

# Should duty free exist?

Recently, Dubai Duty Free's Executive Vice Chairman and CEO Colm McLoughlin requested that a thought piece published earlier this year in *The Economist* be sent to parties who might find it of interest, including *Duty Free & Travel Retailing* magazine.

In the piece, the author suggests that duty free should no longer exist, that it's a system that unfairly rewards those with the means to travel, while those without the means are left paying taxes. The article also suggests that the duty free industry inspires bad environmental choices by encouraging air travel.

"Duty free's boosters argue that the income from shops is essential to sustain airports, which might otherwise need more taxpayer funding. Retail income, not all of which is exempt of duties, is indeed their biggest source of cash after fees paid by air lines. The figure is inflated by the astronomical rents that airports can charge retailers, skimming off up to 40% of their sales. But it is a textbook case of allowing an exorbitant privilege to generate unjustified profits which are then shared around opaquely. If airports need state help, especially after the pandemic, it should be paid transparently, not through tax dodges that distort economic incentives," the author states.

I believe the author misses a few important realities, especially in these post-pandemic times. Governments are transparently funding airports, but it is not enough. Airports have lost astronomical amounts of revenue, whereas they are extraordinarily expensive to run. Government aid will not make up for this, and certainly not over the long haul. What would happen with no duty free sales in airports (and on airlines, let's be clear) is that airlines, which already operate on the slimmest of margins, will have to pay more fees, which will inevitably be handed down to passengers, making air travel less affordable.

The general public often makes rueful reference to the luxury of air travel in the past, when travelers were treated royally, with delicious food and real silverware. But the cost of such luxury is often forgotten. Air travel was simply not available for anyone who looked at price tags.

As with economy seats, duty free sales help result in inexpensive travel. No longer is travel a luxury for only the wealthy, as the article seems to suggest. While the world's truly poor are unlikely to get on a plane anytime soon, travel is possible for the majority of the world, an equalization that duty free has helped to create.

Once the majority of the world can travel (and ship goods, another industry supported by duty free because sales support the airport's infrastructure), this creates a more level playing field for global business competition. When travel was the domain of only the wealthy, wealthy travelers were the true dictators of global tourism and business, and this is no longer the case. Those with very modest incomes are now able to visit family in the rest of the world and compete in business on a global level.

Airports are continuously searching for ways to increase their non-aeronautical revenue. This is not just to add to their coffers; it is to be able to offer a competitive pricing structure for airlines. Duty free is not the only relevant part of this structure; in domestic airports it is not part of the structure at all. But larger international airports must attract international airlines, and duty free is definitively an important aspect of the ability to attract them, again through lower fees.

This brings us to how duty free benefits a specific country. Taxes might be lost through duty free, but business is created. Local businesses all benefit from an increased ability to accept international airlines and thus travelers. This increased business and travel/tourism then creates considerably more

tax revenue generation for the country.

The bottom line is, the existence of duty free is one part of what makes a country more competitive in business as it helps to increase revenue from all avenues, including sales tax.