DRAFT REDACTED REPORT 2012

Western Cape Provincial Treasury

Expiry of Exclusivity Period in Respect of Casino Operator Licences in the Western Cape and Proposals on a Way Forward

Consolidated Report:

June 2010

Prepared by

Bureau for Economic Research

COLLABORATORS:

Public Law issues: Coriaan de Villiers (Webber Wentzel)

Competition Law issues: Daryl Dingley and Tyrone Maseko (Webber Wentzel)

Macroeconomic forecast and GGR forecasts: Ben Smit, Linette Ellis, Hugo Pienaar and Christelle Grobler (Bureau for Economic Research)

Western Cape GDP and socio-economic data: Claude van der Merwe (Quantec)

Potential size of casino market: Lieb Loots, Johan Fourie and Hassan Essop (Bureau for Economic Research)

Financial analysis of current casinos and options: Walter Meyer, Luke Henning and Steven Chapman (KPMG)

Tax base and effective rate and tax legal issues: Des Kruger and Alvhin Adendorff (Webber Wentzel)

Economic impact of casinos: Philip Black (Bureau for Economic Research)

Social impact of casino gambling: Don Ross (University of Cape Town); Bo Bernhard (University of Las Vegas) – international reviewer

Fiscal impact of casino options: Des Kruger (Webber Wentzel)

Copyright and Disclaimer.

Contents

List of tables

List of figures

CONSOLIDATED REPORT

Expiry of Exclusivity Period in Respect of Casino Operator Licences in the Western Cape and Proposals on a Way Forward

1. INTRODUCTION

There are currently five casinos in the Western Cape. At the time that the casinos were established they were each granted a casino licence to operate a casino exclusively within a demarcated geographic area for a ten year period. The first of the exclusivity periods is due to expire in 2010.

The Provincial Government of the Western Cape (PGWC) is considering various options in respect of the way forward (after the expiry of the exclusivity period) as reflected in a Cabinet Memorandum submitted in 2009 entitled "*Expiry of Exclusivity Periods in respect of Casino Operator Licences in the Western Cape and Associated Proposals on a Way Forward*" (the "Cabinet Memorandum"). The options in the Cabinet Memorandum can broadly be referred to as the Status Quo Option and the Relocation Options. The Status Quo Option ("Option S") allows the current exclusivity to continue. This option does not entail the relocation of any casinos. The Relocation Options (referred to as the "Direct Competition", "Untapped" and "Tourism" options, or options D, U and T respectively, in the Cabinet Memorandum) all involve granting one or more of the outlying casinos (i.e. casinos other than GrandWest) the right to relocate to the greater Cape Metropolitan area.

In August 2009 the Provincial Treasury of the Western Cape (PTWC) commissioned the Bureau for Economic Research to put together a team of economists, legal practitioners from Webber Wentzel and financial specialists from KPMG to investigate the implications of the expiry of the exclusivity period in respect of casino operator licences in the Western Cape and to advise PGWC on the dispensation that should come in its place.

The various discipline specialists have concluded their investigation of the relevant aspects and implications of the options as outlined above by mid-March 2010. Given the time pressure on PGWC to formulate policy direction on the casino licences and put in place the necessary mechanisms to deal with the ensuing process, the investigations cannot be regarded as exhaustive. Nevertheless, although further refinement would always be possible the research team is confident that their findings will not change materially from what is reflected in this report.

This report sets out the findings of the investigation team and presents recommendations for the consideration of PGWC. The report starts by giving a synoptic history of casino gambling in the Western Cape and presents the reasons for the commissioning of the investigation by PTWC. In the rest of the report the various aspects of casino gambling in the Western Cape that were investigated are summarised. A full report on each of these aspects is presented in the Appendices to this report. This report is only a consolidation of the individual reports and therefore only summarises the most salient aspects of each of the individual reports.

The aspects of casino gambling in the Western Cape that are summarised below and that informed the recommendations at the end of the report include the following:

- Public Law legal framework
- Competition Law considerations

- Financial analysis of current casinos
- Tax base and effective tax rate on casinos
- Potential size of the casino market
- The economic impact of the casinos
- The social impact of casino gambling
- The economic impact of alternative licensing options
- Proposed new tax regime
- Fiscal impact of different licensing options
- Ranking of options
- Gambling Law, Public Law and Competition Law implications of options.

A summative overview is presented in Section 12 of this report. It can be read as an executive summary of the report and can therefore also be read first before the full report is read. The main purpose of this report is to present a coherent and integrated overview of the findings in the various sections in order to lay a foundation for the recommendations in the last section.

The recommendations are concerned with the broad policy direction that PGWC should consider as a replacement for the current exclusivity due to expire from 2010 and over the next few years. Depending on the decision by PGWC about the recommendations some detailed follow-up will be required including in respect of the amendment of provincial gambling legislation and the tax administration requirements for the new dispensation.

2. BACKGROUND

2.1 History

In 1999, the Western Cape Provincial Cabinet issued Policy Determinations to be adhered to by the Western Cape Gambling and Racing Board ("WCGRB") in establishing the licensed gambling industry in the Province. The Policy Determinations provided as follows:

"The 5[1] casino operator licences to be allocated in the Western Cape shall be distributed, one each to five regions, to stimulate and encourage development throughout the Province.

A casino operator licence allocated to each of the regions shall be exclusive for a period of 10 years, subject to payment of the exclusivity fees determined by the Western Cape Gambling and Racing Act, 1996 (Act 4 of 1996) as amended.

The exclusivity zone for the Cape Metropolitan casino shall be the area within a 75-kilometre radius of the Cape Town City Hall.

The exclusivity zone for the other casinos shall be determined by WCGRB and shall be such as (a) not to overstimulate gambling in any part of the Province and (b) to encourage development and the creation of job opportunities throughout the Province.

[1] In terms of the National Gambling Act (Act 7 of 2004), the National Minister responsible for gambling matters (Trade and Industry), may prescribe by regulation a maximum number of casino licences that may be granted in the Republic, and in each province. In this regard, the Minister prescribed that a maximum of 5 casino licences may be granted in the Western Cape.

A financial contribution of R135 million for a world-class convention centre or any other use the Western Cape Provincial Cabinet may consider necessary, shall be a requirement for the casino operator licence in the Cape Metropolitan region."

The 5 available Casino operator licences were duly awarded in distinctly demarcated regions in the Western Cape – one in each region.

Table 1: Area of exclusivity

Casino Company	Area of exclusivity
SunWest International (Pty) Ltd	Cape Metropole (Goodwood)
Worcester Casino (Pty) Ltd	Breede Valley Region (Worcester)
Century Casinos Caledon (Pty) Ltd	Overberg Region (Caledon)
Garden Route Casino (Pty) Ltd	Southern Cape Region (Mossel Bay)
West Coast Leisure (Pty) Ltd	West Coast Region (Langebaan)

No temporary casinos were permitted and each of the licences commenced when the permanent casino was put into operation. The commencement dates of the various licences therefore differed. The dates of commencement and termination of the respective periods of exclusivity are summarised in table 2.

The expiry of exclusivity commences with Caledon Casino (in October 2010) followed by Casino Mykonos (in November 2010) and GrandWest (in December 2010). PGWC was concerned that the expiry of the exclusivity could result in the uncontrolled relocation of casinos to the Cape Metropole in a manner that could lead to one or more of the following consequences:

"(i) decrease in or loss of tax revenue to the Provincial Government;
(ii) potential over-stimulation of the demand for gambling in the Metropole with associated socio-economic implications;
(iii) no net increase or even a possible decrease in job creation (except during temporary construction) and/or loss of employment and displacement of existing economic developments in the affected region;
(iv) vulnerability of GrandWest if one of the smaller casinos ceases operations;
(v) wastage of otherwise valuable infrastructural resources, and
(vi) possible litigation by operators."

PGWC was also concerned about the funding implications of the end of the exclusivity regime for WCGRB. If exclusivity fees were no longer to be paid to WCGRB the shortfall will have to be made good by Province.

It is against this backdrop that PGWC decided to investigate the possible options open to the Provincial Government and WCGRB and to devise a strategy that is in the best interest of all parties concerned.

2.2 National legislation

The overall framework for gambling in South Africa is governed by the National Gambling Act (Act No. 7 of 2004) (NGA). The Act defines the type of gambling activities that are legal and lays down certain conditions and requirements with which all legal gambling operations must comply.

Particularly relevant to this investigation is the fact that the NGA empowers the national Minister to prescribe a maximum number of casino licences that may be granted in each province. A maximum of 5 casino licences may be granted in the Western Cape. The PGWC can therefore not increase the number of casino licences in the Western Cape province.

The NGA also makes provision for the creation of a "provincial licensing authority" which means a body established by provincial laws to regulate casinos, racing, gambling or wagering. A provincial licensing authority (such as the WCGRB) "has exclusive jurisdiction within its province, to the extent provided in provincial law, to investigate and consider applications for, and issue provincial licences in respect of casinos ...".

2.3 Provincial legislation

The relevant provincial legislation is the Western Cape Gambling and Racing Act (Act 4 of 1996, as variously amended) (the WC Gambling Act). The WC Gambling Act establishes the Western Cape Gambling and Racing Board (WCGRB) and defines its responsibilities. In particular, the Act gives the main object of WCGRB as the control of all gambling subject to this Act and "*any policy determinations of the Executive Council relating to the size, nature and implementation of the industry.*"

In Section 12 (3) of the WC Gambling Act includes in the powers and functions of WCGRB the right "*to grant, renew, amend, refuse, transfer, suspend or revoke licences under this Act*" and in (4) "*to impose, amend, suspend or revoke conditions in respect of any licence at any time*".

Also relevant to this investigation is Section 12(13) of the WC Gambling Act that empowers WCGRB to collect and administer in accordance with the provisions there, taxes, levies, duties and licence fees imposed by or under this Act and to make rules governing the licensing, conduct and operation of any gambling activity.

It should be made clear that although the casino operator licences are only issued for a period of twelve months at a time WCGRB is, subject to compliance with the provisions of the WC Gambling Act, on production of the licence for the preceding year, and on payment of the applicable licence and investigation fees, obliged to renew the licences annually.

In respect of exclusivity, Section 44A provides for an exclusivity fee as set out in paragraph 3 of Schedule II. The exclusivity fee is payable "*by all successful applicants for a casino operator licence*". On the payment of such an exclusivity fee WCGRB "*shall grant to such licence holder exclusivity to operate a casino within an area and for a period as determined by WCGRB.*" Section 44B allows for a bid fee "as set out in paragraph 4 of Schedule II payable to the Provincial Administration: Western Cape" to be collected from all successful applicants for a casino operator licence.

Lastly, in Section 45 (4) it is made clear that "*a casino operator licence shall attach to the premises specified in the licence, and which shall be developed in accordance with the approved development application.*"

2.4 Expiry of exclusivity

As was mentioned in Section 2.2 above the exclusivity attached to the current casino licences begins to expire towards the end of 2010. Exclusivity was incorporated in the various casino operator licences issued by WCGRB. However, it was not done in the same manner in respect of all the casino licences and there are different possible interpretations in respect of the expiry dates of the exclusivity periods of the respective casinos. The different dates are reflected in the table below. The dates reflected in the Cabinet memorandum are bracketed below.

Table 2: Expiry of exclusivity period

Casino & region	Date of award of licence	Commencement Date	Exclusivity Period Expires
SunWest International (Pty) Ltd – Cape Metropole	06/12/1999	19/12/2000	[05/12/2010] or 18/12/2010
Century Casinos Caledon (Pty) Ltd – Overberg	14/04/2000	11/10/2000	[10/10/2010] or 13/04/2011
West Coast Leisure (Pty) Ltd – West Coast	04/09/2000	14/11/2000	[13/11/2010] or 03/09/2011
Garden Route Casino (Pty) Ltd – Southern Cape	11/07/2002	12/12/2002	[11/12/2012]
Worcester Casino (Pty) Ltd – Breede River	10/05/2005	22/11/2006	[09/05/2016]

Once the exclusivity falls away, the relevant casino will no longer enjoy the guarantee of operating exclusively within its existing geographical area. It is generally accepted that this exclusivity really only has meaning as far as the Cape Metropole is concerned and that most of the casinos other than GrandWest will make use of the expiry of the spatial exclusivity to apply for relocation to the Metropole.

Absent an amendment to the WG Gambling Act, the WCGRB does not have the power to extend the current exclusivity regime.

2.5 The Options

In its brief to the research team the PTWC requested an investigation of the feasibility and desirability of options to replace the current exclusivity regime.

2.5.1 The Status Quo Option (Option S)

The Status Quo Option allows the current form of exclusivity (the "**status quo**") to continue. In terms of this option, the five current licence holders will continue to operate in each of their respective exclusive geographical areas. This option is similar to option C that was presented in the previous Government submission which was made in April 2009. This option does not make provision for the relocation of any casinos and may entail some form of exclusivity fee to be paid by the casinos.

2.5.2 The Direct Competition Option (Option D)

The Direct Competition Option will result in some direct competition to GrandWest. This option entails relocating one (or more) of the outlying regional casinos to the Cape Metropole catchment area (the area where the majority of GrandWest's clients reside), or effective customer base. It is a direct competition option as it will not renew the exclusivity currently enjoyed by the licence holder in the Cape Metropole catchment area and will allow another casino operator to enter into direct competition with GrandWest.

2.5.3 The Untapped Option (Option U)

The Untapped Option entails a relocation of one or more of the outlying regional casinos to the Cape Metropole, but only if it relocates to an area of the Cape Metropole that is as yet "untapped" that is to say, a geographic area in the greater Cape Metropole that is not part of the effective customer base of the Grand West, even though it may currently fall within the GrandWest exclusive area (within a 75 kilometre radium of the Cape Town City Hall).

2.5.4 The Tourism Option (Option T)

The Tourism Option also entails relocating one of the outlying regional casinos to the Cape Metropole to open up a new and as yet undeveloped market, but a market that is built around the development of destination-based or international tourism. This is not primarily aimed at the current tourism base in the Western Cape, but aims to attract a new kind of tourist, or to give momentum to the growth of international tourism by offering tourists more attractive casino facilities.

3. PUBLIC LAW LEGAL FRAMEWORK

3.1 Implications of expiry of exclusivity regime

One of the consequences of termination of the exclusivity period in a geographic area is that the relevant casino no longer has a right to be the sole casino operating in that area. However, because national legislation limits the number of casino licences in the Western Cape to 5, and because 5 casino operator licences have been granted in the Western Cape, exclusivity will for all practical intents and purposes endure on a *de facto* basis after termination of the 10 year exclusivity period, unless one of the casinos is permitted to relocate pursuant to one of the Relocation Options (or one of the casinos ceases to operate and/or their licence lapses or is repealed).

[redacted]

[redacted]

[redacted]

[redacted] If any of the Relocation Options are pursued, legislative amendments are required to make adequate provision for relocation of a casino. If the Status Quo option is pursued, the WC Gambling Act would also have to be amended to effect a new exclusivity regime.

3.2 Public Law implications of legislating the options

3.2.1 Types of public action in legislating the Options

As outlined above, the Status Quo Option and any of the Relocation Options would require legislative amendments. There are, however, different ways in which to structure different "packages" of legislative amendments which have different implications from a public law perspective for whether any of the casinos would be entitled to challenge introduction of any of the options on procedural and/or substantive grounds. From a public law perspective, it is important to categorize the making of amendments to the main body of the WC Gambling Act, the issuing of policy determinations and the making of regulations as executive, legislative or administrative action.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

3.3.1 Status Quo Option

Under this option, the right to exclusivity would be granted afresh or extended and some form of exclusivity payment levied. Consideration would have to be given as to how best to do so.

Only main body of WC Gambling Act to govern exclusivity

The main body of the WC Gambling Act (ie not the policy determinations or regulations) could be amended to expressly provide for a new exclusivity regime, either in the main provisions or a combination of the main provisions and a schedule to the WC Gambling Act. (Section 44A and the current schedule 11 (part 3 would be replaced));

Alternatively, the WC Gambling Act could be amended to expressly empower the WCBG to grant further/extend exclusivity rights and determine payments. Our understanding is that the PGWC wishes to retain this power because of the policy nature thereof and because it is desirous of generating revenue for the PGWC through the granting of exclusivity);

Provision could be made for the extension of such exclusivity periods and corresponding payments in the future (ie after expiry of the next immediate period of exclusivity). Consideration would have to be given to who should have the power to do so: the Minister by regulation (in consultation with the WCGB) or the WCGB?

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

If the exclusivity regime is extended by regulation/policy determination, we would recommend that, before promulgation, the Minister or the Executive Council, as the case may be:

grants each casino licencee an opportunity to be heard;

follows a public notice and comment procedure;

In terms of section 81(1) of the WC Gambling Act, the Minister would be legally obliged to consult with the WCGB before promulgating regulations.

3.3.2 Greater Cape Metropolitan Relocation Options

Under these options, one or more of the outlying casinos would be granted the right to relocate to the greater Cape Metropolitan area and there would be no extension of exclusivity of the other outlying casinos that would not be relocating. They would enjoy *de facto* exclusivity in their respective areas until such time as either the National Minister increases the maximum permissible number of licences in the Western Cape and a decision is taken to grant a further licence in the Western Cape, or (perhaps more likely) an existing casino licence being terminated and a decision being taken to grant another casino licence in its stead.

A possibility is to amend the main body of the WC Gambling Act to deal with all the aspects required for purposes of any of the relocation options, such as:

- empowering the WCGRB to invite existing casino licencees to apply to relocate, as well as specifying how the process will be conducted;
- specifying the geographic area for which an application for relocation is permissible, implying that consideration was given to whether the Executive Council or the Minister or whether the WCGRB should have the power to do so;
- specifying the criteria for evaluation of proposals to relocate; and
- amending the provisions dealing with the granting of land use rights/development applications which apply when granting a casino licence so as to make provision for relocation (as opposed to the granting of a licence), as well issues pertaining to the casino which will have to be closed down.

[redacted]

Relocation could also be dealt with by way of amendments to the WC Gambling Act and Ministerial regulations and/or policy determinations. The amendments would include:

- deletion of section 44A and schedule II (part 3);
- empowering the WCGRB to invite licencees to apply to relocate and amending the existing provisions dealing with relocations;
- amending the provisions dealing with the granting of land use rights/development applications which apply when granting a casino licence so as to make provision for relocation (as opposed to the granting of a licence), as well issues pertaining to the casino which will have to be closed down; and
- possibly amending section 81 to empower the Minister to make regulations in respect of relocation.

The regulations and/or policy determinations would then deal with aspects such as specifying the area for which an application for relocation is permissible, procedures and criteria to be followed etc. However, the same qualification as was made above will also apply here.

3.3.3 Hybrid options

There are further possible options which include a combination of relocation and exclusivity. A possibility is, for example, that one of the outlying casinos is granted the opportunity to relocate to an area where it would not be competing with GrandWest (the untapped option). A possibility would therefore be to amend the areas of exclusivity as required on the basis that each of the 5 licencees will still enjoy exclusivity.

There is a further option in terms of which a bid process is designed inviting all 5 of the existing licencees to bid:

- the outlying casinos would be bidding for an opportunity to relocate;
- the area to which relocation would be permitted could be specified in the bid process, alternatively the licencees could be permitted to specify areas (the latter is much harder to adjudicate);
- the licencees would bid a "once off" relocation price or some other appropriate licence fee associated with the relocation; and
- GrandWest would bid a retention of exclusivity price or other appropriate fee.

[redacted]

3.3.4 Bidding issues

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

3.3.5 Conclusion

[redacted]

The WC Gambling Act will have to be amended to give effect to any of the options under consideration ie the Status Quo Option and any of the Relocation Options.

However, careful consideration should be given to the manner in which to implement one of the options once PGWC has taken a decision in respect of which option to implement, especially to structure implementation of the selected option in a manner that best gives effect to PGWC's objectives. We would not recommend that any of the options be implemented through the adoption of further policy determinations. Given that the WC Gambling Act will in any event have to be amended, consideration should, in our view, be given to doing away with policy determinations altogether.

It would be appropriate, and arguably required, for a competitive bidding process to be followed if one of the Relocation Options is pursued.

4. COMPETITION LAW CONSIDERATIONS

For purposes of analysing the competition law implications of the different options, it is necessary to mention the types of competition law concerns that may arise as a result of these options and against whom such action would be taken.

If one or more of the existing casino licence holders were to apply for a relocation of their operations to the more lucrative Cape Metropole, there is a concern that a decision by PGWC and/or WCGRB in respect of a relocation application may have competition law implications. In this regard, an argument can be mounted to the effect that the maintenance of the exclusive zones for casino gaming in the Western Cape has the effect of limiting consumer choice in the exclusive zones and, therefore, the exclusivity regime insulates casino operators from the rigors of competitive market processes.

A question can be posed as to whether such concerns are indeed justified in light of the fact that the casinos are governed by legislation, including any exclusivity that might be imposed on them. The question therefore arises as to whether the competitive nature of a decision to deny or approve relocation, as it relates to exclusivity, falls within the competence of the sector regulator and/or the competition authorities. In other words, the starting point would be to determine whether the competition authorities would have jurisdiction over the decision of the PGWC and the WCGRB in respect of the casino operators' various *"exclusivity zones"* in the Western Cape.

After seeking clarity on the jurisdiction issue an analysis of the potential economic impact of all four options to determine whether any one of them gives rise to competition law concerns is summarised. What follows below is an extraction and summary of the full report. The full report with the detailed arguments and complete referencing is appended to this report.

4.1 The Competition Act

The primary reference to concurrent jurisdiction in the Competition Act is found in section 3(1A)(a), which reads as follows:

> *"In so far as this Act applies to an industry, or sector of an industry, that is subject to the jurisdiction of another regulatory authority, which authority has jurisdiction in respect of conduct regulated in terms of Chapter 2 or 3 of this Act, this Act must be construed as establishing concurrent jurisdiction in respect of that conduct."*

Section 3(1A)(b) of the Competition Act goes on to provide that the manner in which concurrent jurisdiction is to be exercised, must be managed in accordance with an agreement concluded in terms of sections 21(1)(h), 82(1) and 82(2) of the Competition Act.

- Section 21(1)(h), lists one of the functions of the Competition Commission as negotiating agreements with any regulatory authority *"to co-ordinate and harmonize the exercise of jurisdiction over competition matters within the relevant industry or sector, and to ensure the consistent application of the principles of this Act"*; and
- Section 82 deals with regulatory agreements in more detail. A regulatory authority (which has jurisdiction in respect of conduct regulated in terms of Chapter 2 or 3 within a particular sector) and the Commission must negotiate agreements with each other and may exercise jurisdiction in terms of those agreements (section 82(1) and (2)). Section 82(3) of the Competition Act states that an agreement must: (a) identify and establish procedures for the management of areas of concurrent jurisdiction; (b) promote cooperation between the regulatory authority and the Competition Commission; (c) provide for the exchange of information and protection of confidential information; and (d) be published in the Government Gazette.

4.2 Analysis

In terms of section 3(1A)(a) of the Competition Act, in order for the concurrent jurisdiction regime to apply, at least two requirements must be met:

- firstly, the industry or sector must be subject to the jurisdiction of a regulatory authority other than the Commission; and
- secondly, the regulatory authority must have *"jurisdiction in respect of conduct regulated in terms of Chapter 2 or 3 of this Act"*.

4.2.1 The jurisdiction of a regulatory authority

To fully explore this question a review of the legislation governing the gambling industry is required in order to determine which regulatory authorities, as defined in the Competition Act, are responsible for the regulation of this sector.

The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) ("**the Constitution**"), provides that casinos, racing, gambling and wagering activities are matters of concurrent national and provincial legislative competence. Therefore, the regulation of the gambling industry as a whole falls within the competence of the national and relevant provincial legislatures.

The relevant national legislation which regulates the gambling industry in South Africa is the National Gambling Act 7 of 2004 ("**National Gambling Act**"). The purpose of the National Gambling Act is *"To provide for the co-ordination of concurrent national and provincial legislative competence over matters relating to casinos, racing, gambling and wagering, and to provide for the continued regulation of those matters..."*. Accordingly, the National Gambling Act provides a framework within which the provincial gambling legislation functions.

It follows from the National Gambling Act that the Minister is an entity responsible for regulating the casino industry. The only question that remains is whether the Minister can be said to be "*an entity established in terms of national ... legislation*". The Minister is appointed in terms of section 91 of the Constitution, which for current purposes meets the requirement for "national legislation".

In addition to empowering the Minister, the National Gambling Act read together with The National Gambling Amendment Act, 2008 ("**The Gambling Amendment Act**"), empowers the provincial licensing authority with the necessary jurisdiction to issue gambling licences. The "provincial licensing authority" is defined in the National Gambling Act as "*a body established by provincial laws to regulate casinos, racing, gambling or wagering*". Accordingly, the WCGRB is the relevant provincial licensing authority in the Western Cape.

The Western Cape Gambling Act further elaborates on the regulatory functions of the WCGRB which include the renewal of licences in the Western Cape subject to the policy determinations issued by the Executive Council as provided for in section 2(4) of the WC Gambling Act.

The gambling industry is, therefore, an industry which is subject to the jurisdiction of two regulatory authorities (other than the Commission). Accordingly, the first requirement, for the concurrency provisions to apply in terms of section 3(1A)(a) of the Competition Act, is therefore fulfilled.

4.2.2 The jurisdiction of the regulatory authority

Furthermore in order for the concurrency provisions of the Competition Act to apply, the second requirement to be fulfilled is that the other regulatory authority i.e. the WCGRB and the Minister (collectively **"the sector regulators"**) must have "*jurisdiction in respect of conduct regulated in terms of Chapter 2 or 3 of this Act*".

Following a careful assessment of the wording of the Competition Act, it is our view, which is supported by authorities such as Sutherland and Kemp, that this requirement should be narrowly applied. In other words, it is limited to situations where "*another authority also has jurisdiction to adjudicate on the competition aspects of [anti-competitive] conduct*".

However, in view of the narrow application of the test, to determine whether the WCGRB and Minister have jurisdiction in respect of conduct regulated by Chapter 2 and 3 of the Competition Act, we once again turn to national and provincial legislation.

From a reading of the relevant sections of the Competition Act, it appears that there is an obligation on the WCGRB to consider both competition law and public interest principles established in terms of the Competition Act when deciding whether to grant a licence, or agree to the transfer of a licence. Thus, in the case of a merger or acquisition that requires the transfer or granting of a licence, it would appear that the WCGRB has jurisdiction to deal with mergers, which is also conduct regulated by Chapter 3 of the Competition Act.

However, we are of the view that the granting of a licence (and its duration) is distinct from the grant of exclusivity to operate a casino within an area (see WW Report on the Current Exclusivity Framework in the Western Cape). The relocation or exclusivity concern would therefore not require the transfer or the granting of a new licence. More importantly, however, any changes to the exclusivity regime will not occur as a consequence of a merger or acquisition. It would appear therefore that in these circumstances the jurisdiction of the WCGRB to deal with exclusivity does not overlap with the powers of the competition authorities to review merger transactions, as contemplated in Chapter 3 of the Competition Act.

Furthermore and in respect of Chapter 2 competencies, it is clear from the language of the provision in section 65 of the National Gambling Act that although WCGRB is required to consider the conduct of gambling operators in the market from a competition law perspective, it does not have the authority to adjudicate on this conduct but is simply required to refer its concerns to the Commission for consideration.

With regards to Chapter 2 competencies, we are of the view that the sector regulators, collectively or singularly, have no competence to adjudicate on whether one or more of the casino operators has acted in a manner that is anti-competitive in contravention of the Competition Act or any other national or provincial legislation. Therefore, no concurrency exists in respect of the jurisdiction of the Competition Authorities and the sector regulators.

4.2.3 The Competition Amendment Act

In view of the uncertainty regarding the narrow versus broad interpretation of the concurrency provisions in the Competition Act, and due to various challenges to the competition authorities' jurisdiction to adjudicate on telecommunication matters, amendments were proposed and made into law by virtue of the Competition Amendment Act.

In effect, the amendment clarifies the role of the sector regulator versus that of the competition authorities by distinguishing between *ex ante* and *ex post* regulation. *Ex ante* regulation is anticipatory intervention, which uses government-specified controls to prevent socially undesirable actions or outcomes in markets, or direct market activity towards socially desirable ends. *Ex ante* regulation is mainly concerned with market structure; that is the number of firms and level of market concentration, entry conditions, and the degree of product differentiation and often takes the form of sector-specific regulation.

Therefore, in terms of the Competition Amendment Act, *ex ante* regulation falls within the competence of sector specific regulators, while *ex post* regulation falls within the competence of the Competition Authorities. This approach is supported by South African case law.

The *Dumpit case*[2] provides support for the view that, in this case, the regulation of the casino industry in the Western Cape is reserved for the Minister and the WCGRB (*ex ante* jurisdiction) and that the adjudication of the conduct of the parties in the market (*ex post* jurisdiction) falls within the

[2] Dumpit Waste Removal (Pty) Ltd v City of Johannesburg and another, case no 21/IR/Apr02

competence of the Competition Authorities. Therefore, each operator's monopoly over casino gambling services in their respective territories is a function not of market power but of administrative fiat by the sector regulators..

4.3 Conclusion regarding regulatory jurisdiction

We are of the view that a decision of the PGWC and WCGRB in relation to exclusivity would not fall within the concurrency regime set out in section 3(1A) of the Competition Act as the Minister and/or the WCGRB would not be exercising *ex post* adjudicative powers in making such a determination..

In respect Chapter 3 matters, we are of the view that there is no concurrency in the jurisdiction of the Competition Authorities and the sector regulators for the reason that a decision to relocate or not to relocate, or the relocation itself for that matter, of a particular casino in the Western Cape from its current location to the Cape Metropole will not trigger merger notification provisions in the Competition Act..

Notwithstanding our conclusions regarding concurrency, we believe that, in exercising their *ex ante* jurisdiction, the WCGRB and the Provincial Government should consider, from a policy perspective, the competition consequences of their decision. Accordingly, we advise that the Competition Commission be consulted before making any decisions regarding the exclusivity of casino licences in the Western Cape.

4.4 The relevant market

A relevant market that is likely to be affected by the proposed policy decision is determined by two dimensions:

- a product or service; and
- a geographic area.

4.4.1 Defining the relevant product market

At the broadest level all the casino operators in the Western Cape are involved in the gaming industry. It could be argued that casino gaming is part of a wider gambling market which could include, *inter alia*, limited payout machines, internet gambling, betting on horse racing, various forms of illegal gambling and the National Lottery.

The relevant question that needs to be answered,, therefore, is which of the following *product market definitions* is more likely:

- the broad product market which includes various forms of gaming;
- the even broader market for gaming, hotels and leisure products;
- the narrow market specifically for casino services;
- the even narrower market for the various types of gambling within a casino; or
- the hybrid market for casinos and related activities like hotels, restaurants and kids rooms.

4.4.2 Broad market versus narrow market

The Competition Authorities have accepted that the casino gaming market operates within the broader "gaming, hotels & leisure product market". However, it was confirmed that "within [a] broad market, well-defined submarkets may exist which, in themselves, constitute product markets for antitrust purposes". (See full report appended to this report for references and a more detailed discussion.)

The South African Competition Authorities recognise that in some instances it is necessary to segment a market into well defined sub-markets for purposes of analysing the potential effects of a proposed transaction on competition.

In order to determine whether different products are within the same product market for competition law purposes, the Competition Authorities apply the so-called SNNIP (small but significant non-transitory increase in price) test also referred to as the hypothetical monopolist test. The SNNIP test assesses whether a price increase of between 5% and 10% of one product causes a significant core group of consumers to shift their demand to another product.

In the absence of any evidence on the proportion of customers that would switch from casino gaming to other forms of gambling in the event of a 5% increase in the price of casino gaming, we are of the view that demand-side substitution is not a factor requiring a product scope wider than casino gaming. This approach is consistent with a number of decisions by the European Commission which has found that other forms of gambling i.e. bingo and betting on horse racing are not within the relevant product market for casinos. This view has been upheld by the United Kingdom Office of Fair Trade ("**OFT**") in its recent casino merger decisions.

With regard to casinos versus other leisure operations, a determination must be made as to whether competitors in the casino gaming market compete for customers against other leisure operators. On the basis of the practical indicia set out in the main report, we are of the view that casino operators do business in a sufficiently distinct way to other leisure operators, consequently, casino gaming constitutes a separate product market within the broad market for gaming (gambling), hotels & leisure product market.

As a consequence, casino customers are unlikely to switch to other forms of leisure activities in the event of a 5% increase in the price of casino gaming.

4.4.3 Cluster markets

Having concluded that the casino gaming constitutes a different and separate market to other leisure activities, the question arises as to whether the services offered by casinos should be broken down into smaller product markets (i.e. accommodation, slots, tables; food and beverage etc.) or whether these should be clustered together to constitute a single distinct anti-trust market.

Casinos in the Western Cape generate between 86% and 96% of their total revenue from slot machines rather than tables or to a lesser extent ancillary services. It would appear, therefore, that the "must have" product offering would be slot machines as this contributes the most significant portion of the casinos revenue and that the relevant product market should be more narrowly defined into a market for slot machines. However, from our analysis it clear that a casino needs to offer all or most of the ancillary services in order to attract customers.

In our view, slot machines and gaming tables comprise a comprehensive offering by casinos to its patrons and these services cannot be segregated for purposes of defining the relevant product market.

To determine whether casino services should be viewed as a cluster or not requires an understanding of the competitiveness of the market. Services can be viewed as a cluster when firms setting only a part of the cluster *"will not compete as effectively because consumers prefer to purchase the group of services from a single firm".*

In the casino context in the Western Cape, it is our view that the consumer compares the range of service offering (e.g. kids' facilities, restaurants, hotel accommodation, etc.) and compares the prices of these services. Thus, competition is actually in respect of the tied group of services (or clusters) as opposed to an individual service itself.

Accordingly, consumers with a penchant for a complete casino gaming experience would be willing to travel varying distances to enjoy the distinctive cluster of services offered by a full service casino i.e. the Grand West. This observation is supported by the "*source of spending*" (see more detail in section 7 of this report) analysis that illustrates significant movements of casino consumers between all the casinos within the region.

In conclusion, having considered the structure of the market in the Western Cape, the applicable authorities on product market definition in relation to the casino industry and because of the opportunities for supply-side substitution, we are of the view that the relevant market is the total cluster of traditional casino services, which include slots and tables as well as ancillary services such as, short-term accommodation, restaurants, bars, etc.

4.4.4 Geographic markets

In determining the geographic dimension of the relevant product market, it is important to consider the two-sided nature of the casino gaming market. Firstly, casino gaming is highly regulated and the award of casino licences is subject to regulation by the various provincial gambling boards in terms of the National Gambling Act. Accordingly, in the initial phase, competition is for the market, at a regional (provincial) level.

In the subsequent phase, competition takes place in the market. In this phase, demand-side factors need to be considered as casinos attract patrons from within a particular region by differentiating their offerings through various marketing initiatives such as prizes, promotions, amenities on offer, entertainment programmes and loyalty cards.

We understand that the geographic areas identified in regard to "*competition for the market*" were deliberately delineated by the Western Cape Gambling and Racing Board (WCGRB) in a manner that would prevent or limit competition *in* the market in order to protect the investments of gaming operators and abate the demand for casino gaming services in the province. This is to say that the level of competition between the casinos should be constrained by their geographic spread.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

4.4.5 Market shares

We set out in the **Table 3** below the estimated market shares of the five casinos in the Western Cape. The market shares are based on gross gaming revenue ("**GGR**") after payouts for the period August 2008 to August 2009.

Table 3: Casino market share estimates

Casinos	Total Turnover	Market Share
GrandWest	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]
Golden Valley	[redacted]	[redacted]
Caledon	[redacted]	[redacted]
Garden Route	[redacted]	[redacted]
Total	[redacted]	100%

4.5 Competitive effects

4.5.1 The approach in a competitive effects assessment

In assessing the options under consideration there are three main competition issues to be considered:

- the likely impact of Option S on consumers as a consequence of exclusivity being maintained and the probability of such an option being challenged;
- the likely impact of Option D on consumers as a consequence of the relocation of a regional casino to the Cape Metropole; and

- the likely impact on consumers of Option T as a result of the establishment of a "new kind" of tourism facility.

It is also important to note that besides the classical competition law considerations relating to price and choice, the Competition Act also enjoins the Competition Authorities to consider public interest issues such as the promotion of employment and the advancement of social and economic welfare of South Africans.

It is also necessary in this case, to briefly consider certain market characteristics or factors that are relevant to an economic effects enquiry as they apply to the casino gaming industry.

4.5.2 Barriers to entry

The single greatest barrier to entry of a new casino operator is the regulatory and licensing process. Therefore, at present, it is not possible for potential market entrants to enter the market in order to discipline the pricing ability of the incumbents.

Secondly, the levels of capital and resources required to invest in the casino industry are exorbitant. As discussed in greater detail in the main report, in the initial phase of competition for the market of the prospective casino licence holders were required to pay an application fee of R240,000. Successful applicants were required to pay a bid fee in respect of a casino operator licence. The bid fees that were payable per casino development are set out in **Table 4** hereunder:

Table 4: Bid fees payable in respect of a casino licence

Value of casino development	**Bid fee**
Where the value of the casino development does not exceed R175 million (save for the Metropolitan casino development)	R6,124,000.00
Where the value of the casino development exceeds R175 million (save for the Metropolitan casino development)	R12,248,000.00
In respect of the casino located within a radius of 75 kilometres from the Cape Town City Hall (the Metropolitan casino)	R165,346,000.00

Source: Schedule 2 paragraph 4 to the Western Cape Gambling and Racing Act 4 of 1996

In addition, the successful applicants are required, in terms of section 4A of the WC Gambling Act, to pay an annual exclusivity fee. The current thresholds for exclusivity fees are set out in **Table 5** hereunder:

Table 5: Exclusivity fees payable in respect of a casino licence

Value of casino development	**Exclusivity fee**
Where the value of the casino development does not exceed R175 million	R500 000.00 per annum for a period of ten years escalating annually at the rate applicable in respect of debts to the State as determined by the Minister responsible for National Finance from time to time
Where the value of the casino development exceeds R175	R1 000 000.00 per annum for a period of ten years escalating annually at the rate applicable in respect of debts to the State as

Value of casino development	Exclusivity fee
million	determined by the Minister responsible for National Finance from time to time

Source: Schedule 2 paragraph 3 to the Western Cape Gambling and Racing Act 4 of 1996

In addition to the fees that appear above, which are payable in terms of the law, casino operators were required to make further capital investments in varying amounts in relation to, *inter alia,* the construction or acquisition of suitable premises and the acquisition of gambling machines and associated equipment. Therefore, the exorbitant capital costs associated with entry into the casino gaming market are an exogenous factor that contributes to the high barriers to entry in the casino market.

It is, therefore, fair to say that a potential source of "entry" in the relevant market is the upgrading or expansion of an existing casino to cater for a surge in demand for casino gambling services . This would require an application to the WCGRB to amend any license conditions of the casino concerned, however, this is the more realistic way in which competition in the Western Cape casino market can be enhanced.

4.6 The Status Quo Option

The GrandWest casino has a market share [redacted]% in the Western Cape casino gaming market, which makes them dominant[3]. Given that approximately 80% of the casino gaming market in the Western Cape is comprised of customers who reside in the Cape Metropole catchment area, this gives the GrandWest a significant competitive advantage over its rivals by virtue of its geographic position. This advantage would be entrenched by the maintenance of the exclusive zones in terms of casino licensing conditions.

It is generally accepted that dominant firms are imbued with market power, and thus, have the ability to harm consumer welfare. Therefore, if one of the outlying casinos were to relocate to the Cape Metropole catchment area, competition in the casino gaming market in the Western Cape would be enhanced as the relocation could result in one or more of the following pro-competitive outcomes:

- enhanced price competition;
- greater product innovation; and
- improved service quality.

4.6.1 Price competition

One of the main benefits of competition is lower prices for consumers as a consequence of price competition between competitors in an effort to increase their share of the market. If a policy decision, has a significant foreclosing effect in a market then it could be deemed to be anti-competitive by the Competition Authorities particularly in circumstances where it facilitates or promotes a market outcome where casinos are able to charge higher prices than would be the case in a free and competitive market.

In the casino gaming services market the price paid by consumers is the loss which they incur, as the odds for each game always favour the house, therefore, over time consumers will lose a proportion of their stakes. Notably the WCGRB regulates only the minimum RTP ratio that casinos can offer to

[3] In terms of section 7 of the Competition Act a firm is dominant if they have at least 45% of that market, which means they are possessed of market power.

their customers. Casinos are at liberty to offer their patrons a higher return to player ratio ("RTP ratio"), in excess of 80% in respect of slot machines and 65% in respect of table games.

Price competition is good for consumer welfare as it results in allocative efficiencies since, under competitive market conditions, consumers are more likely to obtain the services they require at a price they are prepared to pay. Therefore, the introduction of direct competition to the GrandWest could potentially result in RTP ratios that are more favourable to consumers as casinos compete for a greater share of the market.

The current exclusivity regime has the effect of entrenching the GrandWest's dominance of the casino market in the Western Cape as the GrandWest is, to a large extent, insulated from direct competition in the Cape Metropole catchment area.

4.6.2 Product innovation

Given that casinos have a limited margin with which to compete, in terms of price for gambling services, it is conceivable that in the event that direct competition was introduced to the GrandWest, product innovation is likely to be the real source of increased competition between the casinos.

Therefore, the retention of the exclusivity regime is detrimental to consumer welfare as it stifles competition. At present, competitors have no real incentive to devise more innovative ways of rendering a better service to their customers as market shares are to a large extent entrenched.

4.6.3 Quality of service

An increase in the level of competition in the casino gaming market is more than likely to propel the incumbents to improve the quality of their service be it in the form of complimentary drinks to its loyal customers or offering its prized clientele private suits for gambling or any other initiative designed to improve the customers gambling experience, thereby retaining their loyalty or gaining new customers.

The geographical spread of the casinos has the effect of lessening the competitive constraint exerted by the 4 outlying casinos on the GrandWest. Therefore, the current exclusivity regime distorts competition and results in inefficiencies in the market.

4.6.4 Can exclusivity be justified?

If the exclusivity regime were to be challenged, most likely by the Competition Commissioner, the following arguments will be of relevance:

- the award of the licences in the Western Cape were made on the basis of competitive bids where the bidders were made <u>fully aware</u> of the conditions attached to the licences, including exclusivity;
- competition <u>for the market</u> in circumstances where the size of the market is limited and significant investments are required, may in reality, be the best outcome as compared to open competition;
- vigorous competition was created at the initial stage of selecting a successful bidder which emulated an efficient market outcome;
- competition remains <u>in the market</u> as the existing casino operators compete in respect of the range and quality of the cluster of services offered;
- the bidding process included and delivered in respect of the Cape Metropole licence the Cape Town Conference Centre that benefits the wider community;
- the progressive tax scale insures that the community in the Western Cape continues to benefit from gambling revenues; and

- the casino gaming market is a capital intensive market, which costs have to be justified by the prospect of an equitable return on their investment. The WC Government and WCGRB determined that one way in which the operators could be guaranteed a return on their investment is to grant the casinos territorial exclusivity.

Ultimately, whether or not the Status Quo Option can be justified from a competition law perspective will depend on the strength of any "pro-competitive" gains that are derived from the exclusivity regime weighed up against the prevention of competition that results from a restricted market. The "pro-competitive" gains are discussed in detail in the main report.

4.6.5 Public interest considerations

International experience suggests that the marketplace can be very responsive to changes in availability, attractiveness, promotion, pricing, and variety of gaming services, in terms of how much is expended in the aggregate on such services. Gambling is generally viewed as a socially undesirable activity as it can pose risks to society in the form of adverse social impacts. Accordingly, it is reasonable for policy makers to constrain the extent of casino gaming services in such ways as to better balance the benefits from consumption and authorised provision of gambling services against the unintended adverse social consequences associated with greater levels of consumption.

An important factor to note with regards to welfare effects of casino gambling is that casino gambling is largely an activity of people with above average incomes. Moreover, problem gambling in the Western Cape is associated more with informal gambling than with casino gambling. For example, according to the Ross report (attached as an appendix to this report), no respondents who gambles at casinos reported that gambling has made them less ambitious, no casino patrons reported ever using money earmarked for household accounts to finance gambling and virtually no gamblers who patronise legal casinos (exclusively or otherwise) report that gambling is anything other than "not at all important" to them.

In other words, there is a low prevalence of casino problem gamblers in Cape Town. This is underscored by the fact that in instances where potential problem gambling has been identified by the survey, this had included respondents who either do no patronise legal casinos or who mix casino gaming with other forms of gambling. The fact that in Cape Town there is a higher income preference for gambling in legal casinos rather than informal venues is further evidence that the negative social welfare effects of casino gaming are limited particularly if one considers that almost all respondents found to be at a high risk of problem gambling in Cape Town appear to be of low or medium SES.

Ultimately the Ross report found that 3% of respondents were at high risk for problem gambling. Furthermore the Ross report found that "*[t]his figure is high by world standards. We therefore believe that problem gambling is a non-trivial public health issue in SA. However, we have found no evidence that the problem is related, at a prevalence level that would generally be regarded as significant, with legal casinos. Indeed our evidence suggests that the overwhelming majority of South African problem gamblers, including those living in Cape Town, do not patronise legal casinos at all.*"

We are, therefore, of the view that the restriction of competition in the casino gaming market in the Western Cape cannot be justified by the object, on the part of the WC Government, of curbing excessive demand for casino gaming services in the province and consequently problem gambling.

4.6.6 Conclusion on the Status Quo Option

The Status Quo Option is inherently anti-competitive as it has the effect of restricting competition in the casino services market. Social welfare considerations do not outweigh the anti-competitive effects that result from the loss of competition in the casino gaming market.

4.7 The Direct Competition Option

4.7.1 Relocating a Sun International-owned casino to the Cape Metropole

The GrandWest casino is operated by SunWest International (Pty) Ltd but it is controlled ultimately by Sun International Limited ("**Sun International**"). The Golden Valley casino is operated by Worcester Casino (Pty) Ltd but it is also ultimately controlled by Sun International. As both these casinos are ultimately controlled by Sun International, they are considered, for competition law purposes, to be a single economic entity. Therefore, at present Sun International has a market share of approximately [redacted]% in the Western Cape casino gaming market.

In the event that the Golden Valley casino applied for relocation to the Cape Metropole catchment area and such an application was granted by the WCGRB, Sun International's domination of the Western Cape casino gaming market and the Cape Metropole catchment area in particular, would be entrenched as it will have 2 casinos in the lucrative Cape Metropole catchment area.

Therefore, relocating the Golden Valley to the Cape Metropole will have the effect of lessening competition in the casino gaming market. In the circumstances, we are of the view that consumer welfare is likely to be harmed.

4.7.2 Relocating one of the other outlying casinos to the Cape Metropole

Currently, the outlying casinos are foreclosed from the greater number of customers who reside in the Cape Metropole catchment area by the exclusivity regime. Therefore, the introduction of 'direct competition' to the Grand West casino would, arguably, benefit consumers as it is likely to result in greater price competition, improved levels of innovation and quality of service.

4.7.2.1 Mykonos Casino

It is reasonable to assume that if the Mykonos was relocated to the Cape Metropole it would lose some, probably a significant percentage, of its existing customer base to the other regional casinos. It is also reasonable to assume that the Mykonos will gain new customers as a result of the market growth, which will be stimulated by a new casino in one of the untapped areas. The exact extent of the potential growth in the market is unclear. However, it is fair to assume that the Mykonos will acquire a share, probably a significant share, of the new market. The Mykonos will still compete with, primarily, the GrandWest and, to a lesser extent, the other casinos in the region for a share of that growth and existing customers who are resident in the Cape Metropole catchment area.

[redacted]

4.7.2.2 Caledon or Garden Route

The Caledon and the Garden Route are also, essentially, casinos that cater for the local casino gaming market and leisure travellers, therefore, the above arguments in respect of the Mykonos apply *mutatis mutandis* to a relocation of the Caledon or the Garden Route casinos.

4.7.3 Public interest considerations

A decision to relocate an outlying casino must consider the impact that a potential increase in the availability of gambling services would have on social welfare, the promotion of which is one of the objectives of the Competition Act. Having considered the conclusions reached by Ross *et al* in their research report, we are of the view that a relocation of one of the outlying casinos to the Cape Metropole is unlikely to result in the over-stimulation of the demand of casino gambling services in the Cape Metropole.

It is likely that some employees of the relocated casino would be displaced or at the very worst case, lose their jobs if an outlying casino were moved to the Cape Metropole. (See section dealing with the economic impact below.) The analysis of the impact of the loss of employment as a result of a relocation of a casino to the Cape Metropole is dependent largely on how the employment issue is handled by the relevant parties. The more significant the number of employees who will or are likely to lose their jobs as a consequence of the relocation, the more of a factor this becomes in a decision to allow or not allow relocation.

For current purposes, it is not necessary to consider the effects on employment in the case of a relocation of the Golden Valley casino as we have already concluded that such a relocation would have anti-competitive outcomes and is, therefore, not in the interest of consumer welfare.

The potential loss of employment in the case of a relocation of the Garden Route or Caledon or Mykonos casinos can be countenanced by an argument that the relocation of any one of the aforementioned casinos will result in the creation of greater employment opportunities in the Cape Metropole. However, this argument is somewhat flawed as it fails to acknowledge that the outlying casinos provide employment to low-income areas where the socio-economic conditions are not comparable to the Cape Metropole.

It is important to bear in mind that it is not the role of the Competition Act or the Competition Authorities to be the primary protector of employee rights, that is to say, just as a transaction that has no competition concerns cannot be prohibited merely because it impacts negatively on employment, a pro-competitive policy decision cannot be impugned on competition law grounds simply because it has a negative effect on employment.

The Competition Authorities take the view that the protection given by the Competition Act to public interest is ancillary to the protection offered by other legislation specifically directed at protecting those elements of public interest. Accordingly, employees should, before using the Competition Act in their defense, be able to show that they have sought the protection of the Labour Relations Act.

We are, therefore, of the view that the potential loss of employment to the outlying areas in the case of relocation of a casino to the Cape Metropole will not outweigh a pro-competitive policy decision by the WC Government to facilitate greater competition in the lucrative casino gaming market in the Cape Metropole, notwithstanding the fact that the loss of employment is likely to be in a low-income area.

4.7.4 Conclusion on the Direct Competition Option

We are of the view, for the reasons set out above, that the relocation of one of the outlying casinos to the Cape Metropole, with the exception of the Golden Valley, could significantly increase the levels of competition in the casino gaming market in the Western Cape.

4.8 The Untapped Option

As discussed above, our view is that the relevant geographic market for purposes of the competition analysis is the Western Cape province as customers, particularly the more affluent Cape Metropole customers, gamble widely throughout the province. Accordingly, the competition law analysis of the Untapped Option amounts in essence to the same analysis conducted in terms of the

Direct Relocation Option. The same conclusions with respect to competitive issues can therefore be drawn for the untapped option.

4.9 The Tourism Option

We understand that the Grand West already caters for high-end rollers. Therefore, there is always a possibility of substitution between the proposed tourism casino and the GrandWest. It is the extent of this overlap in service offering that is of relevance to us for purposes of assessing the impact on competition in the casino gaming market in the Western Cape.

If the proposed tourism casino does indeed appeal to a niche tourism market and its pricing ability is unrestrained by the Grand West or any other casino in the Western Cape, then it could be deemed to be in a separate market from the other regional casinos.

4.9.1 The effect of losing an effective competitor on the casino gaming market

In the context of a sufficiently differentiated tourism casino, the concern from a competition law perspective, is that the Tourism Option will have the effect of removing an effective competitor from the market as only four casinos will remain in the casino gaming market in the Western Cape. This assumes that the proposed tourism casino will be in a separate market from the other regional casinos. In these circumstances, the Tourism Option is likely to result in a further concentration of the market irrespective of how the existing market share of the converted casino will be re-distributed among the remaining casinos in the region.

As a result, consumer choice is likely to be lessened as the current mould of consumers, the low-rollers, will realistically have only four casinos to choose from as opposed to five in the *status quo.* The tourism casino will not be a realistic option for the low-rollers as it will be in a separate market catering for high end rolling tourists. Therefore, competition in the casino gaming market, for low-rollers in particular, is lessened by the relocation and conversion of one of the regional casinos to a tourism casino in the Cape Metropole.

4.9.2 The effect of the increase in concentration in the casino gaming market.

On the assumption that the remaining regional casinos in the market will acquire the market share of the converted casino in proportion to their present market shares, we do not conceive of a situation where any of the regional casinos will acquire market power. There is also no reason to believe that the remaining casinos will not acquire the market share of the 'converted' casino in proportion to their current market shares.

In the case of the GrandWest, which is already possessed of market power, the market share accretion (as a result of the increased concentration in the market for low-rollers) is likely to be insignificant to alter the *status quo,* particularly, if one considers that it is likely to surrender a certain percentage of its market share (the high-end rollers) to the tourism casino. In addition to the competition it will face from the tourism casino in respect of high-rollers, the GrandWest will most likely continue to face competition for low-rollers from the three remaining regional casinos albeit to a lesser extent.

In the event that the tourism casino does not attract a niche customer base of high-rolling tourists or it does so but also attracts a significant number of customers from the GrandWest the tourism casino will be considered to be a competitor in the existing casino gaming market. The competition law consequences including the public interest effects of such an outcome will invariably be the same as those discussed above under the sub-heading "Direct Competition Option".

4.9.3 Conclusion on the Tourism Option

We are of the view that the relocation and conversion of one of the existing casinos into a tourism casino is likely to have the effect of increasing the concentration of the casino gaming market for low-rollers in the Western Cape. However, such an increase is unlikely to significantly prevent or lessen competition in the casino gaming market for low-rollers as low-rollers will still have four casinos from which to choose. The Grand West is likely to face greater competition from the new tourism casino which is pro-competitive.

However, relocation and conversion of the Garden Valley into a tourism casino in the Cape Metropole will only serve to further entrench Sun International's dominance of the casino gaming market in the Western Cape thereby significantly lessening competition in the market.

4.10 Conclusion on Competition Law considerations

We have come to the conclusion that the relevant market in which the competitive effects of the three proposed options should be assessed is the total cluster of traditional casino services market in the Western Cape.

In respect of Option S, we are of the view that the current exclusivity regime is anti-competitive. On the facts presented to us, we are of the view that there are no pro-competitive or public interest considerations which outweigh the anti-competitive effect of Option S. Therefore, a decision by the PGWC or the WCGRB to maintain the status quo could be challenged by the Competition Authorities as open competition is a policy objective that the Competition Authorities would always be interested in pursuing.

In respect of Option D, the facilitation of greater competition to the GrandWest is pro-competitive. However, a relocation of the Garden Valley casino to the Cape Metropole would not be pro-competitive as it will further entrench the dominance of Sun International. Again, public interest considerations such as *inter alia:* the potential loss of employment; the potential of an over-stimulation of gambling demand in the Cape Metropole; and the potential loss of revenue to the WC Government are, in our view, insufficient to justify a further restriction of competition in the Cape Metropole. The Direct Competition Option is, from a pure competition law perspective, pro-competitive.

In respect of Option T, similar effects to the "Direct Competition Option" will be experienced. However, the competition law concern with this option is that in circumstances where the tourism casino is sufficiently differentiated, an existing competitor in the market is likely to be eliminated as the tourism casino will cater predominantly for a niche market of tourist high-rollers. However, there are significant pro-competitive effects that are likely to result from this option including the prospect of competition for high-rollers between the Grand West and the tourism casino. In addition, this option is unlikely to stimulate demand for gambling services in the region to socially unjustifiable levels as the new casino will target high income earners who are less vulnerable to the social concerns attached to an over-supply of casino gaming services. Accordingly, we are of the view that the Tourism Option is unlikely to raise significant competition law concerns.

5. MACROECONOMIC FORECAST OF GROSS GAMING REVENUE

The investigation into the expiry of casino exclusivity requires estimates of the gross gaming revenues (GGR) for each of the existing casinos in the Western Cape for the next ten years. Such estimates were produced on the basis of econometric analyses of the GGR for each of the casinos and of macroeconomic scenarios for the South African economy and the Western Cape Province. (The full report of this work is included in an appendix to this report.) The following aspects of this work are summarised in this section:

- a description of the regression equations estimated for the GGR of each casino;
- a brief description of the macroeconomic scenarios for the South African economy and the Western Cape Province for the period 2009 – 2021; and
- a presentation of the respective GGR estimates for the period 2010 – 2021.

5.1 GGR regression models

In order to estimate the values of the GGR for each of the casinos for the period 2010 to 2021, regression equations are estimated for each of the casinos._In each of these equations the value of the GGR (deflated by the CPI) is the dependent variable. [Example GrandWest: LOG(GR_GW_SA(-1)/CP(-1))] The explanatory variables are the real value of the Western Cape gross domestic product [LOG(GVA_WC(-1))], the prime overdraft interest rate [FRP4(-3)] and, in some cases, a trend variable [DLOG(GVA_WC)]. Since the data series available on GGR are rather short (less than 10 years at best), quarterly data had to be used. In the case of the GGR data this could be accomplished by summing the available monthly data. In the case of the provincial GDP data, only annual data was available, requiring the use of interpolation techniques to generate the required quarterly data. The result regression equations for each of the four casinos – GrandWest, Garden Route, Caledon and Mykonos – are summarised below.

5.1.1 GrandWest

Table 6: GrandWest GGR regression results

Dependent Variable: DLOG(GR_GW_SA/CPI)
Method: Least Squares
Date: 11/27/09 Time: 12:29
Sample: 2004Q1 2009Q2
Included observations: 22

	Coefficient	Std. Error	t-Statistic	Prob.
C	[redacted]	[redacted]	[redacted]	[redacted]
LOG(GR_GW_SA(-1)/CPI(-1))	[redacted]	[redacted]	[redacted]	[redacted]
LOG(GVA_WC(-1))	[redacted]	[redacted]	[redacted]	[redacted]
FRP4(-3)	[redacted]	[redacted]	[redacted]	[redacted]
DLOG(GVA_WC)	[redacted]	[redacted]	[redacted]	[redacted]
R-squared	[redacted]	[redacted]		[redacted]
Adjusted R-squared	[redacted]	[redacted]		[redacted]
S.E. of regression	[redacted]	[redacted]		[redacted]
Sum squared resid	[redacted]	[redacted]		[redacted]
Log likelihood	[redacted]	[redacted]		[redacted]
F-statistic	[redacted]	[redacted]		[redacted]
Prob(F-statistic)	[redacted]			

5.1.2 Garden Route

Table 7: Garden Route GGR regression results

Dependent Variable: DLOG(GR_GW_SA/CPI)
Method: Least Squares

Date: 11/27/09 Time: 12:29
Sample: 2004Q1 2009Q2
Included observations: 22

	Coefficient	Std. Error	t-Statistic	Prob.
C	[redacted]	[redacted]	[redacted]	[redacted]
LOG(GR_GW_SA(-1)/CPI(-1))	[redacted]	[redacted]	[redacted]	[redacted]
LOG(GVA_WC(-1))	[redacted]	[redacted]	[redacted]	[redacted]
FRP4(-3)	[redacted]	[redacted]	[redacted]	[redacted]
DLOG(GVA_WC)	[redacted]	[redacted]	[redacted]	[redacted]

R-squared	[redacted]	[redacted]	[redacted]
Adjusted R-squared	[redacted]	[redacted]	[redacted]
S.E. of regression	[redacted]	[redacted]	[redacted]
Sum squared resid	[redacted]	[redacted]	[redacted]
Log likelihood	[redacted]	[redacted]	[redacted]
F-statistic	[redacted]	[redacted]	[redacted]
Prob(F-statistic)	[redacted]		

5.1.3 Caledon

Table 8: Caledon GGR regression results

Dependent Variable: DLOG(GR_CAL_SA/CPI)
Method: Least Squares
Date: 11/27/09 Time: 14:30
Sample (adjusted): 2005Q3 2009Q2
Included observations: 16 after adjustments

	Coefficient	Std. Error	t-Statistic	Prob.
C	[redacted]	[redacted]	[redacted]	[redacted]
LOG(GR_CAL_SA(-1)/CPI(-1))	[redacted]	[redacted]	[redacted]	[redacted]
LOG(GVA_WC(-1))	[redacted]	[redacted]	[redacted]	[redacted]
FRP4(-3)	[redacted]	[redacted]	[redacted]	[redacted]
DUM07Q1	[redacted]	[redacted]	[redacted]	[redacted]
DUM07Q1(-2)	[redacted]	[redacted]	[redacted]	[redacted]

R-squared	[redacted]	[redacted]	[redacted]
Adjusted R-squared	[redacted]	[redacted]	[redacted]
S.E. of regression	[redacted]	[redacted]	[redacted]
Sum squared resid	[redacted]	[redacted]	[redacted]
Log likelihood	[redacted]	[redacted]	[redacted]
F-statistic	[redacted]	[redacted]	[redacted]
Prob(F-statistic)	[redacted]		

5.1.4 Mykonos

Table 9: Mykonos GGR regression results

Dependent Variable: DLOG(GR_MYK_SA/CPI)
Method: Least Squares
Date: 12/02/09 Time: 07:35

Sample: 2003Q4 2009Q2
Included observations: 23

	Coefficient	Std. Error	t-Statistic	Prob.
C	[redacted]	[redacted]	[redacted]	[redacted]
LOG(GR_MYK_SA(-1)/CPI(-1))	[redacted]	[redacted]	[redacted]	[redacted]
LOG(GVA_WC(-1))	[redacted]	[redacted]	[redacted]	[redacted]
FRP4(-3)	[redacted]	[redacted]	[redacted]	[redacted]
DLOG(GVA_WC)	[redacted]	[redacted]	[redacted]	[redacted]
DUM06Q3	[redacted]	[redacted]	[redacted]	[redacted]
DUM05Q2	[redacted]	[redacted]	[redacted]	[redacted]

R-squared	[redacted]	[redacted]	[redacted]
Adjusted R-squared	[redacted]	[redacted]	[redacted]
S.E. of regression	[redacted]	[redacted]	[redacted]
Sum squared resid	[redacted]	[redacted]	[redacted]
Log likelihood	[redacted]	[redacted]	[redacted]
F-statistic	[redacted]	[redacted]	[redacted]
Prob(F-statistic)	[redacted]		

5.1.5 Worcester

[redacted]

5.2 Economic scenarios

The BER team developed a 3-scenario forecast for the South African national economy (baseline, low road and high road) with the aid of the BER's macro-econometric model of the South African economy for the period 2009 – 2025. Quantec then generated associated provincial forecasts for the Western Cape with the aid of CGE models of the South African economy and the provinces.

5.2.1 The Baseline scenario

This scenario provides the most probable outcome as viewed by the BER and encompasses the short-term (2009-10) outlook as published recently in the BER's *Economic Prospects Fourth Quarter 2009, Vol.24 No.4* as well as the medium-term (2011-14) projections released in the *November 2009 Economic Outlook.* (Refer to the full report for detailed figures and discussion.)

It is assumed that global economic growth remains below trend (albeit positive) for a number of years, with US economic growth forecast to average 2.5% for the period 2009 to 2025. South African economic growth is expected to revert back to between 3.5% and 4.0% on a sustained basis; averaging 3.7% over the longer term (2009-2025) and 4.2% between 2020 and 2025. Employment is projected to grow at an average rate of 1.7%. Under this scenario, real consumption expenditure growth of 3.7% is forecasted. Gross domestic fixed investment is projected to increase by 5.6% on average over the forecast period, and real import growth of 5.9% reflects the expected consumption and investment expenditure trends. Finally, this scenario assumes a relatively sedate export performance, with real growth in exports of 4.4%. The current account balance on the balance of payments is likely to average -6.6%; improving to -5.6% between 2020 and 2025.

Post-apartheid macroeconomic policies have done well to ensure a sound footing for the SA economy. However, given the disappointing pace of social delivery coupled with the effects of the recent synchronized global recession, there are some pressing issues to be managed on a political level. Although fine-tuning of policies sounds fairly harmless at first glance, it could potentially include significant policy tweaks such as, for example, more active intervention in the currency market or parliamentary oversight of the national budget. While substantial uncertainty remains, the baseline scenario assumes a relatively successful stewarding of the political economy in terms of mediating the diverse views in order to render relative political stability. In particular, we presume the following:

- Policies which are aligned to national priorities; ongoing cooperation between the government, the private sector, the trade unions and civil society will be critical.
- A satisfactory rate of social delivery so as to appease the broader population, which is inter-dependent not only on the availability of funds but also on the capacity of government to deliver and also a continued fight against corruption.
- Improved social cohesion. The generational split is likely to aid in the achievement of a less divided society.
- A more acceptable pace of improvement in the education system so that the skills shortages are alleviated to some degree. Broad-based black economic empowerment (BBBEE) is also assumed to be more widely implemented with enhanced results in terms of small business development, stimulating employment creation.

Although government will be under pressure to grow spending in this scenario, we assume that public spending will remain within limits. Real government consumption is expected to increase by 4.1% on average between 2009 and 2025, with the government budget deficit averaging 2.3% over the period. Finally, muted government deficits together with limited inflation pressure, imply that long-term interest rates do not tick up significantly under this scenario; the 10-year bond is projected to average 8.45%.

5.2.2 The Low Road scenario

This scenario assumes that international economic growth disappoints on the downside. In particular, this scenario projects a double-dip that delays the recovery. Furthermore, this is coupled with a less favourable domestic political situation where government leans towards more populist policies while efficiency in service delivery does not improve materially. Under these conditions the growth performance of the SA economy is decisively less optimistic and export performance is severely constrained. The average real economic growth rate over the 2009 to 2025 period declines to 2.8%. Employment growth is also substantially lower at 1.1% on average, implying a continued high unemployment rate. Growth in real household consumption expenditure is projected at 2.8% and real fixed investment is expected to grow by only 2.9% on average over the forecast period.

5.2.3 The High Road scenario

The High Road scenario envisages a situation where the global economic recovery surprises on the upside and coincides with favourable domestic political and economic conditions. This scenario assumes that the constraints to economic growth are addressed more efficiently and potential GDP is shifted upwards. Under these conditions, real GDP growth averages 4.7% per annum between 2009 and 2025. Employment growth is expected to average 2.2% over this period, with real growth in household consumption expenditure projected at 4.6%. This is coupled with strong growth in real fixed investment of on average 7.7% per annum between 2009 and 2025.

5.2.4 Macroeconomic scenario forecast

The BER's national economy scenarios are presented in the full report in the appendix, but summarised in the table below.

Table 10: Macroeconomic scenario forecast 2009 - 2025

BER Scenario Forecast: 2009 - 2025			
	Baseline	*Low Road*	*High Road*
Real GDP and components (% change)			
GDP	3.7	2.8	4.7
Household Consumption Expenditure	3.7	2.8	4.6
Government Consumption Expenditure	4.1	3.5	4.8
Gross Domestic Fixed Investment	5.6	2.9	7.7
Gross Domestic Expenditure	4.3	3.0	5.5
Exports	4.4	2.8	5.4
Imports	5.9	3.4	7.3
Nominal GDP and components (% change)			
GDP	10.0	8.9	12.1
Household Consumption Expenditure	9.1	8.4	10.6
Government Consumption Expenditure	10.2	9.7	11.8
Gross Domestic Fixed Investment	11.0	8.3	14.1
Gross Domestic Expenditure	9.8	8.7	11.8
Exports	11.3	8.8	13.9
Imports	10.9	8.1	13.3
Inflation rates			
CPI	5.2	5.4	5.8
PPI	5.0	5.1	5.8
Interest rates			
Prime rate	10.89	10.95	11.11
	5.6	5.5	5.3
Real prime rate	8	4	2
10-year bond	8.45	9.92	8.08
Exchange rates			
R/$ - level	10.77	11.74	11.32
	2.8	3.5	3.2
R/$ - % change	2	4	6
Effective exchange rate - % change	-3.14	-3.75	-3.58
Real effective exchange rate - % change	-0.21	-0.22	-0.54
R/Euro - level	16.28	17.14	17.58
International assumptions			
	1.5	1.4	1.5
$/Euro - level	0	5	5
G7 Real GDP - % change	2.1	1.5	2.5
US Real GDP - % change	2.5	1.8	3.1
US CPI - % change	2.1	1.7	2.5
Commodity price index in US$ - % change	3.0	0.6	3.8
Gold price in US$ - % change	0.8	1.2	0.4
Oil price (Brent) in US$ - % change	2.3	0.3	3.4
Employment & Consumer income (% change)			
Total employment	1.7	1.1	2.2
Nominal private sector wage	7.3	7.1	8.3
Real disposable income	3.8	2.9	4.7
Unemployment rate	17.7	21.3	14.7
Ratios			

Current account balance as % of GDP	-6.6	-5.9	-5.9
Total capital flows as % of GDP	6.6	5.6	6.2
Government deficit as % of GDP	-2.3	-3.9	-1.5
Total investment as % of GDP	26.2	22.5	29.2
Total domestic savings as % of GDP	18.6	16.1	22.2
Government consumption as % of GDP	21.0	21.9	20.3
Other (% change)			
Potential GDP	3.8	3.1	4.5

5.3 GGR forecasts

Quantec utilizes an input-output based inter-industry model of the South African and provincial economies consisting of 43 industries. This equation block, a scaled down version of a fully fledged industry model, utilizes the final demand forecast from the BER's macro-economic forecast to estimate economic activity in the various industries to satisfy a specific macro-economic outcome.

The industry classification follows the 28 manufacturing industries (3-digit SIC scheme) reported by Statistics South Africa (SSA) in its monthly sales, production, price and employment releases and a 2-digit scheme for the 15 non-manufacturing industries. Historical data are available since 1970 at the national level for estimation purposes. The forecasting horizon is typically 5-years although forecasting up to 15-years is possible.

The industry model's primary data source is the EasyData Standardised Industry databases. Subsidiary data sources will include the SARB Quarterly Bulletin database (national accounts, balance of payments and public sector), Statistics South Africa time-series and industry indicators (industry value added, input-output tables, detailed industry remuneration and gross operating surplus, price and output, gross domestic fixed investment, employment); South African Revenue Service (international trade data, etc.); National Treasury (government expenditures/revenue); Department of Labour (manpower surveys); Quantec Research (calculated depreciation, capital stock and inventory investment, estimated input-output tables) and the EasyData International Trade Database.

Combining the various data sources, the GGR regression results and the macroeconomic forecasts discussed above, GGR forecasts were generated for the next 15 years. The GGR forecasts for each of the 5 casinos for each of the 3 scenarios are presented in the tables below.

Table 11: GGR forecasts for GrandWest

GrandWest	**Baseline**		**High road**		**Low road**	
R million	GR_GW_SA (Scenario 1)	(year % ch.)	GR_GW_SA (Scenario HIGH)	(year % ch.)	GR_GW_SA (Scenario LOW)	(year % ch.)
2009	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2010	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2011	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2012	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2013	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2014	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2015	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2016	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2017	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2018	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2019	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2020	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

2021	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2022	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Average	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 12: GGR forecasts for Mykonos

Mykonos	**Baseline**		**High road**		**Low road**	
R million	GR_MYK_SA (Scenario 1)	(year % ch.)	GR_MYK_SA (Scenario HIGH)	(year % ch.)	GR_MYK_SA (Scenario LOW)	(year % ch.)
2009	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2010	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2011	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2012	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2013	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2014	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2015	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2016	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2017	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2018	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2019	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2020	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2021	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2022	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Average	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 13: GGR forecasts for Caledon

Caledon	**Baseline**		**High road**		**Low road**	
R million	GR_CAL_SA (Scenario 1)	(year % ch.)	GR_CAL_SA (Scenario HIGH)	(year % ch.)	GR_CAL_SA (Scenario LOW)	(year % ch.)
2009	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2010	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2011	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2012	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2013	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2014	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2015	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2016	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2017	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2018	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2019	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2020	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2021	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2022	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Average	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 14: GGR forecasts for Garden Route

Garden Route	**Baseline**		**High road**		**Low road**	
R million	GR_GARDR_B_SA (Scenario 1)	(year % ch.)	GR_GARDR_B_SA (Scenario HIGH)	(year % ch.)	GR_GARDR_B_SA (Scenario LOW)	(year % ch.)
2009	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2010	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2011	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2012	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

2013	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2014	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2015	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2016	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2017	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2018	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2019	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2020	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2021	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2022	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Average	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 15: GGR forecasts for Golden Valley

Golden Valley	**Baseline**		**High road**		**Low road**	
R million	GR_golv_SA (Scenario 1)	(year % ch.)	GR_golv_SA (Scenario HIGH)	(year % ch.)	GR_golv_SA (Scenario LOW)	(year % ch.)
2009	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2010	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2011	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2012	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2013	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2014	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2015	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2016	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2017	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2018	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2019	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2020	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2021	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2022	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Average	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

6. POTENTIAL SIZE OF CASINO MARKET – CURRENT AND POTENTIAL

The estimation of the potential size of the casino market in the current casino areas (the Status Quo option) and in the potential areas for relocation in the Cape Metropole (the Untapped and Tourism options) draws on the GGR forecasts discussed in the section above, some survey data and data obtained from some casinos. A separate estimate of the potential size for the Direct Competition model is not generated as it will simply be the sum of the estimates for GrandWest and the Untapped options.

Before generating the estimates it is useful to first sketch the salient features of the prevalence and distribution of the casino market in the Cape Metropole. (As with the preceding sections this section is also a summary from the full report that is attached as an appendix.)

6.1 Prevalence of casino gambling

There are a number of sources of quantitative information about casino gambling in South Africa. (See list of references in the full report.) Two of these sources have been used in writing this report:

- The Household Income and Expenditure Survey (IES) conducted by Stats SA.

- The National Urban Prevalence Study on Gambling Behaviour – a summary of basic data on Cape Town compiled by Don Ross et al (2009) based on a survey done for the Research Division of the National Responsible Gambling Programme.

In Cape Town about 3.7% of households have at least one casino gambling member. This percentage is similar to the 3.4% found in Johannesburg, but the percentage of households engaged in casino gambling is significantly lower than the findings of surveys conducted for the National Gambling Board (NGB) and the Gauteng Gambling Board (GGB) where between 10% and 19% of households engaged in casino gambling during the previous year.

Table 16: Extent of Casino Gambling (Household Income and Expenditure Survey)

Surveyed by IES	**South Africa**	**Cape Town**	**Johannes-burg**
All H/holds	21,136	493	626
Casino Gambling H/holds	371	18	21
Casino Gambling as % of All HH	1.8	3.7	3.4
Percentage of HH that casino gamble			
Quartile (R per HH per year)			
1st: 0 - 21,992	0.6	0.0	0.6
2nd: 21,992 - 41,709	1.2	0.9	0.0
3rd: 41,709 - 101,991	2.7	0.8	3.6
4th: 101,991 - 221,838	5.6	9.4	7.5
Distribution of casino gambling HH			
Quartile (R per HH per year)			
1st: 0 - 21,992	15.4	0.0	4.8
2nd: 21,992 - 41,709	14.6	5.6	0.0
3rd: 41,709 - 101,991	25.6	5.6	23.8
4th: 101,991 - 221,838	44.5	88.9	71.4
	100.0	100.0	100.0

The HSRC (2000) made it clear that proximity is an important factor in determining the prevalence of casino gambling in a community. Therefore, it will be low for South Africa as a whole, but significantly higher for a metropolitan area like Cape Town or Johannesburg. It will be even higher for areas adjacent to a casino. The HSRC (2000) study found that about 19% of a random sample of individuals gambled at least once during the preceding month. Similarly, the Bureau for Market Research (2002) found that 19.3% of individuals in a random sample participated in casino gambling activities during the preceding twelve months. Ross, et al (2005) found in a random representative sample of 3003 adults in the three major metropolitan areas that about 10% of adults have engaged in casino gambling. Volberg et al (2006) report that in a telephonic survey of 7121 adult residents of California no less than 28% responded that they had gambled at a casino during the past year and 35% stated that they had participated in one or more type of gambling during the past year. In British Columbia, Canada, (2003) 27% admitted to having visited a casino during the past year. In Indiana (Survey Research Centre, 2005) it was found to be only about 17%, but for adults between 21 and 59 years of age.

The IES prevalence measurement therefore appears to be on the low side. Nevertheless, although the IES might not be a reliable source for an estimate of the percentages of households who engage in casino gambling, the IES may still be useful for analysing other aspects of gambling. One aspect of gambling behaviour is reflected in Table 16, namely the finding internationally that casino gambling is largely an activity of people with above average incomes. In Cape Town less than 1% of households spent money on casino gambling during the past year while 9.7% of the top quartile of households engaged in casino gambling. That means that in Cape Town no less than 88.9% of households that visited a casino during the past year came from the upper quartile in terms of income. That would also partly explain why in other countries with much higher per capita incomes the percentage of individuals that visited a casino appears to be so much higher than in Cape Town.

Casino gambling in the Western Cape is therefore largely a higher income or higher socio-economic activity. It therefore follows that the spatial distribution of higher income or higher socio-economic households will also be the main determinant of the spatial distribution of the spatial (legal) casino market.

6.2 The spatial distribution of casino gambling

Some indication of the spatial distribution of casino gambling in the Cape Metropole can be gleaned from the National Urban Prevalence Study (Ross, 2009). All respondents fell within a 20 km radius of the GrandWest casino. This does not mean that there were no GrandWest clients from outside of this circle, but only that they were not picked up in the sample of 660 individuals interviewed.

Another indication of the spatial distribution of casino gambling in the Cape Metropole can be obtained from the membership database of the loyalty programme of GrandWest. By [redacted] the loyalty clients of GrandWest numbered about [redacted] individuals in the Western Cape and about [redacted] individuals in the Cape Metropole/Winelands area. According to GrandWest this constituted a 'penetration' of [redacted]% of households and [redacted]% of adults in the Cape Metropole/Winelands districts. This seems to correspond roughly with the IES as far as individuals are concerned.

GrandWest provided the distribution of their loyalty clients per "W. Cape Districts". These districts seem to correspond roughly with magisterial districts. The distribution per district is summarised in Table 17. The second column shows the actual number of loyalty clients per district and the third column gives a percentage distribution of these clients.

[redacted]

Table 17: Spatial Distribution of GrandWest Loyalty Clients ([redacted])

	GW Source market	[redacted]
District	(W. Cape districts)	Per cent
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

Cape Metro	[redacted]	[redacted]
	[redacted]	[redacted]
Winelands	[redacted]	[redacted]
Rest WC	[redacted]	[redacted]
TOTAL WC	[redacted]	100.0

Source:_GrandWest Casino

[redacted]

In a pure spatial sense this suggests that there are potentially certain 'untapped' areas in the Cape Metropole, i.e. areas that are, for whatever reason, not making full use of GrandWest casino services. One of these areas is the Southern suburbs south of Wynberg, the Western Atlantic seaboard south of Camps Bay and the Eastern shores of False Bay ('Untapped area 1).

Another potential 'untapped' area is the Cape Town CBD, Green Point, Sea Point, Camps Bay and the Table Mountain slopes and foothills west of the Cape Flats ('Untapped' area 2). A third potential 'untapped' area is the Atlantic seaboard north of Milnerton ('Untapped' area 3). Finally, a fourth potential 'untapped' area is the North-Eastern False Bay seaboard, including the towns of Macassar, Somerset West, Strand and Gordons Bay ('Untapped' area 4).

[redacted]

6.3 Market size of potential untapped casinos

Two factors, apart from convenience, are likely to determine whether an identified area has a potentially sufficient market size to the placement of a casino in such an area viable: population size and the socio-economic profile of the population in the area. In this section the four untapped areas are compared with GrandWest market area and with the four outlying casino market areas.

In other words the population and socio-economic indicators were obtained for the effective GrandWest feeding area, outlined by the magenta (pink) line in Graph 3 above, and the four untapped market areas, outlined by the cyan (blue) lines in Graph 3 above. (In the tables in below "GrandWest" refers to this effective core market area of GrandWest.) Similar data were also obtained for the four outlying casino areas.

For easier identification in the tables and discussion below the untapped areas will be referred to as follows:

- Untapped area 1 – Southern Peninsula
- Untapped area 2 – Northern Peninsula (including the CBD and the Atlantic Seaboard)
- Untapped area 3 – Blaauwberg
- Untapped area 4 – Helderberg

An exact definition for each of the geographic areas of these four untapped areas and the current casino areas are given in the full report in the appendix. The untapped areas were so defined that there was no spatial overlap with the areas from which GrandWest draws most of its clients.

The population is not necessarily a good indicator of the potential casino market as there are more important socio-economic factors determining formal casino gambling. Nevertheless, population is compared below, perhaps more as a general background than for analytical reasons.

Table 18: Population Cape Metropole (Census 2001)

	Population				
	African	Coloured	Indian	White	Total population
GrandWest	161,625 (15.5)	698,360 (66.9)	25,702 (2.5)	157,408 (15.1)	1,043,111 [58.0]
Southern Peninsula	29,712 (14.7)	116,428 (57.6)	1,324 (0.7)	54,574 (27.0)	202,035 [11.2]
Northern Peninsula	13,217 (9.7)	42,746 (31.4)	5,713 (4.2)	74,358 (54.7)	136,032 [7.6]
Blaauwberg	27,610 (16.0)	73,904 (42.7)	1,437 (0.8)	69,965 (40.5)	172,915 [9.6]
Helderberg	40,046 (16.4)	129,493 (53.0)	817 (0.3)	73,783 (30.2)	244,138 [13.6]

(Horizontal percentages in round brackets)[Vertical percentages in square brackets]

As can be seen in the table above, about 58 percent of the Greater Cape Metropole (including Stellenbosch that was included in Helderberg) population live in the areas from which GrandWest draws most of its customers. However, as already indicated, the percentage is likely to be higher if the more important socio-economic factors are taken into account. That this should be so is illustrated by the geographical distribution of the loyalty clients of GrandWest as summarised in Table 4.

Table 19: Distribution of GrandWest Clients

	GW Source market	[redacted]
District	(W. Cape districts)	Per cent
GrandWest	[redacted]	[redacted]
Southern Peninsula	[redacted]	[redacted]
Northern Peninsula		
Helderberg	[redacted]	[redacted]
Rest WC	[redacted]	[redacted]
TOTAL WC	[redacted]	100.0

GrandWest includes: Bellville, Goodwood, Wynberg, Mitchellsplain, Kuilsriver. Helderberg includes: Somerset West, Strand, Winelands. Northern Peninsula includes "Cape" which presumably includes Blaauwberg, as well as the CBD and the Atlantic Seaboard.

About [redacted]% of the GrandWest loyalty clients reside in what we have here defined as the GrandWest area, i.e. the core area from which the majority of GrandWest clients come. The percentage rises to [redacted]% if the rest of the Western Cape is excluded, i.e. if the analysis is restricted to the areas identified in Graph 1 as the GrandWest core area and the four 'untapped' areas. This higher percentage is a reflection of the other factors that determine casino gambling. Below we turn our attention to some of these factors.

Before doing so, however, it is necessary to complete the population background by comparing the untapped areas with the outlying casino areas (Mykonos, Worcester, Caledon and Mossel Bay).

Table 20: Population Outlying Casino Areas (2001 Census)

	Population				
	African	Coloured	Indian	White	Total population
Mykonos	19,447 (13.6)	96,990 (68.0)	632 (0.4)	25,479 (17.9)	142,548 [15.3]
Golden Valley	41,222 (18.1)	153,545 (67.6)	523 (0.2)	31,999 (14.1)	227,289 [24.4]
Caledon	36,362 (24.4)	82,173 (55.2)	158 (0.1)	30,300 (20.3)	148,993 [16.3]
Garden Route	78,780 (19.2)	241,614 (58.8)	830 (0.2)	89,916 (21.9)	411,140 [44.2]

(Horizontal percentages in round brackets)[Vertical percentages in square brackets]

In terms of population size the existing outlying casino areas are very similar to the four untapped areas. The Garden Route area has a larger population, but that is because it includes the population of a much larger area (including Oudtshoorn, Knysna, George, Mossel Bay, Kannaland or Ladismith, Hessequa or Heidelberg/Riversdale). About half of the Garden Route area population live in Mossel Bay and George, which gives an area more comparable to that of Golden Valley (Worcester). The populations are then very similar.

6.3.1 Residence of casino gamblers

The analysis of spending by loyalty clients at the Western Cape casinos is based only on information provided by the casinos. [redacted] Nevertheless, the information is quite revealing.

One reason for being prepared to draw some conclusions from the analysis of the client information received from the casinos, and GrandWest in particular is reflected in the table below.

Table 21: Share (%) of 'Casuals' and Clients in GrandWest Drop Value

GrandWest	2004	2005	2006	2007	2008	2009
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

"Clients" refer to holders of loyalty cards. "Casuals" refer to non-holders of cards.

Currently loyalty clients of GrandWest probably contribute about [redacted]% of the value of total gambling spend ("drop" or "EP") at the casino. For slot machines alone clients now spend about [redacted]% of the total drop on slots. This provides a justification for using the client information as a basis for assessing the potential viability of the untapped casino markets.

Table 22: Distribution of GrandWest Clients (all areas)

Casino Area	Percent	Total Clients	[redacted]	[redacted]	[redacted]	[redacted]
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Southern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Northern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg (incl. Stellenbosch)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Worcester	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mossel Bay	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos (Saldanha, Vredenburg, Malmesbury)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Rest Western Cape (incl. Paarl)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL WESTERN CAPE	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]The table above, however, only presents information for the number of clients and not their spending. The latter is presented in the next table.

[redacted]

About [redacted]% of the gambling spend at GrandWest originates from the GrandWest core area (Table 23 below). A further [redacted]% of turnover originates from the four untapped areas. This is therefore the gambling revenue that GrandWest would potentially lose if the customers living in the untapped areas were to go to another casino. This should be reduced by the [redacted]% of turnover that originates from the four outlying casino areas. If GrandWest can already attract these punters from these areas that already have casinos and in spite of the travelling distance, it is bound to attract even more customers from these areas should there no longer be a casino there. The net effect on the turnover of GrandWest of one or more of the outlying casinos relocating to an untapped area is therefore likely to be relative small, albeit still negative. This likelihood is supported by an analysis of the loyalty data from the outlying casinos.

Table 23: Value of Spend (EP) of Loyalty Clients of GrandWest per Residential Area ([redacted])

Casino Area	Percent	Total EP	Total EP Slots	Total EP Tables
GrandWest (core area)	[redacted]	[redacted]	[redacted]	[redacted]
Southern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]

Northern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg (incl. Stellenbosch)	[redacted]	[redacted]	[redacted]	[redacted]
Worcester	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]
Mossel Bay	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos (Saldanha, Vredenburg, Malmesbury)	[redacted]	[redacted]	[redacted]	[redacted]
Rest Western Cape (incl. Paarl)	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL WESTERN CAPE	100.0	[redacted]	[redacted]	

Table 24: Value of Spend (EP) of Loyalty Clients of Golden Valley per Residential Area

[redacted]	TOTAL EP 2009	Percent	Percent
Cape Metro	[redacted]	[redacted]	[redacted]
Winelands	[redacted]	[redacted]	[redacted]
Worcester district	[redacted]	[redacted]	[redacted]
Caledon district	[redacted]	[redacted]	[redacted]
Mossel Bay district	[redacted]	[redacted]	[redacted]
Vredenburg district	[redacted]	[redacted]	[redacted]
Rest WC	[redacted]	[redacted]	[redacted]
TOTAL WC	[redacted]	[redacted]	[redacted]
Rest SA	[redacted]	[redacted]	[redacted]
TOTAL SA	[redacted]	100.0	100.0

If we ignore tourists from the rest of South Africa (who are not included in the GrandWest data) it is extremely significant that probably about [redacted]% of the value of the spending on gambling at the Golden Valley casino (Worcester) originates from [redacted]. A further [redacted]% originates from the [redacted] that includes [redacted] and could also be added to the business attracted from the geographical area defined as the natural market of [redacted]. Only [redacted]% of gambling business at Golden Valley originates from the [redacted] area. This includes areas much further than 20 km like Montaque, Robertson and Tulbagh.

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Garden Route casino (Mossel Bay) is much further away from Cape Town and the flow of casino gamblers between the two casinos is therefore likely to be much less than with the other casinos.

Table 25: Residence of Garden Route Loyalty Clients ([redacted])

[redacted]	Loyalty Clients	Percent
Mossel Bay area*	[redacted]	[redacted]
Rest of WC	[redacted]	[redacted]
Rest of SA	[redacted]	[redacted]
International tourists	[redacted]	[redacted]
TOTAL	[redacted]	100.0

*Mossel Bay area includes: Mossel Bay, Hartenbos, Little Brak River, Herbertsdale, George, Oudtshoorn, Knysna, Riversdale, and Ladismith

[redacted]

6.3.2 Income distribution

Intuitively, one would expect that the more high income earners that live in a particular area the more likely it will be that there will be a demand for formal casino services.

Table 26: Distribution of Household Income per Casino Area (Census 2001)

	Percent earning <19,201 pa	Percent earning >76,800 pa	TOTAL Households	Households earning >76,800 pa
GrandWest	32.0	28.9	261,081	75,507

Southern Peninsula	27.9	34.5	54,441	18,804
Northern Peninsula	20.0	50.5	48,252	24,354
Blaauwberg	26.1	42.3	49,881	21,105
Helderberg	38.1	27.0	72,825	19,640
Mykonos	39.9	19.6	37,559	7,365
Golden Valley	51.8	13.0	56,154	7,310
Caledon	48.4	14.7	43,265	6,373
Garden Route	48.1	17.1	108,264	18,493

Households earning less than R19,201 per year (at the time of the census) were arbitrarily classified as not likely to be potential formal sector casino consumers. Households earning more than R76,800 per year were defined as potential casino clients. The households in between were deemed to be uncertain, but an unknown proportion of them may engage in formal casino gambling. In order to err on the side of caution, however, the 'medium' income households are assumed not to be part of the 'gambling pool'.

The first observation that can be made about the summary data in the table above, is that the four outlying casino areas have a significantly higher proportion of very low income households than in the Cape Metropolitan untapped areas. As these low income households are, per assumption, not likely to provide a strong market for formal casinos, it already suggests that a casino may be better off in one of the Cape Metropole areas than in one of the outlying areas. As expected, the reverse is found with respect to households earning more than R76,800 per year. The four outlying casino areas have significantly fewer households with a high enough income to make them attractive from a casino market point of view.

Garden Route is roughly similar to Southern Peninsula and Helderberg in terms of the number of 'higher income' households. The other three current outlying casino areas (Mykonos, Golden Valley and Caledon) have significantly fewer households with an income above R76,800 per year. A casino is therefore likely to be better off located in one of the four untapped areas in the Cape Metropole rather than being located in Mykonos, Worcester or Caledon.

6.3.3 Potential market size

The final arbiter of an area's potential as a location for a casino is, of course, the potential market size of that area. As the information from the current casinos, especially their loyalty programmes, have shown, casinos can attract customers from outside its immediately surrounding area. It could also attract tourists from elsewhere in the country and from other countries.

However, a conservative approach is adopted in the estimation of the potential market size of the untapped areas. The potential market size is estimated only on the basis of the likely business that a casino can attract from its surrounding area and in such a way that no competition is assumed. In other words, it is assumed that gamblers in the Cape Metropole only go to the casino in their area. This means that Cape Metropole customers currently gambling at an outlying casino will go to the nearest casino to them when the outlying casino should relocate to one of the untapped areas in the Cape Metropole, except for Garden Route which is assumed not to be affected. The potential Cape Metropole casinos, including GrandWest and the casinos in the untapped areas will gain the gamblers who are no longer going to the outlying casinos. These gamblers are allocated to the Cape Metropole casinos on a proportional basis.

There are, of course, a number of possible permutations in terms of the number of casinos that are located in the Cape Metropole, where they are located and which of the current outlying casinos are relocated to one of the Cape Metropole areas. This is not attempted in this section as the objective here is to arrive at some sort of base market size, i.e. the market size that is largely determined by convenience (proximity) as well as income distribution as discussed above. Market size is defined as the total annual gambling expenditure (drop) by customers at a casino.

The relevant market assumptions are as follows:

[redacted]

Table 27: Turnover due to Relocation of Casinos (four untapped areas) – Low Scenario

	Total turnover (drop) 2009	Loss to 'untapped' areas	Loss of customers from outlying areas	Gain from outlying casinos	Gain from GrandWest (untapped residents)	Gain from GrandWest (outlying residents)	Net turnover before new customers (drop)	Additional turnover from new customers	Net turnover with new customers
GrandWest	[redacted]	[redacted]	[redacted]						
Southern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Northern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Golden Valley	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Garden Route	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL WC	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

In Table 28 estimates are given for four new casinos in the untapped areas. This does not imply, however, that all four the outlying casinos are assumed to relocate to the untapped areas. The estimates in Table 28 were done with the deliberate objective of obtaining an estimate of the potential market size of each of the four untapped areas for comparative purposes, and not to generate the net impact of the relocations on GrandWest. The individual estimate of the turnover of each for the four untapped areas can be interpreted on its own as it is assumed that there is no flow of gamblers from one casino area to another. The same applies to the Medium Scenario and High Scenario discussed later.

The Low, Medium and High Scenarios are here estimated as if the full potential of any relocation to an untapped area is immediately realised. This will of course not happen in reality. The purpose of the exercise in this section is only to arrive at an estimate of the potential market size of each untapped area, and not a realistic projection of what the actual turnover will be in real time.

As far as the untapped areas are concerned, Northern Peninsula seems to have the biggest potential market size, although it is not that far ahead of Helderberg and Blaauwberg. These three untapped areas, moreover, may have a bigger potential market size than Golden Valley and Caledon. Mykonos appears to have a more slightly more attractive potential market size, compared with the untapped areas. The total potential net turnover cannot be compared with the current total turnover for the Western Cape as the potential turnover of one of the untapped areas would have to be removed first, as well as the impact of its relation on GrandWest. That is done in the last section.

Table 28: Turnover due to Relocation of Casinos (four untapped areas) – Medium Scenario

	Total turnover (drop) 2009	Loss to 'untapped' areas	Loss of customers from outlying areas	Gain from outlying casinos	Gain from GrandWest (untapped residents)	Gain from GrandWest (outlying residents)	Net turnover before new customers (drop)	Additional turnover from new customers	Net turnover with new customers
GrandWest	[redacted]	[redacted]	[redacted]						
Southern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Northern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Golden Valley	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Garden Route	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL WC	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

The Medium Scenario (Table 29) differs from the Low Scenario only with respect to the assumption that there are [redacted] casino clients in the untapped areas for every high income household (compared with the [redacted] casino clients for every high income household in the GrandWest area). The same average drop (turnover) per casino client is applied as is the case for GrandWest. It is also the same as was assumed for the Low Scenario.

In the Medium Scenario all four the untapped areas generate a higher turnover than the three nearest outlying casinos. Garden Route does still have a bigger market size than the potential market size estimated for the untapped areas.

The High Scenario (Table 30) differs from the Low and Medium Scenarios only with respect to the assumption that there are [redacted] casino clients in the untapped areas for every high income household (i.e. the same as the [redacted] casino clients for every high income household in the GrandWest area). The same average drop (turnover) per casino client is applied as is the case for GrandWest.

Table 29: Turnover due to Relocation of Casinos (four untapped areas) – High Scenario

	Total turnover (drop) 2009	Loss to 'untapped' areas	Loss of customers from outlying areas	Gain from outlying casinos	Gain from GrandWest (untapped residents)	Gain from GrandWest (outlying residents)	Net turnover before new customers (drop)	Additional turnover from new customers	Net turnover with new customers
GrandWest	[redacted]	[redacted]	[redacted]						
Southern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Northern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Golden Valley	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Garden Route	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
TOTAL WC	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

In the High Scenario (Table 30) the four untapped areas have a net potential turnover (market size) that is clearly higher than the three outlying areas closest to the Cape Metropole. However, now only Northern Peninsula has a potential market size that unambiguously exceeds that of Garden Route.

Southern Peninsula seems to have a lower potential market size than the other untapped areas. This was the case for all three the scenarios.

The picture that is emerging from the comparisons in the three scenarios above appears to be one where any relocation of any of the three nearest outlying casinos (Mykonos, Golden Valley and Caledon) is likely to generate a significantly higher gambling turnover than is the case with the status quo.

6.4 THE TOURISM OPTION

As one of the fastest growing export industries worldwide, tourism has become a source of growth and development for many developing regions. The tourism industry is often the largest employer of unskilled labour and therefore has strong secondary and redistributive effects. Gambling activities are often perceived as a potential harmful industry because of the potential negative externalities of gambling addiction and the resultant social costs. Yet, the formal gambling industry is often also an important job generator amongst unskilled and semi-skilled workers. Also, gambling is often more heavily taxed than other industries that could be regarded as competitors – for example, directly with online gamblers and the lottery, but more indirectly also with other forms of entertainment, restaurants, cinema and overseas visits – resulting in higher government revenue.

Moreover, gambling and tourism is often closely linked: a few international destinations have built a brand image around gambling activities, most notably Las Vegas and Macao, although both now offer tourists far more services than just gambling. Las Vegas, for example, hosts the largest number of domestic conferences in the US, while only 7% of Macao tourists these days visit the country for its casinos. Yet it is not only the well-known casino cities where gambling complements tourism. Most major tourism cities world-wide now offer gambling services tailored for the tourism market. In Switzerland, for example, a sharp distinction is made between casinos that attract domestic visitors and those that are positioned for the tourism market. Strict regulations apply to the "tourism option", often situated in prime tourist locations.

As a growing international hot-spot for high-income tourists, the city of Cape Town should be able to provide visitors with a complete package of goods and services that they would expect from an international destination. Moreover, as a long-haul destination, tourists to South Africa often stay for a longer time in each city than they would when visiting European or US cities. Broadening the available activities – especially night-time activities, such as gambling – as argued below, is both necessary from a brand perspective for the city of Cape Town, and potentially lucrative from the perspective of Provincial Government.

6.4.1 Gambling behaviour of tourists to Cape Town

Tourists visiting the city of Cape Town are not attracted to the current offering of formal casinos in the Western Cape. GrandWest acknowledges that tourists make up only a tiny part of their visitor numbers, although they have attempted to attract tourists through marketing campaigns in the past. There can be various reasons for such behaviour from tourists, divided into pull and push factors.

Pull factors

Usual pull factors for any tourist attraction include location (views, historical character, unique architecture), accessibility and the entertainment on offer. GrandWest is not situated in a popular tourist area. It offers no inimitable views (of the city, mountain or otherwise) or possesses distinctive architectural features and has no historical significance. Situated in Goodwood, it is far from the major tourist hotels. While two hotels are situated on the same premises (the four-star Grand Hotel, with 39 rooms, and the 3-star, 176-room City Lodge), most high-income tourists stay in the city, or alternatively, in the V&A Waterfront. A taxi is therefore most tourists only means of transport. At R70 one-way from the city (and R80 from the Waterfront), this visit comes at a steep price. The casino services at GrandWest are also mostly catered towards the middle-income market; the ratio of tables over slots at GrandWest is only [redacted]%. Compared to casinos elsewhere in the world (see tables below), GrandWest has a very low ratio. As slot machines are mostly used by the middle- and lower-income market, this provides further evidence that GrandWest pulls mostly these market segments rather than primarily attracting high-income tourists. Furthermore, GrandWest has limited amenities on offer for the high-income international tourist. The services are focused on family entertainment, which includes an ice-rink, ten-pin bowling and a host of family restaurants and take-away parlours. Entertainment in the form of music shows and a revue bar, are predominantly targeted at the domestic market.

Push factors

From the little international evidence available, one would expect that between 17-20% of tourists would be willing to visit a casino during their stay in the Mother City. (The 20% upper-bound are obtained from a study of urban casinos in Australian cities, while the 17% is calculated for two casinos in Auckland and Christchurch, New Zealand). Yet, in two independent recent studies, it was found that only 6-7% of tourists in Cape Town visited a casino, leaving a large potential market under-serviced.

Table 30: International Rules on Tables/Slots Ratio

France	No slot machines in first year
Belgium	10%
Switzerland (non-tourist)	No limit
Switzerland (tourist)	4%
Malta	10%
Italy	3.3%, Maximum 500 slots
Spain, Portugal and Greece	No limits

Source: Joint Committee Report (2004)

Table 31: Further International Comparisons of Tables/Slots Ratio

Macao	33.3%
Nevada	3.4%
Australia (2006/07)	10.3%
South Korea (2006/07) Kangwon Land Casino	13.4%
Malaysia (2006/07) Genting Highlands	16.67%

Source: Siu and Eadington (2009)

6.4.2 Potential for a tourism casino

As the premier tourist destinations in South Africa, and one of the leading on the African continent, Cape Town attracts close to 1.5 million tourists annually. Not only has long-haul tourism to Cape Town grown significantly over the last decade, but all indications are that it will continue to do so in the short- and medium-run (given events such as the FIFA 2010 World Cup).

While Cape Town currently has a wide selection of day activities for the tourist (the most popular being Table Mountain, Cape Point, the Waterfront, Robben Island, and Kirstenbosch), there are few night-time alternatives on offer. While Cape Town has a vibrant nightlife (as indicated by the responses in both recent surveys), tourists may prefer an alternative to the well-known nightlife of Long Street. Concerns about safety and security are also at play here. A tourism casino, within easy reach of the city's hotels, would be a pleasant alternative to spend one evening on their visit. Moreover, conference delegates, often travelling alone and busy during day-time, could also be a profitable market segment for such a casino.

The financial predictions below are based on an estimate of the growth in the long-haul tourism market over the next ten years (up until 2020). Three growth estimates are presented below: tourism growth at 2% (conservative estimate), 5% (average estimate) and 10% (optimistic estimate). These three scenarios are shown in the table below.

Table 32: Long-haul Tourist Arrival Estimates

	Low	**Medium**	**High**
	2%	5%	10%
2020	1758269	2562972	4692324
2019	1723793	2440926	4265749
2018	1689993	2324692	3877953
2017	1656856	2213992	3525412
2016	1624369	2108564	3204920
2015	1592518	2008156	2913564
2014	1561292	1912529	2648694
2013	1530679	1821457	2407904
2012	1500666	1734721	2189004
2011	1471241	1652115	1990003
2010	1442393	1573443	1809094

Events such as the FIFA World Cup in 2010 suggest that tourism growth would probably exceed the low base-line scenario suggested above. Long-haul tourism spending, therefore, should exceed the growth of domestic consumers, suggesting a further reason for focusing on the tourism market as a potential untapped area. However, as noted below, the success of the tourism option will depend on its location, the gambling services on offer, and the amenities to the casino.

6.4.3 Potential market size of tourism option

While a case has been made for a tourism casino to add significantly to Cape Town's brand as a cosmopolitan city, the key determinant of such a venture is its financial viability, both for the entity itself, but also its profitability for government.

To obtain a rough idea of the potential market size for a tourism casino estimates can be based on some modest assumptions. For the estimates we assume that the number of tourists to Cape Town grow by 5% per year. We furthermore make assumptions for Low, Medium and High Scenarios. In addition to the 5% growth in total tourist numbers (the base for all three scenarios), for the Low Scenario we assume that only 6% of tourists will visit the casino once and spend a modest R500 per visit. For the Medium Scenario we assume that 12% of tourists will visit the casino once and spend R1000 per visit. For the High Scenario we assume that 17% of tourists will visit the casino once and spend R2000 per visit. The casino turnover (drop) estimates that will be generated from international tourists for the next ten years are given in Table 36.

The potential casino turnover from international tourist gambling based on these assumptions does not look very promising. Although the estimates are based on some heroic assumptions, they suggest that the viability of a tourism casino only catering to tourists will depend on the growth of tourism and the percentage of tourists to Cape Town who want to gamble. This is reflected in Table 36.

However, as mentioned already, an independent survey found that about 6% of tourists to Cape Town already visit a casino at least once. It is assumed that this ratio apply to international tourists. This means that the Low Scenario is merely the relocation of tourists from GrandWest to a more upmarket casino catering for the tourist market. It is therefore akin to the status quo except that the international tourists do not go to GrandWest, but to a tourist casino. Table 37 present the results of the opposite assumption. It shows the potential increase (net of the current 6% already visiting a casino) in the tourist market as a result of the creation of a tourist casino.

It is possible, of course, that some of the tourists who currently may be going to GrandWest will go to a new tourist casino. Table 36 assumes that all tourists go to a new tourist casino. Table 37 assumes that [redacted]% of tourists continue to go to GrandWest. However, it is assumed that the new (additional) tourists that visit a new tourist casino will spend more than R500 per casino visit. There is no basis for this assumption other than the likelihood that the new casino will be a more upmarket, boutique type casino. There is also no firm data about how much the [redacted]% of tourists that currently visit a casino spend per visit. The R500 currently spent per visit is just speculation. Whatever the amount that the average international tourist currently spends more than R500, it will reduce the amount of additional gambling turnover generated by a tourist casino.

The estimates for the three scenarios in the two tables below suggest that any forecast of the potential market size of a boutique model of the tourist option may be crucially dependent on the assumptions made.

Table 33: Estimates of Gambling Turnover from International Tourists in Cape Town

Year	Tourists (5% growth pa)	Turnover (drop) (6% gamble, spend R500)	Turnover (drop) (12% gamble, spend R1000)	Turnover (drop) (17% gamble, spend R2000)
2011	1,652,115	99,126,893	198,253,786	561,719,059
2012	1,734,721	104,083,237	208,166,475	589,805,012
2013	1,821,457	109,287,399	218,574,799	619,295,263
2014	1,912,529	114,751,769	229,503,538	650,260,026
2015	2,008,156	120,489,358	240,978,715	682,773,027
2016	2,108,564	126,513,826	253,027,651	716,911,678
2017	2,213,992	132,839,517	265,679,034	752,757,262
2018	2,324,692	139,481,493	278,962,985	790,395,125
2019	2,440,926	146,455,567	292,911,135	829,914,882
2020	2,562,972	153,778,346	307,556,691	871,410,626

Table 34: Estimates of New Gambling Turnover from International Tourists in Cape Town

Year	Tourists (5% growth pa)	Additional (new) Turnover (drop) (6% gamble, spend R500)	Additional (new) Turnover (drop) (12% gamble, spend R1000)	Additional (new)Turnover (drop) (17% gamble, spend R2000)
2011	1,652,115	0	99,126,893	462,592,166
2012	1,734,721	0	104,083,237	485,721,775
2013	1,821,457	0	109,287,399	510,007,863
2014	1,912,529	0	114,751,769	535,508,256
2015	2,008,156	0	120,489,358	562,283,669
2016	2,108,564	0	126,513,826	590,397,853
2017	2,213,992	0	132,839,517	619,917,745
2018	2,324,692	0	139,481,493	650,913,633
2019	2,440,926	0	146,455,567	683,459,314
2020	2,562,972	0	153,778,346	717,632,280

Can a tourism casino in Cape Town be justified? We argue here that Cape Town, a major destination for long-haul tourists, is in need of a "tourism casino" to augment the existing goods and services offered. The existing Cape Town casino, GrandWest, does not attract a significant number of long-haul visitors, mostly because of its location, gambling services on offer and other amenities. A casino, situated close to the main tourism hub in the city, would attract tourists that want to enjoy an alternative night-time activity during their week-long stay in the Mother City. Tourism is expected to grow significantly over the next decade and we calculated three potential scenarios of how that could result in additional gambling turnover generated by a tourist casino.

7. GGR estimates for different scenarios

In order to get some idea of the net effect on the Province of the various relocation options, Gross Gambling Revenue (GGR) estimates were generated for a number of scenarios.

For the scenarios that includes the tourism option it was assumed that the tourist casino is based in the Northern Peninsula, but that GrandWest retains [redacted]% of the current [redacted]% of tourists that apparently visit a casino. In other words it was assumed that of the [redacted]% of tourists that may have visited GrandWest in [redacted] will now go to the new tourist casino. All the other tourists that are assumed to visit a casino (under the low, medium and high assumptions) are assumed to go to the new tourist casino. This assumption reflects the up-market model envisaged for the tourist casino.

Further low, medium and high assumptions were made with respect to the tourism option. For the low estimate it was assumed that 50% of the additional GGR generated from new gamblers due to the greater proximity of a casino in the untapped area will gamble at the 'tourist casino'. For the medium estimate this percentage was assumed to be 75% and for the high estimate it was assumed to be 100%.

Table 35: Total GGR Estimates for Western Cape - Scenarios for Relocation Options (Amounts in Rand million)

[redacted]

* Estimates based on GGR growth rates and spatial readjustments given in the appendix to the full report.

The results of the scenario calculations are summarised in Table 38. The table presents the total GGR for the Western Cape, i.e. the net effect of all the changes in that particular scenario. The most noticeable aspect of the results in Table 38 is that the differences between the different scenarios do not appear to be that big under the Low Scenario assumptions. However, with the Medium and High Scenarios, especially the latter, the relocation options become more attractive. The are clearly better than the status quo the more casinos are assumed to relocate to the Cape Metropole. The tourism option becomes significantly better than the status quo after some time due to the higher growth rate of international tourism. The tourism option does seem to improve the GGR generated in the province if it is included in a scenario. Unfortunately, any conclusion that might be drawn from this must be subject to some caution as the assumptions on which the tourist turnover (drop) estimates have been based are based on rather crude forecasts of international tourism growth and the amounts that a tourist will spend at a casino.

If the tourist option (scenarios 13 to 22) is excluded, the scenario that involves three of the outlying casinos (Caledon, Mykonos and Golden Valley) relocating to the Cape Metropole have the highest GGR estimate. It is clearly better than the status quo in terms of potential GGR.

The last point is illustrated by the way in which the total GGR for the Western Cape increases as more casinos relocate to the Cape Metropole. If only one casino is allowed to relocate the total GGR rises somewhat compare with the status quo, but improves significantly over the next 10 years. If two casinos are allowed to relocate the total GGR improves from the scenarios where only one casino relocates. Amongst the scenarios where two casinos relocate, the scenarios that generate the highest total GGR are those that include Mykonos.

The biggest increase in GGR over the ten year period is where the three outlying casinos (Mykonos, Golden Valley and Caledon) are allowed to relocate, especially if one is combined with the tourism option.

8. FINANCIAL ANALYSIS OF CURRENT CASINOS

In this section the results of a financial analysis by KPMG are summarised. As with the other sections the full report of this study is appended with the detailed discussions about methodology and data. The overall aim of the study is to inform PGWC of the relevant financial characteristics of the status quo and of the financial viability of an amendment to the current exclusivity arrangement. The specific objective of the study is to address the following questions:

- What returns have been delivered to the investors of the existing casinos?
- What value has been generated?
- What value is likely still to be generated?
- How do the Western Cape casinos ("WC casinos") perform relative to other local peers?
- How do they perform relative to international peers?
- What is exclusivity worth to the casinos?
- What amendments to the exclusivity fee / licence fee are affordable to the casinos based on forecast GGR and inflation?
- Would those proposed amendments have been affordable had they been implemented from the casino commencement date?
- How will changes to any tax legislation impact casino cash flows and casino value based on forecast GGR and inflation?
- Would those proposed amendments have been affordable had they been implemented from the casino commencement date?
- What revenue can PGWC and the WCGRB expect under each proposed amendment?

The approach to addressing these questions is addressed through the construction of a flexible financial model for each of the existing casinos contemplated in the Western Cape for options S, U and T. A financial model for any newly proposed casino was not constructed, as any such model would contain sufficiently more assumptions as to render the results questionable. Additionally, the decision to build or not to build a new casino is not the objective of this study, as this decision ultimately rests with the prospective investor.

8.1 The financial model

8.1.1 Outputs and inputs

To address the financial components of the scope articulated above, an integrated financial model was developed for each of the five Western Cape casinos that calculates and presents the:

- income statement;
- cash flow;
- balance sheet; and; and
- key performance ratios.

The first step in the modelling process was to transform the data provided into a useable and consistent format to allow for comparison between casinos. The data was derived from numerous sources including, but not limited to:

- The BER provided the forecasts Gross Gaming Revenue (GGR) as well as the economic assumptions, such as inflation and interest rates, used within the model, and high, medium and low scenarios for their inputs.
- Webber Wentzel provided the information on the tax regimes currently within South African provinces as well as the proposed change to the tax / exclusivity fee for incorporation in the model.
- The WCGRB provided historic Gross Gambling Revenue figures and management accounts for the five existing casinos.
- [redacted] The WC casinos were requested to provide financial statements, management accounts, details on historic capital expenditure and working capital, etc. [redacted]
- Subscription services for financial data were used to gather data for use in calculating the expected return as well as the international and local comparator analysis.

8.1.2 Model timing

A common date of 1 January 2009 was used to explore Options S, U and T as well as the tax and exclusivity fee scenarios. The common date approach assumes that all options or changes to tax and exclusivity fees will be implemented simultaneously at all WC casinos at 1 January 2009.

Although the casinos did not all share a year end there was sufficient information available to construct 31 December 2008 financial position and results and to use this as the common date. This was a simplifying assumption used to make the model and results more tractable.

The model was constructed on a quarterly basis for a period of 10 years ending 31 December 2018.

8.1.3 Model assumptions

Historic balance sheets and income statements were captured for the casinos in a common form. Expenses, non-GGR revenue and certain balance sheet items were regressed against GGR and against inflation to assess whether the line item was:

- correlated to GGR, and primarily variable in nature;
- correlated to inflation, and therefore primarily a fixed cost; or
- uncorrelated to either GGR or inflation, which were typically irregular line items and identified as non-core to the casino business. These were reduced to nil in the model, with the concomitant effect on the early year's cash flow.

The regression tests indicated a highly variable income statement, with most line items closely aligned to the level of GGR.

Specific assumptions were necessary for key balance sheet and income statement items that were not covered by the regressions. These included assumptions for:

- adjustments to GGR;
- intangible asset amortisation;
- depreciation assumptions;
- capital expenditure;
- taxation;
- dividend payout ratios; and
- the cash flow waterfall.

Certain of the casinos had further assumptions applied, owing either to the early stages of operations or a paucity of data.

8.1.4 Model flexibility

The model is flexible with the ability to alter any or all of the following input parameters:

- GGR scenarios;
- tax scenarios;
- exclusivity scenarios;
- closing cash; and
- capital expenditure.

8.2 Assessing the affordability of novel tax / exclusivity systems

8.2.1 Return on Assets as the primary yardstick

The return on assets ("ROA") was used as the primary yardstick for measuring the returns of the WC casinos in this study, benchmarking the WC casinos against local and international comparators, as well as assessing the affordability of tax and exclusivity regimes.

For the purposes of this report the ROA is expressed as:

$$\text{ROA} = \frac{\text{Earnings before interest after tax ("EBIAT")}}{\text{Total average assets}}$$

ROA calculates how profitable a company's assets are in generating revenue, based on actual historic results.

In assessing the affordability of novel tax / exclusivity systems for the Western Cape, the WC casinos were benchmarked against local and international comparators, as well as the expected return on assets.

8.2.2 Benchmark ROA

The benchmark ROA and expected return used in assessing tax affordability is based on international comparator companies and local comparators. The 10th and 90th percentile range was computed from these comparators to derive a banded area which we considered an appropriate band for comparison. The expected rate of return was calculated and plotted, which fell within the lower third of the ROA band.

International comparators selected operate in the United Kingdom, United States or Australia, which are jurisdictions that have lower costs of debt and equity capital than South Africa. To compare the international comparators on an equal basis to a South African based company, ROA of international comparators was adjusted for South Africa's country risk. Companies with consistently negative ROAs or companies in their start up phase were selectively excluded from the comparator list.

8.2.3 Headroom explained

Headroom refers to the affordable level of tax or exclusivity fee that could still be levied on the WC casinos without adversely affecting returns. What is or is not 'affordable' is by nature a subjective matter. For the purposes of assessing headroom in this report, the affordability of any new tax or exclusivity regime was based on a deterministic and stochastic approach.

Under the deterministic approach, the GGR forecasts provided by the BER are considered a fixed input. Assuming a fixed input, the affordability of any new tax or exclusivity regime was based on the more conservative of:

- the level of tax or exclusivity that would reduce the ROA of any one of the WC Casinos below the 10th percentile of local and international comparator ROA, assuming the tax or exclusivity fee was in force from 2004; or
- the level of tax or exclusivity that would reduce the ROA of any one of the WC Casinos below the expected rate of return on assets, assuming the tax or exclusivity fee was in force from 2004.

Headroom was gauged by assessing the impact on ROA of levying increasing levels of tax or exclusivity fee until a breach condition was met.

Under the stochastic approach, the growth in GGR forecast by the BER was assumed to represent the mean of a normal distribution of growth in GGR with a standard deviation of 5.0%. Using this distribution, a Monte Carlo simulation was run for 5 000 iterations on the status quo, to assess the probability that the ROA would fall below the expected return in any three of the first five years of the forecast. This served as the benchmark for assessing headroom.

Headroom was gauged by increasing the levels of tax or exclusivity fee that would increase the probability that the ROA of any one casino falls below the expected rate of return for any three years of the first five years above 20%. We considered this level to be a sufficient level of tax that could lead to a change in business model.

8.2.4 Tax systems recommended by Webber Wentzel

Webber Wentzel considered the following three mechanisms of a novel system of taxation / exclusivity:

- an across WCGRB increase in the tax rates of existing gambling taxes;
- a flat percentage of Adjusted Gross Gambling Revenue ("AGGR", being GGR after deemed Output VAT) levied as an exclusivity payment; or
- a lump sum payment at the present value of a percentage of forecast AGGR as an exclusivity payment.

Webber Wentzel raised the concern that exclusivity payments may not be tax deductible, "as it is a payment that is made for the protection of the income earning structure of the casino, and therefore capital expenditure (which is not deductible)." As an upfront fee would suggest a capital expense by nature, the latter alternative was excluded from further analysis.

An across WCGRB increase in tax rates and a flat rate percentage of AGGR levied as an exclusivity payment will have the same financial impact, assuming of course that exclusivity fees are tax deductible. To this end, the assessments undertaken in this report are based on a flat percentage of AGGR, though the results are equally applicable.

8.3 Value created and expected value creation

8.3.1 The free cash flow approach

A discounted free cash flow ("DCF") approach was used in estimating the historic value created over the past five years to 31 December 2008 and the value still to be created over the next ten years of the forecasts. All values were calculated in 31 December 2008 terms.

Free cash flow ("FCF") to the enterprise is the cash available to the company to pay all providers of capital including both providers of debt capital and providers of equity capital. FCF is that cash you could take out of the business without affecting its operations. This cash can be paid out as interest, debt principal repayments, dividends, reinvested in the company, or invested in the market.

FCF is calculated as:

Net income before interest but after tax

+ Depreciation and amortization

– Investment cash flows (changes in working capital and capital expenditure).

To obtain the value created in 31 December 2008 terms, the FCF are adjusted by a present value factor, based on the expected rate of return relevant to each casino. The weighted average cost of capital ("WACC") was used as an estimate of the expected rate of return.

It is important to note that a negative FCF is not necessarily a reflection that the business is doing badly. If FCF is negative, it could be a sign that a company is making large investments. If these investments earn a high return, the strategy has the potential to pay off in the long run. Early phase companies typically have negative FCF, where mature businesses are typically positive.

8.3.2 Value created

The value created is broken down into two separate parts:

- the discounted historical FCF, which represents the value generated by the enterprise over the past five years to 31 December 2008; and
- the forecast FCF, which represents the value that the enterprise will generate over the next ten years commencing 1 January 2009.

The table below sets out the results of the discounted FCF, breaking the figure down into the historical and future components. It should be noted that the historic value created based on five historic years is not directly comparable to the expected value to be created over the next ten years, as the periods differ in length. To compare the historic versus the expected value created, it is necessary to compare the average value generated per annum.

Table 36: Cash flow results

	No of years	Value (Rand)	Value per year (Rand)
GrandWest Current value of past cash flows Current value of future cash flows to enterprise	[redacted]	[redacted]	[redacted]
Golden Valley Current value of past cash flows Current value of future cash flows to enterprise	[redacted]	[redacted]	[redacted]
Mykonos Current value of past cash flows Current value of future cash flows to enterprise	[redacted]	[redacted]	[redacted]
Garden Route Current value of past cash flows Current value of future cash flows to enterprise	[redacted]	[redacted]	[redacted]
Caledon Current value of past cash flows Current value of future cash flows to enterprise	[redacted]	[redacted]	[redacted]

Source: KPMG model

Historically, the WC casinos (excluding Golden Valley) have created a combined value of [redacted] per annum. This represents pure financial value created, and excludes value generated through economic multiplier effects and tax collections. Amongst the five WC casinos, the GrandWest casino has generated [redacted]% of this value, which is between [redacted] fold more value than each of its peers at [redacted] per annum.

Aggregated expected value amounts to [redacted] per annum (excluding Golden Valley). For all WC casinos, this annual value generated is lower than its historic counterpart. This decrease is largely attributed to the conservative modelling approach adopted. Nevertheless, the GrandWest again accounts for the greatest value generation at [redacted] per annum or approximately [redacted]% of the value generated. The GrandWest value is between [redacted] fold more than its peers. This change arises from differential growth rates forecast by the BER between the casino regions.

8.4 Option S – affordability of novel tax / exclusivity fees

Option S, or the Status Quo, maintains the five exclusive zones in which the casinos currently operate. As this assumes no change from the current operating environment, any increase in either tax or exclusivity payments therefore needs to be assessed for each of the casinos.

8.4.1 Status Quo – no taxes applied

We first discuss the deterministic assessment findings. The historic and forecast ROA of the WC casinos prior to the implementation of any novel tax or exclusivity systems serve as the key benchmark against which novel tax / exclusivity systems are measured.

GrandWest

[redacted]

[redacted]

Golden Valley

[redacted]

Mykonos

[redacted]

Garden Route

[redacted]

Caledon

[redacted]

We now turn out attention to the findings of the stochastic assessment of Option S (with not additional tax applied). The probability distributions of casinos falling below the expected return for three or more years between 2010 and 2014 have been estimated and are summarised in the figures below. For example, based on the assumptions applied, [redacted] This serves as the benchmark for comparing novel tax and exclusivity systems, presented in the following section.

[redacted]

[redacted]

[redacted]

8.4.2 Affordability of novel tax systems

We begin with the deterministic assessment. The impact on ROA of varying levels of tax / exclusivity fee was assessed at a rate of 1.0%, 2.0%, 3.0% and 4.0% of AGGR.

The replacement of the current fixed exclusivity charge with an additional [redacted]% tax / exclusivity based on AGGR pushes the ROA of the [redacted] Based on the affordability criteria set, any additional tax should therefore be limited to [redacted].0%.

The stochastic assessment leads to a similar conclusion.

The probability of the ROA falling below the expected return for more than three years between 2010 and 2014 is [redacted] when additional tax / exclusivity of [redacted]% is applied (see table below). The 20% is also reached for [redacted] at [redacted]% additional tax.

Table 37: Additional tax as % of AGGR – Option S

	Additional tax as a % of AGGR				
	0%	1%	2%	3%	4%
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Garden Route					
Golden Valley					
Caledon					

Source: KPMG calculations

Counter-intuitively, the probability drops off marginally for the [redacted] between [redacted]% and [redacted]%. At the 0% level, the current fixed exclusivity fee is maintained, where all scenarios above 0% sees the fixed exclusivity replaced with a variable tax / exclusivity as a percentage of AGGR. Between [redacted]% and [redacted]%, the variable tax / exclusivity for [redacted] is lower than the fixed exclusivity fee paid, which results in the improvement noted.

Taking the most conservative view, the stochastic approach adopted here supports a tax of no more than [redacted]%.

8.4.3 Option S – conclusion

Based on the forecast GGRs provided and the assumptions built into the financial model, we consider that any additional tax / exclusivity fee should be limited to no more than [redacted]% of AGGR.

A [redacted]% level of novel tax / exclusivity fee will be used for the remainder of this section when assessing the Option T and Option U.

8.5 Option T – the Tourism Option

Option T, or the Tourism option, considers the alternative whereby an existing casino operator is permitted to apply for relocation to the Metropole to establish a tourism-based casino catering to foreign visitors. Three possible alternatives for relocating an outlying casino to commence a Tourism-based casino in the City Bowl / Waterfront region have been identified:

- Caledon relocates;
- Mykonos relocates; or

- Golden Valley relocates.

[redacted]

[redacted]

8.5.1 Tourism – no additional taxes applied

[redacted]

[redacted]

Figure 2: Stochastic assessment for [redacted] for Status Quo and Option T (no additional tax) [[redacted]]

Source: KPMG calculations; Factiva; [redacted] The probability of default decreases from the Status Quo option of [redacted]% to [redacted]% in the Tourism option. This arises as a result of the more favourable GGR forecasts for the [redacted] under the Tourism option.

8.5.2 Tourism – affordability of [redacted]% additional tax

We first apply the deterministic assessment. [redacted]

The stochastic assessment leads to a somewhat less pessimistic conclusion. [redacted]

Table 38: Additional tax as a % of AGGR – T Option

	Additional tax as a % of AGGR				
	0%	1%	2%	3%	4%
GrandWest – Status Quo	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
GrandWest – Tourism option	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Garden Route	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Golden Valley	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: KPMG calculations

8.5.3 Option T – conclusion

Based on the forecasts provided, the assumptions made in the financial model and the defined thresholds of affordability applied, a [redacted]% additional taxation is no less affordable to the GrandWest under the Tourism option.

8.6 Option U – the Untapped Option

Option U refers to the Untapped option, which considers where an existing casino operator relocates to a region of the Metropole that would lead to only minimal competition with the GrandWest casino.

Four areas of the Metropole were identified for relocation, these being:

- Southern Peninsula;
- Northern Peninsula (including City Bowl / Sea Point);
- Helderberg; and
- Blaauwberg.

Into these area three possible alternatives for relocating an outlying casino to commence an untapped-based casino in the Metropole area:

- Caledon relocates;
- Mykonos relocates; or
- Golden Valley relocates.

[redacted]

[redacted]

[redacted]

8.6.1 Untapped – no additional taxes applied

First, the results of the deterministic assessment are summarised. The ROA profile of the Status Quo and the Untapped option are virtually identical, with the Untapped option resulting in marginally better ROA over the forecast period. [redacted]

The stochastic assessment also delivered expected results. [redacted]

Figure 3: Stochastic assessment for [redacted] – Uption U (no additional tax) for Status Quo and Tourism [redacted]

Source: KPMG calculations; Factiva; [redacted]

8.6.2 Untapped – affordability of [redacted]% additional tax

The deterministic assessment revealed little improvement under the Untapped option. Given the similar GGR profiles of the [redacted] under the Status Quo and Untapped option, the results are virtually identical, with the ROA forecast to equal or fall below the expected return in [redacted] and [redacted].

The stochastic assessment delivers slightly better results. The likelihood of the expected ROA falling below the expected return for more than [redacted] years between [redacted] and [redacted] are set out for the Untapped option in the table below. The probability that the [redacted] will fall below its expected return for greater than [redacted] years in the first [redacted] years of the forecast reduces to [redacted]% in the Untapped option against [redacted]% in Status Quo. On levying an additional [redacted]% of tax, this probability of falling below the expected return climbs to [redacted]%, well below the [redacted]% of the Status Quo and the [redacted]% threshold established.

Table 39: Additional tax as a % of AGGR – [redacted] untapped option

	Additional tax as a % of AGGR				
	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
GrandWest – Status Quo	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
GrandWest – Untapped option	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Garden Route	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Golden Valley	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: KPMG calculations

8.6.3 Option U – conclusion

Based on the forecasts generated, the assumptions made in the financial model and the defined thresholds of affordability applied, a [redacted]% additional taxation is no less affordable to the [redacted] under the Untapped option.

8.7 Scope for a windfall tax

The trading conditions of casinos in the Western Cape is protected in that the number of casino licences is limited to five in the province, and that each casino is currently granted an exclusive zone in which to trade. As this differs to the trading conditions experienced in a competitive free-market economy, the question arises whether above-average returns are available to market participants in the Western Cape courtesy of this protected trading system, and as a result whether there is scope for windfall tax.

In order for a windfall tax to apply to the casinos in the Western Cape, all WC casinos would equally need to demonstrate returns that are consistently above average, excepting perhaps the Golden Valley casino which is still in its start up phase.

If returns above the 90th percentile are considered to represent 'above-average' returns, then there is little basis for windfall taxation. [redacted]

As above average returns cannot be consistently and equally demonstrated between the casinos, a windfall tax is not considered a justifiable tax.

8.8 Forecast tax / exclusivity fee collections

8.8.1 Status Quo tax collections

Under the Status Quo assumptions, the province is forecast to collect a present value of [redacted] in combined gambling taxes and exclusivity fees. This assumes that the current exclusivity regime and sliding tax scales remain in force.

[redacted]% of the total taxes generated in [redacted] is contributed by the [redacted] casino. Owing to differential growth forecasts in GGR, the importance of the [redacted] to the tax base increases to [redacted]% by [redacted].

8.8.2 Tourism tax collections

Tax collections under the Tourism option increase to a present value of [redacted], approximately [redacted] higher than Status Quo. A further [redacted] in tax revenues is added should an additional tax of [redacted]% of AGGR be levied in lieu of fixed exclusivity fees, amounting to a present tax value of [redacted]

The Tourism option leads to a shift in the tax base, with a total of [redacted]% of tax revenues coming from the two Metropole casinos. Owing to differential forecast growth rates, this dependency on the Metropole increases to [redacted]% by [redacted].

8.8.3 Untapped tax collections

The forecast tax collections for the Untapped option have already been given. The magnitude of tax collections is largely consistent with that of the Tourism option, amounting to a present value of [redacted] when no additional taxes are levied, and [redacted] when an additional [redacted]% tax / exclusivity fee is applied. The make up of the tax base is virtually identical, with [redacted]% of taxes coming out of the Metropole by [redacted].

8.8.4 Stochastic summary

The present value of taxes collected set out in the sections above represent the mean outcome based on the BER forecast. These tax revenue forecasts are subject to the same uncertainty as the forecast GGRs however, and a range of probable outcomes is a more realistic means of forecasting the tax revenues. For example, based on the assumptions applied in the stochastic modelling, the probability distribution of the ***present value of total tax collections*** for the Untapped option with [redacted]% additional taxes levied amounts to a mean of [redacted] with a [redacted]% confidence range of [redacted] to [redacted].

[redacted]

The probable ranges of tax collections are summarised in the following table.

Table 40: Summary of tax collections

	No additional taxes levied			[redacted]% additional tax levied		
		95% confidence level			95% confidence level	
	Mean	Lower bound	Upper bound	Mean	Lower bound	Upper bound
Status Quo	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Tourism	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Untapped	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: KPMG calculations

8.9 Value of exclusivity

8.9.1 Notional value of exclusivity outside the Metropole

Given that casino operators articulated their desire to move their operations to the Metropole, this suggests that only the Metropole has value in retaining exclusivity, and that there is little to no value in exclusivity in the West Coast, Caledon, Worcester or Mossel Bay regions. This is supported by the GGR figures per casino.

Assuming all casinos are equal competitors, the untapped GGR in any one of the West Coast, Caledon, Worcester or Mossel Bay regions would [redacted] to make it worth the while for the smallest casino to move. In comparison, the Metropole region would only need to offer an additional [redacted]% of GGR to entice the smallest casino to relocate.

8.9.2 Notional value of exclusivity in the Metropole

As stated above, the value of exclusivity can be calculated as the present value of any lost operating profit (EBIAT) that would arise from a competitor entering into an exclusive casino region. In both the Tourism and Untapped option, the BER forecast an enhancement of the GGR relative to the Status Quo, which in turn implies an enhanced profitability relative to the Status Quo. If the GrandWest is to experience an enhancement of profitability with the introduction of either a Tourism or Untapped casino into the Metropole (as opposed to a reduction in profitability), exclusivity in the Metropole currently has no value.

8.9.3 Real value of exclusivity

The real value of exclusivity can only be determined by means of a bid process, where competing casino bid to buy 'into' the Metropole and the GrandWest bids to keep a competing casino out of the Metropole. These values will be different to the conclusions drawn above, as bidding casinos may have differing views on market size, growth and risk factors which could be materially different to the assumptions applied in this report.

8.10 Financial analysis summary

8.10.1 Value created

Historically, the WC Casinos ([redacted]) have created a combined value of [redacted] per annum. This represents pure financial value created, and excludes value generated through economic multiplier effects and tax collections. The GrandWest casino contributes [redacted]% to this value generated.

Aggregated expected value amounts to [redacted] per annum. The marginal decrease from historic is believed to be a consequence of the conservative forecasting applied.

8.10.2 Tax headroom

Based on the forecast provided, the assumptions made and the affordability criteria set, the headroom for additional tax amounts to an additional [redacted].0% of AGGR.

The [redacted]% additional tax does not become less affordable with the introduction of an Untapped or Tourism casino into the Metropole, as the BER have forecast [redacted] under these options.

8.10.3 Value of exclusivity

The value of exclusivity is regarded as nil in regions outside the Metropole. This conclusion is based on the observation that none of the casino operators expressed any desire to relocate to another non-Metropole region. Further, the GGR in each of the outlying regions would almost need to double to entice the smallest casino to move within the outlying regions, which is an unlikely proposition.

[redacted]

8.10.4 Windfall tax

Despite protected trading conditions, a windfall tax is not justified as the WC casinos do not consistently and equally perform above their peer comparators.

8.10.5 Tax collections

Mean tax collections and 95% confidence intervals on these collections are set out in Table 40 above for the various options considered.

9. CURRENT TAXES ON GAMBLING

Gambling taxes are imposed on casinos in terms of provincial legislation. These are set out below for the Western Cape. (More comparative information is presented in the full report appended hereto.)

9.1 Western Cape gambling taxes

9.1.1 The Gambling Tax

The ***gambling tax*** is levied in terms of section 64 of the Western Cape Gambling and Racing Act, 4 of 1996 ("the WC Act"). The tax is imposed on (*inter alia*) the holder of a casino operator license. The tax is levied on "***taxable revenue***" which is defined as "adjusted gross revenue" , less admissible deductions. The admissible deductions include any take back bets placed by a betting operator and any bad debts which were previously included in adjusted gross revenue.

Adjusted gross revenue is defined with reference to the nature of the gambling it relates to. The detailed definitions are presented in the full report. Suffice it to point out that in relation to slot machines, the drop (the amount of money/tokens removed from machines), less fills (money/tokens added to machines) and winnings paid out constituted 'adjusted gross revenue'.

The gambling tax is levied on casinos on a monthly basis at the following rates:

Table 41: Gambling tax rates – Western Cape

Taxable revenue of R14.2 million or less	6% on each Rand
Taxable revenue of R14.2 million to R28.4 million	R852 000.00 plus 8.5% of amounts over R14.2 million
Taxable revenue of R28.4 million to R42.6 million	R2.059 million plus 11% of amounts over R28.4 million
Taxable revenue of R42.6 million to R56.8 million	R3.621 million plus 13% of amounts over R42.6 million
Taxable revenue of R56.8 million to R71 million	R5.467 million plus 15% of amounts over R56.8 million
Taxable revenue of more than R71 million	R7.587 million plus 17% of amounts over R71 million

9.1.2 Licence fees

In addition to the gambling tax, ***annual license fees*** of R120 000.00 are payable by casinos.

9.1.3 Annual exclusivity fee

An annual exclusivity fee (with escalation at a rate applicable in respect of debts due to the State as determined by the Minister of Finance from time to time) is payable by casinos as follows:

- Development not exceeding R175 million – R500 000 + *escalation* (varies at present between casinos depending on when their licences were granted – R1 000 000 to R1 318 763 for 2008)
- Development exceeds R175 million – R1 000 000 + *escalation* (R2 966 578 for 2008)

9.1.4 Bid fee

Successful applicants were also required to pay a once off ***bid fee*** in respect of their casino licences. The bid fees were dependent on the scale of the casino development and varied between R5 700 000 and R135 000 000.

9.2 Comparison and alternative taxes

It is evident from a comparison with gambling taxes in other provinces and internationally that no other gambling jurisdiction imposes anything similar to the exclusivity fee imposed in the Western Cape in terms of legislation (certain provinces impose an exclusivity fee by way of contractual agreement with the casinos). In addition, the rates of tax applied in respect of casino gambling in the Western Cape are in nearly all cases (the UK being the exception) higher than in any other jurisdiction considered for this study.

No other jurisdiction imposes any significant tax or levy that is not imposed in the Western Cape.

On balance, should the Western Cape seek to maximise its income by imposing a tax/levy to capture the economic benefit of exclusivity going forward, it seems that the following options may be considered:

- Continue with an exclusivity fee regime, albeit perhaps significantly increased for the Cape Town metropolitan area (whether one or more casinos);
- Increase the existing gambling tax rates; and
- Introduce differentiated gambling tax rates, depending on the location of the casino.

9.3 Taxing the headroom

9.3.1 Size of the headroom

According to the preliminary research carried out by KPMG. it is apparent that the overall tax headroom is between [redacted]% and [redacted]% of adjusted gross gaming revenue (AGGR).

9.3.2 Current tax handle

Section 2(4) of the Western Cape Gambling and Racing Act, 4 of 1996 provides that the Executive Council of the Province may make a policy determination relating to the size, nature and implementation of the gambling industry.

The Executive Council made such a policy determination which provided that the casino operator licenses "***shall be exclusive for a period of 10 years, based on the required exclusivity fees determined by law*** (our emphasis)." The exclusivity fees payable by the casinos are imposed in terms of Schedule II of the Act and provided for predetermined exclusivity fees (subject to annual escalation).

9.3.3 Alternative approaches to taxing the headroom

In our view, and subject to relevant public and competition law issues discussed in another report, the Executive Council is empowered in terms of section 2(4) of the Act to extend the exclusivity period and determine an exclusivity fee (which would require amendment of the law) in the manner it deems appropriate, which could be either an annual tax or a once-off tax. Alternatively, the current gambling tax rate can be adjusted in order to generate additional revenue. In our view, therefore,, there are 3 potential avenues for taxing the available headroom.

Flat rate I

This exclusivity fee would be imposed at a rate of [redacted]% to [redacted]% on adjusted gross gambling revenue. This option would fall within the "Status Quo" scenario.

The fee would be linked to an exclusivity period, as is the case with the existing exclusivity fee. However, instead of being a fixed amount (with escalation) the fee payable would be based on gross gambling revenue.

It should be noted that there may be questions over the deductibility of this payment from an income tax perspective. It could be argued by the revenue authorities that because the payment is linked to exclusivity, it is a payment that is made for the protection of the income earning structure of the casino, and therefore capital expenditure (which is not deductible).

The estimated aggregate amount that could be generated by this fee over the 10 year period is estimated as follows (in nominal terms):

Table 42: Estimated tax revenue – [redacted]% exclusivity tax

Casino	Adjusted GGR	[redacted]% Exclusivity tax
GrandWest	[redacted]	[redacted]
Worcester	[redacted]	[redacted]
Caledon	[redacted]	[redacted]
Mossel Bay	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]

Flat rate II

This tax would be imposed at a rate of [redacted]% to [redacted]% on gross gambling revenue. However, this tax would not be linked to exclusivity in any way. Rather the tax will be imposed by increasing the existing gambling tax rates by [redacted]% to [redacted]%. This option will fall into the "Untapped" or "Tourism" scenarios.

Because this flat rate tax is not linked to exclusivity, there is no concern that the expenditure will be of a capital nature, and thus no concerns as to its deductibility.

Pre-determined exclusivity fee

This fee would be imposed as a once-off payment for exclusivity, not *directly* related to the gross gambling revenue. One way of determining the amount of the once-off payment would be to present value the amount that would be generated by [redacted]% to [redacted]% tax on adjusted gross gambling revenue. The payment could be structured as either a one-off up front payment, or a predetermined staggered payment, which could also provide for an annual escalation over the course of the exclusivity period. This option would fall within the "Status Quo" scenario.

The amount could be determined differently for each casino. The current exclusivity legislation does allow for differentiation between casinos. Similarly, some of the exclusivity agreements entered into between various gambling boards and casinos (e.g. KZN/Natal) currently provide for different exclusivity fees to be paid by each casino.

The estimated amount that could be generated by this fee is as follows:

Table 43: Estimated tax revenue – pre-determined exclusivity fee

GrandWest	[redacted]
Golden Valley	[redacted]
Mykonos	[redacted]
Garden Route	[redacted]
Caledon	[redacted]

Aside from the taxes mentioned in this section, we note that the taxes utilised in other jurisdictions, which we considered, are either already imposed in some similar manner in the Western Cape, or will generate amounts that are so small that they are not viable as a potential source. Therefore we propose that consideration be given to either increasing the gambling tax, or imposing a further exclusivity fee (either calculated as percentage of gross gambling revenue or as a pre-determined exclusivity fee).

10. ECONOMIC IMPACT OF CASINOS – STATUS QUO AND OPTIONS

The purpose of this part of the research is to look at the broad economic impact of the casino industry in the Western Cape Province. Several impact studies have been done in respect of a few basic scenarios. The first or "*Status Quo*" scenario involves doing impact analyses for the Grand West and Garden Route casinos as well as for Mykonos and Worcester's Golden Valley Casino – on the assumption that all the current casinos continue doing business at their current locations. The second or "*Relocation*" scenario assumes that one (or more) of the outlying casino complexes (e.g. Caledon, Worcester or Mykonos) relocates to the Cape Town Metropolitan area. This section also present only a summary of the report and the full report is also available as an appendix to this report.

10.1 Economic impact model

In this section we provide a synopsis of the economic impact model used by economists involved in cost-benefit analysis or who are interested in estimating the direct, indirect and multiplier-induced effects of a new investment project or an existing industry. Such efforts have a long history in the literature, beginning with the input-output based models of the regional income multiplier in the 1960s and 1970s and culminating more recently in the broadly based and detailed social accounting matrices (SAMs) and computable general equilibrium (CGE) models.

Whilst the latter models are particularly useful when simulating the inter-industry and inter-household effects of a given macroeconomic policy change, it is often more cost-effective to use a smaller version of these models to capture the overall economic impact of an individual industry or investment project.

It is generally accepted that a new capital investment or (annual) turnover injection, net of imports, will give rise to a multiplied increase in the gross domestic product of the region or country in question. It is important to note that the increase in GDP, captures both the (new) backward (upstream) and forward (downstream) linkage effects within the region or country under consideration.

The model is assumed to capture *all* the direct and indirect backward and forward linkage effects associated with a particular firm or industry. For most individual projects or industries the (additional) value added becomes very small beyond the second or third round linkages and, within each round, beyond a small number of significant linkages. In such cases it is usually sufficient to utilise Stats SA's latest "supply-and-use tables". These tables provide an up-dated version of the most important input-output relations in the South African economy.

10.1.1 Displacement and "add-on" effects

It is necessary also to allow for a possible "transfer" or "displacement" effect, in terms of which local consumers and industries re-direct their purchases / supplies away from local industries in favour of the good or service being produced by the new project / industry. The magnitude of such transfers will evidently depend on the savings propensities of local consumers, or more specifically on the extent to which they are prepared to dip into savings in order to undertake the additional spending associated with the new project.

Equally important is the export orientation of local industries, including the new project itself. If the latter produced solely for the export market, the net transfer effect is bound to be relatively small, but will still depend on the extent to which the project attracts workers from other local industries, and the extent to which the latter industries cut down on their operations or employ previously unemployed workers.

10.1.2 Accelerator effect

The model can be further expanded to allow for a possible accelerator effect, in terms of which new investments are induced by the project-driven multiplied increase in the region's income. The extent of such induced investment will, *inter alia*, depend on the degree of capacity utilisation among local industries: if the latter are operating at full capacity, for example, the (permanent) increase in the demand for their goods and services may well encourage them to expand their capacity.

This additional induced increase in income could theoretically trigger further induced investments, giving rise to a fairly complicated geometric series; but in the case of relatively small investment projects, such effects are usually too small to warrant further consideration.

10.1.3 Other considerations

The above model can be extended to allow for possible differences in consumption and import propensities and average tax rates among different spending groups within the region or country. Regional multipliers may differ because of different factor proportions and different degrees of local inter-industry linkages, as well as differences in the consumption behaviour of workers.

Yet another extension would be to capture additional inter-regional feedback (or "repercussionary") effects, according to which a project-induced increase in one region's imports from another may trigger a process of export-led growth in the latter region, thus inducing an increase in its demand for the exports of the first region.

A final consideration refers to the possible macroeconomic effects that a new project or a growing existing industry could have. A new investment project in a small region or country could have a significant induced fiscal effect, consisting of additional government revenue induced by the multiplied increase in income.

Analogously, relatively big projects could also have a positive or negative balance of payments effect. If a new project produces goods or services for the export market, and the foreign exchange thus earned outweighs the foreign exchange lost directly and indirectly through the multiplier process, it will confer external benefits to other consumers and producers involved in importing goods and services unrelated to the project.

10.2 Scenarios

10.2.1 Status Quo scenario

Under this scenario all five of the existing casinos are assumed to remain where they are currently located. Here we would use the (latest annual) turnover of each of the selected casinos and extract from it the value added "on site" (in the form of wages, salaries, rentals, interest payments and net profit), i.e. the contribution made to GDP by the casino. This value added constitutes the so-called ***"direct" effect***, as discussed above.

The rest of turnover consists mainly of inputs acquired on a regular basis, e.g. food, liquor, electricity, cleansing materials, etc. The estimated value added proportion of these purchases (net of imports) constitutes the so-called ***"indirect"*** (or backward linkage) ***effect***. Applying the ordinary spending multiplier to these two

(VA) effects gives us the so-called ***"induced"* or spending multiplier** *effect*, the value of which depends on the consumption and import propensities and the direct and indirect tax rates.

To the extent that local casino clients use their savings for gambling purposes (as they do in Australia), or (outside) tourists spend their money on local casinos, the net impact on the Western Cape economy would be as described above. Alternatively, if there is a diversion of local spending the net impact will be smaller.

10.2.2 Relocation scenario

Under this scenario we assume that (at least) one of the outlying casinos (Caledon, Worcester or Mykonos) closes down its existing business and starts a new and more profitable casino complex in the Cape Town Metropolitan area (e.g. in the Gordon's Bay / Strand / Somerset West district).

The analysis under this scenario would be similar to the one applied to the first scenario, but would ideally entail several additional / modified steps:

- The need to acquire information on the initial investment involved in the new casino complex (i.e. the so-called "construction" phase) in order to estimate (a) the *temporary* direct effect; (b) the (temporary) indirect or backward linkage effect, net of imports; and (c) the (temporary) induced or spending multiplier effect based on all new value added.
- The more permanent or operational phase obviously cannot be estimated accurately at this stage but would probably be much larger than that of the status quo and smaller than that of the GrandWest casino. Nonetheless, one could base a preliminary estimate on the same ratio's (e.g. in respect of VA and local suppliers) as those applicable to GrandWest.
- Estimation of the (induced) net revenue likely to accrue to the country, i.e. in terms of additional direct and indirect tax proceeds.

Most of the required data were obtained from The Gambling Board, the relevant casinos themselves, the supply-and-use tables of Stats SA, Quantec, and the local engineering profession.

It seems important also to estimate the negative impact on the relevant outlying municipality (e.g. Mykonos, Caledon or Worcester), using the same methodology as above. Such an analysis could inform policy makers who might consider relevant compensating actions, including utilising existing structures for purposes other than casino activities.

10.2.3 Tourist Option scenario

The intention here is to consider a new casino complex aimed predominantly at tourists who do not, as a rule, avail themselves of the services offered by GrandWest. Such an initiative may well boost the tourist market, attracting new tourists partly because of the convenience of having an up-market casino within, say, the Waterfront.

10.2.4 Data considerations

In the sections below we obtained the value added (VA) on site directly from the casinos themselves and also checked our numbers and found them to be consistent with the GGR estimates made elsewhere in the report.

The so-called backward linkage effects consist of the VA portions of material inputs purchased (procurements made) by the casinos, *net of* imports. This information was obtained from the latest Supply and Use (S & U) Tables of Stats SA which give the nominal values of inter-industry transactions in a matrix form. Import leakages were calculated as fractions based on information on imports provided in the supply tables; whilst the inter-industry coefficients, and the relevant VA portions, were similarly extracted from the S & U tables.

Once the above *direct* VA and the *indirect* VA (via the backward linkage effects) were calculated, we applied an estimated spending multiplier coefficient (of 1.35) to them in order to derive the so-called *induced* effect. Our estimated multiplier for the WC required a downward adjustment in the national multiplier and is very similar to those estimated.

10.3 Empirical results: GrandWest

GrandWest's value added "on site" is shown in the table below and refers to (our estimates of) the latest (budgeted) sum of all the components making up its VA – for the financial year [redacted] to [redacted]. The details of this information are available from the authors.

The VA on site and the VA proportions among local suppliers, added together, give the "direct and indirect" impacts or contributions to GDP of the WCP (row 4). All these VA's (wages, salaries, profits, etc) are spent on local and imported goods and services which, via the spending multiplier, give rise to a (further) multiplied or induced increase in VA or the WC's GDP (row 5). Since there is no reliable way of estimating the multiplier for the Western Cape (or any other) province, we had to adjust the national multiplier in accordance with the characteristics of a smaller and more open region like the Western Cape Province.

Table 44: Economic impact: GrandWest casino

	GrandWest
1. Value Added (VA) on Site	[redacted]
2. Inputs Purchased, net of Imports (from RSA & RoW)	[redacted]
3. VA Portions of Local inputs	[redacted]
4. Direct & Indirect VA created by casino (1 + 3)	[redacted]
5. Induced / Spending multiplier impact	[redacted]
6 Total Economic Impact (4 + 5)	[redacted]

The total economic impact (row 6) is simply the sum of the direct & indirect VA created (row 4) and the induced multiplier impact (row 5). As can be seen from the table above, the VA created by Grand West itself – of [redacted] – gives rise to a much larger contribution to the GDP of the WC – of [redacted].

Finally, Grand West employs a total of [redacted] employees, consisting of [redacted] "full time" and [redacted] "schedule" employees, and, through its backward linkage and induced effects, is responsible for maintaining another [redacted] jobs in the WC.

10.4 Empirical results: Garden Route, Mykonos and Worcester

Our estimates of the total economic impacts of the Garden Route and Mykonos casinos are based on the same assumptions as above (with the detailed calculations also available from the authors); while the estimated impact for Worcester was based on additional assumptions as discussed at the end of this section. Here we merely report on some of our assumptions and the main findings.

Table 45: Economic impact: Garden Route, Mykonos and Golden Valley

	Garden Route	**Mykonos**	**Golden Valley**
1. Value Added (VA) on Site	[redacted]	[redacted]	[redacted]
2. Inputs Purchased, net of Imports (from RSA & RoW)	[redacted]	[redacted]	[redacted]
3. VA Portions of Local inputs	[redacted]	[redacted]	[redacted]
4. Direct & Indirect VA created by casino (1 + 3)	[redacted]	[redacted]	[redacted]
5. Induced / Spending multiplier impact	[redacted]	[redacted]	[redacted]
6 Total Economic Impact (4 + 5)	[redacted]	[redacted]	[redacted]

As was the case with Grand West, the VA created by Garden Route itself – of [redacted] – effectively makes a much larger contribution to the GDP of the WC – of [redacted]. The corresponding figures for Mykonos are [redacted] and [redacted], respectively.

As far as job opportunities are concerned, the overall impacts are not significant. In addition to its own workforce of [redacted] persons, Garden Route effectively maintains a further [redacted] jobs in the WC through its backward linkage and induced effects. Likewise, Mykonos employs an (estimated) [redacted] persons and maintains an equivalent number of [redacted] jobs.

Turning now to the Golden Valley Casino in Worcester, [redacted] The "indirect" or backward linkage effect came to [redacted], giving a total direct and indirect impact of [redacted]. Applying the same multiplier of [redacted] to this figure gives an induced effect worth [redacted] and a total impact of [redacted]. Golden Valley employs [redacted] persons (excluding "casuals") and maintains a further [redacted] jobs through its backward and induced linkage effects.

10.5 The relocation option

As for the relocation option, we applied the above model to the Helderberg District based on the estimated ("untapped") net gambling turnover for the "medium scenario" provided elsewhere in the report, and using ratio's similar to those applicable to GrandWest: specifically, we applied GrandWest's ratio of GGR to turnover to the estimated turnover for Helderberg, and then applied the latter figure to GrandWest's ratio of VA to GGR . As can be seen from the table below, a fully operational casino in Helderberg could produce an estimated VA (on site) of [redacted], and give rise to additional VA of [redacted], making its total contribution to the GDP of the WC [redacted]. A new casino in Helderberg would provide (new) jobs for about 218 persons and, indirectly, maintain a further [redacted] jobs.

Table 46: Economic impact - Helderberg

	Helderberg
1. Value Added (VA) on Site	[redacted]
2. Inputs Purchased, net of Imports (from RSA & RoW)	[redacted]
3. VA Portions of Local inputs	[redacted]
4. Direct & Indirect VA created by casino (1 + 3)	[redacted]
5. Induced / Spending multiplier impact	[redacted]
6 Total Economic Impact (4 + 5)	[redacted]

In addition to the above impact, there would also be a preceding "construction" phase which, although temporary, would also have direct, indirect and induced effects; these would obviously fall away after some time. It is clear that the overall economic impact of a relocated casino in Helderberg and of the remaining 4 casinos would be much greater than that of the status quo – irrespective of whether it is the Mykonos, Worcester or Caledon casino undertaking the relocation.

On the other hand, and as argued before, the above estimate is likely to be on the high side insofar as gambling spend (in Helderberg) may represent a re-allocation of spending from other local goods and services, rather than being funded through local savings or tourists from outside the WC.

10.5.1 Negative impacts

Staying with the relocation option, it seems important also to estimate the negative impact of relocation on the relevant municipality (Mykonos, Worcester or Caledon). In each case the municipality would lose the

VA on site and a small portion of the additional indirect value added, i.e. by suppliers located within the relevant municipality.

In the case of [redacted] the VA loss would be [redacted] and the job loss [redacted], whilst the corresponding figures for Mykonos would be a VA loss of [redacted] and a job loss of [redacted]. Whilst these figures may at first blush seem relatively small, it is also true that both Worcester and Mykonos have relatively high unemployment rates and income levels, and relatively low education levels, especially when compared to the other existing casinos and the designated "untapped" areas.

10.6 The tourist option

This (last) option is immensely attractive to economists. If all (or most of) the clientele are from outside the WC, then we do *not* have a displacement or (local spending) transfer problem: all new gambling spending would be, well, like new money flowing into the region. And if this (e.g. Waterfront) option does not adversely affect the current (and successful) GrandWest market, we could have a positive-sum game situation here.

As before, we used the above methodology basing it on the estimated data provided for the "low" and "medium scenarios" elsewhere in the report, with the results being shown in the table below. Applying the same VA proportion of turnover as that applicable to GrandWest, and using the same (proportions of) backward linkages as those that apply to GrandWest, we find that, for the "low scenario" a VA on site of [redacted] will give rise to additional value added of [redacted] – via its backward linkage and induced effects – and a total contribution to the WC's GDP of [redacted] (in [redacted]). As for the "high scenario, an initial VA on site of [redacted] will generate a total direct and indirect VA or contribution to GDP of [redacted]

Table 47: Economic impact - Tourism Option

	Low scenario	High scenario
1. Value Added (VA) on Site	[redacted]	[redacted]
2. Inputs Purchased, net of Imports (from RSA & RoW)	[redacted]	[redacted]
3. VA Portions of Local inputs	[redacted]	[redacted]
4. Direct & Indirect VA created by casino (1 + 3)	[redacted]	[redacted]
5. Induced / Spending multiplier impact	[redacted]	[redacted]
6 Total Economic Impact (4 + 5)	[redacted]	[redacted]

10.7 Conclusion

The above analysis can be summarised as follows:

- The model was applied [redacted] with a view to estimating the *total* economic impact that each had on the WC economy. In the case of GrandWest, for example, we find that its own VA of [redacted] generates *additional* VA of [redacted] through its indirect effects; i.e. GrandWest's overall contribution to the GDP of the WC comes to [redacted]. In addition to its own work force of [redacted] employees, GrandWest also effectively *maintains* a further [redacted] jobs via its indirect effects.
- Similar trends also apply to the other casinos: Garden Route's total contribution to the WC's GDP is estimated at [redacted], whilst the corresponding figures for Mykonos and Golden Valley (Worcester) are [redacted] and [redacted], respectively.
- A fully operational casino in Helderberg could produce an estimated VA (on site) of [redacted] million, and give rise to additional VA of [redacted], making its *total* contribution to the GDP of the WC equal to [redacted]. A new casino in Helderberg would provide about [redacted] new jobs and, indirectly, maintain another [redacted] job opportunities.

- Using the untapped turnover estimates for the "low" and "high" scenarios, we estimate a total (permanent) contribution to GDP of [redacted] for the former, and [redacted] for the "high" scenario.
- Staying with the relocation option, it seems important also to consider the negative impact on the relevant municipalities (e.g. Mykonos, Golden Valley and/or Caledon). In each case a relocation to the Cape Metropolitan area could cause a loss in VA (on site) as well as a small portion of the additional VA on the part of suppliers within the relevant municipality. In the case of [redacted], for example, the VA loss would be [redacted] and the job loss [redacted] persons, whilst the corresponding figures for [redacted] would be a VA loss of [redacted] mill and a job loss of about [redacted].

11. SOCIAL IMPACT OF CASINOS IN THE CAPE METROPOLE

The assessment of the social impact of casino gambling in the Cape Metropole is based on survey data from the National Urban Prevalence Study on Gambling Behaviour. The study focused on "problem gambling" as the social impact of casinos that creates the most concern. The analysis of the data was undertaken by the Research Division of the National Responsible Gambling Programme under the leadership of Don Ross.

11.1 The survey

The national urban prevalence study of gambling behaviour is based on face-to-face interviews, conducted in November and December 2008, with 3,000 adults, randomly drawn from the census of households, in the Johannesburg, Tshwane, Cape Town and eThekweni (Durban) metropoles. For this report the data from Cape Town was extracted for separate analysis. 'Cape Town' here refers to all of the Cape Peninsula plus communities on the Cape Flat contiguous with the built-up area. It does not include communities off the peninsula and separated from the built-up area by farmland, e.g. Stellenbosch, Paarl or Hermanus.

The total number of people interviewed in Cape Town was 660. This number is small in a survey intended partly to reveal patterns of problem gambling, since no general population is known in which the proportion of problem gamblers has been found to be higher than 3%, and in the most recent and carefully designed surveys the proportion is typically found to be under 1%. In this report, however, we derive benefit from comparing the Cape Town sample with the much larger (1740) sample from the urban metropoles of Gauteng. For policy purposes, what we regard as most interesting about the Cape Town observations are the respects in which they differ from those made in the generally most comparable other part of SA.

Each subject was taken through a questionnaire that solicited information on personal and household demographics in 17 response categories, and information on gambling participation, expenditure and attitudes in 42 response categories. Subjects also completed a battery of standard instruments: the Problem Gambling Severity Index (PGSI) (the scored module of the Canadian Problem Gambling Index), the Gambler's Anonymous 20 questions, the Beck's Depression Inventory, the Beck's Anxiety Inventory, the Barrett's Impulsivity Scale, and the World Health Organization screen for alcohol and illicit drug use and dependency. Subjects gave written voluntary consent to being interviewed. Those who declined were replaced by a random draw from within their census area.

11.2 Demographic of gambling and problem gambling

The PGSI was administered only to subjects who reported having participated in gambling. 53% of the Cape Town sample reported that they never gambled. The remaining respondents were sorted by the PGSI into four categories: (1) no risk for problem gambling; (2) low risk for problem gambling; (3) moderate risk for problem gambling; and (4) high risk for problem gambling. In Cape Town 3% of the respondents fell into the last category. All people who would be considered 'pathological gamblers' under clinical diagnosis by the Diagnostic and Statistical Manual of the American Psychiatric Association (IV) are intended by the design goals of the PGSI to fall within this last group.

The Cape Town rate for high risk of problem gambling replicates the aggregate figure we obtained for urban South Africa as a whole. It falls midway between the figure for eThekweni (2%) and the figure for the combined Gauteng metropoles (4%).

We gathered information about respondents' socio-economic status (SES) through a range of questions, including direct questions about personal and household income. Many respondents refused to answer the direct questions, many others were unsure of their incomes, and still others provided answers which resisted interpretation consistent with their responses to questions about their expenditures. In our opinion, the survey category that provided the most reliable indicator of SES was 'type of dwelling'. (Interviews were conducted at respondents' homes, so this information was noted directly by survey staff.)

Table 48: Type of dwelling and gambling severity - Cape Metropole

		Gambling Severity					
	Type of dwelling	**No gambling**	**No risk**	**Low risk**	**Moderate risk**	**Problem gambling**	**Total**
No of respondents	Formal, suburban	253	192	15	8	4	472
	Formal, township	21	11	6	3	9	50
	Informal	74	28	22	8	7	139
	Other	0	1	0	0	0	1
	Total	347	231	43	19	20	660
Percentage (down)	Formal, suburban	72.6	82.7	34.9	42.1	20.0	71.2
	Formal, township	6.1	4.8	14.0	15.8	45.0	7.6
	Informal	21.3	12.1	51.2	42.1	35.0	21.1
	Other	0.0	0.4	0.0	0.0	0.0	0.2
	Total	100.0	100.0	100.0	100.0	100.0	100.0
Percentage (across)	Formal, suburban	53.6	40.6	3.2	1.7	0.9	100.0
	Formal, township	42.0	22.0	12.0	6.0	18.0	100.0
	Informal	53.2	20.1	15.8	5.8	5.0	100.0
	Other	0.0	100.0	0.0	0.0	0.0	100.0
	Total	52.6	35.0	6.5	2.9	3.0	100.0

The greater majority of all respondents found to be at high risk for problem gambling in Cape Town appear to be of lower or medium SES, living in shacks, RDP housing, or small houses. Two respondents at high risk for problem gambling, living in units in blocks of flats, are of indeterminate SES. In Cape Town, risk for problem gambling appears to be associated with being poorer than the national average for this group. This replicates the pattern observed in Gauteng. In Cape Town, 23 out of 472 respondents (5%) living in suburban-type accommodation were found to be at low or moderate risk for problem gambling. This is similar to proportions observed in comparable studies carried out in wealthier countries.

The gambling severity discussed above includes all kinds of gambling. However, our focus in this study is on casino gambling, and in particular whether the presence of one or more additional casinos in the Cape Metropole would pose a significant social problem. From the sample data it is known that 5% of the Cape Town respondents gamble only in legal casinos and a further 2% gamble both informally and in legal casinos.

At least 9% gamble only in informal venues. As many as 77% do not go to gambling locations, of whom 26.3% play only lotteries and scratch cards.

Comparing these Cape Town data with the large Gauteng sample, Cape Town shows a significantly larger proportion of respondents who do not gamble at all, and a significantly smaller number of respondents who gamble exclusively in informal venues.

Gambling activity and SES are summarised in the following table.

Table 49: Type of dwelling and gambling activity

		Gambling location				
	Type of dwelling	Casinos (and others)	Other legal (not casinos)	Informal only	None	Total
No of respondents	Formal, suburban	57	24	33	356	470
	Formal, township	1	0	10	39	50
	Informal	5	4	16	114	139
	Other	0	0	0	1	1
	Total	63	28	59	510	660
Percentage (down)	Formal, suburban	90.5	85.7	55.9	69.8	71.2
	Formal, township	1.6	0.0	16.9	7.6	7.6
	Informal	7.9	14.3	27.1	22.4	21.1
	Other	0.0	0.0	0.0	0.2	0.2
	Total	100.0	100.0	100.0	100.0	100.0
Percentage (across)	Formal, suburban	12.1	5.1	7.0	75.7	100.0
	Formal, township	2.0	0.0	20.0	78.0	100.0
	Informal	3.6	2.9	11.5	82.0	100.0
	Other	0.0	0.0	0.0	100.0	100.0
	Total	9.5	4.2	8.9	77.3	100.0

There is a very clear pattern of association between living in a less expensive dwelling (shack, matchbox-type house, RDP house) and gambling informally rather than in a casino. Among categories where numbers are large enough to be meaningful, only people in suburban-type houses are slightly more likely to gamble in legal casinos than to gamble in informal venues, and this 'advantage' to casinos is not statistically significant even among this group. These data replicate the patterns observable in Gauteng.

None of the three major language groups represented in Cape Town show majorities more likely to gamble in legal casinos than in informal venues. isiXhosa speaking respondents are overwhelmingly more likely to gamble in informal venues than in legal casinos. Black respondents who gamble are overwhelmingly more likely to exclusively patronize informal venues than legal casinos. Coloured respondents who gamble are slightly more likely to exclusively patronize informal venues than legal casinos. White respondents who gamble are slightly more likely to exclusively patronize legal casinos than informal venues. These observations replicate those made in Gauteng.

Risk for problem gambling among Cape Town adults is overwhelmingly concentrated among people under 35 years of age, and is particularly concentrated among those in the 25-30 year age group. This replicates, but in stronger form, the pattern found in Gauteng. A phenomenon sometimes noted in northern countries, of significant incidence of problem gambling among the elderly, is not observed in these data. The data show that the probability that a gambler patronizes legal casinos rather than informal venues rises with age. This differs from the Gauteng data, which show no relationship between these variables.

Where main source of income is concerned, the only groups showing higher risk for problem gambling than the overall population are those reporting main income from remittances and allowances and from pensions or grants. We do not know the forms of pension earned by these respondents. Given that we found only one retiree and no disabled people among those at high risk for problem gambling, these data resist interpretation.

Problem gambling is often regarded as a particularly serious social problem insofar as problem gamblers put their children at economic and social risk. The data above suggest no interesting relationship between risk for problem gambling and number of dependent children. However, reflecting the concentration of gamblers and high-risk problem gamblers among younger respondents, the absolute number of gamblers with more than 2 children is too small to allow interesting inferences to be made in this area. In Gauteng, where numbers are large enough to support inference, we also observe no significant relationship.

Due to the continuous nature of the personal financial variables, cross-tabulation tables showing their relationships with risk for problem gambling and with frequented gambling setting are uninformative. The descriptive data suggest a clear association between higher income and preference for gambling in legal casinos rather than informal venues.

We compared risk for problem gambling with total reported expenditure on leisure activities. The resulting data resist reasonable interpretation, at each of the Cape Town, Gauteng and national levels. We asked respondents to report on consumption of specific leisure activities (e.g., going to the cinema, sporting events, etc.), because we were interested in the extent to which gambling might crowd out alternative activities as risk for problem gambling increases. However, these data provide no evidence whatsoever of any such relationship.

It has also been hypothesized that among problem gamblers, gambling crowds out other social activities. This hypothesis provides the basis for the popular image of the 'lonely addict'. Our data provide no evidence for this hypothesis, finding the distribution of risk for problem gambling to be similar to the overall sample proportions for every level of frequency of involvement in social activities. Nor do the data furnish evidence of an interesting relationship between frequency of involvement in social activities and types of settings at which respondents gamble.

A multivariate regression analysis of these demographic variables on risk scores for problem gambling (CPGI / PGSI scores) was also undertaken. However, demographic variables alone do not, in our opinion, tell a convincing story about factors contributing to problem gambling in Cape Town. Considering them alone makes problem gambling appear to be an aspect of being relatively poor and Black. Given the rest of our data, this is an impoverished picture.

11.3 Variations in nature and extent of gambling behaviour and attitudes

An important issue underlying debates over gambling policy is the relationship between exposure to gambling and frequency and intensity of participation in gambling. 'Exposure' is a complex construct incorporating varying aspects. One aspect is simply awareness of different types of available gambling activities. This is also potentially informative about the extent to which casinos and other parts of the gaming industry (both formal and informal) successfully promote the activities they offer among populations in their areas.

Of all the many questions asked about gambling awareness and attitudes, the most relevant to this study is that there is a negative correlation between having heard of slot machines and being at high risk for problem gambling. The only relationship the data suggest between probability of having heard of slot machines and type of gambling setting respondents patronise is that almost no subjects who patronise legal casinos as their main gambling outlet were unaware of slot machines.

In general, and with reference to national-level as opposed to only Cape Town data, risk for problem gambling does not appear to be associated with awareness of the range of gambling activities available in SA, and indeed to be *negatively* associated with awareness of the main activities offered by legal casinos. This undermines the suggestion, sometimes heard, that having visible legal gambling venues increases social levels of problem gambling by the mere mechanism of alerting people to new opportunities for risky entertainment.

In light of absolute numbers, the data provide no evidence that slot machine playing makes any contribution to severity of risk for problem gambling. This is also the case in our Gauteng sample, where absolute numbers are large enough to be meaningful.

The relationship between attitudes to prevailing gambling policy and extent of risk for problem gambling may be thought important. We therefore asked respondents to indicate whether they think legal gambling should be more widely available than it is at present, is currently available to about the right extent, should be less available than it is at present, or should be altogether unavailable (i.e., all gambling should be illegal).

As might be expected, support for reduced access to legal gambling is heavily concentrated among respondents who do not gamble. Among gamblers, independently of observed levels of risk for problem gambling, opinion is roughly evenly divided between support for the status quo and support for expanded access. Interestingly, there is no significant association between types of gambling venues patronized and opinions about accessibility of legal casinos. In Gauteng, relative support for expansion of legal gambling facilities is higher among respondents who patronise only informal gambling venues than among respondents who patronise only legal casinos (whose median preference is for the status quo). This suggests that there is scope for shifting some gamblers from informal to legal participation by provision of broadened access. This may in turn facilitate improved monitoring of and intervention against problem gambling.

Respondents at high risk for problem gambling spend the most money on the lottery and lucky draws. With respect to the lottery, they are exactly as likely as the sample of gamblers in general to spend the most on this form of gambling. The only association special to high-risk problem gamblers that is observable in these data is with spending most money on lucky draws. This association has no counterpart in the Gauteng data or at the national level of aggregation, and may reflect nothing more than a linguistic habit in Cape Town of referring to some locally organized lotteries as 'lucky draws'.

This question highlights a major difference between the Cape Town and Gauteng samples. In Gauteng, many high-risk problem gamblers also spend the most money on lottery tickets. However, in Gauteng high-risk problem gamblers are significantly less likely to play the lottery than the population in general, so lottery play is *negatively* associated with high risk for problem gambling. This is basically because, in Gauteng, problem gambling behaviour appears to be most heavily concentrated around card and dice games played in informal establishments (including shabeens), and around fafi / iChina. These are not the patterns we bserved in Cape Town. There, problem gambling is not mainly a phenomenon of gambling *establishments.* It appears to be, first and foremost, a phenomenon of poorer people spending more on lotteries (including 'lucky draws') than their incomes can support without serious negative consequences.

Only 10% of Cape Town respondents have ever played slot machines. Of these, over half play only occasionally. Only two respondents at moderate or high risk for problem gambling play slot machines on a weekly basis. Cape Town data in this respect resemble national level data: in the total sample of 3,000, we found only a tiny fraction at moderate or high risk for problem gambling who ever play slot machines.

We asked those respondents who reported participation in gambling to indicate the importance of the role gambling plays in their lives by comparison with other forms of entertainment. The only meaningful observation from these data is that virtually no gamblers who patronise legal casinos (exclusively or otherwise) report that gambling is anything other than "not at all important" to them. This replicates the Gauteng data.

Summarizing the findings on motivations for gambling, risk for problem gambling is associated in the Cape Town data with gambling to escape from boredom and the excitement of games. In these respects as in others the Cape Town data replicates the Gauteng data. Otherwise, the smaller Cape Town numbers obscure, but are consistent with, Gauteng patterns that associate risk for problem gambling with hopes of solving financial problems, social interaction with other players and staff, and enjoyment of atmospheres perceived as glamorous.

A question relevant to the consideration of the implications of the relocation of casinos to the Cape Metropole, is whether the setting (location) of a casino might affect the prevalence of problem gambling. This was tested with multivariate regression analysis by taking the demographic variables from the first model (see full report for details), and adding to them the variables for settings in which subjects gamble. However, adding the gambling setting variables had no noteworthy impacts on the results of our first model. In this respect the Cape Town sample differs significantly from the Gauteng sample. In the latter sample, including the variable for gambling exclusively in informal settings knocked a number of demographic variables out of significance. In the Cape Town sample this does not happen. This is unsurprising. As our review of the cross-tabulations showed, in Cape Town the respondents at highest risk for problem gambling do not gamble at *any* kind of establishment (and *none* directly report *ever* gambling in legal casinos). In the Cape Town sample, most probable problem gamblers primarily participate in lottery, scratch card and 'lucky draw' betting.

11.4 Conclusion on problem gambling

Clearly it should not be inferred from the data presented here that there are no problem gamblers in Cape Town (or in Gauteng, for that matter) who have gambling problems associated with behaviour at legal casinos. What is overwhelmingly likely is simply that this group is small, and could only be statistically expected to be visible in a much larger sample than our study was able to draw. In this context, however, it is important to note that in Gauteng, where our sample was three times the size of the Cape Town population we interviewed, casino gambling was still strongly *negatively* associated with problem gambling. We think it is reasonable to conclude from our data that in South African cities, problem gambling resembles problem drinking in being mainly a risk associated with relative poverty – though less with the very most dire poverty, which leaves its victims with insufficient money even for these accessible forms of consolation consumption.

Recent prevalence studies of gambling and problem gambling in wealthy countries – the USA, the UK, Canada, Australia, and Sweden – find that 0.5-0.6% of adults meet the DSM criterion for pathological gambling. Suppose there is a similar figure for the part of Cape Town's population who enjoy consumption patterns similar to median middle-class patterns in wealthy countries. This would predict a population of casino-focused problem gamblers that would tend to be invisible to any but the very largest random surveys.

Our study, despite being limited to 3,000 people, found 3% of respondents at high risk for problem gambling. This figure is high by world standards. We therefore believe that problem gambling is a non-trivial public health issue in SA. However, we have found no evidence that the problem is related, at a prevalence level that would generally be regarded as significant, with legal casinos. Indeed, our evidence suggests that the overwhelming majority of South African problem gamblers, including those living in Cape Town, do not patronise legal casinos at all.

We conclude that problem gambling in Cape Town is primarily a behavioural difficulty associated with poverty, and that its primary manifestation is relatively poor people compounding their financial difficulties by buying lottery tickets and scratch cards.

11.5 Relocation options and prevalence of problem gambling

Many features of casino regulatory and licensing policy, in SA and around the world, are intended to reduce the extent of problem gambling and to minimise harm to people who struggle with gambling problems. One aspect of this concern was addressed in a report by Don Ross that is summarised here. The full report is attached as an appendix to this report.

The issue that was addressed is that holding between the spatial distribution and accessibility of casinos in Cape Town, and expected impacts on pathological gambling prevalence and severity. The comment is based partly on findings from the recently completed National Urban Prevalence Study of Gambling Behaviour (NUPSGB), and partly on studies of the influence of casino placement on pathological gambling in other jurisdictions around the world, specifically Canada, the United States, Australia and New Zealand.

Gambling researchers distinguish between 'problem' and 'pathological' gambling (PG). The expression 'PG' is generally reserved for the latter. The status of the distinction is, unfortunately, complicated and lately becoming more so. Fortunately, it is possible for practical purposes to cut through some of this categorical complexity. For clinical and policy purposes, PGs are identified using so-called clinical screens. The screen used in South Africa, the Problem Gambling Severity Index (PGSI), classifies people into four categories: (1) no risk for PG; (2) low risk for PG; (3) moderate risk for PG; and (4) high risk for PG. For convenience, in the present report we use 'PG' to refer to 'PGSI category (4)'.

The policy proposals under consideration for Cape Town are in essence the following:

(A): maintenance of the status quo, with the GrandWest Casino holding a license that protects it from potential legal competition in the Cape Town area;

(B): significant opening of the Cape Town market to applicants for licenses for new casinos;

(C): establishment of a new 'up-scale' resort-style casino that will share, at least partially, a restricted Cape Town market with GrandWest.

The basic opinion that will be offered and explained in the present comment is that a change from (A) to (C) should be predicted to have **no impact** on PG prevalence; and that there is **no present reason** to expect a change from (A) to (B) to have a **negative impact** on PG prevalence. A **minor positive impact on PG severity** is possible but unlikely as a consequence of adoption of policy (B).

11.5.1 Casino accessibility and PG around the world

The general experience in the jurisdictions in which impacts of new casinos on PG prevalence has been studied is as follows. A new casino typically causes a temporary spike in PG prevalence in the local population. (Variability in the observed magnitudes of such spikes is too high relative to the number of studies to justify any quantitative estimation.) The spike typically disappears after about 18 months. This may result from a combination of fading novelty value associated with the new casino, and learning by new gamblers of methods for controlling their own expenditure levels. **World experience thus does not support the intuitive idea that increasing casino accessibility, in a jurisdiction where legal casino gambling is already available, increases PG prevalence beyond a short run**.

The prevalence of PG among adults in Canada, the United States, the United Kingdom, Sweden and New Zealand ranges from .04 to .06 (that is, around one-half of 1%). Prevalence in Australia appears to be slightly higher. In these countries, between 2% and 4% of adults are found to be at moderate risk for PG (PGSI category (3)).

Prevalence rates of health disorders in the .05 range are generally regarded as falling below the threshold for classification as significant public health problems. This in no way implies that a given low-prevalence disorder might not constitute a very serious life impairment in those people who *are* afflicted. But sound public health policy must regard prevalence as a crucial dimension for consequence assessment.

11.5.2 PG prevalence in South Africa

SA is the only developing country in which PG prevalence has been systematically measured to date. As described in an earlier section this was done with the NUPSGB.

The 'headline' findings of the NUPSGB are as follows. 3% of the sample are at high risk for PG, 8% at moderate risk, and 10% at low risk. 43% have never gambled. 36% have gambled but are at no risk for PG according to PGSI score.

Being of mid-level socio-economic status (SES) was a significant predictor of elevated risk for PG. Being in part-time employment was a significant predictor. Higher indications of depression, impulsivity and risk for alcohol abuse were significant predictors. Earning the major share of income from salary and being older were significant *negative* predictors. **Patronising informal gambling venues but not legal casinos was a significant predictor. Patronising legal casinos was a significant *negative* predictor.**

The NUPSGB draws the following main conclusions at the national level:

- Prevalence of PG is higher in urban SA than in wealthy countries, and is **strongly associated with informal (illegal) gambling. Urban South Africans who exclusively patronise legal casinos are at *less* risk for problem gambling than the average member of the population, even though 43% of the overall population reports not gambling at all.**
- In SA, having a full-time job and being older are *negatively* associated with PG.
- Being depressed, impulsive and having alcohol and drug problems are significantly associated with PG in SA.

11.5.3 PG prevalence in Cape Town

The national level findings described in the previous section obscure important differences between SA cities. In Gauteng, PG prevalence is very heavily concentrated in the mining areas of the West Rand. It is mainly associated with younger adults who gamble in informal establishments – especially shebeens – where the principal forms of gambling are dice and card games for money. **These gamblers do not visit legal casinos.**

In Cape Town the picture is importantly different. A many as 53% of the Cape Town sample reported that they have never gambled. This is a significantly higher rate of total non-participation than in Gauteng or in SA as a whole. 35% of the Cape Town sample gamble but show no measured risk for PG. 7% show low risk, 3% show moderate risk, and 3% show high risk. The last figure replicates the aggregate number found for urban South Africa as a whole.

Cape Town problem gamblers tend to be slightly poorer, but otherwise of comparable SES to those in Gauteng. **They do not mainly gamble in informal establishments, or indeed in any establishments. Cape Town PGs primarily devote their attention to lotteries, scratch cards and lucky draws.** They play these regularly, but not more frequently than gamblers at no risk for PG. It is therefore probable that their *problems* from gambling mainly arise from their small incomes, which mean that any regular expenditure that does not contribute to employment prospects contributes to hardship.

As in the Gauteng and national samples, exclusively patronizing legal casinos as gambling venues is a significant predictor of *reduced* risk of PG. Clearly it should not be inferred from these data that there are no PGs in Cape Town (or in Gauteng, for that matter) who have gambling problems associated with behaviour at legal casinos. What is overwhelmingly likely is simply that this group is small, and could only be statistically expected to be visible in a much larger sample than the NUPSGB was able to draw.

The following tentative conclusions are probably the crucial ones of relevance to casino policy:

- Patrons of legal casinos in SA generally, and in Cape Town specifically, are demographically similar to patrons of legal casinos in the developed countries where gambling behaviour has been more extensively studied.
- The NUPSGB furnishes no evidence that PG prevalence in this group is higher than in those countries.
- In SA cities generally, and in Cape Town specifically, PG resembles problem drinking in being mainly a risk associated with relative poverty. Only an invisible fraction of poorer South Africans patronise legal casinos.
- Therefore, insofar as PG represents a public health problem in SA generally, and in Cape Town specifically, this problem is not associated with legal casinos. In Cape Town its primary manifestation is relatively poor people compounding their financial difficulties by buying lottery tickets and scratch cards.

11.6 Relationship between casino relocation options and PG in Cape Town

The upmarket tourism option would be expected to increase participation in casino gambling among Cape Town residents only in the higher SES brackets. PG is not a significant public health problem in Cape Town in this bracket. Accessibility to the higher SES brackets of a new resort casino would not be expected to increase these numbers except perhaps very briefly during the new facility's novelty period.

The relocation option to one (or more) of the 'untapped areas' is unlikely to have any disconcerting consequences. There is no evidence that it would have significant impact on PG in Cape Town. In Cape Town PG as a public health problem does not appear to be associated with casino-type gambling at all; rather, it is associated with lottery and scratch card play. When this finding is combined with evidence from other countries on the impact of new casinos on PG prevalence, it may be tentatively concluded that there is no reason to predict that adoption of the relocation option would significantly aggravate the public health problem associated with PG.

It cannot be stressed too strongly that the conclusions above should **not** be interpreted as suggesting that no Capetonians will become afflicted by PG, who would not otherwise have been afflicted, if the presence and visibility of legal casinos in the city is expanded. The conclusion is only that their numbers will likely not reach, nor indeed come measurably close to, the threshold normally regarded as relevant to public health in the statistical sense. Therefore, potential impact on PG prevalence should not be considered as being among the important cost / benefit factors to be considered in choosing among different relocation options.

12. SUMMATIVE OVERVIEW

This section presents a summative overview of the work of a team of economists from the BER, legal practitioners from Webber Wentzel and financial specialists from KPMG to investigate the implications of the expiry of the exclusivity period in respect of casino operator licences in the Western Cape and to advise PGWC on the dispensation that should come in its place.

The findings of the various discipline specialists were summarised in the preceding sections. Although the investigations cannot be regarded as exhaustive, and although further refinement would always be possible the research team is confident that their findings will not change materially from what is reflected in this report.

12.1 The expiry of exclusivity

The report started with a synoptic history of casino gambling in the Western Cape and presented the reasons for the commissioning of the investigation by PTWC. The most important consequence of that history is that the expiry of exclusivity of the five Western Cape casino licences commences late 2010.

Once the exclusivity falls away, the relevant casino will no longer enjoy the guarantee of operating exclusively within its existing environment or region. It is generally accepted that this exclusivity really only has meaning as far as the Cape Metropole is concerned and that most of the other casinos will wish to make use of the expiry of the spatial exclusivity to apply for relocation to the Metropole. The WC Gambling Act does not make provision for the extension or renewal of the current exclusivity regime.

PGWC was concerned that the expiry of the exclusivity could result in the uncontrolled relocation of casinos to the Cape Metropole in a manner that could lead to one or more undesirable consequences, including a decrease in or loss of tax revenue to the Provincial Government. PGWC was also concerned about the funding implications of the end of the exclusivity regime for WCGRB. If exclusivity fees were no longer to be paid to WCGRB the shortfall will have to be made good by Province.

12.2 What if PGWC does nothing?

If PGWC does nothing, the likelihood is that one or more of the casinos in the outlying areas will apply to the WCGRB to relocate to the Cape Metropole. [redacted]

Furthermore, when the WCGRB undertook a competitive tender process in respect of each of the 5 regions, the bidders were evaluated on all aspects pertaining to their proposed casino developments, including *inter alia*, financial viability, design concept, economic and community benefits, business plans and environmental impact, all of which pertain to the then proposed casino premises. To permit the successful tenderer to relocate the casino premises without following a fresh competitive bidding process would potentially make PGWC or the WCGRB vulnerable to a legal attack on the basis that it would undermine the competitive process that was undertaken when the licences were granted, which the WCGRB was obliged to do in terms of the Policy Determinations (see further below in respect of the general obligations of the WCGRB to follow a competitive process).

[redacted]

It is our considered opinion that the PGWC does not have the option to do nothing. The WC Gambling Act must be amended and public interest will be best served by a consideration of what the most desirable amendments to the WC Gambling Act might be.

12.3 How should the PGWC do it?

It is therefore clear that the PGWC cannot do nothing, even if it wanted to continue with the status quo. This prompts two questions: What should the PGWC do about the expiry of exclusivity? How should the PGWC go about doing it? The "what" question is addressed below and an attempt will be made to give answers to the question. We first turn out attention to the "how" question. This is understood to refer to the broad legal approach that should be adopted in structuring the option that the PGWC prefers, regardless of what it is, as opposed to the specific actions that follow from the recommendations.

In deciding how best to structure the selected option, one of the overarching considerations is whether to introduce appropriate amendments to the legislation on a "once off" basis, as was done with the current exclusivity regime which is due to expire, or whether to introduce an enabling framework in terms of which decisions in respect of exclusivity, relocation, etc. can be made and reviewed on a more enduring basis without the need for further legislative amendments in due course.

A further "*structuring issue*" is which instruments to use: the main body of the WC Gambling Act and/or a further policy determination and/or regulations. This has obvious implications for which public authority is conferred with the power to make the final decisions in respect of the content of the instrument, ie the legislature (main body of the WC Gambling Act), the Executive Council (policy determination) and the MEC (regulations) respectively.

In addition to which instruments to use, the question of which public authority makes which relevant decisions obviously also depends on the content of the amendments. A key issue is to what extent the amendments should confer certain types of decision-making powers in respect of the options on the Western Cape Gambling Board (WCGB).

In the light of various considerations dealt with in detail in the full report, careful consideration needs to be given to the continued role, if any, of policy determinations in terms of the WC Gambling Act, as well as an appropriate delineation of executive, legislative and administrative powers in respect of the way forward. In the light of the issues raised in the full report, we would not recommend that any of the options be implemented through the adoption of further policy determinations. Given that the WC Gambling Act will in any event have to be amended, consideration should, in our view, be given to doing away with policy determinations altogether.

12.4 The Options

In its brief to the research team the PTWC requested an investigation of the feasibility and desirability of options to replace the current exclusivity regime.

12.4.1 The Status Quo Option (Option S)

The Status Quo Option allows the current form of exclusivity (the "**status quo**") to continue. In terms of this option, the five current licence holders will continue to operate in each of their respective exclusive geographical areas.

12.4.2 The Direct Competition Option (Option D)

The Direct Competition Option will result in direct competition with GrandWest. This option entails allowing the outlying regional casinos the freedom to relocate to the Cape Metropole so that they are in a position to compete in the same geographic market as GrandWest.

12.4.3 The Untapped Option (Option U)

The Untapped Option entails a relocation of one or more holders of a regional licence to the Cape Metropole, but only if it relocates to a geographic area in the greater Cape Metropole from which GrandWest does not draw a significant proportion of its customer base.

12.4.4 The Tourism Option (Option T)

The Tourism Option also entails relocating one of the regional licenses to the Cape Metropole to open up a new and as yet undeveloped market, but a market that is built around the development of destination-based or international tourism.

12.5 Can exclusivity be granted?

12.5.1 Who has the authority to do so?

Before any of the four options can be considered, it is necessary to establish whether any form of new exclusivity can be imposed without it constituting anti-competitive behaviour.

An argument can be mounted to the effect that the maintenance of the current exclusive zones for casino gaming in the Western Cape has the effect of limiting consumer choice in the exclusive zones and, therefore, the exclusivity regime insulates casino operators from the rigors of competitive market processes. The question therefore arises as to whether a decision to implement the Status Quo option or one of the Relocation options is likely to have an anti-competitive effect in the relevant market and whether the Competition Authorities have the jurisdiction to make such a finding in respect of casino gaming market given the fact that the sector is regulated in terms of both national and provincial legislation.

After considering the relevant legislation we came to the view that the Minister and the WCGRB have *ex ante* regulation powers in respect of the casino gaming industry in the Western Cape, however, the Competition Authorities have the over-arching powers to adjudicate on Chapter 2 and 3 matters in respect of the casino industry. This simply means that the sector regulators are empowered to set conditions in the market which are consistent with their powers in terms of the various enabling national and provincial legislation, however, the Competition Authorities have the authority to make a determination, in the case of a Chapter 2 compliant, as regards the competitive nature of the conduct of the market participants. Therefore, there is no concurrency in the jurisdiction of the sector regulators and the Competition Authorities as regards Chapter 2 matters.

Significantly, the sector regulators are required in terms of the Gambling Act to consider what impact their policy decisions will have on competition in the market and it is in that light that the competitive nature of each of the options are discussed in this report.

As regards Chapter 3 competencies, we are of the view that this issue does not present itself in this case as a decision to relocate or not to relocate a particular casino is unlikely to trigger the merger notification provisions in the Competition Act .

12.5.2 May further exclusivity be granted?

With regard to prohibited practices concerns, we are of the view that any changes to the exclusivity regime are structural in nature in the sense that they affect the conditions of competition in the gambling market. In other words, the competition consequences arise as a result of regulatory decision-making and not as a consequence of any gambling operators' anti-competitive conduct in the market. Accordingly, on the basis of a narrow interpretation of the requirement, and in view of the applicable enabling legislation (without recourse to the Competition Amendment Act) dealing with the exclusivity concern as proposed by the Provincial Government should not give rise to concurrency of jurisdiction issue.

The Competition Amendment Act clarifies the role of the sector regulator versus that of the competition authorities by distinguishing between *ex ante* and *ex post* regulation. *Ex ante* regulation is anticipatory intervention, which uses government-specified controls to prevent socially undesirable actions or outcomes in markets, or direct market activity towards socially desirable ends. In terms of the Competition Amendment Act therefore, *ex ante* regulation falls upon the sector specific regulators, while *ex post* regulation is the job of the competition authorities. This approach is supported by South African case law.

We are of the opinion that on an narrow interpretation of the law (which we believe is a more realistic and defendable), a decision of the Provincial Government and WCGRB in relation to exclusivity would not fall within the concurrency regime set out in the Competition Act. We are of the view such a decision in fact amounts to an exercise of their *ex ante* jurisdiction in terms of the empowering legislation and the concurrency regime would therefore not apply to such a decision.

In other words, it is within the jurisdiction of the relevant Western Cape authorities to extend or grant exclusivity without it being anti-competitive.

Notwithstanding our conclusions regarding concurrency, we believe that, in exercising their *ex ante* jurisdiction, the WCGRB and the Provincial Government should consider, from a policy perspective, the competition consequences of their decision. Accordingly, we advise that the Competition Commission be consulted before making any decisions regarding the exclusivity of casino licences in the Western Cape.

12.5.3 Did exclusivity prevent competition?

We understand that the geographic areas identified in regard to "*competition <u>for</u> the market*" were deliberately delineated by the WCGRB in a manner that would prevent or limit competition *<u>in</u>* the market in order to protect the investments of gaming operators and abate the demand for casino gaming services in the province. This is to say that the level of competition between the casinos should be constrained by their geographic spread.

However, once the casino licences have been granted and the exclusive zones delineated, the WCGRB has no control over the distribution of customers between the 5 provincial casinos. [redacted]

[redacted] Therefore, for purposes of analysing the effects on competition the casinos must be regarded as being in the same geographic market since there is a significant flow of customers between them.

In view of our finding that casinos within the Western Cape compete in respect of a cluster of services, and the fact that consumers, particularly the more affluent Cape Metropole customers, gamble widely throughout the province, our view is that the geographic market is regional.

12.5.4 Did exclusivity reduce competition?

Although the casino market in the Western Cape can be regarded as a single geographical market, the current exclusivity regime nevertheless reduced competition in the marker for the most lucrative concentration of casino buying power, the Cape Metropole. This is reflected in the fact that GrandWest had [redacted]% of the casino market share in the Western Cape. [redacted] only had about [redacted]% market share [redacted].

Even so, as concluded above, it remains within the jurisdictional power of PGWC and WCGRB to promulgate amended legislation that will impose some form of continued exclusivity.

12.6 Option S

12.6.1 Is Option S anti-competitive?

The GrandWest casino has a market share in access of [redacted]% in the Western Cape casino gaming market, which makes them dominant[4]. Given that approximately 80% of the casino gaming market in the

[4] In terms of section 7 of the Competition Act a firm is dominant if they have at least 45% of that market, which means they are possessed of market power.

Western Cape is comprised of customers who reside in the Cape Metropole catchment area, this gives the GrandWest a significant competitive advantage over its rivals by virtue of its geographic position. This advantage would be entrenched by the maintenance of the exclusive zones in terms of casino licensing conditions.

It is generally accepted that dominant firms are imbued with market power, and thus, have the ability to harm consumer welfare. Therefore, if one of the outlying casinos were to relocate to the Cape Metropole catchment area, competition in the casino gaming market in the Western Cape would be enhanced as the relocation could result in one or more of the following pro-competitive outcomes:

- enhanced price competition;
- greater product innovation; and
- improved service quality.

The geographical spread of the casinos has the effect of lessening the competitive constraint exerted by the four outlying casinos on the GrandWest. Therefore, the current exclusivity regime distorts competition and results in inefficiencies in the market.

Can the exclusivity of the status quo nevertheless be justified? First, the answer may be yes if there is a process of competitive bidding for the market (as compared to open competition) supported by strong efficiency gains. Second, status quo exclusivity may be justified if there are strong public interest considerations.

With respect to the latter, it was found that there is a low prevalence of casino problem gamblers in Cape Town. This is underscored by the fact that in instances where potential problem gambling has been identified by the survey, this had included respondents who either do no patronise legal casinos or who mix casino gaming with other forms of gambling. The fact that in Cape Town there is a higher income preference for gambling in legal casinos rather than informal venues is further evidence that the negative social welfare effects of casino gaming are limited particularly if one considers that almost all respondents found to be at a high risk of problem gambling in Cape Town appear to be of low or medium SES (socio-economic status).

Ultimately the Ross report found that 3% of respondents were at high risk for problem gambling. Furthermore the Ross report found "*no evidence that the problem is related, at a prevalence level that would generally be regarded as significant, with legal casinos. Indeed our evidence suggests that the overwhelming majority of South African problem gamblers, including those living in Cape Town, do not patronise legal casinos at all.*"

We are, therefore, of the view that the restriction of competition in the casino gaming market in the Western Cape cannot be justified by the object, on the part of the WC Government, of curbing excessive demand for casino gaming services in the province and consequently problem gambling.

Our conclusion is that the Status Quo Option is inherently anti-competitive as it has the effect of restricting competition in the casino services market. Social welfare considerations do not outweigh the anti-competitive effects that result from the loss of competition in the casino gaming market.

12.6.2 Is the Status Quo the default outcome?

As was already indicated, the WC Gambling Act will have to be amended even for the implementation of Option S. As the location of the casino is written into a casino's licence a casino will not be able to relocate unilaterally and will have to apply to the WCGRB for relocation [redacted] The continuation of the Status Quo is therefore not a default outcome. If Option S is chosen it will have to be done through appropriate amendment of the WC Gambling Act.

12.6.3 Did the current exclusivity regime optimize revenue?

This question can be interpreted in two ways. First, it can be asked whether, all other things equal, more Gambling Tax could have been generated if another casino was located in the Cape Metropole rather than in an outlying area. Second, it can be asked, given the exclusivity regime, whether the Gambling Tax rate structure was optimal. We turn to the first question below.

[redacted] These assumptions generate the scenario results in the next table.

Table 50: Hypothetical sharing of Cape Metropole market (December 2009)

	Actual GGR (AGR)	Gambling Tax	Estimated GGR	Estimated Tax	Tax difference
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

The table above suggests that another casino in the Cape Metropole would not have been optimal from a tax revenue perspective. The reason is due to the progressive rate structure of the Gambling Tax. [redacted]

It can therefore be concluded that the current exclusivity regime was probably optimal from a tax revenue perspective given the current Gambling Tax rate structure.

The other question about whether the current tax regime was optimal is essentially about the rate structure of the Gambling Tax. The financial analysis already reported on found that there was a tax headroom on average of at least [redacted]% of adjusted GGR. In other words, the tax rate on GGR could have been [redacted] percentage points higher without adversely affecting the rate of Return on Assets (ROA) of the casinos. This was in comparison with the national and international benchmark of rates of return achieved by casinos. This additional level of tax would not have reduced the ROA of any one of the WC Casinos below the 10th percentile of local and international comparator ROA, assuming the tax or exclusivity fee was in force from 2004.

It can be concluded that the Gambling Tax rate structure was not optimal in the past.

12.6.4 Did the current exclusivity regime fully tap the casino market potential of the Cape Metropole?

[redacted]

It was also found that proportionately fewer households in the higher income areas of the Southern Suburbs, the Atlantic Seaboard and the Helderberg areas (what is referred to as the "untapped" areas) have members participating in casino gambling than in the core GrandWest areas mentioned above. In the core GrandWest areas there are about [redacted] casino gamblers per (high income) household. In the "untapped" areas it is only about [redacted] casino clients per (high income) household. Therefore, as much as [redacted]% of the potential casino market in the untapped areas may not be visiting GrandWest regularly.

Our conclusion is that is probably too large an area for only one casino. It is also possible that GrandWest targeted the market in the core areas and therefore failed to make bigger inroads into the higher income untapped areas. It may very well be a combination of both these factors as well as the inconvenience of the greater distances of the untapped areas from GrandWest.

12.7 Option D

12.7.1 Is unregulated competition in the Cape Metropole desirable?

The opposite of Option D is to allow any casino to relocate to the Cape Metropole and to compete head-on with GrandWest without any restriction on where it locates or any significant regulatory constraint on how it competes. Option D will clearly increase competition, but can too much competition be a potential problem?

An important consideration for the PGWC is the impact of direct competition on its revenue. As the illustrative example in Table 50 above suggests, any significant reduction in the GGR of GrandWest could have negative tax revenue consequences for the PGWC. This is even more likely to be the case if more than one outlying casino were to relocate to the Cape Metropole in a manner that competes directly with GrandWest.

It is also possible that the gambling tax base can shrink as a result of more direct competition. Currently the GGR/drop ratio is about [redacted] for GrandWest. This means that roughly about [redacted]% of customer spend ("drop") is paid out in winnings. Increased competition is likely to reduce the GGR/drop ratio. An indication of this "competition effect" can be gauged from the GGR/drop ratios of casinos like [redacted] and [redacted] that are effectively competing for the Cape Metropole gambling customers. ([redacted]% of their customers may come from the Cape Metropole.) The GGR/drop ratio of these outlying casinos is between [redacted] and [redacted].

If, due to increased competition, the GGR/drop ratio of GrandWest should fall to [redacted] (as an example), and even if the total drop did not fall (unlikely), the GGR for GrandWest in [redacted] would fall from [redacted] to [redacted]. The Gambling Tax revenue would consequently fall from [redacted] to [redacted]

This negative fiscal consequence of unregulated competition in the Cape Metropole will of course be reduced by the extent to which a relocated casino targets an untapped area and thereby reduces the extent of direct competition with GrandWest. This is what is explored in Option U and Option T.

It is our conclusion that Option D, i.e. greater direct competition with GrandWest, poses too high a potential risk to the province's gambling tax revenue for it to be desirable.

12.7.2 Can relocation lead to less competition?

As both GrandWest and Golden Valley are ultimately controlled by Sun International, they are considered, for competition law purposes, to be a single economic entity. Therefore, at present Sun International has a market share of approximately [redacted]% in the Western Cape casino gaming market.

In the event that the Golden Valley casino applied for relocation to the Cape Metropole and such an application was granted by the WCGRB, Sun International's domination of the Western Cape casino gaming market and the Cape Metropole catchment area in particular, is likely to be entrenched as it will have 2 casinos in the lucrative Cape Metropole catchment area.

Therefore, relocating the Golden Valley to the Cape Metropole is likely to have the effect of lessening competition in the casino gaming market. In the circumstances, we are of the view that consumer welfare is likely to be harmed.

Since most of the Mykonos and Caledon casino gaming customers are from the Cape Metropole, it is reasonable to assume that if (one of) these casinos relocated to the Cape Metropole it would gain more customers than either will lose as it will be a practical alternative to the GrandWest. Accordingly, if Mykonos or Caledon relocated to the Cape Metropole, it is likely to make a net gain in market share particularly as it will be gaining from a low base of only [redacted]%. The same could be argued for Garden Route, but it is not clear that it will be to the benefit of the casino. It may also not be in the public interest for it to relocate to the Cape Metropole.

12.8 Option U

12.8.1 Are there areas in the Cape Metropole that are untapped?

From the analyses of survey data [redacted] we came to the conclusion that there are areas in the Cape Metropole that are relatively untapped compared with the "core" GrandWest area as described above. These "untapped" areas were identified as South Peninsula (including the Southern Suburbs and the False Bay coast south of Muizenberg), North Peninsula (including the City Bowl and the Atlantic Seaboard west and south of the Harbour), Blaauwberg (including Milnerton and Table View) and Helderberg (including Somerset West, Gordons Bay and Stellenbosch).

12.8.2 Do the untapped markets exceed the outlying markets?

Estimates of the potential casino market size of the untapped areas suggested that they all had a bigger potential market than the existing outlying areas with the possible exception of Garden Route (Mossel Bay). Their potential market areas (upon which the estimates were based) do not overlap with other, nor with the core area of GrandWest from which the latter attracts more than [redacted]% of its Cape Metropole customers.

This interpretation is strengthened by the fact that as much as [redacted]% of GrandWest business originates from the [redacted]. The outlying casinos (except for Garden Route) probably get as much as [redacted]% of their business from Cape Metropole customers. In value terms the latter is almost twice as high as the former. In other words, the "home" market of the outlying areas, i.e. the market as a result of location convenience, is too small for the casinos to survive on it alone. A relocation of these casinos will therefore bring them closer to their real market.

12.8.3 Can relocation and exclusivity be combined?

It was already argued that relocation resulting in direct competition with GrandWest on any significant scale does not yield the best outcome for purposes of generation of fiscal revenue. This prompts the question whether it is possible to have relocation combined with exclusivity. In this respect exclusivity will imply spatial and/or other restrictions on the relocating casinos so that it does not result in undesirable direct competition.

It was already pointed out that an amendment to the WC Gambling Act will be required under any scenario. It will certainly also apply for the relocation of a casino to an untapped area. A change in the place at which the holder of the licence wishes to perform would probably require the conditions of the licence to be amended, but the WCGRB does probably not have the jurisdiction to change that, at least not without a significant risk of litigation. Therefore, with the necessary amendment to the WC Gambling Act there does not seem to by any public/administrative law impediments to implementing a version of Option U.

However, as was also found, competition <u>for the market</u> is not the same as competition <u>in the market</u>. It is therefore possible that a competitive bidding process can be followed for exclusive spatial portions of the market, but that afterwards competition in the market can lead to different outcomes from what was envisaged. In other words, relocation and exclusivity can be designed and reflected in the licence conditions of a relocating casino, but that is no guarantee that there will not be real competition afterwards.

Our conclusion is therefore that a cautious approach should be adopted in considering how many casinos should be allowed to relocate to an untapped area and in the way in which exclusivity is drafted in the WC Gambling Act and any licensing conditions.

12.8.4 What are the revenue implications of relocating to an untapped area?

Estimating the revenue potential of an option was a two stage process. The first step was to use historical casino data and macroeconomic modelling techniques to forecast the GGR for the existing casinos for the forecast period (15 years in this case). The second step was to use independent estimates of the relocated casino's potential market size and then to apply appropriate GGR growth estimates to it to generate forecasts for the new casino/location.

It must be kept in mind that the untapped areas were so defined that they would lie outside of the core GrandWest area, i.e. that they would not significantly reduce the tax base of GrandWest. It was assumed, for the purposes of estimating potential tax revenue that this exclusivity will be effective.

On the basis of this methodology the following tax revenue implications were deduced from the GGR forecasts:

[redacted]

[redacted] They will all generate significantly more revenue for the Province by relocating to an untapped area in the Cape Metropole.

Tax collections under the Tourism option increase to a present value of [redacted], approximately [redacted] higher than Status Quo. A further [redacted] in tax revenues is added should an additional tax of [redacted]% of AGGR be levied in lieu of fixed exclusivity fees, amounting to a present tax value of [redacted]

It is important to reiterate the fact that the foregoing estimates are based on the assumption that GrandWest does not lose significant business in absolute (or nominal) terms. It may lose market share, but from a tax revenue perspective it is the level of GGR that is important and not market share. Even if GrandWest loses market share (likely, given its current dominant position in the Cape Metropole), tax revenue will not be negatively affected as long as its GGR does not decline significantly. The risk of this happening will increase if more than one casino should be allowed to relocate, even if it is to untapped areas.

12.8.5 What will be the socio-economic impact of relocating to an untapped area?

A decision to relocate an outlying casino must consider the impact that a potential increase in the availability of gambling services would have on social welfare, the promotion of which is one of the objectives of the Competition Act. Having considered the conclusions reached by Ross *et al* in their research report, we are of the view that a relocation of one of the outlying casinos to the Cape Metropole is unlikely to result in the over-stimulation of the demand of casino gambling services in the Cape Metropole.

We are, therefore, of the view that the potential loss of employment to the outlying areas in the case of relocation of a casino to the Cape Metropole will not outweigh a policy decision by the WC Government to facilitate greater competition in the lucrative casino gaming market in the Cape Metropole, notwithstanding the fact that the loss of employment will be in a low-income area.

12.8.6 What are the legal requirements for Option U?

Under this option, one or more of the outlying casinos would be granted the right to relocate to the greater Cape Metropolitan area and there would be no extension of exclusivity of the other outlying casinos that would not be relocating. They would enjoy *de facto* exclusivity in their respective areas until such time as either the National Minister increases the maximum permissible number of licences in the Western Cape and a decision is taken to grant a further licence in the Western Cape, or (perhaps more likely) an existing casino licence being terminated and a decision being taken to grant another casino licence in its stead.

As already indicated the relocation of a casino will require an amendment to the WC Gambling Act. A possibility is that such an amendment could make it possible to amend the geographical areas of exclusivity or relocating casinos. It will necessarily require the area of exclusivity of GrandWest to be amended accordingly. Given the Public Law and Competition Law considerations discussed in the report a bidding process may be necessary in determining the relocating casino. In our opinion a bidding process should be for an option that the PGWC and the WCGRB selected beforehand. That should make it possible for a bid process to be conducted in a fair, transparent, equitable, competitive and cost-effective manner.

12.9 Option T

12.9.1 Can Option T be anti-competitive?

In the context of a sufficiently differentiated tourism casino, the concern from a competition law perspective, is that the Tourism Option will have the effect of removing an effective competitor from the market as only four casinos will remain in the casino gaming market in the Western Cape. This assumes that the proposed tourism casino will be in a separate market from the other regional casinos. In these circumstances, the Tourism Option is likely to result in a further concentration of the market irrespective of how the existing market share of the converted casino will be re-distributed among the remaining casinos in the region.

However, in our view, such an increase in concentration will not <u>significantly</u> prevent or lessen competition in the casino gaming market for low-rollers as low-rollers will still have four casinos from which to choose.

In the event that the tourism casino does not attract a niche customer base of high-rolling tourists or it does so but also attracts a significant number of customers from the GrandWest the tourism casino will be considered to be a competitor in the existing casino gaming market. The competition law consequences including the public interest effects of such an outcome will be significantly the same as those discussed above under Option D.

12.9.2 Can Option T be a differentiated market?

As one of the fastest growing export industries worldwide, tourism has become a source of growth and development for many developing regions. The tourism industry is often the largest employer of unskilled labour and therefore has strong secondary and redistributive effects.

Moreover, gambling and tourism is often closely linked: a few international destinations have built a brand image around gambling activities. Yet it is not only the well-known casino cities where gambling complements tourism. Most major tourism cities world-wide now offer gambling services tailored for the tourism market. In Switzerland, for example, a sharp distinction is made between casinos that attract domestic visitors and those that are positioned for the tourism market. Strict regulations apply to the "tourism option", often situated in prime tourist locations. As a growing international hot-spot for high-income tourists, the city of Cape Town should be able to provide visitors with a complete package of goods and services that they would expect from an international destination.

If a tourism casino does indeed appeal to a niche tourism market and its pricing ability is unrestrained by GrandWest or any other casino in the Western Cape, then it could be deemed to be in a separate market from the other regional casinos. As a result, consumer choice will be lessened as the current mould of consumers, the low-rollers, will realistically have only four casinos to choose from as opposed to five in the *status quo.* The tourism casino will not be a realistic option for the low-rollers as it will be in a separate market catering for high end rolling tourists. Therefore, competition in the casino gaming market, for low-rollers in particular, is lessened by the relocation and conversion of one of the regional casinos to a tourism casino in the Cape Metropole.

However, the competition law concern with this option is that in circumstances where the tourism casino is sufficiently differentiated, an existing competitor in the market will be eliminated as the tourism casino will cater predominantly for a niche market of tourist high-rollers. However, there are significant pro-competitive effects that result from this option including the prospect of competition for high-rollers between the Grand West and the tourism casino. In addition, this option is unlikely to stimulate demand for gambling services in the region to socially unjustifiable levels as the new casino will target high income earners who are less vulnerable to the social concerns attached to an over-supply of casino gaming services. Accordingly, we are of the view that the Tourism Option does not raise significant competition law concerns.

12.9.3 What is the potential market size and potential tax revenue of Option T?

The basis for estimating the potential market size of the Tourism Option is forecasts of tourist growth for Cape Town. Various assumptions about the percentage of tourists who are likely to visit a casino and the amounts that they will gamble per visit were then applied to the tourist numbers.

The medium estimates of the potential market size of Option T are of the same order of magnitude as the relocation of one outlying casino to an untapped area (Option U). This means a total GGR in 2020 of about [redacted] can be generated (medium assumptions) from the casino gambling of international tourists alone.

A similar methodology as for the other Options was applied in estimating potential Gambling Tax revenue. This means a total GGR in 2020 of about [redacted] can be translated into Gambling Tax revenue of about [redacted].

Tax collections under the Tourism option increase to a present value of [redacted], approximately [redacted] higher than Status Quo. A further [redacted] in tax revenues is added should an additional tax of [redacted]% of AGGR be levied in lieu of fixed exclusivity fees, amounting to a present tax value of [redacted].

12.10 Changes to the casino tax regime

12.10.1 How much more gambling tax can casinos pay?

An integrated financial model was developed for the Western Cape with which to calculate various financial statements and key financial performance indicators. The return on assets ("ROA") was used as the primary yardstick for measuring the returns of the WC casinos in this study, benchmarking the WC casinos against local and international comparators, as well as assessing the affordability of tax regimes.

The 10th and 90th percentile range was computed from these comparators to derive a banded area which we considered an appropriate band for comparison. The expected rate of return was calculated and plotted, which fell within the lower third of the ROA band.

Headroom refers to the affordable level of tax that could still be levied on the WC casinos without adversely affecting returns. For the purposes of assessing headroom in this report, the affordability of any new tax regime was based on a deterministic and stochastic approach.

Headroom was gauged by increasing the levels of tax that would increase the probability that the ROA of any one casino falls below the expected rate of return for any three years of the first five years above [redacted]%. We considered this level to be a sufficient level of tax that could lead to a change in business model.

Both the deterministic and stochastic approaches confirmed that casinos can be taxed by an additional [redacted]% on adjusted GGR. The impact on ROA of applying a [redacted]% flat rate of tax fee is [redacted]. [redacted]

12.10.2 What changes could be made to the Gambling Tax?

The ***gambling tax*** is levied in terms of section 64 of the WC Gambling Act. The tax is imposed on (*inter alia*) the holder of a casino operator license. The tax is levied on "***taxable revenue***" which is defined as "adjusted gross revenue", less admissible deductions. The admissible deductions include any take back bets placed by a betting operator and any bad debts which were previously included in adjusted gross revenue.

It is evident from a comparison with gambling taxes in other provinces and internationally that no other gambling jurisdiction imposes anything similar to the exclusivity fee imposed in the Western Cape.

On balance, should the Western Cape seek to maximise its income by imposing a tax/levy to capture the economic benefit of exclusivity going forward, it seems that the following options may be considered:

- Continue with an exclusivity fee regime, albeit perhaps significantly increased for the Cape Town metropolitan area (whether one or more casinos);
- Increase the existing gambling tax rates; and
- Introduce differentiated gambling tax rates, depending on the location of the casino.

A flat rate tax imposed at a rate of [redacted]% on GGR seems to be the best alternative. However, this tax would not be linked to exclusivity in any way. Rather the tax will be imposed by increasing the existing gambling tax rates by [redacted]%. This option will fall into the "Untapped" or "Tourism" scenarios. The estimated tax amount that could be generated by this tax over a 10 year period is at least [redacted].

12.10.3 How should the WCGRB be funded?

An issue of concern to the PGWC is the adequate and independent funding of the WCGRB. Currently the total of annual exclusivity fees paid by the Western Cape casinos (R41,630,096 in 2008) are payable to the WCGRB for carrying out its functions. To the extent that these, and other minor fees, are insufficient to cover the costs incurred by the WCGRB, the Province is required to make good the shortfall.

From a tax efficiency perspective it is not desirable to have a plethora of different fees and taxes that essentially tax the same base. It is desirable that this base also provide the basis for the revenue of the WCGRB. The additional Gambling Tax provides such a basis for the adequate and buoyant funding of the WCGRB. The least complicated way of doing this is to earmark a certain fraction of the additional [redacted]% Gambling Tax for the funding of the WCGRB. It could also be a flat rate surcharge on top of the [redacted]%, especially of the other taxes and fees were to be abolished.

12.11 Bidding for relocation

12.11.1 Is bidding necessary?

One of the issues which arises is whether the WCGRB would be obliged to conduct a bidding process in respect of any of the relocation options and, if so, whether it would be permissible to invite bids solely from existing licence holders in the Western Cape.

The first question in this regard, is whether it would be permissible not to invite any persons other than existing holders of casino operator licences in the Western Cape to participate in the bidding process. In our view, the WCGB would in fact not be legally entitled to invite any other persons to do so. The licencees are entitled an annual renewal, unless they breach their licence conditions, etc.

The second question is whether it would be permissible to exclude one or more of the existing casino licencees from the bidding process.

It was pointed out that to allow Golden Valley, also controlled by Sun International as is GrandWest, to relocate to the Cape Metropole may raise competition concerns. This view could possibly be countered by a competitive bidding process in which Golden Valley competes for the market.

From a Competition Law perspective it is advisable that the bidding process constitutes a fair and competitive bidding process <u>for the market</u>.

If, for example, Golden Valley is allowed to participate, it will inevitably exclude GrandWest from the bidding. GrandWest would not have had any incentive to participate in the bidding as it can achieve its objectives (i.e. those of Sun International) by Golden Valley bidding.

Let's consider this scenario if Golden Valley wins the bid. Firstly, GrandWest will still enjoy the degree of exclusivity that the conditions of the bid gave it without it having had to pay anything for it. That also means that the Province loses potential revenue that it could have had if GrandWest had to bid and pay for its exclusivity.

As Golden Valley might only have been a front for Sun International to keep the competition out of the Cape Metropole, it would have an incentive not to develop a casino that gives GrandWest any competition. It might do no more that build a small, high class boutique casino that does not generate much revenue for the Province. This will be even more likely if the bid price were to be some form of ongoing payment based on turnover or GGR as recommended above. By keeping GGR low the 'Golden Valley' casino might add to the potential loss of revenue to the Province.

By the same token GrandWest must not only be allowed to bid, but must in fact be 'encouraged' to do so. How it can do so and the consequences of it participating in the bidding process are discussed below.

Before discussing what the bidding should be for, it is necessary also to raise the issue of Garden Route casino. There are at least three reasons why it might not be in the public interest for Garden Route casino to relocate.

First, unlike the other outlying casinos Garden Route is far enough away from Cape Town for it not to be a significant part of a regional casino market (i.e. the Cape Metropole residents). If one of the other casinos should relocate they will effectively be moving closer to their customer base. Garden Route will be moving away from its customer base. Moreover, that customer base is in the second most important region in the Province from a tourist perspective. Not to have a casino in that region will leave the second most important region in the Province without a casino.

Second, Garden Route casino is doing very well compared with the other outlying casinos. It does not make sense to allow the most successful casino outside the Cape Metropole to relocate when the other casinos can benefit much more from it.

Third, allowing Garden Route casino to relocate will either result in it ending with a lower GGR and thus reduced tax revenue for the Province, or in it attracting gambling business away from GrandWest and thus reducing the Gambling Tax revenue that the Province will get from GrandWest.

It may, however, be the least risky from an administrative and procurement law point of view not to expressly exclude any of the casinos from being eligible to bid and to structure the bid criteria in a manner that gives effect to PGWC's objectives.

12.11.2 What should casinos bid for?

It was found that both the Untapped and Tourism Options were viable options with potential tax benefits to the Province. However, it was argued that caution should prevail in deciding how many casinos to allow to relocate to the Cape Metropole as it could pose a risk of a reduction in tax revenue if the GGR of GrandWest should fall without the GGR of the relocated casinos exceeding [redacted], the threshold for the top Gambling Tax rate of [redacted]% to apply.

It is our contention that it would therefore be advisable to combine the Untapped and Tourism Options and that only one casino be allowed to relocate to the Cape Metropole. The bidding will then be for an upmarket casino targeting high-roller and tourist gamblers. It should be made clear in the proposed licensing conditions before the bidding that appropriate measures will have to be put in place to effect this differentiation from GrandWest and to help delineate this market segment from the main market currently served by GrandWest.

Differentiating measures could include table/slot ratios, casino plans, location and ambiance, and a compulsory entrance fee that is payable to the WCGRB as part of its funding.

As it was already argued that competitive and public interest considerations require GrandWest to participate in the bidding process, and as it would not be desirable for Sun International to have the only two casinos allowed in the Cape Metropole, it raises the question what GrandWest will be bidding for. In essence, GrandWest would be bidding to keep the competition out.

12.11.3 How should the bidding be done?

The bidding must be transparent and competitive, but that could be achieved in a number of ways. Three possible bidding scenarios are outlined below.

Bidding Scenario 1: Keeping it simple?

The first bidding scenario is for bidders to bids for an up-front payment of a lump sum tax. This more conventional approach can be enhanced by allowing successive raising bids. It will then resemble an auction style bidding procedure. The only different thing about this scenario is that GrandWest will be bidding to keep the other casino out.

This approach has a number of disadvantages:

- the lump sum bid price does not enable Provincial revenue to benefit on an ongoing basis from the growth of the market and it goes against the recommendation that Province move completely to a Gambling Tax based on GGR;
- the lump sum bid price creates an additional barrier to entry thus reducing the competitive nature of the bidding process; and
- it is a winner takes all bidding process in which the loser pays nothing, i.e. the Province doesn't benefit from the loser.

The last bullet point should be elaborated. If GrandWest wins the bid it would have succeeded in keeping the competition out of the Cape Metropole and thereby effected a continuation of the Status Quo. As it would have been a competitive bidding process for the market it may well get away with it without being accused of anti-competitive behaviour. The province will also get additional revenue from GrandWest.

However, if the competition to GrandWest wins the bid the province will have a situation where GrandWest is effectively receiving a degree of continued exclusivity without having to pay anything for it. This may be challenged as anti-competitive.

Bidding Scenario 2: Bidding with 'chips'

Another bidding approach can be structured in a manner that will remove the tax and barrier-to-entry disadvantages of the first approach. Given the way in which it is structured it can be called "incremental bidding". The characteristics of incremental bidding include:

- the competitors bid with increments (of "bid chips" of 0.25 percentage points) to the flat rate Gambling Tax, thus resulting in an ongoing, buoyant tax base for the Province; and
- the bidding does not result in a large, lump sum payment by the winner and thereby removes a barrier to entry.

In other respects the bidding will the same as for Scenario 1. However, although Scenario 2 removes the disadvantages of the lump sum, upfront payment of Scenario 2, it still suffers from the disadvantages of the winner-takes-all nature of it.

Bidding Scenario 3: No escape from bidding and paying

The third bidding scenario adopts the bidding with 'chips' approach of Scenario 2. However, it differs from the previous two scenarios in that it is an attempt to force GrandWest to bid for at least something and to effect at least some payment for what ever exclusivity GrandWest retains. The advantages of Scenario 2 include that:

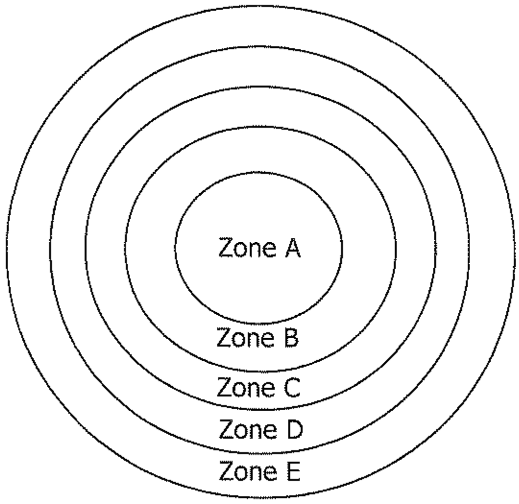
- the bidding does not result in a winner-takes-all and is structured so that the potential loser also has to participate in the bidding process;
- both GrandWest and the competitor will end up having to pay for whatever exclusivity it ends up after the bid is over; and
- the Province will be able to extract future revenue also from both bidders in perpetuity.

A way in which the bidding can be structured is for the parties to bid successively for demarcated zones. Illustrations of what the zones might be are as follows:

- Zone A could be an area that incorporates about half of the current 'core' customer base of GrandWest.
- Zones B could be a somewhat larger area, perhaps incorporating areas that constitute a further 30% of the current 'core' customer base of GrandWest, but still exclude the City Bowl and Waterfront areas.
- Zone C could include the City Bowl and Waterfront areas.

- Zone D could include Sea Point, Camps Bay, the rest of the Atlantic Seaboard and the Southern Suburbs to Muizenberg.
- Zone E could be include the rest of the current GrandWest exclusivity zone.

Although these zones will not be concentric circles and will probably be defined in terms of municipal wards, the concept of the zones could be explained with the following diagram.



What might the rules for Bidding Scenario 3 be?

The casinos will first put in bids for Zone A. In order to participate in later rounds of the bidding process bidders must participate in every round. Bidders will therefore have to put in a bid of at least one 'chip' to be in the game.

Thereafter the competing bidders can progressively bid for the concentric bands. After having put in one bid for Zone A, a bidder can put in a bid for Zone B in the second round and a bid for Zone C in the third round and so on. However, a zone will only be secured if there is a highest bid for it. For example, if GrandWest and the competition both put in bids of 1 chip for Zone A in the first round, GrandWest will still have to put in at least a second chip to secure Zone A (i.e. an accumulated bid of 2 chips) even if the competition moved on to Zone B in round 2.

GrandWest will then join the competitor in the bidding for Zone B in round 3 where the bidding will continue until one of the parties has secured that zone.

It is therefore possible that GrandWest can win the bidding for Zones A and B. It will then have to pay the combined winning bid for these zones in the form the sum of the "bid chips" added as an additional flat rate to its Gambling Tax. GrandWest's winning bid for these zones will then mean that it has secured exclusivity in those zones. For example, if GrandWest won the bid for Zone A with 2 chips and Zone B also with a bid of 2 chips it would now have to 'pay' a total of 4 chips, or 1 percentage point, every month in perpetuity on the GGR that it generated.

If the competitor wins the bid for Zone C (and by implication for Zones D and E) it will pay its winning bid, also in the form of the sum of "bid chips" added as an additional flat rate to its Gambling Tax. It is theoretically possible, but probably unlikely, that GrandWest can win the bidding for all the zones and thereby win the continuation of its exclusivity in the Cape Metropole. However, then it would have won it in a competitive bidding for the market and would be paying for it in full.

If the winner won the bid for a zone with 5 bid chips, a total of [redacted] percentage points will be added to the Gambling Tax rate so that it becomes an effective surcharge in perpetuity. If this was Grand West its effective marginal monthly rate will then be the original [redacted]%, plus the additional [redacted]% 'headroom' that is proposed, plus the 'bid chips' of [redacted]%, giving a total rate of [redacted]%.

13. RECOMMENDATIONS

13.1 Reject Status Quo

We recommend that the Status Quo Option, i.e. where no relocation is allowed, be rejected as anti-competitive without there being strong enough efficiency or social welfare considerations to justify its extension. It also did not optimise fiscal revenue for the province.

13.2 Combined Tourism and Untapped Option

We recommend that the Tourism Option be combined with the Untapped Option to target the upmarket, high-roller segment of the Cape Metropole casino market and the tourism market.

13.3 Additional Gambling Tax

We recommend that each rate in the rate structure of the Gambling Tax be increases by [redacted] percentage points to optimise the revenue potential of casino gaming in the Province. This should take the form of a simple flat rate addition to the existing rates.

13.4 Abolishing the Exclusivity Fee

We recommend that the annual Exclusivity Fee be abolished. It is to be replaced by the additional flat rate Gambling Tax proposed above.

13.5 Funding the Western Cape Gambling and Racing Board

We recommend that a fraction of the additional [redacted]% flat rate Gambling Tax on GGR be earmarked for direct funding of the WCGRB. This should replace the funding currently obtained from the Exclusivity Fee and budgeted funding from the PGWC.

13.6 A Competitive Bidding Process

We recommend a transparent, competitive bidding process for the relocation of one casino to the Cape Metropole to target the upmarket, high-roller segment of the Cape Metropole casino market and the tourism market.

LIST OF REFERENCES

British Columbia. 2003. British Columbia problem gambling prevalence study. Report of a survey commissioned by the Ministry of Public Safety and Solicitor General, British Columbia, Canada.

Bureau of Market Research. 2002. Economic impact of legalised gambling in South Africa. Study commissioned by the National Gambling Board. Unisa.

Chhabra D. 2007. Estimating benefits and costs of casino gambling in Iowa, United States. Journal of Travel Research. November 2007. Vol 46. Number 2. Pages 173 – 192.

Collins P and Barr G. 2006. Gambling and problem gambling in South Africa. The national prevalence study commissioned by the National Centre for the Study of Gambling (of the National Responsible Gambling Programme).

HSRC. 2000. The social impact of gambling in South Africa. Research commissioned by the National Gambling Board.

Ligthelm A.A. 2004. Gambling behaviour in Gauteng. Study commissioned by the Gauteng Gambling Board and Gauteng Department of Finance and Economic Affairs.

Ligthelm A.A. and Johkheid E. 2009.

Pearce, D. 1999. Assessing the impact of urban casinos on tourism in New Zealand. *Tourism Economics*. 5 (2):141-159.

Przybylski, M., Felsenstein, D., Freeman, D. and Littlepage, L. 1998. Does gambling complement the tourist industry? Some empirical evidence of import substitution and demand displacement. *Tourism Economics*. 4 (3):213-231.

Ross D., Spurrett D. and Vuchnich R. 2005. The behavioural economics and neuroeconomics of disordered gambling: a policy-focused survey of research. Research commissioned by the National Centre for the Study of Gambling (or the National Responsible Gambling Programme).

Sage Policy Group. 2009. The estimated future economic and fiscal impacts of Del Ponte on Delaware. http://delpointeresort.com/DelPointMarketStudy.pdf. (Accessed 5 December 2009.)

Sallaz J.J. 2000. Gambling with development: Casino capitalism in South Africa and on Indian land in California, USA.

Survey Research Centre. 2005. Gaming and betting by adults, age 21 – 59, in Indiana. Survey report written at the University of Indiana. Indiana, USA.

UHY Advisors. 2008. Casino gaming in Massachusettes: an economic, fiscal and social analysis. Research commissioned by the Greater Boston Chamber of Commerce.

Volberg R.A., Nysse-Carris K. and Gerstein D.R. 2006. 2006 California problem gambling prevalence survey. Research commissioned by California Department of Alcohol and Drug Programs.

APPENDIX A

AREA	MUNICIPALITY / WARDS
GrandWest	Cape Metro wards: 6, 13, 14, 15, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 33, 34, 35, 47, 48, 49, 61, 63, 65, 66, 67, 72, 75, 76, 77, 79, 80, 81, 82
Southern Peninsula	Cape Metro wards: 64, 68, 69, 70, 71, 74, 78
Northern Peninsula	Cape Metro wards: 55, 56, 57, 58, 60, 62
Blaauwberg	Cape Metro wards: 1, 2, 3, 4, 5
Helderberg	Cape Metro wards: 83, 84, 85, 86, 100 Plus Stellenbosch Municipality area
Mykonos	Saldanha Bay (incl. Vredenburg) Municipality area; Swartland (Malmesbury) Municipality area
Golden Valley	Breede Valley (Worcester) Municipality area; Breede River/Winelands (Robertson) Municipality area
Caledon	Theewaterskloof (Caledon) Municipality area; Overstrand (Hermanus) Municipality area
Garden Route	Kannaland (Ladismith) Municipality area; Hessequa (Heidelberg) Municipality area; Mossel Bay Municipality area; George Municipality area; Oudtshoorn Municipality area; Knysna Municipality area

APPENDIX B

GGR forecasts for various scenarios.

Table B1: GGR Forecasts for Status Quo and Relocation Scenario 11 (Rand million)

Area	GGR 2009	GGR* 2010	GGR* 2011	GGR* 2012	GGR* 2013	GGR* 2014	GGR* 2015	GGR* 2016	GGR* 2017	GGR* 2018	GGR* 2019	GGR* 2020
Status quo:												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Worcester (Golden Valley)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mossel Bay (Garden Route)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: LOW SCENARIO (Scenario 11)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Southern Peninsula (from Mykonos)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Northern Peninsula (from Worcester)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg (from Caledon)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Tourism option: LOW SCENARIO												
GrandWest with tourism growth	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos to Northern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: MEDIUM SCENARIO (Scenario 11)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Southern Peninsula (from Mykonos)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Northern Peninsula (from Worcester)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg (from Caledon)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Tourism option: MEDIUM SCENARIO												
GrandWest with tourism growth	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos to Northern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: HIGH SCENARIO (Scenario 11)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Southern Peninsula (from Mykonos)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Northern Peninsula (from Worcester)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg (from Caledon)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Tourism option: HIGH SCENARIO												
GrandWest with tourism growth	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos to Northern Peninsula	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

* Based on GGR growth rates and spatial readjustments given in Appendix A.

Table B2: GGR Forecasts for Status Quo and Relocation Scenario 2 (only one casino (Caledon) relocating) (Rand million)

Area	GR 2009	GR* 2010	GR* 2011	GR* 2012	GR* 2013	GR* 2014	GR* 2015	GR* 2016	GR* 2017	GR* 2018	GR* 2019	GR* 2020
Status quo:												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Worcester (Golden Valley)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mossel Bay (Garden Route)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: LOW SCENARIO (Scenario 2)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg (from Caledon)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: MEDIUM SCENARIO (Scenario 2)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg (from Caledon)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: HIGH SCENARIO (Scenario 2)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Helderberg (from Caledon)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

Area	GR 2009	GR* 2010	GR* 2011	GR* 2012	GR* 2013	GR* 2014	GR* 2015	GR* 2016	GR* 2017	GR* 2018	GR* 2019	GR* 2020
Status quo:												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Worcester (Golden Valley)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mossel Bay (Garden Route)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: LOW SCENARIO (Scenario 3)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Northern Peninsula (from Worcester)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: MEDIUM SCENARIO (Scenario 3)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Northern Peninsula (from Worcester)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: HIGH SCENARIO (Scenario 3)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Northern Peninsula (from Worcester)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

Table B4: GGR Forecasts for Status Quo and Relocation Scenario 4 (only one casino (Mykonos) relocating) (Rand million)

Area	GR 2009	GR* 2010	GR* 2011	GR* 2012	GR* 2013	GR* 2014	GR* 2015	GR* 2016	GR* 2017	GR* 2018	GR* 2019	GR* 2020
Status quo:												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Worcester (Golden Valley)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Caledon	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mossel Bay (Garden Route)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mykonos	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: LOW SCENARIO (Scenario 4)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg (from Mykonos)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: MEDIUM SCENARIO (Scenario 4)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg (from Mykonos)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Relocation option: HIGH SCENARIO (Scenario 4)												
GrandWest	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Blaauwberg (from Mykonos)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]