Internet Gambling: Establishing The Public Interest

By Roy Bannister, Editor, Gaming For Africa

The release of the National Gambling Board's Report on the Regulation of Interactive Gambling late last year, and the report committee's recommendation to regulate online casinos, rather than banning them outright, is to be lauded.

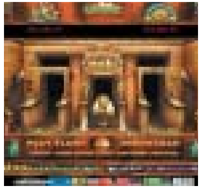
Due to its borderless nature and essentially intangible form, the Internet and its attendant phenomena, such as cyberspace casinos, while becoming increasingly more accessible as technology advances, are impossible to police.

For this reason, the committee's foresight in embracing the realities of online gaming, by recommending a sound regulatory policy and player protection measures, will allow online gaming to be operated in a transparent and accountable manner and will afford players the assurance of gambling at legitimate and reputable sites. Currently a number of high-profile online casinos, that apparently aren't licensed in any jurisdiction and target South African online gamblers, are operational. Accounts of players being denied their winnings through ridiculous 'fine-print' clauses, and the unavailability of the operators when complaining, abound. Failure to pay winnings, the lengthy delay in paying winnings into players' accounts and the general lack of information and enforcement of hold percentages are other underhanded practices that players fall victim to.

It could be argued that players that have fallen foul of these unscrupulous operators have received their just deserts, as Internet Gambling is technically still an illegal activity. But, by the same token such incidents underscore the need for player protection and a legalised online gaming environment. The report makes a number of key recommendations to curb these practices, among them plans to address underage gambling; a mechanism to fund gambling treatment via the National Responsible Gambling Programme (NRGP); mechanisms to identify players, ensure player accessibility to operators, game rules, credit balance remissions and player self-limitation.

In stark contrast to the United States' stance of prohibiting Internet Gambling outright by defining the act of placing an online wager as taking place at the player's computer - a decision in my opinion that will lead to endless headaches for that country's regulators - the South African report has recommended that the "gambling takes place at the location where and at the moment when, the wager is accepted (i.e. placed on record as a wager in the operator's system)". In short, the gambling activity takes place at the operator's end and solves a number of vexing problems. Possibly, this definition may have been borne from the need for expediency and will certainly be open to debate, but the alternative raises numerous issues regarding player legality in international jurisdictions, which are too messy to contemplate.

Thus, the report's general recommendations and its long-term level-headed view of embracing technological and social advances by providing a safe and legal online gambling environment instead of attempting to proscribe what it may deem as unacceptable behaviour to the citizens of this country, can only prove to be beneficial to players, legitimate online casino operators and regulators.



GOLF DAY

The 7th Annual Tusk Mmabatho Golf Challenge took place from 26 February to 1 March 2006 at the Leopard Park Golf Club in Mafikeng. This is the premier industry golfing challenge on the calendar and various role players from different sectors in the industry get together for some serious golf and fun. This year the challenge drew a record 160 golfers from all corners of the country. This year also saw the introduction of an afternoon field for the first time. Fourteen golfers played in the first event seven years ago.

Rain threatened to dampen the spirits of the golfers, but stayed away long enough to ensure some superb golf. Some not-so-good golf was also played but the weather could not be blamed for this.

Every evening saw some quality entertainment with Danny Fischer doing some hilarious imitations on the Monday night and Cheers ensured that the prize giving evening on Tuesday was something to remember. Silver Creek Mountain band played some old favourites every afternoon for the golfers recovering in and around the pool.

The sales department have already had some enquiries for bookings for next year's challenge that promises to be even bigger and better than this year.

Derek Auret (CASA), Solly Nortje (Absa), Jeremy Franklin (Tusk Resorts), Alwyn Wessels (Absa)

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newsLETTER

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What does the 2006 Budget mean for SA's Leisure Industry?

As many economists have pointed out, Trevor Manuel's latest budget was cautious with respect to most of the issues on which the first-economy business sector tends to focus. Some hoped that exchange controls would finally be dismantled, but this again didn't happen despite macroeconomic conditions in which it seems SA could discard the security blanket without immediate risk. Corporate taxation policy, rightly viewed as irrational by most of the business community, was not significantly reformed. Repeal of the Regional Services Council levy amounts for most companies to a small though welcome tax reduction, but it is probably right to see this as Manuel's minimal gesture to make sure that every major social sector could find something positive to say.

If participants in high-value industries are thus tending to react to the budget with a mixture of yawning and disappointment, the leisure industry might think it has special grounds for a minor sulk. In the Deputy President's Accelerated and Shared Growth in South Africa (ASGISA) report, released in the same week as the budget, tourism is identified as one of the industries to be given special priority as a target for promotion by a new industrial policy. The budget, while complementing the ASGISA report in most respects, ignored this aspect of it. Like most economists, I don't approve of industrial policies so I'm pleased about this. But like all economists I appreciate that people in sectors that benefit from specific industrial policies tend to support those policies. There is no doubt that government could find additional measures to promote tourism, and that if it did so those parts of the industry nearer to the high-value end, such as casinos, would likely be particularly favoured.

So what some have speculated is Manuel's swan song might have sounded like sour notes to many readers of *Casa News*. On the other hand…

Almost all South Africans, but especially those connected with service industries, recognize that there is no better lubricant for business than widespread optimism. People who think the future will be better than the present tend to spend more, and they are particularly more inclined to spend more on leisure activities for themselves. There was a great deal in this budget to serve as kindling for optimism – no small feat considering how optimistic most South Africans were feeling already after so many quarters of steady growth. What was most striking to me as an economist was what the budget showed about how much the government has learned about microeconomics over the past twelve years. Instead of just announcing that this and that allocation to this and that initiative and sector had been deemed worthy, Manuel paid consistent attention to ways in which recipients of allocations would be given incentives to actually translate their favoured status into intended social and economic goals.

To touch on just a few examples: there is a strong focus on details for rolling out funds to municipalities by new mechanisms specifically designed to overcome their capacity problems with respect to human capital. This includes recognition that windfall revenues, such as that flowing from the levy on amnestied offshore assets, need to be ring-fenced for specific targeting rather than absorbed into general revenues, lest they be captured in proportions matched to status quo spending and thereby have minimal impact. The budget upgrades the Extended Public Works Programme to focus not just on creation of 'jobs', which merely shuffles existing capital around, but on creation of opportunities for learning skills. Thus EPWG becomes in part an investment programme instead of just a welfare programme. And for the first time, mechanisms have been set up and funded to prioritize and coordinate infrastructure development on a national level. Based on numbers I have been crunching over the past few years, if this alone is done properly it could in time make government expenditure 50% to 80% more efficient. There is a basis for the tax reductions, corporate and otherwise, in future budgets. And there, then, is some more money South Africans might later have available to spend on leisure activities.

There are two things a budget can do for industrial sectors such as leisure services. One is directly improve bottom line prospects, through tax reductions, removal of regulatory burdens, or partial industrial policies. The second is indirectly improve these prospects, by doing things that make the country in general better off and in so doing promote national spirits and disposition to grow new assets. This budget will help the leisure industry in the second way. Its best features lie not in flashy new policies but in details of envisaged execution. Manuel's swan song, if that is what it turns out to be, had more sweet than sour notes, though the melody was subtle.

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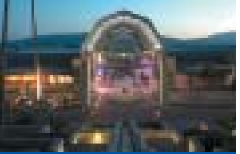

US GROUP TO ACQUIRE SECOND SA CASINO

US gaming and casino group, Century Casinos, which owns the Caledon Casino, Hotel and Spa resort near Cape Town, has confirmed that it is to acquire a second casino in SA.

The group's SA subsidiary and a member of CASA, Century Casinos Africa, has entered into definitive agreements to acquire 60% of all issued and outstanding shares of Balele Leisure and to manage Balele's entire casino, resort and hotel operations. Balele owns the Monte Vista Casino in Newcastle and currently operates a temporary location with 200 slot machines and seven gaming tables. Balele has already secured 70 acres of land in a more prominent and high-traffic location with plans to develop a casino (with a minimum of 220 slot machines and ten table games) together with a 40 room hotel, conference centre, restaurants, bars and ancillary facilities.

The purchase price for the controlling 60% stake amounts to R57.5 million. An additional R2.5 million would be payable if the casino revenue during the first twelve months of operation in the new location exceeds R95 million. The terms of the management agreement provide for a payment to Century Casinos of 3.75% of total revenues, plus 7.5% of Balele's EBITDA (earnings before interest, tax, depreciation and amortization). The transaction is expected to close in the first quarter of 2006, subject to regulatory approvals.

According to Peter Hoetzinger, CEO and President of Century Casinos, Inc., the success of the Caledon Casino, Hotel and Spa spurred on the further expansion of operations in SA. "The Newcastle casino, which initially is approximately 70% of the size of the Caledon Casino, is expected to become a substantial factor in our casino portfolio and to contribute significantly to our success."

From I-Net Bridge

FROM THE CHAIRMAN

It has been an eventful three months since our last edition of *Casa News*, characterised by reports of the excellent holiday season enjoyed by South Africa's casinos, as well as a buoyant tourism and leisure sector generally.

We are seeing high levels of consumer spending on the back of government's reformed fiscal policy, tax legislation and tax administration which, as *Financial Mail* points out, has transformed South Africa's economic prospects.

This has resulted in fiscal discipline, reduced State borrowing, lower inflation, and thus lower interest rates, all of which also means a stimulus to capital investment.

And one sees the tangible results of these policies in the health of our industry, and indeed, in the recent announcements by CASA members of expansions, acquisitions and other forms of new investment.

With good reason, ours is a confident industry going forward. Times are good.

Unsurprisingly, then, one is also seeing renewed impetus in the marketplace for the introduction of additional forms of gambling, including the recent news that Limpopo is to be the fourth province to introduce LPMs, as well as moves to address the issue of internet gambling.

Well-known gambling industry journalist and communicator, Roy Bannister, looks at this latter subject in this edition of *Casa News*. Also covered is CE Derek Auret's recent, and well-received, speech in London at a conference organised by Salford University. It reflects well on South Africa, and especially its policymakers, that leading first world jurisdictions are looking at our country as a model for best practice in areas such as responsible gambling, planning gains, and other issues relating to the positive contribution which casinos can make to the public interest.

Reflecting on the public interest, CASA is hosting a two-day conference at Wild Coast Sun in September at which industry CEs, as well as marketing and public affairs people, will assemble to talk about social and economic issues which impact on our trading environment. Details will be sent to member companies in due course.

In fact, we in the casino sector have every reason to be proud of our contribution to the public interest, which is borne out by a new advocacy and education campaign being undertaken by Derek and his team. This initiative kicked off in February with the debut of the impactful advertisement you will find reproduced on the back page of this edition.

We do, indeed, have a good story to tell.

Peter Bacon

SA CAN PROVIDE 'KEY LESSONS' FOR NEW GAMBLING DISPENSATION IN THE UK

Speaking in London in January to British cabinet ministers and legislators at a policy seminar hosted by the University of Salford, CASA CE, Derek Auret said that South Africa's introduction of a new gambling dispensation after 1996 had earned international respect for its policy framework, social sensitivity, and the economic benefits which the country had derived from its new industry.

In introducing a new gambling dispensation, the United Kingdom can learn from South Africa and particularly, the Western Cape.

"South Africa was a relatively late entrant into the world of legal, regulated gambling. This meant that we were able to learn from the mistakes and successes of other jurisdictions.

"Prior to 1996, gambling, with the exception of horseracing, was illegal in South Africa. Despite this, illegal gambling was rife and was to be found throughout the country in the form of slot-machine parlours that had mushroomed almost out of control. Thus, the public had access to some 150 000 illegal machines in sleazy venues that were in most cases associated with criminal behaviour such as drug dealing, loan-sharking, money laundering, prostitution and the like.

"Moreover, these operations provided no protection to the public in respect of the integrity of games, paid no taxes, did not address the question of problem gambling, were mostly controlled by whites and were more often than not conducted at dubious and unsafe locations.

"Today, this has been replaced by a rigorously regulated and tightly controlled industry which has created nearly 100 000 direct and indirect new jobs, has yielded over R12-billion in new investment in tourism and other amenities and facilities such as more than 5000 hotel rooms and two internationally-competitive convention centres, and in which previously disadvantaged South Africans control on average an effective 38% economic interest, as well as voting control.

"And significantly, government earns over R2.7-billion per annum in revenue from the industry. In addition, together with government, a comprehensive public-private sector partnership - the National Responsible Gambling Programme - has been developed to deal with problem gambling, a model which is now being replicated as international best practice in jurisdictions throughout the world."

Auret said that it was essential British policymakers be clear up front how they intended to leverage the public interest by legalizing casinos. A proliferation of gambling venues, for example, might well yield high levels of taxation, but would not deliver public infrastructure because the price of entry would be that much lower. Alternatively, if Britain chooses to restrict the supply of gambling and limit the number of casinos to a smaller number of larger facilities, it could expect substantial investment in tourism plant and other public infrastructure.

"Some of the lessons from the Western Cape's policy framework, which would be particularly useful to British policymakers include a regulatory authority independent of the political executive, distributing casino opportunities throughout the jurisdiction so as to attract investment and infrastructure to rural areas, ten-year geographic exclusivity in exchange for a substantial licence fee payment to the state, and a requirement that casino licence applicants provide non-gambling amenities and other public infrastructure, especially in the tourism sector.

"Ultimately, we believe there are five key lessons to be learnt from our experience in South Africa and the Western Cape:

- It is imperative that government decide early on what its objectives in licencing casinos are. These can vary from purely fiscal considerations to broader objectives such as economic upliftment of economically depressed areas – or regeneration. But the objective must be clear and potential applicants must be fully informed of these goals.
- Government must decide and inform potential applicants of the so-called 'add-ons' that it desires. In South Africa the allocation of casino licences has been viewed as an opportunity to secure much needed financial benefits for government and the broader public and the process has been demonstrably successful.
- The process must be fully transparent, fair, equitable and as comprehensive as possible. The adjudication authority, which should be provided with the maximum independence, must be clear as to the objectives that are desired and must act accordingly.
- Applicants should be kept abreast of all developments during the adjudication process.
- The ideal would be that the regulatory authority/applicants approach the process in the manner of a partnership that will endure following the conclusion of the process."

The 2006 CASA Conference Wild Coast Sun

CASA is to host a two-day conference at Wild Coast Sun in September.

6 September will see international experts briefing senior industry managers on global trends and developments in gambling. The second day (7 September) is aimed at marketing managers and will deal with public, regulatory and perceptions' issues that impact on our trading environment.

The conference will be preceded by a CASA golf day on 5 September with the proceeds donated to an appropriate welfare organisation.

More complete details, plus booking arrangements, will be sent to member companies in due course.

FROM THE CE's DESK

International Developments

Having recently visited the Far East, I am reminded just how exciting the global casino industry has become.

Macau, for example, has seen gambling revenues grow to R37.8-billion, and Bill Eadington reports that new projects under development in the SAR now total over R63-billion. And in Singapore, two new casino resorts will be announced during the course of this year, probably amounting to at least R18.9-billion in new capital investment in that country.

Moreover, there are strong signs that the Indonesians and Thais will follow suit, probably as a direct consequence of the Singaporean decision to license mass market casinos. And it is not beyond the bounds of imagination that the Malaysians will also look to a second casino resort, complementing Genting, but in the southern part of the country to compete with the Singaporeans.

But in the face of this industry dynamism, a trip to the UK in January (a report appears elsewhere in this issue) brought into sharp focus how policymakers can also get things wrong in respect of a new casino dispensation. No one I have met in Britain, except the protectionist existing industry, is happy with the new legislation, which, in stark contrast with the Singaporeans, conspicuously fails to achieve government's original policy objectives.

These goals were:

- The best possible protection for the vulnerable;
- Improved consumer choice;
- New investment, the creation of employment, the development of infrastructure, and most especially, regeneration in deprived areas;
- Controlling the proliferation of easily accessible small casinos in High Streets;
- Modernisation in respect of the gambling dispensation, and in particular, applicable legislation and regulation.

Without going over old ground, this ultimately led to what is known today as the 8-8-8 formula with the establishment of an independent panel to decide locations, a gambling commission, and a competitive tendering process to select operators. This was supported by all the major political parties, and even those sections of the press which were most opposed to a new gambling framework.

Either for reasons of prudence or politics, it was subsequently decided, as we know, to reduce the number of SA-style mass market casinos from eight to one, without reducing the allowed number of High Street casinos. As the Secretary of State subsequently commented in the House of Commons, this decision probably means "the loss of GBP 600-million in inward investment to parts of the country where that investment is most needed, and a loss of probably in excess of 40 000 new jobs".

But I suppose one shouldn't be entirely surprised with the outcome, if indeed it stays that way. For while the case for a greater but limited number of casino resorts seems irrefutable to me, as anyone who has looked seriously at what our industry has achieved in South Africa in the public interest would endorse, the trend throughout Europe is that of protectionism. This is particularly true of the gambling industry in the 'Old World', which is, to quote Eadington, "singularly unexciting and non-dynamic".

A Lesson from Steve Jobs

I came across a fascinating speech by Steve Jobs, CE of Apple Computer and Pixar Animation Studios, delivered at Stanford last year.

Addressing students, he spoke of how he founded Apple in his parents' garage, and from there developed it into a $2-billion company with over 4 000 employees. And by the age of 30, was eased out very publicly by his Board. This led to the founding of Pixar and another new company Next, and ultimately returning to Apple as chief executive.

Jobs makes the point that had he not fallen out with Apple, the subsequent and remarkable evolution of his career might never have happened. But more importantly, he says that he was forced to re-discover his hunger for his job, and to renew his creative capabilities.

So the lesson, says Jobs, is to stay hungry, stay foolish.

A Worrying Development

As this issue of *Casa News* is put to bed, two more of our affiliated casinos have fallen victim to significant robberies. And while our industry has not suffered anything like as much as the financial sector, and many others, the overall incidence of organised cash heists in South Africa is alarming in the extreme.

Given that South African casinos have in place substantial measures to protect themselves and their customers, not least of which extensive physical and electronic security, one can only wonder about the prevalence of such crime in those sectors of the economy, such as small retail businesses, which are softer and more accessible targets. Crime at this level seldom gets the type of publicity one sees with bank, casino or cash-in-transit heists, but it is every bit as serious.

Something has to be done.

Good News

The depressing subject of crime contrasts strongly with the good news emanating from our industry in respect of recent company results, acquisitions and new investments. Our chairman, Peter Bacon, reflects on this in his column, but suffice it to say that these are good times for our industry, and indeed the country, with consumer spending and business confidence at record levels.

It feels good to be a South African right now.