

No surprise who benefits from reduced tax on beer

We should not be surprised that there has been little or no perceptible drop in the price of beer or wine despite Financial Secretary Henry Tang Ying-yen's announcement of a halving of the taxes in his budget three months ago. The reason is purely and simply a matter of free-market economics: importers, wholesalers, retailers and servers are entitled to charge consumers whatever they want.

Any suggestion that this will change as a result of the beer industry coalition's declaration yesterday that prices will come down as of next Friday must, therefore, be taken lightly. We have the example of the wine industry coalition to thank for such a belief.

The wine industry lobbied Mr Tang hard for several years to lower substantially the 80 per cent tax on wine, arguing that such a move would be good for Hong Kong's consumers. Any such reduction would be passed on at the cash register, it promised.

Mr Tang complied, but the pledges have not been kept. Drinkers of medium- and low-priced wines have barely noticed such a shift, if at all. The tax savings, it would seem, have been pocketed as profit by those so eager for the reduction.

If the beer coalition's announcement is any guide, more of the same is likely. Under pressure from Mr Tang to pass on to consumers the halving of the beer tax to 20 per cent, it declared its intent within hours of his call but failed to specify the amount.

That will become clear on Friday, although the group did give an inkling of what to expect by contending that the tax cut on a 330ml bottle of beer would average 29 HK cents. This may have some meaning to those buying from supermarkets or other such retail outlets, but nothing for those ordering a beer in a bar or restaurant, where the price in entertainment districts is often HK\$50 or more.

There are some realities of the alcohol industry to take stock of, the main one being that tax constitutes a small fraction of the retail price for the majority of beers and wines sold here. Importers, wholesalers, retailers and bars and restaurants each mark up the price to cover costs and make a profit. The final price is what the market is perceived as being able to bear.

Lower prices would be good for Hong Kong. The cost of a drink in a bar or restaurant can determine visitors' perceptions of how expensive a city is. More people are likely to go to entertainment venues if drinks are reasonably priced. Those buying from retailers will also be able to shop for better quality produce.

Mr Tang lowered beer and wine taxes with the expectation that prices would come down. They have, but not for the general population of Hong Kong. Drinkers and collectors of fine wines and the most expensive beers are rejoicing, as are those in the chain of suppliers bringing beer and wine to consumers.

Hong Kong's success is based on the principles of free-market capitalism. No one is precluded from participating in this process.

Those of us who believe that the price of beer or wine is too high, therefore, have the right to bypass the system that currently operates and import our own. Low shipping and postage costs make this possible, and the internet helps with sourcing. Some companies have even been established to facilitate such a process.

This will not affect the price of a glass of beer or wine with a meal in a restaurant, nor will it be a practical solution for the casual social drinker. If enough people in Hong Kong turn to this method of buying beer or wine, though, greedy companies involved in the industries will realise their mistake and make amends.