TAIWAN

TRADE SUMMARY

The U.S. goods trade deficit with Taiwan was $15.2 billion in 2006, an increase of $2.4 billion from $12.8 billion in 2005. U.S. goods exports in 2006 were $23.0 billion, up 4.3 percent from the previous year. Corresponding U.S. imports from Taiwan were $38.2 billion, up 9.7 percent. Taiwan is currently the 11th largest export market for U.S. goods.

U.S. exports of private commercial services (excluding military and government) to Taiwan were $6.4 billion in 2005 (latest data available), and U.S. imports were $6.4 billion. Sales of services in Taiwan by majority U.S.-owned affiliates were $10.2 billion in 2004 (latest data available), while sales of services in the United States by majority Taiwan-owned firms were $475 million.

The stock of U.S. foreign direct investment (FDI) in Taiwan was $13.4 billion in 2005. U.S. FDI in Taiwan is concentrated largely in the finance, manufacturing and wholesale trade sectors.

The United States and Taiwan continued to work together to enhance economic cooperation through our bilateral Trade and Investment Framework Agreement (TIFA) process. The TIFA, which was established in 1994, is an important mechanism for both parties to resolve bilateral trade issues and to address the concerns of the U.S. business community. The United States and Taiwan held a productive meeting of the fifth meeting of the TIFA Joint Council in Taipei, May 25-26, 2006, covering issues related to agricultural trade, intellectual property rights, pharmaceuticals, government procurement and investment, as well as other areas.

IMPORT POLICIES

Tariffs

Taiwan promulgated a comprehensive revised tariff schedule on July 1, 2006, in compliance with Taiwan’s Free Trade Agreement with Guatemala, as well as Taiwan's unilateral improvement to its tariff structure on finished goods and raw materials. Tariffs on parts and components for plastics and rubber processing machinery and trailers and semi-trailers dropped from 5 percent and 7.5 percent, respectively, to 2.5 percent. Additionally, tariffs on 12 fertilizers were eliminated. As a result, the average nominal tariff-rate on imported goods in 2006 will be approximately 5.6 percent and is expected to fall marginally to 5.56 percent by 2007. Taiwan is working on a new version of its tariff schedule to meet the World Customs Organization's Harmonized System (HS) requirements which are expected to be implemented in 2007. Taiwan estimates more than 11 percent of its tariff lines need to be reclassified. U.S. industry continues to request that Taiwan lower tariffs on many goods, including large motorcycles, wine, canned soups, cookies (sweet biscuits), savory snack foods, vegetable juices, potato and potato products, table grapes, apples, fresh vegetables and citrus products.

Upon Taiwan’s accession to the WTO in January 2002, Taiwan implemented tariff-rate quotas (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 will fully eliminate TRQs on small passenger cars by 2011.

Taiwan 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. SSGs were triggered on eight agricultural products in 2006. Products generally continue to be imported in spite of the safeguard, provided domestic demand is strong.

To meet WTO commitments, Taiwan has eliminated more than 99 percent of its import controls on 10,880 official import categories. Currently, there are 80 product categories facing import restrictions. Of those categories, 24 require import permits from the Board of Foreign Trade (BOFT) and 56 are prohibited. 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 blood glucose meters. The Ministry of Economic Affairs in April 2006 lifted the ban on certain unfilled chocolate from China.

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.

Beef

On January 25, 2006, Taiwan again lifted its ban on U.S. boneless beef from cattle less than 30 months of age with labels of approval from the USDA. After reopening the market to U.S. beef in April of 2005, Taiwan had reinstated its import suspension in June 2005, after the discovery of a second case of Bovine Spongiform Encephalopathy (BSE) in the United States. Specified risk materials identified by the World Organization for Animal Health (OIE) like brains, spinal cords, and certain bones are prohibited entry. Non-ruminant products for feed use, such as tallow, lard, poultry and porcine meal are banned, while limited exceptions for pet food have been approved after a thorough case-by-case review or plant clearance process. The United States is continuing to work with Taiwan to achieve market access for the full range of beef and beef products.

Rice

In 2006, the United States and Taiwan made substantial progress in resolving outstanding differences on Taiwan's rice procurement arrangements. However, certain other countries that also supply rice to the Taiwan market have not yet agreed to the proposed modifications to Taiwan's rice import system. As a result, Taiwan will continue its current system while working toward final resolution of this issue. Taiwan is a leading Asian market for U.S. rice exports. Despite concerns associated with the rice tender process, U.S. suppliers won a majority of the tenders conducted in 2006. The United States will continue to work with Taiwan and other interested suppliers to the Taiwan market to achieve improvements to the rice import system. At present, Taiwan and the United States are discussing the process by which an acceptable import regime will be notified to the WTO. Until that process is agreed upon, 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.

Primarily due to resistance by organized labor, the privatization of TTLC has been repeatedly postponed. The Ministry of Finance had targeted the end of 2006 for selling off a 20 percent stake TTLC and listing on the local stock market, but this target has again been delayed.

Wood Products

Taiwan has revised 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 discourages 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. 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 and two of fourteen expressways. The United States 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 December 31, 2005, the Bureau of Standards, Metrology & Inspection (BSMI) had 15,843 separate existing standards. Manufacturers rely on national standards to establish the criteria for producing and selling their products. BSMI is actively harmonizing its national standards with international norms to reduce technical barriers.

Industrial and Home Appliance Products

Industrial and home appliance products (such as air-conditioning and refrigeration equipment) are subject to safety and Electromagnetic Compatibility (EMC) requirements before clearing customs. There are two conformity assessment procedures for product approval: "batch-by-batch inspection" (BBI) with Type Approval and "registration of product certification" (RPC). Taiwan announced that electrical and electronic products would be included under the RPC Scheme starting from January 2000. A three-year transitional period, which ended on December 31, 2002, was provided to allow industry to adapt to the new system. Under the RPC scheme, different manufacturing stage requirements are mandated depending on the characteristics and potential risks of the product involved. For some products (e.g. washing machines, refrigerators, and dishwashers), Taiwan requires that manufacturing facilities must have implemented certified ISO 9000 quality management systems, or alternatively, have implemented quality systems that comply with BSMI requirements and have obtained a factory inspections report issued by BSMI or an inspection body recognized by BSMI.

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 and implemented 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 requiring 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 already subject to inspection. The DTV receiving capability schedule is based on screen size: televisions with screens larger than 29 inches by January 1, 2006, 21 inches to 29 inches by January 1, 2007, and televisions under 21 inches by January 1, 2008.

Sanitary and Phytosanitary Measures

As a Member of the WTO, Taiwan is bound by the 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 a limited number of chemicals used on imported fruits and vegetables. The approval of new maximum residue limits for chemical/product combinations is slow and cumbersome and the lack of such limits poses a potential threat to U.S. fresh produce and grain shipments. Moreover, the United States continues to be concerned that some Taiwan plant and animal quarantine measures are not always based on sound science and are more trade restrictive than necessary.

Alcoholic Beverage Products

On January 1, 2006, Taiwan implemented new "Regulations Governing the Inspection of Imported Alcohol" 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 replace product inspection upon customs clearance.

Agricultural Biotechnology Products

Taiwan authorities generally have taken a cautious, but fairly rational 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. A draft basic law on biotechnology has been under review by Taiwan officials for more than two years and has yet to be submitted to the Legislative Yuan.

Labeling of Biotechnology Food

Taiwan requires labels on foods containing biotechnology corn or soybeans. All food products containing 5 percent or more bioengineered 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, sometimes arbitrary demands for additional information and redundant testing. Changes in the registration requirements made in 2005 mean manufacturers must register Class 1 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 if the product's outer packaging changes. 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. In addition, 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

A continuing concern in the pharmaceutical sector in Taiwan involves pharmaceutical pricing and management. Through the TIFA process, the United States has been encouraging Taiwan to adopt a system of actual transaction pricing in order to address the significant gap between the amount that the Taiwan government reimburses for a pharmaceutical product and the price actually paid to the provider of that product. This gap distorts pharmaceutical trade and prescription patterns in Taiwan. These distortions are compounded by another aspect of the Taiwan health care system which permits doctors to both prescribe and dispense pharmaceuticals. Research-based pharmaceutical companies see separating these functions as essential to resolving the long-term pricing problem.

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. Taiwan's draft regulation for the registration of new chemical entities appears to lack sufficient clarity. Pharmaceutical piracy in Taiwan also remains a concern. The United States is encouraging Taiwan's Ministry of Justice and the Department of Health to work together to take action to resolve this problem.

GOVERNMENT PROCUREMENT

Taiwan committed to accede to the WTO Agreement on Government Procurement (GPA) as part of its WTO accession. While Taiwan has applied for accession, the process has not 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 on Government Procurement. The MOU calls for Taiwan to implement certain procedural commitments immediately, while others will be implemented upon Taiwan's 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 Taiwan's refusal to implement liability caps and exclusions for consequential damages. The Public Construction Commission often requests U.S. firms to provide evidence of work in the United States or internationally as reference. The United States continues to encourage the Taiwan government to abide by the provisions of the GPA in spite of difficulties in accession. The United States continues to support Taiwan's accession to the WTO GPA, and the United States and Taiwan are exploring ways to deepen bilateral cooperation on procurement issues.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

IPR protection continues to be an important issue in the U.S.-Taiwan trade relationship. In December 2004, Taiwan was moved from the 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. The United States recognizes Taiwan's continuing efforts to take measures to improve enforcement of IPR in 2006, including intensifying raids against manufacturers and retailers. After falling for the past few years, counterfeit goods of Taiwan origin seized by U.S. Customs increased from $1.1 million in FY2005 to $1.8 million in FY 2006. The Business Software Alliance (BSA) also estimates the software piracy rate in Taiwan decreased steadily from 72 percent in 1994 to 43 percent in 2002, but has remained basically unchanged for the past four years.

Following these improvements, the United States will continue to monitor further developments in this area. The current "IPR Action Plan 2006-2008" of the Taiwan government focuses on combating Internet infringement and campus piracy. Chief among these developments should be the passage and implementation of effective legislation to address the liability of Internet Service Providers (ISP) as well as unauthorized peer-to-peer (P2P) file sharing, which is expected to occur in 2007. Internet piracy and illegal peer-to-peer downloading have been serious concerns.

Adequate resources, particularly at the Ministry of Education, must also be devoted to improve enforcement against the unauthorized use of copyright material that occurs on and around university campuses and the Internet piracy that is endemic on the university networks.

U.S. industry has also complained about delays in court cases and the Taiwan judiciary's difficulty in handling technical cases. The Legislative Yuan has passed the necessary legislation to create a specialized Intellectual Property Court and has already begun training judges for this new court. The new court will hear civil IPR cases at both the trial and appellate levels. Unfortunately, under the current legislation, criminal IPR cases still must first be heard in local district courts; the Intellectual Property Court will hear only criminal appeals. The Legislative Yuan is also considering amendments to the Patent Act.

The U.S. Government also continues to be concerned with the prevalence of counterfeit pharmaceuticals in Taiwan despite the establishment of an interagency Illegal Drug Committee by the Department of Health (DOH) and the passage of amendments in 2004 to strengthen the pharmaceutical law.

Trademark infringements, particularly of clothing and luxury goods, are also a growing concern. Many of the fakes are allegedly smuggled from China. Rights holders state that Taiwan is both a transshipment point and a market for this 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 light sentences are inadequate to deter trademark counterfeiters.

SERVICES BARRIERS

Financial Services

Taiwan continues to make progress in liberalizing its financial services markets. 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, the Taiwan government 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, and since December 2003, registration can be done online. 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. Domestic currency-denominated futures, money market funds and bank deposits are subject to a limit of 30 percent of total inward remittances. In March 2006, Taiwan launched a U.S. dollar-denominated futures market trading gold, as well as domestic stock price index options and futures. No inward remittance limits are applied to foreign investors participating in this U.S. dollar-denominated market. All offshore foreign portfolio investors may trade in Taiwan's stock market regardless of their size, except for 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. In November 2006, Taiwan began trading in foreign currency denominated bonds as Deutsch Bank issued $250 million in Taiwan's domestic market.

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. In 2002, Taiwan adopted a three-stage premium deregulation program. During the first stage of deregulation (from April 2002 to March 2005), Taiwan permitted insurance companies to set loading (or operating) expenses, one of the two components of the premiums, within a range between 5 percent above and 5 percent below standards set by the regulatory authorities. (Note: the second component of the premium (known as the “tariff rate”) is the risk (or “pure”) premium.) During the second stage of insurance deregulation from April 2005 to March 2008, Taiwan is permitting non-life insurance firms to set risk premiums for motor and fire insurance. Beginning in April 2008, Taiwan will completely deregulate premium rate setting, except for compulsory insurance. After that time, there will be no ceiling or lower limits on loading expenses and insurance companies will be required to demonstrate their capability to control loading expenses.

In the second half of 2006, Taiwan streamlined policy filing procedures to shorten the processing time for the introduction of insurance products. Prior approval is not required, except for the following: (1) three categories of life insurance products (annuity insurance under the new labor pension plan, investment-linked insurance with guarantee benefits and new insurance products); and (2) three categories of non-life insurance products (motor and fire insurance covered by the premium deregulation program, policies with a coverage period exceeding three years, and new types of personal line insurance). The insurance regulatory agency is required to respond within 40 working days and approve or reject the filing within 90 working days from receiving filing documents. For other products, prior approval is not required although insurance companies are required to register the products with the FSC.

In June 2006, Taiwan began to permit insurance companies to use derivatives to build "long" positions in different asset classes to enhance investment yields. In the past, derivatives could only be used to build "short" positions for hedging cash positions. However, insurance companies are required to strengthen their internal risk management controls, internal auditing and critical reporting systems. In addition, Taiwan has permitted insurance companies to lend foreign securities in order to gain higher investment income and take greater advantage of foreign assets already held by insurance companies. Taiwan is considering a proposal to build a set of self-supervisory standards on asset management by insurance companies. The standards are based on the framework set out in the International Association of Insurance Supervisors (IAIS).

Taiwan's insurance regulator is planning to propose an amendment to the Insurance Law that will permit insurance companies to take out loans and operate insurance trusts. Non-life insurance companies will be allowed to conduct health insurance business and life insurance companies will be permitted to operate internal funds. All Taiwan insurance companies will be required to be publicly traded, but foreign insurance firms are not subject to this planned requirement.

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 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. DGT also opened the local, long-distance and international call markets to new entrants 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. Since September 2004, only one bidder applied for a license to provide international call business. The National Communication Commission (NCC), an independent agency established in February 2006 to replace the DGT in telecommunications administration, is in the process of reviewing market access regulations for the local, long-distance, international call business, and integrated service market. Once the review is complete the agency plans to issue amended regulations by 2008.

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 three private providers, non-CHT service provider access to CHT’s local loop can only be initiated by end-users. Taiwan has embarked on a multi-year plan to invest NT$30 million 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," also includes 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 and, after sales of additional shares in September 2006, state ownership has been reduced to 34 percent. CHT still retains close ties to the government, however. In November 2005, for example, Taiwan's Premier announced a CHT rate cut on the floor of the Legislative Yuan, calling into question CHT's independence.

The National Communications Commission (NCC), the new regulatory body established in 2006, is led by a group of commissioners and staffed by employees of the former DGT and Government Information Office. Taiwan's high court ruled that the selection process for the commissioners was unconstitutional and in its decision allowed a grace period until the end of 2008 during which time the NCC continues to function in its current form. Current commissioners have also stated that they will resign *en masse* if the constitutional question is not resolved by the end of 2007. These developments have given the agency an uncertain beginning and weakened its authority.

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. To enhance MVNO development, the authorities have approved 10 experimental WiMAX applications and will award six trial licenses for handheld television projects. Taiwan's mobile service market is divided among FarEasTone, CHT and Taiwan Cellular. In November 2003, 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 October 15, 2005. DGT further opened Voice over Internet Protocol (VoIP) Services in November 2005.

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 list of industries in which foreign investment is prohibited in May 2004. Foreign investors in the telecommunications sector are subject to a 60 percent (combination of direct and indirect) ownership limit, with the limit on direct foreign investment raised from 20 percent to 49 percent in 2002. Foreign investors can own up to a 60 percent stake in cable and 50 percent in 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 TV market, U.S. program providers contend that the island'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. 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 5.3 million, or 72.1 percent, of households in Taiwan link their computer to networks – mainly by broadband digital subscriber line (DSL). Taiwan has passed legislation and implemented regulations protecting personal on-line data. 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. The Taiwan government 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 the Doha Declaration, WTO Members stated that they would maintain their current practice of not imposing customs duties on electronic transmissions until 2003 and, in the Hong Kong Declaration, renewed that commitment until 2007. Taiwan has refused to join the United States at APEC in advocating for a permanent moratorium on taxation of Internet transactions.