

Price & taxation policy review targets duty-free

The review of pricing and taxation policies under Article 6 of the Framework Convention on Tobacco Control should not target duty free retail

Following the fourth Conference of the Parties (COP4) a working group was established to examine the Price and Taxation Policies contained in Article 6 of the Framework Convention on Tobacco Control. It is understood that this Working Group are submitting guidelines and recommendations on Price and Taxation policies to reduce the consumption of tobacco to the fifth Conference of the Parties (COP5) that will take place in Korea in November 2012.

APTRA understands that these guidelines and recommendations include references to the duty free industry, however due to a lack of transparency by the working group the exact nature of the discussions relating to duty free are not known.

A previous report by the WHO Tobacco Free Initiative which preceded the creation of the working group made false claims about the duty free industry accusing it of contributing to illicit trade and of undermining national taxation policies.

APTRA rejects these claims.

The Reality

Claims that duty-free sales undermine tax based demand reduction policies do not stand up to scrutiny given the extremely low market share of less than one per cent of the global tobacco market. Furthermore, although duty free sales are not subject to excise, duty free operators often pay large concession fees to government owned airports – akin to a tax – to operate their shops.

Duty-free tobacco purchases by international travellers are subject to strict controls. Customers consist of international travellers, typically only availing of duty-free retail once or twice a year. These existing restrictions ensure that duty-free sales of tobacco products do not undermine the tax based demand reduction policies.

The supply chain that leads to tobacco products arriving on the shelves at duty-free outlets is strictly controlled by customs authorities that operate a system of bonded warehouses. Deliveries and sales must all be accounted for and strict fines and sanctions are in place in the event of goods going missing. The reality is that if there is any discrepancy between recorded sales and stock levels the airport retailer is obliged to cover the outstanding tax due. The same rules apply to airlines, ferries and cruise ships and to land border shops.



Airport duty-free retail outlets are located in security restricted areas of airports ensuring that airport retail is among the most strictly controlled and secure retail environment in the world. It is nonsensical to suggest that such an environment would allow for the leakage of tobacco products into illicit markets.

The issue of illicit trade is a serious concern but has been subject to intense discussions through the Intergovernmental Negotiating Body over five years which has resulted in a Protocol to the FCTC to address Illicit Trade. The Duty Free industry has supported this process to stamp out criminal activity. APTRA believes that the Protocol on Illicit Trade is a comprehensive response to the issue of illicit trade and should be supported. The review of Price and Taxation Policies should not overlap with the provisions of the Protocol on Illicit Trade.

The INB negotiations that developed the Illicit Trade Protocol came to the conclusion that duty free retail must be regulated like any other retail channel. Calls to ban the sale of tobacco products in duty free were unsupported by evidence and rejected by the Parties. A compromise was reached whereby evidence based research should be conducted to ascertain the extent of illicit trade in tobacco products related to duty free sales of such products.

Impact of a prohibition or restriction

Duty-free retail is firmly rooted in established international law and custom, including a number of international conventions facilitating the movement of travellers and promoting tourism. It is a feature of international travel that has benefitted travellers for over sixty years.

Countries are bound by a number of International Agreements on Customs Facilitation for Tourists, such as the New York and Kyoto Conventions, as well as the related OECD Decision-Recommendation, which promote reasonable travellers allowances. Prohibiting or limiting duty-free tobacco imports may be contrary to the obligations of individual parties to the WHO FCTC that are also in particular free-trade agreements or customs unions.¹ FCTC Guidelines must reflect the obligations that countries have under these agreements.

Global tax- and duty-free sales of tobacco amounted to \$3,3bn in 2011² contributing substantial revenues to airports, airlines, ferry and cruise lines. In simple terms, many of these businesses will find it very difficult to find alternative financing sources which deliver similar revenues. Prohibiting or restricting duty-free sales of tobacco products would have a seriously damaging effect on the airlines, airports, and maritime industry that benefit from duty free retail.

¹ Expert review on a possible ban on Internet sales of tobacco products. FCTC/COP/INB-IT/3/INF.DOC./4

² Global duty free & travel retail sales 2011. Generation Research



Conclusion

Restricting or prohibiting duty free sales of tobacco products will have little or no effect on the consumption of tobacco products. It will have almost no impact on taxation policies, nor will it address the problem of illicit trade. It will however remove substantial revenues from the aviation and maritime trade worldwide and drive up the cost of travel.

The next meeting of Conference of Parties to the FCTC will be held in Korea in November 2012. APTRA urges all its members to contact their governments and ensure they are informed of the absence of impact that duty-free trade of tobacco products has on taxation policies and the valuable role played by duty-free retail.

About APTRA

The Asia Pacific Travel Retail Association (APTRA) is a regional trade association for the duty free and travel retail industry in Asia Pacific. Its mission is to facilitate the growth of the industry in the region and safeguard the interests of its members.

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