Issue 7: Maintain the current CDIC insurance premium scheme.

The Committee appreciates that the Central Deposit Insurance Corp. (CDIC), following the January 2007 revisions to the Deposit Insurance Act, adopted some of the suggestions made in the 2008 *Taiwan White Paper* regarding new rates for deposit-insurance premiums. We are concerned, however, about the announced plan to double the premium starting in 2010 "for insured deposits in excess of maximum coverage (NT$1.5 million) from the flat rate of 0.0025% to 0.005%."

In view of the current challenging market conditions, forgoing an increase next year and maintaining the current premium rate for uninsured deposits would be a prudent step that would provide greater stability for the banking community. It would be helpful, in fact, if the current rate could be continued for at least five years, or until the next revision to the Act.

CAPITAL MARKETS

The Committee acknowledges the regulators' continued efforts in enhancing Taiwan's financial market competitiveness. It especially thanks the Financial Supervisory Commission (FSC) for listening to the Committee's concerns and issues on an on-going basis. A good example is the FSC's continued discussions with AmCham on the proposed Financial Services Act (FSA), which is aimed at creating a framework for uniform regulation of all types of financial institutions. We share the views presented in the Banking Committee position paper supporting enactment of a sound FSA in the interest of fostering a fair and efficient financial market.

Capital-market development requires coordinated and well-thought-out regulatory and fundamental infrastructural improvement. This takes inter-agency coordination, long-term perspective, and consistent investment in technology and human resources.

We believe that the Taiwan regulators are determined and prepared; the Committee is willing to assist in facilitating the further enhancement of Taiwan's capital markets.

In this spirit, the Committee makes the following suggestions:

Issue 1: Expand the scope of brokers' research and trading to increase industry competitiveness.

1. ***Eliminate restrictions on the domicile of securities researched byTaiwan-based analysts.*** Taiwan securities laws provide that a firm licensed as either a broker or a Securities Investment Consulting Enterprise (SICE) is permitted to publish research reports on domestic companies only. For brokers, the recipients of the research should be securities brokerage business clients, while for SICEs they should be parties with a direct advisory contractual relationship with the SICE.

   Research provided to brokerage clients is considered a client service associated with the securities brokerage business, and the subject of the research is restricted to the permitted scope of that business, which is domestic securities. In the case of research businesses operated under a SICE license without the license-holder having secured separate "special regulatory approval" to offer foreign securities investment advisory services, the regulations permit locally registered analysts to write research reports only on local securities. Seeking special regulatory approval is not a viable option because of the highly onerous application procedure in which each SICE would have to apply for permission for each company it wishes to research – with each case taking months to complete.

   Under current regulations, the definition of "foreign securities" includes foreign-listed stocks issued by companies associated with a Taiwan-domiciled company (e.g. Foxconn International, associated with Hon Hai). Consequently, as Taiwan companies evolve into multinational corporations through overseas listings of offshore operations, Taiwan-based securities firms and SICEs are unable to expand their research coverage to include significant subsidiaries and affiliates. As a result of insufficient information, international investors will become less willing to invest in Taiwanese multinational corporations, effectively increasing those companies' cost of capital and rendering them less competitive.

   The above restrictions, furthermore, force Taiwan-based analysts to move to other regional financial centers, especially Hong Kong, in order to maintain research coverage of these so-called "foreign securities." Taiwan-based equity research teams are thus prevented from expanding their own breadth beyond locally listed companies, which limits the international competitiveness of the Taiwan capital market. It is impossible for a Taiwan-based analyst to play a regional role, whereas Hong Kong or Singapore-based analysts face no such restriction.

   The Committee therefore calls for elimination of restrictions on the domicile of the securities on which Taiwan-based research analysts may make recommendations.

2. ***Allow securities firms to conduct consigned trading of China-related stocks.*** To promote the competitiveness of Taiwan's Securities Investment Trust Enterprises (SITEs) and meet the needs of local investors, the FSC – effective July 2008 – relaxed the investment limit in China stocks from 0.4% to 10% of holdings and removed all limits on investing in China-related stocks listed in other regions. The FSC, however, still prohibits securities firms from conducting consigned trading of China-related stocks, a restriction that seriously undermines local securities firms' competitiveness. To promote the securities business, we suggest that China-related stocks (including China stocks, H stocks, red chips, stocks issued by China enterprises and listed in other regions, etc.) be included within the scope of foreign securities for which consigned trading is permitted.

3. ***Increase investor education to resolve issues related to media use of foreign securities brokers' research reports without consent.*** The media often uses its own channels to obtain foreign securities brokers' research reports, and then quotes from or excerpts the contents. This unauthorized use may impact market performance or stock prices – and sometimes generates investor complaints to the regulators. Brokers provide the research reports only to clients for their reference – not to the media – and the issuance of press releases and any other contact with the media occurs only when relevant approvals have been given. The problem of media misuse of foreign securities brokers' research reports is therefore best addressed through increased investor education on correct investment practices. We suggest that the Taiwan Stock Exchange and Gre-Tai Securities Market hold investor seminars and produce booklets explaining that foreign securities brokers should not be responsible for unauthorized quotes from their research reports in newspaper or magazine articles, and that investors should not rely on such articles in making investment decisions.

Issue 2: Enhance the trading infrastructure to achieve best practices as a developed market.

Market reform to achieve best practices is needed to ensure the Taiwan market's continuing competitiveness. Despite many positive efforts in this direction made by the government over the years, more still needs to be done in adopting international best practices so that Taiwan may reach developed-market status.

1. ***Differentiate between rules for institutional and retail investors.*** Institutional investors have better knowledge, risk appetite, and credit. The rules and requirements designed to protect retail investors are therefore unnecessary for institutional investors. Indeed, applying such rules and requirements to institutional investors actually places them at a disadvantage relative to retail investors. Instead of imposing a rigid across-the-board requirement for pre-delivery of cash/securities for stocks under surveillance, for example, the decision should be at the discretion of the broker according to the institutional investor's credit. Similarly, it should be optional rather than mandatory for brokers to check on stock availability before executing block trades. Since many foreign and local institutional investors' cash and securities are held by custodian banks, under the current regulatory regime institutional investors require more time and incur higher costs for pre-deliveries or pre-checking than do retail investors. There is no logical basis for creating such disadvantages for institutional investors.
2. ***Encourage off-exchange transactions.*** Although Taiwan has a block-trade mechanism, off-exchange over-the-counter (OTC) trading and crossing are generally not allowed. OTC trading and crossing, which are widely available in developed markets, can improve liquidity and pricing, while reducing market impact. At the London Stock Exchange, for example, the significant increase in the number and value of trades on the exchange from 1999 to 2007 coincided with the introduction of a market structure that encouraged off-exchange trading.
3. ***Allow the sharing of clearing and settlement resources by futures and securities settlement departments.*** For securities firms concurrently engaging in futures trading, Article 7 of the "Regulations Governing Responsible Persons and Associated Persons of Futures Commission Merchants" permits consigned trading, proprietary trading, and internal audits for the futures department to be covered by consigned traders, proprietary traders, and internal auditors in the securities department as long as those personnel possess both securities and futures specialist licenses. The only function for which such resource sharing is prohibited is clearing and settlement. This restriction creates a heavy burden in terms of human-resource utilization, management structure, and operational costs, since securities firms concurrently engaging in the futures business will have to deploy an additional three to five dedicated clearing and settlement personnel. Since clearing personnel possessing both securities and futures specialist licenses have already shown that they have acquired professional knowledge in both fields, we recommend revising the regulations to allow such licensed specialists to cover clearing and settlement work in both departments.

Issue 3: Relax futures-trading and related foreign-exchange rules.

Although the Taiwan Futures Exchange has made significant progress since its establishment in 1997, futures trading in Taiwan would benefit from several regulatory changes that would give institutional investors greater incentive to participate in the market.

- Remove the pre-margin requirement for institutional investors, and instead allow brokers to exercise discretion regarding pre-margin payments, based on their own credit policies.
- Allow creation of a give-up mechanism to provide investors with more flexibility and options in trading futures across different Futures Commission Merchants (FCMs). Removing the pre-margin requirement would be a key prerequisite for offering a give-up mechanism. Investors would then no longer need to maintain two margins, at give-up and full-service FCMs respectively.
- Allow Foreign Institutional Investors (FINI) to trade futures with New Taiwan dollars. Currently, FINI clients can only use foreign currencies to trade futures and are subject to relevant NT$ foreign-exchange conversion requirements. Because of the inconvenience this causes for foreign clients, allowing FINIs to trade futures with NT dollars would stimulate the Taiwan futures market.

Issue 4: Further liberalize the Securities Borrowing and Lending (SBL) market.

Taiwan is considered one of the most important markets in the Asian region for securities lending and borrowing (SBL). While the SBL community applauds the enormous progress made by the Taiwan Stock Exchange (TWSE), Ministry of Finance, and the FSC, we believe there is still opportunity to increase market and operational efficiencies, which in turn would lead to greater utilization and liquidity levels.

The following suggestions from market participants are seen as ways to bring substantial growth to Taiwan's SBL market:

1. ***Allow omnibus accounts among lenders to prevent failed settlements.*** Currently, the free movement of securities is permitted only between accounts having the same ID. In markets without an owner identification system, it is common practice to transfer securities from one lender's account to another to avoid a buy-in or settlement failure. The securities returned by the borrower then go back into the account of the lender that provided the cover. We realize this would entail allowing the agent lender to move securities immediately and free of payment between FINI accounts. But this application would be limited to coverage, and if necessary the local custodian/agent lender could produce periodic reports on the usage.
2. ***Create a lender of last resort.*** In Korea, the Korea Securities Depository provides a facility as "lender of last resort" to the market. In relation to SBL, this facility is generally utilized by borrowers to ensure delivery on recalls to the lender. It is not a substitute for the normal recall process for returning securities as the cost and collateral levels are incrementally higher – but it ensures that virtually no settlement fails in the Korean market. Although an essentially similar facility exists in Taiwan, it is only available to lenders. Extending it to borrowers would encourage more lenders to enter the market, with positive results.
3. ***Treat movement of lent/borrowed securities as settlement of an SBL transaction.*** Current regulations allow the lender and borrower to follow the terms and conditions of the negotiated agreement between them. As a negotiated SBL transaction is already "matched," it does not need to be matched again on the Stock Exchange via input by SBL brokers. Delivering and receiving the loaned securities by custodians facilitates settlement of the transaction. As a result, the requirement can be eliminated for the lender and borrower to "place" an order with SBL brokers, who in turn input into the TWSE platform for matching. The parties should be allowed to follow standard settlement procedures by sending settlement instructions to the custodians. The custodians can then report the transaction details to TWSE for control purposes. Existing handling fees to TWSE would remain, as TWSE still has to maintain the transaction information reported by the custodians.
4. ***Improve the recall process and permit lenders and borrowers to resolve expenses incurred in a settlement failure in accordance with the terms and conditions of the negotiated agreement.*** Under the new TWSE mechanism, the lender can recall and sell on the same day (T day) and meet T+2 settlement under certain conditions. The new mechanism, however, does not consider the possibility that the borrower is unable to purchase/borrow from the market, which may cause a settlement failure on the lender's part, with a penalty if the lender has sold the recalled securities on T day. In typical SBL transactions in most markets, it is the borrower's responsibility to return, when recalled within the market-settlement cycle; otherwise, the borrower bears the costs. We suggest closing this gap by exempting the lender from this type of failure and allowing for the costs of remedy to be settled according to the agreement between the parties.

   Similarly, given the lack of a "lender of last resort" mechanism, the borrower often may be unable to make delivery on recalls by the lender, even though the borrower should be responsible if a short sale fails. To provide a working solution for a negotiated SBL, we suggest that the parties involved be allowed to settle the costs associated in such settlement failure in accordance with the negotiated agreement.
5. ***Allow the title for onshore securities collateral to be transferred to the lender.*** Under the fixed price and competitive bidding methods, title to the securities collateral is transferred to TWSE. When borrowing from brokers, the title is transferred to the lending brokers. It is only in a negotiated transaction using onshore securities collateral that the title to the securities collateral remains with the borrower, as a pledge is required. The treatment of collateral, and hence the protection for lenders, should be consistent under the various methods.

Issue 5: Improve the infrastructure of the NT$ clearing system.

The Committee appreciates that the relevant regulatory agencies have reviewed this matter since it was brought up in last year's *White Paper*. We understand that for issues of this magnitude it takes time to reach a consensus before they can be resolved.

The Committee continues to believe that it is inefficient for Taiwan to maintain two electronic clearing systems for NT dollars – the Inter-bank Remittance System (IBRS) operated by the Financial Information Service Corp. (FISC) and the Real Time Gross Settlement (RTGS) initiated and monitored by the Central Bank (CBC). For RTGS, the existing system architecture allows only banks and bills houses maintaining direct head-office accounts with the CBC to remit funds to the final recipients. Because of the restrictive nature of this access, most NT$ clearing – whether for commercial or retail investors – is accomplished through IBRS.

As Taiwan's capital markets develop, this two-tier approach has proved more and more inadequate in terms of both cost and efficiency. Currently, IBRS sets a ceiling of

NT$20 million per remittance and charges NT$210 per transaction. For an NT$100 million commercial payment, IBRS will automatically split the remittance into five lots and charge the remitter for five remittances. As the daily clearing deadline nears, the risk arises that the payment will fail to clear because of the delay while the IBRS system performs the automatic splitting process. To avoid that risk and the high remittance fees for large commercial payments, bank branches in Taiwan without access to the RTGS platform have traditionally resorted to manual delivery of checks to meet NT$ payment obligations. The per-remittance cap, combined with the high remittance fee, has thus perpetuated a very low-tech and antiquated NT$ clearing system in Taiwan.

While a complete overhaul of the clearing system will be essential in the long run, the Committee recognizes that the requisite IT infrastructure will take some time to construct. For the short run, we recommend that the regulators facilitate the NT$ clearing system by removing the NT$20 million remittance cap and instead leaving it to the banks to set their own settlement risk limits for their clients.

For the long term, the Committee strongly recommends that the regulators reference the clearing systems of advanced financial markets. The Hong Kong Monetary Authority (HKMA), for instance, has long adopted a HK$ clearing system that enhances financial efficiency and eliminates settlement risk. To facilitate major currency clearing, HKMA even offers US$ RTGS and Euro RTGS, providing same-day clearing in the region without requiring banks to go through correspondent banks in the United States or the Euro Zone. The Hong Kong example would be a good model for revamping Taiwan's procedures and establishing a single NT$ clearing system.

Issue 6: Enact a Finance Company Law.

No progress has occurred on this issue since publication of last year's *White Paper*. The Committee understands that many urgent financial-market issues required the FSC's attention given the global recession. But we hope the executive branch will act quickly to finalize its draft for submission to the Legislative Yuan, and that the legislature will then accelerate the approval process for passage this year. As stated at greater length in the Committee's position paper in the 2008 *White Paper*, non-bank financial institutions can bring extensive expertise in a variety of areas that are relevant and useful to further development of Taiwan's financial market. Given the abundant financing experience in Taiwan, there is no need to limit lending to traditional lending institutions. The Finance Company Law should therefore be enacted as early as possible to permit non-bank lenders to participate in the development and expansion of Taiwan's economy. In addition, the Committee recommends that finance companies be granted access to, and full membership in, the Joint Credit Information Center in order to enhance their risk-management procedures.

CHEMICAL MANUFACTURERS

The Chemical Manufacturers Committee (CMC) is once again primarily concerned with two fundamental issues that may determine the future viability of the industry in Taiwan. The first is the danger of Taiwan's chemical products losing competitiveness in the huge China market and elsewhere in the region because of tariff burdens as Asian free-trade blocs enlarge; we are pleased to see that this issue is receiving growing government attention. The second is the urgent need for the government to ensure that a prolonged Environmental Impact Assessment process does not prevent the continuing availability of sufficient domestic supplies of chemical raw materials.

In other sections of this position paper, we suggest that the authorities look at integrating all chemical management functions into a single agency as part of the current government reorganization plan, put the handling of the Soil and Groundwater Remediation Fund on a fairer and more rational basis, and devise effective means of dealing with cases of harassment of the chemical industry in the guise of environmental complaints. Finally, in view of the inability of the Taiwan Power Co. (Taipower) to find an appropriate solution to the chemical industry's needs for stable power supply, we call on the Ministry of Economic Affairs (MOEA) to look into the matter and provide a response.

The Committee appreciates the past willingness of the relevant government agencies to take the industry's concerns seriously and work with us for the sake of Taiwan's continued economic development. We look forward to continuing that positive relationship in the year ahead.

Issue 1: Maintain Taiwan's tariff parity in cross-Strait and regional trade.

In recent months, the Taiwan government has become increasingly aware of the difficulties many Taiwan exporters will face if they are excluded from the enlarged regional trade bloc that is emerging as the 10 ASEAN nations begin implementing Free Trade Agreements (FTAs) with China, South Korea, and Japan respectively. From 2005, ASEAN and China have already started tariff reductions, and on January 1, 2010 a large proportion of the products traded among ASEAN, China, Korea, and Japan will likely become duty free. If Taiwan does not achieve a trade agreement with China, it is possible that as early as January 1 next year Taiwan will be at a considerable duty disadvantage in trade with China compared with the 10 ASEAN countries, South Korea, and Japan. For petrochemicals and other commodity businesses, as well as downstream industries such as textiles, packaging, automobiles, and other important manufacturing sectors, that gap would potentially have a huge adverse impact on Taiwan's exporting capability and therefore on its overall prosperity.

In last year's *White Paper*, this Committee urged the new Taiwan government to give urgent attention to these trade issues. We are encouraged that the government has been

actively studying the idea of negotiating a trade-liberalization agreement with China – provisionally named the Economic Cooperation Framework Agreement (ECFA) – and that details are likely to be discussed later this year through talks between Taiwan's Straits Exchange Foundation (SEF) and China's Association for Relations Across the Taiwan Straits (ARATS). It is important for Taiwan to find a way to level the playing field for its exports to the China market compared with those from the ASEAN countries.

In the absence of such a breakthrough, the likely impact would include substantial loss in export revenues and profitability for the petrochemical sector and downstream manufacturers in the textile, packaging, and other industries, a huge increase in unemployment, and a drop in Foreign Direct Investment and possibly even the withdrawal of some existing investments. A conservative estimate is that Taiwan's annual GDP growth would be reduced by 0.5-1 percentage points, with downstream and related multiplier effects adding to this decline. In addition, the resulting lower export margins would severely reduce profitability, undermining the scope for further industrial investment.

The Committee urges the government to continue to make every effort to build domestic public support for a trade agreement with China that would preserve the competitive position of its export industries in the mainland market. We would also hope that conclusion of a trade agreement with China would pave the way for Taiwan to participate in regional trade blocs and enter into bilateral FTAs with additional trading partners.

Issue 2: Ensure a sufficient supply of feedstock for industry's continued development.

The future viability of Taiwan's petrochemical industry will depend on sufficient availability of feedstock from upstream suppliers. Because of the continuous timely investment in new naphtha-cracking units over recent decades by the state-owned CPC Taiwan Corp. (formerly Chinese Petroleum), supplemented in recent years by the facilities of the private-sector Formosa Plastics Group, Taiwan's petrochemical industry until now has never had to worry about inadequate supplies of basic feedstock.

That situation may be changing. A project by a CPC-led consortium known as Kuokuang Petrochemical to construct a new complex on reclaimed land in Yunlin County has been blocked for lack of Environmental Impact Assessment approval. In response, the consortium has proposed shifting the site to reclaimed land in Changhua County's Tacheng Township, but the future of the project still remains uncertain as the Environmental Impact Assessment is still on-going. Without this project, which will involve both a cracker for ethylene/aromatic hydrocarbons and a petroleum refinery, a shortage of basic feedstock may well arise.

To avoid that risk, which would have a serious impact on domestic industry, the Committee urges the government to find ways to accelerate the Kuokuang project. In addition to the reasons already cited in Issue 1, the chemical industry deserves support because of its important contributions to the domestic economy. The petrochemical sector, which accounts for 15.8% of GDP, is closely connected to a wide range of other industries. To maintain Taiwan's economic growth and social welfare, it is necessary to ensure a continued stable supply of basic feedstock for the industry's development.

Issue 3: Integrate the administration of chemical regulatory systems.

The Committee acknowledges the progress achieved in improving cooperation between government agencies and the chemical manufacturers with respect to the national accident prevention and emergency response system – a subject that has been highlighted in this White Paper report for several years.

This year, in view of the Executive Yuan's current plan to restructure the central government, the Committee would like to raise the idea of streamlining the national chemical management system by integrating the various chemical control divisions belonging to the Council of Labor Affairs, Environmental Protection Administration (EPA) and its Emergency Response Information Center (ERIC), Department of Health, and National Fire Administration. Such an integrated national chemical agency could reference the best practices of the European Chemical Agency (ECHA), which has the most advanced chemical control system in the world.

Creation of a Taiwanese national chemical agency would help industries manage their chemicals more effectively and bring together the resources needed to assure effective chemical emergency response. The toxic chemical emergency response that ERIC has been performing, for example, has been recognized by many industries and associations in Taiwan as the best in the Asia Pacific region. ERIC could serve as the nucleus of the new organization, extending its emergency-response services from toxic chemicals to all chemicals.

Issue 4: Suspend collection of the SPRGA fund and integrate all environmental fees into a single levy.

The various levies imposed by the EPA based on the "polluter pays" principle – including fees for air pollution, soil pollution, recycling management, and one now in preparation for water pollution – have aroused controversy due to questions about the selection of the payers, the rates, the reasonableness of the criteria, and the allocation of the funds collected.

An example of the unfairness of the system is the soil pollution fee based on the Soil and Groundwater Pollution Remediation Act (SGPRA). Although the petrochemical industry is paying 97.95% of the money going into the SGPRA fund, the heavy metal manufacturing and electroplating industries that are responsible for the bulk of the pollution have not been paying their reasonable share.

Further, the existence of the polluted soil and groundwater sites resulted from lack of proper supervision by the EPA.

Government budget should therefore be used to remediate these sites instead of putting the burden on a small number of companies. Although EPA considers that 40% of the polluted sites in Taiwan can be traced to petrochemical pollution, most of these sites – such as gas stations, registered factories, and storage facilities – belong to identifiable owners, who under the law should be responsible for remediation of their own sites. The stated purpose of the SGPRA fund, on the other hand, is to pay for the remediation of sites where the owners are unknown or cannot be located. In other words, for most of the affected sites, the SGPRA fund has no useful role to play.

In addition, amendments to the original legislation have broadened the scope of the fund to cover some items that should instead be covered by government budget. Using the special fund to cover government budgetary shortfalls is contrary to the basic principles behind the establishment of such funds. Due to continual government budget deficits, insufficient money has been available for environmental protection, prompting the EPA to ignore the original intention of the SGPRA legislation and divert use of the fund to the monitoring, investigation, and verification of locations that are especially prone to pollution – such as farmland, gas stations, storage tanks, illegally abandoned factories, and old military storage facilities. This kind of investigation work should be paid for out of regular government appropriations instead of being covered by the SGPRA fund.

So far, SPGRA-fund revenues have exceeded expenditures. From the start of SPGRA fee collection in 2001 through the end of 2007, the total fund reached NT$4.6 billion, with about NT$600 million to $700 million levied annually on the petrochemical industry. But total spending came to only NT$1.3 billion, leaving a balance of NT$3.3 billion. Although the Committee regards the payment of SPRGA levies as an act of corporate social responsibility, we also believe that collection of the fees should based on actual needs – and not just to see the fund accumulate. Moreover, after extensive communications between the petrochemical industry and the government in 2001, the EPA agreed that the petrochemical industry is not the polluter but rather has the potential to pollute. The Committee calls on the EPA to immediately halt the practice of relying almost solely on the petrochemical industry to collect these levies. If the SPRGA fund is not collected based on the "polluter pays" principle, it should at least be claimed from all potential polluters.

Lastly, the Committee urges the government to begin preparations to combine all environmental levies into a single fee. As environment-related levies in Taiwan are now governed by various government agencies, the Committee suggests the establishment of a cross-ministry Green Tax Committee or reform task force consisting of representatives from the MOEA, Ministry of Transportation and Communications, EPA, Council for Economic Planning and Development, and other related agencies. The task force would invite scholars and experts from related fields to discuss the possibility of transforming Taiwan's current system of collecting environmental fees and levies into a "green tax" system. In major developed countries, "green tax" income is managed by the Finance Ministry instead of being the "pocket money" of environmental-protection regulators. Rather than just supplementing the EPA's budget shortfall, the money should be applied to social welfare and economic development purposes.

To sum up, the Committee urges the government to revisit the rationale behind the SPRGA fund and the legality of the way it is currently being used, immediately suspending collection of the fund from the petrochemical industry pending the adoption of a more reasonable solution.

Issue 5: Crack down on extortion in the name of environmental protection.

For many years, this paper has included a section calling for the elimination of "community payments." This is a euphemism for a form of blackmail in which chemical companies (simply for being chemical operations, without any evidence that they are damaging the environment) have been forced to allocate funds to nearby communities or face the consequences of angry protests.

Over the years, the situation has become somewhat less egregious. For one thing, there is now significantly more transparency in the use of the funds. In addition, although plants in several chemical industrial zones continue to make community payments as a legacy of past practice, manufacturers have successfully resisted expanding the custom to new locations. The industry firmly believes in fulfilling its corporate social responsibility, including appropriate support to neighboring communities, but it equally staunchly opposes any demand for such payments under duress, outside of normal procedures.

While the community payments problem has been contained, chemical companies continue to be harassed by individuals making false accusations of environmental offenses in an effort to extort money or favors (such as a supply contract, construction contract, land sale, or the hiring of a friend or relative). Based on Article 7 of "Directions for Environmental Agencies on Handling Petitions on Public Pollution Offenses," complainants may file anonymous petitions. The Committee suggests that the environment protection agencies pass such petitions to the surveillance centers in the industrial zones where the plants are located for further investigation. Claims of environmental offenses should be verified using advanced technology and scientific methods so as to protect the reputation of law-abiding companies.

In addition, while someone responsible for a false fire alarm could expect to be prosecuted, the same logic has not been extended to environmental cases. The government should seriously consider the wasted resources and manpower of governing agencies caused by these false accusations. Repeated environmental inspections without real cause take up companies' staff time and add to administrative

costs. The Committee requests the related government agencies to investigate this problem and propose a solution.

Issue 6: Assure reliable supplies of electrical power.

This issue has been raised by the Committee for the past several years, but the basic problem remains unresolved. In response to the manufacturers' request for installation of back-up equipment called ringbus systems, for example, Taipower has said that it would do so provided industry bears the cost. The manufacturers reject that option, reiterating that guaranteeing a stable power supply should be the utility's responsibility and part of the government's commitment to creating an attractive investment environment.

Further, although Taipower states that the number of unscheduled outages has been decreasing year by year, the Committee believes that even one such episode is totally unacceptable. Chemical processes cannot be switched on and off; once a chemical reaction begins, halting it due to a power failure will cause substantial economic loss as well as raising serious environmental and safety issues. Under its contract terms, Taipower takes no responsibility for these consequential damages. Adding insult to injury, the utility charges a fee to the chemical plant to cover re-startup costs.

Another problem is that the stability of the electrical voltage on the grid has been poor. This causes major difficulties for the control equipment in all chemical plants. Considering that Taipower implemented two price increases in July and October last year, we feel strongly that it is the utility's responsibility to provide the industry with a higher-quality and more reliable power supply. As Taipower has been unable to resolve these issues over the past three years, the CMC requests that they receive due attention by MOEA, which oversees the utility.

EDUCATION & TRAINING

The Committee appreciates the cooperation and good will demonstrated during the past year by the Ministry of Education (MOE), which was open to communication and discussion with the Committee on its priority issues. Yet the Committee regrets that despite the Ministry's openness, not much progress has been made since these issues were brought up in 2005.

Of particular concern are the convoluted rules on credit transfers that Taiwanese students must deal with when deciding where to study in the United States, the difficulties encountered by male students wishing to defer their military service to study in overseas community college or diploma programs, and the inability of foreign universities to gain reasonable access to the Taiwan market by offering accredited certificate or degree programs at local sites.

We believe that addressing these issues appropriately and with a sense of urgency will make a major contribution in improving Taiwan's international business competitiveness. The Committee and its members, in support of Taiwan's goal of becoming a regional business center, encourage the government to take further steps to improve the education and training environment in this country.

Issue 1: Facilitate greater student mobility and internationalization.

A systemic barrier inhibits the movement and exchange of students to and from Taiwanese post-secondary institutions. Currently, if Taiwanese students wish to enroll in a one-year or one-semester exchange program at an overseas institution, their home institution in Taiwan must have a "twinning agreement" with the overseas school in order for the student to transfer the credits earned overseas back to his or her Taiwanese school. This policy creates several problems:

- Students' choice is limited to a select number of overseas programs approved by their home institution. This occurs even though the MOE recognizes a much larger group of overseas schools as providing quality programs.
- Highly ranked overseas institutions may not necessarily be interested in entering into a twinning agreement with a Taiwanese school, but would be willing to accept individual students from that school for an exchange year. Once again, the current policy limits Taiwanese students' choices. Similar problems arise if foreign students wish to attend a Taiwanese school for an exchange year.

In order to facilitate greater student mobility and internationalization, the Committee suggests that a new system be established enabling Taiwanese students to attend any overseas school that is recognized by the MOE, without the need for the student's home school and overseas school to have a twinning agreement. Recognition of individual credits towards graduation requirements would be at the discretion of the student's home institution.

Issue 2: Establish a system to formally recognize schools other than those offering four-year degree and graduate-level programs.

Currently the MOE only recognizes the credentials of educational institutions at the undergraduate level or higher. There is no mechanism to recognize one- or two-year diploma or certificate programs at overseas colleges, whereas domestic providers of these kinds of programs do receive such recognition. This policy has several negative repercussions:

- Currently, a male student cannot apply to defer military service if he chooses to study in an overseas community college two- or three-year diploma program or a university transfer program. If a male student takes an equivalent college diploma program in a domestic institution, however, he will be able to defer military service until his studies are completed. That difference represents flagrantly preferential treatment for local service providers (junior colleges) compared with their overseas counterparts.