

Mainland and Hong Kong, Macau Signed Trade in Goods Agreements under CEPA

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Ministry of Commerce of People's Republic of China (MOCCOM) signed Trade in Goods Agreements¹ (hereinafter "the Agreement") under the Closer Economic Partnership Arrangement (hereinafter "CEPA") framework, with Macau and Hong Kong respectively on 12th and 14th December 2018, which takes effect from January 2019. This report will deliver the contents of the Agreements.

BACKGROUND

CEPA was firstly signed in 2003, aiming to expand the Mainland market for goods and services provided from Hong Kong and Macau. Since then, supplement agreements were signed every single year till 2013, the Agreement on Trade in Service was signed in 2015 (effective from 1st June 2016) and tariff's abolishment, facilitation of investment was carried out accordingly.

| Main Contents of CEPA | |
|-------------------------------------|---|
| Trade in Goods | <ul style="list-style-type: none">Export to Mainland: zero tariff treatment applies on some specific categories² of goods of Hong Kong and Macau origin that comply with rules of origin(hereinafter "ROOs")Import from Mainland: zero tariff applies on all categories of goods of Mainland origin that comply with ROOs |
| Trade in Service | <ul style="list-style-type: none">To provide incentives on to service provider of Hong Kong and Macau regarding market access. With the implementation of the Agreement on Trade in Service in June 2016, Mainland open up 153 service sectors out of 160 (which occupies nearly 96%) to Hong Kong under the World Trade Organisation (WTO) classification and regulation loosening.Mutual recognition on professional qualification between Mainland and Hong Kong, Macau |
| Investment | <ul style="list-style-type: none">For Hong Kong and Macau investors, negative list of CEPA is promoted to non-service industry such as manufacturing and mining, fixed asset investment |
| Economic and Technology Cooperation | <ul style="list-style-type: none">Cooperation on different fields³ between Mainland and Hong Kong, Macau.Cooperation strengthening on projects of "Belt & Road" and "Guangdong, Hong Kong, Macau Greater Bay Area⁴ Plan (hereinafter GBA)" |

¹ The Agreements between Mainland and Hong Kong, Macau are basically the same except for some parts.

² The special item list is updated in June and December every single year. As of June 2018, Mainland and Hong Kong have developed Product Specific ROOs (PSRs) for 1,901 items of goods under CEPA, while 1,535 items of goods with Macau.

³ Collaboration field between Mainland and Hong Kong is finance, accounting, e-commerce etc, while the collaboration field between Mainland and Macau is tourism, exhibition, traditional Chinese medicine etc.

⁴ Consist of Hong Kong, Macau and 9 cities of Guangdong Province (Shenzhen, Guangzhou, Zhuhai, Foshan, Zhongshan, Dongguan, Zhaoqing, Jiangmen, Huizhou).

Furthermore, “the 13th Five-Year Plan” released in 2016 consolidates Hong Kong’s position as an international financial, shipping and trade centre in the “Belt & Road” Initiative and “GBA Plan”, in order to build up Macau as “the World Centre of Tourism and Leisure” and “Trade and Economic Platform between China and Portuguese-speaking Countries” in national strategy, which seeks for closer relationship.

As such, the investment agreement and economic technology agreement were signed in 2017, aiming to provide access incentives of non-service industry for Hong Kong and Macau investors and strengthen the cooperation in different areas, as well as the project of “Belt & Road” , “GBA Plan”, based on the perspective development situation.

Referring to the contents of current Free Trade Agreement, the Agreements signed to reorganize, rectify and supply the part related to trade in goods that under CEPA and its supplement agreement. Especially, zero tariff apply to all products but not limited to special products exporting to Mainland from Hong Kong and Macau, and the confirmation of details about ROOs, is high-profile.

HIGHLIGHTS

The Agreements cover broadly over ROOs and trade facilitation principle and some trade facilitation measures in the GBA. Please see below for the details.

A. Rules of Origin (ROOs)

| Main Contents of ROOs | | |
|--|---|---|
| Item | Criteria in the past | New criteria |
| Subject of Zero Tariff Treatment | <ol style="list-style-type: none"> Goods that exported to Mainland: special products under the agreement Goods that imported from Mainland: all products | <ol style="list-style-type: none"> Goods that exported to Mainland: all products Goods that imported from Mainland: same as the past(all products) |
| Conditions *Satisfy either one of right column | <ol style="list-style-type: none"> Goods⁵ wholly obtained in one side For goods not wholly obtained but only underwent actual processing in one side, to be considered as originating in that side: <ol style="list-style-type: none"> Manufacturing or processing operations : Main manufacturing or processing operations that makes basic features of the goods are carried out in one side Change in tariff classification : For materials that not considered as originating but underwent processing in that side, 4 digits of Harmonised System shall be changed Regional value content (RVC) criterion | <ol style="list-style-type: none"> <ol style="list-style-type: none"> Goods wholly obtained or produced in one side Goods produced in one side exclusively from originating materials For goods produced using non-originating materials in one side: <ul style="list-style-type: none"> ✓ Goods which fall within the scope of the Annex (Product Specific Rules of Origin) and which comply with some requirements⁶ ✓ Goods which do not fall within the scope of the Annex (Product Specific Rules of Origin) and which comply with either requirements below: |

⁵ Referring to live animals born and raised and related goods obtained from live animals, plants or plant products grown, and harvested, picked or gathered, and goods obtained from hunting, trapping, fishing, aquaculture, gathering or capturing conducted in one side.

⁶ A good that does not meet the change in tariff classification requirement in the Annex (Product Specific Rules of Origin) such as the corresponding change in tariff classification, regional value content (RVC), manufacturing or processing operations or other, shall be regarded as an originating good if the value of non-originating materials used in the good which do not undergo the required change in tariff classification does not exceed 10% of the FOB value of the good.

| | | |
|------------------------------|--|---|
| | (Build-up method) $\frac{\text{(value of originating materials + labour costs)} + \text{product development costs}}{\text{FOB value} \times 100\%} \geq 30\%$ d) Others : other approaches that two parties satisfy apart from a)~c) e) Mixed criteria: to use the above approaches together | (Build-up method ⁷⁾ $\frac{\text{(value of originating materials + labour costs + product development costs8)}}{\text{FOB value} \times 100\%} \geq 30\%$ (Build-down method) $\frac{\text{FOB value} - \text{value of imported materials}}{\text{FOB value} \times 100\%} \geq 40\%$ |
| Certificate of Origin | 120 days valid since the day of issue | One year valid since the day of issue |

Furthermore, in the past when goods of Macau origin are imported to Mainland via Hong Kong, “the certificate of non-manipulation” was required in the purpose of enjoying custom incentive under CEPA. However, it is no longer required pursuant to “the Trade in Goods Agreement between Mainland and Macau” this time.

B. Establishment of Principles of Trade Facilitation

Referring to the structure and standard of modern free trade agreements in general, the Agreements further collaborate at fields such as streamlining of custom procedures, enhancement of trade facilitation, sanitary and phytosanitary measures and abolishment of technical barrier to trade.

| Field | Main Collaboration Contents |
|--|---|
| Enhancement of Customs Procedures and Trade Facilitation | <ul style="list-style-type: none"> To ensure the consistency and definition of custom process, information technology’s application in custom, application of recognition system of AEO, custom corresponding on fresh goods |
| Maintenance of Sanitary and Phytosanitary Measures | <ul style="list-style-type: none"> To keep in line with the criteria set by Codex Alimentarius Commission (CAC), International Epizootic Office (OIE), International Plant Protection Convention (IPPC) and set up related professional team |
| Abolishment of Technical Barriers to Trade | <ul style="list-style-type: none"> To follow the Agreement on Technical Barriers to Trade (TBT) and set up related professional team |

C. Trade Facilitation Measures in the Guangdong-Hong Kong-Macao Greater Bay Area(GBA)

The Agreements newly establish trade facilitation measures in the GBA.

| Item | Main content |
|--|---|
| Innovation over customs clearance approach and model | <ul style="list-style-type: none"> 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 Straits⁹ and the Beibu Gulf City Cluster¹⁰ To enhance the trade facilitation by exploring multiple collaboration models such as “mutual inspection”, “inspection on import and monitor on export” and so on between Mainland and Macau |

⁷ Where originating goods or originating materials of one side are incorporated into a good in the other side, such goods or materials shall be considered as originating in the latter side. For the purposes of being deemed as originating in the latter side, where the good of the latter side is subject to the RVC criterion, the RVC without counting the value of originating goods or originating materials of the former side shall be greater than or equal to 15% (build-up method) or 20% (build-down method) in accordance with the respective formulae.

⁸ Referring to R&D costs and design fee and loyalty over the product.

⁹ Referring to Shantou, Meizhou, Chaozhou, Jieyang.

¹⁰ Referring to Zhanjiang, Maoming, Yangjiang.

| | |
|--|---|
| Improvement of time-saving over custom clearance procedure | <ul style="list-style-type: none"> ▪ To publish periodically the overall customs clearance time for goods, and to further shorten the overall customs clearance time for goods |
| Enhancement of convenience over inspection | <ul style="list-style-type: none"> ▪ 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 ▪ 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 |
| Construction of information exchange mechanism | <ul style="list-style-type: none"> ▪ To explore the inter-connectivity of the single windows and study the mechanism for control point information exchange ▪ 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 |

COMMENTS

The Agreements allow all goods of Hong Kong and Macau origin entitled to zero tariff treatment as well as remove the tariffs of trade in goods under CEPA. Moreover, owing to measures facilitating in the GBA, more liberalisation are expected in the future between Mainland and Hong Kong, Macau. On the other hand, the version-up of CEPA is considered to deepen closer economic trading relations between counterparties, which is based on trade in goods, investment and economic technology cooperation. However, as two core parts of GBA plan which is strongly promoted by Chinese government, we will keep an eye on how Hong Kong and Macau respectively play the given roles.

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