HONG KONG WINE INDUSTRY COALITION

Presentation to the Bills Committee

Revenue Bill

Legislative Council

May 16, 2002

The Hong Kong Wine Industry Coalition strongly opposes the proposed duty increase from 60% to 80%

"Increasing these duty rates might significantly push up retail prices and risk a switch to the consumption of cheaper products, defeating my objective of increasing revenue".

Donald Tsang, Financial Secretary, 2001-02 Budget

The proposed duty increase contradicts previous government policy

- Since 2000, the Government has encouraged foreign and local investment in the wine industry, citing Hong Kong as a “business-friendly” environment
- However, the proposed duty increase undermines Hong Kong’s role as a regional wine hub, based on its current pool of local expertise
- As a result, Hong Kong becomes an unfeasible market for:
  - Investment in brands, promotional funding etc.
  - Investment in regional HQs (versus Shanghai, Singapore)

“Wine is a luxury product” – a popular misconception

- In the retail market, the average selling price of a bottle of wine is HK$ 50
    - the average “ex-factory” price of a bottle shipped to HK in 2001 was only HK$ 30.55
    - wines with an “ex-factory” price of below HK$ 27 account for 71% of the market (correspondent to a Retail Price of under HK$ 100)
- Sales volumes of wine are skewed towards budget supermarkets, particularly in housing estates
- Wine is clearly a staple consumer good, enjoyed by a wide range of the local Chinese population

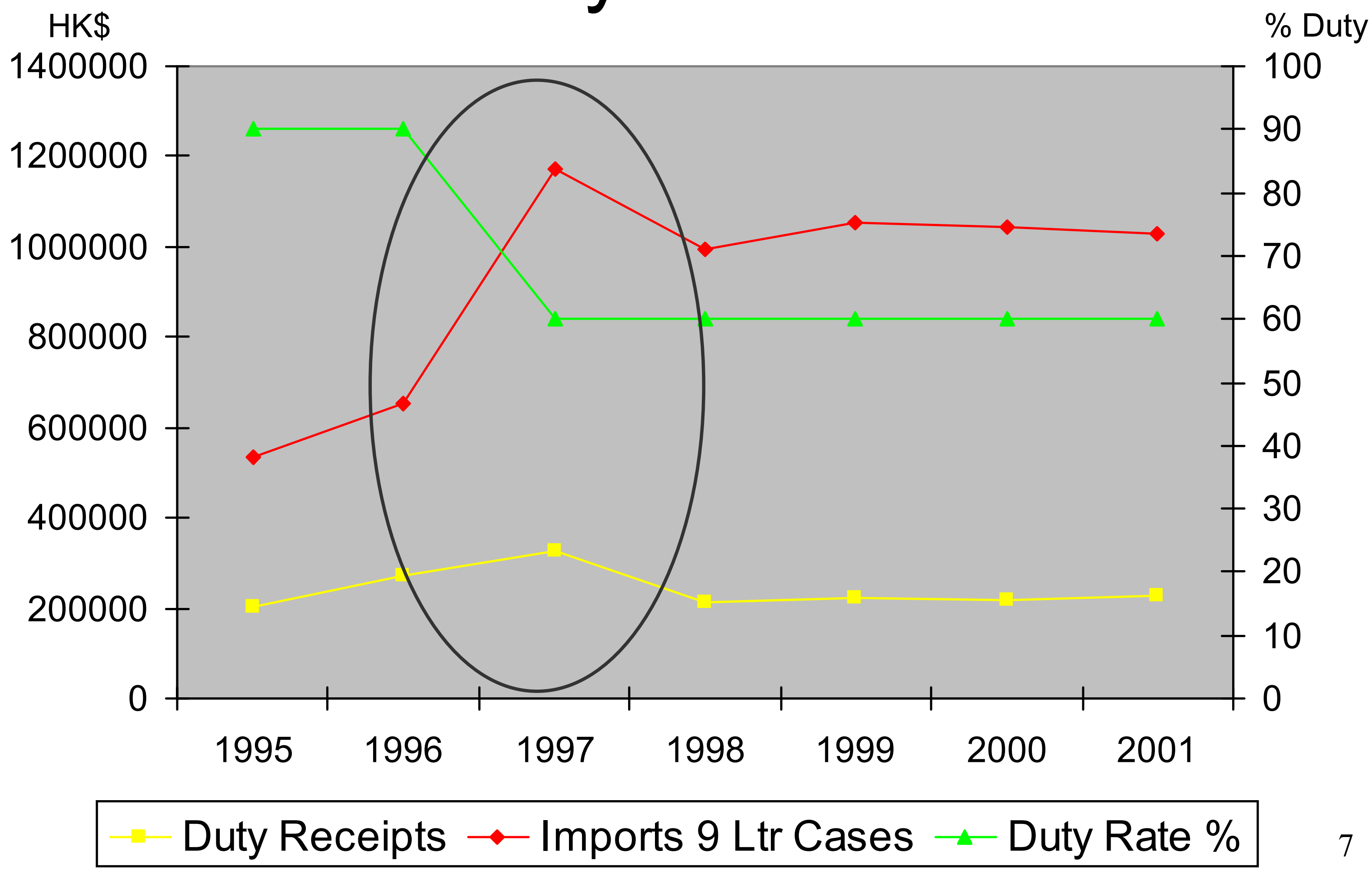
A duty increase will harm the catering, hospitality and entertainment industries

- These industries are already under threat from other destinations:
  - the Pearl River Delta
  - Macau is developing into an increasingly important tourist and entertainment destination
- They account for 45% of all wine sold in Hong Kong, and employ almost 200,000 people
- The duty increase will further erode profit margins and affect the livelihoods of those involved in the industry

Hong Kong's wine duty is already significantly higher than in China and Macau

- China's import duty on wine currently stands at 34.4% after 2 consecutive decreases, and will further decrease to 14% in 2004
- Macau's current rate is 15%
- It would be absurd to have an import duty which is:
  - approximately 6 times the rate of China/ Macau
  - significantly higher than other international cities around the world (UK, Australia, US),
- The proposed duty increase would make Hong Kong an even more expensive tourist destination

The 1997 duty reduction from 90% to 60% increased Government revenue by 21%



The Government's expected revenue increase of HK$70m is unrealistic

- Since 2000, the wine market has undergone a renewed decline

- The proposed duty will increase average retail prices by approximately 10%

- Hong Kong consumers are extremely price sensitive, especially in a deflationary market (-2.3%), leading to decreased wine consumption, and down-grading in quality and price

The HKWIC strongly recommends:

- Maintain current duty level of 60% in 2002
- Initiate a phased duty reduction of between 2003-2005, consistent with China
- Allow growth of the domestic market and thereby maximize Government revenues