

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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WORKING PARTY ON THE ACCESSION OF CHINESE TAIPEI

Questions and Replies

UNITED STATES

Addendum

The representative of Chinese Taipei has submitted the additional reply reproduced hereunder to the questions submitted by the United States, for circulation to members of the Working Party on the Accession of Chinese Taipei. This text and the earlier documentation reproduced in documents L/7189/Rev.1 and L/7097 and Addenda will be considered at the meeting of the Working Party scheduled to take place on 12-15 October 1993.

Reply II-9-2

The Fair Trade Commission, in an interpretation letter with reference No. (82)-Kou-Yi-Tze - 52568, dated 17 July 1993, holds the position that the United Cooperative Association is established according to the Law Governing Cooperatives and is commissioned by the Central Personnel Administration of the Executive Yuan and the Ministry of Education to supply products that are necessities for employees of the government and educational institutions. Its practices do not fall within the application of the provisions dealing with monopolies and horizontal collaboration of the Fair Trade Law; nor are they subject to Articles 19 and 24 of the Fair Trade Law.

There are currently fifty-five publicly owned stores in operation. There are two stores that have been opened in the most recent three years; but there were four stores closed in the same period of time.

There was only one store opened in 1992.

The United Cooperative Association is established according to the Law Governing Cooperatives, and is otherwise also governed by the law.

The United Cooperative Association is a private entity and is commissioned by the Government to supply daily necessities to employees of the Government and educational institutions. When performing such function, its pricing decisions are made according to the Rules Governing the United Cooperative Association's Negotiation Practices. The decision-making procedure under the Rules as follows:

- (1) The suppliers of the products to be purchased by the Association submit price quotations (market price and preferential price).

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- (2) Based on the quotations, the Association will conduct a price survey by sending its personnel to department stores, supermarkets, and retail stores to collect information on market price and consumption levels of the product concerned.
- (3) Based on the result of the market survey, market condition, and popularity of the brand, a base price which is 15 per cent to 30 per cent lower than the market price would be determined, and submitted to a special panel for review and approval.
- (4) After the base price is approved, there would be a negotiation panel established to negotiate with suppliers face-to-face; the negotiated price would be accepted when lower or equal to the base price, and would not be accepted when higher.
- (5) The accepted negotiated price would be submitted to the special panel for review and approval; when approved, the price then becomes the sourcing price for the product concerned; the selling price of the retail stores under the Association is 2 per cent above the sourcing price.
- (6) The prices determined according to the above would be submitted to the Chairman of the Board of Governors for his approval and then published.
- (7) After publication of the price, the Association will proceed to sign the contract with the supplier, and obtain the product for sale in the retail stores.

There are currently fifty-five publicly-owned retail stores; among them, there are seventeen (i.e. 31 per cent) which operate on public land leased or loaned to such stores.

On the Ministry of Defence PX stores, the price negotiation is conducted by a price negotiation panel consisting of representatives of members of military force, audit personnel, and officials who are familiar with PX operation. The panel would negotiate the price face-to-face with the suppliers based on a ceiling price which is determined in accordance with market conditions. If both sides fail to reach a price which is below or equal to the ceiling price, the negotiation would be considered failed. Under such circumstances, high level officials would call a meeting to decide whether to conduct another negotiation with the suppliers.

The sourcing prices of the Ministry of Defence PX stores are generally lower for the following reasons:

- (i) they purchase directly from the manufacturers rather than wholesalers or retailers,
- (ii) their quantity of purchase is such that would reduce the costs of the supplier and therefore would yield substantial quantity discount and 2/3 of the purchase price.

The selling price of the Ministry of Defence PX stores is 2 per cent above the sourcing price. The 2% margin is to cover the operating expenses. In contrast, in commercial entities such as department stores and supermarkets, the margin is equally 20 per cent to 30 per cent above the sourcing costs.