

# **A rapid analysis on the impact of revised Customs Duty Act of Bhutan 2021 on the retail prices of consumer goods**

## **1. Background**

The Customs Duty Act of Bhutan, 2021, which reduced the customs duty, an indirect tax imposed on imports from third-country, to a uniform rate of 10 percent, was passed in July, 2021. With this, retail prices of goods imported from third countries is anticipated to uniformly become cheaper than before, thereby benefitting the general consumers of those goods.

The objective of the study was to determine whether the benefits of reduced import prices have trickled down to the final consumers.

## **2. Methods and materials**

For the purpose of the study, 69 most common essential products, excluding luxury goods, that are imported from third countries were selected.

Seven major retailers in Thimphu, who are also licensed to wholesale, that were identified as major suppliers by the Ministry of Economic Affairs (MOEA) during the lockdown period earlier last year were identified, along with an additional new wholesaler, were selected for this study. 8 Eleven, My Mart, Jafa, Gahsel Store, Thimphu Mart, Shop No 7, Green Mart and Sherza Ventures are some of the main wholesale –retail players in the market.

The main sources of import for essential goods are Thailand, Indonesia, Singapore and Malaysia. Imports from Bangladesh have not been included in the study since Bangladesh and Bhutan enjoy preferential trade arrangement, wherein essential goods from Bangladesh were already customs duty below the 10 per cent level.

## **3. Findings and Discussions**

Of the 69 commonly traded consumer goods, only 14 goods from the 3 different retailers were found to be from the new stock – consignments imported after the customs duty revision took effect. In general, there was a reduction in price of most goods. Out of 14, retail prices of 11 goods fell by a margin of 3 per cent to a little over 13.95 per cent (Table 1).

For some products, despite lower duty, final retail prices remained unchanged, especially those more prone to physical damage during shipping and handling. Besides, with increased overhead expenses, such as labour charge for loading and unloading at the Mini Dry Port (MDP) at Phuentsholing - which increased from Nu 8,500 to 8,700 per truck (Jumbo truck)-, increase in cost of transportation from Nu 13,000 to 15,000 per truck from Phuntsholing to Thimphu, increased demurrage in India due to disruption in the supply chain and increased damage of goods at the Phuentsholing MDP, business entities had passed on these costs to the final consumers (pers comm with Manager, Lhatsho Tshongkhag, Thimphu).

**Table 1: Change in price of 14 consumer goods pre- and post-customs duty revision**

#	Commodity	Price Before Duty revision (Nu.)	Current Price (Nu.)	Difference (Nu.)	Change (%)
1	Sofy Sanitary Pad	185	165	20	10.8
2	Carefree Super-Dry Panty Liner	155	141	14	9.03
3	Lactasoy drink	145	135	10	6.9
4	Green Mate (Fruit Juice)	89	85	4	4.49
5	Lipton Ice Tea	60	55	5	8.33
6	Kato Juice	45	42	3	6.67
7	Gatorade Energy Drink	109	99	10	9.17
8	Prune Juice	620	600	20	3.23
9	Mac Tea	285	263	22	7.72
10	Krematop Milkpowder	430	385	45	10.47
11	Surf	215	186	30	13.95
12	Bakers Choice	230	230	0	0
13	Munchy's Cream Cracker	120	120	0	0
14	Rice Stick	140	140	0	0

As a result of the ensuing pandemic, there already is disruption in the global supply chain. The cost of shipping from Bangkok to Kolkata increased drastically from approximately USD 4,000 - 4,600 to as high as USD 6,000 - 8,000 (per comm, Lhatsho Tshongkhang, Thimphu). At the same time, transportation cost from Kolkata to Phuentsholing also increased from Nu. 130,000 to Nu 180,000 per container” (pers comm, 8 Eleven, Thimphu).

Despite the increased overhead expenses, the retailers have been able to keep final prices from rising as a result of the downward revision of the customs duty. When the pandemic is brought under control and the global supply chain returns to normalcy, the benefits of customs duty reduction would trickle down to the final consumers.

Only four months has elapsed since the amendment of the duty and there has been limited volume of essential consumer goods imported from third countries. Therefore, it is too early to ascertain the wider impact of the customs duty revision on the final prices of goods.

Accurate records of retail prices of goods imported from third countries prior to the customs duty revision are not reliably available and the information used in this report is provided by the retailers. The OCP is revising the list of goods in the Market Price Information (MPI) system, so to include commonly traded essential goods from third countries. The current MPI system mainly contains goods of Indian origin.

It has been observed that for certain goods from third countries, there is only a single wholesaler/supplier in the country effectively making it a monopoly. In such cases, because of lack of competition, the dealer would be able to derive all the benefits of the custom duty revision without passing it down to the final consumers. Besides, it appears that most goods

from the third country are not imported directly from the principal companies but rather from intermediary dealers or agencies.

#### **4. Conclusion**

The study above indicates that the revised customs duty does indicate a positive impact on the final price of the goods and the impact would be more pronounced after the pandemic ends and business environment returns to normalcy.

At the same time, it is too early to make a more detailed assessment as most of the retailers are yet to receive new consignments. Therefore, a more thorough study needs to be carried out at a later stage to assess the real impact of the revised customs duty.

#### **5. References**

1. Pers comm. Lhatshog Tshongkhag, 2021
2. Pers comm. 8 Eleven, 2021