ASIA PACIFIC TRAVEL RETAIL ASSOCIATION

Public Consultation on Proposal to Introduce Standardized Packaging of Tobacco Products in Singapore

Introduction

The Asia Pacific Travel Retail Association (**APTRA**) welcomes the opportunity to submit the regional Duty Free and travel retail industry's views on the Singapore Government's proposals to introduce standardized packaging of tobacco products in Singapore, for the Ministry of Health (MOH)'s consideration. APTRA is the industry trade association representing all stakeholders of the Duty Free and travel retail industry including airports, airlines, Duty Free retailers, brand owners (including tobacco, alcohol, perfumes and cosmetics, confectionery and fashion companies) and national associations across the Asia Pacific. Headquartered in Singapore, the association was founded in 2005 and has a membership of over 130 companies.

While APTRA commends MOH's goal to reduce smoking rates among Singapore's population, particularly among the youth, the Association would like to raise some potential unintended consequences for Singapore's Duty Free and travel and tourism industries. These include:

- **Lower commercial revenue for major transport and tourism infrastructure such as airports and ferry terminals in Singapore:** nearly 40% of global airport revenues come from commercial sources, like Duty Free retail, which help reduce airports' reliance on aeronautical revenues, which in turn keeps costs of travel lower for passengers;
- **Standardised packaging's more acute impact on Duty Free sales due to its international customer base**: international passengers for whom English is not the first language, who account for over 70% of Singapore's international arrivals, can often only recognise their preferred tobacco product by its branding;
- **Reduced consumer choice**: due to the international nature of Duty Free retail, packaging is often shared across regions - some brand owners may not be willing or able to manufacture special standardised packs only for Duty Free outlets in Singapore, resulting in those products not being available to travellers departing Singapore; and
- **Loss of competitiveness versus other airports or ferry terminals**: as other countries in the region seek to repatriate or attract more Duty Free spending in their own airports or terminals, the Duty Free industry is becoming increasingly competitive, and any change in the attractiveness of the Singapore Duty Free product offer will result in a windfall to competitors at the expense of Changi Airport and the Singapore Cruise Centre.

Furthermore, requiring standardized packaging on Duty Free tobacco products would not meet the Singapore Government's policy goals of reducing tobacco consumption because:

- Duty Free is a unique retail sales channel with **no access for and minimal exposure to minors**—the vast majority (87%) of international visitor arrivals to Singapore are adults;
- **Duty Free products are export-only** products only made available in departure area Duty Free shops, and therefore would not enter Singapore's customs area; and
- **Duty Free shops do not compete with shops in the domestic market**, but with Duty Free shops at other points in the journey.

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In order to avoid the negative impact standardized packaging would have on airport and ferry terminal commercial revenues, **APTRA would like to recommend for MOH's consideration that tobacco products sold in Duty Free shops be exempted from any standardized packaging requirements under consideration by MOH.**

Further detail on our reasoning may be found in the following paper. Should you have any questions please do not hesitate to contact APTRA Executive Officer Michael Barrett at michael@aptra.asia or at +855 89 772 600.

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Duty Free – a unique retail channel that is central to the funding and development of transport infrastructure

What is Duty Free?

Firstly, it is important to define what we mean by 'Duty Free.' Duty Free is a global industry that encompasses the tax-free sale of goods to international travellers. Duty Free shops are exempt from the payment of certain local or national taxes and duties, normally with the requirement that the goods are only sold to travellers who will take them out of the country. Products that can be sold Duty Free vary by jurisdiction and different rules based on duty calculations, allowance restrictions and other factors.

Airports represent most of such sales globally but Duty Free products are also available at border shops (under certain conditions, usually requiring the purchaser to spend a minimum amount of time outside the country), cruise and ferry shops on vessels in international waters, onboard aircraft during international flights, at some international railway stations and for the provisioning of ships sailing in international waters. It can also include downtown stores where proof of travel is required to purchase. In many states, and in certain international institutions, the right to buy Duty Free goods is accorded to diplomatic and military personnel stationed outside their native country. The Duty Free departments of many companies serve this market although it is not considered part of the mainstream Duty Free industry.

Some jurisdictions (for example in non-EU Europe, Australasia, the Middle East and Latin America) offer travellers the opportunity to buy Duty Free goods on their arrival at their destination airport within the territory concerned. In such places, arrivals Duty Free has become an important source of revenue for airports.

Duty Free and travel retail (sales made in travel environments where customers require proof of travel to access the commercial area, but which are subject to taxes and duties) generate vital revenues for national aviation, travel and tourism industries. Airports in particular, increasingly rely on commercial revenues to fund the development of their infrastructure, and to help them keep the landing fees payable by airlines as low as possible. At airports across the world, retail is now the largest contributor to non-aeronautical income. Shopping is a key element of the travel experience for many passengers, and as such, the provision of duty free and travel retail goods is a service as well as an important generator of revenue.

At Changi Airport, the increase in non-aeronautical revenue was underpinned by strong concession sales, which hit a record high of S$2.4 billion (a year-on-year increase of 5.0%) in 2017. The increases in both aeronautical and non-aeronautical revenue contributed to the 6.5% growth of operating revenue to S$2.3 billion in FY2016/17. Specifically, the strong performance from Changi Airport's non-aeronautical revenue enables CAG to subsidise and keep aeronautical charges competitive[1].

Duty Free tobacco products are export-only

[1] Changi Airport Group, "Changi Airport Group Annual Report 2016 - 2017", http://www.changiairport.com/content/dam/cacorp/publications/Annual%20Reports/2017/CAG%20AR2016-17%20-%20Full%20Version%20FA.pdf

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First and foremost, **Duty Free tobacco products are not sold for local consumption.** Typically, goods which are for export are not required to adhere to packaging requirements for goods to be consumed in the domestic market from where they are being exported. Tobacco products sold in Duty Free departure retail outlets are not for consumption in the country in which they are purchased but sold for export only and carried by the passenger unopened to their final destination.
To introduce plain packaging requirements on tobacco sold in Duty Free would be to impose domestic labelling requirements on an export product, a diversion from the customary practice of products being labelled according to their market of destination and not according to their market of origination.

In the local context, **Singapore has already eliminated inbound tobacco allowances, so all Duty Free tobacco sold in Singapore are for export-only**. Differentiated regulation with regard to the display and advertising of tobacco products has been extended to Duty Free shops in airports and ferry terminals, which signals the Government's recognition that **Duty Free channels are distinct from domestic retail and should be regulated accordingly**. Similarly, tobacco products currently being sold in Singapore's Duty Free shops carry international health warnings rather than domestic health warnings mandated by Singapore law, in line with their export-only status.

Duty Free tobacco customers make considered purchases

Duty Free tobacco customers make considered purchases of particular brands in the format of one carton of 200 cigarettes, one of the most common Duty Free tobacco allowances globally.[2] The vast majority of purchases are of one carton, which means that first-time smokers would rarely or never make their first tobacco purchase at a Duty Free shop. Therefore, **applying standardised packaging on Duty Free tobacco products would not meet the Government's policy objective of deterring new smokers and reducing the smoking rate in Singapore**.

The vast majority of international travellers are also adults—just 13% of international visitor arrivals to Singapore were age 19 or younger, and the average age of international visitors is 38 years old—[3]which means that there is minimal youth exposure to Duty Free tobacco products. Furthermore, the vast majority of underaged travellers would be accompanied by a parent or guardian. Moreover, since passengers are required to present a passport to purchase Duty Free tobacco, age verification is naturally included in all transactions, meaning **minors cannot access Duty Free tobacco**. Therefore, **applying standardised packing on Duty Free tobacco products would not meet the Government's objective of reducing youth exposure to tobacco branding**.

In addition, tobacco has among the highest levels of brand loyalty compared to other consumer products, with more than 90% of smokers smoking the same brand annually. This means that the impact of plain packaging is more severe in Duty Free travel environments, where potential customers are passing relatively quickly through the retail area on their way to their airplane, cruise ship or ferry, and may not read English. **If they are not able to easily see their preferred tobacco brand, they will simply defer their purchase to the next Duty Free outlet on their journey.** Thus the commercial revenue is lost to Singapore.

[2] Cathay Pacific, "Duty Free Allowance," https://www.cathaypacific.com/dutyfree/dutyfree.html
[3] Singapore Tourism Board, "Annual Report on Tourism Statistics 2015," p.32, https://www.stb.gov.sg/statistics-and-market-insights/marketstatistics/stb%20arts%202015.pdf

Duty Free is a distinct, international retail sales channel

Duty Free customers are very different to consumers in the domestic market. Frequently there are language barriers between staff and the customer as the customer may not speak or read English or the local language spoken in the Duty Free shop. In such cases, **visible branding of products is critical to aid the consumer to find the product they are looking for**. Some customers may only recognize their preferred brand by the design of the packet or the logo.

Most passengers passing through Singapore's airports and ferry terminals are foreign nationals. For instance, 70% of total traffic at Changi Airport in 2017 was attributable to Southeast Asia and Northeast Asia,[4] regions for which English is not the first language. **Many passengers from these regions depend on brand recognition to recognise their preferred product.** With standardized packaging, many passengers whose language is not based on the Roman script will be even less able to select brand names which are only written in standardized Roman script. This will affect a significant proportion of visitors to Singapore, particularly those from countries or regions who may not be able to read English, such as nationals from China, Russia, Thailand and the Middle East who do not use the Latin alphabet.

For instance, China is not only one of Changi Airport's top ten country markets, it also recorded 12% growth in traffic in 2017, and Guangzhou was the fastest growing destination served, registering 15% growth. Furthermore, five of the top ten destinations served from Changi (Jakarta, Bangkok, Tokyo, Ho Chi Minh City and Taipei) do not use English as a working or official language[5]. The same can be said for the markets served by the different ferry terminals, whose cruises call mostly at regional ports.

Plain packaging would defeat international consumer communications in Singapore's airport and ferry terminals, and exacerbate the impact language barriers have on conducting sales in the Duty Free channel. Competing retail offerings later in the journey, whether through inflight sales, transfer airports, or arrival shops at destinations, would not face the same challenges in communicating to those consumers, and would be the unintended beneficiaries of standardized packaging in Singapore's Duty Free shops.

Duty Free shops do not compete with the domestic market

A traveller leaving Singapore will have several opportunities to purchase Duty Free products. These will take place within a closed and tightly controlled timeline. Although each retailer competes with the other retailers along the timeline, the opportunity for the customer to purchase is strictly segmented with each retailer having the opportunity to sell to the passenger only at specific points.

Fig 1: Passenger Retail Timeline

[4] Changi Airport Group, "A record 62.2 million passengers for Changi Airport in 2017," 23 January 2018, http://www.changiairport.com/corporate/media-centre/newsroom.html#/pressreleases/a-record-62-dot-2-million-passengers-for-changi-airport-in-2017-2386732

[5] Ibid.

Where a customer does not find the product he or she is seeking at the departure airport or ferry terminal, they simply defer their purchase to a subsequent retail opportunity further down the timeline. **The departure airport or ferry terminal, in this case located in Singapore, therefore loses the benefit of the sale, and the subsequent revenue, to a competitor**: an airline or ferry through in-flight and on-board sales, a transfer airport Duty Free offering, or an arrivals Duty Free store at the destination airport or ferry terminal.

Applying domestic standardised packaging requirements to Duty Free tobacco could also restrict consumer choice in Singapore's Duty Free outlets. This is because Duty Free shops carry a wide range of products specifically tailored to meet the requirements of their international customers and quite often these products are not available on the domestic market in the country where the retail outlet is located. **A move to plain or standardised packaging would restrict consumer choice as some brand owners will not wish to manufacture special packs just for these Duty Free retail outlets**.

It is worth noting that **the regional Duty Free and travel retail industry is growing increasingly crowded and competitive** as more policymakers and airports seek to capture a greater share of a booming Asia Pacific travel market. According to research by the Duty Free World Council, Asia Pacific international passenger traffic increased by 12 percent year-on-year in Q4 2017, the largest increase globally.[6] China, in particular, has rapidly expanded arrivals Duty Free shops across its international airports in an effort to compete more effectively with other airports for Duty Free and travel retail revenues,[7] and to repatriate Chinese tourist spending (Duty Free accounts for 29% of Chinese tourists' retail spending).[8] Similarly, Japan has recently launched its first airport arrivals Duty Free shops in September 2017 to boost airport revenues.[9] Both China and Japan are major destination markets served out of Changi Airport.

Finally, Duty Free tobacco products sold on board flights or voyages from Singapore, or in transit and destination airports and ports, would not be covered by Singapore legislation and hence, would not have to comply with any new rules on the sale of tobacco products. Therefore, **implementing standardized packaging on Duty Free tobacco products would not only push the sale to departing passengers further down the retail timeline, depriving Singapore's airports and ferry terminals of commercial revenue, but would also have no impact on Singapore's tobacco consumption**.

Duty Free retail is a significant financial contributor to major transport infrastructure such as airports and ferry terminals

Duty Free retail is the cornerstone of airport growth and development with modern airport design appreciating the role it plays and ensuring new terminals come with large and vibrant retail spaces. Airports Council International (ACI) studies show that nearly 40% of global airport revenues come from

[6] Duty Free World Council, "DFWC Quarterly Global Shopping Monitor – Q42017," http://dfworldcouncil.com/wp-content/uploads/2018/02/DFWC-KPIs-Q4-2017.pdf
[7] "China announces key details for expansion of duty free Arrivals shops," *Moodie Davitt Report*, 20 February 2016, https://www.moodiedavittreport.com/china-announces-key-details-for-expansion-of-duty-free-arrivals-shops/
[8] "Duty free rules as lower-tier Chinese city tourists hit spending highs," *Moodie Davitt Report*, 21 September 2017, https://www.moodiedavittreport.com/duty-free-rules-as-lower-tier-chinese-city-tourists-hit-spending-highs/
[9] Narita Airport, "'Arrival Duty Free Shopping' will become available at Narita Terminal 2 Arrival Concourses from September 1st," 23 August 2017, https://www.naa.jp/en/20170823-toutyakumenzei_2ptb_en.pdf

non-aeronautical sources.[10] This provides a reliable source of income that contributes to meeting airport operating and expansion costs. It also helps to keep the cost of travel lower by reducing airports' reliance on aeronautical revenues, which are ultimately passed down by airlines to the traveller.

Tobacco products are an important part of the Duty Free retail offer, accounting for nearly 12% of global Duty Free turnover.[11] Furthermore, tobacco products are a key driver of foot traffic to Duty Free stores—**on average, globally, tobacco purchasers spend up to 2.5 times more on other Duty Free products** such as perfume and cosmetics, confectionery or liquor. Any significant reduction in retail revenue will impact airport operations and future development, and will almost certainly have an impact on employment. This is especially true at regional airports, like Changi Airport, that compete vigorously to attract international airlines.

Any reduction in commercial income would put Singapore airports at a significant commercial disadvantage against their international competitors. Changi Airport has rightfully been recognized as a gold-standard in airport experience and management, securing 557 'best airport' awards to date, thanks in part to **Changi's commercial and retail offering, which is a key component of the overall passenger experience, as well as a source of revenues to continue upgrading and expanding its facilities to better serve passengers.**[12]

Conclusion

The Duty Free industry is aware of and supports legislators' goal to address involuntary exposure to tobacco branding and reduce smoking rates among Singaporeans. However, introducing standardized packaging to Duty Free tobacco products would not achieve this policy goal and would create negative economic impacts for Singapore's Duty Free and travel and tourism industries.

The display of products in Duty Free is a key tool to communicate to pre-existing tobacco consumers in places where there often exists a language barrier due to the international nature of this segment of consumers. Furthermore, the introduction of plain packaging for tobacco products for Duty Free shops in Singapore would place those retailers at a competitive disadvantage. Duty Free retailers do not compete with domestic retailers but with other Duty Free shops, in-flight sales conducted by airlines on their flights, and, increasingly, with arrivals Duty Free shops.

[10] Airports Council International, "Airports' bottom line remained stable as the industry continued to weather the storm of economic uncertainty", 21 March 2017, http://www.aci.aero/News/Releases/Most-Recent/2017/03/21/Airports-bottom-line-remained-stable-as-the-industry-continued-to-weather-the-storm-of-economic-uncertainty-

[11] Generation Research, "Global Travel Retail: History, Trends, Forecast," August 2016, http://dfworldcouncil.com/wp-content/uploads/2016/11/History-Trends-Forecast-GTR-2015.pptx

[12] Changi Airport Group, "A record 62.2 million passengers for Changi Airport in 2017," 23 January 2018, http://www.changiairport.com/corporate/media-centre/newsroom.html#/pressreleases/a-record-62-dot-2-million-passengers-for-changi-airport-in-2017-2386732