

Economic Impact of Casinos since the Legalisation of Gambling in South Africa

The Department of Trade and Industry is currently reviewing national gambling legislation and during November, Parliament conducted public hearings as part of that enquiry. CASA made a presentation to the trade and industry portfolio committee, in which we outlined the economic impact of the casino industry since the legalisation of gambling in 1996.

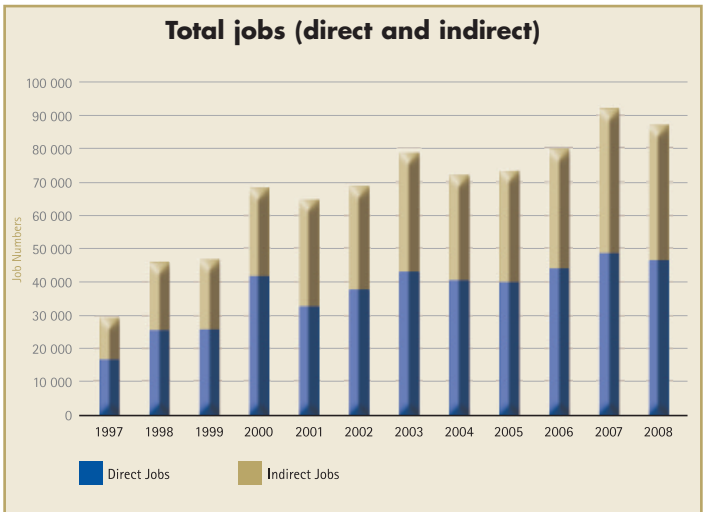
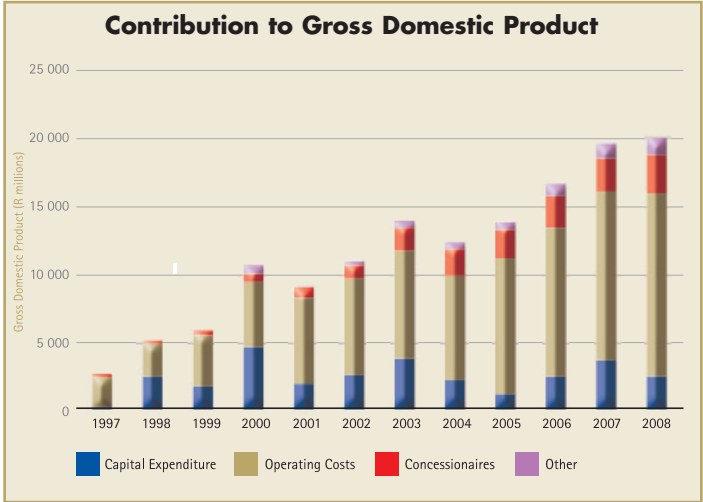
In assessing any sector’s contribution to the economy, there are a number of different types of macroeconomic effects, but the two most important are contribution to GDP and the creation of jobs. In the 2008/9 financial year, the casino industry made a contribution of over R20 billion to South Africa’s GDP. Since 1996, the casino industry has added a cumulative total of R143 billion to GDP.

In assessing economic benefit, it is important to identify just who benefits. Our data show that in the last financial year, government was the major beneficiary, receiving the equivalent of 29% of industry turnover. Government was followed by the procurement on goods and services at 28% - with over 40% of this procurement favouring BEE companies. Salaries and wages amounted to 14%, while corporate social investment stood at just under 0.5%.

The industry has also created thousands of jobs. Many individuals who were formerly excluded from the labour market have been trained by the industry, equipping them with the transferable skills that are necessary if they are to become productive members of society. In 2008, there were close to 48 000 industry-related jobs, and if we take into account the indirect jobs created through the multiplier effect, there were nearly 90 000 jobs sustained by the casino industry in 2008.

The casino sector is also a major source of government revenues through its contribution to a variety of taxes. In 2008, the industry made a tax contribution of over R6 billion, a sum which includes provincial gambling taxes and indirect taxes.

The casino industry’s capital expenditure to date has been equally impressive, contributing massively to the country’s infrastructure, particularly in the tourism and leisure sectors. Excluding the costs of the Cape Town and Sandton convention centres, capital expenditure since 1996 has been a staggering R18.8 billion. If this were to be adjusted to today’s value (in other words adjusted for inflation), then this spending is the equivalent of five Green Point soccer stadiums. Of course, this figure includes more than just the



construction of casinos and includes contributions made to such ancillary facilities as the Apartheid Museum in Johannesburg, many theatres and arenas and the creation of golf courses, health spas and hotels.

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CE'S COLUMN

2009 COMES TO A CLOSE

The past year has been one of very great challenge for the casino industry. Few could have predicted just how devastating would be those challenges thrown up by the global economic melt-down or how materially they would impact on our operations. Those who believed South Africa could remain largely uncontaminated by the global slowdown were living in a fool's paradise, seduced by the false argument that we exist in a protective bubble, insulated and immunised from the turmoil of a deteriorating world economy.

On the one hand, declining disposable incomes and nervous consumer confidence have resulted in declining gaming revenues. On the other, difficult trading conditions have been aggravated by rising costs across the board as we have confronted heightened wage demands, high interest rates, rapidly escalating food prices and levels of debt.

It is to the credit of the industry that we have weathered this economic tempest without compromising standards of customer service, while still managing to undertake necessary refurbishment and expansion projects, negotiating casino license renewal processes and preparing ourselves for the demands of the 2010 World Cup. It is impossible to predict how long the adverse trading environment will

last and what the global downturn's impact will be on tourism arrivals, but Southern Africa remains a sought-after destination and this status should be enhanced over the next 18 months as developed economies recover and in the light of the World Cup.

South Africa's regulatory environment, too, is becoming increasingly onerous as many of our casinos approach the end of their license periods, confronting us with new BEE requirements, corporate social investment demands and community expectations. The renewal of licenses and exclusivity agreements is a time-consuming and costly process which adds no net economic value, but consumes inordinate amounts of time and energy.

In this connection, it is difficult to foresee what will flow from Government's current review of the country's gambling policy and legislation. What is certain is that it will greatly increase CASA's obligation to ensure that any amendments to present policy are based on careful research and sound empirical evidence, and that the commercial interests of our members are properly protected.

The environment in which we operate has been further complicated by the unpredictable consequences of the approaching reality of legalised online gambling. At the time of going to press, there was still no word from the department of trade and industry about the taxation of interactive gambling. An Interactive Gambling Tax Bill has been published in terms of the 2008 National Gambling Amendment Act, but its status remains uncertain and its provisions contentious.

CASA remains concerned that the published version of the Bill cedes excessive power to the National Gambling Board to administer the envisaged tax on interactive gambling. Such tax revenues are likely to be considerable and it is thus desirable that taxes and incurred penalties should accrue to the National Revenue Fund for the common national good rather than to the limited purposes of the national regulator.

As we have noted in the past, the authorities appear to be adopting an unacceptably lax attitude towards the continuing abundance of illegal Internet gambling sites that advertise themselves across a wide range of platforms. Tolerance of this blatant lawlessness cannot be permitted to continue and CASA shall not hesitate to intervene where the legitimate commercial interests of the legalized casino industry are undermined.

On a more positive note, the National Gambling Board has recently published the results of a comprehensive survey of the socio-economic impact of legalised gambling in South Africa. Compiled by the University of South Africa's Bureau of Market Research, the study concludes that the country's gambling sector has "attained a high level of maturity" since 1996, in which unrealistically high expectations of winning have probably waned, leaving behind mainly those gamblers that regard gambling as a leisure activity.

Significantly, 71.4% of respondents agreed with the statement that individuals should have the right to gamble whenever they want, suggesting that there is a high level of public tolerance of South Africa's gaming regulatory regime. More important is the finding that only 0.16 % of the total South African population aged 18 years and older answered 14 or more of the 20 Gamblers Anonymous questions in the affirmative, which reinforces previous research findings that problem gambling remains a comparatively small problem compared with other social challenges facing South Africa.

Overall, this and other similar surveys of recent years indicate strongly that gambling in South Africa takes place in a well regulated environment and that citizens can trust the gambling industry to conduct itself in a manner which is trustworthy and seeks to protect the potentially vulnerable.

David Church



THE PORTFOLIO COMMITTEE HEARINGS ON THE REVIEW OF NATIONAL GAMBLING LEGISLATION: LOOKING BACK TO GO FORWARD?

The stated objective of the recent hearings held by the Portfolio Committee on Trade and Industry was to embark upon a review of national gambling legislation in South Africa. The hearings were reportedly prompted by various concerns which emerged when the Committee considered the proposed Regulations on Interactive Gambling, including the socio-economic impact of licensed gambling, the impact of misleading (and/or unlawful) advertising, the regulation of cross-border and/or interactive gambling and the effectiveness of the current regulatory framework.

The Committee heard submissions from a range of stakeholders from different sectors of the gambling industry, as well as other professionals, including gaming consultants and specialist researchers. What emerged was a much-needed holistic view of the industry – its objectives, its history and its achievements as well as its challenges. A common thread running through the vast majority of the presentations made was the lack of uniformity in approach by provincial regulators in various key areas of their regulatory relationship with licence holders. The application of sometimes vastly disparate standards – or expectations regarding compliance – by different provincial regulators in respect of the same subject matter was frequently cited as a stumbling block to efficient business operations and to the creation of much-needed legal certainty regarding the ambit of the obligations of licensed operators.

From the perspective of casino operators, key areas in respect of which the need for uniformity in approach became clear were advertising, the

development and application of a nationally applicable definition in respect of the game of bingo and the implementation of mechanisms to ensure the uniform application of national government policies, where these are invoked by provincial regulators in the execution of their legislative and regulatory mandates.

The Committee noted the situation regarding the continued rollout of electronic bingo terminals (“EBT’s”) in Gauteng, as well as the amendment of the Gauteng Gambling Act, which substituted a definition for the concept “bingo” which ultimately had the effect of enabling EBT’s to be exposed for play in that province. The Committee was apprised of the judgment of the High Court of South Africa to the effect that the game offered on an EBT is not the game of bingo, and all indications are that serious consideration will be given to refining the definition of “bingo”, as it appears in the National Gambling Act, so as to ensure that a uniform approach to the matter is implemented throughout the country.

In addition, some attention was given to the lack of uniformity in the approaches of provincial licensing authorities regarding the implementation of articulated national government policies. An example of this is the varying requirements imposed by provincial regulators concerning licence conditions pertaining to Broad-based Black Economic Empowerment (“B-BBEE”). The Committee took cognisance of the fact that these conditions often differ materially from province to province, as well as the reason for these differences. It was noted, in this regard, that the initial establishment of licensed casinos had preceded the enactment of the Broad-

based Black Economic Empowerment Act in 2003 and the subsequent release of the Codes of Good Practice on B-BBEE in 2007. As a result, the individual regulators had, in good faith, when embarking upon the licensing process, developed empowerment-related criteria in the absence of any formal indication as to the expectations of the national government and/or where such criteria had not been expressly formulated, selected those licence bids which in their view offered the most pronounced benefits in terms of empowerment, which differed from applicant to applicant and from province to province. It was acknowledged that the historical legacy of this process was a lack of uniformity in empowerment-related licence conditions, with the inherent potential for unequal treatment as between licence holders inter se, and characterised by the very lack of legal certainty which had been intended to be eliminated by the enactment of the Codes. The Committee heard submissions to the effect that it would be in the interests of both regulators and the industry that consideration be given to the enactment of regulations in terms of the National Gambling Act, requiring the holders of certain categories of licence to achieve set B-BBEE compliance levels within certain timeframes, or empowering the provincial licensing authorities to do so, but making it clear that the empowerment-related deliverables of the various categories of licence holder would be exhaustively dealt with in this manner, and could not be the subject of further specific conditions to be imposed by provincial boards in a piecemeal fashion.

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It should also be borne in mind that the development of casino complexes in our urban areas has contributed significantly to the regeneration of formerly degraded areas, increasing property values and bringing considerable benefit to property-owners in the near vicinity. The two most notable examples of this are in Cape Town and Port Elizabeth. GrandWest, the Cape Town casino, is located on what was a degraded and underutilized show ground site, once used for agricultural shows. Independent research has concluded that property values in the neighbouring suburb of Goodwood has increased by R138 million following the building of GrandWest. At the same time, the Cape Town International Convention Centre (CTICC) and Roggebaai Canal – which were developed as part of the successful casino bid conditions – has stimulated building activity on the city's previously barren and under-developed Foreshore to the value of approximately R6 billion.

In Port Elizabeth, the Boardwalk casino was erected on a site which formerly accommodated a run-down caravan park. Here, too, research reveals that property prices have increased by R861 million in the immediate vicinity of the casino property. Similar trends have been identified in East London, where the Hemingways casino has added R199 million to adjacent land values and in Queenstown, where property values have been augmented by an estimated R24 million.

It is, of course, in tourism – both domestic and foreign - that the impact of the industry has been most marked. While it cannot be argued that many tourists come to South Africa with the specific objective of gambling, the non-gambling facilities associated with casino developments have greatly expanded the range of tourism infrastructure, thus enhancing South Africa's status as a destination. An obvious example of this contribution to South Africa's tourism infrastructure is the CTICC, which attracts numerous prestige international conferences to the country, thus drawing business travelers to the Mother City who would ordinarily not have come to South Africa. Many such delegates return later with their families as tourists, and many become repeat visitors to our shores.

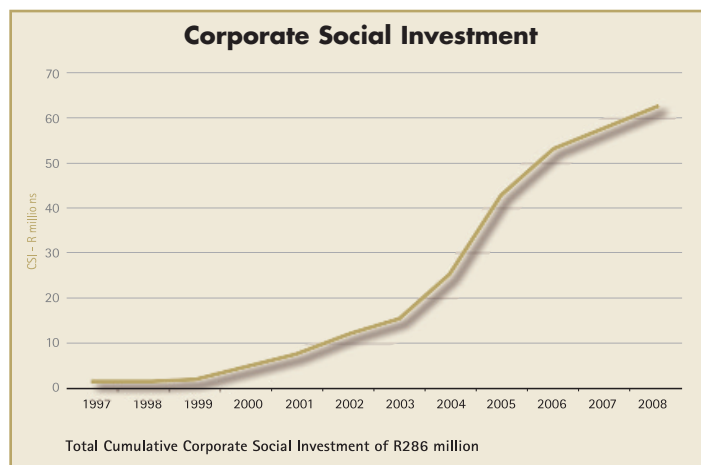
An indication of the phenomenal success of the CTICC lies in the fact that in the 2008 financial year, 1 213 000 visitor-days were generated by delegates and visitors to the facility. Of these visitor-days, 434 000 (36%) were accounted for by international visitors and delegates. In addition it is estimated that another 370 000 international visitor-days occurred as a result of delegates returning as tourists. Estimates show that within two years of opening, the spending by international delegates had surpassed the cost of building the centre.

While the Sandton Convention Centre does not draw as many international delegates, its focus on business-to-business conventions, small enterprise development and government conferences has made it a powerful force in driving domestic business activity.

Sun City, on the other hand, does attract international tourists and ranks as one of southern Africa's "must see" attractions, along with Cape Town, the Victoria Falls and the Kruger National Park. In 2007, over 37 000 international visitors included Sun City on their list of attractions; 33 000 came because of conventions and incentives while nearly 25 000 came because of sporting events.

In Port Elizabeth the Boardwalk precinct is the second most visited tourist attraction in the city, while the casino itself is the fourth most visited. And for visitors to Johannesburg, the Apartheid Museum and Heritage Mining Village at Gold Reef City – both developed as adjuncts to casino projects - are major tourist attractions in their own right.

Finally, there is the casino industry's very significant contribution to Corporate Social Investment projects and programmes. In the last financial year, the industry made a CSI contribution of over R60 million. Since 1996, it has made a cumulative contribution of R286 million.



Source: Barry Standish Economics Information Services

Legal WATCH *cont from page 3*

The process of effecting the amendments and/or additions to national legislation dealt with above would be a relatively simple one, but one which would go a long way towards fostering uniformity in the treatment of licence holders throughout the country and the achievement of legal certainty in respect of issues which fundamentally affect the industry. The National Gambling Board was established for this very purpose, and it is therefore hoped that attention will be given to driving this process at that level. If this occurs the pause for introspection which marked the hearings will have borne fruit and the decision to stop and look back, in order to go forward, in the interests of the industry and all its stakeholders, will be shown to have been a wise one indeed.



*Season's Greetings
from all at*
CASA