

First Meeting of the Economic and Employment Council

Agenda Item 4 : Business Facilitation for the Closer Economic Partnership Arrangement (CEPA)

Introduction

This note outlines the measures put in place by the HKSARG to facilitate businesses to tap the opportunities arising from CEPA.

Background

2. Following 18 months of intensive consultations, Hong Kong and the Mainland signed the main text of CEPA on 29 June 2003, and concluded the six Annexes on 29 September 2003. Under CEPA, the Mainland has agreed to eliminate import tariff for 374 Hong Kong products under its 2004 tariff codes and to give preferential market access to service suppliers in 18 services sectors^{Note 1}. Both sides have also agreed to enhance co-operation in trade and investment facilitation. CEPA came into full operation on 1 January 2004.

Business Facilitation Measures

(A) Trade in Goods

3. If manufacturers and exporters wish to claim zero tariff under CEPA for their goods entering the Mainland market, their products are required to meet CEPA rules of origin. To ensure that the manufacturing sector has a good understanding of the CEPA rules and that a reasonable amount of processing and production is performed locally, both sides have agreed to adopt existing Hong Kong origin rules for most products (*272 products, about 73 %*). Where a value-added threshold is adopted for a small number of goods (*43 products, about 11 %*), 30% is used as the minimum Hong Kong

^(Note 1) These include management consulting, convention and exhibition, advertising, accounting, real estate and construction, medical and dental, distribution, logistics, freight forwarding, storage and warehousing, transport, tourism, audiovisual, legal, banking, securities, insurance and telecommunications services.

value-added content and that includes product development costs incurred in Hong Kong (*such as design, patent, trademark and copyright*). This is particularly important in attracting investors to manufacture innovative, brand name, high value-added, high technology and high intellectual property content products.

4. To enjoy zero tariff treatment, traders should apply for a CEPA Certificate of Origin (CO(CEPA)) for each consignment of the goods exported to the Mainland. To ensure maximum convenience for traders, the application procedures for CO(CEPA) are largely the same as those for the existing Certificates of Hong Kong Origin. Traders could submit their applications through the Electronic Data Interchange (EDI) system to the Trade and Industry Department (TID) or any of the five Government Approved Certification Organizations (GACOs)^(Note 2). Traders who are not yet EDI users may also submit their applications to 16 conveniently located Electronic Trading Access Service (ETAS) centres.

5. A CO(CEPA) application will normally be approved within 1.5 working days and will remain valid for 120 days. As at 3 February 2004, we have received 145 CO(CEPA) applications, of which 102 have been approved. The total export value of the goods amounted to more than HK\$50 million. A summary of applications is at ***Annex I***.

6. To help traders understand the requirements for claiming tariff preference under CEPA, we have promulgated the CEPA origin rules and the application procedures for CO(CEPA) to the business community through trade circulars, TID's CEPA web site and a series of seminars and workshops.

7. To facilitate verification of goods at the customs control points and speed up customs clearance, we have established an electronic data exchange mechanism with the Mainland. Information on each CO(CEPA) is transmitted to the Mainland electronically. Both sides have also agreed on a set of procedures in case the claims of zero tariff cannot be verified immediately and to appoint liaison persons to enable speedy and effective communication in resolving cases. The HKSARG will keep the certification system as well as the customs clearance procedures under review based on feedback from stakeholders.

Note 2 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

8. The Mainland has committed to applying zero tariff to all other Hong Kong products, latest by 1 January 2006, upon applications by local manufacturers and upon CEPA rules of origin being agreed and met. TID has issued a trade circular to invite manufacturers to submit their requests before 31 March 2004. The scope of new products to be included in the next phases of tariff reduction includes goods that are being manufactured in Hong Kong, as well as those that are intended to be produced by potential investors. As at 3 February 2004, 24 applications have been received (*covering metal, plastic, machinery, food and textile products*). We would submit the information to the Mainland before 1 June 2004, and enter into consultation with them on the rules of origin of these new products and firm up the timetable and arrangements for the next phase of tariff elimination.

(B) Trade in Services

9. On trade in services, service suppliers in Hong Kong enjoy earlier and wider market access to 18 services sectors in the Mainland market. As a prerequisite for enjoying the preferences under CEPA, a company has to be certified by the HKSARG that it has met the criteria set out under CEPA as a Hong Kong Service Supplier (HKSS), i.e. 3 to 5 years of substantive business operation in the relevant sectors in Hong Kong, incorporated or established in Hong Kong, subject to profits tax, rent or buy business premises, and majority of employees being Hong Kong residents.

10. TID is providing, free of charge, one-stop enquiry and certification services for all 18 services sectors. Details of the application procedures and documentation requirements have been clearly set out in the trade circulars, which were widely distributed to the business community, and are easily accessible in TID's CEPA web site.

11. TID will complete the processing of an application within 14 clear working days after receiving all required information submitted by an applicant, including an attested copy of a Statutory Declaration and all necessary supporting documents. A Certificate of HKSS will be issued to a successful applicant and each Certificate will be valid for 2 years. Up till 3 February 2004, TID received a total of 106 applications, of which 53 were approved. A summary of applications by sectors is at *Annex II*.

12. An individual who wants to enjoy CEPA treatment as a natural person is not required to obtain a Certificate of HKSS. He or she is only required to provide to the relevant Mainland authorities identification of his or her status, e.g. Home Visit Permit or HKSAR passport.

13. To facilitate companies and individuals to apply to the relevant Mainland authorities for the provision of services under CEPA, we have liaised with the Mainland authorities at both the central and local levels and invited them to set up designated enquiry points and one-stop service counters for individual services sectors (e.g. the Approval and Administration Office of the Shanghai Foreign Investment Commission (上海市外國投資工作委員會外資審批管理處)). Meanwhile, TID, with the collaboration of other bureaux/departments overseeing the respective services sectors, has been collating from the relevant Mainland authorities updated laws and regulations governing the provision of relevant services. We have also obtained consent to establish hyperlinks with the relevant government web sites in the Mainland to disseminate Mainland rules and regulations more quickly and widely. These include both web sites at the ministerial level (*e.g. the Ministry of Commerce*), and those at the provincial and municipal levels (*e.g. some 40 trade and investment web sites in Guangdong*). Hits to TID's CEPA web site have reached 476,000 since 29 September 2003. Our aim is to make the CEPA web site an updated and user friendly trade and investment information hub for people interested in exploring business opportunities in the Mainland.

14. To improve the market access of our professionals, the Financial Secretary led a high level delegation, comprising senior Government officials and professional sector representatives, to Beijing to attend a high level conference on 17 February on mutual recognition of professional qualifications. Arrangements on mutual recognition of qualifications in certain professional sectors were agreed and channels of direct communication between the professional bodies of Hong Kong and the regulatory authorities in the Mainland were established.

(C) Trade and Investment Facilitation

15. Under the trade and investment facilitation framework of CEPA, the two sides agreed to strengthen co-operation in the following seven areas :

- (a) trade and investment promotion: enhance information sharing and training co-operation, promote participation of trade fair and investment promotion forums held in Hong Kong and the Mainland;

- (b) customs clearance facilitation: strengthen co-operation in law enforcement, simplify procedures in customs declarations (*including the introduction of a uniform manifest form since 1 January 2004 on a trial basis by the customs authorities on both sides*), and speed up clearance and verification at control points;
- (c) commodity inspection and quarantine, food safety, quality and standardization: measures to promote safety of electrical and mechanical products, frequent information exchange in epidemics, infectious diseases, quarantine of animals and plants, and strengthen control measures;
- (d) electronic business: joint activities with Mainland counterparts to promote e-commerce and e-government at various levels;
- (e) transparency in laws and regulations: promulgation and publicity of CEPA and CEPA-related laws, rules, amendments, administrative regulations and application procedures to raise the level of awareness within the Mainland and the Hong Kong business community;
- (f) co-operation of small and medium enterprises (SMEs): joint activities to share experience in SME support measures and capacity building, sharing of market and policy information and promoting two-way visits; and
- (g) co-operation in Chinese medicine industry: strengthen co-operation in research and development activities, professional education and training, and improve quality, standardization and marketing of products.

16. At the first CEPA Joint Steering Committee meeting held on 17 December 2003 in Beijing, the two sides discussed and drew up work plans for the seven areas of co-operation. The plans would be followed up by the relevant Working Groups established under the Joint Steering Committee.

Promotion of CEPA

17. Since the announcement of CEPA, the HKSARG has launched a strong awareness and publicity campaign to promote the business opportunities brought about by CEPA to local, foreign and Mainland investors. These efforts include :

- (a) establishing enquiry telephone hotlines and e-mail service in TID. We have handled some 9,000 enquiries since the signing of the six Annexes in late September 2003;
- (b) promoting CEPA overseas and in the Mainland: The tasks are undertaken by the 11 Economic and Trade Offices and the Hong Kong Trade Development Council (TDC). Seminars on CEPA were held in Korea and Japan in October 2003. We jointly organised large-scale exhibitions and seminars in collaboration with the China Council for the Promotion of International Trade (CCPIT) in Beijing, Shanghai and Guangzhou in January and February 2004. The Beijing Office organized large-scale promotions in Fujian, Zhejiang and Jilin, and roadshows in Zhengzhou, Wenzhou and Wuhan. The four pilot CEPA Business Services Centres established by TDC in Beijing, Shanghai, Guangzhou and Hong Kong offer comprehensive support services such as business matching service for Mainland companies looking for suitable Hong Kong partners;
- (c) organising and participating in some 100 seminars in Hong Kong: These events introduce the implementation details of CEPA to major local chambers of commerce, Mainland delegations, foreign chambers of commerce, and industrial and trade organisations;
- (d) attracting investment: Overseas technology-based manufacturers are encouraged to invest in Hong Kong and to use Hong Kong as the platform in entering the Mainland market through the overseas promotion activities of the Hong Kong Science and Technology Parks Corporation and the Cyberport; and
- (e) enhancing liaison with key Mainland partners: We have stepped up our liaison and co-operation with Guangdong and Shanghai through the Hong Kong/Guangdong Co-operation Joint Conference and the Hong Kong/Shanghai Economic and Trade Co-operation Conference to attract Mainland enterprises to invest in Hong Kong, and to collate investment information in Mainland cities.

Way Forward

18. CEPA is a key and priority programme area of the HKSARG in the coming years. There would be Government-wide efforts to facilitate the full implementation of CEPA to promote trade and investment. We will continue to liaise with the central and provincial authorities in the Mainland, consult key stakeholders and keep our policies under review to ensure that the community as a whole can capture maximum benefits under CEPA.

Trade and Industry Department
February 2004

**Summary on CO(CEPA) Applications
(up to 3.2.2004)**

	<u>Cumulative No. of CO(CEPA) applications received (as at 11:00 p.m.)</u>	<u>Cumulative No. of CO(CEPA) approved (as at 6:00 p.m.)</u>
Breakdown by Certification Organisations:		
TID	19	13
HKGCC	62	43
FHKI	50	36
ICC		
CGCC		
CMA	14	10
Total:	145	102
Breakdown by Product Types:		
1. Chemical products	5	4
2. Pharmaceutical products	60	42
3. Cosmetics	1	
4. Colouring matters	22	20
5. Plastics and plastic articles	9	8
6. Paper and printed articles	3	1
7. Textiles and clothing	33	17
8. Electrical and electronic products	9	9
9. Metal products	2	
10. Clocks and watches	1	1
*Total:	145	102
Total FOB value of approved CO(CEPA):		HK\$50,067,153.45

* The total of these columns for items 1-10 may not add up to the total number of applications received and the total number of CO(CEPA) approved respectively as one CO(CEPA) application may cover more than one type of products in 4-digit HS codes.

Statistics on Application for Certificate of Hong Kong Service Supplier
(as of 3 February 2004)

Service Sector	No. of Applications Received	Status of Applications		
		Approved	Being Processed	Withdrawn
1. Engineering, integrated engineering, and construction and related engineering services	1	0	1	0
2. Advertising	4	2	2	0
3. Management consulting and convention and exhibition	3	0	3	0
4. Telecommunications	13	4	7	2
5. Distribution	20	16	4	0
6. Banking	4	4	0	0
7. Transport & Logistics	61	27	34	0
Total	106	53	51	2