



**Erik Juul-Mortensen, TFWA President.**

**The Challenge of Change. Investing in people and mankind.  
25 years by the trade for the trade.**

Good morning ladies and gentlemen, and a very warm welcome to this, the 25<sup>th</sup> anniversary of Tax Free World Association and our conference and exhibition, TFWA World Exhibition.

The very first conference and exhibition organised by TFWA took place in Nice back in 1985. 449 brand-owning companies occupied 6,100 square metres of exhibition floor space and it attracted around 3000 visitors. But in fact this industry has held an annual conference and exhibition as far back as 1973, when it was run by a trade publication. In 1973 the industry's global sales were a mere half a billion dollars. When TFWA was set up in 1985 as a membership association and took over the annual conference and exhibition, the industry's global sales had grown to 6 billion dollars and we still had fifteen more years of intra-EU duty free to enjoy. Three of the original Management Committee of Tax Free World Exhibition 25 years ago are still active in the industry – Alain Bonardo still serves on the Management Committee with me.

It's easy to forget just how different the world was back in 1985. Ronald Reagan and Maggie Thatcher were enjoying further terms in office, both after landslide victories. Bill Clinton was a Governor - of Arkansas. Nelson Mandela was still in prison, apartheid was still the political regime in South Africa, Gorbachev was Head of State in the Soviet Union. The Berlin Wall still stood and Germany was still 4 years from reunification. And Arnold Schwarzenegger was just the Terminator. How times have changed.



For us, still to come along the way were significant external events such as the Asian economic crisis of 97/98. Gulf wars, SARS, LAGs and Swine Flu. Not all of these events were equally damaging to our business. The first Gulf war brought growth to a halt for a while; a sequence of hard-hitting crises from 1997 to 1999 brought us the Asian economic crisis. And the abolition of intra-EU duty and tax free allowances saw sales decline from 21 to 20 million dollars. And then came 9/11 which caused further decline.

However, this industry responded well and we saw extremely buoyant sales for the next 5 years – despite the second Gulf war, SARS, the expansion of the EU and the liquids, aerosols and gels security issue. Without these who knows how much better we would have done.

But the current global economic crisis has been on a different scale of magnitude. Since ACI records began back in 1991, it's only the second event, after 9/11 to actually see passenger demand go into reverse. And as you can see from this chart . its been way more damaging even than 9/11. ACI's forecast for 2009 to 2013 suggest that it will take 4 years before annual net passenger increase will be experienced again. Generation estimates that sales for 2009 will be down by 2 billion dollars from 2008's high of 37 billion dollars. Never before have we seen such a year on year decline.

But, as our industry's sales evolution demonstrates, we are a resilient industry and have always fought back. And there is no shortage of issues. Right now we still have the LAGs security issue, the “one bag” rule and the determination of the World Health Organisation to ban completely the sale of tobacco in all duty free channels. And perhaps, the biggest single challenge of all – the global economic downturn which is significantly eroding our customer base, in airports, in the air and on cruiselines!



So, what have we learnt from past challenges to help us deal with these and others yet to come?

Well, there are different challenges:

- Challenges we can fight
- Those we can mitigate, and
- Those we can adapt to

First, we've learnt that there are some crises that we can fight – legislative threats for example. We cannot guarantee we'll win those fights but we can give them our best shot – like we did in trying to retain intra-EU duty and tax free allowances. It's easy to forget that we lost because of one single member state vote. Yes, I know it was Denmark, and as a Dane it gives me little pleasure being reminded of this. But we changed the minds of 11 governments – no mean feat! The way we mobilised the industry and spoke as one in arguing our case provides a model that we need to replicate today in mounting our defence for the continued sales of tobacco products in duty free.

Huge efforts are being made by our industry associations and individual companies – to lobby against this ban. In our retail channel of distribution we are the most highly scrutinised and regulated of all the channels that sell tobacco products. Being a separate channel makes us an easy target to attack. The WHO and the Framework Convention Alliance may think we're a quick win for them – we have to prove we're not. Tobacco being a major footfall driver, the entire industry has a huge amount at stake here. Win or lose, other categories are likely to be the targets of future regulation so effective campaigning will be essential.



Challenges provoked by legislation we can fight. With others we have learnt to put in place damage-limitation strategies to deal with them.

Natural disasters, health pandemics and acts of terrorism have all very suddenly brought steep, although short-term, declines in traveller numbers. That's where business relationships built on true partnership really prove themselves. Because the damage limitation required to get through those crises needed all of us in the trinity of landlords, retailers and brand owners to share the pain involved. We're getting better at it but this year has tested the strength of our partnerships all over again. Against declining passenger numbers operators reduced their stock levels, delivering a double whammy to suppliers whose sales were already falling. The triple whammy for some came in changes in payment terms. Retailers in turn have sought to find relief on their contracts with landlords as falling passenger numbers affected sales, and landlords struggled themselves with decreasing commercial income from reduced traffic.

There have also been more permanent developments that we've learnt to adapt to. The way in which we reinvented ourselves to sell successfully to intra-EU travellers, post 1999 without the promise of duty free prices is a classic example.

Today, facing reduced passenger numbers yet again, we're going to have to work hard to turn even the most reluctant passengers into buyers. We need to work smarter and harder at really focusing on specific traveller profiles, at sharing the data and intelligence that will help us to become even more sophisticated product developers and retailers. Different merchandise, different price points, different product performance and attributes. All these are essential if we are to remain attractive and accessible to travellers.



During 2009 we have conducted business in an economic environment which has been rocked by the impact of global recession. At the beginning of this month the International Monetary Fund raised its forecast for global growth next year as more than \$2 trillion in stimulus packages and demand in Asia pulled the world economy out of its worst recession since the Second World War. Against a 1.1% contraction of the world economy this year, the IMF predicts global growth of 3.1% in 2010, but with significant regional variations. The global economic crisis both highlighted and accelerated the shift of economic power and influence from West to East. China, Singapore, India and South Korea didn't go into this recession with the same level of personal debts and their economies grew by more than 10% in the second quarter of this year.

The effects on the demand for air travel and consumer behaviour are significant. IATA estimates that airlines will lose \$11bn in 2009, the worst result in 65 years and that the current crisis will have a larger impact on airlines than the terrorist attacks on 9/11. Airlines have had to slash routes, and cut prices in an attempt to stem their losses. The decrease in passengers has had a material effect on our business. We can expect to see further bankruptcies amongst small and medium sized carriers, and further consolidation amongst the larger carriers.

Ironically, the impact of the economic downturn on airlines may well benefit duty free & travel retail businesses in the long term. With airlines falling victim to overcapacity and streamlining their routes and fleets, and flagship carriers losing ground to their low cost rivals, airports are recognising the need to be more competitive and to reduce their dependence on aviation revenues. Never have we as an industry been more relevant to an airport's vision and business plan.

In the current economic turmoil, the threat of further job losses is still very real, making consumers ultra cautious about what they spend. This has been a



frightening experience especially for the younger generation which has not been through a recession before. We all know people in our industry as well as family and friends that have lost their jobs as a result.

Confidence will return, but it will be a careful, cautious confidence. Consumers will spend more wisely and more thoughtfully.

We will inevitably feel the impact of the downturn this week in Cannes. While we have a full house as far as exhibitors are concerned and there has only been a slight dip in the number of visiting companies, the number of delegates registered to attend from each company is noticeably lower.

Industry cuts inevitably influence the finances of TFWA and we too have had to take some tough decisions this year. It would have been tempting, perhaps, to celebrate our 25<sup>th</sup> anniversary in extravagant style, with a mega star to entertain us at an extravagant gala dinner on Thursday evening. But out of respect for our industry, for those whose businesses are suffering, we have chosen to change the formula. We are still marking our anniversary, but in a different style, and we are certain it will be a great evening and one which we have opened up to a much greater number of guests. I would like to thank all of you who are here this week for your commitment both in time and money, as it's when we face tough challenges, like we are now, that we need to strengthen ties all the more. I genuinely believe that every business will leave at the end of the week a better business for having strengthened its relationships here – better prepared for the future.

To prosper in the future, we need to be ready for tomorrow's consumer. I believe this economic crisis will bring about lasting change as consumers re-evaluate their spending habits. The impact that producers, retailers and they themselves have upon society and the environment is fuelling fierce debate.



The demonstrators at the G20 Summit in April and again in Pittsburgh last month were not just protesting at the financial ineptitude of the world's governments – they were calling for a bigger debate about protectionism versus free trade, about good governance, about climate change and human poverty, about the connection between consumerism, corporate social responsibility and the environment.

Manufacturing, packaging, distribution and retailing of goods, and travel itself, must all now be managed in ways that minimise their impact on the environment.

We as an industry are all firmly in the firing line. The new consumer imperative is to save rather than spend and to spend responsibly with responsible companies. This is a major new challenge and an opportunity too. I believe that our willingness and ability to adopt corporate behaviour that is socially responsible is essential if we are going to remain an acceptable, legitimate form of shopping. It's a change that we have instead to embrace and encourage.

Even in the midst of this deep economic recession, consumers are not losing sight of the longer term problems that have contributed to the current economic and environmental state of the world. 80% feel companies should be actively involved in Corporate Social Responsibility and accept that they themselves need to adapt and change their lifestyles to combat current issues. Nearly 90% claim to be familiar with the term sustainability. Significantly, awareness is highest amongst emerging markets – 89% of Chinese consumers in this research claimed to be familiar with the term. Worryingly, but perhaps not surprisingly, US consumers were least aware – only 21%.



Approximately 70% of consumers associated the terms sustainability with balance, health, community, the future, opportunity and integrity. 64% of respondents feel companies only engage in initiatives and activities around their CSR agenda to protect or improve their image. “Proving it” is the new challenge. And as you’ll have read in the press in the last couple of days, Qatar Airways is doing just that, having completed the first passenger flight powered by fuel made from natural gas.

As an industry, we have to ask ourselves, are we doing enough, individually and collectively? As responsible employers are we confident about conditions in the factories around the world that produce the goods we sell? Are we taking steps to adapt packaging? As retailers do we also offer products to tempt the eco-consumer? Are our stores built from materials from sustainable sources? Are we reducing energy used on light, waste disposal and transporting goods to our stores?

Our guest speakers will each offer their own very distinct and, in some cases, challenging views of how as an industry we could and should be making a difference.

There is one particular area where as an industry we’ve done much to be proud of – we have a record of big and generous responses to those less fortunate than ourselves. The way in which the industry has got behind the Smile Train, and the post Tsunami village built in Sri Lanka, by Alpha Orient and Rakhita Jayawardena and supported by many individuals and companies are prime examples. Dubai Duty Free’s generous support of many causes, WDF’s association with One Water and China Duty’s Free Hope Foundation are further examples. There are many more which don’t make the pages of the press but bring a better quality of life to thousands every year. TFWA’s own initiative,



TFWA Care, is our way of meeting the challenge of C.S.R. To date six projects and initiatives have been funded. We intend to create a structured programme with a clear long term funding strategy and a formal selection process to filter project requests. “Why?” You may rightly ask? Why not give us a reduction on our stand space or entrance fee to the exhibition? some of you may be wondering. Well, the answer to that is quite simply that if we were to rebate the amount we pledge each year to all the companies who exhibit and visit this exhibition in Cannes alone, the impact for each company would be insignificant. Yet collectively that money is far from insignificant when it provides an education to hundreds of children, or a new lease of life thanks to a vital operation. The picture behind me is a home for 40 destitute children in a remote village in Gujerat in India that TFWA Care has pledged – on your behalf - to rebuild in brick with dormitories, kitchen, sanitation and a playground. You will see the finished project next year. We hope that you will share our pride in being able to make a difference in the name of the global duty free and travel retail industry.

We aim to give much greater emphasis to TFWA CARE in the future, starting this week, here in Cannes, with Heart to Art. As part of how we mark our 25th anniversary, TFWA is pledging 50 000 Euros to two remarkable charitable organisations: The Lotus Flower Trust and The Smile Train. We invite you to help us add a further 50 000 €uros to that figure by purchasing the special limited edition Heart to Art paintings from the collection created by children who have been cared for by these very same charities. They have been painting furiously since August and through their art they have gifted us with their vision of a world in which “dreams really do come true”. We are asking each of you to offer a minimum of 25 Euros for your own copy – or 100 for the complete set, so you can help contribute to the realisation of dreams for many more children to come. Think about it. Each year we walk away from Cannes, loaded down with



generous gifts and goodies we've given each other - worth much more than 25 euros! With these works of art, we have the chance to be generous to others. The paintings are on sale all this week in the registration pavilion which is next to the Palais. So we hope you will all support Heart to Art and we look forward to announcing the total amount raised later this week.

Looking forward to the next 25 years of TFWA, my key message remains what it has always been in these presentations to you: This is a tough business to be in, but we're a tough industry that works best when it works in unison, and – when we focus on the customer. Success as an industry means working in partnership, focusing on the customer, delivering innovative products from great brands, attractively presented, persuasively marketed, supported by great customer service.

It has been a tough year. The very latest figures for September continue to show steep declines although there are bright spots to be seen in some Asia Pacific and Gulf airports. By the end of 2010 traffic in Asia will have reached pre-recession levels, with Europe and North America not set to return to those levels until 2012. So in the meantime it has never been more vital for us to concentrate on driving increased penetration and spend from the passengers we have.

Finally, this is also very much a people industry. A new generation has emerged and despite the growth of the industry, the sense of community that still exists is, I would suggest, second to none.

Our motto "by the trade, for the trade" has served us well over the past 25 years. It expresses very simply why this association exists and captures the essence of the industry. However, I believe our vision for the next 25 years probably requires a motto that looks outward from what's good for us – to reflect our commitment



not only to ourselves in duty free and travel retail but also to the betterment of the world in which we conduct our business. Nelson Mandela gave the world this challenge “Sometimes a generation can change the world. You could be this generation.” Let us not forget that we are a part of that generation and those words speak to us as much as to anyone else.

25 years from now we should not be satisfied if all we can do is look back on 25 years of business growth and profits. We should also be able to look back and see that we’ve tried to make the world a better place to live and work in. So in our 25<sup>th</sup> year, just a final thought to leave you with “By the trade, for the trade... responsibly”.

Meanwhile thank you for your attention and once again, Ladies & Gentlemen, I wish you a most successful and rewarding time in Cannes for the TFWA World Exhibition.