

Integrated Resort Casino Development and its Impact on Tourism in Slovenia

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Overview of the presentation

1. What is the **relationship** between casinos and tourism?
2. What are the **specifics** of the Slovenian gambling market?
3. Case study: Hit-HET integrated resort casino: what went wrong?

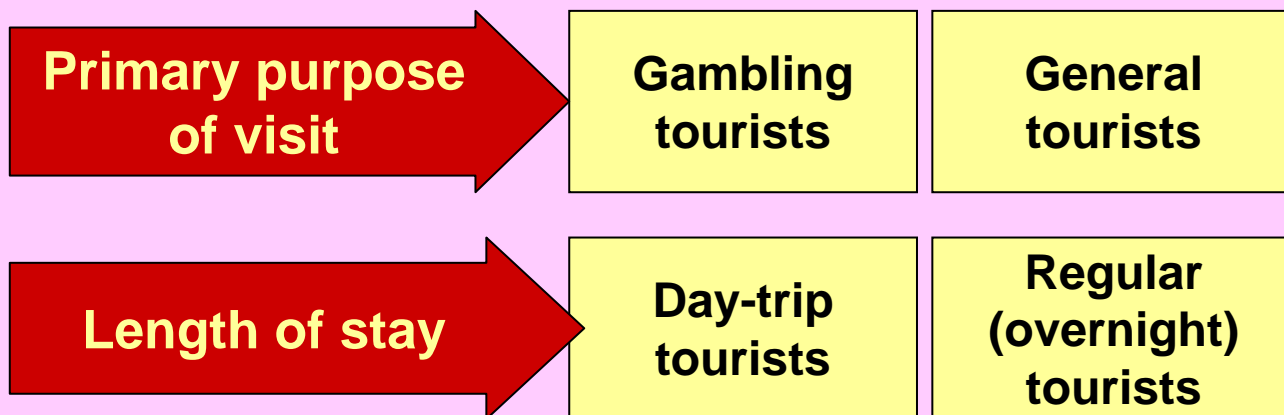
Linkages between casinos and tourism

1. Casino-style gambling has potential for attracting out-of-region visitors

2. It is attractive, because its supply is severely limited.

3. Significant tourism enhancing benefits can occur only if majority of the customers come from outside the region

Several categories of tourists exist

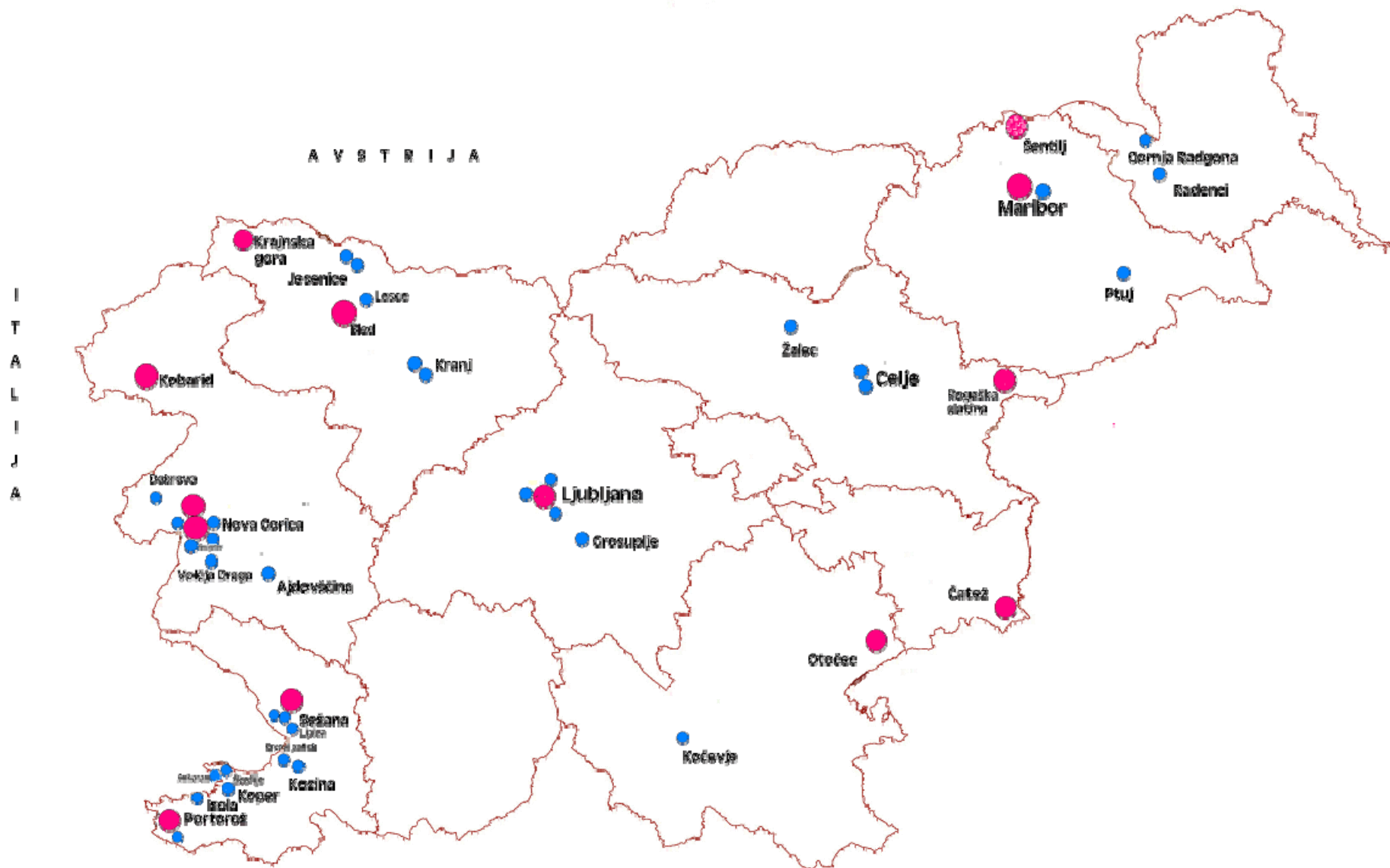


Border casinos as tourist attractions?

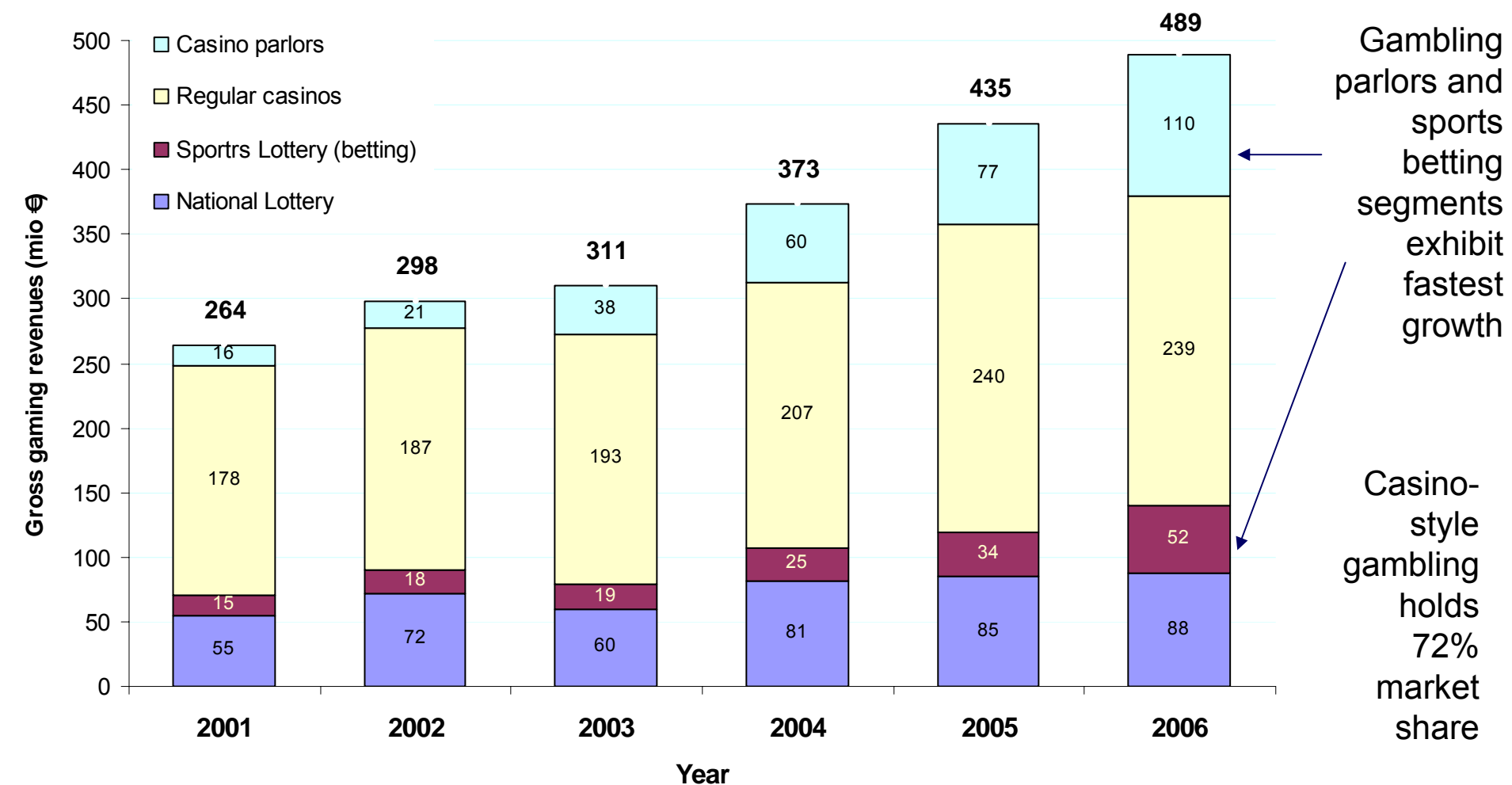
Factors that influence the degree of developmental impact of casinos on a tourist destination

Level	1	2	3	4
Relative importance of casino in relation to other tourist attractions on the destination	Casino is the main attraction	Casino is the main attraction	Casino is the main attraction	Casino is the additional (secondary) attraction
Category of visitors	Gambling	Gambling	Mostly gambling	General and gambling
Predominant type of visitors	Local visitors	Out of state day-trip visitors	Out of state tourists that spend at least one night at the destination	Out of state tourists that spend at least one night at the destination
Possible types of venue	Stand alone casino, urban casino	Stand alone casino, resort-casino, border casino	Integrated resort-casino	Stand alone casino, integrated resort-casino
Degree of tourism and developmental impact on the destination	No impact	Moderate impact	Significant impact	Moderate impact

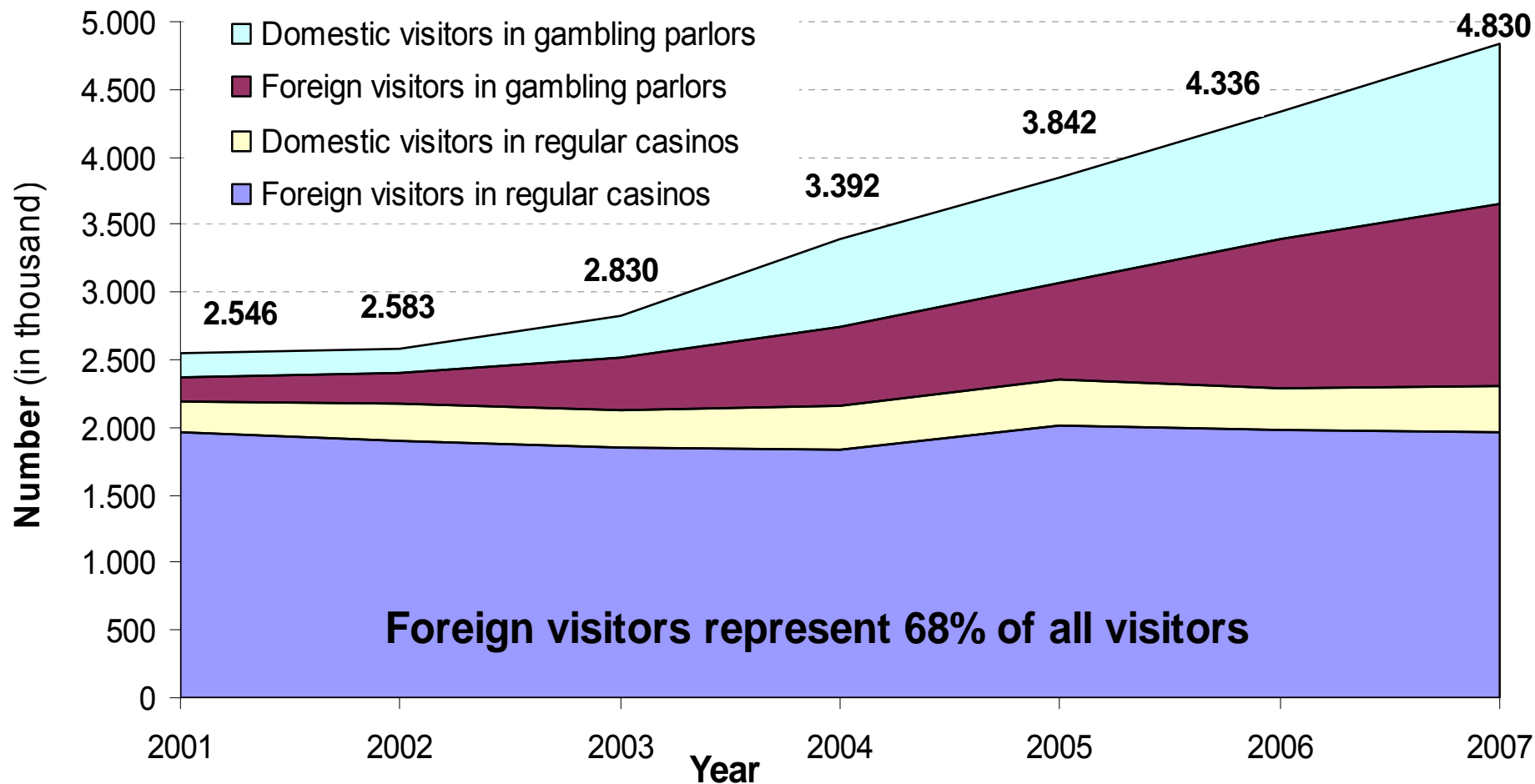
Geographic distribution of casinos in Slovenia



Total gambling market in Slovenia

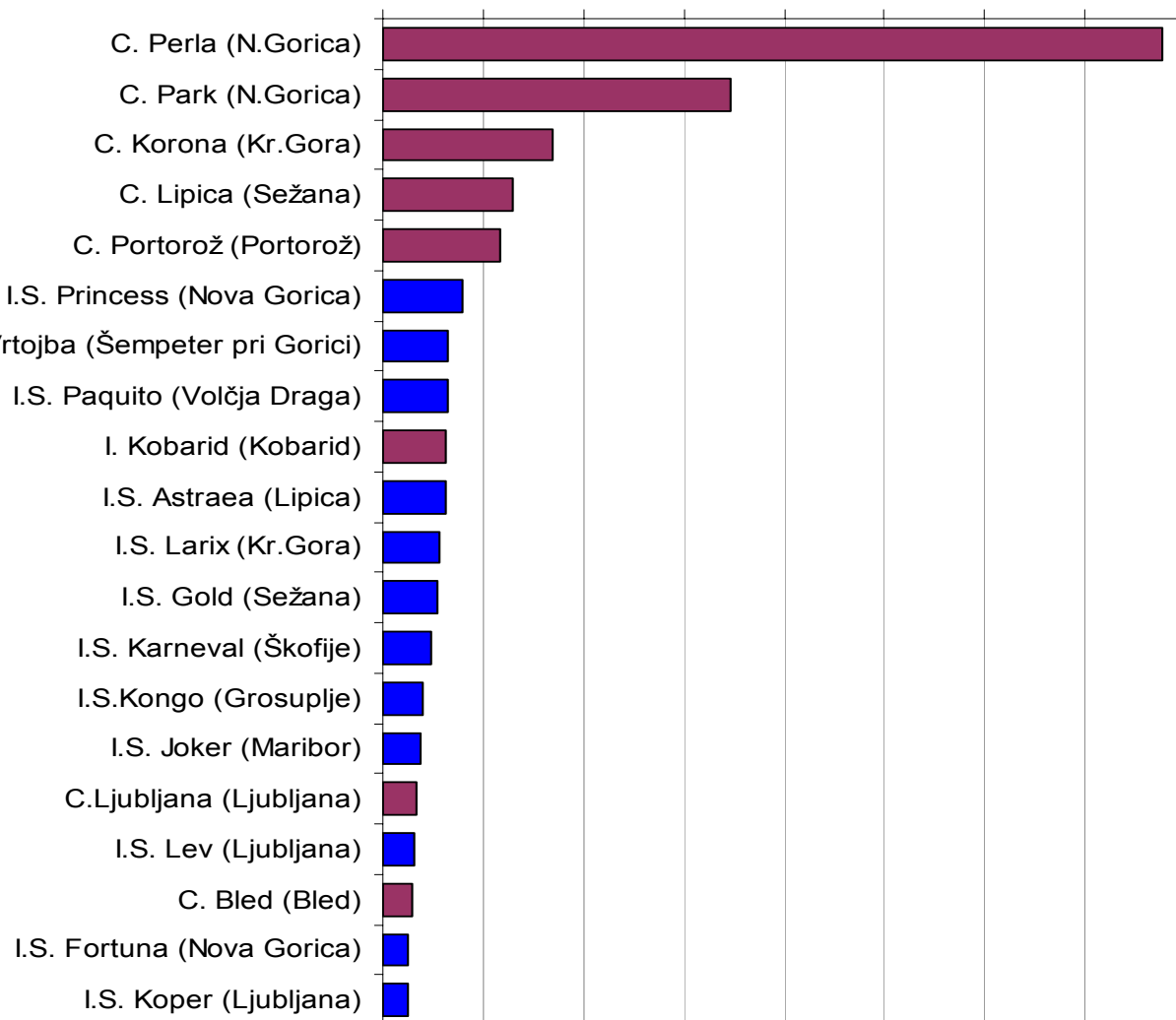


Number of visitors in gambling parlors is increasing; it is stagnating in casinos



Market shares in the Slovenian casino industry

0 Market shares in 2006 32

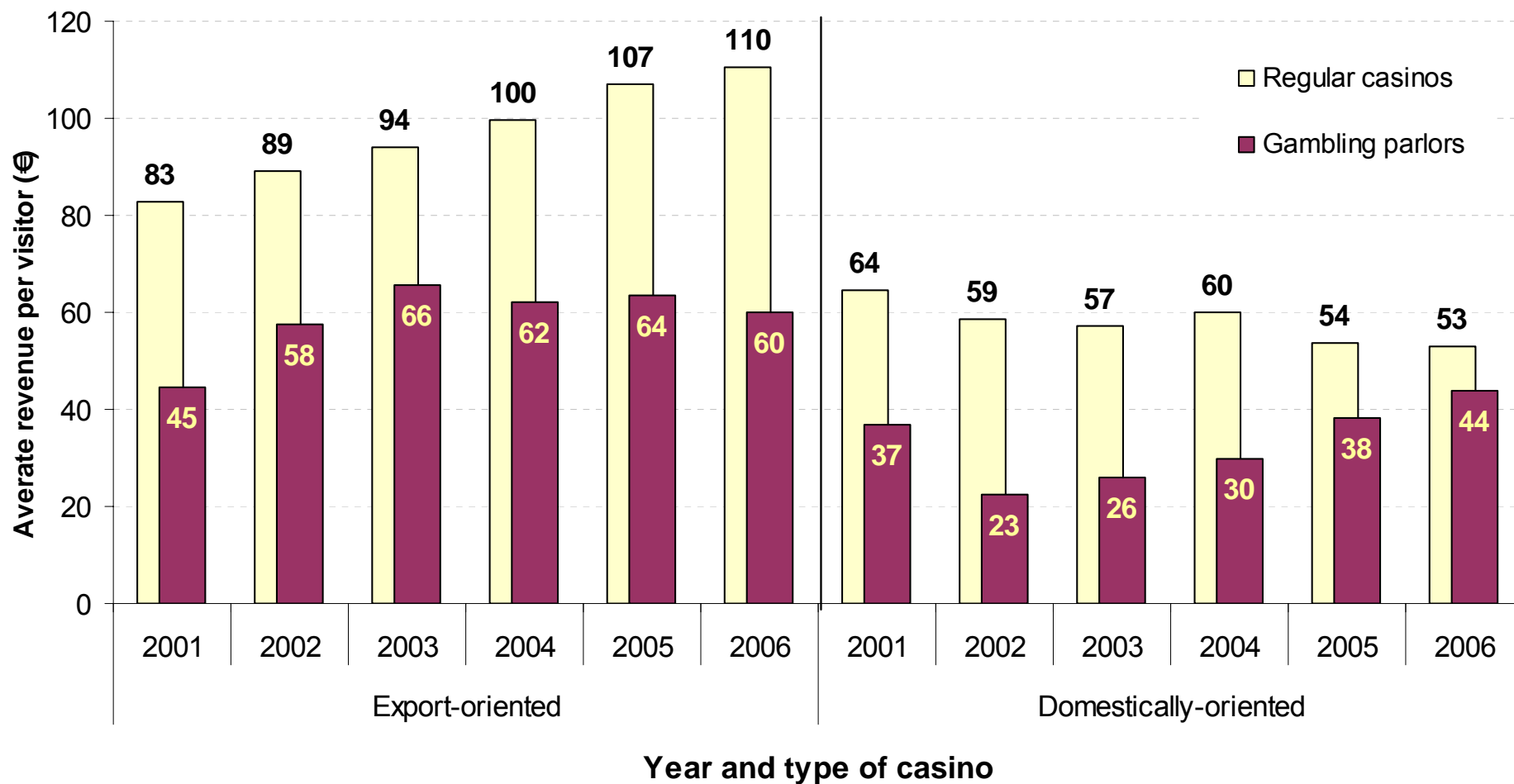


Hit is the largest player with 54% market share.

Two biggest casinos create 45% of all gross gaming revenues

Several gambling parlors are bigger than regular casinos

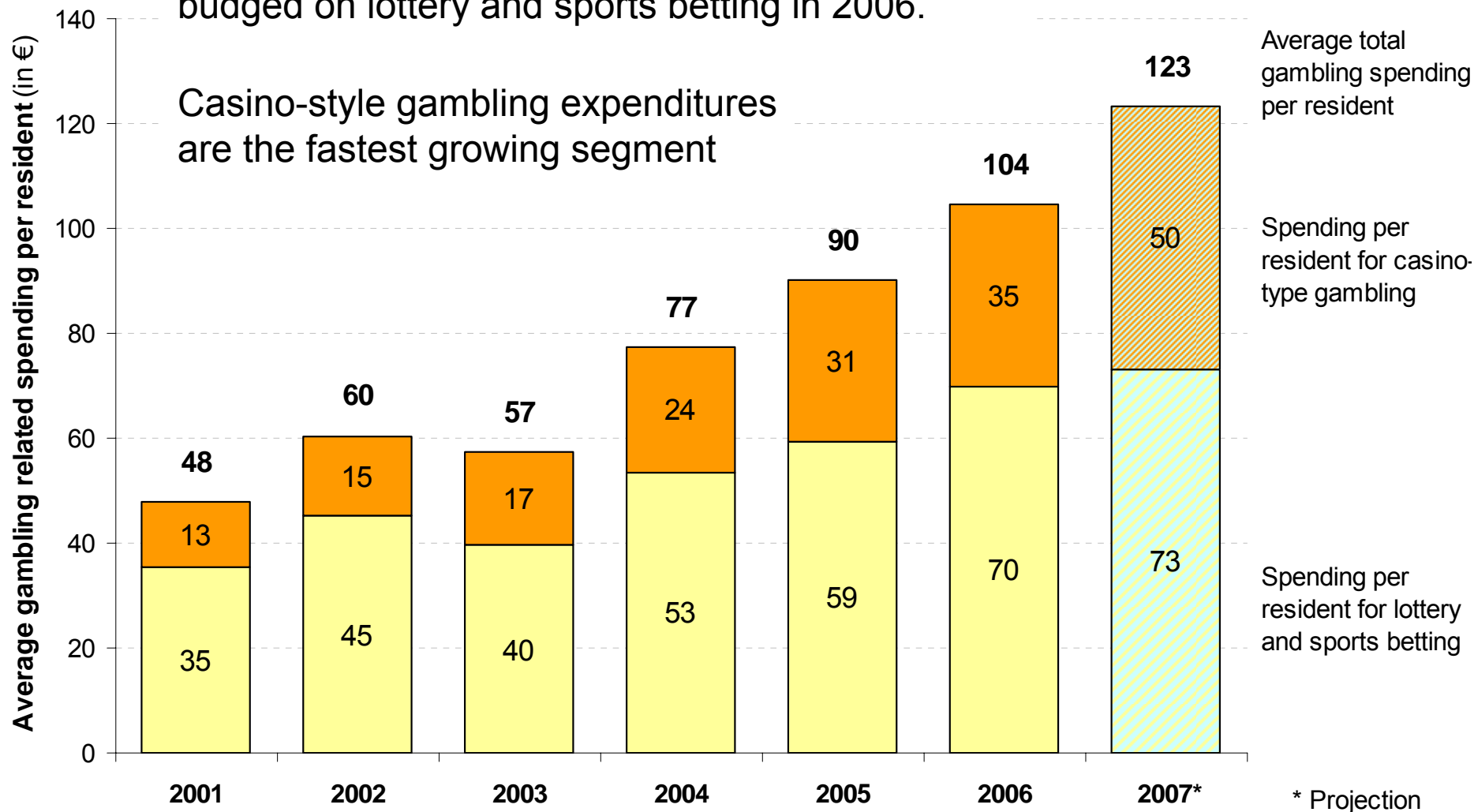
Export versus domestically oriented casinos: spending per visitor



Domestic spending for gambling is growing rapidly (17% per year)

Slovenian residents spent 67% of their gambling budget on lottery and sports betting in 2006.

Casino-style gambling expenditures are the fastest growing segment



Gambling expenditures of foreign tourists represent 30% of total tourism service purchases



Inbound tourism consumption

Domestic tourism consumption

The contribution of gambling sector to Slovenian tourism

1. Tourism represents approximately **4,9% of GDP**.
 2. **Gambling expenditures** of foreign tourists: €196 million
 1. 30% of total tourism service purchases
 2. 19% of total foreign tourists expenditures
 3. Casino-style gambling industry generates the **highest value added** percentage: 75%
 4. **Multipliers for gambling industry are high: 1,43 & 2,05**
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1. However, 92% of all foreign tourists are **day trip tourists**
 2. Major challenge of casino industry: to **increase tourism component of their offering**

Overview of the proposed Hit-HET project (I)

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- 1999** Hit begins discussing “megacasino” project
-
- 2005** Hit begins talks with Harrah’s entertainment
-
- 2005** Public announcement of the negotiations
-
- 2005** Government cautiously supportive, but not taking the leading role
-
- 2006** Negotiations between Hit – HET
-
- 2007** Final version of integrated resort casino project is released to public
-
- 2007** Government prepares changes in the legislation, but does not send them to the parliament

Overview of the resort-casino project (II)

Basic facts about project:

1. Investment: up to €850 million
2. Hotel with 1.500 – 2.000 rooms
3. 3.000 slot machines
4. 120 tables
5. Plenty of other facilities
6. Full capacity in 5th year
7. €562 of total revenue in 5th year
8. 25% of non-gambling revenue
9. 3.250 employees
10. 4,4 million visitors per annum

Existing gambling capacity in Nova Gorica

1. 2.270 slot machines
2. 105 gaming tables
3. 1,6 million visitors

Impact of resort on tourism sector in Slovenia:

1. 11% - 15% increase in the number of hotel rooms
2. 50% increase in total gambling capacity

Benefits of the resort casino

1. Increase in tourism, increase in visibility and attractiveness of Slovenia as a tourist destination
2. Economic development of the region
3. Development of the economy and growth of GDP

-
1. Increased revenues of companies
 2. Increased household income
 3. Increase in employment
 4. Increased value added
 5. Increased tax income

Positive economic benefits occur because majority of visitors come from abroad – **“export” of services.**

Economic benefits may be direct and indirect. Indirect effects emerge because of:

- spending of the resort-casino for goods and services in the country
- Spending of the resort-casino’s employees in the country
- Spending of the tourists outside the resort-casino

Total impact of the proposed resort-casino

Type of effect	Construction phase*			Operations phase (5 th year)		
	Direct	Indirect	Total	Direct	Indirect	Total
Output	118,4	144,5	262,8	550,9	307,2	858,2
Value added	35,2	76,6	111,8	445,2	169,7	614,9
Employment	1.760	2.481	4.241	2.896	6.048	8.944
Net household income	13,1	18,6	31,8	56,5	43,4	100,0
Gambling privilege tax**				68,7	-	68,7
Other taxes and contributions	33,9	19,0	53,0	75,2	62,4	137,6

** Gambling privilege tax was calculated assuming the 18% total effective tax rate.

in mio EUR

Costs of the resort-casino

Substitution effects

- Cannibalization of Hit
- Cannibalization of other casinos

Increased social costs caused by gambling

- Players: Problem gambling
- Employees: difficult working conditions, night shifts, ...
- Society: increased crime ?

Increased social costs caused by mass tourism

- Strain on local infrastructure (traffic, water, ...)
- Damage to the environment
- Immigration of workers as a burden on local infrastructure ?

Potential negative impact on other tourism sectors, associated with image of “gambling destination”

Impact of resort-casino
on changes in values of
local communities and
society as a whole?

Most of the
social costs
associated
with
gambling
are
“exported”
abroad.

Problematic issues

1. Who will have **majority ownership** in the Hit-HET resort? Legal manipulations?
2. Lack of **transparency**
3. Role of the **government**?
4. Resort opened out a **broader debate** in Slovenia on the merits of gambling → became focal point of anger for anti-gambling interest groups
5. Unrealistic **business plan**?
6. Fear of **cannibalization** of existing casinos
7. **Public opinion** grew more and more negative
 - Opposition to gambling in general
 - Opposition to foreigners in this sector
 - Fear for local casino companies

In mid 2007 letter of intent was signed between Hit and HET but was not revealed to the public.

Lessons learned

In the
beginning of
2008 Hit and
HET
announced
that they are
stopping the
negotiations

1. Need for open and broad **public debate** BEFORE the investment.
2. Need for **transparency** of process on all levels.
3. Need for **clear objectives** (strategy) from the government regarding gambling sector.
4. **Government should lead the process:** international public tender instead of trilateral negotiations.
5. Large foreign direct investments may be **difficult in jurisdictions with well developed domestic casino industry.**
6. **Public opinion** does matter!

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Substitution effects

Degree of substitution	0%	20%	40%	60%
Output	858,2	794,3	730,4	666,6
Value added	614,9	569,0	523,1	477,2
Employment	8.944	8.308	7.672	7.036
Net household income	100,0	92,6	85,2	77,8
Gambling privilege tax	68,7	56,0	43,3	30,7
Other taxes and contributions	137,6	127,5	117,3	107,2

Strategic considerations and implications

1. The resort-casino is focusing on day-trip visitors.
2. Optimistic revenue projections?
3. The project is only possible in the low gambling tax rate environment.
4. Questionable merits of partnership in the joint venture.
5. The project might provoke retaliation from the other side of the border.

Conclusion:

- Largest tourism investment, increasing total tourism revenues in the country by 15%.
- Benefits far outweigh the costs.
- Various stakeholders (negotiating parties) may influence the size of total net impacts (upwards or downwards).

What can we learn

Thank you!

Studies of the Slovenian gambling industries and the impact of proposed casino-resort are available at:

Ministry of Finance:

http://mf.gov.si/slov/zakon/predlogi_igre_sreca.htm

and

Institute for the study of gambling:

<http://www.ef.uni-lj.si/enote/ipig>