

TTF is a national member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian transport, property, tourism & infrastructure sectors.

Tourism & Transport Forum

SUBMISSION ON THE PRODUCTIVITY COMMISSION INQUIRY INTO GAMBLING 17 APRIL 2009



Contact

Mr Evan Hall
National Manager, Tourism
TTF Australia Ltd

P | 02 9240 2000
E ehall@ttf.org.au



INTRODUCTION

The Tourism and Transport Forum (TTF) is a national, member funded organisation representing the top 200 owners, operators and investors in Australia's tourism, transport, aviation and investment sectors.

TTF welcomes the opportunity to make the following submission to the Productivity Commissions inquiry into gambling, consistent with the terms of reference. TTF believes the casino industry is of significance to tourism and this topic will be the main focus of the TTF submission.

AUSTRALIAN TOURISM

Australian tourism, as measured by the latest Australian Bureau of Statistics Tourism Satellite Account 2007/08¹ demonstrates the economic, employment and export value of Australian tourism:

- **Economic Value** – National tourism accounts for 3.6% (\$40.6 billion) of total GDP. Tourism gross value added exceeds that of agriculture; forestry and fishing; communication services; and electricity, gas and water supply.
- **Employment Value** - The national tourism industry's share of total employment is 4.7% (497 800 persons).
- **Export Value** – National tourism contributes 10% of total exports of goods and services, due to international visitors consuming \$23.5 billion worth of goods and services. Tourism exports are second only to coke, coal and briquettes, metal ores and minerals on export value.

The ABS Tourism Satellite Account captures the value of the tourism industry in a number of ways. One measure is through visitation in tourism connected industries, including casinos and other gambling services. Through visitor expenditure casinos contribute 0.5% of the total tourism economy (\$40.6 billion GDP).

ECONOMIC CONTRIBUTION OF CASINOS TO TOURISM

At year end June 2008, 5.2 million international tourists visited Australia and 1.1 million or 19.4% of those tourists visited a casino.² Tourists who visit casinos make multiple visits during their time in Australia amounting to 2.4 million visits to casinos from international visitors in 2007/08.³ These figures indicate the casino experience is a critical attraction for international tourists visiting Australia.

Tourism Research Australia estimates that at year end June 2008, total expenditure of international visitors to Australia was \$16 billion. Total expenditure of international tourists who visited a casino was \$4.9 billion or 30% of the total expenditure. International tourists who visit casinos spend approximately \$4941 per head during

¹ ABS Tourism Satellite Account 2007-08

² Tourism Research Australia, International Visitor Survey 2008

³ The Allen Consulting Group, Casinos and the Australian economy 2009

their trip compared with international tourists who do not visit casinos only spending \$2628 per head.⁴ Consequently, international visitors who have a higher propensity to visit casinos during their visit to Australia also spend more money, having a greater impact on the Australian economy. The casino experience is also relevant to the domestic tourism market with 2.1% of domestic overnight visitors visiting a casino, spending approximately \$2 billion in total expenditure, at year end June 2008.⁵

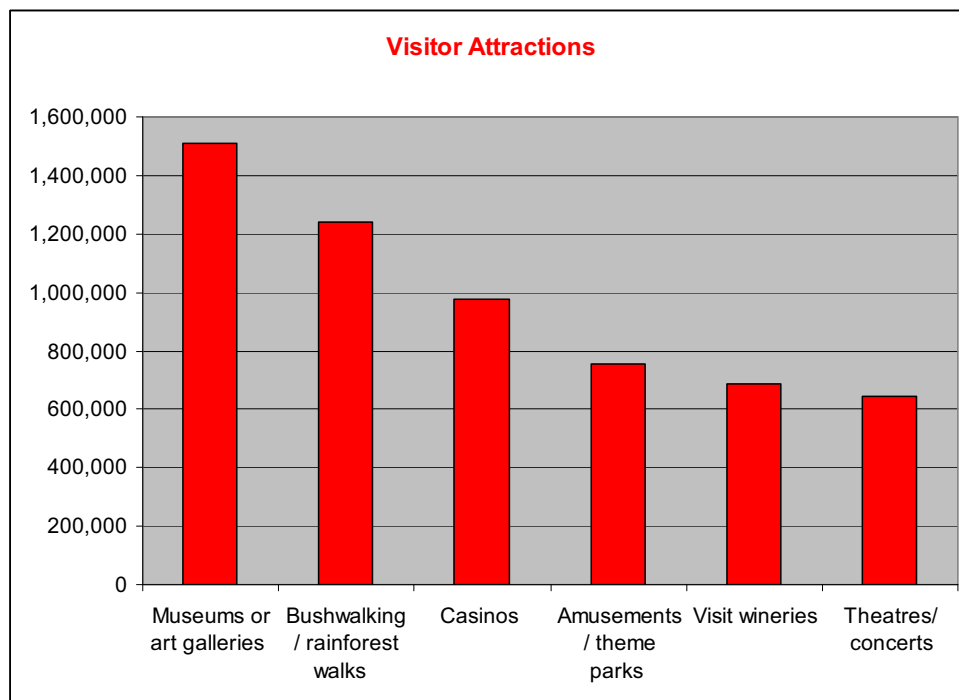
These figures demonstrate casinos attract higher yield tourists who have a positive impact on the economy.

CASINOS AS A VISITOR ATTRACTION

Visitors are attracted to a destination for a wide range of reasons and undertake a variety of activities during their stay. It is difficult to attribute any one activity as the reason why tourists visit a particular location but we can conclude a grouping of attractions play a significant role in driving tourism to a destination.

Information depicted in Table 1 demonstrates casinos are a critical tourist attraction more popular than visiting amusement or theme parks, wineries and concerts.⁶ TTF contends that a high quality casino experience is a minimum standard for a significant number of visitors. For some visitors, particularly from key tourism source markets, casinos are a direct visitor attraction.

Table 1



⁴ Tourism Research Australia, International Visitor Survey 2008

⁵ Tourism Research Australia, National Visitor Survey 2008

⁶ Tourism Research Australia, International Visitor Survey 2008

Many casinos in Australia are large entertainment complexes offering 5 star hotels, quality restaurants and theatre productions and many of these complexes offer entertainment experiences not accessible anywhere else in the location. This grouping of visitor attractions available on one site contributes to casinos establishing their complexes as attractions in their own right, encouraging international tourists to visit Australia. These figures indicate if changes were made to the operation of gambling activities in casinos, the value of attractions we offer tourists would be reduced, affecting or possibly changing people's decision to visit, having a negative impact on our economy.

The significance of casinos to a destination is demonstrated through a recent decision by the government of Singapore to boost its tourism industry by developing several new attractions, including two large casinos. Significantly, the Singapore Tourism Board has been given responsibility to manage this critical project, highlighting not only the strong link between the tourism industry and casinos but the visitation driven by the casino experience.

A recent Sydney Morning Herald article states that Singapore is relying on development of new casinos to lure millions of tourists from China, India and other Asian markets,⁷ indicating Australia will face fierce competition from this regional neighbour which is the centre of the Asia Pacific region. These emerging high yield tourism markets attracted to the casino experience are also critical to the long term sustainability of the Australian tourism industry.

AUSTRALIA'S TOP TOURISM MARKETS

In March 2007, Tourism Australia reported Australia's top ten tourism markets into Australia by visitor numbers as New Zealand, the United Kingdom, Japan, the United States of America, China, Korea, Singapore, Germany, Hong Kong and Malaysia. These top ten markets account for 75% of all arrivals into Australia.⁸

Table 2 depicts the propensity of visitors from these top ten markets, and other emerging markets such as Taiwan, to visit casinos during their stay in Australia. In 2008, the International Visitors Survey records 20% of tourists from the majority of these top markets visited a casino, reaching 30% and above for India, Hong Kong, China and Korea and up to 49% for Taiwan.⁹

Over the decade from 1998 to 2007, the annual growth rate for visitors from India and Korea was 14% and 16% respectively.¹⁰ The casino offering is clearly significant to key tourism source markets such as these who are critical to the future of Australia's tourism industry as more traditional markets such as Japan and the United States decline.

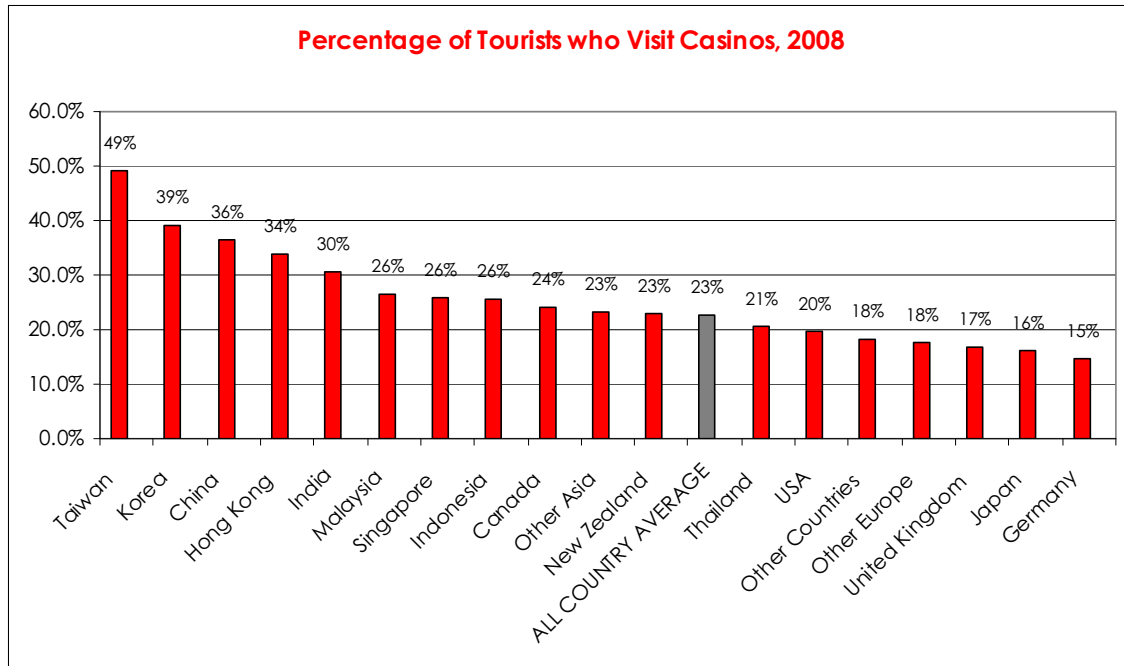
⁷ Sydney Morning Herald November 13, 2008

⁸ Tourism Australia Market Insights: www.tourism.australia.com/content/Research/Factsheets

⁹ Tourism Research Australia, International Visitor Survey 2008

¹⁰ Tourism Australia www.tra.australia.com/content/documents/Visitor%20Profile/2008

Table 2



These figures depict that if Australia did not offer casino experiences, visitation from these emerging markets would be reduced, negatively impacting Australia's economy. There is also evidence to suggest that high yield international patrons from some of these emerging markets known as international VIP gaming players (high rollers) visit Australia primarily because of the casino experience.¹¹ If these experiences were not available, it is inevitable that Australia would lose these visitors to other destinations offering casinos such as Macau, negatively impacting Australia's tourism industry and economy.

CHINA – AN EMERGING TOURISM MARKET

China has been identified by the tourism industry and Tourism Australia as a key emerging tourism market. The number of Chinese holiday visitors to Australia has been steadily increasing since the 1990s and in 2004 and 2005 there were nearly three times more Chinese holiday visitors to Australia compared with 1999 and 2000. From 1998 to 2007 the annual average growth rate for visitors from China was 19%, the largest growth rate of any market.¹²

At year end September 2008, there were 161,058 Chinese holiday visitors to Australia, an increase of 5.6% from September 2007. China is currently rated Australia's fifth largest inbound market for arrivals and Australia's fourth largest source market in terms of total expenditure.¹³ The casino experience is important to Chinese tourists who have a far higher propensity to visit casinos during their holiday to Australia reported at 32.1% compared with 19.4% of all other international

¹¹ The Allen Consulting Group, Casinos and the Australian economy 2009

¹² Tourism Australia www.tra.australia.com/content/documents/Travel

¹³ Tourism Australia www.tra.australia.com/content/documents/Visitor%20Profile/2008

visitors.¹⁴ Table 3 demonstrates these Chinese holiday tourists are also a high yield market spending an average of \$143.43 per night during their visit compared with Chinese visitors who do not visit casinos spending \$118.86 and all other international tourists who do not visit casinos spending \$100.69.¹⁵

Table 3



These figures demonstrate the casino experience is a factor in Australia remaining competitive in the emerging Chinese tourism market which is critical to the future of Australia's tourism industry. To ensure Australia remains competitive in this high yield market, the availability of the casino experience is critical.

CASINO INDUSTRY SUPPLYING TOURISM INFRASTRUCTURE

Usually there is a fundamental market failure in the operation of tourism visitor attractions. These attractions are critical to driving tourism demand by attracting visitors. These attractions have a significant spill over effect into the general economy. However, the attractions receive little economic benefit from the tourism they generate. Attractions such as opera houses, theme parks, museums and national parks receive only 3.3% of tourism gross value.¹⁶

This inability of attractions to capture the expenditure of the tourists who visit has led to market failure. Consequently, most attractions from opera houses to convention centres and national parks are public sector assets.

Casinos are unusual in this context because the actual attraction of gambling activity is profitable and casinos are able to capture a viable share of visitor expenditure. As

¹⁴ Tourism Research Australia, International Visitor Survey 2008

¹⁵ Tourism Research Australia, International Visitor Survey 2008

¹⁶ ABS Tourism Satellite Account 2007-08

a result, for casinos it is financially viable for casinos to privately invest in tourism infrastructure to attract and accommodate visitors.

Since the 1999 Productivity Commission inquiry into gambling, casinos have established their businesses as integrated entertainment complexes, expanding on their service provision as gaming venues to offer a wide range of activities catering to a variety of local residents and tourists. In 2007/08, the Australian casino industry generated a social surplus of \$3 billion of which casino patrons are the main beneficiaries. Over the next three years, Australia's casinos are investing approximately \$1.6 billion in major capital works projects to enhance and improve the experiences offered in their complexes.¹⁷

The significant investment the casino industry makes in developing critical tourism infrastructure demonstrates the key role the industry plays in building, improving and expanding Australia's tourism experiences. Non gaming infrastructure and services provided by casinos are dependent upon gaming revenues. Ongoing investment in critical tourism infrastructure by the casino industry depends on the availability of gambling activity in casinos.

HOTEL INVESTMENT

The only investment in hotels in capital cities in recent times has been driven by the casino industry. Since the 2000 Olympic Games, occupancy rates in Sydney have reached record and sustained levels of over 80%, which is amongst the highest in the world. The lack of suitable land for development, unfavourable zoning conditions, high construction costs, skill shortages and associated credit issues combine to create barriers to entry for prospective developers and investors.

The capital works program at Crown Melbourne includes an investment of \$300 million on a new hotel at the site, adjacent to the redeveloped Melbourne Convention and Exhibition Centre (MCEC). Crown has worked with the Victorian Government and MCEC to ensure the new hotel will complement the Victorian Government investment in the Convention Centre. The Victorian Government expects the new Melbourne Convention Centre to generate significant economic benefits for Victoria.

Star City in Sydney's Darling Harbour is planning to commence a \$475 million redevelopment in 2009 creating approximately 1000 jobs. Plans for the site include a new five star hotel with 250 rooms, expanded restaurant and bar facilities as well as improved entertainment on the gaming floor. This large redevelopment will result in a world class 'must see' visitor attraction for international tourists from high yield markets who have a propensity to visit casinos, positively impacting Australia's economy.

Burswood casino in Perth is investing \$155 million to upgrade and expand the main casino facilities including restaurants and an upgrade of the rooms at the InterContinental Hotel on the site.

¹⁷ The Allen Consulting Group, Casinos and the Australian economy 2009

CONVENTION AND EXHIBITION SPACE

The financial viability of the casino industry also allows for investment in critical infrastructure of convention and exhibition space. Crown Casino is developing facilities to cater for business events which are a high yield component of the tourism industry with business visitors spending up to six times more per day than visitors traveling for leisure.¹⁸ Crown has plans to develop new conference facilities including 7 state of the art conference meeting rooms, 50 exhibition booths and an 800 seat plenary hall. Star City also caters for business tourism and has one of the biggest conference facilities in NSW catering for up to 800 people which will increase to 1200 people when the redevelopment is finished.

ENTERTAINMENT AND SPONSORSHIP

Crown casino offers numerous entertainment experiences including quality restaurants, live entertainment, concerts and events. The Palladium ballroom at the Crown complex is the largest facility in Melbourne catering for 1500 guests.

The Star City complex has Sydney's premier theatre, the Lyric Theatre which is capable of holding up to 2000 patrons. The Lyric Theatre opened in 1997 and has received over 3 million patrons since this time to see international musicals such as Phantom of the Opera. These shows could not have been staged anywhere else in NSW due to a lack of facilities.

Crown Melbourne plays a significant role in promoting major events in Victoria that attract international visitors including the Spring Racing Carnival, Formula 1 and the Tennis Open. Star City engages in sponsorship activity for sporting teams such as the Sydney A-League Soccer team and has recently signed up to a sponsorship deal with the Sydney Swans AFL team. Star City has sponsored other events such as Chinese New Year for many years.

Burswood casino in Perth operates the Burswood Dome Theatre which has a total seating capacity of 20 000 people.

In addition to investment in tourism infrastructure, in 2007/08 Australia's casino industry contributed \$10.9 million to community groups, cultural and sporting events and charity. The casino industry also provides inkind support to community organisations and charities by donating accommodation and facilities for use in fundraising activities.

TOURISM MARKETING

There is a strong 'market failure' based case to advocate for government financial support for generic marketing campaigns because the private sector cannot take responsibility for creating demand for Australia as a destination.¹⁹

¹⁸ Business Events Council of Australia – pre budget submission 2007-08

¹⁹ Australian Tourism, How Deep The Recession, Geoff Carmody and Associates for the Tourism and Transport Forum

In contrast, the casino industry makes a significant contribution to tourism marketing by maintaining an extensive network of overseas offices to attract international tourists to visit casinos in Australia. These offices, which are predominantly in Asia, direct potential overseas tourists to visit not only casinos but Australian cities and regions. In addition, casinos have a specific focus on deliberate marketing to the 'high roller' segment of the tourism industry who have a propensity to visit casinos and spend significant funds during their visit to Australia. The casino industry invests approximately \$65 million to attract these patrons.²⁰ This is in comparison with the total operating budget of Tourism Australia at \$135 million.²¹

REGULATORY STRUCTURE

Each state and territory has its own regulatory authority and legislation underpinning the casino industry. Casinos adhere to casino gambling specific legislation as well as general legislation including the Anti-Money Laundering and Counter Terrorism Financing Act and the Trade Practices Act, meaning the casino industry is subjected to a stricter regulatory regime than other gaming venues such as hotels and clubs.

In 2007/08 casinos paid 30% of total revenue in taxes amounting to \$1.2 billion.²² Australia's casino industry taxation rates are higher than competing tourism destinations such as Singapore, which will have a significantly lower tax rate for casino operations when the new development opens in 2010. Australian tax rates are also higher than New Zealand, South Africa and Las Vegas in the United States and lower than Macau where casinos provide the vast majority of government taxation revenue. However, the operation of casinos differ significantly in that there is no corporate tax on gaming profits in Macau.

Australia's casino owners also have investments in New Zealand, Canada, the United Kingdom and Macau. Future investment in the casino industry in Australia is dependent on taxation and regulatory certainty. Changes to the regulatory or taxation environment may result in previously sound investments in casinos no longer being viable as well as affecting the casino industry's decision to invest in tourism infrastructure and attractions.

It is critical that the ongoing regulatory and taxation environment in the casino industry is considered in the context of fierce competition from Australia's regional neighbours who offer dynamic casino experiences. This is to ensure Australia remains competitive in high yield tourism markets such as China and India which create significant flow on effects to the Australian economy.

RECOMMENDATION

TTF believes the inquiry into gambling in Australia should consider the significant relationship between casinos and the tourism industry. Casinos generate international exports through tourism in a highly competitive environment and competition in the region will become even more pronounced in the near future with the development of casinos in Singapore.

²⁰ The Allen Consulting Group, Casinos and the Australian economy 2009

²¹ Tourism Australia Annual Report 2007/08

²² The Allen Consulting Group, Casinos and the Australian economy 2009

The casino industry is a key provider of tourism infrastructure including hotels, restaurants and conference facilities that contribute to raising Australia's profile as a tourism destination. Casinos are planning to invest over \$1.6 billion in major capital works programs to upgrade and redevelop their properties over the next three years against a backdrop of significant economic uncertainty during the global financial crisis. This investment was planned on the basis of the current regulatory regime. The tourism industry is highly dependent on this investment, which depends on a predictable regulatory regime for the casino industry.

Casinos should be considered as operators of gaming and non-gaming services and in the absence of gaming, the range of other services provided by casinos, such as accommodation and entertainment would most likely not be provided.

The capital intensity of casino operations requires owners to closely monitor their investments to ensure sufficient returns are generated. An important implication of this is ensuring predictability of regulatory and taxation requirements in the casino industry.

TTF recommends the Productivity Commission consider the impact on the tourism industry with regard to any regulatory changes it may consider for the casino industry. Specifically the Productivity Commission should assess the impact:

- **On the visitor experience of our casinos compared with Australia's international competitors**
- **The ability of the casino industry to attract 'high rollers' and visitors from crucial tourism source markets such as China**
- **Casino investment in critical infrastructure such as hotel rooms and convention and exhibition space**