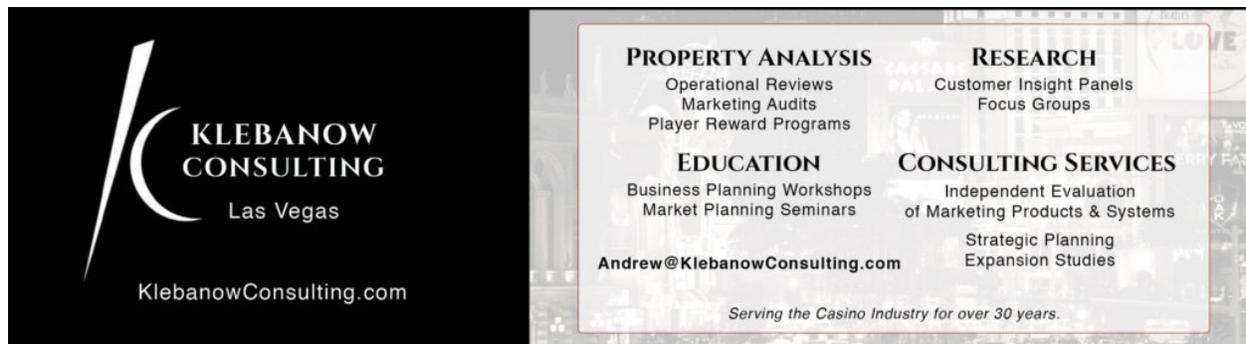


Focus on Asia: The Road to Sri Lanka

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The prospect of integrated casino resorts in Sri Lanka is once again making headlines. The resorts would be part of a massive urban development project called Port City Colombo. Developed by China Harbour Engineering Company and China Communications Construction Company, Port City Colombo is an ambitious venture that will reclaim approximately 260 hectares of land and will include a theme park, medical center, a university, international banks, a convention and exhibition center, shopping mall, marina, a number of hotels and a residential component with a capital cost of \$1.4 billion.



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Port City Colombo is not the first attempt to bring integrated casino resort development to Sri Lanka and, given the country's past experience with attracting casino developers, the road to casino development in the capital city is expected to be bumpy.

Gaming in Sri Lanka

Sri Lanka society has a rich gaming history with horse racing dating back to 1840. After achieving independence, the country saw the proliferation of betting shops that took wagers on horse and greyhound races, and, in the 1990s, turf agents began to take bets on cricket, football, volleyball and other sports in what could best be called a loosely regulated environment. Today, hundreds of betting shops serve the local population.

The country also is home to five full-service casinos, all situated in Colombo. Three of the five casinos – Bally’s, MGM and Bellagio (no relationship to US-based casinos) – are owned by Dhammika Perera. The other two casinos – Marina and Stardust – are owned by Ravi Wijeratne (Rank Leisure). Combined, these five properties offer less than 200 gaming tables. Residents are permitted to wager in these facilities, but must pay an entry levy.

In 2010, the central government sought to better regulate the gaming industry and use it as a tool to grow tourism. After 27 years of civil war, the government was committed to jump start its tourism industry. Given the island-nation’s proximity to India, casino resorts were seen as a viable tool to grow regional tourism and spur hotel construction.

President Rajapaksa proposed a series of changes to the country’s gaming regulations in a law titled the Casino Business Act. The Act established a legal framework for controlling and licensing casinos and betting shops, which had previously operated under British Colonial rules. The legislation also established tax rates. This legal framework was intended to bring gaming regulations to international standards.

Despite this new legal framework, political opposition to casino gambling continued to grow. A plan to issue additional licenses was abandoned in favor of allowing current licensees to transfer their licenses to new large-scale casino hotels once construction was completed. Crown Resorts partnered with Ravi Wijeratne to build a \$400 million, 450-key, casino hotel. Dhammika Perera planned his own casino-resort. He also partnered with John Keels Holdings, Sri Lanka’s largest company, and began development on an \$850 million casino resort, with construction starting in 2014. Total capital costs for these projects exceeded \$1.6 billion.

Nevertheless, political opposition to casino gaming continued to grow and in 2014 the government raised gaming fees and taxes on top of a 40% tax on profits. Authorities also imposed a levy for residents wanting to gamble.

In 2015, President Rajapaksa lost his bid for a third presidential term to Maithripala Sirisena, a former health minister who had strong support from the Buddhist clergy. He canceled key tax breaks for the three projects and said that the government would not permit casinos at these new integrated resorts. He would allow development of the hotels and related non-gaming amenities; they just could not have casinos. Crown abandoned its plans, and the other developments were scaled back.

What is Happening Today

Initial planning for Port City Colombo has been underway for several years. It requires the authorization of a special economic zone that would give the Chinese state-owned enterprises a considerable amount of autonomy in both the development and operation of the entire project.

The city will be administered by Colombo Port City Economic Commission, with a board appointed by the President of Sri Lanka and a Director General. The Economic Commission will also regulate gaming activities within the Area of Authority of the Colombo Port City and develop regulations for the management of such activities.

The Commission will also determine the attributes of gaming locations within the Area of Authority of the Colombo Port City, and specify the manner in which gaming activities are to be carried on or be operated, and the procedure for obtaining a license and the license fees, royalties to be paid and any other related matter, as may be necessary.

The Economic Commission will have the authority to grant exemptions or incentives under The Betting and Gaming Levy Act No 40 of 1988 and Casino Business (Regulation) Act Nov 17 of 2010.

Last month, the Supreme Court began hearings into Special Determination petitions that were filed challenging the constitutionality of the Colombo Port City Economic Bill. Nineteen petitions have been filed so far against the Colombo Port City Economic Commission Bill. The petitioners are seeking a declaration that the Bill in whole or in part require the approval by its citizens in a referendum and require a two-thirds majority in Parliament.

Religion and national politics conspired to quash the previous attempt to bring integrated casino resorts to Sri Lanka. Those same influences remain today. Add in an attempt by Chinese state-owned enterprises to usurp control over the special economic zone that they are funding, and the road to integrated casino resort development in Sri Lanka becomes a far more difficult path to navigate.
