

## **Press release**

### **LCQ7: Duty system on strong liquors**

Wednesday, March 30, 2011

Following is a question by the Hon Tommy Cheung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (March 30):

Question:

Hong Kong has surpassed New York to become the world's largest wine auction centre. Some members of the industry have pointed out that wine trading, distribution and auctions, as well as the economic activities of related industries, have created enormous economic benefits and thousands of posts for Hong Kong within a few years, reflecting the success of the policy to abolish wine duty. They have also pointed out that Hong Kong should keep up the momentum and examine the room for improving the duty system and rates on strong liquors, i.e. liquors with more than 30% alcoholic strength, so as to promote the trading of strong liquors, which is closely connected with and inseparable from the wine industry, and establish Hong Kong as a hub for liquor trading in the Asian region, as well as to bring greater economic benefits to Hong Kong and alleviate the cost pressure on the bar industry in preparing beverages such as cocktails, etc. In this connection, will the Government inform this Council:

(a) of the figures (set out in Annex 1) relating to strong liquors and wine from 2008 to 2010;

(b) whether it has studied the difference in prices of strong liquors and duty rates between Hong Kong and the neighbouring areas, e.g. the Mainland, Macao, Taiwan and Japan, etc; if it has, of the details (set out the relevant figures in tables); if not, whether it will conduct relevant studies and assess Hong Kong's competitiveness in the trading of strong liquors;

(c) whether it has considered the recommendations from the industry to improve the duty system on strong liquors and reduce the duty rates concerned, with a view to narrowing the gap in rates and prices between Hong Kong and the neighbouring areas; if it has not, of the reasons for that; and

(d) given that some members of the industry have recommended that, on top of the existing ad valorem structure for calculating the amount of duty on liquors, the specific duty structure should be introduced to calculate the duty, e.g. to determine the duty per 100 litres of liquors to be HK\$100, and whichever is the lower be taken as the duty payable, so as to alleviate the pressure from duty payment on quality strong liquors which are more highly priced, as well as to encourage the public to consume an appropriate quantity of liquors, whether the authorities will consider such a recommendation; if they will, of the details; if not, the reasons for that?

Reply:

President,

(a) The figures relating to strong liquors (liquors with more than 30% alcoholic strength) and wine from 2008 to 2010 are set out in Annex 2.

(b) The development of the alcoholic beverages market varies in different countries or economies. So do their taxation systems. For example, apart from levying excise duty, some countries also impose customs duty, value added tax or sales tax on alcohol. It is therefore not appropriate to make direct comparison with neighbouring economies.

(c) and (d) The Government reformed the taxation system on alcoholic beverages in 1994 by changing the then relatively complicated specific duty cum ad valorem system to a simple ad valorem system. The objective of the reform was to simplify the taxation system and to alleviate the concern on the regressive effect of the then taxation system, as the duty on more expensive alcohol products represented a lower percentage of total cost as compared to cheaper products. We consider that the reformed ad valorem system is simpler and fairer, and is in line with the "ability to pay" principle.

We consider that any proposal to reintroduce the specific duty element to the ad valorem system should avoid the recurrence of the previous regressive effect as well as any other possible unfair situation, and strike a balance between the request from the spirits trade and the acceptability of the community.

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