CHANGI
airport group

CHANGI AIRPORT GROUP'S RESPONSE TO THE PUBLIC CONSULTATION ON STANDARDISED PACKAGING AND ENLARGED GRAPHIC HEALTH WARNINGS FOR TOBACCO PRODUCTS

1 We refer to the following:

(a) the announcement by the Ministry of Health (MOH) on 9 March 2017 that the minimum legal smoking age in Singapore will be raised from 18 to 21, with implementation to be phased over a few years; and

(b) the announcement by the MOH on 4 February 2018 seeking public views on its proposal to introduce standardised packaging rules for tobacco products in Singapore.

2 In connection thereof, Changi Airport Group (CAG) would like to put forward its views on the abovementioned tobacco policies currently under consideration and/or implementation by the government.

RAISING OF MINIMUM LEGAL AGE

3 Changi Airport Group fully understands and is committed to the effort to reduce tobacco use by youths in Singapore. Over the years, the airport has worked closely with the relevant ministries and statutory boards to ensure that tobacco sale at Changi Airport is in full compliance with the governing laws.

4 We note that the minimum legal age in Singapore will be raised from 18 to 21 years of age. In this regard, legislative changes will be proposed in Parliament within a year, and implementation phased over a few years.

5 As highlighted in our earlier letter dated 2 August 2017 (**Annex A - Letter to Ministry of Health Policy Group**), the revised minimum legal age will affect Changi Airport in the following ways:

(a) Singapore would have the highest minimum legal age for smoking amongst all of our regional airport competitors, most of whom have set the minimum legal age at 18;

(b) international departing passengers, which make up the bulk of Changi Airport's customer base, may be frustrated and dissatisfied by the higher minimum legal age. They are likely to therefore postpone and redirect their purchases upon arrival at our regional competitor

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airports. Based on data currently available to us, we expect tobacco sales leakage of at least [redacted]* to our regional airport competitors, which amounts to a loss of about [redacted]* in concession sales per annum. This sum is sufficient for two years' maintenance of the airfield lighting control system; and

(c) our duty-free shopping concession operator, DFS Venture Singapore (Pte) Limited (DFS), will experience a significant increase in hiring and operational expenses for their retail operations at Changi Airport. At present, promoters aged between 19-20 years of age make up approximately [redacted]* of DFS' promoter work force. DFS estimates that its payroll cost will increase by [redacted]* due to the higher hiring age and constraints in hiring temporary manpower.

6 Notwithstanding the difficulties above, which would ultimately result in lower non-aeronautical profits available to build and maintain our air hub status, we are cognizant of the Government's efforts and priorities in reducing the use of tobacco by youths in Singapore. As such, we would like to provide our support to this effort.

STANDARDISED PACKAGING PROPOSAL

7 We note MOH's proposal to introduce standardised packaging rules for tobacco products as part of Singapore's multi-pronged approach to control tobacco sales and consumption in Singapore. We respectfully urge MOH to take into account the following factors in the course of drafting regulation to implement the standardised packaging rules.

8 **Limited Frequency of Contact and Efficacy of Proposal.** CAG is of the view that the duty-free retail environment at Changi Airport should not be viewed with the same lens as other retail areas in Singapore. In general, passengers have a low frequency and length of contact with the tobacco duty-free shopping displays at Changi Airport. In particular, each contact by a passenger is limited to a short period of time due to the time pressure from flight schedules. Coupled with the wide variety of other products available at the duty-free retail area, passengers' exposure to tobacco displays and marketing is transient and fleeting as compared with other areas of Singapore.

9 Further, tobacco is sold only to departing passengers at the transit area of Changi Airport, of which a large portion comprise foreigners who are visiting, or transiting through, Singapore for a short period of time. This is arguably inconsistent with the legislative intent to curb tobacco consumption in Singapore. At present, with the exception of Australia, France and the United Kingdom, no other country has implemented standardised packaging rules in full. As such, most foreign passengers will return to an environment where they will be exposed to tobacco branding and marketing in full. The efficacy of standardised packaging rules on this pool of foreign passengers, who comprise the majority of Changi Airport's departure passenger mix, is therefore limited.

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10 **Operational Challenges**. The standardised packaging rules will also result in operational difficulties for Changi Airport in view of its international and multilingual passenger mix. We anticipate that standardised packaging requirements without any brand indicia for product identification will lead to an increased need for staff assistance, as a significant percentage of our passengers do not understand English. This will result in a need for more staff and training requirements, adding higher labour and operational costs to the already challenging retail business environment in Singapore.

11 **Fall in Non-Aeronautical Revenue**. In the event standardised packaging rules are implemented, Changi Airport will be the only airport in the region restricted by these requirements. Not only will this be a significant dampener on our duty-free retail offerings, it may also elicit doubts about the legitimacy and quality of tobacco products sold at Changi Airport as compared with our regional airport competitors.

12 In particular, Chinese and other Asian passengers make up a significant percentage of the passenger profile at Changi Airport, compared to Australia, France and the United Kingdom where standardised packaging has been implemented. These passengers are highly sensitive to the perceived value and prestige associated with brand indicia and packaging of tobacco products. The implementation of standardised packaging requirements will therefore compromise our tobacco offerings to our key passenger markets. Our view is that Chinese and other foreign passengers will simply purchase their duty-free tobacco products at one of our regional competitor airports. This could translate to an estimated loss of [redacted]* sales per annum, which accounts for [redacted]* of Changi's total concession sales. This sum lost in one year alone is sufficient for 18 years of maintenance for all the passenger loading bridges (also known as aerobridges) in Changi Airport.

13 **Passenger Experience** Changi Airport has built its world-class position with its excellent airport services and comprehensive retail offerings. With the implementation of standardised packaging, passengers are exposed to inconvenience and frustration which could compromise their retail and overall experience at Changi Airport. Further, standardised packaging for tobacco is not implemented at any of our regional competitor airports. This would disadvantage Singapore in the competitive landscape.

14 In view of the above, we urge MOH to take into account the following considerations when reviewing the standardised packaging rules:

(a) the duty-free shopping environment at Changi Airport serves mainly international passengers for a fleeting period of time and, as such, should not be viewed in the same lens as other retail areas in Singapore;

(b) the standardised packaging rules will add an additional layer of employment and operating cost to an already challenging retail environment;

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(c) given that the bulk of tobacco sales at Changi Airport are made to international travelers, the implementation of standardised packaging requirements will cause international passengers to merely defer their purchase at Changi Airport to their next destination. This results in significant sales leakage to our regional airport competitors, with no contribution to the policy objective of reducing tobacco sales and consumption in Singapore; and

(d) the anticipated fall in non-aeronautical profits from the implementation of standardised packaging rules will be significant and translates to lower financial contribution to support airport operating costs and aeronautical charges.

(e) the policy could add inconvenience and frustration to the experience of passengers departing from Singapore, compromising on Singapore's positioning as a tourist destination of choice, and Changi Airport's aspiration to remain the world's best airport.

15 We will be pleased to furnish any additional information required by MOH and we look forward to a meaningful engagement with the ministry to further its policy objectives. If you have any queries please contact Juliet Fu (juliet.fu@changiairport.com; 6850 7046) or Joy Tan (joy.tan@changiairport.com; 6541 2556)

16 We request for confidential treatment of all data (*marked by an asterisk) contained herein. Please refer to Annex B for a listing of these data.

17 Thank you.

*CAG requests for confidential treatment of all data marked by an asterisk.

Annex A- Letter to Ministry of Health Policy Group

2 August 2017 Tel: 6603 3339

Ministry of Health

College of Medicine Building

16 College Road

Singapore 169854

Attn: Ms Ngiam Siew Ying

Deputy Secretary (Policy)

Dear Ms Ngiam,

CHANGI AIRPORT GROUP'S RESPONSE TO THE PUBLIC CONSULTATION ON TOBACCO CONTROL

Changi Airport Group (CAG) would like to put forward its views on two tobacco policies currently under consideration and implementation by the government. These include:

(i) Raising of Minimum Legal Age for use of tobacco products from 18-21
- Law to be passed and implementation carried out in phases

(ii) Standardised Packaging for tobacco products
- Under consideration

Raising of Minimum Legal Age

2 The Ministry of Health (MOH) announced on 9 March 2017 that the minimum legal smoking age in Singapore will be raised from 18 to 21. The legislative changes will be proposed in Parliament within a year, and implementation phased over a few years. While we support the Singapore government's efforts towards reducing the use of tobacco by our Singaporean youth, we would like to highlight our concerns on the policy's impact on operations, and its threat to Changi Airport's competitiveness as the world's best airport, of which our world-class duty-free shopping plays a big part.

3 With the revised legal age of 21, Singapore would have the highest minimum legal age amongst all our regional competitors, who mostly have a minimum legal age of 18. Given that tobacco sales at Changi Airport are made only to departing passengers, the policy objective of protecting Singaporean youth from the harmful effects of tobacco would be achieved to a very

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limited extent. Instead, the policy would create frustration and dissatisfaction for Changi's international passengers. The main effect from this policy could be a redirection of purchases to the destination airports resulting in sales leakage to our competitors.

4 The revised law would also pose significant operational difficulties. The differing legal ages for liquor and tobacco would be both hard for staff to execute, as well as for international passengers alien to Singapore to understand. Further, this would also exacerbate the current manpower recruitment difficulty that the retailers in Singapore face as DFS would be unable to employ promoters aged 19-20 years, who currently make up [redacted]* of the total promoter work force. This would increase hiring difficulties and raise hiring and operational costs in running business in Singapore.

5 The effect of these would be a diminished passenger experience and reduced competitiveness of Changi Airport against our regional competitors. Under the economic regulation framework imposed by CAAS, a significant portion of the non-aeronautical profits generated by CAG(S) from Changi's duty-free business is used to subsidise the airport operating costs in order to keep our aeronautical airport charges low; this is key to maintaining Changi airhub's competitiveness. Should the minimum legal age of 21 be extended to travel retail, we foresee that there will be significant sales leakage to our competitors, decreasing the airport's non-aeronautical revenue which will in turn lead to less benefits accruing to the airhub.

6 As a result, we urge the ministry to consider an exemption of this policy in Changi Airport.

Standardised Packaging

7 CAG is of the view that the transient retail environment at DFS Changi is unique. Passengers have a low frequency of contact with the transit duty-free shopping area, and each contact is limited to a short exposure duration due to the time pressure from the flight schedules. As a result, exposure to tobacco displays is much more limited at duty-free as compared to other areas of Singapore. Any policy change would thus have a limited impact on the policy objective.

8 Further, operational difficulties would result from this policy in the unique international and multilingual environment at Changi Airport. This higher need for product clarification due to difficulties with goods identification will lead to more language barrier situations, and need for increased staff assistance. This would result in a need for more staff and also staff with more extensive training, adding higher labour and operational costs to the already challenged retail business in Singapore.

9 Changi Airport would be the only airport in the region with standardised tobacco packaging. Not only would this be a significant dampener on our world-class duty-free retail offerings, it would also provoke doubts about the legitimacy and quality of tobacco products sold at Changi versus competitor airports. As the bulk of tobacco sales at Changi Airport are made to

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international travelers who are likely moving on to a destination where standardised packaging is not applied, they would merely defer their purchase from Changi Airport to their next destination. This would lead to significant sales leakage to competitor airports, yet the policy objective of reducing smoking rates would not be fulfilled

10 Under the economic regulation framework, this significant fall in non-aeronautical profits would translate to lower subsidies for airport operating costs and aeronautical charges. Against the backdrop of stiff air hub and travel retail competition, such a policy would greatly disadvantage Changi Airport in the competitive landscape.

11 The duty-free channel which serves primarily overseas travelers and competes against the world's airports operates in a unique environment.

12 In light of the above, we urge the ministry to take into account these concerns in its consideration of the two tobacco policies. We would be pleased to furnish any additional information, should it be required.

Yours sincerely,

Teo Chew Hoon
Senior Vice President, Airside Concessions
Changi Airport Group (S) Pte Ltd

*CAG requests for confidential treatment of all data marked by an asterisk.

Annex B- Confidential Data

We request for confidential treatment of all data contained in this submission. These include:

(a) [redacted]

(b) [redacted]

(c) [redacted]

Thank you.

*CAG requests for confidential treatment of all data marked by an asterisk.