - G/TBT/N/HND/61	04/02/2015 - 19/05/2010
<b>Agreement on Subsidies and Countervailing Measures</b>				
Article 25.1	Any subsidy as defined in Article 1.1 of the Agreement, which is specific within the meaning of Article 2 of the Agreement, as well as any other subsidy which causes increased exports or decreased imports within the meaning of Article XVI:1 of the GATT 1994	On a triennial basis	G/SCM/N/253/HND	17/10/2013
Article 25.11	Countervailing measures (adopted during the preceding six months)	Semi-annual	G/SCM/N/289	15/06/2015
Article 25.12	Authorities competent to initiate and conduct countervailing duty investigations referred to in Article 11 of the Agreement, and domestic procedures governing the initiation and conduct of such investigations	Once upon entry into force of the WTO Agreement for existing authorities and procedures; ad hoc as and when a Member establishes such authorities and procedures	G/SCM/N/18/Add.30	22/10/2010

Source: WTO Secretariat.

Table A3.1 Analysis of the MFN tariff, 2014<sup>a</sup>

Product description	MFN				Bound tariff Range <sup>b</sup> (%)
	No. of lines	Average (%)	Range (%)	Coefficient of variation (CV)	
<b>Total</b>	<b>6,974</b>	<b>5.9</b>	<b>0 - 164</b>	<b>1.3</b>	<b>0 - 164.4</b>
HS 01-24	1,221	11.6	0 - 164	1.1	8 - 164.4
HS 25-97	5,753	4.7	0 - 15	1.2	0 - 55
<b>By WTO category</b>					
Agricultural products	1,026	10.7	0 - 164	1.3	8 - 164.4
- Animals and animal products	154	18.4	0 - 164	1.5	12 - 164.4
- Dairy products	34	22.2	0 - 35	0.5	8 - 35
- Fruit, vegetables and garden produce	283	11.5	0 - 30	0.5	10 - 45
- Coffee and tea	28	13.2	0 - 15	0.3	19.3 - 35
- Cereals and cereal preparations	133	9.6	0 - 45	1.1	8 - 55
- Oilseeds, fats and oils and their products	98	5.7	0 - 15	1.0	10 - 50
- Sugar and confectionery	21	11.4	0 - 40	1.0	30 - 40
- Beverages, alcohol and tobacco	74	12.4	0 - 55	0.6	15 - 60
- Cotton	5	0.0	0 - 0	n/a	10 - 15
- Other agricultural products n.e.s.	196	4.1	0 - 15	1.3	10 - 35
Non-agricultural products (including petroleum)	5,948	5.1	0 - 15	1.2	0 - 55
- Non-agricultural products (excluding petroleum)	5,920	5.1	0 - 15	1.2	0 - 55
- - Fish and fish products	288	11.6	0 - 15	0.4	20 - 35
- - Mineral products and metals	1,093	3.6	0 - 15	1.5	5 - 35
- - Chemicals and photographic products	1,275	2.1	0 - 15	2.0	0 - 35
- - Wood, wood pulp, paper and furniture	459	6.5	0 - 15	0.9	5 - 50
- - Textiles	698	8.1	0 - 15	0.6	12 - 35
- - Clothing	236	14.8	0 - 15	0.1	30 - 35
- - Leather, rubber, footwear and travel articles	211	7.6	0 - 15	0.7	5 - 55
- - Non-electrical machinery	595	1.4	0 - 15	2.8	0 - 35
- - Electrical machinery	339	2.6	0 - 15	2.0	0 - 35
- - Transport equipment	221	6.0	0 - 15	0.8	10 - 35
- - Non-agricultural products n.e.s.	505	7.0	0 - 15	0.9	0 - 35
- Petroleum	28	4.1	0 - 15	1.2	5 - 35
<b>By ISIC sector<sup>c</sup></b>					
Agriculture and fishing	497	8.2	0 - 45	0.9	10 - 50
Mining	112	1.7	0 - 15	1.9	15 - 35
Manufacturing	6,364	5.8	0 - 164	1.4	0 - 164.4
<b>By HS section</b>					
01 Live animals; animal products	449	13.8	0 - 164	1.2	8 - 164.4
02 Vegetable products	419	9.1	0 - 45	0.9	8 - 50
03 Fats and oils	57	8.2	0 - 15	0.7	10 - 50
04 Prepared foodstuffs, etc.	296	12.4	0 - 164	0.9	10 - 94.7
05 Mineral products	187	2.6	0 - 15	1.5	5 - 35
06 Products of the chemical or allied industries	1,128	1.7	0 - 15	2.3	0 - 35
07 Plastics and rubber	336	4.3	0 - 15	1.1	5 - 35
08 Hides and skins	108	8.3	0 - 15	0.7	35 - 35
09 Wood and articles of wood	139	8.5	0 - 15	0.6	25 - 35
10 Wood pulp, paper, etc.	292	5.1	0 - 15	1.1	5 - 35
11 Textiles and textile articles	918	9.6	0 - 15	0.5	10 - 35
12 Footwear, hats and other headgear	64	12.8	0 - 15	0.3	35 - 55
13 Articles of stone	176	6.3	0 - 15	1.1	15 - 35
14 Precious stones, etc.	54	6.9	0 - 15	0.8	20 - 35
15 Base metals and articles of base metal	702	3.1	0 - 15	1.6	5 - 35
16 Machinery and mechanical appliances	980	2.0	0 - 15	2.3	0 - 35
17 Transport equipment	234	6.0	0 - 15	0.8	10 - 35
18 Precision instruments	234	3.8	0 - 15	1.5	0 - 35
19 Arms and ammunition	21	15.0	15 - 15	0.0	35 - 35
20 Miscellaneous manufactured articles	171	10.7	0 - 15	0.5	15 - 50
21 Works of art, etc.	9	7.8	5 - 10	0.3	35 - 35

n/a Not applicable

a For price band products, 15% was used.

b The bindings are given in HS 07 and the applied rates in HS 2012; consequently, there may be differences in the number of lines included in the analysis.

c ISIC (Rev.2), excluding electricity (one line).

Source: WTO Secretariat estimates, based on data provided by the authorities.

**Table A3.2 Conditions for loans granted by BANHPROVI****Financing of "production sectors"**

	BANHPROVI funds						BCH Trust Fund		
	Agriculture, agro-industry, industry, services sector	Sowing of staple grains, vegetables	Oil palm		Marketing of coffee, staple grains and vegetables	Renewable energy generation	Agricultural, poultry, aquaculture production, agro-industry and industry, manufacturing		Clean energy generation
Maximum amount (L million)	50	30	50	30	10	50	10		50
Maximum term	7 years	1 year	10 years	12 months	6 months	3 years	10 years	1 year	12 years
Use	Fixed assets	Working capital	Fixed assets	Working capital	Working capital	Fixed assets	Fixed assets	Working capital	Fixed assets
Interest rate for intermediary financial institutions (IFI) (%)	6.0	6.0	6.0	8.0	8.0	6.0	6.0		6.0
Interest rate for end customer (%)	10.0	10.0	10.0	12.0	12.0	10.0	10.0		10.0

**Financing for MSMEs**

	BANHPROVI funds			BCH Trust Fund			
	Agricultural and agro-industrial sectors, services, industry, trade, tourism, transport		Sowing of staple grains, vegetables, bananas	Agricultural sector, services, industry, trade, tourism, transport	Sowing of staple grains, vegetables, bananas	Agro-industrial sector	
	Maximum amount (L thousand)						
Micro enterprises	250		250	250	150	250	150
Small enterprises	800		800	500	250	500	250
Medium-sized enterprises	2,000		2,000	1,000	750	1,000	750
Maximum term	7 years	2 years	2 years	7 years	2 year	10 years	
Use	Fixed assets	Working capital	Working capital	Working capital	Working capital	Fixed assets	Working capital
Interest rate for intermediary financial institutions (IFI) (%)	10.5		10.5	6.0	6.0	6.0	
Interest rate for customers (%)	Free (on the basis of market conditions)		Free (on the basis of market conditions)	10.0	10.0	10.0	

Note: Staple grains are maize, beans, rice and sorghum.

Source: BANHPROVI online information. Viewed at: <http://banhprovi.org/productos-servicios.html>.

Table A4.1 Import quotas applied by Honduras in 2015

Quota	Tariff code	Volume opened MT	Out-of-quota tariff	In-quota tariff
<b>Free Trade Agreement CAFTA-DR</b>				
Rough rice	1006.10.90	108,000	45%	0%
Milled rice	1006.20.00; 1006.30.10; 1006.30.90; 1006.40.00	12,750	45%	0%
Yellow corn	1005.90.20	272,156	30.1%	0%
White corn	1005.90.30	27,600	45%	0%
Pork	0203.11.00; 0203.12.00; 0203.19.00; 0203.21.00; 0203.22.00; 0203.29.00	3,500	10.2%	0%
Milk powder	0402.10.00; 0402.21.11; 0402.21.12; 0402.21.21; 04.02.21.22; 0402.29.00	465	15%; 15%; 15%; 5%; 5%; 15%	0%
Butter	0405.10.00; 0405.20.00; 0405.90.90	155	15%	0%
Cheese	0406.10.10; 0406.10.90; 0406.20.20; 0406.20.90; 0406.30.00; 0406.90.20; 0406.90.90	636	15%	0%
Ice cream	2105.00.00	155	15%	0%
Other dairy products	2202.90.90	217	15%	0%
Chicken leg quarters	0207.13.93; 0207.13.94; 0207.14.93; 0207.14.94; 1602.32.10	4,275	164%	0%
<b>Association Agreement between Central America and the European Union</b>				
Milk powder	0402.10.00 0402.21.11 0402.21.12 0402.21.21 0402.21.22	440	15% 20% 20% 15% 15%	0%
Cheese	0402.29.00 0406.20.90 0406.30.00 0406.90.20 0406.90.90	550	25% 35% 35% 35% 15%	0%
<b>Free Trade Agreement between Honduras and Panama</b>				
Beef	0201.10.00; 0201.20.00; 0201.30.00; 0202.10.00; 0202.20.00; 0202.30.00	563	15%	0%
Pork	0203.11.00; 0203.12.00; 0203.19.00; 0203.21.00; 0203.22.00; 0203.29.00	128	15%	0%
Liquid milk, exclusively of the type known as UHT	0401.20.00	275,685 litres	15%	0%
Processed cheese, not grated or powdered	0406.30.00	200	15%	0%
Crude palm oil	1511.10.00	450	5%	0%
Stockings and socks	6115.10.90 D; 6115.10.90 E; 6115.95.00; 6115.96.00; 6115.99.00	15,000 dozen pairs	15%	0%
<b>Free Trade Agreement between Honduras and Colombia</b>				
Dog or cat food, put up for retail sale, other than food put up in airtight containers	2309.10.00	500	15%	0%
<b>Free Trade Agreement between Honduras and Canada</b>				
Pork	0203.11.00; 0203.12.00 0203.19.00; 0203.21.00 0203.22.00; 0203.29.00	1,726	15%	0%
Prime and AAA Beef	0201.20.00A; 0201.30.00A 0202.20.00A; 0202.30.00A	315	15%	0%
AA and A Beef	0201.20.00B; 0201.30.00B 0202.20.00B; 0202.30.00B	210	15%	0%

Source: Information provided by the Honduran authorities.