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Good morning Ladies and Gentlemen.

A very warm welcome to Cannes and to this morning's conference.

I must say that is the first time I've ever walked on stage to the sounds of an Elvis Presley song! An interesting message, if you recall the words... "A little less conversation, a little more action!" That statement can certainly be applied to our business: at industry events we hear and talk a great deal about how to improve performance – but do we actually knuckle down to put those theories into practice? As I'll be saying over the next few minutes, perhaps it's about time we got down to "a little more action".

In 2007, the global duty and tax free industry was worth 34 billion US dollars, demonstrating consistent growth over the last 5 years. It looks good, doesn't it?

The title of this session, "Challenge the Future", was set several months ago.

However, right now, Ladies and Gentlemen, it's not so much a case of us challenging the future, as the future challenging us. So, before I start the risky business of speculating about the long-term, I would like to concentrate on the immediate future, and this in spite of Albert



Einstein, who once said – “I never think of the future. It comes soon enough.”

Nobody in this room needs me to dwell on the wider economic climate that we find ourselves in. The global financial crisis is now biting into the industrial sector and spreading fast into the real economy with several countries already in recession and with others on the brink of recession. Yes, Martin, I did use the dreaded R-word. For us, as an industry, it brings significant consequences closer to home. We have already seen airlines, so vital to our businesses, impacted by the soaring price of fuel during the summer. It is a harsh reminder of how fragile the airline business is, that this relatively short period was all it took to force some 30 airlines out of business so far this year. Only last month, British Airways CEO Willie Walsh was predicting that another 30 more airlines could fail before we reach the bottom of the credit crisis.

Giovanni Bisignani, Chairman of IATA, stated earlier this month, “oil is completely unpredictable and has changed the game.” He went on to say that “in 2003, it represented 14% of global airline costs - 40 billion US dollars. In 2008, the bill will be 186 billion US dollars – 36% of costs. The airline industry is in crisis. We are sick and we need to get better.” His words, not mine!

Just as fuel prices became a bit less painful (and remember that they're still up 30% on 2007), the US sub-prime mortgage market collapsed, sending shockwaves through the global economy.



The certainties that seemed to underpin the travel retail industry, and which we have all taken for granted for so long, have been removed. Our industry has thrived thanks to

- ever-rising disposable income, supported by readily available credit
- a larger, more prosperous leisure class and
- expanding networks, low-cost carriers and airline deregulation, which have made
- air travel more affordable

All these factors have brought

- more people into the duty free and travel retail channel.

We've steered our course to success by waiting for the ever-increasing numbers of prosperous travellers that were always coming into view.

It doesn't matter whether you look at airports, airlines, cruiselines, border stores or downtown duty free operations, they've all benefitted from the steady rise of global travel. Despite one-off short term dips caused by 9/11 or SARS for example, growth was taken more or less for granted – every year was to be better than the year before. And now, for probably the first time in the memories of most people in this room, we're looking at potentially longer term negative forecasts, and performances that are down on previous periods. We're looking at a toxic cocktail that is potentially lethal – a global economic slowdown, brought on by an unprecedented credit crunch, highly volatile fuel prices, rapidly diminishing personal wealth and a global economy going



through an extremely painful period of adjustment as governments step in to bring an end to an era of what turned out to be dangerously unregulated financial and investment practices.

Just a few months ago, the Centre for Asia Pacific Aviation had a headline - "Economic crisis – but no one has told travellers and consumers". Well they have now. That same article was extremely prescient as it went on to say "something nasty is happening to the world's economy". Now we know how nasty. Air travel is declining for the first time in almost 20 years. For the first time ever, we are faced with the possibility of a substantial decline in all the indicators whose continued rise we have always assumed would go on indefinitely, and on which we based our hopes, expectations and business plans.

For a snapshot of how those once positive indicators are going in the opposite direction, consider this: OAG, the Official Airline Guide, reported this summer that the world's airlines offered 59.7 million fewer seats for sale in this last quarter of 2008 against the same period in 2007. - 59.7 million lost passengers a quarter is nearly 240 million lost passengers a year. At a modest retail spend per head of just four dollars, that is nearly a billion dollars of lost sales.

The future for us is one where our industry could – at least in the short term – stagnate or go into reverse. Surely, our biggest and most immediate challenge is to make sure that doesn't happen. I think other challenges, and there are plenty, pale into insignificance beside this one. But, you know, we have risen to the challenges before. This one,



however, is likely to be more drawn out and difficult than any we've dealt with before.

We have survived and flourished through difficult times before because of our resilience, adaptability and resourcefulness. We are going to have to rely on these characteristics very heavily in the years ahead because trading conditions are now starting to get tougher and tougher, and are almost certain to stay that way for years - not weeks or months.

Potentially fewer passengers means above all, we have to increase average transaction values and get penetration levels up otherwise a shrinking passenger universe will simply see sales decline dramatically. We must rise to a challenge that historically we've not been good at meeting - really attracting and converting the significant majority of travellers, as much as 70%, who simply believe we have nothing to offer them. These are the passengers that are going to stop our business going backwards. It's their spend that will restore the difference. Convert the unconverted should be the single-minded marketing objective for the future we're about to face.

We can do it! Our offer – in airports, on aircraft, in cruise ships and ferries, and at other locations - is in another league compared to 10 years ago. Outlets are bigger and better, merchandise is presented more excitingly, and the selection is more relevant – with more exclusives and firsts to market. We are doing the right things, more often and in more places than ever before.



In some earlier crises, we found we had to fix our industry before we could respond to the crises. This time round, we're not broke and we don't need fixing. We're in the strongest position we've ever been in to respond by doing what we do well, even better.

Having said all that, great businesses do not lose sight of the long-term, even when the immediate pressures appear overwhelmingly demanding. We do have other challenges we cannot allow to be pushed off the agenda.

There is the continued – and recently renewed threat of a ban of duty free sales of tobacco products from the WHO. A very serious and real threat, which must stay high on our agenda, and there is The LAGs issue, which is still very much with us because it continues to pose a major barrier to purchase for customers. To date only Singapore and Croatia have been granted recognised status by the EU. It's a tedious process. The confusion and uncertainty may have lessened, but the regimes in place, or not in place, are so varied that around the world, the industry is still being badly damaged. So the lobbying and pressure on governments, and the industry's support to find solutions, is still one future challenge that is not going to go away. The President of the European Parliament will be addressing the ETRC Forum in Brussels on January 29th next year. Be there if you care. If that conference room is not packed to the rafters with representatives of our industry, what signal does that send to the EU? If they think we don't care, the LAGs issue and their support for travel retail will quickly fade from their agenda.



There are two other, longer term challenges that this industry has to face up to now, and which the current trading scenario cannot put on the backburner.

These challenges are real, universal and coming up fast. They are to do with two big issues; the responsibility of our businesses to the environment, and to society. We might be tempted to think these responsibilities lie with other people – politicians, scientists, humanitarians, whoever - that they are not our challenges. We just make stuff or we just sell it. That attitude would be dangerously wrong.

Not so many years ago we were accused of living in a parallel universe disconnected from the world our customers live in. Ladies and Gentlemen - our industry responded by moving firmly into the real world and that's where we need to stay. And in today's' real world, our industry's obligations to environmental and social responsibilities are a major new fact of life; consumers have grasped very firmly onto the concept of responsible retailing.

A Nielsen report for IGD in 2007 found that 8 out of 10 shoppers are interested in buying ethically. Top ethical concerns include use of plastic bags, fair trade issues, animal testing on cosmetics and climate change and they factor these issues into their shopping choices.

This industry has started to respond. Nuance-Watson's sale of environmentally-friendly bags and their rebates to customers declining



plastic carrier bags has cut their weekly bag usage by 20%. And many other travel retailers have adopted similar schemes.

Responsible retailing will increasingly come to define our acceptability as a retailer, or brand owner. If we don't recognise this development and be seen to respond to it then we will, once again, find ourselves living in a different world to our consumers. The last thing we need in the future is an emotional disconnection between us and the travelling public.

For sure we can give something back. This is a generous industry and there are examples of us helping disadvantaged groups and communities, in addition to what the individual companies give as part of their 'normal' business. I was proud to be at the official opening of the 3rd and last phase of the Travel Retail Village Community in Sri Lanka, initiated by Rakhita Jayawardena and Paul Topping following the devastating tsunami, and supported by many companies and individuals in the industry.

At TFWA we are proud that our charitable organisation, TFWA Care, has provided support for a number of charities and worthwhile causes around the world also this year.

Cumulatively all our initiatives make a difference, however individually modest. They should be applauded, imitated and encouraged.

One global issue which is a challenge for all our companies is the scourge of counterfeit goods... fakes, frauds, knock-offs, cheap copies, or whatever you want to call it. As a trade association of premium



brands, TFWA is proud to have been chosen to host an international initiative to combat counterfeiting.

The “Declaration of Cannes” which will be signed later today will become a first cornerstone in the global fight against this form of organised crime. The French Minister for Industry and Consumer Affairs Mr. Luc Chatel and the Mayor of Cannes and Member of Parliament, Mr. Bernard Brochand will explain more about this in a few moments.

Brand owners spend millions of dollars year after year fighting against this theft of intellectual property which is estimated to cause 700 billion US dollars in economic losses worldwide every year.

In duty free and travel retail we can be proud that counterfeiting has never been a problem. We have the most secure supply chain of any retail sales channels in the world. But that’s not to say we’re not affected - the bottom line is counterfeiting means less money in our tills!

At TFWA we intend to work with our members to find a workable solution to discourage the purchase of counterfeit goods by encouraging consumers to purchase in a duty free or travel retail outlet, where they can be assured of buying the genuine article. We look forward to presenting this solution as soon as possible to Mayor Brochand, who is also President of France’s anti counterfeit committee.



Challenge is a word I've used frequently this morning in the context of a worsening global economy that may persist for years not months. But, there is, nonetheless, reason to remain upbeat about the potential for our industry... Verdict Research's recent study into global airport retail shows it to be the fastest growing channel in global retail, aside from the internet. What an opportunity!

The Middle East, continues to show extraordinary growth, especially in the Gulf Region - one of the world's most vibrant centres of commerce and tourism. Let me take this opportunity to congratulate Dubai Duty Free who are celebrating their 25th anniversary this year and throughout this week during the exhibition. You'll hear more on that later this morning.

And elsewhere, China and India continue to offer great opportunities. China's growth forecast may have slipped from 12% to 8% per annum, but it still remains a formidable economic powerhouse. I won't pre-empt one of India's foremost business leaders, Dr. Vijay Mallya, who will be speaking later this morning.

Ladies & Gentlemen, I'd like to summarise by saying that I do not believe that the appetite for travel will diminish or that airlines and airports and ferries and cruise ships will become less important modes of transport. China and India's economies may not grow at 15% per annum over the next year or two – but they will grow and this growth will help a more affluent population emerge; air passenger growth may not grow at 5 or 7% per annum, but ACI still see long term growth averaging 4.21% - and given their absolute numbers are in the billions



– that gives us plenty to go for. The size of the prize is still huge, so there is all to play for. So what we must offer travellers is a retail experience that is even more relevant and worthwhile. We are in an incredibly lucky industry. Every day we get tens of millions of people brought to the doors of the stores. It's up to us all, to turn these travellers into customers.

Many shining examples of excellent retail operations have opened this year – Changi Terminal 3, DFS Galleria Macau, Heathrow Terminal 5, Beijing Capital, Incheon's Airstar mall, Bangalore, Hyderabad and Dubai's Terminal 3 earlier this month for example. They are leading the way in travel retail and it shows that we know what to do. We cannot take our foot off the accelerator or talk ourselves into a crisis. We need to continue to invest, to be smarter, and to be tougher on ourselves. It's not the future we have to challenge – it's ourselves.

To paraphrase William Shakespeare, "The future, dear industry, lies not in the stars, but in ourselves"

Ladies and gentlemen - Thank you, and have a successful business week.