PROTECTING AND PROMOTING THE GLOBAL INDUSTRY

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Duty Free World Council

The Duty Free World Council was founded in 2014 to represent the global duty free & travel retail industry and help protect its interests. Its seven member associations cover the industry worldwide.

On behalf of the Duty Free World Council I very much welcome the publication by TFWA of this Handbook for members. It will provide an important introduction to the duty free & travel retail industry for new entrant companies, and most likely enable those companies already established in the industry to broaden and deepen their knowledge of the wider business.

In compiling and publishing such a comprehensive collection of industry facts, relevant data, practical information, key contacts and – for the first time – a definitive statement of the scope and extent of the duty free & travel retail trade, TFWA is providing a major service – not only to its members but to the industry generally. I have no doubt but that this TFWA Handbook will become the definitive reference point for anyone who wants to ascertain the facts about our industry.

TFWA as a founding member has played a pivotal role in the establishment of the Duty Free World Council, and indeed the Council is indebted to TFWA for providing much of the resources required in order to establish the council as a working body.

The role of the Council is to represent, protect and promote the duty free & travel retail industry globally, working through the regional industry associations and, where necessary, facilitating the development and coordination of industry policy and providing a voice for this global industry.

Council priorities for the coming year include the development of an Industry Database and Profile, initiating economic impact studies of our industry both regionally and globally, and establishing an information resource centre and library – an essential element in the Council's planned educational activities. In this context the Council will explore the provision of management development and training standards for the industry, underpinned by a robust and academically sound accreditation process.

The Council is just embarking on its mission, but I am confident its work will prove to be a valuable asset for the global industry.

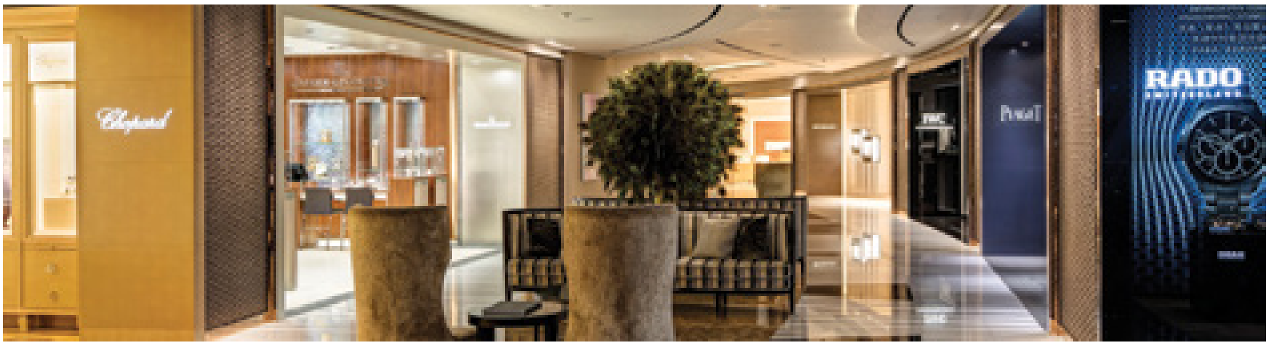
WHAT IS DUTY FREE & TRAVEL RETAIL?

Duty free & travel retail is a global industry that encompasses the sale of goods to international travellers. Duty free shops are exempt from the payment of certain local or national taxes and duties, normally with the requirement that the goods are only sold to travellers who will take them out of the country.

Products that can be sold duty free vary by jurisdiction and different rules based on duty calculations, allowance restrictions and other factors.

Airports represent the majority of such sales globally, but duty free & travel retail is also available at border shops (under certain conditions, usually requiring the purchaser to spend a minimum amount of time outside the country), cruise & ferry shops on vessels in international waters, onboard aircraft during international flights, at some international railway stations, and for the provisioning of ships sailing in international waters. It can also include downtown stores where proof of travel is required for purchase.

In many states, and in certain international institutions, the right to buy duty free goods is accorded to diplomatic and military personnel stationed outside their native country. The duty free departments of many companies serve this market, though it is not considered part of the mainstream duty free industry.



In some jurisdictions (for example non-EU Europe, Australasia, the Middle East and Latin America) travellers are offered the opportunity to buy duty free goods on arrival at their destination airport within the territory concerned. In such places arrivals duty free has become an important source of revenue for airports.

In some territories the term 'travel retail' was coined to define the sale of products, in a travel environment, on which taxes and duties remain payable even though the customer may be travelling internationally. This is notably the case within the European Union, where the sale of duty free goods to customers travelling within the EU was abolished in 1999. 'Travel retail' commonly refers to sales made in travel environments where customers require proof of travel to access the commercial area, but which are subject to taxes and duties.

Duty free & travel retail generates vital revenues for aviation, travel and tourism industries. Airports in particular increasingly rely on commercial revenues to fund the development of their infrastructure, and to help them keep the landing fees payable by airlines as low as possible. At airports across the world retail is now the largest contributor to non-aeronautical income.

Shopping is a key element of the travel experience for many passengers, and as such the provision of duty free & travel retail goods is a service as well as an important generator of revenue.

TIMELINE OF KEY EVENTS IN DUTY FREE & TRAVEL RETAIL

1930s

Motta Internacional opens in Front Street, Colón, selling duty free liquor and fragrances to cruise ships passing through the Panama Canal

1944

The International Civil Aviation Organisation lays down the legal basis for international air travel at the Chicago Convention, enshrining duty free status for air travel (it previously included only maritime travel)

1947

Dr Brendan O'Regan spearheads the opening of the first airport duty free shop at Shannon Airport, Ireland

1954

The New York Convention of the International Civil Aviation Organisation recommends a system of duty free allowances for international travellers

1956

First duty free sales made at London Heathrow Airport

1957

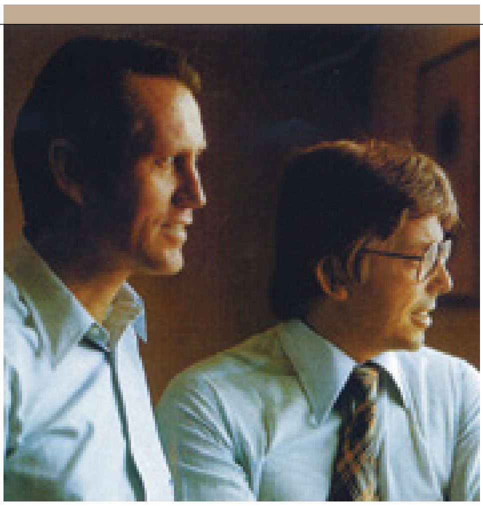
First duty free stores open at Amsterdam Airport Schiphol and at Copenhagen Kastrup Airport

1958

Miami Airport's first duty free shop opens; Germany's first airport duty free shop opens in Frankfurt; SAS becomes the first carrier in the world to sell fragrances inflight

1960

Hong Kong Kai Tak Airport's first duty free stores open through Duty Free Shoppers, later to become DFS Group



TIMELINE OF KEY EVENTS

1964

Japan Airport Terminal Co opens Japan's first duty free stores at Tokyo Haneda

1966

Americas duty free association IAADFS is established

1973

In Kyoto, the World Customs Organisation establishes standard international practice for allowance limits on perfumes, spirits and tobacco that can be imported by travellers free of duty

1979

Korean company Lotte opens its first downtown duty free store in Seoul

1982

Canada's land border duty free shop programme is inaugurated

1983

Dubai Duty Free is founded

1984

TFWA is established, and takes over the organisation of the industry's biggest annual rendez-vous, soon to find a home in Cannes

1988

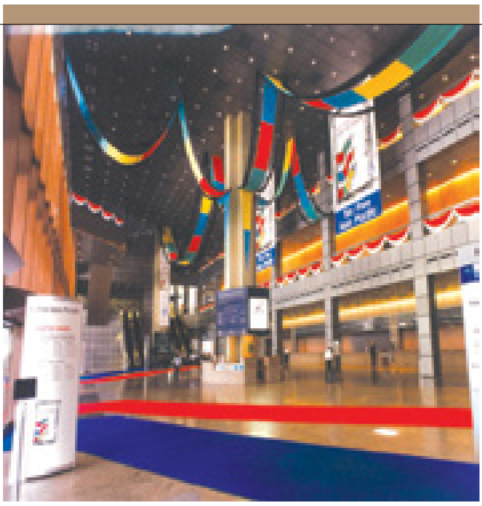
Aer Rianta International is established, and Moscow Duty Free opens Russia's first duty free stores

1994

South American duty free association ASUTIL is established

1995

The first TFWA Asia Pacific event is held in Singapore, recognising the growing importance of the regional market to the global industry



1996

LVMH acquires a majority stake in DFS

1997

BAA purchases Duty Free International; World Duty Free is established by BAA

1998

The Asian financial crisis hits travel and causes a significant downturn in regional and global sales

2000

Aeroboutique/Hachette Distribution Services and Saresco merge to create a new French travel retailer, later renamed Aelia

2001

The Middle East Duty Free Association is founded

1999

A seminal moment in industry history as intra-EU duty free is abolished

2001

The World Health Organization calls for a ban on duty free tobacco sales; Falic Group buys World Duty Free Americas; 11 September attacks hit the travel industry hard

2002

The Nuance Group is sold by Swissair to Gruppo PAM (with a stake then taken by Stefanel)

2003

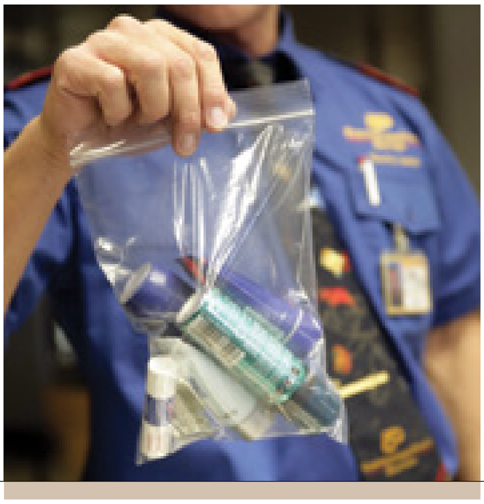
SARS blights global travel – and the travel retail industry

2004

Advent International acquires Dufry (formerly Weitnauer); the Nordic Travel Retail Group is founded

2005

Autogrill and Altadis win the auction for control of Aldeasa; the Asia Pacific Travel Retail Association is founded



2006

New rules on the carriage of liquids, aerosols and gels are introduced for air travellers; Dufry begins its big consolidation drive by acquiring Brazil's leading travel retailer Brasif

2008

The global financial crisis has a deep impact on travel markets; Autogrill seals World Duty Free Group acquisition and full takeover of Aldeasa

2009

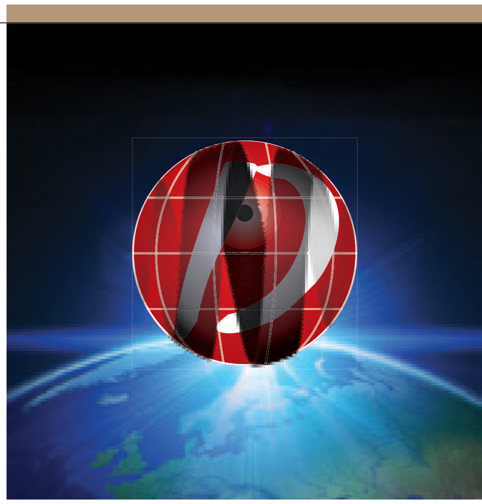
Ryanair rolls out tight restrictions on hand luggage as airside purchases are considered part of 'one-bag' carry-on allowance

2011

The South American industry is transformed as Dufry acquires InterBaires and other regional retailers

2014

Dufry announces its acquisition of Nuance



MAJOR CHALLENGES FACING OUR INDUSTRY

Sales figures show that the duty free & travel retail industry is in good health – but, as ever, the market faces serious regulatory challenges. Here we look at some of those challenges, and the work being done by industry associations to meet them.

One of the most important parts of TFWA's mission is to support the advocacy work being done by national and regional trade associations around the world in meeting the serious and frequent challenges to our business posed by regulatory change. Occasionally our industry suffers the unintended but dramatic consequences of new legislation primarily aimed at domestic retail markets – changes to product labelling, for example – but often it is the direct target of new regulations, as we witnessed when intra-EU duty free was abolished in 1999, and as we continue to see with the World Health Organization's drive to ban sales of duty free tobacco.

Our industry is fortunate in enjoying strong representation at national and regional level, backed by the newly formed Duty Free World Council which will strengthen and help coordinate the work being done. However the associations' success depends on the continuous support of individual companies within our industry – operators, landlords and brands. TFWA urges all its members and business partners to support the industry's advocacy efforts to counter threats that affect us all.

In these pages we look at some of the most important challenges facing the industry today.

Aviation security and LAGs rules

Since 2006 air travellers have been prevented from carrying liquids, aerosols and gels (LAGs) of more than 100ml in their hand baggage, apart from goods purchased airside at an airport and sealed in ICAO-approved Security Tamper-Evident Bags (STEBs). However, passengers transferring to onward flights – with the exception of those travelling intra-EU – have been unable to carry LAGs over 100ml in hand baggage, which has resulted in retailers being unable to sell many liquor, perfume and other items to these passengers. The lost sales have been damaging enough, although the confusion among travellers regarding what they can or cannot buy has been arguably more damaging still.

As of 31 January 2014, airports in the EU, Switzerland, Iceland, and Norway, the US, Canada and Australia have begun using enhanced screening technology at transfer security points to screen LAGs over 100ml, thus allowing transfer passengers to carry LAGs sold in duty-free and travel retail shops or onboard airlines, and sealed in STEBs. Passengers on direct flights are not affected.

On the face of it this was a very positive development for our industry, as it should result in the restoration of sales of all goods to transfer passengers. However, in practice the situation is more complex. For example, the US Transport Safety Administration (TSA) announced that it would not allow duty free liquid purchases packed in ceramic, opaque or metal containers to be carried by transfer passengers due to the difficulties in screening such items. Duty free trade associations are working with the TSA to secure a review of this decision, but at the time of writing retailers are advised not to sell such items to passengers travelling to the USA if they are transferring upon arrival.

At the present time, Australia will only allow passengers carrying LAGs to transfer onwards to New Zealand or internally if the LAGs are in sealed STEBs and have been purchased at their last airport of call prior to their final flight into Australia, and which were delivered to the customer at the gate.

The new regime also eliminates the former '24-hour rule' as travellers can now carry their duty free LAGs packed in a STEB with them upon arrival and return to the airport after any time period. Their LAGs will be allowed through after successful screening at the airport, as long as their liquids remain in an unopened STEB.

Any TFWA members or business partners seeking information on the new rules on LAGs, or wishing to report any difficulties or problems, are encouraged to contact ETRC Secretary General Keith Spinks at keith.spinks@etrc.org.

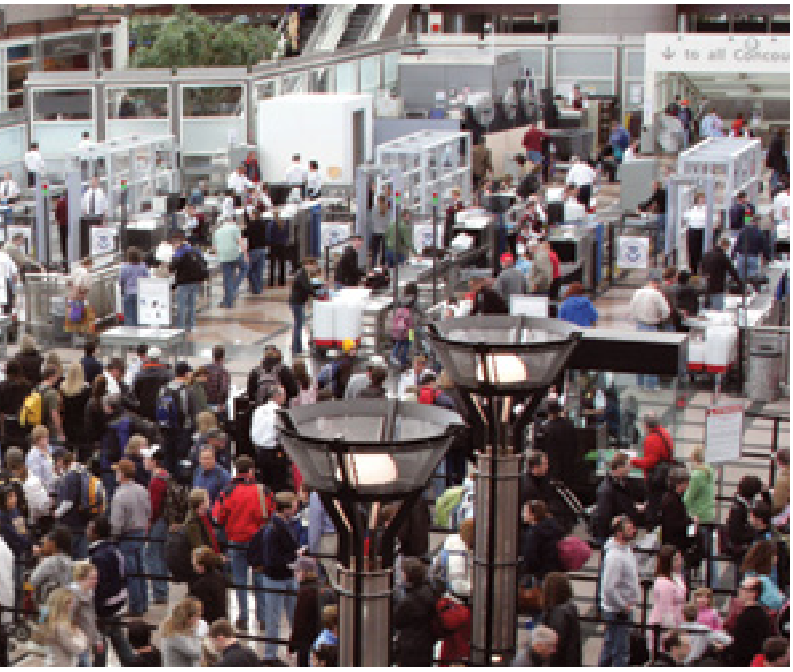
Air Passenger Rights: The 'one-bag' rule

One of the most damaging developments of recent years has been the insistence of some airlines on charging passengers for any bags carried on board beyond the one item of cabin baggage allowed. The so-called 'one-bag rule' has hit duty free & travel retail sales hard, and added to the frustration and anger of travellers.

Following an intense period of discussions between industry representatives and those of the European Parliament, on 5 February the Parliament adopted a revision of the regulation on Air Passenger Rights, calling for the abolition of the 'one-bag rule' and establishing the principle that passengers should be allowed to carry their personal effects – including airport shopping – onboard free of charge, and in addition to airlines' prescribed hand baggage allowances.

The duty free & travel retail industry is now calling on the European Council to adopt legislation to enshrine passengers' right to take their personal effects – including airport

The 'one-bag' rule has had a strong negative impact on travel retail sales wherever it has been deployed



APTRA is among the regional associations taking a positive stand on responsible retailing

shopping – onboard, without charge and in addition to hand luggage allowances, as has been the practice for many decades. Changes to European legislation invariably require long consideration and debate, but it is hoped that progress on this issue will be made during 2015.

Protecting duty free tobacco sales

Ever since the World Health Organization signalled its intent to target duty free tobacco sales back in 2000, the category has been under relentless pressure. Recent dramatic reductions in tobacco allowances in Hong Kong, Australia and New Zealand – and their outright elimination in Singapore, Sri Lanka and Brunei – have hit our industry hard, given tobacco's accepted status as a driver of footfall and spend across all product categories.

The industry's regional associations are united in recognising the importance of tobacco to the future of the market, and in seeking to work with government authorities to help meet their policy objectives while acknowledging the unique nature of duty free & travel retail stores. As a representative of one of the most highly regulated retail industries in the world, TFWA will continue to support efforts to protect tobacco duty free sales.

Liquor sales

Governments and NGOs around the world are considering measures to reduce the consumption of alcohol, and given the stance adopted by the World Health Organization on duty free tobacco, our industry is determined to be ready for any similar threat to liquor sales. In addition to closely monitoring any new steps taken by governments to restrict sales of alcohol, trade associations – led by APTRA and ETRC – have launched a self-regulated Code of Conduct for retailers and suppliers involved in the sale of liquor in duty free & travel retail. The Code is designed to show our industry's determination to promote responsible retailing and consumption, and to show our willingness, once again, to cooperate with governments on their health policy objectives.

Food labelling regulations

Across the world governments are proposing new regulations to provide more detailed nutritional information on food and confectionery packaging. It is often expected that such information, along with mandatory nutrition declarations, should be conveyed in the language of the country in which the product is sold. This has obvious negative implications for confectionery and fine food sales in duty free & travel retail, which rely on sector-exclusive products and cross-border best-sellers. Stringent packaging rules could make many SKUs non-viable in smaller duty free markets, and could dissuade smaller suppliers from entering the duty free & travel retail market.

Once again trade associations are liaising with governments wherever this issue arises, in order to ensure the industry's voice is heard and its concerns acted on. The issue is complex, and progress is expected to be gradual.

Unfortunately, this brief summary of some of the key challenges facing the duty free & travel retail industry is not exhaustive. New threats emerge regularly, and TFWA and its partner associations are intent on remaining vigilant. We urge all our members to find out what they can do to support the industry and those who work on its behalf.

A listing of the major regional associations in duty free & travel retail, with contact details, can be found on page 125.