

Sleeping Giant



Brazil is one of the few strong opportunities for IR development

By Brendan D. Bussmann

While most of the gaming world is focused on Japan as the next emerging market, a battle continues south of the Equator to legalize gaming in Brazil. This untapped market could serve as the cornerstone for gaming development in the region if it were to become a fully regulated market. With the world's fifth largest population, Brazil serves as one of the few strong opportunities left as an emerging jurisdiction for integrated resorts.

Brazil is one of the few large countries that does not have legalized gaming, and local stakeholders have come to believe that it puts them at a disadvantage to compete as a tourism destination at the international level. Like many potential gaming jurisdictions, local politicians see the case for

integrated resorts as a way to generate tourism and economic development. One of the best cases of this that is still used in jurisdictions like Japan and Brazil is the growth that Singapore saw with the addition of Marina Bay Sands and Resorts World Sentosa in 2010. Brazil, which is coming off of hosting the Olympics two years ago, looks to continue to build its tourism with IRs serving as a base to attract individuals to the region.

Several major international gaming operators, including Caesars Entertainment, MGM Resorts International and Las Vegas Sands, have shown interest in the market. The Las Vegas Convention and Visitors Authority continues to focus on Brazil to grow international visits to



Along with bingo, a lottery-style animal game, jogo de bicho, is popular in Brazil

01 01 02 03 04 AVESTRUZ	02 05 06 07 08 ÁGUIA	03 09 10 11 12 BURRO	04 13 14 15 16 BORBOLETA	05 17 18 19 20 CACHORRO
06 21 22 23 24 CABRA	07 25 26 27 28 CARNEIRO	08 29 30 31 32 CAMELO	09 33 34 35 36 COBRA	10 37 38 39 40 COELHO
11 41 42 43 44 CAVALO	12 45 46 47 48 ELEFANTE	13 49 50 51 52 GALO	14 53 54 55 56 GATO	15 57 58 59 60 JACARÉ
16 61 62 63 64 LEÃO	17 65 66 67 68 MACACO	18 69 70 71 72 PORCO	19 73 74 75 76 PAVÃO	20 77 78 79 80 PERU
21 81 82 83 84 TOURO	22 85 86 87 88 TIGRE	23 89 90 91 92 URSO	24 93 94 95 96 VEADO	25 97 98 99 00 VACA

Bingo halls dot many Brazilian cities, but only the paper game is permitted, not bingo machines



The only legal forms of gaming at the national level are the national lottery, which has been in existence for over 50 years, and sports betting that is legal under the regulation of the Caixa Economica Federal. However, the lottery competes directly with Jogo do Bicho, an illegal lottery-type game reputed to be operated by local mobsters and cartels, and bookmakers must compete with offshore operations that are completely unregulated.

Las Vegas due to its wealthy target visitors who like to gamble, shop, eat and party. Currently, Brazil is the seventh largest source of international visitors to Las Vegas, with more than 150,000 Brazilians visiting each year. Chilean airline LATAM recently began nonstop flights between Las Vegas and Brazil.

Within the last few months, stakeholders from all sides involved in Brazil have continued to gather after misses in passing IR legislation earlier this year. Gatherings have included the Brazilian Gaming Congress in April that also hosted a separate seminar on gaming legislation for Brazilian legislators. Gaming in Brazil also was one of the key topics at the most recent Jogos Miami conference that concluded at the beginning of June. Gaming and IR development will continue to be a discussion point in the country, as there is a recognized need for additional tax revenue and economic development.

The Existing Market

Gambling has been illegal in Brazil since the 1940s. It was initially prohibited nationally in 1941, when the Criminal Convention Act banned all games of chance. This was further cemented through Decree-Law No. 9.125 of April 30, 1946, which brought forward the closure of casinos that existed in Rio de Janeiro, Sao Paulo and Minas Gerais. However, despite gaming being illegal in the country, Brazil's gaming market is significant today. It is viewed that the online market alone could generate up to USD\$1.65 billion.

The only legal forms of gaming at the national level are the national lottery, which has been in existence for over 50 years, and sports betting that is legal under the regulation of the Caixa Economica Federal. However, the lottery competes directly with Jogo do Bicho, an illegal lottery-type game reputed to be operated by local mobsters and cartels,



Senator Ciro Nogueira is sponsoring the bill that would legalize several forms of gaming, including casinos, in Brazil to eliminate the gray market that currently exists

and bookmakers must compete with offshore operations that are completely unregulated.

In addition to lotteries, Brazilians play hundreds of thousands of bingo-style slot machines spread throughout the country at illegal bingo parlors. These parlors and games are widespread, although they are technically illegal, and those that operate them are pushing for them to be legalized and taxed.

In addition to these widespread machines, online sports wagering and casino gaming are widely available through online, offshore-based operators from the Caribbean to Gibraltar. Although not legal, local authorities do not do anything to prevent these online operators from attracting locals.

Based on information reported by *Games Brazil* magazine, it is estimated that the Brazil gaming market generates roughly \$14.5 billion per year through the lotteries, sports betting, bingos and other forms.

A Tale of Two Proposals

Two proposals are leading the way for legalization of gaming in Brazil. One would legalize the gray-market machines as well as online gaming, and it would setup a framework for a limited number of integrated resorts. This approach would yield a significant revenue stream for the state and generate tens of thousands of jobs.

The other would focus on a narrow form of gaming in integrated resorts with a limited number of locations, thus keeping the rest of the gaming market that is operating illegally today likely continuing to operate in the same manner. Regardless of the approach ultimately chosen, international operators need to know that they have a legal framework in place that will allow them to develop large-scale facilities in a well-regulated and fair environment. This includes a reasonable tax rate with strict regulations, and a rational licensing fee.



It is estimated that the Brazil gaming market generates roughly \$14.5 billion per year through the lotteries, sports betting, bingos and other forms.

Full Legalization

One consideration that has been widely discussed is to legalize nearly all forms of gaming and then to take a systematic approach to reform the existing illegal market to bring it under a regulatory framework, while also allowing a formal RFP process to develop integrated resorts. By regulating all forms of gaming, this creates the biggest economic opportunity for Brazil in terms of jobs, development and tax revenue.

Another advantage of regulating all forms of gaming is to bring in responsible gaming measures that address and help the small percentage of the population that suffers from problem gambling. Whether it be at a bingo hall, lottery or integrated resort, responsible gaming measures in Brazil should cover all platforms, just as they do in other markets such as Singapore and Japan, which looks to bring pachinko under the same veil as it passes legislation in this session of the Diet.

The last major debate on this full gaming proposal occurred in March with the gaming bill PL 186/2014, which would have allowed for the regulation of the gaming market, including all forms of gaming. This proposal was defeated in surprising fashion, as stakeholders believed there were ample votes for the bill to pass. The bill was then rejected by the Senate Constitution and Justice Committee. Sponsored by Senators Ciro Nogueira and Benedito de Lira, it sought to bring the gray-market operations into a regulated environment under which the state develops a regulatory body to oversee and tax all forms of gaming, including bingo halls and online gaming. The bill also would have allowed for the development of IRs.

Operators such as Caesars Entertainment have been supportive of the proposal to regulate land-based casinos, bingo halls and Jogo do Bicho, as well as online sports betting. Caesars has been supportive of PLS 186/2014 as executives believe it is a vehicle to increase tourism as well as regulate the entire market in Brazil. This also brings into regulation the existing market and allows for those to be operated under the law. MGM Resorts also has been active in the market, and continues to advocate for the market to become regulated.

IR-Only Bill

Earlier this year, the Brazilian Senate debated an amendment to the PLS 186/2014 bill that would have allowed for an integrated resort-only plan. This would have thereby eliminated the need to regulate the existing market or consider additional gaming opportunities, including the online and sports betting markets.

The plan, proposed by Las Vegas



Chamber of Deputies President Rodrigo Maia wants to only legalize integrated resorts as a way to increase tourism to Brazil

Sands Corp.—which has most recently promised to spend up to USD\$8 billion in Brazil—argued in favor of this legislation saying that it allowed for “a limited and strictly regulated environment for gaming” and that it “does not believe in the dilution of the market.” While appreciating LVS’ view that a diluted market may limit the potential of its IR, it is simply unrealistic to believe that the passage of this law would result in the hundreds of thousands of gray-market machines operating today being shut down.

Chamber President Rodrigo Maia has been an advocate for the casino-only plan, saying that this was the only way to boost tourism. He sought the position of only allowing casinos and not touching the existing forms of unregulated gaming as a way to generate additional revenue and jobs but in a much more limited fashion. This last-minute push, allowing for IRs only, derailed the bill and contributed to the negative vote.

Las Vegas Sands, as a strong supporter of this bill, was also successful in ensuring that the bill did not allow online gaming. LVS has had a standing policy against online gaming for nearly eight years. In the United States, it has advocated for the Restoration of America’s Wire Act (RAWA) that would ban most forms of online gaming and stop existing operations in states like Nevada, New Jersey and Delaware, in addition to Pennsylvania, which is coming online in the near future.

Under both bills, the exact number of integrated resorts to be authorized remains up for debate. Major cities including Rio de Janeiro and Sao Paulo seem like immediate choices, but other cities could be considered, including some more recent suggestions such as Recife and Salvador. It is likely that only three or four locations would be allowed if and when regulation is passed.

Next Steps

Gaming failed in this legislation due to a lack of consensus among legislators as to the best approach to legalize gaming, rather than large opposition against the notion of legalized gaming. During the time of the Brazil Gaming Congress, the event organizer, Clarion, held a session in Brasilia with representatives from the legislative, executive and judicial branches of government to discuss the best practices in the laws and regulations. Nevada Gaming Control Board Chairwoman Becky Harris, along with other gaming experts, shared their experiences and answered questions on how to establish a regulated market, and factors that would contribute to its potential. Topics that were covered included the regulation of games and creating a strict regulatory market, the effects of tax policy, job cre-

ation and economic growth opportunities, and responsible gaming initiatives. It also included the ability to put controls into place to regulate the market effectively across all platforms.

Brazil will continue to be a strong case for IR development until it passes legislation, but the nation must address the existing markets in the same action. While there continues to be a debate among legislators and stakeholders interested in the market, there is one common theme that gaming prohibition is no longer an option. The gray market seeks to have its machines allowed and operated in an open, regulated environment to continue to offer customers games of chance. The online market is currently rampant in Brazil, and it remains unregulated and dominated by offshore operators. Through property regulations, Brazil could generate large levels of tax dollars for the state and protect its population from rogue operators.

Many believe that the time is ripe for the addition of casinos in the Tourism Bill (PL 2724/2015), which is currently being debated. This was added into the debate because of the economic conditions in Brazil and the need for additional revenue. It was highlighted by a strike of truckers in Brazil at the end of May, which came in response to an increase in the gas tax and effectively shut the country down for days.

However, the current version of the tourism bill at the time of this article does not include integrated resorts in its language, and it is likely that any amendments to the bill will not include any gaming. While the time may be ripe, there is still a clear lack of cohesiveness among legislators. This has been the challenge for the last several years, and especially in the last few months as legislation was derailed during the vote last spring.

Stakeholders that can form a coalition between the existing bingo halls, other forms of gaming that are currently in Brazil and those that seek integrated resorts will most likely prevail. This group does, however, need to make its case and demonstrate the market potential through all forms of gaming, and clearly address the regulatory framework and its impact on the market. This will allow for responsible gaming measures to occur across all platforms of gaming as well.

Hopefully, by the next Brazilian Gaming Congress, legislation will have been passed, maybe even as early as this fall’s legislative session after the election. However, Chamber of Deputies President Maia had suggested that any gaming expansion talk will have to wait until 2019. As things continue to develop legislatively, stakeholders should explore the full market potential and enact legislation that covers all forms of gaming to bring regulation to the market that can also generate tourism for the country.

Brendan D. Bussmann is a partner and the director of government affairs for Global Market Advisors.