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Hong Kong

Market Development Reports

No Party Tonight - Hong Kong Increases Its Duties on Beer, Cigarettes and Cigars 2001

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Report Highlights:

In the midst of a budget shortfall, the Hong Kong Government has raised its duties on beer, cigarettes and cigars effective immediately.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Hong Kong [HK1], HK

In the midst of a budget shortfall, the Hong Kong Government has raised its duties on beer, cigarettes and cigars effective immediately. The duty on cigarettes has increased 5% to HK\$804 per 1,000 pieces and the duty on alcoholic beverages other than wine with less than 30% alcohol content has risen from 30% to 40% of the ex-factory C. I. F. price. Cigar duties rose almost 5% from HK\$986 per kilogram to HK\$1035. It is important to note that these duties are more like excise taxes than import tariffs; they are imposed equally on domestic and imported goods.

The Financial Secretary announced on March 7 a fiscal year 2000 Hong Kong Government budget deficit of HK\$11.4 billion (US\$1 = HK\$7.78) and estimated the 2001 deficit at HK\$3 billion. Despite a forecast of 4% annual growth rate in the next 3 years, deficits are expected to persist until 2004. To ease deficits, the budget has made provisions for modest tax increases on a variety of items, including beer, cigarettes and cigars.

Hong Kong is a free port which does not impose any import tariffs except on four dutiable products : liquor, cigarettes/cigars, hydrocarbon oils and methyl alcohol. Duties are applied on both imports and goods manufactured locally. Details of the revised duties are as follows:

US\$ 1= HK\$ 7.78	Original Duty	Revised Duty
cigarettes per 1000 sticks	HK\$766	HK\$804
cigars per kg	HK\$986	HK\$1035
beer	30%	40%
liquor more than 30% alcohol content	100%	100%
wine	60%	60%

The modest rise in these duties is expected to have minimal impact on retail sales. Smokers are unlikely to change their smoking habits simply because of the slight price increase. Cigarette retailers reacted by raising retail prices for a pack of 20 cigarettes by HK\$1. The tobacco association took issue with the duty increase, citing its traditional view that a high duty creates a great incentive for cigarette smuggling. On the other hand, food establishments and bars have not yet responded to the duty increase on beer. They are afraid that their business will be affected if they raise beer prices.