

財經事務及庫務局
(庫務科)
香港下亞厘畢道
中區政府合署

**FINANCIAL SERVICES AND THE
TREASURY BUREAU**
(The Treasury Branch)
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21 May 2007

Ms Polly Yeung
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central

Dear Ms Yeung,

Bills Committee on Revenue Bill 2007

Thank you for your letter of 14 May 2007. The Administration's response to the issues raised by members is set out in the ensuing paragraphs.

Reflection of duty reduction in retail prices

Duty on alcoholic beverages is levied on a product's ex-factory price. According to the 2006 statistics of the Customs and Excise Department (C&ED), the average duty levied on a 330ml bottle of beer is about \$0.57 (40% of ex-factory price) and that on a 750ml bottle of wine is about \$24.4 (80% of ex-factory price). Therefore, assuming a constant ex-factory price, the average duty saving after the duty reduction proposed in the 2007-08 Budget would be about \$0.29 for a bottle of beer and \$12.20 for a bottle of wine.

Wine products

We understand from our recent meeting with the Hong Kong Wine and Spirits Industry Coalition (HKWSIC) that most wine importers had been selling their products at reduced prices with effect from 1 April 2007 to pass on their duty saving to their customers. On the retail level, an informal price comparison conducted by the C&ED on some most popular (in terms of quantity of import)

brands of wine products shows that their retail prices at major supermarkets or department stores have all been reduced after the Budget by an extent ranging from some 8% to 49% . For some products, the reduction in price is even greater than the amount of saving in duty. Details of C&ED's findings are set out at **Annex A**. Besides, the HWSIC has also provided a list of selected wine products (**Annex B**) with post-Budget retail price reduction ranging from 6% to 37%.

We are aware that there are well over 20 000 wine products in the market and duty is only one of many components of the retail price (the retail price involves a mark-up of the ex-factory price). Besides, some duty-paid wine stock is still being cleared by retailers and restaurants. Therefore, there may be a perception that duty reduction is not reflected in the retail price of some products.

Beer products

As the average duty saving per bottle of beer is only about \$0.29, the percentage of price reduction has been perceived to be low. However, the Beer Coalition's information at **Annex C** states that the amount of price reduction of major brands of beer after the Budget has more or less reflected the average duty saving per bottle. According to the Coalition, the duty saving has also been passed on to consumers through more frequent promotional discounts.

Policy considerations for duty reduction and assessment of effectiveness

As stated by the Financial Secretary in his Budget Speech, we believe that reducing the duty on alcoholic beverages will help promote the development of Hong Kong's catering industry, tourism and the business of wholesale and retail of alcoholic beverage. This will benefit Hong Kong's economy at large.

Although the proposed duty reduction has only been implemented for less than three months and we consider it too early to make a comprehensive assessment of the effectiveness of the measure at this point in time, the latest statistics shows that between February and March 2007, the quantity of wine import has increased by 74%, whereas that of beer import has increased by 32%. We expect that the market would continue to respond positively to this budget measure.

Legislative timetable

The normal procedure is to gazette a bill passed by the LegCo and signed by the Chief Executive on the second Friday following its passage, and in exceptional cases, the ordinance will be gazetted on the immediate Friday

following its passage in LegCo. To ensure that the Revenue Bill 2007 will come into force timely before the expiry of the Public Revenue Protection Order 2007 on 28 June 2007, the date for the resumption of Second Reading Debate on the Bill would be 20 June 2007 at the latest, so that the Administration will arrange gazettal of the passed bill on 22 June 2007

Attendance of Government representatives

The following Government representatives will attend the meeting on 25 May 2007:

Financial Services and the Treasury Bureau

Mr Clement Leung Deputy Secretary for Financial Services and the Treasury

Mr Kenneth Cheng Principal Assistant Secretary for Financial Services and the Treasury

Customs and Excise Department

Mr C. S. Liu Acting Assistant Commissioner of Customs and Excise (Excise and Operation Support)

Mr Albert Ho Senior Staff Officer (Dutiable Commodities Administration)

Department of Justice

Mr W. C. Suen Senior Assistant Law Draftsman (Professional Development)

Yours sincerely,

(Kenneth Cheng)
for Secretary for Financial Services and the Treasury

c.c DoJ (Attn: Mr W. C. Suen)
C of C&E (Attn: Mr C. S. Liu)

Brand of Wine Products*	(as in July 2006)				(as at 3 May 2007)							
	Retail Price (HK\$/Bottle)	Dutiable Value (HK\$/Bottle)	Duty under Duty Rate (80%) (HK\$/Bottle)	Duty as Percentage of Retail Price	Retail Price (HK\$/Bottle)	Dutiable Value (HK\$/Bottle)	Duty under Duty Rate (40%) (HK\$/Bottle)	Duty as % of Retail Price	Change in Duty Payable(\$)	Percentage Change of Duty Payable	Retail Price Change (HK\$/Bottle)	Retail Price Change (%)
A	31.00	4.75	3.80	12.26%	28.50	4.88	1.95	6.84%	-1.85	-48.7%	-2.50	-8.06%
B	45.00	5.79	4.63	10.29%	32.00	6.39	2.56	8.00%	-2.07	-44.7%	-13.00	-28.89%
C	79.00	24.96	19.97	25.28%	59.90	25.15	10.06	16.79%	-9.91	-49.6%	-19.10	-24.18%
D	79.00	13.75	11.00	13.92%	39.90	13.86	5.54	13.88%	-5.46	-49.6%	-39.10	-49.49%
E	38.00	4.22	3.38	8.88%	29.00	4.25	1.70	5.86%	-1.68	-49.6%	-9.00	-23.68%
F	55.00	14.12	11.30	20.54%	34.90	14.24	5.70	16.33%	-5.60	-49.5%	-20.10	-36.55%
G	435.00	85.50	68.40	15.72%	355.00	95.66	38.26	10.78%	-30.14	-44.1%	-80.00	-18.39%
H	31.00	4.75	3.80	12.26%	28.50	4.88	1.95	6.84%	-1.85	-48.7%	-2.50	-8.06%
I	109.00	24.13	19.30	17.71%	89.00	24.27	9.71	10.91%	-9.59	-49.7%	-20.00	-18.35%
J	55.00	8.50	6.80	12.36%	29.50	9.02	3.61	12.24%	-3.19	-46.9%	-25.50	-46.36%

* Brand names concealed as the dutiable value of a product is commercially sensitive.

** Commonly known as the ex-factory price

Annex B

Brand/Product	Retail price before duty reduction (HK\$)	Retail price after duty reduction (HK\$)	Price Difference (HK\$)	Price Difference in Percentage
Beaujolais Villages – Louis Latour 2005	138	117	-21	-15%
Cape Mentelle Cabernet Merlot	298	228	-70	-23%
Chablis – Louis Latour 2005	250	215	-35	-14%
Chateau Bel Air 2005	112	93	-19	-17%
Chateau Langoa Barton 1995	758	644	-114	-15%
Cloudy Bay Sauvignon Blanc	285	255	-30	-11%
Green Point Brut NV	178	148	-30	-17%
Green Point Pinot Noir	198	168	-30	-15%
Henkell Trocken	149	123	-26	-17%
Jacobs Creek Shiraz Cabernet	88	82	-6	-7%
Miguel Torres Curico Santa Digna Chardonnay 2006	83	67	-16	-19%
Moët & Chandon Brut Imperial	378	355	-23	-6%
Moët & Chandon Vintage 1999	568	518	-50	-9%
Mouton Cadet Rouge	165	119	-46	-28%
Oyster Bay Sauvignon Blanc 2006	165	140	-25	-15%
Penfolds Rawsons Retreat Shiraz Cabernet	119	75	-44	-37%
Robert Mondavi Woodbridge Merlot	102	90	-12	-12%
Rosemount Diamond Label Chardonnay	175	119	-56	-32%
Terrazas Cabernet Sauvignon	108	93	-15	-14%
Wolf Blass Yellow Label Chardonnay	138	117	-21	-15%
Wolf Blass Yellow Label Shiraz	141	120	-21	-15%
Wyndham Shiraz	119	108	-11	-9%

Source : HKWSIC research

Annex C

Product	Price before Duty Reduction					Price after Duty Reduction					
	Date	Store	Price (\$)	Package	Price per unit (\$)	Date	Price (\$)	Package	Price per unit (\$)	Price change (\$)	Price change (%)
Anchor	29 Dec 2006	Wellcome	35.9	12x355ml can	2.99	5 Apr 2007	34.9	12x355ml can	2.9	-0.09	-3
Blue Girl	27 Jan 2007	Park'N Shop	54	4x 640ml bottle	13.5	20 Apr 2007	73.2	5x640ml bottle	13.18	-0.32	-2.3
Budweiser	6 Jan 2007	Wellcome	79	12x355ml can	6.58	4 Mar 2007	77.8	12x355ml can (plus one bonus 600ml bottle)	6.48	-0.1	-1.5
Heineken	6 Sep 2006	Park'N Shop	43.9	6x330ml can	7.31	30 Mar 2007	41.9	6x330ml can	6.98	-0.33	-4.5
Heineken	27 Oct 2006	Wellcome	27.5	2x600ml bottle	13.75	2 Mar 2007	26.5	2x600ml bottle	13.25	-0.5	-3.6
Heineken	20 Oct 2006	Wellcome	36.9	4x500ml can	9.225	13 Apr 2007	33.9	4x500ml can	8.475	-0.75	-8.1
San Miguel	12 May 2006	Wellcome	65.8	12x330ml can (plus one bonus 500ml can)	5.48	30 Mar 2007	62.8	12x330ml can	5.23	-0.25	-4.6
Skol	18 Aug 2006	Park'N Shop	39.9	12x330ml can	3.325	23 Mar 2007	39.5	12x330ml can	3.29	-0.035	-1.1
Skol	6 Dec 2006	7-Eleven	15.9	2x640ml bottle	7.95	14 Mar 2007	15.5	2x640ml bottle	7.75	-0.2	-2.5
Tsing Tao	27 Jan 2007	Park'N Shop	54	4x 640ml bottle	13.5	20 Mar 2007	37.8	4x640ml bottle	9.45	-4.05	-30
Tsing Tao	24 Nov 2006	Wellcome	59.8	12x330ml can	4.98	9 Apr 2007	57.9	12x330ml can (plus one free 640ml bottle)	4.825	-0.155	-3.1

Source : Beer Coalition