



DUTY FREE WORLD COUNCIL

Serving duty free and travel retail worldwide

FINAL REPORT

Economic Impact of Duty Free and Travel Retail in the Americas

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Executive Summary

Key Figures

- In 2016, **US\$12.9 billion** was spent on duty free and travel retail in the Americas. The principal components were:
 - Duty free and travel retail sales in the aviation sales channel, estimated at nearly **US\$1.9 billion** in the U.S. and Canada and **US\$4.8 billion** in Latin America and the Caribbean, most of which was generated within airport terminals.
 - Land and maritime duty free and travel retail sales amounting to approximately **US\$6.2 billion**.
- Duty free and travel retail spending in the Americas *directly* accounts for an estimated **61,400 jobs** and **US\$8.2 billion in GDP**.
- Together with the businesses that supply the goods and services (*indirect impacts*) and spending of employees in the wider economy (*induced impacts*), duty free and travel retail in the Americas is estimated to support a total of **110,000 jobs** and **US\$10.6 billion in GDP**.

A growing industry sector, duty free and travel retail comprises the sale of goods to international travelers.¹ Duty free and travel retail is available for purchase at airports and on airlines, on cruises and ferries, and also at land border crossings, or at downtown duty free shop locations. In addition to duty free, full-retail shops (*referred to as travel retail*) are also available to travelers. These non-duty free offerings can include convenience stores, book stores and specialty stores selling fully taxable goods or services located post-security in airports or on cruise and ferry ships.

The Duty Free World Council (DFWC) commissioned this study to estimate the economic contribution that duty free and travel retail currently makes to economic activity in the Americas, and to understand the importance of this sector to regional economies.² The duty free and travel retail sector contributes significantly to economic prosperity in the Americas through the employment and activity it generates. Furthermore, it facilitates wider economic activity in other industry sectors, such as aviation and tourism, supporting the growth and development of economies in the region.

¹ Duty Free World Council (<http://dfworldcouncil.com/what-is-duty-free-travel-retail/>). The Duty Free World Council, the DFWC, is the industry association representing the interests of the global duty free and travel retail channel and has the overall objective of creating the optimal operating environment for the industry that will allow it to achieve its full potential.

² The Americas are defined as including North America, Latin America and the Caribbean. North America includes the U.S. and Canada only. Mexico is considered a part of Latin America and the Caribbean.

Total duty free and travel retail sales in the Americas vary between North America and Latin America and the Caribbean, as well as across sales channels. Based on an analysis of sales data, an estimated US\$12.9 billion was spent on duty free and travel retail in the Americas in 2016. Of this total, US\$3.9 billion was spent in North America and US\$9 billion of spending occurred in Latin America and the Caribbean.³ When reviewing the different sales channels, the total duty free sales handled by airports and airlines are higher than for other sales channels. With US\$6.7 billion in total sales in 2016, aviation comprises approximately half of the sales in the Americas, with higher value goods purchased at airports compared to other sales channels.⁴ **Figure ES-1** provides a breakdown of the estimated total sales in the Americas by region and sales channel.

Figure ES-1:
Total Duty Free and Travel Retail Sales in the Americas, by Region and Sector, 2016

Sales Channel	North America Total Sales (US\$ Billions)	Latin America & Caribbean Total Sales (US\$ Billions)	Americas Total Duty Free and Travel Retail Sales (US\$ Billions)
Aviation	\$1.9	\$4.8	\$6.7
Maritime	\$0.3	\$3.1	\$3.4
Land	\$1.6	\$1.1	\$2.8
Total	\$3.9	\$9.0	\$12.9

Sources: ACI North America reports, ACI (Airports Council International) World Key Performance Indicators Report 2016, Generation Research, Cruise Lines International Association, Counter Intelligence Retail Ltd., Canadian Border Services Agency and InterVISTAS Consulting analysis.

Note: Figures may not sum to totals due to rounding. Aviation covers airports and airlines, maritime covers cruise and ferries, land covers border-crossings and downtown duty free shops. North America includes the U.S. and Canada only. Mexico is included in Latin America & Caribbean.

The total sales estimated for the airport channel is based on analysis conducted by InterVISTAS Consulting using data from ACI-NA and Moodie Davitt. The Generation Research data on the airport channel appears to under estimate the total sales for the region. The estimated duty free and travel retail sales for the airline, ferries, cruise and land sales channels are sourced from Generation Research.

³ Total sales at airports were estimated using data from Airports Council International – North America's 2017 Concessions Benchmarking Survey, Airports Council International World's Key Performance Indicators Report 2016 and InterVISTAS analysis. Sales by airlines and ferries were estimated using data from Generation Research. Cruise duty free and travel retail sales were estimated using data from Generation Research, Cruise Lines International Association and Counter Intelligence Retail Ltd., while land sales were estimated using data from Generation Research and the Canadian Border Services Agency.

⁴ Based on total sales derived from the combined variety of sources listed above.

Aviation Sales Channel

The aviation sales channel for duty free and travel retail is estimated to account for approximately half of the estimated total duty free and travel retail sales in the Americas. A review of the different sales channels shows that U.S. airports perform quite differently from airports in Canada and, even more so, from those in Latin America and the Caribbean. Retail activity at airports in the latter region seems to mirror more closely the airports in Europe and Asia. For instance, the average spend per departing passenger in Latin America is roughly three to four times the average spend per departing passenger in the U.S. This is likely due to higher tax rates in South America, which encourage greater spending on duty free, coupled with high exemption rates.⁵ In Canada, airport retail concession revenue per passenger is just over US\$1.60, compared to US\$0.47 in the U.S. The major airports in Canada that serve international passengers, with generally lower levels of passenger traffic than their U.S. counterparts, also generate higher average airport revenue from duty free sales (US\$0.61 per passenger) than the largest international U.S. airports (US\$0.17 per passenger).⁶

For duty free specifically, the opportunity for revenue generation and growth in the aviation sector can be affected by passenger mix, specifically the degree of international traffic served in a given airport or region. International passengers have access to duty free (which domestic passengers do not), and generally have longer dwell times which contributes to a higher propensity to spend on duty free and travel retail items. The significantly smaller percentage share of international travelers at U.S. airports, as seen in **Figure ES-2**, could be among the reasons behind the differences in duty free and travel retail activity between the U.S. and other countries.

In addition, retail space at airports, while growing in magnitude, is generally less developed and less utilized in the Americas relative to other regions. The average number of retail outlets at airports in North America (39) exceeds most other regions (perhaps due to the overall average terminal space being larger than in other regions).⁷ However, North American airports exhibit a lower allocation of physical retail space relative to the level of passenger traffic. Conversely, airports in Latin America and the Caribbean contain 23 retail outlets on average, but they allocate more than double the amount of physical retail space relative to passenger volumes, compared to North America.

Current literature on consumer behaviour emphasizes the unique conditions within an airport environment that generally induce passengers to shop and buy duty free, including dwell time and the role it plays in increasing susceptibility to impulse purchases. Airports therefore provide an excellent opportunity to attract customers who have the time and opportunity to shop in post-security areas while they wait for their flights to depart. As a capital-intensive sector, aviation faces demands on maintaining and expanding infrastructure that will be served in part by the financial contribution made by non-aeronautical services particularly duty free and travel retail.

⁵ For example, the quantity limits for Brazil include 12 litres of alcohol, which compares to Canada where the limit is 1.5 litres of alcohol, or a little more than 10% of the limit for Brazil.

⁶ Based on a sample of the top 30 international airports in the U.S. and Canada. Refer to Section 4.1.3 and Figure 4-14 for details. Source: Data provided by ACI-NA to InterVISTAS.

⁷ Based on large samples (100+) of airports in each region, from ACI World Key Performance Indicators 2016.

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1 Introduction

The duty free and travel retail industry contributes significantly to economic prosperity in the Americas both through the economic activity and employment it generates, but also because it facilitates and makes more profitable wider economic activity – in particular aviation and tourism, of which it is a key component, and which in turn is a key driver of the broader economy.¹² This study examines the economic impacts generated from duty free and travel retail sales and activities in 2016. It seeks to quantify the economic activity and employment derived from travel retail and duty free and also discusses the broader, catalytic effects it has on other sectors.

Economic impact is a measure of the spending and employment associated with a sector of the economy, a specific project, or a change in government policy or regulation. In this case, economic impact refers to the economic contribution associated with the duty free and travel retail sector through its various channels of distribution at airports, on airlines, at land border crossings and downtown duty free shops, and on cruises and ferries. The three major components of economic impact are classified as direct, indirect and induced impacts. Together, they provide a snapshot of economic activity and employment generated by the duty free and travel retail sectors in the Americas.

According to the Duty Free World Council (DFWC), duty free and travel retail is defined as:

*“a global industry that encompasses the sale of goods to international travelers. 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 travelers 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.”*¹³

The duty free and travel retail industry, globally, is estimated to have generated in excess of \$60 billion annually in 2016.¹⁴

International travelers have access to a variety of products including fashion and accessories, alcohol, fragrances and cosmetics, food and confectionery, tobacco, and jewelry and watches. The continued growth and development of the duty free and travel retail sector supports transport modes through the financial contribution it makes, and global tourism by further incentivizing international travel by air, land and sea.

The DFWC commissioned a prior study for Europe, which was conducted in 2016, and has now commissioned this study for the Americas.¹⁵

¹² The Americas are defined as including North America, Latin America and the Caribbean. North America includes the U.S. and Canada only. Mexico is considered a part of Latin America and the Caribbean.

¹³ Source: <http://dfworldcouncil.com/what-is-duty-free-travel-retail/>

¹⁴ Source: Generation Research. Generation Research is a firm based in Sweden that provides data on duty free & travel retail statistics, globally. Their website can be found at: <http://www.generation.se/>

¹⁵ Economic Impact of duty free and travel retail in Europe, published at <http://dfworldcouncil.com/wp-content/uploads/2016/03/DFWC-European-Economic-Impact-Report.pdf>

This report is organized as follows:

- **Section 2** describes global duty free and travel retail trends and patterns, which provide valuable context on the size of the market and the sales channels globally and in the different geographies.
- **Section 3** provides details on the overall duty free and travel retail industry in the Americas.
- **Section 4** describes duty free and travel retail in the aviation sales channel in the Americas, including airport and airline sales channels.
- **Section 5** describes duty free and travel retail in the maritime sales channel in the Americas, including cruise and ferry sales channels.
- **Section 6** describes duty free and travel retail in the land based travel sales channel in the Americas, including operations at border crossings and downtown duty free shops.
- **Section 7** summarizes the economic impact of duty free and travel retail operations in the Americas through all sales channels. It seeks to quantify the economic activity and employment generated. The broader role of duty free and travel retail in facilitating economic growth and development in a region is also discussed. It reviews where there might be scope for enhanced duty free and travel retail to make a greater contribution to overall economic activity, based on the differences across the region discussed in earlier sections.
- **Section 8** /provides a summary of the study's results and conclusions.

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