

# TAIWAN

In 1996, the U.S. trade deficit with Taiwan was \$11.5 billion, an increase of \$1.8 billion from the U.S. trade deficit of \$9.7 billion in 1995. U.S. merchandise exports to Taiwan were \$18.4 billion, a decrease of \$882 million (4.6 percent) from the level of U.S. exports to Taiwan in 1995. Slower Taiwan growth for this year reduced its imports from virtually all major trading partners, but the U.S. decline was one of the smallest. Taiwan was the United States' seventh largest export market in 1996. U.S. imports from Taiwan were \$29.9 billion in 1996, an increase of \$936 million (3.2 percent) from the level of imports in 1995.

The stock of U.S. foreign direct investment (FDI) in Taiwan in 1995 was \$4.4 billion, an increase of 13.2 percent from that in 1994. U.S. FDI in Taiwan is concentrated largely in the manufacturing, banking, and wholesale sectors.

## Overview

Taiwan is the seventh largest overseas market for U.S. goods. As such, trade barriers affect a very large volume of trade. During the past year, USTR has made significant progress with Taiwan in improving market access issues involving medical devices, telecommunication, and the protection of intellectual property.

Major negotiations continue in the context of Taiwan's application for admission to the World Trade Organization (WTO). In these WTO-related talks, significant progress is being made to open Taiwan's market for U.S. agricultural products, U.S. services especially construction services, U.S. beer, wine, and spirits, U.S. automobiles, and a wide range of other U.S. products. Nevertheless, significant trade issues remain as described in the following paragraphs.

## IMPORT POLICIES

### Tariffs

Many agricultural tariffs were lowered as part of Taiwan's 1995 unilateral tariff reductions. U.S. exporters nevertheless consider many of the reduced tariffs, as well as other agricultural tariffs, to be high enough to create a significant barrier to exports. Some examples (of many) include: fresh fruits (40-42 percent tariff), processed vegetables, including vegetable juices (35-40 percent), and sunflower seeds and oil (21-24 percent).

In addition, U.S. agricultural exporters have increasingly reported instances in which the customs authorities on Taiwan have reclassified import items to lines with higher tariffs, often after years of trade history. This practice is most prominent in agricultural commodities, such as mixed feed stuffs, tallow and grease, and intermediate ingredients. Such a practice negates some of Taiwan's tariff cuts.

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Certain industrial products are also subject to high tariffs. In 1996, Taiwan imported some \$550 million worth of automobiles from the United States, accounting for 25 percent of total auto imports. On automotive parts, the average nominal duty is 20 percent. The actual duty rate for passenger cars is presently 30 percent, and 35-42 percent for commercial vehicles. However, the effective rate (duty plus taxes) for passenger cars and trucks is 60-100 percent. The tariffs placed on some commodities have made market access difficult according to U.S. industry sources. The products reported as affected are home appliances (4.5-15 percent), camera film (5 percent), and wine (\$4.40/liter).

To promote trade liberalization in accordance with the Asia Pacific Economic Cooperation (APEC) Bogor Declaration, in December 1996, Taiwan authorities submitted to its legislature a bill to reduce tariffs on some 1,100 categories. These include many items of concern to the United States such as buses, agricultural products, fruits and vegetables, and camera film.

With substantial tariff reductions, U.S. companies will benefit from increased potential markets. Based on Taiwan's 1996 imports from the United States, some \$70-75 million of U.S.-made home appliances and \$50-60 million of alcohol products would be affected by removing these trade barriers. Taiwan has indicated, for example, that it will participate in the Information Technology Agreement tariff reductions. The United States is seeking additional tariff cuts in the context of WTO accession negotiations.

### Licensing and Restrictions

Taiwan has greatly reduced the number of items requiring import licenses. The share of import categories exempt from control was increased from 34 to 85 percent with the introduction of a "negative list" in July 1994 and its expansion in 1995. At present, there are 859 categories that require approval from the relevant authorities in order to clear customs. Another 276 require pro-forma notarization from local banks or import permits from the Board of Foreign Trade (BOFT).

Taiwan restricts the importation of 256 items, which may not be imported without special permission from the Taiwan authorities. Included in this category are agricultural items that can only be imported pending the agricultural authorities' prior approval. This amounts to a *de facto* ban on imports of these products. Quarantine requirements also block imports of certain plant and animal products. Items under unreasonable quarantine restrictions include chicken (fresh and frozen), certain cuts of pork, peanuts, live dairy cattle vaccinated against brucellosis, and adzuki beans. Rice and rice products are considered to be exceptional items requiring approval from Taiwan's Provincial Food Bureau. Imports of animal offal (beef, pork, and poultry), sugar, and selected dairy products are banned. USTR is seeking to remove these barriers through the WTO negotiations.

In addition to these restrictions on agricultural items, the Council of Agriculture also implements what amounts to a *de facto* ban on the importation of fishing boats (including sport fishing boats), which has frustrated the export efforts of several U.S. firms. For some products where licenses are required, the importer may be required first to obtain the authorization of numerous agencies such as Taiwan's Department of Health for medical equipment, the Council of Agriculture for certain fertilizers, and the Department of Environmental Protection for waste and scrap copper, aluminum, lead, and zinc. Often these additional approvals and documentary requirements add to the administrative burdens of importing the

products into Taiwan or make importation effectively impossible for small exporters without the appropriate connections with the relevant authorities.

The U.S. pharmaceutical industry has reported that import licenses are not granted for certain products such as generic drugs. The industry notes that Taiwan's Department of Health and Board of Foreign Trade retain the right to cease issuing import licenses for certain pharmaceutical products that require no special manufacturing technology and can be produced locally. These and other barriers are being discussed in the course of Taiwan's WTO accession.

The commodity tax is a domestic excise tax applied to 29 domestic and imported products. On a few important products, most notably automobiles, Taiwan imposes commodity taxes at higher rates for certain types of products not produced locally. For example, cars with engines smaller than 2,000 cc face a 25 percent commodity tax. Those with engine displacements of 2,001 cc to 3,600 cc are taxed at a 35 percent rate, and those above 3,600 cc at 60 percent. The largest locally made car has an engine displacement of 3,600 cc. In addition, all products entering Taiwan are subject to a 0.5 percent *ad valorem* harbor tax.

Taiwan is in the process of revising its commodity tax law. The United States is seeking, in the context of bilateral WTO negotiations, to ensure that these changes are consistent with WTO rules.

### **STANDARDS, TESTING, LABELING, AND CERTIFICATION**

Industrial products (such as air-conditioning and refrigeration equipment) are required to undergo testing to verify energy efficiency and capacity before clearing customs. Recent efforts to enforce compliance of some imported products with Taiwan standards have resulted in long delays at customs for some U.S. products entering the market, as testing facilities are inadequate and testing procedures slow and inefficient.

The most prevalent restrictive standards and testing requirements exist for agricultural goods. Taiwan's lack of an internationally accepted set of pesticide tolerance levels for imported fruits and vegetables sometimes impedes trade in these products. Imported agricultural goods are routinely tested while authorities simply check the production methods used domestically. For example, the authorities determine the purity of imported fruit juices using an amino nitrogen test, a purity standard not applied to domestic producers. Similarly, stringent microbiological and chemical residue testing of imported food products such as turkey, pork, and game meat limits imports. Standards on preservatives for soft drinks preclude the import of certain beverages. Registration procedures for imports of pharmaceuticals, medical devices, and cosmetics are both complex and time consuming, and have been the subject of a number of complaints by U.S. firms.

U.S. medical device manufacturers contend that Department of Health (DOH) product registration procedures are particularly onerous because the DOH does not use quality standards such as Good Medical Practice or ISO 9000 to evaluate applications. Foreign manufacturers must also re-register second or third generation versions of previously approved products, and have repeatedly complained that delays in the registration process limit their access to Taiwan's market. U.S. medical device manufactures, like pharmaceutical manufacturers, contend that DOH regulations are not consistently applied, particularly with regard to clinical trial data requirements.

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### GOVERNMENT PROCUREMENT

Under current Taiwan law, most public enterprises and administrative agencies must procure locally if the goods and services are available locally, or if acceptable domestic substitutes are available. It is not possible to calculate how much more U.S. firms could sell if all public tenders in Taiwan were open to international suppliers. In the telecommunications area, to cite one example, local U.S. industry sources believe that they might be able to sell up to \$100 million more per year to the Chunghua Telecom Corporation if the "buy Taiwan" policy were eliminated. U.S. industry has also been hindered in the bidding on major projects by non-transparent procurement procedures, which include the use of invisible ceiling prices on bid tenders and unlimited potential damages and contingent liability requirements which are inconsistent with international practices. Other problems include: expensive bond requirements, short lead times on major tenders, non-transparent and lengthy warranty provisions, unclear payment schedules, and pre-qualification requirements which limit experience to similar projects in Taiwan and disqualify related overseas experience. Additional limitations include a requirement that foreign firms have a local construction license or else establish a local subsidiary in order to bid on public projects. Possible exceptions to current laws involve construction services requiring new technology or cases where foreign firms provide consulting and other services.

Taiwan recently liberalized entry into its construction industry by allowing foreign companies to own more than 49 percent of the equity in a local construction firm. To date, the United States is not aware of any foreign companies which have pursued this option. Taiwan authorities have considered, but have been slow to enact, changes to regulations that would allow foreign companies to use overseas experience to qualify for a "Class A" license (licenses allowing work on construction projects valued at over \$1.2 million; to qualify, contractors must have a minimum of four years' experience in Taiwan contracts valued at a total of \$5.8 million).

The Taiwan authorities are extending the scope of offset provisions through Industrial Cooperation Programs (ICPs). The ICPs require foreign vendors to propose programs with such benefits as technology transfer, local procurement, or international marketing assistance. A key example is the "Aeronautics and Space Industries Development Program," announced in 1990, which mandates industrial cooperation and aerospace technology transfer for major government procurements. The development program is an acknowledged form of industrial targeting aimed at technology transfer to the Taiwan aerospace sector. The United States is concerned about the current program, and in particular any expansion of the scope of such provisions.

Taiwan has committed to adhere to the WTO Government Procurement Agreement (GPA) as part of its WTO accession. Since April 1995, Taiwan has actively conducted bilateral GPA negotiations, including with the United States. In preparation for GPA membership, Taiwan has begun to reform its procurement policies. In December 1996, a draft Government Procurement Law was submitted to the Legislative Yuan for passage. The Public Construction Commission publishes a daily "Government Procurement Gazette" which covers local tender announcements by 628 of Taiwan's central, provincial, and municipal entities. The Central Trust of China and other agencies procuring on behalf of smaller agencies publish tenders in the Gazette. The Gazette includes tender announcements for consulting services, product contracts, and research contracts with procurement amounts exceeding NTD 4.5 million (\$160,000) and

construction-related procurement exceeding NTD 50 million (\$1.8 million). USTR will continue to press this issue in its WTO negotiations with Taiwan.

### **LACK OF INTELLECTUAL PROPERTY PROTECTION**

Recent developments in Taiwan with respect to protection for intellectual property rights (IPR) have been encouraging. Enforcement has improved, revisions to the laws have been submitted to the legislature to bring them into conformance with trade-related aspects of intellectual property rights (TRIPs), and Taiwan's IPR education campaigns have continued. These improvements led to the removal of Taiwan from all Special 301 lists during a November 1996 out-of-cycle-review.

Taiwan agreed to an 18-point action plan on strengthening intellectual property rights during an April 1996 meeting with the United States, dealing with regional piracy, general enforcement measures, and simplification of the software and trademark export monitoring systems. In 1996, the Minister of Justice instructed Taiwan's prosecutors to investigate and indict any Taiwan citizen involved in copyright counterfeiting activities in mainland China, in accordance with Article 251 of Taiwan's Criminal Procedure Code. The Minister also informed all prosecutors' offices that IPR cases should receive the highest priority and that strict penalties should be imposed on violators. Prosecutors were told not to "recklessly drop charges" or commute imprisonment to fines in such cases, and to impose heavier penalties in cases involving severe IPR infringement. Reports from industry sources confirm that the sentences actually being meted out are helping to deter violators.

The Ministry of Economic Affairs (MOEA) issued a Public Notice in 1996, requiring all Taiwan CD manufacturers, in accordance with the Commodity Labeling Law, to use a unique identification number on their products during CD production, effective January 1, 1997. This number will assist law enforcement officers in tracking pirated products. The Ministry also established an "IPR service window" under the auspices of MOEA's anti-counterfeiting committee. This window offers U.S. businesses a one-stop location to register complaints, inquire about protection, seek advice, and so on.

MOEA is in the process of reviewing draft guidelines to simplify Taiwan's Software Export Monitoring System (SEMS) procedures, at the request of the United States. Some simplifications have already been implemented, such as clarifying what is considered controlled software and changing the unit measure of software reported on the export declaration form.

Since Taiwan is not a member of any multilateral intellectual property conventions, such as the Berne or Paris Conventions, accession to the WTO will require Taiwan to revise its laws on copyrights, patents, and trademarks to bring them into conformity with the requirements of the TRIPs Agreement. Some of the most important provisions in the revised Copyright Law include providing protection for works dating from 50 years prior to Taiwan's accession to the WTO; better protection for performers; revision of the provisions on border enforcement; and limit compulsory licensing to the exercise of mechanical reproduction rights. Changes to the Patent and Trademark Laws include explicit protection for well-known foreign marks, provisions for national treatment for patent applications, and more stringent requirements for compulsory licensing of patents.

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The United States and Taiwan signed a Memorandum of Understanding (MOU) on April 10, 1996, to provide priority filing rights for patents and trademarks on a reciprocal basis. The United States became the first country to sign such a MOU with Taiwan on trademarks, and the fifth on patents, following Germany, Australia, Japan, and Switzerland.

### **SERVICES BARRIERS**

There is tremendous potential for U.S. services companies in Taiwan. Opening this sector is a priority for the Administration in the WTO negotiations.

#### **Insurance**

In 1996, Taiwan adopted several liberalization measures. Foreign insurance companies, who formerly were only permitted to own property they occupied themselves, are no longer prohibited from investments in real estate. These investments are still subject to a case-by-case approval requirement. Moreover, Taiwan has begun to reform its fixed tariff schedule system for insurance premiums. Beginning January 1, 1996, the Taiwan authorities began allowing insurance companies to set tariff rates for group insurance policies (50 or more persons) after negotiations with the policy purchasers. For groups with less than 50 persons, the tariff rate may be set according to a range determined by the Ministry of Finance (MOF). For other insurance policies, tariff rates are still set and approved by the MOF.

Although progress has been made in additional areas, some barriers remain. Foreign insurance firms not organized in the form of a limited liability joint stock company have been denied licenses to set up branches in Taiwan. Although in 1996 the time required for approval of standard products has been shortened, on average, from two months to only one or two weeks, the approval process for new insurance products is still relatively time-consuming, discouraging the introduction of such products to the Taiwan market. Taiwan regulations stipulate that no more than 10 percent of an insurance firm's working capital may be deposited in any one bank. This limit complicates accounting procedures for U.S. insurance firms and makes it difficult for them to obtain good service from local banks.

The above-mentioned barriers may cost U.S. insurance firms an estimated \$25 million a year in terms of premium revenue.

#### **Banking**

Taiwan has continued to liberalize its banking sector. In July 1996, the Central Bank of China (CBC) permitted banks to set their own foreign exchange (forex) positions, replacing the CBC-set limits of the past on unsettled overnight transactions from banks' foreign exchange trading. However, CBC imposed a new limit, that NTD derivative contracts may not exceed one-third of the forex positions.

Taiwan has substantially relaxed restrictions on forward forex contracts. In January 1996, banks were authorized to set margin requirements for their customers themselves. The scope of risks which forward forex contracts could cover has steadily expanded from trade-related transactions to include all capital and service trade. All restrictions on the duration of these contracts were dropped on July 1, 1996. In December

1996, CBC dropped a "negative list" of financial transactions for which forward forex contracts could not be used to hedge risk.

Taiwan also relaxed limits on capital flows. In January 1996, the annual limit for a corporate entity's remittances into (or out of) Taiwan without prior CBC approval was increased from \$10 million to \$20 million. Also in January 1996, CBC lifted the \$3 billion ceiling on convertible bonds (CB) and global depository receipts (GDR) issued overseas by listed companies for conversion into new Taiwan dollars (NTD) to finance domestic investment. In June 1996, CBC permitted all domestic firms not listed on the Taiwan stock exchange to raise funds overseas by issuing CB and GDR overseas for conversion into NTD. In October 1996, domestic firms were allowed to borrow foreign currency loans from foreign sources for conversion into NTD. Prior to this measure, business firms had been permitted to borrow funds overseas without any limit, as long as the loans were not converted into NTD.

U.S. and other foreign and domestic banks are still subject to foreign exchange liability ceilings. However, these ceilings will be replaced with reserve requirements as soon as a bill to amend the "Central Bank Law" passes the legislative process. Offshore banking units are not permitted to conduct business with residents, including taking deposits and extending loans denominated in NTD, but a bill to amend the "Offshore Banking Law," which has already passed its first reading in the Legislative Yuan, could lead to significant liberalization. Another restriction faced by foreign banks is that they may not open additional branches until their first branch has been open for two years.

These restrictions may cost U.S. banks in Taiwan an estimated \$20 million a year in lost business opportunities.

### Securities

Taiwan's securities market experienced substantial liberalization last year. In March 1996, the MOF abolished the 49-percent foreign ownership limit for securities investment and trust companies (SITC). The rule that applications to open a new SITC could only be submitted during the month of October was also dropped. Along similar lines, in May 1996, Taiwan's Securities and Exchange Commission (TSEC) ended its requirement that applications from foreign securities firms to establish branches in Taiwan could only be filed during June and July. In June 1996, minimum staff requirements for securities firms were eliminated. Numerical limits on branching by securities firms were also removed. Previously, twelve months had to elapse between opening branches. Limits on the maximum number of branches a securities firm could have were also phased out.

In March 1996, the TSEC allowed non-residents to trade in Taiwan securities, subject to the existing limits on foreign ownership in listed companies. Non-residents were also subject to investment limits of \$5 million for a foreign individual and \$20 million for a foreign corporate entity (other than a qualified foreign institutional investor (QFII)). For QFII, TSEC raised the portfolio investment limit from \$400 million to \$600 million in December 1996. The limit for a single foreign investor in any single issue rose to 10 percent. The limit for all foreign investors in a single issue was raised to 20 percent in February 1996, and was increased again to 25 percent in November 1996.

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In February 1996, TSEC relaxed qualification requirements for QFII. Unit mutual funds and investment trust funds in place for three years and managing over \$200 million became eligible for QFII treatment. Previously, only foreign banks, insurance companies, securities funds, and fund management firms and other investment institutions could be treated as QFII.

In July 1996, domestic securities firms were permitted to facilitate trading in offshore securities listed on foreign stock markets (other than in mainland China). The brokers or their subsidiaries overseas must have seats on the exchanges where the trading takes place. Prior to July 1996, only the Taiwan branches of three foreign securities firms, which had seats on overseas exchanges, had been allowed to broker trading on the New York, London, and Tokyo stock exchanges.

In September 1996, TSEC streamlined the application procedure for futures commission merchants to establish additional branches. The minimum capital requirement for each additional branch was reduced from NTD 15 million to NTD 10 million. Taiwan has continued to open foreign futures exchanges and foreign futures products to investors on the island. However, as of January 1997, Taiwan has not licensed Taiwan's futures commission merchants to offer their customers Taiwan stock index contracts already traded on foreign futures exchanges.

Taiwan's "Securities and Exchange Law" still forbids foreigners to serve as a dealer, trader, broker, or underwriter. They may only work as researchers, analysts, advisors, or accounting personnel. Establishment of Taiwan's own futures exchange is pending enactment of "Futures Trading Law" now being considered by the Legislative Yuan.

The above-mentioned investment limits, foreign ownership limits, and employment restrictions may cost U.S. firms for tens of millions of dollars in business opportunities a year.

## **Engineering**

Foreign engineers may participate in Taiwan's engineering examination provided that citizens of Taiwan are permitted to engage in engineering work in the foreign engineer's country. A foreign engineer who has passed the examination and received a license cannot establish a practice in Taiwan, but may be employed by a certified local consulting firm or a foreign-invested engineering firm.

## **Telecommunications**

New telecommunications legislation enacted in January 1996 represents a major step towards liberalization of the telecommunications sector and offers significant opportunities for U.S. business. The legislation (actually three related laws) stripped the Directorate General of Telecommunications (DGT), the previous monopoly provider of services, of operating responsibilities, and established in July 1996 a state-run operating company called the Chung Hwa Telecommunications Company Limited.

The laws also allow for the first time foreign investment in Taiwan's \$5.3 billion telecommunications market. Foreign investment shares in Type One services -- those involving the installation and operating of facilities which provide telecommunications services, e.g., cellular, paying, trunking rate, and wireless



data services -- are limited to no more than 20 percent. The new legislation allows 100 percent U.S.-owned and other foreign-owned firms to provide Type Two, or basic, value-added network services (VANS), i.e., voice services, information storage and retrieval, information processing, remote transactions, and electronic data interchange. The legislation prohibits a provider of Type One services to use profits from such services to subsidize its VANS, which had been a major concern of U.S. companies. The legislation does, however, allow cross-subsidization of Type One services open to competition with revenues from monopoly Type One services such as local, long distance, and international long distance telephones.

In May 1996, Taiwan's Ministry of Transportation and Communications (MOTC) announced a lifting of investment bans on mobile phone, paging, mobile data, and trunk radio services. After a review of all applications by an autonomous committee, eight licences for mobile telephone systems were announced in January 1997. Consortia including U.S. companies won four of the eight licences. A separate review committee is examining applications for paging, trunking radio, and mobile data communication licences.

MOTC estimates that by the year 2000, the cellular telephone market will reach 6 million, a 25 percent penetration rate, and the paging market will double from 2.5 million to 5 million. The market for switching equipment and handsets for that period is estimated at \$2.5 billion for cellular and \$569 million for paging.

### **Intermodal Transportation Services**

In September 1989, Taiwan agreed to amend Article 35 of the Highway Law so that U.S. ocean carriers would be able to own and operate trucking for land transportation of containers as part of the intermodal movement of cargo. Legislation to this effect has not yet been enacted. The United States has been urging Taiwan to take action as part of its Schedule of Services Commitments under GATS.

### **Air Express Service**

U.S. courier and air express service providers report that the recent Taiwan decisions to provide facilities at the Chiang Kai-shek International Airport in Taipei satisfy their requirements for the provision of efficient services to their customers worldwide.

### **Motion Pictures**

Taiwan increased in June 1996 the number of movie prints per title which can be imported from 28 to 31. The number of cinemas which may show the same foreign film remained the same, 11 for Taipei and Kaoshiung and 6 for Taiwan's other cities.

### **Legal Services**

Foreign law firms that wish to operate in Taiwan must either set up as a consulting firm or work with local law firms. Qualified foreign attorneys can act as consultants to Taiwan law firms and may provide legal advice to their employers only.

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### INVESTMENT BARRIERS

In July 1996, Taiwan relaxed restrictions on foreign investment. The telecommunications and real estate industries were opened to foreign investors, subject to ownership limits and approval requirements. Taiwan lifted all restrictions on investments by foreigners in petroleum refining, coal coking, and manufacture of digital switching office systems. Taiwan has also removed many other barriers to foreign investment, abolishing export performance and local content requirements (except in areas such as the automobile and motorcycle industries), and liberalizing repatriation of earnings and capital remittances. Investment in electricity generation has been open to foreigners since 1994.

Foreign ownership limits for insurance, securities, banks, offshore futures brokering, foreign exchange brokerage, and securities investment trust companies have been removed over the past three years. Foreign ownership limits for shipping companies and foreign forwarders were raised from one-third to one-half in November 1996. Other industries with foreign ownership limits include leasing (90 percent), mining (50 percent), trust companies (40 percent), cement (50 percent), and air transport (33.3 percent).

Industries still effectively closed to foreign investment include agricultural production, trucking, cigarette and liquor manufacture, and defense-related industries. In early 1995, Taiwan reinstated a five-year tax holiday -- which had been abolished in early 1991 -- for new investment in Taiwan by foreign or domestic entities. The coverage of tax incentives for major investment projects was expanded from the industrial sector to include some agricultural industries and the services sector.

The U.S. pharmaceutical industry has complained about discriminatory treatment of foreign-invested pharmaceutical companies in Taiwan. When using a third-party manufacturer, a foreign-invested company must submit a complex plant master file to the Department of Health (DOH). In addition, plant master files must be submitted to the DOH for all imported pharmaceutical products. Plant master files must be re-submitted if production is shifted to other plants that do not file with the DOH. Industry sources report that even though these third-party manufacturers are recognized by the OECD, this tedious and expensive procedure must be undertaken. Also, unlike local manufacturers, foreign invested companies with local manufacturing operations also cannot manufacture generic drugs in Taiwan.

### OTHER BARRIERS

The Taiwan Tobacco and Wine Monopoly Bureau (TTWMB) controls the production and distribution of alcoholic beverages and tobacco produced in Taiwan. Under the 1986 Bilateral Agreement on Beer, Wine and Cigarettes, U.S. exporters of those products won the right to deal directly with commercial importers and retail outlets. Further market opening measures were introduced in early 1991, when, under threat of a Section 301 action by U.S. producers, the Taiwan authorities unilaterally opened their markets to imports of distilled spirits, except in bulk. The U.S. is pressing Taiwan for further market opening in this sector in the WTO discussions.

Despite piecemeal efforts to satisfy the concerns of the United States and other trading partners, U.S. alcohol and tobacco producers find the Taiwan import system to be cumbersome and costly. Repackaging of bulk alcohol imports is banned.

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In December 1996, Taiwan authorities submitted alcohol and tobacco tax and administrative bills, which will replace the TTWMB system. The draft Tax Law on Tobacco and Alcoholic Beverages would replace the monopoly system with taxes on tobacco products and alcoholic beverages. The draft Administrative Law would establish a new framework to regulate production, importation, and marketing of alcoholic beverages and tobacco products. It would also drop the ban on establishment of private brewers and distillers. These two bills were submitted to the Legislative Yuan for review in mid-December.

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