The Case for a Single European Gambling Market

A Report by Europe Economics

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EXECUTIVE SUMMARY

1 Throughout the European Union regulators and courts are currently having to consider how to respond to the advent of new technologies, particularly the internet, with the potential for online gambling that this has created. Existing laws were not drafted with internet gambling in mind.

2 This report reviews gambling regulations in the EU, to analyse the pros and cons of different approaches to regulation and to draw implications, in particular for policy towards the regulation of internet gambling.

3 The review concludes that competition in the gambling sector can and does work to the benefit of consumers. It recognises that regulations may be necessary to protect some consumers, but such regulations need to be justified, proportionate, and applied in a consistent manner. Unless a Member State prohibits games of chance outright, it cannot simultaneously encourage consumers to participate in games of chance and betting that benefit the public purse, while invoking public-order concerns about too much gambling to justify restrictions on other service providers.

4 Regulations of the gambling industry in the UK tend to be less restrictive and favour competition more than in the rest of the EU. Consistent with the theory that competition is in the best interests of consumers, the report demonstrates that the UK gambling industry:

(a) Is better at providing products that consumers wish to purchase — British punters bet more, on average, than their counterparts in France, Germany, Italy, and Spain;

(b) Offers consumers a greater choice of betting products — for example, consumers with one British bookmaker were offered six different types of fixed-odds bets relating to a Spanish Cup tie between two teams with no obvious British connections; and

(c) Offers consumers better odds (lower prices) — punters betting in the UK are offered better value than punters in the rest of Europe, with a greater percentage of stakes returned as winnings (80 per cent) to UK punters.

5 Nor is it just punters that benefit from a competitive gambling industry. The gambling industry generates large tax revenues for the UK government. In 1999 the UK National Lottery contributed the second largest sum to good causes of all lotteries worldwide, despite the other forms of gambling available to British consumers. The UK gambling industry is also directly responsible for over 100,000 jobs, and many other employment opportunities indirectly depend on it.

6 With the opportunities for cross-border trading in betting that the internet facilitates, there is an opportunity for consumers in other European countries to benefit from competition in the gambling market. The evidence from a recent round of European Champions League matches demonstrates the potential gains. Permitting Dutch and Swedish consumers to bet with a UK operator would have more than halved the amount of money lost for every €100 paid out in winnings. These findings, if they applied more generally, imply that

British punters' annual winnings would have been €238 million less had they placed all their existing football bets with a Dutch operator rather than with UK operators.

7 Governments should remove barriers affecting providers of such services, such as bans on foreign operators advertising or accepting bets. These prevent or distort competition, to the detriment of consumers. Europe requires modern and flexible gambling regulations that allow firms to compete. Allowing all licensed operators based in the EU to compete throughout the EU on a level-playing field would diminish the attractiveness of betting with unlicensed operators. Online gambling is an industry where firms can compete on a global scale. Europe has the opportunity to be the base for this market if it adopts sensible and proportionate regulations for online gambling.

1 INTRODUCTION

1.1 This report reviews gambling regulations in the EU, to analyse the pros and cons of different approaches to regulation and to draw implications, in particular for policy towards the regulation of internet gambling.[1]

1.2 Gambling is a popular activity. The National Centre for Social Research reports that in the UK almost three quarters (72 per cent) of the adult population, which is about 33 million people, take part in some gambling activity every year and over half the population gamble every week.[2] The survey reports that the level of participation is even higher in Sweden, where nine out of ten adults gamble.

1.3 Gambling's popularity makes it an important industry in the European economy. One study estimates that the total amount bet in Western Europe in 2000 exceeded $120 billion;[3] other sources claim the legal gambling market in Europe exceeds €400 billion.[4] The diverging estimates reflect differences in the approach to measuring the size of the gambling industry, but all the available evidence suggests that the sums staked gambling are significant. Gross stakes gambled in the UK alone are equivalent to about 5 per cent of GDP.[5] At a more micro level, the Expenditure and Food Survey (EFS) indicates that average UK household weekly spend on gambling products was £3.75 for 2001–02.

1.4 Given its size, careful thought should be given to the appropriate regulations to apply to the industry. Gambling regulation has been seen as the preserve of Member States' governments. But telephone betting and now online gambling mean that betting products can much more readily compete across borders.

1.5 A guiding principle of the EC is to create a single market with no internal barriers. The single-market programme was finally launched on 1 January 1993, creating the basis for freedom of movement for goods, people, capital and services. Implementing the single market has not been without problems, prompting various EC initiatives such as the "Action plan for the single market" (4 June 1997) and "The strategy for Europe's internal market" (24 November 1999). Nevertheless, the EC has now had texts adopted designed to bring about the complete opening up of the transport and telecommunications services, and a significant opening up of other public-service sectors including electricity, gas and postal services.

1.6 The principles of a single market are being applied to most sectors of the European economy, consistent with Article 49 of the EC Treaty which dictates that Member States

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1 Ladbrokes provided funding for this work.

2 As reported in Gambling Review Body (2001) *Gambling Review Report,* Norwich: HMSO (subsequently referred to as the "Budd Report").

3 Brochure advertising *Online Gambling in Western Europe,* www.schema.co.uk

4 Nevries, Hartmut (2002) "Inaugural speech: Setting the Scene", 5th European Conference on Gambling Studies and Policy Issues.

5 Europe Economics estimate that gross stakes in 2002 were £54,771 million, which is 5.25 per cent of GDP at market prices (using ONS data).

may not impose restrictions on the freedom to provide services from one Member State to another. Court cases referred to the European Court of Justice, involving Schindler, Läärä and Zenatti, have ruled that restrictions can be imposed on gambling to safeguard public order and protect consumers.[6] But recent ECJ rulings in the Lindman and Gambelli cases have indicated that any restrictions need to be justified, proportionate and applied in a consistent manner.[7] For example, the ECJ ruled that Member States cannot simultaneously incite consumers to participate in games of chance and betting that benefit the public purse, while invoking public-order concerns about too much gambling in order to reduce other opportunities.

1.7 The European Commission has indicated that online gambling is "a new area in which action may be required because of significant Internal Market problems".[8] The current Directive on Electronic Commerce (2000/31/EC) excludes gambling from the services covered. But the draft Services Directive sets out a timetable for ensuring the removal of remaining restrictions on the provision of gambling services.[9]

1.8 With cross-border competition in the gambling sector now technically possible, this paper considers the economic arguments for opening up gambling markets in the Member States. The next section assesses the need for action to create a single market for gambling, presenting evidence of the impediments to free trade that currently exist and the theoretical arguments for why competition in the gambling sector might benefit consumers. The empirical evidence on how competition affects prices and variety is presented in section 3. Reasons why governments may be reluctant to liberalise the gambling market include concerns about possible market failings and a desire to maximise tax receipts. These issues are discussed in section 4, along with a brief review of how the gambling industry and its regulations affect the rest of the economy. Section 5 briefly outlines why gambling laws need updating. Section 6 concludes.

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6 Cases C-275/92 Schindler; C-124/97 Läärä, CMS and TAS v District Prosecutor and Finnish State; and C-67/98 Questore di Verona v Diego Zenatti.

7 Cases C-42/02 Diane Elisabeth Lindman v Skatterättelsnämnden and C-243/01 Criminal proceedings against Piergiorgio Gambelli and 137 others.

8 European Commission (2003) "e-commerce: EU law boosting emerging sector" press release, 21 November, http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1580|0|RAPID&lg=EN

9 European Commission (2004) "Services: Commission proposes Directive to cut red tape that stifles European competitiveness", press release IP/04/37, 13 January.

2 THE NEED TO CREATE A SINGLE MARKET IN GAMBLING

2.1 This section demonstrates that there are currently impediments preventing a single market for gambling, yet that there are good theoretical reasons for allowing competition in this industry. The section first provides a brief overview of the European gambling industry. The overview illustrates how jurisdictions differ in their regulation of gambling, providing examples of policies that prevent a single market. The section concludes by outlining the theoretical arguments for why a single market for gambling is desirable, discussing how allowing firms to compete fairly should realise benefits for the European economy.

Overview of the Gambling Industry in the European Union

2.2 Consumers can spend their money on various forms of gambling, e.g. lotteries, general betting, bingo, casinos, gaming machines, etc. These forms of gambling are available in most Member States, although the relative popularity of the different products varies across countries, as do the regulations governing specific products. Table 2.1 below indicates market shares in the UK, in terms of gross stakes, for the various forms of gambling permitted. Gross stakes measure the total money wagered. A significant proportion of the money wagered is returned to players as winnings. These winnings are often wagered again (recycled). A better measure of consumer spending on gambling might therefore be net stakes. These calculate the amount wagered, less any winnings. Based on net stakes, the National Lottery accounts for over one third of the UK gambling market. The next two sectors with significant shares are general betting (sports betting and betting shops, etc) and gaming machines. The relatively high payout ratio for many casino products explains why casinos account for a large share of total gross stakes, but less than 10 per cent of net stakes.

Table 2.1: Estimated Gross Stakes Gambled in 2002-03

	Gross Stakes	
	£m	**%**
Pool betting	128	0.2
General betting	17,502	32.0
Bingo	1,222	2.2
Casinos	21,000*	38.3
Gaming machines	10,340	18.9
National Lottery	4,579	8.4
Total	**54,771**	

** Europe Economics' estimate based on a reported "drop" (value of chips bought) of £3,797 million.*

Source: HMCE Annual Report 2002-2003 and Report of the Gaming Board for Great Britain 2002-03.

2.3 Despite gambling's importance, there is "no single lawful legislation, no uniform tax policy and no single coordinated regulation for technical standards between the 30 European states".[10] The ability of operators to compete in offering betting products to consumers based in other Member States varies depending on the jurisdiction the operator wishes to enter. There are restrictions on the types of gambling allowed, who is permitted to provide the gambling services, and where gambling is permitted.

2.4 The regulation of casinos is illustrative. Spain allows private operators to run casinos (as well as gaming machines and bingo halls), although there are restrictions on foreign ownership. France, which also has a relatively large number of casinos, has a rule that casinos cannot open within a 100 km radius of Paris. In other Member States, regulations governing casinos curtail their development even more. Italy's penal code prohibits casinos — the four casinos that do operate encounter serious legislative difficulties if they wish to seek changes in their licences. Holland Casino has a legal monopoly over land-based casinos and is now seeking to make it impossible for non-Dutch companies to compete via the Internet (a medium in which Holland Casino is now starting to operate).

2.5 Establishing a legal monopoly for gambling products is not unusual. Many European governments have granted exclusive licences to a single entity to provide certain gambling products. There are six legal monopolies in the Netherlands (a state lottery, instant lottery, sports betting, horse race betting, lotto, and casinos), as well as three charitable lotteries with exclusive rights. In Finland, Veikaus has had a monopoly to run lottery games (lotto, bingo, pools, scratchcards, etc.) and sports betting; RAY a monopoly to run slot machines and the casino industry; and Hippos a monopoly to organise on-course bookmaking.

2.6 The contrasting regulatory approaches of different Member States is particularly pronounced for general betting. The UK government has facilitated competition between bookmakers, whereas many other Member States limit the potential for competition. Legalised monopolies for sports betting are not unusual, e.g. Dansk Tipstjenste in Denmark, De Lotto in the Netherlands, and Svenska Spel in Sweden. OPAP, already with a 78 per cent share of the Greek lotteries and sports betting market, has a 20-year exclusive licence for existing games and future sports betting games. The German sports betting market has a restricted number of licences — in May 2002 only the state-owned company Oddset, and four private entities had licences. Without a betting licence it is illegal to offer, broker or promote sports betting. The Italian authorities only grant a limited number of the concessions necessary to accept bets on behalf of CONI.

2.7 With the advent of telephone and more particularly online gambling, regulations arguably have more effect on the competitive environment in which betting takes place today than they did in the past. The regulations may now represent the main barrier to entry for an operator wishing to offer bets to punters in another Member State. There is no longer a

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[10] Nevries, Hartmut (2002) "Inaugural speech: Setting the Scene", 5th European Conference on Gambling Studies and Policy Issues.

technical reason why a firm needs to establish a physical presence throughout Europe. Yet the rules governing online gambling vary across the EU, limiting the potential for cross-border competition that the technology could facilitate.

2.8 Some Member States only allow one operator to advertise (the state monopolist or licence holder); others do not allow foreign bookmakers to accept bets. In Germany, it is illegal for internet-only gambling operations to set up. Italy prohibits the establishment of locally based online services, granting exclusive rights to CONI and UNIRE to accept betting on sporting events. Article 38 of Sweden's Lottery prohibits promoting or advertising participation in lotteries arranged outside Sweden. This gives Sweden's state monopoly for sports betting, Svenska Spel, a competitive advantage. It is not possible for other bookmakers to advertise their products. Svenska Spel may therefore secure custom not because it offers better prices, but because of consumer ignorance of the alternatives.

2.9 Dutch regulations limit their consumers' options even more, preventing Dutch citizens from betting outside the country by telephone or internet. The law requires online betting operators from other Member States to not accept bets from Dutch citizens. As well as restricting the choice of Dutch citizens, the law creates many problems for operators based in other Member States since they have to implement geo-tracking to filter out Dutch users. This is a costly operation and is not completely foolproof, i.e. it may falsely identify consumers and either refuse bets from eligible consumers or allow some Dutch users to place bets.[11]

2.10 The UK has a more relaxed regulatory environment. Foreign-based bookmakers are allowed to accept bets from UK residents. Moreover, provided they have a registered office in the UK — and hence have obtained a UK bookmaker's permit — overseas companies are allowed to advertise in the UK. Proposed legislation will create a Gambling Commission, responsible for consumer protection.

The Desirability of a Single Market for Gambling

2.11 The preceding overview, although brief, highlights some of the regulations that currently prevent a single market in gambling, such as statutory monopolies and bans on advertising. Below, arguments are presented on the need for the single market to apply to gambling.

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[11] A Washington Post article quotes Quova Inc, a supplier of geolocation technology, as claiming it can identify a computer user's country 98 per cent of the time. See Cha, Ariana Eunjung (2002) "Rise of internet 'borders' prompts fears for web's future", *Washington Post,* 4 January 2002.

2.12 The single market facilitates free trade, the gains of which are well known. It allows countries to specialise in producing goods that they are relatively more efficient at producing. Countries can exercise their comparative advantage, exporting goods that they produce relatively cheaply and importing goods that if produced domestically would be relatively more expensive. Welfare gains are possible, with all countries gaining.

2.13 Free trade increases the incentives for domestic operators to offer lower prices, better quality and a more diverse range of products. If they fail to become efficient, the pool of potential entrants includes operators from overseas, operators who already have industry-specific knowledge. Protecting domestic firms from such competition means consumers have less choice and are forced to pay more than they would under free trade.

2.14 Competition generates lower prices and greater variety. It works best when competing firms face the same rules and regulations. When there is an asymmetry in the way firms are regulated, some operators may enjoy too great an advantage to permit other firms from having any prospect of competing successfully. The disadvantaged firms will not enter the market. Thus, measures that stop short of prohibiting foreign competitors but still favour domestic operators may be as harmful as outright bans.

2.15 Government-owned operators should not be subsidised. Instead, they should face the same financial realities as private operators, including foreign-based bookmakers trying to enter the market. This way, all operators face the same incentives to be efficient. Inefficient operators will ultimately exit the market. There will be more efficient allocation of resources.

2.16 Rules on advertising can distort competition. The economics literature on advertising, although vast, is not conclusive as to whether advertising is good or bad. Bagwell (2001) describes the three main views of advertising that economists have developed.[12] One idea is that advertising is *persuasive.* It changes consumers' tastes, creating brand loyalty and thereby deterring new entrants. Another view is that advertising is *informative*, conveying information about the product to consumers. This includes information about the product's existence, its price and its quality. Such information facilitates competition, since consumers are better informed. A third reasoning is that advertising is *complementary;* consumers enjoy greater benefits from a product when it has been advertised. They value the branding.

2.17 Arguments could be made about which of these views is most appropriate when thinking about gambling products. Persuasive advertising may be considered socially wasteful if it primarily redistributes consumers among products. The informative and complementary views of advertising suggest advertising has a constructive role. It allows consumers to satisfy their demand at lower costs and also gain more satisfaction from their products.

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[12] Bagwell, Kyle (2001) "The economics of advertising, introduction", chapter in Kyle Bagwell, ed. *The Economics of Advertising*, Cheltenham: Edward Elgar.

Bagwell reports a consensus emerging that advertising is generally welfare enhancing for retail products.

2.18 What is less ambiguous is that allowing only some operators in a market to advertise, as is the case in a number of Member States, cannot be optimal. If advertising is persuasive, then the operator(s) allowed to advertise will be able to try to influence consumers' preferences without even the impediment of other operators offering an alternative perspective. If advertising is beneficial, providing information or complementing the good, then it makes no sense to limit this activity to a subset of operators. The keener price competition that might result from permitting competing firms to advertise is not realised.

2.19 Free trade for gambling may have additional benefits, over and above those from comparative advantage and increased competition. Firms may realise economies of scale from having access to other countries' markets. The increased diversity of bettors should allow bookmakers to offer a greater variety of products. Firms in the gambling industry, by receiving a variety of bets, are able to diversify risk. Pari-mutuel operators control their risk by not committing to fixed odds, but instead offering to manage a pool of bets on the same event, paying out a fixed proportion of the total. Fixed-odds operators are able to offer a wider variety of bets, since they do not have to match punters with differing opinions wishing to bet on the same event. The risks from offering fixed odds can be better managed the more diversified the bets are. Thus, access to different markets should allow operators to offer lower prices, since they will be less exposed to the result of any one particular event.[13]

[13] Similar arguments apply to the insurance industry, where the individual is unwilling to bear the risk that their house will burn down, but an insurance firm can pool the risks for many different homeowners.

3 EVIDENCE ON THE GAINS TO CONSUMERS

3.1 The theory in favour of a single market is persuasive, and suggests that free trade should be permitted unless there are compelling arguments to the contrary specific to a particular industry. This section provides evidence supporting the theory that competition in the gambling industry benefits consumers.

3.2 Consumer sovereignty suggests that people only bet when it improves their welfare. They bet when this option is preferred to all other options for spending the money. The exact rationale for why people like to gamble is less obvious. Some consumers may believe that they will finish ahead and thus ultimately have more money to spend than before they bet, even though they know the average punter will lose. Betting by such consumers is similar to investors trading financial instruments, such as equities and corporate bonds, when they believe that they are better informed than other investors. Some punters may bet because of the possibility of a sizeable win that will permit a (possibly transitory) change in lifestyle. Other consumers may simply enjoy the interest and excitement of betting. For the purposes of analysing the effects of competition on consumers' wellbeing, the rationale is not important, so long as it is accepted that people bet of their own free will, and therefore only bet when they perceive a benefit, ex ante, from placing a bet.

3.3 Studies looking at the demand for gambling products typically find that these goods display the same basic economic characteristics as most other goods. When the price of a gamble increases the quantity demanded falls; and as income rises the quantity demanded increases. For example, a Europe Economics report for BOLA shows that off-course betting in Ireland increased when the betting taxes, and therefore prices, were low.[14] See also King (1997), Walker (1998) and Farrell and Walker (1999) who all find that the decision to participate in the UK lottery increases with income.[15]

3.4 When thinking about consumer welfare, one approach is to consider the price consumers pay to purchase the good. Lower prices improve welfare: consumers save on the purchases (bets) they would have made anyway, and some purchases are made that would otherwise not have been made because they were too expensive. With a low price, gamblers can afford to make more bets, whilst also consuming more of other products. The price of a gamble might best be thought of as the price of purchasing one unit's worth of expected prize value. But care has to be taken when comparing the price across products, since focussing on the expected value of bets may miss important factors that motivate people to gamble. For example, consumers buy lottery tickets even though these typically offer a much worse expected return than other gambling products.

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[14] Europe Economics (2000) "The potential impact of off-shore betting on government tax revenues", report for BOLA.

[15] King, JRB (1997) "Participation in the National Lottery — evidence from the Family Expenditure Survey", *Journal of the Royal Statistical Society, Series A,* 160, 207–212. Walker, Ian (1998) "The economic analysis of lotteries", *Economic Policy,* October, 359–401. Farrell, Lisa and Walker, Ian (1999) "The welfare effects of lotto: evidence from the UK", *Journal of Public Economics, 72, 99–120.*

Arguably this is because lottery tickets offer the potential of a life-changing win for a small stake that is not available from other gambling products. Thus, comparisons of prices should seek to focus on products that appear to be similar.

3.5 Aside from lower prices, firms will compete to attract consumers by developing new products (including new means of distributing existing products). Lower prices and increased innovation are the two main predicted benefits of introducing competition. With the increased incentives for firms in a competitive environment to provide goods that customers want, a final prediction is that consumption should be greater.

3.6 Two sources of evidence are provided to show that a single market for gambling would generate the predicted benefits. First, comparing the situation in the UK with that in other Member States provides some evidence consistent with the notion that a more competitive environment benefits punters. Second, a review of the offerings by different online operators provides more direct evidence of the gains that European punters might realise if the single market applied to gambling.

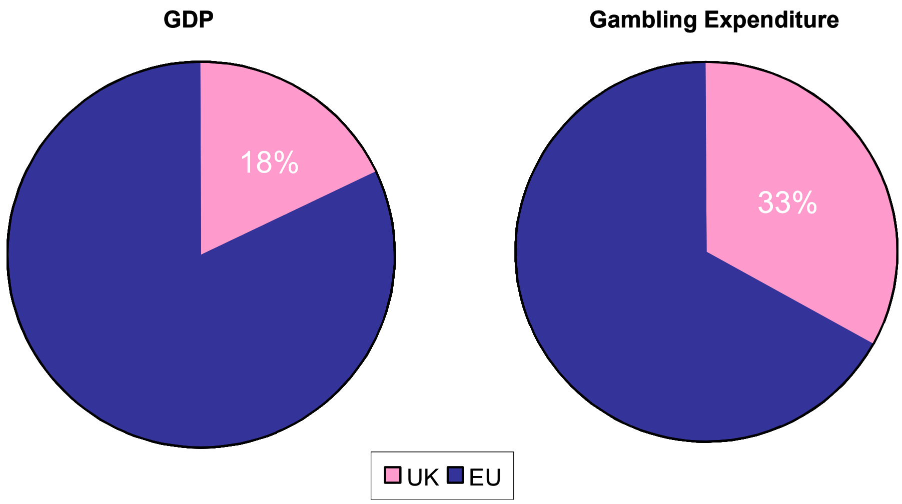
The UK Experience of a Competitive Gambling Sector

3.7 Compared to most jurisdictions, the UK government has followed a comparatively liberal, light-touch approach to regulation, with competition encouraged. Many forms of gambling are legal, including general betting, pools betting, a National Lottery, bingo, casinos and gaming machines, with the level of regulation depending on the perceived potential for commercial exploitation, i.e. casinos are more tightly regulated than small charitable lotteries.

3.8 Perhaps as a consequence of the higher level of restrictions on gambling in the rest of Europe, the UK has a relatively large gambling sector. It accounted for as much as a third of total net expenditure on gambling in the European Union in 2000, even though the UK's share of the EU's GDP was 18 per cent (see Chart 3.1). The UK gambling industry appears to be good at providing a product that consumers want. Yet this is not at the cost of social-welfare concerns: the available evidence does not suggest that the UK has a relatively high proportion of social problems attributable to gambling compared to other countries.[16]

[16] See Sproston, Kerry, Erens, Bob and Orford, Jim (2000) *Gambling Behaviour in Britain: Results from the British Gambling Prevalence Survey*, London: National Centre for Social Research.

Chart 3.1: UK Share of GDP and Gambling Expenditure



Source: Eurostat and Forbes.com

3.9 Per capita expenditure on gambling products in different countries is a useful first proxy for how much benefit consumers derive from betting ("consumer surplus"). The per capita expenditure will vary across countries for a variety of reasons, including possible cultural differences, availability of alternatives and differences in income levels.

3.10 Table 3.1 shows per capita (gross) expenditure on gambling for the five Member States with the largest gambling markets. British punters gamble more, on average, than their counterparts in France, Germany, Italy, and Spain (although as a percentage of GDP the Spanish bet more; gambling's success in Spain since it was legalised in 1977 is further evidence of the demand for gambling). Data from the same source detailing per capita expenditure on horse race betting in various Member States show that only Swedes spent more on this form of betting than the British. In the global market for gaming machines, one study shows that the UK has the largest share among European countries listed, despite not having the "high-intensity" machines that raise problem-gambling concerns.[17] The UK accounts for 3.7 per cent of the global market; other European countries in the study include France (0.8 per cent), Germany (3.2 per cent) and Spain (3.1 per cent).

[17] Australian Productivity Commission (1999) *Australia's Gambling Industries,* www.pc.gov.au/inquiry/gambling/finalreport/

Table 3.1: Per Capita Gambling

Country	Total Amounts Staked per inhabitant (Euros)	Total Amounts Staked (% of GDP)
Great Britain	1,161	4.2
France	422	1.5
Italy	845	3.4
Spain	1,043	6.2
Germany	480	1.5

Source: Trucy, François (2002) "Rapport d'information sur les jeux de hasard et d'argent en France", fait au nom de la commission des finances, du contrôle budgétaire et des comptes économiques de la Nation du Sénat.

3.11 The UK approach to regulating gambling is more likely to yield lower prices than the approach taken in most other Member States, since the UK permits private operators to compete in the supply of most gambling products. Competition (or the threat of competition) should result in lower prices than when there is a monopoly provider. In a competitive market consumers will choose to bet with the supplier offering the best terms, all else being equal. A firm offering poor odds will lose custom. This competition on prices should also create incentives for firms to ensure that they are efficient, and do not incur costs unnecessarily. Competition protects consumers from firms setting high prices to earn excess profits or incurring costs inefficiently. For example, permitting competition would remove the need for the Gaming Control Board in the Netherlands to require Autotote Netherlands to offer a minimum payout ratio of 50 per cent for horserace bets.

3.12 Betting is a service where price competition should work well. It is comparatively quick and easy for consumers to compare prices, especially with the advent of the internet. In the UK, many newspapers carry information on odds (prices) — *The Racing Post* provides tables comparing the odds different bookmakers are offering for major sporting events. Informed consumers are able to choose between competing outlets, including in recent years betting exchanges, and as a result operators compete on price. Nor are there large barriers to entry, for firms that comply with government regulations. A number of overseas companies have a registered office in the UK and are therefore able to obtain a bookmaking permit and are entitled to advertise their services legitimately. In a less regulated setting, the possibility of new operators entering the market acts as a constraint on the pricing behaviour of existing operators.

3.13 The evidence is consistent with the theory. The UK Tote now claims to offer the best returns of any pari-mutuel operator in the world, following its announcement in March 2003 of reduced deductions from pools. Competition from bookmakers on and off track limits the Tote's ability to exploit its exclusive right to offer pari-mutuel betting, in contrast to much of Europe where a single pari-mutuel operator is a monopolist able to set a higher price given the absence or lower levels of competition from bookmakers. Even prior to the announcement, of the seven European countries for which data were available only the Greek pari-mutuel operator OPAP (majority owned by the government and arguably not governed solely by commercial considerations until its recent stock market listing) set higher returns than those available to punters in the UK and Ireland.[18]

3.14 The over-round for pari-mutuel betting overstates the price of betting on horses in the UK. British punters are generally offered better value by fixed-odds bookmakers, and perhaps not surprisingly most punters place bets with fixed-odds bookmakers. The International Horseracing Federation's betting statistics for 2002 show fixed-odds betting in the UK returning 4 percentage points more of staked bets than pari-mutuel betting via the Tote. This is further evidence consistent with the idea that competition leads to lower prices. There are many competing fixed-odds bookmakers in the UK, with no firm having a market share exceeding 25 per cent; they offer, on average, better returns than the sole pari-mutuel operator.

3.15 That British punters prefer the fixed-odds system is itself evidence of the benefits to consumers of the British approach. Consumers are allowed to choose the product that best meets their needs. Fixed-odds betting in the UK accounts for over 95 per cent of total horse race betting. The evidence from other European countries is that there is demand for fixed-odds betting when it is available. For example, Betting Company launched it in Greece in January 2000, and by 2003 fixed-odds betting already had a share of the Greek gaming market in excess of 50 per cent (excluding casino gambling).[19] But in many Member States pari-mutuel systems continue to dominate, often because of government actions. In France, fixed-odds betting is prohibited. In other EU Member States, the state operates the betting outlets and does not offer fixed-odds betting.

3.16 A major advantage of the British approach, of light-touch regulation, is that of increased choice for consumers. There is a choice of operator — as well as private, for-profit firms, consumers may also place bets with the National Lottery, whose takings primarily fund "good causes", and charities that offer betting products.

3.17 Moreover, there is a wide choice of product, in terms of the events for which bookmakers will accept bets and the form of bets that bookmakers offer. Bookmakers are allowed to offer odds on almost any event. Customers gain from this choice. Ladbrokes' 2002 accounts show horseracing's share of total turnover down to 65 per cent from 80 per cent in 1997.[20] The response of the British Horseracing Board was that horseracing would have to stem this downward trend: a side-benefit of allowing bookmakers to offer bets on most events is that industries must compete to attract gambling revenues, offering products that appeal to punters rather than relying on the fact that punters have no alternatives if they wish to bet.

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[18] Source: International Horseracing Federation.
[19] Betting Company SA (2003) "Greek fixed-odds betting enjoys another record year" www.betting.gr
[20] As reported by www.racingpost.co.uk

3.18 Firms compete to provide new products that appeal to existing and new customers. In recent years, spread betting has become increasingly popular. Spread betting differs to fixed-odds betting in that the winnings or losses vary according to how right or wrong you are. An example could be a bet on the number of goals scored in a football match where the spread is 2-3 goals. A punter who believed there would be more than three goals might bet £10 per goal. The punter would win £10 for every goal scored over three, but lose £10 for every goal under three. More recently, bookmakers have offered fixed-odds betting machines to their customers. These are proving to be very popular.

3.19 The ability of the gambling industry to meet the demands of all citizens is increased by a regulatory environment that permits different betting products. Not all customers want to bet on the same products. Francais de Jeux, the lottery operator in France, "see their games attracting young, urban female gamblers who are overwhelmed by the complexity of horseracing".[21] The customer demographics for bingo differ greatly to those for sports betting. Firms will cater to these different segments of the market if allowed.

3.20 With competition, firms have to continually innovate to maintain their position in the marketplace. Svenska Spel's 2000 Annual Report lists accelerating competition as a reason why the firm is increasingly having to "boost its investments in development, enhanced service, more advanced technology and leading-edge competence in the company". It is for these reasons that the Swedish authorities should encourage competition in the gambling sector.

3.21 UK consumers benefit from innovation either in the form of lower prices (improved business practices) or from wider choice of bets or types of bets. The innovation that competition fosters is important. The experience of national lotteries suggests that interest for the product eventually wanes. A boredom effect sets in. Absent any innovations, demand will fall over time. Competition imposes a market discipline on firms to ensure they continue providing the products that their consumers value. For example a study by the National Impact Study Commission (1999) in the USA observes that "revenues typically expand dramatically after the lottery's introduction, then level off, and even begin to decline. This "boredom" factor has led to the constant introduction of new games to maintain or increase revenues."[22]

3.22 The benefits from innovation also extend to new distribution channels that may be developed. Industries, including the gambling industry, should be encouraged to develop new distribution channels that are more efficient or better suit their customers. Online gambling is an example of an innovation that appeals to many consumers, including some that previously may not have bet. Schema reports that one operator attracts 10 per

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[21] Griffiths, Mark D and Wood, Richard TA (2001) "Lottery gambling and addiction: an overview of European research" www.european-lotteries.org/en/pdf/Wood.pdf

[22] National Government Impact Study Commission (1999) "Lotteries" http//govinfo.library.unt.edu/ngisc/research/lotteries.html

cent of online gambling revenues from women, whereas women only account for 3 per cent of revenues in its betting shops.

3.23 Again, a competitive environment creates the incentives for operators to introduce new distribution channels. It is perhaps not surprising that De Lotto in the Netherlands, a statutory monopoly, only started offering internet and mobile phone sports betting in December 2002, years after UK-based operators started accepting bets from punters via these channels.

Potential Gains from Competition Online

3.24 With these new distribution channels it is no longer necessary to conjecture what might happen if the single market opened up competition in the gambling sector throughout the EU and allowed competing bookmakers to set-up outlets in each Member State. Instead, it is possible to compare and contrast the offerings of online operators based in different jurisdictions, who are already in a position to accept bets from punters throughout Europe but for existing regulations.

3.25 In all Member States the added competition from foreign operators should drive prices down. Therefore there will be strong incentives for efficiency gains by operators so that they can offer more competitive prices. This competition should end the exploitation of consumers who currently may only have one state-run operator, able to offer any prices it may wish with no fear of being undercut by rivals. This will stop many consumers having to overpay for their right to gamble. And as discussed above, with operators offering bets in more Member States, there may be an increased diversification of risk, which should allow the bookmakers to offer even lower prices.

3.26 A recent weekend of football matches illustrates the potential benefits to consumers if they are allowed to bet with more than one bookmaker. Table 3.2 gives the odds and the over-round for eight games played 17 and 18 January 2004. The odds show the gross return a punter receives on a unit bet, so a punter placing a €1 bet with Snai on Barcelona beating Athletic Bilbao received €1.55, i.e. net winnings of €0.55. The over-round is a measure of how much a punter would need to stake—by placing bets on all possible outcomes—to be sure of winning 100. Thus, an over-round of 120 per cent means that on average for every €120 bet only €100 will be paid out in winnings, assuming bets placed are weighted in similar proportions to those implied by the odds. The lower the over-round, the better the deal consumers receive.

Table 3.2: Online Odds for Football Matches on the Weekend of 17–18 January 2004

Bookmaker	Match Odds				Match Odds			
	Tottenham	Draw	Liverpool	O/Round	Wolves	Draw	Man Utd	O/Round
Ladbrokes	2.60	3.20	2.37	111.9	8.0	3.75	1.36	112.7
Snai	2.80	3.05	2.20	114.0	8.0	3.80	1.33	114.0
Svenskspel	2.60	2.65	2.05	125.0	4.85	3.30	1.35	125.0
Toto.nl	2.60	2.85	1.80	129.1	4.30	4.10	1.20	131.0
Best Odds	2.80	3.20	2.37	109.2	8.00	4.10	1.36	110.4
	Roma	Draw	Sampdoria	O/Round	Juventus	Draw	Siena	O/Round
Ladbrokes	1.36	3.75	8.00	112.7	1.25	4.50	10.00	112.2
Snai	1.40	3.55	7.00	113.9	1.18	5.00	11.00	113.8
Svenskspel	1.25	3.75	5.50	124.9	1.15	4.30	6.80	124.9
Toto.nl	1.20	4.10	4.85	128.3	1.05	4.55	8.65	128.8
Best Odds	1.40	4.10	8.00	108.3	1.25	5.00	11.0	109.1
	Real Betis	Draw	Real Madrid	O/Round	Barcelona	Draw	A Bilbao	O/Round
Ladbrokes	4.00	3.20	1.80	111.8	1.61	3.25	5.00	112.9
Snai	3.85	3.10	1.80	113.8	1.55	3.50	5.00	113.1
Svenskspel	3.25	2.85	1.70	124.7	1.45	3.05	4.35	124.7
Toto.nl	4.10	3.50	1.30	129.9	1.45	3.10	3.50	129.8
Best Odds	4.10	3.50	1.80	108.5	1.61	3.50	5.00	110.7
	Aston Villa	Draw	Arsenal	O/Round	Chelsea	Draw	B'ham	O/Round
Ladbrokes	4.50	3.25	1.66	113.2	1.30	4.33	8.00	112.5
Snai	4.35	3.35	1.65	113.5	1.22	5.00	9.00	113.1
Svenskspel	3.60	2.90	1.60	124.8	1.20	4.00	6.00	125.0
Toto.nl	3.25	3.00	1.55	128.6	1.20	4.10	4.30	131.0
Best Odds	4.50	3.35	1.66	112.3	1.30	5.00	9.00	108.0

Data provided by Ladbrokes, 16 January 2004.

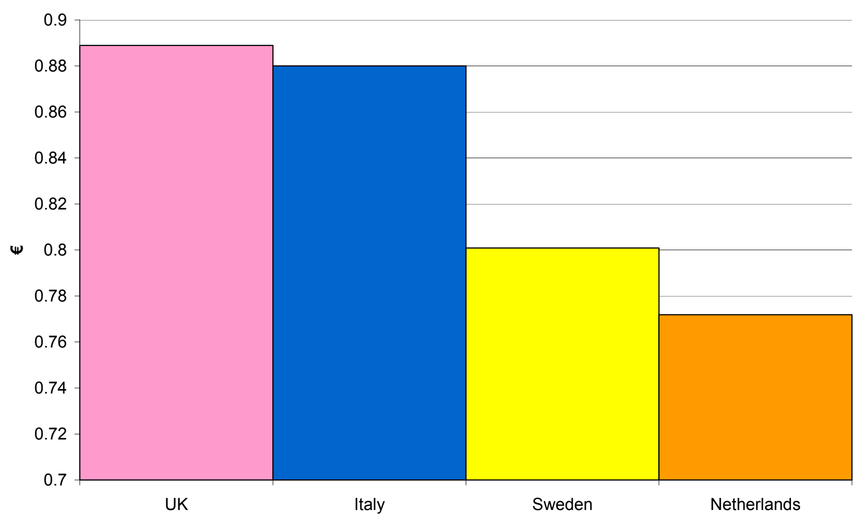
3.27 The tables make clear the potential benefits to customers of allowing them to shop around. A punter wishing to bet on Sampdoria beating Roma would get a gross return on a unit stake of 8 if (s)he bet with Ladbrokes, but only 4.85 if betting with Toto.nl. Just in our sample of four operators, for all possible bets on the results (home win, away win or draw) there were (ex ante) gains available to consumers from discriminating between the operators and choosing the one that offered the best odds. Restrictions on online gambling mean such gains may not be realised.

3.28 If barriers to trade were removed, the discrepancy in odds would be less marked. One would expect the odds to converge if punters from all over Europe were allowed to place cross-border bets. Competition should mean that the over-round would fall, perhaps not as low as the average over-round implied by the best odds in our sample 110, but there is no reason to expect the over-round to exceed that found in the UK (in our sample, the UK bookmaker Ladbrokes' average over-round was 112) where there is already competition between bookmakers.

3.29 The larger over-rounds in the Netherlands and Sweden support the argument that restricting competition causes consumer detriment. Svenska Spel's average over-round was 125 and Toto's average over-round was over 130. The evidence is consistent with the standard economic theory that monopolies charge higher prices than firms in competitive industries.

3.30 If these over-rounds apply more generally for sports betting, then for every €100 of winnings returned to punters, UK consumers must only spend €112 but Swedish consumers must spend €125 and Dutch consumers must spend €130. Thus for example, a punter limited to using Svenska Spel loses almost twice as much money (€25) as a punter able to gamble with Ladbrokes (€13), and Dutch consumers fare even worse losing €30. Chart 3.2 below highlights the difference in odds by showing the expected winnings for a €100 stake.

Chart 3.2: Punters' expected Winnings on a €100 Stake



3.31 These differences are significant. The British Horseracing Board estimates that football now accounts for 8 per cent of betting in the UK.[23] Using the figures in Table 2.1, this suggests that punters in the UK stake £1,400 million betting on football annually. If the over-round offered by Ladbrokes for the Champions League matches is representative of those available to British football punters, then they might expect winnings of nearly £1,245 million. In contrast, if British punters placed the same volume of bets in the

[23] Racing Review Committee (2003) *The Racing Review Part I: The Racing Product,* www.bhb.co.uk/pdf/final_racing.doc

Netherlands, their annual winnings would be £164 million less (€238 million). This is equivalent to the average punter in the UK receiving one pound less in winnings each week.[24] (British punters would be worse off by £123 million (€179 million) and £12 million (€18 million) a year if they staked the same sums in Sweden or Italy respectively, instead of the UK.)

3.32 Punters are likely to respond to the more favourable odds available in the UK by betting more than in jurisdictions where prices are higher. The lower prices in a competitive market allow customers to enjoy consuming more of a product they like. With the lower prices, consumer demand theory predicts a substitution effect towards betting from other goods and services — including other forms of betting expenditure. This would include substitution from illegal, totally unregulated betting outlets, as the odds for those alternatives would become relatively less attractive.

3.33 Consumers would also benefit from greater choice if there were no barriers to trade in the gambling industry. Operators in some jurisdictions accept bets on a far wider range of activities and offer many more kinds of betting options on events. Table 3.3 shows the variety of bets that Ladbrokes offered customers relating to just one match—a Spanish cup match between Alaves and Celta Vigo. Customers could bet on the result (as a single bet, or as part of a combination of bets); what the score would be; what the result would be at half-time and full-time; the number of goals; who would win for given handicaps (for this game, the bet did not entail either team having a handicap); and whether the number of goals would be more or less than 2.5. This is considerably more choice than that typically offered to customers betting through domestic monopolies.

[24] This calculation assumes that 1.5 million Britons bet on football, based on a National Centre for Social Research report that 3 per cent of UK adults surveyed reported having placed bets on sports other than horseracing or greyhound racing in the past 12 months. See www.natcen.ac.uk/news/news_gambling_sumfind.htm

Table 3.3: Bets Offered by Ladbrokes for Spanish Cup Match, 2004

Win-draw-win	Alaves	7/4	Draw	11/5	Celta Vigo	5/4
Correct score	Alaves 1–0	7/1	Draw 0–0	8/1	Celta Vigo 1–0	7/1
	Alaves 2–0	11/1	Draw 1–1	11/2	Celta Vigo 2–0	8/1
	Alaves 2–1	10/1	Draw 2–2	14/1	Celta Vigo 2–1	7/1
	Alaves 3–0	28/1	Draw 3–3	50/1	Celta Vigo 3–0	22/1
	Alaves 3–1	25/1			Celta Vigo 3–1	18/1
	Alaves 3–2	25/1			Celta Vigo 3–2	25/1
	Alaves 4–1	80/1			Celta Vigo 4–1	33/1
	Alaves 4–2	80/1			Celta Vigo 4–2	66/1
Half-time/full-time	Alaves/Alaves		4/1			
	Alaves/Draw		14/1			
	Alaves/Celta Vigo		25/1			
	Draw /Alaves		5/1			
	Draw/ Draw		7/2			
	Draw/Celta Vigo		7/2			
	Celta Vigo/Alaves		25/1			
	Celta Vigo/Draw		16/1			
	Celta Vigo/Celta Vigo		3/1			
Goal crazy	0-1 Goals		11/5			
	2-3 Goals		5/6			
	4+ Goals		11/4			
Asian line	Alaves (0)	2.00				
	Celta Vigo (0)	1.85				
Goal line	Over 2.5 goals		2.05			
	Under 2.5 goals		1.75			

Source: www.ladbrokes.com (odds quoted at 1200 GMT, 20 January 2004)

3.34 Looking forward, the extra competition online gambling permits should increase the incentives for firms, including domestic operators who have previously enjoyed a monopoly, to innovate and introduce new products. Ironically, one of the main conclusions from a study looking at ways to stop Danes gambling with foreign operators was that Dansk Tipstjeneste, the country's betting monopoly, should offer new products that appeal to Danish customers, thereby reducing the demand to bet with competitors from overseas.[25] If the domestic market in Denmark were more competitive, Dansk

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[25] Skatteministeriet (2001) "National internet gaming strategy" www.skat.dk/pub1/internetspil/english/kap7eng.htm

Tipstjeneste would already have had the incentives to introduce new games that appeal to customers. Svenska Spel in Sweden, faced by tougher competition from foreign bookmakers, notes that its success is due to introducing new varieties of games and successful advertising campaigns. Both these examples illustrate how internet gambling can benefit consumers by permitting competition. Attempts to prevent a single market for online gambling in the EC would be against consumers' interests.

3.35 Consumers in those Member States that have the largest barriers to entry will not be the only ones to enjoy the benefits of a single market. In countries with fewer restrictions, such as the UK, consumers may also benefit. First, prices may fall because (a) foreign bookmakers, having lost their domestic monopoly, will have an added incentive to become more efficient, and this may increase their competitiveness in the UK as well as in their domestic market, and (b) the UK operators, able to market and take bets on more events, may realise the benefits of a more diversified risk profile and so be willing to offer lower prices.

3.36 Second, the online bookmakers will no longer incur the costs associated with complying with various regulations in the rest of Europe. With the ten accession countries about to join the EU, the costs to firms complying with different regulations in the rest of the EU are poised to increase further. Part of any cost savings from reducing the regulatory burden on operators will, because of competition, be passed onto consumers in the form of lower prices. (It will also make it easier for UK citizens, for example, to continue placing bets on their accounts even when on trips to other Member States.)

4 OTHER CONSIDERATIONS

4.1 The preceding sections have focussed on the benefits, in terms of lower prices and increased variety, that a single market for gambling might generate for consumers. There are other considerations that policy makers might consider important. First, there may be legitimate concerns that without regulation the gambling industry will give rise to market failures which are not in the interests of consumers. Second, consumer welfare may not be the sole motivation for the gambling regulations currently in place. Some governments may have concerns about the tax revenues the industry generates, and even the employment opportunities that the sector creates.

4.2 These issues are considered in this section, along with a brief discussion of how regulations designed for the gambling sector might have unintended implications for other industries.

Regulatory Concerns

4.3 The desire to gamble exists in all cultures. But the risks of addiction and other perceived adverse effects have meant that governments have often either completely prohibited gambling or strictly regulated its availability and activities. The starting point in many countries for gambling regulation is that all gambling is illegal unless stated otherwise.

4.4 If a government seeks a total prohibition on a form of gambling for social reasons, then its desire to prevent citizens using foreign operators to conduct online gambling would be understandable. But for jurisdictions where citizens are permitted to bet, this argument can no longer apply. If the government is willing to allow its citizens to bet on the outcome of a football match with one operator, it is difficult to sustain the argument that citizens are protected by laws that limit the ability of citizens to bet on the outcome with other operators.

4.5 For those forms of gambling that a government is willing to permit there may still be a rationale for regulations. Three possible concerns that might justify regulatory measures are: problem gambling; that gamblers are not sufficiently informed, e.g. they do not understand the odds; and uncertainty about the probity of firms wishing to offer betting services. Similar concerns arise in other industries, yet policymakers typically respond with light-touch regulation.

(a) For example, drinks manufacturers compete in the EU as governments recognise that preventing competition is not the solution to any health concerns there may be relating to alcohol consumption.

(b) It is often argued that unfettered the market fails to provide consumers of financial products, such as pensions and unit trusts, with sufficient information to make informed decisions. The solution in this sector is not to nationalise the industry or grant an exclusive licence. Instead, the authorities may consider means of making sure there is greater transparency about the product, price and risks.

(c) Regulators often monitor financial services firms, such as banks and insurers, to ensure that their customers' monies are secure and that money laundering does not occur. The fewer companies there are to monitor, the cheaper monitoring will be. Yet these savings are, rightly, considered to be more than offset by the gains that competition can bring. Hence, there are competing banks and insurance firms. Similarly, governments should allow competition in the gambling sector.

4.6 The gains from a competitive environment — of lower prices and an increased variety of products for consumers — do not need to come at the expense of other concerns for consumer welfare governments may have, such as the integrity of the betting environment. The UK Government identified in its response to the Budd Report that it is in the interests of all that betting rules be clearly displayed. Where possible, punters should be informed about the odds they face and the rules that apply. They also need protection against attempts to fix the outcome. But in neither instance is limiting the number of licensed outlets necessary.

4.7 Perversely, the dangers of consumers not being protected may increase in countries that heavily regulate their gambling industry. In the absence of competition, prices are likely to be higher and choice lower. In these conditions, consumers may be tempted to bet with foreign bookmakers, perhaps based in jurisdictions that impose very few controls, or to bet with unlicensed bookmakers who by definition avoid regulations. A single market may reduce the risk of consumer exploitation.

4.8 All EU-based bookmakers are subject to licensing arrangements that should give confidence in their integrity. Barriers to a single market in bookmaking punish bookmakers in other Member States at the expense of domestic bookmakers and also bookmakers based in non-EU jurisdictions, where it is harder for Member States to have legal recourse against operators illegally accepting bets from a citizen of the Member State. By allowing all licensed operators to compete in the EU on a level-playing field, the attractiveness of betting with bookmakers not licensed anywhere in the EU will fall.

Implications for Government Revenues

4.9 Creating a single market for online gambling has ambiguous implications for the tax revenues individual Member States collect. Other things equal, a monopoly will hold out the prospect of greatest profits. Thus, a government seeking to maximise the tax revenues it receives from gambling might be tempted to create a state monopoly and receive all the monopoly profits that are available. However, in a dynamic setting, allowing competition and taxing the revenues of competing firms may yield greater tax revenues than a state monopoly can generate in profits. As was shown above, the demand for gambling products may be greater in markets such as the UK where providers compete to offer betting products that appeal to consumers.

4.10 Table 4.1 gives the revenues that the UK government earned from various duties on gambling (excluding revenues from Northern Ireland). They constitute a significant source of total government revenue (0.3 per cent in 2002-03).

Table 4.1: Total Gambling Duty Revenues by Sector (£m)

	1998–99	1999–00	2000–01	2001–02	2002–03
General betting duty (*)	480	492	487	433	304
Pool betting duty	70	38	30	26	16
Gaming duty	91	107	129	130	151
Amusement machine licence duty	157	160	153	155	149
Bingo duty	105	107	114	116	122
Lottery duty	628	609	596	580	550
Total betting & gaming duties	**1,530**	**1,514**	**1,510**	**1,439**	**1,292**

(*) From 6 October 2001 the basis of General Betting Duty was changed to a Gross Profits Tax

Sources: HMCE Annual Reports 1999–2000, 2001-2002, 2002-2003

4.11 The figures in the table do not include national insurance, corporation and income tax receipts from firms and employees in the gambling industry. The table therefore understates the benefit of the gambling industry to the British taxpayer.

4.12 The figures also exclude contributions to good causes from National Lottery sales, arguably contributions that substitute to some extent for direct government spending. Approximately 28 per cent of money spent on National Lottery tickets and scratch-cards is used to fund sports, arts, charities, heritage, and "New Opportunities" (education, health and environment). The National Lottery has been running for over nine years and in that time it has raised over £14 billion for good causes. The National Lottery Commission quotes independent research from La Fleur's Lottery World showing that the UK's National Lottery is ranked second largest of 192 lotteries by returns to government (good causes and taxation).[26] This evidence lends little support to the fear some governments may have that other forms of gambling significantly affects government revenues from lotteries. Creigh-Tyte (1997) finds that consumer expenditure on betting and gaming activity in the UK rose from 0.8 per cent to 1.3 per cent following the introduction of the National Lottery.[27] The National Lottery predominantly represents new spending in the gambling sector.

4.13 Comparing tax receipts across countries is complicated by the different ownership rules. When the government fully owns the operating company, a tax on profits has no effect on government revenues. But the much larger per capita expenditure on gambling in the UK, as illustrated in Chart 3.1, means that the percentage of net expenditure collected by the government would need to be about twice as large as in the UK if government tax revenues from gambling are to be roughly similar in other European countries.

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[26] http://www.natlotcomm.gov.uk/Information/content.asp?id=221

[27] Creigh-Tyte, Stephen (1997) "Building a national lottery: reviewing British experience", *Journal of Gambling Studies,* 13(4), 321-341.

4.14 Examples where the European tax rates are twice as large as in the UK exist (Table 4.2 gives betting duties for the UK). The Dutch levy a 25 per cent turnover tax on lotteries; in Germany, it is not unusual for casinos to pay taxes in excess of 80 per cent of their profits; the Italian government collected approximately 30 per cent of turnover for many of the "pools" games on offer, such as Totogol and Totocalcio.[28]

Table 4.2: Duty Rates for Gambling by Sector in the UK

Sector	Type of Duty	Current Rate of Duty in the UK
National Lottery	% of amount staked	12%
General Betting	% of gross profits	15%
Bingo	% of gross profits	15%
Pool Betting	% of amount staked plus expenses and profit less winnings paid out	15%
Gaming Duty	A premises-based tax on banded profits	2.5% of first £502,500 12.5% of next £1,115,500 20% of next £1,115,500 30% of next £1,953,000 40% of remainder
Amusement Machine Licence	Licence for each machine or for premises based on machines in use	£250, £645, £680, £1,375 or £1,815 per annum depending on type of machine and cost per play

Source: HMCE

4.15 But high tax rates create their own problems. Debates about the appropriate level of taxation are well versed. A government that continues to raise tax rates eventually reaches a rate at which further increases in the tax rate will yield lower total tax revenues. The result arises because the increasing tax rates create incentives for those affected to change their behaviour in a way that reduces the amount of tax collected.

4.16 For gambling this happens in a number of ways. First, high taxes will feed through to higher prices, deterring customers from placing bets. Some cease gambling altogether. Others place bets with firms outside of their government's tax jurisdiction, either with unlicensed bookmakers or bookmakers based abroad. (Of course, in jurisdictions where regulations have created a monopoly provider, any tax cuts will only partially feed through to lower prices for consumers. The monopolist will retain some of the savings from the tax cuts in the form of extra profits.)

4.17 Second, operators have an incentive to move their operations to low-tax jurisdictions. The theory is supported by recent British experience. Until 5 October 2001 all bets faced a 9

[28] Lotteria Italia (2001) "La febbre del gioco: lotterie e giochi a premi]" www.lotteriaitalia.net/htm/archivio.htm

per cent government tax (General Betting Duty). With the growing trend towards telephone and online betting, this led to a rise in the number of bookmakers trading outside the UK. International bookmakers avoided paying General Betting Duty (GBD), allowing them a significant competitive advantage to UK bookmakers. Some UK bookmakers responded by setting up their own offshore operations to compete. From 5 October 2001 GBD was scrapped in favour of a 15 per cent gross profits tax. This enabled UK-based bookmakers to offer tax-free betting to customers, increasing their international competitiveness. It prompted the return of bookmakers' offshore betting operations back to the UK. This gave the UK a system of betting taxation better able to accommodate competition in the age of telephone and internet betting.

4.18 Online gambling does create a complicating factor when considering how a single market for gambling might affect the tax receipts of the various Member States. Even if net gambling expenditures increase throughout Europe, not all jurisdictions will necessarily realise an increase in their tax receipts. The jurisdiction that collects taxes need not correspond to the location of the punter. This may concern individual Member States that lose out. But it should not be accepted as an argument for restricting the single market. Similar arguments could be applied to many other industries, where the single market has led to industries in some countries declining because of cheaper imports. Increased tax revenues from other industries where the Member State has a comparative advantage should offset the lost tax revenues from these declining industries.

4.19 As recognised by the UK's Department of Culture, Media and Sport, online gambling offers opportunities to attract custom, and therefore tax revenues, from outside the EU.[29] Operators based in Member States perceived to have regulations to protect the consumer will be able to use the good reputation of operators based in such countries to attract demand internationally. (Obviously the ability to compete will require that the regulations are proportionate; otherwise the costs of meeting regulations may place the EU-based operators at a significant cost disadvantage.)

4.20 Finally, allowing online gambling within the single market may save governments expenditures associated with enforcing regulations designed to restrict or prohibit such betting.

Other Beneficiaries

4.21 Aside from increased consumer welfare, and possible increases in tax receipts, there are other benefits that can accrue from the higher levels of demand that a more liberal approach to gambling regulation might bring.

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29 See Department of Culture, Media and Sport (2002). *A Safe Bet for Success—Modernising Britain's Gambling Laws, www.culture.gov.uk/PDF/gambling_report_pgs.pdf*

4.22 Most obviously, a large gambling industry provides employment opportunities. In the UK the industry employs over 100,000 people. A breakdown by sector is shown in Table 4.3. What data that are available for other European countries tend to detail the number of outlets rather than employment numbers, although comparisons with the UK may allow some inferences about the employment opportunities the industry generates elsewhere in Europe. Italy has just 1,350 betting outlets (and this includes on-track outlets) compared to 8,500 licensed betting offices in the UK. Compared to the UK's 122 casinos: there are now four casinos in Sweden opened by Svenska Spel's subsidiary Casino Cosmopol; Holland Casino has an exclusive licence to run 12 casinos; Italy has only four casinos and a ban on any new ones.

Table 4.3: UK Employment Numbers by Gambling Sector

	Employees	**Number of Operators & Outlets**
Casinos	12,000	126 Casinos
Bingo Clubs	c.19,000	699 Bingo Clubs
Gaming machines	c.23,000	255,000 Machines
Betting	Betting Shops c.37,000	c. 8,500 licensed betting offices
	Telephone & Internet Betting 5,000	
	Tote 1,300	
	On-course bookmakers 700	
Pools	1,140	3 operators
National Lottery	(*)	c. 35,000 retailers

(*) It is not known how many people retailers employ that would not be employed if lottery tickets were not being sold.

Sources: www.dcms.gov.uk/new_responsibilities/gambleg.html; Europe Economics (2000) "An assessment of the options for modernising betting taxation: final report" London: Europe Economics; Gaming Board for Great Britain (2003) "Annual Report 2002-03" London: The Stationery Office; and Ladbrokes.

4.23 The industry is well suited to those wishing to take part-time or casual employment. An inquiry in Australia found that over 50 per cent of employees in the sector worked part-time. The flexible employment arrangements are perhaps one reason why the inquiry found women filling 51 per cent of positions.[30]

4.24 There are also a large number of jobs that indirectly depend on the gambling industry, a point made in Svenska Spel's 2000 annual report. For example, the 35,000 outlets selling lottery tickets in the UK may include some outlets that are only viable (and therefore able to employ people) because of lottery sales, and some outlets may employ additional staff to meet the demand for lottery tickets. In addition, lottery grants support projects that generate a number of job opportunities: the Budd report cites an estimate (from 1996) suggesting that as many as 110,000 jobs in the UK would be generated or secured in the

[30] Australian Productivity Commission (1999) *Australia's Gambling Industries,* www.pc.gov.au/inquiry/gambling/finalreport/

Lottery's first seven years of operation due to the projects built with the help of lottery grants.[31]

4.25 The gambling industry is essential to maintaining jobs related to horseracing and greyhound racing. The British Horseracing Board claims that the British horseracing industry employs over 100,000 jobs.[32] The British Greyhound Racing Board, in a submission to the Budd Report, suggested that greyhound racing employs 9,500 people.[33] These industries receive support from the gambling industry in the form of sponsorship (over 6 per cent of money sponsoring horse races came from bookmakers between 1993 and 2001),[34] voluntary contributions (in 2002 bookmakers contributed £5.4 million to the British Greyhound Racing Fund)[35], and, in the case of horseracing, the betting levy (the Horserace Betting Levy Board's accounts for the year ended 31 March 2003 show that the betting industry contributed over £70 million to the horseracing industry).

4.26 The revenue the UK horseracing industry receives from gambling helps it to attract some of the best horses in the world to race. This gives the UK consumer an improved choice over the quality of horseracing to watch. In 2002, the UK held more horse races, had more racehorses, more starters in races, greater betting turnover and more stallions than anywhere else in Europe.[36]

Secondary Effects of Regulating Gambling

4.27 Regulations of the gambling industry can also affect other industries. Policy makers should consider these "side effects", as well as the regulations' effects on stakeholders (consumers, producers and taxpayers) in the gambling industry.

4.28 Rules designed to restrict online gambling may have an adverse effect in other markets, to the detriment of consumers. For example, attempts to enforce an outright ban on online-gambling operators accepting bets from certain countries may distort the choice of internet service provider consumers make. Consumers determined to bet with a foreign operator may choose an ISP that they know will allow them to evade attempts to detect where they are betting from.

4.29 The goal of technology neutrality for the information services may also be compromised. Care needs to be taken to ensure that regulations do not place online gambling ventures at a disadvantage compared to betting services that rely on interactive digital television or 3G mobile telephony services. The demand for gambling services is potentially large, so

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[31] Henley Centre, as quoted in the Budd Report.
[32] www.britishhorseracing.com
[33] Page 55, the Budd Report.
[34] www.flatstats.co.uk/articles/ bookie_sponsored_races.html,
[35] www.bgrf.org.uk
[36] Australian Racing Board (2003) *Australian Racing Fact Book: A Guide to the Racing Industry in Australia 2002–2003,* www.australian-racing.net.au

that rules affecting this market may have big implications for the viability of competing platform providers, such as the internet, iDTV and mobile telephone firms. Attempting to block online gambling by regulating ISPs may greatly increase their costs.

4.30 Competition in the financial sector may also be affected, if some governments require banks to block internet credit card payments to identified gambling sites. It may restrict banks' choice of payment systems.

4.31 More generally, rules relating to online gambling need to be carefully considered if they are not to adversely affect other markets. In January 2002, a German administrative high court in Berlin ruled that all internet cafes would need to hold a valid gaming licence on their computers.[37] The ruling concluded that a computer could potentially be used as a gaming device. With gaming licences sometimes costing over €500 per month per computer, the potential impact of gambling laws on other parts of the economy (in this case internet cafes) is clear.

37 As reported in www.gamblinglicenses.com

5 THE NEED TO UPDATE GAMBLING LAWS

5.1 Gambling laws need to be reviewed periodically. Earlier regulations may not work as intended; there may have been changes in attitudes towards gambling; or technologies may have changed. Perhaps the most compelling argument for reviewing gambling regulations throughout the European Union now is the advent of new technologies, particularly the internet, with the potential for online gaming that this has created. Existing laws were not drafted with internet gambling in mind.

5.2 The main conclusion from the preceding sections is that competition in the gambling sector can and does work. As with other industries, competition can lead to lower prices and increased variety. Where regulations to protect consumers are necessary, governments should take care not to eliminate the benefits of a competitive industry by over-regulating. The evidence suggests that many Member States might benefit from lighter regulation of the gambling industry.

5.3 Regulations of the gambling industry in the UK tend to be less restrictive than elsewhere in Europe. This report asserts and demonstrates a number of the benefits with the UK's approach.

(a) The UK industry is significantly larger than that in the rest of Europe in relation to GDP. UK consumers are not being prevented from purchasing products that they value.

(b) Consumers in the UK have a greater choice of betting products and providers.

(c) Consumers in the UK are offered better odds (lower prices).

(d) The UK gambling industry creates employment opportunities and large tax revenues. It is not just consumers that benefit.

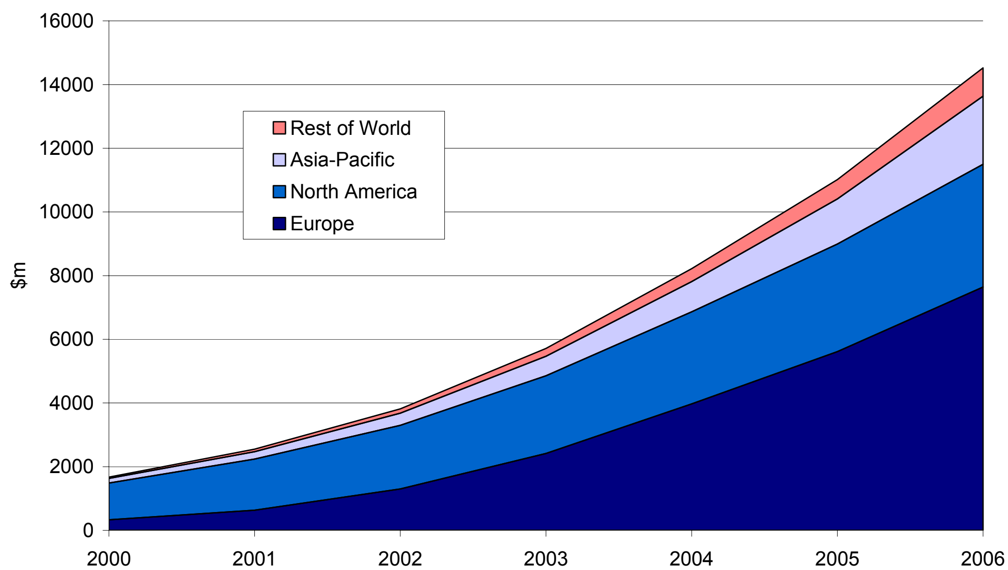
5.4 With the online gambling market forecast to grow dramatically over the next decade, now is an opportune moment for Europe to realise similar benefits, by creating a single market for gambling. Online gambling has been one successful industry from the internet boom, and many market analysts anticipate the industry will continue to grow over the next decade. An analyst at Merrill Lynch is quoted to predict that the industry globally will generate £123 billion of revenue in 2015.[38] In the near future, large growth rates are expected. Schema forecasts that internet gambling will account for around 10 per cent of all gambling expenditure in 2005, a large increase from the less than 1 per cent it accounted for in 2000.[39] Similarly, Informa Media Group (IMG) expects revenues to have increased 10 fold by 2006 from their levels in 2000. Chart 5.1 shows the revenues IMG

[38] www.gamblingmagazine.com/articles/23/23-343.htm

[39] Brochure at www.schema.co.uk advertising Schema (2001) *Online Gambling in Western Europe,* High Wycombe: Schema

predict, broken down by region. Europe is expected to account for over 50 per cent of this market by 2006.

Chart 5.1: Electronic Gambling Revenue by Region



Source: Informa Media Group, February 2002, as reported in http://www.gamblingcontrol.org/docs/54.html

5.5 Governments should remove barriers affecting providers of such services, such as bans on foreign operators advertising or accepting bets. These prevent or distort competition, to the detriment of consumers. Europe requires modern and flexible gambling regulations that allow firms to compete. Online gambling is an industry where firms can compete on a global scale. Europe has the opportunity to be the base for this market if it adopts sensible and proportionate regulations of online gambling.

5.6 Recent developments provide a mixed signal about whether Europe is moving towards a more deregulated setting. The Danish government has sought to protect Dansk Tipstjeneste's monopoly with the introduction of Lovforslag nr.111. This prohibits foreign operators from providing certain games, lotteries and betting in Denmark, and seeks to extend Danish jurisdiction to internet gambling sites deemed to be targeting the Danish market, for example, by the use of the Danish language.

5.7 In contrast, following the recommendation of the Budd report, there is a gambling bill in the UK currently under pre-legislative scrutiny. The Budd Report, the first comprehensive review of the British gambling industry since 1978, recognised that online gambling is merely another method for delivering products that consumers value, and its recommendations reflected this. The proposed bill, when passed, should make the UK gambling industry more attractive to both operators and consumers. Regulations will be simplified, removing unnecessary barriers that currently restrict access to the industry for both new entrants and customers.

6 CONCLUSIONS

6.1 This report has argued the case for policy reform to allow a competitive EU single market in gambling.

6.2 At present, regulations differ from country to country within the EU in a way that cannot be objectively justified. Within the bounds of necessary protections for minors and those vulnerable to problem gambling, there is ample scope for Member States to allow more competition between firms offering gambling services.

6.3 International comparisons, reviewed in detail above, show that bettors would benefit substantially from more competition between service providers. The returns to the bettor are substantially greater in the UK's more competitive market than in countries that still restrict choice to a limited number of service providers. As a result, consumers in the UK spend more on betting; the industry is a larger employer; and the tax yield is significant.

6.4 There is a natural role for the EC to bring forward proposals for legislation that would bring about a single market in this sector, to the benefit of the most competitive suppliers and consequently to the benefit of consumers.