



The main hall at the new Subic Diamond Casino is reminiscent of the Sands Macau.

Gaming in the freewheeling Philippines

On Inside Asian Gaming's whirlwind 3-day tour of casinos across the Philippines, we relished the 200 peso (US\$3.6) minimum bets at the blackjack tables (compared to minimum bets in Macau ranging from 100 to 200 patacas – US\$12.5-\$25), marvelled at the ubiquitous '70s Vegas décor, were invited by dealers at two different casinos to participate in minor scams, and came away with the impression that while the Philippines is at the moment the most viable alternative destination to Macau for gamblers from Greater China, Thailand – even though it has yet to legalise gambling – is the one more likely to emerge as a significant threat to Macau operators.

State monopoly on Casinos

All the casinos in the Philippines, save four, are operated by the Philippine Amusement and Gaming Corporation (Pagcor). Pagcor was created in 1977 with a 25-year franchise (which expired three years ago) to raise funds to finance infrastructure and social development projects, provide another attraction for tourists, and stem the proliferation of illegal casinos and betting.

As one regional industry analyst pointed out to *Inside Asian Gaming*, "Certain things, the government should stay out of. The private sector runs the service industry. When has a government-run hotel or other service establishment ever done anything well?"

He notes: "I think one of the few government run hotels I know of is in Jakarta – the one that was the setting for the movie 'The Year of Living Dangerously'. That's still government-run, be-

cause no one would touch it."

Still, Pagcor is the government's biggest source of non-tax based revenues and its third largest revenue earner after the Bureau of Internal Revenue, which collects income tax, and the Bureau of Customs. According to the most recent count available, Pagcor has 505 gaming tables and 5,083 slot machines. Pagcor's gross casino winnings have averaged around 20 billion pesos (US\$136 million) in recent years.

Pagcor's grand plans

Pagcor Chairman Efrain C. Genuino has ambitious plans for developing the country's gaming industry, including a vision of a theme park built on a reclaimed 250-hectare site along Manila Bay, into which Mr. Genuino hopes to siphon US\$15 billion worth of investment within ten years (so far, no one has agreed to stump up the US\$1 billion in-

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vestment needed to jump-start the project). Mr. Genuino explains that while "Gaming will be one of the important aspects of the theme park immediately, eventually it will be relegated to the background." Apart from world-class casinos, he wants the development to include convention centers, shopping malls, residential and business centers, a sports stadium and a cultural complex.

Yet it is charges of corruption and inefficiency, rather than its grand plans, that have brought Pagcor to the headlines recently. In April, Legislator Crispin Beltran claimed: "It's apparent that for all of Pagcor's projections that it donates millions to socio-civic projects of the government and contributes to charities, billions more are pocketed by its officials and their business partners in the private sector. Pagcor is a government institution where corruption is inherent and undeniable." Robert Jaworski, a member of the House Committee on Amusement, said: "From what I heard, Pagcor is Santa Claus for a lot of government officials, and there's no way we could verify this report because of ques-



Manila Bay, waiting for that first investment.



Non-gaming attractions at Subic.

tionable disbursement procedures. I was also surprised to learn that Pagcor's contributions to the President's Social Fund do not pass through the National Treasury and most of its finances are not covered by any auditing mechanism by the Commission on Audit."

Other issues that have made the news lately are alleged anomalous rental pay-



Casino Filipino Mimosa

ments made by Pagcor to the Hyatt Marina Hotel Casino in Manila, and donations made by Pagcor to the Catholic church, which amounts to government funds being indirectly routed to the church – a violation of the principle of separation of church and state.

The charges of corruption could be politically motivated, but critics need only point to the furniture in Pagcor casinos, manufactured by Pagcor itself, and dealers sitting idly by at tables with arms crossed, to support their claims of inefficiency. Gambling in the Pagcor-run Casino Filipino outlets can be a kitschy and rowdy affair, but if you're looking for contemporary Vegas-chic, head on over to Macau.

Diamond in the rough

The privately-run Subic Diamond Casino, which opened in mid-March, was one of the few quality establishments in *Inside Asian Gaming* stopped by on its tour of the Philippines. Opened in mid-March, the casino décor is bright and contemporary, with some elements – notably the carpet – clearly inspired by the Sands in Macau. The staff is well trained, composed and strictly observes security protocol. The band harmonizes and the free drinks are well blended. The Subic Diamond is a far cry from some of the roughhouse Casino Filipino establishments run by Pagcor.

That's not to say private ownership equates to a well-run casino. Just across the street from the Diamond sits the

Gambling in the Pagcor-run Casino Filipino outlets can be a kitschy and rowdy affair, but if you're looking for contemporary Vegas-chic, head on over to Macau.

Legenda, which has been operating on a temporary license since 1999, when its original license to exclusively operate a casino in Subic was revoked for non-payment of debts amounting to 9 billion pesos (US\$170m) – interest on which has been compounding since. Tourism development in Subic Bay had been stalled since 1999, as hotel and entertainment investors, fearing Legenda could shut at any time, ending one of

Subic's chief tourism draws, were reluctant to come in. The opening of the Subic Diamond thus brought renewed confidence to Subic, claims Ben Lee, casino projects manager of Subic Diamond Entertainment Corporation.

"While we were building, and after we finished building, we started seeing a lot of new things coming up. Like around that pier one, those new Korean hotels came up very quickly, and there are a couple of new restaurants. Then the Japanese got interested in those condos, and behind the hotel next to pier one there's another 100-room Korean hotel coming up," says Mr. Lee.

And what will happen to Legenda now that Subic Diamond is on the scene? "They're in the courts undergoing bankruptcy proceedings by Pagcor," explains Mr. Lee. "Like Mimosa [a once privately-run casino in Clark, now taken over by Pagcor], Pagcor would probably take over the running, and try to sell it off as a going concern."

Base of operations

Subic Bay, a former US naval base, like Clark Air Base, was designated a special economic zone (SEZ) following the US pullout in September 1992. Subic's port facilities and duty free status have attracted several export-oriented industries and foreign investment to Subic. Industry in Clark has failed to take off because of the lack of non-golfing attractions, but investments in tourism are being driven by the arrival of low-cost airlines using Clark to access other destinations in the Philippines.

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Subic, meanwhile, has sparse air connections, but water sports aplenty. Mr. Lee observes: "Clark is not a tourist spot, it's a jumping off point." Subic, on the other hand, is a tourist spot. It's always been popular with the locals. Weekends, long holidays, this place is full."

Mr. Lee believes the gaming action in the Philippines will be centered on the



Ben Lee, casino projects manager of Subic Diamond Entertainment Corp.

former US bases over the coming years. "It'll be neck and neck between Subic and Clark. Clark's got no natural attractions, but what they do have is easy access to Manila. It's only an hour and a half by road from Manila to Clark. It's two and a half hours from Manila to Subic."

With Subic a mere hour and forty five minutes from Hong Kong by air, Mr. Lee believes "at the moment, the Philippines is the most viable alternative to Macau," providing a two-day tropical getaway, and arguably more privacy than Macau. There is talk of another Korean casino group coming in soon. However, Mr. Lee is quick to add: "If Thailand comes up, it will be the most viable alternative."

One of Thailand's trump cards will be its pristine beaches, with an integrated resort foreseen near Phuket. Mr. Lee admits the Philippines has some nice beaches too. "Boracay is very nice. But they won't allow any casinos there – the churches are against it. Everybody would love to get their foot in there."

Another draw of the Philippines is the abundance of English-speaking university graduates willing to work for the minimum wage of a mere 6,000 pesos (US\$107) per month, especially contrasted to salaries for dealers in excess of US\$1,250 in Macau, and the

difficulty of recruiting workers in a city like Macau where a mere 10,000 people are without jobs.

Language is not an obstacle to serving Chinese customers in the Philippines, according to Mr. Lee. "That's why we always have Chinese staff here, in the VIP room. We have VIP assistants. The only person you need is an interpreter, between the player and the waitress or pit manager. Some are local Filipino Chinese. Most are from Hong Kong."

More SEZs on the way?

Private investors are only allowed to operate casinos in the SEZs. Elsewhere, casinos are the exclusive domain of Pagcor. As such, all casinos in Manila Bay, which is not a SEZ, would have to be operated by Pagcor. "Unless they have an act of congress, which is always

Who would want to invest a billion dollars in Manila Bay, when all the action's in Macau? What's your return on investment? Where are your customers coming from?

possible here," points out Mr. Lee.

"I'm sure someone bringing one billion dollars can have a lot of say. But there's no market for something that big," adds the industry analyst. "Who would want to invest a billion dollars in Manila Bay, when all the action's in Macau? What's your return on investment? Where are your customers coming from?"

Another problem is Pagcor's inconsistent and non-transparent treatment of foreign investors. Casino licenses are awarded on a case-by-case basis, with interested parties usually submitting their bids through middle people with connections to Pagcor.

Pagcor also applies varying terms to foreign operators. Both the Subic Diamond and the Fiesta Casino on the



Casino Filipino Angeles

Pagcor Academy

The Philippines trains and then exports teachers, health professionals and other technical workers all around the world. Pagcor Chairman Efraim Genuino is spearheading a plan to create a Pagcor Academy that would offer training courses for dealers and casino executives. Though his plan has earned derision from critics, he is confident "there is now a huge market for professional workers in the gaming industry, and this can be supplied by talent from the Philippines. What we want to develop is a bachelor's course in gaming, a bachelor of science in gaming management. This is what the industry lacks."

One casino operator we spoke to about Mr. Genuino's plan put it bluntly: "Let me ask you: having seen the Pagcor dealers, would you accept a Pagcor trained dealer?"

Casinos in the Philippines

Pagcor-run

Casino Filipino Angeles
Casino Filipino Bacolod
Casino Filipino Davao
Casino Filipino Heritage Manila
Casino Filipino Laoag, Laoag City
Casino Filipino Mimosa Angeles City
Casino Filipino Olongapo
Casino Filipino Parañaque
Casino Filipino Pavillion Manila
Casino Filipino Silahis Manila
Casino Filipino Tagaytay
Hyatt Manila and Casino Filipino Manila
Waterfront Airport Hotel and Casino Mactan,
Lapu-Lapu City
Waterfront Cebu City Hotel and Casino
Santa Ana Park, Makati City

Privately-run

Fiesta Casino and Hotel, Binangonan
Fontana Leisure Park, Pampanga
Legenda Hotel and Casino
Subic Diamond Casino, Subic Bay





Procedural gaps

The trouble with paying your dealers US\$107 a month is that some may be tempted to seek ways to supplement their income. Granted, we at *Inside Asian Gaming* are a friendly bunch, but the frequency with which we were invited to drinks after work by dealers in casinos around the Philippines was alarming. Twice, we were openly invited to participate in minor scams in casinos we were visiting for the first time.

Mark Rotherham, head of security at the Subic Diamond Casino, explains: "In casinos, you should be more concerned about your staff, generally speaking, than customers. Customers don't know too much about casinos, but staff spend a lot of time in them, and they know and can see the loopholes."

Most scams involve collusion between staff and customers. Called dealer-agent scams, these involve "the dealer or supervisor, and in some cases pit bosses, allowing certain things to happen, in the hopes that nobody will notice. And then they try and protect that by saying it's a mistake. Overpaying a customer, or the customer doing a color change, where chips of a smaller denomination are changed into larger denominations, giving them extra chips, and things like that."

Casinos' only defence is strict procedures. "It's movements. Certain things staff can and can't do with their hands. You'll notice, when they're sitting on a closed table, they have to have their hands open, and things like that. As soon as they start to deviate from that, people catch it. We enforce it so strictly that you can see these things out of the corner of your eye. So it doesn't just require surveillance. It requires everybody on the floor."

Mr. Rotherham does not agree that scams involving staff are more frequent in the Philippines because of the low pay there. He does, however, believe there is a general lack of supervision of table staff around the Philippines. "If table staff aren't strictly supervised, then they become complacent. Everyone forgets about cameras in the end, which is a good thing in some ways. If the staff are honest, it's good that they forget about the cameras and they're not paranoid and they're not nervous, or anything like that. But if staff don't have good supervision on the floor, then they start to think 'what can I do?'"

outskirts of Manila pay 10 percent of gross revenues from foreign customers and 60 percent from locals to Pagcor. Legenda has a "sweetheart deal" which sees it pay 15 percent tax on revenue after all operating expenses. By lumping complimentary, room and F&B into its expenses, Legenda has completely avoided paying tax since 1999. Fontana pays a 10 percent flat tax.

Discriminatory terms

Private operators inevitably complain of discriminatory terms, but Pagcor clearly recognises the value of casinos bringing in foreign customers. Fiesta was built following the designation of the proposed site as a SEZ. The industry analyst points out: "They did it just for the casino. Otherwise it's right in the middle of a hilly region, with no access whatsoever, except by this little road." There are other unequal terms, such as the costs of the monitoring team. Some operators are required to foot the entire bill for the Pagcor staff monitoring their premises, while others are required to pay for overtime and holiday costs (since Pagcor casinos are shut during certain holidays).

Questions of propriety

"It raises questions of propriety. How can you pay for the people who are supposed to be monitoring you? It's a conflict of interest," concludes the regional industry analyst.