

**Erik Juul-Mortensen**  
**President, Tax Free World Association**  
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Your Highness Sheikh Ahmed  
My distinguished colleagues and friends  
Ladies and Gentlemen  
Good Morning.

Just five weeks ago I had the pleasure of meeting many of you in Cannes, where Tax Free World Association celebrated its 20-year anniversary. It was a milestone for TFWA, for the industry, and it was the appropriate time to take stock, to reflect and to lay down some bold new challenges for our future.

- **As we took stock** of our accomplishments, one of the things we were most proud of was the role TFWA has played in supporting and helping to create various trade associations, MEDFA and the new Asia Pacific Travel Retail Association among them, but also our support in the reshaping of the ITRC into ETRC, The European Travel Retail Confederation.
- **As we reflected**, we looked at reasons why the travel retail industry had lost some significant battles, where we had missed opportunities and how we could avoid certain difficulties in the future. Former German Chancellor Konrad Adenauer said that history is the sum total of things that could have been avoided. (smile) A bit caustic, perhaps...
- But our lessons from the past have taught us to be proactive in **setting goals for the future**.

20 years of experience not only affords one hindsight, but it leaves one with the responsibility to mentor others who are embarking on a similar path.

Alvin Toffler, the author of the infamous *Future Shock!*, said, “The illiterate of the 21<sup>st</sup> century will not be those who cannot read and write, but those who cannot learn, unlearn and relearn.”

Is that not true?

The development of MEDFA by a handful of private and government-owned retail operators reminds me a lot of TFWA’s beginnings. Twenty years ago the travel retail industry in many markets was on a seemingly unstoppable growth path. A small group of suppliers worked tirelessly to create the first ‘by the trade, for the trade’ event and Tax Free World Exhibition was born.

When the first Tax Free World Exhibition took place in 1985, global duty free sales were estimated at 6 billion US dollars. That grew to 20 billion US Dollars by 1996.

The steady increase in international travel brought steady increases in sales, without a lot of creativity on the part of the industry. But the Asian economic crisis which began in 1997, followed by the abolition of intra-EU duty-free sales in 1999, suddenly created a vastly different playing field for the business. As one analyst put it, "We thought we had a handle on the business, but then the handle fell off!"

The Middle East might have been later to market in terms of exploiting the duty-free opportunity, but it's success has been spectacular. While other markets slowed down and even receded, growth here has been dynamic and ongoing.

Every region faces challenges: In Europe we are all struggling with the problems posed by the weak US dollar; we are still struggling with the post 99 fall-out which has left us with the particularly hard task of finding a compelling motivation for passengers to continue to shop. This remains, I believe, the single biggest challenge to the industry today in Western markets.

In the US it has always been a challenge to entice Americans--for whom duty-free is a more ephemeral concept--to fully appreciate the value of duty-free shopping.

In Asia, the sensitivity of the travel market in response to political and economic upheaval makes the market unpredictable.

But every region has opportunities: new consumers converging onto the international travel market from China, India and Eastern Europe to name the more prominent markets, increased intra-regional traffic in Asia, and the introduction of low-cost carriers making travel available to more people.

In this region the pressures and opportunities are different, as Mohammed elaborated so well.

Some pressures are common to us all:

- most obviously... regulatory issues increasingly pose a threat to the uniqueness of our distinctive market channel, but beyond that
- there is an inevitable evolution in any industry, and this industry is no different. The diverse pool of competitors will eventually give way to consolidation, for example.
- and there will be shifts in category market share that follow the maturation of the consumer base. For example, in Europe and Asia, categories have seen sales growth, but the share of each product category has changed significantly, with perfume and cosmetics and luxury goods overtaking the early duty-free staples of liquor and tobacco

MEDFA, in common with all the industry's other associations, has a role as guardian of the status quo in terms of the framework within which the business operates in the region.

The advent of the Duty Free World Council, in the formation of which MEDFA has played a major part, gives the industry a solid platform for organizing a credible defense in response to attacks on our industry, I believe that other industry associations can learn from the industry here in the Middle East where the strong link forged between travel, tourism and the duty-free experience, is one of the strongest lines of defense. By making duty-free such an integral part of a huge economic driver, duty-free has become part of a success story for the region. That makes it more difficult to 'pick off'.

The success of the industry going forward, breaking through that 20 billion US dollar barrier, will, I believe, depend on the ability of the associations to mobilize this industry into taking a giant leap forward. The industry is, quite rightly, made up of companies who compete with each other at all levels. These companies, many of which have huge talent, knowledge and resource, will not naturally work together. The industry associations are the only feasible catalyst.

In Cannes I said we should now be aiming for 30 billion. Brian Collie, widely regarded throughout the industry for the retail experience he has created at BAA's airports, said in Cannes that if the industry's growth had mirrored BAA's retail growth, it would be achieving 38 billion today. He said everything he had learned about retailing, he had learned from his customers. Therein lies the simple truth.

The formation of the World Council is important but it will not ensure we break through the 30 billion dollar ceiling. To do that we need to understand the customer. Individual companies are doing some excellent work. In some cases this is being shared – the work done by Nestle on category management is a recent and rare example of a company undertaking some research and issuing an open invitation to share the results with customers and competitors. World Duty Free's new generation store in T4 set a new standard for retailers sharing results with brandowners. Pre-1999, 20 companies funded ETRF which produced some phenomenal research used to underpin the case for retaining duty-free for intra-EU travellers.

The stark truth is that individually my company and most of yours, retailer or brandowner, are unable to fund research at a level to make that huge difference. Collectively we could. We all know that the penetration rate in duty-free throughout most of the world is abysmally low. For every 1% increase, we could achieve an additional x billion US Dollars in sales.

MEDFA has made a brilliant start and once the new Asia Pacific Association is up and running, the industry will have a full complement of strong effective trade bodies.

The challenge for MEDFA, and industry associations globally, is to make that transition from efficient defensive units, and discussion forums – both of which – remain valid and valuable, to commit to a programme, which will really drive this industry forward. The defense that the information is too sensitive in a competitive market is just not credible. Other industries with equally competitive situations are out there collecting data. In the end it is how you interpret that data and apply it to your business that determines who wins and who becomes an also-ran.

I believe the industry has come a long way over the last two years in understanding the need to change the way we work with each other. We are beginning to see some

outstanding examples of real partnership between landlord, retailer and brandowner; partnerships which give us insight into the dynamics of our business and give us a platform for growth.

If these three parties can now take that next step forward and agree that understanding the customer is key to success for each party, and can agree on funding this as an industry, I believe we might deliver a real tangible catalyst for growth.

I would like to leave this challenge with you this morning: to not settle for the status quo, no matter how good it is:

- Join in taking a collective, hard look at the customer
- Continue to change the level and quality of dialogue between landlord, retailer and brandowner
- take an active role in MEDFA and the other trade associations which defend the business, and which offer a great conduit for carrying out consumer research

When MEDFA was formed, it was the sincere hope of Tax Free World Association that MEDFA would establish a strong awareness of what duty-free contributes to the Middle East's travel and tourism industry. This will become ever more important in protecting the huge investments which are being made into the business in this region.

I congratulate MEDFA for achieving so much in such a relatively short time and for its success in establishing the awareness I just mentioned and I congratulate MEDFA and its Board for what promises to be another fine conference - by the trade and for the trade.

Thank you.