

**LEGISLATIVE COUNCIL PANEL ON  
COMMERCE AND INDUSTRY**

**MAINLAND AND HONG KONG  
CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT  
(CEPA)**

**PURPOSE**

This note informs Members of the latest progress in the implementation of 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 <sup>(Note 1)</sup>. Both sides have also agreed to enhance co-operation in trade and investment facilitation. CEPA came into full operation on 1 January 2004. The Administration briefed the Panel on CEPA at its meeting on 13 October 2003 (LC Paper No. CB(1)2524/02-03(01)).

**IMPLEMENTATION DETAILS**

**(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

<sup>(Note 1)</sup> 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.

(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 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).<sup>(Note 2)</sup>

5. A CO(CEPA) application will normally be approved within 1.5 working days and will remain valid for 120 days. As at 29 April 2004, we have received 859 CO(CEPA) applications, of which 808 have been approved. The total export value of the goods amounted to more than HK\$344 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.

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<sup>(Note 2)</sup> 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 invited manufacturers to submit their requests by the end of April 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. Please refer to paragraph 21 below for report on further progress.

### **(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 Administration 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 29 April 2004, TID received a total of 295 applications, of which 235 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, which includes Hong Kong Permanent Identity Card and, if he/she is a Chinese citizen, Home Visit Permit/HKSAR passport. According to figures of Guangdong authorities, about 300 applications for setting up individually owned stores have already been approved as at end March.

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. 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. a total of some 50 trade and investment web sites in Guangdong Province and Beijing*). Hits to TID's CEPA web site have reached 590,000 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 2004 on mutual recognition of professional qualifications and other issues. In particular, there were substantive achievements in the construction-related professional services sector and the financial services sector: the two sides signed a mutual recognition agreement for architects, a draft mutual recognition agreement for structural engineers, and an agreement on measures to facilitate Hong Kong residents to take the Mainland Insurance Practitioners Qualifying Examinations. Channels of direct communication between the professional bodies of Hong Kong and the regulatory authorities in the Mainland were also 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 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 Administration 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 18,000 enquiries since the signing of the six Annexes in late September 2003;
- (b) promoting CEPA overseas and in the Mainland: The tasks are mainly undertaken by InvestHK, the 11 Economic and Trade Offices of the Government and the Hong Kong Trade Development Council (TDC). For instance, seminars on CEPA were held by InvestHK in Korea and Japan in October 2003. Large-scale exhibitions and seminars were organised jointly by HKSARG 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 110 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 InvestHK, 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.

## **COOPERATION WITH GUANGDONG ON CEPA IMPLEMENTATION**

18. To enhance the economic cooperation with Guangdong (GD), in particular, the Pearl River Delta, the Hong Kong Guangdong Cooperation Joint Conference established 15 expert groups, including the Expert Group on CEPA Services Implementation. The objective of the Expert Group is to establish a coordination mechanism at the government level to facilitate the cooperation of the services sector between GD and Hong Kong, with a view to creating a facilitating environment for the cooperation of the services sector between GD and Hong Kong under CEPA. The Expert Group had its first meeting in November last year in Guangzhou, and the second meeting on 20 April 2004 in Hong Kong. The cooperation projects planned or being carried out by the Expert Group cover investment promotion, construction and related services, legal services, distribution services, and transportation and logistics, etc.

19. In particular, to facilitate the two sides to resolve any problems that may arise during the services implementation under CEPA, the two sides had before end 2003 exchanged the contact points of the responsible authorities of the 18 sectors. In addition, to promote and assist Hong Kong companies to invest in Guangdong, the two sides have largely completed the linkage between TID's CEPA website and GD's investment information website. Hong Kong businesses can now obtain the latest information on investing in GD. Separately, GD authorities have established one-stop enquiry point in Guangzhou, Shenzhen and Dongguan, announced the application guidelines for trade in services under CEPA, and the Guangdong Provincial Administration for Industry and Commerce has set up a dedicated processing counter to provide a 'green lane' for business registrations under CEPA. We will urge the GD authorities to promote the concept of one-stop services to the regulatory authorities of all services sectors, with a view to facilitating prospective Hong Kong service suppliers to tap business opportunities in GD.

20. Meanwhile, the Hong Kong Economic and Trade Office in Guangdong (GDETO) has been distributing information on doing businesses in Guangdong to Hong Kong companies through various means, including the weekly GDETO Newsletter; the organisation of various seminars and promotion activities, such as a seminar on establishing individually owned enterprises in Guangdong under CEPA, a free seminar for SMEs on "Business Opportunities in Zhuhai - CEPA Investment Promotion", and the Guangdong leg of the "Promotion Week for CEPA in the Mainland, Hong

Kong and Macau”, etc. In addition, the GDETO also disseminates useful reference materials through pamphlets, such as a list of websites containing information on the implementation of CEPA in Hong Kong, Guangdong and cities in PRD, and a list of advisory/intermediary agencies in Guangdong; flowcharts on seeking approval to establish a service enterprise in the Mainland under CEPA, etc.. The Administration will continue to liaise closely with the GD Government through various bureaux, departments, GDTO, and quasi-governmental bodies, such as the Hong Kong Trade Development Council.

## **FURTHER LIBERALISATION**

21. The Administration will continue to pursue further liberalisation of the Mainland market with the Mainland authorities under the framework of CEPA, with a view to broadening the market access for Hong Kong’s goods and services trade. For the expansion of goods to enjoy zero tariff, as at 29 April 2004, 194 applications have been received, involving over 400 tariff product codes (*covering food and beverage, machinery and electronics, textiles and clothing, metal, plastic, chemical, optics and paper products*). TID 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. Subject to agreement on the rules of origin, the Mainland would apply zero tariff to the import of the relevant goods under CEPA with effect from 1 January next year. For trade in services, further liberalization has been achieved under CEPA. Following the high level conference on professional services held in February, (see paragraph 14 above), the Administration has announced on 25 April the arrangements regarding the opening up of the "National Qualification Examination for Patent Agents". The Administration will continue to pursue requests of the business sectors for further liberalisation on goods and services trade with the Mainland with a view to broadening CEPA's scope and coverage incrementally. .

## **IMPLICATIONS OF THE CEPA IMPLEMENTATION**

22. In terms of economic benefits, the CEPA has good potential to open up many more new business opportunities in the Mainland for Hong Kong. The zero import tariff preference may attract to Hong Kong manufacturing of brand name products, or manufacturing processes with high-value added content or substantial intellectual property input. The WTO-plus market liberalization measures for trade in services would give companies in Hong Kong a "first mover" advantage. Obviously, it is up to businessmen from Hong Kong and elsewhere in the world to decide whether



and how they would like to leverage on the CEPA to gain greater access into the Mainland market. This will determine the scale of CEPA -induced business activities and direct and indirect economic spin-offs for Hong Kong. At this point in time, the Administration is pleased to note the smooth implementation of CEPA and the gradual increase in various applications. While the response of the trade is overwhelmingly positive, it is still too early to quantify, with reasoned assumptions, the effects of these potential new opportunities under CEPA. The Administration has undertaken to attempt a quantitative analysis of the economic impact of CEPA, including that on local employment, 9-12 months after CEPA's implementation. The Government Economist is now working with Census & Statistics Department on the methodology for this analysis.

## **WAY FORWARD**

23. CEPA is a key and priority programme area of the Administration in the coming years. There would be Government-wide efforts to facilitate the full implementation of CEPA and to promote its development with a view to enhancing 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.

Commerce, Industry and Technology Bureau  
4 May 2004

**Statistics on CO(CEPA)**  
**(as at 29.4.2004)**

	<b>Cumulative No. of CO(CEPA) Applications Received (as at 11:00 p.m.)</b>	<b>Cumulative No. of CO(CEPA)s Approved (as at 6:00 p.m.)</b>
<i>Breakdown by Product Types:</i>		
1. Food	3	2
2. Chemical products	40	38
3. Pharmaceutical products	214	208
4. Cosmetics	1	-
5. Colouring matters	67	62
6. Plastics and plastic articles	77	75
7. Paper and printed articles	15	10
8. Textiles and clothing	332	310
9. Jewelry and precious metals	10	9
10. Electrical and electronic products	71	69
11. Toys	1	1
12. Metal products	17	14
13. Clocks and watches	11	10
Total:	<b>859</b>	<b>808</b>
<b>Total FOB value of approved CO(CEPA)s:</b>		<b>HK\$344,886,000</b>

**Statistics on Application for Certificate of Hong Kong Service Supplier  
(as of 29 April 2004)**

<b>Service Sector</b>	<b>No. of Applications Received</b>	<b>Approved</b>
1. Legal services	3	2
2. Architectural services	2	1
3. Engineering, integrated engineering, and construction and related engineering services	8	3
4. Urban planning and landscape architectural services	1	0
5. Medical and dental services	1	0
6. Real estate services	1	0
7. Advertising services	23	19
8. Management consulting and convention and exhibition services	12	8
9. Value-added telecommunications services	17	13
10. Audiovisual services	1	1
11. Distribution services	63	54
12. Insurance services	1	0
13. Banking services	5	5
14. Transport & logistics services	157	129
<b>Total</b>	<b>295</b>	<b>235</b>