

HE Mr Korn Chatikavanij
Finance Minister
Ministry of Finance
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cc Dr Areepong Bhoocha-oom
Director General
The Excise Department
1488 Nakhonchaisri Road, Dusit, Bangkok 10300

7 June 2010

Your Excellency,

In March, I sent you a letter requesting tax exemption for wine intended for exhibition in Thailand later this year. I would like to thank you for your positive response, and look forward to receiving official confirmation from your department in due course.

As you may recall, I briefly mentioned the Thai wine-tax issue to you late last year at the 'Towards the ASEAN Community' event at the Dusit Thani Bangkok. You told me that the department was already working on it.

I understand that the Vietnamese are now planning a radical reduction in wine taxes later this year (see below). This prospect lends additional urgency to the issue of liberalising Thailand's own wine-tax regime. Without early action, we are in real danger of seeing the commercial benefits of relaxation hijacked by regional rivals.

As a former food and beverage professional (and a Southern Democrat), I believe the time is now critical for Thailand, the government, and the party organisation, to give serious attention to the negative impact of the wine tax on the diversification and development of this country's economy.

At present, with Democrat ministers also overseeing the Health, Finance and Education ministries, a major window of opportunity has opened up to make Thai business fairer and more transparent for the benefit of the whole nation. It would be very sad if such an opportunity were allowed to pass without positive result.

Obviously, I cannot speak for all sectors of business, but I would like to speak up on behalf of the Thai hospitality industry (especially the food and beverage sector), which is so important in terms

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of underpinning the tourist trade. I have been involved in the hospitality business and other tourism-related fields for decades, as well as a lifestyle media publisher. During this time, I have seen Thailand miss one opportunity after another to establish itself as the undisputed regional leader in the hospitality field because of a chronic lack of long-term vision displayed by most previous governments.

In the past, the Tourism, Education, Finance and Health Ministries have been unable to work harmoniously to maximize Thailand's tourist potential while at the same time protecting other Thai interests. Yet if these departments were able to work together more efficiently - resolving rather than just blocking or shelving areas of disagreement - Thailand's F&B industry and F&B professional personnel could certainly lead the field in Southeast Asia; and even, so I believe, in East Asia generally. We already have in place a powerful tourist infrastructure on which to capitalise, yet we are consistently failing to seize our opportunities. As our competitors are not standing still, the time available to exploit Thailand's current advantages in this area are certainly not unlimited.

For many decades we have promoted tourism successfully, with the result that the industry has grown strongly. We currently have more hotels and more fine dining restaurants than all our neighbouring countries combined. However this very success has prompted increasing competition, in some cases aggressively supported by governments. I believe that we have now fallen behind Singapore, Malaysia, the Philippines and maybe even Vietnam as far as F&B manpower skills are concerned. Given our superior tourist infrastructure, we should now be seeing reasonable numbers of Thai hospitality and F&B managers operating in all these countries. Instead the opposite is the case. In short, we are failing to develop our people sufficiently to ensure our continued lead in this field.

Last year, with the AFTA rules about to take effect, we took the opportunity to start promoting Bangkok as the 'Culinary Capital of Asia'. At present, this title is being disputed by Hong Kong and Singapore, both of which clearly perceive the benefits. We believe that the title rightfully belongs to Bangkok, and that Thailand should pursue it with similar determination.

Our initial aim is to help ensure that Bangkok can compete effectively with Singapore, our most immediate rival. The Bangkok International Wine Fair (BIWF) was conceived in order to develop Bangkok as Southeast Asia's main wine trading centre - a position currently enjoyed by Singapore even though Thailand is the region's largest end-market. However, we also saw this as a key component in our longer-term ambition to put Bangkok indelibly on the world gourmet map and establish Thailand as the undisputed Asian leader in the F&B field.



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When setting up Bangkok International Wine Fair (BIWF), we assumed that the advent of AFTA would lead in short order to a significant reduction in Thai wine taxes, making this a particularly suitable year in which to inaugurate a trade exhibition.

Such a reduction has not occurred. Instead we have been faced with very serious damage to Thailand's international reputation resulting from the recent political disturbances. As you know, these have been widely reported internationally, with seriously adverse consequences for the country's MICE industry. We are finding that these two factors, in combination, are proving such a strong deterrent to exhibitors who had previously expressed a strong interest in coming to Thailand that we may have to abandon our plans for this year.

Accordingly, we would now like to formally request the government to consider lowering the wine tax to 10-20 per cent, or even abolishing the tax altogether, as a matter of urgency. This could be considered as part of a general liberalisation of taxes on luxury goods, which I know is currently under consideration.

As you know, two years ago the wine tax in Hong Kong was halved, and last year abolished altogether. This was a major plank in the HK government's determination to take on Singapore and other Asian rivals as a magnet for high-end tourists – the very tourists Thailand also wants and needs to attract. In particular, the Hong Kong authorities are very anxious to establish the city as an internationally recognised culinary powerhouse. HK Financial Secretary John Tsang is on record as stating that in return for US\$72m in revenues foregone, Hong Kong hopes to expand wine-related trading activities alone by as much as US\$500m, with substantially greater spin-off returns also in prospect from the boost to tourism. Overall, tax receipts have already increased substantially.

Singapore, our other major competitor in this field, has always been known as a low-tax area. However, it needs to be understood that Bangkok is not merely contending with more aggressive competition from its traditional 'regional hub' peers. Lesser rivals in the region are also making a strong pitch to muscle in on the act.

According to our information from the wine trade, Vietnam is planning to reduce its tax on wine from 80 per cent currently to 20 per cent by the end of this year or early next year. In comparison, Thai wine taxes amount to 380 per cent (over 300 per cent from excise duty alone). We are already seriously out of line with all other countries in Asia apart from India, and even India exempts overseas visitors purchasing wine in 5-star hotels.

Unless Thailand acts soon to rectify this situation, I believe it will not be long before tourism to this country begins to suffer from more intense regional competition from a wide variety of players.

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It will certainly fail to establish the capital as a leading regional short-haul destination, which is likely to be the next major growth trend in the Asian tourist industry.

In this respect, I would like to make the point that the high-end tourists Thailand wishes to attract are overwhelmingly middle-class in their own estimation; not necessarily wealthy. Thailand's great drawcard for such people is that the value-for-money available here in most respects allows them to enjoy a 5-star holiday lifestyle of a kind they could not afford either at home or at most alternative destinations. Where they perceive good value, such people will spend money very freely. However, they are not price-insensitive. The prices displayed on Thailand's wine lists do nothing to enhance the country's reputation for good value, even in the culinary field.

Political and diplomatic pressures will eventually force Thailand to conform to international norms in the field of alcohol taxes. I suggest that the only real choice before us is whether we liberalise in time to head off competitive damage to the country's tourist industry, or wait until the damage has already been done and our various rivals are all much better established at Thailand's expense.

Here follows a summary of our reasons for suggesting that Thailand should now lower (or abolish) its wine tax and taxes on other luxury brands:

1. To attract more investors, high-end business travellers and quality tourists. Nearly all luxury brands, including wines, sold in Thailand are consumed by foreigners (Please study the Singapore and Hong Kong experience for similar cases. In both places, it is well recognised that tax foregone on luxury items is easily outweighed by tax receipts on other spending by visitors).
2. If Thais can be encouraged to consume more wine in place of hard liquor, Thailand will certainly benefit from lower health costs. Moreover, the state will lose very little tax revenue from this source, as most Thais who know about wine nearly always buy their wines privately and know where to obtain them without paying duty. Under a much more liberal tax regime where wine can be bought publicly, the state should benefit from additional tax revenues from restaurant and internal tourism transactions. According to local wine trade sources, Thais currently consume roughly four times more wine than the figures shown by the customs and excise department (the 2008 figures showed Thailand importing one million cases of wine). If that estimate is correct, the government raised no revenue at all from the consumption of 3 million cases. In short – and in line with all international experience – penal taxes are simply evaded.

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3. Thailand's excessive, poorly administered and often corrupt tax regime arouses the contempt of the international wine community. Wine exporters know perfectly well that there is a useful wine market in Thailand, but also that they are very unlikely to succeed if they attempt to pursue that market through legal channels. We are frequently embarrassed (indeed ashamed) by the very widespread perception that Thailand is full of corrupt officials administering a frankly incredible tax regime, turning a blind eye to back-door wine trading and even the overt sale of smuggled wine by major hotels and fine-dining restaurants. Everyone also knows that wines landed at Bangkok Port at present are grossly under-invoiced.

It needs to be understood that this shambolic state of affairs is common knowledge. The National Days of most countries are celebrated with wine. At such functions, Thai politicians and high-ranking officials can often be seen enjoying wine with Ambassadors and foreign dignitaries from wine-producing countries, with little appreciation of what they really think about us. In short, whatever one thinks about the current wine tax regime in theory, its implementation in practice is little short of a national disgrace which brings Thailand into widespread disrepute. Moreover – a point that has been made to us innumerable times - the contrast with Singapore could not be more marked.

4. If Bangkok can be developed as a major (transparent, above-board and legal) wine-trading hub, international wine professionals will be attracted to Thailand in large numbers. Worldwide, there are roughly 20 million such people spread across 30 wine-producing countries - including thousands of millionaire wine owners. Many of these people would have a reason to travel to Thailand.
5. Fine wine has become a lifestyle accessory associated with the rich and famous - hundreds of world celebrities make a point of associating themselves with particular wines, and some even become vineyard owners. Fine-wine is also a prestigious and high-profile investment commodity, employing many financial professionals and attracting the involvement of international financiers. At present, significant stock-trading business exists in both Hong Kong and Singapore, reflecting their status as major wine-trading hubs.
6. Lower wine taxes, and especially a shift to healthier, lower-alcohol drinking, will permit the already well-established Thai winemaking industry to grow and prosper. One major spin-off, if properly exploited, could well be eco-tourism as Thailand is already the leading wine producer in Southeast Asia, and the only one with any existing wine tourism. Many foreigners – Asians and Westerners alike – are fascinated by the idea of wine growing in a notoriously tropical climate.



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7. Last, but not least, the one major impediment which prevents Bangkok successfully establishing itself as the 'Culinary Capital of Asia' will be removed. We believe that this major prize - with its huge potential for medium-term tourist growth - is well within the city's reach, and that it can effectively beat off rivalry from both Singapore and Hong Kong. As both those states make aggressive use of their tax regimes to pursue such ambitions, so must Thailand if it is to succeed.

As a former F&B professional and entrepreneur (but not a wine trader), I strongly believe that the intelligent marketing of wine and other luxury products are among the remedies available to help rid Thailand of poverty.

I am not suggesting that Thailand should make money from the luxury goods themselves, but instead learn how to use them effectively as a tool to help develop our economy and our people in related fields.

If Thais can have equal opportunities with others – ie, are enabled to compete in business on a level playing field with other nations – our country's economic development will surely accelerate. This, in turn, should make it much easier to resolve the kind of political problems we have recently faced.

Thank you for your attention. I sincerely hope the above suggestions will be considered useful, and of potential benefit to our country and our people.

Yours sincerely,

Joe Sriwarin
Managing Director
Bangkok International Wine Fair (BIWF)

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