

The Summary of the Supplement II to CEPA

The Mainland and Macao broke a new ground of the existing dynamics for trade cooperation as the conclusion of the Supplement II to CEPA has been reached on 21 October this year. According to the new CEPA supplements, further liberalization measures respectively for trade in goods and in services have been hammered out, such as the zero tariff treatment to imports of all products originating from Macao, and the new commitment breakthrough for Macao in various existing service sectors.

With respect to zero tariff treatment, the Mainland will, according to the Supplement II to CEPA, start from 2006 to apply zero tariff for imports of all ‘made in Macao’ products. Macao enterprises therefore can, in line with the revised procedures, submit their applications for zero tariff to the Macao Economic Services. The Macao Economic Services shall undertake verification and certification proceedings in conformity with the relevant CEPA rules, and shall submit the proposed product coverage, prior to 1 March and 1 September respectively each year, to the Ministry of Commerce. Having had consultation with regard to the rules of origin of the products concerned, the implementation of zero tariff treatment will accordingly take effect on the following 1 July and 1 January respectively.

Further, both sides agreed to expand the criteria determining rules of origin in terms of ‘Made in Macao’. Whereas the basic principles such as “manufacturing or processing operations”, “change in tariff heading”, “value-added content”, “other criteria” or “mixed criteria” to be applied have not been fully justified in the context of substantial transformation, the “other additional conditions” will be introduced. As a result, both sides may agree upon to adopt other additional conditions (such as brand requirement, etc.) for such determination. Hence, the new determining rule by “other additional conditions” renders market opportunities of China to products originating from Macao. According to the result achieved by consultation this year in relation to zero tariff treatment, a total of 91 Mainland Customs Tariff Codes will enjoy the zero tariff on import, leading to an aggregate of 600 Macao products benefiting from zero tariff preference under CEPA in 2006.

As far as trade in services is concerned, having been in place the existing opening commitments with respect to legal, accounting, construction, audiovisual, distribution, banking, tourism, transport, and individually owned stores, the market access criteria

of the aforesaid services have been further relaxed. The main relaxing measures are as follows:

- (1) Legal services - To allow Macao law firms, which have set up representative offices in the Mainland, to operate in association with Mainland law firms that are located in the same province, autonomous region and municipality directly under the Central Government;
- (2) Accounting, auditing and bookkeeping services - The validity period of the “Temporary Business Permit” applied by Macao auditing firms and auditors to conduct temporary services in the Mainland is extended from 1 year to 2 years;
- (3) Construction and related engineering services - To lower the criteria of qualification assessment, for construction and engineering design enterprises and urban planning service enterprises being set up in the Mainland by Macao service suppliers. The respective performance in Macao and the Mainland of these enterprises can both be taken into account in assessing its qualification in the Mainland. Further, the provision on the residency requirement in the Mainland for Macao professionals and technical staff may be relaxed, whereby the length of stay in Macao is deemed as the length of stay in the Mainland;
- (4) Audiovisual services - To allow Macao service suppliers to construct or renovate cinema theatres for the operation of film screening business at various locations on a wholly-owned basis. To allow motion pictures of Cantonese version, co-produced by Macao and the Mainland, to be distributed and screened in Guangdong Province after obtaining the approval of relevant authorities in the Mainland while the import of motion pictures of Cantonese version produced by Macao shall be limited to channel from China Film Import and Export Company of China Film Group. Besides, Chinese language motion pictures, with more than 50% of the copyright hold by a Macao film production unit, shall be imported for distribution in the Mainland on a quota-free basis. To allow television drama co-produced by Macao and the Mainland to be subject to the same standard of the number of episodes as those television dramas produced by the Mainland;
- (5) Distribution services - To allow Macao service suppliers to set up enterprises in the Mainland on a wholly-owned, equity joint venture or contractual joint venture basis to operate commission agents’ services in respect of chemical fertilizers, processed oil and crude oil, as well as wholesale and retailing services in respect of chemical fertilizers. An individual Macao service supplier is allowed to supply capital to acquire the controlling interest of the company, but not exceeding 51%, if the supplier has established an accumulative total of more than 30 outlets in the Mainland to operate services in respect of books, newspapers, magazines, motor

vehicles, pharmaceutical products, pesticides, pesticides mulching films, chemical fertilizers, staple food, vegetable oil, edible sugar and cotton of various brands from different suppliers;

- (6) Banking and other financial services (excluding insurance and securities) - To lower the operating capital requirement, for cases such as requiring operating capital to be injected into Mainland branches of Macao banks that operate on RMB and foreign exchange businesses to Mainland customers, individual assessment has been changed to overall assessment of all the branches. The operating capital of individual branches is allowed to be not less than RMB300 million, while the average operating capital of all branches in the Mainland reaches RMB500 million;
- (7) Tourism and travel related services - To relax the market access requirement for Macao travel agencies to operate business in the Mainland, the annual turnover requirement of the wholly-owned travel agency in the Mainland is lowered to USD25 million, while in the case of equity joint venture travel agency, the annual turnover requirement is lowered to USD12 million;
- (8) Transport services - To allow Macao service suppliers to set up wholly-owned companies in the Mainland to provide marine services, which includes: regular business services for towboats operation between ports in the Mainland and Macao, shipping undertaking, issuance of bills of lading, settlement of freight rates, signing of service contracts; ship maintenance and repair services; rental and trading services in respect of international maritime containers and trading services in respect of container parts; and ship examination services for vessels registered in Macao;
- (9) Airport services - To allow Macao service suppliers to set up air transport marketing agent enterprises in the form of equity joint venture or contractual joint venture in the Mainland. The registered capital requirement will be the same as that for Mainland enterprises;
- (10) Individually owned stores - To allow Macao permanent residents with Chinese citizenship to set up 4 additional categories of business in the form of individually owned stores in all provinces, autonomous regions, and municipalities directly under the Central Government in the Mainland. The categories include imports and exports of products and technology; photography and photographic processing services; washing, cleaning and dyeing services; and repair and maintenance of motor vehicles and motorcycles.