

**DESK
RESEARCH ON**

Alcohol Taxation

IN SRI LANKA

Sri Lanka's alcohol industry products (their consumption, sale, production, processing and importation etc.) are subject to several types of taxation that include excise taxes, cess levies and import duties etc.

This report will focus on the taxation of locally produced and imported alcoholic beverages and the role of taxation in determining the costs and harms associated with alcohol consumption in Sri Lanka. For locally produced liquor, the report will mainly focus on the excise duty imposed by the Department of Excise, while for imported liquor, it will focus on the import duty imposed by Sri Lanka Customs. The report will not cover aspects related to the supply of raw materials for the production of alcohol and for industrial purposes and its taxation in Sri Lanka (e.g., taxation of methanol, isopropyl and ethanol etc.). The report also integrates insights gained from two Key Informant Interviews (KIIs) with experts on alcohol taxation in Sri Lanka.

1. WHAT IS THE CURRENT ALCOHOL TAXATION SYSTEM IN SRI LANKA?

Locally Produced Liquor

The production and sale of locally produced alcoholic beverages in Sri Lanka are mainly subjected to an excise duty. Primarily governed by the Excise Department of Sri Lanka, the excise duties currently in place in the country are considered a volumetric tax system (or specific tax), because the amount of excise duty imposed is dependent on the volume of alcohol contained in the product.

Previously, alcohol in Sri Lanka was taxed under the proof litre and bulk litre system. However, owing to its complexity, the proof litre system was abandoned in 2017. Currently, the systems used to tax different alcoholic beverages are as follows:

a. Absolute Litre System (ABV):

- The ABV system of taxation is applied to the production of the following beverages: all types of arrack (molasses, coconut & processed, palmyra and special arrack), locally made foreign liquor, local wine, malt liquor above and below 5% (beer), and sake.
- Under this system, alcoholic beverages are taxed by the specific volume of alcohol contained in the product. For example, if a type of arrack is produced with an alcohol content of 40%, that means 10 litres of arrack contains 4 litres of alcohol; and it is this specific content of alcohol (4 litres) that is subject to tax.

b. Bulk Litre System:

- Under this system, alcoholic beverages are taxed by the entire volume of the beverage contained in the product. This system is applicable to alcoholic beverages that contain typically low concentrations of alcohol (5.5%-7.5%).
- Currently, this taxation system is only applied to the production of bottled toddy, which takes up a very small market share of the liquor industry¹.

The current tax schedule² for different alcoholic beverages produced in the country is as follows:

Exhibit 1: Current tax rates for locally produced liquor

Alcohol Beverage	Unit of taxation	Tax Rate (Rs.)
Molasses Arrack	For each absolute litre	4,460/=
Coconut & Processed Arrack		4,460/=
Palmyrah Arrack		4,460/=
Special Arrack		4,180/=
Locally made foreign liquor		4,570/=
Wine		900/=
Sake		3300/=
Malt Liquor (beer) below 5%		3300/=
Malt Liquor (beer) above 5%		3,450/=
Bottled Toddy	For each bulk litre	25/=

Source: Department of Excise, Sri Lanka

¹ See question 4 for details.

² As at 21st February 2022

Imported Liquor

The main tax imposed on imported liquor is Customs Duty which is collected by Sri Lanka Customs (SLC). The system used to tax imported liquor is based on the bulk litre system. Other taxes imposed on imported liquor by SLC include cess, Ports and Airports Development Levy (PAL) and VAT.

The current tax schedule³ for different taxes administered by SLC on alcoholic beverages imported into the country, by HS Code, is as shown in Exhibit 2. Therefore, under this combined system the total taxes amounts to around 15% of the sale price (assuming the sale price is a 50-60% markup from the CIF value), plus the bulk litre amount specified in Exhibit 2.

Exhibit 2: Current tariff rates imposed by SLC for imported liquor⁴

HS Code	Description	Unit	General Customs Duty	VAT ⁵	PAL ⁶	Cess ⁷
2203	Beer made from malt	Per bulk litre	550/=	8%	10%	-
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading 20.09.	Per bulk litre	440/=	8%	10%	-
2205	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances.	Per bulk litre	440/=	8%	10%	-
2206	Other fermented beverages (for example, cider, perry, mead, sake); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included	Per bulk litre	440/=	8%	10%	- ⁸
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol; spirits, liqueurs and other spirituous beverages.	Per bulk litre	2750/=	8%	10%	-

Source: Chapter 22, Sri Lanka Customs National Imports Tariff Guide – 2021, incorporating amendments up to 11.03.2022

³ As at 31st March 2022

⁴ For details on tariff rates for HS Codes at the 6-digit level, see Annex A

⁵ Calculated as [CIF Value in LKR + 10% of CIF Value in LKR + Customs Duty + Cess Levy + PAL + Excise (Special Provisions) Duty] * Rate of VAT

⁶ Calculated as CIF Value * Rate of PAL

⁷ Calculated as Quantity * unit rate of Cess levy OR [CIF Value in LKR + 10% of CIF Value in LKR] * Rate of Cess Levy

⁸ Some HS codes at the 6-digit level are levied a Cess levy. For further details see Annex A

Imported liquor is also subject to an excise duty, which is imposed within the territory of Sri Lanka Customs, but collected by the Department of Excise when such liquor is brought into the country. The system used to charge an excise duty on imported liquor is by the bulk litre system.

Government Revenue from Alcohol Taxation

Excise duties on locally produced liquor is an important source of government revenue. In fact, government revenue generated from excise duties on liquor have been the second largest contributor to domestic consumption-based taxes over the years (Exhibit 3)

Exhibit 3: Government tax revenue by source (Rs. Millions)

	2015	2016	2017	2018	2019	2020
Income Tax	262,583	258,857	274,562	310,449	427,700	268,249
Domestic Consumption Based Tax	347,632	419,897	530,838	547,568	533,801	370,197
VAT - Domestic	130,527	168,134	275,346	282,488	273,963	148,061
NBT - Domestic	28,044	39,029	49,715	51,192	52,446	2,036
Tax on Liquor	105,234	120,238	113,684	113,944	115,443	120,990
Tax on Cigarettes/ Tobacco	80,015	88,792	86,002	92,243	87,400	94,383
Other (Excise)	3,812	3,704	6,091	7,701	4,549	4,727
Import Based Taxes	704,093	738,814	821,253	809,844	711,927	549,554
Import Duties	132,189	156,487	136,501	96,991	98,427	114,183
VAT - Imports	89,173	115,336	168,393	179,163	169,914	85,725
NBT - Imports	16,960	18,395	19,320	20,165	18,227	315
PAL	58,644	88,823	102,360	113,950	112,174	115,442
SCL	52,276	55,825	71,402	75,807	70,364	82,709
Cess Levy	46,289	61,730	59,554	53,369	50,703	49,309
Petroleum - Excise	45,092	55,719	73,983	66,318	61,740	53,111
Motor Vehicles - Excise	263,470	186,499	189,740	204,081	130,378	48,760
License and Other	41,471	46,121	43,525	44,457	61,497	28,542
Telecommunication Levy	33,358	35,976	33,399	28,326	18,261	13,130
Other	8,113	10,145	10,126	16,131	43,236	15,412
Total Tax Revenue	1,355,779	1,463,689	1,670,178	1,712,318	1,734,925	1,216,542

Source: Annual Reports 2016-2020, Ministry of Finance

Exhibit 4 below summarizes the total tax income generated by the government from alcohol and tobacco production between 2012-2020.

Exhibit 4: Total excise tax revenue from locally produced liquor and cigarettes⁹

Year	Excise Tax Revenue from Cigarettes		Excise Tax Revenue from Liquor	
	Rs. Bn	% Change	Rs. Bn	% Change
2012	53.9	8.7	59.9	7.3
2013	58.6	8.7	66	10.2
2014	57.2	-2.3	69.1	4.6
2015	80	39.9	105.9	53.3
2016	88.8	11.0	120.8	14.1
2017	86	-3.2	113.7	-5.9
2018	92.2	7.2	113.9	0.2
2019	87.4	-5.2	115.4	1.3
2020	94.3	8.0	121	4.9

Source: Annual Reports 2020, Ministry of Finance

In 2020, revenue from the production of alcohol declined because of bans placed on the sale of liquor during the coronavirus pandemic-related lockdowns. The Commissioner General of Excise claimed that, as a consequence of this, the Department of Excise had lost an accumulated LKR 600 million per day in 2020¹⁰.

Government tax revenue collected by Sri Lanka Customs through imported alcohol is given below.

On the 17th of August 2020, Verité Research filed a Right to Information request (RTI) with the Sri Lanka Customs, requesting for information on revenue statistics for all taxes administered and collected by Sri Lanka Customs, by product HS Code, from January 2016 to July 2020. Exhibit 5 below summarizes the response received from SLC for HS Codes and sub-HS Codes for 2203-2206 and 2208

⁹ Hard liquor & malt liquor production after 2017 is in absolute litres

¹⁰ Suresh Perera, 'Excise Department grapples with billions of rupees in lost tax revenue', Island.lk, available at <https://island.lk/excise-department-grapples-with-billions-of-rupees-in-lost-tax-revenue/> [Last accessed 31st January 2022]

Exhibit 5: Total tax collected by Sri Lanka Customs from imported alcohol between 2017-2020 for HS codes at the 6-digit level (Figures in Rs.)

HS Code	Description	2017	2018	2019	2020
22.03	Beer made from malt	-	-	-	-
2203.00.10	Canned beer less than 350 ml	124,407	8,346,014	5,402,249	4,238,890
2203.00.20	Canned beer 350 ml or more	120,229	761,157	59,305	-
2203.00.90	Other	181,988,849	152,176,703	127,838,141	41,142,203
22.04	Wine of fresh grapes, including fortified wines; grape must other than that of heading 20.09.	-	-	-	-
2204.10.00	Sparkling wine	61,593,374	44,830,875	50,942,993	11,735,579
	Other wine; grape must with fermentation prevented or arrested by the addition of alcohol				
2204.21.00	In containers holding 2 l or less	673,666,716	667,815,453	705,455,361	255,425,917
2204.22.00	In containers holding more than 2 l but not more than 10 l	-	304,153	209,735	30,694
2204.29.00	Other	158,803,736	19,665,365	11,298,300	3,738,048
2204.30.00	Other grape must	165,758	53,819	7,758,252	2,406
22.05	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances.	-	-	-	-
2205.10.00	In containers holding 2 l or less	168,115,218	126,077,538	111,961,675	23,352,901
2205.90.00	Other	14,587,161	5,005,942	2,109,699	-
22.06	Other fermented beverages (for example, cider, perry, mead, sake); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included.	-	-	-	-
2206.00.10	Non-alcoholic beverages	32,116	200,519	136,579	46,645

HS Code	Description	2017	2018	2019	2020
2206.00.90	Other	29,480,768	62,413,134	48,290,215	9,010,091
2206.00.91	Palmyrah Toddy	-	-	-	-
2206.00.99	Other	-	-	-	3,998,997
22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol; spirits, liqueurs and other spirituous beverages.	-	-	-	-
2208.20.00	Spirits obtained by distilling grape wine or grape marc	98,558,915	187,799,848	68,891,293	51,580,824
2208.30.00	Whiskies	675,526,928	811,550,221	875,209,786	190,046,651
2208.40	Rum and other spirits obtained by distilling fermented sugar-cane products	-	-	-	-
2208.40.10	Rum	37,579,058	63,511,827	77,537,543	7,872,325
2208.40.90	Other	2,652,914	9,260,336	117,930,808	3,433,157
2208.50.00	Gin and Geneva	75,531,885	140,991,721	123,693,942	32,396,008
2208.60.00	Vodka	238,781,459	292,223,440	338,735,522	44,424,541
2208.70.00	Liqueurs and cordials	162,368,275	193,801,569	131,271,042	42,998,658
2208.90	Other	-	-	-	-
2208.90.10	Coconut based arrack	9,321,367	11,119,675	8,691,091	3,685,696
2208.90.20	Palmyrah based arrack	-	-	-	-
2208.90.90	Other	19,688,854	51,187,522	78,244,496	32,276,739
	Total	2,608,687,987	2,849,096,831	2,891,668,027	761,436,970

Source: Information obtained through RTI request filed with Sri Lanka Customs, 17th August 2021

2. WHAT ARE THE ACTS AND REGULATIONS RELATED TO ALCOHOL TAXATION?

The main acts and regulations that govern the taxation of alcohol in Sri Lanka are:

- 1) The Excise Ordinance of Sri Lanka
- 2) The Value Added Tax Act
- 3) Customs Ordinance
- 4) Sri Lanka Export Development Act
- 5) Ports and Airports Development Levy Act

The Excise Ordinance of Sri Lanka

According to the Excise Ordinance of Sri Lanka,

- Excise duties are regarded as a duty on the manufacture and import/export or imposed at the time of manufacture or import/export of excisable articles.¹¹
- The relevant Minister (generally, the Minister in charge of the subject of finance) is empowered to make orders to impose / revise/vary/rescind a duty on any 'excisable article' that is:
 - i) permitted to be manufactured under licenses granted in accordance with the Excise Ordinance;¹²
 - ii) permitted to be manufactured in liquor manufactories established under the Excise Ordinance;¹³ and
 - iii) permitted to be imported into or exported out of Sri Lanka.¹⁴
- The definition of 'excisable article' includes all types of liquor, such as, wine, spirits, toddy, beer, and liquid consisting of or containing alcohol.¹⁵
- The collection of excise revenue is carried out by the Commissioner-General of Excise in his/her capacity as the head of the Excise Department which is the principal government agency responsible for the control and regulation of the import, export, transport, manufacture, sale, and possession of liquor/alcohol.¹⁶
- The importation of foreign liquor shall be carried out only after obtaining a permit for the importation of foreign liquor. If foreign liquor is imported to Sri Lanka without a permit, the Commissioner General of Excise has the power to levy a surcharge of 3% on the CIF (Cost, Insurance, Freight) value in addition to the excise duty, or confiscate the stocks so imported.¹⁷

¹¹ Sections 22(1), 22(2)(b) and 22(2)(c), Excise Ordinance

¹² Section 22(1)(a), Excise Ordinance

¹³ Section 22(1)(c), Excise Ordinance

¹⁴ Section 22(1)(d), Excise Ordinance

¹⁵ Section 2, Excise Ordinance

¹⁶ Section 7, Excise Ordinance.

¹⁷ Excise Notification, No.08/2019, http://www.excise.gov.lk/images/laws/notifications/8-2019_e.pdf

The Value Added Tax (VAT) Act

- The VAT, by way of the Value Added Tax Act¹⁸, is imposed on alcoholic beverages when they are (i) imported and (ii) sold after some value addition. It is regarded as a consumption tax that is imposed at the point of sale.
- Alcohol is a taxable item. Therefore, as per Sec. 2 of the VAT Act, VAT should be paid at the point of importation and at each stage of the distribution process (wholesale and retail) as well.
- Thus, in almost all instances where alcohol is sold or imported, alcohol products are subject to a VAT as specified under the Value Added Tax Act.
- The overall collection of VAT is the responsibility of the Commissioner-General of Inland Revenue.

The Customs Ordinance

- The customs duty, by way of the Customs Ordinance¹⁹, is imposed on all “goods, wares, and merchandise” imported into or exported out of the country. The Customs levy on the imported item depends on the relevant HS Code of the item.
- As such, the duty is imposed on alcohol products at the point of entry into Sri Lanka by Sri Lanka Customs and is collected by a Principal Collector of Customs.

The Export Development Act

- The cess levy, by way of the Export Development Act²⁰, is levied based on the provisions of the Customs Ordinance, on all goods, wares and merchandise imported into or exported out of the country, in addition to any import duty or export duty or other cess levied under any other law. Alcoholic beverages are also included in this category.
- The cess levy is collected by the Principal Collector of Customs and will thereafter be paid by the Principal Collector of Customs on a monthly basis to the credit of the Export Development Fund.

The Ports and Airports Development Act

- The Ports and Airports Development ActThe PAL duty, by way of the Ports and Airports Development Act²¹, is levied on the cost, insurance and freight value (CIF) of every article that originates from outside Sri Lanka and is imported into the country.
- The levy collected under this Act is deemed to be a customs duty payable under the Customs Ordinance and shall be payable as per the provisions in the said Ordinance.²²

¹⁸ Section 2, Value Added Tax Act.

¹⁹ Section 10, Customs Ordinance

²⁰ Section 14, Export Development Levy

²¹ Section 2, The Ports and Airports Development Act

²² Sec. 8, The Ports and Airports Development Act

3. WHAT ARE THE GOVERNMENT DEPARTMENTS AND MINISTRIES VESTED WITH THE AUTHORITY TO TAKE DECISIONS ON ALCOHOL TAXATION?

There are mainly five government agencies that play an active role in making decisions with regard to alcohol taxation in Sri Lanka. They are:

- (a) The Ministry of Finance
- (b) The Department of Fiscal Policy
- (c) Sri Lanka Customs
- (d) The Department of Excise
- (e) The National Authority of Tobacco and Alcohol (NATA)

The Ministry of Finance

- The Ministry of Finance is the body responsible for all macro-economic policies and the public finance management of the country, including implementing the annual budget, taxation policies etc. As made evident in Question 2, the Minister of Finance has the authority to amend/rescind and impose duties on alcoholic beverages.

The Department of Fiscal Policy

- The Department of Fiscal Policy is the arm of the Ministry of Finance that is responsible for the implementation of the government's fiscal policy, including formulating tax policies in the country. The department is also responsible for enacting the orders on excise duties decided on by the Minister of Finance on behalf of the Ministry.

Sri Lanka Customs

- Sri Lanka Customs is responsible for the execution of the Customs Ordinance and thereby the collection of customs revenue imposed on imported and exported merchandise and goods in and out of the country. It is thereby the principal collector of taxes imposed on imported alcohol.
- Sri Lanka Customs classifies alcoholic beverages to be those products with HS Code headings between the ranges of 2203-2206 and 2208.
- Apart from the customs levy, Sri Lanka Customs also collects the following taxes: VAT, PAL, Special Commodity Levy (SCL), excise (special provisions) duty, and cess levy on applicable imported products on behalf of other government institutions.

The Department of Excise

- The Department of Excise is responsible for the administration of the taxation of both locally produced liquor and imported liquor under the Excise Ordinance and its amendments.
- The decisions made with regard to the rates of taxation on alcohol by the Ministry of Finance and the Department of Fiscal Policy is always taken in consultation with or based on the recommendations provided by the Department of Excise.
- The department is also the body responsible for the collection of excise revenue generated from the imposition of such duties.

- In addition to this, the department is also responsible for the detection of excise crimes, tobacco and narcotic crimes, and issuing licenses for the distillation, manufacture, wholesaling, retailing or importation of alcohol products in the country

The National Authority of Tobacco and Alcohol (NATA)

- The taxation of alcohol is also influenced by the National Authority of Tobacco and Alcohol (NATA), which serves to identify and eliminate tobacco and alcohol-related harm through the avenues of its production, marketing and consumption.
- NATA provides recommendations on legal, taxation, administrative and other measures necessary for the implementation of the National Policy on Tobacco and Alcohol.

4. HOW MANY ALCOHOL MANUFACTURERS ARE THERE IN THE COUNTRY, WHAT IS THE MARKET SHARE OF EACH COMPANY AND HOW MANY LITRES ARE MANUFACTURED EACH YEAR?

Locally Produced Liquor

As per the latest available data in 2019, Exhibit 6 below lists the total quantity of alcohol produced for the year 2019 by alcoholic beverage. Arrack production takes up the largest share of the industry.

Exhibit 6: Total quantity of locally produced alcohol in 2019 (In absolute litres)

Alcohol Beverage	Year 2019
Arrack	22,409,379
Country Made Foreign Liquor	1,866,572
Malt Liquor (Beer)	12,119,404
Wine	4,205
Sake	190,233
Bottled Toddy*	4,068,270

*In bulk litres

Source: Department of Excise, Sri Lanka

The total number of alcohol manufacturers in the country has varied over the years. In Sri Lanka, the number of alcohol manufacturers differs based on the alcoholic beverage manufactured. The market share of each alcohol manufacturer has also varied across different alcoholic beverages over the years.

Exhibits 7-12 detail the key manufacturers of arrack (molasses, coconut and processed, palmyra and special arrack), country made foreign liquor, malt liquor (beer), wine, sake and bottled toddy. It also details their market share in terms of production of each alcoholic beverage, and the total number of litres produced between 2014 and 2019.

Arrack Production

Exhibit 7: Manufacturers of arrack, number of litres produced and market share (%) in 2014-2019²³

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Periceyl Company (Pvt) Ltd	1,589,582	4.1	1,989,799	4.2	2,077,665	4.0	483,446	2.1	444,271	2.0
Synergy Distilleries	104,150	0.3	34,992	0.1	34,745	0.1	47,034	0.2	61,325	0.3
Scotland Distilleries	155,265	0.4	291,608	0.6	293,280	0.6	136,515	0.6	145,236	0.6
Hingurana Distilleries	751,819	1.9	660,784	1.4	528,230	1.0	500,121	2.1	53,468	0.2
International Distilleries Ltd (IDL)	4,218,453	10.8	4,447,237	9.3	4,156,655	8.0	1,762,042	7.5	1,611,407	7.2
Uva Glen Company (Pvt) Ltd	129,936	0.3	162,994	0.3	187,298	0.4	126,297	0.5	107,359	0.5
Manori Lanka (pvt) Ltd	68,488	0.2	63,763	0.1	97,519	0.2	32,175	0.1	11,895	0.1
Distilleries Company of Sri Lanka Ltd	26,896,665	68.7	30,588,247	64.0	33,689,658	64.6	16,890,254	72.3	16,445,953	73.4
Mendis- Moragalla	-	0.0	-	0.0	-	0.0	-	0.0	121,649	0.5
V.A. Distilleries (Pvt) Ltd	267,808	0.7	350,183	0.7	586,353	1.1	359,990	1.5	342,365	1.5
Nippon Expo Company Ltd	149,628	0.4	186,479	0.4	201,139	0.4	128,554	0.6	128,674	0.6

²³ Figures for 2014-2016 are in proof litres. Figures in 2018 and 2019 are in absolute litres.

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
W.M Mendis and Company	1,491,077	3.8	5,019,094	10.5	5,466,856	10.5	515,558	2.2	536,715	2.4
Rockland Distilleries Ltd	2,305,449	5.9	2,317,077	4.8	2,826,533	5.4	1,247,498	5.3	1,183,017	5.3
Randiya Ltd	48,111	0.1	10,338	0.0	-	0.0	-	0.0	16,548	0.1
Acme Lanka Ltd	564,882	1.4	1,260,965	2.6	1,522,127	2.9	892,352	3.8	927,059	4.1
Randenigala Distilleries	226,253	0.6	85,507	0.2	137,832	0.3	70,591	0.3	82,156	0.4
Classic Distilleries Ltd	64,828	0.2	81,838	0.2	73,639	0.1	32,520	0.1	32,422	0.1
Wayamba Distilleries (Pvt) Ltd	102,049	0.3	1,808	0.0	-	0.0	-	0.0	-	0.0
Distilleries Company Ltd Dompe	-	0.0	-	0.0	-	0.0	-	0.0	119,630	0.5
Royal Casks (Pvt.) Ltd.	-	0.0	182,990	0.4	218,762	0.4	91,862	0.4	-	0.0
Thikkam	2,005	0.0	2,033	0.0	-	0.0	7,805	0.0	1,163	0.0
Walikamam	10,494	0.0	24,550	0.1	27,454	0.1	25,078	0.1	30,760	0.1
Varani	17,782	0.0	21,304	0.0	26,611	0.1	8,319	0.0	6,307	0.0
Total	39,164,724		47,783,590		52,152,357		23,358,011		22,409,379	

Note: Green denoted top 5 manufacturers for the year.

The largest manufacturers of arrack in the country over the years has been Distilleries Company Sri Lanka Ltd. The company comprised an average of 68.6% of the market share for arrack across 2014-2016. They are followed by International Distilleries Ltd (IDL), which has comprised an average 8.6% of the market share for the same period.

Country Made Foreign Liquor Production

Exhibit 8: Top manufacturers of country made foreign liquor, number of litres produced and market share (%) in 2014-2019

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Periceyl Company (pvt) Ltd (New Warehouse- Seeduwa)	940,204	21.7	804,766	20.1	922,386	23.4	486,469	26.5	431,053	23.1
Hingurana Distilleries	120,687	2.8	20,048	0.5	-	0.0	12,889	0.7	7,063	0.4
International Distilleries Ltd (IDL)	1,691,527	39.0	1,615,990	40.4	1,526,250	38.8	707,756	38.6	755,814	40.5
V.A. Distilleries (Pvt) Ltd	-	0.0	-	0.0	6,431	0.2	52,035	2.8	145,855	7.8
Nippon Lanka Company Ltd	-	0.0	-	0.0	-	0.0	-	0.0	40	0.0
W.M Mendis & Company Ltd	249,354	5.7	296,226	7.4	288,205	7.3	52,396	2.9	32,372	1.7
Rockland Distilleries Ltd	1,316,244	30.3	1,262,200	31.6	1,193,597	30.3	522,576	28.5	494,376	1.7
Nippon Expo	509	0.0	-	0.0	-	0.0	422	0.0	-	0.0
Sri Lanka Distilleries Ltd.	20,795	0.5	-	0.0	-	0.0	-	0.0	-	0.0
Total	4,339,320		3,999,230		3,936,868		1,834,542		1,866,572	

The largest manufacturer of country made foreign liquor is International Distilleries Ltd., taking up an average of 39.4% of the market share with its production between 2014-2019. Rockland Distilleries Ltd. is the 2nd largest manufacturer, with an average of 29.4% of the market share for country made foreign liquor in the same period.

Beer Production

Exhibit 9: Manufacturers of beer (below and above 5%), number of litres produced and market share (%) in 2014-2019.²⁴

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Lion Brewery Ltd	103,086,656	82.8	106,263,283	84.6	33,204,296	63.7	9,644,057	85.7	10,635,776	87.8
Asia Pacific Brewery Lanka Ltd. (Heineken Lanka)	16,972,630	13.6	19,386,132	15.4	18,956,774	36.3	1,613,880	14.3	1,483,628	12.2
Millers Brewery Ltd.	4,461,453	3.6	-	0.0	-	0.0	-	0.0	-	0.0
Total	124,520,738		125,649,416		52,161,070		11,257,937		12,119,404	

The largest manufacturer of malt liquor or beer in Sri Lanka is Lion Brewery Ltd. They produced an average of 80.9% of the market share for beer in 2014-2019.

Wine Production

Exhibit 10: Manufacturers of wine, number of litres produced and market share (%) in 2014-2019 ²⁵

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Wine Company - Local	4,493	89.5	2,416	50.0	4,539	48.9	3,842	100.0	4,205	100.0
Lanka Wine (Pvt) Ltd - Foreign	-	0.0	2,416	50.0	4,539	48.9	-	0.0	-	0.0
Mayfield(Pvt) Ltd	528	10.5	-	0.0	203	2.2	-	0.0	-	0.0
Total	5,022		4,833		9,281		3,842		4,205	

Across the years, the largest manufacturer of wine in the country has been the Lanka Wine Company - local. They have produced an average share of 77.7% of wine in the market from 2014-2019.

²⁴ Figures for 2014 in proof litres, 2015 in litres, 2016 in bulk litres and 2018-2019 in absolute litres.

²⁵ Figures for 2014-2016 are in proof litres. Figures in 2018 and 2019 are in absolute litres.

Sake Production

Exhibit 11: Manufacturers of sake, number of litres produced and market share (%) in 2014-2019²⁶

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Nippon Lanka (Royal Casks)	-	-	136,899	100	703,469	100	182,960	100	190,233	100
Total	-	-	136,899		703,469		182,960		190,233	

Toddy Production

Exhibit 12: Manufacturers of bottled toddy, number of litres produced and market share (%) in 2014-2019²⁷

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Eagle Bottled Toddy - Madampe	818,430	8.4	840,635	8.6	847,315	8.5	404,685	7.8	334,385	8.2
Total Singha Bottled Toddy - Madampe	1,051,420	10.8	1,080,320	11.1	1,106,065	11.1	479,240	9.3	418,921	10.3

²⁶ Figures for 2014-2018 in bulk litres. Figures in 2019 in absolute litres.

²⁷ Figures for 2014 in proof litres, 2015 in litres, 2016 in bulk litres and 2018-2019 in absolute litres

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Nemta- Madampe	686,750	7.0	715,255	7.3	729,850	7.3	382,855	7.4	129,660	3.2
New Manori Lanka- Madampe	-	0.0	-	0.0	-	0.0	744,265	14.4	883,760	21.7
T.S.R Bottled Toddy- Marawila	1,030,545	10.5	1,079,940	11.1	1,083,570	10.9	487,380	9.4	486,993	12.0
Shooting Star Bottled Toddy- Marawila	843,630	8.6	721,725	7.4	738,860	7.4	465,980	9.0	357,510	8.8
Camel Bottled Toddy-Colombo	32,835	0.3	35,635	0.4	31,250	0.3	11,730	0.2	10,520	0.3
Three Line Bottled Toddy-Badulla	179,672	1.8	215,301	2.2	250,986	2.5	470,740	9.1	340,502	8.4
New Commander Bottled Toddy- Chilaw	210,795	2.2	221,600	2.3	215,540	2.2	36,650	0.7	20,840	0.5
Jaffna- Jaffna	24,058	0.2	35,273	0.4	25,765	0.3	27,198	0.5	31,853	0.8
Kopai- Jaffna	24,616	0.3	25,781	0.3	40,464	0.4	63,809	1.2	48,195	1.2
Chankanei-Chankanei	104,851	1.1	163,972	1.7	143,345	1.4	77,812	1.5	103,576	2.5
Manipai-Chankanei	21,869	0.2	66,706	0.7	63,622	0.6	29,483	0.6	16,982	0.4
Pandatiarippu-Chankanei	64,648	0.7	103,338	1.1	73,251	0.7	55,148	1.1	43,994	1.1
Kayts- Chankanei	23,193	0.2	42,141	0.4	-	0.0	41,240	0.8	26,855	0.7

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Kareinagar-Chankanei	35,476	0.4	55,473	0.6	66,284	0.7	50,417	1.0	81,826	2.0
Valikamam-Chankanei (Nawali)	21,139	0.2	30,103	0.3	-	0.0	46,213	0.9	8,926	0.2
Chawakachcheri-Chawakachcheri	42,753	0.4	68,652	0.7	86,174	0.9	87,113	1.7	44,484	1.1
Kodikamam-Chawakachcheri	13,698	0.1	61,598	0.6	88,503	0.9	90,213	1.7	23,559	0.6
Warani (Chawakachcheri)	-	0.0	-	0.0	-	0.0	41,601	0.8	2,549	0.1
Chunnamam- Mallakam	79,468	0.8	94,041	1.0	87,698	0.9	96,510	1.9	46,113	1.1
Kondawil- Mallakam	41,101	0.4	40,518	0.4	26,674	0.3	50,653	1.0	39,744	1.0
Thellipalai- Mallakam	76,552	0.8	78,624	0.8	42,950	0.4	74,679	1.4	39,270	1.0
Atchuvally- Mallakam	-	0.0	27,302	0.3	39,822	0.4	38,704	0.8	28,463	0.7
Kilinochchi- Kilinochchi (Konawil)	18,313	0.2	-	0.0	227,968	2.3	361,238	7.0	208,086	5.1
Thunukai- Kilinochchi (Pandiyakulam)	-	0.0	4,323	0.0	6,331	0.1	117,054	2.3	5,598	0.1
Pudukuduirippu-Mullaittivu	-	0.0	50,310	0.5	54,533	0.5	100,831	2.0	27,244	0.7
Mullai West- Mullaittivu	-	0.0	-	0.0	71,253	0.7	81,875	1.6	64,365	1.6

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Mullai East- Mullaivivu	-	0.0	-	0.0	33,719	0.3	52,898	1.0	43,266	1.1
Poonagari- Mullaivivu	-	0.0	-	0.0	1,049	0.0	90,720	1.8	95,467	2.3
Mullaivivu South- Mullaivivu	-	0.0	-	0.0	-	0.0	-	0.0	22,386	0.6
Pallai- Kilinochchi	-	0.0	-	0.0	-	0.0	-	0.0	32,381	0.8
Wayamba Super Bottled Toddy Manufactory-Madampe	1,163,580	11.9	1,199,320	12.3	1,234,748	12.4	-	0.0	-	0.0
Commander Bottled Toddy - Marawila	231,495	2.4	238,680	2.4	232,887	2.3	-	0.0	-	0.0
A.M.P Bottled Toddy- Kochchikade	258,991	2.7	272,948	2.8	-	0.0	-	0.0	-	0.0
Empire Toddy Manufactory	-	0.0	3,650	0.0	225,955	2.3	-	0.0	-	0.0
Point Pedro Palm Development Cooperative	7,434	0.1	21,811	0.2	-	0.0	-	0.0	-	0.0
A.M.P Bottled Toddy Manufactory	-	0.0	-	0.0	243,738	2.5	-	0.0	-	0.0
Golden Eagle Bottled Toddy Manufactory	223,380	2.3	214,835	2.2	-	0.0	-	0.0	-	0.0
New T.S.R Bottled Toddy Manufactory	686,910	7.0	-	0.0	-	0.0	-	0.0	-	0.0
Manori Lanka Pvt Ltd	1,369,165	14.0	1,439,635	14.8	1,462,260	0.0	-	0.0	-	0.0

Name of Manufacturer	2014		2015		2016		2018		2019	
	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%	Quantity (PL)	%
Muliyavalai Bottled Toddy Manufactory	-	0.0	42,719	0.4	-	0.0	-	0.0	-	0.0
Konavil Bottled Toddy Manufactory	-	0.0	61,750	0.6	-	0.0	-	0.0	-	0.0
Welanei Palm Development Cooperative	19,222	0.2	22,878	0.2	-	0.0	-	0.0	-	0.0
Karaveddi Bottled Toddy Manufactory	15,913	0.2	-	0.0	-	0.0	-	0.0	-	0.0
Horse Power Bottled Toddy-Marawila	347,625	3.6	366,135	3.8	364,080	3.7	-	0.0	-	0.0
Total	9,769,524		9,742,926		9,946,508		5,158,933		4,068,270	

The manufacturers of bottled toddy in Sri Lanka are numerous. However, Exhibit 12 highlights only the top manufacturers of bottled toddy, led by T.S.R Bottled Toddy- Marawila, which has produced toddy across the years, accounting for an average market share of 10.8%.

Imported Liquor

Sri Lanka Customs does not release data on the quantity of liquor imported into the country by importing companies. However, the Export Development Trade Statistics portal they maintain does provide data on the CIF value and quantity of liquor imported into the country over the years. Exhibit 13 below summarizes the quantity of liquor imported into the country from 2017-2020. More than 50% of the quantity of alcohol imported into the country comprises hard liquor varieties such as gin, whiskies, rum, arrack etc. (HS Code 2208)

Exhibit 13: Quantity of liquor (in litres) imported into the country and market share (as a percentage of total quantity of liquor imported) 2017-2020

HS Code	Description	2017	%	2018	%	2019	%	2020	%	
22.03		Beer made from malt								
2203.00.10	Canned beer less than 350 ml	264,670	4	661,260	8	338,206	5	176,087	5	
2203.00.20	Canned beer 350 ml or more	37,266	1	155,952	2	109,233	2	274,818	7	
2203.00.90	Other	1,646,071	23	497,630	6	190,516	3	130,861	3	
22.04		Wine of fresh grapes, including fortified wines; grape must other than that of heading 20.09								
2204.10.00	Sparkling wine	69,433	1	74,611	1	78,240	1	71,075	2	
	Other wine; grape must with fermentation prevented or arrested by the addition of alcohol									
2204.21.00	In containers holding 2 l or less	943,138	13	1,492,980	18	1,295,302	20	1,048,457	27	
2204.22.00	In containers holding more than 2 l but not more than 10 l	-	-	1,079	0	18	0	4,755	0	
2204.29.00	Other	299,580	4	213,915	3	74,535	1	43,724	1	
2204.30.00	Other grape must	187	0	61	0	13,250	0	3	0	

HS Code	Description	2017	%	2018	%	2019	%	2020	%
22.05	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances								
2205.10.00	In containers holding 2 l or less	315,711	4	167,404	2	179,930	3	95,745	2
2205.90.00	Other	32,553	0	26,904	0	11,994	0	2,553	0
22.06	Other fermented beverages (for example, cider, perry, mead, sake); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included.								
2206.00.10	Non alcoholic beverages	2,010	0	222,063	3	2,058	0	3	0
2206.00.90	Other	49,824	1	70,916	1	61,444	1	24,214	1
2206.00.91	Palmyrah Toddy	-	-	-	-	-	-	-	-
2206.00.99	Other	-	-	-	-	-	-	335	0
22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol; spirits, liqueurs and other spirituous beverages.								
2208.20.00	Spirits obtained by distilling grape wine or grape marc	316,849	4	452,846	6	331,737	5	180,068	5
2208.30.00	Whiskies	2,670,821	37	2,767,7	34	2,924,127	46	1,398,815	36
2208.40	Rum and other spirits obtained by distilling fermented sugarcane products								
2208.40.10	Rum	117,097	2	117,235	1	127,315	2	97,895	3
2208.40.90	Other	50,146	1	6,380	0	57,762	1	3,562	0
2208.50.00	Gin and Geneva	64,967	1	91,538	1	99,930	2	81,338	2
2208.60.00	Vodka	251,350	3	315,625	4	295,529	5	141,131	4
2208.70.00	Liqueurs and cordials	72,276	1	79,951	1	94,318	1	63,417	2
2208.90	Other								
2208.90.10	Coconut based arrack	15,571	0	13,670	0	4,176	0	8,424	0
2208.90.20	Palmyrah based arrack	-	-	-	-	-	-	-	-
2208.90.90	Other	18,544	0	792,449	10	32,852	1	16,781	0
	Total	7,238,064		8,222,177		6,322,472		3,864,061	

Source: Sri Lanka Export Development Board Trade Statistics

5. WHAT FACTORS DO THEY CONSIDER WHEN DECIDING THE TAX?

Our interviews revealed that the following factors are considered when deciding tax rates for different locally produced alcoholic beverages:

- a. Effects on the collection of excise revenue
- b. Effects on alcohol consumption patterns
- c. Effects on the welfare of different alcohol beverage industries
- d. Effects on the health of the adult drinking population

“The tax differentials between soft liquors such as beer against hard liquors such as arrack, are often decided in a manner that will not result in a large shift between soft liquor consumption to hard liquor consumption, or vice versa”(Official from the Department of Excise, Sri Lanka)

However, neither the Ministry of Finance nor the Department of Excise conduct timely consumption or welfare studies or surveys that assess the impact of taxation on consumption, revenue, or health for the purpose of informing alcohol tax decisions. Therefore, despite claiming to consider the above factors when determining taxes, there is no evidence of it being put into practice.

As is made evident in Question 9, the patterns of excise tax increases over the years show that they are often done so in an ad-hoc manner. This is seen in the fact that tax increases have wide variations across years and in the same year across products, and that there is no discernible pattern in the inconsistent variations across time and products. As such, it is our view that the government's ad hoc revenue interests and other vested interests play a larger role in determining excise tax rates in Sri Lanka.

6. WHAT TAXES DECIDE THE PRICE OF AN ALCOHOLIC BEVERAGE?

The price of a locally produced alcoholic beverage is mainly affected by the following taxes:

- Excise Duty
- Value Added Tax (VAT)

The price of a bottle of imported liquor is affected by the following taxes:

- Customs Duty
- Value Added Tax (VAT)
- Ports and Airports Development Levy (PAL)
- Cess Duty

Further details on these taxes can be found in Questions 1, 2 and 3.

7. WHAT IS THE TAXATION SYSTEM FOR LOCAL LIQUOR AND FOREIGN LIQUOR?

a) Locally Produced Liquor

Locally produced liquor is solely subjected to an excise duty which is imposed by the Ministry of Finance and Department of Fiscal Policy and collected by the Department of Excise.

b) Imported Liquor

Imported liquor is subjected to a customs duty, which is imposed and collected by Sri Lanka Customs.

Further details on these taxes can be found in Question 1.

8. WHAT IS THE FORMULA/ MECHANISM/ METHODOLOGY USED FOR DECIDING THE TAX RATE?

- The methodology used when deciding the amount of tax applicable to an alcoholic beverage has been explained in Question 1. In short, it is based on the absolute litre system or bulk litre system, depending on the type of alcoholic beverage. In addition, the government decides on different tax rates for arrack, country made foreign liquor, wine, sake, beer and bottled toddy.
- At present, there is no specific formula that is followed by the Ministry of Finance when deciding the amount of tax to be imposed on different alcoholic beverages.
- In the 2019 budget speech, it was proposed that excise duty on liquor will be decided based on an indexation system, capturing both annual inflation and income growth (GDP changes).²⁸ However, as of 2022, there has been no evidence that this system has been implemented when deciding the amount of tax.

²⁸ 2Budget Speech 2019, Ministry of Finance, Sri Lanka. Available at <https://www.treasury.gov.lk/api/file/501d2a03-a90d-4f36-ac60-30c194d367c2> [Last accessed 12 February 2022]

9. TAX INCREASES IN THE LAST THREE YEARS

Table 14 below shows the tax rates from 2010-2021 by type of locally produced alcoholic beverage. It shows that, over the last 11 years, the government has implemented numerous tax increases on almost all alcoholic beverages. However, there were a few exceptions to this in both 2015 and 2021.

- The tax on a bulk litre of malt liquor (beer) below 5% was reduced from LKR 190 in March 2015 to LKR 160 in November 2015 and increased to LKR 190 again in December 2015. Insights from interviews conducted suggest that this reduction in November 2015 was done in the hopes of encouraging soft liquor consumption. However, this was to no avail, as the rates increased a month later. The tax on bottled toddy (per bulk litre) was also reduced from LKR 50 in 2017 to LKR 25 in 2021.
- In both the above cases of tax reductions, no official explanation was provided by the government for the tax reductions. As evident in the response to Question 8, changes in alcohol taxes over the years have had no rationale and do not happen systematically.
- The sharp jump in tax rates beginning in November 2017 can be attributed to the change in the system of taxing alcoholic beverages, from the proof/bulk litre system to the absolute litre system. This was the case for arrack, country made foreign liquor, wine and beer (both below and above 5%).

Exhibit 14: Tax rates for locally produced alcohol beverages, 2010-2021

Date of Tax Incr ease	per proof litre										per bulk litre							
	Arrack	% Tax Difference	Special Arrack	% Tax Difference	Foreign Liquor	% Tax Difference	Local Wine below 18%	% Tax Difference	Sake	% Tax Difference	Malt Liquor below 5%	% Tax Difference	Malt Liquor above 5%	% Tax Difference	Bottled Toddy	% Tax Difference	Ethyl Alcohol	% Tax Difference
24-Jun-10	660	-	-	-	790	-	-	515	-	58	-	74	-	-	-	-	-	-
29-Oct-10	710	8%	-	6%	840	6%	-	565	10%	63	9%	79	7%	-	-	-	-	
23-Nov-10	813	15%	-	13%	953	13%	-	668	18%	80	27%	96	22%	-	-	-	-	
7-Jan-11	863	6%	-	5%	1003	5%	-	718	7%	80	0%	96	0%	-	-	-	-	
25-Oct-11	923	7%	-	6%	1063	6%	-	778	8%	85	6%	101	5%	-	-	-	-	
22-Nov-11	-	-	-	-	-	-	100	-	-	-	-	-	-	-	-	-	-	
30-Mar-12	983	7%	-	6%	1123	6%	-	838	8%	90	6%	106	5%	-	-	-	-	
6-Oct-12	1043	6%	-	5%	1183	5%	-	898	7%	100	11%	116	9%	-	-	-	-	

Date of Tax Increase	Arrack	% Tax Difference	Special Arrack	% Tax Difference	Foreign Liquor	% Tax Difference	Local Wine below 18%	% Tax Difference	Sake	% Tax Difference	Malt Liquor below 5%	% Tax Difference	Malt Liquor above 5%	% Tax Difference	Bottled Toddy	% Tax Difference	Ethyl Alcohol	% Tax Difference
31-Jul-13	1110	6%	-	-	1250	6%	-	-	-	-	110	10%	130	12%	-	-	-	-
10-Oct-14	1200	8%	-	-	1370	10%	-	-	-	-	120	9%	145	12%	-	-	-	-
25-Oct-14	1485	24%	-	-	1700	24%	-	25%	1200	25%	150	25%	185	28%	-	-	-	-
3-Oct-15	1595	7%	-	-	1860	9%	-	-	-	-	190	27%	245	32%	-	-	-	-
21-Nov-15	1850	16%	-	-	2030	9%	-	-	-	-	160	-16%	315	29%	-	-	-	-
5-Dec-15	-	-	-	-	-	-	-	-	-	-	190	19%	315	0%	-	-	-	-
1-Jan-16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30	-	-	-
1-Apr-16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10	-

Date of Tax Increase	Arrack	% Tax Difference	Special Arrack	% Tax Difference	Foreign Liquor	% Tax Difference	Local Wine below 18%	% Tax Difference	Sake	% Tax Difference	Malt Liquor below 5%	% Tax Difference	Malt Liquor above 5%	% Tax Difference	Bottled Toddy	% Tax Difference	Ethyl Alcohol	% Tax Difference
1-Jan-17	-	-	-	-	-	-	-	-	-	-	-	-	-	67%	50	-	-	-
	per absolute litre	per proof litre	per absolute litre	per absolute litre	per absolute litre	per absolute litre	per absolute litre	per absolute litre	per absolute litre	per absolute litre	per absolute litre	per absolute litre	per absolute litre	per absolute litre	per bulk litre	per bulk litre	per bulk litre	per bulk litre
10-Nov-17	3300	-	-	3300	-	-	-	-	-	-	2400	-	2400	-	-	-	-	-
5-Mar-19	3550	8%	3300	3550	8%	600	2700	13%	2700	13%	2700	13%	2700	13%	-	-	-	-
3-Dec-19	4050	14%	3800	4150	17%	900	3200	19%	3200	19%	3200	19%	3200	19%	-	-	-	-
7-Jan-21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25	-	-	-

Source: Various gazettes, Department of Excise – Sri Lanka - Performance Report 2018, 2019, Department of Excise – Sri Lanka

10. ARE THERE DIFFERENT TAXATION SYSTEMS FOR DIFFERENT ALCOHOLIC BEVERAGES?

All alcoholic beverages that are locally produced are subject to an excise duty at the point of manufacture. Imported liquor, on the other hand, is subject to a customs duty. However, the rate of excise duty and customs duty differs depending on the alcoholic beverage concerned. The taxation system for different alcoholic beverages is detailed in Question 1 and Question 9.

11. HAVE THERE BEEN ANY TAX REDUCTIONS FOR ALCOHOLIC BEVERAGES IN THE PAST? IF SO, WHAT MADE THE GOVERNMENT GIVE SUCH TAX REDUCTIONS?

As per Exhibit 14 above, no significant reduction to alcohol tax rates was made by the government. The only notable tax reduction that took place was for malt liquor (beer) below 5% in 2015, during the budget speech for the year 2016. During the interviews conducted for this report, it was mentioned that this reduction was done in the hopes of encouraging consumers to shift to soft liquor varieties for health reasons. However, by the third reading of the budget, this decision was reversed to its previous rate because the then President, Hon. Maithripala Sirisena had launched a separate campaign, “Mathata Thitha” to discourage the consumption of all types of alcohol among the public.

A review of the literature revealed that some explanations have been given for why duties have been increased, although these do not cover all increases.

- In 2020, an upward revision in the rate of excise duty was implemented to accommodate the VAT reduction and NBT removal in the same year²⁹.
- In 1994, a tax reduction was given for beer products to encourage consumers to shift consumption from hard liquor to soft liquor for health concerns. However, this outcome did not take effect as regular consumers stood firm in their preferences (arrack/illicit liquor etc.).³⁰

²⁹ Annual Report 2020, Ministry of Finance, p. 72

³⁰ Siri Hettige, and Dharmadasa Paranagama, ‘Gender, Alcohol and Culture in Sri Lanka’, Alcohol, Gender and Drinking Problems (2005), p. 168, available at https://apps.who.int/iris/bitstream/handle/10665/43299/9241563028_eng.pdf?sequence=1&isAllowed=y [Last accessed 6th April 2022]

12. WHAT ARE THE COSTS ASSOCIATED WITH ALCOHOL USAGE IN SRI LANKA?

Ranaweera S, Amarasinghe H, Chandraratne N, Thavorncharoensap M, Ranasinghe T, Karunaratna S, et al. (2018) Economic costs of alcohol use in Sri Lanka. PLoS ONE 13(6): e0198640. <https://doi.org/10.1371/journal.pone.0198640>

The objective of this study was to estimate the economic costs of alcohol consumption (in terms of selected alcohol-related disease conditions) in Sri Lanka for the year 2015. Using a methodology specified by the World Health Organization (prevalence-based cost of illness and gross costing approach), this study looked at direct economic costs (costs of inpatient and outpatient care borne by the state and out-of-pocket expenses borne by patients themselves) of diseases attributed to alcohol use and indirect economic costs (lost earnings due to being a patient or loss of income because of death) related to the use of alcohol incurred in Sri Lanka.

The findings showed that the total economic cost of alcohol use in Sri Lanka was USD 885.85 million (1.07% of GDP) in 2015. Of this, USD 388.35 million (44%) consisted of direct costs, while USD 497.49 (66%) consisted of indirect costs. The loss of productivity due to premature mortality, USD 388.86 million, was the highest cost category, accounting for 44% of the overall cost. The next highest cost was the inpatient care cost of USD 293.75 million, which was one third of the total cost. In comparison, the excise revenue generated by the government in the same year was only USD 779.73 million in 2015. At a micro-level, the economic costs of alcohol on the average Sri Lankan household (although not quantified) were also highlighted. These included low wages (because of missed work and reduced efficiency on the job), lost employment opportunities, increased medical expenses for illness and accidents, fines for drink-related offences, and decreased eligibility for loans etc. These exert much pressure on the national economy. The study also listed out many other costs associated with the consumption of alcohol on everyday Sri Lankans. These included injuries and deaths associated with road traffic accidents; harm from interpersonal violence, aggression and crime; harm to families, including psychological distress, pain and suffering from domestic violence, marital separation and divorce, child and household neglect, poverty; and harm to the developing fetus etc.

The study concludes that the government should aim to minimize such high costs resulting from alcohol consumption in the country through effective taxation that will reduce the affordability of alcohol, strengthen the enforcement of existing restrictions on advertising and promotion, and enhance the capacity of enforcement agencies to implement drink driving countermeasures and to educate the public on the harms of alcohol consumption.

Baklien B, Samarasinghe D. (2005) Alcohol and poverty in Sri Lanka. FORUT.

<http://www.add-resources.org/alcohol-and-poverty-in-sri-lanka.444180-315773.html>

This study comprised both a qualitative inquiry and a quantitative survey to ascertain the relationship between alcohol use and poverty, both in terms of its impact on income, and in terms of social poverty. The areas chosen for the study - urban over-crowded communities, rural communities in the wet and dry zone of the country, an estate community and a community of the internally displaced - were specified by the development agency that commissioned the study, FORUT. The study also aimed to assess the role of alcohol in different social settings within the regions chosen for the study.

Findings from the qualitative research component showed that alcohol consumption does in fact contribute to costs such as individual poverty and acts as a hindrance to the economic development of the people in the areas studied. Higher alcohol consumption was associated with a higher likelihood of violence and its acceptance around those who consumed alcohol. The quantitative component too reiterated this finding. In fact, 7% of male respondents claimed their expenditure on consuming alcohol exceeded their income. In addition, 80% of the respondents claimed that when individuals become drunk, there is more likelihood of them engaging in fights and clashes etc., disturbing communities and those around them. The qualitative component of the study also highlighted the social pressures associated with the consumption of alcohol.

Despite the costly nature of alcoholic beverages, it was revealed that, even among poorer communities, there is a social expectation to serve alcohol at weddings and contribute alcohol to drinking parties. These events happen on a regular basis in such settings. Not adhering to these expectations and norms of these events carries with it a risk of social sanctions by the rest of the community. The study revealed how such social expectations interfere with the social and economic advancement of the members of such communities and contribute to poverty.

Alcohol and Drug Information Centre (ADIC). (2020) Survey on alcohol and tobacco consumption during the COVID-19 pandemic in Sri Lanka. <http://adicsrilanka.org/wp-content/uploads/2020/08/COVID-19-and-alcohol-and-tobacco-consumption-in-Sri-Lanka-Report-E-2.pdf>

This study, conducted by ADIC Sri Lanka, comprised a survey to evaluate the changes in both alcohol and tobacco consumption among Sri Lankans during COVID-19 in 2020. The survey was conducted between the 1st and 10th of May 2020. The study revealed that 80% of the respondents had reduced their consumption of alcohol during the lockdown period. A major reason for this, as 54% of respondents stated, was the closure of outlets that sold alcohol during the lockdown period.

In addition, 49% of the wives of male respondents who had reduced their consumption of alcohol reported a decline in family issues and problems, and 40% of them also claimed they had seen an increase in their family savings because of the decrease in expenditure on alcohol caused by reduced alcohol consumption. As the study concludes, these findings highlight the costs of alcohol use by revealing the benefits of being free of or reducing the use of alcohol.

13. WHAT WOULD A TAX INCREASE MEAN FOR THE COUNTRY? WHAT WOULD THE BENEFITS BE?

A. WHEN WILL TAX REFORM START BEARING FRUIT?

B. HOW MANY LIVES WOULD BE SAVED?

C. HOW MANY DALYS SAVED?

Dayaratne, G.D., (2013) State of the Sri Lankan Alcohol Industry and Analysis of Governing Policies. Institute of Policy Studies of Sri Lanka at <https://www.ips.lk/wp-content/uploads/2017/01/Alcohol-paper.pdf>

The aim of this study was to provide policy makers with a balanced policy option for alcohol that could be implemented, monitored and enforced effectively. The study does so by taking into consideration the views and opinions of various stakeholders from the industry, whilst maintaining the goal of enhancing government revenue from legal alcohol.

A large component of this study examined the Government's policies on alcohol taxation and its consequences on the alcohol usage and habits of the adult population that consume alcohol in the country. With regard to the practices of alcohol taxation in the country the study states that, in the past, alcohol taxation policies have not been effective in altering the drinking culture of alcohol consumers. In fact, blanket tax increases that have taken place previously have only threatened to increase alcohol related harm as consumers began to substitute legal forms of alcohol with illicit liquor (kasippu), which, because it is manufactured illegally with no hygiene or other regulations and with very high concentrations of alcohol, is harmful for consumption. This was especially the case among poorer populations in the country.

The study also notes that tax increases have benefits because they have the potential to alter harmful drinking habits of adult consumers. Higher tax increases on hard liquor, relative to tax increases on soft liquor, can encourage consumers to switch from hard liquor varieties to soft liquor varieties, thereby indirectly improving the health of these consumers and reducing harm to those around them. However, such changes in behavior as a result of tax increases can only be achieved if measures to detect illicit alcohol production can be strengthened, and corruption among stakeholders within the industry and political loopholes within the industry can be adequately addressed. In addition, ensuring public support and political commitment to develop and apply evidence-based policies and recommendations that are sensitive to the cultural and economic diversity of consumers can also help to achieve intended expectations of alcohol tax increases. Based on this study, a tax reform that not only aims to increase tax rates, but also addresses other concerns and weaknesses within the industry that could hinder the effectiveness of such tax increases (highlighted above), can successfully bring about tangible benefits to the country in the medium term or in the long term.

World Health Organization. (2017) Alcohol Policy in the WHO South-East Asia Region: A Report at <https://apps.who.int/iris/bitstream/handle/10665/259828/9789290225683-en.pdf?sequence=1&isAllowed=y>

This report is an assessment of the progress made in alcohol policy development in WHO South-East Asia region member states since these countries endorsed the Global Strategy to Reduce the Harmful Use of Alcohol in 2010. The study aimed to help policy makers and program managers in each country identify areas that require attention and to work towards the effective implementation and enforcement of alcohol policies and legislations.

Section 1 of the report provides an overview of the alcohol consumption situation in each of the WHO South-East Asia region countries and provides an overview of the alcohol-related problems that such countries are facing. The report states that the prevalence of total heavy episodic drinking in Sri Lanka was 0.4%. In addition, the report also details the estimates of disability affected life-years (DALYs) affected per 100,000 (age-standardised) people (of all ages) in Sri Lanka by alcohol consumption induced problems in 2012. Although the report does not draw a causal link between an increase in alcohol tax rates and DALYs that could be saved, these figures suggest the number of DALYs that could be saved if any policy or regulation - including a tax hike - is implemented to reduce or alter the consumption of alcohol.

Exhibit 15: DALYs affected per 100,000 (age-standardised) people (for all ages) in Sri Lanka by alcohol consumption induced problems in 2012

Alcohol use disorders	77
Poisoning	6
Liver Cirrhosis	112
Liver Cancer	21
Road Injuries	168
Interpersonal violence	91

In addition to this, the report also highlights details on community action and several non-tax related government policies and approaches implemented to reduce the harms of alcohol consumption in the country. For example, Sri Lanka mandates that nutritional information of the beverage should be available on the label of alcohol containers. It also mandates that the alcohol content (% of ethanol by volume) is indicated on labels of alcohol containers.

‘The global burden of disease attributable to alcohol and drug use in 195 countries and territories, 1990–2016: a systematic analysis for the Global Burden of Disease Study 2016’, Lancet Psychiatry, November 2018 at <https://www.thelancet.com/action/showPdf?pii=S2215-0366%2818%2930337-7>

The objective of this study was to use data from the Global Burden of Diseases, Injuries, and Risk Factors Study (GBD) 2016 to calculate global and regional estimates of the prevalence of alcohol, cocaine, opioid dependence, and other types of dependencies, as well as to estimate the global disease burden attributable to alcohol and drug use between 1990 and 2016 for 195 countries. The study is considered the first of its kind to estimate associations between alcohol and drug attributable burden and sociodemographic development. Findings reveal that there is much variation geographically with regard to the magnitude and contribution of alcohol and drug use to disease burden.

The study provides estimates for Sri Lanka (Exhibit 16) in terms of DALYs, years of life lost (YLLs), years of healthy lives lost (YLDs), and deaths attributable to alcohol use in 2016. Although the study does not draw a causal link between an increase in alcohol tax rates that can alter alcohol consumption, and DALYs and lives that could be saved, these figures suggest there could be a positive impact on the number of DALYs and lives that could be saved if any policy or regulation – including a tax hike - is implemented to reduce the consumption of alcohol. According to these estimates, an increase in tax rates could save 1164 DALYs per 100,00 people and can prevent the deaths of 36.2 lives per 100,00 people.

Exhibit 15: DALYs affected per 100,000 (age-standardised) people (for all ages) in Sri Lanka by alcohol consumption induced problems in 2012

Attributable to Alcohol in 2016			
Age Standardized DALYs per 100,000 people (95% UI ³¹)	Age Standardized YLDs per 100,000 people (95% UI)	Age Standardized YLLs per 100,000 people (95% UI)	Age Standardized deaths per 100,000 people (95%UI)
1164	192.6	971.5	36.2

The study also details the ways in which causes of alcohol and drug burden can be prevented and treated. These include taxation, regulation of the availability of alcohol, regulating marketing strategies that promote alcohol, reducing the alcoholic strength in beverages, and implementing minimum prices on alcohol etc. Interventions that can be taken to reduce alcohol consumption-related injuries and deaths during travel, such as implementing blood alcohol limits, alcohol testing of drivers, mandating seat belts and helmets etc., were also listed.

³¹ Uncertainty Intervals

ANNEX A

Current tariff rates imposed by SLC for imported liquor by HS Code (at the 6-digit level)

HS Code	Description	Unit	General Customs Duty	VAT	PAL	Cess
22.03	Beer made from malt					
2203.00.10	Canned beer less than 350 ml	Per litre	550/=	8%	10%	-
2203.00.20	Canned beer 350 ml or more	Per litre	550/=	8%	10%	-
2203.00.90	Other	Per litre	550/=	8%	10%	-
22.04	Wine of fresh grapes, including fortified wines; grape must other than that of heading 20.09					
2204.10.00	Sparkling wine	Per litre	440/=	8%	10%	-
	Other wine; grape must with fermentation prevented or arrested by the addition of alcohol					
2204.21.00	In containers holding 2 l or less	Per litre	440/=	8%	10%	-
2204.22.00	In containers holding more than 2 l but not more than 10 l	Per litre	440/=	8%	10%	-
2204.29.00	Other	Per litre	440/=	8%	10%	-
2204.30.00	Other grape must	Per litre	440/=	8%	10%	-

HS Code	Description	Unit	General Customs Duty	VAT	PAL	Cess
22.05	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances					
2205.10.00	In containers holding 2 l or less	Per litre	440/=	8%	10%	-
2205.90.00	Other	Per litre	440/=	8%	10%	-
22.06	Other fermented beverages (for example, cider, perry, mead, sake); mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included.					
2206.00.10	Non alcoholic beverages	Per litre	440/=	8%	10%	-
2206.00.90	Other			8%	10%	-
2206.00.91	Palmyrah Toddy	Per litre	440/=	8%	10%	50%
2206.00.99	Other	Per litre	440/=	8%	10%	50%
22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80% vol; spirits, liqueurs and other spirituous beverages.					
2208.20.00	Spirits obtained by distilling grape wine or grape marc	Per litre	2750/=	8%	10%	70%
2208.30.00	Whiskies	Per litre	2750/=	8%	10%	70%
2208.40	Rum and other spirits obtained by distilling fermented sugarcane products					
2208.40.10	Rum	Per litre	2750/=	8%	10%	70%
2208.40.90	Other	Per litre	2750/=	8%	10%	70%
2208.50.00	Gin and Geneva	Per litre	2750/=	8%	10%	70%
2208.60.00	Vodka	Per litre	2750/=	8%	10%	70%
2208.70.00	Liqueurs and cordials	Per litre	2750/=	8%	10%	70%
2208.90	Other					
2208.90.10	Coconut based arrack	Per litre	2750/=	8%	10%	70%
2208.90.20	Palmyrah based arrack	Per litre	2750/=	8%	10%	70%
2208.90.90	Other	Per litre	2750/=	8%	10%	70%

