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## Thailand

### Trade Policy Monitoring

### Excise Taxes Hurt Wine and Spirit Imports, Hamper Tourism Development

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**Report Highlights:**

Beyond high import tariffs, Thailand applies hefty excise taxes to wines and spirits. FAS/Bangkok Agricultural Counselor visited the Thai Excise Department to discuss the future of excise taxes on wines and spirits, outlining several reasons why Thailand may want to consider lowering them.

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## Thai Excise Taxes: Poisoning the Well for Wine and Spirits

Agricultural Counselor called on Thai Excise Department Director General Dr. Suthit Linpongpan to discuss the process of assessing excise taxes on imported U.S. wines and spirits, as well as the impact these taxes have on various sectors within the Thai economy. The DG was receptive and took note of the points raised by the U.S. side without further comment or contest.

400% Tax; what's the deal?

The Royal Thai Government (RTG) maintains high excise taxes on a small group of commodities and industrial products. The general justification for the high tax is to encourage consumers of these commodities to modify their behavior to achieve certain environmental or social goals. Some potentially hazardous materials (lead from car batteries, for example) have caused the RTG to levy hefty taxes on the products to limit the supply within the country and, thereby, limit the possible threat to the environment. In the food and agricultural sector, the RTG claims that it is taxing wine and spirits heavily so as to not encourage excessive alcohol consumption, particularly among under age consumers.

The RTG calculates the excise tax based on the price of products once they are available in the market, i.e., after all duties and fees have been paid. This means that for imported products, the excise tax is calculated based on the CIF (cost, insurance, and freight) price plus import duty plus any other fees. Comparatively, however, the local equivalent product does not have any inclusion of import duty or fee in the calculation of its excise tax.

National Treatment? Not exactly.

RTG Excise Department Director General said that the calculation and application of excise taxes in Thailand is fair and transparent. According to him, domestic product is assessed a tax at the same rate as calculated for imported analogs. However, AgCouns pointed out that in the equation for calculating excise taxes for wine and spirits, for example, that the value of the imported product includes a component of import tariff (and sometimes other import fees), which do not apply to local counterpart products. AgCouns questioned as to whether or not this treatment of imported products versus domestic products would meet the definition of national treatment.

Bottle of Wine, Fruit of the Vine (not roots, not flowers...)

AgCouns raised the issue of appropriate classification and taxation of fermented beverages. In many fora, grape wine and non-grape wine are differentiated from each other for the assessment of duties, regulations, etc. AgCouns mentioned to the DG that if the intent of the high excise tax would be to protect the emerging non-grape wine industry in Thailand then perhaps a scheme applying appropriate excise taxes to non-grape wines should be developed. Generally, consumers of grape wines are not consumers of fruit wine, and vice versa. Furthermore, there is a fledgling grape wine industry in Thailand that is suffering from the high excise tax, too. AgCouns mentioned that in the interest of local agricultural development and crop diversification (both stated goals of the RTG), then a more rational excise tax for grape wine should be developed. The DG noted that the domestic grape wine producers had already been to see him, complaining of the same issue.

Beverages in Tourism, Food Service: good for investment, development and revenues

AgCouns pointed out that food service providers, particularly in the tourism industry, rely on ready access to a broad range of food and beverage inputs, not all of which can be sourced

locally. Additionally, the RTG's stated goal to increase investment and development of the Thai tourism industry is also closely linked to dependable supplies of well-priced inputs like food and beverage. The RTG continues to push for higher revenue earning service providers (high value tourism, hotel, and restaurant services), which will have to similarly use consistently high quality products, again, many coming from overseas.

AgCouns mentioned that wine and spirits are particularly good examples of imported complimentary inputs that are an important part of any tourist service provider's food and beverage program. Excessively high tariffs and taxes on these products, if properly imported and declared, will only mean that high value tourists will not find Thailand to be a good value for money destination. Framed another way, high taxes hinder the evolution of the Thai tourism industry from low/mid value tourists up to the goal of high value tourists.

#### Only the Cheapest and Lowest Quality for Thailand

Excise Department officials accompanying the DG asked about the extremely low declared price for some wines and spirits arriving in Thailand. AgCouns explained that the range of wine and spirit pricing runs the gamut from inexpensive to expensive, depending on quality, availability, transportation, and other factors. AgCouns provided one example of wine that could be delivered to Thailand for around one U.S. dollar per bottle, while others would be closer to one hundred U.S. dollars per bottle. Obviously, the more expensive bottle would be higher quality and more likely to bolster the image and attractiveness of any establishment that might serve it. High value customers would spend more money by consuming the higher quality product, resulting in better sales and revenue for the Thai service provider.

On the other end of the spectrum, the inexpensive wine won't add value to the Thai service provider's product. Unfortunately for the provider, the so-called more affordable wine would actually limit his ability to attract high value customers or increase his sales or revenues. Expansion of the tourism sector into the high value category will therefore be limited and high value customers will be less likely to choose Thailand as their destination. Other tourism markets with more reasonably priced high value products will attract the high value tourists while Thailand will remain a destination for the low to mid value tourist. Excise Department officials acknowledged the comments made by the AgCouns but, understandably, replied that these concerns lay well beyond the scope of their responsibility. It was, however, useful to raise the points for their reference and possible future inter-agency discussions that might take place.

#### Keeping the Kids off the Alcohol

The Director General mentioned that one of the serious issues in Thailand was combating under-aged drinking. The Ministry of Health has a campaign to address the issue and the RTG contends that high taxes on alcohol will help keep the kids away from liquor. AgCouns suggested that social programs on education aimed at teenagers and their parents might do more to raise awareness of the health issues rather than putting high excise taxes on the products. Furthermore, the low pre-tax value of local distilled spirits and fermented drinks means that locally produced liquor is still available at very low prices.

#### Blurred Outlook

The Director General graciously thanked the Agricultural Counselor for his visit and for the concise and clear elucidation of the U.S. concerns. Although there was no offer to take any immediate action the DG did say that he was taking note of the issues and would share the information with the appropriate colleagues. AgCouns did mention that he was following up on issues of national treatment and product classification with other RTG officials, notably at

the Commerce Ministry's Department of Trade Negotiations. AgCouns also offered to facilitate meetings between Health Ministry officials and USG officials to further discuss and exchange information about social programs aimed at educating consumers about alcohol consumption. AgCouns also mentioned that he has been in touch with the Tourism Authority of Thailand, offering to discuss assistance in the areas of food and beverage quality awareness in support of boosting Thailand's tourism revenues.