

By Frank Tolboom, Kalff Katz & Franssen
Attorneys at Law, Amsterdam



Holland Casino: the house does not always win

FALLING revenues, creditors demanding cost-cutting exercises, substantial redundancies, employees on strike: this is the current reality at state-owned Holland Casino, which was once a cash cow for the Dutch government.

It is no secret that the Dutch government wants to sell the blighted and struggling Holland Casino. Although the privatisation of Holland Casino is on the horizon, it has been pushed back to make way for another piece of regulatory reform, the introduction of a remote gaming licensing system, which receives priority treatment.

A key question is how the Dutch government will attract investors and receive a relatively good price for Holland Casino while maintaining its regulatory objectives.

Legal background

Article 27g of the Dutch Betting and Gaming Act 1964 (DBGGA) provides the legal basis for the offering of casino gaming in the Netherlands. Specifically, Article 27h(1) of DBGGA establishes the basis for a single licence for the provision of such gaming to be awarded, from which all revenues generated are for the benefit of the state (Article 27h(2) DBGGA).

Holland Casino (HC) holds the single licence and in fact has been the sole operator since the first casino opened in 1976. HC is permitted to offer table games, slot machines as well as poker.

HC is not authorised to offer any services remotely, including via the e-commerce route afforded to some of the other incumbent operators. It is, however, currently preparing itself for the introduction of a remote licensing regime.

HC wants to apply for a licence for an online casino (including live dealer/gambling), bingo and poker environment when remote gaming licences become available (pencilled in for 2015). In the meantime an RFP was issued to introduce an online casino, bingo and poker environment to play for (free) points in Q1 2014. Playtech won this tender.

Strong decline

HC has been plagued by fewer customer visits and lower spending for the past few years. HC lost €625,000 in 2012 in a slumping economy which has seen annual gaming revenue drop by 28 per cent between

2007 and 2012 to €484m. In autumn 2013 HC was placed in guardianship by its lenders over debts of €60m.

As part of substantial budget cuts HC laid off 400 employees at the end of 2012, an additional 100 out of 300 employees at its head office in November 2013 and an additional five per cent of its total workforce (up to 250 jobs) in the beginning of 2014.

In general terms HC's difficulties can be attributed to a public smoking ban which came into force in 2008, the recession and a change in the tax regime in 2008. Taxation of gaming machine revenues shifted from being VAT based to a flat rate of 29 per cent, which significantly increased the tax burden.

Employees also claim mismanagement by the board as a reason for the weak performance. HC executives also point their fingers to the rise of the remote gaming market.

Reform: privatisation of Holland Casino?

Questions surrounding whether the government should be in the business of operating a chain of casinos has been a point of contention for many years and the possible sale of HC has been repeatedly raised in parliament.

In March 2011 the State Secretary for Security and Justice matched words with action and for the first time - in a more formal way - released a policy letter which announced that monopolies in the offline market should be replaced by competition and the government's ownership of HC must be reviewed.

When the current government came into play, in October 2012, a coalition agreement was signed in which it was cemented that "the provision of gambling is not a government task and, as such, we aim to sell Holland Casino under conditions that are to be defined."

At present, and 18 months later, still no concrete plans have been made public as to how the government will seek to divest itself of operating a casino chain. Nevertheless, in early 2012 we learnt that the Ministry of Finance, under the previous government, favoured an approach whereby several venues would be bundled together and sold off with licences for remote gaming in an attempt to increase their attractiveness for investors.

Subsequently it was suggested that

venues would be bundled in four packages without a link to remote gaming licences. In any case, it seems that the current government wants to introduce multiple licensees onto the casino market and therefore privatisation will probably not result in HC being sold in one package. Furthermore, an amendment to the current DBGGA is necessary to award multiple licences for terrestrial casino gaming.

At this stage it is unknown when exactly the Ministry will officially publish details with regards to the privatisation of HC. Initially, the Ministry of Security and Justice intended to submit these plans in conjunction with the submission of the remote gaming bill to parliament. Currently it is anticipated that the latter will be submitted in June 2014.

However, in view of the complexity of the dossier surrounding HC - both in legal and political terms - this might be rather optimistic. Thus it is expected that the plans for privatisation of HC will be released after the summer or even at the beginning of next year.

At the same time, the very latest official information stems from a letter from the Minister of Finance to parliament dated January 21, 2014, in which he indicated that privatisation plans will run parallel to the introduction of competition on the land-based market, noting that: "It's the ambition to have privatisation (of HC) and the new market structure realised in the middle of 2016." It remains to be seen if they can fulfil this ambition.

Concluding remarks

We are aware that a number of parties have already shown interest in buying HC. However, patience is required as the Dutch government is currently focussing on the introduction of a regulatory framework for remote gaming.

Other initiatives to modernise the regulation of gaming, such as the privatisation and sale of HC and also the introduction of a transparent allocation mechanism for lottery licences, seem to be next in line for discussion in parliament.

In the meantime, the problems for HC continue to mount with a drastic reorganisation being pushed through in an attempt to keep its head above water. At the same time further strikes by employees have been announced.