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Economic Assessment of a Regulated Casino Gaming Sector

IRELAND
2008-2020

Sponsors

Gaming and Leisure Association of Ireland

The GLAI is an association of private members' gaming clubs offering casino-like services to their members, as well as a number of online operators, established in 2005.

Its aims are to:

- Promote best practice in the gaming sector.
- Promote the regulation of the casino sector and ensure that the transition from private members gaming clubs to regulated casinos is done in a viable manner.
- Ensure consumer protection and operating standards across the sector, through the strict application of its self-regulatory Code of Conduct.

Its Code of Conduct requires among other things that clubs provide their services in a socially responsible manner, protect the vulnerable and do not sell alcohol. It represents a large proportion of the private members gaming clubs currently operating in the State.

Director, Mr. David Hickson
www.glai.ie

A & L Goodbody Solicitors

A&L Goodbody is a leading Irish law firm providing top tier business legal services to Irish and International clients. Its Gaming and Betting Group combines expertise from across the Firm to give co-ordinated and specialised legal advice to a wide range of clients in the gaming, betting and lotteries industries, including online casinos, betting exchanges, bookmakers and suppliers of software and gaming equipment to the industry. It also advises the Banking and Financial Services sector on all aspects of gaming law.

Partner, Mr. Joe Kelly
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Mazars

Mazars is one of Ireland's leading audit, taxation and business advisory services firms, based in Dublin, Belfast and Galway. Mazars has provided specialist taxation and audit services to a number of companies in the gaming and betting sectors. It is part of the Mazars International Association, which employs 8,000 people in 46 countries.

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Executive Summary

Gambling is a large and rapidly-growing sector internationally. In the EU25 it was valued at €63 billion (Gross Gaming Revenue) in 2007, while in Ireland it was valued at €1.7 billion. Casino gaming in particular has been experiencing greater than average growth, reflecting among other things regulatory changes and the increased development of the online sector.

Casinos as such are not legislated for in Irish law, the relevant legislation being the Gaming & Lotteries Act (1956). However, private members' gaming clubs are offering casino-type live gaming services in Ireland, albeit they operate in a legal grey area.

The recently published *Regulating Gaming in Ireland – Report of the Casino Committee*[1] highlighted the negative consequences of the current unregulated environment (including lack of consumer protection, lost tax revenue, potential for abuse by criminal elements), and recommended a comprehensive updating of the legislation dealing with casino gaming in Ireland.

The report also highlighted the window of opportunity for Ireland to become a central hub for online gaming, given Ireland's strengths as an investment location and the regulatory and tax structures in place in other jurisdictions.

While the Casino Committee's report reviewed in detail the pros and cons of regulatory options open to Ireland, as well as fiscal and regulatory structures in place in other jurisdictions, it did not specifically analyse the potential economic impacts for Ireland of regulating the sector.

In view of this, the Gaming & Leisure Association of Ireland (GLAI) commissioned DKM Economic Consultants to produce an independent economic analysis of a regulated casino gaming sector in Ireland, looking forward to 2020, to cover both the land-based and online sectors. The report was sponsored by A&L Goodbody Solicitors and Mazars Accountants.

Casino Gaming in Ireland Today

The main gambling sectors in Ireland today are:

1. The National Lottery,
2. Land-based betting/bookmakers,
3. Gaming machines (Amusement With Prizes [AWP]/slot machines),
4. Land-based bingo,
5. Land-based casinos,
6. On-line gambling.

All are subject to regulation except the last two. The National Lottery is State-owned and the betting sector benefits from very substantial State subvention of horse and greyhound racing.

Because of the unregulated situation at the moment, there is some uncertainty regarding the exact size of the casino gaming sector in Ireland. The Casino Committee's report indicates that there are 25-30 private members' clubs operating in the State. Other estimates put the number at much higher, but may reflect lack of consistency in the definition of a casino. For the purposes of this report casinos in Ireland consist solely of private members' clubs where 'live' gaming is catered for.

The GLAI estimates that there are approximately 500 people employed in the sector at the moment, and that it accounts for approximately 1.5% of total land-based gambling GGR in Ireland. Table 1 and Figure 1 set out our estimates of the size of the land-based gambling sectors in Ireland in 2007. Gambling in Ireland is clearly dominated by the betting sector.

http://www.justice.ie/en/JELR/Casino+(Eng)+for+Web.pdf/Files/Casino+(Eng)+for+Web.pdf

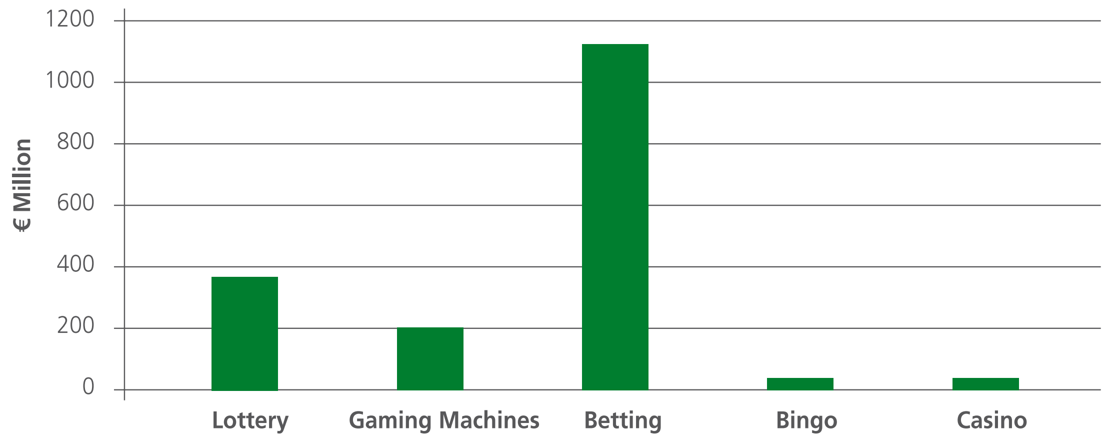
Executive Summary

Table 1: Estimate of Value of Land-Based Casino and Total Land-Based Gambling Ireland, 2007

	Amount Bet € Million	GGR as %age of amount bet	GGR		GGR as %age of GNP
			€ Million	%age of Total Gambling Sector	
Lottery	779	46%	358	20.6%	0.222%
Gaming Machines	1,050	19%	202	11.6%	0.125%
Betting	3,992	28%	1,126	64.8%	0.699%
Bingo	135	20%	27	1.6%	0.017%
Total excl. Casinos	**5,956**	**29%**	**1,713**	**98.5%**	**1.063%**
Casino Gaming	153	17%	26	1.5%	0.016%
Total Land-Based Gambling	**6,109**	**28%**	**1,739**	**100.0%**	**1.079%**

Gross National Product (GNP) in Ireland in 2007 was €161 billion. Thus, while overall land-based gambling in Ireland represents 1.08% of GNP, land-based casino gaming represents a very modest 0.016% of GNP.

Figure 1: GGR of land-based gambling in Ireland, 2007 (€ million)



Casino Gaming Internationally

Land-Based Casino Gaming

There is a long tradition of land-based casino gaming operating in a well-regulated environment across Europe. This contrasts sharply with Ireland, where the sector is effectively unregulated. Figures 2 and 3 show the relative economic size of casino gaming and of the total gambling sector for a range of EU countries.

As can be seen, GGR of the Irish casino gaming sector as a percentage of GNP is worth 20% of the EU average. However, when one considers the relative economic importance of gambling as a whole, Ireland emerges as being considerably higher than the EU average, with a GGR of 0.97% Vs 0.52% of GDP in 2003. The implication is that a properly regulated casino gaming sector in Ireland would likely be considerably larger than is currently the case.

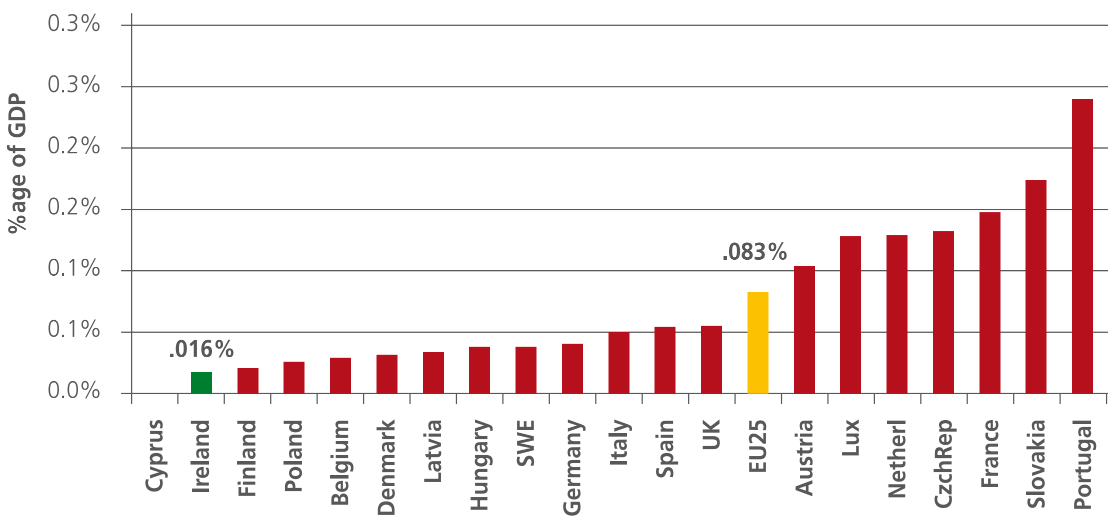
Casino gaming is more labour intensive than other gambling sectors, and is a major employer in Europe. In 2003 it was estimated that the sector employed some 10,000 people in the UK, 17,500 people in France and 4,600 in The Netherlands. This compares with approximately 500 in Ireland currently.

The tourism importance of casinos varies from country to country. The extent of the impact is usually predicated on being surrounded by jurisdictions where casinos are restricted, as is the case in much of the USA and Asia. These "destination" casinos are usually of large scale and attract significant numbers of visitors. It is estimated that in 2005-06 as many as 45% of overseas visitors to Australia visited a casino. In Las Vegas, casinos are estimated to attract over 50 million visitors per annum. Tourism impacts are likely to be less significant in Europe than in the USA or Asia, as casinos are regulated and well-established in most countries.

Online Casino Gaming

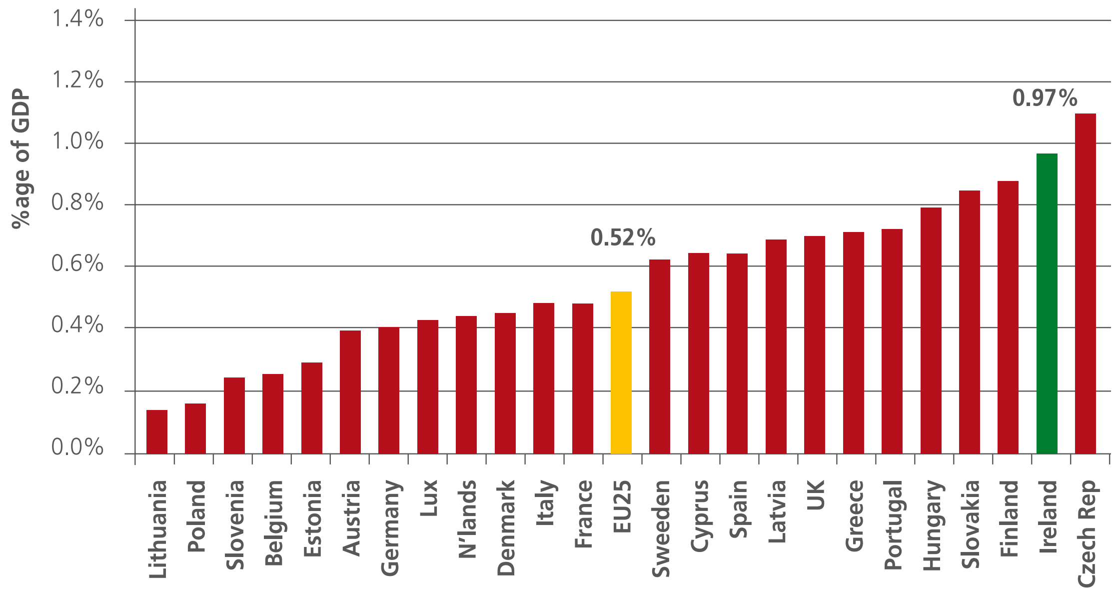
The online sector has huge potential for growth. The Casino Committee's report gives an assessment of the current and future potential size of the sector. It quotes industry sources that indicate the current value of the sector at €44 billion per annum, growing to €95 - €130 billion by 2015, implying annual growth of 10-15% per annum. Other sources project growth of between 22.5% and 40% per annum over the period, with accelerated growth if the US market opens up.

Figure 2: Casino gaming GGR as % of GDP*, 2007



**Ireland GNP; Source: European Casino Association, SICL (2006), Eurostat, Statistics Sweeden*

Figure 3: Total Gambling GGR as a % of GDP*, 2003



**Ireland GNP; Source: SICL (2006), and DKM calculations*

A number of specific factors point to the rapid future growth of on-line gambling, both in Ireland and globally:

a) Improving accessibility, due to the spread of broadband
b) The rapid and unpredictable development of technology.
c) The evolution over time of an adult population increasingly at ease with the internet.
d) The development of new and easier remote payment systems.
e) As the number of players increases over time, the potential winnings will also increase.
f) Increasing incomes will mean increasing expenditure available for leisure activities.

Regulatory structures for the online sector vary greatly internationally. Recent years have seen legislative attempts in the USA to outlaw internet gambling, which is widely seen as granting a window of opportunity for other jurisdictions to attract the sector.

In Europe there has been a lack of accommodative regulatory regimes among the large countries. Attempts in this direction in the UK were undermined by the introduction of a significantly increased gaming tax in 2007 (15% of GGR). As a result, many of the leading online gaming firms have established themselves in "off-shore" locations such as Gibraltar, the Isle of Man, Malta, and Alderney (Channel Islands), Antigua and Kahnawake (Canada).

These territories have succeeded in capturing business because of their ability to quickly put in place and adjust as required a regime of accommodative regulation and low taxation. They are characterised by very low or capped gaming taxes, and zero or very low corporate taxes. Good international broadband connectivity (capacity to connect with users in other countries) has also been essential.

However, discussions with industry sources indicate that these locations can suffer in terms of:

- Access difficulties and lack of specialised skills;
- Limitations on broadband infrastructure;
- Uncertainty regarding the long term sustainability of regulatory and/or taxation regimes;
- A reputation as tax havens.

Casino Gaming – The Potential for Ireland

There is already an unregulated land-based sector operating in Ireland, but its potential is being stif ed by legislative uncertainty. The online sector has theoretically greater potential for Ireland, as there is in principle no limit to the share of the world market that Irish-based businesses could capture if appropriate regulatory and fiscal policies are in place. This report assesses the potential size of both sectors in today's context, as well as looking forward to 2020.

Potential Size of a Regulated Irish Land-Based Casino Gaming Sector

Our analysis has indicated that Irish spending on gambling is relatively high by international standards. We estimate that total Irish gambling GGR in 2007 was €1.74 billion, of which casino gaming contributed a modest 1.5%, or €26 million per annum.

We estimate, on the basis that a properly regulated sector here would reach the same level as is currently the case in the UK, that the sector would be worth €157 million per annum (GGR), in present day terms.

Looking forward, if the sector grows in line with the overall economy, one would expect casino gaming GGR to reach approximately €280 million by 2020 (in 2007 money). The direct benefits to the economy of a sector of this size now and in the future are summarised in Table 2 and Figure 4, setting out Employment, Exchequer and Tourism impacts At the moment casinos operating in Ireland employ approximately 500 people, and are subject to tax in the same way as all other businesses, although the tax take would be modest given the size of the sector currently, and there is no gaming tax in place at the moment. These estimates exclude the possibility of a large-scale "regional" casino development going ahead.

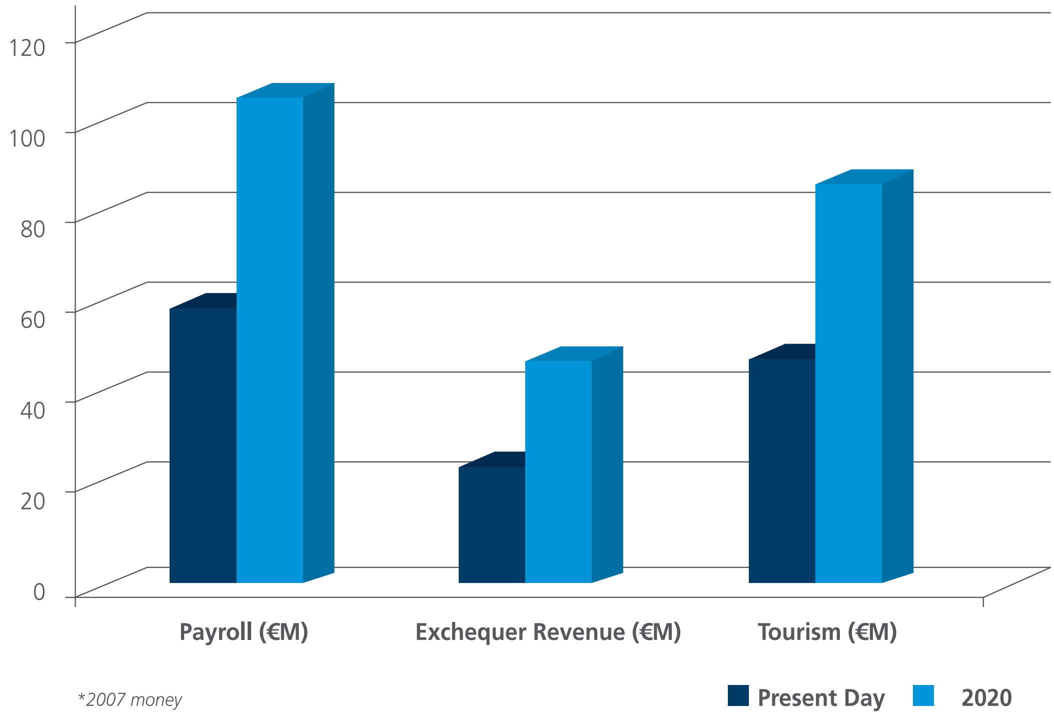
Another important benefit of a properly regulated sector is that it can safeguard against the potential abuses of an unregulated environment – including underage gambling, consumer protection issues, money laundering and the involvement of organised crime and terrorism.

Table 2: Annual Direct Economic Impacts of a properly regulated Land-based Casino Gaming Sector in Ireland, Present Day & 2020†

	Present Day	2020
Employment Impacts		
Employment	2,000	3,600
Payroll (€ million)	60	107
Exchequer Impacts	**€ Million**	**€ Million**
Gaming Tax	8	14
PAYE/PRSI	15	27
Corporation Tax	2	4
Commercial Rates	3	5
Total Tax Take	**28**	**50**
Tourism Impacts* (€ million)	**50**	**90**

†2007 Money.
*additional to expenditure in casinos.

Figure 4: Economic Impact of Regulated Land-Based Casino Sector, Present Day and 2020*



*2007 money

Potential Size of a Regulated Irish Online Casino Gaming Sector

The online sector has huge potential for growth, as discussed. To be successful in a sustainable way in the online sector, a jurisdiction must be able to provide:

1. A regulatory structure that can license and allow the various market players to operate with the appropriate level of business freedom and security;
2. A competitive taxation regime;
3. Certainty as to the future sustainability of the regulatory and tax regime, and at the same time f exibility to change to accommodate developments in the sector;
4. A deep labour pool of specialist skills, and an attractive environment for staff;
5. Strong broadband connectivity.
6. A good reputation internationally.

Ireland is capable of ticking all of these boxes. In particular, international broadband connectivity is among the best in the world, notwithstanding lagging uptake and broadband speed domestically. A further advantage is that the sector is dominated by English-speaking firms. Ireland is thus well-positioned, if the appropriate legislative and regulatory structures are in place, to attract a strong share of the global remote gambling sector.

Already, a number of leading firms in the sector have established operations in Ireland, and there are a number of successful Irish bookmakers who have based their online subsidiaries in other jurisdictions for regulatory purposes, combined with their existing Irish skill-base.

However, discussions with a number of firms in the sector have indicated that current legal and regulatory uncertainty prevents them from committing to setting up operations here. Ideally they would wish to be regulated and operate from the same jurisdictions. They have fears that a view might be taken that some back office services would fall foul of the existing law, as they might be seen to facilitate gambling.

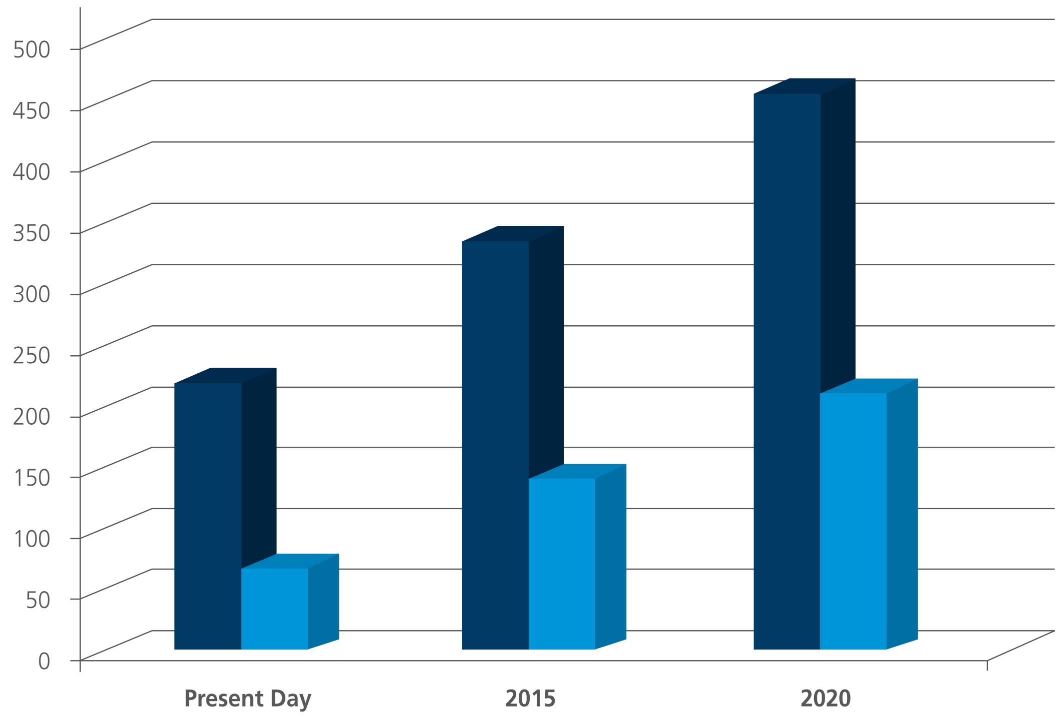
On the basis that Ireland succeeds in attracting 5% of the global sector, this would represent a local sector worth €2.2 billion per annum (based on a global valuation of €44 billion currently. Using reasonable projections of future growth, we estimate an Irish online sector at present day levels, in 2015 and 2020 could be as set out in Table 3 and Figure 5:

Table 3: Illustrative Impact of Online Gaming Sector on Irish Economy, Present Day, 2015 and 2020

	Present Day	2015	2020
Value of Global Sector (GGR € million)	44,000	100,000	150,000
Ireland's Share*	5%	5%	5%
Employment	5,000	7,500	10,000
Payroll (€ million)	240	360	480
Exchequer Revenues	**€ million**	**€ million**	**€ million**
Payroll taxes	60	90	120
Gaming Tax	2	5	8
Licence Fees	2	5	8
Corporation Tax	28	63	94
Total Exchequer Revenues	**92**	**163**	**229**

* On top of existing share of sector; all values in 2007 money.

Figure 5: Economic Impact of Regulated Online Casino Sector, Present Day, 2015 and 2020*



Conclusions

This report has attempted to assess the potential size of an Irish land-based and online casino gaming sector, currently and out to 2020, and indicates that both have the potential to be significant economic sectors for Ireland, if the appropriate regulatory and fiscal structures are put in place. In addition, there are a number of important social benefits from proper regulation, including consumer protection and potential issues relating to money laundering and organised crime.

On the basis of our estimates, the online sector has the potential to be even more economically significant for the Irish economy than the land-based sector, although the latter brings with it added benefits for the tourism sector.

Online casino gaming is a young, fast-growing sector, but now includes a significant number of large, well-established, publicly quoted companies. Our discussions with the industry indicate that these firms are looking for a stable onshore base where they can continue to develop in a secure fiscal and regulatory environment. Ireland is well-placed to provide this.

Our analysis backs up the Casino Committee's conclusion that there is a window of opportunity for Ireland at the moment to become a central hub for the online gaming sector, given our labour pool characteristics and physical, legal and economic infrastructure.

Finally, there is a synergistic relationship between the land-based and remote sector, including the development of labour skills relevant to both, the scope for cross-over services, and reputational factors. These are likely to become more important over time as technology advances.

Glossary / Definitions

Casino gaming is defined for current purposes as gambling on traditional casino or 'live' games such as roulette, blackjack and card-games (including poker), whether in land-based casinos or online. It excludes gambling on slot machines and other Amusement With Prizes (AWP) gaming machines.

Casino is the term used in this report to describe private members' clubs that provide casino-like services in Ireland. For legal reasons all casinos in Ireland are currently constituted as private members' clubs. We refer to these clubs as casinos because the meaning is more immediately clear and it encompasses a situation in the future where the regulatory position could change, as well as assisting comparability with the international situation.

Casino Committee report refers to the report recently published by the Department of Justice, Equality & Law reform entitled Regulating Gaming in Ireland – Report of the Casino Committee[1].

Gross Gaming Revenue (GGR) is the total amount gambled net of winnings. Unless otherwise stated, data on gambling expenditure presented in this report is expressed in terms of GGR. This can also be referred as the "house edge", and is the equivalent of gross profit in other business sectors.

Gaming Machines

The Casino Committee report gives the following illustrative definition for gaming machines:

"any device whether wholly or partly mechanically, electrically or electronically operated that is so designed that:
(a) It may be used for the purpose of playing a game, and
(b) As a result of participating in a game on the device, winnings may become available and
(c) Includes any machine declared by the gaming regulatory authority to be a gaming machine." (p.195)

Section 43 (2) (a) of the 1975 Finance Act (as amended) states:

A machine is a gaming machine if-
(i) it is construed or adapted for gaming, and
(ii) the player pays to play the machine whether by the insertion of a coin or token or in some other way, and
(iii) the outcome of the game is determined by the action of the machine, whether or not provision is made for manipulation of the machine by the player,

but a machine which, when played by a player once and successfully, affords that player no more than an opportunity
(i) to play again without paying to play, or
(ii) to obtain a non-monetary prize, which, if available for purchase or similar item were so available, would not normally exceed £5 in value,

shall be deemed not to be a gaming machine.

Gaming machines are generally taken to include Amusement Machines and Amusement With Prizes (AWP) Machines. These are defined below.

Amusement Machines

The Casino Committee report gives the following illustrative definition for amusement machines:

"Amusement Machine means a mechanical, electrical or electronic machine or device, operated by the insertion of a coin or amusement machine token or by the use of credits, which is intended exclusively for amusement purposes

1 http://www.justice.ie/en/JELR/Casino+(Eng)+for+Web.pdf/Files/Casino+(Eng)+for+Web.pdf

and not for gambling purposes and from which the player can obtain nothing representing money, goods or any other benefit other than the opportunity to continue to use the machine."

Section 120(2) of the Finance Act, 1992 (as amended) states:

A machine is an amusement machine if-

(a) it is constructed or adapted for play of a game, and

(b) the player pays to play the machine by the insertion of a coin or token or card in some other way, and

(c) the outcome of the game is determined by the action of the machine, whether or not provisions is made for manipulation of the machine or use of skills by the player, and

(d) when played once and successfully by a player, affords that player no more than an opportunity-

(i) to play again without paying to play, or

(ii) to obtain a non-monetary prize which, if available, for purchase or a similar item were so available would not normally exceed €7 in value.

Amusement With Prizes (AWP) Machines

"Amusement with prize machine" (AWP) is not a term defined by Irish statute. The Casino Committee report however gives the following illustrative definition:

"Amusement-with-Prize(s) Machine' means a mechanical, electrical or electronic machine or device, operated by the insertion of a coin or token or device or by the use of credits, which is intended for the amusement of the player only and from which the player can obtain a monetary prize (max. €10) or goods to the value of (max. €20) e.g. crane amusement machines, pushers, redemption machines." (p.194)

1. Casino gaming in Ireland today

Introduction

The main gambling sectors in Ireland today are:

1. The National Lottery,
2. Land-based betting/bookmakers,
3. Gaming machines [Amusement With Prizes (AWP)/slot machines],
4. Land-based bingo,
5. Land-based casinos,
6. On-line gambling.

The focus of this chapter is the land-based casino sector, and its size and value. Because of the unregulated position at the moment, there is some uncertainty regarding the exact size of this sector. The *Regulating Gaming in Ireland – Report of the Casino Committee*[1] report indicates that there are 25-30 private members' clubs operating in the State, with more seeking to enter the market.

Other estimates put the number at much higher. The variance may be explained by the lack of consistency in the definition of a casino, with some commentators including gaming arcades. For the purposes of this report casinos in Ireland consist solely of private members' clubs where 'live' gaming is catered for.

Partly because of the regulatory situation, Irish casinos are small by international standards. The GLAI estimates that there are approximately 500 people employed in the sector at the moment, and that it accounts for approximately 1.5% of total land-based gambling GGR in Ireland.

To value the land-based casino gaming sector, we take the approach of estimating the value of the other land-based gambling sectors in the country, and applying the estimate of 1.5% to the resultant total. This allows us to compare the various gambling sectors on a like-for-like basis.

1.1 The National Lottery

The Irish National Lottery is typical of European State lotteries, and dominates the lottery sector in Ireland. It is operated under licence by An Post National Lottery Company, which is responsible for the operation of the Lottery including the form and price of the tickets and drawing up schemes for games (subject to the approval of the Minister for Finance).

It operates the usual range of lottery products, and participates in the EuroMillions lottery. Lottery ticket sales in 2007 amounted to **€778.5 million**, while GGR (i.e. sales net of prizes) amounted to **€357.6 million**[2]. There is no taxation on lottery betting or winnings, and the surplus each year is returned to the Government to fund projects in various social/sporting/cultural sectors.

In addition, there is number of charity lotteries in operation in Ireland, notably Rehab Lotteries. However, the aggregate sum gambled with them is small, and is ignored for the purposes of this analysis[3].

1 http://www.justice.ie/en/JELR/Casino+(Eng)+for+Web.pdf/Files/Casino+(Eng)+for+Web.pdf

2 An Post National Lottery Annual Report 2007.

3 Discussions with the sector indicate total charity scratchcard sales of approximately €10 million in 2007, with GGR in the region of €5 – 6 million. In addition there would be small local fundraising lotteries run by sports clubs and the like, but aggregate data on these is not available.

1.2 Betting

Betting (in bookmakers) represents the largest single category of gambling in Ireland in terms of spend. Traditionally based around horse-racing, betting occurs in:

- Off-course bookmakers, covering the full range of betting, and
- On-course betting specific to horse and dog racing, made up of on-course bookmakers and 'tote' betting (the Tote also operates phone and internet betting on Irish and UK races).

Turnover and employment attributable to this sector are summarised in Table 1.1. The sector is clearly dominated by the off-course bookmakers, and ongoing technological development is likely to underpin this.

Table 1.1: Value of Bets Laid and Employment in the Land-Based Betting Sector, 2007

	€M	Employment**
Tote	61*	} 726*
On-course bookmakers	221*	
Off-course bookmakers (land-based)	3,710†	3,500
Total	**3,992**	**4,200**

*Horse racing only.
**employment data relate to 2003 † Estimate, net of duty.
Source: Horse Racing Ireland Factbook 2007. http://www.itm.ie/AssetLibrary/Files/HRI/Info/HRIFACTBOOK2007.pdf

Thus the value of land-based bets laid in 2007 amounted to approximately €4 billion. Based on the ratio of the value of bets laid to GGR in Ireland in 2003 per SICL (2006)[1], we estimate that the GGR of land-based betting in Ireland in 2007 amounted to €1.13 billion [2].

The sector has been growing rapidly in recent years – GGR in 2003 was estimated at €0.6 billion. The market has at the same time been exposed to significant competition from overseas. There were 1,100 licensed betting shops in Ireland in 2007, the main players in the market being Paddy Power, Ladbrokes, Boyle Sports and Stanley Leisure.

1 Swiss Institute of Comparative Law (SICL), 2006, Study of Gambling Services in the Internal Market of the European Union, for the European Commission.

2 SICL reports that in 2003 GGR on betting amounted to €609 million, while Horse Racing Ireland Factbook 2007 reports that in 2003 the value of bets amounted to €2.158 billion, implying a ratio of bet to GGR of 3.54. Applying this ratio to the 2007 estimate of amounted bet of €3.992 billion implies 2007 GGR = €1.125 billion.

Case Study: Funding of Racing in Ireland

The racing sector is unique in Ireland in that all taxes raised from the sector are effectively returned to the sector. All levies and charges raised on-course are collected by two commercial semi-State companies: Horse Racing Ireland and Bord na gCon, and paid over to the racecourse. These comprise mainly a turnover charge of 0.5% on all bets wagered on the home event and 1% on all other bets wagered.

The Horse & Greyhound Racing Fund, established in 2001, receives all excise duty on off-course betting, with the Exchequer providing guaranteed funding by making up any shortfall in excise collected. The Fund is disbursed to the horse and greyhound racing sectors in the ratio of 80:20. Up to end 2007, it had provided funding to Horse Racing Ireland and Bord na gCon (greyhound racing board) of €375 million and €93 million respectively. Since the Fund's establishment in 2001, the extent of the Exchequer's exposure to subsidisation of racing in Ireland has grown sharply for two reasons:

(i) The level of excise duty on off-course bookmakers has fallen significantly;
(ii) In 2004, the Government increased the limit of the Horse and Greyhound Racing Fund from €254 million to €550 million (at the same time as extending the lifetime of the fund to 2008 at least).

The level of this funding of the sector by the Exchequer was highlighted in the Casino Committee's report (p.65), which also noted an ESRI report* that estimated that the subsidy amounted to €38 per person attending a horse racing meeting in 2005, and that it was providing over 50% of prize funds for horse races.

A further €70m has been provided to fund investment in the two sectors under the current National Development Plan. Horse Racing Ireland and Bord na gCon also operate the Tote at all horse and dog racing tracks in the State.

* Fahey, T. And Delaney L., (2006), State Financial Support for the Horse Racing Industry.

Taxation and levies on betting in Ireland comprises:

- Off-course betting - excise duty of 1% of turnover (absorbed by the bookmakers).
- On-course betting – turnover charge of 0.5% on all bets wagered on the home event and 1% on all other bets wagered (paid to HRI and Bord na gCon – see box).
- Annual licence fees paid by both on-course and off-course bookmakers.

Betting with off-course bookmakers offshore through call centres or over the internet does not attract tax, nor does off-course betting via betting exchanges.

1.3 Gaming Machines

Gaming machines in Ireland are regulated under the 1956 Gaming and Lotteries Act. Operators pay a licence fee per machine and per premises. The number of licensed machines has been increasing in recent years after falling in 2004 due apparently to the smoking ban. In 2006 there were 10,105 licensed machines in 92 licensed premises, with machine numbers increasing by approximately 450 machines per annum since 2004. On that basis there would have been approximately 10,500 licensed machines in operation in the State in 2007. Based on data in the SICL (2006) report, we estimate total GGR generated by these machines in 2007 to be €202 million[1].

1 In 2003 there were 12,662 licensed gaming machines in 141 licensed premises, per the annual Revenue Commissioners Statistical Report. SICL (2006) estimates that these brought in GGR of €243 million in 2003 (€19,200 per machine). Making the conservative assumption that GGR per machine is unchanged since 2003, this implies 19,200 x 10,500/12,662 = €202 million GGR in 2007.

However, in addition to licensed arcades and machines, a significant proportion of arcades and machines in the State operate unlicensed. For example, Dublin City Council rescinded the slot machine licence provided for in the 1956 Act in 1986, but many entities throughout Dublin city have continued to provide slot machine gaming to the public over the last two decades.

The gaming machine sector in Ireland is more restricted than in the UK in terms of where machines are allowed (e.g. they are not allowed in Bookmakers' shops) and in terms of stakes and pay outs. However, while the sector is heavily supervised by the UK Gaming Regulator, there is no such supervision in Ireland, leading among other things to a proliferation of unlicensed machines.

Thus our estimate of GGR for the sector, which relates solely to licensed machines, would be an under-estimate of its true size.

1.4 Bingo

Data on spending on land-based bingo in Ireland, as with gaming machines, is limited. SICL (2006) estimates GGR in 2003 of €27 million. Anecdotally, the sector has suffered as a result of the smoking ban, and because of this we work on the basis that GGR has not grown since 2003, i.e. it remains at €27 million.

1.5 Casino Gaming

Because of the unregulated situation at the moment, there is some uncertainty about the exact size of this sector. The Casino Committee's report indicates that there are 25-30 private members' clubs operating in the State, with more seeking to enter the market.

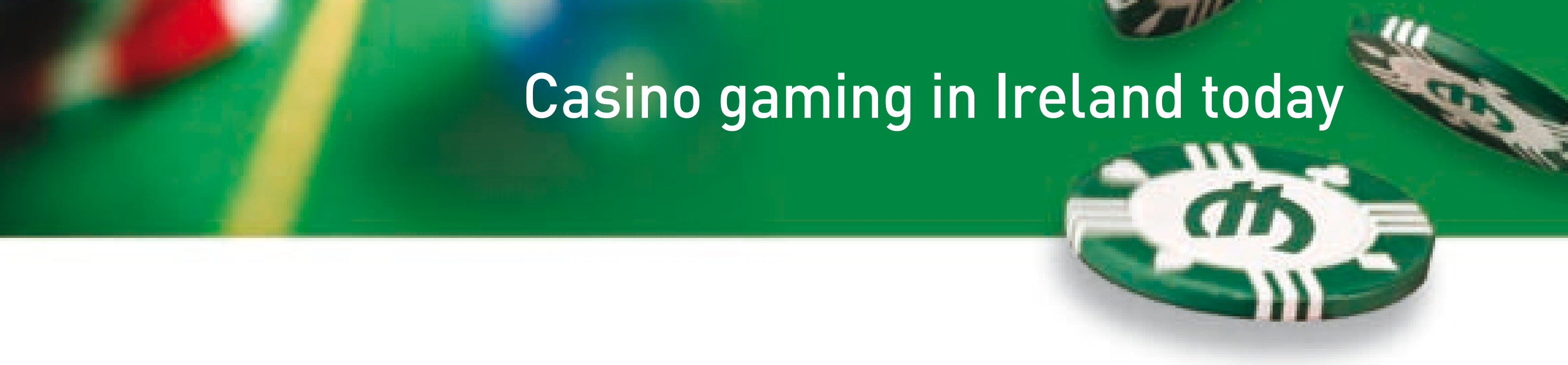
Other estimates put the number at much higher. The variance may be explained by the lack of consistency in the definition of a casino, with some commentators including gaming arcades. For the purposes of this report casinos consist solely of private members' clubs where 'live' gaming is catered for.

Partly because of the regulatory situation, Irish casinos are small by international standards. The GLAI estimates that they account for approximately 1.5% of total land-based gambling GGR in Ireland. In Section 1.6 we use this percentage to estimate the value of the sector and compare with the other gambling sectors in Ireland.

An important feature of casino gaming is that it is labour intensive. The GLAI estimates that there are currently some 500 people employed in land-based casinos in Ireland. This represents 0.023% of the total workforce, for a sector that represents 0.016% of GNP (see Section 1.6).

1.6 GGR of Land-Based Gambling and Casinos

In summary, we estimate that the GGR of land-based gambling (other than casino gaming) in Ireland amounted to €1.71 billion in 2007. If we work on the basis that land-based casino gaming GGR currently represents 1.5% of total land-based GGR, as estimated by the GLAI, then the value of the former would amount to €26 million in 2007. See Table 1.2 and Figure 1.1 below.

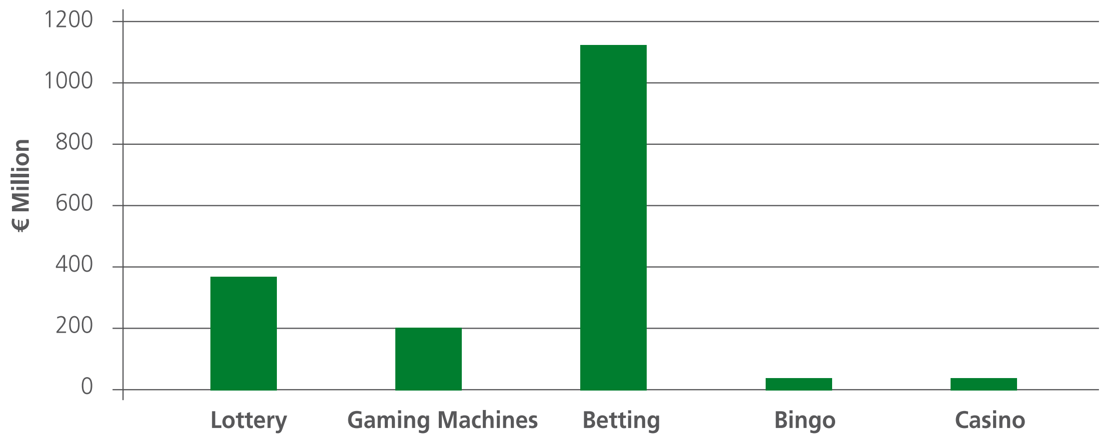


Casino gaming in Ireland today

Table 1.2: Estimate of Value of Land-Based Casino and Total Land-Based Gambling Ireland, 2007

	Amount Bet	%age GGR	GGR		GGR as %age of GNP	Source
	€ Million		€ Million	%age of Total Sector		
Lottery	779	46%	358	20.6%	0.222%	An Post National Lottery Annual Report
Gaming Machines	1,050	19%	202	11.6%	0.125%	No. of licensed machines, SICL (2006); UK GGR %age per Review of the Gaming and Lotteries Acts 1956-86 - Report of the Interdepartmental Group (2000).
Betting	3,992	28%	1,126	64.8%	0.699%	Horse Racing Ireland Factbook 2007, SICL (2006)
Bingo	135	20%	27	1.6%	0.017%	SICL (2006); DKM estimate
Land-Based Gambling excl. Casinos	**5,956**	**29%**	**1,713**	**98.5%**	**1.063%**	
Implied Casino Gaming	153	17%	26	1.5%	0.016%	GLAI estimate
Total Land-Based Gambling Sector	**6,109**	**28%**	**1,739**	**100.0%**	**1.079%**	

Figure 1.1: GGR of land-based gambling in Ireland, 2007 (€ million)



Gross National Product (GNP) in Ireland in 2007 was €161 billion[1]. Thus, while overall land-based gambling GGR in Ireland represents 1.08% of GNP, land-based casino gaming GGR represents a very modest 0.016% of GNP.

SICL (2006) estimated that Irish land-based gambling GGR in 2003 was €1.16 billion (with an estimate for casinos added), which implies annual growth of 7% per annum between 2003 and 2007, net of inf ation. Over the same period, GNP grew by on average 5.2%, population grew by on average 2%, and the labour force grew by over 4%. So the land-based gambling sector in Ireland is growing in significance over time.

1 CSO, National Income and Expenditure - Annual Results for 2007 release.

It is worth noting that the profitability of casinos, at 17% GGR, is the lowest of all the types of land-based gambling, i.e. the consumer retains a higher percentage of the amount bet in casinos than in the other types of gambling.

1.7 Online Gambling in Ireland

Online gambling is a rapidly-growing sector internationally and in Ireland. Because of its nature, it is difficult to assess how much is gambled by Irish residents online. However, as broadband access becomes more widespread it is likely to increase in significance over time. This is discussed in more detail in Section 2.2.

2: Casino gaming internationally

Introduction

This chapter assesses both the international land-based and online casino gaming sectors. The former is a well-established and integral part of the entertainment sector in many parts of the world, notably in Europe. Elsewhere, casinos are often based in locations surrounded by jurisdictions where casinos are restricted. In these cases they tend to be large in scale and act as major visitor attractions.

Online gambling vis à vis land-based gambling has been likened to the relationship between a pub and an off-licence, in that it allows the public to consume the service from their own homes (or indeed other locations). Because of the nature of the service however, the scope for online gambling is much wider, on two levels:

1. Consumers can access service suppliers from around the world. Therefore any analysis of the sector must take a global perspective.
2. The scope of services that can be provided is much wider, including online poker, betting exchanges, etc.

The online casino gaming sector is important from an economic, social and regulatory viewpoint for Ireland because of:

- Its worldwide growth potential;
- The potential to capture a sizeable share of the world market with the right combination of policies and infrastructure;
- The size of the economic gain if successful, and by contrast the size of the lost opportunity if not successful.

2.1 Land-Based Casino Gaming

2.1.1 Regulatory Structures

Regulatory structures vary across the world, but it is of particular interest to examine the position in Europe. While there is a wide degree of variation from country to country, prohibition as such is very rare[1], and in most countries casino gaming is a well-established part of the leisure industry, much as bookmakers are in Ireland.

In some countries casinos are entirely controlled by State monopolies (e.g. Austria, Finland, Sweden and the Netherlands), while in others such as the UK, France, Spain and Belgium they are privately owned and operated, falling under the remit of either a gambling regulator or local courts, or both. In some countries (for example Germany and Italy) both systems operate in tandem with each other.

A high level of regulation is the norm. Commonly used regulatory requirements, in no particular order, include:

- The establishment of a Gaming Commission or other independent regulatory body to oversee the regulation of the sector;
- Requirements of the owners and operators (and in some cases employees) of casinos to apply for gaming licenses;
- Restriction on the number and/or the location of casinos;
- Credit restrictions and restrictions on the location of ATMs within casinos;
- The right to voluntary self-exclusion for people with gambling problems;
- Anti-money laundering measures, such as the requirement for gamblers to provide proof of ID, surveillance and reporting of large cash/financial transactions;
- Advertising restrictions;
- Obligatory or voluntary contributions to charitable and/or community projects;
- Transparency in the advertisement of odds relating to various games and the promotion of responsible gambling;
- Restrictions or caps on the number of gaming machines compared to the number of tables within casinos;
- Restrictions on the maximum stake, prizes and losses per hour on gaming machines;

1 At the time of writing, only Ireland and Cyprus do not have regulated land-based casino sectors, and we understand that Cyprus is currently investigating the regulation of the sector.

- Requirements relating to the provision of non-gambling areas within the casino, the provision of entertainment, serving of alcohol etc. (in some cases ancillary activities/entertainment is not allowed, in others it is a requirement);
- In some cases, casinos are only allowed within a hotel or resort complex.

The tradition of a land-based casino gaming sector operating in a well-regulated environment across Europe contrasts sharply with Ireland, where the sector is effectively unregulated.

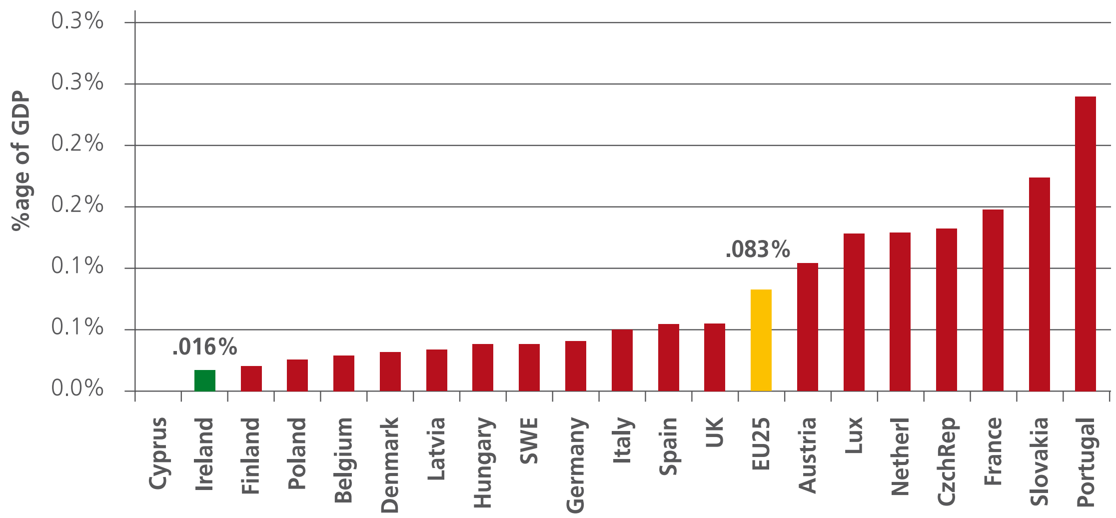
2.1.2 Economic Importance

Based on data from the European Casino Association[1] and SICL (2006), we estimate that in the EU25, casino gaming was worth €9.7 billion, or 0.08% of GDP, in 2007. Total land-based gambling in the EU25 is estimated to be worth 0.52% of GDP (SICL [2006]).

Casino GGR as a %age of total gambling GGR across the EU is estimated at 15.9% (SICL [2006]), which is significantly higher than the 1.5% estimated for Ireland. This is one indicator of the potential size of a properly regulated Irish casino gaming sector. The following charts show the relative economic size of casino gaming and of the total gambling sector for a range of EU countries.

As can be seen, the Irish casino gaming sector is worth 20% of the EU average, in terms of GGR relative to GDP. However, when one considers the relative economic importance of gambling as a whole, Ireland emerges as being considerably higher than the EU average: GGR equals 0.97% Vs 0.52% of GDP in 2003 (note DKM estimates that Ireland's percentage in 2007 was 1.08% - see Section 1.6). The implication is that a properly regulated casino gaming sector in Ireland would likely be considerably larger than is currently the case.

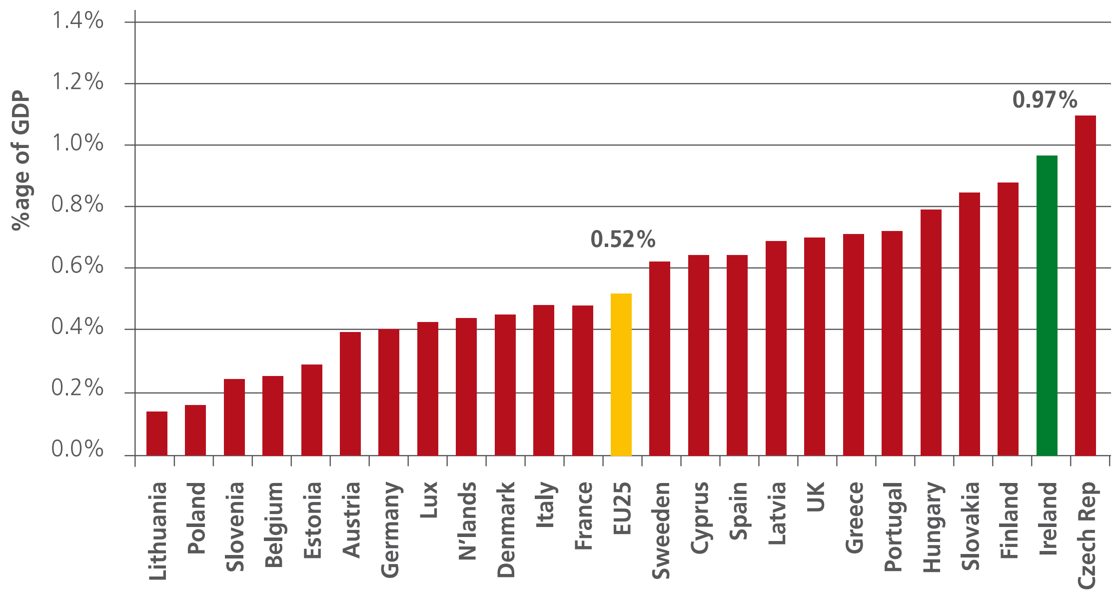
Figure 2.1: Casino gaming GGR as % of GDP*, 2007



Ireland GNP; Source: European Casino Association, SICL (2006), Eurostat, Statistics Sweeden

1 http://www.europeancasinoassociation.org/index.php?add=home

Figure 2.2: Total Gambling GGR as a % of GDP (Ireland GNP), 2003



Note: Gambling GGR as a %age of GNP in Ireland and 2007 is estimated at 1.08% (see section 1.6)

Source: SICL (2006), and DKM calculations based on official published data from each country.

2.1.3: Employment

The casino gaming sector is more labour intensive than other gambling sectors, and is a major employer in Europe. SICL (2006) indicates that in 2003 the sector employed some 10,000 people in the UK, 17,500 people in France and 4,600 in The Netherlands. This compares with approximately 500 in Ireland currently.

In the US in 2005 the sector employed some 355,000 people. Due to restrictions on casinos in many States, employment is concentrated in a small number of "destination" centres, including 215,000 in Nevada and 45,000 in New Jersey.[1]

2.1.4: Exchequer Revenue

Exchequer revenue from casinos varies from country to country with taxation regimes. Tax bases include the amount gambled/staked by customers, the GGR or gross profits, or a fixed annual tax. Tax rates often vary by size of the casino.

In addition to a gaming tax that almost every country levies on the land-based sector, casinos are liable for income and corporation taxes, labour taxes and social security, VAT and local taxes in the same way as all other businesses.

1 AGA Survey of Casino Entertainment (2006).

It is difficult to be prescriptive on the total tax take from all these revenue streams. As an example, by reference to the Exchequer overall tax take in the UK, we estimate that the sector contributes over €300 million per annum to the UK Exchequer[1]. In the US the sector is estimated to have contributed over €4 billion in taxes in 2005[2].

2.1.5: Tourism

The tourism importance of casinos varies from country to country. The extent of the impact is usually predicated on being surrounded by jurisdictions where casinos are restricted, as is the case in much of the USA and Asia.

These "destination" casinos are usually of large scale and attract significant numbers of visitors. It is estimated that in 2005-06 as many as 45% of overseas visitors to Australia visited a casino. In Las Vegas, casinos are estimated to attract over 50 million visitors per annum. Appendix C contains a discussion of the economic importance of casinos in these two locations.

The development of these large casinos is often seen as a catalyst for urban regeneration. In 2007 the Casino Advisory Panel in the UK developed proposals for the location of one regional, eight large and eight small casinos allowed under section 175 of the Gambling Act 2005[3]. This report concluded the following in relation to the regional (large-scale) casino (which was recommended for Manchester):

"The 'gold standard' for a regional casino, as we see it, is a regeneration that would not only provide jobs and demand for local services in the casino itself, not only have developed with it a good quality hotel or hotels, not only add to these facilities a desired local project such as large-scale entertainment and retail opportunities or an international standard conference facility, but set in train spontaneous growth that would continually revitalise the local economy."

This regional casino was estimated to generate 3,000 jobs and have an annual income of Stg£1 billion, but plans for it were scrapped by the UK Government early in 2008, with the eight large and eight small casinos to proceed[4].

Tourism impacts are perhaps less significant in Europe than in the USA or Asia, as casinos are regulated and well-established in most countries. There are exceptions, however, such as Slovenia, where most casinos are located near the Italian border, and a high proportion of customers are Italian[5].

2.2 Online Casino Gaming

Online gambling is the fastest-growing element of the sector. Estimates put the number of online gambling websites at approaching 2,500 in 2008 compared to 250 in 1998[6]. This section discusses the international regulatory context, and the current and expected future extent of online gaming.

2.2.1 Regulatory Context

The Casino Committee's report has covered the international regulatory context in detail, and we discuss it here only in terms of the implications for Ireland.

1 Based on estimated UK casino GGR of €1.073 billion in 2007 (per European Casino Association), less 30% for import leakages by 40.9% overall Exchequer tax take (per Eurostat):
1.073 x (1 - 0.3) x 40.9% = €0.307 billion.

2 AGA Survey of Casino Entertainment, 2006).

3 Casino Advisory Panel 2007, Final report of the Casino Advisory Panel, available: www.culture.gov.uk/cap

4 http://news.sky.com/skynews/Home/Sky-News-Archive/Article/20082851306920

5 SICL (2006).

6 http://www.microgaming.com/gamingmarket.php.

Recent years have seen legislative attempts in the USA to outlaw internet gambling. It is widely believed that if this situation persists, it will result in a large proportion of the global industry basing itself in Europe[1], as the largest (legal) market after the US.

In Europe however, there has been a lack of accommodative regulatory regimes among the large countries, although this may be addressed by regulatory developments in both Spain and France in 2008/2009. One exception thus far has been the UK, where there were concerted efforts to develop a regulatory regime to attract the land-based as well as online sector. However, these efforts were undermined by the introduction of a significantly increased gaming tax in 2007 (15% of GGR).

As a result, many of the leading online gaming firms have established themselves in "off-shore" locations such as Gibraltar, the Isle of Man, Malta, and Alderney (Channel Islands). The Caribbean (notably Antigua) and the Mohawk Territory of Kahnawake in Canada also remain popular notwithstanding regulatory developments in the US.

These territories have succeeded in capturing business because of their ability to quickly put in place and adjust as required a regime of accommodative regulation and low taxation. Good international broadband connectivity (capacity to connect with users in other countries) has also been essential.

However, discussions with industry sources indicate that these locations can suffer in terms of:

- Access difficulties and lack of a deep labour pool of specialised skills (especially IT, legal, financial, managerial and language);
- In some cases limitations on the strength of their broadband infrastructure (e.g. Malta);
- In some cases the long term sustainability of their regulatory and/or taxation regimes (e.g. Gibraltar[2] and Kahnawake[3]);
- A reputation as tax havens with "laxer" regulations than onshore locations, which may hold the sector back in terms of establishing itself as a bona fide industry over time.

The implications of these issues for Ireland will be returned to in Chapter 3.

It is worthwhile considering the taxation arrangements in place, as well as the size of the sectors in these European jurisdictions (see Table 2.1 overleaf). It is clear from this that these jurisdictions are characterised by very low or capped gaming taxes, and zero or very low corporate taxes. This needs to be kept in mind if Ireland wishes to be successful in attracting firms in the sector to establish or relocate here.

2.2.2 Current and Future Extent of Online Gaming

The online sector has huge potential for growth, given that it can access customers globally (excluding the important US market for the present at least), is highly competitive and is driven by technology.

A number of specific factors point to the rapid future growth of on-line gambling, both in Ireland and globally:

a. Accessibility of gambling services, as with other consumer products and services, is an important determinant of the level of demand. The most important access issue is availability (including cost and speed) and uptake of broadband. Ireland's residential broadband uptake is relatively low by OECD standards, but is growing rapidly, although speed and cost remain an issue[4]. As broadband access and usage expands, demand for online gambling here will likely expand. Likewise, as broadband access continues to grow in other jurisdictions, global demand will grow in tandem[5].

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1 SICL (2006).

2 http://articles.taxationweb.co.uk/index.php?id=175

3 http://www.ocsa.us/?cat=6&paged=2

4 Broadband Growth & Policies in OECD Countries; OECD Ministerial Meeting on the Future of the Internet Economy, June 2008. http://www.oecd.org/dataoecd/32/57/40629067.pdf

5 For example, as of end 2007, 56% of all UK households had broadband; industry commentators expect this to grow to 82% by end 2013. http://www.forrester.com/Research/Document/Excerpt/0,7211,44517,00.html

b. The rapid and unpredictable development of technology (including the integration of technology into single compact pieces of hardware).
c. The evolution over time of an adult population increasingly at ease with technology and using the internet for a wide range of leisure and lifestyle purposes.
d. The development of new and easier remote payment systems.

Table 2.1: Tax Arrangements and Economic Size of Online Gambling Sector in Selected European Jurisdictions

	Gibraltar	Alderney	Isle of Man	Malta
Licence Fee	£2,000 p.a.	£70,000 pa.	£35,000 p.a	€7,000 p.a.
No. of Licensees	19 (Sept 2007)	39 (June 2008)†	11 (June 2008)	200 (Summer 2008)‡
Gaming tax	1% of GGR (min. £85,000 max. £425,000 p.a.)	Zero	GGR ≤ £20m p.a.: 1.5%; GGR £20 - 40m p.a.: 0.5% GGR > £40m p.a.: 0.1%	Various monthly charges capped at €466,000 p.a.§
Corporate tax rate	Zero§§	Zero	Zero	4.17% effective
Employment	1,800 people (more than 12% of workforce)*	Minimal key staff only need be resident in Alderney.	"Significant employment generated following introduction of new gambling regulations in 2006"	"Significant employment generation".
Exchequer revenues	£7.8m in "gambling fees" (2007/08)††	£2.9m in licence fees (2007)**	Not available	Not available

*http://news.bbc.co.uk/2/hi/business/4776021.stm
**Alderney Gambling Control Commission Annual Report.
†Alderney Gambling Control Commission website
††http://www.gibraltar.gov.gi/gov_depts/govt_finance/Public_Finances2007_08.pdf
§ Tax on online betting is 0.5% of amount bet; http://www.inter-lawyer.com/law/systems/malta-gaming-law.htm
§§ Expected to change in 2010. http://www.gibraltar.gov.gi/external_website_link/financial_comm.htm
‡ Malta Lotteries and Gaming Authority, Malta – The European Hub of Remote Gaming Update 2008.

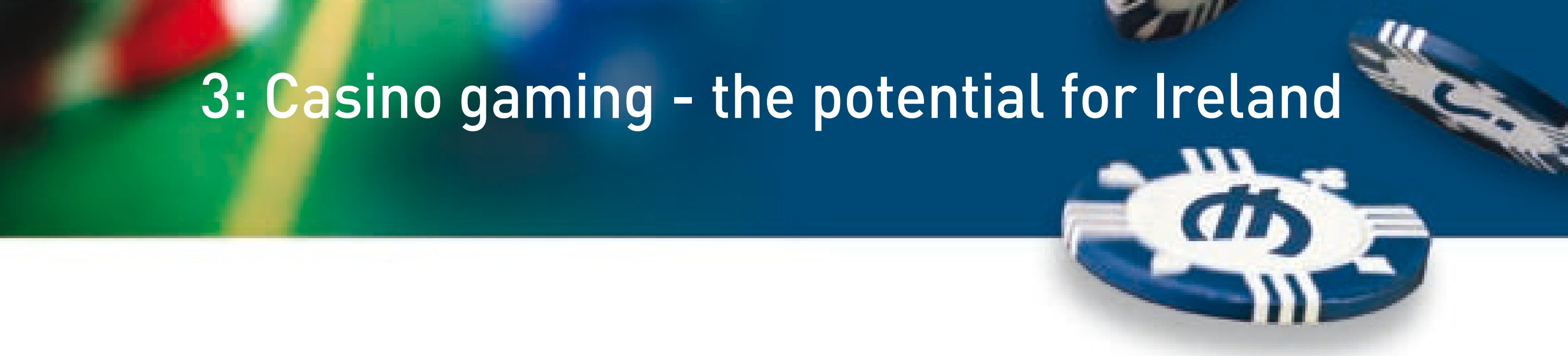
e) As the number of players increases over time, the potential amounts to be won online will also increase, which in turn will encourage more players to participate.

f) Finally, increasing incomes will mean increasing expenditure available for leisure activities. This is particularly pointed in Ireland where incomes are expected to continue growing strongly in the long run and dependency ratios will remain lower than in other developed countries over the coming decades (Appendix A).

The Casino Committee's report, Chapter Five and Appendices, gives a comprehensive assessment of the current and future potential size of the sector. It quotes industry sources that indicate the current value of the sector at €44 billion per annum, growing to €95 - €130 billion by 2015, implying annual growth of 10-15% per annum.

SICL (2006) examines growth scenarios for the remote gambling sector for 2005-2010 of 15-25% per annum, but notes that industry sources expected growth of 40% per annum over the same period. Other sources project growth of 22.5% per annum over the period, with much accelerated growth if the US market opens up (see below)[1].

1 http://www.gamingpublic.com/



3: Casino gaming - the potential for Ireland

Introduction

This chapter assesses the economic potential arising from a properly regulated casino gaming sector in Ireland, addressing both the land-based and online sector.

There is already an unregulated land-based sector operating in Ireland, but its potential is being stifled by legislative uncertainty.

We assess the potential size of the land-based sector, in the current context and potentially in 2020.

The online sector has theoretically greater potential for Ireland, as there is in principle no limit to the share of the world market that Irish-based businesses could capture. We assess illustratively the potential size of the sector in today's context, as well as looking forward to 2015 and 2020.

3.1 Potential Size of a Regulated Irish Land-Based Casino Gaming Sector

The contrast between the regulatory treatment of casino gaming and the other forms of gambling in Ireland is striking. The National Lottery is State-owned and operated, and there is very significant State involvement in the (racing) betting sector, with all taxes collected being returned to fund racing. The bookmaking sector is flourishing in Ireland and has been encouraged by successive reductions in taxes over the last decade. The rate of duty was 10% up to July 1999 when it was reduced to 5%. It was further reduced to 2% in May 2002 and to 1% in July 2006.

Casinos on the other hand are officially prohibited, and are forced to operate unregulated in a legal grey area. Thus the opportunity for the sector to develop properly, in a responsible manner with proper regulation is being lost. This is leading to missed economic opportunities for Ireland, limited inward investment in the sector and is driving consumers to use overseas-based gaming internet sites as well as forcing the sites themselves overseas.

This section of our report seeks to estimate the potential size of the land-based casino gaming sector in Ireland, if the sector was subject to an appropriate regulatory regime. An interesting starting point is the data published by SICL (2006) for Ireland and the EU25, which relates to the year 2003:

Table 3.1: Gross Gaming Revenue, Ireland and EU25 by Sector 2003 (€ M)

	Ireland	Sectoral Split	EU25	Sectoral Split
Lottery	265	23.0%	22,479	43.7%
Gaming Machines	243	21.1%	9,429	18.3%
Betting Services	609	53.0%	8,898	17.3%
Bingo Services	27	2.4%	2,453	4.8%
Casinos	6	0.5%	8,151	15.9%
Total	**1,149**	**100%**	**51,410**	**100%**

Source: SICL (2006), GLAI estimate

Gross Gaming Revenues in EU 25 in 2003 totalled €51.4 billion, 15.9% of which came from casinos. GLAI estimate that the equivalent percentage in Ireland in 2003 was 0.5%, indicating a clear potential for growth in a properly regulated environment.

Casino gaming - the potential for Ireland

Analysis in Chapter 2 has indicated that Irish spending on gambling is relatively high by international standards. We estimate that total Irish gambling GGR in 2007 was €1.74 billion, of which casino gaming contributed a modest 1.5%.

We suspect that the relative importance of casino gaming vis à vis other gambling in Ireland may not reach the EU average even in a properly regulated environment, given the relative importance in Ireland of sports betting in particular. For instance, in the UK, where land-based casinos have been established and regulated since the early 1960s, they account for 9% of total gambling GGR (SICL [2006]). If we assume that the Irish casino sector in a properly regulated environment would likewise account for 9% of total gambling GGR, then the sector would be worth €157 million per annum in present day terms.

The benefits to the economy of a sector of this size are estimated below.

Employment & Wages

There are about 500 people employed in casinos in Ireland currently, according to GLAI estimates, for a sector estimated to be worth approximately €26 million in GGR terms. Based on these figures, a sector with a value of €157 million might be expected to employ approximately 500 x 157 ÷ 26 = 3,000 people. However, reference to the sector in the UK indicates that this might overstate the case somewhat, due among other things to the presence of economies of scale. On this basis the actual potential figure is likely to be closer to 2,000.

Assuming an average wage of €25,000 (this is a conservative assumption, the average industrial wage being €32,600 in June 2007), and adding 20% for Employers' PRSI, pension, etc., we can estimate total payroll for a regulated casino sector as
(2,000 x €25,000) + 20% = €60 million.

Potential Benefits to the Exchequer

At the moment casinos operating in Ireland are subject to tax in the same way as all other businesses, although of course the overall tax take would be modest given the size of the sector currently. In addition, a new regulatory regime could be expected to introduce a specific gaming tax on casinos, which would add to Exchequer revenue. The following analysis estimates the Exchequer revenue that could be expected from a properly regulated sector, in today's terms.

Gaming Tax

We need to assume an appropriate gaming tax rate. This is a difficult issue involving consideration of elasticity of demand, taxation in other sectors and in other jurisdictions, and is outside the scope of this report to assess. However, if for sake of argument the tax rate was set at 5% of GGR[1], the annual tax take would be

€157 million x 5% = €8 million

A lower tax would generate a lower revenue (assuming behaviour is not affected by the tax rate): a 1% GGR tax for instance would deliver revenue of €1.6 million.

1 At the moment the off-course Bookmakers tax is 1% of the amount bet, this would be equivalent to a 5% tax on GGR for a 20% hold in the bookmakers.

PAYE/PRSI Contributions

We estimate that PAYE/PRSI contributions by workers in the Irish economy average approximately 25% of payroll. Thus, the annual contribution of the casino sector as outlined above, would be
€60 million x 25% = €15 million

Corporation Tax

Corporation tax is difficult to estimate as it is dependent on profitability of the sector, which will vary for a myriad of internal and external reasons from year to year. As an illustrative example, Stanley Casinos in the UK declared a net profit before tax of €39.2 million on a turnover (amount gambled) of €2.07 billion in 2005, i.e. net profit of 1.9% of amount gambled. Assuming GGR represents 17% of amount gambled, then net profit as a %age of GGR would be 39.2 / (2070 x 17%) = 11%.

If we apply 11% to the total estimated GGR in a properly regulated system of €157 million, net profits would amount to €17.4 million, resulting in Corporation Tax receipts for the Exchequer of €17.4 million x 12.5% = €2.2 million per annum.

Commercial Rates

Commercial Rates are an important source of revenue for local Government. We estimate that the Commercial Rates collected at the moment from casinos in Ireland are in the region of €0.5 million. This could be expected to grow to €3 million in a properly regulated environment, by reference to the expected growth in GGR (€0.5 million x 157/26 = €3 million).

In summary, the annual direct Exchequer benefits of a properly regulated casino gaming sector in Ireland would amount to approximately €28 million per annum, as follows:

Table 3.2: Potential Annual Direct Exchequer Benefits of a Properly Regulated Casino Gaming Sector in Ireland

	€ Million
Gaming Tax (@ 5% of GGR)	8
PAYE/PRSI	15
Corporation Tax	2
Commercial Rates	3
Total	**28**

There would be significant indirect benefits and flows to the Exchequer also, notably in the area of tourism (see below) as well as in the initial investment required to build up the sector to the level estimated above. For example, a 13,000ft2 casino opened in Dublin in 2005 is reported to have cost €5.5 million to construct and fit out[1].

The sector as currently constituted of course also makes a contribution to the Exchequer in the same way as all other businesses. However, the amount would be considerably less than estimated above because the existing unregulated sector is much smaller than it would be if it were regulated, and no gaming tax or licence fees are in place.

1 Irish Independent 29/11/07, "All Bets May Be Off on Gambling Laws".

Tourism Benefits

Ireland is a major tourist destination, and the potential tourism benefits of casinos are well-f agged. Appendix B gives a more detailed discussion of the Irish tourist sector.

It is not straightforward to assess the tourist potential for Ireland of a properly regulated casino sector. A number of the most famous casino centres – notably Las Vegas – are surrounded by jurisdictions where casino gaming is illegal or restricted, which clearly gives them an advantage in tourism terms, as was acknowledged in the Casino Committee's report (p.63).

This is not the case in Ireland, although the recent UK decision not to proceed with a regional casino in Manchester would make such a development in Ireland more attractive from a tourism point of view. However, experience in the late 1990s, when proposals for a large casino and conference centre in Phoenix Park were unsuccessfully mooted, would indicate that this is unlikely in the short term in Ireland. In the following analysis we assume that such a development does not proceed.

In 2007 Ireland attracted 7.6 million overseas overnight tourists, who each spent on average 7.3 nights here. Another roughly 400,000 were same day visitors, mostly from Britain. Overall average expenditure by holiday-makers was recorded at €80 per day (CSO Annual Tourism & Travel 2007 release). This appears on the face of it low, and discussions with CSO personnel indicate that they believe the data may not fully account for prebooked accommodation and other costs.

Let us assume that if there were a properly regulated legal casino sector here (i) 5% of overseas tourists would visit an Irish casino, and (ii) they would on average stay an extra day in the country on account of this. We also believe that potential visitors to casinos would spend more than the average – say €150 per day. This is on top of the money actually spent in the casino, which is included in the earlier calculations[1]. On this basis the extra expenditure over the wider economy would be

8 million x 5% x €150 = €60 million per annum.

Not all of this would represent a net addition to the Irish economy, because of import leakages. The CSO's 2000 Input-Output tables (the latest available) indicate that for every €1 spent in the hotels & restaurants sector, 22c leaks out in imports. On this basis, the net benefit to the tourist economy from a properly regulated casino gaming sector would be approximately €46 million per annum.

In addition, there would be some re-orienting of Irish residents currently travelling abroad to gamble. Unfortunately, we are not aware of any data on the propensity of Irish tourists to visit casinos while abroad.

However, we do know that 441,000 Irish residents visited North America in 2007, and that their average expenditure was €1,800 each (including international airfares)[2]. Data from the US indicates that approximately 8% of international tourists into the US in 2007 visited Las Vegas[3]. Assuming that this proportion is a proxy for those who gambled in casinos and that it applies to Irish tourists[4], the implication is that 35,000 Irish tourists, spending in total

1 If each casino visit involved an average net expenditure of €100, that would imply that tourists would account for approximately one quarter of the total sector.

2 CSO Tourism & Travel 2007. Aggregate expenditure was €786 million, divided by 441,000 persons.

3 GLS Research, Las Vegas Visitor Profile Calendar Year 2007 Annual Report, for Las Vegas Convention and Visitors Authority.

4 As per Appendix B, just over 80% of visitors to Las Vegas gambled, but it is reasonable to assume that a proportion of overseas visitors to the US would choose to gamble elsewhere. Some Irish tourists would also gamble in casinos in other countries.

€63 million, gambled in casinos while on holidays in the US last year[1], whether as a primary reason for travelling or as an ancillary reason.

If say 10% of these were persuaded to stay in Ireland by the availability of a properly regulated casino sector here, then approximately €6 million[2] per annum could be expected to remain in the economy here. Some of this money would already be counted in the GGR of the casinos sector, but if say 2/3s of it remained in the wider economy, the net benefit to Ireland each year would be €4 million.

Thus the total net tourism benefit to Ireland from a properly regulated casino sector would be €46 million + €4 million = €50 million per annum. These calculations are illustrative, but give an indication of the orders of magnitude in question.

Summary

In summary, the estimated economic benefits to Ireland of a properly regulated casino sector (in present day terms) would be as set out in Table 3.3 overleaf.

We would emphasise that the above calculations exclude the possibility of a large-scale "regional" casino development going ahead.

Another important benefit of a properly regulated sector is that it can safeguard against the potential abuses of an unregulated environment – including underage gambling, consumer protection issues, money laundering and the involvement of organised crime and terrorism. This issue was considered in detail in the Casino Committee's report (p.3 et seq.), which also highlighted the findings of the 2006 Financial Action Task Force Report (FATF) on Ireland[3], and Ireland's obligations under the 3rd EU Money Laundering Directive[4].

Table 3.3: Potential Annual Direct Economic Impacts of a Properly Regulated Land-based Casino Gaming Sector in Ireland, Present Day

Employment Impacts	
Employment	2,000
Payroll (€ million)	60
Exchequer Impacts	**€ Million**
Gaming Tax	8
PAYE/PRSI	15
Corporation Tax	2
Commercial Rates	3
Total Tax Take	**28**
Tourism Impacts* (€ million)	**50**

*additional to expenditure in casinos

1 441,000 x 8% = 35,000 tourists; 35,000 x 1,800 = €63 million expenditure.

2 €63 million x 10%= €6 million.

3 Third Mutual Evaluation/Detailed Assessment Report Anti-Money Laundering And Combating The Financing Of Terrorism – Ireland (2006). http://www.fatf-gafi.org/dataoecd/63/29/36336845.pdf

4 Directive 2005/60/EC, and implementing measures (Directive 2006/70/EC).

3.2 Potential Size of the Irish Land-Based Sector in 2020

Here we consider the potential size and importance of the casino gaming sector in Ireland in an appropriate regulatory environment, projecting out to 2020.

This will be determined not only by the regulatory environment but by the increased population and income levels going forward. Ireland already has one of the highest per capita income levels in the world, as well as one of the fastest growing populations in the developed world.

Appendix A to this report sets out the likely pattern of the economy and population, based on the most recent economic forecasts from the ESRI, and DKM's regional demographic model. In summary, on the basis of these models:

- Population will reach between 4.9 million and 5.2 million in 2020 depending on migration patterns, compared with 4.3 million today.
- GNP per capita will grow to between €52,000 and €62,000 in 2020, compared with €37,200 in 2007 (all in 2007 money).

Thus the population is expected to grow by 17% by the end of the next decade, while income levels per head are expected to grow by over 50%. Overall the economy would be 80% larger in 2020 than in 2007. In addition, the demographic profile of the population (working age population vis à vis total population), will remain positive over the period.

This level of growth augurs well for the Irish economy in general. One would expect a properly-regulated casino gaming sector to do particularly well, given the likelihood of increasing access, more competition in the sector and wider consumer choice.

How large might the casino gaming sector be in 2020? Making the conservative assumptions that:

(i) casino gaming and overall gambling GGR will grow in line with GNP, and
(ii) casino gaming GGR continues to represent the same proportion of overall gambling GGR as is the case currently in the UK (i.e. 9%),

one would expect casino gaming GGR to reach approximately €280 million and overall gambling GGR to reach €3.1 billion by 2020 (in 2007 money). These are conservative assumptions - Chapter 1 indicates that gambling GGR has been growing considerably faster than GNP in recent years, and one would expect casino gaming to at least hold its own going forward.

Using the same approach as before, we can use this projection to estimate the economic impacts as follows:

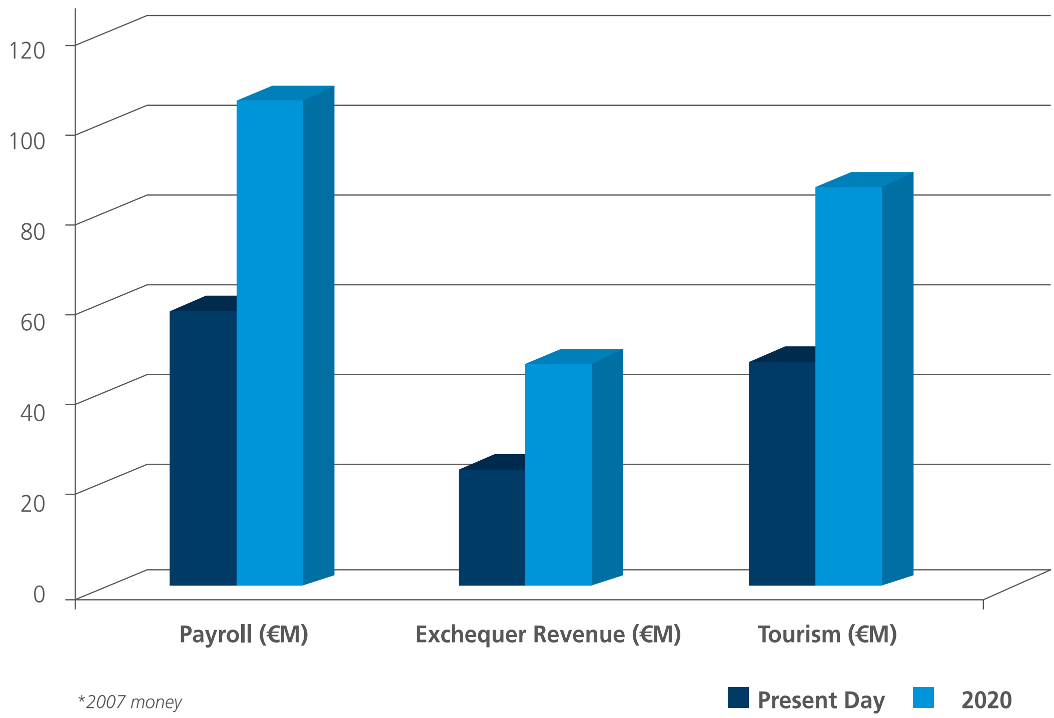
Table 3.4: Potential Annual Direct Economic Impacts of a Properly Regulated Land-based Casino Gaming Sector in Ireland, 2020†

Employment Impacts	
Employment	3,600
Payroll (€ million)	107
Exchequer Impacts	**€ Million**
Gaming Tax	14
PAYE/PRSI	27
Corporation Tax	4
Commercial Rates	5
Total Tax Take	**50**
Tourism Impacts* (€ million)	**90**

† In 2007 money; *additional to expenditure in casinos

As before, the above calculations exclude the possibility of a large-scale "regional" casino development going ahead. This is clearly a sector with a significant growth and employment potential going forward.

Figure 3.1: Economic Impact of Regulated Land-Based Casino Sector, Present Day and 2020*



*2007 money

3.3 Potential Size of a Regulated Irish Online Casino Gaming Sector

The online sector has huge potential for growth, given that it can access customers globally (excluding the important US market for the present at least), is highly competitive and is driven by technology. The importance for Ireland to participate fully in the sector is twofold:
1. To retain Ireland's current share of the economic, employment and revenue benefits of the sector;
2. To capture a share of the economic, employment and revenue benefits of the rapidly growing global sector.

3.3.1 Regulatory Context

As discussed, due to a lack of regulation and/or unfavourable regulatory and taxation regimes in other countries, operations in the online gaming sector are currently concentrated in jurisdictions such as Gibraltar, Alderney (Channel Islands), Isle of Man and Malta, Kahnawake and a number of Caribbean islands, notably Antigua.

Irish-Based Firms in the Online Sector

There are a number of significant Irish players in the sector. Paddy Power is Ireland's largest bookmaker. As well as its chain of licensed betting offices and its phone betting business (Paddy Power Dial-a-Bet), it operates a number of online services, including:
- online bookmaker (paddypower.com),
- casino (paddypowercasino.com),
- poker (paddypowerpoker.com),
- bingo (http://bingo.paddypower.com/)
- Spread betting www.paddypowertrader.com.

The firm's operational HQ is in Tallaght, where it is a major employer. Its online offerings are based outside the State, either in the Isle of Man or Alderney. That said, the bulk of employment in the organisation is currently in Ireland.

Boyle Sports is another major Irish player which likewise has based its online services in the Isle of Man, Alderney and the Dutch Antilles (see http://www.boylesports.com/index.asp). We understand that the majority of its employment remains in Ireland, however.

Drawbacks with these locations include:
- Access difficulties and lack of a deep labour pool of specialised skills (especially IT, legal, financial, managerial and language);
- In some cases limitations on the strength of their broadband infrastructure (e.g. Malta);
- In some cases the long term sustainability of their regulatory and/or taxation regimes (e.g. the Gibraltar[1] and Kahnawake[2]);
- A reputation as tax havens with "laxer" regulations than onshore locations, which may hold the sector back in terms of establishing itself as a bona fide industry over time.

1 http://articles.taxationweb.co.uk/index.php?id=175
2 http://www.ocsa.us/?cat=6&paged=2

Thus, to be successful in a sustainable way, a jurisdiction must be able to provide:

1. A regulatory structure that can license and allow the various market players to operate with the appropriate level of business freedom and security;
2. A competitive taxation regime;
3. Certainty as to the future sustainability of the regulatory and tax regime, and at the same time f exibility to change to accommodate developments in a rapidly changing industry;
4. A deep labour pool to provide a plentiful supply of specialist skills (and where necessary an attractive environment that can attract and retain these skills);
5. Strong broadband connectivity.
6. A good reputation internationally.

Ireland can tick all of these boxes. In particular, international broadband connectivity is among the best in the world, notwithstanding lagging uptake and broadband speed domestically [1].

A further advantage is that the sector is dominated by English-speaking firms. In 2005, it was estimated that three of the top five remote gambling operators in the world were British: William Hill, Ladbrokes/Hilton Group and Sportingbet. The other two were Cryptologic of Canada (who have already established their global HQ in Ireland) and BetandWin of Austria.

Furthermore, Ireland has shown in recent decades the capability to move quickly to put in place the requirements to attract a high proportion of the overseas direct investment market in key growth sectors. The same can be done now with online gaming and its ancillary services, although the legal, taxation and regulatory issues are complex and require careful design.

As the Casino Committee's report highlights (p.115), there is a particular window of opportunity at the moment, because the sector is currently largely based in offshore locations. According to the industry figures we have consulted, they would prefer to move onshore to more established and larger jurisdictions, but whether by accident (as in the UK) or by design (as in the US) no such jurisdiction has moved to adequately accommodate them as of yet. This window of opportunity is unlikely to remain open in the long run, however, as strong growth in the sector and straitened economic times make the online gaming sector more attractive.

3.3.2 Ireland's Record on Foreign Direct Investment

Ireland has a record of capturing a strong share of Foreign Direct Investment (FDI)[2], through a combination of fiscal incentives, an educated and deep labour pool, strong physical and legal infrastructure, socio-political stability and the ability to speak English. Also important is the focus of public policy towards accommodating industrial development, and accessibility of decision-makers for industry.

In the early 2000s, Ireland was attracting 25% of all US-origined FDI into Europe and the figure was nearly 30% for healthcare and pharmaceuticals, which has been a particular target sector for IDA Ireland[3].

1 Forfás Annual Report 2006. http://www.forfas.ie/publications/forfas_annrpt06/forfas-annual-report-2006-english.pdfm

2 http://www.oenb.at/de/img/barry_tcm14-49104.pdf

3 http://www.enterprise-ireland.com/FP6_OffLine/International+Research+Profiles/Ireland+Foreign+Investment.htm

As of 2007, there were just short of 1,000 IDA Ireland-assisted firms operating in Ireland. Some 48% of firms were from the US, with 11% each from the UK and Germany. The following was the level of employment by main sector:[1]

- Pharmaceuticals & Healthcare: 20,840
- Information and Communications Technologies (ICT): 43,562
- Engineering: 11,034
- International & Financial Services: 53,669
- Miscellaneous Industry: 7,289
- Total = 136,394

These are highly paid jobs. In 2007, the average salary in projects assisted by the IDA that year was €44,000[2]. Ireland has clearly been successful in attracting international firms in the ICT and international and financial services sectors, key skill areas for the remote gambling sector.

3.3.3 Scope for Capturing a Share of the Online Gaming Sector

Ireland is well-positioned, if the appropriate legislative and regulatory structures are put in place, to attract a comparable share of the global remote gambling sector. Many of the required skill-sets are well-established in the internationally traded services sectors operating in Ireland, notably Information & Communications Technology (ICT) and financial skills.

Already, as noted, a number of leading firms in the sector have established operations in Ireland (e.g. Fulltilt, regulated in Kahnawake, Cryptologic, regulated in Malta and Bodog, regulated in Antigua), and there are a number of successful Irish bookmakers who have based their online subsidiaries in other jurisdictions for regulatory purposes, combined with their existing Irish skill-base.

While a small number of (mainly Irish) firms have been prepared to be regulated offshore while maintaining substantial related operations onshore, discussions with firms in the wider industry have indicated that, while Ireland is an attractive location for the reasons listed above, legal and regulatory uncertainty prevents them from committing to setting up operations here. Ideally they would wish to be regulated and operate from the same jurisdictions.

They have fears that a view might be taken that some back office services (such as those operated in Ireland by Paddy Power and Boyle Sports – see box) might fall foul of the existing law, as they might be seen to facilitate gambling. They would also be concerned that the appropriate tax regime be put in place, although a number of them indicated that they would be prepared to live with somewhat higher tax levels than are currently in place in off-shore jurisdictions, given the other advantages Ireland can bring.

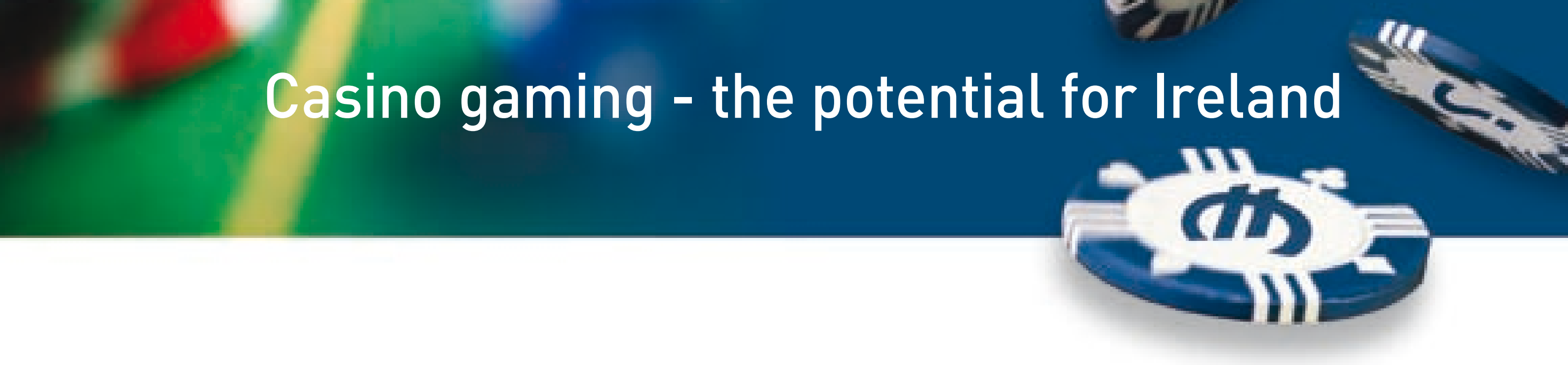
Discussions indicate that another important addition would be a properly regulated land-based casino gaming sector, which would facilitate development of gaming skills domestically or encourage them to be attracted into the country. This skill base could then be drawn on by the online sector (and vice versa) in a synergistic way.

It is difficult to be prescriptive on the size of a prospective Irish-based remote gambling sector going forward, not least because of the uncertainty regarding the current and likely future size of the sector internationally. However, it is worthwhile profiling some of the leading publicly listed companies in the sector (Table 3.5 overleaf).

As can be seen, these are large businesses with substantial revenues and employment. They are operating in a rapidly growing sector, so firms in the sector could be expected to expand significantly over time. Many are sub-

1 http://www.idaireland.com/home/sitetool.aspx?id=3&content_id=1#fourone

2 http://www.idaireland.com/home/news.aspx?id=9&content_id=891



divisions of larger groups. Were Ireland to capture a share of this industry, it could become a major employer and source of Exchequer revenue.

For illustration, let us assume that Ireland succeeds in attracting 5% of the global sector, this would represent a local sector worth €2.2 billion per annum (based on a global valuation of €44 billion).

The sector is labour intensive and skill intensive, and so could be expected to generate a significant amount of highly paid employment. It would be reasonable to expect for current purposes that the sector would generate an additional 5,000 jobs, at an average salary of say €40,000 per annum. Assuming an additional 20% for Employer's PRSI, pension, etc., then this would add €240 million per annum in payroll to the Irish economy[1]. The Exchequer tax take would be approximately €60 million per annum[2].

Licence fees and gaming tax revenues would also be generated, although, as the discussions in this chapter has indicated, if firms are to be attracted to Ireland, these taxes will have to be competitively pitched.

For illustration, let us assume that Ireland imposes a gaming tax equal to the lowest level currently in operation in the Isle of Man, i.e. 0.1% of GGR. There may in reality be scope for a higher gaming tax rate, but it is appropriate to err on the side of being conservative: competitiveness in tax rates will be essential, and some activities such as software development will not be subject to gaming tax.

1 (40,000 + 20%) x 5,000

2 €240 million by an average PAYE/PRSI take of 25%.

Table 3.5: Profile of Major Remote Gambling Firms, 2007

Company	Market Capitalisation‡‡	Employees	Revenue (GGR)	Net Profit before Tax	Net Profit as %age of GGR	Bases
888 Holdings	Stg£520m	805	US$213.4m	US$34.2m	16.0%	Gibraltar, Israel, Antigua, UK
Cryptologic	Can$211m	310	US$73.7m	US$5.5m	7.5%	Ireland†, Malta, Singapore
Partygaming	Stg£831m	1,167	US$457.8m	US$41.6m	9.1%	Gibraltar, Alderney, UK
Ladbrokes (e-gaming)	Stg£1,827m	376	Stg£143.5m	Stg55m*	n/a	Gibraltar
SportingBet	Stg£180m	370	Stg£1,325m§§	-Stg£314m‡	n/a	UK, Australia, Alderney, Italy, Antigua, Ireland**
William Hill (interactive)	Stg£1,278m	§	Stg£119.8m	Stg30m	25.0%	Gibraltar, Malta, Dutch Antilles
Paddy Power (online)	€1,149m	§	€67.4m	€23.4m	34.7%	Isle of Man, Alderney, Malta, Ireland, UK
Bwin	€670m	1,200	€337m	€56.3m	16.7%	Germany, Austria, Italy, Mexico, Argentina, Gibraltar, Kahnawake
Playtech	Stg£934m	546	US$103.6m	US$42.3m	40.8%	British Virgin Islands, Israel, Estonia
Unibet Group	SEK4,575m	358	Stg£81.4m	Stg£20.0m	24.6%	UK, Malta, Italy, Antigua

†Global HQ. *Before corporate costs. ‡ Due in large part to business segment closures and write-downs on US business, including loss of 450 jobs. ‡‡ As of 31/01/08, includes non-remote activities; **Customer operations personnel. § Not specified for online business; total employees in Paddy Power group is 1,400. §§ Includes stakes bet for sports betting, totalling Stg£1,240 million. Note Playtech is purely a software development company.
Sources: Company Annual Reports 2007; iGaming Business May/June 2008

On this basis, the gaming tax take would be:

€2.2 billion x 0.1% = €2.2 million.

Licence fees would add perhaps a similar amount.

To this would be added Corporation Tax. If we were to assume a profit to GGR ratio of 10%, then the Corporation Tax rate might be of the order of:

€2.2 billion x 10% x 12.5% = €27.5 million.

Concern has been expressed that the Corporation Tax rate currently in place in Ireland may not be low enough to be attractive to firms in the sector, so firms might not declare profits in Ireland to the full extent, and the revenues suggested by the above calculations might not materialise. However, we have erred on the side of caution with gaming tax, and other revenues in the form of VAT (possibly reclaimable) and excise on inputs and Commercial Rates would also arise, so overall our estimates may be reasonable.

These values could be expected to grow rapidly over time, given the projected growth in the sector. If for illustration the global sector were to grow to €100 billion by 2015 and €150 billion by 2020, and Ireland maintained its share of the sector, then the economic impacts might be of the order of:

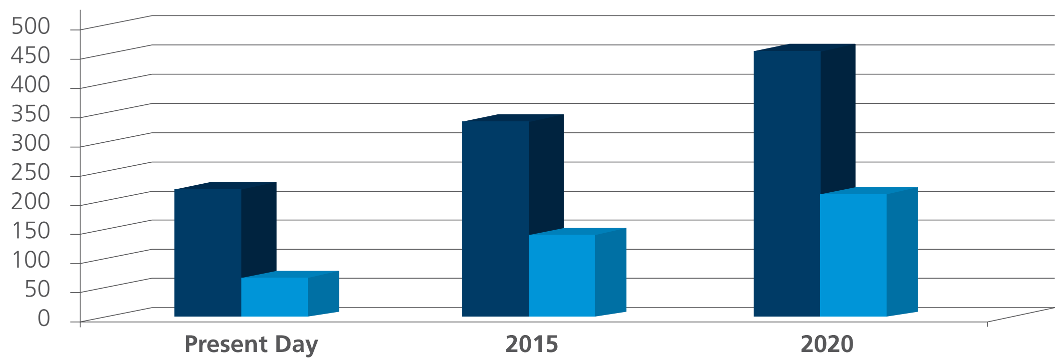
Table 3.6: Illustrative Impact of Online Gaming Sector on Irish Economy, Present Day, 2015 and 2020

	Present Day	2015	2020
Value of Global Sector (GGR € million)	44,000	100,000	150,000
Ireland's Share*	5%	5%	5%
Employment	5,000	7,500	10,000
Payroll (€ million)	240	360	480
Exchequer Revenues	**€ million**	**€ million**	**€ million**
Payroll taxes	60	90	120
Gaming Tax	2	5	8
Licence Fees	2	5	8
Corporation Tax	28	63	94
Total Exchequer Revenues	**92**	**163**	**229**

* On top of existing share of sector; all values in 2007 money.

Although these numbers are illustrative, they give an indicator of the economic benefits for Ireland of capturing a reasonable share of this rapidly growing sector. A 5% share of the global sector is not unreasonable for Ireland to aim for, and it would be possible to capture a greater share, which would increase the above estimates accordingly (albeit tax rates might have to be more competitive than illustrated).

Figure 3.2: Illustrative Economic Impact of Regulated Online Casino Sector, Present Day, 2015 and 2020*



**2007 money*

4: Conclusions

4. Conclusions

The background to this report has been the unsatisfactory legislative and regulatory regime under which the casino gaming sector has been operating in Ireland to date. A catalyst has been the publication of the Casino Committee's report and the prospect of a significant change in the regulation of the sector – both land-based and online - in the near future.

By-and-large the Casino Committee's findings are favourable to the sector, and they recommend a comprehensive overhaul and up-dating of the regulatory regime, while highlighting the window of opportunity that exists to capture a share of the rapidly growing online sector.

Currently, the Irish land-based casino gaming sector is of modest size, representing approximately 1.5% of total gambling GGR and employing in the region of 500 people. Our assessment of the sector internationally indicates that there is scope for this to increase significantly in a properly regulated environment. Our analysis also indicates the potential for Ireland to capture a share of the online sector, and the benefits thereof.

In this report we have sought to estimate the current and future potential value to the Irish economy of a properly regulated land-based casino gaming sector (Table 4.1), and illustratively of capturing a share of the global remote gaming sector (Table 4.2).

Our findings indicate that these represent two potentially important sectors for the Irish economy going forward, in addition to the numerous social benefits from proper regulation (including consumer protection and potential issues relating to money laundering and organised crime).

Table 4.1: Annual Direct Economic Impacts of a Properly Regulated Land-based Casino Gaming Sector in Ireland, Present Day & 2020†

	Present Day	2020
Employment Impacts		
Employment	2,000	3,600
Payroll (€ million)	60	107
Exchequer Impacts	**€ Million**	**€ Million**
Gaming Tax	8	14
PAYE/PRSI	15	27
Corporation Tax	2	4
Commercial Rates	3	5
Total Tax Take	**28**	**50**
Tourism Impacts* (€ million)	**50**	**90**

†2007 Money
*additional to expenditure in casinos

Table 4.2: Illustrative Impact of Online Gaming Sector on Irish Economy, Present Day, 2015 and 2020

	Present Day	2015	2020
Value of Global Sector (GGR € million)	44,000	100,000	150,000
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Licence Fees	2	5	8
Corporation Tax	28	63	94
Total Exchequer Revenues	**92**	**163**	**229**

* On top of existing share of sector; all values in 2007 money.

On the basis of these estimates, the online sector has the potential to be even more economically significant for the Irish economy than the land-based sector, although the latter brings with it added benefits for the tourism sector.

Online casino gaming is a young, fast-growing sector, but now includes a significant number of large, well-established, publicly quoted companies. Our discussions with the industry indicate that these firms are looking for a stable onshore base where they can continue to develop in a secure fiscal and regulatory environment. Ireland is well-placed to provide this.

Our analysis backs up the Casino Committee's conclusion that there is a window of opportunity for Ireland at the moment to become a central hub for the online gaming sector, given our labour pool characteristics and physical, legal and economic infrastructure.

Finally, there is a synergistic relationship between the land-based and remote sector, including the development of labour skills relevant to both, the scope for cross-over services, and reputational factors. These are likely to become more important over time as technology advances.

Appendix A: Future Demographic and Economic Outlook for Ireland

Background

Ireland is unusual by developed world standards in that it has been experiencing strong demographic and economic growth in recent years, and underlying causative factors will continue to exert a positive inf uence over the medium term.

Demographic Profile

As of April 2007, the population of Ireland was 4.339 million. Ireland has a young and rapidly expanding population, due to a combination of natural increase and strong inward migration. There has always been vigorous natural increase in Ireland's population, but (with isolated exceptions) until the 1990s this was effectively cancelled out by high outward migration. The Celtic Tiger has seen a very marked slowdown in outward migration accompanied for the first time by inward migration, of both returning Irish and non-nationals.

Population growth has been marked over the last decade, as demonstrated in Table A1, with the Eurozone average included for comparison. Irish growth is well out of line with the Eurozone average.

Table A1: Population growth rate

Year	Annual Average %age growth	
	Ireland	Eurozone
91-96	0.6%	0.4%
96-02	1.3%	0.4%
2003	1.6%	0.6%
2004	1.6%	0.6%
2005	2.2%	0.6%
2006	2.6%	0.5%
2007	2.3%	0.5%

Source: CSO, Eurostat

Table A2 sets out the age breakdown in Ireland, compared with the Eurozone 13. There is a clear difference in the age profile, with the under 35s a much stronger cohort in Ireland than in the Eurozone (53% Vs 39%). The difference in the 75+ age bracket is particularly marked (4.8% in Ireland Vs 12.2% in the Eurozone).

Table A2: Age Profile of Population

	Ireland (2007)		Eurozone (2006)	
	'000	%	'000	%
0-14	883.8	20.4%	49,438	14.9%
15-24	633.8	14.6%	37,467	11.3%
25-34	763.1	17.6%	43,587	13.1%
35-44	637.5	14.7%	50,057	15.1%
45-54	532.4	12.3%	44,068	13.3%
55-64	417.9	9.6%	36,415	11.0%
65-74	262.7	6.1%	30,395	9.2%
75+	207.8	4.8%	40,565	12.2%
Total	4,339.0	100.0%	331,993	100.0%

Source: CSO, Eurostat

All in all, Ireland's demographic profile is markedly more positive than the EU norm, and indeed than wider developed world norm.

3 Future Demographics

DKM has generated a long term demographic forecast, on the basis of two scenarios, based on future high and low migration. Under the former, net migration would continue at 45,000 per annum until 2011; thereafter it would slow gradually to 20,000 per annum at 2016 and remaining at that level thereafter. Under the low migration scenario, net migration would slow to 30,000 per annum between now and 2011, slowing to 10,000 per annum from 2016-2021. Table A3 summarise our population projections out to 2021, by age

:

Table A3: Population Projections by Age, 2006 - 2021

High Migration	**2006**	**2011**	**2016**	**2021**
0-14	864.4	931.7	1,001.9	1,053.8
15-24	632.7	622.8	613.5	636.0
25-44	1,345.9	1,507.4	1,573.2	1,540.5
45-64	928.9	1,031.0	1,159.0	1,308.6
65+	467.9	493.8	576.6	680.5
Total	**4,239.8**	**4,586.7**	**4,924.2**	**5,219.3**
Aagr*		1.58%	1.43%	1.17%
Low Migration				
0-14	864.4	921.4	965.9	977.5
15-24	632.7	611.4	597.1	615.7
25-44	1,345.9	1,459.8	1,499.5	1,446.3
45-64	928.9	1,025.0	1,139.1	1,267.0
65+	467.9	494.1	575.9	677.9
Total	**4,239.8**	**4,511.7**	**4,777.6**	**4,984.4**
Aagr*		1.25%	1.15%	0.85%

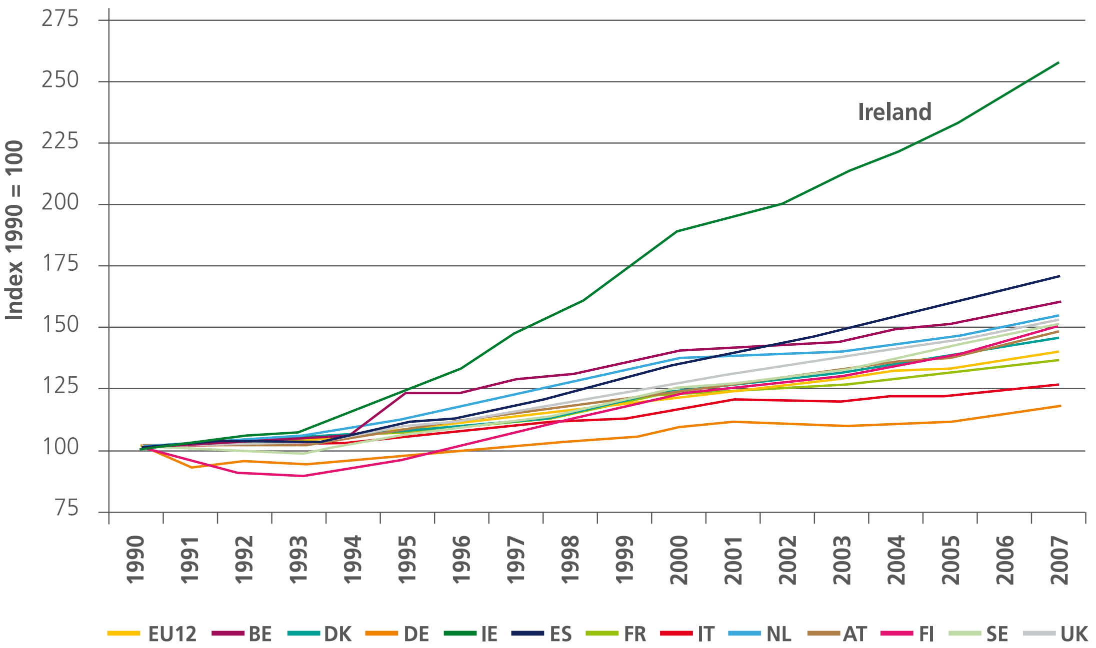
*aagr = annual average growth rate

Under DKM's high growth scenario, we expect the total population to reach 5.22 million in 2021. Under the low growth scenario, the total population in the State will reach 4.98 million by 2021. Ireland's age profile, while not as positive as currently, will remain significantly more positive than in most EU countries.

4 Economic Profile & Outlook

As with population, Ireland has been an outlier in terms of economic growth over the last decade or so. Figure A1 demonstrates the contrast between Ireland and other EU countries since 1990. This sustained growth has seen Ireland move from having one of the lowest income levels in the EU15 to having one of the highest.

Figure A1: International Real GDP Growth, 1990-2007 (Ireland = GNP)



Source: Eurostat, CSO

The short term outlook foresees a significant slowdown for 2008 with some improvement in 2009. Longer term a return to strong growth is expected. The MTR generates high and low growth scenarios, based on alterative growth paths in the Irish and international economies. Table A4 presents high and low growth scenarios as produced by the ESRI, out to 2025:

Table A4: Medium - Long Term GNP Forecasts

	High growth GNP	Low Growth GNP
2008	1.6%	-0.4%
2009	3.0%	2.0%
2010	5.1%	3.5%
2010-15	4.3%	3.0%
2015-20	4.2%	2.8%
2020-2025	3.8%	2.3%

ESRI Quarterly Economic Commentary Summer 2008; Medium Term Review 2008-15 (May 2008); DKM estimates.

Appendix A

GNP per Capita

It is useful to present these numbers on a per capita basis. In 2007, GNP per capita in Ireland was €37,200 (2007 prices). The equivalent (GDP) figures in other countries are:

Eurozone 13	€27,900
UK	€33,300
US	€33,600

Source: Eurostat

Ireland has one of the highest per capita incomes in the world in 2007. Looking forward, we can project what future income levels will be, based on our forecasts (in 2007 prices):

Table A5: Current and Forecast GNP per Capita (2007 Prices)

	High Growth	Low Growth
2007	37,200	37,200
2010	40,900	39,100
2015	50,500	45,300
2020	62,000	52,100
2025	74,800	58,300

It is clear that the long term prospects for Ireland remain highly positive. Combined with relatively lower dependency ratios, disposable incomes in Ireland are expected to continue growing at a significantly more rapid rate than in the rest of the developed world.

Appendix B: Tourism Benefits for Ireland of Regulating the Casino Gaming Sector

Casinos & Tourism – the potential for Ireland

Casino gaming is the form of gambling most associated with tourism[1]. Tourists (foreign and domestic) may be drawn by gaming itself, particularly if it is not legal where they live, or by gaming as part of an accommodation and nightlife/entertainment tourist offering. The role of entertainment areas or districts has been shown to be important, particularly in urban tourism[2], in many cities of the world.

Ireland is a major international tourist destination. In 2007, 7.7 million international visitors spent €4.9 billion in Ireland (Fáilte Ireland). Domestic tourists made 7.9 million trips within the country, spending around €1.6 billion, for a total of €6.5 billion. The tourism and hospitality industry provided employment for just under 250,000 people in 2006[3].

There are two primary potential avenues to stimulate tourism activity through casino legalisation: (i) additional spending in Ireland by foreign tourists here; and (ii) substitution of expenditure that would otherwise have been made during foreign trips by Irish residents to an overseas casino.

Additional expenditure by Irish residents who would not otherwise have gone overseas to participate in casino gaming would also generate additional economic activity, albeit a proportion would be redistributed from elsewhere in the economy. For current purposes we concentrate on the two headings above.

Additional spending in Ireland by foreign tourists due to legalised casino gaming

There will be an impact from either:

i. Additional tourists visiting Ireland primarily in order to partake in casino gaming; or
ii. Tourists visiting Ireland anyway who spend additional money in a casino or who extend their stay in Ireland to visit a casino.

Tourism activity in Ireland in 2004-07 is summarised in Tables B1 to B3 overleaf. As shown in Table B1, around half of visitors list holiday, leisure & recreation as the purpose of their visit to Ireland. This category of tourists would probably be the primary target market for casinos and related attractions, although the other categories might also increase their expenditure by making a side trip to a casino.

The origin of tourists is also important, as it might be expected that tourists would spend more money in casinos if they are illegal or significantly restricted, in their country of origin[4]. As can be seen in Table B2, the vast majority of visitors to Ireland are residents of Great Britain and Europe, where casino gaming is permitted. These tourists are also the biggest spenders in Ireland, as shown in Table B3. Notably, while almost twice as many visitors came from Great Britain as from the rest of Europe, the latter stay around twice as long on average and spend roughly equivalent amounts (in aggregate).

Even if foreign tourists do not travel to Ireland specifically to visit a casino, they may wish to engage in gaming as a part of their holiday entertainment. The presence of a casino, then, may make Ireland a more attractive destination,

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1 Other drivers include major sporting events (e.g. the Galway Races), although this is one-off expenditure. The majority of sports betting draws predominantly on local gamblers – See W. Eadington 'The spread of casinos and their role in tourism development' in D.G. Pearce and R. Butler 1999, Contemporary Issues in Tourism, Routledge.

2 S.J. Page, C.M. Hall 2002, Managing Urban Tourism, Pearson Education,

3 Fáilte Ireland 2007, Tourism Facts 2006 and 2007, www.failteireland.ie .

4 e.g. in Australia, some of the more successful casinos attract high-spending players from South-East Asia where gaming is illegal. Casinos in Las Vegas, Atlantic City and a small number of other locations in the US undoubtedly benefit from the fact that casinos are illegal in most of the US.

Appendix B

in terms of the range of facilities and infrastructure available, and it may encourage tourists to spend more money than they otherwise would. In that sense, the tourism impact may be greater if casinos are developed in locations frequented by tourists and around entertainment and tourist services, such as hotels, theatres and so on.

Table B1: Breakdown of visitors to Ireland by purpose of visit

Purpose of visit	2004	2005	2006	2007
Business	14.1%	13.9%	14.3%	15.1%
Holiday Leisure Recreation	51.9%	49.1%	49.0%	50.4%
Visit to relatives/friends	27.5%	30.5%	30.1%	28.0%
Other	6.5%	6.6%	6.6%	6.5%
Total number of visitors	**6,574**	**6,977**	**7,709**	**8,012**

Note: Visitors who spent at least one night in Ireland in 2007 totalled 7.59 million.
Source: Fáilte Ireland

Table B2: Numbers of tourists who spent at least one overnight in Ireland, by Origin ('000s) and average length of stay in Ireland (Nights)

Country of residence	2007
Great Britain	3,715
average length	4.7
Other Europe	2,537
average length	9.6
USA & Canada	1,028
average length	9
Others	309
average length	14.5
Total Visitors to Ireland	**7,589**
Average length	**7.3**

Note: Including same-day visitors there were 8.012 million visitors to Ireland in 2007, the vast bulk of whom originated in Britain.
Source: Fáilte Ireland

Table B3: Total expenditure by all overseas tourists in Ireland, by country of residence (€M)

Country of residence	2004	2005	2006	2007
Great Britain	1,253	1,257	1,373	1,388
Other Europe	927	1,232	1,352	1,400
USA & Canada	769	731	803	806
Other areas	255	234	265	326
Total expenditure by visitors to Ireland	3,204	3,454	3,793	3,920

Includes same-day visitors; excludes international fares. Source: CSO

Substitution of expenditure by Irish residents on foreign trips

As Ireland is one of the few countries in Europe where casino gaming is not legal, the mirror image of the above argument may be true – Irish residents may be partaking in casino gaming while travelling overseas. Although it is possible to gamble in private clubs in Ireland, the lack of openness may discourage some Irish gamblers. Legalising casino gaming in Ireland may go some way to encouraging Irish residents to attend Irish casinos and spend their travel money in Ireland instead.

As is the case with overseas tourists coming to Ireland, there are two relevant target groups among Irish tourists: (i) those who travel abroad specifically to partake in casino gaming and (ii) those who spend more on their overseas trip because of the opportunity to visit a casino.

Table B4 sets out the scale of foreign travel by Irish residents in recent years. It is worth noting that, although more people still visit Ireland every year than travel overseas from Ireland, Ireland now has a tourism trade gap with the rest of the world of several billion Euros per annum. This has developed during the current decade and is growing year by year.

Unfortunately, we do not have any information on the number of Irish residents who engage in casino gaming while travelling overseas. However, If even a small proportion of the €4.4 billion spent overseas in 2007 by Irish holidaymakers could be redirected towards domestic tourism, this would represent a significant gain to the economy.

Table B4: Number of visits abroad by Irish residents and expenditure abroad

	2004	2005	2006	2007
Holiday Leisure & Recreation				
Number of Visits (‘000s)	3,081	3,518	3,864	4,654
Expenditure (€ million)	2,882	3,220	3,557	4,388
Business				
Number of Visits (‘000s)	671	738	813	886
Expenditure (€ million)	612	708	781	829
Visit Friends/Relatives				
Number of Visits (‘000s)	1,296	1,416	1,648	1,753
Expenditure (€ million)	862	945	1,132	1,227
Other				
Number of Visits (‘000s)	361	441	523	420
Expenditure (€ million)	304	397	448	398
Total				
Number of Visits (‘000s)	5,409	6,113	6,848	7,713
Expenditure (€ million)	4,660	5,270	5,918	6,842
%age Breakdown of Numbers by Purpose				
Holiday Leisure Recreation	57.0%	57.5%	56.4%	60.3%
Business	12.4%	12.1%	11.9%	11.5%
Visit to relatives/friends	24.0%	23.2%	24.1%	22.7%
Other	6.7%	7.2%	7.6%	5.4%

Expenditure includes international fares. Source: CSO

Appendix C: International Examples of Tourism Impacts – Australia and Las Vegas

Below we have briefly surveyed the casino sector in Australia and Las Vegas, to understand how casinos may be used as the basis for generating broader economic benefits, primarily through tourism. In both, casinos tend to service predominantly the local/domestic population, including interstate tourists. Given their scale relative to Ireland, however, their experience is still relevant, as interstate tourists in these counties would be the equivalent of international tourists in Ireland. They in addition attract significant numbers of international tourists.

Australia

Casinos are an integral part of the Australian tourism industry. Australia is home to thirteen large-scale casino developments, which provide a range of entertainment options and facilities directed at tourists and locals. Although casinos exist in every State in Australia, considerable numbers visit casinos when travelling interstate, due to their prominence as a nightlife and entertainment option. In 2005-6[1], there were some 47 million visits to Australian casinos.

International tourists accounted for 2.5 million or 5.3% of all visits to Australian casinos in 2005-06. In total there were 5.5 million international visitors to Australia that year, so even allowing for some multiple visits, a very significant proportion (up to 45%) of international tourists to Australia visited a casino. Survey data compiled by the Australian Casino Association suggests that their contribution to casino revenue is disproportionately high. In addition, it is estimated that some 22% of domestic/interstate tourists visited to a casino in 2005-06 .

The following key statistics indicate the sector's overall economic importance (data relate to 2005-06):

- Australia's casinos made a direct contribution to GDP of €1.5 billion (Aus$2.5 billion), or €4.5 billion (Aus$7.5 billion) if indirect impacts are included[2].
- Gross Gaming Revenues (GGR) in casinos totalled €5.4 billion, and €1.4 billion was paid in salaries to Australian households through 46,000 full and part-time jobs.
- The total taxation contribution made by the Australian Casino industry was €545 million, of which €225 million were gaming taxes.
- Australian casinos supplied over 3,800 hotel rooms and hosted 3,350 conventions and conferences with 590,000 attendees during the year.
- Overall total casino revenue split down as follows:
    - 79% gaming;
    - 12% food & beverages;
    - 6% accommodation;
    - 3% leasing, entertainment and other.

It is difficult to ascertain the degree to which tourist money spent in casinos displaces expenditure in other sectors of the economy. However, with such a high proportion of international and domestic tourists visiting casinos, it seems likely that the casinos themselves are a key attraction and that a considerable proportion of the spending in Australia's casinos is additional. Anecdotally, a high proportion of international tourists who visit Australian casinos are from Asian countries where casino gaming is illegal, so it is likely that for many of these gaming is an important if not the primary purpose of visiting Australia.

1 Tourism Australia, quoted in Australian Casinos Economic Report 2005/06, URS report for the Australian Casino Association, July 2007.

2 Australian Casino Association 2007, Our Contribution to the Economy 2005-2006, www.auscasinos.com

Appendix C

Las Vegas

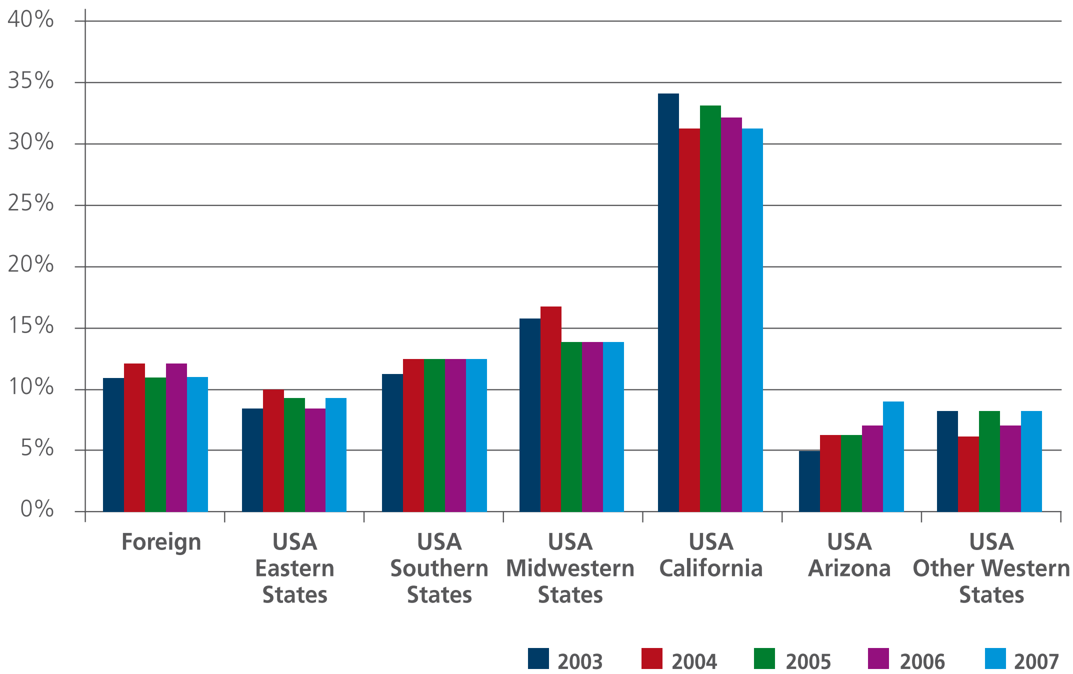
The US has several cities which are famous for super-casino developments – including Las Vegas, Atlantic City and Reno. These attract large numbers of domestic and international tourists.

Las Vegas, Nevada is perhaps the most recognizable casino-tourism location in the world. Casinos are estimated to draw over 50 million visitors per annum to the State. Tourism as a whole accounts for over half a million jobs in the State, 39% of total employment, and over half of these relate to casinos[1].

Following a decline in revenues in the early 1990s, Las Vegas has had success in reinventing itself as an entertainment destination, where casinos make up a part (albeit a major part) of the attractions.

- The economic impact of tourism in Las Vegas was estimated at €28.5 billion ($41.6 billion) in 2007 – including gaming revenue of €5.75 billion ($8.4 billion).
- Figure C1 overleaf gives the origin of visitors to Las Vegas. In 2007, 88% of visitors were from the rest of the USA, with roughly half of these from the neighbouring States of California and Arizona. International tourists made up 12% of visitors.
- Figure C2 presents primary purpose of visit in 2003 and 2007 for visitors to Las Vegas. Over the period, primary purpose has shifted slightly away from 'pleasure' toward other areas, including business, gambling, visiting relatives and 'passing through' (Las Vegas is a gateway to a number of well-known national parks including the Grand Canyon) . Whatever their primary purpose for visiting however, 84% of all visitors in 2007 did gamble.

Figure C1: Origin of Visitors to Las Vegas, USA, 2003 - 07

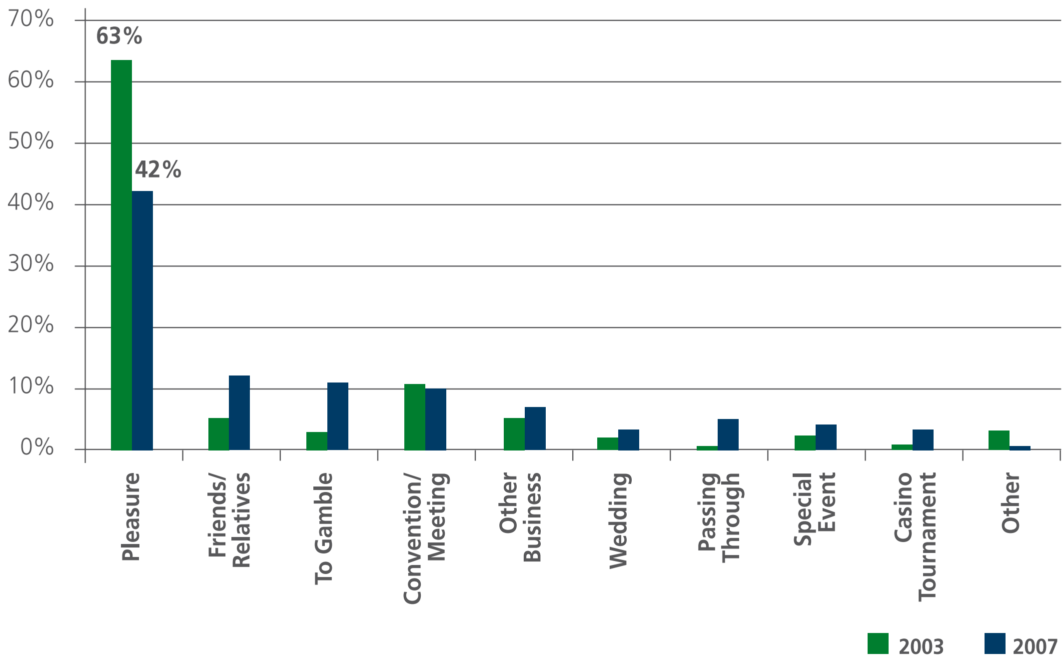


Source: GLS Research 2008, 'Las Vegas Visitor Profile Calendar Year 2007', Las Vegas Convention and Visitors Authority

1 http://travelnevada.com/dtf_pdfs/NV_travel_impacts_2006.pdf; AGA Survey of Casino Entertainment (2006).

Appendix C

Figure C2: Primary Purpose of Visit among Visitors to Las Vegas, 2003 and 2007



Source: GLS Research 2008, 'Las Vegas Visitor Profile Calendar Year 2007', Las Vegas Convention and Visitors Authority

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