TAIWAN

TRADE SUMMARY

The U.S. trade deficit with Taiwan was $14.1 billion in 2003, up $346 million from 2002. U.S. goods exports during the same period were $17.5 billion, down 4.9 percent from the previous year. Corresponding U.S. imports from Taiwan were $31.6 billion, down 1.7 percent. Taiwan is the 9th largest export market for U.S. goods and 6th largest market for agricultural products.

U.S. exports of private commercial services (i.e., excluding military and government) to Taiwan were $4.8 billion in 2002 (latest data available), and U.S. imports were $5 billion.

The stock of U.S. foreign direct investment (FDI) in Taiwan in 2002 was $10.1 billion, up from $9.1 billion in 2001. U.S. FDI in Taiwan is concentrated largely in the finance, manufacturing, and wholesale sectors.

OVERVIEW

In the second half of 2003, Taiwan recovered quickly from the recession induced by the Severe Acute Respiratory Syndrome (SARS) epidemic and the war in Iraq. Strong demand for its exports in the Peoples Republic of China (PRC), the United States, and other markets as well as a large influx of foreign direct and portfolio investment, produced GNP growth of 3.2 percent, one of the highest rates in the region. Strong foreign demand should continue to drive growth for Taiwan's export-oriented economy in 2004, and GNP should reach 4.5 to 5 percent. Also in 2003, a huge influx of foreign direct and portfolio investment helped to propel the stock market index upward by nearly 50 percent, a trend that has continued into 2004. The overall economic upturn, coupled with a cut in the land tax, ended the five-year recession in the real estate market, which in turn contributed to a significant improvement in the health of the banking system. By the end of 2003, the Non-Performing Loan (NPL) ratio for the banking system had fallen to 4.3 percent, its lowest level in six years. Unemployment in December of 2003 declined to a 30-month low of 4.6 percent.

IMPORT POLICIES

Tariffs

In November 2003, Taiwan’s Legislative Yuan approved a comprehensive tariff schedule revision to comply with the 2002 version of the Harmonized Commodity Description and Coding System of the World Customs Organization, Taiwan’s Free Trade Agreement with Panama, and Taiwan's accession commitments to the WTO. The revised tariff schedule became effective in early 2004. As a result of this revision, the average nominal tariff rate on imported goods in 2004 is expected to be slightly lower than the 6.3 percent rate in 2003, falling to 5.5 percent by 2007. However, U.S. industry continues to request that Taiwan lower tariffs on imports of large motorcycles, paper and paper products, plywood, wine, canned soup, biscuits, cookies, snack foods, mixed vegetable juices, potato and potato products, table grapes, apples, and citrus products.

Upon Taiwan’s accession to the WTO in January 2002, Taiwan implemented a tariff-rate quota (TRQ) system on small passenger cars, three categories of fish and fish products, and a number of other agricultural products. On January 1, 2003, in accordance with its WTO accession commitments, Taiwan made additional tariff cuts and increased TRQ amounts on these products. In October 2003, Taiwan announced tariff reductions and TRQ increases for the year 2004. Certain of these items of interest to U.S. exporters, including chicken meat, pork belly, and poultry and pork variety meats will be fully liberalized in 2005.

Taiwan has notified the WTO that it maintains Special Safeguards (SSGs) for a number of agricultural products covered by TRQ's. SSGs, permitted under Article 5 of the Agreement on Agriculture, allow 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. The United States has raised concerns over Taiwan's SSGs both in Taipei and Geneva. SSGs will also come into play once certain commodity imports are fully liberalized in 2005.

Licensing and Other Restrictions

In order to comply with its WTO commitments, Taiwan eliminated import controls on over 94 percent of 10,725 official import product categories. Currently, 549 product categories require import permits from the Board of Foreign Trade. Imports of 58 categories are "restricted", including ammunition and some agricultural products. These items can only be imported under special circumstances, and their importation is effectively banned.

Agricultural and Fish Products: Prior to 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. TRQ's on a number of products of interest to the United States (chicken meat, pork belly and offal, and poultry offal) will be eliminated on January 1, 2005 when these imports will be fully liberalized.

Rice: Before Taiwan's WTO accession, imports of rice were banned. During 2002, rice imports were subject to a minimum market access quota that covered both public- and private-sector imports. The United States raised concerns with Taiwan's late implementation of its rice import system in 2002, including cancellation of mark-up price reductions for several private sector tenders, and use of a "ceiling price" for public sector tenders. Despite these difficulties, U.S. suppliers were able to gain a majority of the rice import market during 2002. Nevertheless, the United States remains concerned with Taiwan's implementation of a tariff-rate quota for rice imports for 2003 and thereafter, as it appears more trade restrictive than the 2002 system and inconsistent with Taiwan's WTO commitments. As a result of these concerns, in January 2003 the United States, as well as Australia and Thailand, formally objected to Taiwan's proposed rice import system at the WTO. Discussions regarding alleviation of U.S. concerns continue with Taiwan officials.

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. In 2003, some legislators proposed lower excise taxes on salt-added cooking wine, contrary to Taiwan's WTO commitments, but these legislators failed.

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 postponed until 2005.

Wood Products: Taiwan has revised building codes in line with international practices. 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. 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 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 150 cc was liberalized in July 2002 as part of Taiwan's WTO commitments. In mid-2003 Taiwan agreed to set emissions standards for motorcycles over 700 cc in line with international standards, a step which the U.S. motorcycle industry supported. The U.S. Government 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

Industrial and Home Appliance Products: Industrial and home appliance products (such as air-conditioning and refrigeration equipment) are subject to testing requirements before clearing customs. Tests on each shipment include "batch-by-batch inspection" (BBI) and "registration of product certification" (RPC). The previous BBI system was available for use by manufacturers or importers until December 31, 2003. After consultations with the U.S. Government regarding concerns with unnecessarily burdensome requirements proposed for imports of these products, on January 1, 2004 Taiwan adopted a dual-track approach, which allows the manufacturers or importers to choose the RPC scheme or a BBI inspection with Type Approval. 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 module most appropriate to them when applying for registration under the RPC scheme.

Sanitary and Phytosanitary Measures: As a member of the WTO, Taiwan must abide by the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (including notification of such measures). In 1999, 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* standards and, in some cases, U.S. pesticide residue standards for imported fruits and vegetables. However, concerns have been raised in a number of areas regarding whether Taiwan plant and animal quarantine measures are based on sound science and are the least trade restrictive while providing adequate protection to agriculture.

Beverage Alcohol Products: On December 31, 2001, immediately before its WTO accession, Taiwan implemented new regulations requiring major ingredient labeling for beverage alcohol products. Although these regulations related to international trade, the United States was not informed by Taiwan in advance of their implementation. Bilateral meetings were conducted in 2002 to discuss this requirement and as a result, enforcement of the ingredient labeling requirement was delayed until July 2003. In December 2003, Taiwan’s legislature passed the Tobacco and Alcohol Administrative Law, which will enable the Ministry of Finance to eliminate ingredient labeling requirements for beverage alcohol products.

Agricultural Biotechnology Products: Taiwan authorities generally have taken a cautious, but fairly rational approach to trade in agricultural biotechnology products as embodied by the Department of Health's (DOH) February 2000 regulatory decisions. Risk assessment documentation on agricultural biotechnology corn and soybeans were required to be submitted to 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 offered an opportunity for life science companies to obtain interim approval for those products that are currently commercialized. Mandatory labeling on all foods with over 5 percent agricultural biotechnology products content will be required in 2005. No disruptions to trade have resulted from Taiwan's regulations. However, with a number of products entering the regulatory approval pipeline and a lack of investment in a strong regulatory infrastructure, delays in approvals are likely to become more frequent.

Medical Devices: Registration and approval procedures for medical device imports are complex and time-consuming, and have been the subject of long-standing complaints by U.S. firms. The registration process requires redundant testing, and foreign manufacturers must re-register new products even though they are based on previously approved devices. In addition, it is unclear 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. The adoption of the U.S. Food and Drug Administration's medical device classification system in June 2000 was welcomed by industry. However, Taiwan's implementation of this system will require re-registration in 2004 of previously approved products. Taiwan has identified both the medical device and pharmaceutical sectors as priorities for local development, resulting in Taiwan's agencies 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 been approved in advanced economies and also imposes unnecessary costs on drugs that have been approved in Taiwan. In May 2001, the DOH announced a requirement for firms to submit voluminous amounts of proprietary manufacturing data as part of the registration and approval process for both new drugs and those already on the market. The amount of such "validation" data requested by Taiwan far exceeded international norms. In response to concerns raised by the United States and its industry, the DOH had postponed implementation of this requirement. In December 2002, the United States and Taiwan exchanged letters in which Taiwan affirmed its commitment to adhere to international practices as applied in advanced economies, and agreed that firms can demonstrate validation status by either undergoing DOH inspection or providing documentary evidence. In August 2003, DOH and the U.S. industry reached agreement on validation data resolutions. Left unresolved were the specifics of the inspection criteria and what DOH would require from the companies in subsequent stages of the validation schedule. Discussions between the United States and Taiwan to resolve remaining issues are ongoing.

Taiwan also uses various methods to lower assigned prices on innovative drugs. Such methods include "reference pricing" (assigning a lower price when a drug is approved for an additional use) and lowering assigned prices arbitrarily. In addition, significant differences exist between the functionality and quality of imported pharmaceutical products and those made in Taiwan, yet Taiwan continues to restrict consumer choice and limit U.S. market access through disproportionate reimbursement of domestically manufactured drugs. To address these outstanding concerns of foreign pharmaceutical firms, Taiwan announced a reimbursement pricing plan in March 2003. In this plan, the DOH and the Bureau of National Health Insurance agreed to find ways to include a "reward for innovation" component in its pricing mechanism for new drugs. However, industry representatives have criticized the new drug pricing mechanism as non-transparent and believe the reimbursement prices will not achieve the stated objective. Discussions between the United States and Taiwan on this issue are ongoing.

In July 2002, Taiwan introduced a "global budget" system in which hospitals receive lump sums for discretionary spending. Critics contend that global budgeting encourages hospitals to increase their requests for illegal discounts on pharmaceuticals as budget pressures grow and also tends to discourage hospital use of innovative medicines.

Other issues: Taiwan banned imports of U.S. beef in December 2003 with the detection of one positive case of Bovine Spongiform Encephalopathy (BSE) in the State of Washington. As of the publication of this report, the U.S. government is taking aggressive action and is working intensively to re-open the market as quickly as possible. In addition, the United States is working in the International Organization for Epizootics to revise international standards on BSE to reflect current scientific knowledge.

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 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 market for public procurement projects. 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 accession to the GPA. Taiwan agreed to establish new procedures providing for the independent review of complaints that arise during the tendering process, to encourage its procuring entities to make use of mediation procedures, and to cooperate fully when such procedures are invoked. Despite these commitments, Taiwan officials have continued to incorporate provisions in its public procurement tenders that appear to be inconsistent with the GPA although Taiwan is not yet a party to that agreement. Further, the lack of transparency in the government procurement process as well as the review process for complaints remains a serious issue. U.S. participation in Taiwan’s government procurement market continues to decline as a result of these practices. The United States continues to remain concerned with the government procurement environment.

EXPORT SUBSIDIES

The Taiwan Government 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 a serious and contentious issue between the United States and Taiwan. The U.S. International Intellectual Property Alliance estimates that Taiwan's weak IPR protection caused trade losses to the United States of at least $382 million in 2003, not including losses from business software piracy. Regarding pharmaceutical products, the U.S. Government is concerned with the growing incidence of counterfeits in the Taiwan market and the lack of adequate data protection. Another area of concern is the lack of adequate protection for the packaging, configuration, and outward appearance of all products. U.S. industry has complained about delays in court cases and how Taiwan's judiciary continues to experience difficulties in handling technical cases. Generally, U.S. IPR holders find that court procedures themselves constitute barriers and that penalties for intellectual property violations are inadequate to deter violators. Because of these concerns, in April 2003, Taiwan was placed on the U.S. Special 301 Priority Watch List for the third year in a row.

The Taiwan Government extended 2002’s “Action Year for IPR Protection” to subsequent years in an attempt to combat serious problems in intellectual property protection. Taiwan's Intellectual Property

Office has cooperated with police and other agencies since 2000 to implement island-wide efforts to deter the counterfeiting and pirating of patented, trademarked or copyrighted goods. In 2003, these efforts appear to have led to intensified enforcement efforts against the production of illegal optical media although high piracy rates continue to exist. The Ministry of Economic Affairs and Ministry of Justice worked extensively with the Business Software Alliance since the spring of 2002 on a campaign to press businesses and government agencies to use licensed software. As a result, the software piracy rate fell from 54 percent in 2002 to 43 percent in 2003.

Regarding Taiwan's legal infrastructure to protect IPR, necessary amendments to the copyright law proposed in 2002 were passed by the legislature in June 2003, but some amendments were changed significantly. Although the requirement that rights-holders file a complaint before police can conduct enforcement actions was lifted, provisions allowing *ex officio* seizure by Customs officials and prohibiting the circumvention of technical protection measures were eliminated and minimum sentences were repealed. In addition, provisions to address Internet piracy were removed from the final bill. Industry believes the current law is weaker than the law it replaced. The government has attempted to mitigate the negative effects of the new law through the promulgation of administrative guidelines. These measures, combined with increased frequency of raids against night markets and inspections of optical media factories, have significantly reduced the number of pirated optical media products for sale at retail levels. Nevertheless, we are seeing increasing numbers of pirated optical media for sale in non-traditional retail channels, including anonymous ordering from catalogues for home delivery and using the Internet to market illegal goods. Production appears to be shifting from the large optical media plants to small, custom optical media burning operations. Despite several recent arrests, recent indictments of peer-to-peer Internet service providers, and lengthy sentences, the optical media piracy rate remains high.

In response to U.S. and industry requests to protect optical media products and curtail the illegal manufacture of such goods, Taiwan passed an optical media law on October 31, 2001. The law was fully implemented effective May 2002. Manufacturers currently must apply for production licenses and report any changes to the authorities. Violators face a maximum three-year jail sentence and a fine of approximately $86,000. Licensing for new plants and for manufacturers of stampers and masters is not addressed under the legislation and the Taiwan government has not addressed this continuing U.S. industry concern. The U.S. government will continue to press the Taiwan government to implement a comprehensive and effective optical media law.

The U.S. Government also is concerned with the growing incidence of counterfeit pharmaceutical products in the Taiwan market and the lack of adequate data protection for these products. While the Taiwan government has taken some action against criminal organizations responsible for counterfeit products, the threat to public health continues to exist. Also, the United States is concerned that Taiwan has not fully provided data exclusivity for pharmaceutical products, a TRIPS commitment and a disincentive for pharmaceutical producers to introduce new products into the Taiwan market.

The lack of adequate protection for the packaging, configuration, and outward appearance of products, an area of IPR known as "trade dress," is another area of concern. Despite provisions in Taiwan's Fair Trade law designed to protect unregistered marks and other packaging features, misleading copying of U.S. products by local manufacturers remains a problem.

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. Further, "Power of Attorney" requirements are arbitrary and occasionally capricious. Generally, U.S. IPR holders find that court procedures themselves constitute barriers and that penalties for intellectual property violations are inadequate to deter violators. The United

States continues to assist in remedying the weaknesses of the judicial system by holding seminars on criminal enforcement.

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 Taiwan 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 GDR for equity stocks after the GDR is issued. In July 2003, the SFEC lifted the ceiling limit of US$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. Foreign portfolio investors are required to complete registration rather than seek advance approval. All offshore foreign portfolio investors may trade in Taiwan's stock market regardless of their size, except for investment in hedge funds and investors from the PRC. 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.

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, the Department of Insurance (DOI) permitted life insurance companies to sell investment-linked products. The DOI 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. The DOI 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. The target date for total liberalization is January 2008, but the liberalization date for an individual insurance firm can be advanced if it has a good credit reputation and its capital adequacy ratio reaches 300 percent.

The DOI 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 to existing products of other companies. New products are subject to prior approval, but the DOI's reviewing time may not exceed 90 days after it receives an application. If the DOI does not respond to an application within 90 days, the non-response becomes a *de facto* approval by the DOI. The DOI has opened its reinsurance market, although a bill to revoke the Central Reinsurance Corporation Statute is still pending. The Central Reinsurance Corporation, the only reinsurance firm in Taiwan, was privatized in July 2002. In August 2002, the DOI lowered the capital requirement for entering the reinsurance market, strongly in favor of foreign reinsurance firms over domestic competitors.

Legal Services

Following Taiwan's accession to the WTO, foreign lawyers are permitted to practice law in Taiwan either by setting up individual practices (single lawyer) or entering into partnerships with local counterparts. In order to practice domestic law, foreign lawyers must pass the local bar examination and use the Chinese language when appearing before the court or submitting written briefs. If the foreigner does not meet these qualifications, local lawyers working for, or in cooperation with, the foreign lawyer may represent the foreign lawyer's interests on domestic law issues. When practicing international or foreign law, foreign lawyers do not need to pass the language or bar examinations and are not required to hire or partner with local lawyers.

Telecommunications Services

Following the issuance of licenses to three fixed line telecommunications service providers in 2000, the Directorate General of Telecommunications' (DGT) announced in October 2003 three proposals on the criteria regarding the issuance of additional fixed-line licenses. However, opposition from existing fixed line firms against easing existing restrictions is likely. DGT plans to issue licenses not only for long-distance and international services but also for integrated networks and city call services. Capital requirements for integrated network, city-call, long-distance/international services under these three proposals could be as high as NT$16 billion, NT$12 billion, and NT$2 billion, respectively. Requirements for integrated and city-call fixed-line licensees could be as high as 400,000 lines, but 60,000 lines could be sufficient for commencing services.

Existing fixed-line operators face serious difficulties in negotiating reasonable interconnection arrangements at technically feasible points in the network of the dominant carrier, Chunghwa Telecom (CHT). These companies are concerned with the slow response of the regulator to resolve these difficulties. Taiwan's Ministry of Transportation and Communications (MOTC) has failed to declare local loop unbundling as a "bottleneck" as suggested by DGT. This has allowed CHT to refuse to provide equal access services or to agree to facilities-sharing requests from other telecommunications suppliers. Three fixed-line operators are still negotiating with CHT to resolve these issues. The Premier announced in November 2003 that the government will invest a total of NT$35 billion in the next five years to help local governments resolve the "last mile" problems for telecommunications end-users. The plan 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 state-owned CHT.

Taiwan’s telecommunications regulatory body, DGT and the state-owned former monopoly CHT are under the purview of the MOTC, creating a potential conflict of interest. DGT lacks the full authority, independence, and resources to effectively resolve telecommunications-related disputes. Two draft laws, "Communications and Broadcasting Basic Law" and the statute for the organization of the proposed Cabinet-level "National Communications and Broadcasting Commission (NCC)”, have been introduced by the Cabinet. The Basic Law was passed on December 27 and the reorganizing statue is currently pending in the legislative process. The NCC will be an independent regulatory body that will unify regulatory authority now split between DGT for wired or wireless communications and the Government Information Office for radio and television broadcasting.

In June 2003 the DGT announced regulations governing equal access service, allowing Type I subscribers to select the long distance and international network service of other enterprises. In August 2003 the DGT amended regulations to open Taiwan’s mobile virtual network operator (MVNO) market and began licensing in September 2003. The MVNO 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. 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. However, international submarine cable firms remained limited to only one gateway for their links from the cable landing site to network providers while they are permitted to build their own backhaul facilities.

Taiwan’s telecommunications market saw a merger of KG Telecom and Far EasTone in October 2003. The merger will likely transform the competitive landscape of Taiwan's telecommunications market, allowing the merged entity opportunities to become one of the top players in Taiwan, in addition to CHT and Taiwan Cellular. It is expected that the merged entity will generate significant synergies. 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 just a handful of industries such as agriculture, wireless broadcasting, oil exploration of Taiwan's coastal area, public utilities, and postal services. 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. In February 2003, Taiwan lifted its ban on foreign investment in liquor production, though prior approval is required. Similarly, in January 2004, foreign investment restrictions on cigarette production were removed, though prior approval is required. Foreign ownership in airlines is limited to 33 percent. The 50 percent foreign ownership limit on air cargo forwarders and air cargo terminals was eliminated when Taiwan became a WTO member. Foreign ownership on 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. Imports of gasoline and liquid natural gas were opened to the private sector in January 2002.

ANTICOMPETITIVE PRACTICES

In the cable TV market, U.S. program providers contend that the island's two dominant multi-system operators (MSOs) frequently collude to inhibit fair competition. Control by the two 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. This new law is expected to resolve issues such as masking advertisements and market dominance.

ELECTRONIC COMMERCE

Taiwan's approach to e-commerce and related issues is still evolving. A law protecting personal on-line data was approved in 2001. A positive development is the Electronic Signature Law, passed by the Legislative Yuan in late October 2001. This law 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. Still under discussion is a proposal to assess 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.