

# Effects of earmarked tax system and excise tax on alcohol in Thailand

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## Abstract

Alcohol consumption in Thailand increased significantly, the recorded adult per capita consumption rose from 0.26 litres in 1961 to 8.47 litres of pure alcohol in 2001. Many factors take part in this dramatic rising, economic growth, modernized lifestyle, as well as relatively static and decrease in price of beverages compared with income play a major part. All alcohol beverages are taxed on the maximum public profit basis between two calculation methodologies; proportion to cost, and flat rate to volume of pure alcohol. The major innovation of utilizing the excise tax in Thailand is the founding of the *Thai Health Promotion Foundation (ThaiHealth)* in 2001, to establish a progressive financial mechanism for health promotion. This foundation receives 2% surcharge on tobacco and alcohol taxes, and works as a catalytic funding agency for improvement in well-being of Thai citizen, particularly in hard-to-reach area for conventional bureaucratic system. With its supporting role rather than replacing the existing bodies, ThaiHealth has incorporated various partners into networks to work synchronically. The contribution of ThaiHealth to alcohol policy in Thailand through the strategy of strengthening the capacity in three interrelated arena; creation of knowledge, social movement and political involvement were discussed.

## Background

The alcohol production had been a state-run monopoly intermittently since 1927. In its first period, state-run production increased by nine percent annually. Domestic production increased significantly during the Second World War, taking advantages from scarcity of imported beverages. Alcohol tax, thus, highly increased in early post-war period, three-fold in ten years was recorded (Sornphaisarn B., 2005). Thai government adopted free alcohol production campaign; fermented beverages including beer in 1990 and distilled beverages in 1999. (National Health Foundation, n.d.) This campaign clearly stated that taxation system should not be any obstruction for development and growth of alcohol industry, particularly domestic industry (Nikomborirak D, 2002). Recently, Government has promoted traditional alcoholic beverage, as part of One Tambon (sub-district) One Product (OTOP) project, by reduce tax rate for traditional fermented beverages by 30% in 2003.

The WHO Global Alcohol Database illustrates increase in Thai adult per capita consumption from 0.26 litres in 1961 to 13.59 litres of pure alcohol in 2000, which puts Thailand as one of the top ten high consumption countries. Economic is a critical factor for the growth in alcohol consumption. The evidence confirms that rapid economic growth in Thailand, in term of GDP per capita, which in turn increased the affordability of alcoholic beverages has been associated with rising consumption. Moreover, the increase in household alcohol expenditure has outweighed the growth of overall income. (Thamarangsi T., 2005). Another study on beer consumption situation points out that Thailand is the world highest income elasticity of demand in period between 1996 and 2005. (Euromonitor, 2001).

In 2004, there were 16.1 million drinkers or equivalent to 32.7% of the adult population, with 5.4 times more male than female prevalence, 55.5% to 10.3 %. Average age to start drinking was 20.4 years old. Despite total drinker prevalence in both genders has minimally increased between 1991 and 2004, 3% in male and 8% in female, there has been significant change in some age groups in both directions. Percentage of drinkers in young female has increased by 14% and 50% in 15-19 and 20-24 age groups, respectively. (National Statistic Office, 2005, Wibulpolprasert S, 2005)

Spirits have been the dominant alcoholic beverage in Thai society, far more than beer in volume of pure alcohol consumed, 11.1 times difference in 2000 for instance. However, in volume of beverage consumed, data from the Excise department shows that beer popularity had gradually increased, while spirits consumption had remained at the same level during the period 1988-2002. Currently, imported beverages share only small segment in total alcohol market. Data from the Excise Department state that imported spirits averagely get only 3.9% and less than 0.1% in total spirits and beer market between 1998 and 2000, respectively. In domestic distilled beverages production, *white spirit*, the cheapest non-colouring and non-seasoning, shared almost three quarters of overall production volume in 2004.

Alcohol market is also influenced by both bilateral and multi-lateral trade agreements. Thailand currently sets alcohol ad-valorem custom rate (by value) at 5% of C.I.F. value (Cost, Insurance and Freight) for product, imported from AFTA (ASEAN Free Trade Area) countries, while beverages from other countries are subjected to be charged at 60% of C.I.F. rate (Kajorntham Y. et al., 2004).

## Alcohol policy in Thailand

Generally, alcohol policy process in Thailand reflects the incompatibility among economical interests versus public health interest. Many Thai alcohol policies particularly policies on taxation and control on physical availability are criticized to disproportionately neglect public health values in it contents. (Kajorntham Y. et al., 2004, Sornphaisarn B., 2005). The setting of the National Alcohol Consumption Control Committee in August 2003 is expected to solve the problem of irrelevance and inconsistency among departments and organizations. This committee and secretariat office acts as official agency for alcohol control policy, which is mandated for policy formulation, co-ordinating with relevant organization, monitoring and evaluation.

### *Alcohol Taxation and Price*

All alcohol beverages are taxed on the *maximum public profit* basis between two calculation methodologies 1) proportion to cost, at 40-60 % of declared production cost, and 2) flat rate to volume of pure alcohol, at 100 and 400 Baht for fermented and distilled spirits-respectively. However, some types of beverages, especially cheap beverages, are the exception which is taxed at below-the-maximum rate. The main explaining reason for exemption is the government's concern on negative impact to grass-root alcohol entrepreneurs, regardless to the fact that traditional spirit and white spirit market is dominated by industrialized alcohol companies, not local distillers.

WHO reported that the relative beverage price in Thailand was low, compared to regional and global averages. The relative price for beer in Thailand in 2002 was 3.43 USD compared with a mean of 11.3 for the SEARO/WPRO region and 8.1 for all countries. The relative price for spirits in Thailand was 22.21 USD, 10.8% and 43.3% lower than the regional and global averages respectively.

A national price can be determined by adjusting surveyed Thai regional price data from the Ministry of Finance with number of population in each region. The price of beer (630ml bottle) was found to have increased by 22.1% from 1986 to 2001; the spirit price (750-ml bottle) had more than doubled, from 66.5 to 148.7 Baht in the same period. However, after adjusting for inflation, using the consumer price index (CPI) as an indicator (using CPI at 1988=1); the real spirit price had ranged between 73.7 and 87.3 Baht, and finally went up by only 12.7%. The real beer price, conversely, had gradually dropped by 38.5%, from 44.1 to 22.7 Baht (at 1988 constant price). The real price of alcoholic beverages needs to rise, at or beyond the rate of inflation, if pricing is to be used as a strategy to contain alcohol consumption. The data indicates that the real price of Thai beverages during the period 1986-2001 was a factor encouraging consumption, particularly for beer.

### Earmarked Tax and Thai Health Promotion Foundation

In 2001, the Cabinet issued *Thai Health Promotion Foundation Act, B.E. 2544* to establish a progressive financial mechanism for health promotion. This foundation, known as *ThaiHealth*, receives 2% surcharge on tobacco and alcohol taxes, and works as a catalytic funding agency for civil movements, that lead to any improvement in well-being of Thai citizen. (Siwaraksa P, 2005)

ThaiHealth was designed to be the financial support mechanism for health promotion activities, particularly in hard-to-reach area for conventional bureaucratic system. These missions are based on broaden, but integrated, definition of health and the core concept of Ottawa charter. With its supporting role rather than replacing the existing bodies, ThaiHealth has incorporated extensive strategic partners from various sectors into networks to work synchronically. ThaiHealth's strategy has employed the concept of Triangle that Moves the Mountain, originated by Dr. Prawase Wasi as the strategy to solve difficult social problems, by in-parallel strengthening the capacity in three interrelated sectors. These are 1) creation of knowledge, 2) social movement and 3) political involvement.

## Contribution of ThaiHealth to alcohol policy in Thailand

The Alcohol Consumption Control Program, is definitely one of the major task of ThaiHealth, aiming at consumption reduction, harm reduction, sensible attitude promotion-particularly among youths, alcohol control unit support, and research capacity strengthening. The main strategy in the Plan applying the concept of triangle, are to extend the power of knowledge, social movement and policy mobilization in alcohol control context.

### Knowledge

In September 2004, ThaiHealth and HSRI established the Center for Alcohol Studies (CAS) as a national research and knowledge management institute for the reduction of consumption and alcohol-related harms. Since then, CAS has been the core for Thai alcohol-related knowledge activities, including organizing the National Conference on Alcohol annually. Furthermore, CAS also transforms and broadcasts technical knowledge to general population, in appropriate format, such as publishing stories about experiences on alcohol-related problems and benefits from consumption refraining and quitting. The technical outcomes from this institution presented influential effects in alcohol policy movement during the past years.

### Social movement

To enhance the social participation, ThaiHealth has interlaced individual and groups who share their concern on alcohol issue. In its first period, ThaiHealth has nationwide built health-oriented networks, including religious alliances, which have successfully advocated on alcohol policies, especially alcohol promotion control and drinking-driving countermeasures. ThaiHealth supported the establishment of StopDrink Network to be the coordinating body for those partners, hundreds of organizations from various sectors nationwide have been connected so far.

ThaiHealth's alcohol consumption reduction campaign has been widely perceived from Thai public. These campaigns use various methods to target different groups, such as applying religious beliefs to promote a three-month alcohol refraining campaign among adults, using celebrities as anti-alcohol role models, music, games and peer persuasion for teenagers. The campaigning motto, such as "drink don't drive", "drink and poor-stop drink stop poor", "quit drinking on Buddhist lent period", have been quickly hooked. All activities gradually shape the social perception on alcohol and then indirectly support the policy movement..

### Political mobilization

ThaiHealth movement played a crucial role in the setting of the National Alcohol Consumption Control Committee in August 2003 which includes many sectors involving in alcohol policy such as Ministry of Finance, Interior, Education, Public Health and the Royal Thai Police Office.. This committee and secretariat office is the official body for national alcohol control policy.

ThaiHealth has also supported the capacity strengthening project among alcohol-related public sectors, particularly on Tobacco and Alcohol Consumption Control Unit (TACCU) under MoPH. By this support, TACCU could extend their area of expertise, for example recruiting law experts to work in MoPH, organizing workshop and meeting. Tobacco and Alcohol Hotline Center has been set up to strengthen the

policy enforcement, by inquiring tobacco and alcohol law violation case and coordinating with responsible units. Those mechanisms have successfully advocated on alcohol policies, especially total ban of alcohol advertisement and promotion, drinking-driving countermeasures, and the process of drafting the Bill on Alcohol Beverage Control, designed to be the first alcohol bill for health purposes which is expected to pass the Parliament in 2007. . The draft content includes establishing alcohol policy agency at national and provincial level, increase in minimum purchasing age and comprehensive prohibition of alcohol promotion.

## Lesson learned

Three main factors were discussed for ThaiHealth's early success in alcohol policy arena; these are flexibility, financial security and effective strategy. The public autonomous status allows ThaiHealth to facilitate and coordinate with partnerships in both public and private sectors. The funding mechanism, from both tobacco and alcohol source, could ensure the financial security. And finally, ThaiHealth's complementary and coordinating role, rather than replacing, for existing structure/agencies and capacity is widely and positively accepted. Even there is still a long way to go to prove the sustainable achievement of this innovative financial institution, the early lessons from ThaiHealth should already demonstrate one of the progressive ways of utilizing the alcohol excise tax for the national alcohol policy.

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