

Reports

LIECHTENSTEIN MARKET



Liechtenstein

Growth of a Micro-Nation

Over the last three years Liechtenstein's casino market has opened and expanded. With five casinos already operating and a sixth under construction, there's no stopping the growth of gambling in this pocket-sized country.

Once known as a billionaire tax haven, Liechtenstein, has managed to develop into a resourceful and lucrative nation. It has always been known for its untouchable banking secrecy and as such became a European safe house for assets hidden behind a very thick curtain.

Coupled with that, Liechtenstein is also a digital hub and the country has been hailed as a crypto-currency pioneer as a 12 month old Blockchain Act marks a milestone for the industry and looks set to make a significant mark on the gambling sector.

The mountainous microstate found snuggled between Austria and Switzerland, is Europe's fourth smallest country and is just 160 sq.km in size.

But big things come in small packages as they say, and despite its size and fairy tale image the country has a special superpower and as such has developed into one of the richest countries in the world.

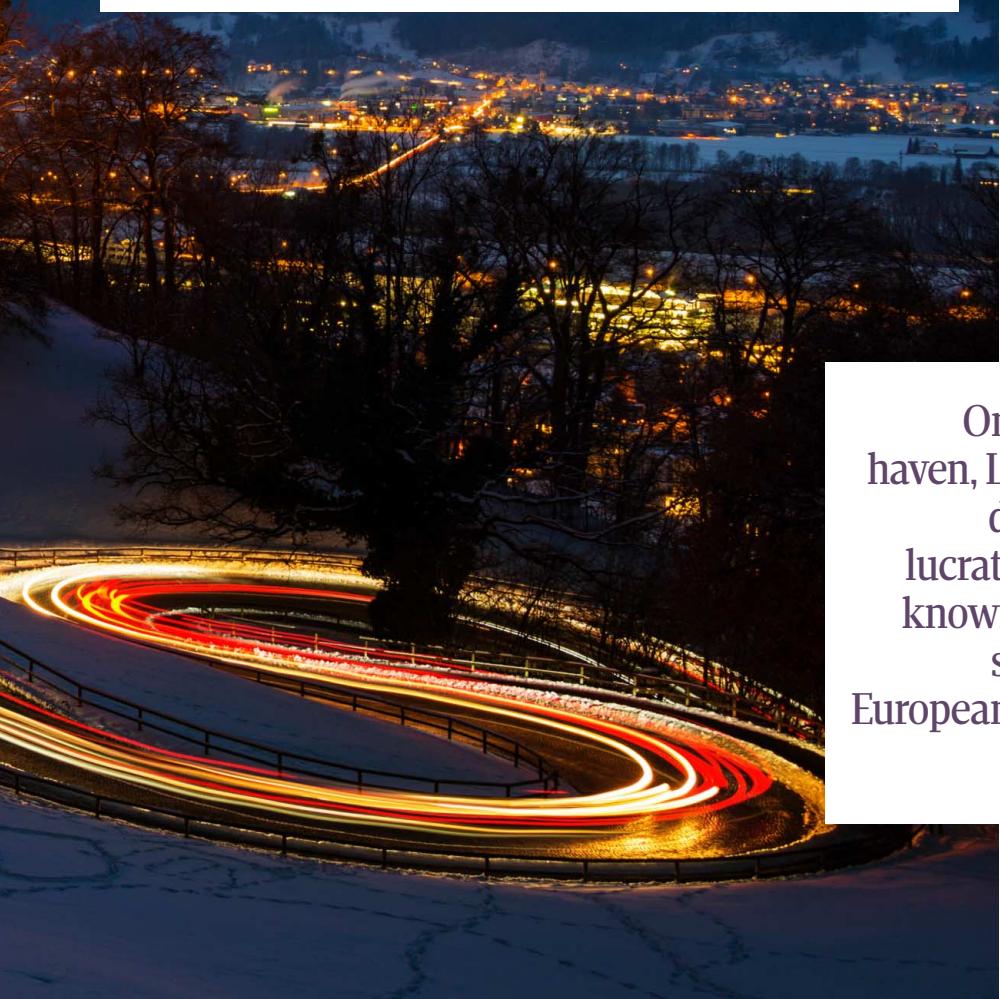
It boasts the second highest GDP per capita in the world (after Monaco) with a disposable per capita income of CHF4,000 (more than four and a half times higher than the European average). It has a prosperous and highly industrialised free enterprise economy.

Back in 1921 a new constitution established the rule of a parliamentary democracy whilst continuing the traditional Monarchy. As such it paved the way for political and social stability. That, together with a flexible global commerce set up with minimum trade barriers, and a sound and transparent judicial system, it is an illustration of perhaps how it should, or could, be done.

For centuries Liechtenstein was a relatively isolated country which relied on its agricultural sector. But after World War II the country began to boom and it transformed from an agrarian state to a modern country with a diversified economy opening its doors to industrialised companies looking to set up their business models.

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The country has a competitive tax system. National personal income tax rates are made up of eight tax bands up to a maximum of eight per cent, whilst corporate tax rate is a flat 12.5 per cent on company net profit with no capital gains, inheritance or gift taxes. VAT is set at 7.7 per cent





with lower rates applied to certain products and services.

The business climate is almost identical to that of Switzerland with easy incorporation rules attracting many holding companies to set up offices there.

Although Liechtenstein is known as a financial hub the largest contributor to the economy is manufacturing. Today around 4,700 companies, many global players, are based in Liechtenstein and last year the companies were responsible for \$3.78bn in exports.

Meanwhile the country offers the same number of jobs as citizens meaning companies are heavily reliant on foreign employees. With around 37,000 jobs in the country, half are performed by the local working population whilst some 19,000 workers commute into the territory from Switzerland, Austria and Germany. Unemployment rate is typically low usually at 2.4 per cent.

Industry and manufacturing makes up around 43 per cent of the economy and includes high quality goods and services such as machine and plant construction, precision tools, dental instruments and the food industry. It employs around 40 per cent of the workforce.

The finance sector is not far behind. Liechtenstein's first bank was founded in 1861 and today the sector employs around 16 per cent



of the workforce and makes up around 23 per cent of the economy. Financial service providers based in Liechtenstein can supply services in all EU and EEA countries and today is committed to the OECD standards on transparency and information exchange.

Since 2008 Liechtenstein has faced pressure from the US and Germany in particular to provide more transparency with its banking and

tax systems and after signing several agreements has removed itself from the 'grey list' of countries yet to implement such procedures. In 2011 it joined the Schengen area permitting easy travel across 26 countries in Europe and in 2015 the country and the EU agreed to clamp down on tax fraud and evasion with an exchange of information from 2018. It is closely linked to Switzerland having also shared its currency since the Customs Treaty was



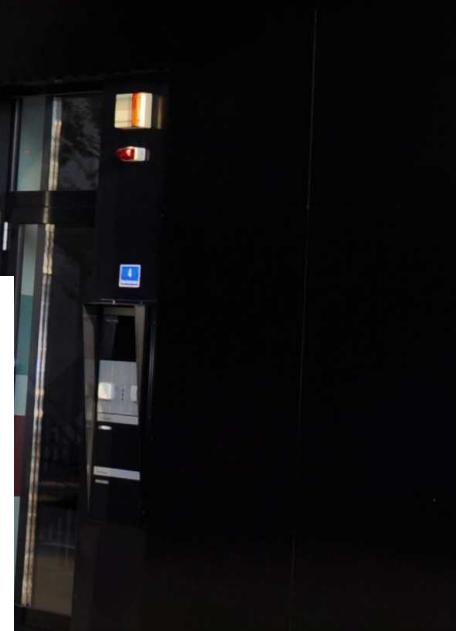
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second least visited country in Europe having recently been trumped by San Marino. With no international airport it's not an easy place to reach although Zurich airport is only a little over an hour away. On the other hand it is a hikers and skiers paradise offering plenty of activities within areas of natural beauty in the heart of the Alps.

There were around 87,000 tourists last year and traditionally 60 per cent of guests are coming from Switzerland or Germany with 15 per cent from Austria, Belgium, Italy, UK and the Netherlands.

The principality of Liechtenstein celebrated its 300th birthday last year after it was established back in the early 1700s. It is named after the

signed back in 1923. Agriculture is a small part today, employing less than one per cent of the workforce, but is made up of about 125 private farms and 20 mountain farms used for cattle, sheep and crops. Forests cover around 43 per cent of the country's total area. Finally, general services make up around 27 per cent of the economy which includes tourism, real estate and the retail sectors. Tourism isn't huge. It inputs around 1.5 per cent to GDP. In fact it is the



Liechtenstein dynasty which united the counties of Schellenberg and Vaduz. The name means 'light stone'.

The country gained independence from the Holy Roman Empire in 1806 and from Germany in 1866. It is made up of 11 municipalities – Balzers, Eschen, Gamprin, Mauren, Planken, Ruggell, Schaan, Schellenberg, Triesen, Triesenberg and Vaduz (the capital).

State elections will be held next month (February) and with the banner 'Diversity in Politics' there are five political parties all vying for the 25 places of the Landtag (Parliament).

The country is frequently in coalition, with the Progressive Citizens Party (FBP) and Patriotic Union (VU), mostly dominating politics. Current Prime Minister Adrian Hasler has headed the country since 2013 and won the last elections in 2017 for the centre right FBP. He will quit after



his two legislative terms and not run in the election.

Prince Hans-Adam has been Chief of State since 1989 when he took over after the death of his father, Prince Franz Josef. He has since transferred official duties to his son Alois in 2004. In 2003 the Monarchy was given new powers in a constitutional referendum which gave them the ability to veto parliamentary decisions or sack the government.

Meanwhile the affects of Covid-19 has left its mark on Liechtenstein. A second wave has seen the number of cases rise to 860 by November 13 compared to 400 by mid October. Covid-19 reached the country in early March although the government had been preparing since February for the pandemic to arrive.

Restrictions were introduced around mid March with bans on entertainment and leisure events. Casinos in Liechtenstein closed their doors on March 16 and reopened on June 6 with protocols

in place. The country hasn't escaped the repercussions. Goods exports decreased by 22.7 per cent during the first half of 2020 compared to the previous year whilst unemployment is typically low – down to 1.7 per cent in the early part of 2020.

Tourism arrivals dropped to under 300 during April 2020 compared to 5,900 the year before. In June there were 4,000 arrivals. Until recently Liechtenstein was one of a handful of countries Brits could visit with quarantine. Since mid October there is a 10-day quarantine rule in place.

GAMBLING MARKET

Prior to 2010 gambling in Liechtenstein was considered illegal thanks to a law introduced back in 1949 which prohibited most types of gambling except the International Lottery (ILLF). The lottery went bankrupt in 2011 and ceased to exist.

In addition due to a customs treaty with

Switzerland the country was subject to a casino ban which began to change in the early part of the new century after a referendum was held.

In 2010 parliament passed a new law *Geldspielgesetz* (GSG) which lifted the ban on playing for money and on the operation of casinos in the territory permitting casinos, sportsbooks and online gaming.

It was based on the Swiss law and the aim was to create new jobs and increase tourism figures whilst profits were earmarked for charitable agencies. In 2012 a casino concession was granted in Vaduz but there were some disagreements over the single casino concession and a lengthy litigation began, which lasted three years. The government decided to take another look at the gambling act and in 2016 added some amendments changing the system from a concession system to a licence approval system which opened up the market to more operators.



In late 2017 two casinos were opened – Casino Ruggell (Novomatic) and Casino Schaanwald (CAI) – in quick succession, followed by plans for four more casinos. There was some criticism at the time about the proposed number of casinos opening and a higher casino tax rate was proposed but later rejected.

This was part of a discussion in April 2019 when the paper "How many casinos can Liechtenstein tolerate?" was published, which was later followed by a postulate for the creation of a large-scale Liechtenstein casino landscape.

The government was invited to look at the possibilities of a licence moratorium and measures to sensibly limit the number of casinos and how to earmark revenues from gambling tax to various social welfare organisations.

The government however decided to stick to its commitment to free competition and still believes the market will decide on the number

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Christoph Zurucker-Burda, CEO, CAI

of casinos it can sensibly open and dismissed the postulate suggestions. The postulate was discarded in November 2019.

There are currently five casinos open in Liechtenstein with a sixth under construction in Schaan which is due to be operated by MCL Resorts and is expected to be open in early 2021. There are rumours of another two projects under discussion although the Office of Economic Affairs' Gambling department says no applications have been submitted to date.

Home to just 38,000 people this means there is currently one casino per 7,600 residents. Liechtenstein has been labelled as a new gambling Mecca as this far outstrips the per capita share of other markets. Even Monaco only has four casinos for its 39,000 residents.

Casino Austria International's CEO Christoph Zurucker-Burda said: "There has been a new market for casinos created in Liechtenstein and the casinos are doing quite well. Maybe we took away 20 per cent of the market from Switzerland and Austria but a new market has been created.

"There is no cap on the number of casinos

Essential information and facts about Liechtenstein:

Capital	Vaduz
Total Area	160sq.km
Population	39,137
Median Age	43.7 years
Religions	Roman Catholic (official 73%), Protestant Reformed, Muslim, other
Ethnic Groups	Liechtenstein (66%), Swiss, Austrian, German, other
Languages	German (official)
Currency	Swiss Francs (CHF)
Unemployment	2.1 per cent (Aug. 2020)
Tourism	87,000 (2019)
Government type	Constitutional Monarchy
Chief of State	Prince Hans-Adam II (since 1989)
Head of Government	Prime Minister Adrian Hasler (since 2013)
Elections	Monarch is hereditary. Following elections leader of majority party usually appointed head of government by Monarch. Next election is due 2021.

permitted, we just have to fulfil certain criteria and you receive permission to operate. I don't believe the government will put a cap on the number, as it is very market driven and they don't want to regulate the market they want the market to regulate itself. There are some opposed to the casinos in Liechtenstein, but the government is still supporting the casino industry. We never expected such a great success as we have obtained in Liechtenstein."

The main regulator of the gambling industry is the Office of Economic Affairs which supervises the sector under the Ministry of Infrastructure, Economic Affairs and Sport. Taxation is calculated on the basis of gross gambling revenues and the basic tax rate is 17.5 per cent with a progression of 2.75 per cent for each additional million GGR up to 40 per cent maximum. For lotteries and wagers the tax rate is between 10 and 20 per cent. Licensing fees for casinos is CHF20,000.

Slots are not permitted outside of approved casinos and although online gaming in Liechtenstein is technically permitted, it is not operational, as the licensing system remains on hold. At the end of 2019 the government decided to suspend the processing of applications for

Reportus

MECHTENSTEIN MARKET





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Dominik Racic, Novomatic spokesperson

online gaming concessions until 2023. This was said to be because of the "dynamic market development of the terrestrial gambling market in Liechtenstein" that "further experience needs to be gained".

So at the moment it is still considered illegal. The only exception is to offer lotto games. But the only licence ever given was to ILLF lottery which operated online lottery sites from 1995 until 2011 when it shut down. The GSG does provide for two categories of lottery operators – major organisers who generate stakes of CHF100,000 or more and smaller operators.

At the moment SwissLos offers games in Liechtenstein and as such the country receives the same share of net profits as the participating Swiss cantons. In 2019 SwissLos paid Liechtenstein a profit share of CHF2.15m.

THE CASINOS

The Liechtenstein casinos are mostly smallish venues and one big advantage for the Liechtenstein casinos is smoking is still permitted inside the venues.

Novomatic operates two casinos – the Admiral Ruggell Casino opened in 2017 and was Liechtenstein's first casino. Together with the Club Admiral (poker club) which is housed opposite it includes 251 slots, 17 live game tables and four electronic roulette. There are three bars, restaurant and events area.

The Casino Admiral Triesen opened in late 2019 on the highway between Vaduz and Balzers and has 80 slots and four table games plus two electronic roulette machines and a bar.

Novomatic's spokesperson Dominik Racic said: "Ruggell, the first casino in Liechtenstein established itself very well since the opening in 2017 and enjoyed continued growth throughout 2019. Triesen had a successful opening on November 20 2019 and benefits from a growing number of regular guests. As a result of the COVID 19 situation, 2020 will be a difficult year for the industry and cannot be considered a meaningful benchmark for future revenue and growth."

The third casino is Casino Schaanwald which is operated by CAI and opened in October 2017 and is located just 100m from the Austrian border and 6km from the Swiss border. It offers gaming on two floors across 600sq.m with eight table games and 130 slots plus two bars and a restaurant. Due to its location it has a dual currency facility and players can bet in Swiss francs and Euros whilst it also operates the SNAP jackpot which was developed in-house and is hit every two hours. Visitor figures were 133,786 in 2019.

The fourth is Grand Casino in Gamprin-Bendern which opened at the tail end of 2019 and is just minute by car from the Swiss motorway. There are four floors of gaming offering 16 table games

and 262 slots. This casino is owned by W-LI Holding, Triagro s.r.o and Apex Holding.

Finally, Casino 96 opened recently in mid September in Balzers bordering Austria. It is operated by CAI and the gaming area is 280 sq.m with four live table games and 75 slots, plus there is a bistro on site. It is located just 1km from the Swiss motorway exit and themed on the old factory it is housed in with red brick walls and imitation steel beams. The opening was delayed for a year mostly due to some construction objections and because of Covid restrictions CAI was also unable to stage a grand opening party and cannot yet stage any events.

The casino name is derived from the area zip code whilst the casino hosts the new Diamond Jackpot, the first ever jackpot of its kind in the country, that is played on a multi roulette station.

Investment in this casino was around CHF4.5m compared to the CHF11.5m spent on Schaanwald.

Martin Meyer, Chairman of the Board of Directors at Balzers and Schaanwald says the new Casino 96 is a smaller and more compact casino than Schaanwald, and a healthy addition to the market rather than competition.

He said: "The concept behind Casino 96 is very different to any other in the extended region. Balzers also has a different target audience and a different catchment area. We have thus positioned ourselves with optimal strategies both in the north of the country at the border to Austria and in the south at the border to Switzerland. The new casino underscores our goal to be one of the leading gaming operators in Liechtenstein and to secure the location against our competitors in the long term."

By 2018 two casino operators (Admiral and Casinos Austria) were generating CHF53.6m in GGR between them and handing over CHF19.3m in gaming taxes to the treasury.

In 2019 after Club Admiral and Grand Casino opened, the four casinos saw a GGR of CHF80m whilst the Office for Economics collected gaming taxes of CHF29.7m.

Casino visitors gambled on average over



CHF200,000 daily whilst the casinos employ almost 350 full time staff (2019). The casinos closed during the initial Coronavirus lockdown in mid March and reopened on June 6 with a cap on the maximum number of clients and various other protocols in place including no events or marketing activities.

"Before Coronavirus our revenues at Schaanwald had increased by 20 per cent in 2019 compared to 2018 whilst the results for 2020, up to the Corona shutdown in mid March, showed a further 10 per cent increase compared to the same period last year." Christoph Zurucker-Burda said.

The casino's revenues for July and August this year had only dropped by three per cent compared to the same period in 2019 despite the conditions it is operating under.

Casino Director, Thomas Pirron, commented: "Our business philosophy is based on three key elements – friendliness, creativity and excellence. We work hard to achieve these and this pays off, as can be seen by the shutdown. Since we can't hold big events at present, every small step counts."

"Some politicians wanted a large and prestigious casino with international appeal. They also wanted to open up the market cautiously, not least to protect the country's reputation. But this route did not prove practical, hence the government's decision in 2016 to introduce a licence-based system."

Martin Meyer, CAI

As the second wave of the pandemic hit, bars and restaurants faced a second round of closure in Liechtenstein which will inevitably have a detrimental affect on 2020 revenues for the casinos.

The sudden rapid growth of the casino market in Liechtenstein lies partly with the limit on the number of casinos in neighbouring Austria and

Switzerland. With a cap on the 21 Swiss casinos and 12 in Austria, the feeling is if this had been lifted then Liechtenstein may have only facilitated two casinos at most.

CAI's Martin Meyer, who was Minister of Economic Affairs at the time, has been partly responsible for the liberalisation of the gaming market. He said: "The topic was new for everyone here. Given the experiences in Switzerland with so-called B casinos, some of which were unsuccessful, the experts were of the opinion that we should introduce a concession system in Liechtenstein, with one or at most two casinos.

"There were also political arguments for concentrating on one casino, some politicians wanted a large and prestigious casino with international appeal. They also wanted to open up the market cautiously, not least to protect the country's reputation. But this route did not prove practical, hence the government's decision in 2016 to introduce a licence-based system. However this decision was based on the assumption that the market in Liechtenstein was too small to accommodate two or more casinos.



CASINO GGR AND GAMBLING TAXATION

CASINO	GGR 2019	GGR 2018	GGR 2017	GAMBLING TAX 2019	GAMBLING TAX 2018	GAMBLING TAX 2017
Casino Admiral Ruggell	CHF55.07m	CHF34.8m	CHF11.6m	CHF20.9m	CHF12.8m	CHF4.2m
Casinos Austria	CHF22.3m	CHF18.77m	CHF2.68m	CHF7.85m	CHF6.47m	CHF848,751
Club Admiral Triesen	CHF1.14m	-	-	CHF340,681	-	-
Grand Casino	CHF1.55m	-	-	CHF562,600	-	-
TOTAL	CHF80.02m	CHF53.6m	CHF14.3m	CHF29.7m	CHF19.3m	CHF5.08m

"But Liechtenstein is a very modern and strong business location with a high purchasing power and thus also a correspondingly high market potential. The excellent conditions and efficient collaboration with the authorities provide solid prospects here for new businesses. And last but not least, the casino industry with its attractive gaming and entertainment options also brings something 'new' to the region."

Despite no cap on the number of casinos there is a general sense of saturation as the market contains five casinos. The question is can it sustain eight or nine casinos in total or will revenues simply be reduced at the various locations.

Mr Zurucker-Burda said: "With five casinos now in operation in Liechtenstein the market in the region is saturated. Given the increasing and intense competition, quality now plays an even stronger role. We don't think that many more than four to five casinos will ultimately pay off in the medium term. It is important to say that

the casinos in Liechtenstein are fairly small operations by international standards with nine gaming tables and 160 slot machines on average. In 2019 the four casinos employed 350 members of staff and generated GGR of around CHF81m."

At the end of October the casinos of Ruggell, Schaanwald, Triesen and Balzers, merged as a section of the Liechtenstein Chamber of Commerce to form a Liechtenstein Casino Association headed by Birgit Wimmer who is Chairperson of the Board of Directors at Casinos Ruggell and Triesen whilst Thomas Pirron is Vice-President of the association.

CRYPTOCURRENCY

When Liechtenstein launched its Blockchain Act in January 2020 it became a digital frontrunner and a European Blockchain pioneer.

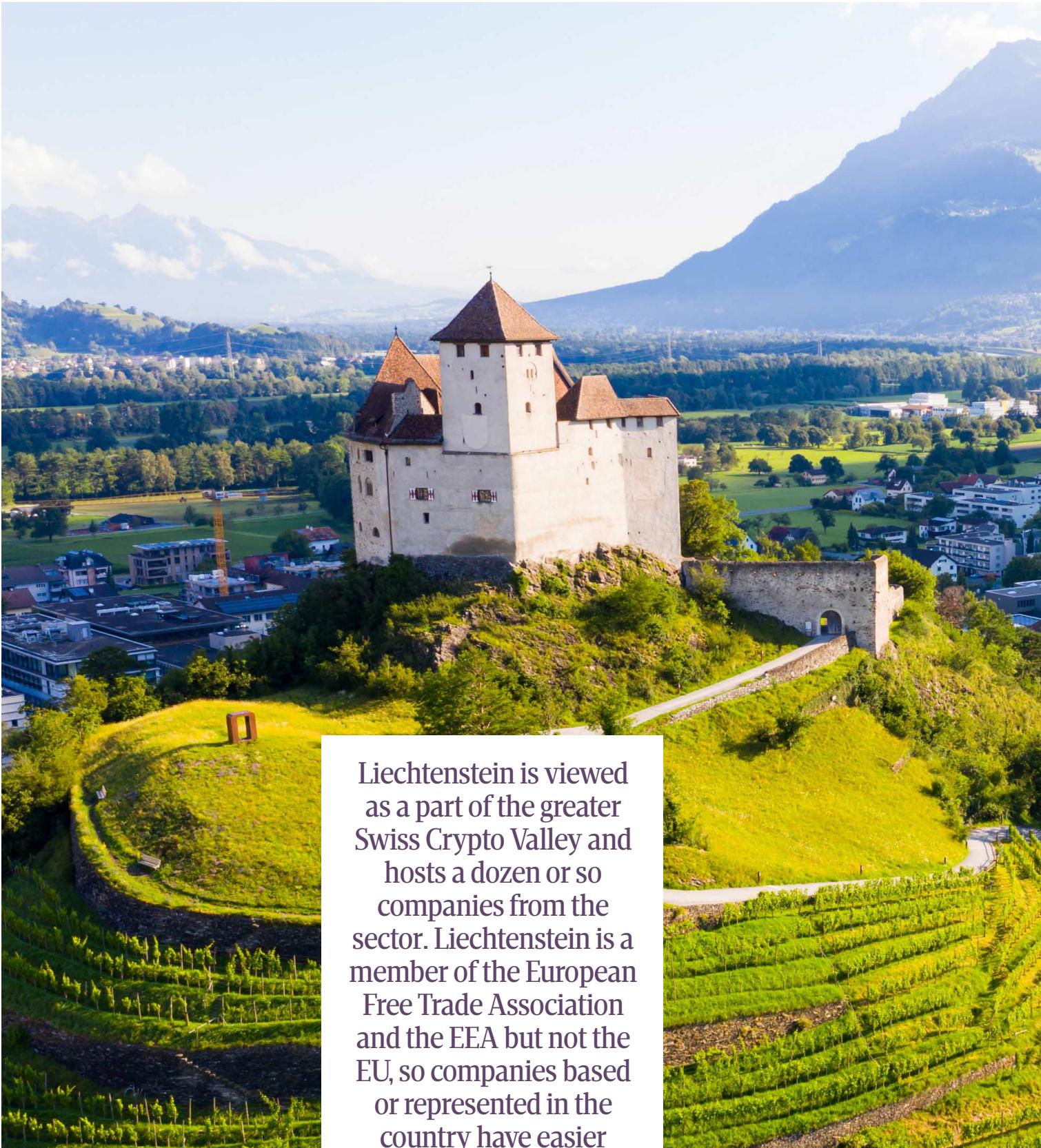
The nation was already 'crypto friendly' but in October 2019 the Token and Trustworthy Technology Service Providers Act (TVTG) otherwise known as the Blockchain Act was

approved and came into force on January 1 2020.

This meant Liechtenstein became the first country to have a comprehensive regulation of the token economy. A focal point of the document was to regulate civil law issues for client protection and asset protection and also provide supervision of the various service providers in the token economy plus measures to combat money laundering. Service providers will be subject to AML/CFT rules.

The Blockchain Act covers Blockchain technologies under the term TT system (transaction systems based on trustworthy technologies) and as such made a significant step in clarifying the regulatory environment for the currency. The aim is to attract more cryptocurrency businesses into this micro country.

There are measures to combat money laundering and terrorist financing with a series of due diligence rules and regulations in place in Liechtenstein.



Liechtenstein is viewed as a part of the greater Swiss Crypto Valley and hosts a dozen or so companies from the sector. Liechtenstein is a member of the European Free Trade Association and the EEA but not the EU, so companies based or represented in the country have easier access to the European market.

It took three years of planning for the comprehensive Blockchain regulations. The government made the plans public in March 2018 and a first draft followed in August that year. By May 2019 the government adopted the report and proposal of the new law.

Liechtenstein is viewed as a part of the greater Swiss Crypto Valley and already hosts a dozen or so companies from the sector. Liechtenstein is a member of the European Free Trade Association and the EEA but not the European Union, so companies based or represented in the

country can have easier access to the European market plus compatibility with legal frameworks in other Euro countries without having to comply with EU regulations.

Prime Minister Adrian Hasler said at the time: "With the TVTG an essential element of the government's financial market strategy will be

implemented and Liechtenstein will be positioned as an innovative and legally secure location for providers in the token economy."

Germany has since developed its own bill under its Blockchain Strategy. However, the German bill at the moment only allows for bonds to be digitised. It hasn't established a new digital asset class and doesn't regulate other areas of the digital industry like Liechtenstein's Blockchain Act does.

Liechtenstein is now fast becoming a



Blockchain hub as favourable regulations and improved access to banking and legal services are attracting more and more crypto companies. Many specialised law firms and consultants have also moved to Liechtenstein whilst last year almost a 100 new businesses set up shop in the Crypto Valley area.

By mid 2020, according to ico.li there were 919 Blockchain companies in Switzerland and Liechtenstein, up from 842 the previous year and 740 companies in 2018 with almost 4,800 employees. During the first half of 2020 some 51

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Christoph Zurucker-Burda, CEO, CAI

One issue the company wants to eradicate is the delay caused by the transfer of cash across borders which can cause problems for both players and operations. The use of crypto-currency removes the need for physical cash and is appealing to casino operators and group players who can play at different casinos but have problems transferring funds which can take days to process.

Casino Schaanwald hired ALEAx this year, who offer tailor made Blockchain and Bitcoin solutions for the gaming industry.

Mr Zurucker-Burda said: "In February we presented a project to accept crypto-currency in Schaanwald Casino. Liechtenstein is the first country to have legislation for crypto-currency and it is a good environment for crypto-currency. Due to Coronavirus however we had some other priorities and there has been a delay in getting this up and running, but we are definitely going to resume the project.

"It is not a project for mass market so it is not a priority right now. Everything is about liquidity right now. If Liechtenstein is a success then we will see what other countries have regulated legislation and we will look at crypto-currency then elsewhere.

"Blockchain technology as a whole is a very interesting field that offers new possibilities. Since service and innovation are top issues in Schaanwald, which became the first casino worldwide where guests could play in two currencies, we hope being able to offer our guests the possibility of paying with Bitcoins sometime in the future. Liechtenstein is very active in becoming a Blockchain hub and is one of the first countries worldwide with a Blockchain law, so we see a good basis for introducing crypto-currency in the future."

Liechtenstein does not have its own central bank and therefore does not control its own monetary policy and ensuring financial stability is down to the Financial Market Authority (FAM), which is also responsible for reviewing the due diligence concept for casino operators to combat money laundering.

The Financial Market Authority conducts inspections at the casinos to monitor the measures and processes of the casinos to ensure their compliance with due diligence laws.

new companies arrived in Crypto Valley whilst 31 closed down due to the crisis. The top 50 crypto companies managed to attract \$3.7bn in capital during this time. The main five unicorn companies are Ethereum, Dfinity, Polkadot, Bitmain and Libra.

Although crypto-currency isn't a new invention its arrival in the gaming world is still tentative. Casino Austria is planning to use Casino Schaanwald as a crypto guinea pig and allow players to cash in and out using a digital wallet to process Bitcoin payments.