



BANGKOK
INTERNATIONAL WINE FAIR

GATEWAY TO THE EMERGING MARKETS OF SOUTHEAST ASIA

1044/12 Sukhumvit 44, Klongtoey, Bangkok 10110

Tel: 0 2390 2551-3 Fax: 0 2390 2550

www.bangkokwinefair.com

HE Mr Korn Chatikavanij
Finance Minister
Ministry of Finance
Soi Ari Samphan, Rama 6 Road,
Phayathai, Bangkok 10400

cc HE Dr Trirong Suwankiri
Deputy Prime Minister

cc Dr Areepong Bhoocha-oom
Director General
The Excise Department
1488 Nakhonchaisri Road, Dusit, Bangkok 10300

cc Dr Somchai Sujjapongse
Director General
The Customs Department
Kasemrat Road, Klongtoey, Bangkok 10110

9 August 2010

Your Excellency,

After we launched the Bangkok International Wine Fair (BIWF) project, we sought assistance and support from various government agencies such as the Excise Department, the Customs Department, the Finance Ministry (letter sent to you), the Tourism Authority (TAT) and the Thailand Convention Exhibition Bureau (TCEB).

So far we have only been endorsed and supported by the TCEB, but not by any of the others. Sadly, there appear to be relatively few government officials who appreciate the importance of assisting small Thai businesses to compete with other countries in the international trade arena.

As you know, we see the Bangkok International Wine Fair as a lubricant to attract many high-end visitors and investors to the Kingdom. We also believe that with the strong growth of interest in wine throughout the region, Bangkok is well positioned to become the main centre for an expanding wine trade throughout mainland South East Asia. Furthermore, there are huge potential gains for Thailand if Bangkok could plausibly be promoted as the "Culinary Capital of Asia". Despite key advantages (such as a large high-end hospitality industry, the high international reputation of Thai

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cuisine and unmatched value for money for food), this cannot happen so long as legally purchased wine in this country remains ruinously expensive by international standards.

I understand that the ministry has many other important projects that need to be dealt with, however I am convinced that Thailand's wine tax regime is now damaging the country's image and interests and is now in need of urgent reform.

In recent months, we have staged several road shows in EU countries (Italy, Germany and France) as well as attending the food and wine fairs in Singapore and Hong Kong. We have met and talked with a great many leading wine companies and individual producers. They all show an interest in visiting Thailand, and many express an interest in setting up offices in Bangkok – but only if their key concerns are addressed. If these concerns are not addressed, they will continue to view Singapore as the only viable hub for wine trading in Southeast Asia.

As I suggested to you in my previous letters, it is high time for Thailand to liberalise its wine tax. We cannot go on allowing the country's reputation to be tarnished because of chronic, and highly-visible, abuses arising out of the current penal tax regime. I believe that you should be aware that Thailand's reputation for excessive wine taxes, opaque administration and endemic corruption is extremely poor – just about as low as it could be so far as overseas wine producers are concerned.

As you can imagine, it gives me no pleasure as a Thai to hear such negative comments about my country constantly repeated. I am travelling around the world trying to sell Thailand as a good place to do business. In response, I have to listen to entirely justified complaints that Thailand is one of the two countries in the world that retain penal tariffs on wine (the other is India), and that small operators who want to trade openly and honestly in this market are placed at a hopeless disadvantage. You should know that we (I am speaking here for both the Thai wine trade and the food & beverage industry) are extremely unhappy with the current situation.

Given the current penal taxes on wine, all importers will continue to use whatever tactics they can to reduce and/or evade tax. They cannot be blamed for this, because otherwise they would go out of business. The bottom line is that Thai wine consumers know perfectly well what wines cost abroad, and they are simply not willing to pay the absurd prices demanded for legitimately imported and taxed wine. As I am sure you understand, this does not curtail their wine consumption in any way.

What you may not know is that for many years, the embassies of wine-producing countries have used their diplomatic privileges to bring wine into the Kingdom tax free. They invite trade, F&B

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professionals and media to attend wine tastings at ambassadors' residences, embassies or even at hotel wine dinners. The wives of many ambassadors also use their diplomatic privileges to exhibit and sell wine for charity, but this is really just a front for promoting goods from their countries.

At my meeting with the Customs Department, I informed them that many restaurants and hotels are also selling wines with no duty stamp. They cannot sell fine wines profitably otherwise. The department does not have enough officials to raid all the bars, restaurants and hotels which maintain stocks of duty-free wine – let alone enough officials who are immune from bribery.

According to industry information, Thailand currently consumes more than 30 million litres of wine, however the Customs and Excise departments can only collect tax from 10 million litres (and much of this is heavily under-declared). Meanwhile customs officials frequently catch passengers hand-carrying several bottles of expensive wine when they return from overseas trips. Officers might be better deployed catching big-time underground smugglers.

It should go without saying that such abuses do not occur in places like Hong Kong and Singapore, because there they are unnecessary. In Thailand, however, when small businessmen want to do business in a proper and legal way, according to normal international commercial standards, they cannot compete with privileged and illegal trade. The more often such abuses are allowed to occur, the more Thailand's reputation will deteriorate. No one in the international wine trade regards current wine-trading practices in Thailand as above-board, transparent, reasonable or fair - and many smaller wine producers simply have no interest in doing business in a market so badly distorted.

If you, or the Customs and Excise departments, do not wish to reform the current tax regime, then the country will continue to lose revenue, legitimate international business will continue to shun this market, and the country will continue to suffer a poor reputation for corruption and incompetent administration.

Nevertheless, given Thailand's central location and current infrastructure, we believe that Bangkok is ready to host its first wine trade fair. We want to compete with Singapore, and on a level playing field, we are confident that Bangkok will win easily. Given a reasonable wine-tax regime and a fully-fledged wine trade fair, Thailand would have platform for everyone to play fair commercial games. This will not happen so long as large-scale smuggling and corruption remain endemic, and large-scale smuggling and corruption will certainly remain endemic so long as the wine tax remains completely unacceptable to end-consumers. Adam Smith (himself a former excise officer) understood this nearly three centuries ago – it is extraordinary that the Thai government still cannot do so.

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At present, everyone in the wine industry is focused on the Chinese market (which has had a huge fillip since Hong Kong abolished its wine tax last year). China's fast growing economy and rapidly increasing numbers of seriously wealthy people, have made that country the number one place in Asia to invest and do business. Nevertheless, Thailand potentially has a very important (and well-understood) role in as an Asian 'showcase' market (we have more hotels and fine restaurants than all our neighbours combined), and cannot afford to ignore the rapidly growing fine-wine business throughout Asia. Nevertheless, if the bulk of the fine wine entering this country has to be traded clandestinely to evade tax, the country will reap no benefits.

The government cannot go on making rules and levying taxes with no reference to international or regional norms. Obviously the Thai economy is interdependent with those of our trading partners, and becoming ever more so as free-trade agreements and the forces of globalisation continue to make their impact. The major markets of China, Vietnam and Singapore are only a short distance away. All those countries levy substantially less tax on wine than Thailand, guaranteeing that the underground trade here will continue, while all the benefits of the regional wine trade will go elsewhere.

Accordingly, I urge you and the Excise and Customs departments to consider liberalising the wine tax sufficiently to be on a par with Singapore – or preferably, abolished altogether as happened recently in Hong Kong. We simply cannot afford to ignore what our rivals are doing. Moreover, with the open market in China and the free trade agreement, it will not be long before wine starts flooding into Thailand overland from China. The only real question is whether the government wants this trade to be legitimate or clandestine.

I understand, of course, that health issues are frequently invoked to justify a continuation of the present high tax levels.

As a former F&B professional, I have seen during the past 30 years that no government in the world has managed to win outright over alcohol, and Thailand will not be able to do so either (unless we want to be governed like a Muslim state or monopolise the sale of alcohol as in Scandinavian countries). The key, as most governments realise, is to use the tax regime to encourage lower and more responsible alcohol consumption.

Currently the Democrat party (which controls the Health Department) is allowing doctors who are against alcohol per se to influence policy in a most unfortunate and self-defeating way. Only the big spirit companies can afford to comply with the health restrictions on advertising alcohol. Small-brand beverages cannot compete, and even F&B professionals are impeded in their functions. If this trend continues unabated, the nation will end up drinking only hard liquor rather than any

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other alcoholic beverages. I presume this is diametrically opposite to what the government is trying to achieve – at any rate, it is entirely contrary to what most other countries have managed to do, which is to encourage trends towards reduced, lower-alcohol and higher-quality consumption. This is an achievable objective which would greatly benefit Thailand in the long run – not least in savings on the health bill if half the population could be encouraged to stop drinking *laokao* and other hard liquors.

Thailand must also support a diverse range of professionals. Thailand relies heavily on the tourist industry, but as yet I have never seen the Democrat government do anything to support the F&B professionals who are needed to sustain and develop it. Sky-high wine taxes are certainly not the way to promote the F&B and hospitality industries.

I have made the case here for substantially reducing or abolishing the wine tax, but of course I don't expect anyone to act on my say-so alone. May I respectfully suggest that your advisers study the motives behind Singapore's and Hong Kong's recent policies in this area; also the beneficial consequences arising from their actions.

As a wine lover and F&B professional I truly believe that 'no nation drinks wine and becomes poor'. And I also believe in the 200 year-old quote by the former President of the United States, Thomas Jefferson, that 'No nation is drunken where wine is cheap'

Yours sincerely,

Joe Sriwarin
Managing Director
Bangkok International Wine Fair