



## Duty Free and Travel Retail – A Unique Market

**Duty-free and travel retail (DFTR) is a unique retailing channel marketing to the international traveller and a significant source of income and marketing opportunities for European businesses, which requires tailored legislative and regulatory solutions and an alternative approach to that used in European domestic markets .**

The success of the DFTR channel is intrinsically linked to the rise of global aviation and tourism and, as a result, has emerged with **unique characteristics**. Businesses in the DFTR channel operate in an international trading environment that meets the needs of travelling consumers across the globe, offering for example ‘Travel Retail Exclusives’ produced specifically for this retail channel.

Many of the top selling products in DFTR shops are European brands, and most are produced in Europe. For example, 6 of the top 10 global DFTR spirits brands<sup>1</sup> and 8 of the top 10 cosmetics brands are European, according to 2014 figures. Furthermore, 5 of the top 10 DFTR retailers are based in Europe. Having a high profile in DFTR has been fundamental to the establishment of global brands in many product categories. Iconic brands such as Johnnie Walker and Toblerone owe much of their global success to the duty-free retail channel.

Despite this however, the continuing proliferation of different **EU and national legislation that does not recognise the specificities of the duty-free and travel retail channel** threatens both the future of this channel and the product choice available to the travelling consumer.

### Duty Free & Travel Retail Channel – The Figures

**DFTR is the cornerstone of airport growth and development** with modern airport terminal design recognising the critical economic role it plays and ensuring new terminals come with large and vibrant retail spaces. Airports Council International (ACI) studies show that retail undertakings continue to be a leading source of non-aeronautical income for airports representing 34,2% of that category in Europe<sup>2</sup>.

The top three product categories in terms of 2013 sales in global duty-free and travel retail were fragrances and cosmetics (28.8%), wines and spirits (16.4%) and fashion and accessories (14.6%). European DFTR sales in airports, onboard airlines, ferries and cruise lines in 2013 amounted to EUR 15.74 billion which represents approximately 42% of the global DFTR market<sup>3</sup>.

Amongst others, the sector has afforded European SMEs the opportunity to present their products to international travellers with nominal advertising and marketing costs. Furthermore, large manufacturers see the channel as a cost-effective route to market for new products requiring an international environment.

### Duty Free & Travel Retail Market – A Unique Retail Channel

Duty-free is a feature of international travel that has been enjoyed by travellers for over seventy years. The 1944 Chicago Convention on International Civil Aviation, the 1954 New York Convention concerning customs facilities for touring and the 1999 World Customs Organisation Revised Kyoto Convention concerning customs facilities applicable to travellers each contain provisions protecting the right of travellers to carry duty-free purchases internationally.

**The DFTR channel is entirely different to the domestic market** given that it is primarily an export channel for consumers travelling between countries and regions across the globe. Products sold in duty-free and travel

<sup>1</sup> [International Wine & Spirits Research \(IWSR\) database](#)

<sup>2</sup> [2013 Airports Council International \(ACI\) Economics Report](#)

<sup>3</sup> [Generation Research](#)



retail outlets are not for consumption in the country in which they are purchased but carried by the passenger unopened to their final destination. In most cases these products do not enter the territory they are sold in and remain under customs controlled warehousing procedures until sold.

**Duty-free and travel retail retailing takes place in a secure environment.** Access is restricted to travellers with a valid travel document. Unlike the High Street, there is little or no exposure to products on sale at duty-free or travel retail shops other than during these limited occasions when a person is travelling. As all passengers are travelling with passports the eligibility of customer to purchase can be easily verified.

### **Catering for a Unique International Consumer**

DFTR shops are often open 24/7 and provide multi-lingual staff to cater to the international traveller.

DFTR consumers are drawn from a diverse mix of nationalities making up an international customer profile travelling through airports and on board planes, ferries and cruise lines. Duty-free and travel retail shops carry a wide range of products specifically tailored to meet the requirements of these customers who have multiple opportunities to buy their chosen product throughout their journey.

Furthermore, **international travellers may not speak the national language of the airport they are passing through, or the airline they are travelling on.** The DFTR sector is exploring innovative solutions to inform the consumer about the products they plan to purchase, in ways that meet regulatory objectives while catering to the needs of the customers of this unique retail channel.

### **ETRC calls for Tailored Solutions for this Unique Retail Channel**

The potential for European businesses to make the most of, and even grow the DFTR market, is at risk from and is increasingly undermined by the **patchwork of EU and national rules and regulations governing their operations, which do not take into account the specificities of this unique retail channel.** Most of these rules were developed for application in domestic markets but have significant practical implications for the DFTR channel because of the unique conditions under which it operates. These conditions include the multiplicity of languages used by staff and customers, the location of a product's place of consumption, security requirements and the nature of the supply chain.

Examples of legislation undermining the channel include issues ranging from labelling and the provision of consumer information to merchandising restrictions and are driven by health, environment and consumer protection policies developed for the domestic market. Adhering to the growing list of disparate national and EU rules and regulations under these unique conditions will result in significant additional production and distribution costs for all concerned and make selling in this channel commercially unfeasible leading to reducing airport revenues and limiting consumer choice.

**The strict application of EU and national legislation, which were negotiated without the specificities of the DFTR sector in mind, restricts the ability of manufacturers to access this important market. Indeed, such stringent rules act as significant barriers to entry for new products, particularly for SMEs and local producers, inevitably restricting consumer choice even further.**

**ETRC advocates strongly that regulators consider adapting the application of existing EU and national legislation to the duty-free and travel retail channel to take account retrospectively of the international marketplace that is being served, and of the nature and place of final consumption of the goods retailed. In the event of new legislation being put forward, this should at all times include specific rules tailored to the needs of the retail travel channel.**



#### **Case study: New EU law on food information to consumers (FIC Regulation)<sup>4</sup>**

- The new EU Regulation 1169/2011 on the provision of food information to consumers, applying since 13 December 2014, has caused significant problems for the food and confectionery categories in the DFTR channel.

- The key issue for DFTR has been the requirements by some Member States to label products sold within their territory in the national language(s). While this has some merits for the domestic market, it simply does not suit the specificities of the DFTR channel, both in terms of the consumers involved and the business environment. Even worse, these requirements do not increase consumer information in the channel, since most passengers come from other countries and don't speak the local language.

- The outcome of full compliance with the legislation will be the fragmentation of the offer, logistical cost increases and the withdrawal of products from the smaller markets, resulting in less consumer choice. This would have cascading effects on airport income, airline fares and European connectivity.

- The European Commission is due to publish a report on the application of the FIC provisions to alcohol beverages. While ETRC is satisfied with the current exemption of alcohol products from these provisions, as an organisation representing retailers, ETRC does not concern itself with whether alcohol beverages should or should not carry extended information on the label. Retailers receive the products from producers on the basis that all relevant legislation has been complied with.

- However, should it be decided that the FIC Regulation applies to alcohol beverages, **ETRC strongly urges regulators to recognize the specificities of DFTR, and allow for the required information to be provided in new and innovative ways not necessarily on the label.**

**For more information, please contact:**

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<sup>4</sup> [Eur-Lex](#), Regulation (EU) No 1169/2011 of the European Parliament and of the Council of 25 October 2011 on the provision of food information to consumers, amending Regulations (EC) No 1924/2006 and (EC) No 1925/2006 of the European Parliament and of the Council



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## **About the European Travel Retail Confederation (ETRC)**

*The European Travel Retail Confederation (ETRC) is an industry association representing the interests of the duty-free and travel retail industry in Europe, focused on creating the right environment to allow the industry to operate and achieve its potential. The organisation works closely with European and international governments, regulatory authorities and other stakeholders. ETRC is composed of 11 national and regional affiliated trade associations representing over 200 European companies, Tax Free World Association (TFWA) representing 500 brand companies, and direct corporate membership from 33 individual companies working in the duty free and travel retail trade across Europe and beyond.*

*The European Travel Retail Confederation's operations are directed by its Supervisory and Managing Boards and carried out by a full-time secretariat. For more information about the organisation, please see our website – [www.etr.org](http://www.etr.org)*

## **What is Duty-Free and Travel Retail?**

*Duty-free & travel retail is a global industry selling goods to international travellers, which are exempt from certain local or national taxes and excise duties, normally on the understanding the goods will be taken out of the country.*

*Airports represent the majority of such sales globally but duty-free & travel retail is also available at border shops, onboard cruise & ferry vessels and onboard aircraft during international travel, at international railway stations and in some non-EU countries at downtown stores where proof of travel is required and at airport arrival shops.*

*“Travel retail” refers to shops in travel environments where customers require proof of travel to purchase and goods are subject to taxes and duties.*

*Duty-free & travel retail generates significant levels of employment and vital revenues for the world's airports and for the aviation, tourism and maritime industries and is now a key element of the travel experience for many passengers.*

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