TAIWAN

TRADE SUMMARY

The U.S. goods trade deficit with Taiwan was $11.9 billion in 2007, a decrease of $3.2 billion from $15.2 billion in 2006. U.S. goods exports in 2007 were $26.4 billion, up 14.4 percent from the previous year. Corresponding U.S. imports from Taiwan were $38.3 billion, up 0.2 percent. Taiwan is currently the 10th largest export market for U.S. goods.

U.S. exports of private commercial services (*i.e.,* excluding military and government) to Taiwan were $7.1 billion in 2006 (latest data available), and U.S. imports were $7.0 billion. Sales of services in Taiwan by majority U.S.-owned affiliates were $11.2 billion in 2005 (latest data available), while sales of services in the United States by majority Taiwan-owned firms were $439 million.

The stock of U.S. foreign direct investment (FDI) in Taiwan was $16.1 billion in 2006 (latest data available), up from $14.6 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 the bilateral Trade and Investment Framework Agreement (TIFA) process. The TIFA, which was signed in 1994, provides 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 sixth meeting of the TIFA Joint Council in Washington on July 10 and 11, 2007, covering issues related to agricultural trade, intellectual property rights, pharmaceuticals, government procurement, investment, and other areas.

IMPORT POLICIES

Tariffs

Following Taiwan's latest comprehensive revision of its tariff schedule in 2006, as well as its unilateral improvement to its tariff structure on finished goods and raw materials, the average nominal tariff rate on imported goods in 2007 fell slightly to 5.56 percent from 5.6 percent in 2006. In order to stabilize bulk commodity prices in Taiwan, Taiwan's Executive Yuan (EY) implemented temporary tariff cuts on seven bulk imports – including wheat, flour, and flour of soybean and corn – for a 6 month period from August 6, 2007, to February 5, 2008. During the period, tariffs on these seven categories were cut in half. Taiwan is working on a new version of its tariff schedule to meet the World Customs Organization's Harmonized System (HS) requirements. Taiwan estimates it needs to reclassify goods in more than 11 percent of its tariff lines. 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.

When Taiwan became a WTO Member in January 2002, Taiwan implemented tariff-rate quotas (TRQs) on small passenger cars, three categories of fish and fish products, and a number of agricultural products. On January 1, 2007, in accordance with its WTO commitments, Taiwan made additional tariff cuts and increased TRQ amounts on these products. For example, the commodity tax on passenger cars with engine displacement of over 2000cc dropped from 35 percent to 30 percent, and this rate will remain in place until 2011. Also by 2011, Taiwan has committed to fully eliminate TRQs on small passenger cars.

Taiwan has notified the WTO that it maintains Special Safeguards (SSGs) for a number of agricultural products covered by TRQs. SSGs, permitted under Article 5 of the WTO Agreement on Agriculture, allow Taiwan to impose additional duties when import quantities exceed SSG trigger volumes or import prices fall below SSG trigger prices.

Because Taiwan did not previously import many of these products, SSG trigger volumes are relatively low. Over the last few years, Taiwan has imposed safeguard provisions on poultry imports several times, including in 2006. SSGs have been previously triggered on several other products, including types of offal. Imports of affected products usually continue despite safeguard tariffs.

Taiwan has eliminated more that 99 percent of import controls on 10,924 official import categories. Currently, there are 71 product categories facing import restrictions. Of these categories, 41 require import permits from the Board of Foreign Trade (BOFT) and 30 are prohibited. Most of the permit-required categories are related to public sanitation and national defense concerns and include ammunition and some agricultural products.

Agricultural and Fish Products

Before it became a WTO Member, 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, and on January 1, 2005, Taiwan eliminated TRQs on a number of products of interest to the United States, including chicken meat, poultry offal, and pork bellies and offal.

Beef:

Taiwan allows the import from the United States of. deboned beef from animals less than 30 months of age, but requires that tissues listed by the World Organization for Animal Health (OIE) as specified risk materials (SRMs) appropriate for removal from animals over 30 months of age are removed from animals of less than 30 months of age as well. Ruminant and non-ruminant products intended for use in animal feed and pet food--such as tallow (including protein free tallow), lard, poultry and porcine meal--are banned due to Bovine Spongiform Encephalopathy (BSE) related concerns, while limited exceptions for pet food have been approved after a thorough case-by-case review or plant clearance process. Taiwan does not maintain a BSE related import suspension on U.S.-origin protein-free tallow imported for human consumption. Although the United States requested that Taiwan allow the import of U.S. ruminant and non-ruminant products consistent with OIE guidelines and the May 2007 OIE classification of the United States as controlled-risk for BSE, Taiwan made little progress on the issue through the summer of 2007. The United States is urging Taiwan to complete its various regulatory processes as early in 2008 as possible and is continuing to work with Taiwan to achieve market access for the full range of U.S. beef and beef products from animals of all ages. SRMs removed as specified in the OIE guidelines, as well as other ruminant and non-ruminant products affected by Taiwan’s BSE-related bans.

Rice:

Taiwan banned imports of rice before until it became a WTO Member. In 2003, Taiwan changed its minimum access agreement to a TRQ without consulting its trading partners. In 2007, after 4 years of negotiations, Taiwan implemented a Country Specific Quota (CSQ) for public sector rice imports. . As part of the CSQ Taiwan made substantial changes to its rice head-note to address concerns about rice procurement. Despite these reforms to the head-note, tenders from U.S. firms have continued to fail due to the ceiling price set in Taiwan. Because authorities use old data to determine the ceiling price, it can be undervalued in periods of rising prices. Despite these difficulties, the United States has supplied the majority of Taiwan’s imported rice every year since Taiwan became a WTO Member. Taiwan’s implementation of its import commitments has improved significantly, but the price ceiling issue has been a recurring problem since 2005.

Tobacco and Alcohol Products

A new tobacco and alcohol management and tax system went into effect in 2002, eliminating tariffs on imports of most spirits and replacing a tax on imports administered by the Taiwan Tobacco and Wine Monopoly Bureau (TTWMB) with an excise tax. In July 2002, TTWMB became a state owned corporation, Taiwan Tobacco and Liquor Corporation (TTLC), but resistance from organized labor forced the authorities to postpone sale of even the first 20 percent stake in TTLC until at least 2009. Taiwan has not set an official implementation date because the privatization plan requires approval by the Executive Yuan and legislative passage.

Wood Products

Taiwan has revised building codes in line with international practices. However, Taiwan has not yet completed a companion fire code. The 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 the 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 wood structure construction and raises the cost of using wood materials significantly beyond that of other materials such as concrete and steel.

Automobiles and Motorcycles

Taiwan lifted local content requirements in the automobile and motorcycle industries when it became a WTO Member. As of November 1, 2007, large motorcycles with engine displacement of 550cc or more are allowed to travel on most expressways, and the Ministry of Transportation and Communications (MOTC) has asked the Directorate General of Highways (DGH) to study the possibility of opening all highways to large motorcycles. The United States continues to be concerned with the remaining restrictions on motorcycle access to highways, as well as with Taiwan's tariffs and other taxes on large motorcycles.

STANDARDS, TESTING, LABELING, AND CERTIFICATION

As of December 31, 2006, the Bureau of Standards, Metrology & Inspection (BSMI) had on file 15,973 separate standards, over 70 percent of which have been harmonized to some extent with international standards. BSMI is actively harmonizing existing standards with international standards.

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) testing requirements before clearing customs. The manufacturers or importers can choose one of two testing methods: "batch-by-batch inspection" with Type Approval, or "registration of product certification" (RPC). End product safety testing of these products must be done in Taiwan by Taiwan-accredited laboratories. Taiwan accepts EMC testing by National Institute of Standards and Technology-designated laboratories in the United States only for information technology equipment as described in the APEC Telecom Mutual Recognition Arrangement implemented by the United States and Taiwan with respect to Phase I on March 16, 1999. For those products produced in facilities that adhere to the ISO 9000 quality management system, Taiwan requires an alternative factory inspection option. Manufacturers or importers may choose the method most appropriate to them when applying for registration under the RPC scheme.

In 2006, Taiwan announced the adoption of several new standards for digital and audio recording apparatuses, paper shredders, and components of electrical machinery and electronics. Starting July 3, 2006, BSMI began to regulate levels of lead, mercury, hexavalent chromium, polybrominated biphenyls, and polybrominated biphenyl ether in electro-technical products. Such products must pass BSMI-required product testing or production-site inspection. In July 2005, the Ministry of Economic Affairs directed that, in addition to existing EMC and safety requirements, television receivers must include the capability to receive over-the-air digital television (DTV) broadcast signals, with larger televisions required to comply as of January 1, 2006, and smaller televisions by January 1, 2008.

Sanitary and Phytosanitary Measures

Taiwan accepts meat and poultry imports from plants approved by the USDA Food Safety Inspection Service, and also accepts 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, however, 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 necessarily based on sound science and are more trade restrictive than necessary to ensure health and safety.

Maximum Residue Limits (MRLs)

Taiwan restricts imported products containing residues--pesticides, feed additives, or drugs--that are not specifically approved for use in Taiwan. This restriction has become a serious bilateral issue because Taiwan has not approved many of the pesticides used for production of U.S. agricultural products, and has a backlog of over 1,400 pesticide commodity combinations that do not have established MRLs. Provisional MRLs have been established for some fruits and vegetables, but Taiwan has resisted recognizing Codex and exporting country MRLs until MRLs are established domestically. Due to domestic political pressure, Taiwan has begun actively testing for residues in grain shipments, and made findings that threaten to interrupt bilateral trade in wheat. Political pressure from local pork producers also led Taiwan to start testing for ractopamine in U.S. pork--bringing about a 50 percent drop in imports of U.S. pork meat (offal trade is not impacted) --even though Taiwan officials acknowledge that there is no health risk due to trace amounts of ractopamine in U.S. pork.

Alcoholic Beverage Products

On July 1, 2004, the Ministry of Finance (MOF) eliminated ingredient-labeling requirements for alcoholic beverages, though beverages must include a warning label stating that excessive drinking is harmful to one's health. Beginning in January 2006, Taiwan implemented new "Regulations Governing the Inspection of Imported Alcohol" for fermented beverages, with the exception of grape wine; and in July 2006 for distilled spirits and grape wine. By January 1, 2008, alcohol product manufacturers and importers must comply with the Hygiene Standards for Alcohol Products on antiseptics, colorants, and additives or face penalties of up to $90,900. Importers of alcoholic beverages can submit home country documentation of sanitary inspection or safety assurances issued by alcohol product inspection officials or professional alcohol associations in place of customs-clearance product inspection.

In March 2007, the Taiwan Department of Health (DOH) held open hearings on a regulation that would amend the current Hygiene Standards for Alcohol Products. The United States and several other countries made comments. While Taiwan verbally addressed some U.S. concerns at these hearings, nothing was formally put in writing. In August 2007, Taiwan submitted a notification to the WTO providing guidance on the standards proposed for additives in beverage alcohol products. A key concern included Taiwan's intention to create a "positive list" system that would exclude currently acceptable ingredients commonly used in alcoholic beverages. The United States raised concerns through the WTO comment process (as did other trading partners) and clarified status of the issue with DOH at annual technical discussions held with Taiwan in November 2007. On November 28, 2007, the amendment of "The Hygiene Standards for Alcohol Products" was jointly promulgated by the MOF and DOH indicating the proposed positive list system would not be adopted. This amendment took effect January 1, 2008. Several other proposed revisions of concern were modified based on international comments.

Agricultural Biotechnology Products

Taiwan authorities take a generally pragmatic approach to trade in agricultural biotechnology products. Risk assessment documentation on agricultural biotechnology corn and soybeans was required to be submitted to the 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, but with the increasing number of products entering the regulatory approval pipeline and a lack of investment in a strong domestic regulatory infrastructure, delays in approvals may become more frequent.

Taiwan granted an approval license to Agrisure MIR604 corn for food, feed, and processing use. The license is valid for 5 years, effective October 22, 2007. In February 2008, Taiwan approved Monsanto's Roundup Ready 2 Yield™ soybean (MON 89788). The United States exported $754 million in corn and $714 million in soybeans to Taiwan in CY 2007.

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.” Highly processed food items (items with no proteins or DNA) do not require GM labels.

Pharmaceuticals and Medical Devices

Taiwan has identified both the medical device and pharmaceutical sectors as priorities for development, resulting in Taiwan agencies sometimes appearing to favor the interests of local companies over foreign firms. In addition, Taiwan bans imports from China of about 30 medical products. Due to global manufacturing plans, however, many U.S. designed medical devices are produced in China, and the foreign medical device industry has suggested that Taiwan lift import bans for these products.

Improvements have occurred in the registration and approval process for less risky medical devices in recent years. However, registration and approval procedures for higher risk medical device imports are complex and time consuming, and continue to be the subject of longstanding complaints by U.S. firms. The registration process requires extensive documentation and sometimes arbitrary demands for additional information and redundant testing. DOH officials are working with the industry to improve the registration process, primarily concerning identical products made in different quality system documentation manufacturing sites, or with outer packaging changes. In order to make product registration more efficient, the DOH recently adopted more flexible product registration procedures for in-vitro diagnostic medical devices that allow importing companies to follow U.S. or EU procedures, rather than demand extensive documentation and redundant testing for products made in Europe by U.S. companies. Regulations are vague on 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.

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 (ATP) in order to address the significant gap between the amount that the Bureau of National Health Insurance (BNHI) 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 worsened by hospital doctors' ability to both prescribe and dispense pharmaceuticals. Separating these functions would help to resolve the long term pricing problem. In addition, Taiwan’s lengthy pharmaceutical registration process imposes unnecessary costs and slows market entry for new drugs that have already received regulatory approval in advanced economies.

The reimbursement price gap noted above for pharmaceuticals is also an issue for medical devices offered in the Taiwan market. In addition, BNHI pricing criteria currently specifies a single purchase price for all medical devices that treat the same indication. This policy effectively subsidizes lower quality, often domestically made devices while forcing producers of high priced, high value devices to be reimbursed at an insufficient level. Unless the policy is modified, this may lead to significant market distortion in favor of lower quality products over time.

Through the TIFA process, the United States is encouraging Taiwan’s Ministry of Justice and DOH to work together to take action to resolve pharmaceutical pricing and reimbursement problems. The DOH has agreed to set up working groups to study options to bring more transparency and fairness to drug pricing, including requiring standard contracts for all drug purchases, implementing ATP, and separating dispensing and prescription. In September 2007, Taiwan's Executive Yuan approved a proposed amendment to the National Health Insurance (NHI) Law that would require all hospitals to use a common standard contract for pharmaceutical purchases; the amendment is pending approval by the Legislative Yuan.

GOVERNMENT PROCUREMENT

Taiwan committed to accede to the GPA as soon as possible after it became a WTO Member, but it has not yet acceded due to differences with GPA Parties regarding nomenclature issues. To prepare for accession, Taiwan implemented a new government procurement law in mid-1999, 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 (MOU). The MOU calls for Taiwan to implement certain procedural commitments immediately, with others to be implemented upon accession to the GPA. Some Taiwan procurement contract clauses exclude U.S. and other foreign tenders. Taiwan's refusal to implement liability caps and exclusions for consequential damages in procurement contracts also has prevented U.S. suppliers from participating because of the unknown liability exposure. In addition, the Public Construction Commission often requests that U.S. firms provide information on relevant U.S. and international procurement practices. The United States continues to encourage the Taiwan authorities to abide by the provisions of the GPA in spite of difficulties in accession.

EXPORT SUBSIDIES

Taiwan provides incentives to industrial firms in export processing zones and to firms in designated "emerging industries." 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. When it became a WTO Member, Taiwan amended relevant laws, such as the Statute for Establishment and Management of Economic Processing Zones and the Statute for Establishment of Scientific Industrial Parks. The United States continues to monitor Taiwan's compliance with the commitments it undertook as part of its WTO accession, including those obligations associated with the Agreement on Subsidies and Countervailing Measures.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

IPR protection continues to be an important issue in the United States-Taiwan trade relationship. The United States recognizes Taiwan's continuing efforts to improve enforcement of IPR in 2007, but continues to be concerned with a number of issues, including the availability of counterfeit pharmaceuticals in Taiwan, Internet infringement, illegal textbook copying on university campuses, and inadequate protection for the packaging, configuration, and outward appearance of products (trade dress). The U.S. International Intellectual Property Alliance estimates that losses due to IPR copyright piracy in Taiwan cost U.S. industry $327.8 million in 2007. Transshipment of counterfeit products from China is also a problem. Counterfeit goods from Taiwan seized by U.S. Customs dropped from $26.5 million in 2002 to $1.1 million in 2005, but a sharp increase in the transshipment of counterfeit goods from China pushed the value of seized counterfeit goods up to $1.8 million in 2006 and to $2.8 million in the first half of FY2007.

Trademark counterfeiting, particularly of clothing and luxury goods, is still a concern. Much of the counterfeit product is reportedly smuggled from China. Rights holders state that Taiwan is both a transshipment point and a market for this counterfeit material. Taiwan Customs and IP police make regular seizures of counterfeit apparel and handbags, but rights holders complain that investigation and prosecution remain hampered due to inadequate resources and personnel and that light sentences issued for convictions do not deter trademark counterfeiters.

Internet piracy and illegal peer-to-peer (P2P) downloading remain serious concerns for IP enforcement in Taiwan, and the sale of counterfeit goods over the Internet – resulting in part from increased raids on traditional sales venues – is also a growing concern. Taiwan has made efforts to combat such Internet-related IPR violations, including strengthening cooperation with foreign enforcement agencies and passing an amendment to the Copyright Law in June 2007 that subjects illegal file sharing to a maximum jail term of 2 years. And in 2006, two of Taiwan's P2P operators, EzPeer and Kuro, reached a settlement with IFPI, the umbrella organization for recording industry associations worldwide. To improve Taiwan's ability to protect IPR on college campuses, in November 2007, authorities finalized a Campus IPR Action Plan to strengthen management of academic computer networks and illegal textbook copying by students.

The United States remains concerned about counterfeit pharmaceutical products in the Taiwan market. In March 2007, Taiwan revised the Pharmacist Law to increase penalties for pharmaceutical counterfeiting, and the Ministry of Justice, the Taiwan Coast Guard, and Taiwan Customs have had some success in intercepting imports of counterfeit pharmaceuticals. Nevertheless, counterfeit products continue to be a threat to public health in Taiwan, and may undermine confidence in legitimate products.

U.S. rights holders report that court procedures and delays can constitute impediments to effective IPR enforcement and that penalties for intellectual property infringement are inadequate to deter violators. In addition, Taiwan's judiciary continues to experience difficulties handling technically challenging IPR infringement cases. To improve this situation, in March 2007, Taiwan passed the IP Court Organization Law to establish a specialized IP court. Taiwan authorities expect this IP court to be operational in July 2008. Meanwhile, the United States continues to assist Taiwan to remedy weaknesses in the judicial system by providing training and holding seminars on different criminal enforcement issues.

SERVICES BARRIERS

Financial Services

Foreign portfolio investors are required to register rather than seek advance approval, though since December 2003, the registration can be done through the Internet. In late 2003, Taiwan allowed foreign portfolio investors to trade in the futures and money markets as a part of financial management before actual portfolio investment. Domestic currency denominated futures, money market funds, and bank deposits, however, are subject to a limit of 30 percent of total inward remittances. All offshore foreign portfolio investors may trade in Taiwan's stock market regardless of their size, except for investors from the People's Republic of China. Since October 2003, hedge funds have been permitted to trade in Taiwan's stock market, but are subject to Taiwan authorities' close surveillance. Foreign individual investors, however, are still subject to an investment limit. Onshore foreign individuals and institutional investors are also subject to annual inward/outward limits.

In addition to liberalization, Taiwan set up a bond market international board in 2006. Since then, two foreign banks have issued foreign currency denominated bonds. Taiwan has also announced plans to establish a securities market international board where both listing and trading will be denominated in U.S. dollars. The plan, which is designed to attract foreign companies to list as well as foreign portfolio investors to trade, has so far failed to materialize due to restrictions on cross-Strait mutual investment.

Telecommunications Services

The capital requirement for integrated network services is NT$16 billion ($485 million) and system capacity requirements are 400,000 subscriber lines. The Directorate General of Telecommunications (DGT) established new licensing criteria for local, long distance, and international sub-sectors in March 2005. A new formula based on local population is used to calculate the capital requirements for facilities based operators for each of the new service licenses; for instance, NT$1.2 billion ($36.4 million) may be required for a local call license in Taipei City and NT$2 billion ($60.0 million) for long distance and international service licenses. Only four firms, however, have been approved to begin operating such services on a facilities-basis (many more operate leasing facilities of others), including three local call service operators and one international long distance company. To encourage investments and competition, the National Communications Commission (NCC) has stated that it plans to further reduce the capital requirement for facilities-based operators from NT$16 billion ($485 million) to NT$6.4 billion ($194 million) for an integrated network operator; from NT$1.2 billion ($36.4 million) to NT$500 million ($15.2 million) for local call service providers in Taipei; and from NT$2 billion ($60.0 million) to NT$800 million ($24.2 million) for both long distance and international call operators, but these changes have yet to be formalized. The NCC has also stated that beginning in 2008, it will accept and review applications at any time, rather than on a quarterly basis, but this change too has not yet been implemented.

Existing fixed-line operators still face serious difficulties in negotiating reasonable interconnection arrangements at technically feasible points in the network of the dominant carrier, Chunghwa Telecom (CHT). Despite its announcement in May 2004 that it would share the local loop with the three private providers, CHT set two limitations: non-CHT service provider's access to CHT's local loop could only be initiated by end-users, and only voice service in three metropolitan areas would be open to non-CHT operators. In addition to NT$35 billion ($1.1 billion) of new broadband-network construction ongoing since 2003, the NCC in July 2007 issued six regional licenses to Worldwide Interoperability for Microwave Access (WiMax) operators. These new investment projects are expected to help break the monopoly of the telecommunications network by 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 partially privatized CHT and, after sales of additional shares in September 2006, state ownership has been reduced to 34 percent, and more than 40 percent of the company is held by foreign investors. CHT still retains close ties to the government.

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. These developments have given the agency an uncertain beginning and weakened its authority. Continued failure to pass an amended organization law could halt license approvals for importing and installing telecommunications and broadcasting equipment, and affect plans by foreign companies to begin or expand satellite and wireless broadcasting operations in Taiwan.

In August 2003, DGT amended regulations to open Taiwan's mobile virtual network operator (MVNO) market and began licensing operators in September 2003. The MVNO market opening allows operators to offer an alternative third-generation (3G) wireless service to local consumers and allows service providers to operate without a spectrum license by partnering with existing 3G operators. In 2007, the authorities issued six WiMAX licenses and awarded six trial licenses for handheld television projects. Taiwan's mobile service market is equally divided between FarEasTone, CHT, and Taiwan Cellular. In November 2003, the DGT announced 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 opened Voice over Internet Protocol (VoIP) to telecommunications operators in November 2005. As the end of September 2007, four telecommunications operators had received approval to operate numbered VoIP businesses. In the face of digital convergence, the NCC is drafting the "Communications and Broadcasting Management Act" to combine telecommunications and broadcasting administration in one framework.

Pay Television Services

The Cable Audio and Television Law restricts foreign investment in pay television services to a total equity share of 20 percent and further limits each cable service provider's potential market share to no more than one-third of the total market.

Chiropractors

Taiwan does not license or recognize chiropractors as legitimate medical practitioners, and allows chiropractors to practice in Taiwan only if they do not advertise their services and make no claims about the results or efficacy of treatments.

INVESTMENT BARRIERS

Taiwan has relaxed investment restrictions in a host of areas, but foreign investment remains prohibited or restricted in a handful of industries such as agricultural production, public utilities, and postal services. Taiwan allowed private production of cigarettes in 2004 without any foreign ownership limit, although prior government approval is required. In April 2004, Taiwan dropped mining and ordinary trucking services from the list of sectors in which foreign investment is restricted, but added single axle truck leasing to the list.

Most foreign ownership limits have been removed. Taiwan flagged merchant ships are subject to a foreign ownership limit of 66 percent. The foreign ownership limit on wireless and wireline telecommunications firms is 60 percent, including a direct foreign investment limit of 49 percent. For Chunghwa Telecom, the legacy carrier which is still partially owned by the Ministry of Transport and Communications and controls 97 percent of the fixed line telecommunications market, the cap on direct and indirect investment is set at 49 percent. In January 2003, Taiwan raised the total direct and indirect foreign ownership limit on cable television broadcasting services to 60 percent, including a 20 percent limit on foreign direct investment. A 49 percent foreign ownership limit remains on satellite television broadcasting services, power transmission and distribution, piped distribution of natural gas, high speed railways, ground handling firms, air cargo terminals, air catering companies, and air cargo forwarders. In March 2007, the foreign ownership limit on airline companies was raised from 33 percent to 49 percent, with each individual foreign investor subject to an ownership limit of 25 percent.

ELECTRONIC COMMERCE

Over 90 percent of Taiwan's companies have corporate networks and a network infrastructure, and over 90 percent of Taiwan's 5.8 million household computers are linked to the Internet -- mainly by broadband digital subscriber lines (DSL). A law protecting personal online data was passed in 2001, and in 2001 the Legislative Yuan also passed the Electronic Signature Law that recognizes the legal validity of electronic contracts, records, and signatures. Since 2005, the Ministry of Finance has imposed business taxes on Internet vendors who sell products for profit and have monthly sales over NT$60,000 ($1,820). In 2006, the volume of Internet sales, including "Business to Consumer" (B2C) and "Consumer to Consumer" (C2C) totaled NT$145 billion ($4.4 billion), according to information released by the Market Intelligence Center, a financial news service. Sales were expected to increase 27 percent to NT$185 billion ($5.6 billion) in 2007. Taiwan has refused to join the United States at APEC in advocating for a permanent moratorium on taxation of Internet transactions.