

EGBA NEWS

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Channeling the consumer to the regulated offer

Editorial



How can the gambling offer be sufficiently attractive to channel consumers to the regulated offer?

In this edition of EGBA news, we aim to answer this crucial question by sounding the views of both politicians and academics.

In our first article, we welcome back Christofer Fjellner, a Swedish MEP, to hear his views on Sweden's most recent attempt to reform its gambling market, and in particular whether it will pave the way for an attractive and competitive market that will sufficiently channel consumers to the regulated offer.

Our second article features a piece from Prof. Dr. Justus Haucap, Director Düsseldorf Institute for Competition Economics, on an extensive study on the different measures in place across Europe to channel gambling activities. Looking at criteria such as number of licenses, product offering, taxation and registration procedure, the study concludes that it is not a single factor that induces high channeling rates, but rather a set of measures that is necessary to incentivize consumers and companies to move from the grey and black into the regulated market.

Happy reading

Maarten Haijer,
Secretary General, EGBA

Channeling consumers to the regulated market : Will Sweden deliver?

Christofer Fjellner, Swedish Member of the European Parliament, talks to the EGBA about the upcoming reform of the Swedish gambling market.

This is not the first attempt at regulating the Swedish market; why is it so hard and do you think that this time it is for real?

Substantial changes are finally under way in the Swedish gambling sector. Earlier this year, a governmental report suggested a proposal for a new gambling regulation. It was much awaited and if only the government carries out the proposals, the state monopoly on gambling will be replaced with a system based on licenses, allowing private actors to offer their services.

It has taken a lot to get to where Sweden is today. I was elected to the European Parliament in 2004 and ever since then I have worked, in Brussels and Sweden alike, to modernise the Swedish gambling regulation and get rid of the outdated and obsolete monopoly. Already in 2007, the European Commission threatened to take Sweden to the European Court of Justice for not complying with EU-law. Member states are, nota bene, permitted to monopolise gambling as



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Christofer Fjellner, Member of the European Parliament

long as it is proportionate, serves the purpose of consumer protection or strengthening public health. However, clearly neither has been the purpose of the Swedish monopoly. The gambling marketing is quite aggressive and the purpose has hardly been to get people to gamble less, rather the opposite.

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Channeling consumers to the regulated market : Will Sweden deliver? (Cont from the page 1)

The proposed reform emphasises the importance of consumer protection: where does the balance of responsibility lie between legislator, operator and individual?

Frankly speaking, it seems as though the Swedish government has become addicted to gambling and the sector's substantial contribution to the public treasury. Thus, governments of the past have put their own economic interests ahead of both consumer protection and a safe, well-regulated gambling market. In the end, it is every individual's own responsibility how much he or she gambles. It is hypocrisy to have a model that is motivated for reasons of consumer protection, when in practice it encourages more gambling.

It is sometimes said that politics beats money, but technology beats politics. This is certainly true for the gambling sector. Technology has made the current monopoly obsolete and the cross-border nature of online gambling makes it possible for companies to offer their services even to countries like Sweden. Half of the online gambling in Sweden is conducted through foreign operators, which are neither regulated

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nor pay taxes in Sweden. Thus, the Swedish monopoly has not been properly functioning for a long time.

Key to successful regulation is creating an attractive and competitive market: do you think that 90 % channeling is sufficiently ambitious for a country like Sweden? Given the proven link between the channeling rate and the tax rate (proposed at 18%GGR), is the tax rate appropriate to achieve the policy objective of 90% channeling?

Many of the proposed changes to the Swedish gambling regulation are almost inevitable and that is the reason I think real change will actually be brought about this time. The government hopes that the new regulation will cover at least 90 percent of the online gambling. However, for that to happen it is crucial that the government sticks to the proposed, rather low, level of taxation for operators, not limit the minimum return on placed bets and sell the state-owned gambling company. Representatives for the gambling sector are optimistic that the channeling will be high as long as the government follows the proposals put forth by in the governmental report.

Once Sweden is regulating its market, will that increase the pressure on Norway and Finland to modernise their regulation?

The situation in neighbouring countries

is not as promising, with both Finland and Norway holding on to state monopolies. In Finland the domestic gambling companies recently merged into one - Veikkaus - which is now the only actor within the monopoly. Norway on its part examined the possibility of introducing a license based system not too long ago. But the reform was soon scrapped and instead the state monopoly has tightened its grip on the gambling sector.

Despite the development in Finland and Norway, the logic of the gambling sector is the same as in Sweden, with digitalisation putting national monopolies under pressure. For that reason I think that sooner or later Finland and Norway too will have to regulate the gambling sector. It is not possible to reverse the

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technical development and to stick to a model which is hopelessly outdated is not tenable in the long run.

Given the previous unsuccessful attempts to modernize the Swedish gambling regulation we must not celebrate too soon. The pressure on the government to carry through the reform must be upheld. But it certainly looks like yet another Swedish monopoly is going to be abolished. With Sweden eventually going in the right direction, new fights against bad monopoly driven legislation in Europe needs to be won. Finland and Norway are perfect examples that there is still much to be done. ■

A comparison of different European approaches to gambling regulation with respect to their channeling effect

How successful are countries in achieving the outcomes they desire for their gambling markets? This has been the key question of a recent study conducted by a consortium of scientists from law, economics and social psychology in Germany. The study¹, which was jointly commissioned by the German Sports Betting Association and the German Online Casino Association, has a particular focus on the different measures to channel gambling activities into regulated environments. For this purpose, the countries' so-called channeling rate (defined as the proportion of gambling stakes placed with providers that hold a local license), was examined and how the channeling rate depends on various regulatory measures.

“Among all European countries examined, those with a tax on gross gambling revenues (Denmark and the UK) – a tax on the difference between total amount of bets and pay-outs to players – have significantly higher channeling rates than countries with a turnover tax (Germany, France and Poland) - that is a tax on players' stakes.”

While gambling regulation is supposed to serve various public policy objectives such as consumer protection, preventing addictive gambling, maintaining the integrity of sports and combating criminal activity in the gambling market, high channeling rates can be considered the key prerequisite for all of those goals. Only if the channeling rate is sufficiently high, the national regulatory framework can be effective in attaining those public policy objectives. Hence, we examined differences in gambling regulations among selected European countries and how they impact on the countries' respective channeling rates. Our analysis of the various measures imposed within different European countries have revealed a clear pattern for most of the regulatory requirements:



While certain regulatory measures correlate with a high channeling rate, others are clearly detrimental to achieving high channeling rates.

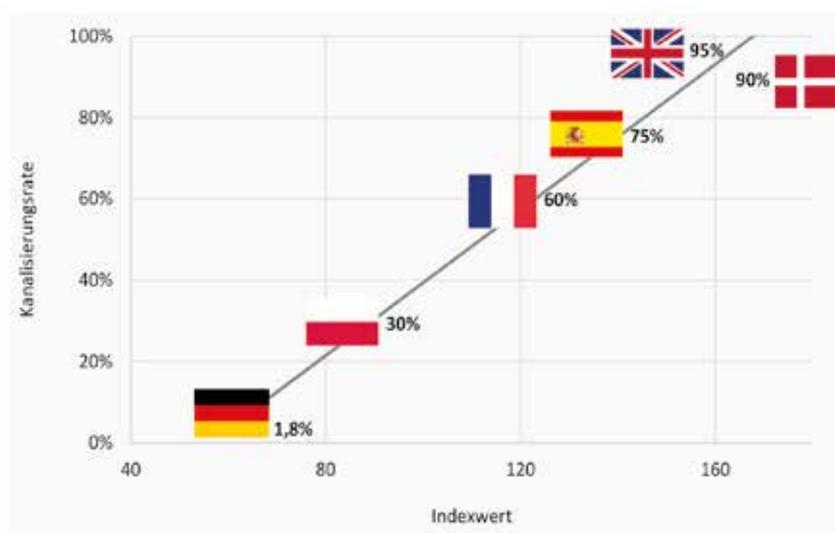
Product offering

As our study clearly shows, both limiting the number of licenses, as presently practiced in Germany and Poland, and arbitrarily restricting product variants, such as the ban of online-poker and online-casino in Germany, lower the

“ All countries examined that impose bans for certain product types have shown significantly lower channeling rates versus countries that do not have such bans. ”

channeling rates. Moreover, the increasing popularity and demand for new gambling formats, such as online casino, aggravate the adverse effect of a general prohibition of those types of gambling products: if new gambling formats are prohibited, consumers are more likely to switch to gambling providers that operate in the grey or black market. Hence, all countries examined that impose bans for certain product types have shown significantly lower channeling rates versus countries that do not have such bans. Thus, the channeling rate for betting and online gambling in Germany for 2016 has been estimated to be 1.8 percent while that of Poland has been estimated at 30 percent in the same year. By contrast, countries that have regulated all those online gambling formats, such as Denmark and the UK, have shown the highest channeling rates in 2016 with 90 and 95 percent, respectively. Furthermore, the controlled opening of the market for online poker in France and the liberalisation of the online market for slot machines in Spain have led to a substantial increase in overall

Channeling rate of key European countries



Quelle: DICE Consult.

“ Italy’s change in 2011 from a turnover tax based system to one based on the gross gambling revenue, led to increased tax revenues and higher channeling rates. ”



channeling rates in these two countries, highlighting the importance of product variety as a crucial factor for achieving high channeling rates. In a similar vein, our international comparison indicates that heavy advertising restrictions can act as a disincentive for gambling firms to apply for a local license.

Taxation

Moreover, we found the way gambling is taxed plays an important role in channeling gambling providers into the regulated market. Among all European countries examined, those with a tax on gross gambling revenues (Denmark and the UK) – a tax on the difference between total amount of bets and pay-outs to players – have significantly higher channeling rates than countries with a turnover tax (Germany, France and Poland) - that is a tax on players’ stakes. Similarly, our examination of the Italian gambling market over time with respect to the white market’s volume (measured by gambling turnover) and tax revenues from gambling activities, we found that Italy’s change in 2011 from a turnover tax based system to one that is based on the gross gambling revenue, led to both increased tax revenues and higher channeling rates.

“Overall, our findings suggest that it is not a single factor that induces high channeling rates, but rather a set of measures that is necessary to incentivize consumers and companies to move from the grey and black into the regulated market.”

Registration procedure

Another crucial factor to attain a sufficiently high channeling rate is to establish an efficient, practical and consumer-friendly registration procedure. As our research revealed, consumers in the gambling market exhibit relatively low levels of patience. Hence, if the legal registration requirements lead to long and complex registration procedure, players are more likely to switch away from regulated providers to ones which operate in the grey or black market with easy registrations procedures.

Overall, our findings suggest that it is not a single factor that induces high channeling rates, but rather a set of measures that is necessary to incentivize consumers and companies to move from the grey and black into the regulated market. In order to illustrate this relationship between such a package of measures and the respective channeling rates, we have created the DICE Channeling Index². The index assesses each individual regulatory measure in accordance with its contribution towards high channeling rates, while including weights for the respective importance of each measure. The higher the allotted value, the better is the measure suited for channeling stakes into the regulated market. Likewise, a higher weight indicates a greater perceived impact of the measure on the channeling rate. Thereby, each

measure is assessed and a certain value assigned. For each individual country, the values of all separate measures are aggregated so that an overall index value is created. Thus, the higher the overall value, the more beneficial are the measures perceived to foster a higher channeling rate.

The DICE Channeling Index illustrates the main points revealed by our study: (1) the detrimental effects of a quantitative restriction of license numbers and the unfavorable outcomes of restrictions on product variety and advertising, (2) the superiority of a tax system based on gross gambling revenues, and (3) the convenience of the registration and identification procedures.

Finally, one also needs to keep in mind that ongoing digitalization processes generate novel and innovative products, product types and business models. An inflexible regulation that fails to incorporate such tendencies through measures such as general bans is prone to fail. Any authority responsible for gambling regulations should be aware of these new challenges. ■

Taxation in gambling:

- **GGR (Gross Gaming Revenue)** is the amount wagered minus the winnings returned to players.
- **Turnover** refers to the total amount of stakes played on operators’ websites.

¹ <https://gluecksspielstudie.de/>

² https://www.dshs-koeln.de/fileadmin/redaktion/Institute/Sportrecht/Dokumente/Faktenbasierte_Evaluierung_des_GlueStV.pdf, page 160