TFWA

DEFINING THE MARKET

A GLOBAL INDUSTRY 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.

The latest edition of the TFWA Handbook helps companies both new and established to deepen their knowledge of the wider business, and to understand the challenges it faces. The Duty Free World Council (DFWC) welcomes its publication.

Not only does the Handbook include relevant research findings and the latest facts and data on the industry, but it also includes an overview and analysis of the political and regulatory issues with which we are faced and in doing so provides a service not only to TFWA members but to the industry generally.

TFWA continues to play a pivotal role in the work of the DFWC, and indeed the Council is indebted to TFWA for the significant financial and other material resources it continues to provide to the DFWC, but most especially for its continued and enthusiastic encouragement and its commitment to helping us meet our objectives.

The role of the DFWC 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. This latter obligation very much underpins the Council's work in co-ordinating and leading the industry's response to the potential threat to the continued sale of duty free tobacco represented by the recent ratification of the Protocol to Eliminate the Illicit Trade in Tobacco Products. A global campaign is underway to ensure that the Protocol, the objectives of which we fully support, is not used to justify further restrictions on or a total ban on duty free tobacco sales.

Since the publication of the DFWC study, *Economic impact of duty free and travel retail in Europe in 2016*, the Council has completed the second of this series of regional studies, the *Economic impact of duty free and travel retail in the Americas* to be published in the autumn. The next in the series will focus on the Asia Pacific region and work on a detailed RFP for this study is nearing completion. These studies will prove an invaluable resource in lobbying activities with legislators and regulators.

The Council's library catalogue can continue to be accessed via the dedicated portal on our website, www.dfworldcouncil.com. The industry's initial set of Professional Standards including those for frontline sales assistants are also available on the website having been approved through an industry wide consultation process. Work continues on developing academically accredited training courses based on these standards.

Building on the earlier work of APTRA and ETRC, the Council developed the DFWC Self-regulatory Code of Conduct for the Sale of Alcohol Products in Duty Free and Travel Retail. This global industry code has since been adopted by all our regional and national associations and all the major alcohol companies active in our industry.

Once again I would encourage and welcome the input and involvement of all stakeholders in our industry's associations and urge all companies to actively support the work done on their behalf to further the development of our industry and protect its future.

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.

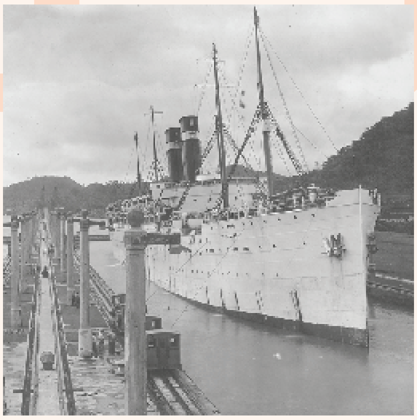
"Travel retail" commonly refers to sales made in travel environments where proof of travel is required for customers to access the shopping area, and which are subject to taxes and duties.

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 & 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 & 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

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

First duty free sales made at London Heathrow Airport

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

1956

1957

1958

1960

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

Robert Miller and Charles 'Chuck' Feeney open an office in Hong Kong, laying the foundations for the DFS Group retail empire

1964

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

1968

Americas duty free association IAADFS is established

1970

Gebr Heinemann opens its first airport store in Cologne

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

1980

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

1998

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

1999

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

2000

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

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; The Middle East Duty Free Association is founded

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

2009

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

2011

Louis Vuitton opens its first airport store at Incheon International, in association with The Shilla Duty Free

2014

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

2016

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

2017

The duty free & travel retail industry marks its 70th anniversary; The THAAD anti-missile dispute between China and South Korea plunges the Korean travel retail market into turmoil as Chinese tour group bookings fall sharply

2018

Amid increasing regulatory challenge to the industry, the ETRC proposes a ground-breaking ‘off-label’ product information solution. Elsewhere the Duty Free World Council battles to protect the trade from the impact of the Protocol to Eliminate the Illicit Trade in Tobacco Products

DFWC
DUTY FREE WORLD COUNCIL
Serving duty free and travel retail worldwide

INDUSTRY CHALLENGES, CURRENT AND FUTURE

As ever, the trade associations that serve the duty free & travel retail industry are fighting on a number of fronts to protect our market in an increasingly regulated world. Over the next few pages we look at some of the most pressing issues facing our industry, on which TFWA and its partner associations are active.

Brexit and the future for UK-EU sales

Following the June 2016 referendum, the decision by the UK government to invoke Article 50 of the EU Treaty of the European Union in March 2017 initiated a two-year journey for the UK to negotiate its exit from the EU and to become a third country by 29 March 2019.

With the UK's decision to leave the EU, it was recognised by the European duty free industry that one of the few potential positive aspects could be the possibility of a return of duty and tax free sales for passengers travelling between the UK and the EU27 when the UK becomes a third country and EU legislation no longer applies. This could result in substantial commercial benefits for the aviation and maritime trade.

The industry in the UK decided to undertake a contact programme with MPs and key government officials to assess if there would be sufficient political support for the return of duty and tax free sales for travellers departing to the EU. It received a positive response. At the same time, contact with officials in key Member States and the EU institutions suggested that a return of duty and tax free sales would be in line with the UK becoming a third country.

Even though there is an ongoing debate in the UK about membership of a customs union with the EU, this does not preclude duty and tax free sales to travellers. Both the EU Excise and the VAT Directives are clear that the only concern is whether the final destination of the traveller is a 'third country'. There are instances of third countries in a customs union with the EU, such as Turkey, where duty and tax free sales are available to all travellers. Furthermore, access to the Single Market of the EU27 does not restrict or prohibit duty and tax free sales to travellers. Again, both the Excise and the VAT Directives are clear that the only concern is whether the final destination of the traveller is a 'third country'. For example, Norway and Iceland have full access to the Single Market of the EU and duty and tax free shopping is available to all travellers.

Currently, negotiations are ongoing on the Withdrawal Agreement and should it be ratified, the UK will leave the EU on 29 March 2019 and enter a transition period lasting until 31 December 2020, during which time the shape of the future trading relationship with the EU will be negotiated. However, there is no certainty that this will be achieved and therefore, there are serious questions about any future relationship with the EU27.

Should the UK and the EU27 conclude the Withdrawal Agreement as currently drafted, the transitional arrangements provide that for this period, the UK, although a 'third country', will be treated as a Member State for the application of all EU legislation. Once the transition period concludes the UK will be considered a third country. This time limited Implementation Period (as called by the UK) will "allow businesses and authorities to prepare for a smooth and orderly exit from the EU".

While the industry maintains that the return of duty and tax free sales for travellers between the UK and the EU is not conditional on the UK's membership of a customs union or the Single Market, a final decision on when the UK formally becomes a third country remains critical to when such sales could return.

Provision of information to consumers

In Europe, finding alternatives to on-product labelling to meet the ever growing demand for the provision of information to consumers across all product categories has been a major project for the European Travel Retail Confederation. The 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 one of the major challenges facing our industry today.

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

In March 2017, the European Commission issued a report recommending that the rules applicable to the mandatory provision of ingredients and nutritional information on food products, enforced by a 2016 EU regulation, should also apply to all alcohol beverages. However, the

Commission provided the alcohol industry with the opportunity to propose alternative means of providing consumers with the required information and to report back to the Commission within one year. The Commission has yet to provide its opinion on the proposals from the alcohol industry, tabled in spring 2018, which was to provide the information demanded through a series of voluntary measures, primarily off-the-label through brand owners and industry websites. However, consumers associations and health activists currently maintain their demand for on-product labelling as the only solution for the provision of all information and go even further, demanding tobacco style health warnings on alcohol beverages.

Regulations relating to on-product labelling could have a major impact on brands across all core duty free categories

At the same time, the European Commission announced that it was studying the options for communicating information to consumers on its proposed increased list of allergens in fragrances and cosmetics, moving from the original list of 26 allergens adopted in 1999 to over 100 allergens today.

The current regulation on food information and the impending extension of the rules to alcohol beverages, together with the proposals on allergens for the beauty category, has severe implications for many brands and travel exclusives in the duty free and travel retail channel, particularly when meeting the demand for mandatory information in national languages.

Although the primary focus at the current time is on Europe, we are seeing similar moves being adopted in South America, Asia – as was the case in India a few years ago – as well as in Israel, and this could expand to other markets in the future.

After assessing the various options, in late 2017 ETRC contracted 1WorldSync, a leading provider of product content solutions, to develop a pilot project to create a digital platform for the provision of information to consumers off-the-label for the duty free and travel retail channel. The platform, developed with the support of suppliers from the alcohol, food & confectionery and beauty categories, allows for product information to be accessible via the barcode on the product, scanned by the consumer either via a mobile device or through an alternative device available in-store.

The pilot is now complete and in June 2018, ETRC received a positive response from the European Commission to the presentation of this project. ETRC will now need to demonstrate the operability of the system on-site and test consumer responses before the Commission will consider formally establishing a legal basis for a digital platform for the duty free and travel retail channel in the EU. Ultimately, if successful, the project could be rolled out across multiple categories and beyond the EU to address this growing challenge at global level.

Aviation and maritime security

Restrictions on the transport of powder-like substances in and out of the US are among the latest security-related issues confronting our industry

The current security rules for the screening of passengers, in place since 2006, 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 EU, EEA, USA, Canada, Singapore and Australia, as long as they are sealed in tamper evident bags (STEBs). In the EU, although the European Commission continues to monitor 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, they are currently focused on addressing other issues, such as insider threats.

However, since July 2018 the US has implemented new security measures for passengers carrying powder-like substances if they are in containers over 12oz or 350g. Australia has also imposed similar restrictions, but to multiple containers under this limit if they amount in total to more than the 12oz/350g limit. Duty free and travel retail purchases of powders are exempt from these restrictions if they are sealed in a STEB, separate from those used for liquids. Currently, the Commission is evaluating the need for and the extent of any such measures for the EU and ETRC is engaging with the Commission to minimise the impact on our sales channel.

Also in the EU, the European Commission has initiated a study into whether there should be enhanced security measures adopted for the maritime trade, particularly on RoRo ferries, i.e. those vessels carrying vehicular traffic, as well as for cruise lines.

This could ultimately lead to similar screening arrangements as currently applied to aviation passengers. Such a move would have consequences for the global ferry and cruise business and ETRC is working closely with the Commission to address possible implications for the duty free retail sector. The publication of an EU study is expected in 2019.

Air Passenger Rights: the "one-bag rule"

Whilst certain airlines, mainly in Europe, have relaxed their "one-bag-only" rule for passengers carrying hand baggage on board flights, problems are still being encountered in some other regions – such as the Middle East – where duty free purchases are subject to inclusion in hand baggage restrictions. It is recommended that airports globally should continue to work with their partner airlines to minimise the impact of hand baggage rules on retail purchases. 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 and at no extra cost.

In the EU, revisions to the Air Passenger Rights Regulation, while dormant for many months, are now back on the political agenda with the European Commission considering whether to present the proposed revisions to Member States or to review and amend the proposals. One of the proposed amendments to the Regulation establishes the principle that airlines cannot charge for carrying hand baggage on board, including at least one bag of airport shopping. The duty free industry, working with our airport partners, continues to stress the importance of enshrining this principle in legislation.

Alcohol challenges

The WHO and health activists continue to pressure governments to move beyond the current strategy of addressing alcohol-related harm and to legislate to reduce overall consumption. Some countries have already initiated restrictions that could have major consequences for our market. Restrictions to the design of labels on alcohol products in Thailand, already in place in the domestic market, have yet to be enforced in the duty free channel although health warning labels in Malaysia are already applied to alcohol products for sales in duty free outlets. The liquor monopoly in Norway continues to advocate for duty free retail sales to come under the same regime as the domestic market, with restrictions on display, labelling and promotions.

The Duty Free World Council is pressing for airlines to accept the right of air passengers to carry duty free purchases on board at no extra cost

In Ireland, there are legislative proposals presently being debated to include national language health warnings as well as ingredient and nutritional listings on alcohol products, a move that would severely restrict brands' access to the Irish duty free market. Whilst the industry continues to seek an exemption for duty free in Ireland, it is anticipated that there will be more markets taking national initiatives on labelling and health warnings on alcohol beverages that could impact heavily on the duty free channel.

In response to many of these challenges, all regional duty free associations have now agreed to adopt the Duty Free World Council (DFWC) Self-Regulatory Code of Conduct for the Sale of Alcohol in Duty Free and Travel Retail. The Code provides a standard which demands the highest degree of responsibility and ethics from both retailers and suppliers operating in the duty free and travel retail sector. The DFWC Code will be a valuable tool for defending future challenges to the industry, both regionally and globally,

The DFWC Self-Regulatory Code of Conduct for the Sale of Alcohol in Duty Free and Travel Retail has been adopted by retailers worldwide

by demonstrating the unique nature of duty free and travel retail market and that efficient, self-regulatory rules are already in place in our retail channel, hence the importance of strict compliance to the code by the industry.

The DFWC Global Alcohol Working Group, with representation from all major alcohol producers and retailers, continues to provide support and guidance on regional and national challenges as they arise.

Protecting duty free tobacco sales

Tobacco continues to be the most challenged product category in our channel. Governments across the globe are under constant pressure to adopt the World Health Organization's (WHO) guidelines on tobacco control measures, such as increasing the size of health warnings, banning or restricting displays, reducing allowances and, more recently, the removal of all branding on tobacco products.

Many countries have followed Australia's lead as the first country to impose standardised packaging for tobacco products, including the UK, France, Ireland, Norway, Hungary, Slovenia, New Zealand and Canada. None of these governments have provided an exemption for the duty free & travel retail channel, which places retailers at airports in these countries at a severe disadvantage to the airlines that serve them and competing airports.

Many other countries are considering moving to standardised packaging, with Singapore holding a public consultation on such an initiative. South Africa and other countries in Africa, in addition to Brazil, Argentina and Chile in South America, are currently considering legislative proposals tabled by politicians with an anti-tobacco agenda. We can only expect the list of countries considering such initiatives to grow.

However, the latest and most serious challenge to the tobacco category is the WHO's Protocol to its global Framework Convention on Tobacco Control (FCTC) treaty to eliminate the illicit trade in tobacco products. The Protocol, agreed in 2012, requires 40 countries to ratify it in order to come into effect and this was achieved in June 2018. The Protocol now enters into force in September this year, 90 days after the 40th ratification.

In line with WHO procedures, there will be a first meeting of the Parties to the Protocol (i.e. those that have ratified it) this October in Geneva, where they will discuss the steps to be taken to implement the measures set out in the Protocol. These measures include such matters as the tracking and tracing of tobacco products, licensing of all those involved in the manufacture, supply and sale of tobacco products, as well as addressing the regulation of free trade zones. In principle, the duty free industry supports the provisions of the Protocol and is keen to identify solutions for the industry to meet its objectives.

However, the Protocol also mandates that within five

years of coming into force, research will be carried out to explore "the extent to which" duty free contributes to illicit trade in tobacco products. This text suggests that the WHO's starting position is that duty free sales are complicit in illicit trade, a proposition that the duty free industry completely rejects. Based on our knowledge of the WHO's historic view of duty free, we should expect that if the research is carried out without clear and objective terms of reference, it will wrongly conclude that duty free tobacco sales are a major source of illicit trade and must be completely banned.

The Duty Free World Council, in coordination with regional and national trade associations, has initiated a global campaign to communicate to governments of Parties to the Protocol that the industry strongly opposes any move to ban or further restrict duty free tobacco sales under the false allegations of contributing to illicit trade. There can be no justification for penalising legitimate law-abiding retailers, brands, airports and the maritime trade under the pretext of illicit trade.

The duty free industry worldwide has a long and exemplary history of working closely with customs and enforcement bodies worldwide to ensure the security of the industry's supply chain thereby contributing to the elimination of illicit trade.

The duty free & travel retail industry has a long history of working with Customs around the world to ensure supply chain security, particularly with regard to tobacco

The industry argues that any evidence-based study should only be carried out when the Protocol has been fully implemented and adequate time given for changes to industry and enforcement practices worldwide. Until then it will be impossible to ascertain if any further policy actions are required. Furthermore all signatory countries must be aligned on the methodology and scope of the study and that it must be carried out in a fair and objective manner, with full industry participation.

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 157 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.