

## CEPA VIII – HKGCC Priority Liberalisation Targets

March 2010

### Introduction

The Closer Economic Partnership Arrangement (CEPA) is the first free trade agreement between the Central government and Hong Kong SAR, which gives tariff-free access to the Mainland market for all Hong Kong products and WTO-plus liberalization for Hong Kong service providers. After six years' successful implementation, it is entering a new phase in tune with the development of the nation's trade and investment, and increasingly focused on the second and third parts – Trade in Services and Trade and Investment Facilitation. This paper sets out the views of the Hong Kong General Chamber of Commerce on the next phase of the CEPA. We call on both sides to continue to pursue closer economic cooperation through agreeing on a *Seventh Supplement to CEPA*, or "*CEPA VIII*", later this year.

The Chamber has made various submissions on previous phases of CEPA and we are grateful to the governments of both sides that many aspects of the Chamber's previous suggested liberalisation measures have materialized. It is our hope that the Seventh Supplement of CEPA will provide further impetus to benefit trade and investment for both Hong Kong and the Mainland.

### I. Implementation of CEPA

The Chamber remains of the view that the third part of CEPA – on Trade and Investment Facilitation – is the most meaningful, yet under-utilized, provision of CEPA. In previous submissions the Chamber has commented on local protectionism, transparency, small and medium enterprises, customs cooperation, simplifying application and approval procedures, and promoting Hong Kong brands.

Briefly, the Chamber's suggestions are as follows:

- **Local protectionism:** an enabling statement in CEPA to encourage local authorities to lift administrative burdens such as local taxes, documentary requirements, lengthy licensing procedure, etc.
- **Transparency:** publishing details of laws, regulations and administrative procedures before implementation.
- **Small and medium enterprises:** a dedicated department to furnish information and render assistance to SMEs, and a special counter giving priority to the processing of applications from Hong Kong businessmen.
- **Customs cooperation:** further streamlining of customs clearance procedures, upgrading of online information system, and cooperation among different departments such as customs, immigration, health, quarantine and traffic to achieve greater efficiencies.
- **Application and approval procedures:** trying to standardize the application documentation and approval procedures throughout the country; improving the e-government facilitation to simplify application and speed up approval; setting up designated agency to provide consultation for CEPA-related applications.

- **Promoting Hong Kong Brands:** form strategic alliance with the Mainland in brand-promotion through brand M&A, enhance regulatory measures, and increase mutual recognition and inspection.

During the past few years, Mainland China's business environment has been changing radically, especially in the Pearl River Delta. As a result, the Hong Kong business community has had to grapple with new concepts, and develop high value-added products to remain competitive. Especially after the global financial tsunami, there is a strong need for both the Central government and Hong Kong SAR to work together to boost the domestic demands and foster the high-end service sectors. Accordingly, in this submission, we would like to urge for streamlining the application and approval procedures, which remains the most concerned problem of our members; and expanding the promotion of Hong Kong brands the Mainland, a necessary initiative during this economic turmoil.

#### *Streamlining the Application and approval procedures*

Since 2008, CEPA initiated about 25 pilot projects in the Guangdong province. However, some of our members have reflected that during their recent contacts with the Chinese government departments aiming at setting up relevant companies in Guangdong province based on CEPA, most of the government departments told them that they didn't know much about CEPA and requested the Hong Kong companies to consult other departments for details. In view of the situation, the Hong Kong business sector strongly desires to see that the Chinese Government clearly indicates the official route and procedures for making use of CEPA to set up relevant companies, in order to fulfill the common wish of the Chinese and HKSAR Government to boost joint efforts of the two regions.

#### *Expanding the Hong Kong brands promotion*

The Chamber has joined other trade associations in engaging with the Commerce and Economic Development Bureau in discussing the promotion of "Brand HK" in the Mainland. In addition to the past submissions and recommendations on this matter, we would like to reiterate the need to focus attention on promoting Hong Kong's brand in the environmental services sector.

In the wake of the global financial tsunami, governments around the world have been looking for new economic drivers to stimulate growth and employment. Amongst all business sectors, the environmental industry, particularly in the fields of energy efficiency and renewable energy, has been identified as a priority area in many countries. There is a vital need for the Central Government and HKSAR Government to accelerate the joint efforts of Hong Kong and Mainland enterprises in research, development, manufacturing, application, sales and distribution of solutions and products of advanced energy efficiency and environmental improvement technologies. During this process, Hong Kong could build up its own brands rather than simply playing the "bridge" role. Accordingly, we believe that CEPA VIII needs to cover this issue.

The Chamber has recently surveyed its members on practical problems that Hong Kong enterprises face in brand promotion in the Mainland. It was found that the most concerned problem was the protection of intellectual property rights. Many Hong Kong companies are concerned about intellectual property, trademark and copyright issues in the Mainland.

To effectively address this issue, concerted efforts between Hong Kong and Mainland authorities in intellectual property enforcement are needed.

## II. Trade in services

In this submission we have updated the Chamber's liberalisation targets on trade in services under CEPA. Since the Chamber published its first priority liberalisation targets in 2002, a lot of the liberalization requests have materialized, while some others may understandably take longer time. The current list therefore contains both requests which have been outstanding for some time, as well as a substantial number of new requests. Details are as follows:

### Priority Liberalisation Targets – Trade in services

Sector	Sub-sector	
Financial Services	Insurance	<p><i>Liberalisation of service limitations</i></p> <p>(a) With the increasing presence of China in the world economy, it is suggested to explore the possibilities of offering RMB life insurance policies in Hong Kong. Besides, we are of the view that the whole mechanism of the RMB policies needs to be considered; for example, even though Hong Kong insurance companies are allowed to accept RMB premium, it is limited to insurance companies with QFII subsidiaries because others are unable to access RMB assets.</p> <p>(b) For customers who have already bought policies in Hong Kong, there might be need to consider institutionalizing a process to facilitate the payment of renewal premium from banks in Mainland. This will enable Hong Kong practitioners to provide better service to Mainland customers.</p>

	Banking: Market access and bank branches	<p>(a) Hong Kong banks can only open a limited number of branches a year due to the application and approval procedures. Being able to increase the number of branches is very important for the banking business; hence Hong Kong banks would like to expedite the approval process for setting up branches in the Mainland. Although there have been big improvements on this issue under CEPA Supplement VI, and several Hong Kong banks have since opened branches in the Guangdong province, so far only one branch office is allowed in one region. We suggest that this could be liberalized so that at least 3 branches would be allowed in one region.</p> <p>(b) Besides, following the successful implementation of the “cross-location” sub-branch programme for Guangdong under CEPA Supplement VI, we suggest that the programme be extended gradually to other provinces.</p> <p>(c) At present Hong Kong banks are only allowed to hold a maximum of 20% shares of any domestic local bank, trust company, and asset management company. We suggest this share percentage could be raised.</p>
	Banking: RMB business	<p>(a) Credit card is one of the major businesses of the banks in Hong Kong. Hong Kong banks would thus like to issue dual currency (RMB and US Dollar) credit cards in the Mainland to all customers including local corporations and residents.</p> <p>(b) One of the major obstacles faced by Hong Kong banks with branches or subsidiary banks operating on the Mainland is the relatively high cost of RMB funding, as compared with domestic local banks. This is due to the fact that the deposit base of foreign banks is rather limited. Meanwhile, Hong Kong banks accept RMB deposits in Hong Kong, but are required to transfer these funds to the People’s Bank of China via Bank of China as the clearing bank. We suggest that Hong Kong banks be permitted to lend RMB deposits absorbed in Hong Kong to their branches or subsidiary banks operating in the Mainland, for better use of resources.</p> <p>(c) For branches or subsidiaries of Hong Kong banks operating in the Mainland, the foreign currency funds received after executing securities/guarantees provided by guarantors in Hong Kong may not be converted into RMB to settle RMB credit facilities, if the borrower does not have enough borrowing gap (i.e. the difference between total investment and registered capital minus the drawn amount of medium to long term foreign debt and the outstanding amount of short term foreign debt). We suggest that this requirement be relaxed by allowing the conversion of the foreign currency funds from the guarantors outside China into RMB to settle the RMB loan outstanding in the Mainland.</p>
	Banking: Payment of Tax	<p>(a) Most Hong Kong banks are undergoing a process of skill transfer to their Mainland subsidiaries in order to enhance the service quality and business performance of the latter.</p>

		<p>Such may involve fees paid by the Mainland subsidiaries to their Hong Kong parents for the service rendered. As such the service fee would be subject to Mainland China's business tax on withholding basis, resulting in an increase in the operating cost of the Mainland subsidiaries. Under current market conditions, a deferral of imposing such business tax or other forms of tax concession would be beneficial to the development of Mainland subsidiaries of Hong Kong banks.</p> <p>(b) Many Mainland subsidiaries have been adopting the practice of securing foreign currency funding from their Hong Kong parents to support their lending activities. The interest income of the Hong Kong parents so derived is subject to Mainland interest tax on withholding basis. A preferential tax treatment for Hong Kong banks in this respect would increase the competitiveness of their Mainland subsidiaries.</p>
	Banking: Foreign Debt	Under existing guidelines, deposits placed in offshore accounts maintained in branches of foreign banks or subsidiary banks operating in the Mainland are classified as foreign debt. As the foreign debt quotas granted by the Government are very restrictive, foreign banks' ability to absorb deposits and support foreign currency lending business is limited. We propose that, for Hong Kong banks, deposits placed in offshore accounts should no longer be counted as foreign debt.
	Banking: Foreign Exchange Control	With regard to credit facilities with a Hong Kong guarantor, when a Mainland lender exercises its right under the lending agreement to call for repayments from the Hong Kong guarantor, it would involve the issue of currency conversion. This applies to both a corporate body or a bank. Any foreign currency amounts received from the Hong Kong guarantor for the repayment of a RMB loan would be subject to foreign exchange control. More relaxed exchange regulations are suggested in order to cater to the practical needs in these cases.
	Banking: External guarantee quota	Mainland companies with subsidiaries in Hong Kong are permitted to use standby letters of credit in favour of banks in Hong Kong to secure the foreign currency loans of their subsidiaries in Hong Kong. However, the issuance of standby letters of credit by banks in the Mainland is subject to a strict quota. As more and more Mainland companies invest in and set up subsidiaries in Hong Kong, the demand for such credit facilities is increasing, and the existing external guarantee quota cannot meet the demand. We suggest that the Central Government increases the said quota for letters of credit issued by branches or subsidiary banks of Hong Kong banks operating in Mainland to cope with business needs.
	Banking: Sharing of credit information on borrowers	According to the prevailing regulations, the credit information of Mainland corporate and individual borrowers can only be accessed by financial institutions operating within the Mainland. As the business cooperation between companies in Hong Kong and the Mainland is very close, we suggest that, with the consent of the borrower and subject to the respective regulations, credit information may also be shared with financial institutions in Hong Kong.

Asset management: Capital requirement	<p>(a) The capital requirement for foreign fund management companies seeking to enter into a joint venture with a domestic Chinese firm is no less than RMB 300 million. This requirement is excessively high for asset management firms, which are typically expertise-based rather than companies holding clients' assets. In contrast to banks, the business of managing assets does not require large amounts of capital to protect investors. Hence we would like to request a reduction in the level of capital requirement for fund managers.</p> <p>(b) We suggested relaxing the asset under management (AUM) and other requirements for Hong Kong licensed asset managers in the context of the current QDII regimes. For example, as to the internal group restructuring case, we seek the acceptance of group-wide AUM as qualifying to meet any AUM requirement and accepting continuity of business operating history.</p>
Asset management: Market expansion measures	<p>(a) Hong Kong financial intermediaries can set up joint venture future brokerage companies in the Mainland with less than 49% ownership, with the same business scope and capital requirements as those for Mainland enterprises. We would seek to extend it to other securities service providers besides brokerage, e.g. services such as financial planning, wealth management, advisory, marketing/distribution, settlement.</p> <p>(b) Qualified Hong Kong firms (licensed corporations or registered institutions under SFC definition) with substantial operating history (say ten years) should be permitted to provide services directly rather than through a joint venture. For example, under the prevailing regulations, a foreign party is only allowed to hold a maximum of 49% interests in a fund management company ("FMC") established in the Mainland. In view of the enormous demand in the Mainland for fund management products and services, and Hong Kong's deep international fund management expertise as one of the major fund management centres in Asia, it would be beneficial to the Mainland and Hong Kong if Hong Kong can be granted the privilege to hold majority interests in FMC, so that fund management expertise and experience can be transferred freely.</p> <p>(c) Those qualified Hong Kong firms should be allowed wider scope of activities, e.g. to include underwriting, secondary trading of government and corporate debt and equity, hybrid mortgage products, derivative trading and asset management.</p> <p>(d) Restrictions on the kind of services Hong Kong licensed asset/fund managers are able to provide to Mainland institutions are suggested to be lifted. For example, it would be encouraging if Hong Kong investors, particularly Hong Kong private equity fund managers, can be allowed to invest in "RMB fund" / "domestic non-securities" investment funds (in a non-open way to raise equity investment funds, industry investment funds, venture</p>

		<p>investment funds and other non-securities investment funds (以非公開方式募集的股權投資基金、產業投資基金及創業投資基金等非證券類投資基金) in the Mainland. This would provide tremendous support to Hong Kong private equity fund managers in terms of accessing an investment market full of opportunities.</p> <p>(e) We invite the Mainland to consider granting market access to “introducing brokers” (person or organization performing all the functions of a broker except for accepting money, securities, or property from a customer, thus directing new clients to financial institutions in China). This will enable Chinese financial institutions to tap into the client base of Hong Kong and build up a larger base for their operations. This will also enhance the cooperation and convergence between professionals from the two sides.</p> <p>(f) The taxation rules which tend to significantly limit the time representatives of Hong Kong-based companies are able to spend in the Mainland (in order to carry out permitted activities or provide service to Mainland clients) seems unnecessary prohibitive.</p>
	Asset management: Qualification criteria	<p>(a) We would seek to clarify the suggested qualification on requiring qualified Hong Kong firms to have a substantial operating history. We would like to confirm that it would be sufficient for the business operations to have that tenure, and that internal corporate restructurings should not impact on a Hong Kong firm’s ability to qualify.</p> <p>(b) Besides, the qualifying criteria for Hong Kong asset management companies require consistency regardless of the type of Mainland institutional clients to which they are providing services.</p>
	Asset management: Relaxing approval of procedures	<p>Currently, if a Hong Kong company regulated by the Hong Kong Securities and Futures Commission would like to set up an entity in the Mainland, either in the form of a company or a representative office, it is required to obtain approval from the Chinese Securities Regulatory Commission (“CSRC”), irrespective of the nature of the actual operations that would be carried out in the Mainland. However, very often, the entity in the Mainland may just conduct non-regulated activities, such as market research and liaison. It would be encouraging if the approval procedure can be simplified so that Hong Kong fund management houses can carry on non-regulated services in the Mainland without the need for obtaining approval from CSRC. This would definitely encourage more Hong Kong fund management houses to set up offices in the Mainland, facilitating the transfer of industry experience and contributing to economic growth and the employment market in the Mainland.</p>
Telecom services	Ownership	<p>Consistent with market liberalization is the entry of more service providers to meet user needs. Accordingly, the licensing process needs to be proportionate and should not become an indirect barrier.</p> <p>(a) Currently, foreign service providers will be allowed 49%</p>

		<p>maximum ownership for both the mobile sector and the fixed network sector. This contrasts with the treatment for value added services (VAS) where 50% maximum foreign ownership is allowed.</p> <p>(b) In terms of VAS, as resale services, the maximum foreign ownership should be raised to 100% to reflect global best practices. If this cannot be achieved immediately, as a start, we would like to suggest perhaps a phased approach, for example: 1st year 51%, 2nd year 75% and 100 % in 3-5 years.</p> <p>(c) To provide some flexibility, we would like to suggest that a holder of Hong Kong service supplier ("HKSS") Certificate should be allowed to transfer its certificate to its immediate, intermediate or ultimate holding company which directly or indirectly own 100% shares interests in the HKSS Company.</p>
	<p>Definition issues</p>	<p>Value-added services enjoy a higher level of liberalization than basic services. What constitutes VAS is thus an important definitional issue. The Mainland's current definition of VAS seems to be primarily based on the outdated USA/FCC definition of "enhanced" services in the 1980s, thus creating a very narrow set of liberalized services. In this regard, CEPA could be used as a vehicle to expand the definition of VAS to bring it more in line with modern definitions (e.g. the EU directives from the 1990s). Specifically, we suggest that the full range of Internet Protocol (IP) based services and resale-based services should be classified (i.e., regulated) as value-added services when they are offered by Hong Kong telecom service providers. The latter should be permitted to operate the full range of VAS businesses that domestic VAS companies are permitted to operate. To the extent possible the fixed network category should be limited to physical networks/facilities and related wholesale services permitting all services to also be provided on a resale basis under the VAS category. Fixed network licensees themselves would be free to provide both wholesale and retail services. The VAS services should cover at least the following services:</p> <ul style="list-style-type: none"> <li>- simple resale of basic services such as domestic and international leased circuits, local voice telephony, long-distance voice telephony and International Direct Dial (IDD) provided over wholesale switched or private line services obtained from fixed network providers;</li> <li>- provision of managed networks and data services – such as Virtual Private Network (VPN) and frame relay provided over wholesale services obtained from fixed network providers;</li> <li>- provision of Internet access and IP-based services such as IP managed networks, IP VPNs, voice over IP, intranet and virtual intranet services provided over wholesale services obtained from fixed network providers;</li> <li>- simple resale of mobile services, including voice and data services provided over wholesale services obtained from</li> </ul>

		<p>Mobile Network Operators (MNOs);</p> <ul style="list-style-type: none"> <li>- provision of mobile services as Mobile Virtual Network Operators (MVNO) using the network capacity of an MNO;</li> <li>- provision of Electronic Data Interchange (EDI) services including message routing and delivery, data mapping and translation as well as communication protocol mediation over leased lines or public internet.</li> </ul> <p>In addition, limitations on the provision of specific types of content and services (such as online games and Internet protocol television) should be eliminated for Hong Kong telecom companies.</p>
	Interconnection	<p>One of the most critical issues in providing telecom services is interconnection with and between public telecom operators. Contentious areas include technical standards and interconnection terms, conditions and rates.</p> <p>It will be very useful for Hong Kong operators if, through CEPA, the Mainland can make a more explicit commitment to ensure that Hong Kong telecom operators enjoy national treatment with respect to interconnection arrangements.</p>
Professional services	Accounting	<p>The concept of “association” provided under CEPA for legal firms can be made applicable to CPA firms, using Guangdong Province as a pilot if necessary. Such “practice in association” will pave the way for closer cooperation, for example, in contractual joint ventures, for Hong Kong accounting professionals acting as non-resident partners of Mainland firms.</p> <p>Greater market access for CPA firms should go together the opening up for individual accounting professionals to obtain practising rights in the Mainland. Hong Kong accounting professionals can benefit from further concessions such as</p> <ul style="list-style-type: none"> <li>- extend the scope of mutual examination papers exemption to cover all members of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and Chinese Institute of Certified Public Accountants;</li> <li>- recognition of HKICPA and Hong Kong Institute of Accredited Accounting Technicians (“HKIAAT”) qualifications as equivalent to the relevant staff qualification requirements stipulated in the Regulatory Rules on the Provision of Book-keeping Services;</li> <li>- offering exemptions on certain papers of the Accounting Professional Technician Qualification Examination (會計專業技術資格考試) to HKIAAT members and setting up an examination centre in Hong Kong;</li> <li>- abolition of the requirement for biennial renewal of the Licence, and renewal at 3-5 years’ intervals should be sufficient for the purposes;</li> <li>- allowing Hong Kong professionals who are suitably</li> </ul>

		<p>experienced and qualified insolvency practitioners to act as Administrators under the revised PRC Bankruptcy Law;</p> <ul style="list-style-type: none"> <li>- allowing HKICPA members to perform certification/attesting services (公證服務).</li> </ul>
	<p>Legal services: General</p>	<p>Building on the commitments from CEPA I to CEPA VII, both the Hong Kong and Mainland legal sectors would benefit from an extension of liberalization into the following areas:</p> <ul style="list-style-type: none"> <li>- Moving beyond “association” to joint ventures, so that the sharing of premises and other resources can be more readily and efficiently available.</li> <li>- The Hong Kong legal professional sector would like to see the introduction of an equivalent Mainland lawyers’ qualification examination to enable Hong Kong solicitors to qualify as mainland lawyers, and to seek permission for solicitors individually in their personal capacity as Chinese citizens to act as agent in civil litigation cases in the Mainland courts, similar to that of barristers. And for those very experienced Hong Kong legal professionals, for example, those who have practiced for not less than 15 years, it is suggested that they are issued the Mainland lawyer qualification under section 8 of the PRC Lawyers Law after passing a special assessment and examination.</li> <li>- We suggest that a liberalization measure permitting the representative offices of Hong Kong law firms in Guangdong Province to employ Mainland Lawyers and to provide Mainland legal services, as a pilot scheme for introduction on a trial basis in Guangdong.</li> </ul>

	<p>Legal services: Patent License</p>	<p>Currently, China Trademark Office grants a trademark license to a company whose shareholder is a Hong Kong company accorded by CEPA. In this way, the Hong Kong company is entitled to invest in an Intellectual Property company in Mainland China to provide clients (both domestic and/or overseas) with legal services in the field of trademarks.</p> <p>However, up to now, China State Intellectual Property Office ("SIPO") has refused to grant any patent license to a company whose shareholders are not Chinese qualified patent agents. On the other hand, Intellectual Property (IP) is vital to development of any country, and IP is a comprehensive term which embodies not only Trademarks but also Patents, in addition to copyrights, domain names, trade names, etc. Thus any IP company which does not have both patent and trademark licenses is at a distinct disadvantage. According to the Regulations of Administration of Patent Agents issued by SIPO, the present requirement is to have at least 5 Chinese qualified patent agents as shareholders, but an entity or individual who is not a patent agent cannot be a shareholder in any such IP company. It definitely therefore inhibits Intellectual Property investments by Hong Kong companies since they cannot represent clients in the field of patents which is an essential tool for protection of IP rights in China.</p> <p>Accordingly, we sincerely suggest SIPO to grant patent licenses to IP companies invested by Hong Kong companies, even if a condition is to be imposed that there must be at least 5 qualified Chinese patent agents within the company.</p>
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	Construction Engineering &	<p>(a) So far, CEPA has been in place for over 6 years, but for the Hong Kong architects, they only managed to attain PRC Class 1 Registered Architect qualification through mutual recognition arrangement. However this qualification remains a paper qualification only that cannot be put into practise, which means Hong Kong architects are still not allowed to 'enter the Mainland market' freely and the co-operation model for Hong Kong architects and Mainland counterparts remains the same as 20 years ago. That reminds us that the essence of the whole CEPA issue is about closer economic ties and mutual market entry therefore might need to be focused on how the professionals from either side realistically "enter the market" rather than to get hung up on technical issues such as whether one should have the authority to sign the "blueprints" or submission drawings to government. The objective to be pursued by and for Hong Kong professionals should therefore be to relax the requirements for the "business recognition" of professional practice as the concluding chapter for CEPA.</p> <p>(b) If the above requirements are difficult to fulfill in a short time, Hong Kong construction-related professional firms would seek further expansion in the scope of services, beyond scheme design to the full range of professional services; clarification of the Mainland's criteria for awarding contracts for "technically difficult projects"; as well as opening up of Mainland construction projects, including government projects for bidding by Hong Kong-owned firms and to allow the successful bidders to register locally on project basis (單項註冊).</p> <p>(c) Besides, there is no clear set of arrangement on mutual recognition for Class I project manager qualification. As the result, Hong Kong contractors are required to recruit locally registered project manager to fulfill the registration requirements which limited the qualified project managers from overseas to practice in PRC and hindered the technologically transfer between both areas as well. So we suggest the related mutual recognition could be liberalized.</p> <p>(d) At the moment, developers wishing to construct projects in the Mainland are required to apply for separate approvals at the provincial or municipal level. Regardless of track record in Hong Kong, the Mainland or internationally, there is currently no provision for Hong Kong firms to secure a nation-wide operating approval. Quite apart from the inconvenience of such an arrangement, it also impacts on branding. So we suggest the related applications could be simplified.</p>
	Property Management Services	<p>Currently, if Hong Kong firms want to provide property / facilities management services in Mainland China, they have to seek for separate approvals at the provincial / municipal level, regardless of their size and international experiences. We suggest a nation-wide approval could be provided.</p>

	Interior Design	It has been allowed Hong Kong interior design service providers to register companies in China mainland under CEPA, however it is very complicated for them to practise. For example, so far the interior design companies are only permitted to do the consultation jobs, since some special national qualifications (國家一級、二級及三級牌) are needed if they want to be the real designing contractor. We suggest the related regulations be liberalized accordingly.
	Securities professionals	For securities professionals, much progress has taken place on mutual recognition, a special examination having been designed for Hong Kong securities professionals. But examination is only one step in accreditation. The next stage is to seek recognition of professional qualifications, and to enable qualified professionals to obtain practice licenses.
	Insurance professionals	<p>(a) With Beijing's latest push to transform Guangdong through the Pearl River Delta Development project, greater co-operation opportunities between Hong Kong, Macau and Guangdong would be foreseen. Due to the proximity of the cities and mobilities of the residents, it is recommended that mutual recognition of insurance intermediaries should be further promoted, so as to enable Hong Kong insurance companies to obtain licenses and practise in the region.</p> <p>(b) In order to meet customers' needs for Hong Kong insurance products in the region, it is also recommended that insurance intermediaries from branches in the Pearl River Delta should be allowed to refer Hong Kong insurance products to their customers. This may require the insurance intermediaries to have relevant licenses in Hong Kong in order to be able to present the value proposition of Hong Kong products.</p>
	Recruitment/head-hunters	<p>(a) It is suggested that the licensing requirements for individual search/recruitment professionals could be dropped in favor of the firm licensing system that is already in place through local labour bureaus. Furthermore, the areas tested in the licensing examinations are mostly irrelevant to the work of search/recruitment professionals. If the scope of the examination can be reduced and its frequency increased, it will facilitate the development of this sector and benefit the deployment of human resources for the nation.</p> <p>(b) The limit on entertainment expenses of 0.5% of revenue is not that reasonable in the executive search business, where client and candidate development are a key part of the business development process. We suggest increasing this to 1.5-2%.</p> <p>(c) The municipal-level licensing system that is in place for the recruitment industry makes expansion into other cities cumbersome and expensive. As it stands now, some recruitment firms need to set up a separate entity for every city in which they operate. This situation means they cannot consolidate the p/l accounts of the individual offices, and slows down the growth. However their clients can grow businesses faster in cities in which they have</p>

		<p>offices. Consequently those firms' expansion is good for the economies of the cities as well. It is suggested that this licensing system should be streamlined.</p> <p>(d) A reduction in the corporate income tax from 25% to 20% would be reasonable and would attract more businesses to China. As the corporate withholding tax on repatriated profits is still relatively high, the revenue "leak" would not be great, and most recruitment companies would reinvest profits in other human resource related businesses in China in any case. As one of China's most important and often stated goals is to increase the quality of its work force, particularly at the managerial level, this suggestion is reasonable and in line with the country's stated goals.</p> <p>(e) The current labor law put too much emphasis on long term contracts with employees. Flexibility of staff is necessary in the recruitment industry for reasons of business flexibility, confidentiality, protection of intellectual property and many other reasons as well, so it is suggested to amend the related regulations for CEPA companies who operate their recruitment business.</p>
<p>Tourism services, Convention and exhibition</p>	<p>Travel agents and tour operators</p>	<p>(a) CEPA V allows Hong Kong travel agents and tour operators to conduct outbound tours to Hong Kong and Macao for residents in eight provinces beyond Guangdong Province. We suggest that this be extended progressively, allowing Hong Kong travel agents and tour operators to conduct tours to the rest of the world, including Taiwan, and to provide services for all Chinese citizens as well as foreigners residing in China.</p> <p>(b) Furthermore, we would like to see recent announcements of liberalization measures materialize, specifically the announcement by the China National Tourism Administration (CNTA) that HK agents/tour operators be allowed to operate branches throughout China and that their registered capital will be reduced to the same level for Chinese travel entities.</p> <p>(c) Wholesale tour and ticketing operations is a new but growing business in China. Wholesale operators sell travel packages consisting of air tickets, hotels, land transport and other arrangements, to independent small size travel agents in cities, villages and counties across China. The wholesale operator then consolidates the travelers from the different points of sale to form regular group departures from several main departure points to all the various international destinations. The wholesale operator is not selling to the consumers directly, a task left to the smaller travel agents. We seek recognition for this form of business, and support for the various licenses required.</p> <p>(d) There are over 1,000 travel agents who provide ticketing services to passengers in Hong Kong, who have the potential and desire to expand their business in the Mainland. Under the current liberalisation measure, wholly-owned subsidiaries of Hong Kong travel agencies can only conduct international ticketing in the mainland.</p>

		<p>However, international tickets only form a small portion of a travel agency business, and to make sure that the cost of expansion in China is sustainable, these wholly owned travel agents must be allowed to issue domestic tickets as well. Hong Kong ticketing service providers wish that their wholly-owned subsidiaries in the mainland can obtain licenses from the Civil Aviation Administration of China and their appointed licensing agents for both international and domestic ticketing.</p> <p>(e) Current licensing and application process are complex and lengthy. We would like to see simplification and shortening of the application process, with clear guidelines on the roles and responsibilities of different government bodies.</p>
	Computer reservation	From January 2008, Hong Kong service providers are allowed to set up joint venture enterprises with Mainland Computer Reservation System (MCRS) suppliers. The mainland side has majority shareholding in the enterprise. It is hoped that Hong Kong companies can finally set up wholly-owned enterprises to provide full computer reservation services to book and issue air tickets, make hotel reservations and other travel related arrangements in the Mainland.
Transport and Logistics	Road freight transport	Currently, there are 2 types of terminal for feeders, one is international which accepts Hong Kong flagged vessels and the other is domestic which only accepts China flagged vessels. Therefore, many licensed Hong Kong feeder operators need to charter China flagged vessels but they are not able to become ship-owners due to the flag requirement. Accordingly, we suggest that Hong Kong feeder operators are allowed to become ship-owners of China flagged vessels .
	Freight forwarding and air cargo sales agencies	Cargo agents rely on the ability to consolidate and ship cargo by air. To enable Hong Kong cargo companies to operate profitably on the Mainland we urge for CEPA companies to be able to obtain Category A and Category B licenses for cargo consolidation and air cargo sales for both international and domestic routes.
Distribution	Trading Company	Currently, applications by Hong Kong service providers to set up external trading companies in the Mainland (excluding the Central and Western Region) are required to meet two criteria simultaneously - not less than US\$10 million in average annual trade value with the Mainland in the preceding 3 years; and a minimum registered capital of RMB 20 million for setting up a company in the Mainland. These requirements are very high for Hong Kong small and medium enterprises. It is hoped the entry threshold be lowered to allow more Hong Kong trading companies to conduct business in the Mainland.
	Food Retailers	The current policy of the Mainland does not allow imports of frozen items directly from the place of origin, if they are not in sealed containers. Besides, the import of frozen meat (especially beef) is subject to pre-approval, which is difficult to obtain. Thus, we suggest such import barrier be relaxed, so as to allow Hong Kong-based retailers and wholesalersto introduce more niche products to the Mainland.

Environmental	Environmental services: mutual licenses recognition	<p>In recent years, many wholly-owned Hong Kong enterprises have expressed interest in the environmental service industry in the Mainland, but there exist many obstacles at the operational level. For example, an environmental permit system (環保企業許可證制度) is used in the Mainland to evaluate investment of environmental enterprises, but Hong Kong environmental practitioners' qualified certificates (環保從業稱職證書) are not recognized by the Chinese authorities. It would be definitely beneficial to Hong Kong service providers if market entry barriers can be eliminated by mutual recognition of environmental qualifications.</p> <p>Besides, we suggest that practicing licenses (and professional memberships of accredited bodies) obtained in Hong Kong, for example, licenses for carrying out environmental impact assessments, environmental monitoring and audit projects, should be accepted de facto in the Mainland without requiring tie-ups with local institutions. Although Hong Kong companies can set up environmental businesses in Guangdong under the CEPA mechanism, they are required to fulfill certain business establishment criteria before they can obtain practicing licenses for operating services. As Hong Kong SMEs may not be able to afford the initial investments only for getting licenses, it would be very helpful if such requirements are relaxed.</p>
Advertising	Advertising Services	<p>According to The Provisions on the Administration of Foreign-funded Advertising Enterprises, the minimum annual revenue requirement for a wholly foreign-owned advertising company to set up a branch is RMB 20 million. It is hoped that the requirement can be lowered</p>
Education	Education Services	<p>(a) For sub-degree programmes and courses offered in the Mainland by Hong Kong education institutions, presently an education partner in the Mainland is required. For programmes and courses at degree and higher levels, the approval process is very complicated, and even if approved, the yearly intake quota is very small. The accredited Hong Kong universities would prefer to offer Master-level degrees, first degrees and sub-degree courses and programmes independently.</p> <p>(b) Hong Kong's education institutions can operate joint-venture schools with less than 50% ownership, in accordance with the "Regulations on Sino-Foreign Joint Venture Schools" released by Ministry of Education. It is hoped that CEPA can enable Hong Kong education institutions to set up wholly-owned institutions in the Mainland and to award certificates recognized by the Mainland's education authorities.</p> <p>(c) Encourage mainland students to study in Hong Kong, on part-time and full-time basis, for overseas as well as local awards.</p> <p>(d) There is a great demand for corporate and professional training courses in the Mainland, particularly the Pearl River Delta region. Incentives, including streamlining procedures, should be provided to Hong Kong training providers to attract them to offer courses in the Mainland.</p>

Culture and sports	News agency	Because of the nature of this sector, we do not envisage substantial market opening. As a first step, however, it will be very useful if Hong Kong's major local news agencies are allowed to establish representative offices in the major cities of the Mainland.
Non-profit institutions	Member-based commercial/professional bodies	Member-based organizations can only set up representative offices in the Mainland. Foreign organizations are banned from recruiting members in the Mainland. In view of the economic integration between Mainland and Hong Kong, Hong Kong's member-based commercial/professional organizations hope that they would be allowed to set up branches in the Mainland. Furthermore, they would like to adopt their mode of business in the Mainland, including recruiting members and providing specific membership services. To avoid confusion, it is reasonable to give a definition to Hong Kong's member-based organizations in CEPA, like the definition on Hong Kong service suppliers.