

Thoughts on the **NATIONAL GAMBLING ACT** from an Industry Perspective

JABU M MABUZA, CHAIRPERSON, CASINO ASSOCIATION OF SOUTH AFRICA

The legalisation of gambling by the Government in 1996 through the passage of the National Gambling Act highlighted two important changes in Government thinking.

Firstly, that gambling was a leisure activity that was considered to be desirable by a significant percentage of the population of South Africa and that as a free and democratic country its citizens should enjoy the right to choose whether or not they wished to participate in this form of entertainment.

Secondly, that the significant number of illegal gambling operations in any event provided that form of entertainment to large numbers of people but that the continuation of such operations – which criminalised participants when caught – was undesirable for a number of reasons: as recently as 1995, there were about 150 000 illegal slot machines in South Africa, paying no tax, employing few people and providing a platform for associated criminal behaviour such as prostitution and the narcotics trade. Moreover, this vast illegal industry was almost entirely controlled by whites, offered players no protection against fraud, was accessible to minors, and ignored problems associated with compulsive gambling.

The 1996 Act thus recognised the maturity of the individual in South African society to decide for him/herself and to provide freedom of choice and

to eliminate widespread illegal gambling and its harmful consequences. Following the adoption of the Act, its implementation brought into being a number of regulatory authorities, a structure of provisions that would make the industry the most highly regulated economic sector in the country and the establishment of casinos that are recognised as some of the best operated in the world. For its part, those companies that obtained licenses to operate casinos in turn presented the country with significant job creation and new revenue in the form of taxes and levies, tourism and other infrastructure, and, perhaps most significantly, with a system to address problem gambling. This programme has evolved into a comprehensive government/private sector programme that is recognised worldwide as being a leader in its field and has been implemented also in other international jurisdictions.

By its very nature, gambling in some sectors of society remains a controversial issue, although independent research commissioned by the National Gambling Board shows that 73% of South Africans believe gaming is acceptable, and 89% do not have a moral, philosophical or religious objection to this form of entertainment. About one in eight South Africans (12.2%) are opposed to gaming, while the rest may choose not to gamble, but have no objection if others do so.

Despite the exemplary conduct of the South African casino operators, there has thus been some criticism accompanied the advent of this newly legalised form of entertainment. In this regard it is significant to note that despite the best efforts of the industry to contain and address the possible harmful effects of gambling, its detractors relied heavily on anecdotal evidence to attempt to discredit this form of leisure activity and to introduce measures to circumscribe it for social reasons.

The impact of the objections of this relatively small, but persistent, sector of society ultimately gave rise, early in 2004, to proposals to revise the 1996 Act. The initial drafts of the Bill were not made available to the industry and it was only when it had reached its 11th draft that operators were finally given the opportunity to comment on its provisions. In the event that which was being proposed resulted in a reduction of the operating level of the industry and in a large number of job losses and a significant reduction in revenue, as was later demonstrated, but would not have eliminated the choice that citizens had to exercise their right to choose their leisure activity.

The Act that was finally adopted has added a number of new measures to an already long list of compliance provisions that is required of the industry and to which it scrupulously complies. These relate in the main to provisions regarding the exclusion of individuals from casinos, the positioning of ATM's within properties, signage directing persons who visit a casino away from areas where gambling actually takes place (although why persons would visit a casino if they object to seeing gambling devices has never been explained) and advertising.

A number of the difficulties arose with the process leading up to the final Act. Among these was the fact that the various drafts of the Bill had not been evidenced-based, that no research had been conducted into international best practice or the insights of experts in the field into the areas that it sought to address, and that industry had not been consulted or given the opportunity to comment on the proposed provisions until a very late stage.

At that point industry, which has throughout recognised the need for regulation, and has cooperated extensively with all regulatory agencies throughout its operational life, engaged

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Government to create a better understanding of the consequences that the adoption of the Bill would have on economic activity that had been established over a period of six years.

It is worth noting – and this was put to government – that the casino industry in South Africa was already, at the time of the new Bill, a rigorously and effectively regulated legal industry that contributed substantially to the public purse and which had extensively funded public infrastructure, including new tourism plant, such as convention centres and more than 5 000 hotel beds.

In just six years our new casino industry, which today has some 20 000 slot machines, has been responsible for about R12-billion in new investment that has added more than R36-billion to GDP in terms of economic multipliers.

It has created almost 100 000 direct and indirect jobs and in 2003/4 alone it accounted for nearly R1.3-billion in provincial gaming taxes and VAT which, together with company tax, contributed more than R1.7-billion to government revenue.

It has also substantially advanced transformation in the tourism and leisure industry. On average, 60% of voting control in the casino industry is held by previously disadvantaged shareholders, as is a 38% effective economic interest. Fulfilment of our black economic empowerment obligations through recruiting, procurement and outsourcing is audited regularly by the authorities. As a consequence of the new regulatory environment in the country after 1996, casinos are subject to tight controls in terms of player protection, the exclusion of minors, probity standards and other compliance measures, including industry's substantial funding of the National Responsible Gambling Programme.

The Act subsequently passed, has added another layer of regulation to the already rigorous conditions under which it operates. As already indicated industry does not quarrel with the need for regulation and, as its track record over the past number of years clearly indicates, has complied in every respect with imposed conditions. It recognises that gambling can create problems for a small number of people and has redoubled its

training and preventative measures to address this issue.

Industry also acknowledges the cooperative spirit that characterised discussions leading up to the final draft that was ultimately adopted.

Industry however, through its proven positive economic contribution, also considers itself to be an important part of the economic fabric of South Africa. It thus despairs when proposed actions against the industry hinge on personal whims and anecdotal examples presented by the opponents of gaming as the norm. For its part, industry will continue to live up to its enviable reputation as a contributory and ethical corporate citizen. Its view is undeniably that as far as the regulatory environment is concerned, Government has gotten it right.

It is only through consultation, research and regular interaction between all stakeholders that the industry will be able to continue to present gambling for what it ought to be: a form of entertainment that can be enjoyed by all.

NEW APPOINTMENTS at CASA office

Charl Faurie joined CASA as General Manager in September 2004. He comes from an extensive career in the diplomatic corps where he served in Washington DC, Copenhagen, and Stockholm. During this time he was also involved in peace negotiations between Angola and Mozambique as well as negotiations between South Africa and the European Union on the Trade Agreement.

Charl, who has a 14 year old daughter, lists his hobbies as sport, cooking, wine and music.

Monica Mazula is generally the first voice you'll hear when you phone the CASA office as she joined the team as the receptionist in October 2004. Monica, who matriculated from Maitland High School, attended Boston City Campus where she obtained her Certificate in Electronic Secretarial Studies.



CASA
Casino Association of South Africa

news LETTER

APRIL 2005 | ISSUE ONE

MESSAGE FROM JABU MABUZA, CHAIRPERSON OF CASA

The casino industry in South Africa is a substantial contributor to the well being of our country's economy.

In just seven years this new industry has been responsible for more than R12-billion in new investment in all nine provinces, adding more than R36-billion in provincial gaming taxes and VAT which, together with company tax, contributed more than R1.7-billion to government revenue.

It is thus a significant industry by any yardstick, and in particular, it is a key component of South Africa's tourism and leisure industry. In recent years, CASA members have invested heavily in infrastructure and tourism plant, including two new international convention centres, and over 5 000 new hotel rooms, for example, and it is widely recognised that the casino sector has considerably advanced transformation, and a new order in the management and ownership of assets in southern Africa's tourism and leisure industry.

I am pleased to have this opportunity to contribute an introduction to the first edition of CASA News, our new quarterly publication.



We therefore believe that ours is a story worth telling, and CASA News, in part, is a response to our need to communicate more frequently with our industry's many stakeholders.

This initiative is also part-and-parcel of CASA's structured programme of public education, designed to bring the industry's message to targeted audiences. This programme addresses misperceptions and stereotypes about the industry through communications outreach to the media, policy makers and the general public.

I trust you will find this, and future editions of CASA News both useful and interesting. Of course, should you need further information about the organisation and its activities, visit our website (www.casasa.org.za) or contact our office by e-mail (info@casasa.org.za) or phone (27 21 409 2460).

The Casino Association of South Africa was established in 2003 to facilitate a better understanding of the casino industry by providing factual and accurate information to the general public, the media, elected politicians, regulators, policy and other decision makers through education and advocacy.

ABOUT CASA

CASA is headed up by a board of chief executives representing casino operators and its members are employers, property owners and taxpayers.

The principal objectives of CASA are:

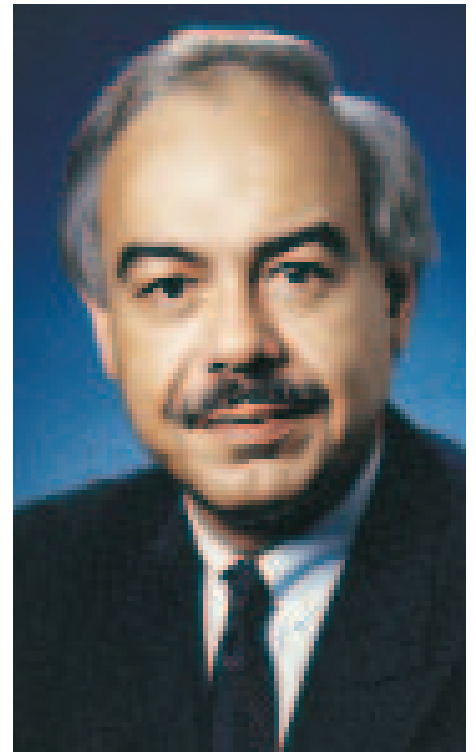
- To promote the casino industry in SA and the interests of its members as a whole;
- To provide a forum in which members can explore and address issues of common interest

- and concern relating to the casino industry;
- To advocate the Association's policy positions to the national and provincial governments of SA, the National Gambling Board of SA, the various provincial licensing authorities, the media and other relevant policy-making and opinion-forming bodies;
- To provide factual and reliable information about the casino industry to all interested parties.

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CASA has had an active and busy few months, and through the medium of CASA News, I value the regular opportunity it will present to share with you news of our many and various activities, initiative and projects.

CE's Column



A principal aim of CASA is to advocate industry's position on issues of concern to its membership, including taxation, the environment, tourism and leisure, and labour matters. CASA accomplishes this goal through educational programmes, interacting with national and provincial lawmakers, and building formal alliances with local and international associations that share its objectives.

To that end, we have been extensively involved in the process by which new regulations have been promulgated for the gambling industry, and which came into force on 15 November 2004. In our view, this new framework is fair and equitable to all interested stakeholders, and CASA would like to recognise Government's willingness to be inclusive and transparent in the development of these new regulations.

CASA works closely with the National Responsible Gambling Programme (NRGP), the internationally-acknowledged programme that is the only one in the world funded to this extent by the private sector. It is also the only programme internationally in which treatment, research, and education are integrated in a single initiative. As a unique public-private partnership, the NRGP is accountable to stakeholders through the SA Responsible Gambling Trust (SARGT) involving government regulators and the industry.

I am able to report in this context that CASA has been invited to take up a third seat on the SARGT, which body oversees the NRGP. I am also pleased to report that CASA was a full and active participant in the NRGP's recent workshop, "Commercial Gambling: Costs and Benefits" attended by industry people and representatives of eight gambling boards, and held in Livingstone in February.

Public education is a priority for CASA, and the organisation will shortly be publishing its 2004/5 edition of the respected Survey of Casino Entertainment in South Africa. Following on from CASA's publication of a public service brochure on issues relating to adolescent gambling, we will also be producing, among other new publications, an industry Q&A which deals with CASA's position on those frequently asked questions relating to subjects as various as public policy, corporate social investment, regulations and other relevant topics.

CASA also has, as one of its objectives, training and education within industry. And in February, to advance this goal, we hosted the biggest-ever gathering of senior industry management for a workshop at Caesar's in Johannesburg on the subject of Public Policy and the Gambling Industry.

Attended by some 75 delegates, including four industry CEOs, the workshop was addressed

by leading international industry analysts and policy experts, including Professor Bill Eadington, Professor Brian Kantor, Professor Peter Collins and Dr Rodger Meyer.

Crucial to our public education programme is research, and CASA is committed to serving as a resource for timely, accurate gambling industry data for the media, elected officials and other decision makers, as well as the general public.

We have recently completed a best practices study on issues surrounding adolescent gambling, undertaken by Professor Joe Kelly of the State University of New York, and this year we hope to initiate further research into matters that are of particular concern to the industry.

Finally, the CASA Governing Council is about to approve a ground-breaking industry-wide code of conduct, the first in any sector of the gambling industry in South Africa. This will be the subject of discussion with our relevant stakeholders, and we hope to make a public announcement soon.



Gathering of the GREAT and the GOOD

Nearly 80 delegates, including four chief executives, attended CASA's first public policy conference at Caesars in February. This was the biggest-ever gathering of casino industry management in South Africa.



CEO Derek Auret with the panel: Dr Rodger Meyer, Prof Brian Kantor, Prof Peter Collins and Prof Bill Eadington



Prof Bill Eadington, Sun International's David Coutts-Trotter and Peter Bacon, Derek Auret



Rob Collins (Tsogo) sandwiched by Steven Joffe and Christian Neuberger (Gold Reef)

Intended to be a biennial event, the conference received presentations from some of the most distinguished figures in contemporary gambling studies, who provided delegates with a comprehensive insight into international trends, issues and developments in what is today a \$250-billion global industry.

The conference was opened by CASA chief executive, Derek Auret, who said that education and research were a central component of the association's service deliverables to industry.

"Another important function of CASA is to provide a forum in which our members can explore and address issues of common interest and concern relating to the casino industry. Conferences such as this assist us to develop policy positions in respect of issues which affect our sustainability as an industry".

Keynote speaker, Professor Bill Eadington, Professor of Economics and director of the Centre for the Study of Gambling and Commercial Gaming at the University of Nevada in Reno, delivered the keynote address in a paper on the trend towards legalisation and regulation which is occurring throughout the world.

He outlined what he regarded as the essential principles for countries which are considering new or liberalised gambling laws, stressing that while the world has been a good laboratory since 1970, policy makers should realistically assess how other models of legal gambling would work in the particular social and economic circumstances of their own countries.

Professor Eadington had praise for the way in which gambling was organised and regulated in South Africa:

"By restricting the supply of gambling services, government has been able to leverage a limited number of major projects to advance its own agenda in terms of investment, economic development and social issues, which has been of benefit to society as a whole. The illegal industry in this country has been virtually eliminated, substantial revenues have been raised for government, and significant investments made in both gambling and non-gambling infrastructure and facilities".

Dr Rodger Meyer, deputy director and medical director of the National Responsible Gambling Programme (NRGP), told the conference that the number of people in South Africa with gambling problems was broadly inline with international norms.

"The results of our most recent research into the incidence of problem gambling, the largest such study ever undertaken in Africa, suggest a less alarming picture than some may have expected, but problem gambling is a condition which develops over a fairly long period of time, and as such, widespread gambling in urban areas is still a relatively new phenomenon".

Dr Meyer also spoke of the success rate which the NRGP was achieving in its treatment programme.

"After one year 47% of treatment completers had been gambling free, and a further 28% reported

having relapsed once or twice or that their gambling was controlled. 25% of treatment seekers reported that they had reverted back to gambling full-time, leaving the effective success rate of the treatment at 75%. Treatment seekers reported an overall reduction in gambling participation, debt and expenditure and an overall improvement in social and vocational functioning," he said.

Professor Brian Kantor, who is Professor of Economics at the University of Cape Town, and chief investment strategist at Investec Securities, presented a paper entitled "Valuing Casinos and How to Add Value to Casinos".

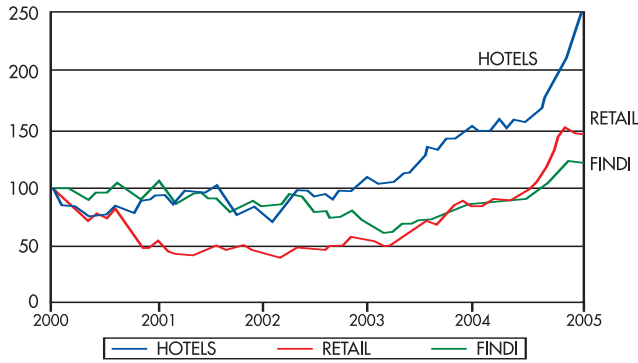
Professor Kantor praised government's management of the economy, saying that the current cycle of robust economic growth was expected to continue, to the advantage of the casino sector, among others.

"We also expect a stable outlook for the rand going forward, primarily because of positive demographic momentum, institutional capacity, low inflation, human capital, and stabilising macro-economic settings".

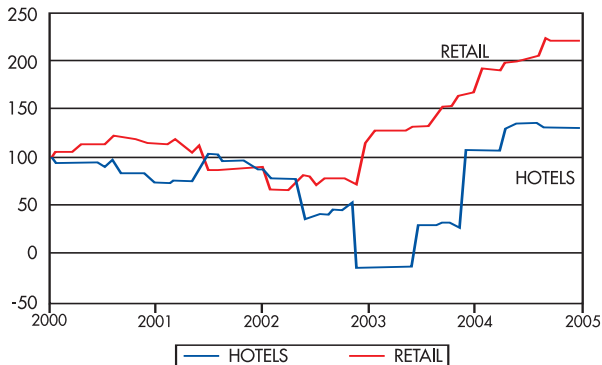
Professor Kantor said that South Africa's casino industry was sophisticated by global standards, and had produced very respectable returns for shareholders.

"The hotel/casino sector on the JSE has consistently out performed the FINDI, and comparable sectors, such as retail, since the second quarter of 2002. This same trend is to be found in respect of earnings per share when comparing hotels/casinos with retail".

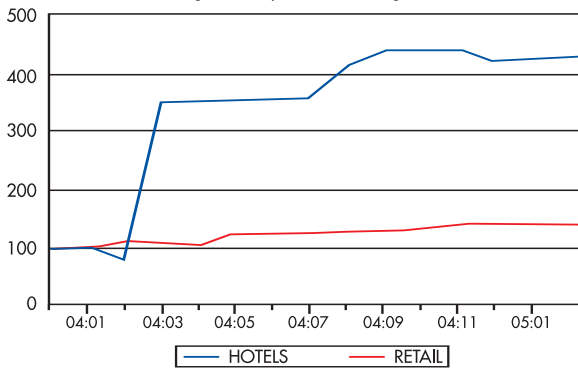
Out performance by the Hotel/Casino sector on the JSE since 2000



Earnings per share - Hotels Vs Retail 2000 = 100



A huge recovery in hotel earnings in 2004



Graphs courtesy of Investec Securities.

Professor Peter Collins, executive director of the National Centre for the Study of Gambling, as well as the NRGF, attempted to identify what should be honest and constructive attempts to use public policy to reduce the harm caused by problem gambling. He argued that from a plethora of different ideological and moral positions, a 'democratic consensus on gambling' has emerged, which is characterised by the following statements:

- "We will have some gambling, but not too much
- It must be regulated so as to minimise the risks of problem gambling
- It must be located in venues which enhance rather than detract from the attractiveness of the area
- It must deliver amenities and/or economic benefits to non-gamblers as well as gamblers".

Within this consensus, it was important, he said, to promote 'honest' arguments about problem gambling:

- "There is no way of deciding between the rights of non-problem gamblers to exercise freedom of choice and the need to protect problem gamblers: it is a matter of judgement to which neither prohibition nor unfettered free markets are the answer
- Education about gambling reduces the risk of increases in problem gambling
- Location of continuous, rapid-action, high-stakes forms of gambling should be in venues which inhibit impulse gambling
- People should be able to or even required to preset limits as a matter of ordinary consumer protection".

Collins concluded by defining what he termed a virtuous cycle of gambling:

- "Problem gambling compels governments to restrict supply
- This means that profits depend on what government allows you to do
- What government allows you to do depends on public perceptions of problem gambling
- Therefore everyone has an interest in minimising harm caused by excessive gambling".

ABOUT CASA (cont from page 1)

CASA represents all but one of the companies operating in South Africa's commercial casino industry, and represents 32 of the 33 casinos in the country. CASA's members are:

Tsogo Sun
Sun International
Tusk Resorts
Gold Reef Casino
Peermont Global
Belele Leisure
London Clubs International
Century Casinos

CASA's vision is:

"To be a recognised world leading casino industry association, representing a professionally run industry with high credibility with industry stakeholders, government and civil society".

CASA houses the industry's first national information clearing-house, serving as a resource for timely, accurate gambling industry data for the media, elected officials and other decision makers, as well as the general public.

CASA advocates the industry's position on issues such as taxation, the environment, tourism and leisure, and labour matters. It accomplishes this through educational programmes, designed to address misperceptions and stereotypes associated with the industry. As the voice of industry, CASA interacts with national and provincial lawmakers, and building formal alliances with local and international associations that share its objectives.

CASA also works closely with the National Responsible Gambling Programme, 93% of whose budget is funded by the casino industry.