Economic impact of duty free and travel retail in Europe

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Summary

- Duty free and travel retail, involving the sale of goods to international travellers, has become a hugely successful worldwide industry since the first shop opened in Shannon airport Ireland in 1947.

- Airports represent the majority of travel retail globally but duty free and travel retail is also found on board airlines, cruise ships and ferries, at some international railway stations and in some land border shops. It can also include downtown stores where proof of travel is required to purchase.

- In Europe, duty free and travel retail has become a key component of aviation and maritime financing as well as an integral part of the travelling experience.

- Creating that alternative source of income for airports was the rationale behind the creation of duty free - that need is as great now as it was in 1947.

- The financing of airports relies upon two broad revenue streams: aeronaatical revenues from airlines and passengers (usually paid via airlines), for aircraft movements and passenger processing, and commercial revenues from other activities at the airport.

- Commercial revenues are a major element of airport revenues in Europe, and duty free and travel retail revenues are usually the most important source of income.

- This discretionary activity, driven by customer choice and enabled by commercial innovation, generated revenues in Europe of €15.4 billion in 2014, of which over €10 billion was generated at airports (67%) and €1.6 billion in the maritime sector (11%). This in effect represents a voluntary contribution to financing of aviation and maritime infrastructure.

- In the maritime sector, duty free and travel retail presents opportunities for enhancing passenger service on-board and raising significant amounts of revenue (30-60% of total revenue comes from on-board retail sales (including catering)). These revenues sustain vital ferry routes, which are key to regional connectivity and economic growth.

- Within Europe in 2013, duty free and travel retail at airports, along with other in-terminal services (such as car hire and food and beverage services), generated around 107,000 jobs, some 6% of the total direct aviation-related jobs generated at or in the vicinity of airports.

- Applying this proportion to the €102 billion (around 0.8%) of European GDP directly generated by the aviation sector in 2013 suggests that the direct contribution of European airport duty free and travel retail to GDP was around €6% billion in 2013.

- Duty free and travel retail revenues make a structurally important contribution to the financing of airports (and maritime companies) and their infrastructure in Europe. Larger airports are able to generate the highest levels of retail revenues per passenger, which effectively cover some 40-80% of their profit margins. Even smaller regional airports have a strong reliance on retail revenues, with airports handling between 5 and 25 million passengers per year generating some 40% of their profits per passenger from duty free and travel retail activities.

- Without duty free and travel retail revenue, airports would not be able to provide the facilities and services they do. There would be significantly higher numbers of loss-making airports and/or higher levels of state subsidy. Overall, connectivity in Europe would diminish.

- As well as direct employment, European aviation also supports value-added activities and employment in the supply chains to the sector. Overall, studies estimate that this measures around 1.0% of GDP for Europe as a whole.

- The aviation sector has a much wider catalytic and social impact, by enabling companies and people to work more productively as a result of using air travel to access wider markets.

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- Within Europe, estimates are that the aviation sector contributes around 3.2% of GDP through its two-way impact on other sectors (such as distribution, high value manufacturing, professional services, tourism) which are reliant on air travel and which in turn create a demand for air connectivity. This is in addition to its direct and indirect impact on jobs and output from the activity in the aviation sector and its supply chain.

- Duty free and travel retail revenues therefore provide valuable support to the aviation and maritime industries. These revenues however are under pressure, in part due to regulations that are more appropriate to domestic markets, in part due to the rise of online shopping and also from airline policies. This will almost certainly have an impact on the future financing of airports and ferry routes.

- In Europe, duty free and travel retail revenues have grown robustly at 4% on average each year in the decade to 2014. However, most recently, revenues at European airports have actually declined (down nearly 3% per passenger each year from 2010 to 2013) because of economic factors, new airline hand luggage rules, and the growing challenge from online retailing.

- By contrast, elsewhere in the world, growth in duty free and travel retail revenues was higher over the past decade, at 9% per annum, as a result of a catch up effect in the less mature markets in Asia and the Middle East and faster overall regional economic growth.

- It is important for Governments, therefore, to recognise that the continued vitality of this sector is not just beneficial for passengers’ travel experience but also underpins the provision of vital transport infrastructure across Europe.