

CEPA VI – HKGCC Wish List March 2008

I. Introduction

As the first free trade agreement signed between the Central Government and the Hong Kong SAR, CEPA has provided tariff-free access to the mainland market for all Hong Kong products and WTO-plus liberalization for Hong Kong service providers. After four years of successful implementation, it is entering a new phase in tune with the development of the nation's trade and investment, being increasingly focused on the second and third parts – Trade in Services and Trade and Investment Facilitation. We believe that broader liberalization and effective implementation of CEPA would be significant for the adjustment and upgrading of industrial structure for both the Mainland and Hong Kong.

CEPA has always been top of the agenda for the Chamber. We have made various submissions on previous phases of CEPA, on the basis of our members' views as well as our understanding of the economic integration between the two. Many aspects of the Chamber's previous "wish lists" have materialized, for which we are extremely grateful to the governments of both sides. As CEPA enters a new phase, we call on both sides to continue to pursue closer economic cooperation through agreeing on a *Fifth Supplement to CEPA*, or "*CEPA VI*", later this year.

This current submission reflects the views of Chamber members in two major areas of CEPA, namely, implementation of CEPA and further liberalization of trade in services, the latter in the form of an updated liberalization "wish list". It is our hope that the Fifth Supplement of CEPA will provide further impetus to benefit trade and investment for both Hong Kong and the Mainland.

II. Implementation of CEPA

In a recent survey conducted by the Chamber on implementation of CEPA, the respondents have roundly commended the agreement, but at the same time pointed out that further improvement can be made – truly in line with the spirit of CEPA as a "living document".

Some of the problems encountered by our members in the Mainland include, in respect of trade in goods, inconsistencies on product classification; lack of transparency, excessive play of the human factor in customs operations; and unpredictable timeframe for completing customs clearance. Service providers, on the other hand, complain about complicated application and approval procedures, discrepancies in policy interpretation and enforcement, and inefficient problem-solving mechanisms, among other things.

As the Chamber has long advocated, these problems can only be tackled through concerted efforts of both sides in making use of CEPA's provisions on Trade and

Investment Facilitation and institutional arrangement, as follows (with real-life examples highlighted below).

A. Trade and Investment Facilitation

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, product inspection and certification and customs cooperation. 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.
- Product inspection and certification: the harmonization of product standards, including mutual recognition of certification.
- 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.

In this submission, we would like to supplement on two specific areas, namely, streamlining of application and approval procedures, and promotion of Hong Kong brands in the Mainland.

Application and approval procedures

From the Chamber survey we were encouraged by manufacturers who told us that they would make more use of CEPA and increase their output for export (for example, in products such as jewelry, gardening products, medical equipment, food and health products, electronics and spectacles). Service providers also reported optimistic outlook in using CEPA to further market access.

Even without any further liberalization, CEPA measures can be made more attractive and their potential more fully exploited by simplifying related application and approval procedures. Accordingly, we recommend the Central Government to consider the following measures.

- For goods: the same tariff headings should be used by the customs of different cities.

One exporter cited differing tariff headings being used by the Shenzhen and Shanghai customs for the same plastics product, thus necessitating double handling in applications (different tariff
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headings have to be filled in for the same product).

- Likewise, for services, application documentation and approval procedures should be standardized throughout the country, and more manpower be commissioned to process the applications.

One of our members made five applications for the same distribution service in five different places in the Mainland. The applications were made in early 2004 but only three of these applications have been approved in the past three years. It appeared that a lot of application time was spent in unnecessary passing on of the same application among many departments, which might use different assessment criteria.

- The application procedures can be further facilitated by improving e-government applications, such as online information dissemination and application progress tracking.
- A designated agency should be considered to provide consultation and problem-solving on CEPA-related administration in the Mainland, particularly when disparity arises between Central Government policies and the interpretation and enforcement by local authorities (see also Institutional Arrangement of CEPA below).

Promoting Hong Kong brands

The Chamber has joined other trade associations in engaging with the Commercial and Economic Development Bureau on the discussion on promoting “brand-HK” in the Mainland and in that context has gathered suggestions and recommendations from the trade associations involved, which have been submitted to the bureau for consideration. These proposals include, briefly, the following.

- *On Joint promotion*: strategic alliance with the Mainland in brand-promotion through brand merger and acquisitions, brand agencies, co-branding, brand endorsement, brand licensing, etc., and using Hong Kong’s service-industry capabilities to help Mainland brands “go out” internationally.
- *Regulatory enhancement* measures: transparency in advertising, licensing, franchising and use of trademark in the Mainland; recognition of quality certifications and endorsements issued by Hong Kong institutions.
- *Recognition and inspection*: mutual recognition of registration and award schemes; recognizing product inspection and certification undertaken by Hong Kong agencies.

In the context of Trade and Investment Facilitation under CEPA, we would like especially to highlight the importance of protecting intellectual property rights. Many Hong Kong companies are concerned with intellectual property, trademark and copyright issues in the Mainland. To effectively address this matter, concerted efforts between the Hong Kong and Mainland authorities in intellectual property enforcement are needed. Accordingly, we believe the coverage in CEPA on intellectual property

should be extended beyond the current provision for exchange of information. A reference can be made to improve the efficiency of IPR registration as well as IPR enforcement, so as to strengthen coordination and harmonization of standards in registration of trademarks, designs and patents, as well as enforcement against infringements.

Typically, it takes a long time (at least 2.5 years) to complete the registration procedure with the Mainland authority. Hong Kong companies may thus be discouraged from establishing their brands. The practice of “siding along with famous brands” (傍名牌) – imitation or cloning of well-known brand-name products currently being produced or sold in the Mainland – is an acute problem. The infringers use trademarks that are identical to, or similar to famous brand-names to mislead consumers. These infringers often register themselves as offshore “shelf” companies with the same or similar names as famous trademarks. Once registered, these companies then authorize factories in the Mainland to produce and sell the infringing products.

B. Institutional Arrangement

With four supplements – and a fifth to come this year – CEPA is becoming a much more complicated agreement than when it was first crafted in 2003. While we maintain that the institutional structure for CEPA should be simple, there is a strong case to strengthen it to make it work better. The Chamber’s proposals on CEPA’s institutional structure are as follows.

(i) Standing committees

Previously the Chamber advocated that the following three standing committees should be established under CEPA Article 19, as joint bilateral committees with participation by officials of both sides:

- Trade in goods and Rules of Origin
- Trade in services
- Trade and investment facilitation

We maintain our view that these standing committees would be very useful in serving as a platform for communication as well as problem-solving. They will also provide a useful focal point for the private sector and users of CEPA to share views on issues arising from CEPA’s implementation.

(ii) Coordination and engagement with the private sector

We would like to reinforce our recommendation in the previous CEPA Wish List that the governments of the two sides should establish appropriate institutions to enhance the coordination and engagement with the CEPA users. In this Wish List we would like to put forward three proposals.

- The Central Government should consider establishing a dedicated CEPA office in the Mainland to supervise and monitor CEPA's implementation around the country, as well as coordinate and engage with the business sector.
- On Hong Kong's side, we would like to draw attention to the recommendation of the Economic Summit convened by the Chief Executive to establish a consultative arrangement with major business associations on CEPA. At present the government consultation with the business sector has been conducted in a rather haphazard manner. To make it more effective, the consultation arrangement should be rationalized.

Strategic Proposal 2: Establishing a consultative arrangement for CEPA

The establishment of a consultative arrangement with major business associations should be considered to provide a platform for exchanges on trade and investment facilitation measures and problems encountered relating to CEPA implementation, and for gathering views which the trade may have on further services liberalization. The platform will provide a private sector perspective in tapping the full potential of CEPA in further trade liberalization, trade and investment facilitation as well as implementation.

Report on Economic Summit on China's 11th Five Year Plan and the Development of Hong Kong – Attachment A, "Trade and Business", p.6

- In addition, it would be very useful for the two governments to set up a joint CEPA facilitating agency to handle practical problems in CEPA approval. This could include information dissemination of CEPA rules and regulations, as well as consultation hotline on CEPA application procedures. Such an office will be especially helpful for highly regulated industries such as food retailing, distribution and some of the professional services.

III. Trade in services

CEPA has given Hong Kong service providers an early start in tapping the mainland market ahead of foreign competitors, as well as created more working opportunities for the Hong Kong labour force. In terms of liberalization in services, after four rounds of supplements, CEPA has become a substantially "WTO-plus" agreement. As the Mainland continues to liberalize its trading regime, CEPA will remain a very useful vehicle for both Hong Kong and the Mainland to pursue economic integration not just for their mutual benefits, but also to the benefit of the bigger regional and global economy.

In this submission we have updated the Chamber's wish list for further liberalization on trade in services under CEPA. Since the Chamber published its first wish list in 2002,

a lot of the liberalization requests have now materialized, while some others may understandably take longer time. The current wish list, accordingly, contains both requests which have been outstanding for some time, as well as a substantial amount of new requests. Details of the wish list are as follows.

Trade in Services Wish List

Sector	Sub-sector	
Financial Services	Insurance	<p><i>Liberalisation of capital requirement</i></p> <p>(a) Registered capital requirements for insurers in China range from RMB 200-500 million initially, to as high as RMB 1.5 billion depending on the number of branch locations. These were established in 1995, when the Chinese insurance market was relatively closed. Since then, great change has taken place in the Chinese insurance market, with many more Chinese and foreign firms launching operations. Such high capital requirement is thus a deterrent to investors, especially smaller players like those from Hong Kong, which have comparative advantage in service quality and expertise rather than in asset size. Eventually, China's prudential regulation needs to reflect international standards and place a greater emphasis on insurer solvency than on registered capital. Thus it is time to relax the registered capital requirements, starting with Hong Kong operators through CEPA. The Mainland's concern for small domestic players can be alleviated through a gradual programme of reform towards a risk-based solvency regulatory regime, thus enabling it to maintain market soundness and lower capital requirement at the same time. This could begin with a tiered structure of capital requirements relating to the scale of business of large and small providers and calibrated to risks being covered, thus making it possible for lower capital requirement to be applied to Hong Kong providers.</p> <p>(b) In non-life services, for the same level of capital required to create a branch office (RMB200 million), foreign providers obtain a single city license whereas a local company gets a license for a whole region. A gradual way to liberalise this would be to offer Hong Kong providers national treatment through CEPA.</p> <p>(c) Foreign Exchange regulations requires that any remittance of reinsurance premiums in hard currency is taken as eroding the capital base of an insurer, which has to be replenished. Insurers are thus required to create a fund of US\$10 million as a base before doing foreign currency business, and the parent company has to constantly replenish this fund (or US\$5 million for branches with working capital above RMB500 million and US\$2 million if below.) It is hoped that through CEPA Hong Kong providers can be exempt from this requirement.</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 procedure. The number of branches is very important for the banking business, hence Hong Kong banks would like to expedite the opening of more branches per year.</p> <p>(b) Currently, each branch of a Hong Kong bank in the Mainland should be qualified individually under the statutory required ratios (e.g. liquidity ratio, capital adequacy ratio etc.). Hong Kong banks should be allowed to calculate these ratios based on the consolidated account of all Mainland branches, instead of individual branches separately.</p> <p>(c) Hong Kong deposit-taking companies cannot set up business operations in the Mainland. It is recommended that they be allowed to set up operations in the Mainland and to provide the multifunctional deposit card services.</p>
	Banking: RMB business	<p>(a) Hong Kong banks would like to conduct intermediate businesses such as selling bonds and funds in the Mainland.</p> <p>(b) 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>(c) The tax on interest on RMB deposits which applies in the Mainland should be waived for Hong Kong residents who have deposits with Mainland branches of Hong Kong banks.</p> <p>(d) There is a huge demand of RMB mortgage by Hong Kong people (more than 20,000 apartments in the Mainland every year. An extension of RMB personal loan business from credit card to the full range of personal lending businesses will be welcomed by Hong Kong banks and local residents.</p> <p>(e) With first-class systems and services, Hong Kong's banks are best placed to conduct RMB trading settlement, given that Hong Kong is the biggest trading partner of the Mainland. With RMB trading settlement coming under the Current Account (which is fully open in the Mainland) rather than the Capital Account, this would not be difficult and would consolidate Hong Kong's status as a trading center in Asia, without affecting the nation's capital flow.</p> <p>(f) Since the cash flow mechanism of RMB between Hong Kong clearing bank and People's bank has been built up after personal RMB business, it is believed that RMB deposit business for corporations is feasible. If it proves difficult to start the RMB loan business for companies before RMB Capital Account is fully open, then the first step could be to allow companies to conduct RMB deposit business.</p>

		<p>(g) Relaxation of RMB rules for property development: Currently, non-mainland property development companies are unable to exchange foreign currency into RMB for payment of land bid deposits and payment of winning land bids. Consideration can be given to offering preferential treatment to Hong Kong property development companies under CEPA to enable the exchange of Hong Kong dollar into RMB for the purpose of bid deposit and payment of winning bids so that Hong Kong companies can participate fully in the mainland real estate market.</p>
	<p>Securities</p>	<p><i>Asset management: lowering capital requirement</i></p> <p>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 Hong Kong-based 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 Hong Kong-based fund managers.</p> <p><i>Market expansion measures</i></p> <p>(a) Hong Kong financial intermediaries can set up joint venture future brokerage companies in the Mainland with less than 49% ownership, with 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. They 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>(c) We invite the Mainland to consider granting market access for "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 enables Chinese financial institutions to tap into the client base of Hong Kong and build up a larger base for their operation. This will also enhance the cooperation and convergence among professionals from two sides.</p> <p>(d) We also invite the Mainland to expedite the arrangement to</p>

		enable mainland Chinese residents to open up their own brokerage accounts and/or deposit funds with local fund managers for investing in the Hong Kong stock market (the so-called “through-train” arrangement for Mainland residents to invest in Hong Kong securities).
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 will not act as an indirect barrier.</p> <p>(a) Foreign service providers will be allowed 49% maximum ownership for both the mobile sector and the fixed network sector (the latter by 11 December 2007). This contrasts with the treatment for value added services (VAS) where 50% maximum foreign ownership is allowed. The “extra 1%” – the relaxation of ownership from 49% to 50% for basic fixed and mobile service providers – will thus be very valuable for Hong Kong operators.</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, it should be raised to 51%.</p> <p>(c) We do not underestimate the difficulty in getting the “extra 1%” or more for basic fixed and mobile services. If it were deemed too difficult and the ownership level must remain at 49%, Hong Kong entities could still negotiate for a more effective level of management participation. Generally, management participation is a matter for commercial negotiation rather than directly or indirectly tied to any ownership share or directive from Government. Substantial minority shareholders often acquire equal management rights. This will be beneficial to China by attracting investment and enabling it to take advantage of Hong Kong expertise, such as technology, operations, marketing, branding and other soft skills.</p>
	Definition issues	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

		<p>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"> - 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; - 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; - 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; - simple resale of mobile services, including voice and data services provided over wholesale services obtained from Mobile Network Operators (MNOs); - provision of mobile services as Mobile Virtual Network Operators (MVNO) using the network capacity of an MNO. <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, both sides can come to an understanding on the regulatory principles on interconnection; in particular, if 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, or 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"> • 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; • recognition of HKICPA and Hong Kong Institute of Accredited Accounting Technicians (“HKIAAT”) qualifications as equivalent to the relevant staff

		<p>qualification requirements stipulated in the Regulatory Rules on the Provision of Book-keeping Services;</p> <ul style="list-style-type: none"> • 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; • abolition of the Provisional License to Perform Audit-Related Services in the Mainland or, if it is not feasible for the time being, abolition of the requirement for biennial renewal of the Licence; renewal at 3-5 years' intervals should be sufficient for the purposes; • allowing Hong Kong professionals who are suitably experienced and qualified insolvency practitioners to act as Administrators under the revised PRC Bankruptcy Law; • allowing HKICPA members to perform certification/attesting services (公證服務).
	Legal services	<p>Building on the commitments from CEPA I to CEPA IV, both the Hong Kong and Mainland legal sectors would benefit from an extension of liberalisation into the following areas:</p> <ul style="list-style-type: none"> • Moving beyond “association” to joint ventures, so that the sharing of premises and other resources can be more readily and efficiently available. • The current Mainland regulations require a PRC qualified lawyer to surrender his practicing rights under PRC law if he joins a Hong Kong law firm. This restriction should be removed. • Clarification should be sought on the regulations governing new approvals for the operation of a branch or affiliate of a Hong Kong-based trademark and/or patent agency in Mainland China. It appears that new applications from Hong Kong-based firms are no longer being issued, while a CEPA certificate from the Hong Kong Trade and Industry Department does not necessarily lead to the granting of a permit for the establishment of a trademark or patent agency in the Mainland. How new approvals can be obtained thus needs to be clarified. • 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 the granting of exemption to HK solicitors who have post-qualification experience of 10 years or more from taking the whole or part of the qualification examination. We would also like 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.
	Construction & Engineering	<p>(a) Currently, Hong Kong architects are able to gain PRC Class 1 Registered Architect qualification through mutual recognition arrangement. However, this qualification remains a qualification only, unless the architect is either employed by a PRC Design Institute or set up a Design Institute himself. The later is difficult as the vast majority of architectural companies in Hong Kong are of single</p>

		<p>discipline and do not have other supporting disciplines such as geotechnical, structural and building services, nor can they employ enough professionals from other disciplines (especially structural and building services) to fulfill the setting up requirements. It will be very helpful, therefore, if the qualification of Hong Kong professional services suppliers in single discipline can be recognised, allowing Hong Kong professionals to sign the “blueprint” 藍圖. In the longer term, the opportunity for Hong Kong architects to obtain the Mainland qualification without having to be employed by a Design Institute or having to set up a Design Institute himself should be explored with the Mainland authorities.</p> <p>(b) In order to fulfill the setting up requirements and the annual review of the licenses, construction enterprises in China are required to maintain a certain number of Class I registered project managers according to their grading in qualification licenses. However, this is very difficult to achieve due to the following reasons:</p> <ul style="list-style-type: none"> - Class I registered project manager qualifications are no longer issued by MOC; - Re-registration of project managers takes a long time and depends very much on whether enterprise agrees to release the registration when individual project manager leaves the company; - There is no proper recognition mechanism for Hong Kong professionals and no mutual recognition arrangement with Hong Kong and/or international professional institutions. <p>It would help to resolve the problems if there are mechanisms under CEPA so that Hong Kong professionals can register as Class I project manager in PRC.</p> <p>(c) Hong Kong construction-related professional firms would also seek further expansion in the scope of services, beyond scheme design to the full range of professional services; clarification in the criteria for awarding contracts for “technically difficult projects”; as well as opening up of local construction projects, including Mainland government projects for bidding by Hong Kong-owned firms.</p>
	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 move forward to seek recognition of professional qualifications, and to enable qualified professionals to obtain licenses to practice.
	Insurance professionals	From January 2008, an examination centre will be set up in Hong Kong for the mainland qualifying examinations for insurance intermediaries. It is suggested that mutual recognition of insurance intermediaries be fully implemented to enable Hong Kong practitioners to obtain licenses and practice in the Mainland.

	Recruitment/ headhunters	<p>(a) Mainland regulations are very strict on the background of the licensed staff in this field. The criteria include:</p> <ul style="list-style-type: none"> - Diploma plus 6 years related experience, or - Bachelor Degree plus 4 years related experience, or - Master Degree plus 2 years related experience <p>Staff meeting the criteria can be licensed only after they pass the required qualification examination in the Mainland. The minimum number of the licensed staff is six – which is sometimes more than necessary for a specialised recruitment/headhunter company. It is suggested that the requirement of number of licensed staff be removed and the requirement on related experience be relaxed.</p> <p>(b) The current qualification examination takes place once a year, covering labour law, civil law, commercial law, etc., some of which are not related to the daily job of a recruitment company. If the scope of the examination can be limited to labour law and its frequency can be increased to 4 times per year, it will facilitate the development of this sector and help benefit the deployment of human resources for the nation.</p>
Tourism services, Convention and exhibition	Travel agents and tour operators	<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 and to provide services to the rest of China as soon as possible.</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 operation in the Mainland is not mature in the tourism industry. To allow wholesale operators from Hong Kong will help facilitate small size agents to spread around cities, counties and villages over the country with reliable packages, and consolidate client from different points of sale to form regular departures to many destinations. Basically, wholesale tour operator is a facilitator of packages and is not directly involved in sales and distribution which are the jobs of the retail agents. We believe concessions to enable Group Inclusive Tours will benefit both Hong Kong and the Mainland.</p> <p>(d) There are around 1,000 Hong Kong companies providing ticketing services to passengers, who have the potential to expand their business in the Mainland. Currently foreign wholly-owned passenger ticketing operation is not allowed in the Mainland. The licensing of ticketing is under the jurisdiction of the Civil Aviation Administration of China (CAAC). Foreign interests are limited to a JV with the</p>

		Mainland party as the majority shareholder. Hong Kong ticketing service suppliers wish to set up wholly-owned operations to issue both international and domestic tickets in the Mainland.
	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.
	Meeting, Incentive, Convention and Exhibition (MICE)	Under CEPA V, Hong Kong service providers are allowed to organize exhibition in the form of cross-border supply, in Guangdong Province and Shanghai on a pilot basis. Enterprises set up by Hong Kong service suppliers on a wholly-owned, equity joint venture or contractual joint venture basis in Guangdong and Shanghai are allowed to organize overseas exhibition on a pilot basis. We hope that Hong Kong service providers can provide the full set of MICE services in areas other than Guangdong and Shanghai. Both MICE users (who are often small businesses in the Mainland) and local service providers will benefit through introduction of world-class standards of service into this high-value niche market.
Transport and Logistics	Road freight transport	Although Hong Kong companies in container trucks transport can provide direct non-stop road freight transport services between Hong Kong and individual provinces, cities and autonomous region in the Mainland, the level of registered capital required – at RMB10 million – is prohibitively high, and it deters most of the Hong Kong road freight transport companies from entering the market. Such capital requirement should be substantially lowered to facilitate free flow of goods, starting with the Pan-PRD region if not the whole country.
	Logistics	<p>Under official explanation, the major advantage for logistics companies is the right for importing and exporting. They are allowed to issue (1) VAT invoice, (2) storage invoice as well as (3) freight forwarding invoice. However, as from 2005, the situation has changed, with the foreign trading right being opened. There is little case in investing in logistics license under CEPA, instead freight forwarder can invest in storage, road freight and foreign trading under separate registration, which allows for the same logistics functional activities to be carried out.</p> <p>However, registration as a logistics company may still be useful if the registered capital can be lowered from the current US\$5 million, which is very high for Hong Kong small and medium sized logistics firms, to say RMB 5 million. This will enable</p>

		more Hong Kong logistics firms to go to the Mainland.
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) need to meet two criteria simultaneously - the average annual trade value with the Mainland in the preceding 3 years being not less than US\$10 million, and the minimum registered capital for setting up a company in the Mainland being RMB 20 million. 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 do business in the Mainland.
Advertising	Advertising Services	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
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 recognised Hong Kong Universities would prefer to offer Master-level 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, with certificate recognized by the Mainland's education authorities.</p> <p>(c) Another barrier for Hong Kong education institutions is the inability to remit their income back to Hong Kong. Thus the foreign exchange regulation on income of Hong Kong's education institutions should be clarified to enable the latter to remit income to Hong Kong.</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.
Environment	CDM projects	Currently Hong Kong based companies are treated just like any other foreign companies in this regard, preventing them from taking up majority interests in CDM (Clean Development Mechanism) Projects. CEPA be used as the basis for qualifying Hong Kong companies as PRC entities for the purpose of meeting the requirement of majority Chinese

		ownership - as set out in the “ <i>Measures for the Administration of the Operation of Clean Development Mechanism Projects</i> ” – in renewable energy and other projects that are eligible for CDM under the Kyoto protocol. This will enable Hong Kong-based companies to more actively pursue CDM related business.
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. Due to the economic integration between Mainland and Hong Kong, Hong Kong member-based commercial/professional organizations would like to have the ability to set up branches in the Mainland. Furthermore, they would like to be able 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 of Hong Kong’s member-based organization in CEPA, like the definition of Hong Kong service supplier.