

UNDERSTANDING CONCERNING BILATERAL NEGOTIATIONS ON
THE WTO ACCESSION OF THE SEPARATE CUSTOMS TERRITORY OF
TAIWAN, PENGHU, KINMEN AND MATSU (CHINESE TAIPEI)
AND THE UNITED STATES

Delegations representing the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei) and the United States have held a series of bilateral consultations in the context of negotiations on the terms and conditions of Chinese Taipei's accession to the World Trade Organization (WTO). These consultations have focused primarily on Chinese Taipei's schedules on industrial and agricultural tariffs and services, as well as specific bilateral market access issues. These extensive consultations have resulted in the following understandings:

Services Issues

Telecommunications:

In its GATS schedule, Chinese Taipei has limited the percentage of equity, direct and indirect, that a non-Chinese Taipei person may hold in Chung Hwa Telecom to 20 percent. Chinese Taipei agrees that Chung Hwa Telecom will not seek to hold more than 20 percent equity, direct and indirect, in a telecommunications service provider in the United States. Higher percentages of equity holding by Chung Hwa in U.S. telecommunications companies will be permitted only to the extent that Chinese Taipei permits U.S. persons to hold higher percentages of equity in Chung Hwa Telecom.

With respect to telecommunications interconnection fees, Chinese Taipei agrees to implement the following:

1. By July 1, 2001, Chinese Taipei will achieve interconnection rates that eliminate all cross-subsidization among all sub-sectors of basic telephone services, including cross-subsidization through rates paid by mobile services suppliers.
2. Chinese Taipei will revise the structure of the interconnection charges so that the local loop and local loop deficit elements of the charge are completely eliminated. Further, Chinese Taipei will use accepted international accounting techniques to arrive at cost-based figures for switching and transport costs.
3. Chinese Taipei will smoothly implement an end to cross-subsidization through the following methods:
 - a) By July 1, 1998, an internationally recognized telecom consulting firm will carry out a study to determine the most suitable interconnection charging principles and calculation formulas for Chinese Taipei. Based on this study and

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taking into consideration public comments, including from cellular phone companies the Directorate General of Telecommunications (DGT) will announce its permanent interconnection pricing rules by the end of September, 1998.

- b) Before the end of July 1998, Chung Hwa Telecom will submit to DGT a detailed analysis of its cost of providing interconnection.
 - c) DGT will review the cost analysis submitted by Chung Hwa Telecom and propose its interconnection prices by the end of 1998, in accordance with the pricing rules established by DGT. After considering comments from cellular phone companies, DGT will decide final interconnection prices by February 28, 1999.
 - d) By October 1, 1998, 75 percent of the cost of local loop and local loop deficit elements will be removed from the interconnection fee so that the interconnection fee will be reduced from the current rate of NTS1.60 to no more than NTS1.15 (U.S.\$0.035) per minute.
 - e) The remaining 25 percent of the cost of local loop and local loop deficit will be eliminated from the interconnection fee in three equal reductions to take effect no later than October 1, 1999; October 1, 2000; and, October 1, 2001.
 - f) Based on the DGT study of the cost structure of Chung Hwa Telecom, excess charges for switching and transport will be eliminated from the interconnection fee in three equal reductions to take effect no later than October 1, 1999; October 1, 2000; and, October 1, 2001.
4. By these steps all cross subsidization from the new independent cellular phone companies to Chung Hwa will have been eliminated by July 1, 2001, and the interconnection rate will be at a level consistent with the level of major developed countries where no cross-subsidization is present. DGT will review interconnection issues by January, 31 each year from 2000 until 2002 and invite comments from cellular phone companies to decide if it is necessary to adopt further steps.
5. It is understood by both sides that rates maintained by major developed countries, where no cross-subsidization is present, currently are below US\$0.02.
6. No costs in the above calculations will be adjusted for inflation at a rate higher than the official Consumer Price Index in Chinese Taipei.

Overseas Bank Accounts

Chinese Taipei agrees that it will provide non-discriminatory and most-favored-nation

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treatment to Chinese Taipei branches of banks whose parent is a U.S. bank on all matters relating to opening of overseas accounts.

Agriculture Issues

Implementation of Sanitary and Phyto-Sanitary Measures

Chinese Taipei agrees to implement and abide by the terms of the WTO Agreement on Sanitary and Phytosanitary Measures (SPS Agreement) with respect to imports from the United States as of the date of signature of this letter. Any measure implemented by Chinese Taipei which is inconsistent with the terms of the SPS Agreement, and which results in the nullification or impairment of any of the concessions in this Understanding will be a basis for renegotiating this issue.

Chinese Taipei agrees to address SPS concerns in a timely fashion, in line with commitments of the SPS Agreement and in a manner so as not to impair or inhibit trade. For those goods that have been banned from import, Chinese Taipei will promulgate regulations, using the SPS Agreement procedures, including prompt prior consultations, and to implement any SPS requirements.

For red meat offal, Chinese Taipei agrees to have SPS regulations in force by June 1, 1998. For chicken meat and all poultry meat offal, Chinese Taipei agrees to have regulations in force by June 1, 1998.

Acceptance of U.S. Department of Agriculture/Food Safety Inspection Service Certification

The United States maintains a consistent standard of inspection of meat, poultry, and offal, for domestic use, export, and import. Under this system, meat and offal must be clean and unadulterated and come from healthy animals and birds. Recognizing the high levels of sanitary treatment for these products, Chinese Taipei agrees that meat, meat offal and/or poultry meat which was inspected, passed, and certified by USDA/FSIS and permitted to be consumed shall be eligible for importation into Chinese Taipei and shall be subject to the terms of Chinese Taipei's SPS regulations.

Internal Support and Export Subsidies

Chinese Taipei will reduce its aggregate measure of support by 20 percent of the average in the 1990-92 base period by the year 2000 as noted in Attachment 1. Chinese Taipei will bind its export subsidies at 0 (zero) as noted in Attachment 1.

Trade In Special Quality Beef

In accordance with previous agreements and current practice, beef carcasses and cuts

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from carcasses graded or certified as "Prime" or "Choice" by the U.S. Department of Agriculture shall be regarded as meeting the requirements for the tariff concessions for Special Quality Beef as listed in Chinese Taipei's WTO market access schedule without further certification by Chinese Taipei.

The following language will be included as part of Chinese Taipei's WTO market access schedule. Attachment 2 to this Understanding shall be also be appended to the schedule:

"The term Special Quality Beef, as used in the WTO accession schedule for Chinese Taipei, shall be defined as indicated in Attachment []."

Customs Bonding System on Perishable Fruits and Vegetables

Chinese Taipei will immediately adopt an equitable, transparent Customs bonding system for any perishable fruits and vegetables subject to such requirements that allows for potentially frequent adjustment to the bond value to take account of prevailing market forces. Such a system will include the following characteristics:

- ▶ The fixing of specific bond values for each supplier country. Upon request, Chinese Taipei Customs authorities will make available to any domestic or foreign interested party the data, the data source, and the methodology used in formulating the reference price upon which the value of the bond is based.
- ▶ Timely adjustments to the bond value, as frequently as is necessary, to take account of prevailing international market prices, and seasonal quality considerations.
- ▶ Consideration of alternative data sources, should representatives of an exporting country believe that more appropriate and accurate data exist beyond that being employed by Chinese Taipei in setting the bond values.
- ▶ The establishment of a mechanism that would provide, at the request of either an exporting country or Chinese Taipei authorities, for prompt consultations should a question or concern arise relative to an established bond value.

Tariff Rate Quota Administration:

Chinese Taipei will include the following text in its WTO market access schedule:

SECTION I-B Tariff-Quotas

1. TERMS OF TRADE: Tariff Rate Quota (TRQ) allocation certificates will serve as automatic import licenses, in compliance with the Agreement on Import Licensing Procedures. All commercial terms of trade, including product specifications, origin,

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pricing, packaging, etc. will be at the sole determination of the parties engaged in the transaction. Partial shipments against a single allocation will be permitted. Traders may import any product or mixture of products subject to the same TRQ as noted in the schedule below. All products imported under the TRQ will be permitted to be distributed freely within Chinese Taipei without further trade-based restrictions. Allocation certificates will be freely transferable and tradeable, and certificate holders may have certificates reissued to combine or divide allocations.

2. APPLICATION: All applications for allocation of TRQ quantities will be submitted to the Ministry of Finance (MOF). Specific conditions for applying for a TRQ allocation will be published in the official journal sixty days in advance of the start of the application period. The application period for initial allocations shall be closed by 30 November of the previous year, unless the timing of accession necessitates a change in schedule for the first year. The application period for reallocations shall be closed by 1 September. MOF will grant allocations and publish and notify the names of recipients and allocation amounts within two weeks of the close of the application period for the purpose of transfer.

3. ASSOCIATED FEES

Any and all fees, charges, deposits, duties, etc. associated with the allocation process will be made explicit in the advance public notification process, and with the exception of ordinary customs duties and/or other charges as noted in the attached schedule, will be commensurate with the cost of the services rendered. No special performance or bid bond requirements will be instituted.

4. CONSULTATION MECHANISM

With a view to maintaining a transparent and open TRQ administration system, upon request from any supplying WTO member, Chinese Taipei will consult with the member on administration of the minimum access quotas or TRQ to ensure an equitable distribution of allocations and complete quota utilization.

5. ALLOCATION:

SYSTEM 1 : FOR ITEMS FOOTNOTED 1/ (Chicken, Offal, Oriental Pear, Banana, Pork)

Initial distribution of allocations -- For the first two years initial allocation certificates will be issued on a first-come, first served basis. Allocations will be established for commercially viable shipping quantities, but a ceiling of no more than 20 percent of the total in-quota quantity may be established in advance and published as part of the allocation notification procedures. Allocation certificates will be valid for imports arriving between 1 January and 1 September. The date of arrival shall be defined in accordance with Article 5 of the implementing regulations of the Customs Law of Chinese Taipei as currently in

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place. Upon request and proof of signed contract before September 1, MOF will automatically extend the validity date of the certificate to cover imports arriving on or before 31 December.

Reallocation of unused allocations -- In any year, if the holder of a quota allocation certificate has not contracted for import of the holder's total allocation by 1 September, the unused portion of the allocation will be reallocated on a first come, first served basis unless otherwise noted in the schedule. The date of re-issue shall be no later than 15 September. The re-issued allocation certificates will be valid for imports arriving on or before 31 December.

Distribution of allocations after the first two years -- In each year after the first two years in which allocations are made under a TRQ, applicants for an allocation of the quota will receive an allocation at least as large as the average of the amount actually imported by the applicant in the prior two years. Any remaining quota amounts or increases in the quota amount will be allocated on a first come, first served basis.

SYSTEM 2: FOR ITEMS FOOTNOTED 2/ (Red Beans, Milk, Peanuts)

Allocations will be made in a transparent, equitable and non-discriminatory manner.

Initial distribution of allocations -- Allocations will be established annually for commercially viable shipping quantities, but a ceiling on the size of any given allocation may be established in advance and published as part of the allocation notification procedures. Allocation certificates will be valid for imports arriving between 1 January and 1 September. Upon request and proof of signed contract, MOF will automatically extend the validity of the certificate to cover imports arriving on or before 31 December.

Reallocation of unused allocations -- In any year, if the holder of a quota allocation has not contracted for import of the holder's total allocation by 1 September, the unused portion of the allocation will be reallocated. The date of re-issue shall be no later than 15 September. The re-issued allocations will be valid for imports shipped by 31 December.

SYSTEM 3: FOR ITEMS FOOTNOTED 3/

Allocations will be made in a transparent, equitable and non-discriminatory manner.

Fresh Potatoes

Chinese Taipei will establish an annual import quota of 5,000 metric tons for fresh potatoes from the United States at the current tariff rate of 25 percent. The quota will be valid for product shipped from the United States between April 1 and November 30 of each year. The quota will be filled on a first-come, first-served basis, i.e., an import license will not be required, with

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shipments counting against the quota when they arrive at the port of entry. The date of arrival shall be defined in accordance with Article 5 of the implementing regulations of the Customs Law of Chinese Taipei as currently in place. No mark-up in excess of the tariff will be applied.

Chicken Meat

- 1) Chinese Taipei will establish an annual quota for 10,000 metric tons (MT) of chicken meat from the United States, with a tariff rate of 40 percent *ad valorem*. Chinese Taipei will administer the quota under the terms set out for System 1 commodities as listed in the section on Tariff Rate Quota, except that in 1998, time frames will be adjusted so that allocation certificates will be valid as of June 1, 1998 and the Board of Foreign Trade (BOFT) will be responsible for administration of this quota. The quota will be renewed on January 1 of subsequent years until Chinese Taipei accedes to the WTO. Any unused portion of the quota will be carried over into the following year until the total sum of the quota quantities has been imported.
- 2) Upon accession, a TRQ will be established for 19,163 MT of chicken meat. The size of the TRQ will grow in equal increments until it reaches 45,990 MT for the year 2004.
 - The in-quota tariff rate will begin at 25 percent, and will be lowered in equal increments to 20 percent in the year 2004.
 - The out-of-quota rate for drumsticks and wings (including legs and leg quarters) will begin at SNT64/Kg and be lowered in equal increments to SNT54/Kg percent in the year 2004.
 - The out-of-quota rate for whole chickens and other cuts will begin at SNT40/Kg and be lowered in equal increments to SNT34/Kg in the year 2004.
- 3) On January 1, 2005, Chinese Taipei will eliminate the TRQ and apply a bound tariff rate of 20 percent to all chicken meat imports.
- 4) The United States will not oppose Chinese Taipei's use of the Special Safeguard Provisions of the Agreement on Agriculture on out-of-quota imports during the transition period, i.e., while the TRQ is in place.
- 5) The TRQ covers chicken meat in the following Tariff codes:

02071010
02072100
02073910
02074110
02109090

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16023910
16023910

Poultry Offal Market Access

Upon accession, Chinese Taipei will eliminate its ban on poultry offal. A TRQ will be established for certain offal of chicken and other poultry, but imports of feet, heart, and liver of chicken will be liberalized at a tariff rate of 25 percent. The TRQ will be eliminated by January 1, 2005.

Market Access for Red Meat Offal

1) Chinese Taipei will establish quotas for 7,500 metric tons (MT) of pork offal and 5,000 MT of beef offal, from the United States, at currently applied tariff rates. The quotas will be renewed on January 1 of subsequent years until Chinese Taipei accedes to the WTO. Any unused portions of the quota will be carried over into the following year until the total sum of quota quantities has been imported. The quotas will cover all swine and beef offal tariff categories. Chinese Taipei will administer the quota in line with the terms set out for System 1 commodities as listed in the section on Tariff Rate Quota Administration, except that for 1998, time frames will be adjusted so that allocation certificates will be valid as of June 1, 1998, and the administering agency will be BOFT.

2) Upon accession to the WTO, Chinese Taipei will establish a TRQ for 10,000 MT of swine hocks, feet, stomach, skirt, intestines, and rectum. The size of the TRQ will grow in even increments until it reaches 27,500 MT for the year 2004. The out-of-quota rate will be 310 percent, staging down to 265 percent in 2004 in equal increments. The in-quota tariff rate will start at 25 percent, and will be lowered in equal increments to 15 percent by January 1, 2004. The TRQ will be eliminated by January 1, 2005, and all pork offal will face a duty of 15 percent.

3) Upon accession to the WTO, Chinese Taipei will also lift the import ban on beef offal and on all other pork offal at a tariff rate of 25%, which will phase down to 15 % by January 1, 2004.

3) The United States will not oppose Chinese Taipei's use of the Special Safeguard Provisions of the Agreement on Agriculture on out-of-quota imports during the transition period, i.e. while the TRQ is in place.

4) The TRQ covers swine hocks, feet, stomach, skirt, intestines, and rectum, included in the following tariff lines: 02063000, 02064990, 05040020.

Market Access for Pork Belly and Other Pork

Chinese Taipei will establish an annual quota for 5,000 metric tons (MT) of pork belly and other pork cuts, as currently defined in the tariff schedule of Chinese Taipei, from the United States.

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The quota will be renewed on January 1 of subsequent years until Chinese Taipei accedes to the WTO, and unused portions of the quota will be carried over into the following year until the total sum of quota amounts has been imported. The tariff will be no higher than 15 percent. Chinese Taipei will administer the quota in line with the terms set out for System 1 commodities as listed in the section on Tariff Rate Quota Administration, except that for 1998, time frames will be adjusted so that allocation certificates will be valid as of June 1, 1998, and the administering agency will be BOFT.

Upon accession, Chinese Taipei will lift the import ban on other pork cuts, and realign its tariff schedule so that there will be a distinction only between pork belly and all other pork cuts. All other cuts will face a duty of 15 percent, reduced to 12.5 percent by January 1, 2004.

Upon accession, Chinese Taipei will also establish a TRQ for 6,160 MT of pork belly. The size of the TRQ will grow in even increments until it reaches 15,400 MT for the year 2004. The out-of-quota rate for pork belly will begin at 60 percent and be lowered in equal increments to 50 percent in year 2004. The TRQ will be eliminated by January 1, 2005, and pork belly will face a duty of 12.5 percent.

The in-quota tariff rate will begin at 15 percent, and will be lowered in equal increments to 12.5 percent by January 1, 2004.

3) The United States will not oppose Chinese Taipei's use of the Special Safeguard Provisions of the Agreement on Agriculture on out-of-quota imports during the transition period, i.e. while the TRQ is in place.

4) The TRQ covers pork belly and spare ribs in the following tariff lines:
02031910, 02031990, 02032910, 02032990.

5) Chinese Taipei will lift the import ban on the following products accession, including "Other" cuts in the following tariff codes:
02031910, 02031990, 02032910, 02032990

Agricultural tariffs to be staged in upon accession or by 2002

Unless otherwise noted in the terms of this Understanding, tariff staging will be completed on agricultural products other than those to be made upon accession, no later than January 1, 2002. For this purpose, "agricultural products" are defined in accordance with the coverage of the WTO Agreement on Agriculture. Unless otherwise noted in the terms of this Understanding, TRQ final access levels will be reached by January 1, 2002.

Immediate Tariff Reductions on Agricultural Products

It is agreed that Chinese Taipei, prior to its accession to the WTO, will reduce the tariff rate on

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the following products to the levels noted below. The said amendment is subject to the approval of the Legislative Yuan of Chinese Taipei. Both sides expect that the changes can be made by July 15, 1998.

08054000 B	Grapefruit (Jan-Sept arrival)	20	Percent
08061000	Fresh Grapes	38	
08081000	Fresh Apples	40	
08082010 A	Fresh Pears, European style	30	
08093000	Fresh peaches	40	
12060000	Sunflower seeds	11	
15121110	Crude sunflower seed oil	15	
15121910	Refined sunflower seed oil	15	
20041010 A	Potato sticks, frozen, in packages Of greater than 1.5 kg.	15	
20041090	Other frozen potatoes	26	
20052010 A	Potato chips and sticks, not frozen. In packages greater than 1.5 kg.	15	
20058010	Canned Sweet Corn	15	
20086000	Cherries, otherwise prepared	15	
21041011	Meat soups, etc.	20	
21041019	Other soups and broths	20	

Tariff Reductions and Final TRQs Levels to be reached by January 1, 2004

Chinese Taipei will make equal annual tariff reductions, completing staged reductions reaching the final tariff levels and/or TRQ access quantities noted in its schedule of accession by January 1, 2004 for the following products:

Betel Nuts	8029090A
Carangid	16041990A
Carangid	3026990A
Carangid	3037999A
Carangid	3042090B
Papayas	8072000
Sardine	16041200A
Sardine	16041320B
Sardine	3042090A
Sardine	3042090D
Sardine	3054990D
Sardine	3055940A
Sardine	3055940B
Sardine	3055990A
Sardine	3024000

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Sardine	3026100
Sardine	3035000
Sardine	3037100
Sardine	3056100
Sardine	3056300
Sardine	16041310
Sardine	16041600
Bananas	8030000
Beef	2011010
Beef	2011090
Beef	2012010
Beef	2012090
Beef	2013010
Beef	2013090
Beef	2021010
Beef	2021090
Beef	2022010
Beef	2022090
Beef	2023010
Beef	2023090
Dried Day Lily and Pulp	7129090B
Dried Lungngans	8134010
Garlic Bulbs	20059010A
Garlic Bulbs	7032000B
Garlic Bulbs	7129090A
Liquid Milk	19019023A
Liquid Milk	19019029A
Liquid Milk	4011000A
Liquid Milk	4011000B
Liquid Milk	4012000A
Liquid Milk	4012000B
Liquid Milk	4013000A
Liquid Milk	4013000B
Liquid Milk	4029910A
Liquid Milk	4029910B
Liquid Milk	4029920
Liquid Milk	4029990A
Liquid Milk	4039090C
Liquid Milk	4039090F
Liquid Milk	4039090H
Liquid Milk	4039090I
Mackerel	16041500A

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Mackerel	3026990B
Mackerel	3037999B
Mackerel	3042090C
Mackerel	3053000A
Mackerel	3056990A
Mackerel	3026400
Mackerel	3037400
Mangoes	8045020
Peanuts	12089010A
Peanuts	12089020A
Peanuts	20081110A
Peanuts	20081110B
Peanuts	20081190A
Peanuts	20081190B
Peanuts	20081990B
Peanuts	12021000
Peanuts	12022000
Peanuts	15081000
Peanuts	15089000
Pears, Oriental	8082010B
Persimmons	8109090C
Pineapples	8043000
Red Beans	11061000A
Red Beans	20049000A
Red Beans	20055100A
Red Beans	20055900A
Red Beans	21069099A
Red Beans	7102900A
Red Beans	7133200
Shaddock	8059000A
Shiitake	7123030
Sugar	17011100
Sugar	17011200
Sugar	17019110
Sugar	17019120
Sugar	17019910
Sugar	17019920
Sugar	17019990
Young coconuts	801109
Fermented Cereal	22060010
Beverages	

Tariff Reductions to be made by January 1, 2000

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Chinese Taipei will reduce the tariffs for certain agricultural products as provided in the table below.

HS number	Description of products	Current	Accession	1/1/2000 Final
2074210	Meat of turkeys, cut in pieces, frozen	10	10	8.5
4081100	Egg yolks powder	40	35	30
4081910	Egg yolks, frozen	40	35	30
4089110	Whole egg powder	40	35	30
4089910	Whole eggs, frozen	40	35	30
4089920	Egg white, frozen	40	37	34
6049910	Christmas trees (coniferous)	15	12.5	10
7051100	Cabbage lettuce, fresh or chilled	27	25	20
7051900	Other lettuce, fresh or chilled	30	25	20
7094000	Celery, fresh or chilled	24	24	15
8023200	Walnuts, shelled, fresh or dried	7.5	7.5	5
8054000	Grapefruit, fresh or dried	40	40	30
	(Mar-Sept/ old)(Jan-Sept/ New)	25	20	15
15121110	Sunflower oil, crude	24	10	5
15121910	Refined sunflower-seed oil and its fractions	24	10	5
15152100	Crude maize (corn) oil	7.5	7.5	5
16024100	Prepared or preserved hams and cuts thereof	40	38	32
16024200	Prepared or preserved swine meat of shoulders	40	36	33
16024900B	Other prepared or preserved meat of swine	40	35	30

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17049000	Other sugar confectionery (including white)	32	30	27.5
19012000	Mixes and doughs	25	25	20
20041010A	Potato sticks, 1.5 kg or more, frozen	17	15	12.5
20052010A& B	Potato chips and other potato sticks, prepared	18	18	15
20087000	Peaches, otherwise prepared or preserved	20	20	15
20092000A	Grapefruit juice, > 18Kg	40	35	22.5
20096020A	Grape juice, > 18 Kg, concentrate	40	35	22.5
20099010	Mixtures of juices	35	35	30
21032000	Tomato ketchup and other tomato sauces	17.5	15	12.5
21039010	Mayonnaise, salad dressing	17.5	17.5	15
21041011	Meat soups and broths and preps, liquid	25	15	10
21041019	Other soups and broths and preps, liquid	25	15	10
21069091	Coffee creamer, soybeans preparations; donuts	17.5	13	10
35021000B	Egg white, frozen	40	37	34

Market Access for Rice

Market access for rice will be based on Annex 5, Section A of the Agreement on Agriculture. The following elements of a rice quota administration system will operate within this framework. As WTO Members have gained experience in the implementation of Annex 5, Section A, additional refinements and details have been adopted in practice to ensure the transparent, market-oriented operation of the quota system. Thus Chinese Taipei will implement the following provisions:

1. **Internal Support:** Chinese Taipei will reduce its Aggregate Measure of Support, which includes all agricultural products, by 20 percent of the average in the 1990-92 base period by the year 2000.

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2. **Export Practices:** Chinese Taipei will ensure that rice from central stocks will no longer be prohibited from entering domestic marketing channels for industrial and/or food use.
3. **Rice Re-exports:** Imports of rice for re-export will not count against imports under the quota.
4. **MMA Quota Size and Growth:** Chinese Taipei will lift its ban on imported rice upon accession to the WTO, and establish a quota equal to access in the current year of the Japan schedule, based on Annex 5, calculated on a brown rice basis. This quota will be increased in equal annual increments, growing to 144,720 metric tons in the year 2000. (Note: If Chinese Taipei should accede to WTO in 2000, the size of the quota in the first year of access will be 144,720 metric tons.) Any portion of the quota for private trade which is not filled by 31 December will be imported by Chinese Taipei central authorities by March 31 of the subsequent year.
5. **Consultative Mechanism:** At the request of either party, consultations will be held to review the adequacy of the quota system. These consultations can focus on any measure related to implementation of the quota systems, including but not limited to timing of announcements and imports, rate of quota-fill, mark-up and price levels, distribution of importers, and barriers to fully commercial transactions.
6. **Agreement on Agriculture:** Continuation of the quota beyond 2000, or conversion to a tariff-rate quota, will be subject to the provisions of Annex 5 of the Agreement on Agriculture, in particular paragraphs 3 and 4 thereof. Future quota growth shall be consistent with commitments undertaken by WTO members with respect to Article 20 of the Agreement on Agriculture.
7. **CENTRALIZED IMPORTS**
 - a) **Specification of Imported Rice:** Rice imported by the central authorities will be tendered to meet internationally recognized standards for trade in high quality rice such as, US #1 medium grain or better US# 2 long grain or better, or US #1 short grain or better. Chinese Taipei will accept Federal Grain Inspection Service certification for rice exported from the United States.
 - b) **Disposal of Imported Rice:** Imported rice will be accorded no less favorable treatment than rice produced in Chinese Taipei. Imported rice will have full access to normal marketing channels, wholesalers, distributors, and end users. It will be priced at a level which ensures that it enters the domestic market at prices competitive with rice produced in Chinese Taipei. Imported rice will be marketed in a timely fashion so that its quality for table use is not adversely affected by storage time. Imported rice will not be exported as food aid, nor used for livestock feed.

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- c) **Duties and mark-up:** The in-quota duty shall be 0 percent (zero) for rice in HS chapter 10. The sum of the other fees, charges, and mark-ups on any individual importation and resale shall not exceed NTS23.26/kg for rice and NTS25.59/kg for rice products. If the product does not move onto the domestic market at any given price, Chinese Taipei will re-announce the distribution within two weeks, reducing the price by NTS 3/Kg or greater to ensure that it is not priced above market clearing levels. The process will be repeated if necessary to move the rice out of central stocks.

8. **PRIVATE SECTOR TRADE**

- a) **Direct Private Sector Trade:** Chinese Taipei's quota system for private rice trade will be conducted through direct private-sector importation. The quota system will be operated with the objective of ensuring the quota fills with a minimal level of market distortion and that the imported rice enters Chinese Taipei's domestic wholesale and retail markets on conditions no less favorable than exist for rice produced in Chinese Taipei. Chinese Taipei will increase the market access quota allocated to the private trade by no less than the percentage tendered for private trade by WTO members having recourse to Annex 5, Section A of the Agreement on Agriculture. Chinese Taipei agrees to increase the percentages of private trade to 21 percent in 1998, 28 percent in 1999, and 35 percent in 2000.
- b) **In-Quota Duty and Mark-up:** The in-quota duty shall be 0 percent (zero) for rice in HS chapter 10. The sum of other fees, charges, and mark-ups on any individual importation shall not exceed NTS23.26/kg for rice and NTS25.59/kg for rice products. If the quota is under subscribed after the first announcement, Chinese Taipei will re-announce the allocation within two weeks, reducing the sum of other fees, charges, and mark-ups by NTS 3/Kg or greater to ensure that they do not restrict imports, nor price imports above market clearing levels. The process will be repeated if necessary. If the initial tender is over subscribed, it will be allocated on a first come first served basis.
- c) **Terms of Trade:** Quota allocation certificates will serve as automatic import licenses, in compliance with the Agreement on Import Licensing Procedures and consistent with Article XIII of GATT 1994. All commercial terms of trade, including product specifications, origin, pricing, packaging, etc. will be at the sole determination of the parties engaged in the transaction. Partial shipments against a single allocation will be permitted. Traders may import any product or mixture of products subject to the same quota as noted in Chinese Taipei's schedule. All products imported under the quota will be permitted to be distributed freely within Chinese Taipei without further trade-based restrictions. Allocation certificates will be freely transferable and tradeable, and certificate holders may have certificates reissued to combine or divide allocations.
- d) **Application:** All applications for allocation of quota quantities will be submitted to the Council of Agriculture. Specific conditions for applying for the first quota allocation for

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each year will be published in the official journal sixty days in advance of the start of the application period. The application period for initial allocations shall be closed by 30 September of the previous year, unless the timing of accession necessitates a change in schedule for the first year. The application period for reallocations shall be closed by 1 September. COA will grant allocations and publish and notify the names of recipients and allocation amounts within two weeks of the close of the application period.

e) **Associated Fees:** Any and all fees, charges, deposits, duties, etc. associated with the allocation process will be made explicit in the advance public notification process, and with the exception of ordinary customs duties and/or other charges as noted in Chinese Taipei's schedule, will be commensurate with the cost of the services rendered. No special performance or bid bond requirements will be instituted.

f) **Allocation:**

Initial distribution of allocations -- The initial allocation certificates will be issued on a first-come, first served basis. Allocations will be established for commercially viable shipping quantities, but a ceiling on the size of any given allocation may be established in advance and published as part of the allocation notification procedures. Allocation certificates will be valid for product arriving between 1 January and 1 September. The date of arrival shall be defined in accordance with Article 5 of the implementing regulations of the Customs Law of Chinese Taipei as currently in place. Upon request and proof of signed contract before September 1, COA will automatically extend the validity date of the certificate to cover products arriving on or before 31 December.

Reallocation of unused allocations -- In any year, if the holder of a quota allocation certificate has not contracted for import of the holder's total allocation by 1 September, the unused portion of the allocation will be reallocated on a first come, first served basis. Reallocation certificates will be valid for 90 days.

Market Access for Goods

Tariffs

For industrial tariffs, notwithstanding the scheduling of a specific date for reaching its final tariff rate, the United States agrees that Chinese Taipei shall have a minimum of 2 years to implement staged tariff reductions.

Chinese Taipei supports the ongoing sectoral liberalization program in Asia Pacific Economic Cooperation Forum (APEC) and will actively support and work constructively to build a consensus in APEC on sectoral liberalization initiatives. Furthermore, Chinese Taipei will participate in the WTO aspects of any such initiative. In particular, Chinese Taipei will support the APEC joint proposal co-sponsored by the United States, Canada, New Zealand and

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Indonesia for early tariff elimination in forest products and will immediately lend its formal support for the proposal in the APEC negotiations.

Motor Vehicles

Local Content Requirement For Manufacture of Automobiles In Chinese Taipei

Chinese Taipei will lower the local content requirement on manufacture of automobiles from the current 50 percent to 40 percent effective January 1, 1999.

Tax Incentives for Domestic Design of Certain Parts of Autos

Chinese Taipei will repeal the relevant provisions of its law relating to the tax incentive provided for domestic design and use of certain automotive parts (e.g., engine, body and chassis), by December 31, 2000 or a date agreed bilaterally or multilaterally in its negotiations on accession to the WTO, whichever date is earlier. In addition, Chinese Taipei will not expand this incentive program, through, for example, increasing the parts covered or the amount of the incentive and the grant of incentives to additional companies will be limited to the extent permitted by Chinese Taipei's law.

Long-Term Operational Leasing of Vehicles

Although "car rental services" may cover both long-term (at least 12 months) operational leasing of vehicles and short-term operations, different requirements should apply to address the different situations of these operations. Thus, Chinese Taipei will review the requirements for long-term operational leasing operators with respect to parking spaces and the limit on rental periods that are set forth in Section 5 of the Regulation Governing the Administration of Transportation Enterprises (Section 5). Based on this review and taking into account comments from interested parties, Chinese Taipei will modify these requirements no later than June 30, 1998.

Chinese Taipei will also provide companies engaging in long-term operational leasing of vehicles with commercial plates for their vehicles. By June 30, 1998, Chinese Taipei will also review the requirements in Section 5 for the establishment of an exclusive company to engage in the car rental business, and restrictions on rates. Based on this review, taking into account prudential considerations, the nature of the long-term operational leasing business and comments from interested parties, Chinese Taipei will modify these requirements no later than December 31, 1998.

Application of the Business Tax to Transactions Involving "Used Autos"

Chinese Taipei confirms that it applies its business tax to transactions involving used cars or "trade-ins" in the following manner.

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Company acting as a Broker:

-- A company acting as a broker, receiving a used auto as a trade in or otherwise from another company, will pay a tax on the commission received for acting as a broker. The selling company (owner of the used auto) is responsible for payment of any business tax based on the value of the auto. Brokerage fees are not established by the authorities in Chinese Taipei, but are agreed commercially.

-- If the seller of the used auto is an individual, no business tax is assessed on the seller. The company acting as a broker, however, is taxed on the commission paid to it.

Company assuming title to a used car:

--If a company obtains title to a used auto sold to it by a company, the purchasing company will receive credit for any business tax paid by the selling company.

--If a company obtains title to a used auto sold to it by an individual, the purchasing company will pay a business tax calculated on the basis of the resale price. Since the individual did not pay a business tax when acquiring the auto, no credit for tax previously assessed on the auto is provided.

TTWMB Issues

Chinese Taipei will apply the tariff and tobacco and alcohol tax rates to tobacco and alcohol products as set out in attachment 3. These rates take into account the current monopoly tax level, Uruguay Round "zero for zero" offers, and the practices of other WTO members. These tariff rates will be incorporated into Chinese Taipei's market access schedule.

The tobacco and alcohol tax will be applied in a transparent and non-discriminatory manner with equal treatment accorded to imported and domestic products. Chinese Taipei will unify the level of taxation for rice wine (Mijiu) with that applied to other distilled spirits and eliminate any discriminatory aspects of the tax no later than five years after the date of the signature of this Understanding. The definition of Mijiu and the applicable tariff and tax schedule are set out in attachment 4.

Advertising

Chinese Taipei has, to a large extent, lifted restrictions on advertising of beer, wine and other alcohol beverages and allowed advertising of these products on radio and television in specified time periods of the day. After implementation of the Tobacco and Alcohol Administration Law, advertising of alcohol products in all media will be permitted, subject, however, to regulation in relation to the content and timing of the advertisement. All regulation of advertising will be consistent with the principle of national treatment. The table

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in attachment 5 sets out a comparison of the present and future regulations on advertisement of tobacco and alcohol products.

All alcohol products will be required to be labeled with the warning "excessive drinking endangers health", and the advertisement shall not have any of the following situations:

1. Running counter to public order and good morals.
2. Encouraging or promoting drinking.
3. Causing harm to adolescents, pregnant women's mental or physical well-being.
4. Containing forged, exaggerated, or false facts or misleading contents.
5. Other situations prohibited by the central competent authority through public notice.

Advertisement of tobacco products is subject to health regulations, especially the Tobacco Hazard Prevention Law. (Note: This law was passed by the Legislative Yuan and promulgated on 19 March 1997). After the abolition of the monopoly system and the establishment of the new system, the authority will give advance public notice of the labeling requirements and otherwise allow a period of time for the manufacturer/trader of tobacco and alcohol products to make the necessary adjustment.

Non-Tariff Measures

With the implementation of the new system, i.e., after abolition of the monopoly, tobacco and alcohol manufacturers legally established in Chinese Taipei will be permitted to import alcohol and tobacco products in bulk for repackaging. Provided, however, that such manufacturers shall have authorization from the original manufacturers of the imported products.

All non-tariff measures including import licensing, standards, labeling, inspection, and repackaging will be made consistent with WTO requirements upon accession.

Any subsidies provided for the domestic production of tobacco and grapes will be bound and gradually reduced consistent with Chinese Taipei's WTO commitment on reduction of its aggregate measure of support. All firms producing tobacco or alcohol products in Chinese Taipei will have access on an equal basis to imported and domestic inputs, including any remaining benefits from such subsidies, for their production and processing activities consistent with the provisions of the WTO.

Services, Right Of Establishment and Investment

Chinese Taipei has incorporated services related to the distribution of tobacco and alcohol products in its draft GATS schedule. The legal and regulatory framework for production and distribution of alcohol and tobacco products will not impose particular

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restrictions on non-Chinese Taipei firms engaging in related commercial activities. The timetable and rules for liberalizing the production/manufacture of particular tobacco and alcohol products will apply equally to foreign as well as Chinese Taipei private firms.

Chinese Taipei will liberalize production/manufacture of wine within one year after the implementation of the new system; liberalization of spirits and beer will be effected two years after the implementation of the new system. Chinese Taipei will attain full liberalization of alcoholic beverage production/manufacture within three years after the implementation of the new system. The schedule for achieving full liberalization is set out in attachment 6.

Subject to the above paragraph, Chinese Taipei will clarify its laws and regulations on investment and related matters as they affect TTWMB and its successor(s), so that non-Chinese Taipei firms are granted the right of establishment to engage in production/manufacture, wholesale and retail distribution and other activities that TTWMB currently and its successor (s) in the future engage on the basis of national treatment.

Chinese Taipei will, on the implementation date of the Tobacco and Alcohol Administration Law, begin processing applications for firms seeking authorization to produce alcohol products liberalized in the first stage, and for other alcohol products liberalized at other stages, six months in advance of the date when such activities are liberalized, in order to provide new entrants with the possibility of operating under the reform program from its inception.

Tax Compliance

In support of Chinese Taipei's reform program on the manufacture/production of tobacco and alcohol products, Chinese Taipei will, for so long as TTWMB remains a monopoly, provide the United States with a report by 1 September of each year on the volumes of tobacco and alcohol products manufactured in Chinese Taipei and on taxes paid by TTWMB by production category. The United States will protect and not disclose information submitted in the report consistent with U.S. law, in particular 5 U.S.C. § 502.

After TTWMB is privatized, both sides agree to consult on whether it is necessary to take steps to ensure tax compliance, and if so, what steps will be taken in the circumstances that exist at that time.

Contraband and Counterfeit Goods

Chinese Taipei agrees with the United States on the need to enhance efforts to protect against smuggled and counterfeit alcohol and tobacco products. Therefore, it has incorporated penal provisions in the Tobacco and Alcohol Administration Law to serve as the legal basis for enhanced efforts in this regard.

On the disposal of contraband and counterfeit products, under the new system

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established pursuant to the Tobacco and Alcohol Administration Law, these products will be destroyed or otherwise disposed of based on U.S. and international practices.

As to the protection of the rights of certain alcoholic beverages, such as Bourbon and Tennessee Whisky, to be labeled as such, Chinese Taipei will require presentation of certificates of origin and age, and authenticity issued by relevant state and local government authorities in the United States.

Transition Measures

Chinese Taipei's reform of TTWMB, including administration of licenses and registration approvals will be carried out in a WTO-consistent manner. Chinese Taipei will ensure protection of confidential business information consistent with its law and through procedures on access to such information and its use. Such protection will be provided on the basis of national treatment.

Upon Chinese Taipei's accession to the WTO and implementation of the new system, the 1986 Agreement between the American Institute in Taiwan and the Coordination Council for North American Affairs Concerning Beer, Wine and Cigarettes will cease to be effective.

Government Procurement

1. Chinese Taipei commits to the improvements (identified in attachment 7) to its offer of March 19, 1997 (GPA/SPEC/1/Rev.1) and will incorporate those improvements into its offer . This improved offer constitutes Chinese Taipei's offer referenced in #3 below. Chinese Taipei will submit this offer to the Committee on Government Procurement and also notify the Committee of transitional measures that Chinese Taipei has implemented in respect of government procurement.
2. Throughout the course of developing the implementing regulations for the new procurement law, Chinese Taipei agrees to consult regularly with interested parties (foreign and domestic) to assure the consistency of the regulations with the provisions of the Agreement on Government Procurement (AGP) and international government procurement practice.
3. Prior to Chinese Taipei's assumption of the obligations of the AGP and with a view to maintaining a balance of mutually agreed coverage (comparable to that contained in the new offer) both sides reserve the right to consult in the event of rectifications or other modifications made to the attached offers affecting entity coverage. In the event that one side wishes to withdraw an entity from coverage on the grounds that government control or influence over such entity has been effectively eliminated, allowance shall be made for the market-opening effects of the removal of government control or influence in determining whether the aforementioned balance has been maintained.

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4. Chinese Taipei agrees to accede to the AGP within one year of the its accession to the WTO. If, however, Chinese Taipei's government procurement law is enacted prior to its accession to the WTO, Chinese Taipei will accede to the AGP within one year of enactment of the law or at the time it accedes to the WTO, whichever is later.
5. Chinese Taipei agrees to incorporate the attached Principles Governing Post Award Contract Dispute Resolution (identified in attachment 8) into its government procurement contract dispute settlement procedures.

Further Actions

While great progress has been made, much work remains to be done to complete the accession negotiations, including multilateral negotiations on Chinese Taipei's Protocol of Accession and Working Party Report. Both sides have had extensive discussions on Chinese Taipei's foreign trade regime and how Chinese Taipei's Protocol of Accession and Working Party Report might best reflect the current regime, WTO members' concerns, Chinese Taipei's commitments on WTO issues and Members' expectations on implementation of those commitments. While both sides have agreed on solutions to some of these subjects which must be reflected in the Protocol and Working Party Report, both sides recognize that additional issues, such as market access for large motorcycles, subsidies issues, some transition periods, have been reserved for further discussion in the Working Party. If the Working Party does not complete its tasks and recommend that the WTO General Council take a decision on Chinese Taipei's accession to the WTO by the year 2000, both sides agree to consult to determine the extent to which issues need to be renegotiated.

Chinese Taipei will provide the United States with a revised copy of the draft schedules and other documents for review and verification. Their representatives will consult promptly regarding any adjustments that may be necessary. Both delegations will sign the necessary documents by March 10, 1998, and officially notify the WTO Secretariat of the results of these bilateral negotiations in the context of Chinese Taipei's accession to the WTO.

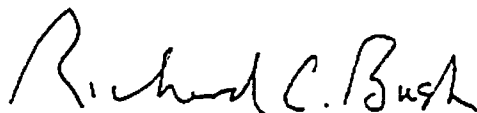
Both sides agree that consultations regarding any matter relating to the interpretation, implementation or operation of this Understanding and associated documents will be held promptly at the request of either side. Such consultations may be requested and held before and after Chinese Taipei's accession to the WTO.

Based on the commitments and clarifications set forth in this Understanding and

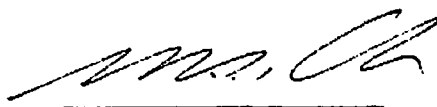
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associated documents and in the expectation that they will be fully implemented, the delegations confirm that the bilateral market access negotiations on goods, services and government procurement are closed.



Richard C. Bush
Chairman of the Board
and Managing Director
For the American Institute
in Taiwan

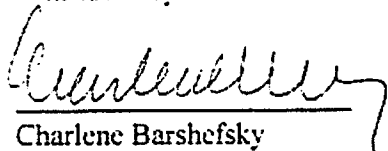


Stephen S.F. Chen
Representative
For the Taipei Economic and
Cultural Representative Office
In the USA

Date: Feb. 20/1998

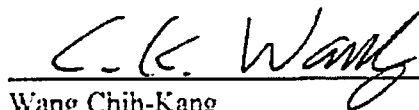
Date: Feb 20, 1998

Witnessed by:



Charlene Barshefsky
U.S. Trade Representative

Date: Feb. 20, 1998



Wang Chih-Kang
Minister of Economic Affairs

Date: Feb. 20/1998