CONSUL-GENERAL

AUSTRALIAN CONSULATE-GENERAL
HONG KONG

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16 May 2002

I am writing to raise with you concerns, shared by the Australian wine industry, over the proposal in Hong Kong's 2002-03 Budget to increase the duty on wine from its already very high level of 60% to 80%.

Australia has been the second-largest supplier of wine to the Hong Kong market for some years now. There have been few countries which have supported Hong Kong's objectives more strongly than Australia, including its principled opposition to barriers to international trade, wherever they may appear. An increase in the tax on wine is likely to reduce wine consumption and, because all of Hong Kong's wine is imported, to deter trade. The tangible effects of this decision on Australia's exports to Hong Kong and the signal it sends to those currently negotiating at the WTO in Geneva to reduce trade barriers around the world are naturally of concern to us.

Beyond this, the proposal will have economic and social implications. The proposed duty increase, on top of already high wine prices, will impact adversely on Hong Kong's tourism industry and tourist expenditure. Tourists are well able to make international cost comparisons. Hong Kong is already one of the most expensive places in the world to drink wine with a meal. Put simply, a foreign tourist is much more likely to buy a bottle of wine with a meal in Macao, where the import duty is 15% or on the mainland where the duty is 35%, than in Hong Kong where the duty is already 60% and rising to 80%. In many other countries, wine is viewed as a normal part of people's diet. In Hong Kong, high taxes and high wine prices are a deterrent not only to wine consumption but to eating out in the many splendid restaurants here which ought to be a major tourist attraction. This contributes very directly to tourists' perception of Hong Kong as a high cost destination. Certainly, many Australian tourists feel that way.

I am also concerned that the proposed excise increase will make it even more difficult to develop Hong Kong, with its natural logistic strengths and familiarity with wine, as a wine centre for Asia, consistent with the Hong Kong SAR Government's previously stated objective. Many of our exporters have already put considerable resources and effort into supporting the HKSAR Government in this regard. Australian wine fairs and visits from Australian winemakers have become welcome features on the Hong Kong scene. And I understand that Hong Kong is vying for the right to stage VINEXPO Asia in 2004. Substantial increases in already high wine excise taxes negate recent joint promotions by Australian and Hong Kong wine merchants, and Hong Kong's aspirations to become a regional wine centre.

One of the pleasing results of active promotion of wine in Hong Kong by the local industry and its foreign partners in recent years has been a democratisation of wine consumption. The pleasures of drinking good wine, once the preserve of the elite, are now spreading more broadly, particularly among the young. I am advised that bottles priced at HK$100 or less now account for 90% of the Hong Kong wine market and, as you may be aware, Australia produces some very good value for money wines at that price. But I fear that the proposed tax increase will end this trend. While the wealthy will pay whatever it takes, or even bring expensive wine in from Macao bottle by bottle, enjoyment of wines by average people seems certain to become rarer, particularly in current economic circumstances. This would be an unfortunate side-effect.

The disadvantages to Hong Kong of increasing its already very high wine taxes seem clearer than the benefits. It was estimated in the Budget speech that the measure would provide $HK70m in additional revenue in a full year, a substantial increase over wine excise collections of $HK200m in 2001 in a flat market, but only a very small amount in terms of overall Government revenues. As average people now consume most of Hong Kong's wine, it is hard to believe that, facing broader economic pressures, they will not cut back on their wine consumption in the face of the higher wine prices that will result. Add to this the increased temptation to smuggle, which is likely to continue to rise as the mainland continues to reduce its wine tariffs. Rather than willingly pay more for their already expensive wine, it seems more likely that consumers will react to the tax increase by switching to lower taxed and untaxed beverages and to illicit sources of smuggled wine, defeating the aim of substantially raising revenue. I understand that on the last occasion when the wine tax was reduced from 90% to 60% tax revenues actually rose due to a growth in demand. With the proposed increase from 60% to 80% the reverse seems most likely to be the case, undermining the Hong Kong SAR Government's rationale for imposing the additional tax.

I would be very grateful, therefore, if you and your Committee could look into these questions carefully as you assess this revenue proposal.

David O’Leary