

# STATUS OF KOREAN GAMING INDUSTRY AND REGULATION SYSTEM

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**Abstract:** Korean gaming industry falls into 7 categories including casinos (casinos for natives, foreigner-only casinos), horse racing, cycling race, regatta, lottery, sports betting (sports toto), and bull fighting. Korea administers and supervises gaming industry through separated dual system, that is Competent Agencies and National Gambling Control Commission. Among other areas, casino operators are 17 - including 16 foreigner-only casinos and 1 casino for natives. Two IRs are scheduled to be developed in Incheon area and at least four integrated resorts scheduled to be opened by 2020. Casino requires permit for operation; various regulations on activities thereafter. Dual system of permits under the Tourism Promotion Act, and special case permits under various Special Acts. There are 3 types of tax or quasi-tax to be borne by foreigner-only casinos: (1) tourism promotion and development fund, (2) corporate tax, and (3) individual consumption tax. The recent casino-related policy issues are (1) Establishment of Exclusive Agency for Management of Casinos and Improvement of Applicable Laws and Regulations, (2) Total Turnover Regulation, (3) Junket Promotor related System, (4) China Risk and China Marketing.

**Keywords:** Korean gaming industry; National Gambling Control Commission; China risk; Total Turnover Regulation; Junket Promotor



● Status of Korean Gaming Industry (2016)

- Korean gaming industry falls into 7 categories including casinos (casinos for natives, foreigner-only casinos), horse racing, cycling race, regatta, lottery, sports betting (sports toto), and bull fighting.
- Total turnover in 2016 reached KRW 21,977.7 billion (approx. USD 20 billion).
- The number of visitors for each category is 13,160,000 people for horse racing, 5,520,000 people for cycling race, 3.2 million people for casinos for natives, 2,360,000 people for foreigner-only casinos, 2,120,000 people for regatta, 710,000 people for bull fighting, 3.8 billion tickets for lottery, and 350 million tickets for sports toto.
- The total amount of tax generated from the gaming industry amounted to national tax of KRW 852 billion, local tax of KRW 1,560 billion, and contributions including fund of KRW 3,660 billion.

[Table 1: Outline of Korean Gaming Industry]

Classification	Status		Remarks
Casinos (17)	For Natives (1)	Foreigner Only (16)	Competent Agencies: Minister of Culture, Sports and Tourism, governor of Jeju-do Operators: Kangwon Land, Grand Korea Leisure Co., Ltd., Paradise Group, etc.
	Gangwon (1)	Seoul (3), Busan (2), Incheon (1), Gangwon (1), Gangwon (1), Daegu (1), Jeju (8)	
Horse Racing (34)	On Track (3)	Off-track betting centers (31)	Competent Agency: Minister of Agriculture, Food and Rural Affairs Operator: Korea Racing Authority
	Seoul(1) Jeju (1) Busan/ Gyeongnam (1)	Seoul (11), Gyeonggi (9) Incheon (4), Chungcheong (2), Gyeongsang (4), Jeolla (1)	



Classification	Status		Remarks
Cycling Race (23)	On Track (3)	Off-track betting centers (20)	Competent Agency: Minister of Culture, Sports and Tourism Operators: Korea Sports Promotion Foundation, Changwon Cycle Racing Corporation, Busan Sports Corporation
	Gwangmyeong (1) Busan (1) Changwon (1)	Seoul (7), Gyeonggi (7), Incheon (1), Chungcheong (2), Gyeongsang (3)	
Regatta (18)	On Track (1)	Off-track betting centers (17)	Competent Agency: Minister of Culture, Sports and Tourism Operator: Korea Sports Promotion Foundation
	Gyeonggi (Hanam, 1)	Seoul (6), Gyeonggi (4), Incheon (1), Chungcheong (2), Gyeongsang (4)	
Bull Fighting (1)	On Track (1)		Competent Agency: Minister of Agriculture, Food and Rural Affairs Operator: Cheongdo Public Business Corporation
	Gyeongbuk (Cheongdo, 1)		

[Table 2 : Performance of Korean Gaming Industry]



2016	Casino Business		H o r s e Racing	Cycling Race	Regatta	Lottery	Sports Betting Ticket	B u l l Fighting Gyeonggi	Total	
	Kangwon Land	Foreigner Only								
Total Sales (Ratio)	16,277	12,757	77,459	22,818	6,898	38,855	44,414	299	219,777	
	7.41	5.8	35.24	10.38	3.14	17.68	20.21	0.14	100	
Net Sales (Ratio)	16,277	12,757	20,795	6,386	1,926	19,082	16,050	84	93,357	
	17.44	13.66	22.27	6.84	2.06	20.44	17.19	0.09	100	
No. of Visitors (1,000)	3,169	2,363	13,168	5,520	2,126	-	-	717	-	
Average Betting Amount per Person (KRW 10,000)	51.36	53.99	58.82	41.34	32.45	-	-	4.17	-	
No. of On Track Centers (Off-Track Betting Centers)	1	16	3	3	1	-	-	1	25	
	-	-	31	20	17	-	-	-	68	
Tax	National Tax	2,806	869	4,041	621	176	-	-	6	8,519
	Local Tax	234	74	11,142	3,170	966	-	-	22	15,608
	Tax Total	3,040	943	15,183	3,791	1,142	-	-	29	24,128
	Ratio to Net Sales	18.68	7.39	73.01	59.36	59.29	-	-	34.52	25.84
	Contribution to Tax									
Fund	Fund Total	3,287	1,201	1,752	789	167	16,672	11,835	-	35,703
	Ratio to Net Sales Contribution to Fund	20.19	9.41	8.43	12.36	8.67	87.37	73.74	-	38.24



[Table 3 : Changes in Turnover by Year]

Category		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Casinos	Kangwon Land	9,705	10,657	11,538	12,534	11,857	12,092	12,790	14,220	15,604	16,277
	Foreigner Only	6,129	7,528	9,196	10,056	11,256	12,510	13,685	13,772	12,433	12,757
	Casino Total	15,834	18,185	20,734	22,590	23,113	24,602	26,475	27,992	28,037	29,034
Gaming Industry Total	Total Sales	15,834	18,185	20,734	22,590	23,113	24,602	26,475	27,992	28,037	29,034
	(Fluctuation Ratio)	23.54	14.85	14.02	8.95	2.32	6.44	7.61	5.73	0.16	3.56
	Net Sales	15,834	18,185	20,734	22,590	23,113	24,602	26,475	27,992	28,037	29,034
	(Fluctuation Ratio)	23.54	14.85	14.02	8.95	2.32	6.44	7.61	5.73	0.16	3.56

[Table 4 : Changes in No. of Casino Visitors by Year]

Category		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Casino Business	Kangwon Land	2,452	2,915	3,045	3,091	2,983	3,025	3,068	3,007	3,133	3,169
	Foreigner Only	1,176	1,277	1,676	1,946	2,101	2,384	2,707	2,962	2,614	2,363
	Casino Total	3,628	4,192	4,721	5,037	5,084	5,409	5,775	5,969	5,747	5,532
Total		3,628	4,192	4,721	5,037	5,084	5,409	5,775	5,969	5,747	5,532

## ● Gaming Industry Management and Supervision System

### • Separated Dual System

(1) Competent Agencies: licenses/permits, administrative guidance, supervision

⇒ Casinos (Ministry of Culture, Sports and Tourism), horse racing and bull fighting (Ministry of Agriculture, Food and Rural Affairs), lottery (Ministry of Strategy and Finance), etc.

(2) National Gambling Control Commission: establishes/implements comprehensive plan for integrated management/supervision and soundness of the gaming industry, and for eradication of illegal gambling; application and/or adjustment of total amount with respect to the number of integrated or individual gaming centers, and turnover, etc.; monitoring of illegal gaming activities.

⇒ However, the Commission is unable to substantially perform its roles and responsibilities due to lack of independence, budget, personnel, and authority to conduct raids, etc.

- **Status of Casinos**

- Total 17 casinos including 16 foreigner-only casinos and 1 casino for natives.
- Integrated Resorts:
  - Two resorts scheduled to be developed (Midan City-LOCZ at Yeongjongdo, Incheon, Paradise City at International Business Center zone near Incheon Int'l Airport).
- At least four integrated resorts scheduled to be opened by 2020.

- **Casino Regulation System**

- Requires permit for operation; various regulations on activities thereafter.
- Dual system of permits under the Tourism Promotion Act, and special case permits under various Special Acts.
- Special case permits were introduced to induce foreign investment or for development of abandoned mine areas.
- Conflicting opinions between government agencies (in case of on-board casinos, there are conflicting opinions between the Ministry of Oceans and Fisheries, and the Ministry of Culture, Sports and Tourism).
- There is no unified casino permit system or management/supervision system (Ministry of Culture, Sports and Tourism, Jeju-do, and National Gambling Control Commission, etc.).
- For instance, under the Tourism Promotion Act which is a general law, casino business permit is granted at the discretion of the Minister of Culture, Sports and Tourism. However, the Special Act on the Development of Enterprise Cities introduced a mandatory provision requiring the Minister of Culture, Sports and Tourism to issue the casino business permit subject to satisfaction of requirements under the applicable laws, unlike other Special Acts which provide for casino business permits.
- Further, there are discrepancies between each Special Act providing for special case permits. For instance, while the Special Act for Saemangeum Project and the Special Act on Jeju Province accept the application for permit only with a business plan with the minimum investment, the Free Economic Zone Act requires payment of USD 50 million at the time of application for the permit. In addition, the timing of completion of investment of USD 300 million, which is the common minimum investment amount, is different for each Special Act.



● **Requirements for Casino Business Permit**

- (1) Permit System under the Tourism Promotion Act
  - Competent Agency: Minister of Culture, Sports and Tourism
  - Requirements for Permit (Article 21):
    1. Facilities of hotel business in cities having an international airport or an international passenger ferry terminal or in a special tourist zone, or in a subsidiary facility to the facilities of international conference business
    2. Passenger ferry plying between Korea and another country
- (2) Special Case Permit System under the Special Acts
  - Special case permit for foreigner-only casinos under the Special Act on Designation and Management of Free Economic Zones (the “Free Economic Zone Act”)
    - Competent Agency: Minister of Culture, Sports and Tourism
    - Requirements for Permit (Article 23-3):
      1. The amount of foreign investment to be invested in tourism business within a free economic zone shall be at least USD 500 million.
        - Total of at least USD 300 million shall be invested no later than the time the commencement of casino business is reported, and investments shall be completed in compliance with the investment plan not later than two years after the commencement of business (Article 20-4 of the Enforcement Decree)
        - Eligibility for preliminary review: documents proving that the person has paid at least USD 50 million, documents proving that the person has deposited at least 40/100 of USD 500 million
      2. Money to be invested shall not fall under criminal proceeds, etc. provided for under the Act on Regulation and Punishment of Criminal Proceeds Concealment in accordance with a final judgment of a sentence.
      3. He/she shall satisfy matters prescribed by Presidential Decree, such as the credit status of investors, etc.
  - Special case permit under the Special Act on the Establishment of Jeju Special Self-Governing Province and the Development of Free International City (the “Special Act on Jeju Province”)
    - Competent Agency: governor of Jeju-do
    - Requirements for Permit (Article 243):
      1. The amount of foreign investment to be invested in the tourism business shall be at least USD 500 million.
      2. Money to be invested shall not fall under criminal proceeds, etc.



provided for under the Act on Regulation and Punishment of Criminal Proceeds Concealment.

3. The investor's credit status, etc. shall meet the conditions prescribed by Presidential Decree.

○ Special Act on the Development of Enterprise Cities

- The term "enterprise city" means a city developed by private enterprises to be evenly equipped with primary functions such as industry, research, tourism, leisure and business, and self-sufficient multi-functions such as housing, education, medical services and culture, with the aim of becoming positioned in industry and boosting economic activities.
  - Competent Agency: Minister of Culture, Sports and Tourism
  - Requirements for Permit:
4. The amount invested in a tourism business shall be at least KRW 500 billion in total, and at least KRW 300 billion shall have been already invested at the time of filing an application for permit for a casino business.
  5. To be installed in the facilities for a five-star hotel operated in a tourism-oriented enterprise city or in facilities appurtenant to international convention business facilities.

○ Special Act on Promotion and Support for Saemangeum Project

- Competent Agency: Minister of Culture, Sports and Tourism
- Requirements for Permit (Article 63): the same as those under the Free Economic Zone Act

○ Cruise Industry Development and Support Act

- Competent Agency: Minister of Culture, Sports and Tourism
  - Requirements for Permit (Article 11):
1. It shall be an international cruise ship, whose international gross tonnage is at least 20,000 tons.
  2. It shall meet requirements prescribed by Presidential Decree, such as the credit standing of the international cruise ship operator.
    - Conflicting opinions between government agencies with respect to admitting natives to on-board casinos (assented by the Ministry of Oceans and Fisheries assents, while dissented by the Ministry of Culture, Sports and Tourism)

○ Special Act on the Assistance to the Development of Abandoned Mine Areas





- The only casino-related law allowing admission to the natives.
- Casino business permitted only at one location prescribed by Presidential Decree among abandoned mine areas, where the economy is severely depressed.
- Casino to be operated by a corporation, 51% or more of whose equity is owned by a local government, a local government-invested public corporation under the Local Public Enterprises Act, a public institution under the Act on the Management of Public Institutions, an institution funded by the government, or a non-profit corporation intended to serve public interest.
- It opened in 2000 with Kangwon Land, Inc. as the sole operator.
- There are various restrictions on operation intended to prevent addiction to gambling, such as restriction on admission, opening hours and betting amount, etc.
- 25% of its net income has to be contributed as development fund for abandoned mine areas.
- Competent Agency: Minister of Culture, Sports and Tourism

#### ● Tax Policy related to Casinos

Category			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Casinos	Kangwon Land	National Tax	1,498	1,617	1,481	1,558	1,389	2,013	2,126	2,423	2,734	2,806
		Local Tax	170	174	175	184	163	264	190	203	234	234
		Tax Subtotal	1,668	1,791	1,656	1,742	1,552	2,277	2,316	2,626	2,968	3,040
		Fund	1,871	2,054	2,271	2,497	2,338	2,359	2,418	2,851	3,182	3,287
	Foreigner-Only Casinos	National Tax	89	297	426	540	857	934	1,136	1,504	1,687	869
		Local Tax	23	55	68	33	94	89	128	140	133	74
		Tax Subtotal	112	352	494	573	951	1,023	1,264	1,644	1,820	943
		Fund	552	689	855	935	1,051	1,172	1,286	1,297	1,165	1,201
Tax Total			1,780	2,143	2,150	2,315	2,503	3,300	3,580	4,270	4,788	3,983
Fund Total			2,423	2,743	3,126	3,432	3,389	3,531	3,704	4,148	4,347	4,488

- There are 3 types of tax or quasi-tax to be borne by foreigner-only casinos: (1) tourism promotion and development fund, (2) corporate tax, and (3) individual consumption tax.
- Steady increase from 2007 until 2014, but drastic decline for foreigner-only casinos in 2016 (due to China risk).
- Tourism promotion and development fund is a type of quasi-tax, the amount of which is certain percentage determined by the government

up to 10% of the total sales.

- Individual consumption tax (Article 1 of the Individual Consumption Tax Act): individual consumption tax is imposed for the purpose of restraining consumption of certain goods, preventing environmental pollution and re-distributing income, and is payable by the manager of the amusement premise subject to tax imposition.

## ● Casino-related Policy Issues

### (1) Establishment of Exclusive Agency for Management of Casinos and Improvement of Applicable Laws and Regulations

- For reasonable operation and management/supervision of the expanding domestic casino industry, the exclusive agency for casino supervision should ultimately aim to be an independent organization in the form of a committee which can stably maintain professional manpower for supervision and execution, with the authority of a specialized committee for performance of duties such as issuing permit and reviewing, etc.
- Prepare the legal basis for establishment of the exclusive agency for casino management which needs to be an independent committee for permit and review as a collegiate administrative agency.
- Casino supervision requires expertise in casino apparatus and relevant technology, accounting and supervision; therefore it should be operated as an independent agency with professional manpower.
- It is necessary to establish effective and efficient management/supervision system by integrating the major functions as the casino supervision agency (including authority to grant casino license/permit, qualifications review, approval on apparatus, accounting monitoring, etc.), and the management/supervision functions related to operation.

### (2) Total Turnover Regulation

- The total turnover of gaming industry is restricted to 0.54% of the GDP until 2018, which is intended to minimize any social side effects from excessive spread of the gaming industry.
- The total turnover is established on the basis of the characteristics of each gaming category, ratio of addicts, numbers of visitors/purchasers/betting centers, similarity and redundancy between categories, and amount and growth rate of the GDP of the previous year.
- The performance for each quarter is managed so as not to exceed the total turnover for the relevant quarter. If it exceeds the implementation plan, compliance with the total turnover for each category is induced through adjustment of the means of implementation of the total turnover



for the next quarter.

- The means of implementation for compliance with the total turnover are the factors that directly affect the turnover including number of days admitted, opening hours, betting amount per instance, number of days racing is held, number of racing per day, frequency of issuance of betting tickets, and issued ticket type, etc.
- As result of regulation on the total turnover, the number of days admitted to casinos for the natives have been reduced from 20 days per month → 15 days per month → 30 days per quarter. In case of sports toto, the betting frequency per day was reduced from unrestricted → 10 times → 8 times → 6 times.
- However, there is no effective sanction, other than recommendation, in case of non-compliance with the total turnover regulation.

### (3) Junket Promotor related System

- Most domestic casinos have contracts with junket promotor which are foreign corporations or individuals, which makes it difficult to impose taxes such as corporate tax on the income of such junket promotor due to tax treaties with the relevant country.
- Under the Casino Business Operating Rules, the fees paid to junket promotor are excluded from casino turnover.
- Failure to strictly manage the activities of junket promotor may give rise to market disturbance and unlawful acts due to cut-throat competition in casino visitor solicitation.

### (4) China Risk and China Marketing

- Reliance on the Chinese is increasing for most of the foreigner-only casinos in Korea, which is expected to rise even more when the construction of integrated resorts being promoted in Japan is completed and the Japanese tourists go to their own casinos.
- If the casinos are operated mainly for the Chinese tourists with such increase in Chinese visitors, Korean casino industry will become more susceptible to the whims of the Chinese government.
- Korean casino industry will suffer significant blow if the Chinese government imposes strong regulations on overseas trips or overseas gambling under the pretext of preventing drainage of national wealth.
- The foreigner-only casinos witnessed drastic decline in turnover when the number of Chinese tourists plummeted due to the THAAD dispute last year.

