

Submission to Legislative Council

Comments by Circle K Convenience Stores (HK) Limited on Dutiable Commodities - Duty on Tobacco

Overview

From government's point of view, the drastic increase of tobacco excise by 50% is to encourage smokers to quit smoking and to discourage non-smokers from picking up the habit. Circle K supports The Government drive to reduce smoking incidents and protects public's health, we share a different view on the excise increase.

In our view, any increase of tobacco excise would directly hurt the legitimate retail environment in Hong Kong and encourage illicit trade.

Illicit Cigarette Trade

Since the tobacco tax increase in Feb this year, the domestic duty-paid cigarette market had been reduced by as much as 37%. According to press release by Customs & Excise Division earlier, the number of illicit cigarette seizure in the first quarter of 2009 had greatly increased by 90% compared with same period last year. This clearly indicates that a high tobacco tax drives smokers away from legitimate purchasing channels.

Currently, Hong Kong has one of the highest cigarette tax rates in the Asia Pacific region, with a duty of up to 70% of retail price of the average cigarette. Given the proximity and lower cigarette prices at neighbouring borders, illicit cigarette market is highly assessable.

With the high tobacco duty increase, it will further widen the cigarette price gaps between legitimate retailers and illicit channels and Hong Kong's retail industry would suffer by losing our businesses to these channels. As a responsible corporate citizen, Circle K is also concerned that these cheaper illicit channels would provide incentives for youth to access tobacco products.

Circle K recognizes that over the past years, the government has put in place many measures to combat illicit cigarette trade and strengthened border controls, such as implementing the "Red and Green" channels. While we appreciate seeing the high illicit cigarette seizure from recent reports, we trust that the government will continue to protect legitimate businesses in Hong Kong.

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Unfavourable Economic environment for Legitimate Retails

Given the current tough economic environment in Hong Kong, retailers such as our company are already facing very hostile operating environment. High tobacco tax increase will further put our business in a more difficult situation.

Conclusion

To conclude, it is in Circle K's view that a 50% high tobacco excise would not necessarily reduce smoking incidence, on the other hand it will encourage switching of sales from legitimate to illicit channel, which makes it tougher for the retail industry.

We urge the government to take our views into serious consideration. For any enquiries, please feel free to contact the undersigned.

Yours Sincerely,

LAI Chun Pang
General Manager - Operations

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