

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

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The COVID-19 pandemic has had a shocking impact on the European air transport industry which will be felt for years to come. There is a need for cohesive action by Governments across the European Union 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 the 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, the letting of retail concessions. These revenues are often a significant proportion of overall airport revenues, that 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.

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

Who will Benefit



Benefitting travellers

- ✓ Greater choice, option to purchase on arrival



EU airports

- ✓ Establishing a brand new commercial revenue source



EU based retailers

- ✓ New commercial opportunities



EU public finances

- ✓ Creating new jobs and driving ancillary economic activity to benefit the economy

Key points

The Economic Impact of Arrivals Duty and Tax Free Shopping in the EU report commissioned by European Travel Retail Association (ETRC) in September 2020 was conducted independently by York Aviation. This report considers the potential economic impacts in three major EU markets, Spain, Italy and Germany. Together these three countries accounted for around 35% of seat capacity from EU airports to non-EU destinations. This report draws attention on the following notes:

- 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 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 the bottom end of the range.

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.

Arrivals Key Points



Economic activity within the EU is boosted

BENEFITING PUBLIC FINANCES



Travellers allowances

WILL REMAIN AS THEY ARE

Sales from arrivals shops could make up

20-30%



OF TOTAL TRAVEL RETAIL SALES



Shift sales from outside the EU



to inside the EU

The Potential Impact Across Europe

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. This 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 supported:

Potential of Arrivals Duty & Tax Free

In 2019, the analysis suggests that for **EVERY MILLION** one way seats to non-EU destinations, arrivals Duty and Tax Free shops would have supported:



€16m
in GVA



155
JOBS



€6m
IN TAX REVENUES

On this basis, across the **EU AS A WHOLE**, Arrivals Duty and Tax Free shops would have supported around:



€4.3bn
in GVA



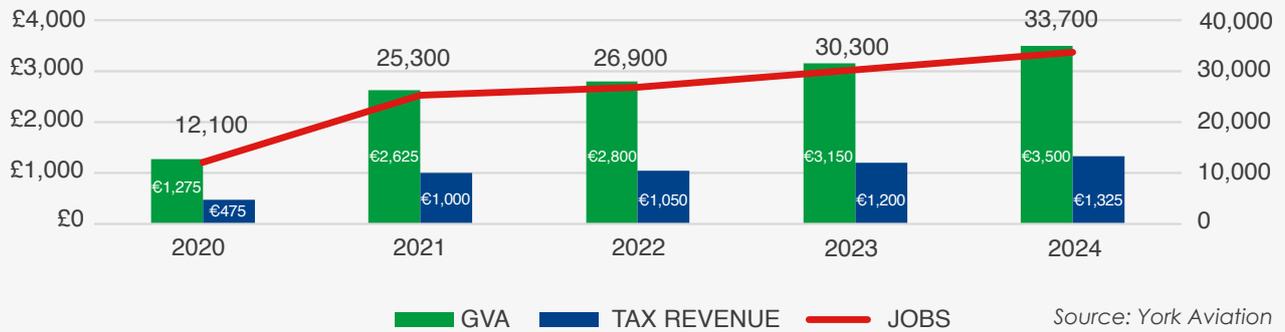
41,500
JOBS



€1.6bn
IN TAX REVENUES

The effects of COVID-19 mean that airports will not be able to support this level of impact until demand recovers to 2019 levels.

Estimated Impact of Duty and Tax Free Arrivals Shops across the EU



The chart above provides an assessment of the impact of duty and tax free arrival shops in the EU through to 2024 assuming recovery broadly in line with ACI EUROPE's traffic forecasts.

Adjusting for COVID effects and BREXIT, this assessment sees an initial impact of around €1.3 billion in GVA, 12,100 jobs and €475 million in tax revenues, rising to €3.5 billion in GVA, 33,700 jobs and €1.3 billion in tax revenues.

Conclusion

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.

About ETRC

The European Travel Retail Confederation (ETRC) represents the European duty free and travel retail industry. ETRC is composed of national and regional affiliated trade associations representing over 200 European companies, Tax Free World Association (TFWA) representing over 500 brand companies, and direct corporate membership from individual companies working in the duty free and travel retail trade across Europe and beyond.

For more information, please visit our website www.etr.org