

The Odds Look Good for Integrated Resorts in Japan

Japan has taken a significant step towards making integrated resorts a reality. On 15 December 2016, the Integrated Resort Areas Promotion Act (the **Act**) was passed to promote integrated facilities including casinos, hotels, convention centres and other resort and leisure facilities (**Integrated Resorts** or **IR**). Japan's casino industry could become Asia's second-largest after Macau, with analysts' estimates of annual turnover ranging from US\$10 billion to US\$15 billion. Discussions over potential sites for Integrated Resorts and the legal and regulatory steps necessary for full implementation will heat up over the next 12 to 18 months. This briefing note describes the key features of the Act and discusses opportunities for potential Integrated Resorts in Japan.

Introduction

Casino gambling is currently banned in Japan. Japanese law does however allow limited gaming through betting on powerboat, bicycle, horse and speedway motorcycle racing, as well as soccer. The strong leadership of the Abe government and its focus on tourism as a driver of economic growth and development have accelerated discussions on the potential of Integrated Resorts. Accordingly, the bill for the Act has recently (after extended political dialogue) been passed by the Diet (the Japanese parliament).

The Act provides only a basic outline for Integrated Resorts and a statute dealing with crucial aspects of implementation will be enacted in around a year (please see below). The Act has the following key features:

- The government will approve and designate certain geographical areas where Integrated Resorts may be operated (**IR Areas**).
- Integrated Resorts will be run by private operators with licences granted by a casino control committee (as discussed below).
- Headquarters for the promotion of Integrated Resorts (**IR Headquarters**) will be set up by the cabinet within three months of the promulgation of the Act.
- The government will aim to create specific implementing legislation (**Implementing Legislation**), to enable the government to approve specific IR Areas, within one year of the Act's enforcement.
- The government may collect fees (*noufukin*) from operators and entrance fees from casino visitors.

Further details and our thoughts on these features are specified below.

IR Areas

Locations rumoured as potential sites for Integrated Resorts include: Odaiba in Tokyo, Yokohama, Hokkaido, Okinawa, Osaka, Nagasaki and Miyazaki (please see the map below). The local governments of these areas would require approval for IR Areas from the central government. Tokyo is seen as a prime location for Integrated Resorts, however, there will be fierce competition, particularly from locations outside core metropolitan areas; the local governments of which, generally, view Integrated Resorts as promoting local economic growth via increased infrastructure spending in the development phase and tourist demand (from inside and outside Japan) in the operating phase. According to media reports, it is expected that two or three sites will likely be approved as IR Areas.



Operators

At present, the limited gambling opportunities which exist in Japan are operated primarily by the public sector. Under the Act, however, private operators are to develop and manage casino facilities. This is a highly significant change of policy.

An administrative committee (the **Casino Control Committee**) will be set up at the Cabinet Office and will license casino operators to operate casino facilities.¹ The Act does not set out suitability or any other requirements for casino operators – this will be left to the Implementing Legislation and the Casino Control Committee. The Casino Control Committee will also supervise casino operators on an ongoing basis. Despite its major role, details of the composition and powers of the Casino Control Committee are not precisely defined in the Act and will be discussed as part of the Implementing Legislation.

Although, under the Act, there is no nationality requirement for casino operators, given its primary purposes are to promote and stimulate the tourism industry and the local economy and to improve local fiscal soundness, it is possible that the government will not grant licences to operators run solely by international players. We anticipate this sets the scene for consortia between domestic and international sponsors. Given Japan's unique business customs and markets and a considerable language barrier (as compared, for example, to Macau, Singapore and Australia – which all have a greater degree of internationalisation in this sector), a strong local partner will be key to a successful Integrated Resort. Likewise prospective local partners will also need, given their own relative inexperience in gaming (due to its historic illegality in Japan), to draw on the operational expertise of international casino operators.

Integrated Resorts

Under the Act, Integrated Resorts should (as is the case in the Singapore and Macau models) consist of not only gaming facilities, but also hotels, convention centres and other resort and leisure facilities. The government views the MICE (Meeting, Incentive Travel, Convention and Exhibition/Event) concept as promoting tourism (and longer stays) to a far greater extent than a focus solely on gaming would do. The facilities required within Integrated Resorts will be more clearly set out in the Implementing Legislation and related regulations.

Timeline

As the government took a few years to pass the Act, the realistic view is that the new Integrated Resorts will only open after the 2020 Tokyo Olympic Games and will be looked to sustain the growth of the tourism and related industries post-Olympic Games. There is senior governmental support behind gaming liberalisation. Prime Minister Shinzo Abe serves as the top advisor of the pro-casino lawmakers group and has the support of the majority of both houses. Although each of the deadlines set by the Act, for the IR Headquarters and the Implementing Legislation seem ambitious (i.e. three months and one year respectively), with the right level of support and commitment it is possible that such deadlines may be met as contemplated by the Act.

¹ Under the Act it is uncertain what kind of operators will have to obtain licences from the government. Entities which establish and operate casino facilities, entities which produce, import and sell equipment related to casinos, and entities which provide services to casino visitors are clearly subject to the regulations of the Casino Control Committee under the Act. However, as the Act indicates that entities which contemplate doing business **related to** the establishment and operation of casino facilities are also subject to such regulations, the extent of the Casino Control Committee's supervision and regulatory ambit is not entirely clear at present (though this will be clarified through further legislation and implementation).

Outstanding Issues

There are a number of issues requiring resolution during the legislative process. The legalisation process has been delayed so far by concerns about money laundering, anti-social forces (the Japanese Mafia or *yakuza*), impact on young people and the spread of gambling addiction. These concerns are not uniquely Japanese and we note there are well established (and progressive) models for dealing with each of these issues in other Asian jurisdictions, such as Singapore, Australia and Macau.

Entrance fees for domestic visitors are also being discussed as a further mitigant against gambling addiction. The Act clearly contemplates government collection of such entrance fees. Further progress on entrance fees (and also on operator fees, taxes and other charges, as well as the ease with which gaming credit can be provided to patrons by operators) involves a fine balance between maximising the socio-economic benefit of this new infrastructure (whilst mitigating its downside) and attracting the best owners and operators from amongst domestic and international players by boosting the economic return involved.

Conclusion

Market participants will be delighted that Japanese Integrated Resorts are moving forward. Upcoming legislative hurdles over the next year will include which IR Areas will be approved, operator suitability and related operator selection criteria, the landscape for operator fees, taxation and other charges (including the extent of visitor fees), dealing with money laundering concerns and anti-social behaviour (as well as the mixed perception of gambling in Japanese society) and the provision and control of gaming credit.

This is a courageous first step by the Japanese government on a long road ahead.

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