

“The State of The Duty Free and Travel Retail Industry” Or “Meeting the Challenges Head-on”

2004 TFWA AP Conference

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Ladies and Gentlemen,

Good morning and a very warm welcome to Singapore, to the return of the TFWA Asia Pacific Exhibition - after arguably the toughest year ever for the industry in this region - and also a warm welcome to this morning's conference.

Last year, circumstances forced us all to take some hard decisions, and it is a tribute to this industry's resilience that one year on we are again looking forward.

“The ultimate measure of a man,” to quote the American Civil Rights Leader Dr. Martin Luther King, Jr. “is not where he stands in moments of comfort, but where he stands at times of challenge and controversy.” There is a message for us in that statement: “The ultimate measure of an industry is not where it stands in the good times, but where it stands in times of challenge and even crisis.”

Since the late 90s a series of challenges and crises have battered this industry in various parts of the globe, not least in this region where economic instability in 1997 and 1998 took its toll, and last year's double whammy of the general instability brought on by the Iraq war was dwarfed by the enormity of SARS.

Yet once again the duty free and travel retail industry has emerged a wiser and a better prepared industry in four very specific ways:

Firstly, in the wake of the SARS crisis, especially here in Asia, we learned the critical importance of partnership.....partnership between all stakeholders in travel retail. It has been a much talked about idea but the first quarter of last year really drove home how vital partnership is.

The interdependence of airport authority or airline and their retail operators, of retailers and their suppliers was never more pronounced. In the face of a disaster of such enormous proportions, flexibility, compromise and tolerance were crucial to weathering the storm.

Secondly, the crisis made us appreciate the value of collaboration...collaboration between all the sectors of the travel industry. We can only effectively address crises when we pool our efforts... a theme that our distinguished guest Peter de Jong - President of the Pacific Asia Travel Association - will no doubt echo in his remarks later this morning.

The extensive media interest in SARS turned a serious problem into a full-blown crisis and demonstrated clearly how important it is for this industry to work with key organisations in travel and tourism. Together we will be able to present a strong, clear and temperate message in times of crisis, rather than sitting back and simply absorbing the impact of negative media

Thirdly, threats from regulatory agencies have taught us a hard lesson....to be proactive as an industry. The lack of a cohesive global voice for the industry in response to the World Health Organisation's Framework Convention on Tobacco Control resulted initially in an inability to agree strategy and a duplication of effort. More importantly, the lack of a united front meant that we were not invited to participate formally in sessions where the future of a vital part of our industry was at stake.

Only the dedication of certain individuals secured the change in emphasis and wording in the Treaty to stem an all-out ban of tobacco in duty free. Both the 1999 campaign in Europe and the tobacco issue have proven that we need to project a voice of authority on the world stage - and that we need to win friends amongst the opinion-formers, who control the media and the various elements involved in the political process.

The sad fact is that single-issue consumer pressure groups and activists find more favour with opinion formers than our industry,

despite the integrity of our brands, the quality of our operations, and the enormous contribution that we all make to financing the travel infrastructure world-wide. And as you all know, our contribution is a backbone to the biggest sector globally - tourism!

And lastly, the hardships brought on by economic fluctuations - and exacerbated by catastrophes which dealt a devastating blow to the public's confidence in the safety of travel - have made it all too clear why we must frequently scrutinize our operations and remain lean and strong in order to weather future crises.

We must deliver a consistently strong offer to the consumer, built on prudent foundations. For almost a decade, measured at global level - this has not been a growth industry. Some sectors have fared better than others but the days of heady and almost automatic growth are gone. Growing our business now demands hard work, imagination and innovation to capture the interest of the traveller.

There is a saying—and I do not know where it comes from—which goes like this: "Good judgment comes from experience, and experience comes from poor judgment." For the most part we can say that is true.

Our experience as an industry has forced us to address negatives and exploit the many opportunities that we do have.

Perhaps the biggest single negative was the lack of a framework, which would allow the industry to co-ordinate its lobbying activity across the globe, and the lack of a single voice for a world-class industry with global reach. A succession of regulatory setbacks culminating in the persecution of one sector of our industry by the W.H.O. have been the catalyst for 22 national and regional associations to form the Duty Free World Council.

The Council is comprised of Europe, the Americas, Asia Pacific, and the Middle East & Africa regions, providing an international network and a forum in which policy on industry-relevant topics can be formed. Initially, it will seek to exert influence on regulatory issues, but will also work to influence opinion-formers through establishing links with key financial and political media around the world.

It is vitally important to build representation across the many countries which contribute to the vibrancy of the industry in the region, and the Japanese and Australian Duty Free Associations are

prime examples of what can be achieved through effective organisation and representation.

TFWA is working with the leading retailers of Asia Pacific to establish national associations and there will be an important meeting at 6pm today for those who would like to hear more and wish to be involved in this important step.

Putting our own house in order with the establishment of the Duty Free World Council will give our industry a firm base on which to try to stem the tide of rules and regulations which threaten our industry, and free us up to concentrate on the positives - and there are many.

The evolution in travel continues and I know that Peter de Jong will allude to this in his presentation. The fast expansion of low-cost carriers in the region is one of the more obvious developments. It is set to bring new people to the airports and help grow the number of frequent travellers. More travellers are good news but the challenge remains to drive more footfall into the stores and, once there, convert browsers into buyers.

One simply cannot ignore two other positive indicators: firstly, the emergence of new consumer groups in the international travel market — Chinese and Eastern Europeans —and secondly the bullish investment in airport development, especially in Europe and Asia Pacific.

An estimated 80 billion US\$ over the next 6 years is being invested in airports in Asia Pacific alone, fueling a great deal of activity — let alone enthusiasm !— on the retail and brand level. At the Middle East Duty Free Conference in Dubai last December, we saw plans for airport investment of 8 billion \$US over the next two years. Middle East and North African airports alone will be adding in excess of 50,000 square feet of retail space.

The privatisation of airports in Asia—the Japan Airport Authority, NAA, being a current example—will place increasing focus on commercial revenue streams. And this will be at the heart of the much anticipated Gate One Conference this Thursday and Friday. Whether through privatization, through expansion or through refurbishment, the investment in airports offers us all a fantastic opportunity to create a retail environment conducive to shopping on the move. Gate One will be a content-rich conference and you owe it to yourself to attend.

Despite the challenges we are up against, I believe that the industry is facing a future driven by positives. In many parts of the world a refreshing change is in the air, starting with the modest recovery we saw in fourth quarter of 2003.

In the recent TFWA industry poll 75% of retailers and 64% of suppliers reported that first quarter 2004 sales had increased over the same period last year.

Tax Free World Association is committed to this region. Not only are we encouraging the development of strong industry-led representation within the region, but we have just opened a TFWA office in Singapore and appointed Ms. Susan Tan as TFWA's Manager of Business Development for Asia Pacific. These are clear indications of our strong commitment to the region and our bullishness on the long-term potential of this tradeshow as a showcase for brands and also as an annual forum for exchange, debate and networking.

In this year alone we will invest considerable funds in three different consumer research projects for Asia Pacific in order to better anticipate the behaviour and demands of the key travel groups in the region.

In the just completed Asia Pacific Traveller Study we have learned where, as an industry, we stand in competition with domestic market retail offers.

- We have learned that the domestic market commands 50% of Asia-Pacific travellers' spend on branded goods, while airport shops take 38% of that share.
- The key reason, according to the study, was that the domestic market does a better job of converting browsers into buyers.
- Asia-Pacific travellers identify shopping in airports predominantly with price. While we always hope to offer an exciting price proposition to the customer, our business has its work cut out for it if we wish to convert our retail environments into retail experiences. In fact, I understand that will be the core of a very interesting discussion that Bob McFadyen of Sydney Airport will lead with two distinguished presenters in Workshop 3.

Ladies and Gentlemen, it is now time for me to join you in the audience to listen to a man who is not only intimately acquainted with the economic fabric of Asia Pacific but also no stranger to our industry.

The Honourable Paul Keating served two terms as Prime Minister of Australia during the years of 1991-1996. During an extensive tenure as Treasurer from 1983 to 1991, Mr. Keating implemented the most far-reaching economic reforms in Australia's post-war history. The international community will remember best the progressive deregulation of the financial sector, the float of the Australian dollar and extensive reform of the taxation system in Australia.

The travel industry will remember some of the significant reforms that Mr. Keating led as Prime Minister, including the deregulation of the airline and telecommunications industries, the consolidation of Australia's tourism industry and my personal favourite — its wine industry. To the delight of Australia's airport duty free retailers and many Australians, Mr. Keating also established the legal foundation for arrivals duty free shops. He will long be remembered for historic legislation to provide land rights to Australia's indigenous people and proposals for constitutional reform to make Australia a republic.

I am delighted that we have Mr. Keating with us today to share his own views on what the future will hold for Asia Pacific and where our industry will stand.

I wish you all a productive week at the exhibition and look forward to seeing you all in Cannes in October for the TFWA World Exhibition.

Ladies and Gentlemen, Please join me in welcoming the Honourable Paul Keating.

Thank you.