

DOING BUSINESS IN HONDURAS

HONDURAS UNDER CAFTA

April 2006

Ricardo Anibal Mejía M. *

BUFETE MEJIA & ASOCIADOS

International Law Offices - IP Lawyers

20 Avenida "A" 1 y 2 Calle S.O.

Barrio Río Piedras, PO Box 1744

San Pedro Sula, HONDURAS C.A.

Tel: (504) 550 77 44 / (504) 552 86 15 / (504) 550 26 24

Fax: (504) 550 07 95 / (504) 552 85 70

E-mail: mejia@netsys.hn - ipadmin.mejia@sigmanet.hn
www.bufetemejia.com

FACTS AND FIGURES

LOCATION: Approximately 1000 miles southwest of Miami. A short 2 to 3 hour flight from Miami, New Orleans, Houston or Dallas. 5 Hour flight from New York.

POPULATION AND MAIN CITIES: Total population is of slightly more than 7 million people

Capital city: Tegucigalpa (approximately 1 million people)

Industrial and Commercial Capital: San Pedro Sula (Approximately 800,000 people).

LANGUAGE: Spanish. English widely used as a second language and on the business and tourist sector.

BANKING AND CURRENCY: The Central Bank of Honduras regulates Honduran banking system. The local currency is the LEMPIRA (L) with an exchange rate during the last year of 18.83 Lempiras per 1 US.Dollar (\$). A free interest regime has been in place since 1992. The Central Bank uses an auction system to regulate the allocation of foreign exchange. The only security exchange operating in the country is the Central American Securities Exchange (BCV) in Tegucigalpa. The Central American Securities Exchange is supervised by the National Banking and Insurance Commission who has established international standards for capital-asset ratios and loan-loss-reserve ratios. It has also extended reserve requirements to cover Savings and Loan Institutions and Finance Companies. Instruments that can be traded theoretically include bankers'

acceptances, reposition agreements, short-term promissory notes, Honduran government private debt conversion bonds and land reform repayment bonds. However, in practice, the market is nearly 100% composed of short-term government securities. Honduras is a member of the World Bank, CABEL (which has its main regional office in Tegucigalpa), the International Monetary Fund (IMF) and founding member of the INTERAMERICAN DEVELOPMENT BANK (IDB).

There are currently 16 commercial banks operating in Honduras, which account for roughly 90 percent of the assets in the financial system. Of shore banking is limited. In September 2004 and as part of the negotiations with the IMF the Honduran Congress passed a set of four financial sector reform laws intended to regulate and supervise the banking system. The 4 laws reformed the Deposit Insurance Fund, the Central Bank, the National Banking and Insurance Commission, and the general system of financial supervision. A fifth law, passed in December 2004, establishes new and stronger penalties for financial crimes including bank fraud.

It must be pointed out that Insurance may not be offered on a cross-border basis, and that a foreign bank wishing to operate offshore must establish a representative office in Honduras, which entails reporting requirements and other procedures. Furthermore, a Honduran branch of a foreign bank may only operate based on its capital in Honduras, not on its global or regional capital.

TRANSPORTATION: Honduras has ports on both the Atlantic and Pacific Oceans that are served by several shipping companies that link the country with the rest of America, Asia, Europe and Africa. The Northern Port of Puerto Cortes is connected by a modern highway (30 minute drive) with Honduras' Industrial and Commercial city San Pedro Sula. Puerto Cortes is the first Central American port to join the Container Security Initiative (CSI). Through its CSI membership, the port now has the opportunity to ship more containers to the United States, say U.S. officials. In a CBP press release issued March 26, US Ambassador to Honduras, Charles Ford said, that the Port of Cortes' membership in the *initiative "will directly benefit the Republic of Honduras because foreign investors will see the country as an easy and secure way to send their merchandise to the United States."* In addition to joining the CSI, the Port of Cortes also has joined the U.S. Department of Energy's National Nuclear Security Administration's Mega-Ports Initiative, under which the United States will install radiological detection equipment in the port to identify nuclear material. Cold storage installations are also available at the Port which is also used for shipment of goods from El Salvador and Nicaragua.

The country has 4 International Airports serving the capital city Tegucigalpa, The commercial and Industrial Center San Pedro Sula, the tourism island of Roatan (Bay Islands) and the coastal city of La Ceiba. Several International Airlines (TACA, AMERICAN, CONTINENTAL, DELTA, IBERIA) serve the country. Regular flights to Miami, New York, New Orleans, Chicago, Dallas, Mexico, Los Angeles and to all Central-American capitals are available. There are also flights to selected South-American capitals and important cities.

ROADS AND HIGHWAYS: Paved roads connect Honduras' main cities and the country has a more than 15,000-kilometer official road network. Modern highways connect San Pedro Sula with neighboring cities of Villanueva, La Lima, El Progreso and Choloma where almost all of the country's maquila industry (primarily assembly for re-export of textiles and apparel) is located. Almost 130,000 Hondurans (mostly women) work at the maquila industry which has been diversifying from the above to basic electronic and auto assembly plants. A highway connecting Puerto Cortes with the Guatemalan border is under construction and nearly finalized as well as the improvement and widening of the road between San Pedro Sula and Tegucigalpa.

ELECTRICITY AND POWER GENERATION: 110/230/460 Volts/60 Hz. Average cost: US\$0.07. The largest electricity generator in the country is the Francisco Morazan (EL CAJON) Dam built in 1970's and located near the community of Yojoa which is located about 170 Kms. North of the capital city toward the north coast. The National Electric Company (ENEE) has turned over most of its thermal energy generation to the private sector but retains responsibility for electricity transmission and distribution, as well as for almost all hydroelectric energy generation and distribution throughout the country. Current administration of the said company is looking forward to recover its finances by diminishing the lost of energy in the distribution chain and recovering long time debt accumulated by juridical and natural persons during the last 10 years. Recently, President Manuel Zelaya Rosales discussed with its counterpart of El Salvador the decision to build the gigantic Hydroelectric Dam of EL TIGRE which will ensure the supply of electric power to both countries for the next five to ten years.

POLITICAL ENVIRONMENT: Honduras has been a democracy since 1980 when it elected a Constituent Assembly which adopted the Honduran Constitution which has been in force ever since. In fact Honduras is Central-America's second country (only after Costa-Rica) in democratic elected governments. The 2 main political parties are the Liberal Party (currently in Power) and the National Party who claim allegiance of about 90% of the electorate. Both institutions have a history dating to the final years of

the 19th Century. Jose Manuel "Mel" Zelaya Rosales of the Liberal Party won the November 27, 2005 presidential elections and took office on 27 January 2006. Zelaya has vowed to increase transparency and maintaining macroeconomic stability. The Liberal Party won 62 of the 128 congressional seats, just short of an absolute majority. Zelaya is the 7th consecutively democratically elected president. Other political parties in the country are the Partido Demócrata Cristiano (Christian Democratic), Partido Innovación y Unidad (Unity and Innovation Party) and Unificación Democrática (UD) labeled as a leftwing party. Besides the president there is a unicameral Congress whose members are elected in the same ballot as the president. In the recent election and for the first time ever voters were able to vote for individual members of Congress rather than party lists.

Honduras is a member of the United Nations, the World Trade Organization (WTO), the Organization of American States (OAS), the Central American Parliament (PARLACEN), the Central American Integration System (SICA), the Conference of Central American Armed Forces (CFAC), and the Central American Security Commission (CASC). During 1995-96, Honduras—a founding member of the United Nations—served as a nonpermanent member of the UN Security Council for the first time. Honduras is currently a member of the UN Human Rights Commission and a party to all UN and OAS counterterrorism conventions and protocols.

JUDICIARY SYSTEM: The judicial branch of government consists of a Supreme Court of Justice, courts of appeal, courts of first instance (Juzgados de Letras), and justices of the peace. The Supreme Court, which is the court of last resort, has fifteen principal justices. The Supreme Court power and duties include the appointment of judges and justices of the lower courts and public prosecutors; the power to declare laws to be unconstitutional; the power to try high-ranking government officials when the National Congress has declared that there are grounds for impeachment; and publication of the court's official record, the *Gaceta Judicial*.

Two codes regulate justice and provide for penalties against corruption: the Criminal Procedures Code (CPC) and the Penal Code (PC). In 2002, a reform of the CPC entered into force, changing the criminal judicial system from a traditional written inquisitorial trial system to an adversarial, oral, and public trial system. The new CPC is improving justice and accountability in a number of ways, including increased transparency in the criminal process.

The main responsibility for fighting corruption lies with the Public Ministry, under the direction of the Attorney General (Fiscal General). In 2002, the Government created a new control entity, the Supreme Court of Accounts (TSC) which brought together the Comptroller General of the Republic (CGR), the Directorate of Administrative Probity (Ethics office) and the Office of State Assets under one roof and under the direction of three members selected by Congress.

Between 1997 and 2001, the Inter-American Development Bank worked with the Chamber of Commerce and Industry to establish the framework for commercial arbitration. Honduras' Conciliation and Arbitration Law (Decree 161-2000), which seeks to encourage arbitration and clarify the procedures under which arbitration takes place entered into force in March 2001. In September 2001, Centers for Conciliation and Arbitration were established within the Chambers of Commerce and Industry in Tegucigalpa and San Pedro Sula. Arbitration and conciliation are generally considered swifter and more cost-effective means of resolving disputes between commercial entities, and there may be the additional advantage that the arbitrator or mediator may have specialized expertise in the technical area involved in the dispute.

Honduras is not a member of the ICSID (International Center for the Settlement of Investment Disputes).

It is important to mention for the sake of accuracy that lack of transparency and the slow administration of justice in the courts continue to be a problem that, in our opinion, is one of the barriers to the faster development of the country and for attracting foreign investment. Pressures from the civil groups and from society are creating a movement that along with help from USAID and other organizations tend to the modernization of the system and for a stricter vigilance of the transparency and lawfulness in all rulings.

INVESTMENT CLIMATE AND APPLICABLE LAWS

Honduras welcomes foreign investment and offers foreign investors a wide range of benefits. The 1992 Investment Law, The Intellectual Property Law of 2000, The Tourism Free Zone Law, The Electrical Sub-Sector Law and the recently passed Law for the Incentive of Production and Human Competitiveness and Developments, create an appropriate legal framework that can truly make of HONDURAS – YOUR PLACE TO DO BUSINESS.

The above together with relatively low labor costs, proximity to the U.S. market, and Central America's best Caribbean port (Puerto Cortes) have also made Honduras increasingly attractive to investors. In 2002, the Government of Honduras ratified a law on simplification of administrative procedures in establishing a company. Through this new legislation, the government hoped to streamline procedures and eliminate a series of administrative obstacles involved in the process, reducing the steps for establishing an office from up to six months to a maximum of 40 days. (See *attachment*)

We now summarize the most relevant regulations contained in the above-mentioned laws as follows:

INVESTMENT LAW: The 1992 Investment Law seeks to improve Honduras' ability to compete in world markets and to provide with a transparent legal framework for investments. The Law treats both national and foreign investments equally and tries to reduce excessive government controls and intervention. The said Law also guarantees a limitless percentage of foreign-owned capital in Honduran companies.

The following guarantees among others are offered to investors:

1. Access to foreign currency in the banking system, money-exchange offices and other institutions or agencies authorized by the Central Bank for the importation of goods and services needed for the operation of the enterprise. The foregoing include payment of royalties, annuities and technical assistance, repayment of loans obtained abroad for the operation of the business and interest owed in the same, payment of dividends and repatriation of capital on foreign investment registered hereunder;
2. Property rights without limitation, other than those established by the Law to national and foreigners alike;
3. Access to financing through the national financial system and the secondary capital market;
4. Co-Investment (joint venture) contracts are recognized.

All local and foreign investment must be registered with the Investment Office at the Ministry of Industry and Trade which will issue a "Certificate of Investment" once all procedures are met. The said certificate entitles the investor the guarantees contemplated by the Investment Law as briefly outlined above.

LABOR LAW: Honduras has adopted -- both through International Labor Organization (ILO) conventions and their own constitutions and laws -- high standards of protection for labor rights. The labor law prescribes a maximum 8-hour workday and 44-hour week. There is a requirement for at least one 24-hour rest period every week. The Labor Code provides for a paid vacation of 10 workdays after one year, and of 20 workdays after four years. The Constitution and Labor Code prohibit the employment of persons under the age of 16, except that a 15-year old may be permitted to work with the written permission of parents and the MOL. All persons under 18 years of age are prohibited from night work, dangerous work and full time work.

The Children's Code (September 10, 1996) prohibits a person of 14 years of age or less from working, even with parental permission, and establishes prison sentences of 3 to 5 years for individuals who allow children to work illegally. An employer who legally hires a 15-year-old must certify that the young person has finished or is finishing compulsory schooling. The MOL grants a number of work permits to 15-year-olds each year. Document fraud is prevalent among minors interested in working.

Labor Principles and Rights in Honduran Constitution

- Right to freely choose and renounce (quit) an employment post.
- Nullity of acts, stipulations, provisions or conventions that imply the renunciation, reduction, restriction or distortion the rights and benefits granted by the law to workers.
- Right to earn the minimal wage.
- Workers' salaries are un-seizable for non family reasons.
- Right to vacation.
- Right to 7th day payment.
- For women – mothers: right to pre and post – natal leave and a time during the day for breastfeeding.
- Right to strike.
- Liberty of association.
- Stability of employment.
- Right to reinstatement if dismissal for unjust cause.
- 14 Salaries per year.

There are currently 3 Centrales Obreras (Union Federations) with an ample participation and recognized by the private sector and the government as interlocutors

and representatives of the workers. The organized workers are part of the Social Economic Council – with four representatives of the 12 total

THE FREE AND EXPORT PROCESSING ZONE LAWS: The principal free trade zone in Honduras is located in Puerto Cortes and is operated by the Government of Honduras through the National Port Authority (ENP – Spanish Initials). Privately-owned export processing zones are legal extensions of the free trade zone. To obtain authorization to operate a privately owned processing zone, the interested party must pay an annual fee to the above-mentioned port authority. Companies are allowed to construct buildings in any of the designated areas, as long as such buildings are totally fenced and have 24 hour security. In terms of operation facilities and incentives, the Free Trade Zones and Export Processing Zones are identical to the several privately owned and operated Industrial Parks. Most foreign companies, including some Fortune 500 companies, are located within those parks and enjoy the following benefits among others:

- Free currency conversion
- Duty free importation of all production machinery, other equipment, fixtures, spare parts, raw Material and supplies.
- Import and export shipments cleared in less then one day with minimum documentation.
- No government income, sales or corporate taxes or fees.
- Unrestricted repatriation of profits and capital at any time.
- Low cost skilled and unskilled labor.
- Ample supply of trainable and productive labor.
- A wide range of low cost, local raw materials such as wood, cotton, textiles, fruits, sugar, vegetables, meats, seafood, leather, coffee, cocoa and spices are available for processing and manufacturing industries.
- Many Honduran products enter the US duty free under the Caribbean Basin Initiative.

Honduras's recent approval of the Central American Free Trade Agreement (CAFTA) provides a significant opportunity to reinforce the export-led growth strategy and attract foreign investment. CAFTA became effective as of 1 April 2006 and according to the Honduras Maquiladora Association, the country is becoming a hub for maquila assembly plants, mainly in the apparel industry but there are good forecasts for diversifying into other types of light industry including footwear, automotive parts, electronics assembly and data processing services.

Honduras is now the third-largest exporter of textiles to the United States after Mexico and China, and many here hope the new regional trade accord with the United States will give it a further lift. The main opportunity CAFTA offers is producing fabrics locally instead of importing most raw materials from the United States as dictated by the Caribbean Basin Initiative, the treaty that governed U.S.-Honduran trade until now.

There are nearly 30 Industrial Parks in Honduras and over 80 percent of these parks are located in the North Cost Region, with close access to Puerto Cortes, Honduras' major Caribbean Port and San Pedro Sula.

THE TEMPORARY IMPORT LAW: The Law was enacted in 1984 and is applicable to companies operating outside the designated Free Zones or Export Processing Zones and exporting at least 95% of total production to markets outside the Central-American region. Qualifying companies can import raw materials, parts and capital equipment into Honduras without paying custom duties or consular fees. Income Tax exemption for up to 10 years can also be obtained under certain conditions. Special approval must be obtained to operate under the Temporary Import Law.

ENVIRONMENT LAW: This Law was enacted in 1993 to provide a framework that will allow the orientation of economic practices that are compatible with the conservation, sound and sustainable and use of natural resources and the protection of the environment as a whole. Under this Law, all oil, refining, mining, tourism, thermoelectric or hydroelectric projects, as well as the use and management of toxic wastes and all large scale urbanism, industrial, agricultural, fishing and forestry projects require a so-called Evaluation of Environmental Impact (EIA – Spanish initials) in order to be allowed to initiate operations. Duly qualified independent firms approved by the Ministry of the Environment must conduct such evaluation. Investors must pay for the said evaluation.

According to the Honduran Environment Law, municipalities, community groups, and non-governmental organizations should be drawn actively into forestry management in collaboration with COHDEFOR. This law emphasizes that forestry resources should be managed to ensure effective biodiversity protection and enforce sustainable extraction, taking into account the multiple use of natural resources in terms of their economic, ecological, and social values to a variety of stakeholders. The law states that the exploitation of marine and coastal resources should be guided by technical parameters that determine the rational and sustainable use of these resources. To fulfill these requirements, the Ministry of Natural Resources will establish closed seasons for

fishing, put restrictions on the collection of certain species, and define criteria for target population stocks and growth rates for a variety of endangered marine and coastal ecosystem species. The General Regulations for the Control of the Development of the Bay Islands was decreed by the authorities and published January 13, 2005. Such regulations have been passed due to the necessity of preserving the environment and the need of planning a diversified and sustainable development of the islands which are one of the fastest growing tourist destinations in Central-America.

The government of Honduras is planning to ask the United Nations Educational, Scientific and Cultural Organization to remove the Río Plátano Biosphere from its "red list" and return the area to the list of World Heritage Sites. The biosphere was named a UNESCO World Heritage Site in 1982 but was removed in 1996 and placed on the "List of World Heritage in Danger" because of illegal logging, encroaching agriculture and lack of protection. In order to restore its UNESCO designation, the government will have to appoint a commission to develop specific protection strategies for the biosphere. Along these same lines, the Environment Public Ministry office is accusing illegal loggers of starting hundreds of forest fires in retaliation for increased military and police operations to stop illegal wood trafficking. Recently, president Manuel Zelaya Rosales met with environmentalist Father Andrés Tamayo to discuss illegal logging in Honduras. The two men agreed to form a commission of government officials and civil society members that will seek solutions to logging problems in Honduras. Zelaya also promised to restructure the Honduran Corporation for Forest Development (Cohefor), the government entity responsible for issuing logging permits.

INTELLECTUAL PROPERTY LAW: The Protection of Intellectual Property Rights in Honduras is handled by the General Direction of Intellectual Property which is a dependency of the newly created Instituto de la Propiedad which encompasses the Real State registries, Commercial registries, arm registry and vehicle registries. Honduras is a member of the World Intellectual Property Organization (WIPO) since 1983, ratified the Paris Convention for the Protection of Industrial Property in 1994 and became party to the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonogram Treaty (WPPT) in May 2002. In December 1999 and to comply with the TRIPS Agreement by the January 1, 2000 deadline, the Honduran Congress passed two laws to correct deficiencies in previous legislation concerning copyrights, patents and trademarks. On the Industrial Property side, the largely amended law increased protection for patents, including pharmaceutical product and process patents to 20 years to meet international standards and on the copyright side the legislation added

more than 20 different criminal offenses related to copyright infringement and established fines and suspension of services of the offenders. These Laws continue to be in effect and based on its precepts the General Attorney's Office division of Intellectual Property rights has conducted a number of seizures and confiscation of discs and products bearing infringing marks. Seizures for the violation of patent rights have also been carried out by this office and collaboration between the same and the Customs office is likely to increase as a result of the CAFTA agreement.

The CAFTA agreement now in effect has a whole chapter reinforcing the protection of Intellectual Property in all contracting countries and has a timetable for adhering to International Treaties and amending internal legislation to strengthen the protection of IP rights. As part of this timetable, the Honduran Congress has already approved the adhesion of Honduras to the Patent Cooperation Treaty (PCT), The International Union for the Protection of New Varieties of Plants (UPOV) and the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure. Honduras is also now a member of "The Apostille" which results in simpler and quicker legalization procedures for documents received from abroad.

THE TOURISM FREE ZONE LAW: The Honduran government has realized the enormous potential for economic growth the tourist sector may represent for the country. As a result of such awareness the National Congress passed in 1992 the Tourism Free Zone Law which enables investors to pay no import taxes on equipment and supplies used on tourism projects and to pay no income tax for 10 years. There is also legislation in place that allows foreigners to buy land for the development of tourism projects on urban and tourism declared zones. This legislation passed in 1990 (Decree 90-90) and which allows foreign companies and individuals to invest with a 100% foreign capital in tourism projects located in coastal areas, the Bay Islands and other tourism declared zones was upheld in 2005 by the Honduran Supreme Court, thus permitting foreigners to continue to own littoral and frontier property. Foreigners or foreign companies seeking to purchase property in designated tourism zones exceeding 3,000 square meters in size or for tourism or other development projects must present an application to the Honduran Tourism Institute at the Ministry of Tourism. In addition to providing the requested personal information, the potential buyer must also prove that a contract to buy a specific property exists and that it is registered with the Honduran Tourism Institute. To take advantage of the Tourism Free Zone Law the investor must also present feasibility studies and plans including

economic, architectural and engineering project studies that must be endorsed by a local consultant about the proposed tourism or economic development project.

Investment in tourism in Honduras, both local and foreign, is mainly focused on the magnificent coral reefs and the excellent snorkeling and scuba diving sites offered in the Bay Islands, particularly Roatan, the pristine white sand beaches and beautiful palm trees of Tela and Trujillo and some biological and ecologically important areas such as Punta Sal, Cusuco National park and world-famous Biosphere of Rio Platano. The renowned Copan Ruins with its impressive "Museum of Mayan Sculpture" are located in the west part of Honduras. These ruins were declared a Treasure of Mankind by the United Nations back in the early 1980's.

Several Hotel chains including Hilton, Marriot, Camino Real Inter-Continental, Holiday-Inn, Best Western, Clarion, Microtel and others operate in the country. Excellent hotel accommodations may be found in Honduras' largest cities and in all relevant tourism spots such as Bay Islands, Copan, Tela and La Ceiba. Rental car facilities are available in all major airports and cities.

THE ELECTRICAL SUB-SECTOR LAW: The Electrical Sub-Sector Law was passed by the government in 1995 with the goal of opening the Power Generation field to private, local and foreign, investment. This Law has allowed the thermal energy generation by the private sector as previously mentioned in this work. The main goals of this law are among others:

- Create the necessary conditions for the adequate supply of electrical power at a reasonable cost;
- Promote cost-effective, safe and reliable power generation system;
- Rationalize the use of the hydro-electric and geo-thermal resources available in the country;
- Simplify the participation of the private enterprise in power generation activities

In general, electric power plants must be built and operated at owner's expense. The Law provides no tax exemptions and demands efficient and competitive commercial practices. Notwithstanding the foregoing, certain rights are awarded to investors:

- The right to periodically revise applicable tariffs;
- Importation of diesel and bunker for power generation purposes free of government taxes;

- The right to choose the buyer of the generated power, be it a group of consumers, a single massive consumer or the National Energy Company (ENEE – Spanish initials), and;
- The right to export electrical power, once local demand has been met.

Foreigners engaged in power generation projects enjoy the rights granted by the Honduran Investment Law also being discussed in this work.

HONDURAS UNDER CAFTA-DR: Negotiations for this agreement began in January 2003. Following nine rounds of negotiations, an agreement was reached between the United States of America, El Salvador, Guatemala, Honduras, and Nicaragua on December 17, 2003 and with Costa Rica on January 25, 2004. The draft text was made available to the general public on January 28, 2004. Negotiations to include the Dominican Republic in CAFTA-DR began in January 2004 and concluded on March 15, 2004. Implementing legislation for the CAFTA-DR passed the U.S. Senate in June 2005 and the House of Representatives in July 2005 and was signed by President Bush in August 2005. All countries but Costa-Rica have ratified the pact which now has been implemented in The United States, El Salvador, Nicaragua and Honduras which have adopted the necessary regulatory and legislative framework under CAFTA-DR.

CAFTA's purported aim is to expand regional opportunities for workers, manufacturers and farmers in the member nations through the elimination of tariffs and trade barriers. The development of reciprocal access for U.S. products and industry under the treaty will override existing systems of trade with Central American countries; the Caribbean Basin Initiative, Generalized System of Preferences and Most Favored Nation programs. The agreement is set to suppress 80% of present tariffs upon its initiation at the beginning of next year, and will correspondingly activate common, U.S. enforced regulations over investments, IT services and products of intellectual property. *According to Cesar Diaz, consultant and negotiator for the Honduran Secretary of Commerce and Industry, "the largest benefactors of CAFTA within the Honduran economy will include the textile and metal industries, producers of plastic products and manufacturers of wood".* Agriculture is also a major priority. Honduras is already the largest water melon and cantaloupe exporter to the U.S. and one of the leading suppliers of cultivated shrimp and tilapia (cultivated fish). The list also includes pineapples, carrots and more traditional crops such as bananas and coffee. Total exports have risen massively in the last decade from \$800m in 1992 to \$3.2bn in 2002. For some sectors in the agricultural field, such as pork and corn that will be exposed to

an open commercial process under CAFTA, long periods of tax reduction have been established for the next 15 to 20 years in order to reduce possible negative effects of the treaty.

The above agreement together with others implemented by Honduras such as the Free Trade Agreement (FTA) with Mexico which took effect on 2001 and the Free Trade Agreements with other Central-American countries and with the Dominican Republic put the country in a truly unique position to attract investment from out of the continent firms wishing to set foot in the biggest market of the world. The country's unique position at the heart of the Central-American region and with coasts in both the Pacific and Atlantic (Caribbean) Oceans, as well as being the only Central-American country that has a substantial insular territory make of Honduras a good place for business initiatives of regional scope.

Besides all of the above, the substantial foreign debt relief under the Heavily Indebted Poor Countries (HIPC) initiative is seen as a unique opportunity for the country to reduce poverty. In fact, the country began a three-year IMF Poverty Reduction and Growth Facility (PGRF) program in February 2004 and according to Mr. Rodrigo Rato's Managing Director of the IMF, *"Honduran prospects are good for continued growth and a further decline in inflation in 2006. This year will nevertheless be a challenging time for the budget, due to the short-term cost of important reforms such as CAFTA-DR; the liberalization of Hondutel; the financial situation of the electricity company ENEE; and the need to find a sustainable medium-term wage policy for the public sector, including teachers. Taking a long-term view in addressing these challenges will help keep the budget on a sustainable path, while allowing much-needed spending on investment and poverty reduction and maintaining global and regional competitiveness"*. Honduran current president has bowed to maintain fiscal discipline in order to achieve these goals. As part of these efforts and the implementation of CAFTA, President Zelaya issued the Law for the Defense and Promotion of Competition with the objective to prevent monopolistic and free competition restrictive practices and agreements.

CONCLUSION: It is our hope that this work will awaken your desire to learn more about Honduras and the Central-American region. It is not our intention to give false impressions or to present only the bright side of the picture. Honduras has still many unresolved problems and faces enormous challenges. Corruption (which has been labeled as a criminal offense under new legislation) and red tape have not been eradicated and the living conditions of a significant portion of Honduran population,

both rural and urban, are truly despairing. Common crime is a problem that has yet to be resolved. It is our intention, however, to stress the significant progress that has been made and hopefully will continue to be made in an effort to bring the country on stream with modern business practices and to highlight the country's success from a macro-economic perspective and in some particular business areas such as the maquila industry and some agricultural productions.

Abog. Ricardo Anibal Mejía M., is partner and Director of IP of "Bufete Mejía & Asociados" a Honduran based Law firm specialized in Intellectual Property and Business Law. He is a former professor of Insurance and Commercial Law at the Honduran State University at the Northern Campus (CURN) and at the University of San Pedro Sula. He was appointed in 1995 as ad-honorem advisor to the Ministry of Economy on Intellectual Property Matters. Mr. Mejía was a member of the Council of the Inter-American Bar Association and vice-president of the Intellectual Property Committee of the said association. He has also been a member of the INTER-AMERICAN FREE TRADE REPORT published by the National Law Center for Inter-American Free Trade (Tucson, AZ). He is also the contributor of the Honduran chapter for the prestigious KATZAROV'S MANUAL ON INDUSTRIAL PROPERTY (Geneva) and the Honduran chapter for "THE NEW ROLE OF INTELLECTUAL PROPERTY IN COMMERCIAL TRANSACTIONS, 1998 CUMMULATIVE SUPPLMENT". He is also a member of the International Annual Review Task Force of the International Trademark Association and country representative before the Inter-American Association of Industrial Property. Mr. Mejía has participated in Conferences on and panels on IP matters and legal issues organized by FORBES in New York (1996), The Fort-Worth Chamber of Commerce in Ft. Worth (1998), The Inter-American Association of Industrial Property in El Salvador (1995) and Dominican Republic (2004).

SOURCES

1. US Embassy in Honduras Country reports.
2. World Bank country reports.
3. IMF reports.
4. Honduras Central Bank country figures and facts.
5. Official Journal LA GACETA
6. BUFETE MEJIA & ASOCIADOS' prior papers and contributions.
7. Honduran independent sources and newspapers.