

## CHAPTER 19 WINE AND SPIRITS

### OVERVIEW

Despite the small market share, the wine and spirits (W&S) industry has contributed considerably to the economy with USD 282 million to Vietnam's GDP in 2022, accounting for 0.6 per cent of total hospitality, retail, and wholesale GDP. It also supported 65,600 jobs nationwide and contributed USD 253 million in revenue taxes.<sup>1</sup> W&S businesses have also been active in supporting many the Government's objectives, such as our "Power of No" campaign<sup>2</sup> to raise awareness about drink drinking and promote behavioural change among people aged 18 to 30, which has reached nine million young adults in Vietnam and a total of 43 million people in all seven markets<sup>3</sup> via social media. The industry endorses a whole-of-society approach to combat harmful drinking and remains committed to working with the government and associations to address this issue. The W&S industry also ensures that resources are used sustainably by using recyclable packaging and increasing the percentage recycled content, as a way to contribute to sustainable development goals.

In recent years, the W&S industry has experienced several challenges. The economic downturn has adversely affected the industry, whose compound annual growth rate fell by 13.4 per cent in 2023.<sup>4</sup> As key members and partners of the wider hospitality, tourism and F&B ecosystem, the W&S industry has similarly been affected by macroeconomic volatility, geopolitical events and a rise in costs. As a result, restaurants and dining establishments have experienced a substantial drop in consumer numbers, forcing some to reduce staff or shut down entirely. The industry has also been struggled with new policies, which have resulted in increasing operational costs and introduced new uncertainties. Another longstanding challenge that the industry has had to tackle is illicit trade in Vietnam, which has now reached up to 63 per cent of total alcohol consumption.

Since the beginning of 2024, the Vietnamese Government has issued Resolution 01<sup>5</sup> and Resolution 02,<sup>6</sup> which set administrative reform, reduced compliance costs and business support as objectives for the country's socioeconomic growth. The W&S industry welcomes the adoption of both resolutions to assist businesses and foster long-term growth. Furthermore, the industry supports the ongoing enforcement of regulations that promote responsible alcohol consumption. However, overall market policies should be developed to provide balance, clarity, and flexibility. By putting in place suitable policies on alcohol, the Government can maximise the economic gains from the W&S industry, boost Vietnam's tourism and hospitality sectors, and address illicit trade more effectively.

### I. SPECIAL CONSUMPTION TAX (SCT)

Relevant authorities: The Ministry of Finance (MOF); the Office of the Government (OOG); and the Economic and Financial Committee of the National Assembly

#### Issue description

The Government's position on the taxation of alcoholic beverages has shifted over the past year. In the second half of 2023, the Government issued Resolution 115,<sup>7</sup> which endorsed the adoption of hybrid tax method for the

1 Oxford Economics, 2023, "The economic contribution of international wine and spirits in ASEAN", July 2023, p.47.

2 In partnership with the Vietnam Association for Responsible Drinking (VARD), the Asia Pacific International Spirits and Wines Alliance (APISWA), and the Automobile Association of Vietnam (AAV). Available at: <<https://www.power-of-no.org/>>, last accessed on 17 March 2025.

3 Thailand, Laos, Cambodia, Malaysia, Vietnam, the Philippines, and Indonesia.

4 IWSR, 2024, "Drinks Market Analysis", May 2024, p.5.

5 Resolution 01/ND-CP dated 05 January 2024 of the Government on main tasks and solutions to implement the Socio-Economic Development Plan and State Budget Estimates for 2024 (Resolution 01).

6 Resolution 02/ND-CP dated 05 January 2024 of the Government on key tasks and solutions to improve the business environment and enhance national competitiveness in 2024 (Resolution 02).

7 Resolution 115/NQ-CP dated 28 July 2023 of the Government on specialised session on law-making in July 2023 (Resolution 115).

industry. However, Resolution 25,<sup>8</sup> issued in early 2024, stated that the method should not be considered yet to comply with the Prime Minister's Tax Reform Strategy<sup>9</sup> and Vietnam's commitment to World Trade Organisation.<sup>10</sup> Therefore, the Ministry of Finance proceeded to use the ad valorem tax method as a basis to propose two options that would increase the tax rates from 2026 to 2030, namely:

- Option 1 would raise the SCT for beer and W&S with 20 per cent ABV or above to 70 per cent initially, while increasing SCT for W&S with less than 20 per cent ABV to 40 per cent.
- Option 2 would raise the SCT for beer and W&S with 20 per cent ABV or above to 80 per cent initially, while increasing SCT for W&S with less than 20 per cent ABV to 50 per cent.

In short, SCT could reach 100 per cent for certain alcohol categories by 2030. While SCT has increased since the last reform in 2018, consumer spending and consumption have grown due to rising income levels. As a result, the MOF proposed that increasing SCT is necessary to hike the selling price of alcoholic beverages by at least 10 per cent. The draft SCT Law is set to be adopted in the National Assembly's meeting in May 2025, with an implementation date of 01 January 2026.

### Potential gains/concerns for Vietnam

#### Increased rates of unrecorded alcohol and negative implications on public health

Tax hikes incentivise the growth of unrecorded alcohol use. In Vietnam, unrecorded alcohol accounts for 63 per cent of total alcohol consumption.<sup>11</sup> Not only does SCT not address the most harmful consumption of alcohol in the country, a drastic SCT hike further drives the growth of illicit liquor consumption as consumers turn to the informal market for low-priced products of dubious provenance and ingredients to the detriment of public health. The relevance of pricing can be illustrated by surveys conducted in countries such as India, China, and Russia, where many respondents stated that price was the primary reason for choosing illicit alcohol.<sup>12</sup>

According to the Organisation for Economic Cooperation and Development (OECD), illicit trade players commonly exploit pricing and tax differences between illicit and legitimate products. This action could result in additional smuggling and counterfeiting activities, leading to tax losses for the Government. According to estimates from the Transnational Alliance to Combat Illicit Trade (TRACIT), the amount of alcohol smuggled into Vietnam in 2019 cost the country USD 441 million in tax revenue.<sup>13</sup> Moreover, the illicit trade in alcohol has significant public health and potential reputational impacts, as can be seen by the recent tragedies involving two tourists who died after consuming contaminated alcohol in Hoi An<sup>14</sup> and the high-profile methanol poisoning case in Laos in late 2024.<sup>15</sup>

The World Health Organisation (WHO) has identified tax policy as a tool to reduce the burden on the healthcare system. As put forward by the Tax Foundation, an international research think tank, a tax based on a product's ABV provides neutrality by taxing all beverages with the same amount of alcohol at the same rate.<sup>16</sup>

#### Negative effects on the economy and business recovery

Regarding the impact on the industry, the SCT proposal would force businesses to reduce a considerable portion

8 Resolution 25/NQ-CP dated 27 February 2024 of the Government on the proposal to develop the SCT Law (amended) (Resolution 25).

9 Decision 508/QĐ-TTg on approving the Tax Reform Strategy until 2030, dated 23 April 2022 (Decision 508).

10 Vietnam committed that within three years from the date of joining the WTO, it would apply a unified SCT rate (which could be a percentage tax or an absolute tax) on alcohol with 20 degrees of alcohol or more and a percentage SCT rate on all types of beer. "Questions Related to Commitments on Domestic Taxes for Imported Goods in the WTO" WTO Center, 2 December 2010. Available at: <<https://trungtamwto.vn/chuyen-de/1449-cac-cau-hoi-lien-quan-den-cam-ket-thue-noi-dia-doi-voi-hang-hoa-nhap-khau-trong-wto>>, last accessed 17 March 2025.

11 WHO data (2022).

12 International Alliance for Responsible Drinking (IARD), *Alcohol in the Shadow Economy*, 2018. Available at: <<https://www.iard.org/getattachment/1b56787b-cc6d-4ebb-989f-6684cf1df624/alcohol-in-the-shadow-economy.pdf>>, last accessed on 17 March 2025.

13 TRACIT and APISWA, Towards an ASEAN Community: *Tackling Illicit Alcohol in Southeast Asia*, 2022. Available at: <[https://www.tracit.org/uploads/1/0/2/2/102238034/asean\\_illicit\\_trade\\_report\\_full\\_version\\_final.pdf](https://www.tracit.org/uploads/1/0/2/2/102238034/asean_illicit_trade_report_full_version_final.pdf)>, last accessed on 17 March 2025.

14 "Bartender in Vietnam arrested over tourist couple's deaths linked to tainted alcohol", *CBS News*, 10 February 2025. Available at: <<https://www.cbsnews.com/news/tourist-couple-deaths-linked-tainted-alcohol-vietnam-bartender-arrested/>>, last accessed on 17 March 2025.

15 "Will Laos tourism suffer after bootleg alcohol poisoning?", *DW*, 12 December 2024. Available at: <<https://www.dw.com/en/will-laos-tourism-suffer-after-bootleg-alcohol-poisoning/a-71037655>>, last accessed on 17 March 2025.

16 Adam Hoffer, "Modernization of the Alcohol Tax", *Tax Foundation*, 19 December 2023. Available at: <<https://taxfoundation.org/research/all/federal/alcohol-tax-modernization-abv-tax/>>, last accessed on 17 March 2025.

of their operations. The tax increase, along with the continuation of the ad valorem tax method, would also be devastating to small and medium-sized domestic alcohol producers, including local craft brewers and distillers that have grown and are operating in premium categories.<sup>17</sup>

Not only does this limit consumers' access to high-quality experiences, but it also reflects a missed opportunity to capitalise on Vietnam's thriving night-time economy through leveraging the contribution of the W&S industry to the tourism sector. W&S constitutes an element of the Food and Beverage (F&B) experience. In a survey conducted by Oxford Economics on the impact of F&B on tourism in the region, 70 per cent of potential Southeast Asia visitors considered the range and quality of F&B experiences to be "important or very important" in their destination choices. For high-income travellers, this share rises to 75 per cent.<sup>18</sup> That said, value-for-money remains a key consideration across all traveller segments, underlining the importance of balancing quality with affordability to meet consumer expectations. The potential expansion of the unrecorded segment and increased cost of licit alcohol arising from an increased SCT may limit the development of premium F&B offering and increase the risk of illicit alcohol consumption.

We have also observed the unintended fiscal impact of tax hikes elsewhere in the world, such as Australia, where its government faced an AUD 170 million (USD 114 million) shortfall in state revenue due to increased taxes on spirits in 2023,<sup>19</sup> or Belgium, where a 40 per cent rise in spirits taxes in 2015 resulted in a revenue loss of EUR 15 million over two years, as well as an increase in cross-border smuggling. In contrast, Thailand, Vietnam's neighbour, approved in the beginning of 2024 the removal of import tariffs as well as a reduction of the excise tax on wine from 10 per cent to 5 per cent in order to revive its tourism industry and associated sectors. In a similar vein, Hong Kong in October cut its spirits tax on premium products from 100 per cent to 10 per cent to stimulate tourism.<sup>20</sup>

### **Nullification and impairment of the benefits of the free trade agreement**

Under the EU-Vietnam Free Trade Agreement (EVFTA), Vietnam pledged to remove import tariffs for W&S after seven years and beer after ten years, beginning in August 2020, demonstrating no preferential treatment in terms of import tax. The current SCT proposal would nullify EVFTA's elimination of customs duties, with respect to its trade benefits.

### **Recommendations**

Alcohol taxation can be considered from several perspectives, including public health, revenue generation, economic efficiency, and employment implications. When proposing a tax increase, policymakers must assess the numerous trade-offs involved to strike a balance between different perspectives. We have the following recommendations:

- The two proposed options are not suited for Vietnam's current situation. EuroCham Wine and Spirits Sector Committee does not recommend increasing SCT based on either option, and advocates that the draft SCT Law go into force no sooner than 2028 to allow businesses to have more time to adjust to several years of economic difficulty. Any SCT increase should be calibrated and reasonably reviewed, as well as adjusted on a periodic basis, rather than increased annually without due assessment.
- Continue to promote responsible consumption policies and take measures to tackle illicit trade in Vietnam. These are crucial for bringing illicit products into the taxable space and improving public health and safety. The EuroCham Wine and Spirits Sector Committee stands ready to work with the government on this.
- Review the economic context to assess whether Vietnam's existing tax structure and rates are effective in achieving their intended objectives. Given Vietnam's setting, a hybrid/ specific tax method would be more effective in addressing health objectives and could be explored further in the future as we move toward a single volumetric tax rate for all alcoholic beverages, the optimum approach for alcohol taxation from a health perspective.

<sup>17</sup> Examples include homegrown craft spirits such as Rhum Belami, Lady Trieu Gin, Song Cai and Sampan Rhum.

<sup>18</sup> Oxford Economics, "The impact of premium F&B experiences on destination choice", October 2024, p.3.

<sup>19</sup> Rupert Hohwieler, "Spirits tax hike brings AU\$170m shortfall, The Spirits Business", 14 December 2023.

<sup>20</sup> Kelly Ho, "HK Policy Address 2024: Hong Kong cuts tax on premium liquor amid slump in bar business", *Hong Kong Free Press*, 16 October 2024.

## II. ADVERTISING AND PROMOTION

Relevant authorities: The Ministry of Culture, Sports and Tourism (MOCST); the Ministry of Industry and Trade (MOIT); the Ministry of Health (MOH); the Office of the Government (OOG); and the Culture and Social Affairs Committee of the National Assembly

### Issue description

Vietnam's approach to advertising and promoting W&S products has varied over nearly two decades. Advertising, in particular, is seen as a cultural influence and so falls under the MOCST's authority. Trade promotion, as a commercial activity, is under MOIT. MOH, on the other hand, has significant influence on overall activities associated with alcoholic beverages because of its commitment to safeguard public health. As a result, restrictions on advertising and promoting W&S are laid out in three laws managed by the above ministries: the Commerce Law (MOIT), the Advertising Law (MOCST), and the Law on the Prevention of the Harmful Effects of Beer and Spirits (MOH).

The issue lies with the contradictions between these laws. The restriction on advertising and promotion began in 2005 with the Commerce Law, which prohibits advertising and promoting of W&S products above 30 per cent ABV, as well as any promotion of commercially restricted goods, including W&S products.<sup>21</sup> Subsequently, the 2012 Advertising Law expands advertising restrictions to alcohol with an ABV more than 15 per cent. Finally, the 2019 Law on the Prevention of the Harmful Effects of Beer and Spirits divides the alcohol level into three categories (below 5 per cent ABV, between 5 per cent and 15 per cent ABV, and above 15 per cent ABV). These changes create confusion about the alcohol level under various guidelines, as well as challenges with advertising and promotion. The Law on the Prevention of the Harmful Effects of Beer and Spirits only prohibits the advertising of products above 15 per cent ABV, which contrasts with MOIT's restriction on the promotion of all W&S products. It also imposed further constraints on the timing, place, and content of adverts for products with less than 5.5 per cent ABV, although the Advertising Law has no such restrictions on advertising content for products with less than 15 per cent ABV.

Currently, MOCST is working on a draft amendment to the Advertising Law, which is scheduled to be adopted at the National Assembly meeting in May 2025. The new regulations are expected to take effect on 01 January 2026.

### Potential gains/concerns for Vietnam

W&S is a highly regulated business in Vietnam, with regular regulatory changes influencing licensing and operational requirements, customs, and taxation. Along with the perplexing issues of advertising and promotion, these variables have an adverse impact on the industry's capacity to contribute to socioeconomic development.

The W&S industry understands the Vietnamese Government's concerns about health and social issues associated with alcohol abuse. The industry has promoted various community engagement programs that educate and empower individuals about responsible drinking in support of the Global Strategy to Reduce the Harmful Use of Alcohol,<sup>22</sup> requested in the 2018 United Nations Political Declaration on Non-communicable Diseases,<sup>23</sup> and reiterated in the Global Alcohol Action Plan (GAAP 2022-2030).<sup>24</sup> Apart from the "Power of No" campaign to change the culture around drink driving and normalise responsible drinking habits, the W&S industry has worked closely with government agencies and partners to foster responsible alcohol e-commerce by providing online training tools<sup>25</sup> that aim to educate relevant stakeholders on key regulations, thus cultivating a responsible e-commerce environment that encourages moderation and prevents underage sales.

21 Listed under Decree 59/2006/ND-CP of the Government dated 12 June 2006 detailing the Commerce Law on goods and services, banned from business and subject to restrictions and conditions, and Decree 43/2009/ND-CP of the Government dated 07 May 2009 amending Decree 59.

22 WHO, "Global Strategy to reduce the harmful use of alcohol", 2010. Available at: <[https://iris.who.int/bitstream/handle/10665/44395/9789241599931\\_eng.pdf?sequence=1](https://iris.who.int/bitstream/handle/10665/44395/9789241599931_eng.pdf?sequence=1)>, last accessed on 17 March 2025.

23 WHO, "United Nations Political Declaration on Prevention and Control of NCDs", 2018. Available at: <[https://www.emro.who.int/images/stories/ncds/documents/en\\_unpd.pdf?ua=1&ua=1&ua=1](https://www.emro.who.int/images/stories/ncds/documents/en_unpd.pdf?ua=1&ua=1&ua=1)>, last accessed on 17 March 2025.

24 WHO, "Global Alcohol Action Plan 2022-2030". Available at: <[https://cdn.who.int/media/docs/default-source/alcohol/final-text-of-aap-for-layout-and-design-april-2023.pdf?sfvrsn=6c5adb25\\_2](https://cdn.who.int/media/docs/default-source/alcohol/final-text-of-aap-for-layout-and-design-april-2023.pdf?sfvrsn=6c5adb25_2)>, last accessed on 17 March 2025.

25 In partnership with the Vietnam Beer Alcohol Beverage Association (VBA), the Vietnam Alliance for Responsible Drinking (VARD), APISWA and the Vietnam E-Commerce Association (VECOM) in 2022.

## Recommendations

For the industry, one of the most fundamental objectives is to foster a comprehensive whole-of-society approach to address the harmful use of alcohol, including through public-private partnerships. These include addressing drink driving, tackling underage access and promoting the responsible consumption of alcohol. We would like to make the following recommendations:

- Ensure consistency in the revisions of regulations on advertising and promotion so that the W&S industry is not exposed to additional regulatory constraints and administrative burdens.
- Review the advertisement aspect to permit legitimate activities carried out by W&S companies, such as business introduction.
- Encourage responsible consumption and social responsibility. Alcohol products should be regulated in a balanced manner. Advertising restrictions should be determined based on where and how the advertisement is displayed, rather than focusing only on ABV.

## ACKNOWLEDGMENT

EuroCham Wine and Spirits Sector Committee