

**Submission by The Hong Kong Food, Drink & Grocery
Association –The Hong Kong Beer Coalition**

Bills Committee on Revenue Bill on 2007-05-25

Introduction

The Hong Kong Beer Coalition (the Coalition) welcomes the government's decision to lower the duty rate for beer from 40% to 20%. Although the goal of the Coalition was for the duty rate to come down to 10%, this is a positive step forward. This document seeks to give legislators and the public a better understanding on what actions the Coalition has taken in response to the tax reduction.

Understanding the Hong Kong beer industry

According to the Customs and Excise Department, in 2006, beer companies were charged an average of HK\$0.57 for a small bottle of beer (330ml). After the duty on beer is reduced from 40% to 20%, the rate has fallen by a half to an average of HK\$0.29.

Beer is taxed on the manufacturing/import price – price the manufacturer sells to the Hong Kong importer. The duties are borne by the importers with 80% of them being members of the Coalition.

The supply chain of beer is a complex and multi-tiered system. The final selling price is an accumulation of expenses incurred by transportation, storage space, delivery, margins, marketing and advertising, and other items through the network of importers, wholesalers and retailers. (See Table 1)

Take the example of an average manufacturer/import price of HK\$1.42 (based on 2006 Customs and Excise Department statistics), under the former tax rate of 40%, HK\$0.57 is levied on top of HK\$1.42. Under the new tax rate of 20%, HK\$0.29 cents is added to HK\$1.42. The difference between the old and new rates is, therefore, around HK\$0.29.

Whether a consumer buys a bottle of beer in a convenience store for HK\$10 or a five-star hotel for HK\$50, the savings is still HK\$0.29. Under the free-market environment, restaurants, bars, convenience stores, supermarkets and karaoke parlours set their own prices without interference from the importers or manufacturers.

the MATH behind BEER INDUSTRY DUTY RATE

MANUFACTURER Amsterdam: Small bottle of beer	Euro 0.13
IMPORTER Exchange rate at HK\$10.74 Duty rate at 40% Shipping + Handling Office + Warehouse Rental Employees Supporting + Selling Advertising + Promotions Delivery Others Margin IMPORTER SELLING PRICE	↓ HK\$ 1.42 HK\$ 0.57 ↓ \$ + \$
WHOLESALER IMPORTER SELLING PRICE Office + Warehouse Rental Employees Supporting + Selling Advertising + Promotions Delivery Others Margin WHOLESALER SELLING PRICE	+ \$ + \$ + \$ + \$
RETAILER WHOLESALER SELLING PRICE Office + Warehouse Rental Store Space Rental Employees Supporting + Selling Advertising + Promotions Others Margin RETAILER SELLING PRICE	+ \$ + ↓ \$ (HK\$10.00)

FACT! Average import price/330ml (2006) based on Hong Kong Customs and Excise Department

FACT! Average duty/330ml (2006) at 40% based on Hong Kong Customs and Excise Department

Whether a consumer buys his bottle of beer in 7Eleven at HK\$10.00 or in Conrad Hotel at HK\$50.00, the maximum savings that the consumer can get from the duty rate reduction is on the average **HK\$0.29**.

This assumes that the HK\$0.29 is passed at every level of the network from Importer to Wholesalers to Retailers and then to consumers.

How has the Beer Coalition ensured the savings are passed down to the consumers?

To ensure the savings do reach the consumers, members of the Coalition have adopted a three-pronged approach. Firstly, on April 1, members reduced the importer selling price across the board. Secondly, members have provided more favourable and more frequent price discounts to consumers through cooperation with supermarkets and restaurants. Lastly, members have offered more and bigger reward promotions for supermarkets, restaurants and bars such as giving out free-of-charge items for purchasing beer; or chances to win prizes such as private European tour with friends. All these promotional activities are funded by members of the Coalition. (See Table 2)

Table 2

Price Reductions

<u>Brand</u>	<u>Pre-2/28</u>	(Per Unit)	
		<u>Post-2/28 (Regular)</u>	<u>Post2/28 (Special)</u>
Blue Girl (640ml-bottle)	\$14.40	\$13.95	\$13.10
	Savings:	\$0.45	\$1.30
San Miguel (12 cans)	\$5.48	\$5.23	\$4.22
	Savings:	\$0.25	\$1.26
Heineken (Single can)	\$7.31	\$6.98	\$6.56
	Savings:	\$0.33	\$0.75

**more examples can be provided if needed*

Commitment to passing down savings to consumers

According to industry figures, since the duty on beer has been lowered after the Budget, consumers on average have been enjoying savings of HK\$0.29. On some occasions consumers enjoy benefits of value above HK\$0.29. Looking forward, members of the Coalition will endeavour to continue their efforts in passing on benefits brought by the tax cut.