

**Bills Committee on
Revenue Bill 2002 and Revenue (No.2) Bill 2002**

**Administration's response to concerns
raised by the Hong Kong Wine Industry Coalition**

In his 2002-03 Budget, the Financial Secretary announced his proposal to increase the *ad valorem* duty on wine from 60% of the ex-factory price to 80%. The purpose of this measure is to raise additional revenue for the Government. To prevent stock-piling and protect revenue, the Chief Executive signed the Public Revenue Protection (Revenue) Order 2002 to give temporary legal effect to the proposal, which came into effect from 2.30 p.m. on 6 March 2002. The Administration now seeks the Legislative Council's approval of the Revenue Bill 2002, which implements the proposed increase in the duty on wine. The proposal will cease to have effect as from 6 July should the Revenue Bill 2002 not be passed by the Legislative Council.

Views of the Hong Kong Wine Industry Coalition

2. After the proposed increase in the duty of wine was announced, the Hong Kong Wine Industry Coalition expressed their concerns relating to the proposal. Their main views are that the proposed duty increase would seriously affect the catering, hospitality and entertainment industries, that it is contradictory to government's policy of developing the wine industry in Hong Kong, and that the Government might not be able to raise the additional revenue envisaged if consumers shift to cheaper products.

Actual Impact of Retail Price of Wine : Survey and Analysis Results

3. We wish to point out that, as duty is levied on the wine's ex-factory price, rather than its far-higher retail price, the actual effect of the proposed wine increase will be minimal both on average and in particular for the bulk of the lower to medium-priced wine. According to the duty

revenue figures for 2001, the average ex-factory price of a bottle of wine (750 ml) consumed in Hong Kong was \$30, and the average duty paid per bottle was \$18. Under the present proposal, the average duty payable would rise marginally by \$6 to \$24 for each bottle of wine. If we assume from the latest survey results (paragraph 5 below refers) that the ex-factory price of a bottle of wine makes up about 15% of its retail price, after the proposed duty increase, the duty payable would increase by only 3% of the retail price of the wine.

4. In fact, out of the 12.25 million bottles of wine consumed in 2001, close to 90% attract a duty below \$30, and over 70% attract a duty below \$16. This latter category of wine, after the proposed duty increase, will only attract an additional maximum of \$5.3 per bottle, and the 20% of wines, which attract a duty between \$16 and \$29.9, will be liable for additional duties in the order of between \$5.3 and \$10 per bottle only. In the whole year of 2001, only 8,112 (or 0.07%) bottles of wine consumed locally attracted a duty of over \$600. Details of the market share of wine of different values are set out in the table at *Annex A*.

5. In order to ascertain more precisely the impact of the proposed duty increase on the retail price of wine, the Customs and Excise Department carried out surveys during February and April 2002 on the prices of wine. For this purpose, 21 popular brands of wine with a variety of prices were selected. The surveys found that 17 of the 21 brands sell for between \$39 and \$189 at supermarkets, with additional duties payable after the proposed duty increase ranging between \$1.3 and \$7.52 per bottle. The additional duties as a share of retail price for most of these wines vary between 2% and 5%. The remaining four brands sell for between \$259 and \$650 per bottle, with additional duties payable ranging from \$10.54 to \$26.86. Details of the findings are set out at the table at *Annex B*.

6. It can be seen from the above survey and analysis results that the present proposed increase in the duty on wine would have a very small effect on duty payable and hence should have little impact on the retail price of wine. This is especially true for wine in the low to medium price-ranges, which represents an absolute majority of the wine consumed locally (90% of wine attracts an additional duty of less than \$10 per bottle). We do not therefore expect consumption of wine to be seriously affected.

The proposal will not have any significant impact on most wine consumers and minimal impact on people's livelihood. It is also unlikely that such a mild increase, which would translate into only a marginal percentage increase in the retail price for most wines, would damage the wine industry or the catering, hospitality and entertainment industries, as claimed by the Coalition.

Stable Consumption and Duty Revenue in Past Years

7. The revenue collected from duty on wine has remained stable in the last three years, at about \$220 million per annum. Given the stable revenue stream and the very mild increase in duty and hence minimal impact on consumption, we expect the proposal to be revenue-productive.

Hong Kong's Development as a Wine Distribution Centre

8. As Members will be aware, wine which is imported for re-export is **not** subject to duty. The rate of duty on wine is therefore not relevant to Hong Kong's position and development as a wine distribution centre. Lowering or restraining the increase in duty will not help promote Hong Kong's position as a wine distribution centre. And, given its minimal impact on the duty payable and hence retail price of wine, it is unlikely that the proposal will affect the consumption of wine in any significant way.

9. It is worth noting that, while Hong Kong's duty regime on wine is based on the ex-factory price, the wine duty regime in the Mainland of China and in Macau have a different basis. The wine duties in these places, as far as we understand, are levied on the cost-insurance-freight price of wine, which includes more cost elements than the ex-factory price. In the case of the Mainland, other charges and taxes are levied on wine, over and above the wine duty. It is therefore difficult to compare on a like-for-like basis the wine duty rates of these places with ours. In broad term, we understand that the average duty payable on wine in Hong Kong does not compare unfavourably to the rates in most countries/economies in the region.

Duty System

10. The Coalition suggest that in the long term, the existing *ad valorem* system should be replaced with a specific system. It should be noted that a specific duty system is regressive and, in general, weighted in favour of expensive products. The present system for duty on alcoholic beverages was adopted in 1994 because of its advantages as a progressive duty, and a stable source of revenue.

Conclusion

11. Under the present economic situation and fiscal position, the Government must find ways to improve revenue yield from existing sources which will have the least impact on people's livelihood. A mild increase in the duty on wine will help to reinforce a steady and useful revenue stream while at the same time, having minimal effect on people's livelihood. We hope Members will support the proposed increase. We stand ready to explain the Government's views in greater detail at the Bills Committee meeting on 7 May 2002.

Finance Bureau
May 2002

Market share of wine 2001

(1)	(2)	(3)	(4)	(5)
<u>Retail price</u> (assuming ex-factory price makes up 15% of retail price)	<u>Market share in terms of</u> <u>no. of bottles</u>	<u>Ex-factory price</u>	<u>Duty per bottle</u> <u>before proposed</u> <u>duty increase</u>	<u>Additional duty</u> <u>after proposed</u> <u>duty increase</u>
Below \$67	26.2% (3,209,445 bottles)	Below \$10	Below \$6	Below \$2
\$67 - \$112	24.4% (2,991,824 bottles)	Below \$17	Below \$10	Below \$3.3
\$113 - \$179	20.6% (2,515,403 bottles)	Below \$27	Below \$16	Below \$5.3
\$180 - \$332	16.8% (2,063,222 bottles)	Below \$50	Below \$30	Below \$10
\$333 - \$666	7.7% (941,558 bottles)	Below \$100	Below \$60	Below \$20
\$667 - \$2,219	3.7% (460,757 bottles)	Below \$333	Below \$200	Below \$66.7
\$2,220 - \$4,446	0.4% (47,303 bottles)	Below \$667	Below \$400	Below \$133.3
\$4,447 - \$6,666	0.1% (12,872 bottles)	Below \$1,000	Below \$600	Below \$200
\$6,667 and over	0.1% (8,112 bottles)	\$1,000 and over	\$600 and over	\$200 and over
	<u>100.0% (12,250,496 bottles)</u>			

Total ex-factory price of wine consumed in 2001 : \$374,333,257

Total no. of bottles in 2001 : 12,250,496

Average ex-factory price per bottle : \$30.6

Survey on 21 popular brands of wine

(a) Sample	(b) Retail price per bottle in end-Feb 2002 (HK\$)	(c) Ex-factory price per bottle (HK\$)	(d) Duty per bottle before proposed increase in duty rate (HK\$)	(e) Duty as percentage of retail price in end-Feb 2002 (d)/(b)	(f) Additional duty per bottle (HK\$) (d) x 33.33%	(g) Additional duty as percentage of retail price in end-Feb 2002 (f)/(b)	(h) Retail price per bottle in end-April 2002 (HK\$)
1	39.00	8.70	5.22	13.38%	1.74	4.46%	49.00
2	49.00	13.60	8.16	16.65%	2.72	5.55%	58.00
3	49.55	10.70	6.42	12.96%	2.14	4.32%	49.55
4	50.00	11.40	6.84	13.68%	2.28	4.56%	60.00
5	56.50	6.50	3.90	6.90%	1.30	2.30%	48.00
6	59.00	13.80	8.28	14.03%	2.76	4.68%	67.00
7	59.00	13.80	8.28	14.03%	2.76	4.68%	67.00
8	59.00	23.70	14.22	24.10%	4.74	8.03%	63.50
9	78.50	17.50	10.50	13.38%	3.50	4.46%	78.50
10	85.00	17.50	10.50	12.35%	3.50	4.12%	85.00
11	101.50	32.94	19.76	19.47%	6.59	6.49%	117.50
12	122.67	24.70	14.82	12.08%	4.94	4.03%	122.67
13	128.67	29.40	17.64	13.71%	5.88	4.57%	138.00
14	129.00	23.56	14.14	10.96%	4.71	3.65%	145.00
15	147.00	28.10	16.86	11.47%	5.62	3.82%	147.00
16	152.00	37.60	22.56	14.84%	7.52	4.95%	168.00
17	189.00	33.83	20.30	10.74%	6.77	3.58%	215.00
18	259.00	52.71	31.63	12.21%	10.54	4.07%	259.00
19	330.00	113.50	68.10	20.64%	22.70	6.88%	381.50
20	361.33	120.80	72.48	20.06%	24.16	6.69%	369.00
21	650.00	134.31	80.59	12.40%	26.86	4.13%	650.00