

The Leeway of lotteries in the European Union



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# The Leeway of lotteries in the European Union

A pilotstudy on the liberalisation of gambling markets in the EU

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## **Preface**

Market integration in the European Union (EU) is not a straightforward process. This process is influenced by complex external and internal developments and is usually characterised by accelerations and backwashes. There moreover exist huge differences between economic sectors. Gambling markets, including lotteries, betting, casinos, gaming machines and bingo, are particularly controversial and have recently become a hot topic of debate regarding European integration. In February 2006 gambling markets have been excluded from the so-called 'service directive' but continue to be under influence of processes of globalisation, juridical consideration, market liberalisation and technological innovation. As this publication demonstrates, various gambling organisations across the EU respond in quite different ways to European developments.

Debates on lotteries and other gambling organisations usually carry strong emotional overtones. This is because of the moral controversies over gambling and the strong political and economic interests associated with the gambling industry. The authors therefore believe that sound scientific research should guide the debate. However, international comparative research in the field of gambling is rather limited. Regarding the EU this report only serves as a pilot study. Empirically the research was restricted to the Netherlands, the United Kingdom (UK), Sweden, Hungary and Italy. The research is part of ongoing scientific research in the field of gambling studies at the Vrije Universiteit Amsterdam.

This particular pilot study has been sponsored – but was not commissioned – by the Dutch Good Causes Lotteries (NGCL), who have an interest in this research not only because it addresses lottery markets but also because it takes in explicit consideration the distribution of the revenues, including the benefits of lotteries for civil society organisations. The authors wish to thank the NGCL for their support but also wish to stress that the NGCL did not interfere in the research design, the information gathering and the interpretation of the findings. The authors would furthermore like to thank all of the officials, operators and other informants who have been helpful in the research. Special thanks to the reviewers who were willing to comment upon (parts) of the draft, in particular Per Binde from Göteborg University.

We hope that this publication is in one way or another of use to those interested in the debate on gambling in the EU and that our analysis furthers international comparative research on the regulation of gambling organisations.

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Vrije Universiteit Amsterdam, April 2006  
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## **Summary**

The objective of this research is to explore the development of gambling markets, in particular lottery organisations, across the European Union in relation to the civil society and developments on the level of the EU.

The pilot study includes a selected number of contrasting member states: the Netherlands, the United Kingdom, Sweden, Hungary and Italy.

The report also addresses major analytical and methodical challenges regarding lottery research in the context of the EU and provides guidelines for further research.

### *Research questions*

The major research questions in the study are: 1) What are the differences in the development of gambling markets and policies in the member states of the EU, from the 1990s onwards, in particular regarding market liberalisations? 2) How do lottery organisations in the member states of the EU relate to the wider society; in particular regarding the role of the state, the market and the civil society? 3) Which international processes influence the development of lotteries in the member states of the EU, in particular regarding technological developments and international organisations?

### *Findings*

The pilot study has substantiated the initial impressions that gambling markets and policies have been liberalised in the recent past. Furthermore, the social and economic significance of gambling, and the benefits of lotteries for the state and the civil society in particular, have increased tremendously. Finally, the European Union emerges as a new level of regulation in the field of gambling.

There is a common trajectory of liberalisation in the selected member states. However, the nature and extent of the liberalisations and the liberalisation processes are not equal in the contrasting countries. There are processes of convergence and divergence between the gambling regimes.

### *Market segments and products*

In the overall range of market segments and products there is a clear convergence over the case studies, although there remain big differences

in the relative size of the various market segments. For instance, in Sweden and Britain, betting is far more popular than in the Netherlands, while the last one stands out in the popularity of lotteries, in particular good causes lotteries. In Italy and Hungary, lotteries also cover more than half of the market. A general market trend, which applies to all of the sample countries and which can be expected to continue, is the increasing market differentiation and product variation.

#### *Remote gambling*

Remote gambling is a market in which divergence rather than convergence seems to emerge (in the short term). Sweden and the UK for instance readily adopted Internet and mobile phone gaming, while the Netherlands, Italy and Hungary seem reluctant or lagging behind in this new market segment.

#### *Gambling regulation*

Divergence also emerges in the area of gambling regulation, in particular the controlling power of the state: the benchmark case, the Netherlands, is in this respect better compared to Britain and Sweden than to Italy and Hungary. In the Netherlands, Britain and Sweden we find rather complex or multi-dimensional regulatory models. This situation is characterised by a separation between gambling legislation and gambling control, and also by differentiations in the modes of operation, like private, state or civil society organisations acting as operator. In Italy and Hungary we find rather one-dimensional models in which the operation of gambling markets is concentrated by the state, which may decide to contract out the operation to private or other parties. A general trend in regulation, which can be expected to continue, is the increasing complexity of gambling regulation regimes.

#### *Position of lotteries*

The position of lotteries is largely defined by the overall gambling regimes. Relevant for lottery markets is the distinction between high-risk and low-risk forms of gambling. This distinction refers to the risk of gambling addiction, which in the case of lotteries is considered comparatively low. The distinction between high-risk and low-risk gambling is typical for multi-dimensional regulatory models and to a certain extent applies to

gambling policies in the Netherlands, Britain and Sweden, but to a far lesser extent in Italy and Hungary.

#### *Civil society involvement*

In the contrasting countries, there are large differences in the economic size, structure, and significance of the civil society. The Netherlands, Sweden and the UK all have a rather large, and well-organised civil society. Civil society in Italy and Hungary are relatively small, and characterised by a low level of sector integration.

Regarding the shares of the civil society in gambling markets divergence rather than convergence seems to emerge in our sample countries. In the Netherlands, Sweden and Britain, civil society organisations benefit to a large extent directly from gambling, while organisations in Italy and Hungary primarily benefit indirectly through redistribution mechanisms of the state. The private sector involvement in these countries is much bigger than in the Netherlands and Sweden. The study suggests that an adaptation of the approach of gambling markets (even without adapting the regulatory model), would enable the state to include civil society organisations to a larger extent in both its outsourcing as its redistribution policies.

#### *Reactions on European and technological developments*

Regarding European and technological developments, we focus on the regulatory level, on the national level and on the organisational level. The issues involved are both political and legal. In the context of the completion of the internal market and the jurisprudence of the European Court of Justice (ECJ), national gambling policies and organisations both influence the European Union, and manage the consequences of European Union policies.

The Gambelli case (2003) has become a central point of reference. In this case, the ECJ applied the principle of proportionality to gambling markets, meaning that national restrictions on the exploitation of gambling are only allowed if the restrictive policies are convincingly applied. This has changed European discussion on gambling from a discussion on subsidiarity to a discussion on proportionality.

Our hypothesis is that current interest in gambling organisations can reinforce restrictive policies, as happened in the Netherlands, because national privileges are reduced by intervention by the European Union and

international competition. However, these restrictive policies on the national level are at the same time undermined by market liberalisations.

Also relevant for the analysis is the organisational level. International networks between operators, regulators and researchers are developing. Our hypothesis is that these international networks itself will contribute to harmonisation of gambling markets because of the mitigation of potential conflicts, and the imitation of 'best practices'.

## **CHAPTER 1**

### **Introduction: Lotteries in the European gambling context**

#### **1.1 Introduction**

The objective of this report is to assess recent developments on European gambling markets in view of the future options for lottery organisations and their beneficiaries. Since this is a complex topic with a broad scope, and the research in this field is barely emerging, a pilot study has been conducted aimed at an exploration of the major developments in gambling markets and policies within the EU, in relation to the wider society and interactions with developments on the level of the EU. A pilot study means that the research is not so much directed at finding clear and complete answers to the research questions, it rather means that this report explores the range of possible answers and hypotheses. The report also addresses major analytical and methodical challenges regarding lottery research in the context of the EU and provides guidelines for further research.

#### **1.2 Lottery organisations and the European Union**

During the 1990s gambling markets, including slot machines, lotteries and casinos, in many countries have been liberalised and expanded significantly. This expansion wave is a virtually global phenomenon (McMillen 1996; Eadington 1997; Kingma 2002; Collins 2003; Miers 2004). There are clear market pressures on national governments to treat lotteries as a free market in the entertainment economy. These pressures and developments, however, are in sharp contrast with and contradict traditional policies. The organisation and regulation of gambling is traditionally characterised by strong national interests and (legal) frameworks, in which gambling markets are tightly regulated by the state. In many cases gambling markets are even organised by state monopolies. Direct market competition was discouraged because of the moral controversies over gambling and the association of gambling with risks concerning addiction and crime. This also means that national gambling organisations were, and in most cases still are, protected from competition from abroad and are usually not allowed to expand their activities beyond national borders.

The EU relates in roughly two ways to the contradictions between on the one hand the national regulation and protection of gambling markets and on the other hand processes of liberalisation, internationalisation and globalisation. First, most member states are confronted with and have to deal with similar market pressures towards liberalisation. This may in time possibly lead to a convergence (or divergence) of national gambling policies and gambling cultures. Second, the EU arises as a relatively new level of governance in the field of gambling, with which national governments and gambling organisations increasingly have to reckon with. National gambling policies have to be positioned and legitimised in one way or another vis-à-vis the newly emerging regulatory force of the EU. Gambling markets are confronted, for instance by cases brought to the European Court of Justice (ECJ), with the strive towards a 'Single European market', in particular with the EU freedoms of establishment, goods and services. In 1992 it was decided, in reference to the principle of 'subsidiarity', that gambling regulation was best served at the national level, but the European Commission (EC) re-evaluated this position in view of market liberalisations and Internet gambling. A complicating circumstance is that the EU is not a constant but a changing factor, in particular because of the enlargement of the EU. A significant point of interest for lotteries is the way gambling organisations are related to the wider society, through the distribution of revenues and the close connections with the civil society. Changes in regulations and international market developments may affect the participation of civil society organisations on the lottery market and the opportunities and constraints of beneficiaries.

On the topic of gambling in the EU, a huge knowledge gap exists regarding the differences and similarities in national gambling markets and policies. On this subject there simply is no systematic and scientifically valid knowledge available. International comparative research in the field of gambling is remarkably scarce (Thompson 1998; Garret 2001). To the extent that comparative research is available, the analyses are usually superficial and fragmentary. For example the recent study *Gambling on Culture* (Bodo 2004) (p.139), explicitly concludes that there definitely are huge differences in the organisation of lotteries and the distribution of revenues, but that our understanding of the nature of, and the reasons for, these differences is rather limited. In order to improve our understanding it is in our view necessary to focus the analyses on the dynamics in the development of gambling organisations in relation to the

wider society (Kingma 2004). The liberalisation and expansion of gambling organisations within the various member states of the EU does not take place at the same moment or at the same time, and also differs considerably with respect to the various types of gambling, for instance casinos versus lotteries. The complexity of the matter can further be related to differences in the relationships between gambling organisations on the one hand and the state, the market and the civil society on the other. Also highly relevant in this respect are developments related to international policies as well as commercial and organisational developments on the international level.

### **1.3 Research questions**

Against this background the major research questions of this pilot study are as follows:

- 1. What are the differences and similarities in the development of gambling markets and policies in the member states of the EU, from the 1990s onwards, in particular regarding market liberalisations?*
- 2. How do lottery organisations in the member states of the EU relate to the wider society, in particular regarding the role of the state and the civil society?*
- 3. Which international processes influence the development of lotteries in the member states of the EU, in particular regarding technological developments and international organisations?*

Ad 1. Politically, economically and culturally, gambling refers to a highly peculiar and controversial category of play because of the dependency on chance and the transformation of the meaning of money (Reith 2002). Therefore, commercial gambling organisations have in many cases been controversial and are regulated by specific gambling policies. The legalisation and liberalisation of gambling implies major transformations in gambling policies, including a shift in the cultural meaning and legitimisation of gambling (Cosgrave 2001). This also involves a crucial shift in the meanings attributed to gambling, a shift from gambling as a morally disputed vice towards gambling as a normalised entertainment product (Abt 1984; Rosecrance 1988). Regarding the process of liberalisation we like to know to which extent gambling organisations are

nowadays regarded and treated as mainstream economic enterprises offering 'normal' services and products. For lotteries it is of particular importance how and to which extent they are demarcated from other categories of gambling, for instance because of the comparative low risk of problem gambling (Griffiths 1999). To which extent do gambling policies distinguish between high-risk and low-risk games (Kingma 2004)?<sup>1</sup> We also like to know in which respects (for instance licensing, gambling products, supervision, competition, advertising, accessibility) the various regulation policies have been liberalised during the 1990s. And how have these changes been motivated and legitimated? Ultimately, we would like to know whether European integration furthers market liberalisations or rather provokes protective responses?

Ad 2. The organisation of gambling is traditionally characterised by a strong involvement of the state, not only as regulator but also as operator and beneficiary. Equally characteristic for the organisation of gambling is the involvement of the 'civil society' (Salamon 1999), i.e. the good causes, charities and other public benefits associated with gambling (both as initiator and beneficiary). To which extent do the state, the operators and the beneficiaries have similar or conflicting interests in the liberalisation of gambling? And are there shared values and organisational principles in the making regarding gambling? We would like to know how processes of liberalisation and European integration affect the relative positions between the state, the market and the civil society in the field of gambling. To which extent, for instance, serve gambling revenues as substitutes for taxes in the context of a retreat of the welfare state (Bodo 2004)? And to which extent does liberalisation imply new opportunities for civil society organisations to promote and profit from gambling? Does European integration simply favour the commercial interests of operators, or does it rather strengthen the wider societal interests associated with gambling like taxes and good causes?

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<sup>1</sup> In gambling policies the distinction between high-risk and low-risk games (the chance of addiction) is also referred to as *long odds* versus *short odds* (the difference between stake and profit), 'slow' versus 'fast' profit games (the time between distribution of profit and next stake) or 'non-continuous' versus 'continuous' gambling (the speed of the wager-play-outcome sequence). It should be noted that besides product characteristics also social (like the target groups) and contextual (like accessibility) circumstances influence the risk profiles of gambling games.

Ad 3. The organisation of gambling is traditionally confined to the context of the nation state. Of increasing importance, however, are the interdependencies of European gambling markets, related to cross-border gambling and gambling via the Internet. Highly relevant is the evolving jurisprudence by the European Court of Justice (ECJ), and decisions made by the European Commission regarding market classifications, notably the 'service directive.' Regarding the enlargement of scale we want to know how domestic and local gambling organisations respond to and contribute to international and trans-national activities. Does this field for instance contain a risk of 'regulatory competition,' in which member states seek to adapt their gambling policies to the member states with the most lenient prescriptions? And will the EC perhaps distance itself from the principle of 'subsidiarity' because of the tendencies towards liberalisation? A relevant case is the recent Gambelli case in which the ECJ decided that national governments are allowed to ban foreign gambling enterprises on their territory, provided that they deploy convincing gambling policies in line with this ban (Verbiest 2004). Also significant are initiatives taken by gambling organisations regarding international competition and cooperation. What are for instance the interests and activities of European associations of gambling organisations like GREF (Gambling Regulators European Forum) or European Lotteries (an association of state lotteries and toto's)?

#### **1.4 Research strategy**

In this pilot study we want to explore the development of gambling markets, in particular lottery organisations, across the EU in relation to the wider society and developments on the level of the EU. The question is how the European context intervenes in, and facilitates or discourages, certain trajectories of development for domestic gambling markets. Since objective criteria are hard to define, the Netherlands will serve as a benchmark for comparison. In particular the extent of liberalisation will be defined with reference to the Dutch situation. Furthermore, because we focus upon dynamic processes, from 1990 onwards, and the interests, strategies and opinions of various organisations, an exploration of the range of possible differences in the field of gambling across the entire EU is, for a pilot study, considered impossible and undesirable. The research is therefore based upon a limited number of cases. Besides the

Netherlands, four contrasting cases are selected for the comparison and the collection of information. These cases include the United Kingdom, Sweden, Hungary and Italy.

This selection of cases is based upon the general idea of exploring maximal differences within the EU against minimal costs, respectively a minimum of case studies (Pennings 1999). The selection of countries is primarily based upon differences in state structures, socio-economic circumstances and national cultures. The sample also represents countries with quite different histories and attitudes in relation to the EU. The UK represents a relatively libertarian Anglo-Saxon State with a strong orientation on monetary policies and a wide range of class cultural differences. The UK is known for its standoffish attitude regarding the EU. Sweden represents a Nordic State with well-developed welfare policies and a relatively egalitarian indigenous culture. Sweden can be characterised as a critical 'follower' in processes of European integration. Hungary represents one of the new Central European members of the EU (Schimmelfennig 2005). For this case we consider relevant the communist past, the relatively strong bureaucratic state structures and the comparatively low living standards. Finally, Italy has been selected as a Mediterranean state, with relatively centralistic and bureaucratic structures and hierarchical cultural features. Italy is also one of the large leading countries of the EU. These stereotypical and perhaps partial characteristics only serve to justify the selection of countries and do not suggest specific hypotheses about gambling policies. How structural differences between states translate in the field of gambling is in this pilot study considered to be a matter of empirical research.

The analyses are generally based upon secondary sources, like scientific publications, policy reports and company data. Because not all the necessary information was readily available, or differed in focus and profundity (and language), for each country informants were contacted from organisations central to the field of gambling. The sample included regulatory organisations, lottery operators and civil society organisations. A list of participants has been included as a supplement to this report (Supplement IV).

One of the major problems for comparative research is that secondary facts and figures for each country have been collected at different moments and in different ways, and often also represent different situations. A state lottery, for instance, is not operated in the same way in each country and also does not offer the same or even

similar products. Gambling markets, products and regulations are usually not defined in (exactly) the same way in each country. A gambling board, for instance, does not have the same composition and does not hold the same power or perform the same tasks in each country. Problems of comparison also arise with respect to market classifications and figures on returns, profits and taxes. We will consider all markets on which products are offered where money is staked in return for a chance on prizes as gambling markets. We distinguish the following broad categories of gambling markets: lotteries and lotto's, (sports) betting, casinos, gaming machines, bingo, and remote gambling (like Internet gambling and SMS games). Of course, these markets are to a certain extent overlapping. Regarding the market returns, prizes, profits and taxes we have tried to maintain a uniform logic of definitions and calculations in the report. Returns across markets will for instance be compared on the basis of net returns (gross returns minus prizes). This means that in some cases figures are presented somewhat differently from specific market standards. Figures will be presented in Euros (with the amounts in national currencies between brackets). We will discuss the relevant differences throughout the report, but have nevertheless tried, for reasons of comparison, to provide a generalised overview of differences between the five countries regarding regulations (Supplement II) and markets (Supplement I and III).

### **1.5 Outline of the report**

The report is designed around the three major research questions. After this introductory chapter, which provides the background to the pilot study, the research questions and our approach, we will start in chapter 2 with an analysis of the similarities and differences regarding the gambling markets and policies in the five countries. In chapter 3 we will analyse the relations between lottery organisations and the civil society in these countries, including the distribution of lottery revenues. Chapter 4 focuses on the European developments regarding cross-border gambling, the policy of the European Commission, the European Court of Justice, and international organisations in the field of gambling. In the concluding chapter 5 we will discuss, based on the previous chapters, the major findings, the challenges for the study of European lottery markets and hypotheses regarding the future development of lotteries in the EU.

**CHAPTER 2****Gambling liberalisations in five member states of the European Union****2.1 Introduction**

This chapter deals with the first research question. We will discuss the differences and similarities in the development of gambling markets and policies, from the 1990s onwards, in the five selected member states of the EU. We focus in particular on market liberalisations, which to a greater or lesser extent occurred in each of the selected countries. We will start with the Netherlands, which serve as a benchmark in our comparison between Sweden, the UK, Italy and Hungary. In our analysis we distinguish between regulation and market developments. Regulation includes legal frameworks, supervision and gambling policies. Market developments include the operators, market growth, market differentiations, product innovations and marketing. In our discussion on regulations and market development we will also discuss (changes in) the legitimisation of gambling. To which extent is gambling in the various countries for instance considered morally controversial? Is it simply seen as a mechanism to generate (state) revenues? Or is it rather seen as pure entertainment, i.e. a normalised economic activity? To which extent is gambling associated with addiction and crime? And are there economic benefits, good causes or charities associated with gambling?

Although we have a special interest in lotteries, it is important to relate lotteries to the general market and policy developments in the field of gambling. This is because lotteries are generally discussed and regulated in the same legal framework. The development of lotteries can, in part, be understood and explained in reference to the national regimes of regulation for gambling. In this respect we specifically analyse for each of the five countries, in which respects and to which extent lottery markets are distinguished, and regulated and operated differently, from other categories of gambling games.

**2.2 The Netherlands**

The Dutch gambling regime has experienced several liberalisations during the 1990s, both regarding regulations and market developments. The logic and dynamics in the development of Dutch gambling organisations are comparable to the four selected countries, although there are at the

same time considerable differences. In this paragraph we will briefly illustrate what gambling in the Netherlands looks like.

The Dutch Gambling Act prohibits the operation of any form of public gambling without a license issued by the state. The Dutch law on gambling explicitly allows for lotteries and lotto, betting on horse races, casinos, charity bingo and small prize contests, and gaming machines in arcades and restaurants and pubs. Today's legal framework for games of chance dates from 1964 but has been seriously extended and modified, in particular in 1974 (extension with casinos, lotto and bingo), 1986 (extension with gaming machines) and 1992 (extension with the instant lottery). The gambling act is currently under revision and this revision primarily aims at a harmonisation of the various gambling regulations. Licenses are issued by the Ministry of Justice or, for small-scale operations, at the local level, for instance regarding small-scale lotteries (maximum of total prizes of €4.500) and charity bingo (maximum of total prizes € 1.400). In the Netherlands the commercial operation of bingo is not allowed.

In this study we focus on nation wide and commercially operated types of gambling. There are four types of lottery organisations: a) the Dutch State Lottery (SENS); b) the Lotto and Sports Toto organisation, which also exploits the instant lottery (SNS); c) the National Good Causes Lotteries (National Postcode Lottery, the Sponsor Lottery and the Bank Lottery); d) The *Grote Club Actie*, a yearly national lottery organised by many small scale clubs and associations; these clubs and societies are responsible for the selling of the lottery tickets and their individual share depends on these sales. These four national lottery organisations have quite different histories and socio-economic backgrounds, they exploit different types of games and they operate under different legal provisions.

The lotteries are differently regulated from other types of commercial gambling that are allowed under Dutch law: casinos, gaming machines and betting on horse races. There are currently thirteen casinos operated by the state monopoly of *Holland Casino*. The only form of private operation on the Dutch gambling market is the gaming-machines business. In the Netherlands casinos and gaming machines are both popular and extremely profitable gambling markets. Although betting on horse races is also allowed, and exploited by Hippo Toto (currently by Scientific Games) on course (since 1948) and off course (since 1989), this has never been a very successful branch of the Dutch gambling market.

The Dutch Gambling Act explicitly prohibits sweepstakes and pyramid games. Until the early 1990s there were considerable problems with illegal gambling and crime, notably regarding casinos, gaming machines and also number games. However, these problems have largely been overcome, in part because of the expansion of legal gambling opportunities. Instead, the dominant problematic and regulatory concern on the gambling market became the issue of gambling addiction or problem gambling. The prevalence of problem gambling has been seriously surveyed in the Netherlands (nation wide in 1993, 1996 and recently in 2005). In 1996 it was estimated that approximately 70.000 Dutch adults could be problem gamblers, which is approximately 0,6% of the population aged 12-75 (Koeter 1996). The most recent research (2005) gives an indication of approximately 40.000 problem gamblers (0,4% of the population). In these surveys, problem gambling is primarily associated with high-risk games like casinos and gaming machines. On the lottery market only scratch cards have been explicitly associated with problem gambling.

### **2.2.1 Regulatory developments**

In the early 1990s regulatory liberalisations involved the licensing of the Sponsor Lottery and to the National Postcode Lottery, both lotteries raising money for good causes. In 1992, the Dutch State lottery was denationalised (SENS). A year later the SNS, the operator of lotto and the sports toto, got permission to operate an instant lottery; for this purpose the Dutch Instant Lottery (Nederlandse Instant Loterij, NIL) was established. At the end of 2000, the formal separation between SNS and NIL was lifted and the Lotto, Toto, Lucky Day and the Dutch Instant Lottery continued under SNS, the statutory name of De Lotto. In 2000 the government amended the Gambling Act again regarding gaming machines: linked jackpots and multiplayer machines were introduced in arcades.

In 2003 most tasks in the regulation of gambling were concentrated at the Ministry of Justice, where a special department was established to coordinate gambling policy. Before that time several ministries were involved in the management and supervision of the concessionaries: the Ministry of Finance was responsible for the state lottery, the Ministry of Economic Affairs was responsible for *Holland Casino* and the policies regarding gaming machines; the Ministry of Justice was responsible for licensing of Good Causes Lotteries; the Ministry of Public Health, Welfare

and Sports was responsible for sports betting; and the Ministry of Agriculture was responsible for horse betting. The involvement of these different ministries led to mixed interests and fragmented gambling policies.

In 1996 a specialised Gambling Board (*College van Toezicht; CvT*) was established, which was in fact an extension of the previous Casinos Council. The main task of this independent body is the supervision of the national gambling organisations. However, contrary to many other European Gambling Boards, the Dutch Gambling Board doesn't have any policy formation, licensing or surveillance powers. This board only has an advisory task on the 'social significance' of gambling. In practice the Dutch Gambling Board also adopted a task for the gathering of information and the monitoring of gambling markets.

The liberalisation and expansion of the gambling market led in 1995, in combination with serious concerns and public debate about gambling addiction regarding gaming machines, to a consolidation policy (Ministerie van Justitie 1995). The government seriously reduced the number of gaming machines outside of the amusement arcades and also decided not to issue any more licenses for national lotteries (lotteries with prizes exceeding €4500). However, a few years later, a government commission published the so-called MDW-report (2000), which promoted a far-reaching liberalisation of gambling markets in the Netherlands. This report was part of a larger government operation to examine the options of deregulation and liberalisation on various markets, as for instance the postal service, the media and public transport. In the MDW report gambling was completely considered to be a regular economic activity.

In 2002, however, the proposals in the MDW report were predominantly left aside and a far more restrictive policy was started. For example decisions on Internet gambling and the expansion of the number of casinos were postponed. In 2003, parliament decided to reform the Gambling Act, in order to harmonise gambling markets and to make it compatible with technological developments such as Internet gambling. The new legislation is not expected before the end of 2006. Regarding lotteries, the harmonisation of the legal provisions is high on the political agenda. However, the government decided that differences should be maintained to a certain extent. This means that the State Lottery (SENS) and Lotto (SNS) keep their position as lotteries with high prize payout, while the so-called "Good Causes Lotteries" of the NGDL keep their position as lotteries with high contribution to good causes. The issue of

harmonisation of lotteries and the distribution of revenues was further discussed in a special government commission (Schuyt 2004).

### **2.2.2 Market developments**

Since 1990 the Dutch gambling market has grown significantly: total gross returns (before deduction of the prizes) of the lotteries went from €792 million in 1996 to €1.5 billion in 2004, a rise of more than 90%. In addition the growth of *Holland Casino* was also enormous. More recently however, after 2000, the spectacular market growth on Dutch gambling markets stagnated (College van Toezicht op de Kansspelen 2005).

Market differentiation and an increase in the variation of gambling games also characterises the development. The State Lottery, for instance, introduced a number of new games: a special New Years Eve game in 1993, the Jackpot, and a weekly lottery called Dayzers. In 1993 The Lotto (SNS) introduced the instant lottery. In 1989 the National Postcode Lottery (NPL) introduced a completely new lottery format. The new approach involved a new format of the lottery game, with a combination of individual and street or neighbourhood participation. The new format also combined the good causes and charity organisations that founded the lottery with modern mass media, including television shows. This all contributed to the success of the National Postcode Lottery. Gross returns of the NPL grew from €6,8 million (fl 15 million) in 1990 to €145 million (fl 320 million) in 1994 (Veer van 't 1998). The NPL was soon able to expand the number of key beneficiaries from three to seven.<sup>2</sup>

Increased marketing activities like advertising and the use of television shows were not unique to the Postcode Lottery, but characterised the entire gambling market, including the State Lottery, The Lotto and Holland Casino. Since the early nineties there has been a significant increase in the competition between lottery operators and the amount of advertising of gambling products in the Netherlands. Recently the Dutch lottery organisations together developed a code for advertising in order to (self)-regulate the advertising.

Besides product innovation and new marketing tools, at two points lottery operators tried to merger: In 1999, the Dutch Competition Board (NMA) vetoed a planned merger between the Dutch State Lottery (SENS), the Lotto (SNS) and the Bank Lottery. According to the NMA, this would

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<sup>2</sup> In 1992, the World Wide Fund (WWF), Médecins sans Frontières (MSF), UNICEF and the DOEN Foundation became new beneficiaries of the NPL. See also paragraph 3.2.2

significantly obstruct economic competition on the lottery market. In 2004 the NMA did approve a merger between the National Postcode Lottery/Sponsor Lottery and the Bank Lottery. The boards of the three lotteries were fused into the Holding "National Good Causes Lotteries NV", although the lotteries remained separate brands and lottery products, and they kept their own beneficiaries. In the field of casinos and gaming machines market developments were on the one hand characterised by product innovations and on the other hand by a concern for consumer protection and problem gambling. During the 1990s *Holland Casino* expanded from three to twelve casinos. These were all high-class urban casinos embedded in local environments with consumption and entertainment facilities. Within *Holland Casinos* the exploitation of gambling products was rationalised and the range of gambling products was diversified, notably the gaming machine division was expanded and nowadays accounts for over 60% of the casino returns. The Dutch casinos also developed anti-addiction policies in which casino personnel spots and confronts problem gamblers. In the Netherlands the number of local amusement arcades slightly decreased (to 255 in 2003) (KEMA 2003). Similar to the casinos, many arcades were seriously upgraded. However, in the early 1990s most local municipalities seriously diminished the exploitation of gaming machines outside of the arcades (in pubs and restaurants), because of youth involvement and problem gambling.

### **2.2.3 Conclusion**

In the Netherlands, the benchmark case of this study, in the 1990s the gambling markets were clearly liberalised, in the sense that market opportunities were expanded. This liberalisation included the extension of the Gambling Act, enabling more gambling products to be exploited. The liberalisation also included spectacular market growth, increasing competition, market differentiation and marketing expenditures. Around 2000 there even was a serious debate in the Netherlands about a complete liberalisation and privatisation of gambling organisations. However, there also were serious backwashes on the gambling markets. These backwashes were caused by concerns over problem gambling in the market for gaming machines and casinos and concerns over increasing competition in the lottery market. After 2002 the spectacular market growth came to an end and many liberalisation initiatives were dropped or postponed. A remarkable aspect of the Dutch lottery market is the

successful involvement of good causes and charity organisations in the lottery market.

### **2.3 Sweden**

Sweden can be characterised as a typical welfare state with strict gambling regulations. In the previous paragraphs we have seen that the Dutch gambling sector has experienced significant liberalisations. Similar developments took place on the Swedish gambling market, although we will also come across some remarkable differences. We will start with a short illustration of the Swedish gambling situation. Subsequently we will discuss developments in regulation and market developments.

Sweden is in many aspects quite similar to the Netherlands. The gambling market is tightly regulated and private profits are not allowed, except for some low stake forms of gambling in so-called restaurant casinos. All gambling revenues are destined for public benefit only. The regulations placed onto the Swedish gambling and lottery market stem from the idea that lotteries represent a fraud or usury sensitive category of products and services (Lotteriinspektionen 2004). The Swedish legislation uses a rather broad definition of lotteries: horse racing, and other kinds of betting, and gaming machines are all addressed as 'lottery'.

The legal framework for gambling in Sweden is determined by the Lottery Act (1994) and the Casino Act (1999). The Lottery Act regulates all drawing games, guessing, betting, bingo, gaming machines, roulette-, dice-, and card games (in restaurants and hotels). The Casino Act (1999) regulates the four Swedish casinos. Different from the Netherlands is that the state operates more gambling products. The largest organisation on the Swedish market is *AB Svenska Spel*, a 100% state-owned company. In 1996 this organisation resulted from a merger between two government agencies: *Tipstjänst* (Sports betting) and *Penningslotteriet* (national lottery). Svenska Spel has a monopoly on organising the lottery- and number games, sports betting, dog racing (discontinued), gaming machines and casinos. This company is one of the few European state-owned operators to offer such a wide range of gambling products. Svenska Spel and ATG are regulated by yearly concession issued by the government. In issues that are not explicitly covered by the licenses, the Lottery Act and Casino Act apply to these companies.

A remarkable difference with the Netherlands is the enormous popularity of betting on sports and horse races in Sweden, where in the

Netherlands this is only a marginal branch of the gambling sector. The second largest operator on the Swedish market is *AB Trav och Galopp* (ATG), a state-controlled company founded in the 1970s and owned by the equestrian sports sector. ATG has the sole right to arrange betting on horses. Finally, public benefit organisations have, similar to the Netherlands, the right to organise lotteries or bingo games, as local, regional or national games. 'Public benefit organisations' is a collective term to address voluntary associations that carry out work for the public benefit.

Swedish gambling policies explicitly recognise and address the risks of problem gambling. The ministry of Health and Social Affairs is therefore closely involved in the health aspects of gambling. One of the objectives of the Swedish National Institute of Public Health (*Folkhälsoinstitutet, SNIPH*), which is part of the ministry, is a reduction in the harmful effects of excessive gambling. This institute is also involved in the implementation of surveys and finances scientific research. In 1998 it was estimated that between 1.5% and 2.5% of the Swedish residents aged 15-74 could be classified as problem or even pathological gamblers. In Sweden restaurant casino games and slot machines are most likely to contribute to problem gambling, while the lotteries hardly contribute to this problematic at all (Ronnberg 1999). Also the recent popularity of Internet poker is a cause for concern.

### **2.3.1 Regulatory developments**

Since 1994 the Swedish Lottery Act has been amended several times. In 1996 the Lottery Act allowed for video lottery terminals (VLTs). Ever since 1979 the exploitation of gaming machines had been completely prohibited in Sweden. The VLTs, operated by Svenska Spel under the name Jack Vegas, are placed in restaurants with a license to sell alcohol, and in the bingo halls run by non-governmental organisations (NGOs). In 1999, the Lottery Act was amended to restrict the placement of so-called Amusement with Prizes (AWP) machines to amusement arcades. And in February 2002, all AWP machines and other gaming machines were banned. Currently the Jack Vegas are the only kind of gaming machines allowed in Sweden. The main reason for the prohibition of the AWP machines was the claim that they were used as slot machines. There are many slot machines in the state-owned casinos.

Compared to the Netherlands, where casinos were already introduced in the 1970s, Sweden was relatively late with the introduction of casinos. Swedish Parliament adopted the Casino Act in 1999 and the first casino opened in 2000. As in the Netherlands, casino gaming is a state monopoly. A subsidiary of Svenska Spel is licensed to operate the four casinos in Stockholm, Malmö, Gothenburg and Sundsvall.

In 2000, a government commission reviewed the gambling policy and made some proposals to amend the Lottery Act, mostly concerning Internet gambling. As a result, the Lottery Act was amended in 2002 in order to allow non-profit organisations to organise bingo, lotteries and Internet casinos, via SMS, and via digital television (IdTV). In 2003 Svenska Spel and ATG were allowed the same rights. This approach is quite different from the Netherlands, where in 2004 the Ministry of Justice explicitly refused to give permission to the State Lottery for an SMS game.

Svenska Spel is operated directly under the control of the Ministry of Finance. The Swedish government appoints its board and director general. All political parties are represented in this board. The Swedish Gaming Board (*Lotteriinspektionen*) was established in 1994 and also placed directly under the Ministry of Finance. It has the power to issue licenses for all lotteries that are arranged in more than one county (smaller lotteries are handled by counties or municipal authorities). Furthermore, the Board has the powers to impose fines to those organisations that act contrary to the Lottery Act. This control structure is quite different from the Netherlands, in terms of controlling powers and the direct link with the government.

### **2.3.2 Market developments**

As in the Netherlands, during the 1990s the Swedish market has experienced an extensive growth and many product innovations. Sweden is one of the first EU members to introduce instant lotteries. The instant game TRISS was already introduced in 1986, and, like in many countries, immediately became a huge success. In the same year *Oddset*, a system of online sales of sports betting, was introduced. Many countries have imitated this type of sports betting.

Looking at the type of games on offer and the market shares we can notice several differences between Sweden and the Netherlands. Compared to the Netherlands, betting is far more popular in Sweden: in 2003, gross turnover of the total gambling market in Sweden was €3.9

billion, of which €1.5 billion, or 39%, came from betting games. Sales of lotteries and other number games reached €1.2 billion, or 32%. However, this picture looks somewhat different if we look at the net returns (gross turnover minus prizes). Total net returns in 2004 amounted to €1.6 billion. Lotteries contributed €682 million (42%), €517 (32%) came from betting games (Lotteriinspektionen 2004). Gaming machines have a market share of 14% (net turnover) and became increasingly popular. Within five years the VLTs, introduced in 1996, have become the most successful brand of Svenska Spel. The machines, Jack Vegas are placed in restaurants and bars that had a license to sell alcohol and in bingo halls.

Sweden also differs from the Netherlands with regard to Internet gambling. After 2002 Svenska Spel started to offer gambling products via the Internet. Also, several experiments have taken place regarding gambling via SMS. In November 2002, Svenska Spel signed a partnership agreement with gaming supplier Boss Media to develop digital scratch cards, lotteries and other instant games, primarily for the Internet. In 2005 Internet bingo, SMS scratch cards TRISS and Tria and bingo via SMS were introduced. Swedish non-profit organisations are, just like Svenska Spel, allowed to organise games via cell phones or via the Internet, provided that they use the technical infrastructure of the Gambling Board. Since the transaction costs are rather high (a few years ago, the telephone company charged 50% of the costs of the tickets), non-profit organisations hardly make use of this option.

As in the Netherlands the amount of advertising of gambling has increased significantly since the introduction of the Swedish lotto in the 1980s, but unlike the Netherlands advertising has become a controversial issue in Sweden. In 2003, Svenska Spel was the sixth largest advertiser in Swedish mass media (Binde 2005). In October 2004 the Swedish Supreme Administrative Court criticised the marketing of Svenska Spel. This has led Svenska Spel to decide to decrease the marketing budget for 2005. Based on concerns about problem gambling, in a referral requested by the government, the Gaming Board has denied permission to Svenska Spel to organise poker games via the Internet in order to be able to compete with international providers. However, the government has recently granted Svenska Spel the permission to set up a full scale internet poker site.

As indicated in the preceding paragraph, in Sweden public benefit organisations can apply for a license to organise lotteries. The largest

player in this field of NGOs is a group of 77 non-governmental organisations united in Folkspel. In 1991, Folkspel got permission to organise a lottery game called *BingoLotto* in order to raise funds for their members. The game is somewhat comparable to the Dutch *Grote Club Actie* (except for a weekly instead of a yearly draw): Local sports clubs and local organisations recruit members to sell tickets for BingoLotto. The person who sells tickets gets a small share of its price and the rest of the revenues are divided by the local club in question and the BingoLotto company. BingoLotto was marketed in a popular Saturday evening television show. However, since the popularity of the show and the lottery seriously declined, the timing of the show was changed to Sunday evenings, the anchorman was replaced and the music was changed. However, all these attempts to revitalize the show have failed. Nevertheless, this game has become the biggest game offered by a non-governmental operator. Folkspel has been the concessionaire of BingoLotto since 1991, but the game concept was owned and operated by the company BingoLotto Sverige AB. In 2001 the Dutch company Novamedia bought BingoLotto Sverige AB, but sold it in 2004 to Folkspel. Now the concession and operation are in one hand.

### **2.3.3 Conclusion**

In Sweden, just like the Netherlands, the gambling markets were clearly liberalised during the 1990s. Liberalisation included the introduction of new forms of gambling and spectacular market growth. There are, however, differences with respect to the popularity of types of gambling, the moments of introduction and the extent of innovations: In Sweden betting is far more popular than in the Netherlands; gaming machines and casinos were introduced much later in Sweden than in the Netherlands; and Sweden readily adopted Internet and mobile gambling, whereas the Netherlands are reluctant in this area of remote gambling.

Both countries have a comprehensive legal framework for gambling, and gambling revenues are destined for public benefit only, with an exception in Sweden regarding low stake casino gaming in restaurants. In both countries, non-profit organisations can apply for a license to arrange lotteries to raise funds for their organisation, although in the Netherlands the Postcode lottery has been far more successful than the Swedish Folkspel, which is better compared with the Dutch *Grote Club Actie*.

There also is a difference in the regulation and operation of gambling markets. In Sweden this is less differentiated, primarily operated by the state and tightly controlled by the Ministry of Finance. Also the conceptual and political distinction between lotteries and other forms of gambling is less pronounced than in the Netherlands. Finally we have seen that similar to the Netherlands problem gambling has become a serious issue in Sweden. Slightly different from the Netherlands is that this concern also affects lotteries. In particular advertising has become quite controversial in Sweden.

## **2.4 United Kingdom**

The UK is known as one of the most liberal, but also one of the most regulated, EU member states regarding gambling. However, national lotteries have been forbidden for a long time and the National Lottery was not introduced until 1994, after extensive parliamentary debate. This is a major difference with the Netherlands, which has a long and rich history of the State Lottery. Compared to the Netherlands, the next thing that stands out is the extent of private involvement in the exploitation of gambling games. Bookmaking, gaming machines, casinos and bingo are privately operated. The UK is also known for the relatively great popularity of betting and bookmaking. Gambling where private profit is not allowed includes the National Lottery, bingo for charities and regional and local lotteries. The regulation of gambling in the UK is tight but differentiated. The current legal framework for gambling is the Gambling Act 2005, which will fully come into force in 2007. Small-scale lotteries were, based on the Lotteries and Amusement Act, allowed since 1976, but will be subsumed under the Gambling Act 2005. The National Lottery is based on a specialised act, the National Lottery Act 1993.

Gambling is ubiquitous in the UK and strongly integrated in British culture. At the same time gambling is seriously debated and critically assessed in British policies. In this country the National Lottery was until recently the only gambling product for which advertising was allowed. Under the new Gambling Act, some of the restrictions for advertising for other forms of gambling are lifted. In the *Gambling Review report* (Budd-report 2001) the gambling regulations were re-assessed, and following this report the proposed liberalisation of gambling was seriously criticised, notably in the *Daily Telegraph*. Similar to the Netherlands and Sweden, the prevention and treatment of problem gambling gets a lot of attention

in the UK. The industry has established a Responsibility in Gambling Trust (RIGT) to fund prevention and treatment of problem gambling. Annually, 3 million British pounds are transferred to this fund. The British gambling prevalence survey estimated that 0.8% of the population are problem gamblers. This equates to about a third of a million people. Concerning the National Lottery, the debate primarily focuses on the fair distribution of the revenues. In 2000 Camelot won the second license, after a tendering competition against the People's Lottery. The National Lottery Commission stated in their annual report over 2002/2001, that Camelot offered the best prospects to raise money for good causes.

#### **2.4.1 Regulatory developments**

Until the Gambling Act 2005 will fully come into force in 2007, gambling in the UK is operated under the 1968 Gaming Act and the 1976 Lotteries and Amusements Act. Re-legislation of gambling in the UK takes place, and this is similar to the Netherlands, because the British government considered the prevailing legislation too fragmented and not suitable to deal with technological innovations. The new Act also regulates betting and remote gambling. The proposed Act also foresees in eight new casinos: one so called 'regional casino', eight large casinos and eight small casinos. The gaming-machines are divided in various categories.

The National Lottery has a special legal framework, the National Lottery Act 1993. This Act gives the state a monopoly on national lotteries, including instant lotteries. This law also includes a prohibition for bookmakers to bet on the results of the National Lottery. While the state holds a monopoly on the licensing of the national lotteries, a private company operates the National Lottery. The Lottery Act 1993 will be replaced by new legislation, the Lottery Bill, which is currently under consideration in the House of Lords. The new bill will make it easier for potential applicants to assess lottery money by establishing the Big Lottery Fund as a single body, replacing three existing distributors (the Community Fund, the New Opportunities Fund and the Millennium Commission). The bill will furthermore allow for increased public involvement in the Lottery with distributors given the powers to consult and take account of public views in making distribution decisions. Finally more money should go to good causes more quickly by providing for a new system of allocating investment income from funds in the NLDF for distributors.

In 1978 Commission Rothschild already recommended the establishment of a National Lottery to raise additional resources for good causes. On the one hand, the UK felt pressed to establish a national lottery because of the increased competition by providers from notably Canada and Ireland. On the other hand there was a desire to raise additional funds for good causes. The reason for the monopoly position of the National Lottery was the fact that the lottery was primarily regarded as a device for raising money, and that the proceeds were for the public benefit, i.e. the good causes. The UK chose for a private operation of the National Lottery so that the design of the games, the prize structure and the distribution mechanism did not have to be prescribed in the Lottery Act.

Supervision on gambling in the UK is quite different from the Netherlands. Under the Gambling Act 2005, the Gambling Commission (GC) will regulate all commercial gambling, apart from the National Lottery. The Gambling Commission issues licences and has legal power to monitor license holders. It can also impose fines or revoke licenses and can prosecute illegal gambling. As in Sweden the Gambling Commission is a public authority and has far more regulating powers than the Dutch Gambling Board (CvT). The National Lottery Commission is responsible for supervision of the National Lottery.

On the basis of the Lotteries and Amusement Act (1976) also small, private and society lotteries are organised (charities, sports clubs, cultural bodies and others) to raise funds for good causes. In 2004/2005, total tickets sales from these lotteries were €204 million (£138.6 million). There were 647 registered society and local authority lotteries (Gaming Board for Great Britain 2005). In 2003 the Dutch venture Novamedia got permission from the Gaming Board to start a Postcode Lottery in association with a local charity lottery operator. In 2004 Novamedia got her own license as External Lottery Manager and launched a Postcode Lottery, in order to raise money for children's wellbeing and community regeneration in the North East.

Regarding Internet gambling, according to the Gambling Commission, no website that offers online casino, bingo or machine-style gaming can be lawfully established in the UK. Casino, bingo and machine gaming are not allowed online because current legislation dictates that a customer must be present in the room in which gaming takes place. A bookmaker or betting exchange may accept bets remotely (for example, via interactive TV, internet or telephone), but this relies upon on a permit

being issued by the local licensing magistrate. However, once fully implemented in 2007, the Gambling Act 2005 will allow operators to provide remote gambling facilities using equipment based in Great Britain. In 2001, the National Lottery Commission awarded Camelot a license to operate interactive games (scratch cards) via the Internet. This has been extended to games via mobile phones and digital television.

Surprisingly comparable to the Netherlands, both in timing and objectives, is the reviewing of the gambling policies by an independent commission under the direction of Sir Allan Budd. The *Gambling Review Report* (Budd 2001) is comparable to the Dutch MDW-report. The general idea of the report was that gambling operators should be able to offer products and services subject to normal market conditions. Following the Budd-report the most significant changes would be in the casino sector, where the private club structure would be abolished and the market would be liberated, also enabling international competition. The Budd Commission was not charged with a review of the National Lottery; however, it was instructed to look at the impact of their proposals for the National Lottery. The commission mentions that a few proposals regarding lotteries, such as allowing money prizes for small lotteries, allowing rollovers, and raising the prize limits, might affect income for good causes from the National Lottery. In the government response to the Budd report, *A safe bet for success* (UK Government 2002) 157 of the 176 recommendations have been taken over and the Gambling Act was amended in 2005. However, the most sweeping proposals regarding the liberalisation of the gambling sector have not been taken over, in particular regarding the casino market.

#### **2.4.2 Market developments**

Throughout the 1990s the UK gambling markets have also experienced spectacular market growth and product innovations. From 1990 to 2000 the average weekly expenditure by British households increased from €2.14 (£1,45) to €5.17 (£3.50) (Budd 2001). In the UK the annual (gross) turnover on gambling activities is estimated to be in the region of €79 billion (£53 billion) (National Audit Office 2005).

In order to be able to compare the total volume of the market with our other sample countries, we correct the figures for casinos, gaming machines and bingo, using the house win or cash-in-box (the amount of money retained by the operators) instead of the drop (amount of money

staked). In 2004 total net returns (gross turnover minus prizes) on the British gambling market thus roughly amounted to €12 billion. The house win for casinos was approximately €1 billion (£ 700 million), for gaming machines € 3 billion (£ 2 billion), and for bingo approximately € 725 million (£500) (Gaming Board for Great Britain 2005). Net returns for the National Lottery in 2004 amounted to approximately €3.5 billion (£2.4 billion). Sports and horse race betting contributed about €3.6 billion (£2.5 billion).

A prevalence survey shows that in terms of participation, the three most popular gambling activities in the UK are lotteries, especially the National Lottery (65%) and scratch cards (22%), followed by gaming machines (14%) and betting (13%). The UK has a rich and diverse gambling market. In 2005 there were 138 club casinos, of which 25 are in London, which is rather unique for any capital in the world. There were furthermore 678 commercial bingo clubs operating and about 250.000 gaming machines (Gaming Board for Great Britain 2005).

The most spectacular innovation was of course the introduction of the National Lottery. In 1994, the tender for the operation of the National Lottery was won by Camelot plc, a consortium including the Royal Mail, Thales electronics and an American company, GTECH. In the second contract (2000), it was agreed that a percentage of 28% of total ticket sales would be transferred to the National Lottery Distribution Fund (NLDF), which in its turn would apportion the proceeds to individual distributing bodies. After the spectacular launch of the National Lottery in 10.000 outlets, with a television show on BBC that was watched by 22 million viewers, many new products were introduced in years after 1994. This includes for example scratch cards in 1995, Lucky Dip, Thunderball and the Millennium Draw in 1999, Christmas Millionaire maker and Lotto Hotpicks. After a short period of stagnation the National Lottery has experienced continued growth since two years. Total sales in 2004 increased by more than €220 million to over €7 billion (£4,8 billion) (Camelot plc 2005).

A remarkable shift on the British gambling markets concerned the fact that especially bookmakers seem to have suffered from the popularity of the National Lottery. This might in part be explained by the fact that bookmakers are not allowed to advertise (which will change under the new Gambling Act). But this substitution effect also seems to reveal that the British have, to a certain extent, used sports betting as a kind of numbers game (Forrest 1999; Forrest 2005).

### **2.4.3 Conclusion**

In the UK, just like the Netherlands and Sweden, market liberalisations included the introduction of new forms of gambling and enormous market growth. At the same time there are differences with respect to the popularity of types of gambling, the moments of introduction and the extent of innovations. Clearly, the introduction of the National Lottery was the most spectacular innovation on the British market. In comparison with the Netherlands the British lottery market has been developed rather late and is relatively undifferentiated. On the other hand, in the UK there is a greater popularity of sports betting and bookmaking than in the Netherlands. Altogether, the range of gambling options in the UK has become more comparable to the Netherlands. Also comparable to the Netherlands is the relatively clear distinction between lotteries and other types of gambling in the UK. Gambling control in Britain is tight, and closely associated with the state.

Between the UK and the Netherlands there remain nevertheless considerable differences in the regulation and operation of gambling markets. In the UK the private operation of gambling (gaming machines, casinos, bookmaking, bingo) is more extensive than in the Netherlands (gaming machines only). The exception in this respect is the National Lottery that is a tightly controlled state monopoly. In the Netherlands the lottery market is more diversified and there also is a much greater involvement in lotteries by civil society organisations related to the good causes. In both countries lotteries are only allowed to serve the public benefit and good causes.

Finally, we have seen that comparable to the Netherlands the further liberalisation of gambling was seriously discussed. A government commission published a report with far reaching proposals for the liberalisation of gambling. Similar to both the Netherlands and Sweden is that in the UK problem gambling has also become a serious issue. Just like the Netherlands this concern is primarily focussed on casinos, gaming machines and scratch cards. Regarding lotteries the major and ongoing debate is on the fair distribution of revenues.

## **2.5 Italy**

In this paragraph we will compare the differences and similarities between Italy and the Netherlands in the regulation and market development of gambling. Just as in the previously discussed EU member states, during

the 1990s Italy has experienced several product innovations and tremendous market growth.

In Italy the gambling sector is organised as a state monopoly that has contracted out the operation of gambling to private organisations, which have a share in the revenues. The Italian Gambling Board, *Amministrazione Autonoma dei Monopoli dello Stato* (AAMS), is responsible for the entire state monopoly, but private operators are licensed to offer different gambling products and services. The AAMS is quite different from the Dutch Gambling Board (CvT), which, as we have seen, is merely an advisory body. The AAMS is part of the Ministry of Finance. The AAMS operates in Italy through regional offices that handle in particular the licensing of operators. The AAMS characterises the Italian model of gambling regulation as a new and modern way to act as a 'monopolist,' by playing a role that is conducive to true market openness and competitiveness and that combines the protection of public interest with an adequate level of tax revenue. Furthermore, there are important spill over effects in terms of employment and added value: the sector has over 15.000 people who derive income from gambling: national license holders (with about 2000 employees), about 2000 dedicated establishments (bingo halls and betting shops) and 50.000 retailers.

There are in fact three operators on the national Italian gambling market: Lottomatica S.p.A., SISAL S.p.A. and the SNAI group. These private operators all won their licenses by tendering. The games on offer at the national level are the *Gioco del Lotto* (Lotto game), *Superenalotto*, gaming machines, bingo, scratch cards, traditional (passive) lotteries and sports betting and betting on horse races.

Italy does not have a single encompassing legal framework for gambling. This differs from the Dutch (and also Swedish and UK) situation. Instead, several laws and ministerial decrees regulate the gambling markets. The ministry of Finance can directly manage all chance and pool games or delegate them to private organisations. The Italian lotto, *Gioco del Lotto*, has a long history and is strongly embedded in Italian culture. It is the most popular game in Italy. One cultural feature of the Italian lotto is the so-called '*Smorfia*'.<sup>3</sup>

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<sup>3</sup> *Smorfia* means grimace and it involves the interpretation of dreams by associating them with numbers and then betting those numbers in the lotto. For example if you dream about the sea, it symbolises number 1. If it involves a stormy sea, it means number 10 etc. This belief is widespread in Italy.

Prevention of illegal markets and the collection of revenues serve as the main motive for the regulation of gambling in Italy. This is similar to the other selected EU member states, but in Italy the illegal market still seems to be of a major concern. In 2003 the illegal market was estimated between €15 and €20 billion, which is almost 50% of the total gambling market (Pedrizzi 2003). According to the AAMS combating illegal gambling is done by repressive actions, but most of all by a proactive policy devoted to the constant improvement of offering of the public gambling.

Prevention of problem gambling has, until now, not been a serious motive in the Italian regulation of gambling. The Italian Gambling Board acknowledges that, compared to the Netherlands, social responsibility and gambling addiction are relatively new issues. In Italy all initiatives regarding prevention of addiction and treatment are private initiatives. The first organisation in this field, *Società Italiana per l'Intervento sulle Patologie Compulsive* (SIIPAC), was established in Bolzano in 1990, and opened a national office in Rome a few years later. Although there are no public organisations for prevention or treatment of problem gamblers, according to SIIPAC the general opinion and the attitude of the state slowly starts to change and more attention is given to problem gambling.

In the Italian media, occasionally discussions arise about lotto mania. This discussion relates to the specific nature of the *Gioco del Lotto*. This game is quite different from lotto's and lotteries as discussed in the other case studies. Contrary to the usual lotto game, the Italian lotto has fixed odds, so there is no jackpot. Lotto mania may occur with the 'late numbers': numbers that haven't been drawn for at least a hundred times.

### **2.5.1 Regulatory developments**

The Italian state monopoly on gambling is based on a gambling law from 1948. In the early 1990s the Ministry of Finance was responsible for both the supervision and the management of the Italian Lotto. Slightly comparable to the denationalisation of the Dutch State Lottery in 1992, in 1993 the operation of the *Gioco del Lotto* was, after a tendering process, transferred from the Ministry of Finance to Lottomatica S.p.A. In 1994 and 1995 two measures enabled the enlargement of the retailers network.

In the 1980s the foundations were laid for a radical change of the AAMS, a department of the ministry of Economic Affairs and Finance. In 1988 AAMS took over management responsibilities of the National Lotteries. In 1991 AAMS outsourced the operation of the National

(traditional) lotteries to *Consortio Lotterie Nazionale*, because of disappointing returns.

In 2002 the AAMS also took over the management of the betting on horse races and sports betting. Up to then betting on horseraces had been operated by UNIRE, the Italian Horse Breeding Authority, and sports betting had been operated by CONI, the Italian Olympic Committee. After 2003, the AAMS outsourced the management of both sports betting and horse race betting to Lottomatica, Sisal and the SNAI Group. The sports sector and horse breed sector were suffering from competition from other games, especially the *Gioco del Lotto*, and outsourcing to private operators was considered to be the best way to maximise the revenues (Pedrizzi, 2003).

The three private operators maintain relatively high levels of autonomy vis-à-vis the controlling government institutions. AAMS sets certain boundaries but has no direct interference in the percentage of payouts or marketing. Since 2002 the AAMS, is responsible for supervising all gambling operators.

Because of disappointing results, in 2001 the Ministry of Finance organised a tender for the operation of the thirteen national lotteries and the instant lotteries. In 2004 a consortium, which included Lottomatica, won the license for these lotteries. The operation of gaming machines is also a state activity and delegated to private operators. In 2001, the legal framework for bets, odds, and pool gaming was extended with video lottery terminals (VLT), which can be installed in public places like bars, restaurants and tobacconists. Similar to Sweden, the VLTs are only token machines. Gaming machines that pay out cash were not allowed until 2004 when among others, Lottomatica, SISAL and SNAI became the operators of a network with so-called 'New Slots'. In Italy the revenues of gambling are destined for the public benefit only, including the treasury, sports, horse breeding and culture. The operating companies also have a considerable private interest in gambling, however most revenues go directly to the state.

### **2.5.2 Market developments**

During the 1990s the Italian gambling market grew enormously. From 1991 to 2004 the total gross turnovers on Italian gambling markets increased from €5.4 billion to €25.3 billion (casinos excluded); in 2004 the gaming machines, which were illegal before that time, contributed over €4 billion (Lottomatica S.p.A. 2005). In 2003, for the entire legal gambling

market the sales per capita amounted to €271 (Pedrizzi 2003). In 2004, net returns (gross turnover minus prizes) amounted to approximately €7.5 billion. Lotteries contributed €6.3 billion (84%), gaming machines contributed €722 million (9.6%) and sports and horse race betting contributed € 167 million (2%). Finally, bingo contributed €308 million (4%) (AAMS 2005c).

The *Gioco del Lotto*, operated by Lottomatica, has the biggest market share (47%) in Italy. The sales ranking of the *Gioco del Lotto* belongs to the highest in the world (Lottomatica S.p.A. 2005). If we add the 2% of the game Tris, also run by Lottomatica, this company covers almost half of the legal market. Lottomatica furthermore extended the number of draws of the *Gioco del Lotto*. In 1996 a second, mid-week draw was added in order to raise funds for culture and heritage. In 2005, the AAMS gave permission for a four months pilot with an extra draw of the lotto, bringing the total on three per week.

Second in market share (with 7%) is the game *Superenalotto* offered by SISAL. Superenalotto is a lottery game based on the results of the *Gioco del Lotto*. The SISAL run game *Totocalcio* has lost market share over the last few years. According to the AAMS, this loss has to do with a change in the game concept: betting used to be only on Sundays, but is now more spread out over the week. The *National Lotteries* are two of a kind, first the traditional lotteries (passive lotteries, similar to the Dutch State Lottery) and the instant lotteries, the *Gratta e Vinci*. The traditional lotteries are connected to one or more historical, artistic, cultural or other local events, and the maximum number is fixed to thirteen a year. The lotteries are all paired with television programmes. The *Consortio Lotterie Nazionale* operates these national lotteries.

Only recently, in 2001, the Ministry of Public Revenue introduced *Bingo* on the Italian market. Today, Bingo is played in approximately 420 bingo halls; since 2005 there also is single national jackpot. Betting in Italy is possible on horse racing and other sports. Casinos in Italy are not a national but a municipal responsibility. The four casinos in the north of Italy (Val d'Aoste, San Remo, Venezia and Campione) are, for historic reasons, operated under municipal authority. In addition there are plans for a casino in central Italy. The Italian Gambling Board is not involved in the policies nor in the supervision of casinos. A new financial law in 2004 allowed for the first time gaming machines with prize payout in money, the so-called 'New Slots'. Since November 2004, these kinds of machines have been attached to a network operated by Lottomatica, SISAL and the

SNAI Group. New financial legislation also meant a gambling tax rise for the *Gioco del Lotto* and the *Superenalotto* from 3% to 6%, starting from January 2005.

In Italy there seem to be no marketing and advertising restrictions. The maximum costs for marketing are negotiated with the individual operators. SISAL exploits its own television network within the retailer's shops to promote the games. Furthermore, especially re-branding of horse racing in 2000 (Varenne Campaign) and the scratch cards (2003) were accompanied by special advertising campaigns.

### **2.5.3 Conclusion**

Since 1990, also in Italy there have been clear market liberations. This included product innovations, market differentiation and enormous market growth. The differences with the Netherlands can be related to the popularity of games, the moments of introduction and the extent of the innovations. The Italian market was extended with more lotto draws, scratch cards, betting games, gaming machines, bingo halls and also some legal (municipal) casinos. Dominant on the Italian gambling market is the Italian Lotto, the *Gioco del Lotto*. It is not only dominant in terms of popularity and revenues, but also the regulatory and operational model seems exemplary for a large part of the Italian gambling market, except for perhaps the few legal casinos. The typical high-risk games like gaming machines and scratch cards all seem to be relatively recently introduced on the Italian market. Typical for the Italian situation regarding gambling seems to be a rather extensive illegal market.

The most striking difference between the Italian and the Dutch legal gambling sector is the regulatory model. In Italy there is no central gambling act. The organisation of gambling is a state monopoly and almost all revenues directly go to the treasury. In this respect the liberalisations of the 1990s consisted of the contracting out of the licenses to private gambling organisations that seek to maximise the revenues. This situation is comparable to the Dutch State Lottery and the Dutch casinos. So, compared to the Netherlands, Italy has a one-dimensional regulator model for gambling markets. In the Netherlands (and also in Sweden and the UK) we find more variation, including private exploitation in the field of gaming machines and the involvement of the civil society in lotteries. Because of the one-dimensional regulatory system the conceptual and regulatory distinctions between lotteries and other

gambling markets are less pronounced than in the Netherlands. Furthermore, prevention of illegal markets and state revenues are the central motives of Italian gambling policies. Problem gambling is an issue that has only very recently been recognised.

## **2.6 Hungary**

Since the ending of the communist regime in 1989, the Hungarian gambling sector has expanded significantly, both in terms of the legal provisions and in terms of market growth. The differences with the Dutch gambling sector are, similar to the Italian case, rather substantial. The lotto and toto were even modelled after Italian examples.

During the communist regime, since 1957, the biggest bank of Hungary, the OTP, managed in cooperation with the Ministry of Finance, the Totó and the Lottó games. The legal framework for gambling today is the Act on the Organisation of Gambling (1991), which gives the state a monopoly on gambling and enables the state to delegate management to private organisations. According to this Act the organisation of lottery games, the operation of gaming machines, the operation of a casinos and activities aiming at the organisation of horse race bets, can only be organised with a concession (Hungarian Parliament 1991).

At the national scale level various types of gambling games are offered. As in the Netherlands, the operation of gaming machines is privatised. Casinos are also privately operated, although the state company *Szerencsejáték Rt* runs three of the six casinos. *Szerencsejáték Rt* was established in 1991 to take over the operation of toto and lotto network from OTP.

The primary aim of gambling regulation in Hungary is the prevention of illegal markets. Fraud was, according to the Gambling Board, in 1995 the main argument to amend the Act on the Organisation of Games, and to give *Szerencsejáték* the monopoly on all drawing games. Problem gambling is hardly an issue in Hungary, despite the fact that there are plenty of gaming machines and casinos, which in the Netherlands (and also in Sweden and the UK) are typically considered high-risk games.

### **2.6.1 Regulatory developments**

Before the Gambling Act of 1991, in Hungary there was no specific legal framework for gambling. Gambling was regulated by government orders

and decrees. It was authorized by the Ministry of Finance and Commerce, in cooperation with the tax office and customs protection. When the 1991 Gambling Act was adopted and *Szerencsejáték Rt* was established, several companies were set up to operate the drawing- and numbers games. A specific Gambling Fund was established to distribute part of the gambling revenues to good causes, in particular sports. The operation of gaming machines was privatised. At that time casinos were not allowed.

In 1995 the Hungarian state decided to get a firmer grip on lottery games. The Act on the Operation of Gambling was amended and *Szerencsejáték* got a monopoly on all lottery games. At the same time, the Gambling Fund was abolished and most of the licenses of gambling operators were cancelled. While state officials claim that the main reason for the abolishment of the Gambling Fund had to do with fraud, and with problems related to controlling the distribution process, critics claim that the huge budget deficits of the state were the main reason. According to these critics, the state simply claimed the gambling revenues. After the elections of 1995, as a result of the *Bokrospackage*, a financial restriction policy of the state, all public funds were liquidated (Bodo 2004). Currently, the Hungarian state intends to revise the Gambling Act, mainly directed at the provisions for gaming machines and casinos.

### **2.6.2 Market developments**

Since 1991 the Hungarian gambling sector has experienced an enormous growth, also in comparison with the surrounding Eastern and Central European countries. From 2001 to 2004 total revenues increased from €300 million to €590 million (*Szerencsejáték Rt* 2004; *Szerencsejáték Rt* 2005). When *Szerencsejáték Rt* was founded, it offered the toto pools, the 5/90 lotto, 6/45 lotto, instant lotteries and a kind of bingo game called Bongo. The first decade the games were operated mechanically, but in 2001 all lotteries switched to online games. In a few years time, this technological advancement made it possible to launch several new gambling products. In 2003 the jackpot became as high as € 19,2 million (over HUF 5 billion). Since 2001 six casinos have opened.

The national lottery is the 5/90 lotto. Even though this game has a lower pay out (45%) than many other games, it is the most popular game. The other drawing games also contribute highly to the turnover of *Szerencsejáték Rt*: 85% of total revenues come from drawing games; 10% from sports betting and 5% from scratch cards. Since 1997, the lotto

draws are marketed in a television show. Tickets for the national lottery are sold in lottery shops similar to the English betting shops. The popularity of this game may, according to Szerencsejáték Rt, have to do with the strong tradition of the Hungarian gambler to buy the tickets and socialize in familiar shops, to have a chat with the lottery sales person etc.

### **2.6.3 Conclusion**

In Hungary gambling markets have also been liberalised and expanded significantly. Initially, in the early 1990s the market was rather liberal and characterised by a combination between operation by Szerencsejáték Rt on behalf of the state and private exploitation. A considerable amount of the revenues also went to a public gambling fund. However in 1995 a shift occurred in which the state took firmer control over gambling operations and its revenues. In this respect the Hungarian regulatory model differs from the Netherlands and is more inclined towards the Italian situation. In Hungary the state also claims the gambling revenues, although in the field of gaming machines and casinos a considerable amount of private exploitation remains.

## **CHAPTER 3**

### **The distribution of revenues in five contrasting EU member states**

#### **3.1 Introduction**

This chapter deals with the second research question. We will discuss the role of the state and the civil society in the distribution of gambling revenues. In this chapter the Netherlands will again serve as a benchmark in our comparison between Sweden, the UK, Italy and Hungary. In our analyses we distinguish between the allocation of gambling revenues and the organisations that benefit from gambling ventures. Gambling revenues can be generated and divided in quite different ways. In this respect the state often has a double role. The state generally holds, as discussed in the previous chapter, controlling power over gambling, but in many cases the state also directly profits from gambling, from the revenues and/or from gambling taxes. The state can furthermore transfer the revenues to public benefit, good causes and charity organisations. However, the state can also license private or civil society organisations. In that case the civil society can directly generate and distribute gambling revenues. This is for instance the case with charity bingo or with lotteries organised by social associations or NGOs (Non Governmental Organisations) serving specific causes and the public benefit.

Although in some cases there can be revenue sharing in the markets of casinos, gaming machines or bookmaking, these markets generally are either organised as state monopolies or as (taxed) private ventures. Because we have a special interest in the involvement of the civil society we will in this chapter mainly focus upon lotteries. To which extent are revenues distributed to civil society organisations and to which extent do the member states allow NGOs to organise lotteries in order to raise money for their good causes? The sports sector is the only sector that benefits in all countries, although the extent to which it benefits varies over the EU member states. Starting with the Netherlands, in the next paragraphs we will discuss for each sample country the differences and similarities regarding the allocation of gambling revenues and the organisations who benefit from gambling.

### 3.2 The Netherlands

As we have seen in the previous chapter, the Dutch lottery market is rather diverse. The State Lottery is denationalised but its revenues all go to the treasury. On the other extreme we find the "National Good Causes Lotteries" (NGCL) that generate revenues for civil society organisations. We have also seen that on this end of the spectrum the *Grote Club Actie* yearly organises a lottery together with, and on behalf of, many small associations. In between the extremes of state and civil society, we find the Lotto, Sports Toto and Instant lottery organisation (SNS), which organises drawing games for its shareholders, of which the sports sector is the most significant. In the Netherlands the state also gets a share through gambling tax. All prize winners in lotteries have to pay a 25% gambling tax on prizes exceeding €454.-

The NGCL generates the most revenues on the lottery market. Although the State Lottery has the highest gross returns it generates less revenues because it pays out a higher percentage of prizes to its players. In 2004, a Government Commission did some proposals to increase the fairness, the flexibility and the transparency in the distribution of lottery revenues (Schuyt, 2004). In the Netherlands civil society organisations get hallmarks to assure that they are properly run.

The Dutch civil society is one of the largest in the world: in 1995, it represented 14.4% of the total economically active population, and about 15% of GNP (Salamon 1999). The composition and role of the Dutch civil society finds its roots in the process usually indicated with the concept *pillarization* - the segmentation of society along religious and political lines, that shaped the relationship between the state and civil society organisations (Therborn 1989). Leaving the provision of crucial services to non-profit organisations affiliated with different political and religious groups accommodated different religious and ideological camps. By doing this, the state restricted its role to financing these services.

The principle of leaving responsibilities, if possible, to the civil society is to a certain, and because of current deregulations even increasing, extent a guiding principle in Dutch government policies. In the Netherlands this principle has always kept the profile of the state rather low, while the growth of the post war welfare state increased the public support to the civil society. In 1995 the largest part of finances for the civil society came from the government (59%), followed by fees and charges (39%) and philanthropy (2%) (Salamon 1999; Salamon 2004). NGOs in the field of international aid represent a small part of the civil

society (3%). The larger part of the Dutch civil society is made up out of organisations in the field of public health (48%).

### **3.2.1 The allocation principles**

Since revenues from lotteries are considered public money, the state intervenes in the distribution of lottery revenues and sets provisions in lottery licenses. A license can only be obtained if the revenues serve the public benefit. From each lottery at least 50% of the turnover must be regarded as revenue and destined for the public benefit. The total amount of prizes and other costs related to the operation and marketing of a lottery may thus not exceed 50% of the turnover. In order to decrease the competitive advantage of the State Lottery and to harmonise the market, in 2004 the percentage of the revenues that the good causes lotteries have to contribute to their good causes has been reduced from 60% to 50% (College van Toezicht op de Kansspelen 2005). The current minimum percentages that have to be allocated for the public benefit of all Dutch lotteries are: 20% for SENS, 23% for SNS and 50% for NGCL.

In the Netherlands there has been considerable debate over the harmonisation of prize and revenue percentages (MDW 2000). However, the government decided that the lotto and state lottery games should keep their position as lotteries with a high percentage for prizes, while charitable lotteries should keep their position as lotteries with a high percentage for good causes.

There is also considerable variation between the lottery organisations regarding the distribution of revenues. In the case of the State Lottery the Ministry of Finances decides about the revenue percentage (currently 20%) as well as the spending. The SNS books the revenues to civil society Funds, of which the Dutch sports foundation and Olympic committee (NOC\*NSF) are the most important. These Funds decide about the actual distribution of the money. In the case of the NGCL the money is distributed by the lottery organisations but also goes to civil society Funds like the DOEN Foundation. The license of the good causes lotteries defines for which civil society sector the lottery is allowed to raise money.

### 3.2.2 The benefiting organisations

In the Netherlands, the state still benefits the most from gambling. In 2004, a total amount of approximately €646 million went to the treasury. This amount consists of €142 million revenues from the State Lottery and €65 million gambling tax on prizes (College van Toezicht op de Kansspelen 2005). In addition the state collected €268 million on the casinos and approximately €171 million VAT on gaming machines (KPMG 2004).

In 2004, the lotteries raised a total amount of €378 million for the civil society. The majority of this comes from the NGCL, which contributed €314 million. Table 1 gives an overview of the shares of different sectors of the civil society that profit from lotteries.<sup>4</sup> The sector that benefits the most is international aid and human rights.

**Table 1: Distribution of net revenues to good causes from all lotteries in 2004 in the Netherlands**

	Shares	Million €
International cooperation and human rights	34%	€ 126
Nature and environment	25%	€ 94
Welfare	14%	€ 51
Culture	9%	€ 34
Public health	5%	€ 21
Sports (incl. Horseracing)	13%	€ 52
<b>Total</b>	<b>100%</b>	<b>€ 378</b>

Source: CvT, Annual Report 2004.

The Postcode lottery raises funds for (international) human aid and the natural environment. The seven initial beneficiaries of the Postcode Lottery all receive a fixed percentage of the first €100 million, and another fixed percentage of all amounts above €100 million.<sup>5</sup> In 2004, €125 million (55% of revenues) went to these seven beneficiaries, while €100 million (45%) was divided over 50 other civil society organisations. The DOEN foundation received the majority of revenues, €26 million. This particular foundation is a distribution fund that provides funding to

<sup>4</sup> National Good Causes Lotteries (Postcode lottery, Sponsor lottery, Bank Lottery) and the Lotto, which includes the Sports Toto and the Instant Lottery.

<sup>5</sup> The Dutch Refugee Council, the Dutch Society for Preservation of Nature, Oxfam the Netherlands, DOEN foundation, Médecins sans Frontières, World Wide Fund and Unicef

organisations in the field of international sustainable development, welfare and culture. The Sponsor Lottery raises funds for sports, welfare and public health. This lottery raises money for two groups of beneficiaries. Annually, the Board of Commissioners decides upon the beneficiaries. Since the 1960s the Bank Lottery raises funds for culture and welfare organisations. In 2004, the 23 beneficiaries of this lottery received €47 million. As mentioned earlier, these three lotteries are all part of the holding NGCL.

The SNS (the combined Lotto, Sports Toto and Instant Lottery) raises money for sports and also for welfare, public health and culture. In 2004 the SNS distributed, from the €62 million net revenues, €45 million to funds for sports and physical education (74%); the remaining €17 million was destined for culture, welfare and public health. From the Instant lottery, 65% (€8 million) went to sports funds, and 35% (€4 million) to funds in the fields of culture, welfare and public health organisations (De Lotto 2005). These percentages have historical roots. All beneficiaries of the Lotto are formally represented in a beneficiary council. This council is part of the Board of the Lotto and has powers that are similar to those of a general assembly.

The annually organised *Grote Club Actie* enables several associations, foundations and other institutions in the fields of sports, art, culture or other forms of mental and physical development to participate in a nationally organised lottery, in order to raise money for their purposes. In 2004 7200 clubs participated in this lottery and together they raised €6.7 million.

### **3.2.3 Conclusion**

In the Netherlands, our benchmark study, gambling is connected to the wider society in divers ways. All kinds of productive relationships profit from gambling: gaming machines contribute to the private sector; casinos and the State Lottery contribute to the state; and the Lotto, Sports Toto, The Instant Lottery and the Good Causes Lotteries all contribute directly or indirectly (mediated by Funds) to civil society organisations. On all markets the state also gets a share through gambling tax or VAT. In the field of lotteries there now is a fairly even share between revenues for the state and revenues for the civil society. This relates to the expansion of the lottery sector with the NGCL.

### 3.3 Sweden

In the previous paragraph we have discussed the distribution of gambling revenues in the Netherlands. We have seen that, although the state benefits the most from gambling, non-profit organisations also benefit to a large extent, and even that in the field of gaming machines private profits are allowed. In this paragraph we will compare the allocation principles and the distribution of revenues in Sweden with the Netherlands. Similar to the Netherlands, gambling revenues are going both to the treasury and to civil society organisations. Different from the Netherlands (and the UK) is that in Sweden private organisations hardly profit from gambling.

A general characteristic of Swedish service production is that, compared to other countries, the Swedish non-profit sector is relatively small (Lundstrom, 1995). The Swedish non-profit sector is also less developed in the fields of health and social services, and more developed in the areas of culture, leisure, and advocacy.

The civil society workforce is 7.1% of the economically active people, which is considerably low compared to the Netherlands (1.4%) (Salamon 2004). Furthermore, the majority of the financial resources (54%) comes from philanthropy, 32% comes from fees and charges and 15% from the public sector (compared to 60% in the Netherlands).

Social movements play a major role in shaping both the Swedish non-profit sector and state policies (Therborn 1989). Similar to the Netherlands, the history of the Swedish non-profit sector is largely one of its relation to the state. During the 20<sup>th</sup> century, due to the growth of the welfare state, many activities were taken over by the state. A distinct feature of the non-profit sector in Sweden is the high degree of membership among the population (both in absolute and relative terms), notably cooperatives, sports associations and trade unions (SOU 1997). Umbrella organisations, especially in the labour market and older cooperative movement, are very common.

#### 3.3.1 The allocation principles

The state owned Swedish gambling operator *Svenska Spel* organises a wide range of gambling products, lotteries, bookmaking and gaming machines (VLTs). In addition, the four casinos are operated by a subsidiary of Svenska Spel. The revenues of all these gambling activities

directly go to the treasury, with an exception of the entire revenue from the VLTs that are earmarked for youth organisations.

As in the Netherlands, local or regional authorities also grant (temporary) licenses to civil society organisations for local or regional lotteries, provided that they raise revenues for the public benefit. In order to be granted a license to operate a lottery (or bingo game), the Lottery Act (1994) defines that 'the value of lottery prizes corresponds to at least 35% and not more than 50% of the value of the stakes'(Swedish Parliament 1994). Different from the Netherlands, in this respect, is that the Swedish state only prescribes the percentage for prize payout. No percentage is defined for net returns nor costs, other than that 'the lottery will give the applicant reasonable revenue and that this will be used for the relevant object of public benefit' (Lottery Act 1994, article 16). Any organisation that applies for a license at the Swedish Gambling Board makes a proposal for the percentages of prizes (between 35% and 50%), for costs and for the percentages of revenues ('reasonable') that will go to the good causes. The logic of this principle is that the optimal percentages are determined in competition between lottery operators.

Different from the Netherlands is furthermore that non-profit organisations do not pay (gambling) taxes. Gambling taxes are only imposed to horse racing (11% on gross turnover).

### 3.3.2 The benefiting organisations

The Swedish state, the horse breeding industry and several civil society organisations receive shares of the revenues from gambling operations (Table 2).

**Table 2: Distribution of gambling revenues in 2003 in Sweden**

	Share	Million €
The treasury	44%	€529
Redistribution to good causes	12%	€142
Good causes lotteries (incl. Bingo)	32%	€387
Horse racing industry	12%	€148
<b>Total</b>	<b>100%</b>	<b>€ 1.206</b>

Source: Lotteriinspektionen (2005)

The Swedish state clearly benefits the most from gambling. Beside the net revenues from *Svenska Spel*, the revenues consist of gambling tax on horseracing (11%) and VAT from the 139 restaurant casinos (low value, low stake gambling in restaurants; in 2003 €46 million). From these sources, in 2003 the Swedish state received a total of €529 million. The majority comes from Svenska Spel (€395) and taxes generated by betting on horse races (€128).

Not all revenues from Svenska Spel, however, go to the state. There is some redistribution of the revenues, in 2004 worth €142, to civil society organisations. The profit from the VLT's operated by Svenska Spel (in restaurants and in Bingo halls) also is to the benefit of the civil society. In 2004, an amount of €107 million went to the Swedish Sports Confederation and €16 million went to the Swedish National Board for Youth Affairs. In the period 2003-2006, a significant proportion of the revenues of Svenska Spel, €107 million (SEK1 billion) is earmarked for sports organisations. Furthermore the revenues from scratch cards (*Penningloten*) are partly distributed to civil society organisations. €80 million (which is 1/26) of the scratch cards revenues were contributed to art, theatre and other cultural purposes. Moreover, the bingo halls alliances are operated by NGOs. In addition also the revenues from the VLTs that are placed in bingo halls go to these NGOs. In 2004, this amounted to €18 million (Lotteriinspektionen 2004).

Besides these redistributed revenues by the state, civil society organisations also generate and distribute revenues from gambling themselves. The relatively great popularity of horse racing and betting in Sweden contributes significantly to the civil society. In 2003 the revenues of betting on horse races were €148 million and are all destined for the horse breeding industry itself.

A diverse range of civil society organisations gets contributions from *Folkspel*, other NGO lotteries and bingo. In 2003 these games together raised €387 for good causes. According to the Swedish Gambling Board it is clear that the sports sector benefits the most from these revenues, although they cannot give percentages for the different social purposes that benefit from these gambling ventures. The biggest good causes lottery is 'BingoLotto,' operated by *Folkspel*. About 80% of the member organisations of *Folkspel* are sports organisations. In 2000 BingoLotto generated €117 million but this amount seriously dropped to €77 million in 2004. As mentioned in the previous chapter this was partly due to a decline in popularity of the BingoLotto Show. BingoLotto has spend a large

amount of money on marketing, but this could not persuade people to view the show to the extent that they did earlier. Besides *Folkspel*, there are a couple of other organisations that organise lotteries on a regular basis. In 2003, there were 62 regional or national lotteries arranged by 30 NGOs, raising a sum of €27 million. The bingo halls also contributed €27 million to NGOs.

Among the largest NGOs are *A-lotterierna* (a lottery raising funds for the social democratic party), *Ideella Spel*,<sup>6</sup> the Cancer foundation (*Cancerfonden*) and Lottericentralen<sup>7</sup>. Lottericentralen is a service organisation that runs about 10 to 15 lotteries a year for different NGOs. The largest lottery is the lottery for the Swedish Red Cross, one of the owners of Lottericentralen. Other owners are a Swedish welfare organisation *Stadsmissionen*, the Children Cancer Fund (*Barncancerfonden*) and PAF, a Finish welfare organisation.

### 3.3.3 Conclusion

In Sweden gambling is connected to the wider society in divers ways, which is comparable to the Dutch situation. However, the range of this diversity is more limited, and there are also considerable differences in the relative sources of gambling games. In Sweden the private sector hardly shares in gambling revenues and Svenska Spel is a completely state owned company. The civil society gets a somewhat bigger share from gambling revenues than the state, if we include horse racing, redistribution mechanisms and good cause lotteries. Compared to the Netherlands, the various sectors of the civil society rather unevenly share in gambling revenues; in particular the sports sector gets a relatively big share in Sweden.

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<sup>6</sup> Ideella Spel is a service organisation. The license is granted to four non-profit organisations: the Union of the Blind (Synskadades Riksförbund), the Swedish National Association for the Deaf (Sveriges Dövas Riksförbund), the Swedish Society for Nature Conservation (Svenska Naturskyddsföreningen) and the Frisam. In 2004, gross turnover was about €6 million, of which €1.2 million (20%) goes to the non-profit organisations.

<sup>7</sup> For the Cancer foundation and Lottericentralen the percentage of net turnover is higher than for Ideella Spel, approximately 30%, but the gross turnover is lower: in 2004, gross turnover of the Cancer foundation was between €4.0-€ 4.2 million. Net turnover was approximately €1,8 million.

### 3.4 United Kingdom

As we have seen in the previous chapter, on the UK gambling markets there is a relatively large involvement of the private sector, which also shares in the profits. This private involvement includes bookmakers, casinos, bingo and gaming machinery. On these markets the state only shares in the revenues via gambling taxes. The introduction of the National Lottery in the UK not only meant a diversification of the gambling market with a new category of gambling products, it also meant an enormous extension of civil society interests in gambling. One of the reasons for establishing the National Lottery in the UK was precisely to raise additional resources for good causes. However, this '*... lottery has undeniably failed the additionality test [...]*' (Bodo 2004). This means that in the UK there is significant debate over the substitution effect of the lottery, in which the lottery to a certain extent covers causes, which were previously taken care of by the state. Research has shown that government spending on the arts, media and sports have fallen since the introduction of the National Lottery (Reith 2002). Nevertheless, the National Lottery is the major gambling organisation in the UK that contributes to the civil society. Since the establishment of the National Lottery almost €25 billion (£16 billion) has been raised for good causes.

The British civil society is dominated by education & research and culture & recreation organisations. In 1995, the UK non-profit sector employed just under 1,5 million full time equivalent paid workers. These employees account for over 6% of activity in the economy as a whole, meaning that the non-profit sector employed more workers than the largest single institutional employer, the National Health Service, which employed in 1995 1,1 million workers (Salamon 1999). If we include volunteers in this, the percentage amounts to 8.5% of total employment (compared to 14.4% in the Netherlands) and 6.6% of GNP. This is comparatively low and partly caused by a rather great involvement of voluntary work in the civil society. The government contributes 47% of the financial resources; fees and charges cover 44% and 9% is contributed by philanthropy.

In the next paragraph we will take a closer look at the allocation principles of the gambling revenues. After that, we will look at the organisations that benefit from the National Lottery.

### 3.4.1 Allocation principles

All (net) returns from the National Lottery go to good causes. The Department for Culture, Media and Sports (DCMS) defines the framework for distribution of these revenues. Similar to the Netherlands, the state is closely involved in the choice of sectors that benefit from gambling revenues. The sectors that receive funding from the National Lottery have to be approved by Parliament. The operator Camelot plc is not involved in the distribution of revenues, neither is the National Lottery Commission, its regulator. Camelot transfers the agreed amount of revenues, which is 28% of total turnover, to the National Lottery Distribution Fund (NLDF). The NLDF divides the revenues to civil society funds and distributing bodies.<sup>8</sup> The 28% share in turnover for the good causes or public benefit is significantly more than the Dutch State Lottery (15%) but significantly less than the Dutch Good Causes Lotteries (50%).

The overall funding of the civil society has become considerable higher than envisioned prior to the launch of the National Lottery in 1994. Also new (categories of) beneficiaries have been favoured under lottery revision and legislation implemented after the 1997 elections, which were won by labour. After its first big review, entitled *The People's Lottery* (1997), an additional distributor was created, the *New Opportunities Fund*, receiving 33% of all revenues. This change reflects a close link between government policy and the distribution of lottery revenues, since the focus is on health, the environment and education, which are all high political priorities (Bodo 2004).

The new Lottery Bill, which is currently under consideration, names a few objectives regarding the distribution of revenues from the National Lottery. One of the objectives is to make the National Lottery more responsive to people's priorities and to ensure that lottery money goes efficiently to good causes. To realise this, the number of distributing bodies (currently 14) will be reduced, and increased public involvement with distributors will be allowed, to take account of public views in making distributing decisions (Department for Culture Media and Sports 2005).

In 1999, the QUEST team (Quality, Efficiency and Standards Team), which was established to investigate the performance and quality of publicly funded bodies, published two reports on the distribution of lottery

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<sup>8</sup> The Big Lottery Fund, the Heritage Lottery Fund, the Millennium Commission, UK Film Council, UK Sport, Arts Council England, Sport England, Arts Council for Northern Ireland, Sport Council Northern Ireland, Sports Council for Wales, Arts Council Wales, Scottish Arts Council, Scottish Screen and Sports Scotland.

revenues (Quest team 1999). It concluded that the distribution process of the National Lottery was too much of a (financial) burden for applicants of relatively small lottery grants, up to €148 thousand. For applicants of larger grants, time, flexibility, transparency and support were issues that were highlighted. These concerns are somewhat similar to the Dutch debate on the distribution of lottery revenues (Schuyt 2004).

Different from the Netherlands is that the percentage of revenues for good causes is not laid down in a law, but negotiated with the operator. Of the total sales of the National Lottery, 50% is prize money, 28% is returned to the good causes, 12% is paid for levies, 5% is returned to the retailers, 4.5% is operating costs, and 0.5% is returned to Camelot plc. In the next paragraph we will have a look to which extent the state and civil society organisations benefit from gambling.

### **3.4.2 The benefiting organisations**

In the UK both the state and the civil society benefit from gambling. The state benefits from taxes and levies from all commercial gambling and this includes also levies from the National Lottery (12% of total sales). Civil society benefits from the revenues from the National Lottery, they benefit from the revenues from local and regional lotteries and bingo, and from betting.

In 2004/2005 the state received an amount of €860 million (£583 million) in taxes and levies from commercial and non-commercial gambling.<sup>9</sup> From the revenues of the National Lottery, in 2004/2005 approximately €2 billion was distributed to the good causes; which was a 5% increase compared to the previous year. In addition to this huge amount of money, several charities received gambling revenues for a total amount of €111 million (£75 million) from regional lotteries, the so-called society and local-authority lotteries (Gaming Board for Great Britain 2005).

In 2004/2005, total ticket sales of the charity lotteries were €205 million. There were 647 registered society and local authority lotteries. Of the ticket sales around €44 million (21 %) went on prizes, around €54 million (26%) went on expenses and the remaining €111 (53%) went to the 'good causes.'

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<sup>9</sup> In the UK the financial year is from March to March.

The majority of the revenues from the National Lottery, 50%, were distributed to organisations in the field of health, education, environment, community and charity. The sports sector, arts and heritage all received 1/6 (16.7%) of the revenues. These percentages have been established by Parliament. The agreed sums are transferred by the NLDF to the individual distributing bodies. These distributing bodies decide autonomously who receives money. Distribution is primarily demand led: organisations can submit applications at the individual distributing bodies. These distributing bodies not only allocate money from the National Lottery, but also other state subsidies. Furthermore, civil society organisations are supported by various initiatives from private operators, such as from BACTA (the trade organisation for the leisure machines industry) that has established a Charitable Fund for good causes. Between 2001-2003, BACTA members raised approximately €315 million (£213 million) (see website of BACTA) Bookmakers make, next to compulsory payments, voluntary donations to the greyhound industry, which amounted to approximately €12 million (£8 million) in 2004. Under new arrangements, bookmakers will pay 0.6% of their turnover (See website British Greyhound Racing Fund).

### **3.4.3 Conclusion**

Until the introduction of the National Lottery the benefits from gambling for civil society organisations were rather limited. Compared to the Netherlands, in the UK there historically is a great private sector involvement and a reliance on gambling taxes for the state. With the introduction of the National Lottery, the gambling shares between private, public and civil society organisations have become more even. The distribution of the huge amount of benefits for good causes covers a wide range of civil society organisations, and is in this respect somewhat comparable to the Dutch lottery market. Civil society organisations furthermore benefit from local and society lotteries and from contributions of the industry. There are, however, also some striking differences compared to the Netherlands, in particular, the lack of shares for international organisations in the field of human aid, development and environment.

### **3.5 Italy**

The Italian state has a key role in the organisation of gambling markets. However, different from the Netherlands, gambling control seems rather weak and the private companies that operate the gambling markets have a considerable financial interest in gambling. The involvement of the Italian civil society in gambling markets is rather weak.

In general the Italian civil society is relatively small compared to the Netherlands (Salamon 1999). In 1999, the Italian civil society represented 3.1% of GNP (compared to 15% in the Netherlands). Furthermore, it represented 3.8% of the total workforce (compared to 14.4% in the Netherlands). In spite of the substantive growth of the civil society workforce between 1991 and 1999 (adding as many as a quarter of a million FTE jobs, which represents a growth rate of 5% per year), the scale of Italian civil society has lagged behind compared to other western European countries.

Civil society organisations have their roots in the social welfare and educational institutions created by the Roman Catholic Church, and in the mutual aid societies created by workers at the beginning of the industrial development of the country (Salamon 2004). In the beginning of the 1980s, budgetary limitations, combined with dissatisfaction with state-run welfare services, led to the establishment of new forms of civil society organisations: volunteer-based associations that refused to be represented by the Church, as well as a variety of new 'social cooperatives'. The public image and legitimacy of Italian civil society is according to Salamon (1999) still strongly connected to traditional institutions, especially the Church, the state, and political parties, and their success depend on their financial autonomy, professionalisation and political legitimacy.

The majority of civil society organisations, 62%, focus on service activities. Among the organisations with an expressive role (35%), cultural, sports and recreation organisations dominate (24%). This is more than the Netherlands (17%), but less than the UK (28%), Sweden (46%) and Hungary (37%). Similar to Sweden, the Italian civil society depends heavily on fees and charges (61%), contrarily to the Netherlands and the UK, that depend mostly on government payments (59% and 47% respectively). A further characteristic of Italian civil society is the absence of umbrella organisations, which highlights a relatively low degree of sector integration.

### 3.5.1 The allocation principles

Contrary to the Netherlands, the Italian law does not allow for non-profit organisations to organise lotteries to raise money for their own organisation or other good causes. The majority of the revenues of all forms of gambling go to the treasury and the operators. However, part of the revenues is transferred to the Ministry for Heritage and Cultural Activities, to the sports sector, including horse racing, and to some smaller cultural and social activities.

In the Italian system there is a certain amount of earmarking. In 1996, Italian Parliament allowed an additional weekly draw of the Italian Lotto, especially for the benefit of '*the restoration and preservation of cultural, archaeological, artistic, archival and library goods*'. The standard draw is on Saturdays and this additional draw is on Wednesdays. In 2001, parliament added landscape restoration to the projects allowed to funding through this lottery (Law 29/2001). The amount earmarked for culture is not a fixed percentage of the revenues. All revenues of the Wednesday draw go to the good causes, with a maximum of €150 million per year. The money is transferred to the Ministry for Heritage and Cultural Activities. This Ministry allocates the lottery resources by triennial plans to various projects.

The revenues from horse racing and sports betting are for UNIRE (horse breeding) and CONI (Olympic Committee) respectively. The Financial Law 2004 has established that in the period 2005-2008 CONI will receive an annual fixed amount of €450 million. Furthermore, this law earmarks 14% of the totalisator game for UNIRE, 2004 approximately €320 million.

There are, different from the Netherlands, no legal provisions for prize payouts or costs. Such percentages are negotiated between the Italian Gambling Board, the AAMS, and the operators, Lottomatica, SISAL and SNAI. The distribution of gross revenues from the *Gioco del Lotto* is as follows: prize pay out is approximately 50%, retailers get 8% and 7% is for Lottomatica. The treasury gets 29% revenues and 6% gambling taxes. The distribution of gross revenues of *Superenalotto*: prize pay out is 38%, 8% is for the retailers, 6% is gambling tax, and around 5% is for the operator SISAL. For the traditional lotteries and instant lotteries, prize payout is 50%, 8% is for the retailers, 12,4% for the operator *Consortio Lotterie Nazionale* and 2% fee for the Gambling Board. For the gaming machines with money prizes, the so-called 'New Slots', 75% is prize pay out, 13.5% is taxes and 11.5% revenue for the operator.

### 3.5.2 The benefiting organisations

The Italian state is the largest beneficiary of gambling in Italy. However, similar to the Netherlands, (parts of) the revenues (and/or taxes) from sports betting and betting on horse races go to the sports sector and the horse breeding industry. Gross turnover of the Italian gambling sector amounted to almost €25 billion (2% of the GNP) in 2004. This meant €7.5 billion in net returns for the state and for the sports sector, horse racing and some minor social and cultural activities (through the national lotteries).

Sport activities are financed through game, bets and pools competition, and amounts to €450 million a year in the period 2005-2008 (AAMS 2005).

The percentage of the totalisator game established in the financial law 2004 for horseracing is 14%, which meant approximately €320 million in 2004.

Part of the revenues from the Italian Lotto is earmarked for restoration and heritage projects, as described in the previous paragraph. In 2003, the categories eligible for funding were extended to 'cultural activities' (instead of only capital projects), which makes among others cinema and performing arts eligible for funding. The maximum of €150 million per year did not change.

Italian civil society organisations (other than the sports and horse racing sector) also benefit from gambling for example through the solidarity campaign "An Euro for a Child" ("*Un Euro Per Un Bambino*"), promoted by the *Bambino Gesù Paediatrics Hospital*, in collaboration with Lottomatica and the Federation of Italian Tobacconists. On all lottery tickets encompassing the logo of the campaign, wagers can check a box to donate one, five or ten euro for the construction of a new children's hospital. Wagers can also choose to donate parts of their winnings, up to €100, or they can donate directly at the tobacconist. The campaign is marketed in national newspapers and on national television and raised over €1,1 million in 2004.

Finally, most private operators have a considerable share, and therefore an interest in the maximisation of, the revenues of gambling. The impression that in Italy only the state has an interest in gambling markets is therefore somewhat misleading. In 2004 Lottomatica achieved net revenues of €585 million and SISAL €186 million. The operating costs still need to be deducted from these amounts.

### **3.5.3 Conclusion**

Although the Italian state has a central role in gambling markets and indeed gets the larger share of the gambling revenues, in practice there is a wider involvement of a range of productive forces that profits from gambling. First, the operators, to which the state has contracted out the exploitation of gambling, have a considerable private interest in almost all forms of gambling. Second, there is some earmarking of gambling revenues for specific causes (culture, sports, horses), and some redistribution from the state and/or operators by means of sponsoring to civil society organisations. Also different from the Netherlands is the comparatively weak involvement of the Italian civil society in gambling.

### **3.6 Hungary**

In this paragraph we will look at the distribution of gambling revenues in Hungary, the central European and new EU member state in our sample. The Hungarian situation is characterised by a combination of state operated lotteries, betting and bookmaking, and the private operation of casinos, gaming machines, amusement centres and promotional drawings. The civil society hardly shares in gambling revenues. As mentioned in the previous chapter, after the ending of the communist regime, a Gambling Fund was established to transfer part of the gambling revenues to civil society organisations. However, in 1995 this Gambling Fund was abolished. We will discuss this in the next paragraph. After that we will focus on the organisations that now benefit from gambling in Hungary. First we will outline the civil society structure of Hungary.

Generally speaking, Hungary has the smallest and youngest civil society of the five sample countries. Hungary has a non-profit share of employment 1.1%, compared to 14.4% for the Netherlands and 8.5% for the UK (Salamon 1999). Compared to other Central and East European countries, however, Hungary has one of the better-developed civil societies (e.g. the non-profit share of total employment in Slovakia in 1995 was 0.9% and Romania 0.6%). After the Law on Associations was adopted in 1989, several Western donors helped developing the Hungarian civil society by offering funding: USAID, FID-UK (British Know How Fund), several funds like Ford Foundation, SOROS Foundation, and some Japanese funds all contributed to the establishment of different organisations. Nearly 40% of all non-profit employment in 1995 was in

the sector of culture and recreation (the latter includes sports). Compared to the European average of 14.4% this is a high percentage. This situation reflects the heritage of the communist past, during which culture and recreation were the only fields of social activity that were encouraged. Only 12% of the organisations are established before 1990 (mostly organisation for sports and recreation). The cultural field is dominated by newer organisations, but they have not attracted the same levels of employment and money as the sports and recreation organisations.

Salamon c.s. (1999) give different explanations for the structure of the Hungarian civil society. First, there always has been a strong tradition of 'oppositional' movements. Second, voluntary organisations have always exerted considerable influence on social and economic policies. And third, in the first half of the 19<sup>th</sup> century, an extensive system of cooperative partnerships emerged between local government and private foundations and supporters co-financing a variety of public welfare institutions.

### **3.6.1 The allocation principles**

As outlined in the previous chapter, in 1991 when the Hungarian Gambling Act was adopted and next to the establishment of the state operator *Szerencsejáték Rt* and the Gambling Board also a Gambling Fund was established. This Fund was intended to distribute part of the gambling revenues to civil society organisations. In the period from 1991-1995 actually 6% from the totalisator and the drawing games was transferred to the Gambling Fund. The organisations that benefited from this were in the fields of health care, social, culture, education, youth and sports. After a strong lobby of the sports sector, in 1993 the Fund was divided into two separate funds: the National Game Fund and the Sports Fund (for sports and horse racing). A council of experts from each field, charged by the Minister of Finance, allocated the grants.

The Sports Act currently prescribes which percentage from the gambling revenues has to go to sports. This is 12% of the drawing games, 50% of bookmaking and the complete game tax of the Toto games. These revenues are managed and distributed to sports organisations by the Ministry of Interior Affairs and the National Sports Bureau.

Gambling tax has been a topic for discussion in Hungary. Different from the Netherlands, the amount of gambling tax in Hungary is not the same for all gambling games (Gaming Board of Hungary 2005). In 2004, the state decided to raise the percentages of gambling tax. The gambling

tax for lotteries went from 17% to 24%. Taxes on scratch cards have been reduced from 27% to 12%. This made it possible to raise prize payout from 44% to 60%. The only state revenues on casinos (€40 million returns in 2004) and slot machines (€278 million returns) come from taxes (€13 and €136 million respectively).

### **3.6.2 The benefiting organisations**

In the period from 1991 to 1995, health care, social, cultural, educational and youth and sports, all benefited to some extent from gambling through the grants from the Gambling Fund, and, after 1993, from the National Game Fund and the Sports Fund. Since the abolishment of these Funds, the gambling revenues go directly to the treasury, with the exception of an earmarked percentage for sports and the private revenues of casinos and gaming machines.

In 2004 the Hungarian state received in direct returns €272 million from the lotteries (€246) and betting games (€26). The taxes yielded €245 million gambling taxes and €42 million personal income taxes. The gambling taxes are primarily generated by slot machines (€136 million) and drawing games (€89 million). Personal income tax is primarily generated by the lotteries (€35 million). There are some additional revenues to the state. The Act on the State Budget 2004 prescribes that the Gambling Board has to pay an amount of €8.16 million into the state budget. The Hungarian Gambling Board furthermore has the power to sanction license holders that deviate from the rules. Fines imposed to operators of gaming machines, amusement centres and promotional drawings are also a source of income to the state. In 2004 this was an amount of €1.5 million.

From the state revenues about €82 million was redirected to sports, on the basis of the sports act. Since 1995 the rest of the civil society has no more obtained revenues from gambling directly. Although civil society representatives in some cases strongly disagree with this backwash and the current distribution policy, they also seem to accept this resignedly as a fact of life.

Similar to the Italian solidarity campaign of Lottomatica, Szerencsejáték has some activities regarding donations, support and sponsoring. During the middle of the 90's, the state operator issued some scratch tickets with a charity purpose. The tax had to be paid to the specific charity instead of to the state budget. According to the Hungarian

Gambling Board, this was terminated due to problems that occurred with the control. In 2005, Szerencsejáték has made arrangements to put some areas in a number of hospitals at the disposal of a network of disabled persons, to sell lottery tickets from there. Current legal arrangements make it impossible for Szerencsejáték to donate part of its revenues directly to non-profit organizations, but 1% of annual turnover, goes to charity (health, sports, culture). Applications from charity organizations are directly submitted to Szerencsejáték, where a special Charity Committee decides on who gets what and how much.

### **3.6.3 Conclusion**

After 1995 the Hungarian civil society has not shared in (the growth of) the gambling markets, except for a constant share of the sports sector. This preference for sports in part reflects the communist past. The relatively small share of the civil society is a major difference with the Netherlands. And while the Hungarian state apparently seizes the revenues of lotteries and betting, it only gains revenues from casinos and gaming machines through taxes. This seems somewhat contradictory.

## **CHAPTER 4**

### **The European context of lottery markets**

#### **4.1 Introduction**

This chapter deals with the third research question. We will discuss the international, in particular the European, relations and processes in the development of gambling markets. In the previous chapters we have seen that in all the sample countries the regulation of gambling was considered to be a national responsibility and that gambling markets to a considerable extent are nationally protected. At the same time, however, the national gambling markets to a greater or lesser extent, and in various respects, were liberalised and expanded significantly. In this chapter we will analyse how the EU relates to this contradictory development. Recently, in the context of the service directive, the regulation of gambling in the EU has become a serious topic of debate. In February 2006 the European Parliament decided that gambling would be excluded from the scope of the service directive. This means that it has become unlikely that the EC will pursue the harmonisation of gambling markets. However, the EC insists that EU members comply with the EU Treaty, and has therefore started infringement procedures against a number of member states for restricting the supply of sports betting services.<sup>10</sup>

The composition of this chapter is different from the preceding chapters. This chapter is not composed around the five member states of our sample. Instead we will look at various scale-levels in the governance of gambling in the EU. In this multi-level governance approach (Hooghe 2001) we will first focus on the regulatory level of the EU, and discuss the responses of the EU to the liberalisation, technological innovation and expansion of national gambling markets. Second, we will focus on the national level of gambling regimes, and discuss the responses within the five national gambling regimes to the European developments. Finally, we will focus on the organisational level of international organisations in the field of gambling, in particular regarding operators and regulators.

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<sup>10</sup> See EC press release IP/06/436, 'Free movement of services: Commission inquires into restrictions on sports betting services in Denmark, Finland, Germany, Hungary, Italy, the Netherlands and Sweden,' April 4, 2006.

## **4.2 The European Union**

The EU is emerging as a new regulatory force in the field of gambling. The recent decision regarding the service directive does not imply that gambling is excluded from the single market. Operators from abroad are increasingly entering national markets, in particular by way of the Internet. The jurisprudence of the European Court of Justice (ECJ) plays a crucial part and puts pressure on the European Commission (EC) and on national jurisdictions. We will start this paragraph with discussing the EU policies regarding gambling. Subsequently we will have a closer look at the jurisprudence by the ECJ.

### **4.2.1 Gambling and the internal market**

In 1991, in the context of the European strive towards a single market, the EU ordered a study on the desirability of European regulation for gambling markets (Commission of the European Communities 1991; Beckers 1992). The next year, at the EU summit in Edinburgh, the European council of heads of states and prime ministers decided that, based on the outcomes of the study and on the principle of 'subsidiarity,' that gambling markets were not suited for harmonisation on the European level. From 1992 onwards 'subsidiarity' became the political paradigm for regulating gambling on the level of the EU. It means that as long as the national regulation of a particular market is regarded as more effective and efficient, the EU will not interfere. Consequently the EC always has to give convincing arguments as to why a market is better regulated at the EU than at the national level.

The idea that the regulation of gambling is best served at the national level has been put into question in the context of the 'service directive,' based on articles 43 and 49 of the EU Treaty. In 2004 the EC proposed the service directive in order to eliminate the obstacles to the freedom of establishments for service providers and the free movement of services between the member states. This directive will give both the providers and the customers the legal certainty they need to exercise these two fundamental freedoms of the EU Treaty.

Most crucial (and controversial) to the service directive was the country of origin principle (Commission of the European Communities 2004), which implied that member states are not allowed to restrict services from a provider established in another member state. This in turn could lead to 'regulatory competition' between the member states. Regulatory competition occurs when member states adapt their

regulations to the country with the most lenient prescriptions, in order to prevent service providers from moving out or to attract providers from abroad.

The crucial issue in the debate on gambling and the service directive was whether or not gambling should be regarded as an ordinary, normalized, 'product' or 'service', to which no special restrictions apply. However, European Parliament considered gambling not in all cases or circumstances to be a completely normalized service. As a result of the exclusion from the service directive, it is not likely that the EC will come with proposals on harmonisation of gambling markets.

In relation to the service directive the EC commissioned a research to investigate the barriers in the 25 member states of the EU for harmonisation of gambling markets. The goal of this study was: *'to assess whether each of the existing barriers imposed by the laws of the Member States to restrict free movement of gambling services in the Internal Market could be held to be justifiable according to existing principles of European Law'* (Sychold 2005).

Obviously, if harmonisation of gambling were to become a reality, the continuation of national gambling monopolies would become impossible. Since gambling markets will be excluded from the service directive, real market harmonisation has, in the short term, become unlikely. However, a legal dimension accompanies this political dimension. The jurisprudence of the ECJ on the issue is expanding and puts pressure on the EC and on national jurisdictions.

#### **4.2.2 Gambling and the European Court of Justice**

The freedom of establishments for service providers and the free movement of services have been a reason for some member states to ask the ECJ for a pre-ruling, to find out whether or not their national legislation is compatible with European law. In three key judgments, Schindler, Laara and Zanetti, it seemed that national monopolies were not endangered by article 43 (freedom of establishment) and 49 (freedom of services) of the EU Treaty. We will explain this briefly.

In 1994 in the Schindler case, the ECJ had to decide whether the UK could keep out advertisements and tickets from German lotteries. The ECJ held that given the peculiar nature of lotteries, even though they are considered 'services,' the UK could restrict or prohibit lotteries from other Member States, provided that those restrictions were not discriminatory on the basis of nationality. At the time, the UK still had a general

prohibition of nation wide lotteries. In 1999 the Schindler case was extended by the Laara case. The Finish state prosecuted mister Laara who was, on behalf of a British company, operating slot machines without a Finish license. Where the Schindler case concerned services (i.e. the lottery), this case concerned goods (i.e. slot machines). The ECJ ruled that the Finish law was not discriminating against non-Finish residents, and that Finish law in this case was consistent with European law. Also in 1999, in the Zanetti case, the Italian state asked the ECJ for a pre-ruling. Zanetti accepted bets on sports by fax and Internet as an intermediary for the British company SPP. Again, the ECJ ruled that the Italian state was entitled to restrict the operation of betting on sports. In both these cases the ECJ ruled that the considerations set out in the Schindler case were applicable to other forms of gambling.

The leading principle is that in these cases national restrictions are justified because of the special nature and features of the gambling products and services, and the public interest considerations such as prevention of fraud and crime. Hence, the ECJ observed that national gambling regimes should be assessed by reference to their own objective (Golderos 2005). If these objectives are effectively pursued, any restriction could lawfully be an exception to the community freedoms.

The first case involving gambling via Internet was in 2003 the Gambelli case. This case is generally considered a landmark case. The Italian judge asked for a pre-ruling from the ECJ in the case of Gambelli and 137 others, who acted as an intermediary for the UK licensed bookmaker Stanley International Betting. The Italian court raised questions regarding the 'proportionality' of the adopted policy (repression of crime) and the objective pursued (condemning Gambelli). The Italian court also suspected that there could be a contradiction between the national monopoly on the operation of betting and the expansive marketing aimed at increasing the funds for sports and horse breeding (Verbiest 2004). In this case about Gambelli the ECJ decided that the national court should determine whether restrictive

*'...legislation, taking account of the detailed rules for its application, actually serves the aims which might justify it, and whether the restrictions it imposes are disproportionate in the light of those objectives'* (European Court of Justice 2003).

The Gambelli case stressed that national courts have to decide upon the issue and that restrictions, in particular national monopolies, on gambling markets have to be 'proportionate.' The Gambelli case has been

interpreted in various and even opposite ways (Ringelstein 2004). The proponents of market liberalisations concluded that bookmaking could be part of the freedom of establishment and services. Others, those in favour of gambling monopolies, concluded that governments are indeed allowed to prohibit foreign betting sites.

According to the advocate-general Alber of the ECJ, the Italian monopoly on sports betting failed the required justifications on the grounds of public interests (Verbiest 2004). Although the ECJ not formally concluded that the Italian state was infringing the freedoms of the EU, the court seems to have restricted the margins of national authority. This could possibly necessitate the harmonisation of national legislation in the field of gambling. However, others claim that harmonisation is neither necessary nor adequate, because the public interest is differently defined in all member states (Vlaemminck 2005).

#### **4.2.3 Conclusion**

The EU indeed emerges as a new regulatory framework for gambling markets, but not because gambling has become the subject of market harmonization. Gambling was excluded from the service directive. However, gambling is part of the internal market and the EC insists on compliance with the EU treaty. The debate has also moved from the political issue of 'subsidiarity' to the legal issue of 'proportionality.' This means that national restrictions (i.e. monopolies) are only allowed if the restrictive policies are convincingly applied. It is precisely regarding this point that the national market liberalisations and expansions, as discussed in chapter two, may be at odds with the European legal framework. The consequences of European regulations therefore depend in part on the national responses.

#### **4.3 National jurisdictions**

It is important to include the national level in any analysis of European developments, because national regimes both influence the EU and manage the consequences of European policies in the field of gambling. There are clear differences in the extent of international involvement and in the positions taken by the gambling authorities and operators in the five EU member states of our sample. In this paragraph we distinguish between foreign competition on national markets and the national responses to European developments.

### 4.3.1 International competition

The Dutch gambling sector clearly experiences foreign competition, also via Internet. In 2004 total expenditure on foreign gambling games in the Netherlands was estimated at €67 million (Vermeer 2005). The majority of the foreign games in which the Dutch participate are German lotteries (84%). Participation still mostly takes place by mail, although participation in Internet games is increasing (11%). Recently, the Ministry of Justice decided to take hold of illegal gambling via Internet, after over 450 illegal games and 200 portals offering digital gambling were traced (Korps Landelijke Politiediensten 2003). In addition *Holland Casino* will be given an experimental monopoly on Internet gambling for a period of two years. Similar experiments are taking place in Italy and Hungary. The Hungarian state announced the first state organised game, playable exclusively via Internet, to be presented in 2005 (Gaming Board of Hungary 2005). The Italian state also intends to run some experiments. The Italian Gambling Board is currently investigating the possibilities for experiments with games on mobile phones and television.

The Swedish market also experiences foreign competition. Unibet opened an office in Stockholm in 1997. Although the Lottery Act prohibits foreign operators to advertise their products in Sweden, international companies like Ladbrokes and Unibet are widely present in Swedish mass media, which has led to several law suites against national newspapers. Unibet, Expekt and other UK bookmakers also actively advertise their products on television. Most of these channels are broadcasted from the UK (Cisneros 2005). In 2004 in Sweden estimated sales for Internet-based international operators were €0.6 billion (Svenska Spel 2005). This foreign penetration of the market forced the state operator *Svenska Spel* to increase its budgets for advertising.

In Hungary, according to the Hungarian Gambling Board, there have so far been two companies that have offered gambling via Internet, which was explicitly directed at Hungarian citizens. Since this concerns a criminal activity under Hungarian law, the Hungarian Gambling Board has attempted to track these companies down. After inquiries at the British Ministry of Culture, Media and Sports, it appeared to be an English registered operator Sporting Bet and a Gibraltar based operator Bet and Win. The Hungarian Gambling Board has taken no legal steps against these operators and has no clue as to the amount of Hungarian money involved.

### 4.3.2 National responses

Gambling authorities as well as operators from EU member state are in several cases actively resisting operators from other member states. In the Netherlands, the Dutch Lotto organisation (SNS) recently won an important lawsuit against the British bookmaker Ladbrokes (Rechtbank Arnhem 2005). In this long-standing dispute with Ladbrokes the Lotto claimed that Ladbrokes violated Dutch gambling law by offering betting games to Dutch citizens. Ladbrokes in its turn claimed that by granting a monopoly on betting to the SNS Dutch law violated article 49 of the EU Treaty on the freedom of services. In August 2005 the Court of Arnhem ultimately decided, in reference to the Gambelli case, that the exclusive right of the Lotto did not violate the EU Treaty, and that Ladbrokes therefore had to bar Dutch citizens from betting on its sites.

This case not only makes clear that national governments are allowed to protect gambling markets. It also makes clear that this protection in fact depends on the national gambling policies. In a pre-judgement in this particular case the court of Arnhem explicitly ordered the Dutch government to provide a convincing account about the credibility of Dutch gambling policies, which according to Ladbrokes had become increasingly liberalised. In response the Dutch minister of Justice wrote that after 2003 Dutch gambling policies had become far more restrictive than might be expected on the basis of Dutch gambling policies in the foregoing years. This whole procedure makes clear that in the context of European law liberalisations in national gambling regimes itself pose a threat to the gambling monopolies. In a way these monopolies may paradoxically become ruined because of their own success. A recent ruling of the Court in Breda (Rechtbank Breda 2005), this time concerning the position of Holland Casino, reaffirms this: the *Compagnie Financière Regionale* referred to European rules against monopolisation in case against the Dutch state, after the Dutch ministry of Justice and the ministry of Economic Affairs refused to award a license for exploiting a casino. Again, the state is commissioned by the Court to prove that the policy of assigning a monopoly position to Holland Casino is consistent and systematic. A similar case was recently addressed by the *Bundesverfassungsgericht*, which decided in a case against Oddset that also in Germany restrictive measures are not always effected and contradict the Gambelli criteria (Bundesverfassungsgericht 2006).

In Sweden foreign companies that seek to penetrate the Swedish gambling market are also actively resisted. Following a decision of the Supreme Administrative Court of Sweden in 2004, foreign companies are no longer allowed to have any campaigns or ads in Swedish media. In December 2004, as a reaction on the Gambelli case, *Svenska Spel* decided to cut back their marketing budget by 20%. In 2005 the Swedish Supreme Court also ruled that Ladbrokes was not allowed to offer Internet gambling in Sweden. Due to the increased offer of foreign operators, in 2004 the Swedish government started an investigation to develop a proposal on how Swedish regulation can be improved in relation to technological and international developments (Svenska Spel 2005).

In Italy the Strategy department of the Italian Gambling Board (AAMS) has set up an International Gaming Observatory to study and monitor the international gaming market, in terms of regulation, taxation and marketing to '*defend or develop the national market*' (AAMS 2005b). Although the Italian government prefers national regulation of gambling markets, this makes clear that the AAMS is currently evaluating its position on harmonisation.

An example of regulatory competition can be found in the case of the UK, which experienced revenue loss from the UK licensed bookmakers that had moved to Gibraltar, Malta and other places with favourable tax conditions. In an attempt to get the bookmakers back, the British government announced to eliminate the tax on bets (6.75%) and to replace it with a new tax of 15% on the gross profits of bookmakers (Nelson Rose 2000). The licensed bookmakers would be required to return to the UK. Operators who refused would not be allowed to advertise in the UK.

Within the various EU member states we do not find uniform positions regarding market harmonisations, and not all positions on this issue are equally developed and clear. In the Netherlands there are different and opposite views in the debate on harmonisation. The Ministry of Justice states in its third progress report on gambling policies that the gambling market should be protected because it should not be treated as an ordinary economic market (Ministerie van Justitie 2005). The Dutch gambling board also believes that the (national) control of gambling markets should be the major policy objective, and not the increase of gambling revenues. As we have seen in the Netherlands the Lotto and Sports Toto organisation (SNS) clearly opposes and actively resists foreign competition and market liberalisations on the level of the EU. The National

Good Causes Lotteries (NGCL) favour harmonisation in the field of lotteries, provided that this improves the options of civil society organisations in other member states to participate in lotteries and to share in the revenues. This would imply a legal status for good causes lotteries, in which a fixed percentages of the returns should be for the good causes and independent bodies should arrange the distribution of these revenues. The NGCL also maintains, and this is similar to many other lottery organisations, that in European gambling policies the low-risk lotteries should be clearly distinguished from the high-risk gambling games.

In particular in the UK we find explicit and clear advocates of market harmonisation on the level of the EU. These advocates (for example European Betting Association; eba.com) usually stress the benefits for the consumer. They compare betting to for instance the sectors of telecommunications and power supply. The European harmonisation of these markets has given consumers the benefits of lower prices and a wider choice of products and suppliers. The high revenues for the state (in taxes) are also used as an argument for the harmonisation of betting markets. The Association of Remote Gambling Organisations (ARGO) stresses that the restrictions on gambling are primarily meant to protect domestic gambling providers and tax revenues, while increased betting would in fact lead to higher tax revenues for the state (ARGO 2005).

#### **4.3.3 Conclusion**

All member states of our sample, and most likely all EU member states, experience competition on gambling markets from operators of other EU members. International competition is not new but is accelerated because of the use of high tech media like mobile phones and most significant the Internet. What is new is that this competition takes place in the unclear regulatory framework of the EU. The responses in the five member states are still 'under construction' but vary from proponents of harmonisation to defensive responses. What is becoming clear is that the current EU regulations and jurisprudence reinforce restrictive policies, if national regimes want to maintain the protection of their markets.

#### **4.4 International organisations**

In this paragraph we will look at the organisational level of international relations. In anticipation of, and as a reaction on, European developments, regulators and operators, participate in various international organisational networks. Three types of networks seem particularly relevant, networks of regulators the Gaming Regulators European Forum (GREF), networks of operators like European Lotteries (EL), and a network regarding knowledge and research, the European Association for the Study of Gambling (EASG). We will briefly discuss these networks. Following this we will also highlight the emerging forms cooperation between operators in offering games together.

##### **4.4.1 European organisations**

In 1989, the Gaming Regulators European Forum (GREF) was established, on the initiative of the Gambling Board for Great Britain and the former Board for Casino games in the Netherlands. The regulators from six European countries met for the first time to discuss gambling regulation in several European countries. Today, the GREF consists of representatives from gaming regulatory organisations throughout Europe. The objectives of GREF, according to its constitution, are both to provide a forum for gaming regulators and to represent, on special occasions, the views of European gaming regulators. Regulators from different countries participate in working groups on technical issues, information and statistics, problem gambling and illegal gambling. Common standards are defined and best practices are copied from each other. Our sample countries are all members of GREF. Hungary and Sweden were the latest to join GREF, they became members in 1993 and 1995 respectively.

European Lotteries (EL) is an important but only one of several organisational networks of gambling operators in Europe. There are for instance similar organisations for casinos and gaming machines. EL has a dual objective comparable to GREF. It not only wants to construct networks and share information but also wants to exert influence. EL takes in particular position against the liberalisation or harmonisation of gambling markets. EL states that *'... it's clear that liberalization will cause very serious social problems and will increase the possibility of gambling addiction'*(European Lotteries 2004). EL was founded in 1999 and is a cooperation of state lotteries and totes within Europe. Although EL is against market liberalisation and in favour of national lottery monopolies,

some of the members are, as we will point out in the next section, already cooperating and jointly offering lottery products.

Another form of networking takes place in the conferences of the European Association for the Study of Gambling (EASG). This association offers a forum to discuss and exchange ideas related to gambling. A wide range of stakeholders, such as regulators, operators, suppliers, researchers and others, attend its conferences. The EASG aims to be a forum for the systematic study, discussion and dissemination of knowledge about all matters relating to the study of gambling in Europe. In recent years problem gambling and responsible gambling played a central role in the debates of EASG.

#### **4.4.2 European gambling games**

Of our sample countries the British operator of the National Lottery, Camelot, participates in the first European lottery called *Euromiliones*. This lottery was started by Camelot, les *Française des Jeux* (France) and *Loterias y Apuestas del Estad* (Spain), with the first European draw in February 2004. Currently nine countries participate.<sup>11</sup>

The licenses of the Dutch operators explicitly prohibit such international activity. In 2004 the Dutch Lotto and Sports Toto organisation (SNS) tried to participate in *Euromiliones*, but the Dutch state didn't allow this (De Lotto 2005). Novamedia, the company that developed the format of the Postcode Lottery, recently launched a (regional) Postcode Lottery in the UK, and a national Postcode Lottery in Sweden, Svenska Postkodlotteriet. The Postkodlotteriet will cover the whole of Sweden, and it will cooperate with TV4, a big national (commercial) television station. The license to organise the lottery has been issued to three big Swedish non-profit organisations united in *Ideell Foreening*.<sup>12</sup> Notable is the fact that the beneficiaries are all internationally operating NGOs.

Another example, also in Sweden, shows that international cooperation between beneficiaries can take different forms. In 2002 the Spanish operator ONCE decided to help the Swedish Union for the blind (*Synskadades Riksförbund*), when Ideella Spel suffered from increasing

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<sup>11</sup> France, UK, Spain, Belgium, Luxembourg, Switzerland, Portugal, Ireland and Austria.

<sup>12</sup> World Wide Fund (*Världsnaturfunden*), The Children's Cancer Foundation (*Barncancerfondens*), and Save the Children (*Rädda Barnens*).

competition from Svenska Spel. Today, ONCE still has a share of 70% in Ideella Spel.

Svenska Spel is also exploring options for international cooperation. In 2005 Svenska Spel announced the establishment of a new business area, called Svenska Spel International, which focuses on commercial cooperation with state controlled or regulated lotteries and gaming operators in Europe. Svenska Spel already offers together with Norway, Iceland and Finland, a lottery game called Viking Lottery.

The Italian state does not participate in international lotteries or other gambling forms. However, in 2001 Lottomatica acquired a 50% stake in the Spanish bingo leader, Global Bingo Corporation (GBC) (Unknown journalist 2001). Meanwhile, however, Lottomatica has sold this interest already.

#### **4.4.3 Conclusion**

On the European level there are clearly organisational network structures emerging in the field of gambling. These networks include operators, regulators and researchers. These networks are highly relevant for developing market standards and influencing (European) regulation. In addition also specific European games and forms of corporate cooperation are being developed. These initiatives express European integration in the field of gambling but also highlight major differences in the opportunities and constraints of national gambling regimes.

## **CHAPTER 5**

### **Conclusions: The liberalisation and differentiation of European lottery markets**

#### **5.1 Introduction**

In this chapter we will answer the research questions. Since this is a pilot study that represents an exploratory investigation, the answers will have the status of hypotheses and new or more detailed questions, rather than clear and complete answers. This study will also hint at possible future directions regarding gambling and the development of lottery markets and the distribution of revenues, rather than offer explicit prognosis and well-developed scenarios.

In the preceding chapters we have tried to determine in which ways and to which extent national gambling regimes of the EU members experience liberalisations, how gambling and in particular lotteries relate to the civil society, and also how the European level affects national gambling regimes. We have explored these questions in five case studies: the Netherlands, the UK, Sweden, Italy and Hungary. The idea behind this selection was to compare contrasting cases within the EU. We can conclude that within this sample we have indeed found, besides a range of minor differences, a variety of structural contrasts in gambling regulations and market developments.

The most important restriction of this study obviously is the limited sample of countries. Because of the range and extent of the differences, we believe that it is not accurate to consider this study as representative for the entire EU. However, the study offers a set of indicators that could very well be applied to other countries as well. We also believe that an approach with regional clusters seems promising, i.e. comparing Eastern and Central European, Mediterranean, Nordic and Atlantic countries. In our comparison the Netherlands served as a benchmark case. This was because it is tricky to define in advance absolute standards for market 'liberalisations' or the 'involvement' of civil society organisations. However, this approach unmistakably leads to a certain 'ethno-centric' bias, in the sense that what counts as 'liberal' from the Dutch perspective may very well pass as 'restrictive' in Italy. A further characteristic of the benchmark is that the research for the Netherlands has been more extensive than for the contrasting cases. In this respect all of the case studies could easily be further developed and validated, regarding notably

specific market segments and lottery organisations, the reasons and legitimations for regulations, the involvement of civil society organisations, and the development of organisational networks on the European level. The pilot study points in the general direction that the four contrast countries, as outlined below, can be tentatively classified with respect to two dimensions: market liberalisations and regulatory complexity.

		<b>Degree of regulatory complexity</b>	
		<b>High</b>	<b>Low</b>
<b>Level of market liberalisation</b>	<b>High</b>	United Kingdom	Italy
	<b>Low</b>	Sweden	Hungary

The pilot study has substantiated the initial impressions that gambling markets and policies have been liberalised in the recent past. Furthermore, the social and economic significance of gambling, and the benefits of lotteries for the state and the civil society in particular, have increased tremendously. Finally, the EU indeed emerges as a new level of regulation in the field of gambling. The study not only substantiates these European developments, but also offers analyses of the variations, the dynamics and the processes that are relevant for explaining and understanding the (differences in) developments that occur on various gambling markets. Following the initial research questions, it is to these considerations that we will now turn.

## **5.2 Similarities and differences**

In chapter 2 we have seen that during the 1990s and the recent past, in all of the sample countries gambling markets have been liberalised. However, the nature and extent of the liberalisations and the liberalisation processes are not equal in these countries. In order to analyse the similarities and differences we distinguish, following Hay, between 'common trajectories' on the one hand and processes of 'convergence' and 'divergence' on the other (Hay 2004) (see also Overbeek, 2005).

In the case of a common trajectory two (or more) regimes move into the same direction. Liberal and conservative gambling regimes can both be characterised by an increasing significance of market forces; i.e. by a common trajectory be it to a different extent. In the last case we speak of divergence.

### **5.2.1 Markets**

We have seen that all sample countries are characterised by the common trajectory of market liberalisation. In the benchmark case, the Netherlands, liberalisation included the extension of gambling legislation enabling more products to be exploited. The liberalisation also included spectacular market growth, increasing competition, market differentiation, product innovation and marketing expenditures. After 2000, however, in the Netherlands the spectacular market expansion came to an end and many liberalisation initiatives were dropped or postponed. There were also serious backwashes on the Dutch gambling markets, notably related to concerns over increasing market competition and problem gambling related to gaming machines and casinos.

In the five contrast cases, liberalisations also included the introduction of new forms of gambling and spectacular market growth. But, as we have seen, at the same time there are serious differences with respect to the popularity of types of gambling, the moments of introduction, the extent of innovations and the extent of speed of growth. In Sweden and in the UK betting is for instance far more popular than in the Netherlands. In its turn lottery markets and casinos are comparatively early and well developed in the Netherlands. And regarding the popularity of good causes lotteries the Netherlands stand out as pretty unique. Different is also that the backwashes that occurred in the Netherlands did not, or not yet or to the same extent, happen in the contrast cases. In Sweden liberalisation and market expansion seem to continue. In particular Sweden and the UK readily adopted Internet and mobile phone gambling, whereas the Netherlands and the other contrast cases seem reluctant or lagging behind in this new market segment. Remote gambling is a market in which divergence rather than convergence seems to emerge. This, however, must be regarded as a soft hypothesis, since product innovation and regulatory innovation are only recently and rapidly developing.

In the overall range of market segments there is a clear convergence over the case studies. While a few decades ago certain market segments were lacking in particular cases, like national lotteries in the UK, and gaming machines and casinos in Sweden, Hungary and Italy, these segments are now part of the national gambling regimes in all of our national cases. This convergence is not complete since for instance in the Netherlands the commercial exploitation of bingo is not allowed. Although, as mentioned above, there remain big differences in the relative size of the various market segments, a rather solid hypothesis would be that within the EU convergence emerges regarding the increasing differentiation of market segments and product variations on domestic gambling markets.

### **5.2.2 Regulations**

Considerable differences and even divergence emerges if we look at the models of gambling regulation in the sample countries. This concerns in particular the controlling power of the state. The benchmark case, the Netherlands, is in this respect better compared to the UK and Sweden than to Italy and Hungary, although there remain serious differences of degree. In these three countries we find a rather complex or *multi-dimensional* regulatory model. This multi-dimensionality is on the one hand characterised by a separation between gambling legislation and gambling control, and on the other hand characterised by differentiations in the modes of operation, like private, state or civil society involvement in the operation of gambling. In contrast, in Italy and Hungary we find a more simplified or *one-dimensional* regulatory model in which the operation of gambling markets is concentrated by the state, which may decide to contract out the operation to private or other parties. This brings about a more one-sided development of gambling markets in which all gambling operations are more or less perceived as similar by nature, and the state primarily judges the market developments in terms of the financial returns for the treasury.

However, this dichotomy in regulatory models is more diverse in the practise of our sample countries. In practise we find mixed or hybrid regulatory models, and also variations in the application of these models on market segments. This is for instance relevant for lotteries, which are to a large extent defined by the overall gambling regimes. In the UK we find in general a complex regulation of gambling markets, but for the

introduction of the National Lottery the more simplified model of a state monopoly was adopted. This is, as we have seen, in sharp contrast with for instance the Dutch lottery market, which is more diverse and where in particular civil society organisations are more equally represented. Relevant for lottery markets is also the distinction between high-risk and low-risk forms of gambling, which in the Netherlands, the UK and Sweden is to a certain extent characteristic for gambling policies but not in Italy and Hungary. Although the differences between and within regulatory models for gambling can be considerable, both models enable market liberalisations. Our hypothesis would be that divergence in regulatory models might occur between the member states of the EU, while liberalisations are carried through. The general trend, however, points in the overall direction of increasing complexities in the regulation of gambling organisations.

A major question of course is how we can account for (the continuation or even amplification) of the differences. In a superficial explanation it is perhaps tempting to ascribe the differences in popularity of games, market size and regulatory prescriptions to differences in 'national cultures.' For this we can think of the comparatively great popularity of sports betting and horse race betting in Sweden and the UK or the longstanding popularity of the Italian and Dutch lotteries. However, that 'cultural differences' rather appear secondary, or only indirectly related to the differences between national market developments, can be derived from the fact that once certain types of gambling, which were not previously present, are introduced on the market, these games tend to be quickly absorbed in the various national cultures. Clear cases in point are the relatively late introduction of a national lottery in the UK and the relatively late introduction of gaming machines, casinos and bingo in Sweden, Italy and Hungary. In this respect the hypothesis would be that the comparatively late development of these markets not so much reflects cultural preferences among the population, but rather relates to the dissolution of institutional blockades.

Precisely because of the tight state control over gambling markets, the development of these markets is to a considerable extent influenced by the supply-side of the market (Kingma 2002). This means that institutional arrangements, historical developments and political cultures play an important role in understanding and explaining the differences. The development of gambling markets is in this case characterised by

'path-dependency' and by 'co-evolutions.' Path-dependency means that certain developments depend on earlier decisions and developments. 'Co-evolution' means that gambling markets are developed next to other organisational and institutional developments. Liberalisations are generally part of a wider set of societal transformations, for instance like those related to deregulation policies. And once certain types of gambling are established, this may in its turn influence the options, constraints and evolutionary trajectory of other types of gambling. For these reasons, the popularity of certain types of gambling does not only have to point at cultural preferences for particular games. It can also point at the organisational power of the driving institutions behind markets, like for instance the sports sector or other types of public benefits and good causes.

### **5.3 The distribution of revenues**

In chapter 3 we have discussed the role of the state and the civil society in the distribution of gambling revenues. We have seen that gambling markets and in particular lotteries are connected to the wider society in divers ways. The state generally not only holds controlling power over gambling, as discussed in the preceding paragraph, but also shares in the revenues of gambling and has a role in the redistribution of the revenues. Private and civil society organisations can also have an interest in the operation of lotteries as well as in the distribution of the revenues. Private organisations in some cases operate gambling enterprises on behalf of the state and in other cases get a share in the revenues. Civil society organisations are in some cases also involved in the operation of gambling and in other cases share in the revenues via the redistribution by the government or specific funding organisations.

The involvement of state, private and civil society organisations in the distribution of revenues entails a risk of substitution effects, in which gambling revenues cover causes that were previously taken care of by the state. It seems that a close political involvement in the distribution of the revenues makes substitution effects apparent. As we have seen, in particular in the UK this has led to significant debate over substitution in the case of the National Lottery (Reith 2002).

Because of the spectacular market growth, the social and economic importance of gambling for the wider society has increased considerably. However, the shares in gambling of the divers types of productive

relations are not equal in our sample countries of EU members. Regarding the connections with the wider society and the distribution of revenues we will distinguish between 'common trajectories' and processes of 'convergence' and 'divergence' (Hay 2004), just as, and partly related to, in the case of the national gambling markets and regulations we discussed in the preceding paragraph.

In our benchmark case, the Netherlands, gambling is clearly connected to the wider society in diverse ways. All kind of productive relationships profit from gambling: gaming machines contribute to the private sector; casinos and the State Lottery contribute to the state; and the Lotto and the National Good Causes Lotteries all contribute directly or indirectly to civil society organisations. The Dutch state also shares in the revenues by gambling tax or VAT. In the field of lotteries there even is a fairly even share between revenues for the state and revenues for the civil society. This relates in particular to the expansion of the lottery sector with the National Good Causes Lotteries.

In the sample countries, the involvement of different types of organisations and the distribution of revenues also includes a wide range of productive relations. At the same time, as we have seen, there are serious differences with respect to the relative share of the various types of organisations and the market segments they are involved in and benefiting from. In Sweden and the UK the civil society also benefits to a considerable extent from lotteries, although to a lesser extent than in the Netherlands. In Italy and Hungary the private sector involvement in gambling is much bigger than in the Netherlands (and also Sweden). In particular in Italy there is a considerable hidden (behind the back of the state) private interest in gambling markets, because of the comparatively large shares of the operators, like for instance Lottomatica in the case of the *Gioco del Lotto*. By contrast, the civil society in Italy and Hungary does share to a far lesser extent, and only through the redistribution mechanisms of the state, or through campaigns within the frameworks sponsoring and of Corporate Social Responsibility actions of operators or regulators, although it is not completely excluded from the benefits of gambling. For the shares of the civil society in gambling markets divergence rather than convergence seems to emerge in our sample of countries. This, however, must be regarded as a soft hypothesis, since the outsourcing policies in Italy and Hungary and the civil society initiatives in Sweden and the UK are only recently and rapidly developing. In this respect various future directions are still open.

However, in the overall range of productive relationships on gambling markets there appears to be convergence over the case studies. While, just as in the case of certain market segments, a few decades ago certain types of productive relationships were lacking in particular cases, like the private involvement in the Netherlands and Sweden or the civil society involvement in the UK, these types of productive relations are now also involved in gambling markets and at least not principally excluded. The relative small part of the civil society in Italy is caused by the outsourcing policy, which primarily includes private organisations. In Hungary this is caused by the central role of the state. NGOs only receive a small part in the redistribution processes as managed by the state. This effect is partly related to the regulatory model of these countries, in which the state itself is responsible for gambling operations and gambling policies are primarily motivated by the (state) revenues. In Hungary, as became clear in 1995 with the abolishment of the 'Gambling Fund,' this also seems to relate to the budget deficit of the state and a relatively low level of trust in distributing bodies and civil society organisations. However, this does not mean that the state is not able to include civil society organisations in both its outsourcing and its redistribution policies. Our hypothesis would be that this is even conceivable without adapting or changing the regulatory model for gambling markets, although an adaptation in the approach of gambling markets, more in the direction of the Netherlands, Sweden and the UK, would indeed create more favourable conditions for civil society organisations.

#### **5.4 The European context**

In chapter 4 we have seen that and how the EU emerges as a new regulatory force in the field of gambling. In this case we do not (only) analyse the similarities and differences between our five sample countries of EU members. Instead the analysis is composed on the basis of a 'multilevel governance' approach (Hooghe 2001). Multilevel governance focuses upon overlapping authorities and shared competencies among a variety of actors, including private and civil society organisations, at a variety of scale levels. This approach of the EU deals with processes in between 'inter-governmentalism,' which stresses the international cooperation between nation states, and 'supra-nationalism,' which stresses the development of a new state. In the case of gambling markets the EU regulations surpass international agreements but do not include

the takeover of national gambling policies. In our analyses we distinguished between processes at the level of the EU, the national jurisdictions and international organisations.

On the level of the EU the debate regarding the regulation of gambling has recently changed from a political debate on the principle of 'subsidiarity' to a legal debate on 'proportionality.' Since 1992 gambling markets were primarily regarded to be a matter of national regulation. The EU did not interfere because the national regulation of gambling markets was regarded as more effective and efficient. In the context of the 'service directive' this idea was reconsidered (Commission of the European Communities 2004). The service directive actively seeks to eliminate the obstacles to the freedom of establishments for service providers and the free movement of services between member states. The crucial issue in this debate was whether or not gambling could be regarded as normalised services or goods. The European Parliament decided that gambling should be excluded from this directive. However, this is not only a political but also a legal issue as explored by the ECJ. In the *Gambelli* case the ECJ has stressed the principle of 'proportionality,' which means that national restrictions on the exploitation of gambling, including monopolies, are only allowed if the restrictive policies are convincingly applied (Verbiest 2004). Our hypothesis in this respect is that the liberalisation and expansion of national gambling markets itself undermines the restrictive policies. The consequences of the EU for national gambling jurisdictions have therefore become dependent upon the responses in national gambling policies.

The national gambling regimes both influence the EU and manage the consequences of EU policies. There are clear differences in the extent of international involvement and in the positions taken by the gambling authorities and operators in the five EU member states of our sample. All jurisdictions experience foreign competition from operators in other EU member states. International competition is not new but is accelerated because of the use of high tech media in 'remote gambling,' like mobile phones and the Internet. What is new is that this competition takes place in the unclear regulatory framework of the EU. The responses in the five member states are still 'under construction' but vary from proponents of liberalisation and market harmonisation to defensive responses. Our hypothesis in this respect is that the current interests of gambling organisations will reinforce restrictive policies, as happens in the Netherlands, because EU intervention and international competition will

reduce their privileges. However, this must be regarded as a soft hypothesis, since the legal debate is only recently and rapidly developing. It remains to be seen to which extent national jurisdictions will be able to resist international competition, and to which extent the success of gambling monopolies will not paradoxically undermine their protected status.

Finally, we have seen that in the field of gambling already international networks of operators, regulators and researchers are developing. These networks generally aim at the sharing of information and the development of common ideas, and in some cases even common products. A rather sound hypothesis is that the international networks will themselves contribute to the harmonisation of gambling markets because of the mitigation of potential conflicts and the copying of 'best practices.' These best practices concern regulatory practices as well as game formats like the good causes lotteries.

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## Supplement I – Turnover and market share

### Net returns\* & market share

In million € 2003/2004	Netherlands		Sweden		United Kingdom		Italy		Hungary	
	Turnover	Market share	Turnover	Market share	Turnover	Market Share	Turnover	Market share	Turnover	Market share
Lotteries**	€ 824	36.5%	€ 682	42%	€ 3.428	29%	€ 6.313	84%	€ 246	41%
Sports betting & pools***	€ 20	0.9%	€ 517	32%	€ 3.601	30%	€ 167	2%	€ 26	4%
Gaming machines	€ 731	32.4%	€ 228	14%	€ 3.000	25%	€ 722	10%	€ 281	47%
Casinos	€ 682	30.2%	€ 78	5%	€ 1.058	9%	0	0	€ 43	7%
Bingo	€ 0	0	€ 68	4%	€ 724	6%	€ 308	4%	€ 0	0%
Other	€ 0	0	€ 52	3%	€ 0	0%	0	0	€ 0	0%
<b>Total</b>	<b>€ 2.257</b>	<b>100%</b>	<b>€ 1.625</b>	<b>100%</b>	<b>€ 11.811</b>	<b>100%</b>	<b>€ 7.510</b>	<b>100%</b>	<b>€ 596</b>	<b>100%</b>
<b>Population in millions (OECD 2003)</b>	16,2		8,9		59,4		57,4		10,1	
<b>Turnover per capita</b>	<b>€ 139</b>		<b>€ 183</b>		<b>€ 199</b>		<b>€ 131</b>		<b>€ 59</b>	

\* Net turnover or net returns is total sales minus prize money

\*\* Lotteries includes (national) lotteries, lotto games and number games

\*\*\* Sports betting & pools include horse – and dog racing

## Supplement II – Regulation & policy

	Netherlands	Sweden	United Kingdom	Italy	Hungary
1989	Sponsor lottery founded National Postcode Lottery founded				
1990				Law 1990/62: maximum of National Lotteries per year is set to 13	
1991		Folkspel gets license for BingoLotto			Gambling Act into force; Gambling Board and Szerencsejáték Rt founded
1992	Scratch cards introduced Denationalisation of the State lottery				Scratch cards introduced
1993			Office for the National Lottery (OFLOT) founded	Regulatory framework for scratch cards (Law 1993/537)	Introduction of computerized ticket sales (on-line, off-line)
1994	Scratch cards become monopoly of SNS  Jackpot introduced (SENS)		Camelot plc wins tender to operate National Lottery; online launch of National Lottery in 10.000 outlets	Lottomatica wins tender to operate the <i>Gioco del Lotto</i> ; AAMS becomes supervisor for Gioco del Lotto and scratch cards No of retailers for lotto increased (Law 1994/724)	All Szerencsejáték owned retail outlets (260 lottery shops) were outfitted with on-line terminal
1995	Report "Kansspelen Herijkt"	Lottery Act (1994) goes into force	Scratch cards introduced	Law 1995/549 (another) increase in the number of retailers for the lotto UNIRE gets monopoly on horse racing	Szerencsejáték Rt. gets monopoly on lotteries  Gaming Fund abolished
1996	Dutch Gaming Board (CvT) founded  Number of beneficiaries of the National Postcode Lottery extended		Lucky Dipp introduced	Law 1996/662: second draw (midweek) draw introduced, destined for Culture; Management of horse race betting transferred from UNIRE to AAMS	
1997		Svenska Spel established as a result of a merger between Penninglotteriet and Tipstjänst Gaming machines (VLTs) legalised (for restaurants and bars with license to sell alcohol)  <i>Unibet</i> opens office in Sweden	Midweek draw of National Lottery introduced  Camelot raises the target for good causes from €13.3 to €14.8 billion  Review of the National Lottery; New Opportunities Fund (distributing fund)	Midweek draw of <i>Gioco del Lotto</i> ;  Lottomatica wins second tender to operate <i>Gioco del Lotto</i>  Superenalotto introduced (SISAL) - Launch of SISAL TV (Satellite TV system in all betting SISAL shops)	Lotto Show, a public drawing of the 5/90 Lotto, begins  Placing bets via telephone introduced.

<b>1998</b>	Novamedia takes over the Sponsor lottery Autoto takes over the organisation of horseracing from Hippo Toto			DPR 1998/174 and DPR 1998/169 sets the rules for assigning games and bets on sports, respectively horse racing to a private operator MD 1998: authority to collect taxes and to pay out prizes is transferred from AAMS to Lottomatica	
<b>1999</b>	Competition board vetoes merger between the state lottery, lotto and bank lottery	Casino Act (1999) goes into force  Amendment Lottery Act: AWP machines only allowed in amusement parks	National Lottery Commission (NLC) replaces Office for the National Lottery (OFLOT) as regulator of the National Lottery  2d call for tender for operation of the National Lottery	Law 1999/133: ministry of Economics and Finance has the permission to organise bets on events not organised by CONI/UNIRE - fixed prize payout is set on 38%	
<b>2000</b>	MDW report published		Camelot raises contribution to good causes from €14,9 to € 15,8 billion Launch of lotto extra (twice weekly jackpot only)	AAMS becomes supervisor for the Bingo SNAI group becomes operator for horse racing: start of a large advertising campaign (Varenne) Ministerial Decree 15/06/2000: allows taking bets over the phone or internet (excl. <i>Gioco del Lotto</i> )	Technological modernization; almost all points of sale provided with on-line terminals  TROPICANA Casino opens
<b>2001</b>	Projectbureau Games of Chance established at the Ministry of Justice	Novamedia (Netherlands) buys BingoLotto  1st casinos open (Sundsval & Malmö)	Gambling Review Report (Budd report) published  Camelot wins second tender to operate The National Lottery Camelot reaches €15.5 billion landmark for good causes  National Lottery Commission awards Camelot a license to operate interactive games (scratch cards) via the Internet	Lottomatica quotation on the stock market Lottomatica takes over a 50% share in Global Bingo Corporation) (Gbc) - the Spanish market leader in Bingo  Ministerial Decree 10.09.2001: lotto bets can be placed by telephone/ internet  New financial legislation regarding VLT's: only token machines are allowed  1st bingo hall opens in Treviso	Off-line sales discontinued
<b>2002</b>	1st Progress report on games of chance	Non governmental organisations are allowed to organise bingo, lotteries and casinos via internet, via SMS, and via IdTV  3rd casino opens (Gothenburg)	"A Safe Bet for Success" published  DMCS publishes consultation report "Review of Lottery Licensing and Regulation"	AAMS becomes responsible for all gambling forms, incl sports betting and horse betting from CONI UNIRE  Take over by Lottomatica of 100% share in Playservice	Renewing of Tippmix (extending the offers, possibility of betting twice a week); After five- and six-score lottery, joker is available also in Luxor

				Spa, the biggest share holder of Cirsa Group (bingo sector)	
<b>2003</b>	Report " <i>Vernieuwd Toezicht op de Kansspelen</i> " (New supervision on games of chance) Concentration of all tasks regarding games of chances under the Ministry of Justice	Svenska Spel and ATG are allowed to organise bingo, lotteries and casinos via the internet, via SMS, and via IdTV 4th casino opens (Stockholm)  Report of Lotteriinspektionen on gambling addiction results in the prohibition of 3.000 gaming machines  Several products of Svenska Spel are offered via internet; experiments with gambling via SMS	Launch of interactive instant lottery games via the internet  "National Lottery Licensing and Regulation"  Daily Play introduced Lotto and Daily play are offered via internet	SISAL creates SISAL S.p.a. (SISAL Financial Service): new financial services on online system  Lottomatica's license is automatically renewed until 2012  GAMBELLI case	Establishment of a sales network employing disabled persons  Joker is available also on Scandinavian Lotto
<b>2004</b>	Merger of Bank lottery, Postcode lottery and Sponsor lottery into Holding National Good Causes Lottery NV  Report Commission on model distribution of proceeds (Report Schuyt)	Internet bingo introduced (Svenska Spel)  Novamedia sells BingoLotto to Folkspel Novamedia gets license to start <i>Svenska Postkodlotteriet</i>  200 VLT's removed by Svenska Spel from restaurants; new VLTs designed, to be launched in 2005	Euromiliones introduced  Launch of Sky Active by Lotto (TV gambling)	New legislation regarding AWP machines  Lottomatica, SISAL and SNAI become concessionaires for AWP network Consortium Lotterie Nazionale becomes concessionaire of traditional lotteries and instant lotteries Lottomatica sells all stakes in Gbc	
<b>2005</b>	Lotto wins longstanding dispute with Ladbrokes	Svenska Spel announces establishment of new business unit: Svenska Spel International and Svenska Spel signs partnership agreement with Boss Media  Bingo and the scratch cards Triss and Tia introduced via mobile phone  Launch of Svenska Postkodlotteriet	New Gambling Bill goes (partly) into force	Three months pilot starts with extra draw (3rd) of the <i>Gioco del Lotto</i>  Gambling taxes are raised from 3 to 6%	

### Supplement III – Operators and products

Country	Operator	Products
Netherlands	Stichting Exploitatie Nederlandse Staatsloterij (SENS)	Staatsloterij; koninginndagloterij; Dayzers; Oudejaarsloterij
	Nationale Stichting tot Exploitatie van Casinospelen in Nederland (Holland Casino)	Casino
	Stichting de Nationale Sporttotalisator (SNS/ De Lotto)	Lotto, Euroloterij; Lucky Day; Toto; Krasloten (scratch cards)
	Holding Nationale Goede Doelenloterijen NV	National Postcode Lottery; Sponsor Lottery; Bank Lottery
	Scientific Games Racing BV	Horse race betting
	Private operation	Slotmachines
Sweden	Svenska Spel AB	Drawing games; Sports betting; Casino Cosmopol
	AB Trav och Galop (ATG)	Horse race betting
	Public benefit organizations	Lotteries and bingo
United Kingdom	Camelot Group plc.	National Lottery: lotto, Euromiliones, Daily play, Thunderball, Instant win games
	Private operators	Betting & bookmaking
	Private operators	Horse race betting
	Private operators	Casinos
	Private operators	Gaming machines
	Private operators	Bingo halls
Italy	Lottomatica S.p.A	Gioco del Lotto (lotto), Tris (horseracing; totalisator), AWP, traditional lotteries and scratch cards (See below), Totocalcio, Totogol
	SISAL S.p.A	Superenalotto, Pool games: Totocalcio, Totogol & Totip Betting- Big Match, Big Show, Big Race
	Consortio Lotterie Nazionale (Lottomatica S.p.A, Scientific Games International Inc., Arianna 2001 S.p.A, Servizi Base 2001 S.p.A, Olivetti Tecnost S.p.A,)	Lotterie Tradizionale (Traditional Lotteries); Gratta e Vinci (Scratch cards)
	SNAI S.p.A. (Serviceprovider to different agencies, authorized to issues licenses)	Totalisator (Horserace betting)
	Lottomatica, Sisal, SNAI	New Slot (AWP machines)
	AAMS	Bingo (approx. 310 halls)
	Local authorities	Casinos (Val d'Aoste, Venezia, San Remo, Campione)
Hungary	Szerencsejáték Rt	Drawing games (6/45 lotto, 5/90 lotto, Luxor, Scandinavian Lotto, Keno, Joker), Sports betting (Toto Pools, Gol Totó, Tippmix)
	Private operators	Slotmachines
	Casino Group (subsidiary of Szerencsejáték Rt ) & private operators	Vasino Sopron, Belvarosi Kasino, Tropicana Casino, Las Vegas Casino
	Private operators/horse racing industry	Horse race betting

## **Supplement IV- List of Participants**

### **Netherlands**

College van Toezicht op de Kansspelen (Dutch Gambling Board)  
De Lotto (concessionaire of the Lotto game, Toto and instant lotteries)  
Ministerie van Justitie- projectbureau Kansspelen (Ministry of Justice, bureau for the Games of Chance)  
Nationale Postcode Loterij (National Postcode Lottery)  
Novamedia

### **Sweden**

Cancerfonden (Cancer Foundation)  
Ideella Spel  
Lottericentralen  
Lotteriinspektionen (Swedish gaming board)  
Svenska Postkodlotteriet (Swedish Postcode Lottery)  
Svenska Spel  
University of Göteborg  
University of Stockholm, SoRAD

### **United Kingdom**

Centre for the Study of Gambling  
Gambling Board

### **Italy**

Aministrazione autonoma dei monopoli di stato, AAMS (Italian Gambling Board)  
Inter Press Service (IPS)  
Lottomatica S.p.A.  
SIIPAC

### **Hungary**

Budapest Observatory  
European Festivals  
Foundation for Democratic Development (DEMNET)  
NIOK  
Szerencsejáték Felügyelet (Hungarian Gambling Board)  
Szerencsejáték Rt (Hungarian State lottery)

### **Other**

European Association for the Study of Gambling (EASG)  
European Lotteries (EL)  
Gaming Regulators European Forum (GREF)

**Supplement V – Abbreviations**

AAMS	Amministrazione autonoma dei monopoli di stato	(Autonomous Administration of the Monopolies of the State)
ALN	Algemene Loterij Nederland	General Lottery Netherlands
ARGO	Association of Remote Gambling Operators	
ATG	AB Trav och Galop	(Swedish Horse breeding organisation)
AWP	Amusement With Prizes	
CBF	Centraal Bureau Fondsenwerving	Central Bureau Fundraising
CONI	Comitato olimpico nazionale italiano	(Italian National Olympic Committee)
DCMS	Department for Culture, Media and Sports (UK)	
DOEN	Stichting Doen	(DOEN Foundation, distributing fund)
EASG	European Association for the Study of Gambling	
EBA	European Betting Association	
EC	European Commission	
EJC	European Court of Justice	
EL	European Lotteries	
EU	European Union	
GC	Gambling Commission (UK)	
GNP	Gross National Product	
GREF	Gaming Regulators European Forum	
HC	Holland Casino	
IdTv	Digital television	
IMF	International Monetary Fund	
KNVB	Koninklijke Nederlandse Voetbal Bond	(Royal Dutch Soccer Union)
NGCL	Nationale Goede Doelen Loterijen	(National Good Causes Lotteries)
NGO	Non-governmental organisation	
NHS	National Health Service	
NL	National Lottery UK	
NLC	National Lottery Commission	
NLDF	National Lottery Distribution Fund	
NmA	Nederlandse Mededingings Autoriteit	Dutch Competition Board
NOC*NSF	Dutch Olympic Committee	
NOF	New Opportunities Fund	
NPL	Nationale Postcode Loterij	National Postcode Lottery
OFLOT	Office for the National Lottery	
OTP	National Savings Bank (Hungary)	
SENS	Stichting Exploitatie Nederlandse Staatsloterij	

SIIPAC	Società italiana per l'intervento sulle patologie compulsive	Italian Association for the treatment of compulsive pathology
SMS	Short Message Service	
SNIL	Stichting Nationale Instant Loterij	Foundation National Instant Lotteries
SNS	Stichting Nederlandse Sporttotalisator	Dutch Sportstotalisator
SzRt	Szerencsejáték Rt. (Hungary)	
UNIRE	Unione nazionale per l'incremento delle razza equine	(National Horse breeding authority
VAT	Value Added Tax	
VLT	Video Lottery Terminal	