Mainland and Hong Kong
Closer Economic Partnership Arrangement (CEPA)

Frequently Asked Questions – Rules of Origin (ROOs) under
CEPA Agreement on Trade in Goods; and
Certificate of Hong Kong Origin - CEPA (“CO(CEPA)”)"n

Q1: How can products enjoy zero tariff preference under the Agreement on Trade in Goods?

A: According to the Agreement on Trade in Goods (the Agreement), all goods of Hong Kong origin, except those prohibited by the Mainland’s rules and regulations and those prohibited as a result of the implementation of international treaties by the Mainland, as well as products that the Mainland has made special commitments in relevant international agreements, can enjoy zero tariff preference when importing into the Mainland. Starting from the date of implementation of the Agreement (i.e. 1 January 2019), goods of Hong Kong origin imported into the Mainland can fully enjoy zero tariff preference through the enhanced arrangement for rules of origin (ROOs).

If a good can be considered as originating, traders can apply a certificate of Hong Kong origin – CEPA (“CO(CEPA)”) before shipment, in order to enjoy zero tariff treatment under CEPA upon importation into the Mainland. Consignments claiming CEPA zero tariff preference must be supported by CO(CEPA)s issued by the Trade and Industry Department (TID) or the Government Approved Certification Organisations (“GACOs”)1. The Mainland Customs may request the originating goods claimed to have fulfilled the requirements of the Agreement from Hong Kong to declare origin information upon importation. Importers shall take the initiative to

---

1 The GACOs are the Hong Kong General Chamber of Commerce; the Federation of Hong Kong Industries; the Chinese Manufacturers' Association of Hong Kong; the Chinese General Chamber of Commerce and the Indian Chamber of Commerce, Hong Kong.
declare that the goods are eligible for zero tariff and to declare relevant origin information in accordance with requirements of the importing customs; and to submit supporting documents relating to importation of the goods.

Q2: **What does an “originating good” mean?**

A: Under the Agreement on Trade in Goods (the Agreement), a good will qualify as an originating good if it meets other applicable provisions, as well as:

(I) the good is wholly obtained or produced in one side, in accordance with Article 8 of Chapter 4 of the Agreement;

(II) the good is produced in one side exclusively from originating materials; or

(III) the good is produced using non-originating materials in one side, and

   (i) the good falls within the scope of “Product Specific Rules of Origin” (PSRs), and complies with the corresponding change in tariff classification, regional value content (RVC), manufacturing or processing operations or other requirements;

   (ii) the good does not fall within the scope of PSRs, but complies with the requirement that the RVC is greater than or equal to 30% when calculated by the build-up method, or the RVC is greater than or equal to 40% when calculated by the build-down method (“General Rule”).

Q3: **What does “General Rule” mean?**

A: “General Rule” refers to a general rule of origin based on the
calculation of the value added to the products in Hong Kong. It is introduced in addition to the “Product Specific Rules of Origin” (PSRs). The origin criterion for the General Rule is that the regional value content (RVC) of a product is greater than or equal to 30% when calculated by using the Build-up method; or greater than or equal to 40% when calculated by using the Build-down method.

Q4: What does “Regional Value Content” mean?

A: The calculation of “Regional Value Content” (RVC) shall be consistent with generally accepted accounting principles, and calculated in accordance with the following formula:

\[
RVC = \frac{\text{value of originating materials} + \text{labour costs} + \text{product development costs}}{\text{FOB value}} \times 100\%
\]

The value of originating materials shall include the value of originating raw materials and component parts. Product development refers to product development carried out in one side for the purposes of producing or processing the exporting goods. Expenses incurred in product development shall be related to the exporting goods. These expenses include fees payable for the development of designs, patents, patented technologies, trademarks or copyrights (collectively “these rights”) carried out by the manufacturer himself, fees payable to a natural or legal person in one side for undertaking the development of these rights, and fees payable for purchasing these rights owned by a natural or legal person.

---

2 Generally accepted accounting principles means the recognised accounting standards of one side with respect to the recording of revenues, expenses, costs, assets and liabilities, the disclosure of information and the preparation of financial statements. Those standards may encompass broad guidelines of general applications as well as detailed standards, practices and procedures.

3 Originating material means material that qualifies as originating in accordance with the provisions of Chapter 4 of the Agreement on Trade in Goods (the Agreement).

4 FOB means the free-on-board value of the good, inclusive of the cost of transport to the port or site of final shipment abroad.
person in one side. The expenses incurred shall be identifiable under generally accepted accounting principles.

Or

(II) Build-down method

\[ RVC = \frac{FOB \text{ value} - \text{value of non-originating materials}^5}{FOB \text{ value}} \times 100\% \]

The value of non-originating materials shall be determined according to one of the following circumstances:

(i) in case of the imported non-originating materials, the value of non-originating materials shall be the CIF value\(^6\) of the materials at the time of importation;

(ii) in case of the non-originating materials obtained in one side, the value of non-originating materials shall be the earliest ascertainable price paid or payable in one side. The value of such non-originating materials shall not include freight, insurance, packing costs and any other costs incurred in transporting the material from the supplier’s warehouse to the manufacturer’s location.

If the good falls within the scope of “Product Specific Rules of Origin” (PSRs) and its corresponding Rules of Origin (ROOs) is RVC, the good shall fulfil the RVC requirement as specified (e.g. to fulfil the RVC requirement of which 50% for Build-down method or 40% for Build-up method, or to fulfil the RVC requirement of which 30% for

---

5 Non-originating material means material that does not qualify as originating in accordance with the provisions of Chapter 4 of the Agreement, and material of undetermined origin.

6 CIF means the value of the good imported, inclusive of the cost of insurance and freight up to the port or place of entry into the importing side.
If the General Rule is applicable for the good concerned, it should comply with the requirement that the RVC is greater than or equal to 30% when calculated by using the Build-up method; or greater than or equal to 40% when calculated by using the Build-down method.

Q5: What does “Change in Tariff Classification” mean?

A: “Change in Tariff Classification” refers to the processing and manufacturing operations of non-originating materials carried out in the area of one side and resulting in a specified change in their tariff classification under the Harmonised System. This includes “Change in Tariff Chapter”, “Change in Tariff Heading”, etc. under “Product Specific Rules of Origin” (PSRs).

Q6: Do traders need to fill in the certificate of Hong Kong origin – CEPA in accordance with the Mainland Tariff lines listed in the “Product Specific Rules of Origin”? 

A: The tariff lines on the list of “Product Specific Rules of Origin” (PSRs) is presented on the basis of HS 6-digit level. Nonetheless, traders should follow the past practice of filling the certificate of Hong Kong origin – CEPA (“CO(CEPA)”) with Mainland tariff code(s) in 8-digit level.

Q7: If manufacturers find that their products cannot fulfil the “General Rule” under their existing mode of production, can they request developing “Product Specific Rules of Origin” (PSRs) for their products? Besides, can manufacturers lodge requests for revisions to PSRs of the products?

A: Yes. Manufacturers who wish to request for revisions to CEPA ROOs should refer to the relevant circular for the arrangements for CEPA ROO Consultations and the application procedures (the

Q8: If manufacturers find that their products cannot fulfil the “Product Specific Rules of Origin” under their current mode of production, can they choose to apply the “General Rule”?

A: No. General Rule is only applicable to products that do not have “Product Specific Rules of Origin” (PSRs). Manufacturers who wish to request for revisions to CEPA ROOs should refer to the relevant circular for the arrangements for CEPA ROO Consultations and the application procedures (the circular is available at [http://www.tid.gov.hk/english/cepa/tradegoods/develop_no_roo.html](http://www.tid.gov.hk/english/cepa/tradegoods/develop_no_roo.html)).

Q9: Will there be any change in application procedures for certificate of Hong Kong origin – CEPA upon the implementation of the Agreement on Trade in Goods on 1 January 2019?

A: Under the Agreement on Trade in Goods, the application procedures for certificate of Hong Kong origin – CEPA (“CO(CEPA)”) will remain unchanged. The validity period of CO(CEPA) will be extended from 120 days from the date of issue to one year from the date of issue.

Q10: What are the procedures for applying for certificate of Hong Kong origin – CEPA?

A: To claim for zero tariff under CEPA, the products must be supported by a certificate of Hong Kong origin – CEPA (“CO(CEPA)”) issued by the Trade and Industry Department (TID) or the Government Approved Certification Organisations\(^1\) when importing into the Mainland. Before applying for CO(CEPA),
manufacturers/operators are required to apply for Factory Registration (FR) with TID to demonstrate that their factories/establishments possess sufficient capacity to produce the goods concerned. Details of the application procedures and conditions of issuing CO(CEPA) have been set out in Certificate of Origin Circular No. 5/2018 which is available at <https://www.tid.gov.hk/english/aboutus/tradecircular/all_in_one/2018/as032018.html>.

**Q11: Is outward processing allowed under CEPA?**

**A:** Yes. Manufacturers may continue to make use of the Outward Processing Arrangement (OPA) to subcontract outside Hong Kong the subsidiary or minor finishing processes. After outward processing, the finished goods must be returned to Hong Kong before applying for a certificate of Hong Kong origin – CEPA (“CO(CEPA)”). Semi-finished goods would not be able to enjoy zero tariff under CEPA.

**Q12: What are the requirements for including product development costs in the regional value content formula when using Build-up method?**

**A:** “Product development” refers to product development carried out in Hong Kong for the purposes of producing or processing the exporting goods. Expenses included in product development shall be related to the exporting goods. Product development expenses include:

(i) fees payable for the development of designs, patents, patented technologies, trademarks or copyrights (collectively “these rights”) carried out by the manufacturer himself;
(ii) fees payable to a natural or legal person in Hong Kong for undertaking development of these rights; and

(iii) fees payable for purchasing these rights owned by a natural or legal person in Hong Kong.

The expenses incurred shall be identifiable under generally accepted accounting principles. Details have been set out in Certificate of Origin Circular No. 6/2018 which is available at <https://www.tid.gov.hk/english/aboutus/tradecircular/all_in_one/2018/as042018.html>.

Q13: Can the goods or materials originating from the Mainland be considered as originating from Hong Kong?

A: Under the Agreement on Trade in Goods (the Agreement), where originating goods or originating materials of one side are incorporated into a good in the other side, such goods or materials shall be considered as originating in the latter side. In other words, raw materials originating in the Mainland will be considered to originate in Hong Kong if they are incorporated into goods manufactured in Hong Kong and for export to the Mainland under the Agreement.

Nonetheless, where the good of Hong Kong is subject to the regional value content (RVC) criterion, the RVC without counting the value of originating goods or originating materials of the Mainland shall be greater than or equal to 15% (build-up method) or 20% (build-down method) in accordance with the respective formulae. In other words, even though a manufacturer includes the Mainland originating goods or materials in the calculation of RVC of the good, the RVC originated from Hong Kong cannot be less than 15% (build-up method) or 20% (build-down method).
Details have been set out in Certificate of Origin Circular No. 7/2018 which is available at <https://www.tid.gov.hk/english/aboutus/tradecircular/all_in_one/2018/as052018.html>.

April 2019