



Implementing Duty Free Arrivals Shops: Country Case Studies



European Travel Retail Confederation

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 **York Aviation**

Contents

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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 through to the early parts of 2022. Airports, airlines, travel retailers and their supply chains have suffered 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 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.
- 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, invest in capacity, 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.
- 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. With travel restrictions removed and demand returning, 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 examines how arrivals duty free shops have developed in three example countries outside the EU and how they have helped airports to grow and develop. The case studies also consider the evidence around some of the common objections to arrivals shops, namely the potential to interfere with domestic markets and the potential to increase smuggling. The three countries examined are Norway, Switzerland and Turkey.

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Norway Case Study

History of Arrivals Shops in Norway

- Arrivals duty free shops were first introduced in Norway in 2005. The largest of these are in Oslo, Bergen, Stavanger and Trondheim.
- When the first arrivals duty free shop opened in Oslo, it was 150 square metres. Owing to its success it has been expanded, it is now 4,000 square metres, and the largest arrivals duty free shop in the world. In 2016, the number of cash registers was increased from 28 to 43. This is a testament to the success of the arrivals duty free shops.
- Departures duty free shops have also continued to expand during this time. At Oslo, an additional shop and further development of the first shop has led to an expansion from 1,800 to 3,200 square metres of duty free retail space. Departures and arrivals shops are complementary. Both can thrive.
- Customer shopping baskets vary depending on whether they are departing or arriving. Sales in departing duty free shops are led by sales of perfume & cosmetics, making up 50% of total sales versus 15% in arrivals. Wine is the largest seller in arrivals.
- Gifting is one of the major drivers of spend in arrivals duty free shops in Norway. Travelers picking up last-minute presents for friends and family. These are transactions that would otherwise have taken place abroad. They bring more expenditure and economic activity to Norway. Arrivals duty free sales are almost 100% displaced from other airports outside Norway.



How Has Avinor Benefited from Arrivals Duty Free Shops?

- Avinor is a wholly-owned state company and is responsible for 43 state-owned airports in Norway. Avinor handled 54 million passengers in 2019, half of which travelled to and from Oslo Airport. Profits made in the larger airports sustain smaller loss-making airports, which maintains domestic connectivity. This domestic cohesion is an important driver of social and economic value.
- Additionally, tourism in Norway is mainly in the north and dependent upon regular airport connectivity. The small subsidised airports play a key role as gateways for tourists, helping to sustain a significant driver of Norway's economy. The vast majority of Avinor's small domestic airports are loss making but are supported financially from profits elsewhere within the portfolio.
- Airport commercial income, that is the income generated from car parks, shops and duty free, has been fundamental to Avinor's ability to make profits. In 2019, 45% of Avinor's commercial income was from duty free sales and rental, highlighting the importance of this source of revenue to the commercial viability of the business, and to the system of social and economic benefit which relies upon it. At Oslo, the largest and most profitable of Norway's airports, arrivals duty free retail income is 50% of all duty free retail income.
- Arrivals duty free shopping has been fundamental to the growth of Avinor's commercial revenue development. Figures 1 and 2 show that since arrivals duty free shops were introduced in 2005, arrivals duty free sales have grown at a compound average rate of 10% and by 2015 made up 59% of duty free sales. Following their introduction, arrivals shops rapidly overtook sales in departures. It is, however, important to note that departures shops have also grown over the period.
- Overall, between 2005 and 2019, duty free sales grew 108%, cementing their position as source of income central to Avinor's viability. Arrivals shops have been central to this success.

Figure 1: Duty Free Sales Revenue by Shop Location

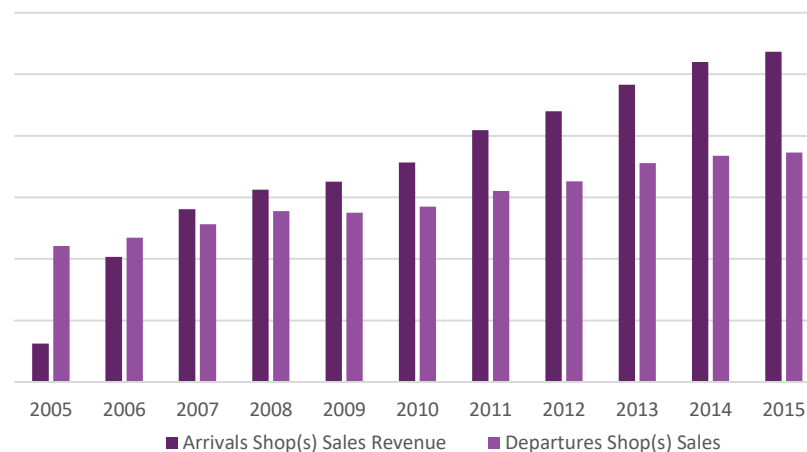
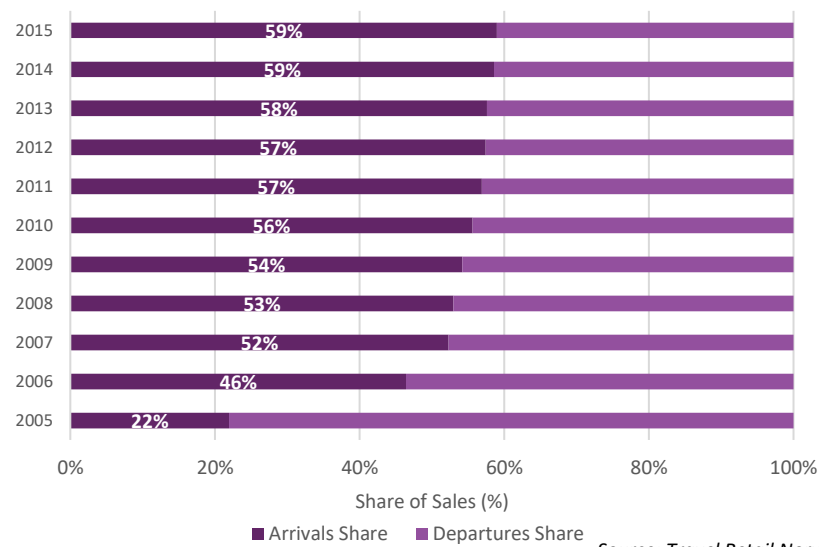


Figure 2: Historic Duty Free Sales, Share of Sales by Shop Location



Source: Travel Retail Norway



“Duty free is the backbone of our commercial financing”

Joachim Lupnaav Johnsen, Avinor Executive Vice President for Commercial

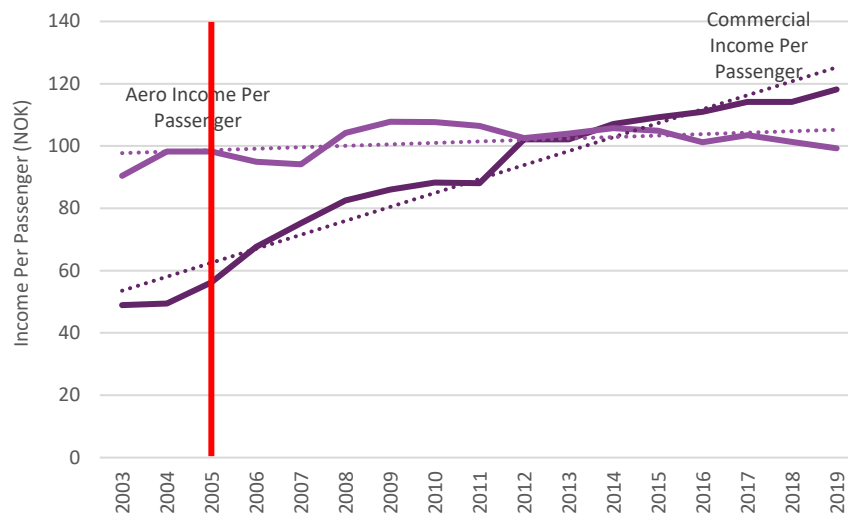
How Has Avinor Benefited from Arrivals Shops?

- Figure 3 provides further evidence of the importance of Avinor's commercial revenues, driven by arrivals shops. Aeronautical revenue has remained flat on a per passenger basis. This means additional cost has not been passed onto the consumer. High airport charges damage airline's ability to serve and grow markets resulting in less choice and higher prices. Commercial revenue growth has enabled Avinor to keep these charges down.
- As can be seen in Figure 3, commercial income following the introduction of arrivals shops was relatively flat. Since the introduction of arrivals shops, commercial performance has strengthened and now surpasses the average per passenger income derived from aeronautical charges paid by airlines.
- Since 2005 and the introduction of arrivals duty free shops, commercial income per passenger has grown at a compound average of 5.3% per annum.
- Figure 4 demonstrates how crucial commercial revenues and arrivals shops are to breakeven point for Avinor. In the immediate years prior to the introduction of arrivals duty free shopping, commercial income was flat, and barely meeting operating costs. As shown in Figure 4, this presented a risk to the business. However, as arrivals shops have grown, Avinor's profitability has grown markedly, allowing it to invest in the future and maintain the domestic airport network that is so important to social cohesion.

“Securing the best and most effective operators [of duty free concessionaries] ensures a financial foundation that will enable us to deliver on our social mandate and continue operating our airport network in years to come.”

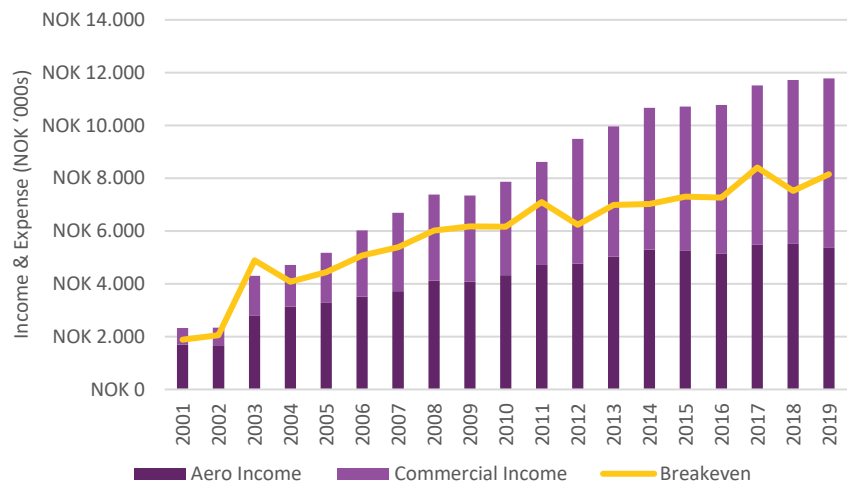
Joachim Lupnaav Johnsen, Avinor Executive Vice President for Commercial

Figure 3: Income per Passenger by Type, 2003-19 (NOK)



Source: Avinor annual reports 2003-19 & York Aviation Analysis

Figure 4: Avinor's Breakeven Point, 2001-19 (NOK '000s)

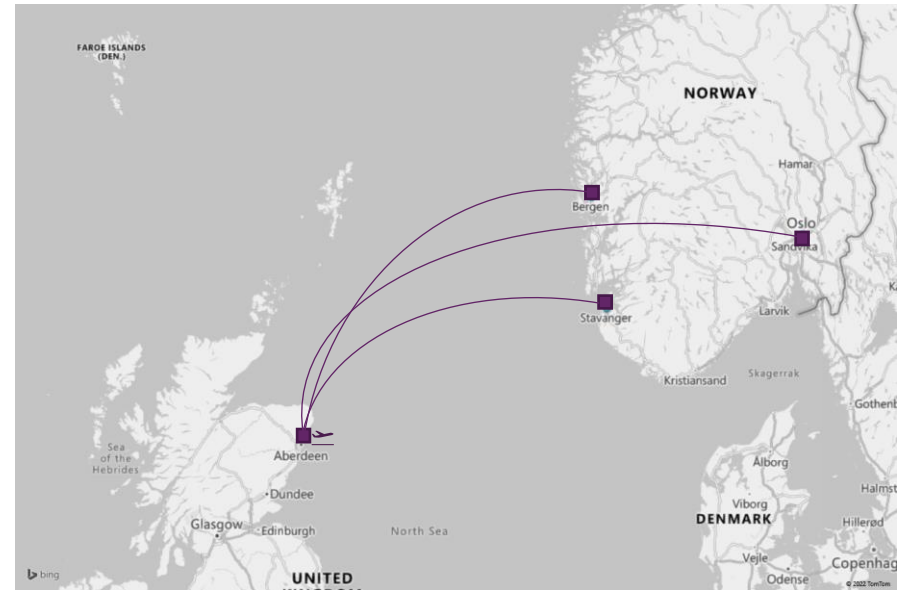


Source: Avinor annual reports 2002-19 & York Aviation Analysis

Case Study Example: The Impact of Arrivals Duty Free Shop in Norway on Aberdeen Airport

- Norway is Aberdeen Airport's single largest market for foreign inbound passengers, amounting to just under a 20% share of foreign passengers travelling to/from the airport. (Source: CAA Passenger Survey 2018)
- Stavanger, Bergen and Oslo have historically been three of the key destinations in Norway with services to Aberdeen. On these routes, the proportion of Norway bound passengers was significantly higher than the average, at around 45% of total passengers (Source: CAA Passenger Survey 2018).
- On the introduction of the arrivals duty free shops in Norway, there was an immediate and dramatic impact on sales to Norwegian bound passengers in the departures shops at Aberdeen Airport. Information from the operating retailer suggests sales to this group fell by 40% and ultimately never recovered. This clearly demonstrates that arrivals shops compete primarily with departures shops.

Figure 5: Aberdeen to Norway routes



Source: York Aviation

What Have Arrivals Shops Enabled Avinor to Do?

- Traffic at Avinor's airports had been flat in the years before arrivals duty free shops. However, significant growth in commercial revenues, stemming from arrivals duty free shops, has coincided with much faster growth in traffic numbers. Avinor has used its newly created source of profitability to invest in route development support schemes which attract new airlines and reward established airlines by lowering their costs for incremental growth. This has a self-sustaining effect, where contribution from arrivals shops > lower airport charges > more passenger growth > more profitable income > more investment in growth.
- A study of European airport charges by Jacobs in 2021¹ identified that Oslo had the lowest aeronautical charges per passenger of any major European airport. This reflects the ability to invest in route growth that arrivals duty free shops have enabled.
- This kind of airline reward scheme leads to more destinations being served by more airlines and increased competition. All of which supports business and tourism, delivering the economic and social advantages of air travel.
- Through this support scheme, funded by profits made at Oslo, Avinor worked with Wideroe, the largest regional airline in Norway, to establish new international connectivity, including links to London and Frankfurt. Without the profits driven by duty free arrivals shops, this might not have been possible without government support.
- Profits allow for the cross subsidy of other airports, which provide lifeline connections, often the only means of same day city access to many regions of Norway. These airports could not survive without the strength of the commercial performance at Oslo and others, all of which are now heavily dependent upon income from arrivals duty free shops.
- Ultimately, this means that the arrivals duty free shops are reducing the need for public subsidy and allowing the market to work more effectively.

¹ Jacobs UK Review of Airport Charges 2021.

Figure 6: Total Passengers flying to/from Norway (millions)

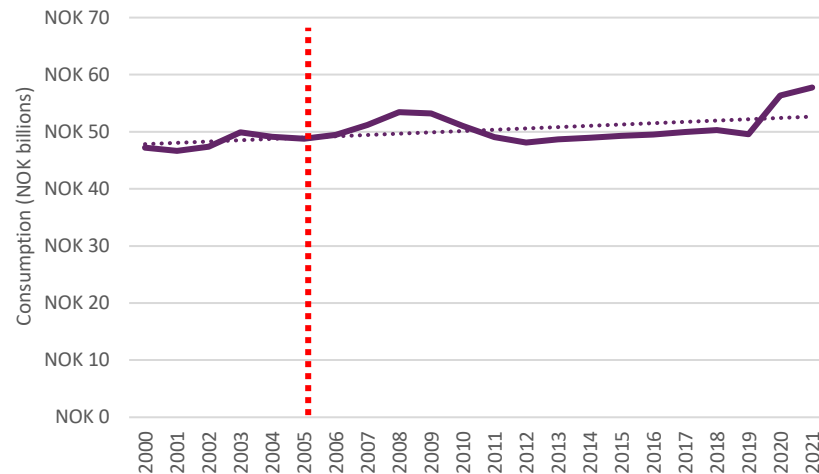


Source: Avinor annual reports 2002-19

How Have Arrivals Shops Impacted on Domestic Markets

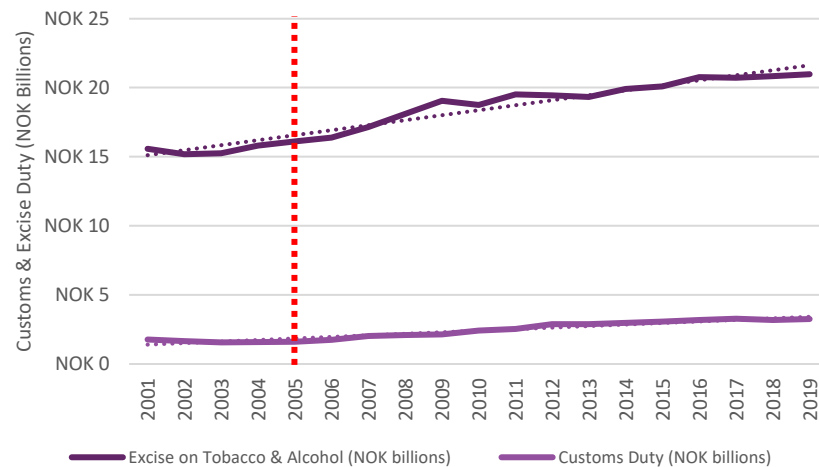
- One of the criticisms sometimes levelled at arrivals shops is that they will take away sales from domestic retailers and, in consequence, have a negative impact on the domestic economy and reduce government revenues.
- Figure 7 outlines the domestic consumption of alcohol and tobacco in Norway since 2000. What it shows is a shallow upward trend over time. There is no reaction in the domestic market to the advent of arrivals shops.
- The travel retail market in arrivals duty free shops and the domestic retail market for alcohol and tobacco are two separate markets that are not substitutes. Travel retail spend is about impulse, one-off or gift purchases, whereas domestic retail is about everyday purchases. The two markets are very different.
- Figure 8 shows excise duty revenues for alcohol and tobacco in Norway. This again indicates that there has been no major impact from arrivals duty free sales on government excise revenues. There is just the same, general upward trend, in many ways simply reflecting domestic consumption.
- This suggests that arrivals shops are a separate market in competition with departure duty free sales from airports abroad. Travel retail and domestic retail are simply not close substitutes.

Figure 7: Domestic Consumption of Alcohol and Tobacco in Norway (NOK billions)



Source: Norwegian Customs, Statistics

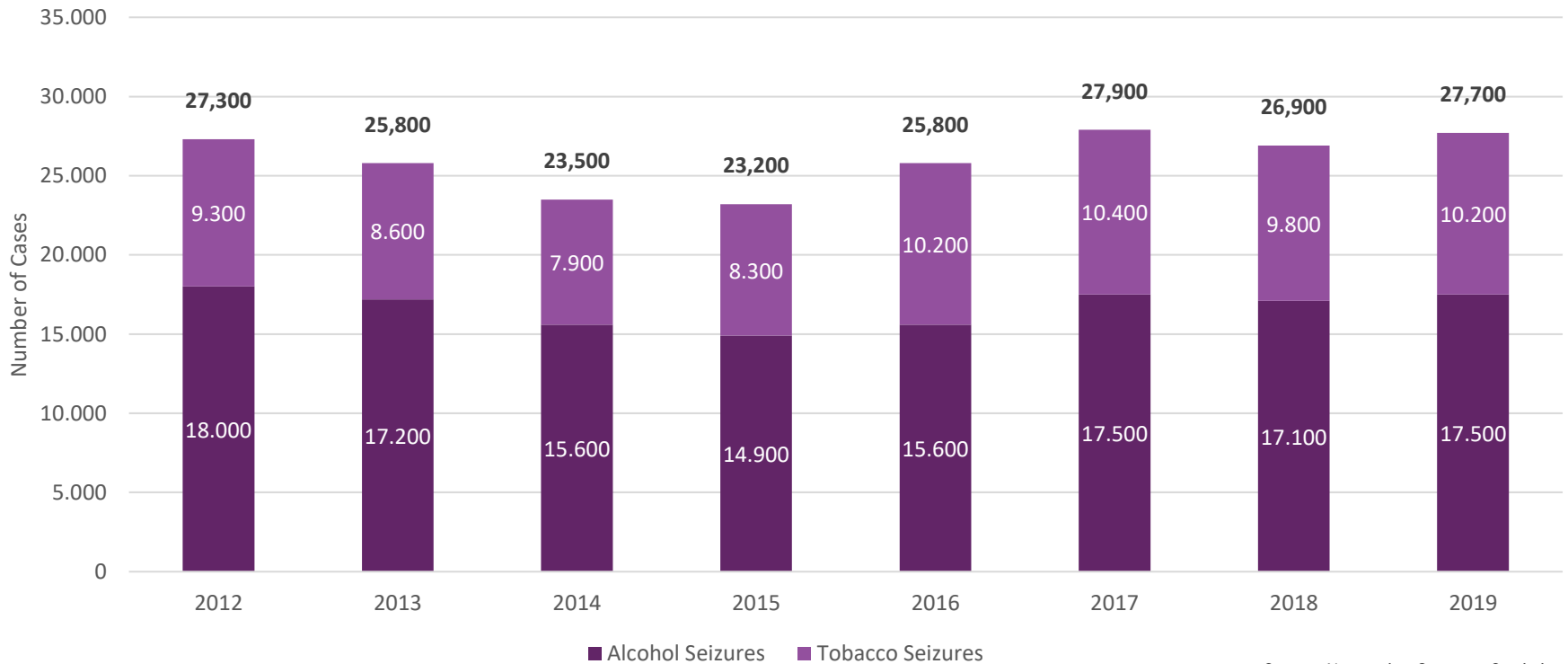
Figure 8: Alcohol and Tobacco Excise and Customs Duty (NOK billions)



Source: Statistic Norway, 07107: Central government fiscal account

Impact on Smuggling in Norway

Figure 9: Number of Alcohol & Tobacco Seizures



Source: Norwegian Customs, Statistics

- A further criticism put forward by opponents of arrivals shops is that they lead to increased smuggling. Figure 9 shows the annual number of alcohol and tobacco seizures in Norway since 2012, which is the earliest data publicly available.
- Since 2012, the total number of tobacco and alcohol seizures has remained relatively constant at around 27,000 seizures each year. Over the same period, as we have seen above, sales at arrivals shops have grown rapidly. There is nothing to suggest a correlation between seizures and arrivals shop sales. The Norwegian experience certainly indicates there is no evidence to suggest that the assertion is correct.

What Can We Learn from Arrivals Duty Free Shops in Norway?

- Success has supported profits, which have allowed the airports of Norway, as a system, to develop and maintain their role in the economic and social prosperity of the country, without the need for additional government subsidy.
- There is a long track record of success. Success was immediate and has been sustained.
- Arrivals duty free sales are now a key pillar in Avinor's path to profitability each year.
- They are key to Avinor's profitability in a world where aeronautical revenues have been under pressure.
- Without arrivals shop revenues, Norway would struggle to maintain its domestic airport network.
- The revenues have enabled investment in growth and productivity.
- There is no evidence to suggest impacts on domestic markets or government revenue.
- There is no evidence of an impact on smuggling.

With many smaller European airports, in private or public ownership, facing a challenging future owing to sustained financial losses, the case is clear. Regulators and governments should use the Norway example to change policy.

The arrivals duty free policy has no downside and would provide European airports with a level playing field and a much-needed boost to revenues.

They will protect governments from the need to intervene in the market and assist the market to deliver the connectivity and the social and economic good airports deliver.

3



Switzerland Case Study

History of Arrivals Duty Free Shops in Switzerland

- Arrivals duty free shops were first introduced to Switzerland in June 2011. They are present in Zurich, Geneva and Basel Airports.
- At Zurich Airport, the shops were first introduced in Terminal 1 airside, followed by Terminal 2 later that year. Geneva and Basel also inaugurated their arrivals duty free shops in June 2011.
- Departures duty free shops in Switzerland have also continued to expand. At Geneva Airport, development has led to an expansion of 25% of duty free retail space.
- The total retail space allocated to arrivals shops is currently around 2,400 square metres, or around half of the total retail space allocated to departures. This represents a significant investment in the arrivals duty free segment.
- In Switzerland, the departures and arrivals shops contain the same categories of goods sold. Local food items, such as chocolates and nation specific souvenirs/delicacies, are also prevalent.
- Convenience has been identified as a key driver for spend in arrivals duty free shops in Switzerland*. Travellers that would normally purchase duty free on board or carry purchases from the point of departure, can now easily purchase upon arrival at the relevant Swiss airport without carrying goods onboard for the entire journey.
- These transactions would otherwise have taken place abroad. Hence, they bring more expenditure and economic activity to Switzerland. It is likely that arrivals duty free sales are almost 100% displaced from other airports.



*The Nuance Group opens first Swiss Arrival duty free shops : The Moodie Davitt Report -The Moodie Davitt Report

How Have Swiss Airports Benefited from Arrivals Shops?

- Apart from Zurich, which is part state owned and part listed, Swiss airports are wholly owned by the respective cantons and Federal Government. The main three airports handled around 59 million passengers in 2019, over half of which travelled to and from Zurich Airport.
- Figure 10 outlines the impact of the introduction of arrivals duty free. Prior to 2011, Swiss airports could only earn duty free income from outbound passengers, using duty free shops in departure terminals. Swiss airports were losing out on additional income to departure duty free stores overseas in competing airports.
- By introducing arrivals duty free shops, some of this demand has now shifted from overseas airports to Swiss airports, where passengers can purchase goods upon arrival, conveniently. As a result, this has boosted duty free sales at Swiss Airports. The sales from these newly created arrivals shops provided airports with a boost in commercial income. This was particularly important at a time (2012-15) when sales from departures shops were relatively flat.
- Figure 11 shows that arrivals shops generated around 22% of total duty free sales in 2012. Growth in the arrivals duty free shops has seen this share grow to a peak of 27% in 2017. This demonstrates the growing importance of arrivals duty free shops to commercial income at Swiss airports.
- It is also worth noting the additional economic activity resulted from arrivals shops. At Zurich Airport alone, the introduction of two arrivals shops has created over 50 jobs, representing around 10% of the retailer's total employment across its Swiss operations*.

Figure 10: Duty Free Sales Revenue by Shop Location

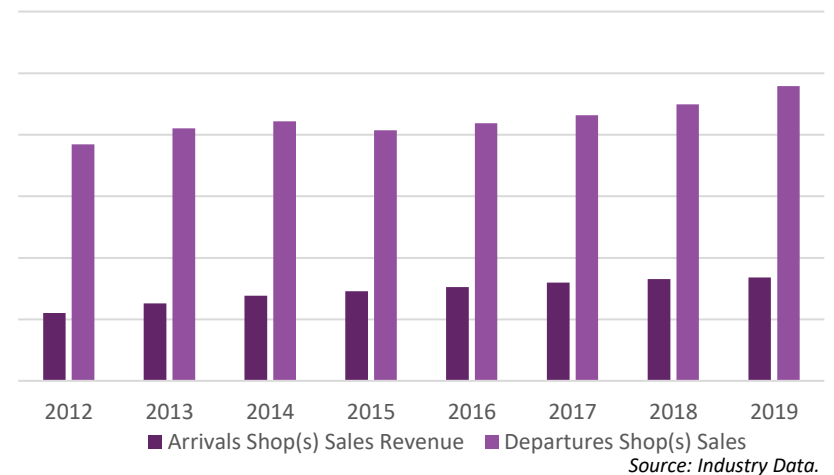
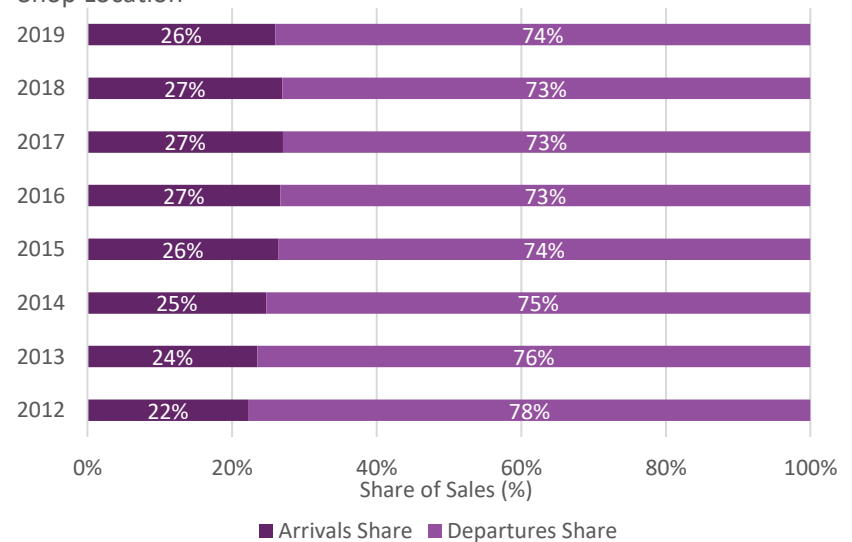


Figure 11: Historic Duty Free Sales, Share of Sales by Shop Location

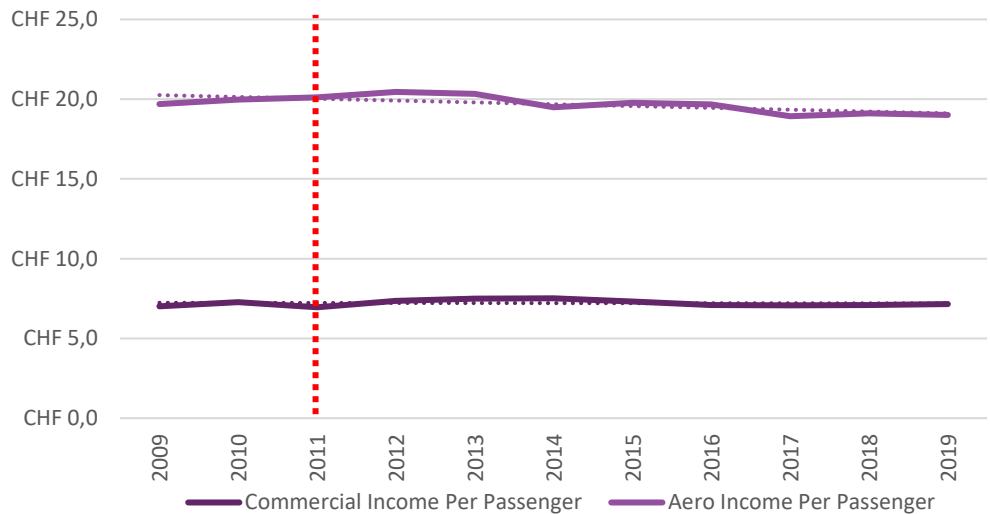


*The Nuance Group opens first Swiss Arrival duty free shops : The Moodie Davitt Report -The Moodie Davitt Report

How Have the Swiss Airports Benefited from Arrivals Shops?

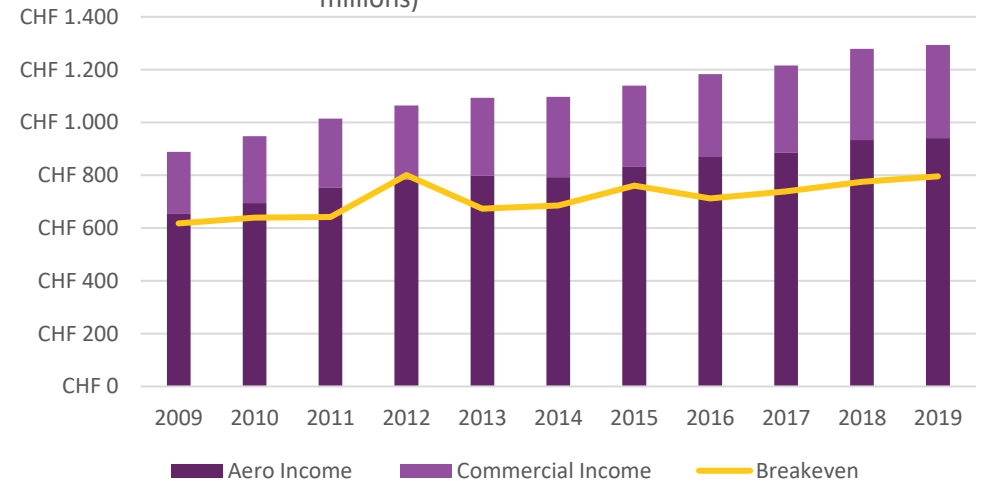
- Figure 12 provides further evidence on the importance of Swiss airports' commercial revenues, assisted by arrivals shops.
- Aeronautical revenue per passenger has been dropping since 2011, at a rate of 1% per annum. High airport charges damage an airline's ability to serve and grow markets resulting in less choice and higher prices to consumers. Commercial revenue growth resulting from arrivals shops has enabled Swiss airports to keep aeronautical charges down.
- Figure 12 shows that commercial income per passenger prior the introduction of arrivals shops was relatively flat. However, following the introduction of arrivals shops, commercial revenues per passenger initially grew by around 4% per annum for two years.
- At the same time, the drop in aeronautical income per passenger of 1% each year has put airlines in a more favourable position to grow their operations in Switzerland.
- Figure 13 demonstrates how important commercial revenues and arrivals shops are to profitability for the Swiss Airports. By diversifying airports' commercial revenue streams, arrivals duty free shops are an important factor in reducing risk to the airports' businesses.
- This contribution to profitability at Swiss airports, enables them to fund future and existing capital projects and keep airport charges competitive, ensuring sustainable operations.

Figure 12: Swiss Airports Income per Passenger by Type, 2009-19



Source: Zurich & Geneva Airports Annual Reports 2009-19 & York Aviation Analysis

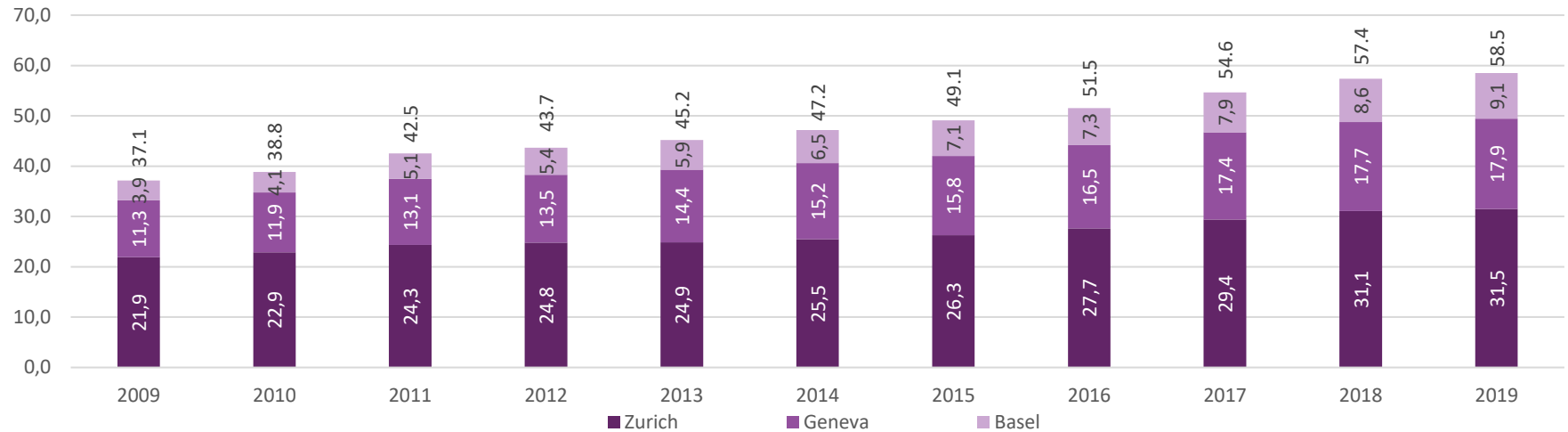
Figure 13: Key Swiss Airports Breakeven Point, 2009-19 (CHF millions)



Source: Zurich & Geneva Airports Annual Reports 2009-19 & York Aviation Analysis

What Have Arrivals Shops Enabled Swiss Airports to Do?

Figure 14: Total Passengers flying to/from key Swiss Airports (millions)



Source: Zurich, Geneva & Basel Airports Annual Statistics

- Traffic at Swiss airports had been relatively flat in the years before duty free arrival shops. However, the growth in commercial revenues, as a result of arrivals shops, coincided with the growth in traffic numbers (CAGR 4.1% per annum since 2011).
- The contribution from arrivals shops has helped Swiss Airports maintain airport charges at competitive levels and allowed airlines to invest in growth. This can be seen in the steady growth in passengers since 2011.
- The resultant growth has in turn supported both aeronautical and commercial revenues and also additional revenues from arrivals shops. This has a self-sustaining effect, more passenger growth > more profitable income > more investment in future growth.
- Ultimately, this means that the arrivals duty free shops are reducing the need for public subsidy, growing passenger demand and connectivity, and allowing the market to work more effectively.

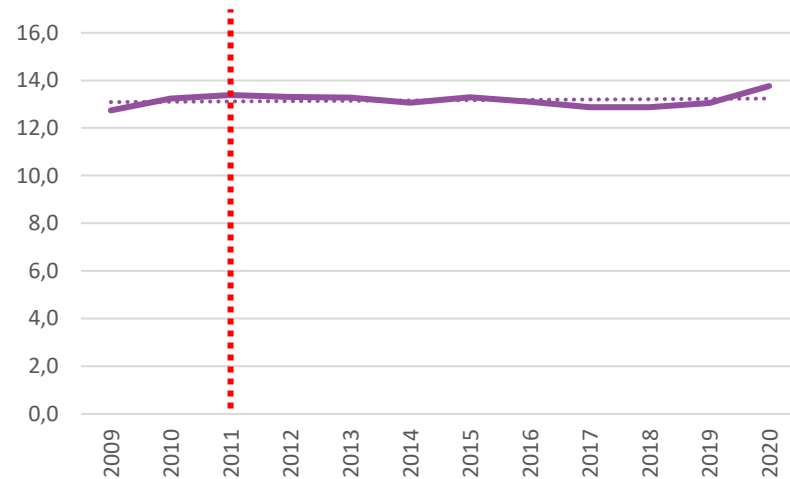
How Have Arrivals Shops Impacted on Domestic Markets

- One of the criticisms sometimes levelled at arrivals shops is that they will take away sales from domestic retailers and, in consequence, have a negative impact on the domestic economy and reduce government revenues.
- Figure 15 outlines the domestic consumption of alcohol and tobacco in Switzerland since 2009. What it shows is a flat trend in consumption at around CHF 13 billion. There is no noticeable reaction in the domestic market to the advent of arrivals shops.
- The travel retail market in arrivals duty free shops and the domestic retail market for alcohol and tobacco are two separate markets that are not substitutes. Travel retail spend is about impulse, one-off or gift purchases, whereas domestic retail is about everyday purchases. The two markets are very different.
- Figure 16 shows customs duty revenues in Switzerland since 2009. This again suggests that there has been no major impact from arrivals duty free sales on government customs duty revenues. There is just a gentle, general upward trend.
- This, again, suggests that arrivals shops are a separate market in competition with departure duty free sales from airports abroad. Travel retail and domestic retail are simply not operating in the same market. This falls in line with the Swiss Federal Council's views when it first introduced arrivals duty free in 2011.

“A noteworthy adverse affect on Swiss retail trade is not expected. There will primarily be a shift in purchases from foreign customs territories to Switzerland”

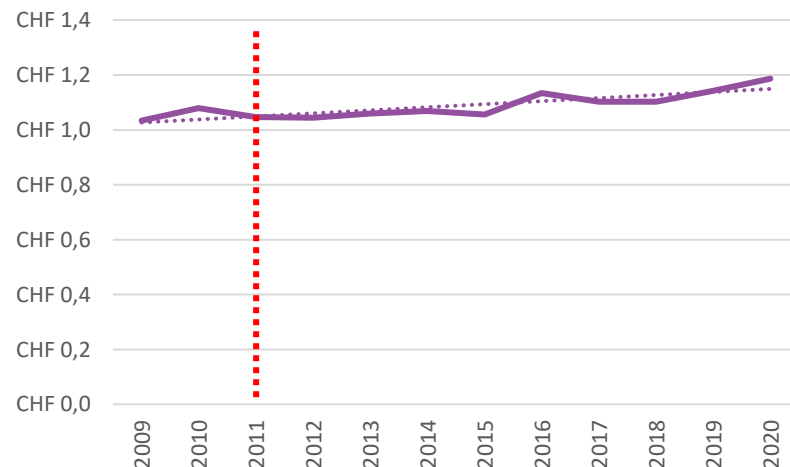
- Swiss Federal Council, *Duty free for airline passengers arriving in Switzerland: federal law will come into force on 1 June 2011 (admin.ch)*

Figure 15: Alcoholic Beverages and Tobacco consumption in Switzerland (CHF billions)



Source: Households final national consumption expenditure, Federal Statistical Office

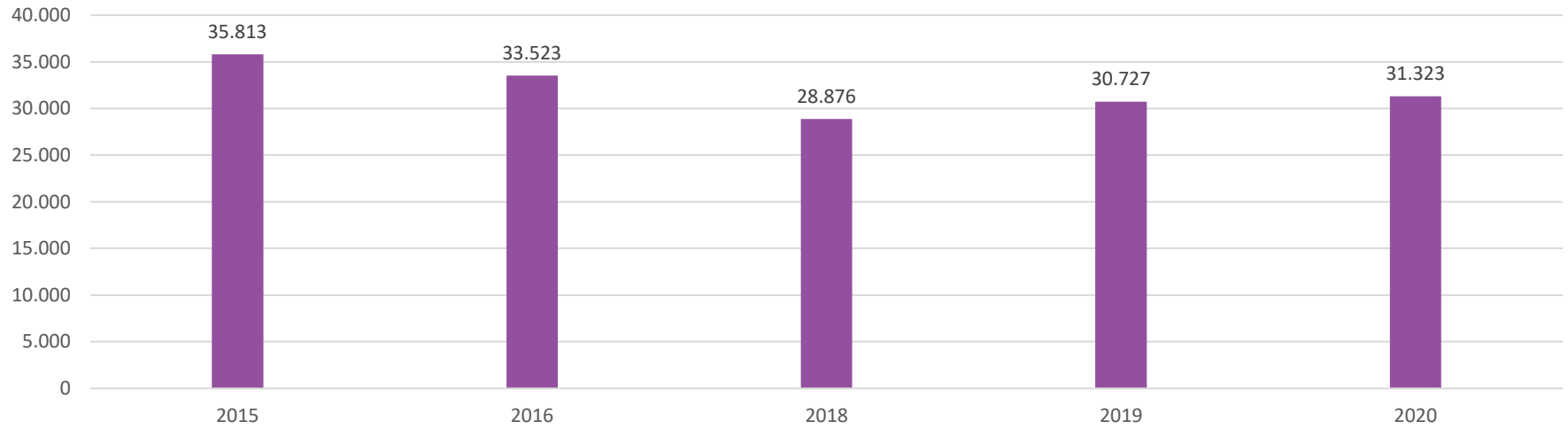
Figure 16: Customs Duty since 2009 (CHF billions)



Source: Swiss Federal Budget, Data Centre

Impact on Smuggling in Switzerland

Figure 17: Tourist Traffic: Smuggling Cases



Source: Swiss Federal Customs Administration facts and figures 2015-2020.

- A further criticism put forward by opponents of arrivals shops is that they lead to increased smuggling. Figure 17 shows the annual number of smuggling cases in Swiss tourist traffic since 2015, which is the earliest data publicly available.
- Since 2015, the total number of seizures has been on a declining trend to around 31,000 cases each year. Over the same period, as we have seen above, sales at arrivals shops have grown. Therefore, there is nothing to suggest a correlation between smuggling and arrivals shop sales. The Swiss experience certainly indicates there is no evidence to suggest that the assertion is correct.

What Can We Learn from Arrivals Duty Free Shops in Switzerland?

- There is a track record of success. Success was immediate and has been sustained.
- Arrivals duty free shops support Swiss airports' profitability in a world where aeronautical revenues have been under pressure.
- The revenues have enabled investment in growth and productivity.
- There is no evidence to suggest impacts on domestic markets or government revenue.
- There is no evidence of an impact on smuggling.
- Departures and arrivals duty free shops are complementary to each other. Both can thrive.

The arrivals duty free policy has no downside and would provide European airports with a level playing field and a much-needed boost to revenues.

They protect the government from the need to intervene in the market and assist the market to deliver the connectivity and the social and economic good airports deliver.

4



Turkey Case Study

History of Arrivals Duty Free Shops in Turkey

- The largest duty free operator in Turkey, is ATU Duty Free, a joint venture between TAV Airports and Unifree/Heinemann Duty Free established in 1999. ATU currently operates duty free stores in Istanbul International Airport (IST), Ankara Esenboga Airport, Izmir Adnan Menderes Airport, Milas Bodrum Airport, Alanya Airport and Istanbul Galataport Airport.
- ATU previously operated the duty free stores in Istanbul Ataturk Airport (ISL) until the airport was closed to inaugurate the newly created Istanbul International Airport in 2019. The arrivals shops at the new Istanbul Airport has around 24 outlets with a total commercial space of over 4,500 square metres.
- The other major duty free operator in Turkey is Dufry, which has been operating duty free stores in Turkey since 1993 and arrivals shops were operational prior to 1993. Dufry currently operates in Istanbul Sabiha Gokcen, Antalya Airport, Kayseri Airport and Zafer Airports in Turkey.
- Istanbul Sabiha Gokcen Airport has significant space for duty free shops with around 3,700 square metres allocated to departures and 1,200 square metres to arrivals. In Antalya, departures duty free takes up around 3,600 square metres of space, while there is a relatively smaller arrivals area.
- The core products sold in departures and arrivals shops are typical airport retail categories such as liquor, tobacco, perfume and cosmetics, as well as accessories and confectionary. In addition, a number of shops sell a selection of local food & beverages (such as Turkish delight, baklava, nuts, tea & coffee) and souvenir brands showcasing Turkey's cultural heritage and specialties. Raki, a local alcoholic beverage, is sold here in arrivals shops.



How Have Turkish Airports Benefited from Arrivals Duty Free Shops?

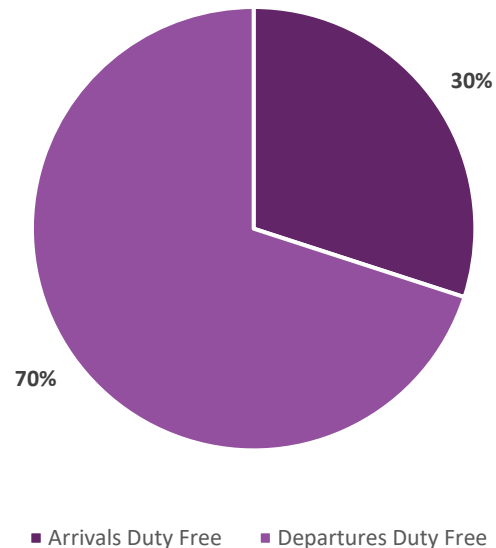
- Arrivals duty free shops have been a major feature of the Turkish duty free market for a long time and are central to the commercial revenues that accrue to Turkish airports.
- On average, between 2013 and 2018, arrivals duty free shops at TAV airports accounted for around 30% of total duty free sales. At other airports in Turkey where data is available, including for the new Istanbul Airport that opened in 2019, arrivals duty free shops accounted for around 29% of sales in 2019. This demonstrates clearly that arrivals duty free shops are a key part of the market.

Ersel Goral, CEO of the airport operator, ISG, said: “duty free is one of our most essential terminal services.”

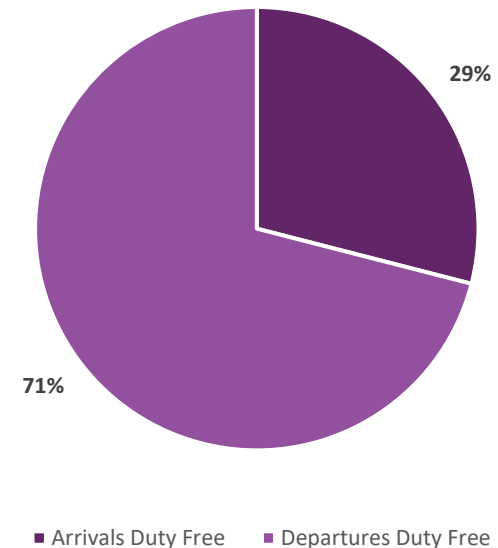
- Source: [Why Dufry’s Fourth Retail Contract In Turkey Could Prove To Be A Valuable Asset \(forbes.com\)](#)

Figure 18: The Role of Arrivals Duty Free Shop Sales at Turkish Airports

TAV Airports (exc. Istanbul) 2013 to 2018



Other Airports (inc. Istanbul) in 2019



Source: York Aviation analysis of industry data.

How Have Turkish Airports Benefited from Arrivals Shops?

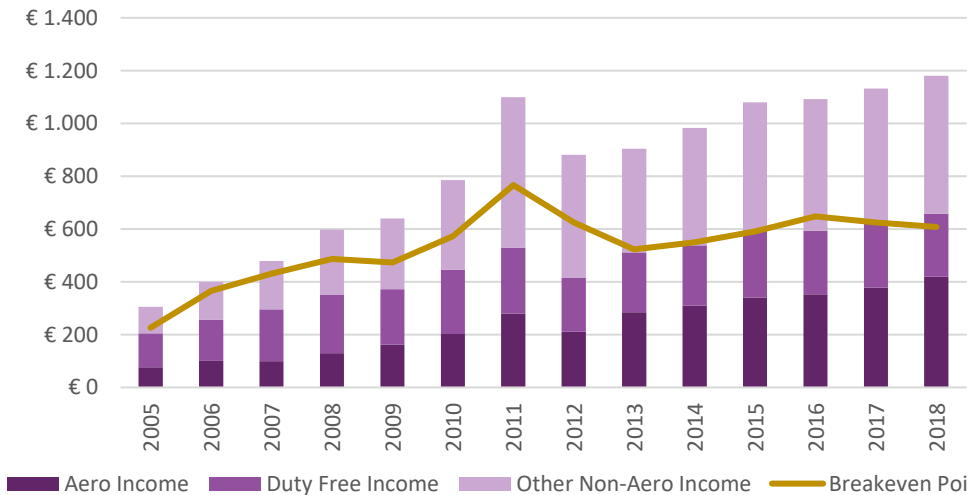
- Figure 19 highlights the evolution of aeronautical and non-aeronautical income per passenger since 2005, or since, Istanbul Ataturk Airport became a part of TAV group. Over the 13 year period shown, there was a clear decline in the aeronautical income per passenger. At the same time, non-aeronautical income per passenger has remained relatively stable at around €3. This suggests that the duty free sales have helped boost overall income to the TAV group, which has, to some extent, enabled TAV Airports to keep airport charges low.
- The importance of non-aeronautical incomes to the TAV Group can be clearly seen in Figure 20. The operational costs across all the years have been significantly above the aeronautical income. This suggests that the duty free operations have not just provided an added layer of revenue cushion, but have also helped keep airport charges low, stimulating passenger demand, whilst simultaneously contributing to the growth in other non-aeronautical income.
- This has changed the entire financial position of the TAV group. Between 2005-7, the three revenue streams together would just about cover the operating expenses. In more recent years, the growth in commercial revenues, including duty free sales, have enabled TAV to significantly improve its profitability. This improvement has enabled TAV to invest in route development and infrastructure growth.

Figure 19: TAV Airports Income per Passenger by Type, 2005-18



Source: TAV Airports Financial Results Presentations 2006-19 & York Aviation Analysis

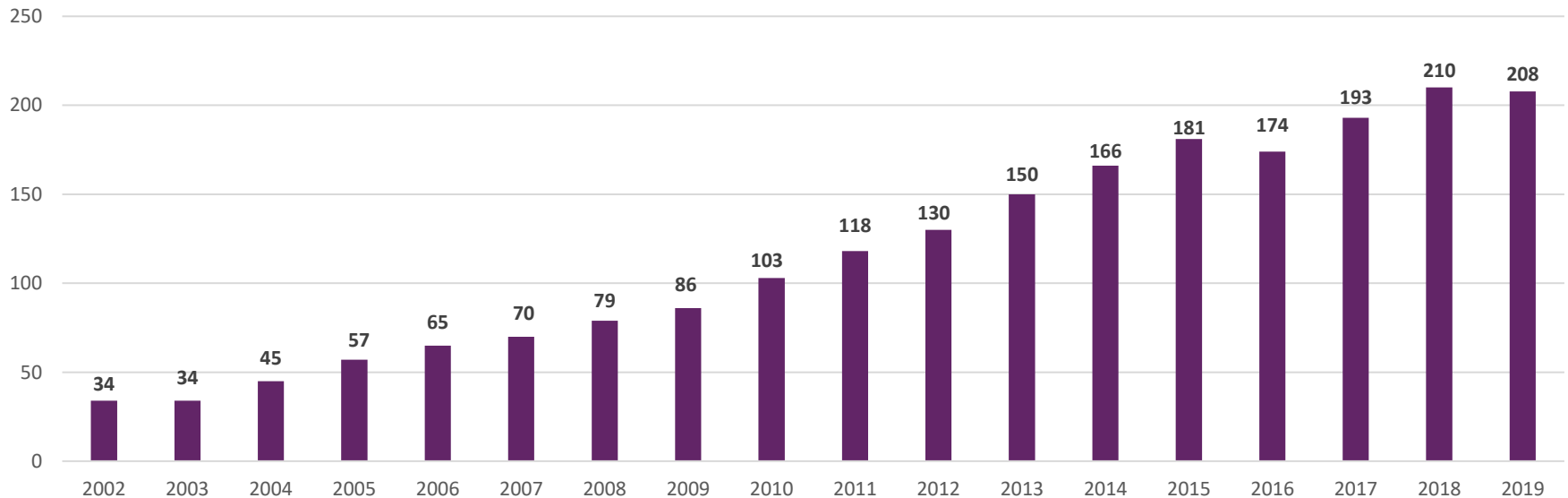
Figure 20: TAV Airports Breakeven Point, 2005-18 (€ millions)



Source: TAV Airports Financial Results Presentations 2006-19 & York Aviation Analysis

What Have Arrivals Duty Free Shops Enabled Turkish Airports to Do?

Figure 21: Total Passengers flying to/from Turkish Airports (millions)



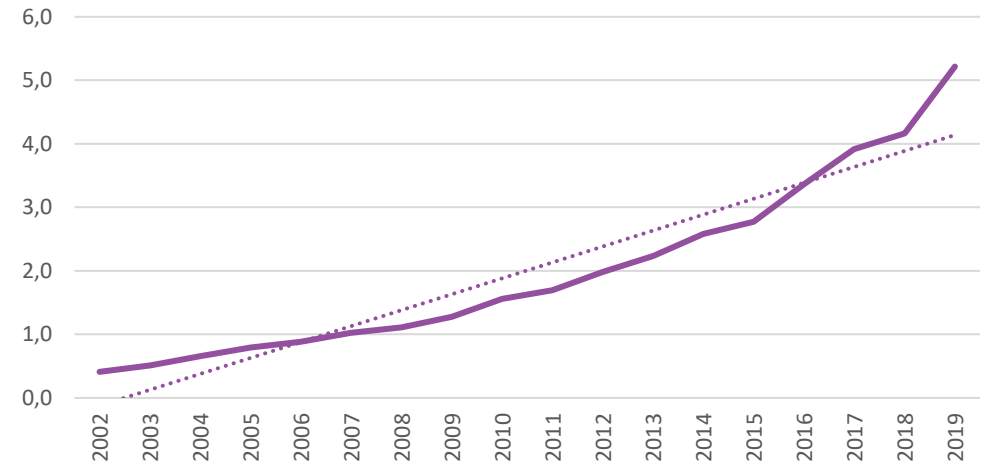
Source: TAV Investor Presentations 2014-19.

- ➔ Passenger volumes at Turkish Airports have been growing rapidly, with an average growth rate of 11% per annum since 2002 (see Figure 21).
- ➔ Passenger volumes have doubled from 103 million passengers in 2010 to 210 million passengers in 2018. This growth coincided with the fall in aeronautical revenues per passenger around the same time.
- ➔ Commercial revenues, including the contribution from arrivals shops, have helped Turkish airports maintain airport charges at competitive levels and allowed airlines to invest in growth.
- ➔ Especially in the context of the newly created Istanbul International Airport, it was essential that profits were maintained at higher levels due to the long term concession agreement in place between Unifree and the Turkish Government. The existence of arrivals shops has thus ensured Unifree's ability to meet its commitment to invest in retail space with over 400 domestic and international brands and create over 3,000 jobs at the Airport.

How Have Arrivals Duty Free Shops Impacted on Domestic Markets

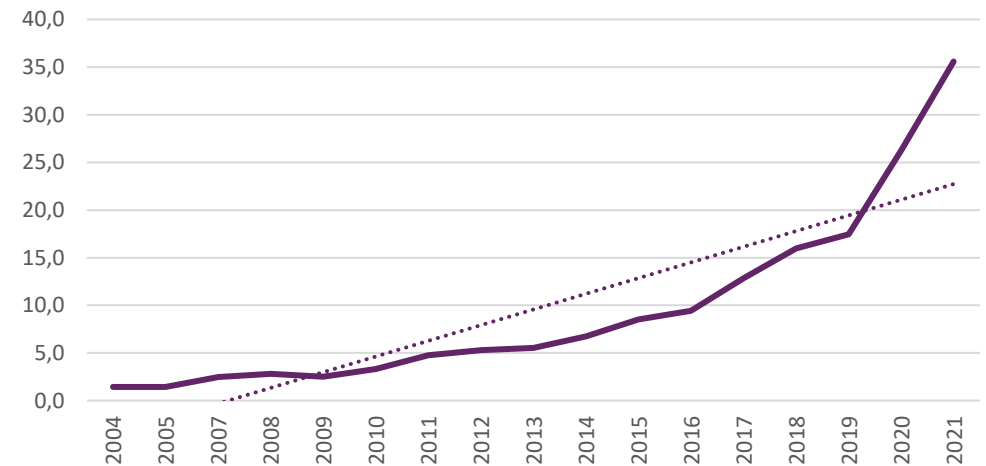
- One of the criticisms sometimes levelled at arrivals shops is that they will take away sales from domestic retailers and, in consequence, have a negative impact on the domestic economy and reduce government revenues.
- Figure 22 outlines the monthly consumption of alcohol and tobacco in Turkey since 2002. What it shows is a strong upward trend over time. There is no discernible reaction in the domestic market to the growth of arrivals shops sales as suggested by the critics.
- The travel retail market in arrivals duty free shops and the domestic retail market for alcohol and tobacco are two separate markets that are not substitutes. Travel retail spend is about impulse, one-off or gift purchases, whereas domestic retail is about everyday purchases. The two markets are very different.
- Figure 23 shows customs duties and other foreign trade revenues in Turkey each year. Although this is reflective of the overall customs and not just alcohol and tobacco, it still outlines the key message that there has been no major impact from arrivals duty free sales on government total excise revenues.
- Similar to Figure 22, there is again, a strong upward trend in customs duties which reflects the trend in domestic consumption. This, again, suggests that arrivals shops are a separate market in competition with departure duty free sales from airports abroad. Travel retail and domestic retail are simply not close substitutes.

Figure 22: Total Monthly Household Consumption Expenditure on Alcoholic Beverages and Tobacco (TRL billions/Month)



Source: Household Consumption Expenditure Statistics, Turkish Statistical Institute

Figure 23: Customs Duties and Other Foreign Trade Revenues (TRL billions)



Source: Central Government Budget Review, Ministry of Treasury and Finance

What Can We Learn from Arrivals Shops in Turkey?

- There is a clear track record of success as a result of arrivals duty free.
- They support Turkish airports' profitability in a world where aeronautical revenues have been under pressure.
- The revenues have enabled investment in growth and productivity.
- There is no evidence to suggest impacts on domestic markets or government revenue.
- Departures and arrivals duty free shops are complementary to each other. Both can thrive.

5



Common Conclusions

Common Conclusions

- Arrivals duty free shops have been a significant success in the three case study countries. They have provided an additional commercial revenue stream for airports to support viability, investment and growth, over a period when aeronautical revenues have been consistently under pressure.
- They enabled airports to develop routes and passenger volumes, ultimately supporting economic growth and prosperity. Where operators have multiple airports, the success of arrivals duty free shops at major international gateways has enabled smaller airports in the network to survive and provide important social connectivity benefits.
- The available evidence does not suggest that there is any link between the advent of arrivals duty free shops and consumption of relevant goods in domestic markets, and, as a consequence, there has been no discernible impact of government revenues. Evidence from the case studies clearly show that the primary competitive relationship is with departure shops in origin countries.
- Similarly, where data is available, there is no evidence to suggest that sales patterns in arrivals duty free shops have had an impact on customs seizures. There seems to be no basis for the concern that has been expressed in this regard.

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