TAIWAN

TRADE SUMMARY

The U.S. goods trade deficit with Taiwan was $12.8 billion in 2005, a decrease of $91 million from $12.9 billion in 2004. U.S. goods exports in 2005 were $22.0 billion, up 1.4 percent from the previous year. Corresponding U.S. imports from Taiwan were $34.8 billion, up 0.6 percent. Taiwan is currently the 10th largest export market for U.S. goods.

U.S. exports of private commercial services (i.e., excluding military and government) to Taiwan were $5.5 billion in 2004 (latest data available), and U.S. imports were $5.7 billion. Sales of services in Taiwan by majority U.S.-owned affiliates were $9.1 billion in 2003 (latest data available), while sales of services in the United States by majority Taiwan-owned firms were $456 million.

The stock of U.S. foreign direct investment (FDI) in Taiwan in 2004 was not available, $12.1 billion in 2003. U.S. FDI in Taiwan is concentrated largely in the finance, manufacturing, and banking sectors.

IMPORT POLICIES

Tariffs

Taiwan promulgated a comprehensive tariff revision schedule on January 1, 2004, in compliance with Taiwan's accession commitments to the WTO and Taiwan's Free Trade Agreement with Panama. Tariffs on pharmaceuticals, pulp/paper, iron/steel, construction equipment, agricultural equipment, medical equipment, furniture, and toys were eliminated starting on January 1, 2004. As a result, the average nominal tariff rate on imported goods in 2005 was approximately 5.67 percent and is expected to fall to 5.5 percent by 2007. To comply with its WTO commitments, Taiwan lifted tariff-rate quotas (TRQs) on certain items including chicken meat, pork bellies, and poultry and pork variety meats, on January 1, 2005. In addition, Taiwan voluntarily lifted the sugar TRQ effective January 1, 2005 to meet Taiwan's domestic needs. However, U.S. industry continues to request that Taiwan lower tariffs on imports of many goods, including large motorcycles, wine, canned soups, cookies (sweet biscuits), savory snack foods, vegetable juices, potatoes and potato products, table grapes, apples, fresh vegetables, and citrus products.

Upon Taiwan's accession to the WTO in January 2002, Taiwan implemented TRQs on small passenger cars, three categories of fish and fish products, and a number of other agricultural products. On January 1, 2004, in accordance with its WTO accession commitments, Taiwan made additional tariff cuts and increased TRQ amounts on these products.

Taiwan has notified the WTO that it maintains Special Safeguards (SSGs) for a number of agricultural products covered by TRQs. SSGs, permitted under Article 5 of the Agreement on Agriculture, allows Taiwan to impose additional duties when import quantities exceed SSG trigger volumes or import prices fall below SSG trigger prices. As Taiwan has not imported many of these products previously, SSG trigger volumes are relatively low. In 2005, Taiwan did not impose any safeguard provisions and none of the imports of subject products reached the safeguard ceiling. SSGs have been previously triggered on several products, including chicken legs and wings, and several types of offal. Products generally continue to be imported in spite of the safeguard tariff.

To meet its WTO commitments, Taiwan has eliminated 99.27 percent of its import controls on 10,921 official import categories. Currently, there are 80 product categories requiring import permits from the Board of Foreign Trade (BOFT) including 56 categories that are prohibited and 24 that can only be imported under special conditions. Most of the permit-required categories are related to public sanitation and national defense concerns and include ammunition and some agricultural products. In addition, Taiwan maintains a lengthy list of products that are banned if made in China, including chocolate confectionery and meters for medical equipment. However, the Ministry of Economic Affairs recently informed the American Institute in Taiwan that imports of certain unfilled chocolate from China will be allowed if imported before June 1, 2006.

Agricultural and Fish Products

Prior to its WTO accession, Taiwan banned or restricted imports of 42 agricultural and fish items. In January 2002, Taiwan liberalized imports of 18 of these agricultural and fish categories and implemented TRQs on the remaining 24 items. TRQs on a number of products of interest to the United States (chicken meat, pork bellies and offal, and poultry offal) were eliminated on January 1, 2005.

Rice

Before Taiwan's WTO accession, imports of rice were banned. During 2002, rice imports were subject to an absolute quota that covered both public and private sector imports. In 2003, Taiwan changed its rice import regime to a tariff-rate quota system without consultation with its trade partners. In January 2003, the United States, Australia, and Thailand formally objected to Taiwan's proposed rice import system at the WTO. Since then, the United States has also raised concerns bilaterally regarding Taiwan's implementation of its rice import system, including cancellation of mark-up price reductions for several private-sector tenders and the use of a "ceiling price" for public-sector tenders. Despite these difficulties, the United States has supplied a majority of Taiwan's imported rice every year since accession. In 2004, Taiwan's implementation of its import commitments improved significantly, but the price ceiling issue resurfaced in 2005. Also, during 2004 and 2005, the United States and Taiwan made substantial progress in resolving outstanding differences on Taiwan's rice procurement arrangements. However, certain rice suppliers to the Taiwan market other than the United States have not agreed to proposed modifications to Taiwan's rice import system.

As a result, Taiwan will continue its current system while working toward final resolution of the rice import issue.

Tobacco and Alcohol Products

As a condition of Taiwan's WTO accession, a new tobacco and alcohol management and tax system went into effect on January 1, 2002. In place of the previous tax on imports administered by the former monopoly authority, the Taiwan Tobacco and Wine Monopoly Bureau (TTWMB), Taiwan agreed to impose an excise tax and to eliminate tariffs on imports of most spirits. Taiwan also liberalized private alcohol production upon its accession to the WTO and private cigarette manufacturing in 2004. TTWMB became a state-owned corporation, Taiwan Tobacco and Liquor Corporation (TTLC), in July 2002. However, primarily due to resistance by organized labor, the privatization of the TTLC has been repeatedly postponed and there is no target date for implementing privatization.

Wood Products

Taiwan has revised its building codes in line with international standards. However, Taiwan has not yet completed a companion fire code. This delay means that while a wood frame structure may be built, approval by fire inspection authorities is contingent on review and comment by a special committee on details, such as design and usage – making insurance and financing difficult to obtain even if fire inspection authorities approve plans. U.S. wood products companies have raised concerns that this practice is restrictive and does not encourage wood use in construction. The continued use of a special committee rather than finalizing a fire code unnecessarily delays construction of wood structures and raises the cost of using wood materials significantly beyond that of other materials such as concrete and steel.

Automobiles and Motorcycles

Local content requirements in the automobile and motorcycle industries were lifted as part of Taiwan's WTO accession. The importation of motorcycles with engines larger than 150cc was liberalized in July 2002 as part of Taiwan's WTO commitments. In mid-2003, Taiwan agreed to set emissions standards for motorcycles over 700cc in line with international standards, a step the U.S. motorcycle industry supported. Small motorcycles (below 250cc) are prohibited on expressways. Larger motorcycles are restricted from most expressways but are allowed on two national highways. The Ministry of Transportation and Communications (MOTC) has entrusted the Institute of Transportation (IOT) with conducting an evaluation to determine whether to lift the restriction on large motorcycles on expressways. IOT is scheduled to announce the result in June 2006. The U.S. remains concerned with Taiwan's tariffs and other taxes on large motorcycles as well as Taiwan's restrictions on motorcycle access to highways.

STANDARDS, TESTING, LABELING AND CERTIFICATION

As of October 31, 2005, the Bureau of Standards, Metrology & Inspection (BSMI) had 13,981 separate existing standards. The rate of harmonization with international standards (both identical and modified) was 72 percent, up from 69 percent on December 31, 2004.

Industrial and Home Appliance Products

Industrial and home appliance products (such as air-conditioning and refrigeration equipment) are subject to safety and Electro-Magnetic Compatibility (EMC) testing requirements before clearing customs. The manufacturers or importers can choose one of two testing methods - "batch-by-batch inspection" (BBI) with Type Approval, or "registration of product certification" (RPC). All safety testing for end products must be done in Taiwan, by Taiwan-accredited laboratories. Taiwan accepts EMC testing by National Institute of Standards and Technology-accredited laboratories if they are in the United States only for information technology equipment based on the EMC Mutual Recognition Agreement (MRA). For those products that adhere to the ISO 9000 quality management system, an alternative factory inspection module was introduced. The manufacturers or importers may choose the method most appropriate to them when applying for registration under the RPC scheme.

Several new standards were announced in 2005 for electronic and household appliances and toys. The revised Chinese National Standards (CNS) 12574 on household pressure-cooking pots was published on September 27, 2004. This revised standard was used to conduct inspections of such products beginning in May 2005. Starting August 1, 2005, 18 additional types of toys were required to pass inspection before entering the market. This makes a total of 38 types of toys that require inspection. In July 2005, the Ministry of Economic Affairs proposed that television receivers must include the capability to receive over-the-air digital television (DTV) broadcast signals, in addition to the existing EMC and safety requirements for television receivers that are already subject to inspection. The DTV-receiving capability schedule will be based on the size of the screen, with larger televisions required to comply as of January 1, 2006, and smaller televisions by January 1, 2008.

Sanitary and Phytosanitary Measures

As a member of the WTO, Taiwan is bound by the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (including notification of such measures). In 1998, Taiwan agreed to accept meat and poultry imports from plants approved by the USDA Food Safety Inspection Service. In 1999 and 2000, Taiwan agreed to accept *Codex Alimentarius* or U.S. pesticide residue standards for some chemicals used on imported fruits and vegetables. However, the United States remains concerned that some Taiwan plant and animal quarantine measures are not always based on sound science and are more trade restrictive than necessary.

Alcoholic Beverages

On July 1, 2004, the Ministry of Finance eliminated ingredient-labeling requirements for alcoholic beverages. However, product labels must include a warning label which states that excessive drinking is harmful to health. Beginning January 1, 2006, Taiwan will implement new “Regulations Governing the Inspection of Imported Alcohol” for wine, fruit wine, beer, and brewed cereal beverages; and on July 1, 2006 for fermented beverages with the exception of grape wine; and on July 1, 2006 for distilled spirits and grape wine. Importers of alcoholic beverages can submit documentation of sanitary inspection or safety assurance issued by officials in charge of alcohol product inspection or professional alcohol associations of exporting countries to substitute for product inspection upon customs clearance.

Agricultural Biotechnology Products

Taiwan authorities generally have taken a cautious, but fairly reasonable approach to trade in agricultural biotechnology products. Risk assessment documentation on agricultural biotechnology corn and soybeans was required to be submitted to the Department of Health (DOH) before April 30, 2002, and mandatory labeling on certain corn and soybean products commenced in 2003. In October 2003, DOH announced its intention to require registration of agricultural biotechnology products other than corn and soybeans in 2004, but announced a process for life science companies to obtain interim approval for those products currently commercialized. No disruptions to trade have resulted from Taiwan’s biotechnology regulations. However, with a number of products entering the regulatory approval pipeline and a lack of investment in a strong domestic regulatory infrastructure, delays in approvals have become more frequent.

Labeling of Biotechnology Food Products

Taiwan requires labels on foods containing biotechnology corn or soybeans. All food products containing 5 percent or more bio-engineered soybean or corn ingredients by weight must be labeled as “Genetically Modified (GM)” or “Containing Genetically Modified.”

Medical Devices

Registration and approval procedures for medical device imports are complex and time-consuming, and have been the subject of longstanding complaints by U.S. firms. The registration process requires extensive documentation, sometime arbitrary demands for additional information and redundant testing. Changes in the registration requirements mean manufacturers must register Class 1 (lowest classification of risk) medical devices for the first time and re-register previously approved products. In most cases, this requires companies to submit additional documentation, even when products are based on previously approved devices, are identical products made in different quality system documentation (QSD) manufacturing sites, or even when the product’s outer packaging changes. The Department of Health (DOH) narrowly avoided a crisis in June 2005, when it extended the deadline for registration by six months and committed additional resources to processing the flood of applications. As of the beginning of 2006, most importers report that their products were coming into Taiwan without substantive delays. Regulations are vague regarding when local clinical trials are required for the review process or whether industry is allowed to provide additional input in response to questions posed by DOH officials reviewing the clinical trial submissions. Taiwan has identified both the medical device and pharmaceutical sectors as priorities for local development, resulting in Taiwan agencies often favoring the interests of local companies over foreign firms.

Pharmaceuticals

Taiwan's lengthy pharmaceutical registration process slows market entry for new drugs that have already received regulatory approval in advanced economy markets and imposes unnecessary costs on drugs that have been approved in Taiwan. Product registration requires submission of plant master files, validation documentation, as well as local clinical trials. Following extensive negotiations, Taiwan agreed in August 2003 to replace submission of full-scale validation documentation with an overview template/certificate of pharmaceutical products (CPP) issued by the relevant authority from the source country. DOH retains the right to conduct overseas site inspections based on risk factors.

Despite intensive consultations, U.S. industry remains concerned that these inspections will unfairly target manufacturers that provide abridged data. Discussions between the United States and Taiwan to resolve remaining issues, especially requirements for computerized validation data, have led to the development of mutually agreeable standards.

Taiwan uses various methods to lower assigned prices on innovative drugs, including through "reference pricing" and periodic lowering of assigned prices without a transparent process. In addition, Taiwan continues to restrict consumer choice and limit U.S. market access through disproportionate reimbursement of domestically manufactured generic drugs. Article 49 of Taiwan's National Health Insurance law mandates reimbursement of healthcare providers at actual transaction costs, but this law is not enforced. Discussions between the United States and Taiwan on this issue are ongoing.

In July 2002, Taiwan introduced a "global budget" in selected locations in which hospital reimbursements are capped by the National Health Insurance system. The goal is to increase efficiency and encourage cost-cutting measures. In practice, this has led to increased pressure on pharmaceutical suppliers to provide discounted products. Despite reports of negative effects on patient care, DOH has announced plans to extend global budgeting to all medical centers. Although these plans have been delayed by hospital resistance, universal global budgeting will likely be implemented in January 2006.

On September 1, 2005, the Bureau of National Health Insurance (BNHI) introduced guidelines to discourage improper use of pharmaceuticals. For instance, duplication of anti-acid prescriptions will no longer be reimbursed. In an effort to cut costs, BNHI stopped reimbursing for some over-the-counter medicines in July 2005.

Other issues

Taiwan initially reopened the market to U.S. beef in April 2005, after banning imports of U.S. beef in December 2003 following the detection of the first positive case in the state of Washington. Taiwan reimposed its import suspension on U.S. beef in June 2005, after the announcement of a second case of Bovine Spongiform Encephalopathy (BSE) in the United States. On January 25, 2006, Taiwan lifted its ban on U.S. boneless beef and beef products from cattle less than 30 months of age. Non-ruminant products for feed use, such as tallow, lard, poultry and porcine meal remain banned due to BSE concerns. Limited exceptions are only approved after a very slow case-by-case review or plant clearance process.

GOVERNMENT PROCUREMENT

Taiwan committed to accede to the WTO Agreement on Government Procurement (GPA) as part of its WTO accession. While Taiwan has applied to accede to the GPA, its accession has not yet been completed due to differences regarding nomenclature issues. To prepare for accession, Taiwan implemented a new Government Procurement Law in mid-1999. This was an important first step toward establishing a transparent and predictable environment for Taiwan's multi-billion dollar public procurement market.

In August 2001, Taiwan and the United States signed a Memorandum of Understanding (MOU) on government procurement. The MOU calls for Taiwan to implement certain procedural commitments immediately, while others will be implemented upon accession to the GPA. U.S. participation in Taiwan's government procurement projects is discouraged by clauses in some contracts that exclude foreign tenders, as well as by Taiwan's refusal to implement liability caps and exclusions for consequential damages. The Public Construction Commission often requests U.S. firms to provide relevant U.S. practices and international cases for reference. The United States continues to encourage Taiwan to abide by the provisions of the GPA in spite of the difficulties in accession.

EXPORT SUBSIDIES

Taiwan provides incentives to industrial firms in export processing zones and to firms in designated "emerging industries." Some of these programs may have the effect of subsidizing exports. Taiwan has notified the WTO of these programs and, as part of its WTO accession, committed to amend or abolish any subsidy programs inconsistent with WTO rules. Amendments of relevant laws, such as the Statute for Establishment and Management of Economic Processing Zones and the Statute for Establishment of Scientific Industrial Parks, to eliminate improper subsidies, went into effect upon Taiwan's WTO accession. The United States continues to monitor Taiwan's compliance with the commitments it undertook as part of its WTO accession, including those obligations associated with the Agreement on Subsidies and Countervailing Measures.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

IPR protection continues to be an important issue in the U.S.-Taiwan trade relationship. The United States recognizes Taiwan's continuing efforts to take measures to improve protection and enforcement of IPR in 2005, including intensifying raids against manufacturers and retailers. The U.S. International Intellectual Property Alliance (IIPA) estimates that losses due to IPR copyright piracy in Taiwan cost U.S. industry $377 million in 2005. The U.S. government also continues to be concerned with the prevalence of counterfeit pharmaceuticals in Taiwan, despite several large raids against manufacturers and the passage of amendments strengthening the pharmaceutical law. Another area of concern is inadequate protection for the packaging, configuration, and outward appearance of products – known as trade dress. U.S. industry has also complained about delays in court cases and the Taiwan judiciary's difficulty in handling technical cases. Generally, U.S. rights holders find that court procedures themselves can constitute barriers to enforcement, and that penalties for intellectual property violations are inadequate to deter violators.

In December 2004, Taiwan was moved from the U.S. Special 301 "Priority Watch List" to the "Watch List" after an out-of-cycle review determined that Taiwan had made sufficient progress to warrant an improved status. In addition, soon after the results of the out-of-cycle review were announced in January 2005, Taiwan's legislature approved a bill to prevent unfair commercial use of pharmaceutical test data. Despite these improvements, the United States will continue to monitor Taiwan authorities' development of implementing regulations for the protection of pharmaceutical test data. In addition, Taiwan needs to take further effective actions against piracy of copyrighted works over the Internet and to continue the strengthening of enforcement efforts so that piracy and counterfeiting are effectively reduced. The United States also will continue to follow with interest Taiwan Customs' efforts to stop exports of counterfeit materials to ensure that these efforts are as effective as, or more effective than, Taiwan's recently abolished Export Monitoring System.

To improve Taiwan's ability to protect IPR, the government formulated a three-year (2003-2005) IPR action plan. Measures included establishing the Integrated Enforcement Task Force (IETF) with a force of 220 special police officers in January 2003; opening three warehouses for storing counterfeiting seizures; raising informant rewards to up to approximately $310,000 per counterfeiting seizure; strengthening border control inspection for optical media exports; and increasing day and night inspections on optical media production facilities, night markets, and retail shops. Counterfeit goods seized by the U.S. Customs Service from shipments of Taiwan origin dropped from $26.5 million in FY2002 to $767,671 in the first half of FY2005. The Business Software Alliance (BSA) also announced that the software piracy rate in Taiwan has decreased steadily from 72 percent in 1994 to 43 percent in 2002, although this rate remained unchanged in 2003 and 2004.

Trademark counterfeiting, particularly of clothing and luxury goods, is a growing concern. Much of the counterfeit product is allegedly smuggled from China. Rights holders state that Taiwan is both a transshipment point and a market for this counterfeit material. Taiwan Customs makes regular seizures of counterfeit apparel and handbags, but rights holders complain that investigation and prosecution remain hampered by an overworked and disinterested bureaucracy and that sentences are inadequate to deter trademark counterfeiters.

Internet piracy and illegal peer-to-peer downloading are serious concerns for IP enforcement in Taiwan and the sale of counterfeit goods over the Internet, resulting in part from the increased raids on traditional sales venues, is a growing concern. Infringers use the Internet to market illegal goods and to allow the unauthorized downloading of music, movies, and software from Internet service providers (ISPs). To deter Internet piracy, the Taiwan Intellectual Property Office (TIPO) in May 2005 initiated an implementation plan for strengthening preventive measures against Internet infringement. TIPO created a joint Internet infringement inspection special task force to conduct Internet inspections, and has made efforts to strengthen cooperation with enforcement agencies in other nations to tackle cyber crime. In addition, TIPO is coordinating with ISPs and rights holders' associations to establish a code of conduct for ISPs and is working with the Ministry of Education to enhance Internet management at schools. Efforts to use the legal system to shut down or restrict the activities of such services have met with mixed success. In June 2005, peer-to-peer (P2P) company EzPeer was found not guilty of allowing users to download copyrighted material through their site. However, in September 2005, another popular P2P site, Kuro, was found guilty of the same charge. Rights holders groups have called on Taiwan to further amend the Copyright Law or other regulations to clarify secondary liability of ISPs and other intermediaries. Taiwan's 2001 Optical Media Law and night/day inspections have led to a significant decrease in large-scale factory production of counterfeit optical media products, although the IIPA reports that the organized criminal syndicates that control most of the piracy business in Taiwan are simply moving their operations to "burn to order" and to the Internet.

The United States remains concerned with the growing incidence of counterfeit pharmaceutical products in the Taiwan market. In March 2004, Taiwan revised the pharmaceutical affairs law to increase penalties for pharmaceutical counterfeiting and the Ministry of Justice, the Taiwan Coast Guard, and Taiwan Customs have had some success in intercepting imports of counterfeit pharmaceuticals. Nevertheless, counterfeit products continue to be a threat to public health, Taiwan's DOH enforcement mechanism is not adequate. In January 2005, Taiwan's legislature approved a bill to provide data protection for pharmaceutical products – a TRIPS commitment – and an incentive for innovative pharmaceutical manufacturers to introduce new products into the Taiwan market, but final implementing regulations are still pending. The United States will monitor Taiwan's development of implementing regulations to ensure that commitments made by Taiwan regarding the period of protection are satisfied.

Taiwan's judiciary continues to experience difficulties in handling technical cases, and U.S. industry has complained about long delays in court cases. Often conflicting or unclear lines of bureaucratic authority stymie IPR enforcement efforts. The United States continues to assist in strengthening the judicial system by holding seminars on criminal enforcement while encouraging Taiwan to set up IP courts with experienced judges.

SERVICES BARRIERS

Financial Services

Taiwan continues to liberalize its financial market beyond its WTO accession commitments. In January 2001, the Securities and Futures Exchange Commission (SFEC) lifted the restriction on employment of foreigners by domestic securities firms. Also in January 2001, the SFEC removed the 50 percent foreign ownership limit on listed companies. In June 2003, the SFEC phased out a minimum two-year period for foreign holders of global depository receipts (GDRs) to exchange GDRs for equity stocks after a GDR is issued. In July 2003, the SFEC lifted the ceiling limit of $3 billion on inward remittances by a qualified foreign institutional investor (QFII). It also abolished the requirement for a QFII to inwardly remit its investment fund within two years after it receives approval. In early October 2003, Taiwan voluntarily abolished the QFII system. The SFEC was renamed as the Securities and Futures Bureau (SFB) in July 2004.

Foreign portfolio investors are required to complete registration rather than seek advance approval. Since December 2003, the registration can be done through the Internet. In late 2003, Taiwan allowed foreign portfolio investors to trade in the futures and money markets as a part of financial management prior to actual portfolio investment. However, futures, money market funds and bank deposits are subject to a limit of 30 percent of total inward remittances. All offshore foreign portfolio investors may trade in Taiwan's stock market regardless of their size, except for investments in hedge funds and investors from the People’s Republic of China. However, foreign individual investors are still subject to an investment limit. Onshore foreign individuals and institutional investors are also subject to annual inward/outward limits.

Morgan Stanley Capital International (MSCI) raised the weight for Taiwan stocks in its index over the past year, attracting a large volume of foreign investment funds to flow into Taiwan in 2005.

In addition to liberalization, Taiwan plans to set up a securities market international board where both listing and trading will be denominated in U.S. dollars. The planned international board is designed to attract foreign companies to list there as well as encourage foreign portfolio investors to trade on the board.

Taiwan continues to work towards fulfilling its May 1997 commitment to liberalize insurance premium rates and policy clauses. It voluntarily opened the reinsurance market. In November 2001, Taiwan permitted life insurance companies to sell investment-linked products. Taiwan began to allow life insurance companies to set their own premium rates in January 2002, if the companies had their own actuaries to determine such rates. Taiwan adopted a three-stage premium rate liberalization program for non-life insurance. Effective January 1, 2002, insurance firms were allowed to set premium rates for large face-value fire insurance policies and fire insurance policies sold to multinational corporations. All non-life insurance companies were permitted to set loading expenses (including commissions) for all insurance products. The second stage of premium liberalization began in April 2005. After that date, non-life insurance firms meeting government-set requirements were not required to obtain prior approval for pure premiums except for car and fire insurance. For car and fire insurance, they were allowed to set pure premiums within a range between the government-approved benchmark rate and 10 percent below the benchmark. Taiwan may advance the target date for total liberalization to 2006 from January 2008 when the insurance policy review procedure is currently scheduled to be deregulated.

Taiwan adopted a transparent approval procedure for insurance policies in January 2001. Prior approval is not required for products whose policy clauses are identical or very similar either to the standard versions published by the government or to the existing products of other companies. New products are subject to prior approval. Taiwan's Insurance Bureau (formerly the Department of Insurance) adopted a negative list system in January 2005. Under the new system, new products subject to prior approval from the Bureau will be sharply reduced. The processing time will be cut from 90 days to 75 days for life insurance products and 60 days for non-life insurance products. The Insurance Bureau plans to further deregulate the insurance policy review procedure in 2006. Insurance companies with a rating above a set level will be permitted to determine their own premium rates, and will not need to seek approval for 90 percent of their new products.

Taiwan's Insurance Bureau has allowed competition in Taiwan's reinsurance market, and the Central Reinsurance Corporation Statute was revoked in June 2004. The Central Reinsurance Corporation, the only local reinsurance firm in Taiwan, was privatized in July 2002. In August 2002, the Insurance Bureau lowered the capital requirement for entering the reinsurance market. In response to the liberalization, the Swiss Reinsurance Co. became the first foreign reinsurance firm to set up a branch in Taiwan in early 2004.

Telecommunications Services

Following the issuance of licenses to three fixed-line telecommunications service providers in 2000, the Directorate General of Telecommunications (DGT) again opened applications for integrated network licenses in September 2004. The capital requirement for integrated network services was reduced to NT$16 billion from NT$40 billion and system capacity requirements were lowered from one million to 400,000 subscriber lines. Since that time, there has been only one bidder (in October 2005) for a license to provide integrated network services. DGT also opened the local, long-distance and international call businesses in March 2005. A new formula based on local population will be used to calculate the capital requirements for each of the new service licenses. For instance, NT$1.2 billion may be required for a local call license in Taipei City and NT$2 billion for long-distance and international service licenses.

Existing fixed-line operators still face serious difficulties in negotiating reasonable interconnection arrangements at technically feasible points in the network of the dominant carrier, Chunghwa Telecom (CHT). Despite its announcement in May 2004 that it would share the local loop with the three private providers, CHT set two limitations: (1) non-CHT service provider's access to CHT's local loop can only be initiated by end users, and (2) only voice service in three metropolitan areas is open to non-CHT operators. Taiwan's Premier announced in November 2003, that the government would invest a total of NT$35 billion in the next five years to help local governments resolve "last mile" problems for telecommunications end-users. This plan, part of a number of telecommunications-related investment proposals called “Mobile Taiwan,” will also include the construction of a second broadband network around Taiwan to be jointly used by telecommunications service companies. These new investment projects are expected to help break the monopoly of the telecommunications network by formerly state-owned CHT.

Until 2005, Taiwan's telecommunications regulator (DGT) and the largest telecommunications operator (CHT) were both under the control of the Ministry of Transportation and Communication (MOTC), creating an obvious conflict of interest. Privatizing CHT and establishing an independent regulator were two of Taiwan's WTO accession commitments. In August 2005, MOTC officially privatized CHT by selling an additional 17 percent of its CHT stock, 3 percent domestically and 14 percent on the New York Stock Exchange. These sales reduced the percentage of CHT stock in government hands to less than 50 percent. However, CHT still retains close ties to the government. In November 2005, Taiwan's Premier announced a CHT rate cut on the floor of the Legislative Yuan, calling into question CHT's independence. The Legislative Yuan in October 2005 finally approved the creation of an independent regulatory body, called the National Communications Commission (NCC) after heated political debate. The political compromise necessary to pass the legislation raises concerns that the NCC could be subject to political pressure. The new body will have 13 commissioners selected by political parties and will be staffed by employees of the former DGT and Government Information Office. It is expected to begin operations by the beginning of 2006, but may have difficulty establishing its legitimacy as an independent regulator as a result of the political controversy surrounding the naming of commissioners.

In August 2003, DGT amended regulations to open Taiwan's mobile virtual network operator (MVNO) market and began licensing in September 2003. The MVNO market opening offers an alternative third-generation (3G) wireless service to local consumers and allows service providers to operate without a 3G license by partnering with existing 3G operators. Cellular carriers KG Telecom and Far EasTone merged in October 2003. The merger has created a mobile service market equally divided between FarEasTone, CHT and Taiwan Cellular.

In November 2003, the DGT announced the regulations governing number-portability service, enabling subscribers to retain their existing telephone numbers when switching from their original Type I enterprise to another Type I enterprise engaging in the same business. Actual implementation of the number-portability service started on October 15, 2005. In November 2004, DGT began to solicit comments for a proposal to facilitate development in the voice over Internet protocol (VoIP) services. DGT is expected to open VoIP to telecommunications operators in November 2005. The United States continues to monitor Taiwan's progress in the telecommunications sector.

INVESTMENT BARRIERS

Taiwan continues to relax investment restrictions in a host of areas, but foreign investment remains prohibited in a handful of industries such as agriculture, public utilities, and postal services. Taiwan dropped oil exploration from the negative list of industries in May 2004. Foreign investors in the telecommunications sector are subject to a 60 percent ownership limit, with the limit on direct foreign investment raised from 20 percent to 49 percent in 2002. Foreign investors can own minority stakes in cable and satellite broadcasters, but are prohibited from owning terrestrial broadcasters. In February 2003, Taiwan lifted its ban on foreign investment in liquor production, although prior approval is required. Similarly, in January 2004, foreign investment restrictions on cigarette production were removed, although prior approval is required. The 50 percent foreign ownership limit on air cargo forwarders and air cargo terminals was eliminated when Taiwan became a WTO member. The limit on foreign ownership of power plants has been removed, while foreign investment in electricity transmission and distribution remains subject to a 50 percent ownership limit and approval by the Executive Yuan. In October 2003, Taiwan set a foreign ownership limit of 49 percent on high-speed railway transportation.

ANTICOMPETITIVE PRACTICES

In the cable television market, U.S. program providers contend that Taiwan’s three dominant multi-system operators (MSOs) frequently collude to inhibit fair competition. Control by the MSOs of upstream program distribution deterred U.S. program providers from negotiating reasonable program fees. In December 2003, Taiwan’s legislature passed a new broadcasting law combining the Radio and Television Broadcasting Law, the Cable Television Broadcasting Law, and the Satellite Television Broadcasting Law. Following passage of the law, Taiwan officials are working to eliminate political interference in the television broadcasting industry by monitoring public releases of state-owned and party-owned equity shares in broadcast media.

ELECTRONIC COMMERCE

Taiwan's approach to electronic commerce and related issues is still evolving. According to the Institute for Information Industry, over 90 percent of Taiwan’s companies have corporate networks and a network infrastructure, while 61 percent of the 5.2 million household computer users link their computer to networks, mainly by broadband digital subscriber line (DSL). A law protecting personal on-line data was approved in 2001.

The Electronic Signature Law, passed by the Legislative Yuan in late October 2001, adopts the principles of the United Nations Commission on International Trade Law's Model Law on Electronic Commerce and recognizes the legal validity of electronic contracts, records, and signatures. Taiwan has passed several laws and regulations governing electronic commerce since 2003. In May 2005, the Ministry of Finance announced a guideline to impose a business tax on Internet vendors who sell products for profit and have monthly sales over NT$60,000. In addition to a business tax, the authorities discussed a proposal to assess import duties for software sold and downloaded over the Internet.

If implemented, such a policy would appear to run counter to the Doha Declaration that WTO Members would maintain their current practice of not imposing customs duties on electronic transmissions. Meanwhile, Taiwan has refused to join the United States at APEC in advocating for a permanent moratorium on taxation of Internet transactions.