



GPI

MANAGEMENT SERVICES PTY (LTD)

9 September 2011

Ms. J. Fubbs
Chairperson
Portfolio Committee of Trade and Industry
Att: Mr. A. Hermans
P.O. Box 15
Parliament
Cape Town
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Per fax: 086 652 7753

Dear Mr. Hermans,

Commentary on the Recommendations of the Report by the Gambling Review Commission

Please accept this correspondence in response to the final report submitted to the Minister of Trade and Industry in September last year and subsequent call for public comment on the Recommendations of the Report by the Gambling Review Commission.

For ease of reference I have detailed what we believe to be the key statements and/or recommendations made in the report and then noted our commentary and recommendations, where relevant.

1 LPM advertising restrictions (The Sumptuary Model)

We are in agreement with the current sumptuary model utilized when defining South African gambling policy and its resultant restrictions on the advertising of gambling.

1.1 Our comment

Whilst the sumptuary model has been implemented well and for all intents and purposes has managed to protect society from the overstimulation of latent demand for gambling, there is disparity between the implementation of advertising guidelines used between provinces and between casino and Limited Payout Machine (LPM) operations. Whilst we are fully cognizant of the fact that LPMs are part of the greater entertainment offering at a licenced LPM site, and that a casino slot machine is the primary entertainment offering at a casino, we are of the opinion that LPM operators should be afforded the same opportunity to advertise their operations as casinos do in order for us as Route Operators to advertise our primary business. In addition this will allow the site operator to advertise all aspects of their business, including LPM's.

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1.2 Our recommendation

That a nationally legislated set of advertising standards be set for LPM operators, which are similar to that of the Casino's advertising guidelines, and that these guidelines or standards be implemented similarly across all 9 (nine) provinces of South Africa.

2 Effect of fiscal drag on the Limited Payout Machine (LPM) industry's profitability

The current limitation on stake (R5) and win (R500) were set as far back as 1993, almost 20 (twenty) years ago, with the win significantly less than the R2,000 (two thousand) recommended in the Wiehahn report in 1995.

2.1 Our comment

Private consumption in South Africa in 1993 was R263 billion, and over the last two decades this has grown to R1,576 billion in 2010. If this growth is applied to the existing limitations on stake and win in the LPM industry the stake should have increased to R30 (thirty) and the win to R3,000 (three thousand).

In addition the tax bands that are tiered have not been increased in-line with inflation which means that we are paying more taxation and therefore becoming less profitable each year.

2.2 Our recommendation

We propose that the LPM stake be increased in line with CPI to R30 and the win to R3,000 and that these limitations be re-addressed every 3 (three) years to ensure that they keep in-line with inflation and real economic growth.

In addition we would propose that the tiered taxation level's be increased in-line with inflation and that these tiers be re-assessed every 3 (three) years together with the stake and win.

3 Regional allocation of LPMs

The LPM industry, as noted in the commission's report, has not grown in the manner initially anticipated, partly due to delays, inconsistencies and capacity shortcomings within the relevant regulatory bodies, but also due to the requirement that a large number of LPM sites should be owned by Previously Disadvantaged Individuals (PDI) and should be spread outside urban centres.

This model, we agree is both economically mistaken and socially undesirable.



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3.1 Our comment

The current structure of the sector requires a proliferation of LPM sites in impoverished areas, and as such does not afford the industry the yield to sustain itself efficiently. In addition it requires the location of a certain quantity of gambling devices in areas that can ill afford it at the current stipulated levels.

3.2 Our recommendation

That the regional allocation of LPM sites be reviewed at a national level, and that a standard be created that a greater number of sites be allocated to urban areas who in recent research, (Bureau for Economic Research), have shown to have 'untapped' capacity.

Furthermore, we recommend that the requirement to ensure each LPM operator has a specific number or percentage of PDI-owned sites also be reviewed as the Route Operator themselves have very stringent Black Economic Empowerment ("BEE") ownership criteria.

4 Increase in certain Provincial LPM allocations

Despite the fact that a limit of 50,000 (fifty thousand) LPMs was initially set and that at end August 2011 only just over 6,500 (six thousand five hundred) were operational, some provinces, in particular the Western Cape, have almost reached their initially approved threshold of 2,000 active LPMs.

4.1 Our comment

Currently each provinces % of licences awarded compared to the total number of LPM's allocated to that province ranges from 0% to 50%. See table below for full breakdown:

Province	Total allocation	Licences awarded	% Licences awarded
Northern Cape	2,000	-	0.0%
Western Cape	9,000	2,000	22.2%
Free State	4,000	1,000	25.0%
Eastern Cape	6,000	2,000	33.3%
Limpopo	3,000	1,000	33.3%
KwaZulu-Natal	9,000	4,000	44.4%
Gauteng	10,000	5,000	50.0%
Mpumalanga	4,000	2,000	50.0%
North West	3,000	1,500	50.0%
Total	50,000	18,500	37.0%



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Some of the key objectives of South Africa's gambling policy was to:

- Generate revenue and taxes for provincial government and good causes
- Create economic empowerment of the historically disadvantaged and
- Promote economic growth, development and employment

With the above in mind we deem it prudent to have existing LPM licences extended in order to afford operators the opportunity to increase their number of LPM sites and in so doing create:

- More employment
- Increase the number of tax compliant businesses, through the requirements of the stringent LPM licencing process and
- Increase our social investment to a broader community as our network of sites grow

It is through the roll-out of additional sites and the relevant requirements that need to be met in order to comply with the prescribed gaming legislation that we ensure sustainable entrepreneurial development.

4.2 Our recommendation

We recommend that a national standard be implemented to ensure that the respective provinces issue a stipulated percentage of their allocation of LPM's by specific dates. In addition we recommend that by 31 December 2011 50% of the allocated LPMs per province be licenced.

This is particularly evident in the Western Cape where the number of licenced LPM's compared to the current allocation is at 22.2% albeit that this is the best performing province in average Gross Gaming Revenue ("GGR") per machine. Therefore we recommend that an additional 2,500 LPM's be licenced.

In addition to the above, and based on the slow roll-out of LPMs in particularly Gauteng, we recommend that a LPM roll-out timetable be set for each route operator licence, and that if not adhered to, said licence should be made available for transfer or sale.



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5 Type-B (40 LPM) licencing

As is the case in Australia, and elsewhere in Europe, Type-B (40 LPM) sites have developed into entertainment hubs, as was the intention of our legislation, at the outset.

Type-B LPM sites were intended, as stated in the Commission's Report, to provide gambling to areas of the country that were too remote support casino investment, but that had the potential to become 'mini-casinos'.

Unfortunately the licencing of these Type-B sites has been extremely slow and at present there are less than 5 operational across the country.

5.1 Our comment

The initial roll-out of Phase 1 (25,000 LPMs) was due for completion in March 2009, this has not taken place, in fact only +-25% of Phase 1 has been rolled-out as at 31 August 2011. Had a more rigorous approach with regards to licencing Type-B sites been undertaken, I am firmly of the belief that we would have already made greater in-roads to achieving a far larger number of active LPMs in South Africa.

That said, and in order to ensure greater sustainability of these sites, we propose that LPM operators be encouraged and afforded the opportunity (where in some provinces it is currently not the case) to be both a site operator and LPM route operator. Not only are we already more liable than individual sites, but in affording us the opportunity, we would be in a far better position to share our successes with the communities in which we operate.

In the Western Cape particularly, subsequent to the expiration of GrandWest Casino's metropole exclusivity in December 2010, and the highlighting of number of key 'untapped' gaming locations within the Cape Town metropole by the Bureau for Economic Research, it makes logical sense to approve Type-B licences in the Province.

The licencing of Type-B LPM sites, as opposed to possibly re-locating one of the existing other 4 (four) casino licences in the province will not only afford the province additional tax revenue, but also ensure that no bias is shown by the provincial regulator in approving the relocation of one casino licence above another.

Furthermore, this decision would circumvent the eradication of any economic benefits created by the 4 (four) existing 'outerlying' casinos in the Western Cape in lieu of having to relocate an entire operation to Cape Town.

Currently Type B licences are only awarded to going concerns of which the gaming portion of the operations can only be 'incidental'. We feel this is very prescriptive and not in line with the intention to create the entertainment 'hubs'.

In addition Type B licence regulations require the site applicant to prove 'good cause'. Our assumption is that 'good cause' relates to the applicants positive social and economic impact on the local community, however, this is not defined and lends itself to varying interpretations.



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5.2 Our recommendation

We propose that the status-quo with regards to the location of all 5 (five) existing Western Cape-based casinos remain, and that where there are 'untapped' gaming areas, Type-B LPM licences be approved.

Nationally, we propose that Type-B licence applications be entertained by all 9 (nine) provincial regulators and that the roll-out thereof be addressed far more rigorously.

In addition we propose that Type B licence applications are adjudicated on a similar basis to casino licence applications.

We recommend that the term 'good cause' be defined in respect of Type B licence applications or be removed.

6 Regulatory uniformity

We are in agreement with the recommendations made by the Gambling Review Commission in that the current mechanism to achieve uniformity have not been successful, partly because of a conflict between the objective of provincial and national governments, and that a balance needs to be struck in the national policy framework.

6.1 Our comment

We presently operate at the mercy of provincial regulators who unfortunately interpret rules and regulations differently from each other and as a result create inconsistency. A united application of the relevant gaming regulations would ensure all operators in all provinces have the opportunity to implement strategies 'across the board' and without having to amend/accommodate the necessary individual interpretations of each individual provincial regulator.

6.2 Our recommendation

We appeal to the National Gaming Board and Government to regularize the national norms and standards of all gaming rules and regulations to allow uniformity and consistency.



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7 Prescribed LPM Monitoring system

At present the LPM industry is required to subscribe to the game play data monitoring services of a single service provider, with no opportunity for competition.

7.1 Our comment

The prescribed utilization of a single monitoring system service provider is not only non-competitive, but also the legislated creation of a monopoly. In addition to the above, the current service provider makes use of a bespoke software protocol (language) which creates a significant barrier to entry for manufacturers who want to enter the LPM industry.

7.2 Our recommendation

That the existing monitoring system service provider continue to provide a service to the LPM industry, but that as is the case in casino operations in South Africa, all LPM operators should be afforded a choice of approved game play monitoring service providers. This proposal will not only raise service levels, but should increase job creation and afford market forces the opportunity to decide who benefits best from the provision of an LPM monitoring service, as opposed to legislation.

In closing I would like to thank the committee in advance for the opportunity to comment on the recommendations made by the Report by the Gambling Review Commission and note that we would welcome the opportunity to present our comments and recommendations in person.

Yours faithfully,

Ms. Alisha Sadler-Almeida
Chief Operating Officer: Slots