

“The State of the Industry”

2002 TFWA WE Conference

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Ladies & Gentlemen

Good Morning and a very warm welcome to Cannes, to the 18th TFWA World Exhibition and to this morning's conference, which we have entitled “Consumers in a Changing World”.

On behalf of the Tax Free World Association Management Committee and my fellow Board members it gives me great pleasure to welcome you to some interesting days of business and pleasure.

As I stand here before you I am somewhat overwhelmed by the task of commenting on the State of the Travel Retail Industry as I recognize that most of you in the audience, Ladies and Gentlemen, would be in a better position to answer that question than I.

What is then the state of our industry? We can approach that question in a variety of ways.

If I were a pessimist I could stand up here and remind you of

- the **billion**-dollar decline in travel retail sales in 2001,
- about the **ongoing** instability on the South American continent and about
- the **difficulties** of US airport duty free stemming from the weakness of the Japanese travel market, and the ongoing fall-out from September 11
- of the sluggish recovery in some Asian markets, notably in Japan, and
- we could also discuss the **ailing** aviation sector, with passenger figures still struggling to reach Year 2000 levels
- the **economic** hardships faced by airports around the world as a result and, of course,
- and, we could not fail to mention the likelihood of intensified conflicts in the Middle East, that would be yet another setback to the travel industry.

If I were an optimist, however, I would address the question by reminding you of how remarkably this industry pulled through a devastating 12 months that followed the September 11 tragedies, and how **remarkably** as an industry we have pulled through previous set-backs such as The Gulf War and the abolition of intra EU duty free sales in 1999. Indeed, we are an industry well acquainted with challenges and adversity.

In my optimism I would remind you that a 5% decline in 2001 sales was in many respects commendable in light of a worldwide recession, sagging consumer confidence, reduced passenger numbers and airline down-sizing and closures.

I would certainly remind you that all indicators and all travel experts point out that international travel is still set to increase by 6.5% per annum for the next two decades.

.. **.and** I could top that off with the **astounding** statistic of a million Chinese travellers who will—by all accounts and within a very short time—breathe new life into the travel retail trade.

Most of you know I am a realist. And I think most of you are as well. That is the beauty of this industry. We have dealt with every scenario that has been forced upon us in the last three years.

So what is the state of our industry? Well, as I said that question could be approached from more than one angle. Motivation is one such angle – and very simply, we can be motivated by fear or we can be motivated by our vision of what we **want** our future to be. We can focus our energies on reacting, or we can become proactive.

Let us take one very immediate example: As we speak representatives of 191 member countries of the World Health Organization are discussing a wide range of measures to reduce smoking, particularly amongst the young, and these include the proposal to ban sales of tobacco in duty free world wide.

The irony of this is that duty free tobacco sales represent less than 1% of total worldwide sales and the industry does not sell to minors. Yet again, our industry is a soft target for politicians who wish to make a very visible point.

The industry does not contest the objective behind the measures, but we do not accept that our industry is singled out for a particularly harsh treatment.

We cannot possibly know what the WHO will decide next February, but a negative decision - many believe - would deal a more severe blow to this industry than did the 1999 abolition of intra-EU duty free.

Let me urge you, therefore, to be proactive!!

On Wednesday morning at 9 a.m. in Auditorium J, Doug Newhouse of Duty Free Business Magazine will chair an industry meeting with the International Travel Retail Confederation and the International Association of Airport Duty Free Stores.

While there is still time, every company in this industry needs to join this campaign to combat the WHO proposal, because as said before, a loss of tobacco will not only affect tobacco sales, but will significantly decrease traffic flow in shops, having a knock-on effect on other categories. And, it may well be a precursor for regulatory authorities to restrict sales of other product categories in the future.

I choose to be proactive, to focus my energies on what I want our industry to be. I challenge **you**—as individuals and as individual companies and through the various trade associations to which you belong—to do the same. As you may be aware discussions are underway to form a Global Duty Free & Travel Retail Alliance to defend and promote the interests of the industry.

It would be comprised of representatives from the various retail, supplier, landlord and category trade associations from around the world that support this industry. Its objective would be to gather resources, disseminate information and form a unified voice on issues that threaten the global duty free and travel retail business.

Tax Free World Association endorses the idea of such a global alliance and has lent its support to the initiative.

At TFWA we already enjoy alliances with a number of organizations. We are especially pleased to have assisted the Middle East Duty Free operators in forming their own association and creating their own conference.

We are pleased with the positive relationship we have with Airports Council International in the creation of the Gate One Exhibition & Conference that will see the light of day next May in Singapore.

We have recently formalized our cooperation with The International Travel Retail Confederation – ITRC -- and we have a longstanding and close cooperation with the IAADFS – The International Association of Airport Duty Free Stores -- as well as with the Japanese Duty Free Shop Association and others.

These relationships fulfill one of our Association objectives which is to be proactive, to collaborate with and contribute to sister associations for the good of the global industry.

In addressing the state of our industry this morning, I wanted to discuss it from two angles and hopefully to leave you with some thoughts and one very specific challenge. One angle - the travel and tourism business - creates the macro environment in which we trade. The other is the study of consumers, who underpin our trade - and something you will hear more about later in a fascinating research presentation.

Viewed as part of the global travel and tourism business, the state of our industry looks stable at best, but at the same time has tremendous potential. Travel and tourism is a sector that is growing organically and through improvements in the existing structure. The business shrunk by 7.4% in 2001 and 2002. However, provided no new development, a worldwide rebound is envisaged for 2003, placing travel and tourism back on its growth curve.

New destinations are emerging, creating new retail opportunities. Throughout Asia, and especially from China, we see the emergence of a middle class who will soon join the international travel market. And as I mentioned earlier, travel experts forecast that international travel will double within the next 20 years.

The travel industry is sensitive to political and military developments as we witnessed last week with the bombing in Bali. What this will mean for the economy and for tourism in the surrounding region has yet to be seen. While such developments are a cause for deep concern, we have also seen how resilient the tourism industry can be in its ability to recover, a dynamic also characteristic of the travel retail business.

This is the macro environment in which we trade. We are subject to its ebb and flow and there is really nothing our industry can do to influence its course.

Then there is the travelling consumer. He or she enters the world that our industry creates. They are living, breathing organisms that interact with us. We take information from them and convert it into products that they consume. It is a very different dynamic and one that we have a great deal of influence over.

Perhaps we should put the question of the state of our industry to the consumer. They have become adventure-seeking travellers and they are placing a whole new set of demands on travel retailers and their products. Brand companies spend millions building consumer awareness, growing their image only to realize that they cannot necessarily trade on that for long. We are selling to people who live and interact with our products.

The travel retail industry must also stand up to the critical demands of a very savvy, fickle and cynical traveller.

Airports and ferries alone, retailers alone, branded products alone, cannot create the type of environment that seduces and excites a traveller. TFWA strongly advocates a closer working relationship in a meaningful partnership between airport authorities or the landlords, the shop operators and the suppliers, the brand owners.

I do not see that there is any other way to deliver the experience and the adventure that travellers seek at the point of sale. And I do not see any other way to keep them enticed by our offer. We absolutely must make a careful and ongoing study of the consumer—our industry's foundation—and secure that relationship for the future.

A changing consumer, an uncertain geo-political landscape, regulatory agencies and the sheer evolution of the travel sector have created some of the most challenging trading conditions in the history of travel retail. The prospects for long-term growth in international travel, nevertheless, continue to look good. Until airports and airlines realise their passenger load projections, however, there is a lot of business to be conducted. Until that time there are landlords to be satisfied, employees and vendors to be paid, and stockholders to be kept happy. But most importantly, we must continue to enchant and interact with the traveller through our products and retail environments.

In my comments this morning, I have purposely stayed away from too much discussion of the conditions of the world at large. These conditions, of course, impact on our business. But with us

today is someone who is **uniquely** qualified to place our industry within the context of the geo political and economic spheres and to offer a glimpse into what the changes in the world will mean for our industry.

John Major was elected to the British Parliament in 1979. As an astute economist, he joined the Cabinet as Chief Secretary to the Treasury in 1987 and went on to serve as Foreign Secretary and Chancellor of the Exchequer before he became Prime Minister of Great Britain and Northern Ireland in 1990.

During his seven years as Prime Minister, John Major instituted public sector reforms that became international models and left behind the strongest economy Britain had seen in decades. Mr. Major initiated an unprecedented effort to secure lasting peace in Northern Ireland and continues to lend his support to Prime Minister Tony Blair on that issue. In 1999, he was awarded the United Kingdom's Companion of Honour, bestowed on him by Her Majesty Queen Elizabeth II, in recognition of his initiation of the Peace Process.

Since leaving the British Parliament in 2001, Mr. Major has taken up various business interests and works with a number of charitable organizations. On the death of Diana, Princess of Wales, he was appointed legal guardian to Their Royal Highnesses Prince William and Prince Harry.

Tax Free World Association is pleased and honoured to welcome as our keynote speaker this morning, Former Prime Minister of Great Britain, John Major.

Ladies and Gentlemen, I wish you a successful week. Thank you for your attention and please join me in welcoming Mr. John Major.

Thank you.