

SUPPLEMENTARY PROTOCOL TO THE CEPA

SUMMARY

29 October 2004

Since its implementation on 1 January 2004, the Mainland and Macao Closer Economic Partnership Arrangement (hereinafter referred to as “CEPA”) has made positive contributions to enhance the economic and trade interflow, and the cooperation level between the Mainland and the Macao Special Administrative Region, as well as to promote economic and trade development of the two sides. The CEPA is an open-ended arrangement. It provides a mechanism for the two sides to continuously broaden and enrich its contents.

Course of Consultations on the Supplementary Protocol to the CEPA

Pursuant to the procedures provided in the annexes to the CEPA, the Mainland and Macao have held a series of official meetings in 2004 with a view to broadening the scope of the CEPA:

- From January to April, the SAR Government collected and consolidated the local manufacturers’ applications for zero tariff treatment on a list of goods of Macao origin in the second phase;
- In May, the SAR Government submitted the consolidated list of goods to the Ministry of Commerce;
- In July 20, the first senior official meeting with the Ministry of Commerce was convened in Beijing, launching the consultations on the supplementary protocol to the CEPA;
- In August 14, the second senior official meeting was convened in Macao, conferring on the list of goods of Macao origin subject to zero tariff in the second phase of the CEPA, and the respective rules of origin;
- In August 27, a meeting on trade in goods with the Customs General Administration of the Mainland was convened in Shenzhen, conferring further on the list of goods submitted by Macao;
- In September 27, the third senior official meeting was convened in Beijing, conferring on the rules of origin and further liberalization of trade in services under the CEPA;
- In October 28, the fourth senior official meeting was convened in Macao, conferring on and confirming the contents of the supplementary protocol to the

CEPA;

- In October 29, the two sides convened a high-level meeting, where the Vice Minister of Commerce of the Mainland An Min and the Secretary for Economy and Finance of Macao SAR Tam Pak Yuen signed the text of the supplementary protocol to the CEPA on behalf of the two sides.

Below is a summary of the supplementary protocol to the CEPA:

1. Trade in Goods

The Mainland agreed to apply zero tariff to the second batch of 190 goods (Mainland 2004 tariff codes, and likewise hereinafter) of Macao origin from 1 January 2005. Together with the 311 goods which have already been subject to zero tariff since 1 January 2004, the total number of goods of Macao origin which the Mainland have committed to apply zero tariff reaches 501.

The above-mentioned 190 goods covered almost all the items submitted by the local manufacturers, of which 124 are currently produced and 66 are planned production.

List of goods of zero import tariff in the second phase of the CEPA

Category	Major Products	Mainland 2004 MFN Tariff Rates (%)
Food	Sharks' fins (dried and cooked), coffee, gourmet powder	12-21
Chemical	Lubricating oil, monobutyl of ethanediol or ethylene glycol, azoxy-compounds, paints, varnishes, printing ink, cleaning preparations, lubricating preparations, other chemical additives, oils obtained from bituminous minerals, varnish removes, anti-freeze preparations and deicing fluids	5.5-12.5
Photographic and developing	Laser phototypesetting film, precoated sensitized plate, sensitizing emulsions, other chemical preparations for use in photographic film	8
Textiles and clothing	Clothes, gloves and other clothing accessories of leather or of composition leather; wool, yarn (silk, wool, flax	5-38

	yarn, ramie yarn, nylon etc.); overcoats or wind-cheaters, suits, ensembles, jackets and blazers, trousers, skirts, downs	
Building stone and articles of stone	Marble, travertine, granite, slate, artificial stones, seats of stone, furniture of stone and other articles of stone	10-24
Articles of metal	Copper-zinc base alloys, aluminum alloys, copper bars, rods and profiles of brass	1-7
Electrical machinery and electronic products	Freezers, other refrigerating and freezing equipment, parts of freezing equipment, heating apparatus, cooling apparatus; reception apparatus for color television with liquid crystal display or plasma display panel, monochrome television, color and monochrome video monitors, color and monochrome video projectors.	9-35
Others	Brooms, consisting of twigs or other vegetable materials bound together, typewriter or similar ribbons	10.5-25

Among the second batch of goods, 172 (90%) adopt the “manufacturing or processing operations” criterion of rules of origin. These goods include food, chemical, photographic and developing, textiles and clothing, articles of stone, articles of metal, monochrome television, and monochrome monitors and projectors. 15 goods (8%) adopt the “manufacturing or processing operations” and “value-added content” criteria. These goods are chiefly electrical machinery and electronic products, such as freezers, other refrigerating and freezing equipment, parts of freezing equipment, heating apparatus, cooling apparatus, reception apparatus for color television with liquid crystal display or plasma display panel, and color monitors and projectors. 3 goods (2%) adopt the “change in tariff heading” criterion. These goods are chiefly parts of freezing equipments.

With regard to the implementation of zero tariff treatment to these newly added 190 goods, in cases of goods under current production in Macao that have satisfied the rules of origin, the Mainland will apply zero tariff on those goods of Macao origin from 1 January 2005.

In cases of planned production, the two sides agreed that after the applicant enterprise has put the proposed goods into production, the Macao Economic Services would conduct verification and thereafter inform the Ministry of Commerce. Upon confirmation by the two sides, the Mainland will, based on the certificate of origin issued by the Macao Economic Services, release the relevant imports on zero tariff

basis in line with the CEPA. Note that there is a limit to the quantity of television with liquid crystal display or plasma display panel that can enjoy zero import tariff. The quantity is limited to 25,000 sets of television per annum.

2. Trade in Services

In the initial phase of the CEPA, the Mainland has conferred preferential treatment to Macao service suppliers in 18 service sectors, while in the supplementary protocol, the Mainland has rolled out further liberalization in respect of 11 of them and introduced new liberalization measures in 8 areas:

Sectors with broadened liberalization measures	Sectors with new liberalization measures
● Legal services	● Airport operation services
● Accounting, auditing and bookkeeping services	● Information technology services
● Medical and dental services	● Professionals and technicians qualification examinations
● Audiovisual services	● Cultural entertainment services
● Construction and related engineering services	● Trade mark agency services
● Distribution services	● Patent agency services
● Banking services	● Job referral agency services
● Securities and futures services	● Job intermediary services
● Transport services	
● Freight forwarding agency services	
● Individually owned stores	

Below is a summary of the above broadened and new liberalization measures:

Legal services

Macao registered lawyers providing legal assistance at the request of Mainland law firms on the basis of individual cases will not be required to apply for a Macao legal consultant permit.

Accounting, auditing and bookkeeping services

Macao auditors and accountants can establish consultancy companies in accordance with the requirements of the Mainland to provide bookkeeping services. When Macao auditors and accountants apply for practising licence in the Mainland, the length of auditing experience that they have acquired in Macao is equivalent to the length of auditing experience acquired in the Mainland.

Medical and dental services

Macao permanent residents who are legally eligible to practise western medicine, dentistry and Chinese medicine in Macao are not required to sit the Mainland's qualification examinations for the purpose of short-term practice in the Mainland; who have legally practised western medicine and dentistry for 1 completed year can sit the Mainland's qualification examinations (excluding Chinese medicine practitioner); who have legally practised for 5 completed years can open clinics in the Mainland on the condition that they have obtained the Mainland's "Medical Practitioner's Qualification Certificate".

Information technology services

Macao service suppliers are allowed to apply for computer information system integration qualification certification in accordance with the provisions of relevant regulations and rules of the Mainland.

Job referral agency services

Macao service suppliers are allowed to set up wholly-owned occupational placement agencies in the Mainland with the minimum registered capital reduced from US\$300,000 to US\$125,000.

Job intermediary services

Macao service suppliers are allowed to set up joint venture executive search agencies in the Mainland. The minimum registered capital requirement is lowered from US\$300,000 to US\$125,000 and the years of establishment requirement of the Mainland partner institution is reduced from 3 years to 1 year.

Audiovisual services

The broadened liberalization measures include the permission:

- to relax the ownership of enterprises from equity joint venture and contractual joint venture to wholly-owned in the construction or renovation of cinema theatres for the operation of film screening business;

- to process the motion pictures co-produced by the two sides outside the Mainland;
- to establish wholly-owned companies to engage in distribution of Mainland produced motion pictures;
- to broadcast and distribute, after examination, television programmes co-produced by the two sides in the same way as Mainland produced television programmes; there will be no restriction on the frequency and show time in broadcasting these programmes;
- to provide, after obtaining approval, technical services related to cable television networks in pilot areas of Guangdong Province by Macao companies engaging in the operation of cable television network.

Construction and related engineering services

- From 1 November 2004, the construction enterprises set up in the Mainland by Macao service suppliers can apply for construction enterprise qualification certificate on the basis of the performance of the enterprises for construction contracts both in the Mainland and outside the Mainland. Also, there will be no restriction on the proportion of Macao permanent residents being project managers approved by the qualification administration authorities;
- From 1 November 2004, the residency requirement is waived for Macao permanent residents employed as engineering technical staff and financial managerial staff in Mainland's construction enterprises established by Macao service suppliers.

Distribution services

Concerning wholesale and retail trade, Macao service suppliers are allowed, from 1 November 2004, to set up commission agents' and wholesale trade enterprises in the Mainland in respect of books, newspapers, magazines, pharmaceutical products, pesticides and mulching films; whereas the scope of business for retailing services even extends from the aforesaid products to processed oil. With respect to the application for setting up retail enterprises for motor vehicles, the requirements of preceding 3-year average sales value not less than US\$100 million, of assets in the previous year not less than US\$10 million, of minimum registered capital RMB10 million (RMB6 million in the Central and Western Region), etc, are waived for Macao service suppliers.

Banking services

From 1 November 2004, Mainland branches of Macao banks are allowed to conduct insurance agents business after obtaining approval.

Securities and futures services

Intermediary agencies registered with the Monetary Authority of Macao are allowed to set up joint venture futures brokerage companies in the Mainland upon satisfaction of requirements.

Cultural entertainment services

The contents of the CEPA have extended to cover cultural entertainment services that are not covered in the Mainland's commitments to the members of the WTO. Macao service suppliers are allowed to participate in the operation of performing venues, performing art agencies, performance agencies, internet culture business units and internet online service premises, art galleries, art shops, art work exhibition units, etc, under the form of ownership permitted for respective services. Internet culture business units may import and host online games in the Mainland.

Maritime transport services

The broadened liberalization measures for the Macao service suppliers include the permission:

- to set up wholly-owned shipping companies in the Mainland, to provide shipping agency services for vessels that they own or operate (including customs declaration and inspection, and use of common commercial bills of lading or multimodal transport documents for conducting multimodal transport services); to provide regular business services, such as shipping undertaking, issuance of bills of lading, settlement of freight rates, signing of service contracts, etc, for feeders that they operate between Macao and ports that are opened to foreign vessels in the Mainland;
- to set up wholly-owned companies in the Mainland to provide supplies services other than fuel and water to vessels owned or managed by the same Macao service supplier and to provide port cargo loading and unloading services.

Airport operation services

This newly liberalized sector consists of the following:

- to provide, in the form of cross-border supply, contractual joint venture, equity joint venture or wholly-owned operations, contract management services for small and medium airports;
- to provide, in the form of cross-border supply, consumption abroad, contractual joint venture, equity joint venture or wholly-owned operations, airport management training and consultation services;

- to provide, in the form of equity joint venture or wholly-owned operations, seven types of air transport ground services in the Mainland, which includes agency services, loading and unloading control, communication, and departure control system services, unit load devices management services, passenger and baggage services, cargo and mail services, ramp services and aircraft services.

Road transport

The liberalization has extended from cross-boundary coach transport of cargo to passengers; wherein a considerable degree of breakthrough is also incorporated in the existing Guangdong-Macao cross-boundary coach services, which allows Macao passenger transport companies operating franchised bus services or non-franchised bus services to set up joint venture enterprises in Guangdong, Guangxi, Hunan, Hainan, Fujian, Jiangxi, Yunnan, Guizhou and Sichuan, to provide Direct Passenger Bus Services between Macao and the above nine provinces; permission is also given to the said passenger transport companies operating franchised bus services to set up wholly-owned enterprises in Mainland cities at municipal level to provide passenger public transport and car rental services at those cities.

Freight forwarding services

The freight forwarding agency enterprises of Macao service suppliers are allowed to set up branch offices upon full payment of registered capital, while the one-year minimum operation requirement for setting up branch offices is waived.

Professional and technicians qualification examination

Eligible Macao residents are allowed to sit the qualification examinations in the Mainland in a wide scope of subjects that include, architecture, engineering, accounting, translation, business, taxation, enterprise legal consulting, auctioning, quality, health, cost evaluation, real estate and computing, etc.

Trade mark agency

Macao service suppliers are allowed to conduct, after registering with the Administration for Industry and Commerce at the provincial level and acquiring the statutory operating body qualification, trade mark agency business in the Mainland.

Patent agency

Macao permanent residents with Chinese citizenship are allowed to sit the National Qualification Examination for Patent Agents in the Mainland. Those who pass the examination and obtain the Patent Agent Qualification Certificate may practise in patent agencies approved for establishment in the Mainland while those who meet the prescribed requirements may become partners or shareholders of the said agencies.

Individually owned stores

The geographical restriction on operation within the Guangdong Province is lifted and is extended to all provinces, autonomous regions, and municipalities directly under the Central Government in the Mainland without being subject to the approval procedures applicable to foreign investments. The scope of business, excluding franchising, has been expanded from retail sales to retailing services, food and beverage services, as well as hair dressing services, beauty and health services, bathing services, repair services for household electric appliances and goods for daily uses under the category of resident services and other services.

Except specified elsewhere, the above broadened and newly added liberalization measures will come into effect from 1 January 2005. Under the CEPA, Macao service suppliers have accorded preferential treatment in entering the Mainland services market.

In addition to being compliant with the WTO agreements, the CEPA allows Macao service suppliers an access to the enormous Mainland market earlier than the timetable the Mainland has committed to the WTO. The treatment for individual sectors, such as audiovisual services, transport and related services, medical services, etc, is actually more favourable than the commitments to the WTO.

Enquiries

For enquiries in the CEPA and its new liberalization arrangements in the second phase, please call or visit the **CEPA Information Centre** in person. Copies of the CEPA text, its annexes and other information are available for pick-up at the Information Centre or for download at Macao Economic Services' website.

The CEPA Information Centre

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