

“State of the Region’s Industry”
2005 TFWA AP Conference
Erik Juul-Mortensen,
President, Tax Free World Association
President, Global Duty Free, V&S Absolut Spirits

Ladies and Gentlemen,

Good morning and a very warm welcome to Singapore, to what promises to be an exciting and lively TFWA Asia Pacific Exhibition and to this morning’s conference.

The last 12 months have been marked by recovery, growth in many areas and new possibilities. Taking stock of the travel retail industry, one cannot help but sense that a new era has dawned and that we have every reason for optimism. The duty free and travel retail business globally, but especially in Asia, is discovering – or in some instances rediscovering - its capacity for rapid recovery.

In 2004, in Europe, the Middle East, and in Asia, we experienced and suffered results of the serious conflicts on the international stage – yet the affect of these shocks on travellers and their confidence has declined. We are operating under a “new norm” and in Asia we are certainly witnessing developments that are reshaping our trading environment.

As we will learn throughout this morning’s proceedings, Asia Pacific stands at the threshold of many wide-ranging developments that will redefine the dimensions and dynamics of its travel industry, and thereby lead us to redefine our prospects in travel retail. We could conceivably find ourselves in unfamiliar territory. Are we prepared? Do we have our own vision of the role that duty free will play within the “new Asia Pacific”?

Many of us were enjoying our end-of-the-year holidays when news of the devastating seaquake and tsunami in the Indian Ocean captured the attention of the world.

Regardless of whether we had personal contacts in the affected areas around the Indian Ocean, we grieved with the individuals and the communities who lost everything in an act of nature that struck without warning and without prejudice. Again, we express our deepest sympathies to those in the affected areas and our heartfelt condolences to those who lost loved ones.

Like many organisations, TFWA did the only thing it could do, sending financial support to help relieve the suffering. Five months on, many in the industry remain active in the ongoing relief efforts. And before I go any further it is important to recognise two individuals who took up the charge to generate relief funds from across the industry. Paul Topping of Alpha Retail and Rakhita Jayawardena have worked tirelessly to raise funds to rebuild the lives of those in some of the worst affected areas. On behalf of the entire industry, we thank you both. Paul and Rakhita will bring an update on the progress of these efforts at the end of this morning’s session and I urge all of us to remain involved in bringing relief and rebuilding the affected areas. The tsunami was a dark ending to an otherwise spectacular year of recovery and growth for the travel and travel retail industries.

In 2003, and in particular in the first half of the year, the SARS epidemic, combined with the Iraq war, and a generally weak economy had dramatic negative consequences for the travel industry in the region and resulted in a 9% drop in arrivals for the year as a whole.

[slide-WTO pie chart]. Bouncing back from this downturn in the first half of 2003, Asia-Pacific posted an impressive 29% increase in arrivals in 2004, according to the World Tourism Organization. **[slide-34m pax]** These 34 million new travellers more than compensated for the loss in arrivals in 2003, and they delivered substantial benefits to airports, airlines, our retailers as well as brand owners. As the SARS epidemic subsided and better economic conditions returned for key groups such as the Japanese, intra-regional travel boomed.

The strength of the Euro against the US dollar stimulated travel from Europe and the Americas, as prices in Asia are often linked to the dollar. Increased air capacity, helped by low cost carriers, was no doubt a factor in the growth. **[slide of 2004 growth by subregion]** International tourist arrivals in Northeast Asia grew 30% and the major SARS affected areas fully recovered their traffic.

China's inbound tourism, for example, surpassed even 2002 figures with a 27% increase. Its outbound market increased by more than 43% against 2003 as many new countries gained approved destination status. This surge in outbound travel was a strong factor in the 40% growth of Hong Kong and the 32% growth of Macau.

Malaysia, Singapore, Cambodia and Vietnam showed exceptional growth after strong losses in 2003. International tourist arrivals in Oceania grew 13%, with Australia surpassing the record numbers it received during the 2000 Olympics.

[slide-CAPA quote] Air transport also rebounded in 2004. Asian carriers reported a 20% increase in international passengers. IATA estimates that China's airlines alone saw a 38% increase. CAPA called the 2004 performance of Asia Pacific carriers "an oasis in a desert of global bad news" in the aviation sector. **[slide-CAPA airline performance]** The region's carriers achieved a record profit of US\$3 billion compared to aggregate losses of US\$6-8 billion in the US and US\$500 million in Europe.

[slide-PATA's AP Region] PATA marks 2002 as the high point for international visitor arrivals across Asia Pacific destinations. But this chart, which excludes Hawaii and the Gulf States, shows just how strong the growth was in 2004, even beyond the recovery of 2003 figures.

Malaysia's largest duty free retailer saw double-digit growth, The Nuance Group attributed its positive 2004 performance to increasing passenger volumes and growth in Asia. Despite the affects of the tsunami, Alpha reported substantial growth in its Sri Lankan operation. Sydney Airport reported double-digit increases each quarter in 2004. And a key indicator of our industry, Duty Free Shoppers Group, posted a double-digit increase in retail profits, while it continued to invest and expand its presence in Asia.

The improved economic conditions and stronger currencies of 2004 in the region were no doubt factors in the growth in travel and thereby in returning consumer confidence. However, I think commentary on the economic backdrop to developments in Asia Pacific is best left to our keynote speaker who will address this in full in a few moments.

[Slide--ACI investment figure in this PP.] No doubt, an adequate airport infrastructure will be key to serving the fast paced growth in travel. Airports Council International reports that capital expenditure on airports globally last year reached an all-time high of \$31 billion dollars, with Asia Pacific airports leading the way. New airports opened in Guangzhou, Hainan and Nagoya, while Bangkok completed construction of its new airport. US\$690 million is being invested in the expansion at Beijing Capital airport. Changi has started work on its new terminal for low cost carriers, Hong Kong airport is starting work on its 35,000-square-metre SkyPlaza and Narita airport is finalising its new South Wing Terminal. These are just some of the larger projects across the region. But they pale in comparison with what is planned for the very near future. The Civil Aviation

Ministry of India has unveiled plans to create 30 new terminal buildings at the country's leading airports and refurbish existing ones to "a world class standard" between 2005 and 2006. In China, liberalisation of air routes, supported by the privatisation of some 20 airports and the introduction of new air carriers have spurred construction on more than 100 airports across the country.

[Gate One Slide] GATE ONE, TFWA's second event this week, is focused on these airports and the development of non-aeronautical revenues that these airports can develop. Duty free and travel retail are at the heart of income generation for airports, and our industry is taking an active role in long-term airport planning to get more for and out of brands. Better positioning in airports for the brands, generates better revenue for all!

[Holding slide] The airline sector has been no less active. Currently, there are 916 new aircraft on order for carriers in Asia, India and the Middle East. JAL and Vietnam Airlines have both placed orders for the new Boeing 7E7 series; while Singapore and Emirates Airlines have firm orders for the new 555-passenger A380. Indian carriers will have purchased up to 200 new aircraft by the end of 2005, forcing Airbus to increase its forecast of sales of new aircraft to Indian carriers. According to Airbus' Global Market Forecast for 2004-2023, the Indian subcontinent is the third largest market for new aircraft in Asia, behind China (forecast to purchase 1,790 new aircraft during the next 20 years) and Japan (forecast to purchase 640).

With the fast expansion of Asia's economies and airport systems as well as its liberalisation of travel routes, conditions have been ripe for investment in startup, low cost or low fare carriers--as some of them prefer to be called--to serve the many provinces remote from the regional hubs. What some aviation experts referred to as a passing trend as recent as February of last year, today accounts for 16% of the current orders for aircraft in Asia, India and the Middle East.

Today there are 11 low cost carriers operating out of India, five in the Gulf, six in Northeast Asia, and 12 at last count operating in Southeast Asia. TFWA is dedicating one of the three workshops today to understanding the impact that LCCs will make on airport terminals and our industry's development. And we are very happy to have the foremost expert in that field leading the workshop, Peter Harbison of the Centre for Asia Pacific Aviation.

The travel retail industry's long term perspective of retail development has been rewarded with a positive operating environment over the last 15-20 months. **[slide of DFS Okinawa]** DFS opened its Galleria in Okinawa; KPG Thailand has started construction on a 10,060sq m downtown duty free complex in Bangkok; and we are all eager to see the exciting new retail area at Nagoya's new Chubu airport **[slide—Chubu retail]** as well as the newly developed Colombo airport retail.

[Holding slide] Privatisation of India's and China's airports as well as the many previously mentioned airport projects are expected to spur unprecedented investment in new shopping facilities in the near future.

With such a healthy future for the industry, TFWA has taken a long-term view of its activities in Asia-Pacific and is examining how to best position itself to help the industry cope with the changes that will come. The last 7 years of holding the Asia Pacific Exhibition in Singapore have been critical to consolidating our position in the region. We opened our Asia-Pacific office here and have enjoyed an excellent working relationship with the Singapore Tourism Board, Singapore Airlines, and other local bodies. **[Slide congratulations]** We would like to take this opportunity to congratulate Singapore on its 40th anniversary and express our sincere wishes for its ongoing success.

[Slide—APTRA logo] TFWA saw that a regional industry body was an important step to help travel retail establish a voice in the area's travel retail related development, so we offered support for the creation of the Asia Pacific Travel Retail Association, which will launch officially at a meeting here tomorrow.

[Holding slide] To better understand the dynamic consumers we are serving, TFWA has invested in research, joining with the likes of ACNielsen China to study the travel behaviour and spending power of mainland Chinese and the Japan Travel Bureau to conduct annual studies of Japanese travellers. Right after this plenary session, AC Nielsen China's managing director will hold the "Chinese Traveller" workshop to share some of the exciting findings.

Another of today's workshops will look specifically at important economic and demographic changes in Japan that are affecting Japanese consumption patterns.

TFWA believes there is every reason for optimism, and that— barring any new large scale crisis — world travel and tourism will continue to grow. Asia represents one of the best world growth markets, mainly due to the fast growing numbers of Chinese and Indian tourists.

[slide—WTTC quote] As the World Travel and Tourism Council says... "The pendulum is definitely swinging to Asia." India's 300 million-strong middle class is larger than the entire US population and will increasingly travel. Outbound travel from India more than doubled between 1992 and 2002. China's outbound travel went from 5.1 million in 2000 to 29 million in 2004, and 82% of those trips are within Asia Pacific. Today, Chinese have surpassed the Japanese in their shopping spend per trip, and well above Americans and Europeans.

[Holding slide] Growth for our companies will not come automatically. We recognise there will be inevitable challenges for suppliers and retailers as they find their way in this ever-evolving marketplace. This is the new operating norm. Staking a claim to your piece of the cake requires a long-term approach. TFWA, for one, is in this for the long haul.

There is more potential in Asia than anywhere else in the world which explains why investment in the region's aviation sector has been so fast paced. Its nations' economies and their aviation development are now expanding much faster than the rest of the world and their governments are removing entry restrictions on both trade and on aviation specifically. Ladies and gentlemen, new opportunities abound.

Now, to explain why these economies are expanding so rapidly and why these governments are removing entry restrictions on trade we are privileged to have with us a man who understands the economic and geopolitical world of tomorrow.

[Title slide] As the last British governor of the economic powerhouse that is Hong Kong, the Rt. Honourable Lord Christopher Patten negotiated the handover of the colony to China in 1997. But that didn't stop him from working to strengthen Hong Kong's institutions and infrastructure, believing that "the values Hong Kong represented were the values of the future in Asia as everywhere else." In 1999 he was appointed European Commissioner for External Relations, a post he held until November of last year, and in 2003 was elected Chancellor of the University of Oxford. Four months ago he was made a life peer and took his seat in the House of Lords.

Author of the critically acclaimed book *East and West*, Lord Patten is a man whose expertise spans the globe and we are delighted to have him with us this morning to deliver the keynote speech.

Ladies and Gentlemen, I wish you a successful week here in Singapore. Thank you for your attention. And now will you please join me in welcoming the Rt. Honourable Lord Patten of Barnes.

Thank You.