

UPDATE: ACI Europe event draws around 300 delegates

The 27th annual Airport Commercial International (ACI) Europe Airport Commercial and Retail Conference and Exhibition hosted by Israel Airports Authority (IAA) attracted more than 300 delegates in Tel Aviv, Israel.

Proceedings started with a superb opening cocktail event (13 March) at The Susan Dellal Centre for dance and theatre in Neve Tzedek, Tel Aviv.

Opening the conference (14 March) entitled Transformational Disruptors in the Airport Commercial Space was Israel Airports Authority Chairman of the Board Eliezer Marum who said: "Passenger movements are growing annually at 15% due to many factors including the strong shekel against the dollar.

"We are expecting to end 2018 with 23 million passengers at Tel Aviv Ben Gurion Airport and 26 million a year later. In three years, the figure will be 30 million.

"Our commercial and retail business is suffering from the growing number of passengers passing through Ben Gurion."

INDUSTRY CHALLENGES

He added: "The first problem we have is e-commerce. The second is the growing number of flyers. People who used to fly once a year are flying three or four times a year so do not buy as much in DF on each occasion.

"We are in the midst of a revolution in customer behaviour and need to find a solution. We need to find ways of growing our income from DF and TR."



Israel Airports Authority Deputy Director General Commerce Business Development Yoram Shapira chaired a lively panel discussion focusing on the key commercial influences impacting business at Tel Aviv Ben Gurion Airport.



ACI Europe President Olivier Jankovec gave a State of

The State of the Industry address was delivered by ACI Europe President Olivier Jankovec, who said traffic was the "good part" of our business. Jankovec also revealed an 8.5% growth in passengers across European airports in 2017, the best performance since 2004.

"Aviation has been an economic outperformer of GDP growth in the past five years. This shows the industry is of strategic importance to our economies.

"Traffic has grown, but revenue has lagged behind traffic growth. The main driver for growth has been low-cost carriers such as Norwegian Air which will put more focus this Summer on transatlantic flights than the likes of Air France."

With 47% of Europe's airports loss-making as opposed to the 60% figure of recent years and passenger numbers rising +7.4% in January 2018, Jankovec pondered: "How long will the party last amid the geopolitical turbulence we are seeing which is a major challenge?"

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**Industry address. Credit:
ACI**

Brexit is also a major risk. "We thought we were in a better place when exit terms were reached, but at the moment we don't know where we stand as negotiations are not really progressing that much. What we do know is that Britain wants to maintain aviation connection with the EU should it leave the European Union."

On the technology front, Jankovec said it had been a key part of its business transformation. "It is clear we are going to see technological changes impacting all businesses and not just airports. The ability of airports to accept and use data will also be key."

Millennials will also account for 50% of global travellers by 2020. This is among several factors putting the pressure on commercial revenues and challenging the business model at European airports.

"Where will we be with technology tomorrow?" Jankovec asked: "In 20 years we are told a high percentage of jobs that exist today may not do so then because of robotics."

"Business Evolution is imperative. Our members must focus on transformational leadership, with information technology and digital the core of the airport business strategy."

BREXIT OPPORTUNITY

Another standout presentation on day one was from European Travel Retail Confederation President and Dufry Director External Affairs Sarah Branquinho.

Focusing on the commercial opportunity presented by Brexit and the World Health Organisation protocol which could potentially eliminate DF tobacco, she said of the former:

"ETRC is looking to secure the profitable return of tax and DF sales for passengers travelling between the UK and EU as soon as the UK leaves the EU. This is scheduled to take place on March 29 2019.

"Brexit offers a significant commercial opportunity. There were 153 million air travellers between the EU and UK in 2016. This gives us a vastly increased customer base for DF sales. Air travellers represent more than their percentage weight in terms of sales."

She then highlighted one common misunderstanding. "We are not talking about a relationship that is dependent on whether the UK is part of the single market or Customs Union or not. Switzerland and Norway are in the single market and all have duty free."

The Spring European Council taking place from March 22-23 is expected to shed more light on Brexit and how things are progressing.

"On March 22 we will find out if there will be an agreement on the transition phase of Brexit. We have seen draft text from the EU and the UK, which suggests the UK will most likely remain an EU member state for the duration of the transition period.

"If that is the case it can limit the opportunity for the UK and EU DF sales until the end of the transitional



ETRC President and Dufry Director External Affairs Sarah Branquinho focused on commercial opportunities presented by Brexit and the threat of the Illicit Trade Protocol to duty free tobacco sales. Credit: ACI

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period when the UK actually becomes a third country.”

ILLICIT TRADE PROTOCOL

Regarding the Illicit Trade Protocol threat, Branquinho remarked: “The protocol mandates that research should be undertaken within five years into which duty free contributes to the illicit trading of tobacco products which is complete nonsense.

“The industry is busy alerting governments of its concerns and impacts, but we need airports as well. We will build opposition with key industry allies and political stakeholders to any restrictions or ban on duty free tobacco products.

“I would like to emphasise that the Duty Free World Council fully supports the Illicit Trade Protocol, but rejects any notion that the DF tobacco industry is involved with illicit trade.”

The keynote address on the first morning was from newly appointed EL AL CEO Gonen Usishkin, who revealed the airline, which was established the same time as the state of Israel in 1948 operates 44 carriers to 35 non-stop scheduled destinations.

He then offered an insight into how government regulation impacts operations and touched on other issues such as pricing preferences of consumers.

COMMERCIAL INFLUENCES



***Israel Airports Authority
Deputy Director General
Commerce Business
Development Yoram
Shapira. Credit: ACI***

Next up was IAA Deputy Director General Commerce Business Development Yoram Shapira who moderated a panel discussion featuring Tel Aviv Ben Gurion International Airport Managing Director Shmuel Zakay and JR Duty Free Chairman Garry Stock.

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SSP Group Business Development Director Jonathan Robinson and Israel Airports Authority Head of Business Development Gadi Refaeli were the remaining panellists.

The session focused on the key commercial influences (*including tech and tourism*) and how these impact Tel Aviv Ben Gurion International Airport."

Setting the scene Shapira said: "E-Commerce and online is growing 20% each year but it is going down. It is all about the smartphone epidemic. Today's consumer wants everything immediately and through their smartphone.

"If we are sleeping seven to eight hours and working eight to nine hours our free time is on our mobile."

According to Shapira, the future of retail is the connection between the digital and physical worlds. He explained: "Duty free has its own rules and is not a street market. It is a more complex business environment."

The signing of the Open Skies agreement between Israel and the EU in the Summer of 2012 (*the agreement was ratified the following June*) sparked a revolution in Israeli aviation.

"First of all, we have a new customer. The changing passenger mix meant more children which are not allowed to buy duty free. "Previously it was 30% business and 70% non-business travellers. Today it is completely different.

"There are a lot of families flying to anywhere in Europe for much cheaper prices. Children are not allowed to buy liquor and tobacco products, for example, so you need other DF goods."

He concluded: "We must improve the overall shopping experience so consumers are spending more time in DF environments. We have to make them realise the flight begins while at the airport."

INCREASING TRAFFIC

The need to do this was echoed by Zakay, who highlighted some key traffic statistics. "Traffic is expected to reach 23m in 2018 and 25m in 2019.

"Last year the airport handled 20.8 million international passengers through inbound and outbound to 200 different destinations from 140 airlines. In the last 10 years passenger traffic has grown dramatically."

He added: "Security is one of the most important issues. We are leading in airport safety and efficiency."

Zakay then cited five main reasons for the dramatic passenger growth at the airport. "The first is the Open Skies agreement.

"Other factors include the fact Israel is a strategic destination and that there is no night curfew, economic stability and improving infrastructure and technology."

Outlining some key major projects Zakay commented: "We decided to upgrade the airport infrastructure landside and airside to increase



**Tel Aviv Ben Gurion
International Airport Managing
Director Shmuel Zakay.**

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airport capacity.

"We also added advanced technology to improve the passenger flow and re-opened terminal one [which serves low-cost airlines flying to Israel] to cater to the needs of customers."

In one of the standout presentations of the first working session, Stock discussed the changing face of the global DF business. "We are moving into a new era.

"Look what has happened with mobile phones. The world has changed and so has our industry."

"There may have been growth in China, but there has actually been growth everywhere. As you would expect the Israeli economy has changed over this period as well."

At present, the DF industry finds itself with much heavier regulation and continuing strong competition as it has done for many years, according to Stock. "The operator must do more. The price experience is very important.

"We have focused on things like fresh design, easier queue completion, full online service, price transparency, pre-order, loyalty programme, more promotions, more price checks."

"We need to pursue structural change – economies of scale, sharing of risks, maximising best practice/experience."

He then launched a strong attack on the current rental model between landlord and operator and called for a change. "The focus of the arrangement between operator and landlord needs to be on percentage of sale and growth of revenue.

"A Minimum Annual Guarantee should be a safety net for the airport and protect operators."

Returning to the current state of the global DF and TR industry Stock concluded: "We are going through a period of intense activity and change.

"The airports must stand up and say they are prepared to act. They have to be prepared to think out of the box and be quicker on their feet. The operator also has to respond.

"If we don't we are inviting the possibility of extinction which is unacceptable."

F&B PERSPECTIVE

Offering an F&B perspective was SSP Group Business Development Director Jonathan Robinson, who said we must focus on the, "integration of food and beverage into retail and right in the heart of it."

More to follow