



Institute for the Study of Gambling
and Commercial Gaming

College of Business Administration

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OPTIMIZING PUBLIC BENEFIT WHEN AUTHORIZING LIMITED LICENSE INTEGRATED RESORT CASINO PROJECTS: WHAT EUROPE CAN LEARN FROM GLOBAL EXPERIENCE

**Presentation to the
European Association of Gambling Studies
Nova Gorica, Slovenia
July 2, 2008**

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FUNDAMENTAL PREMISE

- **At some point, some European country (or countries) will create legislative, ownership, market structure, and taxing environments that will be conducive to Integrated Resort Casino Developments**
- **This analysis looks at some of the major alternative approaches and examines their “public benefit” implications**

DEFINING PUBLIC BENEFIT AS IT RELATES TO CASINOS: ECONOMIC DIMENSIONS

- **Job creation**
 - Especially of value in regions with chronic unemployment or under-employment, and regions with per capita income levels lower than near-by regions
- **Capital investment**
 - More important when existing economic base is in decline
- **Foreign direct investment**
 - Particularly important in regions with less sophisticated financial institutions and with needs for external capital
- **Generation of foreign exchange**
 - Enhances the region's ability to purchase imports; leads to increases in per capita incomes
- **Fulfillment of consumer surplus**
 - Catering to a relatively affluent and consumption oriented society; Benefits that accrue to the consumers of products

DEFINING PUBLIC BENEFIT AS IT RELATES TO CASINOS: FISCAL DIMENSIONS

- **Tax revenue generation**
 - Capability of casinos to capture economic rents through taxation may be limited; trade-offs with amount of capital investment possible
 - Purpose of enabling legislation needs to focus on highest priorities (i.e. revenue v. development)
- **Taxes in kind**
 - Convention centers, airport upgrades, public sector infrastructure, etc.
 - Can be extracted through competitive bidding
- **Serving as a catalyst for further economic development or redevelopment**
 - Part of a strategy to attract other capital into the neighborhood or the region, or to change the reputation of the jurisdiction

DEFINING PUBLIC BENEFIT AS IT RELATES TO CASINOS: SOCIAL DIMENSIONS

- **Reducing illegal or under-regulated gambling in society**
 - Diminish crime and corruption related to such gaming activities
- **Determining the effects of change in legal status on crime rates and other social impact measures**
 - Gambling related crime; bankruptcies
- **Mitigating unintended social consequences**
 - Controlling the consequences of problem gambling, or of excessive gambling among lower income groups
- **Channeling funding for beneficial programs**
 - Education, health care, career development opportunities

MAJOR PARAMETERS FOR CREATING *INTEGRATED RESORT CASINO* ENVIRONMENTS

- **Diversity of assets**
 - Cannot be just a gaming-centric enterprise; must have substantial non-gaming assets as attractors
- **Ownership Structure**
 - Need to harness the creative powers of the private sector
- **Market Structure**
 - Restricted markets, either through limited licenses or minimum capital requirements, enhance “economic rent” potential
- **Taxation Environment**
 - Tax rates must permit adequate return on invested capital
- **Marketing Orientation**
 - Need to attract external visitors to the complex or to persuade local citizens to substitute this experience for visits to foreign casinos (*Import Substitution*)

REALITIES FOR EXISTING EUROPEAN GAMING LAW

- **Tax rates are comparatively high**
 - Primarily seen by government as a revenue source
- **General public has not broadly identified with existing casinos as a major leisure or entertainment activity**
 - Limited market penetration but considerable potential
- **Private sector gaming companies are relatively under-developed and gaming-centric; government owned companies are ultimately constrained by politics and unions**
 - Restricted or protected markets plus high tax rates have limited creativity and the industry's dynamic in most member states

MODEL #1: THE AUSTRALIAN APPROACH

- **Private sector ownership, competitive bidding process, relatively low tax rates, exclusive franchise monopoly**
- **Strengths: Bidding can extract economic rents; location can be controlled;**
- **Weaknesses: Limited dynamic over time; unconstrained competitors offering convenience gaming (machines); single regulator-regulated relationship;**

CROWN CASINO SITE, MELBOURNE, 1993



CROWN MELBOURNE PRE-DEVELOPMENT



**CROWN CASINO SITE, POST-DEVELOPMENT
(2000)**

MODEL #2: THE CANADIAN APPROACH

- **Government ownership; Crown Corporation structure; contracting to private sector companies for management contract services (and sometimes for building facilities and other capital outlays); regional monopolies**
- **Strengths: Ability to capture significant *Economic Rents*; casino policies can be very responsive to unintended social impacts**
- **Weaknesses: political vulnerabilities; unions can have disproportionate influence; difficult to fulfill multiple objectives; difficult to make “good” business decisions on capital expansions (i.e. Montreal)**

CASINO NIAGARA



FALLSVIEW, NIAGARA FALLS, ONTARIO



CASINO DE MONTREAL



MODEL #3: THE SINGAPOREAN APPROACH

- **Two competitive bid licenses; Integrated Resorts in an urban environment; low tax structure; constraints on entrance to casinos by locals; part of a broader tourism strategy**
- **Strengths: Projects will likely serve as major catalysts to stimulate tourism; controlled and transparent processes; substantial foreign direct investment; world class convention, entertainment, and retail offerings; iconic architecture; substantial direct tax revenue, and job creation; reputation for integrity**
- **Weaknesses: Default risk (limited)**

MARINA SANDS RESORT ON MARINA BAY



RESORT WORLD AT SENTOSA



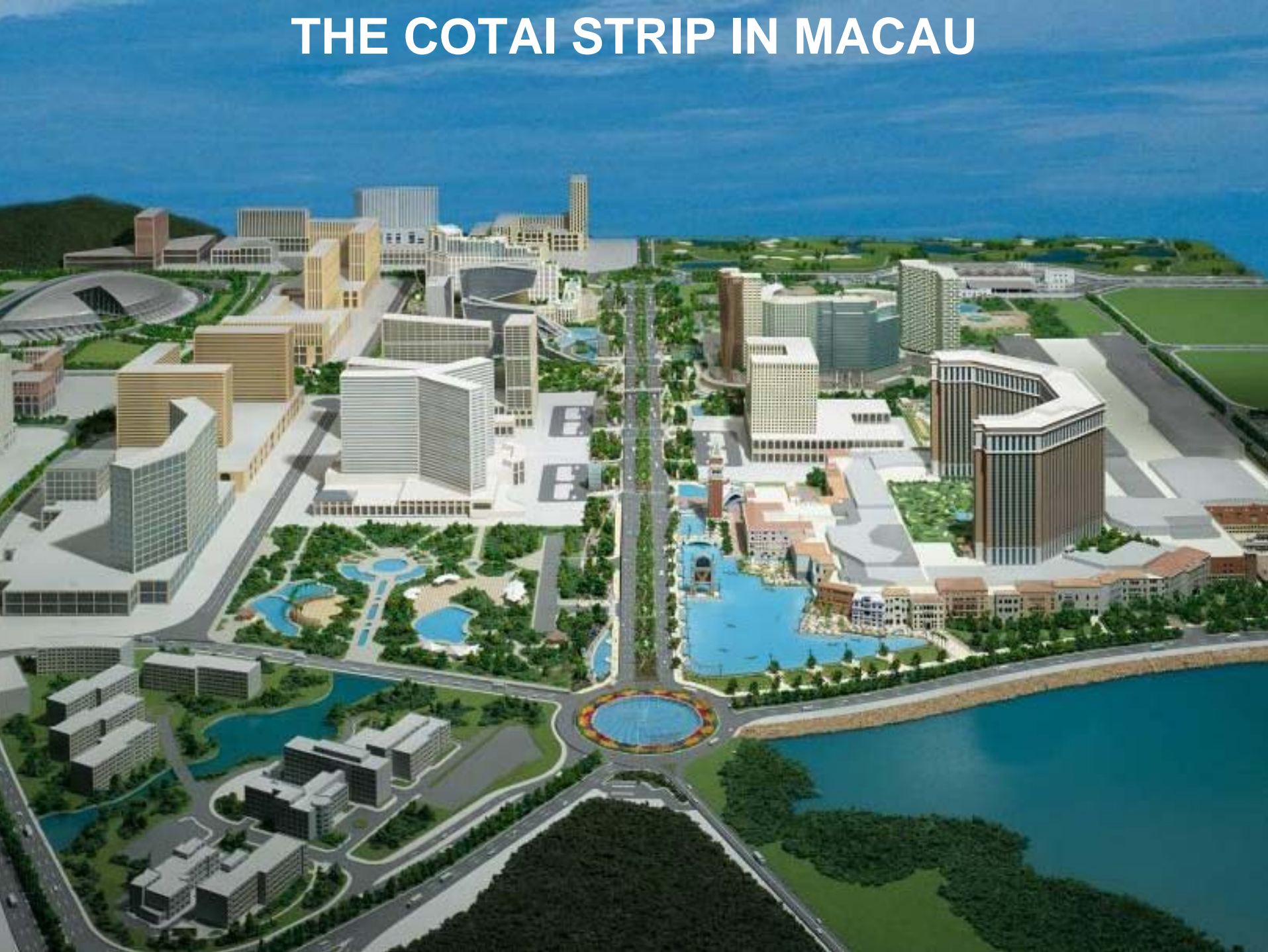
MODEL #4: THE LAS VEGAS/ MACAU APPROACH

- **Limited geographic areas for permitted integrated resort development; extensive competition permitted; market driven investment policies; low to high tax rates possible**
- **Strengths: Dynamic, responsive to changing market conditions**
- **Weaknesses: Insensitive to unintended social consequences; hard to control; requires substantial infrastructure and critical mass to be successful**

THE LAS VEGAS STRIP



THE COTAI STRIP IN MACAU



WHAT DIRECTIONS DO WE SEE IN EUROPE?

- **Russia is pursuing the Las Vegas/Macau model**
 - Kaliningrad, Vladivostok, Krasnador/Rostov and Altai regions
 - Absence of infrastructure and critical mass
 - Alternative agenda for the Kremlin?
- **Hungary has created legislation to bring about Australian model results**
- **Eastern European countries are allowing competitive casino industries to emerge**

WHICH DIRECTIONS SHOULD EUROPEAN COUNTRIES GO?

- **The Canadian model is similar to approaches undertaken in Sweden, Finland, Holland, and Austria**
 - Requires monopoly protection; conflicts with harmonization principles
- **The Singaporean or Australian models can be very attractive under the proper circumstances**
 - Smaller, less affluent countries may lead the way (i.e. Slovenia) in same way as Nevada, Monaco, Tasmania, Macau
- **The political changes required to get from the status quo to such an environment are formidable**