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THE FUTURE OF CASINOS IN EUROPE

Grand Casino Helsinki

One is hard pressed to find a more dynamic industry in the world than the Casino industry.

In Macao, Casino gaming revenues will approach US$6 billion in 2005, and nearly US$10 billion in capital investments in various Casino resort projects are underway in this tiny (28 square kilometer) enclave on China's southern coast. Singapore is in mid-process for authorizing two Integrated Resorts—each with a Casino as the centerpiece—that may ultimately generate capital investments of US$5 billion or so. South Africa, which passed its gaming legislation in 1996, has developed a very attractive Casino industry located in 32 venues throughout the country; its Casinos generated over US$1.1 billion in gaming revenues in 2004. Australia and New Zealand boast mature but attractive Casino industries with numerous world class facilities.

On the Las Vegas Strip, there have been about US$30 billion in capital outlays for new or refurbished mega-Casinos since 1989. The Las Vegas Strip in 2005 is also marked by unprecedented high rise luxury condominium/time share developments, led by MGM Mirage's planned $4.7 billion City Center, with numerous other projects either under construction or in the planning stages. Tribal gaming in the United States has already climbed to a $20 billion (gaming revenue) industry.

Thus, the Casino industry is booming in many parts of the world, with the notable exception of Europe. For the most part, European Casino industries today are not much different than they were a quarter of a century ago. The European legislative models for Casinos range from State-owned monopolies in Sweden, Finland, Austria and the Netherlands, to "invisible" clubs in the United Kingdom, to highly-taxed private sector or private/public sector partnership exclusive franchise monopolies in most of the other EU countries. Capital investment has been limited, there are no destination resort Casinos to speak of, and there is no real sense that Casinos are anything besides gaming rooms that offer table games and slot machines, with the occasional bar and restaurant. Many of the Casinos would make fine museums, but are not terribly attractive as Casinos. With perhaps the exception of the former communist-dominated countries of Central and Eastern Europe, there is little to point to in Europe or the European Union that even faintly resembles the dynamic Casino industries of North America, Australasia, or South Africa.

Though there have been some attempts at liberalization in recent years, the outcomes in Europe have been less than impressive. In the United Kingdom, efforts to reform and liberalize the Casino industry that was initially authorized by the somewhat eccentric Gaming Act 1968 resulted in new legislation passed in 2005 that—at least for Casinos—can only be described as a disaster. The new law will permit only a single "regional Casino" (dubbed "super Casino" by the irresponsible tabloid The Daily Mail), and only eight large and eight small Casinos will also be added, under definitions provided by the legislation.

The disappointing outcome of the British efforts can be blamed on the ineptitude of the Civil Servants, the lack of commitment to this issue by the Blair government, and the absence of vision by the existing Casino industry, along with some clever and devious guerilla tactics employed by the print media and other opponents of the Bill. From a public policy perspective, the changes in gaming that will soon occur may prove to be a disaster. The UK may end up with exactly the kind of "ugly gambling" that the Bill's critics said would happen if the Casinos were allowed to proliferate under the Bill's original language. Time will tell.

Elsewhere in the EU, there are stronger trends toward protectionism and consolidation than there are toward development, expansion, and evolution. In those countries that have state-owned monopolies, there is much concern that rulings handed down from the European Court of Justice—such as Gambelli—might undermine those monopolies and open the various gaming industries—including possibly Casinos—at least to internal EU competition under the principles of harmonization and "free and fair trade." Because so many countries extract significant economic rents from their gaming monopolies, or from high taxes on private sector gaming industries, the concerns they raise are more than just philosophic.

The outcome to date in Europe has been a collection of Casino and gaming industries that are singularly unexciting and non-dynamic, especially in comparison to gaming industries on other continents. But will this divergent track between Europe and elsewhere continue to be the case? Might we expect European Casinos to continue to be small and unimportant venues catering to those few Europeans and international visitors who happen to stumble upon them, or who have an unhealthy desire to participate in Casino gaming in spite of the lack of amenities and other inconveniences? My suspicion is that—as with the rest of the world—European Casinos and Casino-style gaming will increasingly evolve in far more interesting directions. But the question remains: How might this transition take place?

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To gain some insights, one should look East, to the "New Europe." If there is a common characteristic to the economies of these former socialist countries, it is that they would rather emulate America than the relatively stagnant economic circumstances that prevail in Western Europe. In the Casino industries emerging in such countries as Estonia, Latvia, Lithuania, the Czech Republic, Ukraine, and Russia, we begin to see elements of competition and limited regulation that are more comparable with Nevada or Mississippi or New Jersey than they are with France, Spain, Italy, Switzerland, or Germany.

It is quite possible that, as long as Eastern and Central European countries such as these provide focused regulatory oversight for Casinos that is transparent and competent, this could bring about a substantial increase in the level of legitimacy and integrity for their respective Casino industries. Their focus also needs to be on using Casinos as an economic development tool and catalyst, not as a tax revenue generator. Such regulation should also assure that Casinos are crime free by protecting the integrity of Casino ownership, of Casino accounts, and of the games; in other words, no mafia, no skimming of profits or tax evasion, and no cheating of customers or owners at the tables and slots.

Furthermore, gaming laws should be adopted so that tax rates are low enough for private sector investors to generate adequate returns on invested capital. Furthermore, the legal and regulatory structures need to provide enough confidence that private property rights will be protected and the competitive environment can be understood and forecast. If these things are done, then one can expect to see Casinos in Europe go the direction that has so clearly developed elsewhere.

If experience in other parts of the world is a guide, then we might expect at least one European country to establish a legal and regulatory regime that meets the above criteria. This might then be followed by significant capital investments in Casino resort projects, perhaps from well-established and well-respected gaming companies from other parts of the world. (There are no European companies who have excelled with this kind of investment.) High returns on invested capital, along with the popularity of such "American-style" destination resort Casino facilities, could make other countries within the region take note. Thus, in the same way that Casinos proliferated in various states in the United States, among the various states of Australia, and which are now working their way through Asia, the "domino effect" could also occur in Europe. Such an effect can be triggered by successful Casino operations presented in an attractive manner—attractive both for customers and for investors. If this process begins, it could very well change the gaming landscape for Europe in the decades to come. Time indeed will tell whether this hypothesis comes to be.