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Honduras

Food Processing Ingredients

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Report Highlights:

The market for food processing ingredients in Honduras has increased steadily over the past few years and further increases are expected in the years to come. The United States continues to be Honduras' largest supplier of food processing ingredients enjoying a strong acceptance for high quality. With CAFTA-DR, producers are looking forward to opportunities of exporting new products to the U.S. market.

Post:

Tegucigalpa

SECTION I. MARKET SUMMARY

Although the global economic downturn and an internal political crisis have impacted the Honduran economy, the Honduran food processing sector remains promising for U.S. exporters. The sector is expected to experience growth supported by advances in the retail, restaurant, and tourism industries for the foreseeable future.

The tourism industry in Honduras, for instance, has experienced substantial growth: Total visitors increased from 1.3 million in 2007 to 1.6 million in 2008, and U.S. dollar income from tourists increased from US\$552 million in 2007 to US\$631 million in 2008. With growing tourism, the hotel industry is rapidly expanding into both urban and rural areas. The restaurant industry is growing at an even faster rate with many first-class restaurants, fast-food chains, and franchises being opened in Honduras. The development of modern shopping malls and commercial centers has prompted the establishment of an increasing number of restaurant businesses; Honduras currently has the largest presence of established U.S. fast food and casual dining franchises in Central America.

The food processing sector is driven mainly by middle and upper-class consumers. As consumer income increases in Honduras, consumers are demanding higher quality and a wider variety of food products. This evolving demand suggests good long-term prospects for U.S. ingredients to be used in the food processing sector of Honduras. In addition, some products such as bread, cold cuts, and snacks are widely consumed by the middle and low-income population as well.

At present, the United States is the largest supplier of food ingredients to the Honduran food processing sector, something which can be partly attributed to U.S. products having a strong high-quality reputation. Canada, Colombia, the Dominican Republic, Mexico, the Netherlands, Sweden, and other Central American countries are the leading competitors of the United States.

Consumption trends influencing the type and quality of inputs being used in processed foods are as follows: a wide variety of ingredients are used for mass consumption products such as bread, poultry, snacks and food preparations. Honduran importers prefer U.S. products due to their high-quality and fitness as inputs for processed foods.

The chart below indicates the advantages and challenges for United States exports of ingredients for the processing food sector in Honduras.

Advantages and Challenges for U.S. Exporters Targeting Honduras's Food Processing Sector

Advantages	Challenges
The United States is the leading supplier of ingredients for processed food products, and Honduran consumption of processed foods is increasing.	The Government of Honduras promotes local consumption to protect the domestic industry.
U.S. products are considered to be high-quality resulting in consumers having a strong preference for the products.	The current economic situation in the country limits purchasing power and customers are price sensitive.
CAFTA-DR eliminates most tariffs and other barriers to U.S. goods destined for the Central American market, provide protection for United States investments and intellectual property, and creates more transparent rules and procedures for doing business.	Promote investment, maintain macroeconomic stability, and to increase the private sector's competitiveness in order to reap the benefits of free trade agreements such as CAFTA-DR.
Because of the close proximity of Honduras to the United States, containerized cargo from gateway cities can be transported to Honduras in two to three days. With the lowest logistical costs in the region, Honduras serves as a distribution platform for the rest of Central America.	Direct competition from Canada, Colombia, the Dominican Republic, Mexico, the Netherlands, Sweden, and other Central American countries.
The rapidly development of new restaurants, casual dining, fast food and new hotel chains in the main cities are also contributing to the processed food sector growing.	Unclear and occasionally restrictive labeling, zoosanitary and phytosanitary import requirements.

**Honduras Imports of Ingredients from the World
(in millions of US\$)**

Commodity	2007	2008	2009	% Change (2008-2009)
Sweetener/Beverage Bases	6.4	4.6	4.0	-11.6
Tomatoes, prepared or preserved	5.4	9.3	11.2	19.7
Cocoa	3.4	4.7	3.5	-23.8
Coarse grains	47.9	64.9	70.3	8.3
Baking related	5.2	5.3	5.2	-2.25
Mechanically deboned meat	2.6	4.7	6.2	33
Wheat	42	49.2	53.9	9.56
Soybean meal	38.7	46.7	58.0	24.23
Flavoring; glucose; colorant	60.3	66.7	73.1	9.60
Soybean oil	4.8	10.8	5.8	-46.56

Vegetable oils	14.8	19.7	19.9	0.98
Animal fats	29.8	37.1	17.3	-53.53
Other bulk commodities	0.05	0.1	0.1	2.28

Source: World Trade Atlas

SECTION II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

In order to effectively export products to Honduras, strong relationships with prospective buyers are fundamental. While it may take a little longer to establish a business relationship in Honduras than is customary in the United States, the investment in time can provide long-lasting, mutually profitable alliances. Although a U.S. firm may export directly to Honduran companies, it is suggested that U.S. firms have a local representative or a representative who can personally travel to Honduras. U.S. companies can also benefit from opening their own offices in Honduras.

U.S. exporters enjoy a strong position in the Honduran market bolstered by the Central American Free Trade Agreement (CAFTA-DR) which eliminates most tariffs and other barriers for U.S. goods destined for the Central American market, provides protection for U.S. investments and intellectual property, and creates more transparent rules and procedures for doing business. CAFTA-DR also aims to eliminate inter-Central American tariffs, as well as facilitate increased regional trade.

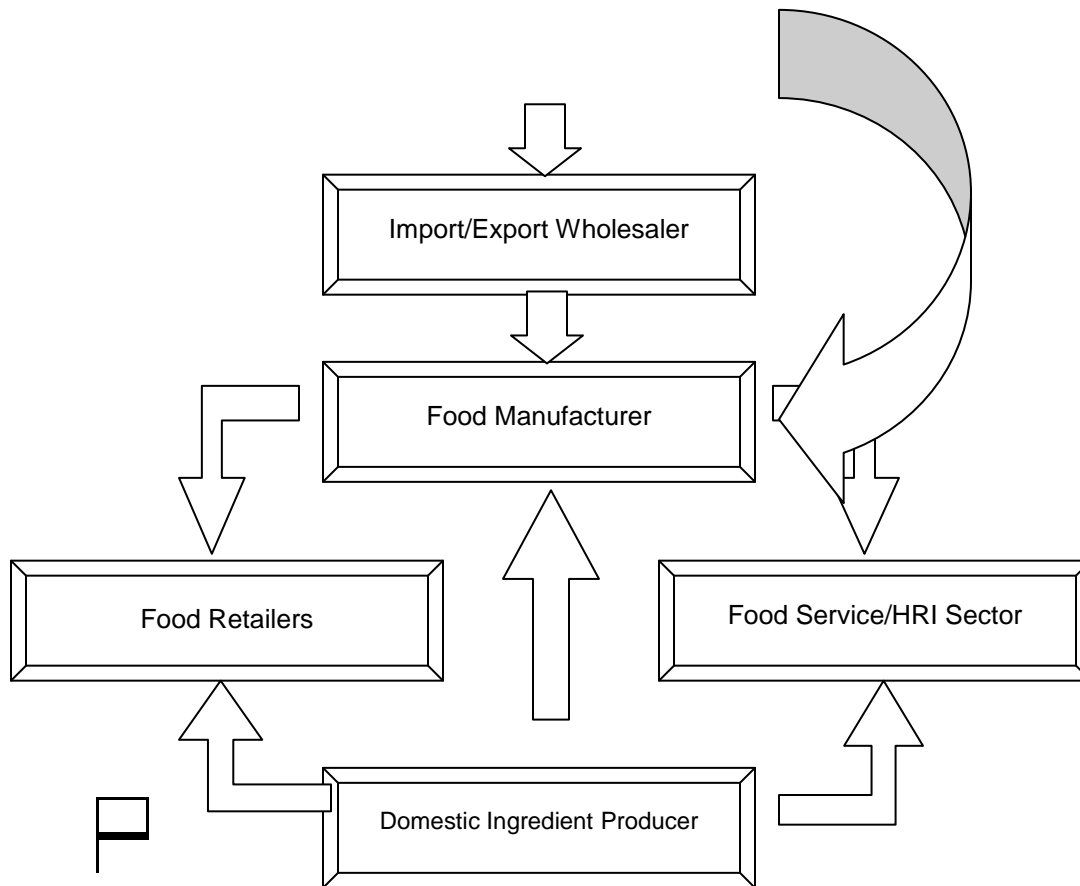
The GOH is generally open to foreign investment and welcomes it; restrictions and performance requirements are fairly limited. The Honduran openness to investment, its geographical proximity to the United States, and the Honduran port of Puerto Cortés, which is the largest deep water port in the region, have made Honduras increasingly attractive to investors. Additionally, Honduras will have a brand new highway, known as Canal Seco or the Dry Corridor, which will connect Puerto Cortes and the Caribbean Sea with El Salvador's Cutuco Port on the Pacific Ocean giving U.S. companies easier coast-to-coast access.

B. Market Structure

Price is one of the most important elements that influence the receptivity score of most Honduran imports. In many cases, Honduran firms buy directly from exporters if cost reductions can be achieved.

Honduras: Product Distribution Channel Flow





C. Company Profiles

The table below shows a variety of large and medium-sized food processing companies in Honduras. Some of these companies are already using U.S. food ingredients, while others are potential users.

Company	Sales In US\$	Production	End-Use Channels	Production Location	Procurement
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	millions				
Corporación Dinant	Not available	Snacks, oils and fats, condiments, seasonings	Retail	Honduras and Nicaragua	Direct & Brokers
Lacthosa	Not available	Milk, shakes, juices, cheese, cream	Retail	Honduras	Direct
Espicias Don Julio	Not available	Seasonings, condiments, sauces, pastas, soft drinks	Retail and HRI	Honduras	Direct & Brokers
Cadeca	Not available	Poultry	Retail and HRI	Honduras	Direct
Alimentos de Cortes	Not available	Beverages	Retail and HRI	Honduras	Direct, Distributors & Brokers
Alimentos Marvisa	Not available	Seasonings, condiments, sauces	HRI	Honduras	
Panificadora La Popular	Not available	Bakery	Retail	Honduras	Direct & Brokers
Inversiones Amalgamadas	Not available	Prepared meals, plantains	HRI	Honduras	Direct
Servi 2000	Not available	Beverages	Retail, HRI	Honduras	Direct
Corporación Industrial del Atlántico “Rojitos”	Not available	Prepared meals, refried beans	Retail	Honduras	Direct
Industrias Sula	Not available	Snacks	Retail, HRI	Honduras	Direct & Brokers
Panadería Superman	Not available	Bakery	Retail	Honduras	Direct & Brokers
Grupo Jaremar	Not available	Snacks, oils and fats, condiments, seasonings	Retail, HRI	Honduras	Direct

D. Sector Trends

The food processing industry has limited foreign direct investment (FDI); some of the foreign companies that were formerly established in Honduras have been transferred to other Central American countries or Mexico due to a variety of issues.

A description of the consumption trends of the major ingredients used by the food processing sector in Honduras follows:

Coarse grains: The United States is the leading exporter of coarse grains: in 2009, U.S. coarse grains made up almost 100 percent of total Honduran coarse grain imports. The main competitors of the United States are Chile and Mexico followed by Argentina and Canada. Given the dominance of the United States, the United States is positioned to expand overall exports to Honduras as demand for coarse grains increases. Coarse grains are an important basic input for the growing poultry, shrimp,

and tilapia sectors in Honduras.

Wheat: The United States is the main exporter of wheat to Honduras. Exports have increased steadily over the years, with the exception of 2009 due to the slowdown in the global economy. Bolstered by the strong demand for bread, bakeries in Honduras range from many small, family bakeries to a handful of large commercial bakers. The bakeries largely source their flour from Honduran mills which import wheat from the United States.

Mechanically Deboned Meat (MDM): There are various food processors that use MDM as a key ingredient in the production of cold cuts, hot dogs, and sausages. A wide sector of the Honduran population demonstrates preference for cold cuts and other processed meat products for their convenience and cost attributes. Restaurants and hotels also demonstrate high levels of demand for processed meat products.

Animal fats: Honduras is a strong market for U.S. exporters of animal fats with limited competition from Nicaragua and Guatemala. The U.S. market share of animal fat imports has increased from over 85 percent in 2007 to nearly 100 percent in 2009. However, unless overall market demand increases for animal fats in Honduras, further growth potential might be slow for U.S. exporters given overall contraction in this import sector from US\$37 million in 2008, to over US\$17 million in 2009.

Mixes and bakery preparations: U.S. exporters have substantially increased their market share within this sector from 37 percent in 2007 to 73 percent in 2009. U.S. exporters face strong competition from other Central American countries; however, many of the regional products may include U.S. ingredients. The remaining market share not held by U.S. exporters is roughly US\$ 1 million.

Sugar/sweetener/beverages: Although there has been a slight, steady decrease in this import sector, the United States continues to be the biggest supplier of the sector and has considerable market share potential. However, according to reported statistics, sales in this sector are shrinking in Honduras.

Cocoa: Cocoa is an important market that needs to be considered. The United States has increased its exports considerably from US\$429 million in 2007 to US\$822 million in 2009. U.S. companies have a 23 percent market share. Guatemala is the leading country in this sector, thus U.S. companies have ample room for growth in a segment whose sales have been steady for the last three years.

Snacks food ingredients: Honduras' exports of snacks to the United States have increased from US\$0.5 million in 2005 to US\$1.8 million in 2009. The snacks are exported to the nostalgic market composed of Honduran and Central American immigrants in the United States. In addition, there is a widespread consumption of snacks in the domestic market, particularly within young people, and the middle and low-income population.

Tomato paste: Tomato paste preparations have a tremendous growth potential for U.S. exporters holding over 32 percent of the market share. Costa Rica has shown tremendous growth in capturing a share of this sector going from a share of 0.01 percent in 2007 to over 57 percent in 2009; however, the United States still holds a strong position in the sector and its export value has doubled in the last three years.

Expansion of food processors: Honduran exporters are pursuing expansion plans to increase production and improve the quality of their exports, particularly non-traditional agricultural products. Honduras exports raw products such as jalapeno peppers and melons, as well as lobster, shrimp, and tilapia. Honduran exports of processed fruits and vegetables have increased in the last five years, from US\$16 million in 2005 to US\$24 million in 2009. These types of exports, as well as others, will require different food ingredients in the future as Honduran firms are looking forward to opportunities to expand exports to the United States.

III. COMPETITION

The table below describes the competitive situation facing U.S. suppliers in terms of domestically produced goods and imports from other countries.

**Imports of Food Ingredients from the World
By Commodity (Millions of US\$)**

Product Category	Countries	2007	2008	2009	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Sweetener/Beverage Bases	1.United States	4.4	4.6	4.0	U.S. quality and enough supply to meet demand	GOH promotes local consumption to protect the domestic industry. Supply is not enough to meet demand
	2.Guatemala	1.7	0.3	0.4		
	3.Colombia	0	0.2	0.2		
Coarse grains	1.United States	47.3	64.2	69.8	Importers trust quality of U.S. products and availability during most of the year	GOH promotes local production. Supply is not enough to meet demand.
	2.Mexico	0.01	0.26	0.18		
	3.Nicaragua	0.12	0.02	0.08		
Baking related	1.United States	1.9	2.7	3.8	U.S. products are very attractive to distributors of baking products	Honduras does not produce enough supply
	2.Guatemala	0.7	0.9	1.1		
	3.Nicaragua	2.2	1.5	0.1		
Mechanically deboned meat	1.United States	2.3	4.7	6.1	Companies trust the quality and effectiveness of U.S exporting process. And excellent customer service	There is no local production of mechanically deboned meat
	2.Nicaragua	0	0	0.12		
	3.Guatemala	0.005	0.013	0.018		
Wheat	1.United States	41.9	48.0	53.9	U.S. quality and strong business relationships have been proven throughout the years	There is no local production of wheat
	2.Guatemala	0.008	0	0.0002		
	3.Nicaragua	0.03	0	0		
Soybean meal	1.United States	35.4	45.0	51.5	U.S. quality and availability throughout the years	There is no local production of soybean meal
	2.Argentina	1.8	0	6.1		
	3.Belgium	0.6	0.8	0.5		
Soybean oil	1.United States	0.6	1.7	2.2	U.S. quality and availability throughout the year	There is no local production of soybean oil
	2.Turkey	0	0	1.1		
	3.Argentina	2.5	0.5	0.8		
Vegetable oils	1.Guatemala	3.4	9.0	7.0	Proximity, transportation and price	Local production is mainly for export
	2.United States	3.8	4.2	5.9		
	3.El Salvador	0.4	3.1	2.8		
Animal fats	1.United States	25.5	33.8	17.3	Quality and availability throughout the year	There is not enough local production
	2.Nicaragua	0.07	0.002	0.002		
	3.Guatemala	0.003	0.02	0		

Other bulk commodities	1.United States	0.05	0.015	0.030	High quality and trust in business transactions	Not local production
	2.Guatemala	0.019	0.021	0.024		
	3.Canada	0.007	0.014	0.012		
Tomatoes, prepared or preserved	1.Costa Rica	0.0004	4.6	6.4	Proximity, transportation cost and price	Local production is for domestic consumption
	2.United States	2.6	2.7	3.6		
	3.Chile	2.7	1.1	0.09		
Cocoa	1.Guatemala	1.5	1.6	1.4	Proximity, lower transportation cost and price	There is not enough local productions to satisfy demand
	2.United States	0.43	0.73	0.82		
	3.El Salvador	0.17	0.99	0.59		

Source: World Trade Atlas

IV. BEST PRODUCTS PROSPECTS

The CAFTA-DR brought a wide range of U.S. products that can enter Honduras duty free. Among those products, the food processing sector can utilize goods such as: bacon and pork offals, raisins, fresh sweet corn, mushrooms, canned sweet corn, tomato paste, canned pears, peaches and mixed canned fruit, potato flour, dehydrated granules and pellets, french fries, frozen orange juice, grapefruit and cranberry juice, mixed concentrates, shelled walnuts, almonds, pistachios, peanut, soups and broths.

Honduran tariffs on the remaining goods are currently within a 15 percent range. Under CAFTA-DR, there are Tariff Rate Quotas (TRQ) for pork, chicken leg quarters, milk powder, butter, cheese, other dairy products, rough rice, milled rice, yellow and white corn. As of 2010, most of the TRQs phase out within 15 years. The table below shows the best product prospects for the food ingredients market in Honduras.

Product	2009 Market Size (volume) %	2009 imports (Sales) In millions of US\$	5-yr. average Annual Import Growth %	Key Constraints Over Market Development	Market Attractiveness for U.S. Products
Coarse grains	99	52.4	-0.21	None	Demand for coarse grains will continue to rise with the increase of poultry, shrimp and tilapia sector
Wheat	100	53.8	0.31	None	The U.S. is the major supplier. Bakery industry is increasing its growth
Sweetener/beverage bases	84	4.0	-0.19	None	Local production of non-alcoholic and alcoholic beverages has increased
Baking related	73	3.8	-0.38	None	There is not enough local production to satisfy demand
Mechanically deboned meat	97	6.0	1.9	None	There is not local production
Soybean meal	89	51.5	-0.20	None	There is not local production
Soybean oil	38	2.2	-1.60	None	There is not local production`
Fats and oils	100	17.3	-0.05	None	There is not enough local production to satisfy demand

Source: World Trade Atlas

V. POST INFORMATION

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