

## **Espace Voyageur**

The duty free and travel retail industry is a unique market that caters to the international traveller. The European duty free and travel retail industry generated €10.2 billion in sales in 2008. The market operates as the launch pad for many new products as well as being the source of considerable employment and wealth in the EU and around the globe. It currently faces a number of challenges at EU and national level which are creating customer confusion and difficulties for retailers and suppliers.

Onerous requirements for labelling, product information and customer communication are preventing many brands (especially new and start-up products) from access to this extremely powerful retail channel.

The time is now right for Europe to acknowledge the uniqueness and importance of the duty free and travel retail market. In doing so, it will contribute to enhancing European competitiveness as opposed to the current situation whereby national and EU legislation is creating a patchwork of different requirements which make supplying the travel retail market much more difficult and threaten to impede trade.

Legislation which sets out to simplify processes for manufacturers and bring clarity for consumers in many cases has the opposite effect in the travel retail channel, creating increased difficulties for manufacturers and confusion for customers.

Legislation currently under consideration such as the Food Labelling Regulation does not recognise the specific nature and uniqueness of the global duty free and travel retail industry. As a result legislation of this nature could have a significant adverse impact upon the business and many of the small and medium sized companies that cater for the market.

ETRC calls upon the European Commission to investigate the specific nature and difficulties being faced by the European duty free and travel retail sector and to bring forward common-sense proposals that will allow European businesses to maximise returns from this extremely powerful retail channel.

### **Travel Retail – A unique market**

Duty free and travel retail has long been recognised as a market which is unique and distinct from the domestic market for a number of reasons.

- Access to the shops is restricted to people who are travelling and in possession of a boarding pass.
- Travellers passing through European airports are from across the globe and in many cases may not speak the local language.

- Duty free and travel retail stores cater to an international traveller that demands a specialised service. Shops are often open 24/7 and provide multi-lingual staff.
- Food, drink and duty free tobacco products are normally intended for consumption outside of the country in which they are purchased, therefore the final destination of the products could be anywhere in the world.
- Only a limited range of products are sold in duty free and travel retail shops compared to the domestic market. These are often luxury designer brands, high-value electrical goods, confectionery, spirits, perfume and tobacco. Many goods are produced specifically for the duty free market only and cannot be found on the High Street.
- Many products purchased at duty free and travel retail shops are intended for gift giving, with special editions of products and promotions being supplied only to the travel retail sector.
- Airport duty free and travel retail shops do not compete with the domestic market; rather they compete with each other as passengers have the option of shopping at different airports – departure, arrival or transit airport. The European Commission most recently confirmed this position during their investigation into the acquisition of World Duty Free by Autogrill, published in May 2008.

### **The European Travel Retail Sector – Key Facts and Figures**

Today, travel retail is a vital shop window for European manufactured goods, a launch pad for many entrepreneurial brands, a source of employment and wealth across many European countries and a necessary source of income to provide top-class transport facilities for airports, airlines and other operators.

Airports and ports are all dependent on travel retail revenue to fund infrastructure investment and keep the level of charges to airlines and ferry operators at reasonable levels. Extreme pressure upon airports to provide low-cost high quality airport facilities to airlines means that non-aeronautical revenue from retail and other commercial activities is now the major source of income.

Travel retail is a dynamic part of the transport and tourism industry in Europe. Rapid growth in international travel and tourism has led to the development of a vibrant and innovative retail channel.

Globally, duty free and travel retail sales totalled approximately €30 billion in 2008. This global retail channel is dominated by European manufacturers, suppliers, and retailers. Invented in Shannon Airport Ireland in 1947, European retailers and brands have worked together to create what is probably the most powerful global retail channel in existence for brand development.

Sales in Europe account for 41.3% of global market, equivalent to €10.2 billion in sales in 2008. Over 70% of all sales were made at airports.

European products dominate duty free shops. The main products sold in duty free and travel retail shops can be divided into the following categories;

- Perfumes and cosmetics
- Wines and spirits
- Confectionery
- Tobacco
- Fine foods
- Luxury goods

On average, 8 out of the top 10 selling products in duty free and travel retail shops are European brands and most are produced in Europe. A high profile in duty free and travel retail has been fundamental to the creation of global brands in the liquor, beauty products, and confectionery and fine foods sectors.

The importance of this international customer base should not be underestimated – a duty free and travel retail shop provides a showcase for producers to market their products to international travellers with nominal advertising and marketing costs. Many local manufacturers supply to airport duty free and travel retail stores as it is a way of launching the product onto an international market without the associated high marketing and advertising costs. A successful high profile launch in travel retail in a certain market gives manufacturers the customer knowledge and confidence to invest significantly in broader national campaigns. Travel retail also gives fledging and entrepreneurial brands an opportunity to launch a new product on a global stage.

For larger producers, the industry offers a cost effective way of testing their new products in an international environment before it is launched onto the global market. In this way, the duty free and travel retail shop is a springboard for producers, allowing products to be exposed to international travellers and providing a high level of visibility.

The UK, France, Germany and Spain are all in the top 10 countries globally for duty free and travel retail shopping. In 2008, the UK, France and Germany recorded sales in excess of €1 billion. Denmark, Sweden, the Netherlands, Italy and Spain all recorded sales in excess of €500 million.

Most of the major international duty free operators are European owned companies. Market-leading European companies include;

- Aelia (France)
- Aer Rianta International (Ireland)
- Autogrill (Italy)– Owners of Aldeasa (Spain) and World Duty Free (United Kingdom)

- Belgian Sky Shops (Belgium)
- Dufry (Switzerland)
- Gebr. Heinemann (Germany)
- Harding Brothers (United Kingdom)
- Hellenic Duty free Shops (Greece)
- Inflight Services (Sweden)
- The Nuance Group (Switzerland)
- Schiphol Group (Netherlands)
- Tallink (Estonia)

### **The competitiveness of a European industry at risk**

Increasingly legislation is creating practical difficulties supplying and operating duty free and travel retail shops. The more rules and regulations there are in terms of product information in a multiplicity of languages, the more difficult it becomes to supply the market for both retailer and supplier. A simplified system that recognises the international make-up of the market we serve would make distribution and supply significantly easier and less costly for both retailer and supplier.

The ETRC is not advocating that our sector is exempted from any legislation on product labelling or information. On the contrary, we are simply proposing that the application of such legislation must take account of the international marketplace that we serve, and the nature of the goods we retail. It is surely contrary to the spirit of the EU that small suppliers or manufacturers are discouraged from entering the travel retail market in Europe because of the high cost of supplying individual shops in different countries. Complexity of legislation will inevitably mean less choice for the consumer.

### **Three examples of current issues are set out below:**

#### **Case Study 1 – Food labelling**

Legislation recently proposed by the European Commission would impose strict product information labelling requirements on food information across the EU – including a requirement that all products be labelled in local languages.

While this has merit for a domestic market, it is of less value and less relevant in the internationally diverse travel retail market where the consumer may or may not be a domestic market national. In addition onerous labelling requirements (especially if they have to be in a number of languages and on the front of the pack) negatively impact upon the visual attractiveness of products on display, a primary factor to be considered in gift-giving items such as confectionery.

Major international brands have been created through the duty free and travel retail channel. Travel retail allows manufacturers to test-launch products in particular markets without the major costs involved with sales and distribution networks and marketing campaigns. Onerous labelling

requirements will severely restrict the capacity of small manufacturers to supply the travel retail market.

### **Case Study 2 – Intra-EU ferry routes**

Scandlines is one of Europe’s largest ferry companies, mainly operating between Denmark, Germany and Sweden. Scandlines buys products in bulk then centralises them in a bonded warehouse according to Accompanying Administrative Documents (AADs). Once a sales order is received and collected for delivery, goods are then re-exported with excise and VAT (and where applicable tax stamps on alcohol) and have to be cleared by customs on delivery.

The complexity arises from the fact that these products can only be sold in the country where the excise applies, however. For example, on the 20 minute route between Helsingor, Denmark and Helsingborg, Sweden (10 minutes in Danish water territory and 10 in Sweden’s), “domestic” Danish alcohol is sold for the first 10 minutes. After this short period, the part of the shop selling alcohol is closed (due to the Swedish government’s monopoly on alcohol sales) and the part of the shop selling tobacco products is opened. In practice, it means that a customer wishing to buy alcohol and tobacco has to enter and leave the shop twice, in less than 20 minutes.

This represents a significant administrative and IT burden both to ensure correct reporting to the authorities and suppliers, and to meet the short lead times demanded.

### **A new approach**

The duty free and travel retail industry suggests that Espace Voyageur will form the basis for a solution to the problems facing this unique industry. The industry advocates a sector-specific Espace Voyageur approach that will better define the market, contribute to the completion of the internal market within the EU, and help facilitate the continued growth of the travel retail industry.

Espace Voyageur is a concept supporting the principle that all retailing to consumers travelling by air and sea is a market distinct from the domestic market.

Espace Voyageur is a geographically delineated area at airports, beyond security or immigration controls, accessible only to travellers with a valid travel document, such as a ticket or boarding card and it forms a distinct market from the domestic high street market place. The concept equally applies to sales onboard aircraft and ferries.

Espace Voyageur has no fiscal implications. Espace Voyageur is merely a simplified and more effective system of communicating key product information to customers in the duty free and travel retail area.

In France, the principle of Espace Voyageur has already been accepted as part of the French Commercial Code; now is an opportune moment to build on this and ensure that the concept of a separate market for duty free and travel retail is recognised throughout the 27 EU Member States.



The acceptance of Espace Voyageur by the EU would enhance the functioning and harmonisation of the Internal Market and allow regulators to protect the duty free and travel retail industry from unnecessary and burdensome regulatory requirements.

### **Conclusion – Espace Voyageur- Ensuring a healthy and vibrant travel retail business in Europe**

European manufacturers need to be able to access these markets cost-effectively. Espace Voyageur is a simple concept that will allow common-sense to be applied in communicating necessary product information to an international audience thus ensuring that suppliers and retailers of all sizes can access this market and trade unimpeded by legislation which does not meet the needs of this highly specific market.