TFWA

DEFINING THE MARKET

A GLOBAL VOICE

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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 this latest edition of the TFWA Handbook for Association members. The Handbook provides an essential introduction to the duty free and travel retail industry for new entrant companies and will help those companies already established in the industry to broaden and deepen their knowledge of the wider business, and the issues and challenges it faces.

The Handbook not only includes relevant research findings and the latest facts and data on the industry, but also includes an overview and analysis of the political and regulatory issues with which we are faced. The Handbook provides a major service not only to TFWA members but to the industry generally, and has become one of the definitive reference points for anyone who wants to ascertain the facts about our market.

TFWA continues to play a pivotal role in the work of the Duty Free World Council, and indeed the Council is indebted to TFWA for the financial and other resources it continues to provide in support of the DFWC, and for its continued commitment to helping us meet our objectives.

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

This year, an information and resource centre has been established in the council's offices in Paris and the library catalogue can be accessed via the dedicated portal on our website, www.dfworldcouncil.com. Major progress continues to be made on establishing a DFWC Academy, which will provide fully accredited professional training and management development standards for the industry in addition to online courses. The Academy is expected to be operational by year end.

In March 2016 the Council also published the first of the planned series of regional studies exploring and explaining the economic impact and benefits of the duty free and travel retail industry, beginning with Europe. The study is already proving an invaluable resource in lobbying activities with legislators and regulators.

Priorities for the coming year include initiating further economic impact studies covering the Americas and Asia Pacific regions, and the continuing development of the DFWC Academy. I welcome the input and involvement of all stakeholders in our industry and encourage all companies to support the regional and global associations that work on their behalf.

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 can apply 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 some 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. Although part of the duty free & travel retail market this is not considered part of the mainstream industry.

In some jurisdictions (for example in non-EU Europe, Australasia, the Middle East and Latin America) travellers are offered the opportunity to buy duty free goods on

their 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 proof of travel is required for customers to access the shopping area, and which are subject to taxes and duties.

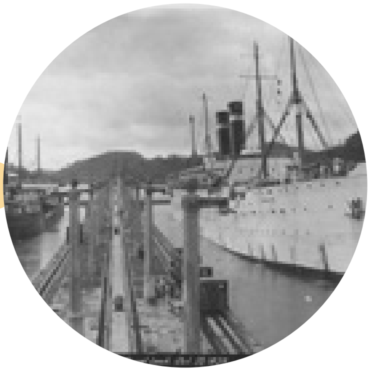
Duty free & travel retail generates vital revenues for the aviation, maritime, travel and tourism industries. Airports in particular increasingly rely on commercial revenues to fund the development of their infrastructure and to help them keep the landing fees payable by airlines as low as possible. At airports across the world, duty free and travel retail is now often the largest contributor to non-aeronautical income and contributes in many instances in excess of 40% of profits per passenger.

Shopping is a key element of the travel experience for many passengers, and as such, the provision of an extensive duty free and travel retail offer is an essential service as well as being 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



1947

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

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)

1954

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

1957

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

1956

First duty free sales made at London Heathrow 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

1997

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

1999

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

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

2003

SARS blights global travel – and the travel retail industry

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

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

2016

UK votes to leave the EU, adding to the climate of uncertainty in Europe

2014

Dufry acquires The Nuance Group, and follows up with a swoop to capture World Duty Free Group a year later

2015

Licensing controversy hits South Korea, the world's biggest duty free market, as Lotte Duty Free and WalkerHill Duty Free lose pivotal contracts

INDUSTRY CHALLENGES, TODAY AND TOMORROW

Regulatory and other issues pose a permanent challenge to the progress of the duty free and travel retail industry, and the seriousness of those issues has rarely been greater. It is part of TFWA's mission to support the work being done to defend our industry, and here we look in detail at some of the most significant challenges ahead.

The duty free & travel retail industry is fortunate to be served by several national, regional and global trade associations dedicated to protecting the interests of the industry at a time of considerable challenge. It is an important part of TFWA's mission to support the work done by partner associations at local, regional and global level, and to help ensure that our industry is protected from the often unintended consequences of regulatory change aimed primarily at domestic retail markets.

On occasion, our industry is the direct target of legislation, as we saw with the abolition of intra-EU duty free in 1999, and as we continue to see with the World Health Organization's efforts to ban sales of duty free tobacco. Such threats can only be met by a united front, and the continuous support of all stakeholders in our industry – operators, brands and landlords. TFWA urges its members and partners to provide all support possible to the efforts made by industry associations on their behalf.

Over the next pages we look at some of the most important challenges facing the industry today.

Provision of information to consumers

The ever growing demands from consumer groups and the health community to list ingredients, allergens and nutritional information on all consumables, plus health warnings on products such as tobacco and alcoholic beverages – in most cases in the national language(s) of the country in which the product is sold – is arguably the most serious challenge facing the duty free and travel retail (DFTR) industry today.

The imposition of national regulations on product labelling fragments the duty free and travel retail market, creates barriers for producers, increases the cost of production and distribution and, ultimately, limits consumer choice.

What regulators have difficulty understanding is that the provision of information that meets local requirements in national languages is not relevant for our industry. Some 60% of products in certain categories are travel retail exclusives, with many brands using the channel as a launch pad for new and innovative products. The industry requires a new approach and an alternative to placing such information on the product and its packaging if it is to protect its business.

An example of the challenges being addressed is the recently issued regulations from the Indian Food Safety and Standards Authority (FSSAI) requiring food safety rules to be extended to all alcoholic beverages, to include labelling of ingredients, sell-by dates, name and address of importer, and so on. Initially this was to apply fully to duty free shops at all airports in India, although not to traveller's personal imports. However, travellers would be required to declare such imports and accept responsibility that the products that they carried were in compliance with Indian regulations, which would have been an unacceptable imposition on travellers. However, after considerable engagement by the Asia Pacific Travel Retail Association (APTRA), the Duty Free World Council (DFWC) and the European Travel Retail Confederation (ETRC), the FSSAI agreed to exempt duty free shops and travellers from the regulations.

In Europe, the industry is waiting for the Commission to decide if the new regulations on the Provision of Food Information to Consumers legislation that came into effect at the end of 2014 will be extended to alcoholic beverages. With 24 national languages in the EU, any requirement for the labelling of alcohol beverages in local languages of the point of sale to the consumer in the DFTR channel would have a major negative impact on the category and on the industry overall.

In addition to the alcohol category, there is now an emerging demand for ingredients listing and allergen labelling on skincare and cosmetics products, which could also have serious consequences for the packaging of such products for the channel.

In order to address this growing demand for information, ETRC is currently undertaking a detailed review of alternatives to labelling on product. ETRC is investigating technology that would allow consumers to use smartphones and in-store readers to access information that is traditionally printed on labels by reading barcodes or QR codes on products that they select, with the information being provided in the language of their choice.

The project is focused on developing a technological solution that can be adopted in any retail outlet at airports, other land-based duty free shops, on board airlines, ferries and cruise lines across the globe. For further information on these developments, please contact Keith Spinks at keith.spinks@etrc.org.

Aviation security

There are no changes planned to the current security rules for the screening of passengers which allows transfer passengers to carry their liquids and gel (LAGs) purchases from duty free and travel retail shops or on board airlines through airports in the European Union, Switzerland, Iceland, Norway, the US, Canada and Australia, as long as they are sealed in tamper evident bags (STEBs). Although the European Commission is undertaking a detailed study into advances in screening technology to assess if it will be possible to lift some of the current restrictions on personal liquids and duty free LAGs, it is unlikely that any changes will be implemented for some time.

In the meantime retailers must ensure that products are correctly placed in STEBs where required. Confiscation of goods at airport security screening can make customers

reluctant to make future purchases from duty free stores, causing serious reputational damage to the industry as a whole.

With the recent tragic events in Brussels and Istanbul airports, as well as other incidents of terrorism, the primary focus of global security experts today is on insider threats and landside security rather than on developing further solutions for travellers carrying LAGs. However, the global DFTR industry remains focused on working with the authorities and with Airports Council International (ACI) on improving the overall passenger experience at airports, including when passing through security controls.

Air passenger rights: the "one-bag rule"

Although there has been some relaxation by certain airlines of their "one-bag only" rule restrictions on carrying hand baggage on board flights, there are still problems in some parts of the world where duty free purchases must fit within the maximum size or weight limits applied to hand baggage, with fees being charged for any excess. Although some airports have agreed with their partner airlines that duty free purchases – a vital part of airports' commercial revenues – must be allowed on board at no extra cost and in addition to normal hand baggage, elsewhere airlines still charge excess baggage fees if passengers' duty free purchases result in them exceeding the prescribed limits.

In the EU, revisions to the Air Passenger Rights Regulation, due to be adopted at some point in the future, establishes the principle that airlines cannot charge for carrying hand baggage on board, but similar legislation is not available or being developed elsewhere at present. Therefore, it is important to stress with our airport partners that they should include, as part of their air service agreements with airlines, the rights of passengers to carry their duty free shopping onboard in addition to their hand baggage at no extra cost.

Protecting duty free tobacco sales

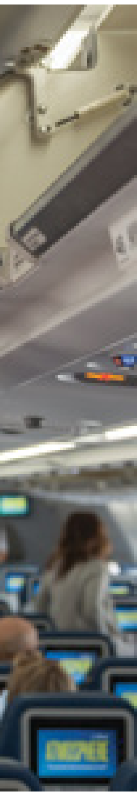
Tobacco products continue to be the most challenged product category in our market. Governments have tended to follow the World Health Organization's (WHO) guidelines on tobacco control measures, such as increasing the size of health warnings, banning or restricting displays etc, but some are now going further and imposing bans on the branding of tobacco products, legislating that all packaging must be of a standardised design and neutral colour, with brand names restricted to small plain lettering.

Australia was the first country to impose standardised packaging for tobacco products, followed in the last eighteen months by the UK, Ireland and France. None of these governments have provided an exemption for the duty free and travel retail channel, which places retailers at airports in these countries at a severe disadvantage to the airlines that serve them and to other airports.

Many other countries have now announced they are considering moving to standardised packaging with Canada, New Zealand, Singapore and Norway holding public consultations on such a move. Brazil, Argentina and Chile are currently addressing proposals tabled by politicians with an anti-tobacco agenda, while in Europe, similar initiatives are under consideration in Sweden, Finland, Slovenia, Hungary, and Belgium.

The industry's trade associations are urging the industry to engage early with regulators wherever such proposals are tabled, and to call for recognition of the unique nature of the channel and the need for a pragmatic approach to the retailing of tobacco products to international travellers. Without product branding, many consumers may not recognise their preferred product and defer their purchase to their arrival airport or inflight, thereby transferring the sale to another point in the passenger's journey and depriving airports of vital commercial income.

A further challenge that the industry is closely watching



is the call from the WHO and anti-tobacco groups for countries to impose restrictions on the quantities of tobacco products that can be brought by travellers into their destination country. Singapore banned all personal imports of tobacco products many years ago and a number of other countries, particularly in Asia Pacific, are now limiting travellers' duty free tobacco allowances. Sri Lanka imposed a ban in 2006 and Brunei in 2010, with Hong Kong enforcing a 19-cigarette limit in 2010. Australia followed with a 50-cigarette limit in 2012, reducing to 25 in July 2017; New Zealand adopted a 50 limit in 2014 with Palau limiting travellers to 20 cigarettes in the same year. India imposed a 100 limit in July 2014 and Macau reduced the inbound allowance to 19 last year.

In the EU, although under excise legislation Member States are permitted to adopt a 40-cigarette limit for all travellers from non-EU countries, only Estonia has imposed such a restriction so far.

Moves by other countries to impose restrictions on travellers' tobacco allowances are one of the most serious threats that the tobacco category is facing in the longer term. If our customers are unable to take tobacco products into an increasing number of countries, retailers will eventually be unable to sell duty free tobacco. The industry needs to monitor any national developments towards further restrictions and advise the industry trade association if such a policy becomes evident.

Alcohol retailing

The WHO and the health community are now pressuring governments to move beyond addressing the issue of alcohol-related harm and, through the imposition of health warnings and the provision of ingredients and nutritional information, to legislate to reduce overall consumption. Some countries have already initiated restrictions that could have major consequences for the channel.

Thailand has introduced severe limits on what can be shown on the product; new local language health warnings are being introduced in Malaysia; and Ireland is proposing the adoption of a new law requiring ingredient labelling on all alcoholic beverages, minimum unit pricing and product segregation at points of sale, as well as new health warnings. Although Thailand has yet to apply the new rules to duty free supplies, Ireland has said that minimum pricing will not apply to duty free sales but has not provided any exemption from the new labelling rules for the duty free channel. As a consequence, all products will need to be drawn from the local market, depriving customers of travel retail exclusive products.

In order to address these growing challenges to alcohol products, the DFWC has established a Global Alcohol Working Group with representation from all major alcohol producers.

The DFWC has also adopted a Global Self-regulatory Code of Conduct on the retailing of alcohol in duty free and travel retail, originally launched regionally by APTRA and ETRC, and is urging members of all the regional trade associations to sign up to the DFWC Code.

For further information, please contact DFWC President Frank O'Connell at info@dfworldcouncil.com.

As this section of the Handbook demonstrates, the duty free & travel retail industry is under constant and growing pressure from new regulations that would limit its service to travellers, along with its ability to generate much-needed revenues for airports and other landlords. To ensure that our industry is exempted wherever possible from the impact of such new legislation, trade associations require the support and vigilance of all those that depend on the market's continued growth – brands, operators and landlords. Only by working together can we convince those in authority of the uniqueness of our industry, and its importance to global travel and tourism.

On page 141 you will find contact details for the major global and regional trade associations. TFWA urges all its members to find out how they can support the work being done on their behalf.