

# Bloomberg Business

## Can Smoke-Free Casinos Still Cash In?

Bruce Einhorn, March 24, 2015

The boom times are over in Macau. The Chinese gambling hub's gross domestic product plunged a horrifying 17.2 percent in the fourth quarter, and the government has curbed its projected casino revenue for the year by 27 percent. China's slowing economy and the government's anticorruption campaign are largely being blamed for fewer big spenders hitting the casinos. But there's another factor contributing to the woes of casino operators such as Sands China and Wynn Macau: a ban on smoking on the main floors of Macau casinos.

The policy took effect last October, and it's leading some casino guests to go outdoors to light up. For casino operators, that lost playing time "is crucial," says Tim Craighead, an analyst in Hong Kong with Bloomberg Intelligence. "If I have to get off the table every hour to smoke a cigarette, that's 20 percent of the time I would be playing that I'm not." For now, the restriction on cigarette smoking is limited to the main gaming floors, with people still allowed to light up in VIP rooms and smoking lounges. The government is readying a proposal for lawmakers to implement a complete ban next year.

The policy is a victory for Macau casino workers, who were fed up with breathing secondhand smoke hour after hour. Workers in casinos often suffer much higher exposure to secondhand smoke than other types of workers, according to a 2007 report published in the Tobacco Control Legal Consortium. The exposure level in casinos "can be 2.4 to 18.5 times higher than in offices and 1.5 to 11.7 times higher than in restaurants," the report said.

Macau's policy isn't exactly setting a trend in Asia: Singapore allows smokers to light up in designated areas of the city-state's two casinos, and the Philippines and other Asian gambling hubs are smoker-friendly.

But it does reflect a move that's been affecting casinos across North America. In the U.S., 19 states, along with Puerto Rico and the U.S. Virgin Islands, ban smoking in all state-regulated casinos and other gambling venues, according to Americans for Nonsmokers' Rights. Ohio prohibited smoking indoors, including casinos, in 2006, and North Dakota prohibited smoking in public (casinos included) in 2012. Last month, Montana's Supreme Court ruled that "smoke shacks," structures that casino operators had added to buildings to provide gamblers with indoor smoking venues, violated state law. In Canada, the Caesars Windsor casino in Ontario is smoke-free following a 2012 provincial government ban.

There's still plenty of opposition to clearing the air in U.S. casinos. Smokers can puff away in Las Vegas and other Nevada cities, and Pennsylvania casino operators are

encouraging lawmakers to "reject any legislation prohibiting smoking at casinos." While a ban on smoking in New Orleans bars, restaurants, hotels, and other workplaces is scheduled to go into effect on April 22, Caesars Entertainment-owned Harrah's New Orleans hasn't given up on getting permission to operate a smoking section.

It's unclear how big of an impact smoking bans have on casino revenue. In a report published by the Federal Reserve Bank of St. Louis in 2009, economists Thomas Garrett and Michael Pakko argued that a statewide ban in Illinois, implemented in 2008, led to a \$200 million loss in tax revenue during its first year and a 20 percent to 22 percent decline in casino turnover. They blamed the revenue drop on a combination of lost gambling time due to smoking breaks and former attendees opting not to come to casinos at all. Other research corroborates those findings, but not all studies do: According to the Tobacco Control Legal Consortium's 2007 study, smoking bans don't hurt business. Citing a report on the impact of smoking restrictions on racetrack casinos in Delaware, they wrote "going smoke-free did not adversely impact gaming revenues."

In Macau, given the drag on revenues from the anticorruption campaign and the Chinese economy's slowdown, the smoking ban is the least of casino operators' problems, says Aaron Fischer, an analyst with CLSA in Hong Kong. "When people decide to go to Macau, they are fairly focused on gambling," he says. "They're not there for retail, shows, other things. They are really there to gamble." The visitors will still travel to Macau. They'll just "smoke outside the casino," he says.

That will still hurt venue operators, Bloomberg Intelligence analyst Craighead and his colleague Margaret Huang argued in a report published last week. "Even if smokers continue to gamble at baccarat," they wrote, "hourly 10-minute cigarette breaks could cut playing time by about 20 percent, directly impacting gaming activity."

<http://www.bloomberg.com/news/articles/2015-03-24/can-smoke-free-casinos-still-cash-in->