

**The Nuance Group Australia’s submission to
“Australia’s Future Tax System – Consultation Paper”**

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1. The Nuance Group Australia: An Introduction

The Nuance Group is one of the leading airport retailers globally, operating over 400 stores at 60 airports and in 20 countries. In Australia, The Nuance Group has operations at Sydney, Melbourne, Brisbane, Perth and Cairns Airports and employs more than 1000 people directly and many more indirectly. The Nuance Group Australia is headquartered in Alexandria, NSW and is the largest duty free retail business in the country.

Nuance’s main operating brands in Australia are ‘SYD Airport Tax and Duty Free’, ‘FIRST Tax and Duty Free’ and ‘Downtown Duty Free’. Additionally, Nuance operates a number of specialty stores on airport, including, ‘Sony’, ‘Fashion Gallery’, ‘MAC’, ‘Hugo Boss’ and ‘Lacoste’.

Nuance is currently completing a series of major capital investments in all its Australian locations, where more than \$40M has or will be directly invested in new and refurbished stores to enhance the tourist experience. Duty free shopping is an integral part of the international travel and tourist experience and Nuance is proud to offer its Australian and overseas customers one of the best tax and duty free shopping experiences available in the world.

2. Response to consultation question 11.4

The consultation paper has posed the question:

“If health and other social costs represent the principal rationale for specific taxes on alcohol and tobacco, is any purpose served in retaining duty free concessions for passenger importation of these items?”

Our response is that yes, categorically, there is a clear purpose to retaining duty free concessions for importation of alcohol and tobacco. We see six main reasons why the concessions for both alcohol and tobacco should be retained:

- ***Maintenance of Australia’s competitive position as an attractive tourist destination.*** The appeal of shopping is both a draw for tourists to come to Australia and a reason to spend money once here. Shopping is rated the third favourite tourist activity¹ (after sightseeing and eating) for tourists visiting Australia and approximately 45%² of tourist shopping is made in duty free stores, predominantly at Australian airports. Maintaining an internationally competitive duty free retail offer is therefore critical to Australia’s attractiveness as a tourist destination. Liquor and tobacco are two of the ‘core four’ duty free categories (along with perfume and cosmetics) that drive the majority of duty free sales. Without these categories the entire duty free retail offer is critically compromised. International competition for tourist custom is intense and in recent years Australia has struggled to increase overseas visitor numbers. At a minimum, Australia needs to be at no disadvantage to other jurisdictions and the removal of the alcohol and tobacco duty free concessions would constitute a significant disadvantage. As the Minister for Tourism, the Hon. Martin Ferguson, recently wrote to the Australian Duty Free Association, “Duty free shopping is an important part of the tourism experience and provides a major injection of expenditure into the Australian economy”³.
- ***Protection of Australian jobs directly and indirectly connected to duty free retail.*** The Nuance Group in Australia currently employs 1,080 workers in five states and territories. More broadly the Australian Duty Free Association estimates there are approximately 1,500 Australians employed in duty free retail across the country and many more employed in their extended supplier communities. Alcohol and tobacco comprise approximately 40% of sales and closer to 50% of the gross margin for these businesses. The simple fact is that if the duty free concessions were abolished then the majority of these jobs would disappear as the businesses would no longer be commercially viable.
- ***Maintenance of important and growing income streams for airports.*** Non-aeronautical revenue, of which duty free retail income forms the largest portion, is a significant income stream for Australian airports. To take Sydney Airport as an example, retail revenue in 2008 comprised 24%⁴ of total income. In 2008 The Nuance Group accounted for more than \$200M⁵ of income for Australian airports. These revenues are important as airports look to invest in enhancing the quality of airport infrastructure for the benefits of Australians and international visitors. Without duty free retail revenue the asset values of Australian airports would be significantly reduced.
- ***Abolishing the duty free concessions for alcohol and tobacco will have negligible social or health benefits.*** As a retail channel restricted only to those travelling internationally, the duty free retail segment is a small and tightly regulated part of the total Australian market for both alcohol and tobacco. Tobacco sold from

¹ International Visitors Survey data

² International Visitors Survey data

³ Letter to Kyle Karsten, ADFA, 14 April 2008

⁴ Sydney Airport Corporation Ltd annual accounts 2008

⁵ The Nuance Group Australia financial data

duty free stores in Australia, for example, accounts for less than 1%⁶ of Australian tobacco consumption. The controlled access to the retail environment means that very few customers are frequent purchasers and there is a low proportion of customers from disadvantaged or 'at risk' demographics. Tight Customs regulation restricts the quantities of alcohol and tobacco that individuals are able to purchase, and the requirement for passport identification ensures that it is not a retail environment where under-age purchases take place. For individuals duty free alcohol and tobacco purchases typically account for a small proportion of their total consumption. A Centre for International Economics study analysed the consumption impact of removing duty free tobacco and concluded;

"The effect of removing duty free on the average price that [internationally travelling smokers] must pay is relatively small, leading to small changes in the quantity demanded... In view of the very small effects on the quantity of cigarettes consumed, the health effects are likely to be negligible."

- **Abolishing the Australian duty free alcohol and tobacco concessions would shift the majority of spend overseas.** With Arrivals duty free now widespread around the world the majority of current Australian duty free spend would simply shift overseas. As outlined above this would be damaging to Australia's competitiveness for tourists, catastrophic for the duty free retail industry, damaging for Australian airports and provide little in terms of social or health benefits. In this context we believe it would be perverse for the Australian tax system to create an incentive to transfer duty free expenditure overseas.
- **Removing a controlled, well regulated and operated retail channel there is the risk of additional demand being created for illicit tobacco and alcohol.** Regulation and control of the airport duty free retail channel is already extremely tight. Retailers operate under a License granted by Customs and Customs and Excise officers can and do conduct random inspections of stock holdings and sales operations to ensure compliance with government regulations. As such, the airport duty free channel sells only alcohol and tobacco products from legitimate suppliers. Customers can only purchase quantities within their personal allowance. All customers are required to show their proof of age and, given the airport location, all customers carry their passports, ensuring no product is supplied to customers under the legal age. We have consistently argued that if the general retail industry was required to control tobacco access and product movement in the same way then real progress towards limiting access and reducing alcohol and tobacco abuse would be made. Abolishing the duty free retail channel is likely to further fuel demand for illicit channels for the supply of alcohol and tobacco. With tax and excise forming more than 70% of the price of tobacco in Australia, the incentives for growers and unscrupulous suppliers are evident.

⁶ Figures from British American tobacco suggest that duty free sales account for 1.6% of total Australian sales. Nuance sales figures for 2008 show that more than half of this is purchased on departure for consumption overseas and that more than half of all international passengers are non-Australians

⁷ "Effects of removing duty free concessions on tobacco" by Centre for International Economics; prepared for The Department of Health and Aged Care, August 2001