



The Economic Impact of Arrivals Duty and Tax Free Shopping in the EU



Destination	Flight Number	Time
DUBROVNIK	2100	02
SKOPJE	2100	02
SARAJEVO	2100	04
SARAJEVO	2100	04
DUBROVNIK	2100	04
DUBROVNIK	2105	13
DUBROVNIK	2105	15
HILAN-HALPENSA	0550	03
PARIS	0635	02
FRANKFURT	0650	16
FRANKFURT	0655	12
FRANKFURT	0655	18
FRANKFURT	0655	18
VIENNA	0655	18

European Travel Retail Confederation

October 2020
Updated February 2021



Contents

York Aviation Contacts

Originated by:

James Brass

Partner

T. +44 (0)7767 455614

E. james.brass@yorkaviation.co.uk

Matthew Jones

Senior Consultant

T. +44 (0)1625 614051

E. matthew.jones@yorkaviation.co.uk

	<u>Page</u>
0. Key Points	2
1. Introduction	7
2. How would arrivals shops affect the market?	9
3. Estimating the economic impact of arrivals shops	12
4. Country Case Study: Spain	16
5. Country Case Study: Italy	22
6. Country Case Study: Germany	28
7. Country Case Study: France	34
8. Potential Impact Across the EU	40

York Aviation is the trading name of York Aviation LLP, registered in Cardiff, No. 0C307526. Registered Office: Smithfield House, 92 North Street, Leeds, LS2 7PN

Disclaimer of Liability

Although every effort has been made to ensure the accuracy of the material and the integrity of the analysis presented herein, York Aviation LLP accepts no liability for any actions taken on the basis of its contents.

York Aviation LLP is neither authorised nor regulated by the Financial Conduct Authority or the Prudential Regulation Authority. Anyone considering a specific investment should consult their own broker or other investment adviser. York Aviation LLP accepts no liability for any specific investment decision, which must be at the investor's own risk.

Copyright

Copyright © 2020 York Aviation LLP. All rights reserved. Except for the quotation of short passages for the purposes of criticism or review, no part may be used or reproduced without permission.

0



Key Points

Key Points

The COVID-19 pandemic has had a devastating impact on the European air transport industry and its partner sectors.

There is, therefore, a need for cohesive action by Governments across Europe to both directly support the sector but also to put in place a regulatory framework that allows the sector to help itself to recover. One area of potential regulatory change that has been identified by the industry is to amend current EU legislation to allow airports to operate duty and tax free arrivals shops.

This change would enable retailers and their airport partners to build a new stream of non-aviation revenues, which are vital to the commercial sustainability of airports. Non-aviation revenues for airports include those derived from activities such as car parking, advertising, food and beverage sales, property rental or, of course, the letting of retail concessions. These revenues are often a significant proportion of overall airport revenues, typically they make up around 40% in Europe.

Ultimately, this would enable the sector to provide more jobs and support greater levels of Gross Value Added (GVA) in the economy and support recovery. This research considers these potential economic impacts in four major EU markets, Spain, Italy, Germany and France. Together these four countries accounted for around 49% of seat capacity from EU airports to non-EU destinations.

How would duty and tax free arrivals shops affect the market?

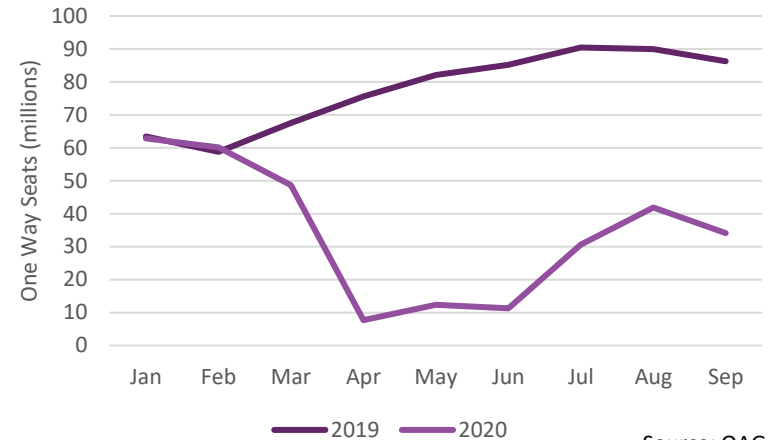
The primary impact of the change would be to 'level up' competition in the travel retail market between EU and non-EU airports, benefitting consumers, EU based retailers and airports and EU public finances.

There are a number of key points to note:

- it is unlikely that duty and tax free arrivals shops will result in a significant increase in overall travel retail sales globally. Instead, they will shift sales from outside the EU to inside the EU;
- the system of allowances will remain and hence it is unlikely that domestic markets will be affected or that there will be a cost to the public finances from lost excise duty or sales taxes;
- the change will actually have a positive impact on Government revenues as economic activity within the EU is boosted;
- Evidence from elsewhere suggests sales from arrivals shops could make up 20% to 30% of total travel retail sales, with the most likely figure to be at the bottom end of the range.

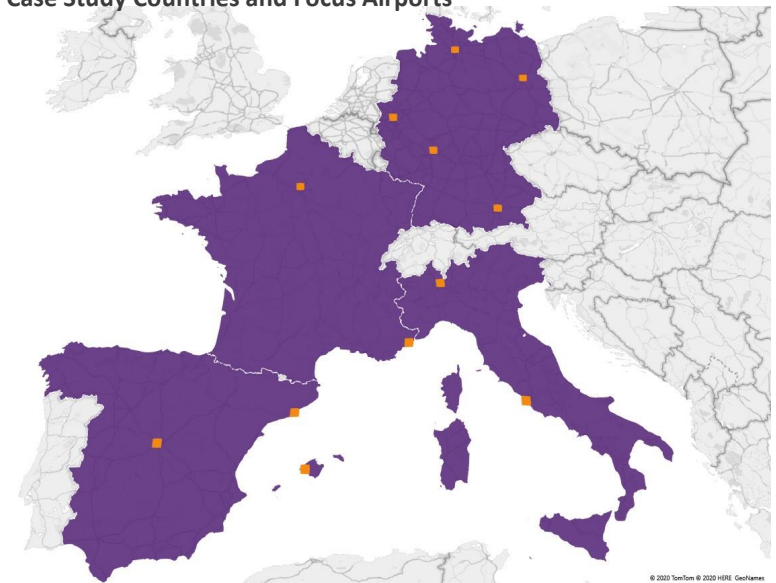
bing

The Impact of COVID-19 on European Airport Seat Capacity



Source: OAG.

Case Study Countries and Focus Airports



© 2020 TomTom © 2020 HERE GeoNames

Key Points

The Potential Economic Impact of Duty and Tax Free Arrivals Shops

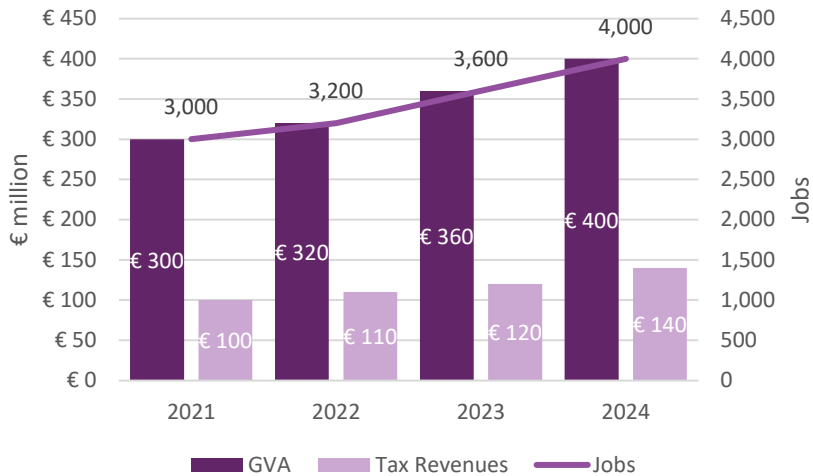
The potential economic impacts from duty and tax free arrivals shops in the case study countries are significant.

The damage to the air transport industry from COVID-19 means that traffic levels across Europe are not expected to recover until around 2024. This means that it will take time for the economic benefits from duty and tax free arrivals shops to reach their potential. However, as demand recovers they will boost each country's economy, providing jobs and prosperity:

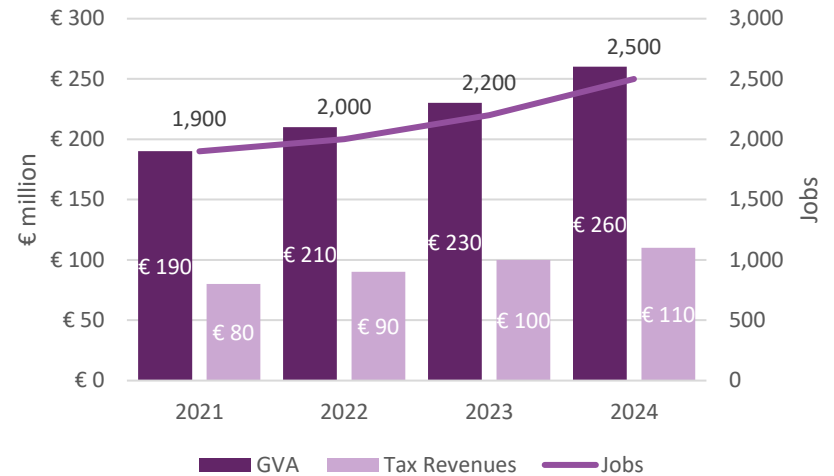
- in Spain, implementing arrivals shops in 2021 would support around €300 million in additional GVA, 3,000 jobs and around €100 million in tax revenues through direct, indirect, induced and wider effects. By 2024, this would increase to around €400 million in GVA, 4,000 jobs and €140 million in tax revenues. These impacts are largest at the country's two main airports, Madrid and Barcelona;
- in Italy, implementing arrivals shops in 2021 would support around €190 million in additional GVA, nearly 2,000 jobs and around €80 million in tax revenues through direct, indirect, induced and wider effects. By 2024, this would increase to around €260 million in GVA, 2,500 jobs and €110 million in tax revenues. Again, these impacts are largest at the country's two main airports, Rome Fiumicino and Milan Malpensa;
- in Germany, implementing arrivals shops in 2021 would support around €620 million in additional GVA, nearly 6,000 jobs and around €240 million in tax revenues through direct, indirect, induced and wider effects. By 2024, this would increase to around €830 million in GVA, nearly 8,000 jobs and €320 million in tax revenues. While impacts are again driven by the Country's two main airports, Frankfurt Main and Munich, the higher levels of non-EU traffic at other airports means that overall impacts in Germany are higher and more spread;
- in France, implementing arrivals shops in 2021 would support around €580 million in GVA benefits, over 5,000 jobs and €270 million in tax revenues delivered in 2021 through direct, indirect, induced and wider impacts. By 2024, this would increase to around €780 million in additional GVA across France supported, nearly 7,000 jobs provided and around €360 million in tax revenues to Government. The impacts are heavily driven by Paris CDG, France's global hub airport.

Key Points

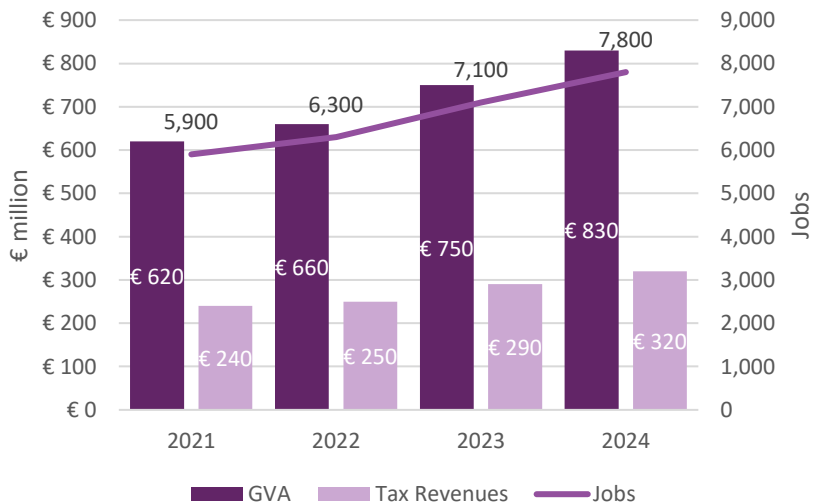
Total Economic Impacts in Spain as Aviation Recovers



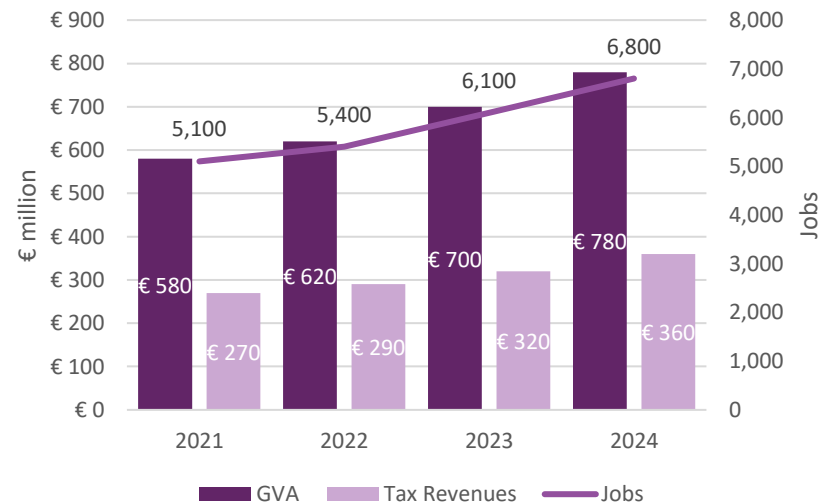
Total Economic Impacts in Italy as Aviation Recovers



Total Economic Impacts in Germany as Aviation Recovers

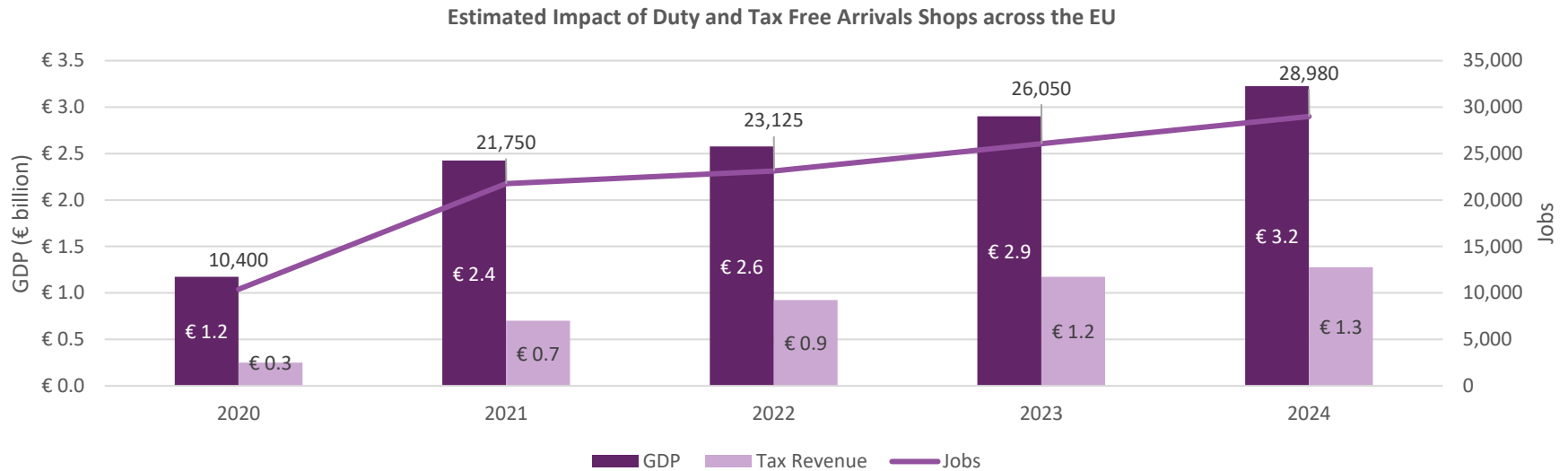


Total Economic Impacts in France as Aviation Recovers



Source: York Aviation.

Key Points



Extrapolating from the results for the case study countries¹ and adjusting for publicly available country variables enables an initial, high level assessment to be made of the impact across the EU.

In 2019, the analysis suggests that **for every million one way seats to non-EU destinations**, tax and duty free arrivals shops would have supported:

- €16 million in GVA;
- 155 jobs;
- €6 million in tax revenues.

Adjusting for COVID effects and BREXIT, this assessment sees an initial impact of around €1.2 billion in GVA, over 10,000 jobs and around €300 million in tax revenues in 2020, rising to €3.2 billion in GVA, nearly 29,000 jobs and €1.3 billion in tax revenues in 2024.

¹ The case study for France was undertaken at a later date and was not included within this analysis.

1



Introduction

Introduction

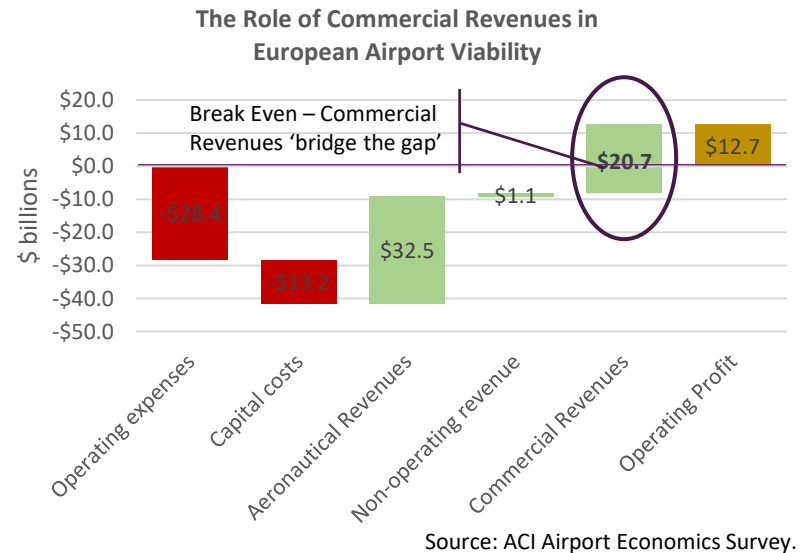
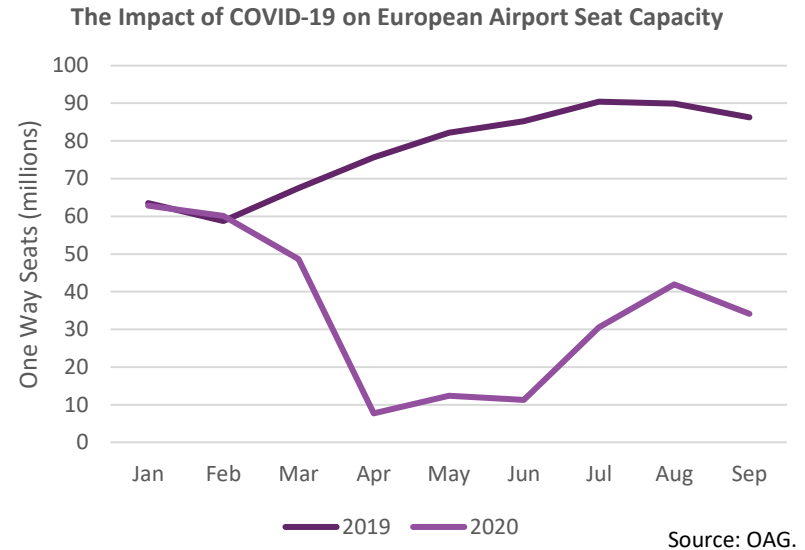
The COVID-19 pandemic has had a devastating impact on the European air transport industry and its partner sectors. The travel restrictions brought in by Governments around the world brought air travel to a virtual standstill during the second quarter of 2020 and, even now, as people start to fly again, the recovery is slow and uneven. Airports, airlines, travel retailers and their supply chains are suffering unprecedented financial hardship and there is a very real danger of long term damage to the sector, hampering its ability to support economic recovery in the short to medium term and to provide jobs and prosperity in the longer term.

There is, therefore, a need for cohesive action by Governments across Europe to both directly support the sector but also to put in place a regulatory framework that allows the sector to help itself to recover. One area of potential regulatory change that has been identified by the industry is to amend current EU legislation to allow airports to operate duty and tax free arrivals shops. Such shops are commonplace in other parts of the world and, indeed, a number operate at major airports in non-EU countries in Europe, such as Switzerland, Norway and Turkey.

This change would enable retailers and their airport partners to build a new stream of non-aviation revenues, which are vital to the commercial sustainability of airports, that would support recovery, enable companies to rebuild balance sheets, and incentivise growth in aviation demand working with airline partners. Ultimately, this would enable the sector to provide more jobs and support greater levels of Gross Value Added (GVA) in the economy and support recovery.

The timing of this potential change is also important. It needs to happen quickly if it is to help the aviation sector recover from COVID-19. As travel restrictions are removed and demand begins to return, retailers and airports need to be ready to take advantage of the opportunity. While there are clearly benefits for the sector and the EU economy from the change in the long term as well, the immediate imperative to support recovery means that rapid action can bring short term relief.

This short report considers the potential economic impacts of allowing duty and tax free arrivals shops in four major air transport markets in the EU, Spain, Italy, Germany and France. It considers the potential change in travel retail sales, the effect on the market and, ultimately, the impact on GVA, employment and tax revenues in each country and at a selection of major airports.



2



How would duty and tax free arrivals shops affect the market?

How would duty and tax free arrivals shops affect the market?

The introduction of duty and tax free arrivals shops in the EU will affect how the travel market operates but in a way that is likely to be beneficial to consumers and EU based retail and airport operations, and also revenue positive to EU Governments.

Ultimately, the primary impact of the change would be to 'level up' competition in the travel retail market between EU and non-EU airports. Currently, airports in the EU can only sell duty and tax free goods to passengers departing the EU. However, competing airports outside the EU can sell to passengers either on arrival or departure. In other words, airports outside the EU can compete with EU airports for retail sales for passengers leaving the EU but EU airports cannot compete with non-EU airports for retail sales for passengers returning to the EU. This stifling of competition is bad for consumers and denies opportunities to generate revenues for EU based retailers and airports, which ultimately support more jobs and GVA.

How the implementation of duty and tax free arrivals shops might impact on the market is perhaps best considered by answering a series of key questions.

Will Duty and Tax Free Arrivals Shops Increase the Overall Size of the Market?

It is unlikely that duty and tax free arrivals shops will result in a significant increase in overall travel retail sales. Fundamentally, they will not lower the overall prices offered to passengers and, hence, there is unlikely to be significant new demand. Instead, what will happen is that the point of sale will shift geographic. EU airports would be able to compete with departures shops outside the EU for sales to passengers entering the EU from those countries and, as such, sales will be made within the EU rather than at the origin airport outside the EU. In other words, the market will rebalance in line with the preferences of consumers, reflecting a more competitive market, and there will be a boost to revenues at EU airports from the sales shifted from non-EU departures shops to EU arrivals shops.

The proviso to this position is that the enhanced competition within the

market will potentially result in some price competition between retailers at airports inside and outside the EU. This will ultimately benefit consumers. It should be noted that this study has not sought to estimate this particular effect.

It should also be recognised that not all sales shifts will be from outside the EU to inside the EU. Travel retailers do currently sell products to passengers travelling within the EU and this will continue to happen and arrivals shops would become a factor in this market. However, as this group has nothing to gain in terms of price, it is likely that shifts in this market towards shopping in arrivals shops will be relatively limited and that sales at duty and tax free arrivals shops will be dominated by travellers from outside the EU.

Will Duty and Tax Free Arrivals Shops at Airports Distort Sales in Domestic Markets in the EU?

The system of allowances for duty and tax free products will not change as a result of the implementation of arrivals shops. Inbound passengers will still only be able to bring the same amounts of any product into the EU as before. As stated above, it is also unlikely that the overall size of the global travel retail market will change significantly as there is not expected to be a significant change in price. Hence, it is highly unlikely that there will be any distortion of domestic markets.

Will EU Governments Lose Excise and Tax Revenues as a Result of Duty and Tax Free Arrivals Shops?

Again, the system of allowances for duty and tax free products will not change as a result of the implementation of arrivals shops. As a consequence, there will be no change as regards the excise duty and tax revenues that can be collected in relation to travel retail sales. In direct revenue terms, implementation would be neutral for Governments.

How would duty and tax free arrivals shops affect the market?

However, the increased sales will result in increased economic activity in EU countries, which will result in increased revenue from corporate and income taxes as profits and wages are earned, and from sales and other taxes in the wider economy through multiplier effects. In other words, duty and tax free arrivals shops would be revenue positive for Governments.

How Much Might Sales within the EU Increase By?

Based on information provided by a number of major travel retailers, sales in duty and tax free arrivals shops in other parts of the world often represent between 20% and 30% of total travel retail sales at airports, with a bias towards the bottom end of that range. There seems little reason to suggest that this would likely be very different in the EU.

3



Estimating the economic impact of arrivals shops

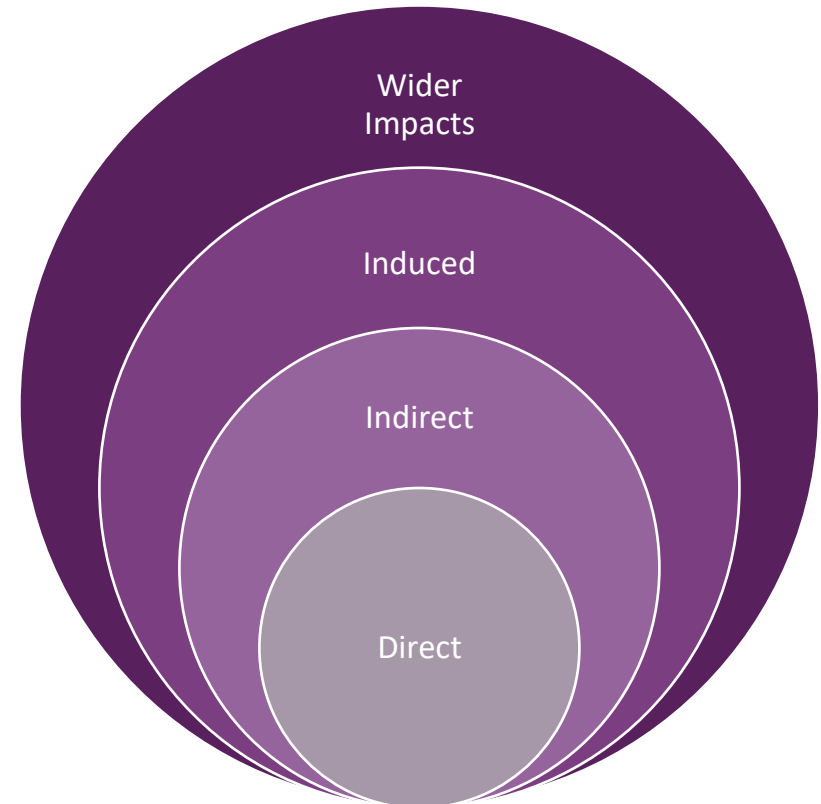
Estimating the economic impact of arrivals shops

The potential economic impact of the implementation of duty and tax free arrivals shops has been considered using a commonly used analytical framework.

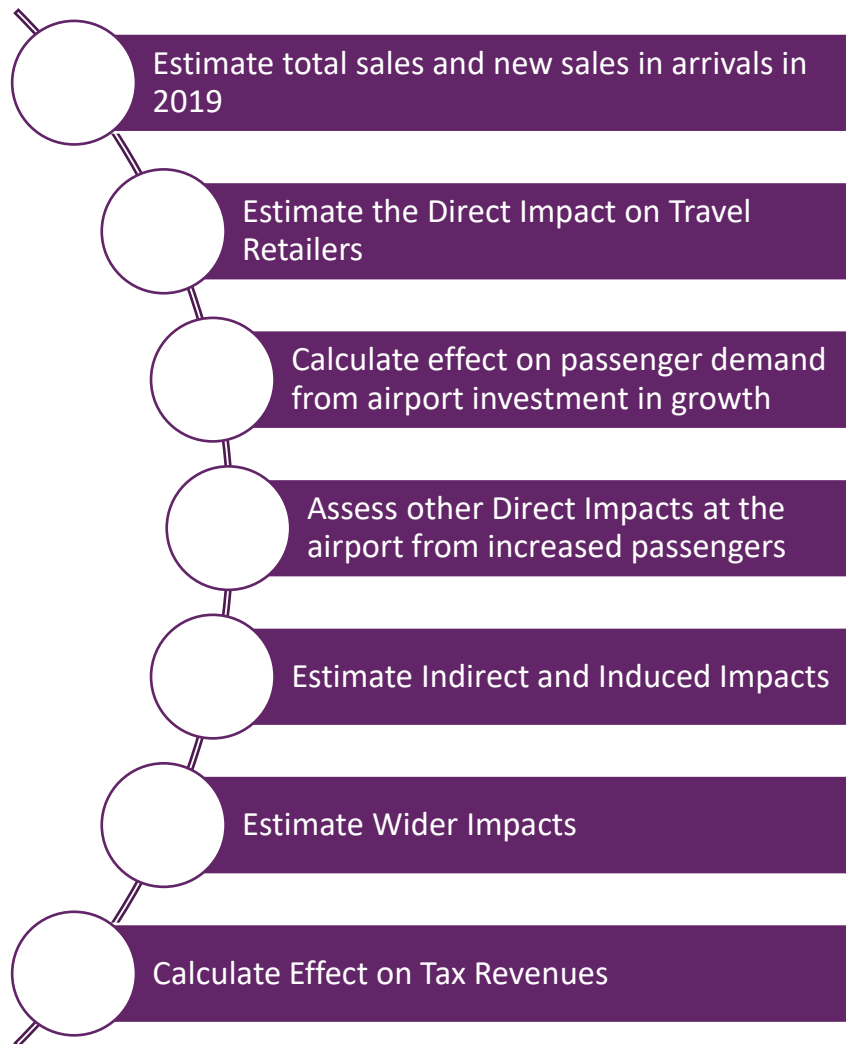
This framework considers how the increase in travel retail sales at EU airports resulting from the implementation of arrivals shops will enable retailers, airports and their partners to support GVA and employment growth in the economy. It considers the potential economic impact in terms of a series of effects:

- Direct Impacts – changes in the GVA and employment supported by organisations directly involved in the provision of air services and services to air passengers at airports. This will include retailers, airport companies, airlines and providers of ancillary services at airports;
- Indirect Impacts – this refers to GVA and employment supported in the supply chain of the direct impacts. These impacts are calculated using multipliers;
- Induced Impacts – this refers to GVA and employment supported by the expenditure of the wages and salaries earned in the direct and indirect impacts. It is again measured via a multiplier;
- Wider Impacts – this refers to GVA and employment supported by the ability of airports to provide connectivity to users. Connectivity is fundamental to bringing in tourism revenues, which then support GDP in destination market. Similarly, air services also provide connectivity for business people. This enables trade, competition, knowledge transfer and investment flows across global economies. This ultimately drives economic efficiency across origin and destination economies, which ultimately increases productivity in the economy, increasing GDP.

Economic Impact Analytical Framework



Approach to Modelling

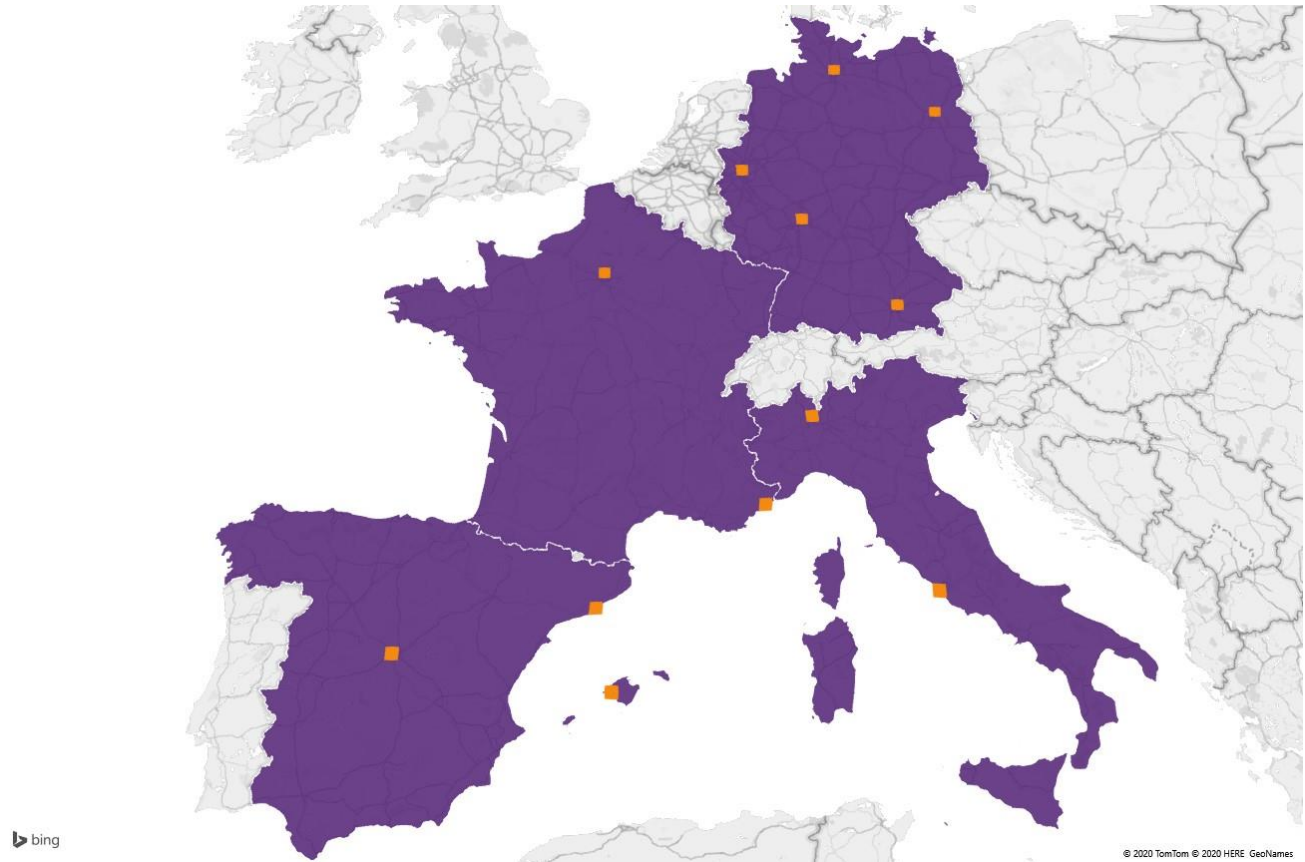


The approach used to estimate the different impacts described above is set out in overview opposite:

- initially total duty and tax free sales for each country and airport have been estimated for 2019. These estimates have been based on a range of data sources including confidential discussions with retailers and data from published sources including Eurostat, OAG and the ACI Airport Economics Survey. The potential boost to sales has been calculated based on the observed percentage of total sales in other parts of the world. An assumption towards the bottom end of the range has been used;
- the direct impact on GVA and employment supported by retailers as a result of the additional sales has been calculated using information from published financial statements for a number of travel retailers;
- the model assumes that additional airport revenues from sales are used to invest in passenger growth and to attract new services and airlines. This might be through airline incentive schemes, investment in infrastructure, marketing or other channels;
- Direct GVA and employment impacts outside of travel retailers relating to broader traffic growth have then been estimated using data on airport employment densities and GVA per job based on research on the economic impact of airports in Europe for ACI EUROPE²;
- Indirect and induced impacts have been calculated using multipliers also drawn from the ACI EUROPE research and the econometric relationship between air connectivity set out in this research has been used to estimate wider impacts;
- Impacts on Government revenues have been estimated based on data from the OECD.

² The Economic Impact of European Airports – InterVISTAS for ACI EUROPE (2015).

Case Study Countries and Airports



This study has focussed on considering the potential impacts of duty and tax free arrivals shops in four major air transport markets in the EU and a number of major airports in each country:

- in Spain the analysis has examined the impacts associated with Madrid-Barajas Airport, Barcelona Airport and Palma de Mallorca;
- in Italy the analysis considered the two main long haul gateways in the country, Rome Fiumicino and Milan Malpensa;
- in Germany, which has number of airports with significant direct services outside the EU, the analysis examines Frankfurt Main, Munich, Dusseldorf, Berlin Tegel and Hamburg;
- in France the analysis has examined the impacts at Paris Charles de Gaulle (CDG) and Nice.

4



Country Case Study: Spain

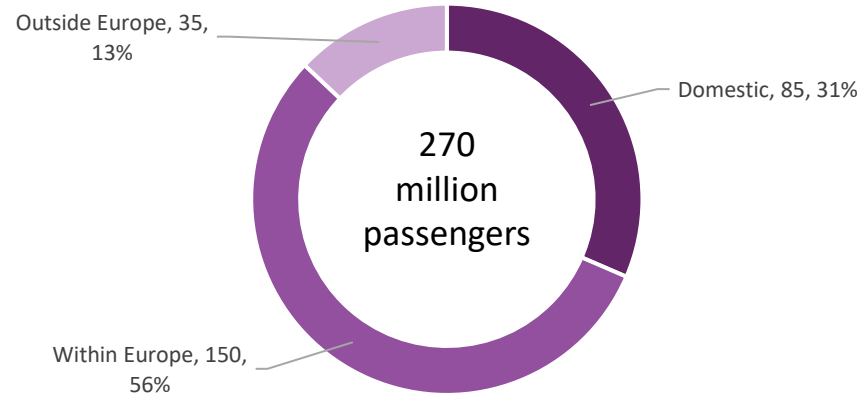
Spain: The Air Transport Market

Spain was the second largest air transport market in the EU in 2019 (behind the UK). Its airports handled around 270 million passengers.

Data from Eurostat shows that around 35 million passengers were travelling directly to / from destinations outside of the EU, which accounted for around 13% of passenger traffic. A proportion of passenger traffic on other routes within Europe is likely to be using hub airports to travel onward to destinations outside of the EU but data is not readily available on this group.

Within Spain, Madrid and Barcelona airports dominate the market for travel outside of the EU. Together, these two airports accounted for 78% of seat capacity to / from non-EU destinations in 2019. While a number of other airports, including our third focus airport, Palma de Mallorca, did have significant seat capacity to destinations outside the EU, these are somewhat behind Spain's main gateways.

Size of the Passenger Market (millions)



Source: Eurostat.

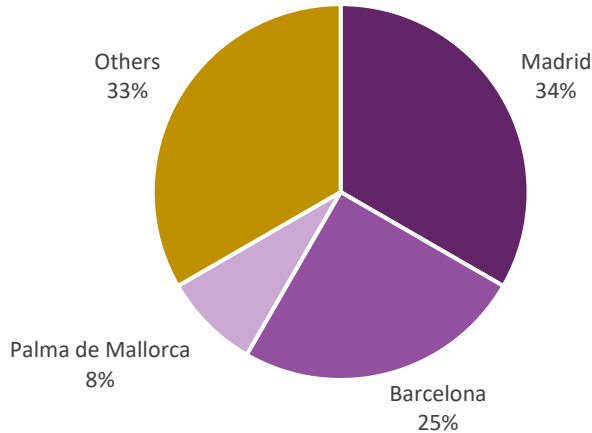
Top 10 Airports by One Way Seat Capacity Outside the EU

Airport	Seat Capacity (millions)	% Share
Madrid Adolfo Suarez-Barajas	11.4	50%
Barcelona Apt	6.4	28%
Malaga Airport	1.1	5%
Alicante Airport	1.0	5%
Palma de Mallorca	0.8	4%
Gran Canaria	0.6	2%
Valencia Airport	0.4	2%
Tenerife Sur Apt	0.3	1%
Sevilla Airport	0.1	1%
Santiago de Compostela	0.1	0%
Others	0.5	2%
Total	22.9	100%

Source: OAG.

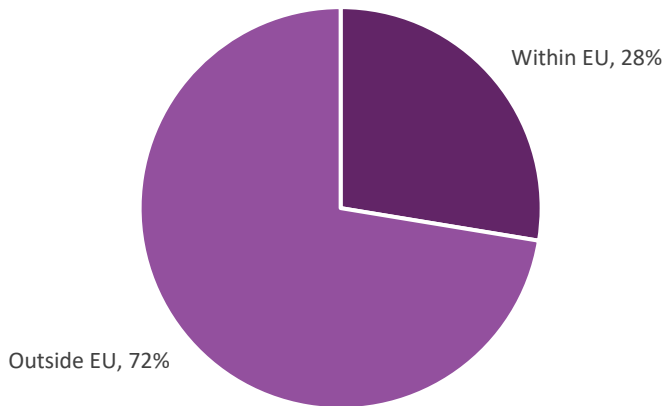
Additional Duty Free & Tax Free Sales in Spain

Distribution of Additional Sales from Duty and Tax Free Arrivals Shops



Source: York Aviation.

Source of Additional Sales by Geographic Area



Source: York Aviation.

The first chart opposite considers how the additional sales associated with duty and tax free arrivals shops might be distributed across Spain's airports given the structure of traffic and the relative sizes in terms of passenger demand³.

Madrid and Barcelona are expected to account for the largest share of additional sales, reflecting their position as the key gateways for travel outside of the EU and the fact that they are the largest airports in terms of passenger demand. Together they are expected to account for just under 60% of new sales. However, Palma de Mallorca, which also has a substantially smaller presence is also expected to benefit, attracting around 8% of new sales in Spain.

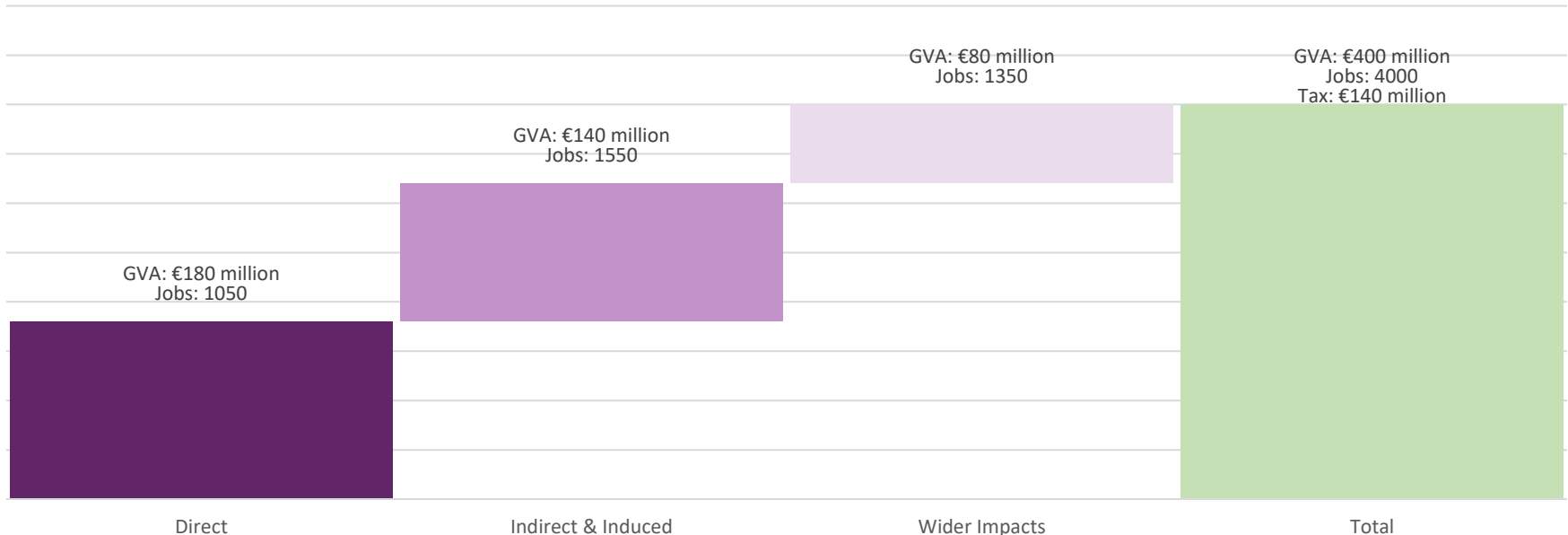
The great majority of new sales are expected to come from passengers travelling from outside the EU (around 72%). However, it should be noted that this is likely to be a conservative estimate as it is difficult to effectively estimate how passengers using services from within the EU will be hubbing at another airport and travelling from a destination outside of the EU.

Overall, total sales across Spain are expected to be boosted by over 20% and, while these sales are likely to focus on larger airports with more connections outside the EU, the benefits will be felt across a range of airports.

3. Data from the ACI Airport Economics Survey suggests that larger airports achieve higher per passenger retail yields.

The Economic Impacts of Arrivals Shops in Spain at 2019 Traffic Levels

Economic Impacts of Duty & Tax Free Arrivals Shops in Spain



Source: York Aviation.

At 2019 passenger demand levels, the implementation of duty and tax free arrivals shops would have supported around €400 million in additional GVA across Spain, supported 4,000 jobs and provided around €140 million tax revenues to Government.

Direct impacts are the largest contributors in terms of GVA accounting €180 million of the total, with indirect and induced impacts accounting for a further €140 million. Direct impacts accounted for around 1,050 jobs and indirect and induced impacts a further 1,550 jobs. The ability to invest in connectivity created by the advent of duty and tax free arrivals shops supported around €80 million in GVA and 1,350 jobs in the wider economy.

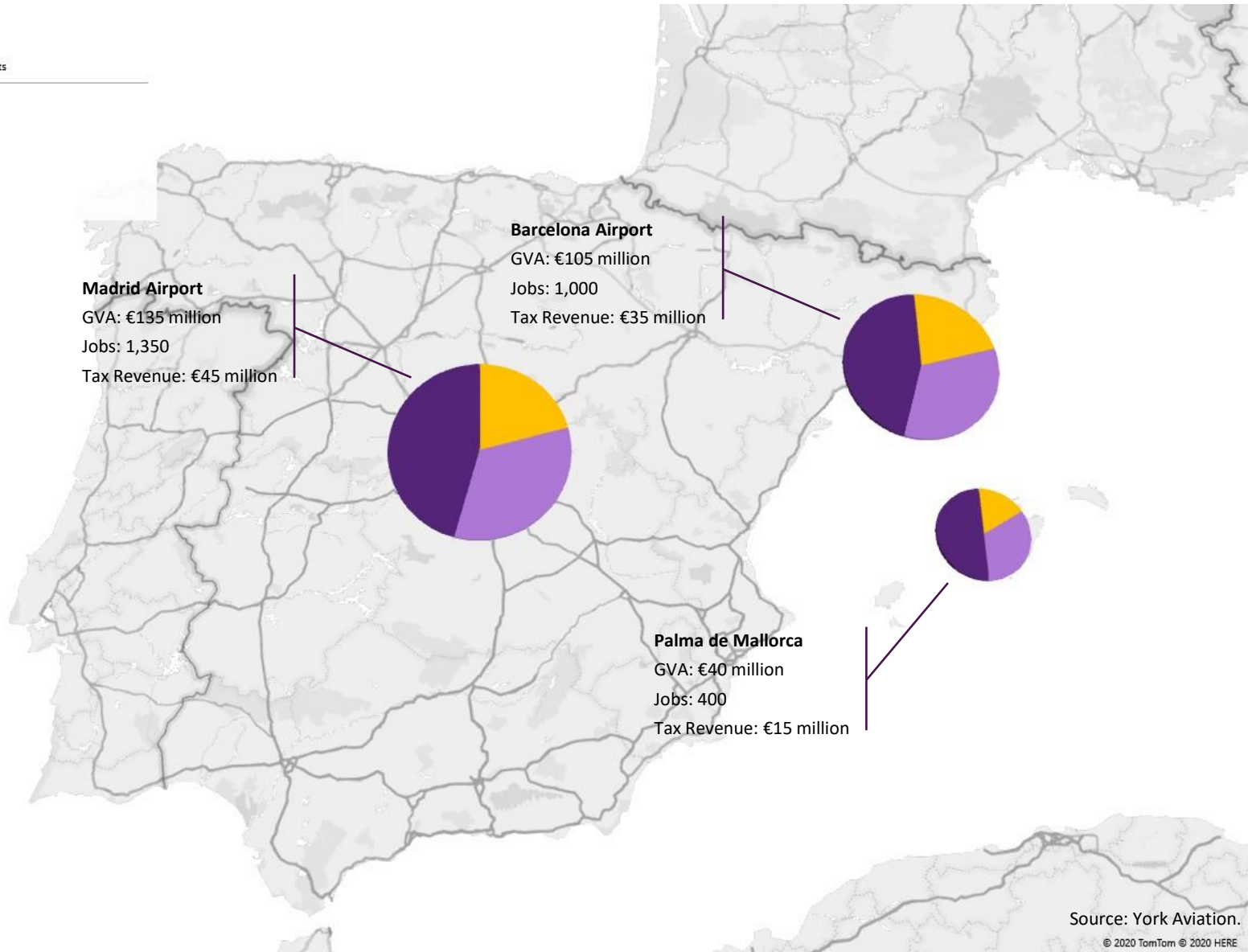
The impacts associated with the individual airports examined are set out overleaf:

- sales at Madrid Airport would support €135 million in GVA, 1,500 jobs and €45 million in tax revenue;
- sales at Barcelona Airport would support €105 million in GVA, 1,150 jobs and €35 million in tax revenue;
- sales at Palma de Mallorca Airport would support €40 million in GVA, 450 jobs and €15 million in tax revenue.

The Economic Impacts of Arrivals Shops at 2019 Traffic Levels

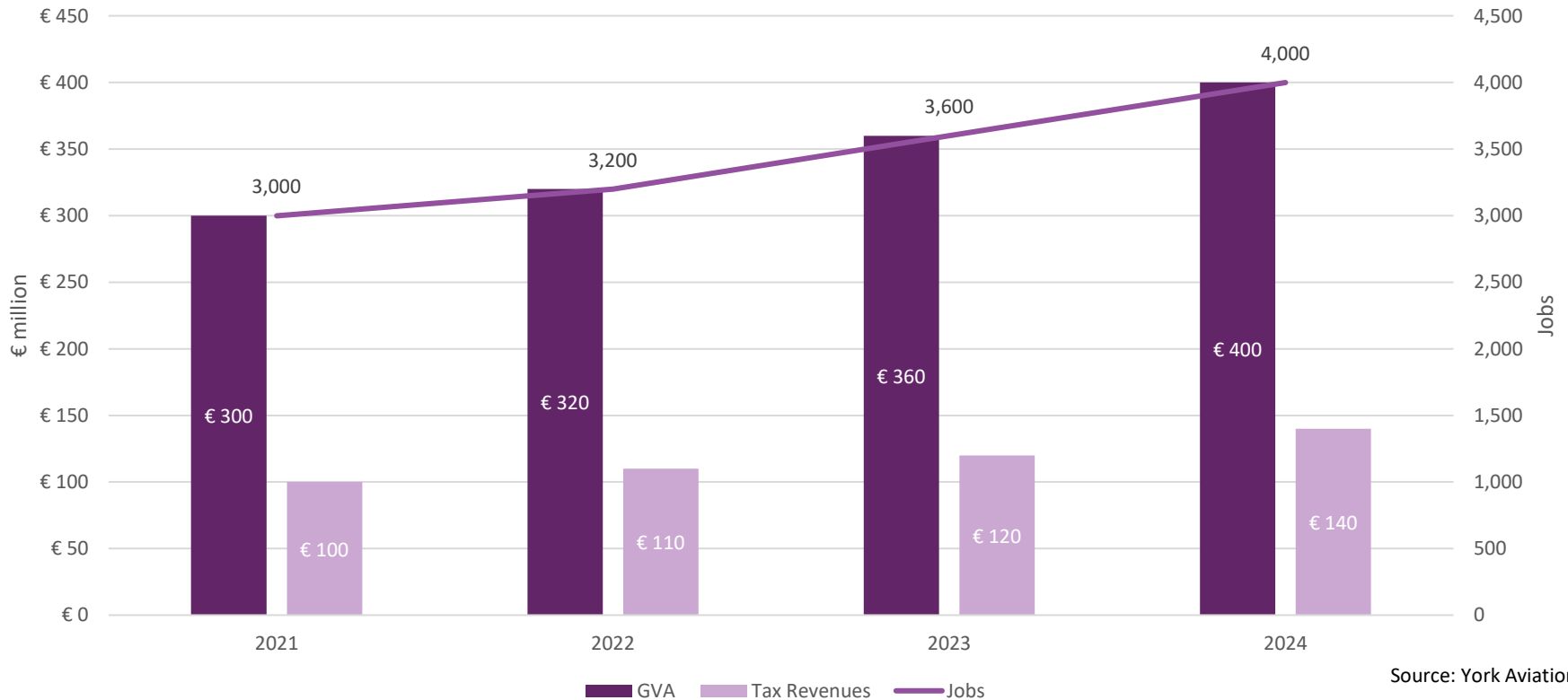
Economic Impacts at Focus Airports

- Direct GVA (Sum)
- Indirect & Induced GVA (Sum)
- Wider GVA (Sum)



Supporting Recovery from COVID-19

Total Economic Impacts in Spain as Aviation Recovers



As highlighted above, the COVID-19 pandemic and the associated travel restrictions have, of course, severely affected passenger numbers at airports across Europe and many commentators are suggesting that traffic levels are now unlikely to recover to 2019 levels until around 2024. Clearly, this means that duty and tax free arrivals shops are unlikely to deliver the level of sales that might have been achieved in 2019 as there are simply fewer passengers. However, as demand builds back up and growth returns, the economic impacts highlighted above will be delivered.

The chart above sets out how economic impacts in Spain might build up over the next few years based on the latest market forecast for the period from ACI EUROPE. This sees around €300 million in GVA benefits, 3,000 jobs and €100 million in tax revenues delivered in 2021 through direct, indirect, induced and wider impacts, building slowly through 2022 and 2023 to ultimately recover to those supported at 2019 traffic levels in 2024. It should be noted that these estimates do not include any boost from the UK leaving the EU and hence passengers travelling to / from the UK being eligible for duty and tax free sales.

5



Country Case Study: Italy

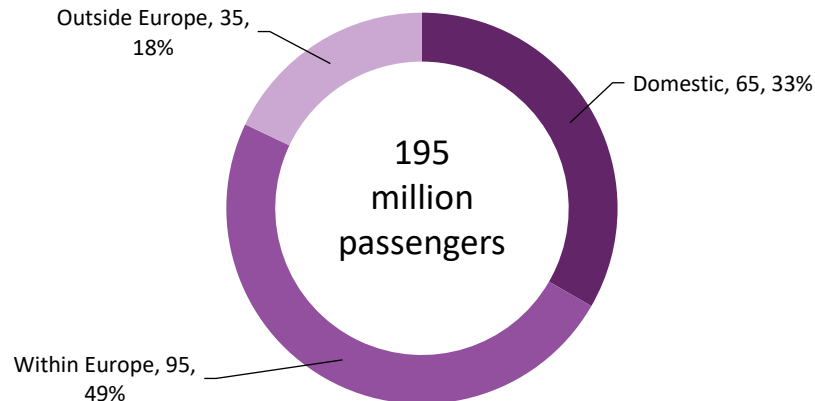
Italy: The Air Transport Market

Italy was the fifth largest air transport market in the EU in 2019. Its airports handled around 195 million passengers.

Data from Eurostat shows that around 35 million passengers were travelling directly to / from destinations outside of the EU, which accounted for around 18% of passenger traffic. Again, a proportion of passenger traffic on other routes within Europe is likely to be using hub airports to travel onward to destinations outside of the EU but data is not readily available on this group.

Within Italy, Rome Fiumicino and Milan Malpensa airports dominate the market for travel outside of the EU. Together, these two airports accounted for 69% of seat capacity to / from non-EU destinations in 2019. While a number of other airports, for instance Venice Marco Polo, did have significant seat capacity to destinations outside the EU, these are somewhat behind Italy's main gateways.

Size of the Passenger Market (millions)



Source: Eurostat.

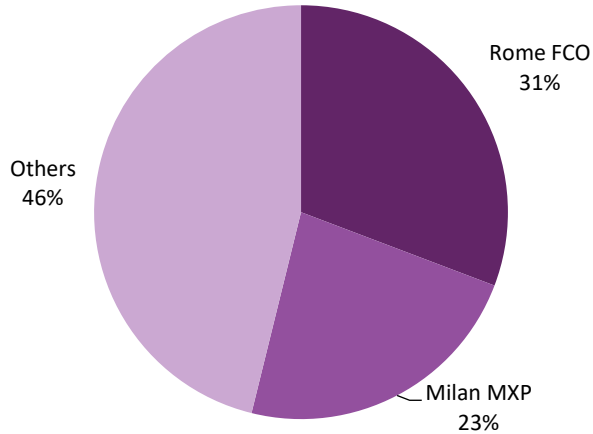
Top 10 Airports by Seat Capacity Outside the EU

Airport	Seat Capacity (millions)	% Share
Rome Fiumicino Apt	9.1	42%
Milan Malpensa Apt	5.7	27%
Venice Marco Polo Apt	1.5	7%
Milan Bergamo	0.9	4%
Bologna Guglielmo Marconi	0.9	4%
Naples Capodichino Apt	0.6	3%
Verona Villafranca Airport	0.5	2%
Catania	0.4	2%
Pisa	0.3	1%
Florence Peretola Apt	0.2	1%
Others	1.4	7%
Total	21.5	100%

Source: OAG.

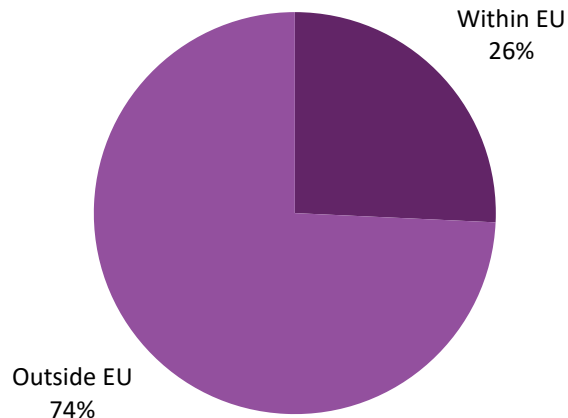
Additional Duty Free & Tax Free Sales in Italy

Distribution of Additional Sales from Duty and Tax Free Arrivals Shops



Source: York Aviation.

Source of Sales by Geographic Area



Source: York Aviation.

The first chart opposite considers how the additional sales associated with duty and tax free arrivals shops might be distributed across Italy's airports given the structure of traffic and the relative sizes in terms of passenger demand.

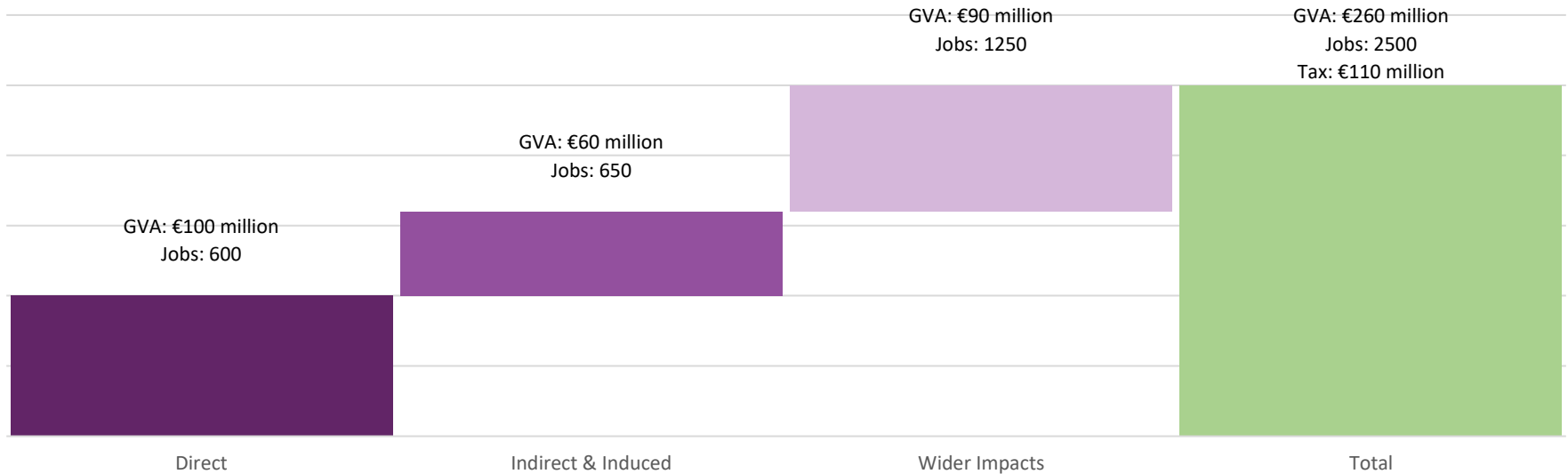
Rome Fiumicino (31%) and Milan Malpensa (23%) are expected to account for the largest share of additional sales, reflecting their position as the key gateways for travel outside of the EU and the fact that they are the largest airports in terms of passenger demand.

The great majority of new sales are expected to come from passengers travelling from outside the EU (around 74%). However, again, it should be noted that this is likely to be a conservative estimate as it is difficult to effectively estimate how passengers using services from within the EU will be hubbing at another airport and travelling from a destination outside of the EU.

Overall, total sales across Italy are expected to be boosted by over 20% and, while these sales are likely to focus on larger airports with more connections outside the EU, the benefits will be felt across a range of airports around Italy.

The Economic Impacts of Arrivals Shops in Italy at 2019 Traffic Levels

Economic Impacts of Duty & Tax Free Arrivals Shops in Italy



Source: York Aviation.

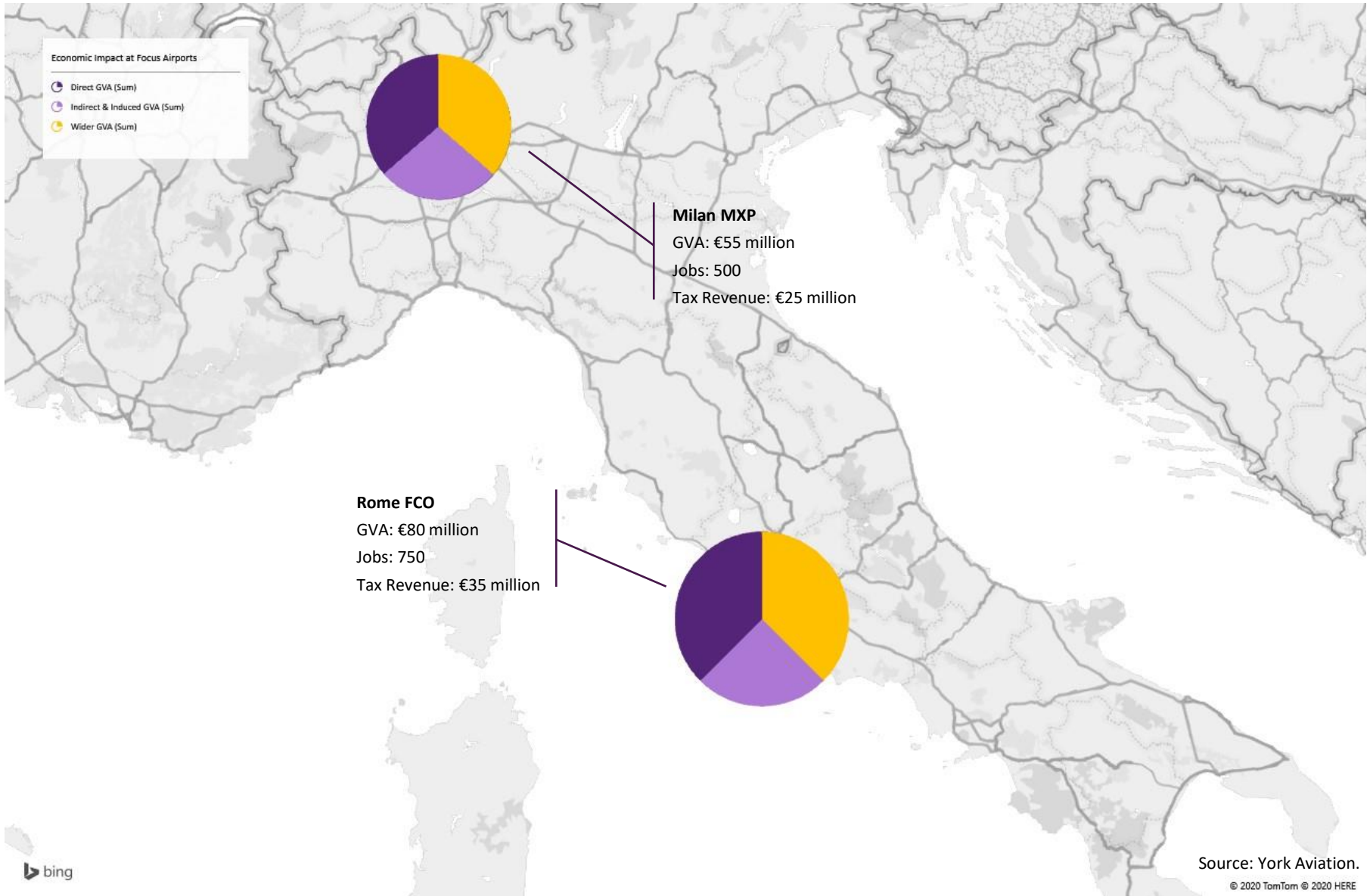
At 2019 passenger demand levels, the implementation of duty and tax free arrivals shops would have supported around €260 million in additional GVA across Italy, supported 2,500 jobs and provided around €110 million tax revenues to Government.

Direct impacts are the largest contributors in terms of GVA accounting €100 million of the total, with indirect and induced impacts accounting for a further €60 million. Direct impacts accounted for around 600 jobs and indirect and induced impacts a further 650 jobs. The ability to invest in connectivity created by the advent of duty and tax free arrivals shops supported around €90 million in GVA and 1,250 jobs in the wider economy.

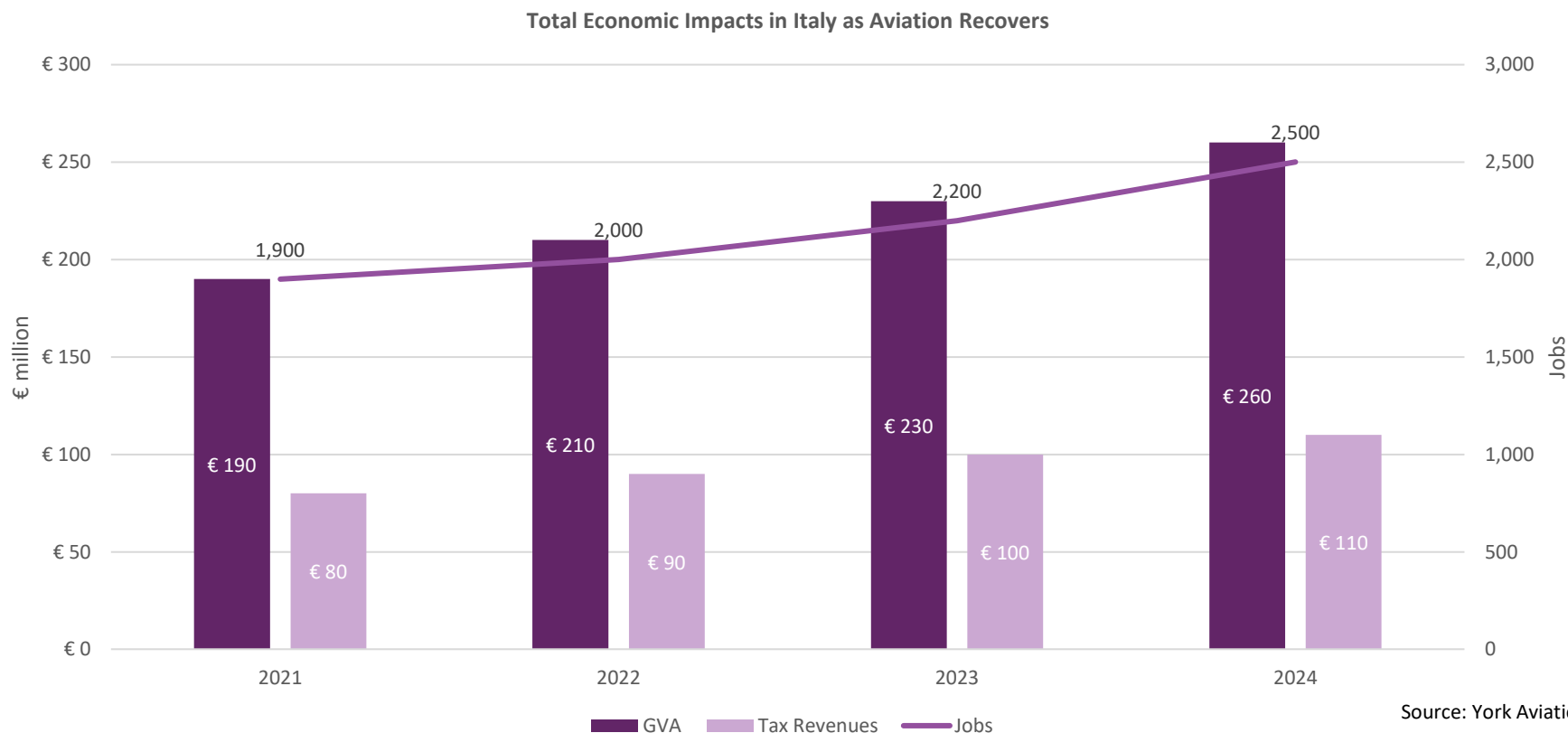
The impacts associated with the individual airports examined are set out overleaf:

- sales at Rome Fiumicino Airport would support €80 million in GVA, 750 jobs and €35 million in tax revenue;
- sales at Milan Malpensa Airport would support €55 million in GVA, 500 jobs and €25 million in tax revenue.

The Economic Impacts of Arrivals Shops at 2019 Traffic Levels



Supporting Recovery from COVID-19



As highlighted above, the COVID-19 pandemic and the associated travel restrictions have, of course, severely affected passenger numbers at airports across Europe and many commentators are suggesting that traffic levels are now unlikely to recover to 2019 levels until around 2024. Clearly, this means that duty and tax free arrivals shops are unlikely to deliver the level of sales that might have been achieved in 2019 as there are simply fewer passengers. However, as demand builds back up and growth returns, the economic impacts highlighted above will be delivered.

The chart above sets out how economic impacts in Italy might build up over the next few years based on the latest market forecast for the period from ACI EUROPE. This sees around €190 million in GVA benefits, nearly 2,000 jobs and €80 million in tax revenues delivered in 2021 through direct, indirect, induced and wider impacts, building slowly through 2022 and 2023 to ultimately recover to those supported at 2019 traffic levels in 2024. It should be noted that these estimates do not include any boost from the UK leaving the EU and hence passengers travelling to / from the UK being eligible for duty and tax free sales.

6



Country Case Study: Germany

Germany: The Air Transport Market

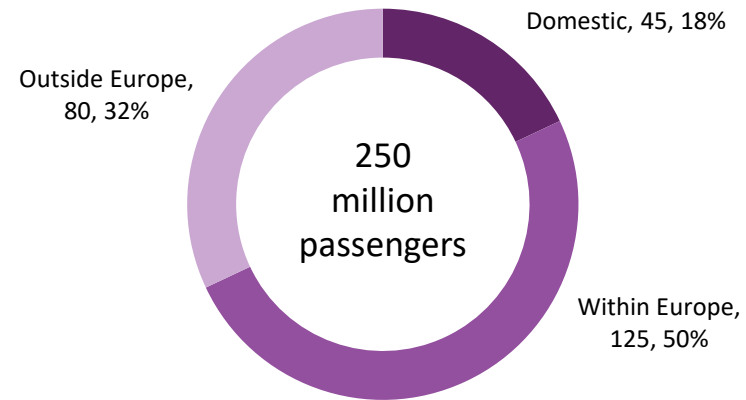
Germany was the third largest air transport market in the EU in 2019. Its airports handled around 250 million passengers.

Data from Eurostat shows that around 80 million passengers were travelling directly to / from destinations outside of the EU, which accounted for around 32% of passenger traffic. The volume and proportion of passengers travelling to / from destinations outside the EU is substantially higher than in Spain or Italy. This likely reflects the presence of Frankfurt Main and Munich airports, both of which are major hubs for Lufthansa and its partner airlines. Frankfurt is particularly notable given its position as one of Europe's four global hub airports. Again, a proportion of passenger traffic on other routes within Europe is likely to be using hub airports to travel onward to destinations outside of the EU but data is not readily available on this group.

Despite the presence of Frankfurt and Munich in the German market, these top two airports actually held a smaller share of seat capacity to non-EU markets than their equivalents in Spain and Italy in 2019. There are a number of other airports in Germany which offered significant seat capacity to non-EU destinations, notably Dusseldorf, Berlin Tegel and Hamburg. All of these airports offer significantly more non-EU seat capacity than the third placed airport in the other case study countries.

Overall, this suggests that Germany is in a particularly strong position to benefit from the advent of duty and tax free arrivals shops and that the potential benefits are likely to spread across a range of airports.

Size of the Passenger Market (millions)



Source: Eurostat.

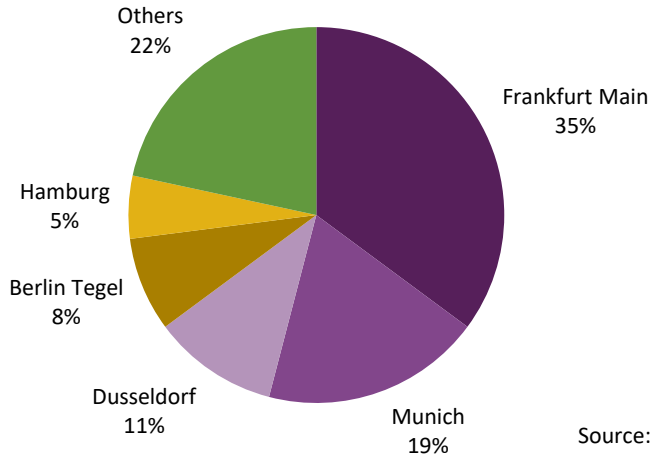
Top 10 Airports by One Way Seat Capacity Outside the EU

Airport	Seat Capacity (millions)	% Share
Frankfurt International Apt	19.8	41%
Munich International Airport	9.2	19%
Dusseldorf International	4.9	10%
Berlin Tegel Apt	2.8	6%
Hamburg Airport	2.3	5%
Berlin Schoenefeld Apt	1.7	4%
Stuttgart Airport	1.7	3%
Cologne/Bonn Apt	1.7	3%
Hannover	1.2	3%
Nuremberg	0.7	1%
Others	2.6	5%
Total	48.6	100%

Source: OAG.

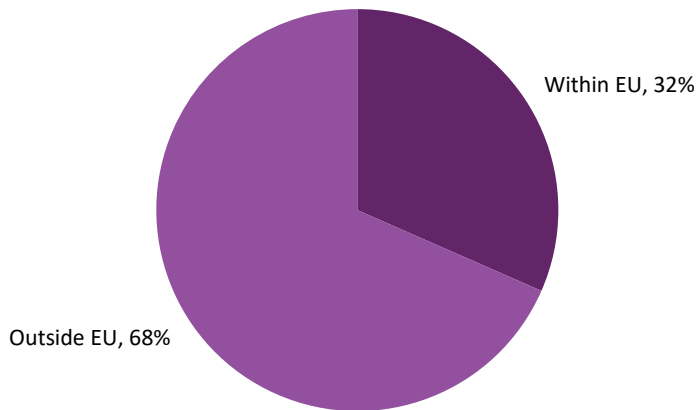
Additional Duty Free & Tax Free Sales in Germany

Distribution of Additional Sales from Duty and Tax Free Arrivals Shops



Source: York Aviation.

Source of Sales by Geographic Area



Source: York Aviation.

The first chart opposite considers how the additional sales associated with duty and tax free arrivals shops might be distributed across German airports given the structure of traffic and the relative sizes in terms of passenger demand.

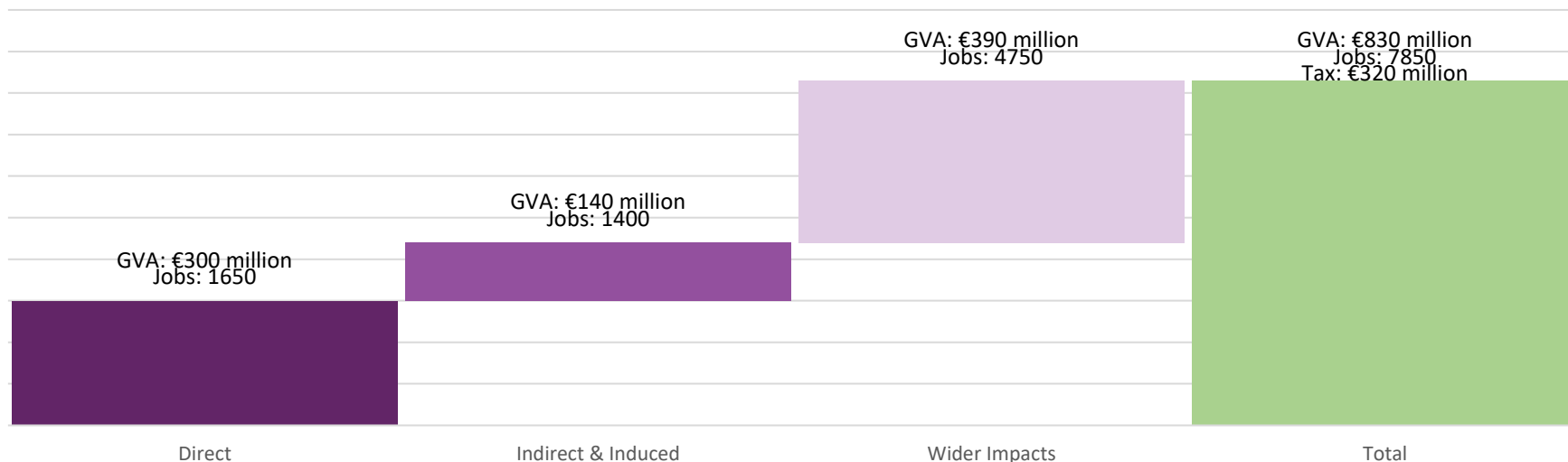
Frankfurt Main (35%) and Munich (19%) are expected to account for the largest share of additional sales, reflecting their position as the key gateways for travel outside of the EU and the fact that they are the largest airports in terms of passenger demand, but the focus airports for this analysis also receive a significant share of the additional sales. Dusseldorf is estimated to receive around 11%, Berlin Tegel 8% and Hamburg 5%.

The great majority of new sales are expected to come from passengers travelling from outside the EU (around 68%). However, again, it should be noted that this is likely to be a conservative estimate as it is difficult to effectively estimate how passengers using services from within the EU will be hubbing at another airport and travelling from a destination outside of the EU.

Overall, total sales across Germany are expected to be boosted by over 20% with benefits spread across a range of airports.

The Economic Impacts of Arrivals Shops in Germany at 2019 Traffic Levels

Economic Impacts of Duty & Tax Free Arrivals Shops in Germany



Source: York Aviation.

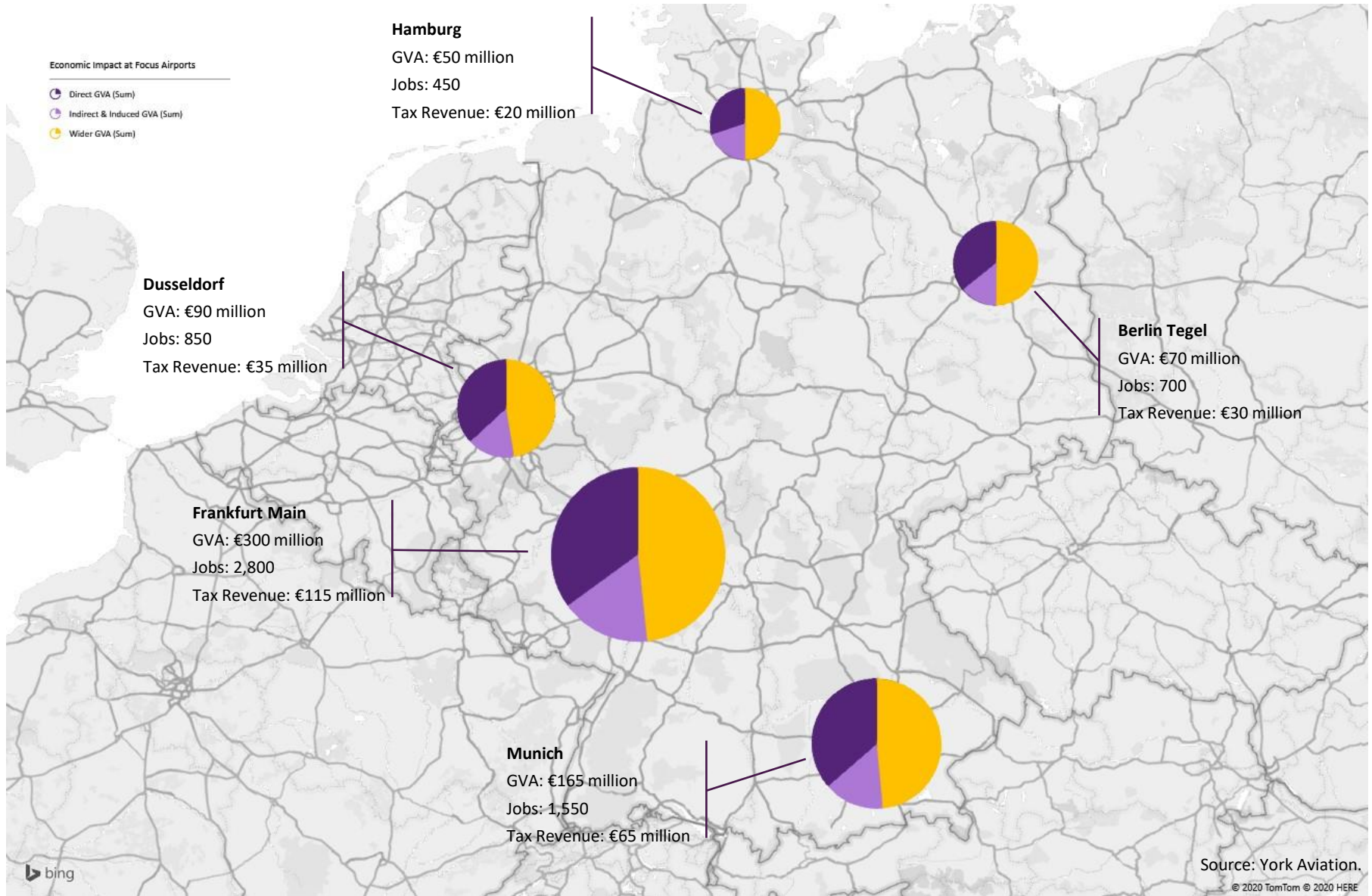
At 2019 passenger demand levels, the implementation of duty and tax free arrivals shops would have supported around €830 million in additional GVA across Germany, supported nearly 8,000 jobs and provided around €320 million tax revenues to Government.

In Germany's case, the largest gains come from impacts in the wider economy. The additional revenue enables airports to invest in connectivity, supporting an additional €390 million in GVA and 4,750 jobs. The direct impacts are also significant, with an additional €300 million in GVA and 1,650 jobs supported at 2019 demand levels. Indirect and induced impacts support around €140 million in GVA and 1,400 jobs.

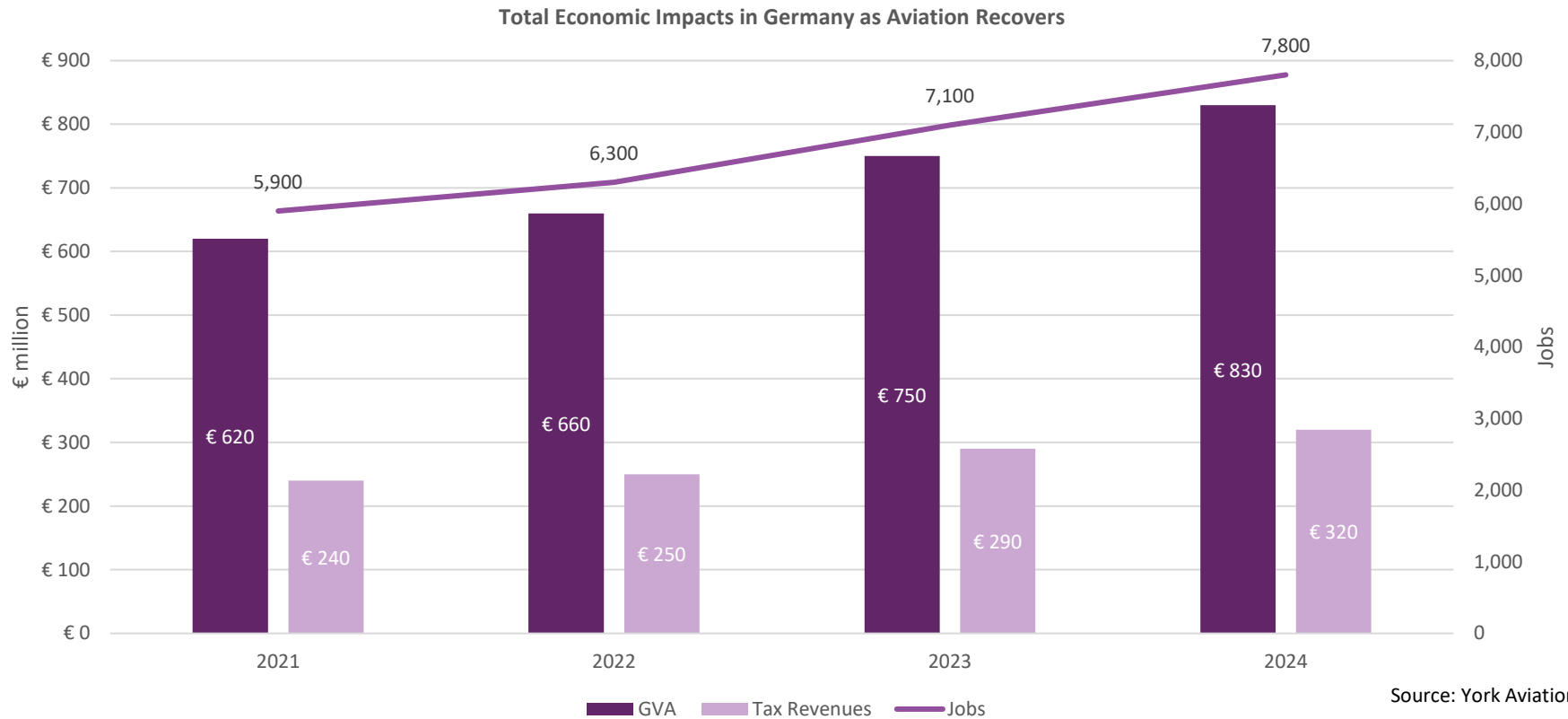
The impacts associated with the individual airports examined are set out overleaf:

- sales at Frankfurt Main would support €300 million in GVA, 2,800 jobs and €115 million in tax revenue;
- sales at Munich Airport would support €165 million in GVA, 1,550 jobs and €65 million in tax revenue;
- sales at Dusseldorf Airport would support €90 million in GVA, 850 jobs and €35 million in tax revenue;
- sales at Berlin Tegel would support €70 million in GVA, 700 jobs and €30 million in tax revenue;
- sales at Hamburg Airport would support €50 million in GVA, 450 jobs and €20 million in tax revenue.

The Economic Impacts of Arrivals Shops at 2019 Traffic Levels



Supporting Recovery from COVID-19



As highlighted above, the COVID-19 pandemic and the associated travel restrictions have, of course, severely affected passenger numbers at airports across Europe and many commentators are suggesting that traffic levels are now unlikely to recover to 2019 levels until around 2024. Clearly, this means that duty and tax free arrivals shops are unlikely to deliver the level of sales that might have been achieved in 2019 as there are simply fewer passengers. However, as demand builds back up and growth returns, the economic impacts highlighted above will be delivered.

The chart above sets out how economic impacts in Germany might build up over the next few years based on the latest market forecast for the period from ACI EUROPE. This sees around €620 million in GVA benefits, nearly 6,000 jobs and €240 million in tax revenues delivered in 2021 through direct, indirect, induced and wider impacts, building slowly through 2022 and 2023 to ultimately recover to those supported at 2019 traffic levels in 2024. It should be noted that these estimates do not include any boost from the UK leaving the EU and hence passengers travelling to / from the UK being eligible for duty and tax free sales.

7



Country Case Study: France

France: The Air Transport Market

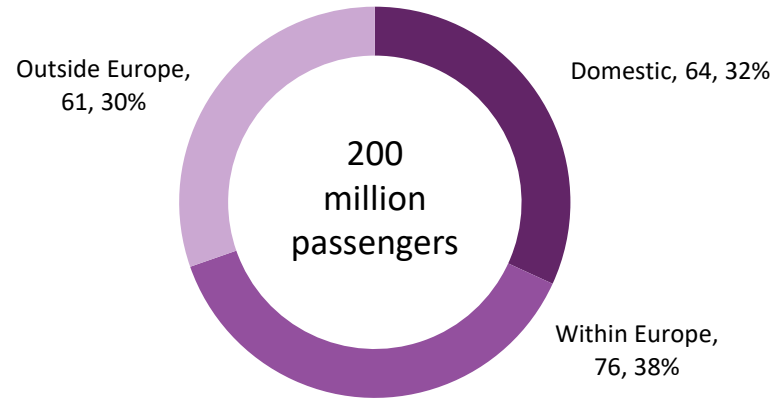
France was the fourth largest air transport market in the EU in 2019. Its airports handled around 200 million passengers.

Data from Eurostat shows that around 61 million passengers were travelling directly to / from destinations outside of the EU, which accounted for around 30% of passenger traffic. The volume and proportion of passengers travelling to / from destinations outside the EU is higher than in Spain and Italy but lower than Germany. This likely reflects the presence of Paris CDG, one of Europe's four global hub airports. Again, a proportion of passenger traffic on other routes within Europe is likely to be using hub airports to travel onward to destinations outside of the EU but data is not readily available on this group.

The importance of Paris CDG and, indeed, Paris Orly in serving markets outside the EU is clear from the table opposite. These two airports accounted for nearly 80% of seat capacity to destinations outside the EU in 2019. There are, however, a number of airports that also have significant seat capacity to destinations outside the EU, such as Nice, Lyon St Exupery and Marseilles.

Overall, this suggests that impacts are likely to be focussed on the Paris airports but there is potential for others to benefit as well.

Size of the Passenger Market (millions)



Source: Eurostat.

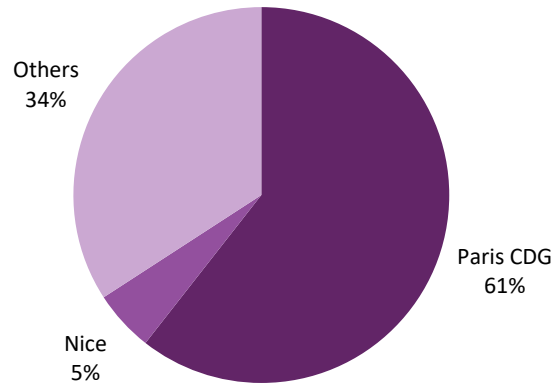
Top 10 Airports by One Way Seat Capacity Outside the EU

Airport	Seat Capacity (millions)	% Share
Paris CDG	23.5	61%
Paris Orly	6.8	18%
Nice	1.8	5%
Lyon St Exupery	1.7	4%
Marseilles	1.4	4%
Bordeaux	0.6	2%
Nantes	0.6	2%
Toulouse	0.5	1%
Paris Beauvais	0.3	1%
Montpellier	0.2	1%
Others	0.8	2%
Total	38.4	100%

Source: OAG.

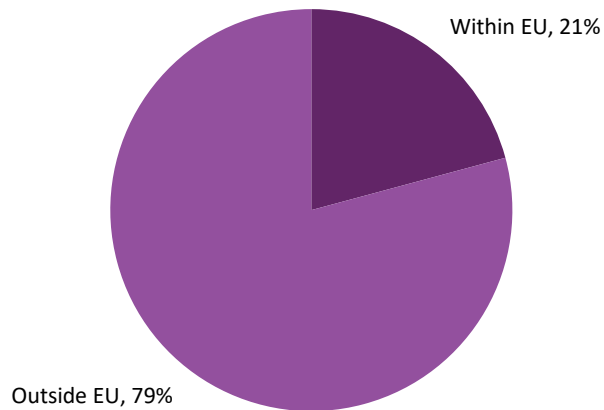
Additional Duty Free & Tax Free Sales in France

Distribution of Additional Sales from Duty and Tax Free Arrivals Shops



Source: York Aviation.

Source of Sales by Geographic Area



Source: York Aviation.

The first chart opposite considers how the additional sales associated with duty and tax free arrivals shops might be distributed across French airports given the structure of traffic and the relative sizes in terms of passenger demand.

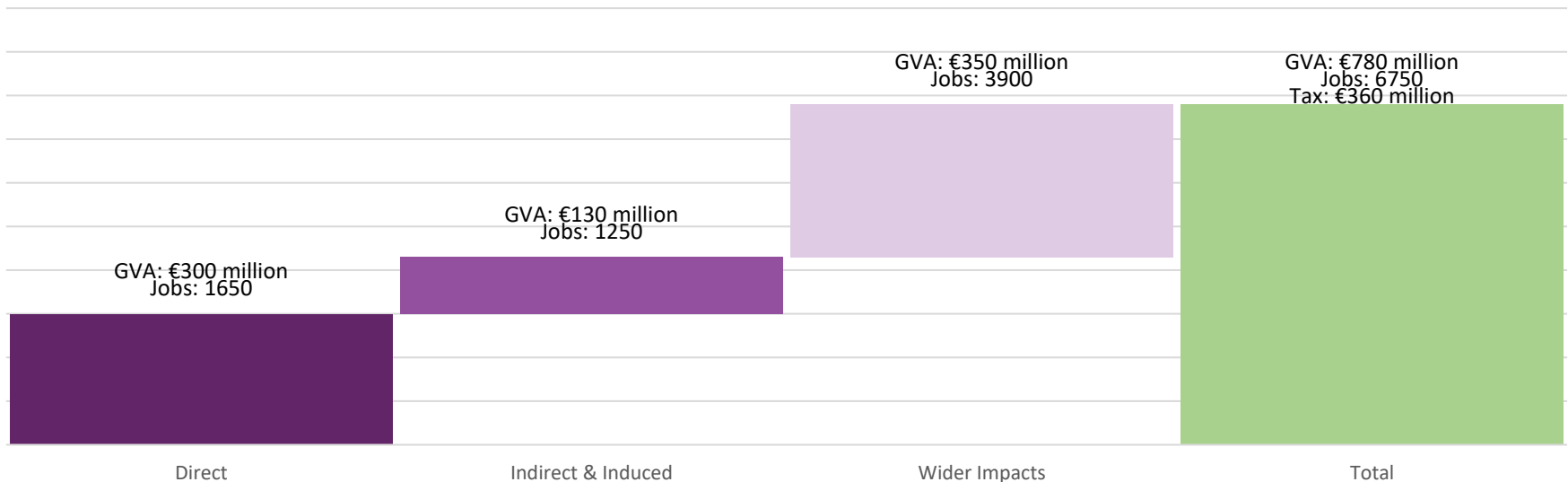
Paris CDG (61%), the largest of the two focus airports in France and one of Europe's four main global hubs, accounts for the majority of impact. Nice, the second focus airport and the third largest in France in terms of seat capacity to non-EU destinations, accounts for around 5% of sales.

The great majority of new sales are expected to come from passengers travelling from outside the EU (around 79%). However, again, it should be noted that this is likely to be a conservative estimate as it is difficult to effectively estimate how passengers using services from within the EU will be hubbing at another airport and travelling from a destination outside of the EU.

Overall, total sales across France are expected to be boosted by over 20% with benefits spread across a range of airports.

The Economic Impacts of Arrivals Shops in France at 2019 Traffic Levels

Economic Impacts of Duty & Tax Free Arrivals Shops in France



Source: York Aviation.

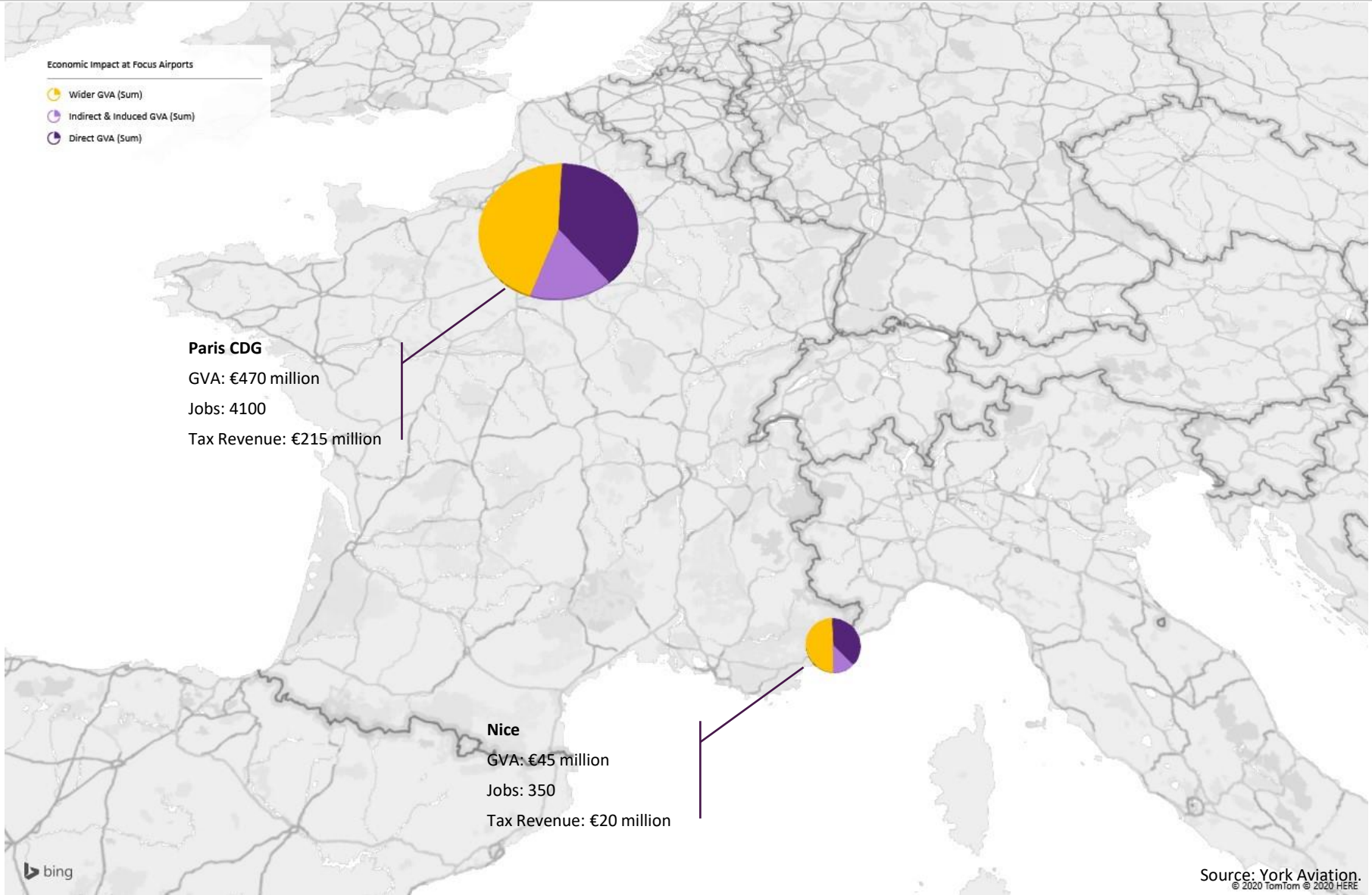
At 2019 passenger demand levels, the implementation of duty and tax free arrivals shops would have supported around €780 million in additional GVA across France, supported nearly 7,000 jobs and provided around €360 million in tax revenues to Government.

In France's case, the largest gains come from impacts in the wider economy. The additional revenue enables airports to invest in connectivity, supporting an additional €350 million in GVA and 3,900 jobs. The direct impacts are also significant, with an additional €300 million in GVA and 1,650 jobs supported at 2019 demand levels. Indirect and induced impacts support around €130 million in GVA and 1,250 jobs.

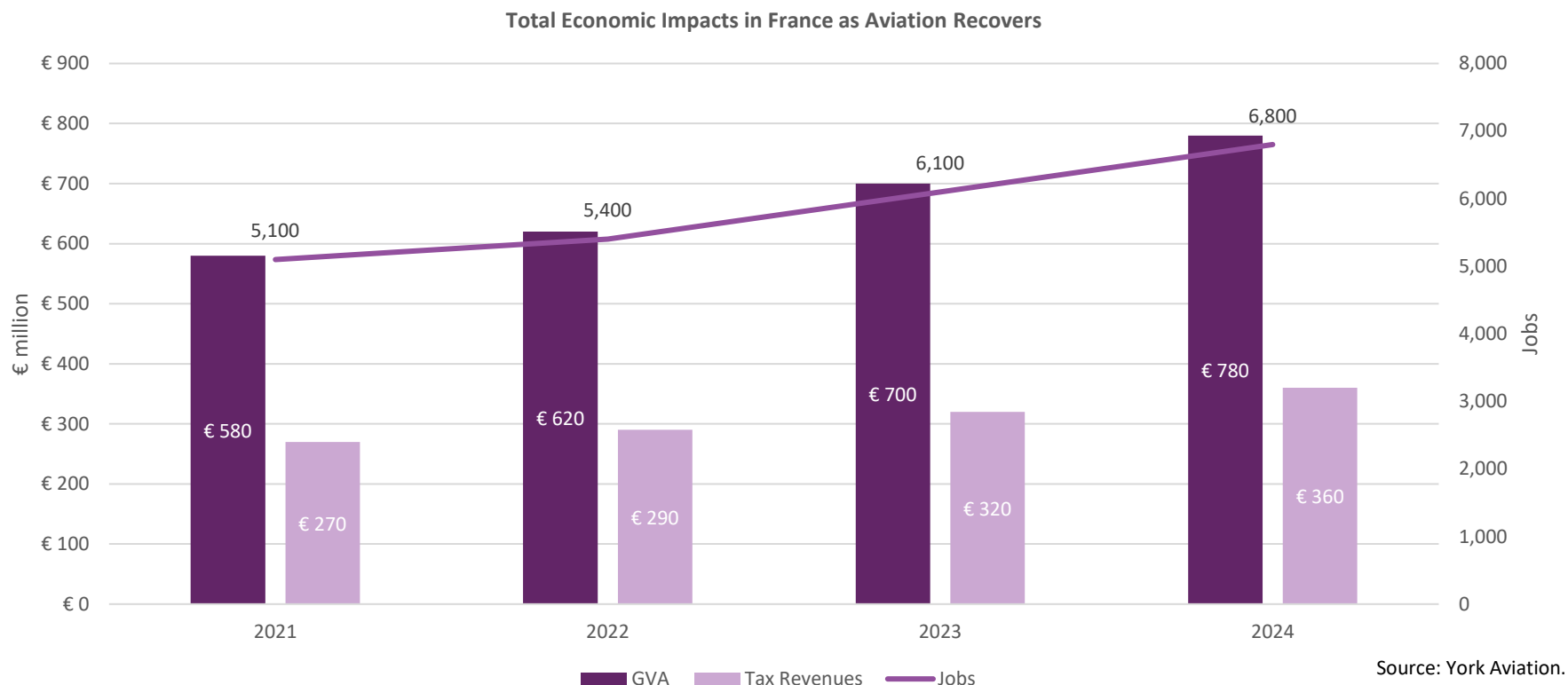
The impacts associated with the individual airports examined are set out overleaf:

- sales at Paris CDG Airport would support €470 million in GVA, 4,00 jobs and €215 million in tax revenue across the French economy;
- sales at Nice Airport would support €45 million in GVA, 350 jobs and €20 million in tax revenue across the French economy.

The Economic Impacts of Arrivals Shops at 2019 Traffic Levels



Supporting Recovery from COVID-19



As highlighted above, the COVID-19 pandemic and the associated travel restrictions have, of course, severely affected passenger numbers at airports across Europe and many commentators are suggesting that traffic levels are now unlikely to recover to 2019 levels until around 2024. Clearly, this means that duty and tax free arrivals shops are unlikely to deliver the level of sales that might have been achieved in 2019 as there are simply fewer passengers. However, as demand builds back up and growth returns, the economic impacts highlighted above will be delivered.

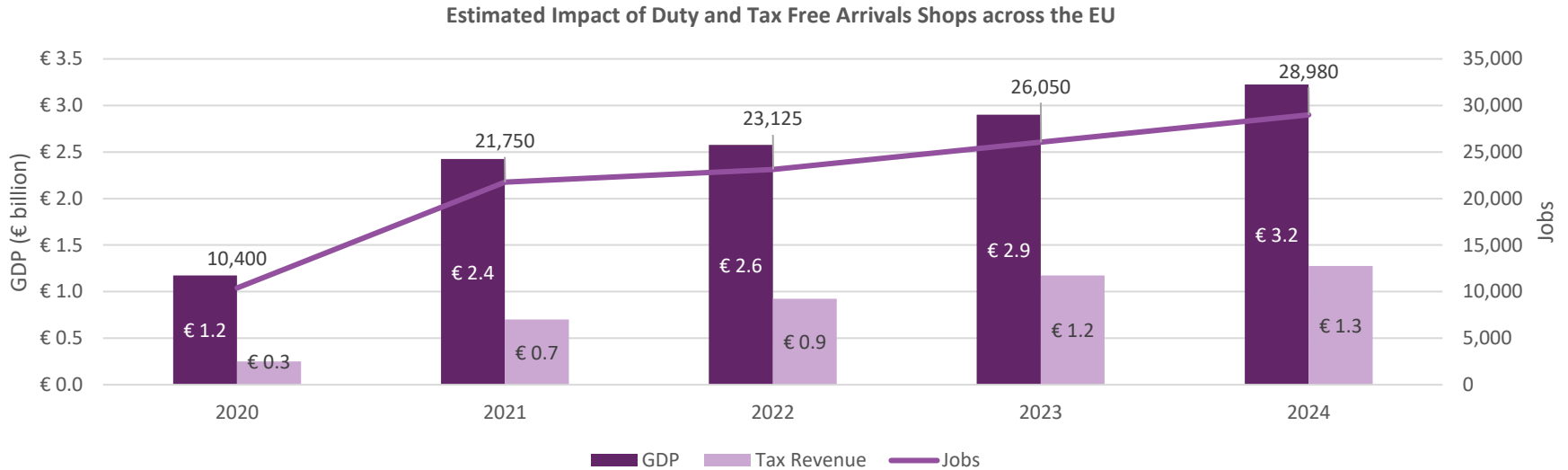
The chart above sets out how economic impacts in France might build up over the next few years based on the latest market forecast for the period from ACI EUROPE. This sees around €580 million in GVA benefits, over 5,000 jobs and €270 million in tax revenues delivered in 2021 through direct, indirect, induced and wider impacts, building slowly through 2022 and 2023 to ultimately recover to those supported at 2019 traffic levels in 2024. It should be noted that these estimates do not include any boost from the UK leaving the EU and hence passengers travelling to / from the UK being eligible for duty and tax free sales.

8



Potential Impact Across the EU

The Potential Impact Across the EU



The four case study countries accounted for around 49% of EU airports’ seat capacity to non-EU airports in 2019. As passengers travelling from outside the EU are likely to be the primary driver of sales in duty and tax free arrivals shops, it is reasonable to assume that the economic impact across the EU can be extrapolated from this seat share, along with appropriate adjustments to items such as individual country multipliers, labour productivity and tax revenue assumptions. This, of course, only represents a high level assessment and further work should be undertaken to consider impacts in a broader range of markets to improve the overall accuracy of the estimate.

In 2019, the analysis suggests that **for every million one way seats to non-EU destinations**, tax and duty free arrivals shops would have supported³:

- €16 million in GVA;
- 155 jobs;
- €6 million in tax revenues.

Overleaf, we have set out a high level estimate of the potential economic impact of duty and tax free arrivals shops in each country in the EU based on the case studies undertaken for this report and adjustments to key country specific variables where information is publicly available. Additional specific research has also been undertaken in Ireland, the results of which have been included here. This analysis identifies a total impact of around €3.2 billion in GVA, nearly 29,000 jobs and €1.3 billion in tax revenues across the EU at 2019 traffic levels. Based on the expected recovery pattern from COVID-19 in the air transport industry, the annual impact through to 2024 is set out in the chart above.

³ The case study for France was undertaken at a later date and was not included within the basis for these metrics.

⁴ Foley A (2021) for Irish Duty Free Alliance. Estimates of the Economic Impact of Duty and Tax Free Arrivals Shops in the Republic of Ireland.

The Potential Impact Across the EU

The Economic Impact of Duty Free and Tax Free Arrivals Shops at EU Airports by Country at 2019 Traffic Levels

Country	GVA Impact (€ million)	Jobs	Tax Revenue (€ million)
Austria	€ 75	550	€ 30
Belgium	€ 80	600	€ 35
Bulgaria	€ 15	150	€ 4
Croatia	€ 10	100	€ 4
Cyprus	€ 8	20	€ 3
Czech Republic	€ 35	350	€ 15
Denmark	€ 70	525	€ 30
Estonia	€ 5	50	€ 2
Finland	€ 45	350	€ 20
France	€ 775	6,775	€ 360
Germany	€ 830	7,850	€ 315
Greece	€ 55	450	€ 20
Hungary	€ 25	225	€ 10
Ireland Republic of	€ 44	385	€ 10
Italy	€ 255	2,500	€ 110
Latvia	€ 15	125	€ 5
Lithuania	€ 10	100	€ 3
Luxembourg	€ 5	25	€ 1
Malta	€ 5	25	€ 1
Netherlands	€ 220	1,650	€ 85
Poland	€ 75	825	€ 25
Portugal	€ 75	625	€ 25
Romania	€ 20	175	€ 5
Slovakia	€ 5	50	€ 2
Slovenia	€ 5	50	€ 2
Spain	€ 405	4,000	€ 140
Sweden	€ 60	450	€ 25
Total	€ 3,227	28,980	€ 1,287

Note:

All impacts are subject to rounding.

There are a number of points to note in terms of the country level impacts:

- There is a significant range in the impact in different EU countries. Germany is estimated to be the largest beneficiary, with around €830 million in GVA, where as Estonia, Luxembourg, Malta, Slovakia and Slovenia only receive an estimated boost in GVA of around €5 million. This is unsurprising given the relative sizes of the air transport markets but it is important to note that all countries benefit, at least to some degree;
- The importance of hub airports with significant traffic coming from outside the EU is notable, with France, Germany and the Netherlands, the home countries for the EU's largest hub airports, featuring heavily.

Overall, it seems clear that duty free and tax free arrivals shops have the potential to provide positive economic impacts all across the EU.

Contact York Aviation at:

Primary House
Spring Gardens
Macclesfield
Cheshire
SK10 2DX
United Kingdom

Telephone No: 01625 614051

Fax No. 01625 426159

yal@yorkaviation.co.uk

www.yorkaviation.co.uk