

A nighttime aerial view of the Hong Kong skyline. The city is densely packed with skyscrapers, many of which are brightly lit with yellow and white lights. The Victoria Harbour is visible in the center, with several boats and bridges. The background shows dark hills under a deep blue night sky. The overall scene is vibrant and modern.

內地與香港關於建立  
更緊密經貿關係的安排（《安排》）

Mainland and Hong Kong  
**Closer Economic Partnership  
Arrangement (CEPA)**

## INTRODUCTION

The Mainland and Hong Kong signed the main text of CEPA on 29 June 2003 and its Supplement on 27 October 2004 (CEPA I and CEPA II). As CEPA adopts a building block approach, the Central People's Government (CPG) and the Government of the Hong Kong Special Administrative Region (HKSARG) entered into consultation regarding further trade liberalization between the two places in mid 2005. After months of continued and intensive exchanges, the two sides reached agreement on the third phase of further trade liberalization measures (**CEPA III**) on 18 October 2005 in Hong Kong.

## IMPLEMENTATION DETAILS

### Trade in Goods

#### Import Tariff

Under CEPA I and CEPA II, the Mainland is applying zero import tariff for **Hong Kong origin products** covered in 1,108 Mainland 2005 tariff codes and meeting CEPA rules of origin (ROOs). Under CEPA III, the Mainland has agreed to give all products of Hong Kong origin tariff free treatment starting from 1 January 2006, upon applications by local manufacturers and upon the CEPA ROOs being agreed and met.

#### CEPA Rules of Origin

Goods importing into the Mainland must fulfil the CEPA ROOs in order to claim zero import tariff under CEPA. The majority of products with agreed CEPA ROOs follow **process-based rules of origin**. The remaining products follow either a "**Change in Tariff Heading**" rule, a "**value-added content**" rule, or a rule having regard to the characteristics of products concerned.

"**Change in Tariff Heading**" means that a product has been manufactured to the extent that its classification in the World Customs Organization Harmonized System falls in a different four-digit tariff heading from the classification of the constituent materials used.

"**Value-added content**" rule refers to the total value of raw materials, component parts, labour costs and product development costs incurred in Hong Kong being greater than or equal to 30% of the FOB value of the exporting goods.

On top of the 1,108 tariff free products covered in CEPA I and II, the Mainland and Hong Kong have also agreed on the CEPA ROOs for a list of goods covered in 261 Mainland 2005 tariff

codes. The lists of products and their CEPA ROOs can be found in the Trade and Industry Department (TID)'s CEPA website at <http://www.tid.gov.hk/english/cepa/index.html>. For products that have no agreed CEPA ROOs for the time being, both sides have agreed that Hong Kong manufacturers may apply and request to include them in subsequent phases of ROO discussions which will be held twice a year (instead of once a year as in previous phases of CEPA). This will provide further flexibility to potential investors planning to manufacture products that are not yet currently produced in Hong Kong. TID will issue notice in end 2005 to announce the timetable and procedures for local manufacturers to submit requests starting from 1 January 2006. The notice will be uploaded onto TID's CEPA website.

The Mainland has also agreed to relax the CEPA ROOs for watches by waiving the 30% value adding requirement for watches of Hong Kong brand names. TID will announce shortly the implementation details on the revised ROO for watches.

### **Procedures for Claiming Zero Tariff**

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 (GACOs) <sup>(Note 1)</sup>. 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. 24/2003 issued on 14 November 2003 and No. 19/2004 issued on 30 December 2004. These circulars can be downloaded from TID's CEPA website ([http://www.tid.gov.hk/english/cepa/trade\\_goods.html](http://www.tid.gov.hk/english/cepa/trade_goods.html)). TID will issue an updated circular in end 2005.

### **Customs Cooperation**

To ensure that goods claiming CEPA tariff preference comply with the relevant origin rules and to prevent circumvention,

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(Note 1) 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: the Chinese Manufacturers' Association of Hong Kong; Federation of Hong Kong Industries; the Hong Kong General Chamber of Commerce; the Indian Chamber of Commerce, Hong Kong; and the Chinese General Chamber of Commerce.

the Mainland and Hong Kong have established computer interconnection and an electronic data exchange mechanism. Information on CO(CEPA) issued in Hong Kong is transmitted to the Mainland electronically to facilitate verification at customs entry points. The two sides have also agreed on co-operation between the two Customs administrations to strengthen enforcement of the CEPA origin system.

## Trade in Services

### Preferential Treatment

Taking the three phases of CEPA together, the Mainland has agreed to provide preferential treatment to Hong Kong service suppliers in 27 service areas -

- accounting
- advertising
- airport
- audiovisual
- banking
- cultural
- convention and exhibition
- distribution
- freight forwarding agency
- individually owned stores
- information technology
- insurance
- job referral agency
- job intermediary
- legal
- logistics
- management consulting
- medical and dental
- patent agency
- professional qualification examinations
- real estate and construction
- storage and warehousing
- securities and futures
- telecommunications
- tourism
- trade mark agency
- transport (including road freight/passenger transportation and maritime transport)

Further liberalization measures spreading across 10 areas, namely legal, accounting, audiovisual, construction, distribution, banking, securities, tourism, transport and individually owned stores have been introduced under CEPA III. The new liberalization measures will take effect from 1 January 2006.

Broadly speaking, the liberalization permits earlier access for Hong Kong service suppliers to the Mainland market, ahead of China's World Trade Organization (WTO) timetable. In some sectors, like audiovisual services, transport services and distribution services, the concessions go beyond China's WTO

commitments. The liberalization measures under CEPA can be downloaded from TID's CEPA website ([http://www.tid.gov.hk/english/cepa/legaltext/cepa\\_legaltext.html](http://www.tid.gov.hk/english/cepa/legaltext/cepa_legaltext.html)).

### **Definition of "Hong Kong Service Supplier"**

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.

Hong Kong service supplier as a **juridical person** should apply to TID for a **Certificate of Hong Kong Service Supplier (HKSS)** before it can apply to the relevant Mainland authorities for providing services in the Mainland with preferential treatment under CEPA. Applicant should submit to TID an application form, a copy of statutory declaration attested by an attesting officer recognized by the Mainland, as well as other relevant supporting documents. Detailed application procedures for all service sectors covered in CEPA have been announced in Notices to Service Suppliers issued by TID which can be downloaded from TID's CEPA website ([http://www.tid.gov.hk/english/cepa/tradeservices/hkss\\_scheme.html](http://www.tid.gov.hk/english/cepa/tradeservices/hkss_scheme.html)).

A Hong Kong service supplier who wants to obtain CEPA treatment as a **natural person** is not required to apply for a Certificate of HKSS. He or she should provide to the relevant Mainland authorities identification of his or her Hong Kong permanent resident status. He or she should also provide his or her Home Visit Permit or HKSAR passport if he or she is a Chinese citizen. Copies of the identification documents should be attested by an attesting officer recognized by the Mainland.

### **Mutual Recognition of Professional Qualifications**

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. 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;
- arrangements 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;
- a mutual recognition agreement for structural engineers in August 2004;
- an arrangement for the exemption of professional examination papers in the accounting sector in August 2004; and
- mutual recognition agreements for planners and quantity surveyors in May 2005.

## **Trade and Investment Facilitation**

Both sides agree on enhancing co-operation in the following seven areas –

- trade and investment promotion
- customs clearance facilitation
- commodity inspection and quarantine, food safety and quality and standardization
- electronic business
- transparency in laws and regulations
- cooperation of small and medium enterprises
- cooperation in Chinese traditional medicine and medical products sector

The two sides agreed on the contents and modalities of cooperation for each of the seven areas above, and that new areas of trade and investment facilitation might be added in future. The two sides agreed that trade and investment facilitation plays a crucial role in the successful implementation of CEPA. Some of the measures under CEPA III have been worked

out with the intention to enhance the flow of trade and investment between the two places. Major achievements include –

- textiles and clothing products under Hong Kong's Outward Processing Arrangement (OPA) are exempt from the Mainland's export duty when they are re-imported to Hong Kong; and
- the permission for certain types of Mainland securities and futures companies to come to establish in Hong Kong.

## **FURTHER LIBERALIZATION**

CEPA is an open and developing platform. The HKSARG will seek to engage the Mainland authorities on further liberalization of trade in goods and services in the Mainland market in due course.

## **ECONOMIC BENEFIT OF CEPA**

CEPA has been offering new business opportunities in the Mainland for Hong Kong businesses and service suppliers, enhancing the attractiveness of Hong Kong to overseas investors. The zero import tariff preference, including the adoption of more flexible ROOs for watches, has the potential to attract to Hong Kong manufacturing of brand name products, or manufacturing process with high-value added content or substantial intellectual property input. The WTO-plus liberalization measures for services trade will give companies in Hong Kong a head start over their competitors from other economies. The HKSARG completed in April 2005 a survey study on the economic impact which revealed that the overwhelming majority of respondents considered that the first phase of implementation of CEPA was beneficial to the Hong Kong economy.

## **WAY FORWARD**

The CPG and the HKSARG will work closely on implementation details of CEPA III. We will inform the trade of relevant implementation measures shortly.

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.

## ENQUIRIES

Details of CEPA, including further liberalization of CEPA III, have been promulgated in TID's CEPA website at <http://www.tid.gov.hk/english/cepa/>. For enquiries, please make use of the following contacts.

### Subject

### Contacts

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