USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 12/29/2017

GAIN Report Number: HO1708

Honduras

Exporter Guide

2017

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Report Highlights:
The growth of the food processing industry, the expansion of supermarkets in urban areas, and the growing hotel, restaurant, and institutional sectors have led to increased exports of U.S. agricultural products to Honduras.

Post:
Tegucigalpa

Executive Summary:
The United States is the main trading partner of Honduras in total trade and in agricultural products. U.S. agricultural exports increased with the implementation of the United States – Central America - Dominican Republic Free Trade Agreement (CAFTA-DR) in 2006. The majority of U.S. agricultural products have duty-free access to Honduras. In 2016, the total U.S. agricultural, fish, and forestry exports to Honduras was $649 million, a 10 percent increase from 2015. Regional integration has the potential to spur investment, growth, trade, and increase market opportunities for U.S. exporters in the coming years.

I. MARKET OVERVIEW

A. Economic Situation:

Honduras has an estimated population of 9 million people, of which 3.9 are considered economically active (1.8 million people in the rural areas and 2.1 million in urban areas).

Honduras's economic activity is directly linked to the United States in many ways.

- Agricultural imports from the U.S. were 44 percent of total agricultural imports in 2016.
- Honduras's agricultural exports to the United States were 40 percent of total exports in 2016. Exports have diversified from bananas and coffee to non-traditional products.
- Per capita Gross Domestic Product (GDP) was $2,465 in 2016, an increase of 1.5 percent from 2015.
- Inflation rate was 2.7 percent in 2016.
- Main economic sectors that contributed to GDP were: manufacturing (19 percent), financial activities (18 percent), agriculture (14 percent), and communications (10 percent).
- The agricultural sector provided the most employment generation of all sectors with 28 percent. Despite the recent economic diversification, there continues to be a large subsistence farmer population with few economic opportunities.
- The value of 2016 remittances was $3.85 billion, an increase of five percent from 2015. Remittances accounted for 18 percent of GDP generating higher revenue than coffee exports and tourism combined.
- U.S. foreign direct investment reached $139 million in 2016.
- The United States is the second largest investor in Honduras after Panama.

- The largest U.S. investments are in the garment assembly sector, tropical fruit production (bananas, melons, and pineapple), tourism, energy generation, shrimp farming, animal feed production, telecommunications, fuel distribution, cigar manufacturing, insurance, leasing, food processing, and furniture manufacturing.

- The banking system has been strengthened by alliances with international banks.

B. Market Growth

U.S. exporters enjoy a strong position in the Honduran market; a position which was improved by the CAFTA-DR agreement. In 2016, U.S exports of agricultural and related products increased 10 percent compared to 2015. U.S. agricultural exports have continued to grow despite a 15 percent value added tax on all imports imposed by the local government in 2013. The top ten U.S. agricultural exports to Honduras are: corn, soybean meal, rice, wheat, pork and pork products, prepared food, poultry meat and products, dairy products, condiments & sauces and fresh fruit.

Honduras's tariffs on most goods outside the Central American Common Market (CACM) are currently within the zero to 15 percent range. The exceptions are white and yellow corn, as well as rice which has an in-quota tariff rate of zero. However, the out-of-quota tariff was 45 percent for white corn, 37.5 percent for rice; and 20.4 percent for yellow corn in 2017. Under CAFTA-DR, about 80 percent of U.S. industrial and commercial goods can enter the region duty-free, with the remaining tariffs to be phased out within three to eight years.

Under CAFTA-DR, Honduras recognizes the U.S. inspection services as equivalent. This equivalence eliminates the requirement of a certification by Honduras of the U.S. plant to export to the Honduran market.

C. Market Opportunities and Competitiveness

The strengths, market opportunities, and challenges of U.S. suppliers are illustrated in the following table:

ADVANTAGES	CHALLENGES
Close proximity to the United States allows containerized cargo from gateway cities to be transported to Honduras in 2 to 3 days. With one of the lowest logistical costs in the region, Honduras also serves as a distribution point for Central America.	Direct competition from other Central American countries. FTAs have been signed with the Dominican Republic, Mexico, Chile, Colombia, Panama, Canada, the EU and Taiwan.
CAFTA-DR eliminated most tariffs for U.S. goods. It also protects U.S. investments and intellectual property, and creates more transparent rules and procedures for doing business.	Maintaining macro-economic stability and fostering an environment for investment.
Consumers have strong preferences for U.S. products. U.S. products enjoy a high-quality image among	The current economic situation in the country limits purchasing power and

Hondurans. Importers prefer trading with U.S. exporters because of reliability.	customers are extremely price sensitive.
Among the leading sectors for U.S. exports and investment are: fast food outlets, casual dining restaurants, and the introduction of new U.S. hotel chains-including investment prime tourist areas-food processing and packaging equipment, processed foods, and general consumer goods.	Relative high duties on some products that are not under the CAFTA-DR agreement.
Increases in infrastructure and facilities have permitted the year-round availability of U.S. fruits such as apples, grapes, and pears. Direct imports by warehouse outlets have diversified foods imports.	Occasionally restrictive sanitary and phytosanitary import requirements.

II. EXPORTER BUSINESS TIPS

A. Business Customs:

The Honduran government is generally open to foreign investment. Restrictions and performance requirements are fairly limited. Relatively low labor costs, proximity to the U.S. market, and a Caribbean port (Puerto Cortés is the largest deep-water port in the region) have made Honduras attractive to investors.

Under CAFTA-DR, U.S. investors enjoy, in most circumstances, the right to establish, acquire, and operate investments in Honduras on an equal footing with local investors. Exporters who offer attractive financing terms on sales have the best chance of gaining market share.

As in most Latin American countries, a good personal relationship with prospective customers is required in order to penetrate the market. While it may take a little longer to establish a business relationship than is customary in the United States, the investment in time can pay off in long-lasting and mutually profitable alliances. Although a U.S. firm may export directly to Honduran companies, U.S. suppliers are strongly recommended to have a local representative or a distributor who can personally travel to Honduras.

B. Consumer Tastes and Preferences:

Honduran preference for U.S. products has increased steadily over the years. The number of U.S. franchises and subsidiaries or affiliates operating in Honduras has grown rapidly. About 162 U.S. firms now operate in Honduras; 54 of these firms are U.S. fast-food and casual restaurants with more than 300 establishments in the country. In addition, Honduran consumers traditionally prefer the quality, convenience, and wholesomeness of U.S. products. Some companies are combining Honduran and American foods as an attractive tool in restaurants.

C. Food Standards and Import Regulations:

The Honduran Government (GOH) regulatory agency responsible for food and agricultural imports is the National Plant, Animal Health and Food Safety Service (SENASA). SENASA establishes regulations, procedures, and oversees compliance regarding plant and animal health and food safety of agricultural products that enter Honduras. SENASA issues import permits for plant, animal, processed, consumer ready food products, agricultural chemicals, veterinary products and inputs used in food processing for human or animal consumption.

On May 2017, the GOH created a new Sanitary Regulation Agency (Agencia de Regulacion Sanitaria – ARSA). ARSA is in charge of the sanitary registration and inspection of foods and beverages, natural products, medicines, cosmetics, medical devices and hygiene products approved to be sold at the retail and wholesale level. To expedite sanitary registration of foods, ARSA eliminated the laboratory test requirement. This requirement was substituted by an affidavit signed by the legal representative of the company importing the product. The laboratory analysis will be done during the surveillance stage, when the products are in the market.

The standards and import regulations of the above mentioned institutions are found in the following GAIN reports for Honduras: Food and Agricultural Import Regulations and Standards (FAIRS) Country Report Number HO1706, and FAIRS Export Certificate Report Number HO1707.

D. General Import and Inspection Procedures:

SENASA delegated the responsibility of all quarantine inspections of agricultural imports to the International Regional Organization for Plant and Animal Health (OIRSA). OIRSA's Plant and Animal Protection Service (SEPA) inspectors are located at the borders, ports, and airports. They follow SENASA's instructions to enforce the import requirements of raw animal and plant products, processed and consumer ready foods, as well as inputs used in food processing imports at the time of entry.

SEPA and inspectors from the Honduran Customs Authority (DARA) are involved in clearing imports of food and agricultural products at the port-of-entry. They review documents, data and compliance of key requirements as follows:

The product must have an import permit before entering the country. The permit is requested by the importer.

The original import permit approved by SENASA, the original Phyto or Zoosanitary Certificate, Certificate of Origin and Commercial Invoice need to accompany the product at the time of entry. Additional supporting papers to collate data of the shipment's content such as Bill of Lading and Packing List. The compliance of requirements are reviewed at the port-of-entry such as:

- Phyto or Zoosanitary Certificates: SENASA requires that the certificate be issued by the U. S federal government authority that inspects the plant where the product was produced or processed. The certificate should be filled out completely with the written name, date and signature of the official issuing the certificate, and the Additional Declaration requested in the import permit.

- Certificate of Origin: The certificate must clearly show that the product originated in the United States. Under CAFTA-DR, the certificate must be signed by the exporter, the importer or the producer; and the signatory must clearly be a business located in a treaty country. This is a requirement to demonstrate eligibility for preferential tariff treatment. For further information please see the Honduras GAIN Report: Food and Agricultural Import Regulations and Standards (FAIRS) Export Certificate Report Number HO1707.

- Production, Expiration date and Lot number. The information should appear in Spanish on the shipping carton(s). The dates must be provided in the Day/Month/Year format (DD/MM/YYYY). If a first-time exporter does not comply with this requirement, the product is retained and SENASA/SEPA allows a label to be applied. However, if the exporter has not repeatedly had the required labels, the product is not allowed entry.

- Consistency of information on documents. The information and names of the exporter, importer, shipment's content, amounts, product description and point of shipping, must be consistent across all documents. In addition, if the country of origin of the product is the one authorized on the import permit; and if it is the same origin in the label of the product entering the country.

- SENASA modified its Quarantine Procedures Manual in 2014. The Manual indicates that when a non-quarantine pest is found alive or dead, the quarantine treatment will not be applied.

- In cases that a quarantine pest is found, a treatment will be applied prior allowing the product to enter the country. SENASA indicates that the exception is with pests that due to their biology could enter in a diapause stage, such as the Trogoderma Granadium and Trogoderma Glabrun. In this situation, the treatment is not applied and the product is returned to the country of origin.

For further information, please see the Honduran GAIN reports: Food and Agricultural Import Regulations and Standards (FAIRS) Country Report Number HO1706, and FAIRS Export Certificate Report Number HO1707 at www.fas.usda.gov or contact FAS Tegucigalpa at agtegucigalpa@fas.usda.gov.

III. MARKET SECTOR – STRUCTURE AND TRENDS

A. Entry Strategy:

U.S. exporters should keep in mind the relatively small size of the Honduran market and the high elasticity of demand for consumer products when devising marketing strategies. Price is one of the most important elements that influence the Honduran importers' decision to buy. In many cases, purchasers buy from abroad if the cost of imports available on the local market is too high. U.S. exporters should carefully analyze both their cost and market approaches when making pricing decisions.

U.S. exporters who offer attractive financing terms on sales to Honduran traders have the best chances of gaining market share. This is particularly true for large-scale projects. It is important to emphasize, however, that international firms must exercise due caution when granting credit to Honduran trading partners. U.S. firms should investigate the creditworthiness and reputation of potential partners before granting credit.

Under CAFTA-DR, tariffs on a wide range of consumer-oriented products for U.S. products were eliminated, and market demand for U.S. products in this sector is strong. Consumer-oriented products have increased significantly in the past few years.

B. Food Retail Market:

Honduras's retail food sector is by far the largest market for imported food. Retail sales of imported consumer-oriented products are conducted mostly by supermarkets, mini-markets, and convenience stores. The supermarket retailing industry is growing rapidly. Supermarkets have opened in various medium and large urban locations throughout the country. Most of the middle class population takes advantage of promotions and buys their food at these supermarkets. Many supermarket chains are also expanding, remodeling, and modernizing.

Easter week is a vacation for most Hondurans. This vacation period begins well before and extends beyond the two-day holiday. Christmas gift baskets are also increasingly popular. In recent years, it has become common to include a high percentage of U.S. products in these baskets. Most commonly included are traditional favorites such as candy, nuts, whiskey, and wines. Easter, Christmas, and Mother's Day are the biggest holidays for retail sales. By law, in June and December of every year, the government and private sector must provide a bonus to their employees. This bonus is equivalent to a month's salary. Many families make special purchases or buy high quality products at this time.

Various marketing approaches could be developed for the different sectors. It is always important to appoint a local distributor in Honduras. However, many U.S. suppliers are discouraged by small initial volumes, and do not provide the needed support. U.S. exporters looking to establish and maintain a share of the market should be willing to go the extra mile in developing sales from the ground up and servicing their growing markets. They should work with their customers to satisfy local manufacturing and expiration date requirements and provide customers with competitive pricing, credit alternatives, catalogs, and samples to test the market. They should also be willing to consider sharing advertising costs for launching new brands. Moreover, they should be willing to provide technical and sales support, as well as training in various areas such as category management, merchandising, and product handling.

C. Hotel, Restaurant and Institutional Sector:

The tourism industry in Honduras has experienced substantial growth supported by the Government of Honduras (GOH) and the private sector. Tourism plays a significant role in nearly all the Central American economies, stimulating growth in the hotel and restaurant industries. U.S food products geared toward the hotel, restaurant, and institutional (HRI) sector are therefore increasing in demand for high quality products.

The hotel industry is rapidly expanding. Among the new projects are those with bungalow-type resorts, ecological hotels and resorts, apartment-hotels, cabins, hostels, and inns. Convention traffic is also increasing, and the restaurant industry is growing. Many high-end restaurants, fast-food chains, and franchises are opening due to attractive incentives. Honduras has the largest number of U.S. fast food and casual dining franchises in Central America with more than 300 establishments in in Tegucigalpa and San Pedro Sula. The increase of modern shopping malls and commercial centers has also led to more restaurants.

The U.S. franchises are in need of raw materials, and the local market cannot always fulfill their needs. Also, some of the franchise agreements require U.S. raw materials as part of the contract. The following U.S. franchises and casual dining establishment operate in Honduras:

Antonino's Pizza	Denny's	Pretzels
America's Favorite Chicken	Domino's Pizza	PriceSmart
Applebee's	Dunkin' Donuts	Quiznos
Auntie Anne's	Hilton Princess Hotels	Ruby Tuesday
Burger King	Holiday Inn	Subway
Baskin-Robbins	Johnny Rockets	Tony Roma's
Bojangles	Kentucky Fried Chicken	T.G.I. Friday's
Cinnabon	Little Caesar's Pizza	Wendy's
Circle K	McDonald's	Marriott Hotel
Chester's	Pizza Inn	McDonald's
Chili's Grill & Bar	Pizza Hut	Uno Chicago Grill
Church's Chicken	Popeye's	Start Mart

D. Food Processing Sector:

The total market for food processing in Honduras has increased steadily over the past few years. The United States continues to be the largest supplier of food processing ingredients enjoying a high level of acceptance and reputation for high quality products.

Honduran exporters are pursuing expansion plans to increase production and improve the quality of their exports, particularly non-traditional agricultural products such as melons, watermelons, oriental vegetables, okra, winter vegetables, shrimp, jalapeno peppers, and flowers. With CAFTA-DR, producers are looking forward to opportunities to export new products to the U.S. market. Every day, more and more companies are offering processed products such as tortillas, processed wheat, soy or oats, and dehydrated fruits and vegetables.

Central American Customs Union (CACU) members agreed that for products produced or processed in their countries, when a product obtains a Sanitary Registration Number (SRN) in a CACU country, it does not need to be registered in another. Products produced in the United States are not eligible for the registration exemption. It is important to note that the origin of the product is considered to be from a CACU country if the product is processed in a CACU country, even if the raw material is not from a CACU member country.

IV. BEST CONSUMER ORIENTED PRODUCTS PROSPECTS

The following is a list of product categories with the best export potential for U.S. suppliers based on recent export performance, relative ease of entry, and developing trends.

Product Category	2016 Exports (US$ in millions)	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness from USA
Pork and Pork Products	48	Pork Carcass, ham, bacon and pork offal pay 6.75% out of quota tariff under CAFTA-DR and 0% Value added tax. The duty free quota for 2017 is 3,800 MT. Specialized cuts for pork products pay 6.75% tariff under CAFTA-DR and 15% Value added tax.	Competition from Nicaragua and local production.	• Consumers have strong preferences for U.S. products. Rapidly developing retail & HRI sector.
Prepared Food	37	Prepared foods pay 0% tariff under CAFTA-DR and 15% Value added tax.	Competition from Guatemala, El Salvador, Costa Rica and Mexico	• Consumers have strong preferences for U.S. products. • Rapidly developing retail & HRI sector.
Poultry Meat and Products	27	Under quota imports, whole chickens, chicken breasts and wings pay 0% tariff under CAFTA-DR and 0% to 35% Value added tax; MDM pay 0% tariff under CAFTA-DR and 5% value added tax.	Competition from local production and Costa Rica.	• Consumers have strong preferences for U.S. products. • Rapidly developing retail & HRI sector.

Dairy Products	17	Under CAFTA-DR Tariff Rate Quotas have zero in-quota percent tariff for Milk Powder, Butter, Cheese, Ice Cream, Butter and Other Dairy Products. Outside the Quotas all dairy products pay12 % tariff Under CAFTA-DR and 0% to 35% depending on the product type for Value added tax.	Competition from New Zealand, Costa Rica, Australia, Guatemala, El Salvador and Nicaragua.	• Consumers have strong preferences for U.S. products. Rapidly developing retail & HRI sector.
Condiments and Sauces	13	Condiments and spices pay 0% tariff under CAFTA-DR and 15% Value added tax; Sauces pay 0% tariff under CAFTA-DR and 15% Value added tax.	Competition from local production, Guatemala, El Salvador, Costa Rica and Mexico.	• Consumers have strong preferences for U.S. products.
Fresh Fruits	12	Almost all U.S. fresh fruit products pay 0% tariff under CAFTA-DR and 15% Value added tax.	Competition from Chile, Mexico, Guatemala, Costa Rica, Nicaragua, Spain and Peru.	• Consumers have strong preferences for U.S. products. Rapidly developing retail & HRI sector.
Processed Vegetables	12	Process vegetables pay 0% tariff under CAFTA-DR and 15% Value	Competition from Costa Rica, Guatemala, Chile, El	• Consumers have strong preferences for U.S. products.

		added tax.	Salvador and México	• Rapidly developing retail & HRI sector.
Snack Foods NESOI	11	Snack foods pay 0% tariff under CAFTA-DR and 15% Value added tax.	Competition from Guatemala, El Salvador and Mexico	• Consumers have strong preferences for U.S. products.
Wine and Beer	9	Wines pay 0% under CAFTA-DR plus 15% Value added tax; Beer pay 3% tariff under CAFTA-DR and 15% Value added tax.	Competition from Chile, Argentina, Spain and Italy for Wine. Beer competition from Mexico, El Salvador and Nicaragua.	• Consumers have strong preferences for U.S. products. Rapidly developing retail & HRI sector. Craft beer has become popular and consumers are willing to pay high prices.
Chocolate & Cocoa Products	8	Chocolate & Cocoa Products pay between 0% and 3% tariff under CAFTA-DR and between 0% to 15% Value added tax depending on the product.	Competition from Switzerland and Guatemala	• Consumers have strong preferences for U.S. products.

Sources: BICO, U.S. Census Bureau Trade Data, United Nations Commodity Trade Statistics
Import Tariff Rate: Customs and Tax Directorate (DEI) website:
http://sarahweb.dei.gob.hn/SarahWeb/default.aspx

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