

For information

On 14 December 2018

**LEGISLATIVE COUNCIL  
PANEL ON COMMERCE AND INDUSTRY**

**TRADE RELATIONS BETWEEN THE MAINLAND  
AND HONG KONG**

**THE MAINLAND AND HONG KONG  
CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT:  
AGREEMENT ON TRADE IN GOODS**

**INTRODUCTION**

This note informs Members of the new agreement on trade in goods signed on 14 December 2018 between the Hong Kong Special Administrative Region Government (HKSARG) and the Ministry of Commerce under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) to further enhance the level of economic and trade exchanges and cooperation between the Mainland and Hong Kong.

**BACKGROUND**

2. The Mainland and Hong Kong signed CEPA in 2003. Thereafter, pursuant to Article 3 of CEPA, the two sides have broadened and enriched the content of CEPA and signed ten Supplements and a number of subsidiary agreements, including the Agreement on Trade in Services<sup>1</sup>, the

---

<sup>1</sup> The Agreement on Trade in Services covers commitments on liberalisation of trade in services under CEPA and its Supplements and the Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong as well as new liberalisation measures.

Investment Agreement and the Agreement on Economic and Technical Cooperation<sup>2</sup>.

3. On 14 December 2018, the Mainland and Hong Kong signed the Agreement on Trade in Goods (the Agreement), consolidating and updating the commitments on liberalisation and facilitation of trade in goods under CEPA. Together with the abovementioned three agreements, the Agreement enhances CEPA in line with the standard of modern and comprehensive free trade agreements, fully implements zero tariff on imported goods of Hong Kong origin through the introduction of a general rule of origin, establishes principles of trade facilitation to reduce trade costs and to strengthen cooperation between the two sides, and introduces trade facilitation measures for the development of the Guangdong-Hong Kong-Macao Greater Bay Area. The legal text of the Agreement is available at Trade and Industry Department (TID)'s website at:

[http://www.tid.gov.hk/english/cepa/legaltext/cepa\\_legaltext.html](http://www.tid.gov.hk/english/cepa/legaltext/cepa_legaltext.html)

## **DETAILS**

### ***Tariffs***

4. The Agreement affirms that all goods of Hong Kong origin can enjoy zero tariff preference upon importation into the Mainland<sup>3</sup>. Hong Kong also undertakes to continue to apply zero tariff to all imported goods of Mainland origin. Starting from the date of implementation of the Agreement, goods of Hong Kong origin imported into the Mainland will fully enjoy zero tariff through the enhanced arrangement for rules of origin (ROOs) (please see paragraph 5 below). In addition, the two sides reiterate their observance of the commitments of not applying non-tariff measures inconsistent with the rules of the World Trade Organisation (WTO), and not

---

<sup>2</sup> For details, please refer to this panel's information papers in Year 2015-16 No. CB(1)213/15-16(01), and in Year 2016-17 No. CB(1)1234/16-17(01) respectively.

<sup>3</sup> Not including those prohibited by the Mainland's rules and regulations and those prohibited as a result of the implementation of international treaties by the Mainland, as well as products that the Mainland has made special commitments in relevant international agreements.

applying anti-dumping measures and countervailing measures to goods imported and originated from the other side. The Mainland undertakes not to apply tariff rate quota to goods of Hong Kong origin.

### ***Rules of Origin***

5. At present, goods imported into the Mainland with zero tariff under CEPA must be produced in Hong Kong and must fulfil the specific ROOs agreed by the two sides. Hong Kong and the Mainland have developed Product Specific ROOs (PSRs) for some 1 900 items of goods under CEPA. To further facilitate the importation of Hong Kong goods into the Mainland with zero tariff, the Agreement has made the following enhancements:

- (a) In addition to the existing PSRs, the Agreement will introduce a general rule of origin (General Rule) based on the calculation of the value added to the products in Hong Kong, thus allowing products currently without PSRs to instantly enjoy zero tariff upon importation into the Mainland subject to the fulfilment of the General Rule. This arrangement will save the time of manufacturers in awaiting consultation on PSRs, and provide them with better clarity and certainty in the relevant ROOs when they wish to supply new products developed in Hong Kong to the Mainland market with zero tariff;
- (b) In calculating the value added to the products in Hong Kong, the Agreement will provide enterprises with a flexible option to choose between the existing Build-up method<sup>4</sup> under CEPA and the newly

---

<sup>4</sup>

$$\text{RVC} = \frac{\text{value of originating materials} + \text{labour costs} + \text{product development costs}}{\text{Free-on-board value of exported goods}} \times 100\%$$

The origin criterion for the General Rule is that the regional value content (RVC) of the goods shall be greater than or equal to 30% when calculated in accordance with the Build-up method.

introduced Build-down method<sup>5</sup> under the Agreement. Product development costs including fees payable for development, patents and design can be counted under both methods; and

- (c) Following the practice of other free trade agreements forged in recent years, the Agreement will consolidate and simplify<sup>6</sup> the existing CEPA ROOs and enhance some of the CEPA ROOs, such as revising or removing the requirement of certain specified process(es) in response to changes in the mode of production for individual goods.

6. At present, the two sides conduct consultations twice a year to jointly develop new ROOs upon applications by the trade and to discuss requests for revision to the existing ROOs from the trade. The Agreement maintains this existing ROO consultation mechanism unique to CEPA so as to address in a timely manner the trade's requests for revising the ROOs of goods due to improvement in production technology or other reasons.

### ***Establishment of Principles of Trade Facilitation***

7. With reference to the structure and standard of modern free trade agreements in general, the Agreement has included the following three dedicated Chapters to establish principles of trade facilitation, including stipulation of commitments of the two sides in facilitating trade between the two places, simplifying customs procedures, enhancing transparency of related measures and strengthening cooperation, etc. in the relevant areas:

- (a) Customs Procedures and Trade Facilitation (Chapter 5): Covering commitments in facilitation in customs procedures, transparency of customs laws and regulations, application of information technology by customs administrations, risk management, procedures for release

---

<sup>5</sup>

$$RVC = \frac{\text{Free-on-board value of exported goods} - \text{value of non-originating materials}}{\text{Free-on-board value of exported goods}} \times 100\%$$

The origin criterion for the General Rule is that the RVC of the goods shall be greater than or equal to 40% when calculated in accordance with the Build-down method.

<sup>6</sup> The tariff lines on the list of PSRs will be merged from HS 8-digit level to HS 6-digit level.

of goods, treatment for perishable goods, customs cooperation and liaison mechanism, etc.;

- (b) Sanitary and Phytosanitary (SPS) Measures<sup>7</sup> (Chapter 6): Covering commitments in SPS protection measures, port measures, technical cooperation and consultations, etc.; and
- (c) Technical Barriers to Trade (TBT)<sup>8</sup> (Chapter 7): Covering commitments in the preparation, adoption and application of standards, conformity assessment procedures, port measures, technical cooperation and consultations, etc.

Specifically, the Agreement reiterates the requirements of the Agreement on Trade Facilitation, the Agreement on the Application of Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade under the WTO. It ensures that the customs procedures and practices are predictable, consistent and transparent; laws, regulations and administrative regulations relevant to trade in goods between the two sides are promptly published; simplified customs procedures are established or maintained to enhance the efficiency of the release of goods, etc. Specific trade facilitation measures which explore and promote mutual recognition of the certification results of originating electronic and electrical products between the Mainland and Hong Kong are also included. A Working Group on SPS and another one on TBT will be set up to facilitate exchanges and cooperation in relevant areas between the two sides.

---

<sup>7</sup> Sanitary and phytosanitary measures are any measures applied (a) to protect human or animal life or health from risks arising from additives, contaminants, toxins or disease-causing organisms in their food; (b) to protect human life or health from plant- or animal-carried diseases or pests; (c) to protect animal or plant life or health from pests, diseases, disease-carrying organisms or disease-causing organisms; and (d) to prevent or limit other damage from the entry, establishment or spread of pests.

<sup>8</sup> Technical barriers to trade include technical regulations, standards and conformity assessment procedures that may directly or indirectly affect trade in goods.

***Trade Facilitation Measures in the Guangdong-Hong Kong-Macao Greater Bay Area***

8. Apart from the abovementioned measures which are applicable Mainland-wide, to implement more convenient customs clearance modes at the control points in the Greater Bay Area, and promote the convenient and efficient flow of factors of production in the Greater Bay Area, the Agreement has included a dedicated Chapter on “Trade Facilitation Measures in the Guangdong-Hong Kong-Macao Greater Bay Area” (Chapter 9), stipulating that the two sides agree that the nine Pearl River Delta municipalities (namely Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing) and Hong Kong will implement the following trade facilitation measures:

- (a) To explore facilitation measures for expedited cross-boundary customs clearance in the nine Pearl River Delta municipalities, and gradually expand the measures to the city cluster on the West Coast of the Taiwan Straits and the Beibu Gulf City Cluster;
- (b) To explore the inter-connectivity of the single windows and study the mechanism for control point information exchange;
- (c) The two sides to jointly study and explore the feasibility of compatible electronic information format for goods between the customs administrations of the Mainland and Hong Kong;
- (d) To publish periodically the overall customs clearance time for goods, and to further shorten the overall customs clearance time for goods;
- (e) To promote the mutual recognition of inspection and quarantine results on low risk goods, except for plants and animals and products from plants and animals, food and medicines, between the two sides;

- (f) To explore the expansion of the scope of acceptance of third party inspection, testing and certification results with respect to commodities and institutions, and provide expedited customs clearance treatment; and
- (g) On the basis of consensus reached between the General Administration of Customs of the People's Republic of China and the competent authorities of Hong Kong, to implement facilitation measures for food processed in Hong Kong with materials originating from the Mainland.

The two sides also undertake to strengthen cooperation, actively discuss the implementation of the relevant trade facilitation measures, and study the introduction of more facilitation measures for trade in goods in the Guangdong-Hong Kong-Macao Greater Bay Area in accordance with development needs and common aspiration.

## **CONCLUSION**

9. CEPA currently covers some 1 900 items of PSRs. From 2004 to October 2018, the value of Hong Kong goods imported into the Mainland in accordance with PSRs and under CEPA zero tariff preference was about HKD97.1 billion, with tariff savings of about RMB6.81 billion<sup>9</sup>. Statistics show that in 2017, about 44% of Hong Kong domestic exports to the Mainland benefited from CEPA zero tariff preference.

10. The Agreement further enhances the level of liberalisation for trade in goods under CEPA, updates and enhances the arrangement for ROOs, and fully implements zero tariff on imported goods of Hong Kong origin into the Mainland. The General Rule based on the calculation of the value added to the products in Hong Kong will cover about 6 000 items of goods, including machinery, equipment and parts, plastics articles, textiles articles and Chinese medicines. The Agreement also strengthens the

---

<sup>9</sup> According to the information provided by the General Administration of Customs of the People's Republic of China.

commitments on trade facilitation and in particular sets out measures to expedite customs clearance of goods with a view to facilitating movement of goods in Guangdong-Hong Kong-Macao Greater Bay Area. The Agreement sets up institutional arrangements for the cooperation and development on trade in goods between the Mainland and Hong Kong in future, helping reduce trade costs and making it easier for Hong Kong products to access the Mainland market. The Agreement also helps promote Hong Kong brands, and facilitates Hong Kong traders to open up the huge and promising Mainland market.

11. Upon signing of the Agreement, the two sides have completed in advance the objective of promoting CEPA Upgrade under the National 13th Five-Year Plan, thus enabling CEPA to become a comprehensive and modern framework of free trade agreement covering four major areas, namely trade in goods, trade in services, investment, as well as economic and technical cooperation. CEPA ensures that Hong Kong traders will continue to enjoy the most preferential treatment in the Mainland market.

## **COMING INTO EFFECT AND IMPLEMENTATION**

12. The Agreement will come into effect on the day of signing, and will be implemented on 1 January 2019.

## **PUBLIC CONSULTATION**

13. The HKSARG attaches great importance to the views of the trade. In early 2018, TID issued letters to consult the major chambers and reflected their views and requests, in particular their suggestions on ROOs and trade facilitation, to the Mainland authorities. We will continue to closely communicate with the trade in pursuance of the effective implementation of the measures under the Agreement and explore with the Mainland more liberalisation and trade and investment facilitating measures.



## **PUBLICITY**

14. Information papers introducing the content of the Agreement will be issued to various trade-related advisory bodies and trade associations. TID maintains a dedicated website to provide the public with the latest information on the Agreement.

Commerce and Economic Development Bureau  
Trade and Industry Department