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## **Hong Kong**

**Post:** Hong Kong

### **Wine Produced in Hong Kong Enters Duty-free into China**

**Report Categories:**

Agriculture in the News

Wine

Country/Regional FTA's

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**Report Highlights:**

The Hong Kong food and beverage industry is one of the most active sectors utilizing the benefits offered by the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA). Now wine can be added to the list of such products. Hong Kong saw the opening of two wineries which have been established, in part, to enjoy China's zero import tariff rate provided to made-in-Hong Kong food products exported to China under the CEPA. China imposes a number of taxes on wine including tariff (14%), value added tax (VAT -17%) and consumption tax (10%), turning the effective tax rate as high as 48 percent. Reportedly, the elimination of the import tariff provided by CEPA could lower the effective rate to around 8%.

## **Summary**

The Hong Kong and Mainland Chinese governments signed a Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA) in 2003 fostering economic cooperation in a number of areas. One of the features is the zero import tariff rate provided to China-bound made-in-Hong Kong products.

Between 2003 and 2010, Hong Kong's domestic exports of agricultural and food to China increased by 151 percent reaching US\$76 million in 2010. Being eligible for zero import tariffs, products have to apply for a certificate of Hong Kong origin (CO) from the Hong Kong Trade and Industry Department. Starting 2010, Hong Kong's trade statistics began to show the export of domestically produced wine to China (US\$70,000). Currently, there are two wineries in Hong Kong with both of them indicating an interest in utilizing the CEPA advantage to have their wine exported to China.

### **Mainland – Hong Kong Closer Economic Partnership Arrangement (CEPA)**

CEPA was signed in 2003 with an objective to further enhance the economic cooperation and integration between Hong Kong and China. It covers three main areas: trade in goods, trade in services and trade and investment facilitation. It does not only provide opportunities to Hong Kong businesses to gain access to the China market, overseas investors could also leverage on CEPA benefits by establishing businesses in Hong Kong.

Subsequent to the signing of CEPA in 2003, the agreement has been supplemented with further liberalization measures in subsequent years. Ice cream was the only food item exported to China tariff free in 2004 during the first phase of CEPA. At present, all products of Hong Kong origin, except for a few prohibited articles, can be imported into the mainland duty free under CEPA.

In the area of services, the service sectors covered by liberalization of trade in services under CEPA has already expanded to 44 including medical services, banking, tourism, distribution; banking, etc.

CEPA also tends to foster cooperation between China and Hong Kong through a series of trade and investment facilitation measures in a variety of areas such as testing and certification, cultural exchange, environmental protection, innovation and technology industries, as well as education.

A tourism cooperation measure known as the Individual Visit Scheme (IVS) was first introduced under CEPA in 2003. IVS allows Mainland Chinese the ability to travel to Hong Kong in a private capacity, causing a boom in all tourism-related industries including the retail industry.

### **Zero Import Tariff on Made-in-Hong Kong Goods**

To help Hong Kong manufacturers better explore the China market, CEPA allows made-in-Hong Kong goods to be imported to Mainland China with zero import tariff. There are no requirements for the manufacturers as to how long they have established their operations in Hong Kong. The only requirement is that products have to meet the CEPA rules of origin –CO (CEPA), which have been developed and agreed to by both governments.

The Hong Kong Trade and Industry Department is responsible for the implementation of CEPA. Hong Kong manufacturers interested in enjoying CEPA benefits are required to have their plants registered with the Department. Upon application, government officials will conduct a site visit to make sure that the plants are adequately equipped to carry out the CO required production procedures. After the plant is successfully registered with the Trade Department, every shipment has to apply for a CO (CEPA) which then is to be passed to Mainland importers. The importers in China are entitled to enjoy tariff preference if they are able to show the CO (CEPA) when declaring imports to the Mainland customs authority. Each CO(CEPA) is valid for 120 calendar days.

There exists a procedure in which Hong Kong manufacturers can request the Hong Kong Trade and Industry Department to develop the CEPA rules of origin for a particular product in case the rules have not yet been set for the product. Both governments have periodic consultation meetings on the rules of origin under CEPA. The rules of origin applications will be approved upon mutual agreement between the Hong Kong and Chinese governments.

### **Breakdown of CO (CEPA) by Product Types**

Between 2003 and September 2011, the Hong Kong Trade and Industry Department approved a total of 18,779 applications of CO (CEPA) for food items at a FOB value of US\$411 million. In terms of number of applications of CO, the food industry is one of the most active sectors utilizing the benefits offered by CEPA.

The table below shows the number of CO(CEPA) applications received and approved by the Hong Kong government.

**Table 1. Hong Kong Origin Product Applications (CEPA) by Product Types 2003 –Sept 2011**

<b>Product Types</b>	<b>Cumulative No. of CO(CEPA) Applications Received</b>	<b>Cumulative No. of CO(CEPA)s Approved</b>
Food and Beverages	19,345	18,779
Food Residues and Animal Fodder	151	149
Mineral Products	1	-
Chemical Products	4,528	4,428
Pharmaceutical Products	8,719	8,606
Colouring Matters	2,682	2,633
Cosmetics	132	121
Plastics and Plastic Articles	13,609	13,505
Leather and Furskin Articles	244	230
Paper and Printed Articles	2,406	2,339

Textiles and Clothing	18,568	17,944
Glass and Glassware	2	-
Jewelry and Precious Metals	590	585
Base Metal Products	3,519	3,487
Machinery and Mechanical Appliances	97	91
Electrical and Electronic Products	1,437	1,385
Optical, Photographic and Cinematographic Instruments & Parts	395	336
Measuring and Checking Instruments and Parts	36	35
Clocks and Watches and Parts Thereof	586	563
Furniture	1	1
Toys and Games or Sports Requisites	1	1
Miscellaneous	5	5
<b>Total (note)</b>	<b>76,362</b>	<b>74,553</b>

**Source :** Hong Kong Trade and Industry Department

**Notes:** 1) The total figure may not be equal to the sum of all Product Types as one CO(CEPA) can cover products of more than one type. 2) The number of CO approved for Food and Beverages amounted to 18,779 at a total FOB value of HK\$3200 million (US\$411 million).

### **Surge in Hong Kong's Domestic Food Exports to China**

China-Hong Kong CEPA was signed in 2003. Ice cream was the only food item exported to China tariff free in 2004 during the first phase of CEPA. However, food items were greatly expanded in the ensuing phases, which started in January 2005. In 2003, Hong Kong's domestic agricultural and food exports to China amounted to US\$30 million but surged to US\$76 million in 2010, representing a 151 percent increase, which is far more conspicuous than the 18 percent increase to the second largest market, the U.S. (See table below). While there are a number of factors accounting for Hong Kong's surge in domestic food exports to China such as China's increased demand for quality food, the CEPA certainly has played a role.

Sources revealed that Chinese mooncakes (festival food items - HS code 1905) are the food category

very actively utilizing the CEPA advantages. The made-in-Hong Kong label provides mainland Chinese consumers with confidence in the quality and food safety of this very popular festival food item. Also, sauces & condiments (HS code 2103), and candy (HS code 1704) produced in Hong Kong are very popular food exports to China and have demonstrated very remarkable growth in the past few years. Statistics also showed that Hong Kong started to export locally produced wine to China in 2010. In 2010, the export value of made-in-Hong Kong wine amounted to US\$0.07 million (table 3).

**Table 2.** Hong Kong: Domestic Agricultural and Food Exports Growth to Major Markets, 2003 – 2010, US\$ million

	2003	2004	2005	2006	2007	2008	2009	2010	% Change 2010/2003
-- World	234	229	232	244	255	271	267	332	42%
China	30	29	38	47	64	54	60	76	151%
United States	48	43	43	39	38	43	38	57	18%

**Source:** World Trade Atlas – Hong Kong Census & Statistics Department

**Table 3.** Hong Kong: Domestic Ag & Food Exports Growth to China by HS Codes, 2003 – 2010, US\$ million

HS	Description	2003	2004	2005	2006	2007	2008	2009	2010	% Change 2010/ 2003
	China	30.11	28.57	37.75	47.42	63.86	54.26	60.38	75.60	151%
	Agricultural, Fish, & Forestry Total	30.11	28.57	37.75	47.42	63.86	54.26	60.38	75.60	151%
19	Preparations Of Cereals, Flour, Starch	4.53	4.20	13.74	15.76	14.87	17.63	30.15	32.41	616%
21	Miscellaneous Edible Preparations	3.27	4.56	4.57	5.73	10.87	6.60	8.69	17.73	442%
17	Sugars And Sugar Confectionary	5.17	5.19	7.54	7.27	8.64	7.67	5.36	9.05	75%
330210	Mixt Of Odoriferous Subst	6.54	4.63	3.12	4.04	5.52	5.91	4.07	4.33	-34%
2202	Waters,Min Or Aerated,Sweet	0.08	0.10	2.08	7.66	14.45	7.61	3.83	2.97	3786%
44	Wood And Articles Of Wood; Pig (Incl Lard) & Poultry Fat,Rendered,	4.02	3.85	2.48	3.26	3.51	2.86	2.73	2.67	-34%
1501	Fat,Rendered,	0.04	0.01	0.07	0.24	1.48	1.54	2.75	1.95	5384%
20	Preparations Of Vegetables, Fruit, Cocoa And Cocoa	0.28	0.30	0.16	0.08	0.25	0.43	0.63	1.04	276%
18	Preparations	0.00	0.01	0.01	0.05	0.74	0.50	0.45	0.76	44425%
1518	Animal Or Veg Fats & Oils Edible Preparations Of Meat,	1.25	0.96	0.38	0.53	1.01	0.74	0.44	0.55	-56%
16	Fish, Flours,Meals & Pellets Of	0.03	0.06	0.12	0.09	0.20	0.06	0.15	0.50	1603%
230110	Meat	0.01	0.21	0.14	0.23	0.27	0.26	0.24	0.34	3005%
3505	Dextrins & O Mod Starches Lard Stearin & Oil,	0.60	0.70	0.83	0.51	0.30	0.39	0.32	0.26	-56%
1503	Oleostearin & Oil Fish And Crustaceans,	3.22	2.66	0.46	0.06	0.02	0.50	0.05	0.23	-93%
03	Molluscs	0.46	0.29	0.08	0.40	0.10	0.08	0.09	0.20	-56%
04	Dairy Produce; Birds' Eggs; Seeds, Fruit And Spores, For	0.07	0.00	0.00	0.00	0.00	0.01	0.04	0.19	154%
1209	Sowing	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	8527%
<b>2204</b>	<b>Wine Of Fresh Grapes, Incl</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.07</b>	~~

09	<b>Fortified;</b> Coffee, Tea, Mate And Spices	0.17	0.20	0.21	0.45	0.51	0.21	0.13	0.06	-66%
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**Source:** World Trade Atlas – Hong Kong Census & Statistics Department

## Hong Kong Wineries Begin to Use CEPA

A relatively new product within the food and beverage category that has begun to take advantage of CEPA is wine, which if produced in Hong Kong can enjoy significant tariff reductions on traded products. China imposes a number of taxes on wine including tariff (14%), value added tax (VAT - 17%) and consumption tax (10%), which results in an effective tax rate as high as about 48 percent. Reportedly, the elimination of the import tariff lowers the effective rate to about 8 percent.

The governments have set the rules of origin for wine. Hong Kong wine producers have to carry out specified production processes in Hong Kong in order that their products could be classified as Hong Kong products.

Mainland 2011 Tariff Code	Product Description	Rules of Origin
22042100	Wine of fresh grapes, in containers holding 2L or less	Manufactured from grapes. Fermentation and production have to be done in Hong Kong.

**Source:** Hong Kong Trade and Industry Department

At present, there are two wineries in Hong Kong. They are the so-called ‘urban’ wineries located in industrial buildings. Both of them are owned by Canadians and use U.S. grapes among others as raw materials.

The first winery was established in 2008. The owner said they had planned to open up a winery in Hong Kong well before the remarkable boom of the wine market which was triggered by the elimination of wine duty in 2008, but that she saw both Hong Kong and China as fast growing wine consumption markets and that Hong Kong would have the potential to develop into a trading hub.

Located in an industrial building in the urban area, this first winery in Hong Kong has a production area of about 6000 square foot. Between 2008 and 2011, it bought 150 MT of grapes, about 82 MT were from the U.S. According to the owner, grapes are selected for import based on quality each year; they do not have a particular preference for grapes from a particular country. Apart from the U.S., they also sourced grapes from Italy. The winery had its first release in December 2008 and so far has sold over 30,000 bottles of wine with price ranging from US\$25 -39 per bottle. Production in the past few years varied from 30,000 to 80,000 bottles a year while capacity could reach 100,000 bottles a year.

The raw material, grapes, is imported from overseas. However, production processes such as fermenting, pressing and aging are all carried out in Hong Kong. Thus, they are able to fulfill the criteria of “made-in-Hong Kong”.

A more recently established winery is also set to sell wine to Hong Kong and China. Reportedly, the Canadian entrepreneur invested over US\$5 million establishing a 40,000 square foot winery in an

industrial building. Over 90 percent of the barrels were brought from France while grapes were sourced from the U.S., Australia and New Zealand. The winery has already produced over 4000 cases of wine selling between US\$29 to US\$39 per bottle.

### **Other Wine-Related Reports**

**Hong Kong's Import Regulations on Wine | FAIRS Subject Report | Hong Kong | Hong Kong | 12/20/2010**

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Hong%20Kong%e2%80%99s%20Import%20Regulations%20on%20Wine\\_Hong%20Kong\\_Hong%20Kong\\_12-13-2010.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Hong%20Kong%e2%80%99s%20Import%20Regulations%20on%20Wine_Hong%20Kong_Hong%20Kong_12-13-2010.pdf)

**Hong Kong Imports of U.S. Wine Set New Record 2011 | Market Development Reports, Wine | Hong Kong | Hong Kong | 2/7/2011**

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Hong%20Kong%20Imports%20of%20U.S.%20Wine%20Set%20New%20Record%202011\\_Hong%20Kong\\_Hong%20Kong\\_2-2-2011.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Hong%20Kong%20Imports%20of%20U.S.%20Wine%20Set%20New%20Record%202011_Hong%20Kong_Hong%20Kong_2-2-2011.pdf)