

MAINLAND AND HONG KONG CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT

Further Trade Liberalization (CEPA II)

INTRODUCTION

The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) adopts a building block approach and provides a mechanism for further liberalization measures. Since the implementation of CEPA on 1 January 2004, the Central People's Government (CPG) and the Government of the Hong Kong Special Administrative Region (HKSARG) have held a series of high level and senior official meetings with a view to broadening the scope of CEPA. The two sides reached agreement on further liberalization measures on 27 August 2004.

SUMMARY OF FURTHER LIBERALIZATION UNDER CEPA

(A) Trade in Goods

2. The Mainland has applied zero import tariff from 1 January 2004 for exports from Hong Kong meeting CEPA origin rules for goods in 374 Mainland 2004 tariff codes. For other products, the Mainland has undertaken to apply zero tariff latest by 1 January 2006 upon applications by local manufacturers and upon CEPA origin rules being agreed and met. The HKSARG invited local manufacturers to submit their requests from January to April 2004. The requests were consolidated and submitted to the Mainland in May 2004. After a series of meetings, the Mainland has agreed to apply zero tariff to products under 713 Mainland 2004 tariff codes. They are on top of the 374 tariff codes which have already been enjoying zero import tariff from 1 January 2004. A list of the 713 tariff codes is at Annex I.

3. The 713 Mainland 2004 tariff codes cover both existing production (529 tariff codes) and planned production (184 tariff codes). The products under the 529 tariff codes will enjoy zero tariff from 1 January 2005. For the remaining 184 codes, zero tariff will be applied from 1 January of the following year upon confirmation by both sides that the products have come into production. The Trade and Industry Department (TID) will announce the detailed arrangements shortly.

4. The two sides will begin formal discussions on the rules of origin (ROO) for the 713 Mainland 2004 tariff codes. Consultations on the ROOs will be completed by October 2004.

Procedures for Claiming Zero Tariff

5. To claim zero import tariff under CEPA, products being exported into the Mainland must be accompanied by a Certificate of Hong Kong Origin-CEPA (CO(CEPA)) issued by TID or one of the Government Approved Certification Organizations^(Note 1). Before applying for CO(CEPA), manufacturers are required to apply for a Factory Registration (FR) with TID to demonstrate that their factories possess sufficient capacity to produce the goods for export. The application procedures and the conditions of issuing CO(CEPA) are set out in Certificate of Origin Circulars No. 23/2003 and No. 24/2003, both issued on 14 November 2003, and No. 7/2004 issued on 7 June 2004. All these circulars can be downloaded from TID's website (www.tid.gov.hk/english/cepa/trade_goods.html).

(B) Trade in Services

6. In CEPA, the Mainland has given preferential treatment to Hong Kong service suppliers in 18 service sectors. Under CEPA II, the Mainland has agreed to broaden the liberalization in respect of 11 of them :

legal services	construction services
distribution services	transport services (including road passenger transportation and maritime transport)
freight forwarding agency services	medical services
audiovisual services	accounting services
banking services	securities and futures services
individually owned stores	

In addition, the Mainland has agreed to introduce liberalization measures in the following 8 new areas :

^(Note1) Under the Protection of Non-Government Certificates of Origin Ordinance (Cap. 324), there are five Government Approved Certification Organizations (GACOs) designated to issue certificates of origin: Chinese Manufacturers' Association of Hong Kong; Federation of Hong Kong Industries; Hong Kong General Chamber of Commerce; Indian Chamber of Commerce, Hong Kong; and Chinese General Chamber of Commerce.

airport services	information technology services
patent agency services	trade mark agency services
job referral agency services	cultural entertainment services
job intermediary services	professional qualification examinations

Unless specified otherwise, the new liberalization measures will take effect from 1 January 2005. Taking the two phases of CEPA together, Hong Kong service suppliers are now eligible for preferential treatment in 26 service areas.

7. Broadly speaking, the liberalization permits earlier access for Hong Kong services suppliers to the Mainland market, ahead of China's WTO timetable. In some sectors, like audiovisual services, transport and related services and medical services, the concessions go beyond China's WTO commitments. In particular, the Mainland has agreed to lift the geographical restriction and expand the business scope for the individually owned stores set up by Hong Kong permanent residents with Chinese citizenship. The new liberalization measures under CEPA II are set out in Annex II.

Definition and Certification of "Hong Kong Service Supplier"

8. Generally speaking, "juridical persons" (including companies, partnerships and sole proprietorships) as well as "natural persons" of Hong Kong will be able to enjoy preferential treatment granted by the Mainland, provided that they fulfil the definition and related requirements of Hong Kong service suppliers. Unless otherwise specified in CEPA, a "natural person" means a Hong Kong permanent resident, whereas a "juridical person" means any legal entity duly constituted or otherwise organized under the applicable laws of Hong Kong and which has engaged in substantive business operations in Hong Kong for three to five years.

9. Hong Kong service supplier as a juridical person should apply to TID for a Certificate of Hong Kong Service Supplier before it can obtain the preferential treatment under CEPA. A Hong Kong service supplier who wants to obtain CEPA treatment as a natural person should provide to the relevant Mainland authorities identification of his or her Hong Kong permanent resident status.

10. Detailed application procedures for the 18 service sectors covered in CEPA have been announced in Notices to Service Suppliers No. 2/2003, No. 2/2004 and No. 3/2004, all of which can be downloaded from the website of

TID (www.tid.gov.hk/english/cepa/). It is envisaged that procedures for applying Certificate of Hong Kong Service Supplier in respect of service areas under CEPA II will basically follow the procedures announced in the above circulars, supplemented with certain sector-specific requirements, if any. The circulars will be updated and announced as appropriate.

(C) Mutual Recognition of Professional Qualifications

11. As part of the services trade under CEPA, Hong Kong and the Mainland have committed to encouraging mutual recognition of professional qualifications and promoting the exchange of professional talents between each other. After the signing of the six Annexes of CEPA in September 2003, relevant professional and regulatory bodies of Hong Kong and the Mainland, with the support and facilitation of the CPG and the HKSARG, have concluded the following agreements or arrangements:

- a reciprocal agreement in early November 2003 for the estate surveyors;
- an arrangement to facilitate the flow of qualified personnel and expertise in respect of the securities and futures industry in December 2003;
- a mutual recognition agreement for architects in February 2004;
- an agreement on measures to facilitate Hong Kong residents to take the “Mainland Insurance Practitioners Qualifying Examinations” in February 2004;
- arrangements to allow Hong Kong residents to take the "National Qualification Examination for Patent Agents" in April 2004.

On 27 August 2004, a mutual recognition agreement for structural engineers, and an arrangement for the exemption of professional examination papers in the accounting sector were signed.

WAY FORWARD

12. The CPG and the HKSARG will work closely to thrash out the implementation details of CEPA II. We will inform the trade of relevant implementation measures shortly.

13. The HKSARG shall spare no effort in encouraging the local business sector to make full use of the preferences under CEPA. We will also underline the many business opportunities offered by CEPA in our promotion work to attract more foreign investment to Hong Kong.

14. The CPG and the HKSARG shall continue to pursue further liberalization on goods and services trade in the latter phases under CEPA through the established liaison mechanisms. In this regard, the HKSARG will continue to consult the business and professional communities to understand their needs. The HKSARG shall also discuss with the concerned business sectors on appropriate policy measures that may be required to enable them to gain the greatest benefits from CEPA.

ENQUIRIES

15. For press enquiries, please contact Press Secretary to the Secretary for Commerce, Industry & Technology, Ms. Diana To, on 2810 2268 and Principal Information Officer (Commerce & Industry), Ms. Martha Lo, on 2842 8630. For general enquiries, please make use of the following contacts or visit TID's website: www.tid.gov.hk/english/cepa/.

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• Zero Tariff for Imported Goods of Hong Kong Origin	Tel. 2398 5676 Fax. 2398 9973 E-mail: ma_registry@tid.gov.hk
• Certificate of Hong Kong Service Supplier	Tel. 3403 6428 Fax. 3525 0988 E-mail: hkss@tid.gov.hk

HKSAR Government
27 August 2004