The SoHo Association Limited

The Soho Association Limited is an organization that represents the views and opinions of business in the district known by many as Soho or "South of Hollywood Road". After conducting an investigation on the effects of the new duty for wines, we have made the following discoveries in respect of the first bill. We have no comment on the second bill.

- The duty has indeed affected the F and B businesses in the area.
- Reports indicate that sales for more expensive wines (above $140 per bottle ex-factory) have dropped considerably.
- Most outlets are reluctant to pass on the costs to the customer due to the economic climate.
- Outlets where wine constitutes up to 30% or more of total sales have seen a notable drop in revenue since the duty increase was imposed on March 6th 2002.

After studying the submissions made by the Hong Kong Wine Industry Coalition, HKSAR Financial Bureau's survey and general public opinion, we would like to state the following:

1. The survey compiled by the government states that "the average ex-factory price of a bottle of wine (750ml) consumed in Hong Kong was $30 (2001)". The TSAL would like to point out that this is an industry average and the outlets in Soho actually generally purchase wines with a higher ex-factory price. This helps make the area more attractive to our customers as we are known for providing quality products from all over the world. As a result average duty payable is much higher than the survey suggests. The survey also assumes that the cost price of the wine is about 15% of the retail price. This assumption is also grossly incorrect at least in the case of our outlets. In all fairness, as the outlets are expected to pay rent, staff and other operational costs from this margin, most outlets will clearly lose considerably more than what the government is assuming or projecting.

2. The government report justifies the increase by stating that 70% of the wines will only attract an additional duty of $5.3 per bottle. This is a HK$45,449,340 cost that the industry will have to bare. We don't see how this figure is expected to have the "minimal effect on people's livelihood" as the conclusion of the study suggests.

3. Soho, Hotels and LKF set a benchmark for the consumption of wine. Most investors into Hong Kong look towards these three channels to position their products. This in turn will help their off-market sales. The government survey does not seem to include any market research from these distribution channels as it only states supermarket figures in its report. We would request that the government investigate these channels if not already and provide such figures accordingly to prove their theories.

4. The government also states that "the revenue collected from duty on wine has remained stable in the last three years, at about $220 million per annum". As TSAL has indicated from its study there is a notable change in revenue, it is safe to assume that profits and therefore profits tax will be lower than previous years thus annulling any possible extra revenue generated from the increases in wine duties. Not to mention the fact that the bar and restaurant industry traditionally are one of the first industries to be hit during bad economic times.

5. The demand for wine is not as inelastic as that of other such "luxury goods". Reports from our outlets have shown that if the wine is too expensive, they will simply drink something else. There is, therefore, a need for concern to even speculate that $70 million can be raised from the increased duty.

6. Perhaps the most alarming statement made by the government is the following:

"Wine which is imported for re-export is not subject to duty. The rate of duty on wine is therefore not relevant to Hong Kong's position and development as a wine distribution center."

This statement was made despite the HKWIC stating that "Creating a high tax domestic market environment for their products will not induce wine-making companies and importers to invest in Hong Kong, even if their main market focus is regional"

TSAL would like to point out that if HKWIC have said that their members and their overseas partners are less likely to invest, why has the government ignored their statement? Surely a company that wants to set up distribution in Asia would also compete in the market it is re-exporting from. The government must know that in order for these companies to invest in Hong Kong they should be more competitive with other Asian City's. It is after all, branding itself as "Asia's World City". Furthermore, as Singapore have ASFTA and CEP agreements with Australia and New Zealand respectively (the regions biggest producers of wine), why would any wine company want to invest in Hong Kong? With China's entry into the WTO, Hong Kong is no longer seen or is needed as a gateway to China and companies will invest accordingly. Investments from these types of companies provide opportunities to Hong Kong people not to mention an injection of overseas capital. Let's not scare them off.

7. With regards to the "Asia' World City" title. The statement seems to be more of a gimmick that something of substance. TSAL prides itself on its internationalism, as I am sure the government does. Soho is one of Hong Kong's top tourism draws. TSAL has reported that the overall revenue is down as a result of the increase in duty. This not only harms the pocket but the image of Hong Kong. To 'buy' that image back will certainly cost more than $70 million.

Our organization would like to work with the government to maintain and enhance Hong Kong's image as an international city and popular tourist destination. Reducing the wine duty will certainly start that process.

Nimal Jayawardena
Chairman
Soho Association
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