



STATE OF CALIFORNIA
OFFICE OF TRADE AND INVESTMENT
加州貿易投資代表處

June 20, 2002

Gray Davis
Governor

Lon Hatamiya
Secretary

Janie M. Fong
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Director
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California
Office of
Trade and
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Via Facsimile: 2801-7134

The Honorable Margaret Ng,
Chairwoman, Bills Committee on Revenue Bill 2002
And Revenue (No.2) Bill 2002, Legislative Council
Hong Kong SAR

Dear Chairwoman Ng,

On behalf of the State of California I would like to bring an issue to your attention, which may negatively impact trade between California and the Hong Kong SAR.

The Financial Secretary's 2002-2003 Budget includes a proposal to increase the duty rate on wine from 60% to 80% and the Government accordingly introduced a Revenue Bill to the Legislative Council on April 12th to amend the Dutiable Commodities Ordinance to implement the proposed increase in the duty rate. Our understanding is that the Legislative Council has established a Bills Committee to scrutinize the proposed increase and discuss the revenue bills in detail. While it is of course entirely within the purview of the Hong Kong SAR to raise duty rates as it sees fit I did want to point out the negative impact that the proposed increase will have on trade between California and Hong Kong SAR, California's wine industry, and Hong Kong's local wine industry and to urge the government to reconsider its proposal.

A duty increase from 60 to 80% will raise retail prices by approximately 12% -an increase which will have a tremendously harmful impact on Hong Kong's local wine industry as well as on California's wine industry. Wine consumption is extremely price sensitive and the proposed increase will almost certainly result in a major reduction in wine consumption. Hong Kong's catering, retail, restaurant and entertainment industries, all of which are highly valued trading partners for our State would also be adversely affected by such a decline in consumption. Moreover, the decline in consumption, as consumers switch to lower-priced wines or other beverages, may actually result in a net reduction in duty revenues.

It is my hope that the Hong Kong SAR government will reconsider the proposal to increase the duty on wine and that you will take the potential adverse impacts of the proposed increase into account as you consider amending the Dutiable Commodities Ordinance.

Very truly yours,

Janie M. Fong
Director

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