



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 4/28/2000

GAIN Report #TH0039

Thailand

Wine

Wine Duties in Thailand

2000

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Report Highlights:

Buying wine in Thailand is an expensive proposition. High tariffs and mathematical manipulation of excise, value added and interior taxes have served to give a small domestic producer almost 100% protection from wine imports.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Bangkok [TH1], TH

Wine Duties in Thailand

I. Introduction

Just ten years ago wine was virtually non-existent in Thai dining. Wine consumption in Thailand increased sharply during the mid 1990's, due to its modernization, the booming tourism industry, and increased health-consciousness. Although a few commercial wineries have emerged in recent years, local wine production is insignificant, accounting for less than 5 percent of total consumption. As a result, nearly all wine consumption depends upon imports. In line with increased consumption, wine imports increased significantly from 1.48 million liters in 1992 to 8.50 million liters in 1996 (Appendix A). However, wine imports in 1997 and 1998 dropped sharply to 5.60 and 2.28 million liters, respectively, reflecting the Thai economic turmoil, large stocks imported in 1996, and a rise in the excise tax. An improved economic situation and an introduction of lower priced wine into the market has led to a recovery in wine imports in 1999. Wine imports in the first eleven months of 1999 (Jan-Nov) totalled 4.0 million liters (see Appendix A).

Wine consumption should continue to grow in the years to come in anticipation of an improved Thai economy and continued growth in tourism. However, wine importers and suppliers are concerned that the prevailing high taxes on wine may limit this potential growth. While the import duty on wine is scheduled to decline gradually following Thailand's commitments with the WTO, importers complain of high excise taxes and its complicated calculation method. This has made quality wines uncompetitive in the Thai market. With the current tax structure, the net tax rate for imported wine is about 300%. In order to better understand the status of wine duties in Thailand, this study will explore the current and historical tax structure on imported wine, the methodology in calculation, its implication, and a comparison of Thai duties with some Asian countries.

II. Wine Duties in Thailand

2.1 Structure of wine duties

Under the current regulation, there are 4 kinds of taxes involved with imported wine. These include the import duty, excise tax, interior tax, and value added tax. Regarding locally made wine, all three taxes, excluding the import tariff, would be applied. The following is a description of these applied taxes and the change in rates in recent years.

Import tariff: The current import tariff rate (in 2000) is 56.40% on CIF value or 18.80 baht/liter, whichever is higher. To comply with WTO agreements, Thailand is scheduled to lower the bound rate for wine imported from WTO member countries from 60% or 20 baht/liter in 1995 to 54% or 18 baht/liter in 2004. However, as of January 2000, Thailand also provides the privilege tariff for products (including wine) imported from ASEAN countries under the agreement on the Common Effective Preferential Tariff (CEPT) scheme for the ASEAN Free Trade Area (AFTA). Under this scheme, tariff rates for imported wine which is produced and imported from other ASEAN countries is subject to a 5% rate from 2000-2003.

Excise tax: In principle, the Thai Government places an excise tax on certain products, which are considered "luxury goods" (such as cars, air conditioners, gasoline, soft drinks, perfumes, etc.) and health-affected goods (i.e., liquors and tobacco products), in order to control their consumption. In reality, the Government often manipulates this tax as a device for revenue generation. The excise tax has been accordingly increased from time to time when the Government needs more money. The excise tax for wine (both local and imported) from 1985-1991 was 30 baht/liter (approx. US\$ 1.20). The following is a tax chronology of revisions over the last 10 years:

-- As of January 1992, the excise tax rose to 20%

-- As of July 26, 1996 = 40%

-- As of October 15, 1997 = 50%

-- As of February 25, 1998 to present = 55%

A sharp increase in the excise tax in the last few years has occurred during Thailand's economic turmoil. In addition to a high rate of excise tax, the current methodology in calculation causes the net excise tax to be multiplied. The calculation is discussed in the next section.

Interior tax: This tax is collected by the Ministry of Interior as a revenue source for provincial administrations. The tax covers most of products which are subject to excise tax, including wine. The current interior tax is 10% on the amount of excise tax.

VAT: Value added tax is currently 7% on the value of the product, plus all of other taxes (i.e.; CIF value + import duty + excise tax + interior tax in the case of wine).

2.2 *The calculation of the net duties on imported wine*

A. Imported wine

Given the current tax structure, the import tariff rate is 56.4%, excise tax 55%, interior tax 10%, and VAT 7%. The following are the steps used in calculating all duties levied on imported wine:

Suppose that the CIF price for a unit of imported wine = US\$ 100.00

(1) Import duty = 56.4% of CIF value
 = 56.4/100(100)
 = US\$ 56.40

(2) Excise tax is calculated as follows:

$$\begin{aligned}
 \text{Excise tax} &= \text{excise rate} \{ \text{CIF value} + \text{import duty} + \text{excise tax} + \text{interior tax} \} \\
 &= 55\% \{ \text{CIF} + \text{import duty} + \text{excise tax} + 10\% \text{excise tax} \} \\
 &= 1.39241 * (\text{CIF} + \text{import duty}) \\
 &= 1.39241 (100 + 56.40) \\
 &= \text{US\$ } 217.77
 \end{aligned}$$

* Please see Appendix B on how to get the derivative of 1.39241

$$\begin{aligned}
 (3) \text{ Interior tax} &= 10\% \text{ of excise tax} \\
 &= 10/100 (217.77) \\
 &= \text{US\$ } 21.78
 \end{aligned}$$

$$\begin{aligned}
 (4) \text{ VAT tax} &= 7\% \{ \text{CIF value} + \text{import duty} + \text{excise tax} + \text{interior tax} \} \\
 &= 7/100 \{ 100 + 56.40 + 217.77 + 21.78 \} \\
 &= 7/100 (395.95) \\
 &= \text{US\$ } 27.72
 \end{aligned}$$

$$\begin{aligned}
 (5) \text{ Total cost} &= \text{CIF} + \text{Import duty} + \text{Excise tax} + \text{Interior tax} + \text{VAT} \\
 &= 100.00 + 56.40 + 217.77 + 21.78 + 27.72 \\
 &= \text{US\$ } 423.67
 \end{aligned}$$

$$(6) \hat{\text{Actual total duties}} = \left(\frac{\text{Total cost} - \text{Total duties}}{\text{Total cost}} \right) 100$$

$$= \left(\frac{423.67 - 100}{100} \right) 100$$

$$= 323.67 \%$$

B. Domestic wine

Given the current tax structure in that the excise tax is 55%, interior tax 10%, and VAT 7%, the following are the steps in calculating all duties levied on domestic wine:

Suppose that the factory price for a unit of imported wine = US\$ 100.00

(1) Excise tax is calculated as follows:

$$\begin{aligned}
 \text{Excise tax} &= \text{excise rate} \{ \text{price at factory} + \text{excise tax} + \text{interior tax} \} \\
 &= 55\% \{ \text{price at factory} + \text{excise tax} + 10\% \text{excise tax} \} \\
 &= 1.39241 (\text{price at factory}) \\
 &= 1.39241 \times 100.00 \\
 &= \text{US\$ } 139.24
 \end{aligned}$$

$$\begin{aligned}
 (2) \text{ Interior tax} &= 10\% \text{ of excise tax} \\
 &= 10/100 (139.24) \\
 &= \text{US\$ } 13.92
 \end{aligned}$$

$$(3) \text{ VAT tax} = 7\% \{ \text{price at factory} + \text{excise tax} + \text{interior tax} \}$$

$$= 7/100\{100+139.24+13.92\}$$

$$= 7/100(253.16)$$

$$= \text{US\$ } 17.72$$

$$(4) \text{ Total cost} = \text{Factory price} + \text{Excise tax} + \text{Interior tax} + \text{VAT}$$

$$= 100.00 + 139.24 + 13.92 + 17.72$$

$$= \text{US\$ } 270.88$$

$$(5) \hat{\text{Actual total duties}} = \left(\frac{\text{Total cost} - \text{Total duties}}{\text{Total cost}} \right) 100$$

$$= \left(\frac{270.88 - 100}{100} \right) 100$$

$$= 170.88 \%$$

III. A comparison of Thai duties with those in some other Asian countries

Based on reports from other FAS posts and California Wine Institute's representative, the table below illustrates a comparison of Thai duties with those in some Asian countries:

Country	Sparkling Wine	Still Wine
Thailand	323.67% for imported wine 170.88% for domestic wine	323.67% for imported wine 170.88% for domestic wine
Singapore	S\$ 9.75 per bottle (approx. US\$ 5.75/bottle)	S\$ 7.123 per bottle (approx. US\$ 4.20/bottle)
Philippines	5% on CIF value	5% on CIF value
Malaysia	not exceeding 24% alcohol content RM42.50 per liter (about US\$ 11.05/liter)	not exceeding 15% alcohol content RM12.00 per liter (about US\$ 3.12/liter)
Vietnam	In addition to quantitative restrictions, Vietnam sets up minimum entry prices (MFP) at \$2.50/liter for wine below 15% alcohol content, and \$3.50/liter for wine 15-40% alcohol. Then, the import duties of 100% and a VAT of 5% are applied for both sparkling and still wine.	
Taiwan	Importers only pay a fixed amount to the Taiwan Tobacco & Wine Monopoly Bureau (TTWMB) as a monopoly tax. The current monopoly tax for imported wine (both sparkling and still wine) is NT119 per liter (US\$3.81), or NT90 per 750 ml. bottle (US\$2.88)	
China	Import Customs Duties (ICD) = 65%, Value Added Tax (VAT) = 17% Consumption Tax (CT) = 10% Total tax = 114.5%	

IV. Conclusion & Recommendations

It is apparent that the prevailing wine duties in Thailand are extremely high and clearly the highest among other Asian countries, due mainly to a high import tariff, high excise tax, and its irrational method of excise tax calculation.

- (1) Thailand should compare its tax structure with their neighboring Asian countries. Although Thailand may claim that its import tariff for wine is in line with the bound rate as agreed by WTO, we hope that Thailand will consider the possible reduction in import tariff in the next round of negotiations. In the last round, Thailand committed to reduce only 6%, from 60% in

1994 to 54% in 2004.

- 2) WTO rules allow Thailand full authority to manipulate excise tax in its own country to control consumption of certain products as long as it charges equally to both domestic and imported products. However, it is clearly indicated that Thailand is applying the higher net excise tax rate to imported wine than to domestic wine. For example, the current excise tax rate for imported wine is 217.77% as compared with only 139.24% for domestic wine as a result of the inclusion of the import duty in its formula.

Appendix A								
Thailand's Wine Imports from 1992-1999								
	1992		1993		1994		1995	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
	Litre	US Dollar	Litre	US Dollar	Litre	US Dollar	Litre	US Dollar
USA	128,657	401.08	260,100	685.44	433,324	1,049.76	875,420	1,995.98
France	715,539	3,045.16	725,108	2,950.52	784,970	3,838.30	1,587,108	8,709.92
Australia	264,193	466.72	383,024	662.32	258,076	554.78	383,796	1,213.69
Italy	174,924	575.72	157,504	460.36	196,532	480.57	332,128	869.12
Chile	9,852	23.08	15,982	44.20	7,888	28.22	48,185	134.58
Belgium	0	0.00	2,098	5.76	11,095	28.11	8,991	29.60
Germany	34,558	101.12	30,838	103.28	21,407	71.54	49,775	134.90
Spain	40,367	114.32	48,616	105.36	50,418	130.93	75,928	246.27
South A.	72	1.12	13,711	37.60	27,584	55.29	80,254	180.52
Others	114,647	347.00	137,847	406.60	65,074	239.13	156,106	717.67
Total	1,482,809	5,075.32	1,774,828	5,461.44	1,856,368	6,476.63	3,597,691	14,232.25
	1996		1997		1998		1999 (Jan-Nov)	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
	Litre	US Dollar	Litre	US Dollar	Litre	US Dollar	Litre	US Dollar
USA	1,975,602	4,362.80	1,787,464	2,736.33	255,564	380.46	373,445	582.61
France	3,504,553	17,378.67	1,894,047	5,562.64	698,076	1,460.63	1,542,482	4,106.56
Australia	1,013,421	3,196.76	532,903	1,161.14	565,427	799.18	643,986	1,059.96
Italy	598,916	1,816.43	280,634	639.34	280,703	457.41	536,835	596.96
Chile	368,857	1,137.68	424,034	635.34	187,746	396.27	232,891	375.55
Belgium	57,383	136.97	84,061	132.50	19,320	36.68	6,750	2.06
Germany	54,693	149.64	32,266	65.10	12,815	15.11	183,339	132.12
Spain	170,509	495.85	106,673	165.77	67,088	80.19	204,111	168.64
South A.	211,226	487.91	89,974	196.93	66,197	103.51	60,983	103.49
Others	548,553	1,605.25	368,265	1,303.67	130,378	148.55	269,080	319.71
Total	8,503,713	30,767.97	5,600,321	12,598.79	2,283,314	3,877.99	4,053,902	7,447.68