

Economic impact of duty free and travel retail in Europe

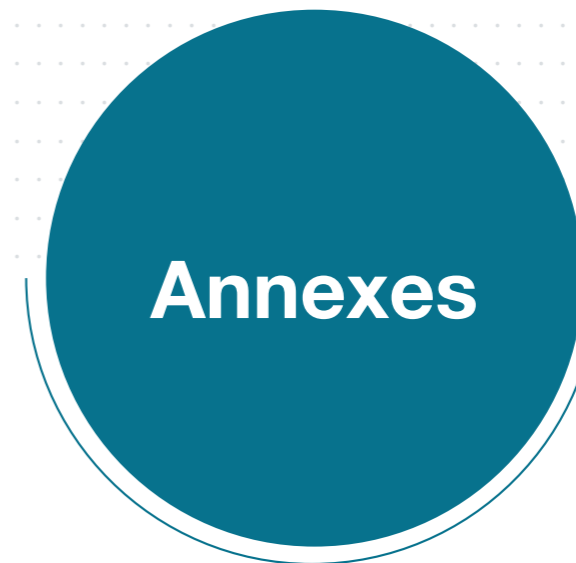
A report for the
Duty Free World Council
March 2016
Authors **Dr Harry Bush & Daniel Storey**



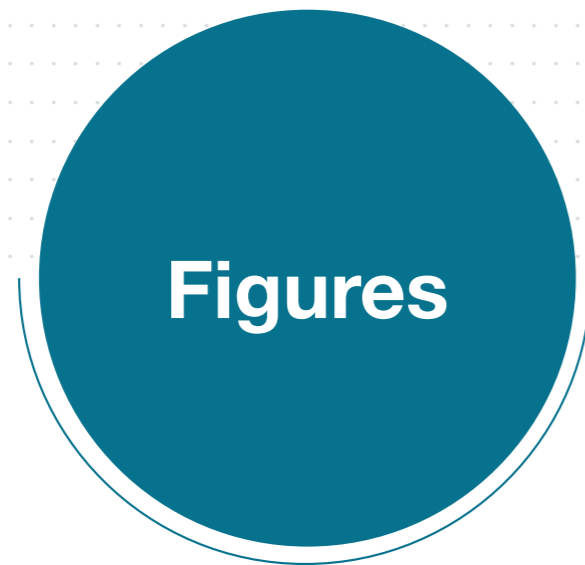
Contents

The Authors	9
Summary	10
Chapters	12
1 Introduction	12
2 Global duty free and travel retail trends and patterns	15
2.1 Overview	15
2.2 Duty free and travel retail definition and context	15
2.3 Growth in duty free and travel retail	17
2.4 Duty free and travel retail product categories	20
2.5 Conclusion	24
3 Duty free and travel retail within the European airport sector	25
3.1 Overview	25
3.2 Trends in passenger traffic	26
3.3 Duty free and travel retail revenue as significant element of airport revenues	27
3.4 Retail infrastructure at airports	31
3.5 Patterns of duty free and travel retail activity	33
3.6 Converting travel activity to airport revenues	37
3.7 Conclusion	39

4 Duty free and travel retail within the European airline sector	40
4.1 Overview	40
4.2 Context	40
4.3 Conclusion	45
5 Duty free and travel retail within the European maritime sector	45
5.1 Overview	45
5.2 Context	45
5.3 Duty free and travel retail contribution to maritime activity	47
5.4 Conclusion	48
6 Economic impact of duty free and travel retail	49
6.1 Overview	49
6.2 Context	49
6.3 Employment and GDP impact - evidence from airport analysis	51
6.4 Conclusion	55
7 Duty free and travel retail's support for the European aviation economy	56
7.1 Overview	56
7.2 Duty free and travel retail within the aviation economy	56
7.3 Airport economics and the role of duty free and travel retail	60
7.4 Conclusion	72
8 Aviation's contribution to economic output and growth	73
8.1 Overview	73
8.2 Introduction	73
8.3 Economic footprint of the aviation sector	74
8.4 Welfare effects	76
8.5 Supply side or catalytic effects	77
8.6 Conclusions on aviation's contribution to economic growth	82
9 Study conclusions and policy implications	83
9.1 Study conclusions	83
9.2 Policy implications	83



Annex 1 Case study: Bottega SpA	84
Annex 2 Case study: Butlers Chocolates	86
Annex 3 Case study: Cork Airport	88
Annex 4 Case study: Helsinki Airport	90
Annex 5 Case study: London Heathrow Airport Terminal 2	92
Annex 6 Case study: London Stansted Airport	94
Annex 7 Case Study: Rituals	97
Annex 8 Case study: Rome Fiumicino Airport	99
Duty Free World Council	102



Figures

Figure 1: Duty free and travel retail sales by region and sales channel, 2014	15	Figure 16: Retail infrastructure by airport size, 2012	31
Figure 2: Duty free and travel retail sales channel shares by region, 2014	16	Figure 17: Retail infrastructure at airports by region, 2012	32
Figure 3: Sales growth, compound annual rate, 2004-2014	17	Figure 18: Duty free sales per departing international passenger, 2013	34
Figure 4: Duty free and travel retail sales by region, 2000-2014	18	Figure 19: Duty free sales per square metre of shop space, 2013	34
Figure 5: Duty free and travel retail sales, regional shares, 2000-2014	18	Figure 20: Duty free sales per departing passenger, by category	35
Figure 6: Market share and annual growth rate of duty free and travel retail sales, 2014	19	Figure 21: Average non-duty retail sales per departing passenger, 2013	36
Figure 7: Global duty free and travel retail sales, product category market shares, 2014	20	Figure 22: Duty free and duty paid yields	37
Figure 8: Sales by product group and region, 2014	21	Figure 23: Non-aeronautical income, European airports	38
Figure 9: Product group market share, by region, 2014	22	Figure 24: Airline duty free and travel retail sales (\$ millions), 2014/15	40
Figure 10: Percentage share of global sales by product category, 2003-2014	23	Figure 25: Global airline duty free and travel retail sales, 2003-2014	41
Figure 11: ETRC Index of duty free and travel retail sales, 2005-April 2015	23	Figure 26: Airline duty free and travel retail sales by region and product category, 2014/15	42
Figure 12: Air passenger traffic index	26	Figure 27: Airline duty free and travel retail sales by product category and region, 2014/15	42
Figure 13: Non-aeronautical revenue as share of total airport revenue	28	Figure 28: Ancillary revenue as % of total revenue, 2014	43
Figure 14: Terminal retail revenue as share of airport non-aeronautical revenue	29	Figure 29: Airline ancillary revenue by category, 2013	44
Figure 15: Terminal retail revenue as share of airport total revenue	30	Figure 30: Non-aeronautical revenue at European airports, 2013	49
		Figure 31: Aeronautical and non-aeronautical revenues at European airports	50
		Figure 32: Employment in European aviation sector, 2013	52
		Figure 33: Direct employment in duty free and travel retail and food & beverage at European airports, 2013	54
		Figure 34: Passenger dwell time	59
		Figure 35: Penetration rates - number of passengers making purchase as % of total passengers	59
		Figure 36: Aeronautical income and costs per aircraft movement, 2012	60
		Figure 37: Aeronautical costs and revenue income gap, 2012	61
		Figure 38: Non-aeronautical revenues, by region and source, 2012	61

Figure 39: Duty free concession revenue as % of all retail revenue, 2012	62
Figure 40: Non-aeronautical income per passenger, 2012	62
Figure 41: Duty free income, 2012	63
Figure 42: Operating non-aeronautical income as a % of total operating income, European airports	67
Figure 43: Retail concessions income as a % of total operating income, European airports	68
Figure 44: Retail concessions income per passenger, European airports	69
Figure 45: % of loss making airports by size, 2013	70
Figure 46: Average Net Profits per Passenger, European airports	70
Figure 47: Retail concessions income as % of net profit, European airports	71
Figure 48: Economic effects of the aviation sector	74
Figure 49: Welfare effects - consumer and producer surplus	77
Figure 50: Supply-side or catalytic effects of aviation	77
Figure 51: Connectivity and labour productivity	80
Figure 52: Airside retail space per million passengers per annum at UK and European airports	95

The Authors

Dr Harry Bush CB was educated at Oxford University and then worked for 23 years in the UK Treasury. He joined the UK Civil Aviation Authority (CAA) in 2003 as Group Director Economic Regulation, the Board member responsible for the CAA's economic output and specifically the economic regulation of designated airports and air traffic control. Since 2011 he has been an independent consultant, undertaking assignments in a variety of regulated industries, in the UK and overseas. He is Vice-Chairman of University College London Hospital Foundation Trust, one of the UK's foremost specialist hospitals, and is a non-executive director of NATS, the UK's air traffic control provider.

Daniel Storey was educated at Oxford University and the London School of Economics and then worked for 17 years in the UK Government, primarily in the UK Treasury as well as the Cabinet Office, Department of Trade and the telecoms regulators. He joined the UK CAA in 2005 as head of price control regulation within the Economic Regulation Group. Since 2009 he has been an independent consultant, undertaking assignments in a variety of regulated industries, in the UK and overseas.

Summary

- Duty free and travel retail, involving the sale of goods to international travellers, has become a hugely successful worldwide industry since the first shop opened in Shannon airport Ireland in 1947.
- Airports represent the majority of travel retail globally but duty free and travel retail is also found on board airlines, cruise ships and ferries, at some international railway stations and in some land border shops. It can also include downtown stores where proof of travel is required to purchase.
- In Europe, duty free and travel retail has become a key component of aviation and maritime financing as well as an integral part of the travelling experience.
- Creating that alternative source of income for airports was the rationale behind the creation of duty free - that need is as great now as it was in 1947.
- The financing of airports relies upon two broad revenue streams: aeronautical revenues from airlines and passengers (usually paid via airlines), for aircraft movements and passenger processing, and commercial revenues from other activities at the airport.
- Commercial revenues are a major element of airport revenues in Europe, and duty free and travel retail revenues are usually the most important source of income.
- This discretionary activity, driven by customer choice and enabled by commercial innovation, generated revenues in Europe of €15.4 billion in 2014, of which over €10 billion was generated at airports (67%) and €1.6 billion in the maritime sector (11%). This in effect represents a voluntary contribution to financing of aviation and maritime infrastructure.
- In the maritime sector, duty free and travel retail presents opportunities for enhancing passenger service on-board and raising significant amounts of revenue (30-60% of total revenue comes from on-board retail sales (including catering)). These revenues sustain vital ferry routes, which are key to regional connectivity and economic growth.
- Within Europe in 2013, duty free and travel retail at airports, along with other in-terminal services (such as car hire and food and beverage services), generated around 107,000 jobs, some 6% of the total direct aviation-related jobs generated at or in the vicinity of airports.
- Applying this proportion to the €102 billion (around 0.8%) of European GDP directly generated by the aviation sector in 2013 suggests that the direct contribution of European airport duty free and travel retail to GDP was around €6½ billion in 2013.
- Duty free and travel retail revenues make a structurally important contribution to the financing of airports (and maritime companies) and their infrastructure in Europe. Larger airports are able to generate the highest levels of retail revenues per passenger, which effectively cover some 40-80% of their profit margins. Even smaller regional airports have a strong reliance on retail revenues, with airports handling between 5 and 25 million passengers per year generating some 40% of their profits per passenger from duty free and travel retail activities.
- Without duty free and travel retail revenue, airports would not be able to provide the facilities and services they do. There would be significantly higher numbers of loss-making airports and/or higher levels of state subsidy. Overall, connectivity in Europe would diminish.
- As well as direct employment, European aviation also supports value-added activities and employment in the supply chains to the sector. Overall, studies estimate that this measures around 1.0% of GDP for Europe as a whole.
- The aviation sector has a much wider catalytic and social impact, by enabling companies and people to work more productively as a result of using air travel to access wider markets.
- Within Europe, estimates are that the aviation sector contributes around 3.2% of GDP through its two-way impact on other sectors (such as distribution, high value manufacturing, professional services, tourism) which are reliant on air travel and which in turn create a demand for air connectivity. This is in addition to its direct and indirect impact on jobs and output from the activity in the aviation sector and its supply chain.
- Duty free and travel retail revenues therefore provide valuable support to the aviation and maritime industries. These revenues however are under pressure, in part due to regulations that are more appropriate to domestic markets, in part due to the rise of online shopping and also from airline policies. This will almost certainly have an impact on the future financing of airports and ferry routes.
- In Europe, duty free and travel retail revenues have grown robustly at 4% on average each year in the decade to 2014. However, most recently, revenues at European airports have actually declined (down nearly 3% per passenger each year from 2010 to 2013) because of economic factors, new airline hand luggage rules, and the growing challenge from online retailing.
- By contrast, elsewhere in the world, growth in duty free and travel retail revenues was higher over the past decade, at 9% per annum, as a result of a catch up effect in the less mature markets in Asia and the Middle East and faster overall regional economic growth.
- It is important for Governments, therefore, to recognise that the continued vitality of this sector is not just beneficial for passengers' travel experience but also underpins the provision of vital transport infrastructure across Europe.

For a full copy of this report please contact gerard.murray@dfworldcouncil.com