

LEGISLATIVE COUNCIL BRIEF

**PROPOSED FREE TRADE AGREEMENT
BETWEEN HONG KONG AND
EUROPEAN FREE TRADE ASSOCIATION**

INTRODUCTION

At the meeting of the Executive Council on 15 December 2009, the Council ADVISED and the Chief Executive ORDERED that Hong Kong should commence negotiations on a Free Trade Agreement (FTA) with the European Free Trade Association (EFTA), which comprises Iceland, Liechtenstein, Norway and Switzerland, on the basis of the elements for negotiations agreed at the exploratory talks with EFTA.

JUSTIFICATIONS

Hong Kong's Position on FTA

2. The Executive Council advised and the Chief Executive ordered in 2000 that while maintaining our commitment to the primacy of the multilateral trading system and the World Trade Organisation (WTO), Hong Kong should adopt a more flexible approach and be prepared to conclude bilateral and regional FTAs with our trading partners where it was in our interest to do so.

FTAs Negotiated by Hong Kong

3. Since then, Hong Kong has sought to pursue bilateral FTAs with our trading partners. In 2003, we signed the Closer Economic Partnership Arrangement with the Mainland. Since then, six supplements on further liberalisation measures were subsequently

concluded. Negotiation with New Zealand on an FTA was recently completed. The two sides have initialled the FTA text in November 2009 and will proceed with legal verification and domestic approval processes with a view to formal signing of the Agreement.

Proposed FTA with EFTA

4. We consider that it is in Hong Kong's interest to negotiate an FTA with EFTA, particularly on trade in services. EFTA includes one of our major trading partners, Switzerland. On trade in services, Switzerland was Hong Kong's 12th largest trading partner in the world in 2007, with such trade totalling HK\$10.7 billion, while Norway ranked 28th with such trade amounting to HK\$ 921 million. On trade in goods, Switzerland was Hong Kong's 14th largest trading partner in the world in 2008, with total trade in goods in the year amounted to HK\$ 67.4 billion⁽¹⁾.

5. The bilateral merchandise trade between Hong Kong and the EFTA States grew at an annual average rate of 15.6 per cent from 2004 to 2008. Noting the close and growing bilateral trade relationship, Hong Kong raised with EFTA the proposal of negotiating an FTA. After two exploratory meetings, it was subsequently decided that negotiations on a Hong Kong/EFTA FTA would cover the following major areas –

- (a) elimination of tariffs on all industrial goods and removal or reduction of tariffs on agricultural products;
- (b) liberalisation of non-tariff barriers, including technical barriers to trade, sanitary and phytosanitary measures, anti-dumping, safeguards, and subsidies measures;
- (c) a set of simple and transparent rules of origin and customs procedures which would facilitate bilateral trade;
- (d) liberalisation of trade in services; and

Note ⁽¹⁾ The European Union (EU) was counted as one single entity for rankings in trade in services, while Member States of the EU were counted separately for rankings in trade in goods due to data availability.

(e) liberalisation and promotion of investment.

6. Both sides also agreed to discuss other subjects including intellectual property protection, competition and government procurement. The aim was to enhance cooperation in areas of mutual interest under these subjects, building on the rights and obligations under the relevant WTO Agreements.

7. The two sides intend to commence negotiations in early 2010.

8. While the benefits of the FTA would depend on the ultimate package achieved, we believe that the FTA has good potential to open up for our local traders more business opportunities in the four EFTA States. The FTA could also act as a new economic platform for our traders and service providers to further expand their businesses.

9. With a comprehensive and ambitious outcome on services in the FTA negotiations, our service industries will enjoy higher level of market access commitments beyond the existing level undertaken by the EFTA under the WTO. In addition, the rules and disciplines developed under the FTA will improve transparency of domestic regulations of the two sides, enhance certainty and minimise restrictions in conducting business between the two sides. On trade in goods, reduction of entry restrictions either by cutting tariffs or removing import barriers would be beneficial to Hong Kong. Assuming a total elimination of tariffs on Hong Kong's domestic exports to the four EFTA States, it is estimated that on the basis of 2008 figures (the latest figures available in the WTO), there would be annual tariff savings of around HK\$ 113 million.

BASIC LAW IMPLICATIONS

10. The proposal is in conformity with the Basic Law, including provisions concerning human rights. Negotiations and conclusion of FTAs is within the high degree of autonomy of the Hong Kong Special Administrative Region (HKSAR) as provided for under Article 151 of the Basic Law. The latter provides, inter alia, that the HKSAR may on its

own conclude and implement agreements with foreign states in the economic, trade and other appropriate fields.

FINANCIAL AND CIVIL SERVICE IMPLICATIONS

11. The conduct of FTA negotiations with EFTA has no financial and civil service implications. We will make use of the existing team designated for FTA negotiations in the Trade and Industry Department to absorb the additional work relating to the negotiations with EFTA. The implications for the implementation of the negotiation outcome will be assessed after the conclusion of the negotiations.

ECONOMIC IMPLICATIONS

12. Generally speaking, FTAs aim at facilitating trade and investment through improving business environment and enhancing market access among the parties to the agreement. FTAs should provide Hong Kong with better access to overseas markets, and create more investment and trade opportunities beneficial to our long-term economic growth. It will also strengthen Hong Kong's status as an international business and commerce centre.

SUSTAINABILITY IMPLICATIONS

13. In overall terms, FTAs can bring better and more favourable market access opportunities to Hong Kong businessmen. They would help sustain the economic development of Hong Kong and reinforce Hong Kong's position as an international trade, economic and financial hub.

PUBLIC CONSULTATION

14. To help develop our negotiation strategy and to better gauge our traders' areas of interest in the EFTA markets, we will consult the Trade

and Industry Advisory Board, major trade and industrial associations as well as professional bodies before and, if necessary, in the course of our negotiations with the EFTA States.

PUBLICITY

15. A press release will be issued and a spokesman will be available to answer media enquiries.

ENQUIRIES

16. For enquiries, please contact Miss Angela Lee, Assistant Director-General of Trade and Industry Department, at 2398 5309.

Trade and Industry Department
18 December 2009