



Statement of Issues

3 July 2014

Aquis - proposed acquisition of the Reef Casino

Introduction

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (**ACCC**) on the proposed acquisition by subsidiaries of Aquis Reef Holdings (Aus) Pty Ltd (together with its related bodies corporate, **Aquis**) of:
 - a. all the units in the ASX-listed Reef Casino Trust
 - b. all of the issued shares in Reef Corporate Services Limited (**the Reef responsible entity**) and Casinos Austria International (Cairns) Pty Ltd (**the Reef operator**)(together, the **proposed acquisition**).
2. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC's Merger Review Process Guidelines (at www.accc.gov.au/processguidelines) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by 17 July 2014 and anticipates making a final decision on 21 August 2014. However, the anticipated timeline can change in line with the Merger Review Process Guidelines. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at www.accc.gov.au/mergersregister.
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

Background

5. The ACCC commenced its public review of the proposed acquisition on 9 April 2014.

The merger parties and other industry participants

Aquis

6. Aquis is a privately held company ultimately wholly owned by Mr Tony Fung, a Hong Kong resident private investor.
7. Aquis currently has no existing interests in casinos in Australia.
8. In October 2013, the Premier of Queensland announced the government's intention to seek formal expressions of interest for up to two integrated resort developments (including a casino licence for any successful proponents) in regional Queensland (the **Queensland Government bid process**).
9. On 28 March 2014, Aquis submitted a formal Expression of Interest as part of the Queensland Government bid process to develop an integrated resort and casino (the **Aquis Resort**) at Yorkeys Knob, approximately 15 km north of the Reef Hotel Casino in the Cairns CBD.
10. On 27 May 2014, the Queensland Government announced that the Aquis Resort was one of two short-listed projects in its bid process.¹ The Queensland Government announced that the Aquis Resort and the other short-listed project would both be able to receive a casino licence if its "*project proceeded and met all the necessary environmental, planning and gaming licencing approvals*"². The Queensland Government expects to make a final decision on whether the Aquis Resort will receive a casino licence in 2015.
11. Subject to appropriate approvals being obtained, Aquis expects the Aquis Resort to open in 2018.
12. Aquis has sought approval for approximately 750 gaming tables and 1500 gaming machines at the resort. If it proceeds, the resort will also include:
 - a. eight luxury hotels with a total of 7500 rooms
 - b. 10 000m² of high-end retail shopping
 - c. an aquarium
 - d. two 600 seat theatres
 - e. an 18 hole championship golf course

¹ The other short-listed project is by ASF Consortium Pty Ltd for an integrated resort and casino in Broadwater on the Gold Coast.

² See the media statement of the Deputy Premier, Minister for State Development, Infrastructure and Planning, the Honourable Jeff Seeney, at <http://statements.qld.gov.au/Statement/2014/5/27/aquis-and-asf-shortlisted-to-develop-integrated-resorts>

- f. a 25 000m² convention and exhibition centre
- g. a cultural heritage centre.³

Reef Casino Trust

13. The Reef Hotel Casino (**Reef Casino**) is a combination hotel and casino complex in Cairns, Queensland. It has:
 - a. 128 hotel rooms
 - b. 38 gaming tables (offering Blackjack, Roulette, Mini and Midi Baccarat, Reef Routine, Paradise Pontoon, Sic-Bo, and the Money Wheel)
 - c. one electronic table game (Rapid Roulette)
 - d. 519 gaming machines
 - e. a VIP gaming room
 - f. TAB and Keno
 - g. dining, bars, entertainment and conference facilities.
14. Ownership and operation of the Reef Casino is divided between three entities:
 - a. The Reef operator, which is the lessee of the Reef Casino building and operator of the Reef Casino business. This entity operates the day-to-day management of the complex, including both the casino and the hotel.
 - b. The Reef Casino Trust, an ASX listed unit trust that owns the Reef Casino building, including plant and equipment, and also holds the relevant casino licence.
 - c. The Reef responsible entity, which is the responsible entity / trustee for the Reef Casino Trust.
15. Over 70% of the units in the Reef Casino Trust are held by two unitholders – Casinos Austria International Limited and Accor Casino Investments (Australia) Pty Ltd (and their respective related bodies corporate). These two companies also jointly own the Reef responsible entity and the Reef operator.

Other industry participants

16. There are 13 casinos in Australia. Most, if not all of these casinos are integrated entertainment complexes, featuring restaurants, conference facilities and hotels.
17. The PricewaterhouseCoopers Independent Expert's Report in respect of the proposed acquisition (the **Independent Expert's Report**)⁴ states that the

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http://eisdocs.dsdip.qld.gov.au/Active%20Projects/Aquis%20Resort%20at%20the%20Great%20Barrier%20Reef/EIS/Aquis%20EIS_DIGITAL_Chapter%204.pdf

⁴ The Independent Expert's Report is Attachment 1 to the Reef Casino's Target's Statement issued in response to Aquis' bid for the Reef Casino Trust at

http://media.reefcasino.com.au/d/reefcasino/media/Pdfs/Targets_Statement_ASX_lodgement.pdf

Aquis Group - proposed acquisition of the Reef Casino Trust

Australian casino industry is expected to generate \$5.6 billion in total revenues in FY2014⁵. Over the following five years through to FY2019, casino industry revenue is forecast to grow by 2.9% annually, reaching \$6.4 billion in FY2019⁶.

18. Table 1 below summarises details of existing Australian casinos.

Table 1 – Summary of existing Australian casinos⁷

Casino	Opened	Ownership	Location	Tables	Machines	Hotel Rooms
Alice Springs Casino	1982	Lasseters Holdings	Alice Springs	21	188	75
Canberra Casino	1992	Casinos Austria International Limited	Canberra	38	-	-
Country Club Casino	1982	Mulawa Holdings	Launceston	25	315	104
Crown Melbourne	1997	Crown Resorts	Melbourne	500	2,500	1,604
Crown Perth	1985	Crown Resorts	Perth	245	2,100	686
Jupiters Gold Coast	1985	Echo Entertainment	Gold Coast	93	1,426	594
Jupiters Townsville	1986	Colonial Leisure Group	Townsville	26	333	194
Reef Casino	1996	Reef Casino Trust	Cairns	38	519	128
Skycity Adelaide	1985	Sky City Entertainment	Adelaide	90	995	-
Sky city Darwin	1979	Sky City Entertainment	Darwin	33	750	54
The Star	1997	Echo Entertainment	Sydney	300	1,500	650
Treasury Casino	1995	Echo Entertainment	Brisbane	861	360	130
Wrest Point Hotel Casino	1973	Mulawa Holdings	Hobart	30	490	280

Crown Resorts Limited (Crown)

19. Crown operates in the gaming and entertainment industry primarily in Australia. It currently owns two casinos in Australia: Crown Melbourne and Crown Perth. Crown is the largest casino operator in Australia with over 50% of total Australian casino revenues. It has also recently entered into an agreement with the New South Wales Government to develop a new integrated casino resort at Barangaroo in New South Wales which will focus on VIPs.

⁵ Page 22 of the Independent Expert's Report.

⁶ Ibis world, as quoted at page 24 of the Independent Expert's Report. These figures do not include any revenues associated with the Aquis Resort.

⁷ Reproduced from page 23 of the Independent Expert's Report.

Echo Entertainment Group Limited (Echo)

20. Echo owns the Star (NSW), Jupiters and Treasury (QLD) casinos, and in January 2014 sold Jupiters Townsville to Colonial Leisure Group. Echo earns over 32% of total Australian casino revenues.

The transaction

21. On 24 March 2014, Aquis made a public off-market offer to acquire all the units in the ASX-listed Reef Casino Trust from its current unitholders for a total purchase price of \$216.9 million.
22. Aquis is also acquiring all of the issued shares in the Reef responsible entity (for \$12.6 million) and the Reef operator (for \$30.9 million), from their current shareholders.
23. As a result of the proposed acquisition, Aquis would become the owner and operator of the Reef Hotel Casino.
24. Casinos Austria International Limited is also selling its other Australian casino operation – Casino Canberra – to Aquis for \$8.9 million. The acquisition of Casino Canberra is conditional on the acquisition of the Reef Casino.

Market inquiries

25. On 9 April 2014, the ACCC commenced market inquiries regarding the proposed acquisition. The ACCC has received information from a number of interested parties and is now calling for further information to assist with its investigation.

The future with and without the proposed acquisition

26. Section 50 of the *Competition and Consumer Act 2010* (the **Act**) prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment post-acquisition if the acquisition proceeds (the “with” position) to the likely future competitive environment if the acquisition does not proceed (the “without” position) to determine whether the proposed acquisition is likely to substantially lessen competition in any relevant market.
27. On the basis of the information available to it, the ACCC considers that:
- In the future with the proposed acquisition, the Reef Casino and the Aquis Resort (if the development of the resort proceeds) would operate under common ownership
 - In the future without the proposed acquisition, the Reef Casino is likely to continue operating under its current ownership (or under the ownership of an alternative purchaser), regardless of whether the Aquis Resort proceeds.

The Reef Casino

28. The ACCC’s preliminary view is that without the proposed acquisition the Reef Casino would be likely to continue to operate either under its current ownership or under the ownership of another non-Aquis operator. However the ACCC received submissions during the course of market inquiries suggesting that

Cairns could not sustain two commercially viable casinos. As a result of this material, the ACCC is considering the likely impact of the Aquis Resort on the Reef Casino's ongoing viability.

The ACCC invites comments from market participants on its preliminary view regarding the operation and viability of the Reef Casino if the proposed acquisition does not proceed. In commenting on these issues, market participants may wish to consider:

- 1) The Reef Casino's current financial circumstances
- 2) The types of customers that visit the Reef Casino, or that would visit the Reef Casino in the future, and whether those customers would instead be likely to visit the Aquis Resort once it opened
- 3) The population of Cairns, the expected number of tourists that would travel to Cairns in the future if the Aquis Resort were developed, and how many of those tourists would be likely to visit the Reef Casino.

The Aquis Resort

29. Before the Aquis Resort can be developed, it needs to obtain various regulatory approvals, including:
 - a. A casino licence from the Queensland Government as part of its bid process
 - b. Various probity and other regulatory approvals relating to the resort from the Queensland Office of Liquor and Gaming Regulation
 - c. Environmental approvals from state and federal governments
 - d. Local planning approvals.
30. The ACCC notes there is a degree of uncertainty inherent in the Aquis Resort proposal. The Aquis Resort would be of a scale that is unprecedented in Australia, and the viability of an ambitious project of this scale may be less certain than a smaller project would be. There is also some uncertainty as to whether wealthy Chinese patrons will visit the Aquis Resort in such numbers as Aquis hopes.
31. Aquis has told the ACCC that the Aquis Resort will not be developed in the absence of the proposed acquisition, because:
 - a. Aquis needs to obtain finance for its resort - the first phase of the first stage of the Aquis Resort is estimated to cost approximately \$4 billion to construct. Aquis has told the ACCC that it is unlikely to be able to raise sufficient funds from debt and/or capital markets to construct the Aquis Resort in the absence of the proposed acquisition.
 - b. Aquis needs to use the existing Reef Casino as a platform from which to develop its profile with its intended customers (predominantly international VIPs), and train its workforce, while the Aquis Resort is being constructed.

32. The ACCC's preliminary view, based on the information presently available, is that the Aquis Resort is likely to be developed (in the sense of being a realistic commercial proposition) with or without the proposed acquisition. In reaching this view, the ACCC has taken into account factors including that:
- a. Aquis is investing significant funds in the proposed development and clearly intends to build it, subject to regulatory approvals being received on commercial terms.
 - b. Aquis holds an option to acquire the land on which it plans to build the resort.
 - c. As discussed above at paragraph 10, the Queensland Government has included the Aquis resort in a shortlist of two developments for the award of up to two casino licences as part of the Queensland Government bid process.
 - d. Aquis has commenced the process of seeking regulatory approvals – it has released an Environmental Impact Statement for public consultation.⁸
33. The ACCC understands that the proposed acquisition may provide Aquis with certain advantages in developing the Aquis Resort. However, the ACCC's preliminary view is that the proposed acquisition is not necessarily essential to Aquis obtaining finance for the development of the resort, or the successful promotion and opening of the resort.

The ACCC invites comments from market participants on its preliminary view regarding the likelihood of the Aquis Resort being developed. In particular, market participants may wish to comment on:

- 1) The likelihood of the Aquis Resort receiving a casino licence as a result of the Queensland Government bid process, and the conditions on which any licence may be issued
- 2) Any commercial, legislative, economic, regulatory, demographic or other impediments to the Aquis Resort being developed
- 3) Whether and how the proposed acquisition might affect the likelihood of the Aquis Resort being developed, including but not limited to:
 - a) Whether Aquis would be able to secure finance (through debt and/or capital markets) to develop the Aquis Resort if it did not acquire the Reef Casino
 - b) Whether the Aquis Resort is likely to be commercially successful if it is not able to make use of the Reef Casino to help develop an international profile and experienced workforce while the Aquis Resort is being constructed.

⁸ Available at <http://www.dsdip.qld.gov.au/assessments-and-approvals/projects-environmental-impact-statement.html>

Industry background

Types of customers

34. Casinos typically distinguish between lower stake customers (typically from average or lower income levels) and various levels of more affluent customers who gamble at higher stake levels. For this Statement of Issues, the ACCC uses the following terminology:

- a. **VIP customers** are customers that receive a valuable incentive to gamble with a casino such as complimentary accommodation, complimentary domestic or international airfares, and cash rebates for losses. VIP customers receive these incentives because of the amounts that they are willing to gamble at the casino; the greater the amount that the patron is willing to gamble, the more incentives they may receive. The ACCC understands that customers willing to place bets of \$20,000 would be considered to be low-end VIPs, receiving relatively modest incentives.

In addition to these incentives, casinos also offer distinct VIP areas with higher monetary risk for table gaming for VIP customers.

Other terms used in the industry to refer to customers of this type include 'premium' customers or 'high-rollers' (for higher spending VIPs).

The ACCC understands that a significant proportion of the VIP customers that visit Australian casinos are not Australian residents. These customers may travel to Australia for the express purpose of visiting a casino.

A sophisticated industry of third-party "junket" operators has evolved to facilitate interactions between VIP customers and casinos. These junket operators connect VIP customers with casinos, provide VIP customers with credit and handle debt collection, and provide other ancillary services to VIP customers, in return for a commission from casinos.

- b. Customers other than VIP customers are referred to as **mass customers**. Other terms used in the industry to refer to customers of this type include 'non-VIP' or 'grind' customers.

35. While the ACCC has adopted these terms based on its understanding of industry usage, it notes that these are not standard terms, and terminology is applied differently by different casino operators. Further, there may be significant differences between the amounts gambled by different customers within either of these categories. For example, 'mass customers' includes a wide spectrum of customers, ranging between:

- a. patrons making bets at or around the minimum table stakes (referred to in this Statement of Issues as **lower stake mass customers**)
- b. wealthy patrons who are willing to bet thousands of dollars during a visit to a casino, but are unwilling to bet the significantly larger amounts required to become VIPs (referred to in this Statement of Issues as **higher stake mass customers**).

Legislative framework

36. A casino can only be operated in Queensland with a licence issued by the Queensland Government in accordance with the requirements of the *Casino Control Act 1982* (Qld) (**Casino Control Act**).
37. Under the terms of the Casino Control Act, the Queensland Government has a broad discretion in deciding whether to issue a new casino licence and various statutory criteria must be satisfied by a potential licensee in order to qualify for a licence.
38. By law only casinos can supply table games.⁹ The Casino Control Act and *Casino Gaming Rule 2010* together set detailed rules for table games in casinos. These rules cover aspects including the play of each game, table setup and payouts for successful bets. The ACCC understands that these rules leave little scope for casinos to vary the payouts from table games.
39. By law operators of gaming machines must hold a licence issued by the Queensland Government.¹⁰ The terms of the licence will state the maximum number of gaming machines allowed on the premises. Further, there is also a state-wide cap on the number of the total gaming machines in clubs in Queensland, and a separate state-wide cap on the number of total gaming machines in hotels in Queensland. There is a legislative framework that allows for the reallocation of gaming machine entitlements within each state-wide cap.
40. Gaming machines operated by casinos, hotels or clubs in Queensland must have an expected return to patrons through winnings of at least 85% of the total amount made in bets.¹¹

Areas of overlap

41. If the Aquis Resort is developed, it and the Reef Casino will each operate a casino in the Cairns region.
42. They are also both expected to provide services such as accommodation, and other tourist related services (such as retail shops and restaurants). However, the proposed acquisition is unlikely to have a substantial effect on competition for the supply of these services due to the large number of suppliers of these services in the Cairns region.

⁹ Table games refers to games such as blackjack, roulette, and baccarat that are played on a table. The phrase table games is used to distinguish games of this type from other forms of gambling available at a casino such as gaming machines.

¹⁰ *Gaming Machine Act 1991* (Qld)

¹¹ Chapter 8.3 of the Australian/New Zealand Gaming Machine National Standard, Revision 10.3, 13 December 2012

(http://www.olgr.qld.gov.au/_data/assets/pdf_file/0017/250370/AustralianNewZealandGamingMachineNationalStandard.pdf). These standards are required to be adopted by machines in Queensland under the *Gaming Machine Act 1991* (Qld).

Market definition

43. Based on its analysis to date, the ACCC has considered the proposed acquisition in the context of a market for the supply of casino services.
44. Australian casinos typically offer a combination of entertainment services including table games, gaming machines, live music and theatre, food, nightclubs and other ancillary services (together, **casino services**).
45. As noted above at paragraph 38, only casinos can supply table games. The ACCC understands that in general, table games offer a uniquely interactive gaming experience that distinguishes them from gaming machines and other types of gambling. This exclusivity for table games means that while other venues may provide some of the same services as a casino, they are at best imperfect substitutes for casinos. For this reason, the ACCC's preliminary view is that there is a market for casino services.
46. However, the ACCC is still considering whether competition between casinos and non-casino providers of gaming machines and entertainment is sufficiently strong such that they should be considered as part of the same market (e.g. a market for gambling and entertainment services that includes casinos and venues with gaming machines). Alternatively, the ACCC is considering whether competition between casinos and other venues should be considered in the context of a narrower separate market for gaming machines.
47. Further, the ACCC is still considering whether a market for casino services should be further divided into separate markets according to the customer groups that attend casinos.
48. These issues are considered in further detail in paragraphs 49 to 59 below.

Product dimension

Differences between table games and gaming machines

49. As described above, the ACCC understands that table games form a unique point of differentiation between casino services and the services provided by other non-casino venues with gaming machines. This is based on an understanding that most customers of casinos do not consider gaming machines to be a close substitute for table gaming.

The ACCC invites comments from market participants on whether and to what extent mass customers see gaming machines or other forms of gambling as substitutes for table gaming.

Differences between playing gaming machines at a casino and playing gaming machines at other venues

50. The ACCC understands that a significant proportion of a casino's customers may play its gaming machines and not play the table games at all. Customers of this type are more likely to consider a club with gaming machines to be a substitute for a casino than customers who play both table games and gaming machines. For this reason, there is an aspect of a casino's business that may be subject to competition from other local venues that offer a combination of gaming

machines, food, entertainment and other ancillary services (such as leagues clubs with gaming machines).

51. However, the ACCC is considering whether there are differences between the context in which casinos and other venues provide their gaming machines (in terms of venue, or other services available) such that playing gaming machines at a casino is a different experience to playing gaming machines at non-casino venues.

The ACCC invites comments from market participants on whether and to what extent patrons see playing gaming machines at non-casino venues to be a substitute for playing gaming machines at casinos.

Differences between casino services provided to different types of patrons

52. As mentioned above at paragraph 34, the services that casinos provide to mass customers and VIP customers are different. Mass customers and VIP customers have distinct needs and substitution possibilities in relation to their gambling experience. Thus there is the potential for the competitive effects of the proposed transaction to be different for mass customers and VIP customers.
53. However, the ACCC understands that many casinos cater to both types of customers (at least to some extent). The ACCC further considers that it may be possible for a casino that caters exclusively or predominantly to one type of customer (e.g. VIP customers) to amend its offer to include a greater range of services to the other type of customer (e.g. mass customers) as part of its offer. The ACCC is still considering whether casinos that cater to one type of customer would have an incentive to amend their offer in this manner in response to a SSNIP¹² in the services that other casinos provide to the other type of customer.

The ACCC invites comments from market participants on:

- 1) The differences between the services that casinos supply to VIP customers and mass customers
- 2) Any legal, commercial or practical impediments to a casino that is focused on VIP customers (such as the Aquis Resort) starting to provide services to mass customers (and vice versa).

Geographic dimension

54. The ACCC is considering whether the geographic dimension of the relevant market may differ in respect of different types of customers. In particular, the ACCC is considering whether the geographic area in which casinos are considered to be close substitutes is likely to be wider for VIP customers than for mass customers.

¹² A small but significant non-transitory increase in prices (or equivalent reduction in service quality).

Mass customers

55. The ACCC's preliminary view is that competition for the supply of casino services to mass customers would only be between venues in Cairns and its surrounding suburbs (including Yorkeys Knob).
56. Mass customers of the Aquis Resort or the Reef Casino will be local residents and/or tourists, including tourists staying at other hotels in the Cairns area. The ACCC considers that local residents would not travel beyond the Cairns region in response to a SSNIP by a hypothetical monopolist of casino services in Cairns. In the context of mass customers, a SSNIP might involve an increase in the price and/or a degradation of the non-price offer of casino services including promotions, rebates, or the price or quality of other goods or services provided in conjunction with table games or gaming machines.
57. The ACCC acknowledges that tourist mass customers are potentially more mobile than local residents. However its preliminary view is that most mass customers planning to visit a casino in Cairns have not chosen to visit Cairns for the primary purpose of visiting that casino. For this reason, the ACCC's preliminary view is that most mass customers planning to visit a Cairns casino as tourists would be unlikely to change their entire travel plans to a different location in response to a SSNIP by a hypothetical monopolist of casino services in Cairns.

The ACCC invites comments from market participants on the extent to which mass customers who travel to Cairns as tourists choose their holiday location on the basis of the casino. Does this differ depending on whether the tourist is visiting Cairns from overseas?

VIP customers

58. In contrast to mass customers, VIP customers are highly mobile. This is because they are more likely to structure their travel around the particular casino that they wish to visit (and the inducements that they will receive for visiting that casino, which may include free international airfares). Most are not Australian residents. For these reasons, the substitution possibilities available to VIP customers may be wider than for other customers.
59. However, the ACCC notes that the Aquis Resort and the Reef Casino may perhaps be differentiated from other casinos on the basis of geography. The ACCC has received submissions suggesting that casinos in Cairns may distinguish themselves from other casinos due to the proximity of Cairns to the Great Barrier Reef and Daintree Rainforest, Cairns' warm climate (with annual variations that complement other casino locations such as Macau), and Cairns' reputation as a safe and relaxing holiday location for partners and families of VIPs. The ACCC is considering whether Cairns casinos offer a differentiated product to VIP customers within a broader geographic market, or whether they constitute a separate market themselves.

The ACCC invites comments from market participants on whether VIP customers are likely to see casinos located outside of Cairns, or outside of Australia, as substitutes for casinos located within Cairns (including the Aquis Resort once developed).

Conclusion on market definition

60. The ACCC's preliminary view is that the proposed acquisition should be considered in the context of a market for the supply of casino services.

Statement of issues

61. Overall, the ACCC takes the preliminary view that the proposed acquisition may raise competition concerns. It takes this view because if the Aquis Resort proceeds, but the proposed acquisition does not, there would be two casinos located in Cairns with different owners. Considered in this manner, the proposed acquisition represents a reduction in the number of casino owners in Cairns from two to one.
62. However, given the multifaceted nature of competition for casino services (as described above under the heading 'market definition'), and the fact that the ACCC is still considering the appropriate market definition, the ACCC has considered how different aspects of competition for the supply of casino services may be affected by the proposed acquisition. For the purposes of this Statement of Issues, the issues in this matter are divided into two categories, 'issues that may raise concerns' and 'issues unlikely to pose concerns'.

Issues that may raise concerns

Supply of casino services to mass customers in Cairns

63. The ACCC's preliminary view is that the proposed acquisition has the potential to result in harm to competition for the supply of casino services to mass customers in Cairns. As mentioned above, this is because the proposed acquisition may represent a reduction in the number of casino owners in Cairns from two to one, thereby eliminating the prospect of mass customers receiving the benefits of competition between those casinos. These benefits might include improvements to the price and/or non-price offer of the casinos such as promotions, rebates, loyalty or membership card schemes, gaming machine payout rates (subject to statutory limits) or the price or quality of other goods or services provided in the casinos (such as food or live entertainment).
64. Aquis has submitted to the ACCC that if the proposed acquisition did not proceed and if the Aquis Resort was developed, the two casinos would not compete with each other for mass customers in a material way. This is because its resort would target different types of customers to the Reef Casino and there would be minimal or no competitive overlap between them. As a result, the proposed acquisition would not substantially lessen any competition between the two venues.
65. In particular, Aquis has stated that the Aquis Resort would be modelled on existing casinos located in Macau. For this reason, it would primarily be targeted at international customers, with the majority of its revenues coming from international VIPs. Aquis submits that to the extent that mass customers visit its

resort, they would be higher stake mass customers. In contrast, the Reef Casino currently obtains much of its business from lower stake mass customers.¹³

66. Aquis proposes to require significantly higher minimum bets from customers at table games at the Aquis Resort than those applying at the Reef Casino:
- a. The current lowest minimum bet at the Reef Casino is \$2.50 (this is the minimum bet at eight of its 38 tables), and every one of Reef Casino's 38 tables currently has a minimum bet size that is less than the proposed smallest minimum bet at the Aquis Resort (although the extent to which Reef Casino customers are willing to bet at higher levels than the minimum is not clear).
 - b. Average revenue per mass customer at the Aquis Resort is expected to be substantially greater than the average revenue per mass customer currently obtained by the Reef Casino.
67. Aquis has also submitted that the type of atmosphere that is most appealing to its target customers is quieter and more refined than the type of atmosphere that is generated by lower stake mass customers who visit a casino for 'a good time' and often drink alcohol while gambling. For this reason, it says that it could not effectively target its resort to VIP customers if it also catered to lower stake mass customers.
68. The ACCC's preliminary view is that the Aquis Resort and the Reef Casino would be likely to have differentiated offers and may focus on different customers. However, the ACCC remains concerned that the mere fact that two casinos would operate so close to each other suggests they are likely to compete, at least to some extent. While Aquis Resort may focus on VIP customers, it may still cater to a broad range of mass customers. In this regard, the ACCC is considering whether providing services to VIP customers is necessarily incompatible with also providing casino services to lower stake mass customers at the same venue.
69. The ACCC also notes that certain aspects of the Aquis Resort suggest that it may attract significant numbers of mass customers. For example, the Aquis Resort is proposed to include high end retail shopping, an aquarium, two theatres and convention facilities. These facilities may have broad appeal to mass customers. The Environmental Impact Statement released by Aquis in respect of its resort states that on opening, Aquis expects its entertainment facilities to attract approximately 250,000 'day visitors' (being locals and visitors that stay at other hotels) per annum.¹⁴ The ACCC expects that the Aquis Resort's casino would also cater to these potential customers.

¹³ The ACCC notes the possibility that the focus of the Reef Casino could change in the future in the absence of the proposed acquisition. This issue is considered below at paragraphs 78 to 84.

¹⁴ See Table 13-11 at page 22 of chapter 13 of the statement at http://eisdocs.dsdip.qld.gov.au/Active%20Projects/Aquis%20Resort%20at%20the%20Great%20Barrier%20Reef/EIS/Aquis%20EIS_DIGITAL_Chapter%2013.pdf

70. Further, the Aquis Resort has sought approval for approximately 750 gaming tables and 1500 gaming machines to be placed at the resort.¹⁵ Even if the final resort as constructed does not include as many tables and machines as this, it will still be around the scale of the largest existing casinos in Australia. The ACCC is considering whether:
- a. the Aquis Resort would be able to attract enough customers to operate a casino on such a large scale without appealing to all types of mass customers
 - b. the large number of gaming machines would be necessary if Aquis did not intend to attract lower stake mass customers.
71. More broadly, the ACCC notes that the analysis of competitive overlap presented above is based on the current operations of the Reef Casino and the currently expected operations of the Aquis Resort. However, the proposed acquisition also eliminates the potential for competition between these two venues in the future. For example, the two venues might compete more closely than described above if:
- a. Reef Casino changed its offer to allow it to compete more effectively with the Aquis Resort for higher stake mass customers
 - b. the Aquis Resort was ultimately not constructed to the same standards and scale as currently proposed, with the result that it was more reliant on mass customers than is currently planned. In this context the ACCC notes that the Aquis Resort is currently of a size and scale that is unprecedented in Australia.

The ACCC invites comments from market participants on the likely extent of competition between the Aquis Resort and the Reef Casino in relation to the supply of casino services in the absence of the proposed acquisition. In particular market participants may wish to comment on:

- 1) Similarities or differences between the type of mass customers that would be attracted to each of the Aquis Resort and the Reef Casino. What proportion of mass customers would be likely to be attracted to both casinos?
- 2) The likelihood of the Aquis Resort competing for a broad range of mass customers, including lower stake mass customers. In your answer please consider:
 - a) The operations of existing casinos in Macau, on which the Aquis Resort states it is to be modelled
 - b) Any cultural or social differences between VIP and lower stake mass customers that mean that the Aquis resort could not effectively cater to both groups of customers

¹⁵ <http://aquisgreatbarrierreefresort.com/wp-content/uploads/2013/08/130801-Aquis-GBR-Resort-Submission-Overview.pdf>

- c) The ability of the Aquis Resort to effectively separate the parts of its business that cater to VIP and mass customers, so as to cater to both within the same venue
 - 3) Whether a large number of gaming machines, such as proposed for the Aquis Resort, would be necessary for a casino focused on international VIPs and higher stake mass customers.
 - 4) The proportion of mass customers who currently visit the Reef Casino that make bets at or around minimum bet levels, and the proportion that would be willing to make minimum bets of a significantly higher size.
 - 5) Whether the Reef Casino, as the only casino currently in Cairns, is currently attracting many higher stake mass customers.
 - 6) The actions that the Reef Casino might take in the absence of the proposed acquisition to attract a greater number of higher stake mass customers and the likelihood of this occurring.
72. The analysis set out above at paragraphs 63 to 71 applied to all aspects of competition for the supply of casino services to mass customers. However, as noted earlier in this Statement of Issues, the ACCC is still considering the extent to which casinos compete with other venues that provide a combination of gaming machines and other entertainment. Paragraphs 73 to 77 below provide further information that is specifically referable to gaming machines.
73. As mentioned above at paragraphs 12 and 13, the Reef Casino presently has 519 gaming machines and the Aquis Resort has sought approval for 1500 gaming machines. The Reef Casino is presently the venue with the most gaming machines in Cairns.
74. There are presently approximately 38 other clubs and hotels in the Cairns / Yorkeys Knob area that have gaming machines. Other venues with significant numbers of gaming machines include Cazalys Cairns (300 machines), Brothers Leagues Club (170 machines), and Fuller Sports Club (90 machines). Together, venues other than the Reef Casino in the Cairns area have approximately 1750 gaming machines.
75. Further details of the other venues with gaming machines in Cairns and the surrounding area are set out at Table 2 below.

Table 2 – Summary of gaming machine venues in Cairns¹⁶

Site Name	Approved Gaming Machines	% of Total Approved Gaming Machines
Aquis Resort (if developed)	1500	40%
Reef Hotel Casino	519	14%
Cazalys Cairns	300	8%
Brothers Leagues Club Cairns	170	5%
Fuller Sports Club ¹⁷	90	2%
Fretwell Park	60	2%
Centrals Trinity Beach Australian Rules & Sporting Club	58	2%
Other (combined 33 venues)	1056	28%
Total	3753	100%

76. If the Aquis Resort is developed, it will have approximately 40% of the gaming machines in Cairns. In the absence of the proposed acquisition, the Reef Casino would be the closest competitor to the Aquis Resort in the supply of gaming machines (in terms of the number of machines). The proposed acquisition would have the effect of eliminating that competitor to the Aquis Resort, and increasing the percentage of the gaming machines in Cairns that are under Aquis' control from 40% to 54%. The remaining competitors to Aquis and the Reef Casino would be mostly fragmented.

77. In these circumstances, the ACCC is considering whether the proposed acquisition would materially increase Aquis' ability to reduce gaming machine payout rates (subject to statutory limits) and/or reduce the quality of other casino services at the Aquis Resort or at the Reef Casino.

The ACCC invites comments from market participants on the likely effect of the proposed acquisition on competition for gaming machine patrons. In particular market participants may wish to comment on:

- 1) The extent of current competition between the Reef Casino and other venues in Cairns for gaming machine patrons

¹⁶ Source: information gathered from the Queensland Office of Liquor and Gaming Regulation website <https://secure.olgr.qld.gov.au/dcm/Gaming> as at 23 June 2014.

¹⁷ The Fuller Sports Club is owned by the Brothers Leagues Club Cairns.

- 2) The extent to which Aquis Resort would be likely to compete for gaming machine patrons, and if so, whether there would be a difference between the type of patrons attracted to the gaming machines at the Aquis Resort and those attracted to the Reef Casino or other venues in Cairns.

Issues unlikely to pose concerns

Supply of casino services to VIP customers

78. The ACCC's preliminary view is that the proposed acquisition is unlikely to substantially lessen competition for the supply of casino services to VIP customers.
79. The ACCC understands that the majority of revenues at the Aquis resort are projected to come from VIP customers. In contrast, the Reef Casino currently does not receive many VIP patrons. The Independent Expert's Report includes the statement (at page 15) that:

"The Casino attracts predominantly average income customers, otherwise known as grind business, with a small proportion of premium customers... Within table games the vast majority of revenue is sourced from grind customers."
80. This suggests that if the Reef Casino were to maintain its current offer and customer focus, there would not be significant competition between the Reef Casino and the Aquis Resort for VIP customers in the absence of the proposed acquisition.
81. However, the ACCC is also considering whether the Reef Casino would be substantially redeveloped, and its offer to VIP customers enhanced, in the absence of the proposed acquisition, given the presence of the new Aquis Resort. If this is likely, then the proposed acquisition eliminates that potential for greater competition between the Aquis Resort and the Reef Casino for VIP customers in the future.
82. As mentioned above at paragraph 59, if the Aquis Resort and the Reef Casino were to compete for VIP customers in the future, they would be the only two casinos competing for VIP customers wanting to visit the Cairns region and the Great Barrier Reef. In this sense, they may be each other's closest competitor.
83. However, despite the possibility of the proposed acquisition eliminating future competition between the Aquis Resort and the Reef Casino for VIP customers, the ACCC's preliminary view is that competition for VIP customers is broader than Cairns. If the proposed acquisition proceeds, the Aquis Resort and Reef Casino would be competing for VIP customers with other Australian casinos such as Crown Melbourne, The Star and the forthcoming casino at Barangaroo in Sydney (all of which are of greater scale than the Reef Casino), and possibly also with casinos located in other parts of the Asia-Pacific region such as Macau.
84. When considered in this context, the ACCC's current view is that the proposed acquisition of the Reef Casino would be unlikely to pose significant competition concerns relating to the supply of casino services to VIP customers.

The ACCC invites comments from market participants on:

- 1) The extent to which the Reef Casino currently caters to VIP customers. Why does it not attract more VIP customers?
- 2) The extent to which, absent the proposed acquisition, the Aquis Resort and the Reef Casino would compete for VIP customers.
- 3) The extent to which, following the proposed acquisition, the Aquis Resort and the Reef Casino would compete with other Australian and Asia-Pacific casinos for VIP customers.
- 4) Would the development of the Aquis Resort hinder or enhance the ability of the Reef Casino to compete for VIP customers in the future?

Barriers to entry

85. As described above at paragraphs 36 and 37, a casino cannot be operated in Queensland without a licence issued by the Queensland Government.
86. The ACCC considers that after the current Queensland Government bid process has been completed, it is unlikely that any more new licences will be issued that would allow the operation of a casino in Cairns for many years.
87. For this reason the ACCC takes the view that there are high barriers to entry into the market for the supply of casino services, particularly in the Cairns area.
88. As described above at paragraph 39, there is also a licence regime for gaming machine operators, and state-wide caps on the number of the total number of gaming machines in clubs and hotels. The ACCC takes the preliminary view that these restrictions constitute significant barriers to new entry into the supply of gaming machines in Cairns.

The ACCC invites comments from market participants on its preliminary views on barriers to entry.

ACCC's future steps

89. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
90. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter.
91. Submissions are to be received by the ACCC no later than 17 July 2014. The ACCC will consider the submissions received from the market and the merger parties in light of the issues identified above and will, in conjunction with information and submissions already provided by the parties, come to a final view in light of the issues raised above.
92. The ACCC intends to publicly announce its final view by 21 August 2014. However the anticipated timeline may change in line with the Merger Review Process Guidelines. A Public Competition Assessment for the purpose of

explaining the ACCC's final view may be published following the ACCC's public announcement.