

## **U.S. and Canadian Duty Free Enterprises at the Peace Bridge**

The Buffalo and Fort Erie Public Bridge Authority (PBA) maintains lease agreements with a Canadian duty free enterprise (“Peace Bridge Duty Free”) and a U.S. duty free enterprise (“Duty Free Americas”), which operate duty free retail stores on the Canadian and U.S. sides of the border, respectively. PBA requires minimum rental payments from each enterprise, as well as contingent rental payments based upon sales revenue of the enterprise. Figure 1 shows these rental payments as reported in PBA Annual Reports for years 1992 through 2011, and also illustrates these rental payments as a percentage of PBA total annual operating revenues.

As reported in the 2011 PBA Annual Report, the Authority currently maintains a five-year lease with the U.S. duty-free enterprise (“Duty Free Americas”). “This lease is subject to three 5-year renewals, with the last renewal period expiring in 2020. Based upon the agreement, the minimum rental payments to be received by the Authority are approximately \$2.2 million for 2012; subsequent years’ minimum rental is based on 50% of the immediately preceding year’s minimum and contingent rental payments.”<sup>1</sup> In 2011, the total rental revenue from both duty free enterprises was \$7,400,000, or 22% of total PBA operating revenues, and the portion of rental revenue that was contingent upon sales totaled \$3,000,000, or 9% of total PBA operating revenues.<sup>2</sup>

Rental revenue from the two duty free enterprises as a percentage of total operating revenues has increased 12 of the past 14 years, since 1998. In 1998, the Canadian duty free enterprise (“Peace Bridge Duty Free”) opened a new facility described as “the largest land border Duty Free shop in North America with 28,000 square feet of retail space.”<sup>3</sup> The rental revenue contingent upon sales of both enterprises increased from \$1,400,000 in 1998 to \$1,825,000 in 1999, or from 5.59% to 6.49% of total PBA operating revenue. An increase of that amount had not been observed in the six years prior, for which data is provided.

According to the U.S. duty free enterprise (“Duty Free Americas”), “On October 6, 2005, Duty Free Americas opened a new 8,000 square foot store at the Peace Bridge, Buffalo, New York. The new store features an extra 3,000 square feet of selling space, in addition to improved access and parking.”<sup>4</sup> Again these facility improvements coincided with a \$400,000 increase in rental revenue contingent upon sales—this time in each of the following two years. Rental revenue contingent upon sales of both enterprises increased from \$1,900,000 in 2005 to \$2,300,000 in 2006, and \$2,700,000 in 2007. This is an increase from 7.17% of total PBA operating revenues in 2005 to 8.99% by 2007.<sup>5</sup>

The structure of the PBA lease agreements with the Canadian and U.S. duty free enterprises thus encourages the PBA to promote higher sales at the duty free enterprises, as it results in higher rental revenue for PBA. Further, construction of larger facilities for the two enterprises has coincided with significant increases in contingent rental payments based upon sales revenue.

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<sup>1</sup> Buffalo and Fort Erie Public Bridge Authority 2011 Annual Report.

[http://pba.z-paper.com/PBA\\_2011\\_AnnualReport/files/annual\\_report\\_2011.pdf](http://pba.z-paper.com/PBA_2011_AnnualReport/files/annual_report_2011.pdf)

<sup>2</sup> Ibid.

<sup>3</sup> Peace Bridge Duty Free - Information. <http://dutyfree.ca/Information.aspx>

<sup>4</sup> OCTOBER 2005 – DFA OPENS NEW STORE AT BUFFALO’S PEACE BRIDGE. <http://209.164.63.75/blog/?p=27>

<sup>5</sup> Buffalo and Fort Erie Public Bridge Authority 2005-2007 Annual Reports.

<http://nysl.nysed.gov/uhtbin/cgisirsi/20120809202940/SIRSI/0/518/0/4781619>

*Figure 1. Buffalo and Fort Erie Public Bridge Authority Rental Revenues from U.S. and Canadian Duty Free Enterprises, 1992-2011*<sup>6</sup>

<i>Year</i>	<i>Total Operating Revenues</i>	<i>Rental Revenues from U.S. and Canadian Duty Free Enterprises</i>	<i>Duty Free Rental Revenues as a Percentage of Total Operating Revenues</i>	<i>Contingent Rental Payments Based Upon Sales Revenue</i>	<i>Contingent Rental Payments as a Percentage of Total Operating Revenues</i>
1992	12,461,842	3,507,000	28.14%	2,268,000	18.20%
1993	13,615,673	3,297,000	24.21%	1,994,000	14.64%
1994	14,465,334	2,725,000	18.84%	1,366,000	9.44%
1995	15,738,502	2,867,000	18.22%	1,449,000	9.21%
1996	17,458,484	3,233,000	18.52%	1,758,000	10.07%
1997	21,882,299	3,587,000	16.39%	1,460,000	6.67%
1998 <sup>7</sup>	25,040,401	3,660,000	14.62%	1,400,000	5.59%
1999	28,123,734	4,290,000	15.25%	1,825,000	6.49%
2000	27,276,190	3,900,000	14.30%	1,600,000	5.87%
2001	25,891,674	3,800,000	14.68%	1,400,000	5.41%
2002	26,426,079	4,100,000	15.51%	1,700,000	6.43%
2003	25,536,572	4,000,000	15.66%	1,300,000	5.09%
2004	26,064,096	4,500,000	17.27%	1,900,000	7.29%
2005 <sup>8</sup>	26,516,842	4,900,000	18.48%	1,900,000	7.17%
2006	27,224,437	5,500,000	20.20%	2,300,000	8.45%
2007	30,041,417	6,100,000	20.31%	2,700,000	8.99%
2008	31,187,564	6,200,000	19.88%	2,500,000	8.02%
2009	28,982,711	5,800,000	20.01%	2,200,000	7.59%
2010	31,816,360	6,600,000	20.74%	3,400,000	10.69%
2011	33,064,635	7,400,000	22.38%	3,000,000	9.07%

<sup>6</sup> Data collected from Buffalo and Fort Erie Public Bridge Authority Annual Reports, 1993-2011. <http://www.peacebridge.com>, <http://nysl.nysed.gov/uhtbin/cgisirsi/20120809162806/SIRSI/0/518/0/4781619/>

<sup>7</sup> The Canadian duty free enterprise opened a new facility in 1998. <http://nysl.nysed.gov/Archimages/14130.PDF>

<sup>8</sup> The U.S. duty free enterprise ("Duty Free Americas") opened a new 8,000 square foot facility in 2005, featuring an extra 3,000 square feet of selling space. <http://209.164.63.75/blog/?p=27>