

GAMBLING IN THE SINGLE MARKET – A STUDY OF THE CURRENT LEGAL AND MARKET SITUATION

Volume I

**Executive summary and
pan-European Community market
review – June 1991**



**COMMISSION
OF THE EUROPEAN
COMMUNITIES**

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VOLUME I

EXECUTIVE SUMMARY AND PAN-EUROPEAN COMMUNITY MARKET
REVIEW

JUNE 1991

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GAMBLING IN THE SINGLE MARKET

A STUDY OF THE CURRENT LEGAL AND MARKET SITUATION

EXECUTIVE SUMMARY

JUNE 1991

I. INTRODUCTION

1. The Importance of the Market

The size of the betting, gaming and lottery market in the European Community, measured by total stakes (that is, turnover) was approximately 46,554 million ECU in 1989.

If the industry was ranked amongst the major European Community industrial sectors, it would figure above the Computer and Office Equipment industry (N.A.C.E. defined) which is currently the thirteenth largest industrial sector.

2. Market Characteristics

The gambling and gaming industry in the European Community is made up of a series of highly differentiated Member State markets. Each of these markets reflects both national tastes and preferences and the legislative régimes that have evolved to control the sector. Accordingly, while it is possible to view gambling and gaming on a pan-European level, the sector is presently structured predominantly along national lines. In every Member State legitimate concerns about the control of criminal activity and other 'public interests' are voiced by regulators and operators alike. This indicates the often close relationships which have evolved between those overseeing the sector and those operating within it.

The sector as a whole is characterised by very strong vested interests. These interests revolve around a clear wish to protect and exploit systems that have evolved relatively slowly, in most instances over decades. As gambling and gaming is a substantial source of state revenue throughout the European Community, it may be argued that the industry plays a valuable social role both as a source of finance to the national exchequer and as a way of legally satisfying latent demand for gambling and gaming experiences.

Throughout the study it was clear that the gaming operators, be they private companies or publicly-owned undertakings, recognised that significant change is occurring in the sector. This change has been driven by an apparent increase in cross-border betting over recent years, the advent of advanced telecommunications systems and the increase in consumer expectations encouraged by greater travel and a broadening of consumer experience. It is clear that these changes will have an impact which will contain elements which can be perceived as both positive and negative and will differ within each national context.

Perhaps the most striking element that emerged in virtually every Member State was the clear view held by operators that they could develop and grow betting and gaming as a private sector activity and the view generally expressed by the regulators that demand for gambling and gaming should be controlled or circumscribed by law in some way.

In certain instances, the real effect of this legislative control has been to exclude all non-national competition from the home market. Examples of this arise throughout the Community in the casino sector and in certain Member States in horse race betting and lotteries. There was an equally wide disparity of views on the desirability of different types of betting and gaming activity. The major distinction that is drawn is between games of skill and games of chance. Games of chance are generally more strictly regulated than games of skill, although in certain circumstances the distinction between the two is highly questionable. Distinctions may also be drawn between hard and soft gambling, with lotteries or their equivalent being treated as soft gambling and therefore open to wide promotion and broader distribution. Hard gambling, such as betting on the outcome of sports events or gambling at casinos, is more strictly controlled.

Although common patterns of views on different types of game emerged in many Member States, there was a very strong consensus on the behalf of both operators and regulators alike that the primary regulation of gambling and gaming should occur at a national level. This reflects concerns over national taxes and preferences, perceived social norms and the vested interests of the regulators and operators themselves, who frequently enjoy guaranteed fiscal revenues and national monopolies respectively. Amongst the multinational gaming operators, a wish was expressed for equality of access to national markets rather than a single set of Europe-wide rules.

3. The Structure of the Report

This report covers the five following market sectors:

- * national lotteries and football pools**

- * horse race betting**

- * casinos**

- * gaming machines**

- * bingo and other activities.**

Each market sector analysis is preceded by an explanation of the methodology and an executive summary.

II. METHODOLOGY

Four separate sources of information were called upon in the preparation of the study:

- * the national legislation of each Member State and accompanying official commentary;
- * data drawn from national statistical sources, including budgets and statements of tax receipts;
- * publicly available market data; and
- * responses to two surveys.

Of these four categories of information, the third - publicly available market data - was significantly lacking or unreliable. It was therefore necessary to rely for much of the data collected on the goodwill and co-operation of all those who were interviewed during the course of the study. Much of the data that was received was indicative rather than definitive, which is reflected in both the qualitative and quantitative analyses. The contents of this report have been prepared on a 'best endeavours' basis.

The work was guided by the principle that any submission from whatever source would be welcomed and taken into account in the preparation of the report.

All ECU conversions are made at 1989 exchange rates.

III. EXECUTIVE SUMMARY OF THE GAMING, LOTTERY AND SIMILAR ACTIVITIES WITHIN THE EUROPEAN COMMUNITY

1. Introduction

Gambling and gaming, as a set of activities, poses a number of definitional issues. A fundamental distinction exists between betting and gaming. Betting is defined as a game where a financial stake is wagered against the outcome of an event. Betting differs from gaming in that there is an element of skill or knowledge involved in predicting the outcome. Gaming is defined as the wagering of a stake against the outcome of an event in which no skill element is involved. The outcome of the event is purely chance. Lotteries are games of chance with pooled resources. The characteristic of lotteries (including lotto and toto) is the 'high win, low stake' ratio.

For the purposes of this study, we have grouped the industry into five market sectors:

- national lotteries and football pools,
- horse race betting,
- casinos,
- gaming machines.
- bingo and others,

The football bets which have the characteristic of high win-low stake ratios, (football pools in the United Kingdom and toto throughout the rest of the European Community) have been statistically shown by operators to have an element of skill. With the exception of the United Kingdom, however, these football bets are run ultimately by the same organisations within each Member State which run the lotteries and the lotto. They have, therefore, been grouped with these two other products.

2. Market Size

2.1. Total Market

It was difficult to define the market size of betting, gaming and lottery activities throughout the Member States. Turnover figures were extremely difficult to obtain for the casino industry and the gaming machine industry.

The casino operators in particular were reluctant to release unpublished figures concerning the size of their market. Turnover figures have hence been estimated on the basis of taxation receipts. Many of the taxation figures are based on gross gaming wins in favour of the casino, not total stakes wagered.

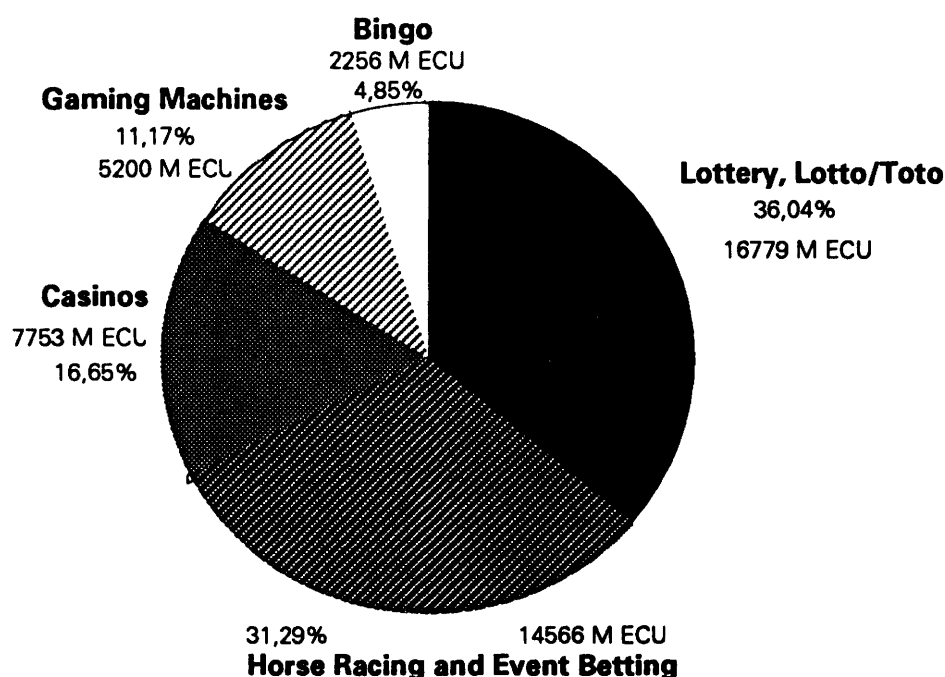
Gaming machines are taxed as individual units with no relationship between tax level and turnover. It is normal for the size of the tax to relate to the size of the maximum payout on each machine.

In the market sector classified as 'others', most of the activities were insignificant in relation to the rest of the market. The exception was bingo.

The estimated total market size for betting, gaming and lottery activity within the Member States amounts to 46,554 million ECU staked by players in 1989. This figure excludes marginal games.

Diagram 1 below shows the breakdown of the market by product sector.

Diagram 1. Estimated breakdown of the 1989 annual turnover by market sector.



Lottery and Lotto/Toto products and horse race and event betting account for the majority of the market. The size of the casino market in particular, is noteworthy as the number of players is limited. In Germany, France and the United Kingdom the use of gaming machines in casinos makes a substantial contribution to turnover.

The figures above do not include illegal gambling activity. With the exception of the parallel Totocalcio in Italy which it is estimated, turns over annually at least 1.7 million ECU , illegal gambling is insignificant in relation to the market in total.

2.2. The Lottery Market

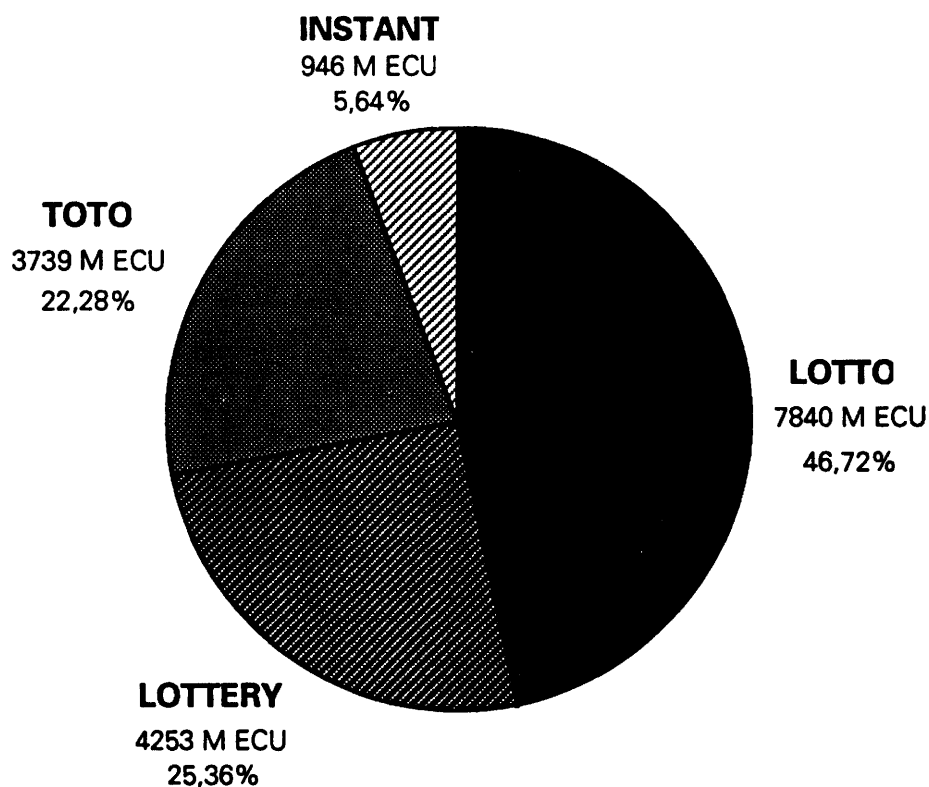
The Lottery market is divided in 4 product groups:

- Lotteries where a draw is made of prenumbered tickets
- Lotto where the player picks a number from a card of numbers ranging from 0-45 or 49
- A football bet
- and instant lottery: scratch cards with instant prizes.

The dominant lottery product within the Community is the lotto, which accounts for 46.7% of all stakes. Lottery is the next largest product with 25.4% closely followed by Toto with 22.3%. The instant lottery, a relatively new phenomenon, accounts for 5.6% of the turnover.

Diagram 2 below illustrates the breakdown.

*Diagram 2. Estimated breakdown of turnover of lottery, lotto and toto market.
Total stakes: 16,779 million ECUS in 1989.*

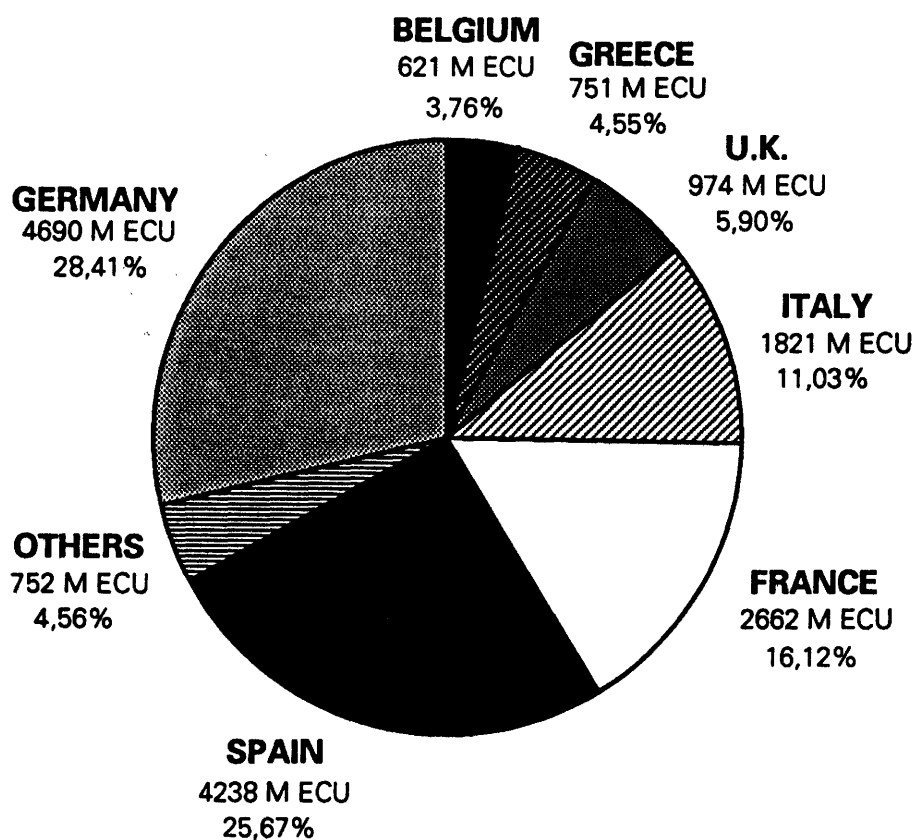


The lottery, lotto and toto market is continually evolving. The lottery is a more traditional product and its percentage of the total market share is likely to be further eroded in favour of the lotto. Likewise the toto is in decline in many countries. In Italy, however, it is the most popular game. The United Kingdom football pools is second to the Totocalcio in Italy as the largest football bet within the Community.

The national breakdown of the national lottery, lotto and toto markets show that the largest turnover is in Germany, which account for 28% of the total market. This is followed by Spain with 25.3%. France is the third largest market accounting for 15.9% of all stakes wagered.

Diagram 3 illustrates the market share in more detail.

*Diagram 3. National breakdown of the lottery, lotto and toto market.
Total market: 16,779 million ECUS in 1989.*



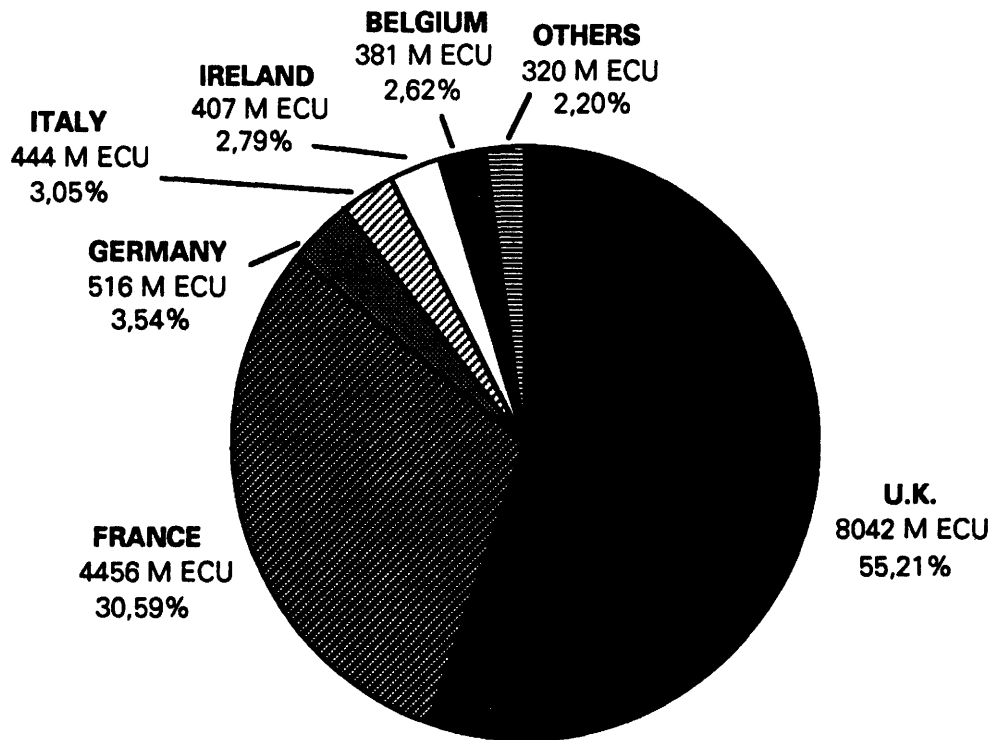
A number of operators covet the United Kingdom market. It is easily identifiable as a market with major growth potential.

2.3. The Horse Race Betting Market

Horse race betting is the second largest market segment accounting for 31% of all stakes wagered within the betting, gaming and lottery market of the European Community.

Diagram 4 below clearly shows that horse race betting is most popular in the United Kingdom and France. These two countries account for 85% of the total market.

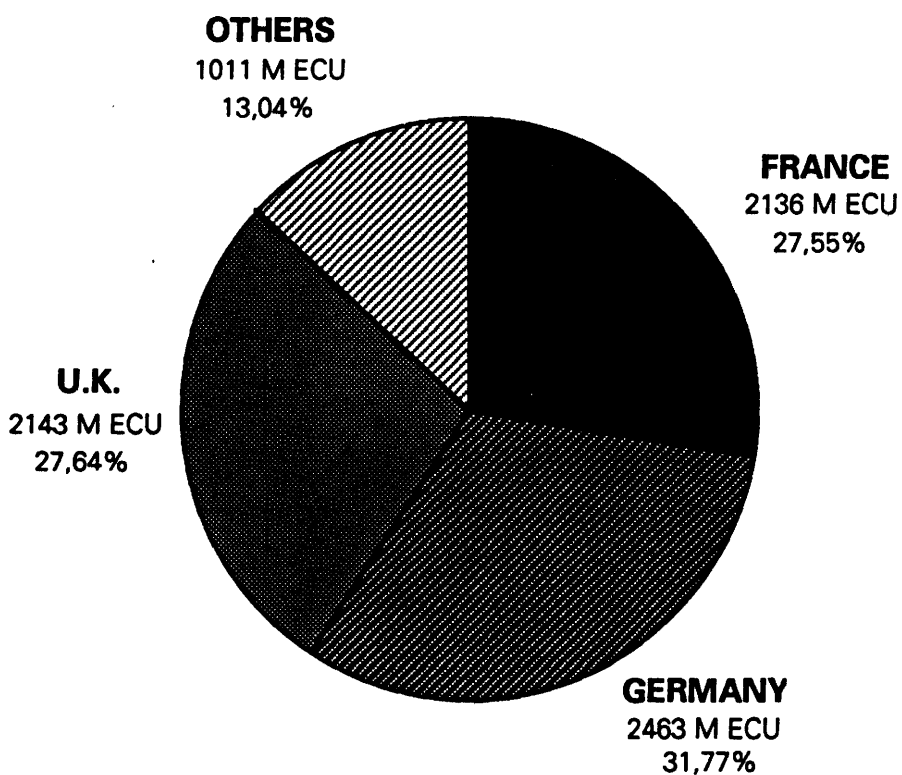
Diagram 4. Estimated breakdown of the total stakes on horse race betting by Member State (Total market: 14,566 million ECUS in 1989).



2.4. The Casino Market

As diagram 5 below indicates, the casino markets is made up principally of three major countries: Germany, United Kingdom and France. The total stakes wagered in these three Member States accounts for 87% of the total market.

*Diagram 5. Breakdown of the casino industry market by Member State
Total turnover: 7,753 million ECUS in 1989.*

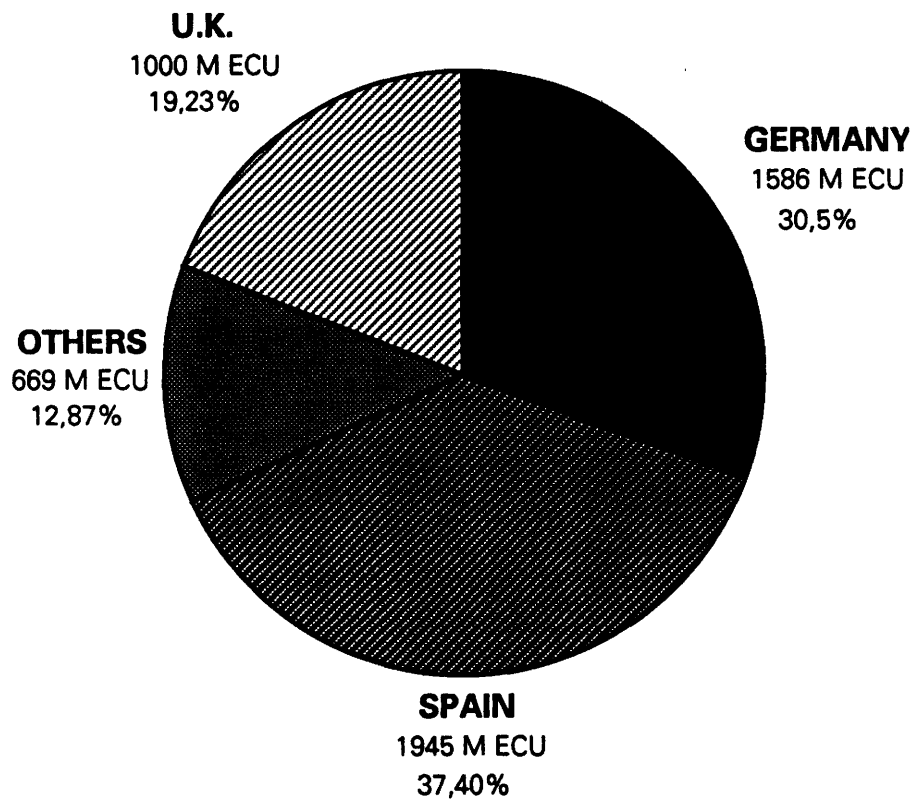


The industry in the United Kingdom and France is organised through private enterprises. In Germany, the market is mixed with some *Länder* permitting private enterprise and some insisting on state operators only.

2.5. The Gaming Machines Market

The gaming machine market is estimated at 5,200 million ECUs per annum in total stakes. The largest markets are in Spain, Germany and the United Kingdom (Diagram 6).

*Diagram 6. Breakdown of the gaming machines market by Member State
Total turnover: 5,200 million ECUS in 1989.*



As would be expected, the revenue corresponds with the number of machines in each country. The more machines, the greater is the turnover. All stakes on amusement machines with prizes have been included, irrespective of the machine grade in terms of stake and prize pay-out.

2.6. The Bingo Market

Bingo is concentrated principally in two countries: Spain and the United Kingdom.

*Diagram 7. Breakdown of the bingo market by Member State
Total turnover: 2,256 million ECUS*

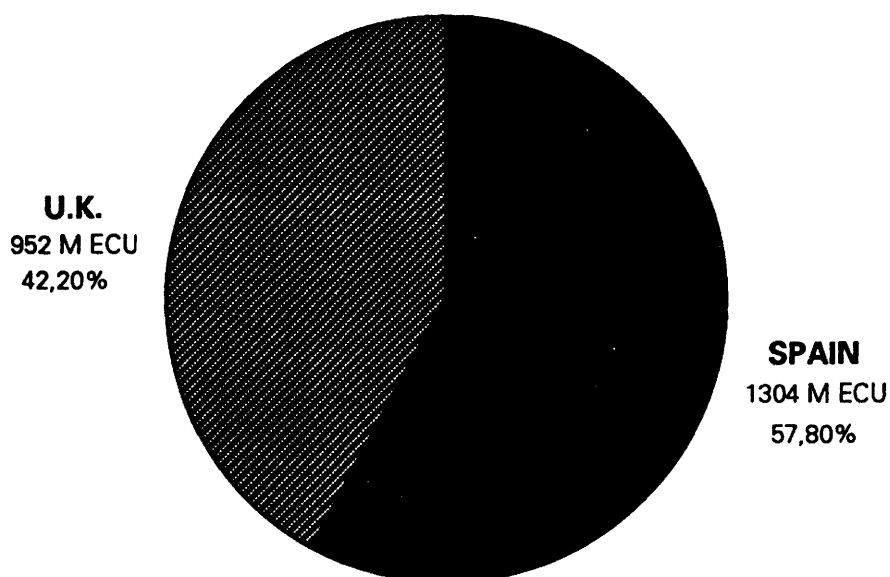


Diagram 7 above shows that Spain is the slightly larger market with 1,304 million ECUs staked in 1989 compared to the United Kingdom with 952 million ECUs staked. Portugal has organised private-enterprise operations running bingo although the size of the market is insignificant.

3. The Influence of National Regimes

Throughout the Member States, betting, gaming and lotteries are illegal, except where specific legislative exemptions provide otherwise. In general, gambling is not considered to be in the public interest, however, it is recognised that a level of natural demand exists and, as a result, legislation has evolved in each of the Member States to allow betting, gaming and lottery activities.

As a result of the desire of regulators to ensure public order, the industry is heavily regulated and controlled. Control is exercised through licensing procedures, taxation and enforcement by a combination of police and tax officials. Changes in legislation have often been market driven. E.g. in France, when casinos became popular, they were then legislated for, in the United Kingdom, when off-track bookmaking became a popular but illegal pass-time, it was then legislated for.

The motivations for legislation vary from market sector to market sector. The lotto, lottery and toto market however, is essentially a vehicle for generating state revenue.

The main motivations for the regulation of casinos is either to control illegal activity or to act as a method of promoting tourism. The latter argument is not supported by the players who visit casinos. Invariably these are predominantly local nationals.

For horse race betting, regulations aim to eliminate criminal activity and support horse breeding.

Gaming machines have evolved with advances in technology. The legislative framework has evolved to accommodate this. The national governments have a strong desire to maintain control over this industry. They commonly believe that legislation reflects the social and moral attitudes to betting, gaming and lotteries within each specific Member State. Any attempt to diminish Member State control over these industries would be met with strong resistance.

The principle of acting to protect the public from themselves is often contradicted by the active promotion of state-run games, i.e. lotteries, lottos and, with the exception of the United Kingdom, football bets. All eleven of the Member States with a national lottery or lotto actively promote the product, encouraging consumers to play. Without exception the eleven countries have televised draws. The use of television and telecommunication tech-

nologies will clearly be an important influence on the future development of the broad spectrum of the gambling industry.

The contradiction of actively promoting games which governments recognise not to be in the public interest, extends to other state-run market sectors, such as horse race betting in France, casinos in Holland and in some German *Länder*.

4. Advertising

Advertising takes many shapes and forms from posters, point of sale material, window and car stickers and give aways (all of which are termed as below-the-line advertising) to radio and television advertising (which is termed above-the-line advertising).

What can or cannot be advertised varies from Member State to Member State and Market Sector to Market Sector.

National Lotteries and Lotto throughout the Member States are drawn live on television during prime time viewing. This is a major enducement for the consumer to play again. The live draws bring animation to the product.

Television companies often give this time free and other advertisers either sponsor the period or take prime advertising slots either side of the draw when the television has a large captive audience.

These live draws if shown in neighbouring countries act as a stimulant to play on these markets. In the future single market with an open audio visual environment lottery draws for foreign lotteries will be commonplace on television.

Other more hard forms of gambling and gaming are treated separately from Member State to Member State. For example, Horse Race betting is marketed on French television. Such activity is prohibited in the United Kingdom, the other large Horse Race betting market. Casino's are allowed to advertise in Holland, France, Spain, Italy and Portugal but not in the United Kingdom.

Once again it could be envisaged that citizens in the United Kingdom will be receiving advertising campaigns for foreign betting, gaming and lottery products while national operators are prohibited from advertising.

5. Cross-Border Betting

5.1. Lotteries

The state-run lotteries and Lotto and Toto organisations do not wish to encourage cross-border betting. If it were possible to enforce national legislation strictly, there would be no cross-border betting. Cross-border betting however does exist. The activity is likely to grow as a result of improvements in audio-visual telecommunications, the breakdown of fiscal barriers and the greater movement of people between Member States.

Cross-border betting is a market-driven phenomenon. The agents of certain Klassenlotteries are the most active promoters of illegal cross-border betting.

'Mail-shot' marketing has been organised throughout the twelve Member States. The smaller lottery markets, with correspondingly smaller prizes, are clearly the most vulnerable.

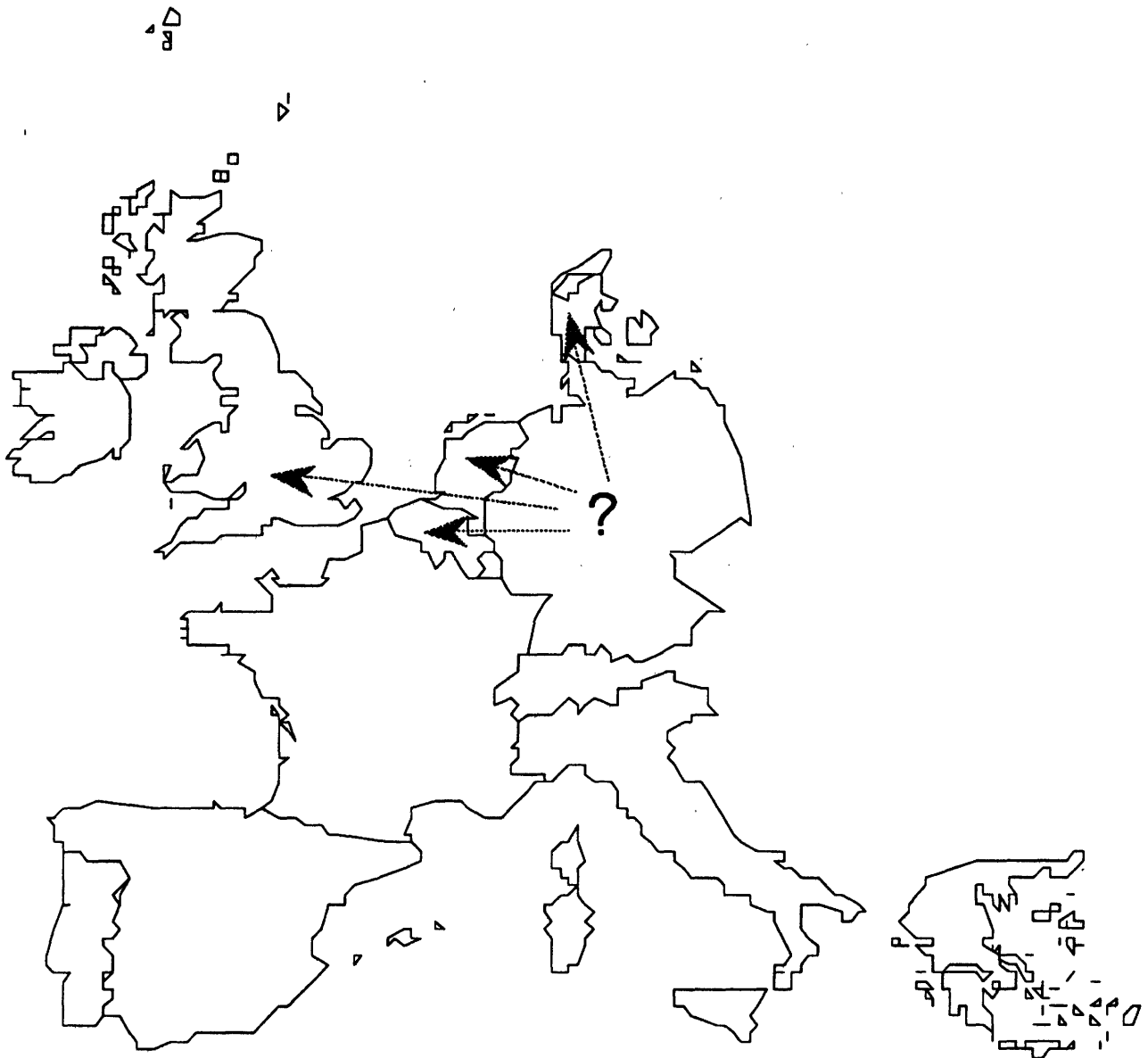
The United Kingdom does not have a national lottery and is regarded by the agents as a market of immense opportunity.

The big prizes of the German Klassenlotterie are very attractive to consumers who normally play on the smaller national lotteries which have smaller first prizes. In this regard, diagram 8 shows the vulnerability of Denmark, Belgium and the Netherlands.

Another consideration affecting the postal promotion of products is the efficiency of the postal services. Postal delays make it difficult for lottery agents to secure bets on time.

Cross-border betting which occurs out of convenience resulting from nearness to a neighbouring Member State or similar language and culture is of an osmotic nature. Osmotic cross-border betting is more likely to occur if there is a disproportionate size of population and therefore larger lotteries with bigger prizes next to smaller national lotteries or lottos.

Diagram 8. *Klassenlotteries'* principle areas of promotional activity for cross-border betting.



In the Iberian peninsula, the government of Spain run a Christmas lottery every year. This Christmas lottery is the largest lottery in the world. Traditionally the Portuguese bet on this lottery.

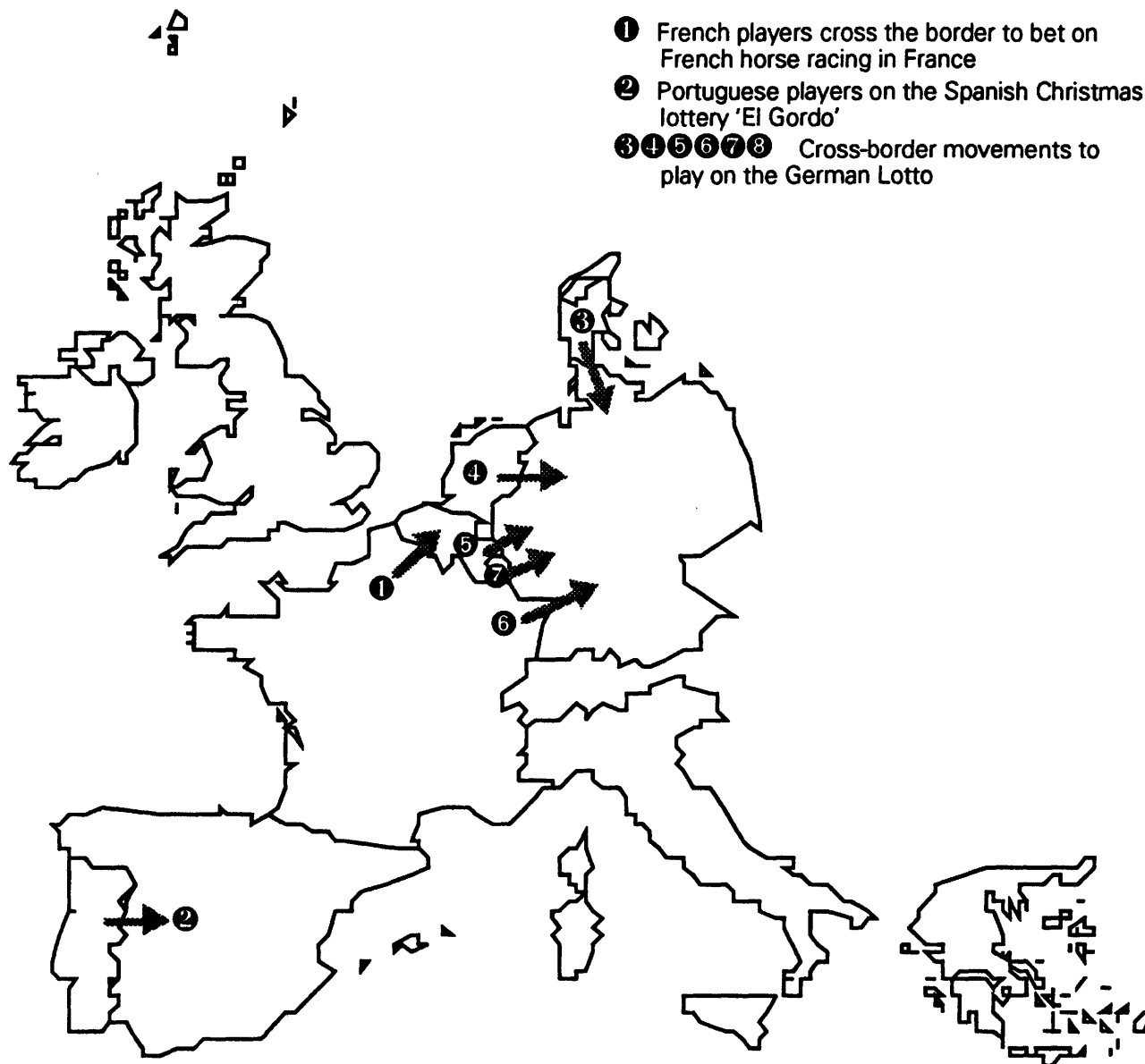
5.2. Horse Race betting

The situation is significantly different in horse race betting. It has been a tradition for French nationals to cross the border on official race days, Tuesday, Thursday and Sunday to play the Tiercé on French horse racing in Belgium. The motivation for this is that the 'mise de base', the minimum stake, is 10 BF in Belgium, compared to 10FF in France. Because the nature of the betting requires multiple combinations, it is cheaper for the French to play in Belgium.

Osmotic cross-border betting is illustrated in diagram 9 below. It has evolved relatively slowly as opposed to being driven by active marketing. It should be noted under current national legislation both in Germany and in the countries under threat that legislation is already in place to prohibit this activity.

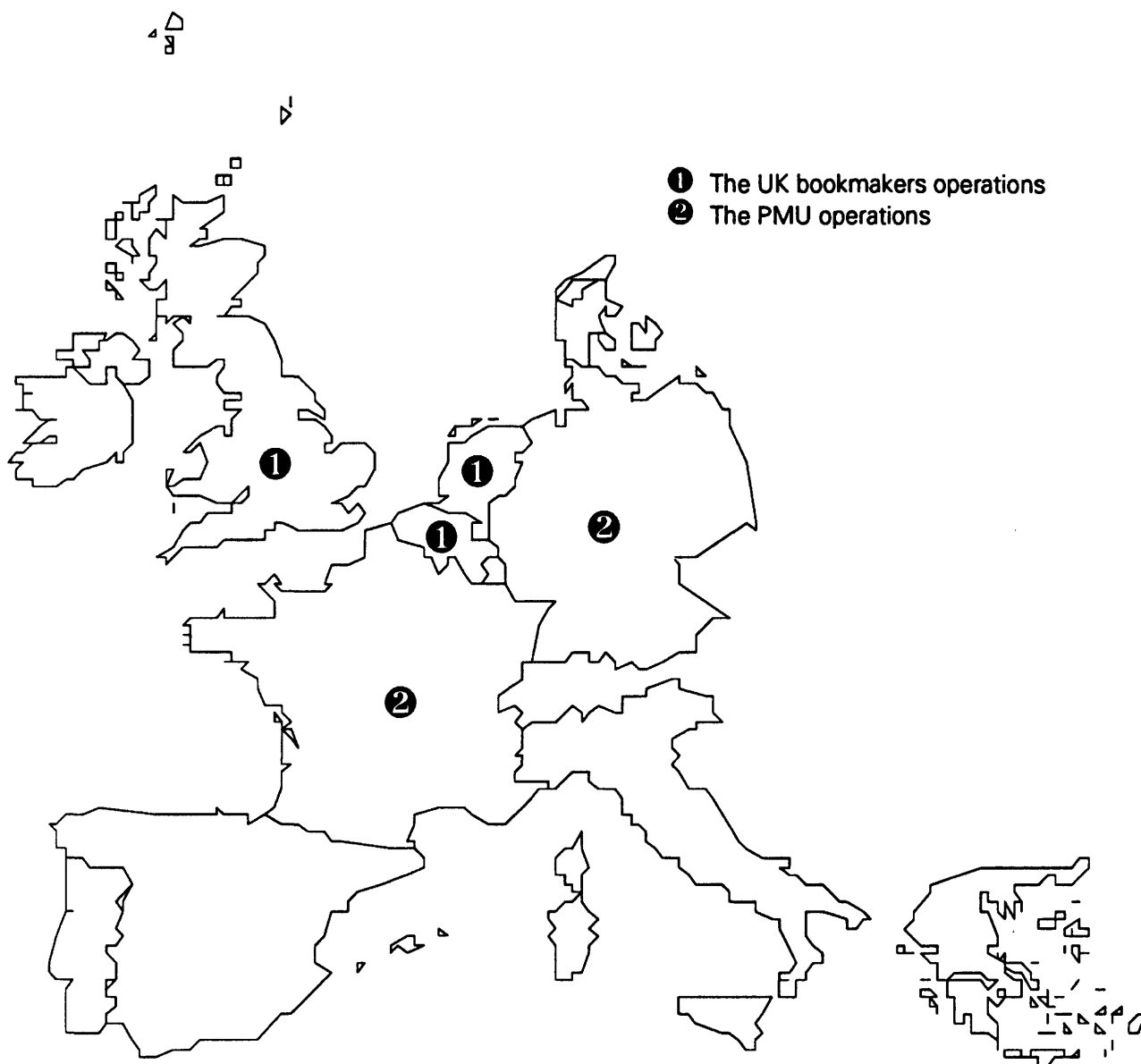
Off-track horse race and event betting is stimulated by audio-visual information being shown in off-track betting shops.

Diagram 9. Osmotic cross-border betting.



The current market situation is that United Kingdom bookmakers, which are private enterprises, have established operations in Belgium and the Netherlands. They have tried to enter the German market and only one company, has succeeded in gaining a licence in Rheinland-Pfalz.

Diagram 10. Horse race betting.



The PMU in France is a state-run totalisator operation. It has a monopoly on horse race betting in France and exports its audio-visual programmes to Germany and Switzerland.

United Kingdom bookmakers would like to compete in other European markets. The PMU in France conversely seeks to have the status quo maintained within the French market and to continue its exclusive audio-visual supply of French racing in Germany.

Televised racing from England is already broadcast into Belgium and the Netherlands and bets are taken in Belgium and the Netherlands on English racing. Bets are taken in Germany on French racing, and bets are taken in England on French, Irish and English races. It is technically feasible for an off-track betting shop to receive racing from anywhere in Europe.

Credit bookmaking does not involve cash transactions at the time of betting. Bets are placed over the telephone by players watching the race on a television set elsewhere.

With the development of international banking systems, international telecommunication and international audio-visual programming, it is impossible to control cross-border horse racing and event betting without the cooperation of these three industries.

IV. A PAN-EUROPEAN COMMUNITY REVIEW OF THE LOTTERIES, LOTTO AND TOTO MARKET

This part of the study deals only with large scale lottery operations. Local lotteries have not been included in this section.

1. The Games

1.1. Overview

The lottery is one of the oldest type of games of chance. In some European countries the origins of lotteries date back some two or three centuries.

Today, a variety of types of lotteries are played in the European Community. By operator, distinctions can be drawn between state run lotteries and those organised by private institutions. All major lottery games in the European Community Member States are operated by state owned lottery companies: the traditional state lottery (ticket or class lottery), the Lotto and the instant lotteries.

Depending on the geographic spread, private lotteries can be broken down into national lotteries, open to players in the whole of one country, and the local lotteries which are restricted to a certain area. The latter are, in some countries, subject to simplified authorisation procedures as they occur on a small scale and are then called insignificant lotteries.

Private lotteries can be organised either on a permanent basis, take place only at certain times or are one-time events. Due to the minimal importance of the local or insignificant lotteries they are not included in this section of the report.

Toto, a football pool bet, has been included in this report as it is organisationally closely linked to the Lotto. In six of the twelve Member States both games are operated by the same organisation, they have the same distribution system and are subject to similar rules concerning payback rate, gambling tax and the distribution of revenues.

1.2. Types of Games

1.2.1. State Lotteries and Class Lotteries

The oldest type of lottery is the traditional ticket lottery where each ticket bears a number. The winning numbers are determined by draws. It is the simplest form of lottery. When the player buys a ticket he is handed a piece of paper with a number printed on it. Whoever presents a ticket with a winning number receives a prize.

Although the games vary by country and are offered under various names (State Lottery, National Lottery etc.) the basic principle of the ticket lottery remains the same.

One variation of the ticket lottery is the so-called Class Lottery. It is played in Denmark, the Netherlands and in Germany. The Class Lottery is a ticket lottery which takes place over a period of several months. Tickets are purchased for one whole lottery and take part in all draws. Each lottery consists of several 'classes' which are sets of several draws. The German Class Lotteries, for example, last for six months and comprise six classes with four draws each. Therefore, draws take place every week. The prizes increase within one lottery from draw to draw and from class to class leading to the 'main class' in the last month of the lottery.

1.2.2. The Lotto

The Lotto is by far the most popular type of lottery game in the European Community and is played in all European Community Member States with the exception of Greece and the UK. It is a number lottery where the player selects six or seven numbers usually out of 45 or 49 options. Draws take place every week, or in some countries, twice a week.

Although the chances of winning in the Lotto are considerably lower than in the ticket or class lottery, it is mainly the low stake (0,5 to 1 ECU for one set of numbers) and the fact that the player can select the numbers that make this game popular. In many countries the draws are conducted live on television.

1.2.3. Instant Lotteries

Instant lotteries are the latest type of lottery played in five of the Member States. Two Member States, the Netherlands and Greece, plan the introduction of an instant lottery. There are two main types of instant lottery. The

scratch lottery, where a part of the ticket has to be scratched off revealing the prize, is the most common type. The second type of instant lottery has tickets that are pieces of paper folded up which have to be torn open to show the prize printed on the inside.

Where allowed, instant lotteries are very successful. The distribution of the tickets is simple since no validation equipment is needed and only the minor prizes are paid out by the distributor.

The instant lottery is a fast game. The player knows immediately if he has won and how much the prize is. This fact is also the main reason why some Member States have been reluctant to allow this type of lottery. The argument is that players are tempted to re-invest their winnings into new tickets after they have collected a prize leading to an addiction to the game.

1.2.4. Private Lotteries

The private lotteries are operated by organisations independent from the state.

Private lotteries can take any form of lottery that a private operator is permitted to organise. In practise these comprise all types of lotteries that are not being operated by the state or a state owned company.

Private lotteries can either be organised in the whole territory of a country or be confined to a certain area —the local lotteries. Some countries have enacted legislation that contains simplified licensing procedures for local lotteries up to a certain size or have altogether exempted such lotteries as 'insignificant' from the requirement of being licensed.

1.2.5. The Toto

The Toto is a sport bet on the result of soccer games or other sporting events. There are two types of Toto played in the European Community: the most common is a bet on the results of a certain number of soccer games (usually 12 to 15 games). The player has to predict the outcome by either betting on a tie, a home win or a visiting team win. The other type of Toto resembles the Lotto: out of a selection of about 40 games players have to predict 5 or 6 games that will end with a tie.

For the purpose of the study the United Kingdom football pools have been included under the Toto market sector even though it is a private operation.

Unlike the lotteries and the Lotto the Toto is to some extent a skill game. An understanding of the sport and the teams involved increases the chances of winning.

1.3. The Historical Development of Lotteries

In most of Europe lotteries have been played in one form or another for centuries. In some countries, in the absence of specific legislation, the sovereigns either established their own lottery to control this activity and tolerated small (mostly illegal) private lotteries which were not regulated before the mid-19th century.

The oldest state lottery is the Dutch 'Staatsloterij' which dates back to 1750. Only in 1905 did the Netherlands first legislate on lotteries, when private lotteries were introduced. Spain put lotteries under royal supervision in 1763 and started the first national lottery in 1893. In Portugal, the first public lotteries were organised in 1783 but only in 1886 was the first lottery act issued.

In countries like Belgium, Luxembourg, France, Germany and Italy private lotteries were operated long before the national lotteries were formed. These countries had all passed lottery laws in the 19th century that allowed for the organising of private lotteries. France introduced its national lottery as late as 1978. Ireland is the Member State with the youngest national lottery. It was formed in 1987. Before that date only private, non-national lotteries had been allowed.

The potential of lotteries as revenue generating mechanisms began to be fully exploited with the introduction of the Lotto in the 1960s first in Germany and subsequently in nine other European Community Member States. After the German lottery companies had set up the Toto in the 1950s and joined forces in the German Lotto-Toto Bloc the introduction of the Lotto followed in the 1960s. This game soon became very popular not only among German players but also among players in neighbouring countries. Toto was introduced in the Netherlands in 1961 and Lotto in 1974. Belgium, France and Denmark soon followed suit and set up companies to organise Lotto and Toto. Spain and Portugal started the same type of games.

In most Member States, the main reason for introducing Toto was to establish a source of funding for the promotion of sports and public health. In six Member States the organisation of this game is linked to sporting associations. In the Netherlands, for example, the sports clubs have had until re-

cently the exclusive right to market Toto tickets. In Italy, the popular Totocalcio is operated by the Italian Olympic Committee. One of the German lottery companies is owned by three sporting associations.

The United Kingdom is a special case. In the absence of a state lottery company, the three privately operated football pools serve the same purpose as lottery companies do in the rest of the European Community. In addition to satisfying demand for a low stake gambling product, they generate considerable revenues for the state.

2. Why Lotteries And Toto Are Permitted

2.1. Historical Development

Like the other games of chance lotteries are the product of the desire to gamble which is inherent in human nature. For centuries states have recognised gambling as a social phenomenon that is to be strictly controlled. Having sheer luck decide over winner and losers was deemed immoral since it led to the undesirable result that money was taken away from many to be given to a few while the organiser of the game retained a profit. Furthermore, this system was viewed as enticing fraud and attracting criminals. Consequently, the states' first reaction to gambling was a general prohibition of games of chance including lotteries.

Prohibition, however, did not prove effective to curb all gambling activities some of which had continued undercover. Most states then realised that by providing for certain legal games illegal activities could be reduced. This end was achieved by legalising certain games under strict state control. The state was considered the only trustworthy operator of a game that was generally viewed as immoral. In order to make lotteries acceptable and "less immoral" the revenues of the games were earmarked for public and charitable purposes. The control of the use of the funds was best done directly by the state.

While the above-mentioned clearly is a generalised description of a more diverse and complicated development it sets in broad terms the background for the following discussion of the regulators' motives to legislate on lotteries.

The need for government control over the lottery operations and over the distribution of the funds generated was the driving forces for the Member States to legislate on lotteries. They have done so throughout the EC, yet with the emphasis on different aspects.

Belgium provides for the authorisation of lotteries if their operation lies in the "public interest". Being of public interest means that the lotteries' revenues are used for philanthropic or charitable purposes.

Similarly in Denmark, a lottery can solely be organised for the benefit of organisations with publicly accepted objectives. In this country, the question of morality is still very much an issue narrowing the scope for the definition of publicly accepted objectives.

Until 1978 France allowed only local lotteries of a limited size. The National Lottery was introduced to satisfy the public demand for a nation-wide game. In addition, the State's motive was to raise money.

Germany traditionally has allowed only lotteries with no commercial objective. Revenues of the big state lottery companies are by law earmarked for public welfare purposes.

Lotteries in Greece are pure fund raising mechanisms. They are run exclusively by the state and the proceeds go directly into the national budget.

Only small and local lotteries were allowed in Ireland until recently. The National Lottery was legislated for in 1987 with the explicit goal of raising money for the state.

Operating lotteries in Italy has always been the exclusive right of the state in order to raise money. Italy is one of the few countries in the EC where legalising games of chance has not proved successful in curbing large scale illegal lottery operations.

Luxemburg legislated on a National Lottery during World War II in order to raise money to assist war victims. The requirement to allocate lottery revenues to charitable purposes has remained ever since.

The Dutch legislator's philosophy was to allow certain types of games in order to meet the natural demand and to curb illegal activities. Lottery revenues are channelled to improve public welfare.

Portugal has a long standing charitable institution which traditionally has functioned as the state's agency for operating lotteries.

Spain originally legislated for lotteries for social reasons such as protecting players from unscrupulous operators and to stop illegal activities. Today, lotteries are considered another means of raising funds for the state.

The UK legislation does not provide for lotteries. The legislator has taken the view that only those forms of gaming and gambling should be permitted that are inherent in the culture of the UK.

2.2. The Underlying Principle

Although each Member State was guided by its own national motivations when legislating for lotteries, a common philosophy can be detected underlying the laws on lotteries in these countries. The motives behind the introduction of specific games will be discussed in a later section.

Following from the aforementioned consequences of the human desire to gamble, the main concern for the regulators in all Member States has been to maintain as much control as possible over games of chance and lotteries in particular. State control takes place at various levels: when legislating on new gambling laws and on the use of the revenues, when licensing an operator or when authorising the introduction of new games. The levels of control at which the states are involved vary by Member States.

Throughout the EC two main motives can be found for Member States to legislate on lotteries: (a) the protection of the players and (b) the motive to raise money and control its distribution.

The protection motive derives from the need to channel the human desire to gamble by offering safe and legal alternatives to activities which would otherwise be forced undercover. Government control of the lottery operations is viewed as a guarantee for the proper functioning of the lottery and a protection of the players from unsuited operators.

The states' control over the distribution of the lottery revenues derives from the assumption that lotteries should not be used to make profits. The revenues generated by the lotteries should be used for purposes that benefit the public. Therefore many Member States have enacted legislation that provides for the allocation of funds to charitable and other welfare purposes. Some Member States provide for the revenues to accrue to the general budget. These states are more concerned with the fund raising aspects of lotteries than with the distribution of the monies raised.

The principle underlying the national laws of the Member States on lotteries can be summarised as follows:

- The basic assumption is that participation in lotteries derives from the human desire to gamble and will take place whether legal or not. Legislation is used to channel this desire by regulating and controlling lottery activities.
- State control over lotteries is necessary to ensure (a) the proper operation of the games and (b) the distribution of the revenues in a way that benefits the public.

2.3. State Revenue

Table 1 below shows the 1989 tax revenues from lotteries and Toto by Member State.

Table 1
Tax Revenues by Member State

Member State	1989 Tax Revenues (in .000 ECU)
Belgium	*185.336
Denmark	48.639
France	639.200
Germany	718.300
Greece	n.a.
Ireland	* 154.500
Italy	n.a.
Luxemburg	*5.429
Netherlands	12.300
Portugal	n.a.
Spain	776.639
UK	414.233
TOTAL	2.958.887

n.a. data not available

* includes profit paid out to beneficiaries

In Belgium, Ireland and Luxemburg the national lotteries are exempt from taxes.

The total figure of about 3 billion ECU is only an approximation. The financial benefit which the states derive from lotteries and Toto can be expected to be considerably higher.

Firstly, in most countries the lottery revenues are used for charitable and public welfare purposes. In the absence of lotteries these expenditures would sometimes have to be born by the state. Secondly, some lottery

companies are organised as corporations and pay corporate income tax. These tax yields are not included in the above mentioned figure. Thirdly, in some countries the players are taxed in one way or the other on their winnings. These monies fall to the national budgets as well.

2.4. Market Composition

Having looked at the legislation on lotteries in the Member States the overall picture is quite uniform: with the only exception of the UK all Member States have enacted legislation that provides for the authorisation of lotteries. In the choice of lottery games, however, Member States have pursued quite different approaches.

In general, pressure for introducing games comes from two sides: from the market (domestic as well as foreign) and from within the national administrations and/or the government.

The market exerts pressure on the regulators when there is unsatisfied demand for a certain type of lottery. In this case players tend to look across the borders and play in foreign lotteries; or illegal operators become active in meeting the players' demand. Market pressures have in the past originated in big countries with well developed lotteries and were mainly felt in smaller countries with few or no lotteries. These countries had to establish similar lottery games in order to capture revenues which otherwise would go abroad. The introduction of the Lotto in the Netherlands and in Denmark can be cited here as an example. In both countries, players found the German Lotto too attractive not to play in it.

The pressures from within the national administrations are in many cases caused directly from market pressures which are just being passed on. Sometimes, however, it is within the government that the initiative for the setting up of a new game is taken. This was the case in Ireland in 1986.

The table below gives an overview of the lotteries and the Toto operated in the Member States of the European Community.

Table 2
Lotteries and Toto available by Member State

Member States	NATIONAL/STATE LOTTERIES				Private lotteries permitted
	Games operated				
	Class or Ticket L.	Instant Lottery	Lotto	Toto	
Belgium		●	●		✓
Denmark	●		●	●	✓
France		●	●	●	✓
Germany	●	●	●	●	✓
Greece	●	○		●	—
Ireland		●	●		✓
Italy	●		●	●	✓
Luxemburg	●	●	●	●	✓
Netherlands	●	○	●	●	✓
Portugal	●		●	●	—
Spain	●		●	●	✓
UK				●	✓

○ = planned for 1991

With the exception of the United Kingdom, where national lotteries are forbidden, all Member States allow and operate state-run national lotteries. The United Kingdom only permits local private lotteries.

Private lotteries, i.e. lotteries organised by entities independent from the state, can be operated in ten Member States. However, most of them allow only small local lotteries operated by private parties. Private lotteries on a national level comparable to the state run lotteries are allowed solely in Denmark, Germany, the Netherlands and Spain.

Toto is played in ten Member States. In Belgium, football pools, although in principal legal, have not been commercially successful and are not currently operating. In Ireland, no football pool has been authorised.

In the following an overview is given of the Member States' motives to introduce the various games.

Belgium decided in the early 1960's to revamp its national lottery which developed out of the former Colonial Lottery. Since then, the National Lottery has introduced the Lotto and more recently a variety of instant lottery games. It is interesting to note that no Toto is played in Belgium making it the only EC Member State on the continent that does not offer this game. Until the early 1960's Littlewoods organised a football pool in Belgium but closed their operation due to the lack of interest of the players and the success of the National Lottery. The National Lottery then tried to revive the Toto in the early 1980's with limited success. After a few years the game was again discontinued.

Denmark is the perfect example of a state where the regulators have yielded to market pressures when introducing the Lotto. While the Toto has been in operation since 1975 it was not until 1989 that Denmark decided to set up a Lotto of its own. Players had for years participated in the Lotto of neighbouring Germany depriving Denmark of valuable potential revenues.

When France established its Lotto operation 'France Loto' in 1978 it did so to satisfy a demand that had not been yet been met on the domestic market. In addition there was the motivation to raise money for the treasury.

Germany can be viewed as the pioneer of the modern lottery games. Its Lotto operation is the oldest in the EC and has served as a model for the Lotto in other countries. Due to the big domestic market Germany is the EC country the least susceptible to market pressures from abroad. The main goal of the introduction of new games is to ensure a stable share of the German gambling market.

Due to its geographic position Greece has not felt any pressure from abroad to introduce new games. The planned introduction of an instant lottery is intended to re-stimulate growth for the national lottery.

The recent establishment of the Irish National Lottery in 1986 was motivated by the perceived need to raise money in the context of severe governmental budgetary deficits. The money raised is channelled to the benefit of the Irish community without the need for recourse to taxation or other compulsory revenue raising measures.

The Italian government's major concern seems to be the containment of the illegal lotteries and Toto operations. Therefore, the regulators' main interest lies in defending the state monopoly on lotteries rather than in introducing new games which might entice new illegal operations.

For a small country like Luxemburg it was virtually impossible to stop the osmotic influx of foreign (mainly German) games. Rather than introducing a similar game themselves the government turned around and authorised two German Lotto companies to extend their game to the whole territory of Luxemburg.

While the State Lottery has existed in the Netherlands for over two hundred years Toto and Lotto were introduced only in 1961 and 1974. By introducing these games Holland followed the example of Germany where Toto and Lotto had been very successful since several years. The planned introduction of an instant lottery game will be an attempt by the Dutch Lotto/Toto company to win back market shares now held by numerous illegal Lotto operations.

Spain's National Lottery has a long tradition and was the only lottery allowed until the country's return to democracy. Toto was played before the opening up towards the rest of Europe brought the introduction a modern Lotto in Spain. Due to the popularity of lotteries and the size of the market the introduction of new games is mainly seen by the state from the fiscal point of view.

A national lottery has not yet been introduced to the UK. The regulators have so far not seen a need to legislate for these types of games as they are not viewed as being "inherent in the British culture". Football pools have supplied the market up to now with the Toto and no further demand for lotteries seems to have existed. However, foreign lotteries have repeatedly in the past years tried to market tickets in the UK by way of mailing campaigns. HM Customs & Excise has confiscated substantial numbers of envelopes posted into the UK by German agents.

Despite some minor cross-border betting activity between the Member States it is fair to say that the Community to date is still made up of 12 national lottery markets. Each market has developed over a long period of time and today reflects a composition shaped by regulators' views and market pressures.

2.5. Lotteries and Toto as Fund Raising Mechanisms

As we have shown earlier in this report the two main motives for Member States to legislate on lotteries has been to raise money and/or control its distribution. Most Member States have established systems where the

funds generated are earmarked for distribution among beneficiaries. Others simply collect the lottery revenues for the treasury. Below, we will discuss the various approaches the Member States have chosen regarding monies generated from lotteries.

Table 3 below shows how much of the turnover the lottery companies in the Member States pay back in winnings to the players.

*Table 3
Payback by game and Member State*

Member State	Game	Payback (as a percentage of total turnover)
Belgium		50%
Denmark	State Lottery	62%
	Lotto/Toto	41%
France		50%
Germany		50%
Greece	Lotteries	65%, 53%
	Toto	45%
Ireland		49%
Italy	Lotteries	33%
	Lotto/Toto	40%
Luxemburg	National Lottery	57%
Netherlands	State Lottery	70%
	Lotto/Toto	50%
Portugal	Lotteries	54 - 65%
	Lotto/Toto	50%
Spain		55%
UK	Toto	29%

Countries with old State Lotteries such as Denmark, Greece, Italy, the Netherlands and Portugal apply different payback rates for the state lottery and the Lotto. Notably in Denmark and the Netherlands, the payback rate of the State Lottery is 20 percentage points higher than the one of the Lotto.

While these inconsistencies seem to be the result of a historical development rather than of deliberate planning the majority of Member States applies uniform rates to all lottery games including Toto.

Table 4 below shows the distribution of the revenues of lotteries and the Toto among the beneficiaries and the state. Column 5 ("Tax") contains the figures for the gambling tax levied in some Member States. The last column lists the rates for the withholding tax levied on the winnings. Since it is deducted from the winnings the tax does not affect the breakdown shown below. The withholding tax is a further revenue for the state.

Table 4: Distribution of revenues by game and Member State

Member State	Game	Revenue to beneficiaries	Revenue to the treasury	Tax	Withholding tax on winnings
Belgium		33%	—	—	—
Denmark	State Lottery	—	23%	—	15%
	Lotto/Toto	21%	—	18%	15%
France	Lotto	2,5%	22%	3,7%	5 - 30%
	Toto	20%	—	3,7%	5 - 30%
Germany		25%	—	16,7%	—
Greece	Lotteries	—	25%	—	10%
	Toto	18,7%	36,3%	—	10%
Ireland		31,7%	—	—	—
Italy	Nat'l Lottery	—	40%	—	25%
	Lotto/Toto	—	33%	—	25%
Luxemburg	Nat'l Lottery	30%	—	—	—
Netherlands	State Lottery	—	23%	—	25% *
	Lotto/Toto	40%	—	—	25% *
Portugal	Lottery	30%	—	—	25%
	Lotto/Toto	40%	—	—	25%
Spain		—	33%	—	—
UK	Toto	3% **	—	42,5	—

* on winnings over ECU 430

** company profit

The specified revenues are significant accounting for over 1.7 billion Ecu.

Table 4a
1989 Tax Revenues allocated for specific purposes

Country	All games except where stated	% Revenue for specified purposes	1989 ECU ('000)
Belgium		33%	264,935
Denmark	(Lotto)	21%	15,966
France	Lotto	2.5%	47,695
	Toto	20	48,406
Germany		25%	1,172,424
Greece	Toto	18.7%	55,846
Italy		—	
Ireland		31.7%	34,466
Luxemburg		30%	1,957
Netherlands	Lotto/Toto	40%	27,511
Portugal	Lottery	30%	48,637
	Lotto/Toto	40%	111,210
Spain		—	—
U.K.			29,229
			1,798,282

The reader will note that only four countries (Denmark, Germany, Italy and the UK) levy a tax on lotteries or Toto. All other Member States either receive a share of the revenues or don't receive funds at all. The reason lies in the different fiscal treatment of lotteries in the Member States.

There are four different ways in which Member States have regulated the distribution of funds.

1. Revenues belong to the treasury (state run lotteries)

Once the winnings have been paid out and the costs deducted the net revenues are paid into the general budget. Furthermore, it is up to the government to decide on the use of the funds collected. No additional tax is levied since the lottery operation itself already functions as a fund raising mechanism for the state. This set-up can be found in countries where lotteries are run directly by the state through its administration. This is the case in Denmark (Royal Class Lottery), the Netherlands (State Lottery), Italy (national lotteries), Greece and Spain.

2. Revenues belong to the treasury (private lotteries)

In countries where the lottery operator is organised as a private company the profit is paid to the shareholders and other beneficiaries. The state receives the yields of a special gambling tax that is levied on the total stakes. In most cases the state has a stake in the lottery company and therefore receives a share of the profit. This model can be found in Denmark, where the state has a 80% stake in the Lotto/Toto company, in France, where 72% of the Lotto/Toto operation are owned by the state, and in the UK, the only country in the EC with a 100% privately owned Toto company.

3. Revenues belong to the treasury but are earmarked for social, cultural and sports purposes.

In this case the state receives the gaming profit and to varying degrees is obliged by law to use it for certain social, cultural and sports purposes. This system can be found in Belgium, Ireland, Luxembourg, the Netherlands (Lotto/Toto) and Portugal.

4. Revenues are paid to the social purposes—tax yields for the state.

This model is a combination of 2. and 3. The lottery operator is obliged to pay a certain part of the revenues directly to the beneficiaries—charitable organisations and organisations with philanthropic purposes. In addition gambling tax has to be paid to the treasury. The lottery companies in Germany and the Lotto/Toto operation in Italy are organised in this way.

All four approaches described above leave the Member States with considerable funds to fill their treasuries. Assuming that the states would

have to finance the activities of the beneficiaries if they were not funded by the lotteries and the Toto the importance of the lotteries and the Toto for the state as fund raising mechanism is even more visible.

Table 5 below shows the different treatment to which the two German lottery companies also operating in Luxembourg are subjected in these two countries.

*Table 5
Taxation of the German Lotto/Toto companies*

	Operating in Germany	Operating in Luxembourg	
		Benefits to Germany	Benefits to Luxembourg
Revenue to beneficiaries	25%	16%	9%
Tax to the treasury	16.7%	1.7%	15%

Only the turnover achieved in Luxembourg is taken as the base for the calculation of the tax and the 9% levy to be paid in Luxembourg. Conversely, the Luxembourg turnover is not taxed in Germany.

2.6. Inconsistencies within the National Markets and across the EC

The 12 national markets of the Member States are dominated by state-run or state controlled lottery companies which operate the major lotteries including the Toto. Private lotteries operated on a national level competing with the state-run lotteries exist only in Denmark, Germany, the Netherlands, Spain, and to a lesser extent, Ireland. Furthermore, in the UK, the Toto is operated by private companies. In other Member States private lotteries are only allowed on a local level. Finally, Greece, Italy and Portugal forbid all private lottery operations.

Member States favouring state owned lotteries put forward several arguments to justify their regulatory regime. The main argument is the need for control of the game and protection of the player. They hold that only the state can ensure the integrity necessary for the operation of a national lottery.

state can ensure the integrity necessary for the operation of a national lottery.

While probably a valid argument at times when many lottery laws were drafted, private operatorship as such does not compromise integrity provided the state maintains effective control of the operation. Throughout the study we have seen no evidence that privately run lotteries could not be controlled as effectively as state operations.

Germany and Holland can be cited as examples for having consistent legal regimes as regards the question of private operators. In Germany, private operators can obtain a license provided that they meet the legal requirements. The levels of payback rate, gambling tax and revenues that have to be distributed are equal for private lotteries and for state lottery companies. Similarly, uniform rules apply in the Netherlands to all lottery activities regardless of the person operating them. The only exception is the State Lottery which operates under a special set of rules.

There exists a valid argument for a single operator of a state lottery. The motivation to play is a low stake high win ratio. The lottery must generate enough income to ensure a big prize is achievable. Each lottery needs a critical mass of revenue if it is to succeed.

2.7. Consumer, Agents' and Organisers' Interests

The sections above dealt with the views and motives of the regulatory bodies in the Member States. Their main concern is to keep a firm grip on the lottery market in order to curb illegal activities and secure the income for the treasury. In their decision making, however, the regulators are not entirely at liberty but have to take into account the interests of other parties involved in the market.

Throughout the Member States the lottery market is composed of three groups of market participants: the organisers of lotteries, their agents and the consumers.

Organisers

The lottery companies manage the operation of the games. They issue the lottery tickets, conduct the draws, receive the stakes and pay out the winnings. (Some smaller prizes are settled directly by the agents). The organisers' main interest lies in maintaining or increasing market share. The

The revenue from the state run games become incorporated into national budgetary equations. Targets are set for revenue from gaming and national organisers find themselves promoting and marketing lotteries despite the principle that such games are viewed as immoral.

One way to to grow or maintain market share is to introduce new games or vary existing ones. The organisers will take such a step when stirred by the beneficiaries who want to see their share of the revenues increased or when prompted by the government, i.e. the treasury, to maintain or increase the revenues for the state.

Since the states wish to secure their financial receipt from lotteries they will do everything they can to defend their territory and fight any intrusion from abroad. In the past informal agreements between the organisers on a European level have proven quite successful in confining the national operators to their own country.

1990 European Lottery Turnover

Country	ECU '000
Belgium	1,380
Spain	47,241
France	1,011
Luxemburg	413
Portugal	4,450
EC Total	54,495

The organisers also try to improve their operations. Many Lotto/Toto companies currently up-grade their distribution network by installing on-line equipment. This will enable them to offer new and faster products. Improving operations can also mean a change in the organisation's structure or legal status. Some Member States have transformed or are planning to transform their lottery operations into independent companies that are no longer part of a ministry. This should result in better management and in a more cost efficient operation.

Agents

longer part of a ministry. This should result in better management and in a more cost efficient operation.

Agents

Lottery agents market lottery tickets and in most countries are independent from the lottery companies. They are paid a commission for providing their services. Agents maintain the direct contact with the players by selling the tickets and paying out the small winnings.

Agents are predominantly small shop keepers and kiosk owners. The Lotto is not a prime source of revenue for them. There is a second, higher level of collectors who organise groups of agents. This activity is generally their primary source of income. In the UK Toto agents are exclusively door to door collectors. The commission they receive covers their cost of handling the tickets.

The legal relationship between operator, agent and player can be described taking the German Lotto as example. The Lotto-Toto agents sell and collect lottery tickets in the name of and on behalf of the lottery companies. In the regulations governing Lotto-Toto, which every player implicitly accepts when participating, the Lotto-Toto companies have excluded their liability for any fault of the agent when collecting the tickets and forwarding them to the company. The agent is only liable to the player in the case of intentional fraud. In all other cases the risk associated with sending the ticket to the Lotto-Toto company rests entirely with the player.

The situation is different in the case of the class lottery agents. Their main activity—for many the only one—is the marketing of class lottery tickets. The commission they receive from the lottery company is their only income. This is the reason why some of them pursue their marketing quite aggressively.

It is worth noting that the majority of German class lottery agents do not sell tickets abroad. The contracts between the German class lotteries and the agents stipulate that the agents may only market lottery tickets in the participating *Länder* and in those countries where it is legal to market foreign lottery tickets.

Consumers

The players are the customers. They generally participate in their national lotteries. The player's main interest is to participate in an attractive game. A game's attractiveness is reflected in the size of the prizes, the chances to win and in the fact that no or only little tax is levied on the winnings. Where a

foreign lottery seems more attractive than a domestic game some players will participate either by ordering the tickets by mail or by crossing the border to buy them at an agent's abroad. Mail order is particularly viable in class lotteries as deadlines for accepting tickets can be many weeks in the future.

The consumers have played a major role in the development of some Member States' markets. For example, the introduction of Lotto in Denmark was exclusively market driven. So was the introduction of an instant lottery in Holland. In both countries, players could follow the draws of the German Lotto on TV which stimulated the demand. There is also an example for the consumers not accepting a game: Toto, although legal, has not been successful in Belgium due to the players' lack of sufficient interest in this game. The main reason was that the consumers were more attracted to the other games offered by the National Lottery or changed to bookmaker bets.

In some Member States players are barred from participating in a foreign lottery or Toto. This will be discussed in more detail in connection with cross border betting in a later section of this report.

3. Control and Supervision

3.1. Levels of Control

The present legal regimes in force throughout the EC enable the Member States effectively to take control of lotteries and Toto at the following levels:

- Legislation (including taxation)
- Authorisation of operators
- Use of funds
- Introduction of new games
- Operation of the lottery company

The governments regulate every aspect from how the games are played to who gets the money for purposes already mentioned.

3.2. Methods of Control

The methods of control applied by the Member States depend on the degree of their involvement in the lottery operation. In order to analyse these methods we group the lottery companies according to the degree of government involvement as follows:

1. The State Administration Model

The state directly runs the lottery through its administration. The operating entity is part of a Ministry, usually the Ministry of Finance. This model can be found in Belgium, Greece, Italy (only for lotteries), Spain and partly in Germany.

The state administration model is the oldest organisational structure for lotteries. It still exists in countries where state lotteries have a long tradition. The management style applied emphasises control and administration rather than managing an operation in the commercial sense. Lottery administrations are slow in realising market changes that call for the introduction of new games or new distribution and marketing techniques. This can be seen by the tardy introduction of instant lotteries.

The Dutch State Lottery is directly operated by the state. Turnover has stagnated over the past few years. The distribution system shrank due to the fact that all the independent vendors resigned. In view of this situation the Dutch government now intends to restructure the State Lottery as an independent company. Furthermore, the Dutch post offices sell state lottery tickets thus enlarging the distribution network considerably.

Similarly, in Belgium a change of the current operation is being discussed with a view to establish the lottery management as independent company. Again, this should result in a more flexible management of the lottery activities.

2. The Public Entity Model

The state establishes by law an institution which is exclusively entrusted with the organisation of lotteries. Although independent from the government these entities remain under its close supervision. This model has been chosen in Denmark (for the class lottery), Germany, Italy (for Lotto and Toto), Luxemburg, the Netherlands (for the state lottery) and Portugal.

Although the state has given up the control of the direct operation of the lottery the company still remains closely linked to one or more ministries and dependent on policy decisions taken by the government.

The argument of control can only partly justify this way of operating. As we will see below, sufficient control can still be maintained when using the private company model. The advantage can be found in the development of a business culture. In this set up the lottery activity is the sole activity. Decisions are quicker and policies more coherent.

3. The Private Company Model

The Private Company Model is the modern development for lottery companies. The state grants a license to a private or semi-private company to operate a lottery or Toto. In Denmark, 80% of the Lotto-Toto company is owned by the state, 20% by two private sporting associations. In France, the state holds a 72% share in the national lottery company, France Loto, while 23% is owned by the distributors and 5% by the employees. The SNS in the Netherlands is organised similarly but is 100% state owned. The newly formed Irish National Lottery Company is owned 80% by the Irish postal service (An Post) and 20% by the Department of Finance. This model is furthermore the most common one among the eleven German state lottery companies where eight of them are organised along these lines. Regardless of share proportion effective control remains in the hands of the state.

By setting up private companies to operate lotteries the Member States have limited their direct control to the task of authorising the operator and stipulating the distribution of the funds destined for distribution. The operation of the lottery is left to the management.

This model is the only possible legal construction that enables a private operator to participate in or run a lottery operation. The government still retains sufficient control by checking that the conditions under which the license has been granted are fulfilled.

4. European Community Market Activity

4.1. Turnover

Although most turnover figures for the lotteries and the Toto in the European Community Member States are complete it is difficult to generalise regarding the global European Community market. In some countries, like Italy and Spain, the official figures do not reflect the real size of the market. In Italy, illegal activities have not been taken into consideration.

The table below lists the turnovers achieved in the Member States for the various games. Private lotteries have not been included.

*Table 3
1989 Turnover of state lotteries, Lotto and Toto by Member State*

(in .000 ECU)	State Lottery	Instant Lottery	Lotto	Toto	Total	%
Belgium	—	205 182	415 833	—	621 015	3.7%
Denmark	35 655	—	76 032	173 307	284 994	1.7%
France	—	512 538	1 907 780	242 032	2 662 350	15.9%
Germany	594 160	224 451	3 697 977	173 106	4 689 694	28.0%
Greece	453 159	—	—	298 644	751 803	4.5%
Ireland	—	—	180 737	—	180 737	1.1%
Italy	n/a	—	165 511	1 655 114	1 820 625	10.9%
Luxembourg	6 524	3 458	17 755	733	28 470	0.2%
Netherlands	17 987	—	65 824	2 955	86 766	0.5%
Portugal	162 122	—	241 620	36 406	440 148	2.6%
Spain	2 984 380	—	1 070 827	182 695	4 237 902	25.3%
UK	—	—	—	974 303	974 303	5.8%
TOTAL	4 253 987	945 629	7 839 896	3 739 295	16 778 807	100.0%
%	25.4%	5.6%	46.7%	22.3%	100.0%	

4.2. Trends

The trends within the lottery market vary from country to country depending on the way each country has historically organised and controlled lotteries as well as on how long the market has been in operation.

In countries with a long lottery tradition and a well developed market the lottery companies must constantly expand their line of gaming products, i.e.

introduce new games to maintain present market size. This is the case, for example, in Germany where the market is well served in terms of operators as well as games. Further expansion can only be achieved through the development of new products.

Other countries which have only recently introduced national lotteries are still in the phase of expanding in their national markets. Ireland, for example, set up a national lottery to generate revenues for the state and to profit from a market that had previously only been served by non-national lotteries. Similarly, France introduced Lotto when it legislated for a national lottery in 1978 and expanded into Toto in 1985.

4.3. Expansion

4.3.1. State and Class Lotteries

The traditional state and class lotteries are well established in their national markets. In countries where the state operates only one national game there seems to be little scope for further expansion. In Denmark, Greece, Luxembourg, the Netherlands, Portugal and —to some extent— in Germany the growth potential of these lotteries is low due to competition from other state-run lotteries (Lotto, instant lotteries) and the Toto.

In Spain and Italy the outlook for the state lotteries is brighter. The Spanish Loteria Nacional is still by far the largest lottery in Spain and should profit from the increase in spending power of the Spanish consumer. Italy has recently announced the introduction of a number of new national lotteries. The limiting factor for expansion in Italy are the illegal lottery operations that take up a large portion of the market.

The German class lotteries represent a special case. Although operating in a mature market at home some lottery agents have been successful in marketing tickets abroad, thus contributing to steady growth figures.

4.3.2. Lotto and Instant Lotteries

Even in mature markets like Germany or the Netherlands the Lotto-Toto companies have so far been successful in stimulating the market with the introduction of new games or variations of old ones. Lottery companies in these countries are currently modernising their operations by the introduction of on-line systems to be able to offer new types of games.

The United Kingdom and Greece are the only Member States that do not have a Lotto. Due to its geographic location Greece has not been threatened by an osmotic influx of foreign Lottos. Expanding into this popular game could prove profitable for the Greek Department of Lottery.

The Greek lottery authorities have announced the introduction of an instant lottery game in 1991. In the Netherlands, too, an instant lottery will be set up later in 1991 by the Dutch Lotto-Toto company.

4.3.3. Toto

In countries where both Toto and Lotto are played the latter has grown over the past years at the expense of the football bet. The introduction of Lotto has taken away market share from Toto since it appeals especially to those players who were less interested in football and liked the idea of a new and easy way to play a numbers game.

The possibilities of introducing new variations of football bets are rather limited compared to lottery games. Nevertheless, the up-grading of their validation system by introducing on-line computer systems will help the Toto companies in reclaiming lost market shares.

V. A PAN-EUROPEAN COMMUNITY REVIEW OF THE HORSE RACING MARKET SECTOR

1. Types of Game

1.1. Overview

Horse racing and wagering on horse racing has developed in Europe over the last two thousand years. During this period the development of horse breeding was very much in the national interest. The governments have traditionally involved themselves in mechanisms to develop horse breeding via horse racing. The horse racing industries are most developed in the United Kingdom, Ireland, France and Germany.

1.2. The Types of Game

Betting on horse races has evolved into two fundamentally different systems, which now are currently operated to collect bets within the Community. These are:

- bookmaking
- the totalisator

1.2.1. Bookmaking

The basic principle of bookmaking is to offer a betting facility adjusting the odds to ensure a profit for the bookmaker. In theory, each player is betting against the bookmaker; if the player wins the bookmaker loses and vice-versa. The art of bookmaking is to balance 'the book' with odds that are attractive to players, while ensuring that profit is made by the bookmaker, no matter what the outcome of the race. Odds are expressed in terms of ratios.

For example in a six horse race where each horse is of identical quality and carry the same amount of wager or stakes (100 ECU). The bookmaker sets the odds at 4.1 for each horse. No matter which horse wins the bookmaker keeps 100 ECU.

<u>Horse</u>	<u>Stakes ECU</u>	<u>Odds</u>	<u>Payout</u>
A	100	4.1	The payout is the same for each horse if it wins i.e. win = 400 returned stake = 100 <hr/> total payout = 500 guaranteed bookmaker gross profit = 100 ECU (20%)
B	100	4.1	
C	100	4.1	
D	100	4.1	
E	100	4.1	
F	100	4.1	
Total Stake	<hr/> 600		

1.2.2. The Totalisator

A totalisator is based on a different mechanism. All bets on a race are pooled. Odds are determined by the total spread of bets. In effect, all players are betting against each other. When a player bets on the tote, he will not be aware of the odds on his favourite horse, since all odds will be determined in function of the spread of the totality of bets on that race. Before payout, the 'tote' levies a percentage of stakes to pay taxes or duties and to cover its costs.

For example of a pool of 600 ECU the divisions may be as follows

15%	90	- costs
15%	90	- duties and horse racing levies
<u>70%</u>	<u>420</u>	- winnings
100%	600	ECU

Both bookmaking and the tote can operate on-course at the racetrack, or off-course through a network of specialised or non-specialised shops.

Traditionally within the Community bookmaking is carried out by private companies or individuals. The tote is operated either by the state or by private operators on behalf of the state through a franchise arrangement.

1.2.3. The Sweepstake

The Sweepstake is a specialised form of totalisator horse race bet. The principle is that of a lottery. Players buy a sweepstake ticket and tickets are

drawn for each horse that will run in the race. The ticket holder of the winning horse, wins the pool.

2. Why Horse Race Betting is Permitted

2.1. Historical Developments

(see overview)

2.2. Underlying Principles

The promotion of horse breeding is often cited as a reason to allow betting on horse racing. It is on this basis that horse racing is sometimes excluded from the general prohibition on gambling and gaming. The horse breeding argument is used as a justification for the protection of the horse racing industry in certain countries.

Different types of betting on horse racing has evolved as a result of very different social views. In the UK, France, Ireland, Italy and more recently Germany, betting on these races is seen as socially acceptable. In other Member States, where the sport is less developed, betting on horse racing is not as socially acceptable. These different social values thus underpin legislation in this area.

Over the last decade, there has been a marked trend towards less negative connotations being associated with betting on horse racing. Despite this evolution, horse racing legislation is often very restrictive.

On-course betting is usually seen in a better light than off-course betting. On-course betting tends to be associated with recreational activity, while off-course betting is perceived as a purely gambling activity.

The totalisator bet was created to ensure integrity in racing and to impose funding mechanisms on betting to subsidise horse breeding and racing. Racing encourages breeding.

Bookmaking is allowed in the more 'liberal' markets, with the exception of Spain. The very fact that bookmaking is allowed presupposes that the authorities are confident enough that the market can operate honestly. Those requesting permits and licenses must often prove that unstimulated and unsatisfied demand exists. Strict control of betting activities is nonetheless deemed to be absolutely necessary.

The regulation of tote betting reflects the facility of control associated with the tote and the inherent guarantee of incorruptibility of the tote system, in which the organiser of betting has no interest in the outcome of races. Furthermore, since the system is based on centralisation, it is an excellent vehicle for controlling (or prohibiting) the entry of undesirable newcomers to the market. It is also used as a vehicle for channelling a sufficient proportion of profits back into the horse racing/breeding industry.

2.3. Market Composition

Horse race betting, either in the form of bookmaking or totalisator, is allowed and operated in eleven of the twelve Community Member States. Luxembourg does not have any horse race betting operation. A major off-track bookmaking multinational, negotiated permission to open an 'agence hippique' in Luxembourg, but the venture proved unviable.

Table 1 below summarises where bookmaking and totalisators are allowed by national law, and where they are actually operated:

	B	DK	D	F	G	IRL	I	L	NL	P	S	UK
Bookmakers												
Allowed	✓	-*	✓	-	-	✓	✓	-	-	-	-	✓
Operated	✓	-	✓	-	-	✓	✓	-	-	-	-	✓
Tote												
Allowed	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	✓
Operated	✓	✓	✓	✓	✓	✓	✓	-	✓	✓	✓	✓

✓ = yes, tick (as in correct)

Table 1

- = no

* In Denmark bookmaking is allowed, but not on horses.

The total market size of horse race betting in 1989 was ECU 14,566 million.

The largest market for horse race betting in Europe is the United Kingdom, which is almost exclusively a bookmaking market. This market has been estimated at approximately 8,5 billion ECU for 1990. The nearest in size to the UK is France, with an estimated 1990 turnover of 5 billion ECU. The French market is served by an exclusively state-run totalisator called the Pari Mutuel Urbain (PMU).

2.4. Funding Mechanisms

There are a variety of taxes, levies and duties imposed on betting on horse racing. In some cases, the imposition goes directly into the state coffers and is destined for general state expenditure. In other cases, funds levied are channelled back into the horse racing and breeding industry; operation costs of the tote and racecourse infrastructure are also funded out of total stakes, either directly or indirectly.

2.4.1. Tax Revenue

The amount of tax revenue collected on turnover in 1989 in the various national markets is as set out in table 2 below:

	Tax Revenue (ECU million)											
	B	DK	D	F	G	IRL	I	L	NL	P	S	UK
Bookmakers	28	-	10*	0	0	29	66*	0	0	0	0	676
Tote	7	5*	76	826	5	6	48*	0	7*	0.2*	1*	1
Total	35	5*	86	826	5	35	114*	0	7*	0.2*	1*	677

* Estimates based on tax rates.

Table 2

An issue of importance to all tax authorities is the question of determining the right balance between maximum tax rates and the amount of imposition the market can bear. There is a constant temptation to increase tax rates, at the risk of discouraging players, and ending up with less tax revenue in the long-term.

A second consequence of over-taxation is the growth of illegal 'black' betting. Logistically, horse race betting is very easy to operate illegally. Burdensome tax levels will encourage illegal activity.

Without exception the profit from totalisators are used to fund horse race breeding, irrespective of whether they are state or privately run operations.

2.4.2. Tote Taxations

In addition national regulators tax totalisators for funding state treasuries. These taxes are deducted from potential revenues which could otherwise go to horse race breeding.

Table 3 below shows state taxes on totalisator stakes.

Country	TOTALISATORS Tax expressed as a % of Stakes
Belgium	10 % Wallonia; 7 % Flanders, Bxl
Denmark	11 % win; 15 % V5; 10 % others
Germany	rebated
France	17 %
Greece	Fixed fee
Ireland	10 %
Italy	26.8 %
Luxemburg	N/A
NL	15 %
P	rebated
S	rebated
U.K.	8 %

Table 3

In Portugal, Spain and Germany it is directly rebated to horse racing and breeding organisations. In the other Member States there is no direct relationship between levels of state funds and taxable revenues.

2.4.3. Bookmakers Taxation

Bookmakers are also taxed but the use to which these funds are put varies from Member State to Member State.

In Belgium, the United Kingdom and Ireland the revenue goes straight to the Treasury. In Italy and Germany it goes to the Ministry of Agriculture to be

passed on in grants for horse race breeding.

The United Kingdom and Ireland also have a mechanism for bookmakers to pay a levy to horse racing to assist in its development. This levy ranges from 1 to 1.5 % of stakes.

Table 4 below shows the tax levied in relation to off track bookmakers' stakes :

Country	Bookmakers tax expressed as a % of total stakes
Belgium	10 % Wallonia, 11 % Flanders, Bxl
Germany	16 2/3 %
Ireland	10 %
Italy	26.8 % (sole tax)
U.K.	8 %

Table 4

In conclusion, while in some countries betting on horses is seen principally as a revenue collecting instrument for the State, in most countries the taxation factor is only a secondary aspect. Betting on horse racing is in many cases an integral part of national culture.

2.5. Inconsistencies

There is a clear inconsistency between countries prohibiting bookmaking and the fact that it is permitted in many other Member States.

In order for a horse race betting market to flourish it is important that horse racing is clean and that it is seen to be an honest and fair activity by players. Punters (people who wager) must have confidence in the activity before they place bets.

Legislation, supervision and control mechanisms have to be in place in order for that to happen. It is in the interest if the horse racing industry itself to ensure "clean" racing.

Tax levels and practices are also shown to vary. Some countries effectively rebate taxes back into horse racing while others do not.

The levels of non-rebatable taxation on totalisators varies from 10 to 15 %. The 15 % is payable to the Dutch Ministry of Agriculture which helps fund horse breeding although there is no formal mechanism linking tax revenue to grants.

2.6. Consumers, Agents and Organisers Interests

2.6.1. The Consumer

There is an inherent demand within the Community to bet on horse racing. The consumer that has access to bookmaking regards this form of betting as a game of skill. It is recognised that selecting a horse to arrive in the top 3 positions in a race is more skilful than selecting 3, 4 or 5 horses to arrive in a particular order, first, second, third etc.

The stake to win ratio for a single bet in bookmaking is low while for a tiercé, quarté or quinté, it is higher. These latter bets are nearer to a game of chance than to a game of skill.

Horse race betting combines betting with entertainment. There is little difference in motivations to bet from players who visit the track to those betting off track. The visit to the race track allows a greater range of leisure experiences of which betting still is a significant part.

2.6.2. The Agent

Bookmakers have a vested interest in the propriety of the race. They could conceivably, for short term profit, try to fix a race. Historically however it is the person who places the bet who is more likely to try to fix a race. It is argued that bookmakers, particularly corporate bookmakers with greater exposure to risk, are a positive influence in the policing of horse racing. They are considerably more exposed to loss by virtue of fraud as their business is based upon the ability to balance their books objectively.

The opposite is argued by some tote operators who maintain that as bookmakers have a vested interest in the outcome of a race there is a motivation to fix it.

In reality there is motivation to fix a race irrespective of the method of betting. In bookmaking large odds e.g. 100-1 reflect the lack of interest in a horse. This is because it is not considered a possible winner. In tote a large

payout per 'mise de base' also reflects the lack of players' interest in a horse. The bookmaker is a target of fraud as too is the tote win pool. In the case of the totalisator, it is the win pool which is subject of fraud. The victim is not the organisation taking the bets but the other players who have bet on the race.

A totalisator does not guarantee the integrity of racing. It does however, insulate the organiser of the betting from the effect of fraud.

2.6.3. The Organiser

Corporate bookmakers in the UK have sophisticated systems to monitor betting patterns in their off-track shops.

The starting prices of a race reflect the on-track bookmaking odds. These odds reflect the weight of money wagered on each horse.

It is to be expected that the off-track betting patterns in off-track betting shops do not reflect the on-track weighting of money wagered on each horse. Bookmakers instruct their representative at the racecourse to bet heavily on certain horses in order to reduce the bookmakers' risk.

The practice has been investigated in the UK by the Department of Trade and Industry and the Monopolies and Merger Commissions and been found to be legal. The activity was likened to that of a reinsurance brokerage, in other words taking out insurance against commercial risk.

Players have two alternatives to betting at starting price odds: the totalisator and fixed odds at off-track bookmakers.

Approximately half of all bets placed in the United Kingdom are at starting prices.

3. Controls and Supervision

3.1. Bookmaking

Strict regulation of the organisation of betting on horse racing is the basic rule. There are usually two types of licence required to start up betting activities, one for the person or company taking the bets and another for the premises on which bets are to be taken.

The emphasis throughout the European Community is on being a fit person. Discretionary powers are usually given to the licensing bodies to determine what is meant by 'personal fitness'.

Both licensing and supervision are carried out by state institutions. Invariably it is by those ministries responsible for horse racing and those responsible for tax collection.

The highly regulated character of the market can facilitate the protection of a market through a series of controls and authorisations.

In France bookmaking is illegal while the totalisator is effectively operated as a legalised monopoly. In Germany corporate bookmakers are not allowed due to the requirements of licensing of individuals. Direct or personal liabilities do not appear to apply in the horse race betting industry.

3.2. Totalisator

The largest tote operates in France. The argument for a totalisator monopoly is that it is in the public interest. The PMU is there to satisfy public demand while protecting punters from exploitation. At the same time they are maintaining the integrity of racing.

The Sociétés de Course, on whose behalf the PMU collects bets, are regarded as the entities best equipped to promote horse breeding in France and have been granted an exclusive licence to operate betting on horse racing in that country.

3.3. Comparative Analysis

There is no evidence to suggest that bookmaking is inherently a less secure

activity than the totalisator. In Germany the argument for restricting bookmaking licences to individuals is again based on the principle of control and supervision of the individual. It is clearly simpler for the authorities to regulate small relatively unsophisticated local operators. In the move towards a single market this approach is likely to be untenable.

In Germany gaming machines, casinos and even some of the state Lottos are operated by private companies. Indeed an off-track totalisator can be run by a private enterprise. The only exception in the rule is bookmaking.

In most countries there is only one licence granted for the operation of a tote. Permission to operate as a bookmaker is usually granted to more than one operator. On-track betting, by virtue of its centralisation, is easier to control. The centralised characteristics of a totalisator can also be argued as facilitating control. The trend in bookmaking, at least for the major market players, is towards increased centralisation, which facilitates control of their activities.

4. European Community Market Activity

4.1. Turnover

The total amounts of bets on horse racing in 1989 amounted to over 14,566 ECU million. Details are set out in table below. The main markets are those of the UK followed by France and Germany.

Turnover for 1989

Turnover for 1989 (in ECU million)												
	B	DK	D	F	G	IRL	I	L	NL	P	S	UK
Bookmakers	294	0	60	0	0	290	144*	0	0	0	0	7745
Tote	87	58	456	4456	MHT	117*	300	0	68	1+	3+	297
Total	381	58	516	4456	194	407	444	0	68	-	-	8042

* Estimate of share after split from Spati.

Table 5

+ Estimates

Another measure of market size is the number of outlets operating in each country. Again the UK, France and Germany stand out as the major markets, as illustrated by table 6 below.

Off-track betting shops, as of end 1989.

	B	DK	D	F	G	IRL	I	L	NL	P	S	UK
Bookmakers	1402	-	130	-	-	1177	400	-	-	-	-	9750
Tote	467*	OT	OT	6873	OT	OT	-	-	-	OT	OT	133+OT

* Assuming same density as bookmakers

Table 6

OT = On-track only

4.2. Market Trends

From the above figures, it is apparent that the two major horse racing markets in the European Community are those of the UK and France.

In the UK, betting on horse racing is dominated by three multinational book-

makers, Ladbroke, William Hill and Corals. Ladbroke is internationally involved in the hotel and leisure industries. Corals is part of The Bass Brewing Group and have horse race betting operations in Belgium, Ireland and the United Kingdom.

In France, the PMU is the only market player, notwithstanding the fact that it collects bets on behalf of a series of Sociétés de Courses. By French law, only the Sociétés de Courses are allowed to organise betting on horse racing, but they can delegate this activity to an operator of their choice. The PMU is the single tote operator in France and the largest worldwide. It has been very successful in recent years in marketing its product.

4.3. Expansion

It is clear that the corporate bookmakers are competitive and profit-minded businesses who are keen to use their skill-base on a pan-European basis. The corporate bookmakers believe that they have the expertise and excellent products to sell, and that the marketplace should be given the chance to confirm or refute the competitiveness of each product and each system of betting, rather than seeing a situation artificially imposed by national legislation. Once an unstimulated demand is apparent, the bookmakers believe that the most competitive operator, bookmaker or tote, should be given the chance to satisfy that demand.

4.3.1. The German Market

German law disallows corporate entities from operating as bookmakers, effectively excluding United Kingdom multinational bookmakers from Germany. Bookmaking is already practised in 130 outlets in Germany, by individual German license holders.

Ladbroke have brought the PMI (Pari Mutuel International), a subsidiary of the Pari Mutuel Urbain, to the attention of the Commission. They have complained about what they see as discriminatory access to French horse racing audio-visual programmes, which, it is alleged, prevents fair competition in Germany.

4.3.2. The French Market

French legislation effectively prevents corporate bookmakers from entering this market. Organisation of betting is strictly reserved for Sociétés de Course. They are regarded as the entities best equipped to promote horse breeding in France. The promotion of horse breeding is the only official reason stated for organising betting on horses. Corporate or individual profit is prohibited and thus multinational bookmakers are excluded from France.

The French Government and the P.M.U. have been brought to the attention of the Commission by Ladbroke. The French Government on unfair state aids to the P.M.U. and the P.M.U. on the abuse of dominant position.

The PMU is marketing abroad the expertise it has amassed in the area of totalisator technology and already operates a tote in Switzerland.

4.3.3. The Difference Between the French and the German Markets

Both the French and the German markets exclude foreign multinational bookmakers. France's exclusion of foreign multinational bookmakers is based on its claim that only through an oligopoly of its Sociétés de Course can the interests of the industry be successfully furthered. In Germany, however, the exclusion of foreign bookmakers is based on a legal interpretation disallowing corporate bookmakers, on public interest grounds.

4.3.4. The Belgian Market

Ladbroke is the market leader in Belgium, where it is the dominant bookmaker. It, along with other off-track betting operators, has acquired indirect access to the French market by acquiring a series of betting shops along the French border. Belgian off-track betting operators use French races as the medium for their betting services. The French claim that off-track betting operators have no right to use their racing. Operators, on the other hand, insist that outside France nothing stops them from using what is publicly available information. The Belgian courts have supported the off-track betting operators' point of view.

In reality the horse race event organiser sells the televised rights to a broadcaster. Negotiations as to the market value of that race are conducted between the broadcaster and the event organiser.

4.3.5. SIS and Televised Races

Advanced telecommunications makes hermetically closed-off national markets more and more untenable.

Since the liberalisation of betting in Belgium in 1990, live English horse racing and English greyhound racing is being beamed by satellite into Ladbroke race-by-race shops. French racing is being beamed into Germany and Switzerland. The UK receives racing from Ireland, Belgium and Hong Kong.

4.3.6. Market Development

To conclude, it is quite clear that this market will only develop if there are changes in legislation; this reflects the highly regulated nature of this market sector.

The P.M.U. argue that French horse racing events are the property of the organisers and they should be paid a royalty for the broadcasts. The corporate bookmakers agree, but maintain that the broadcaster, and not the taker of the bets, should pay the royalty to the race organiser.

The issue is further confused by the fact that the broadcaster is a company called Satellite Information Services (S.I.S.), which was created by bookmakers to service bookmakers who continue to hold shares and positions on the board of S.I.S.

There is no doubt that developments in financial services and satellite broadcasting are creating an atmosphere conducive to cross-border credit card account bookmaking. Such services are being made available to large staking, low credit risk customers who are very difficult to regulate and control.

VI. A PAN-EUROPEAN COMMUNITY REVIEW OF THE CASINO GAMING MARKET SECTOR

1. The Casino Games

In casinos in Europe, the principal games are roulette, Black Jack and dice. There are a number of variations in each game, e.g. American roulette, English roulette or French roulette. Black Jack has variations such as baccarat, punto banco or chemin de fer. Dice or craps may be played in various combinations and odds.

Most, but not all, of the casinos in the Community are permitted to have gaming machines. Such machines are known as 'amusements with prizes' (AWPs). They differ from other video games by giving a cash prize in excess of the original stake needed to play on the machines. The AWP's in casinos traditionally have larger pay-outs than gaming machines situated in other public places.

2. Where Casinos are Permitted

There are approximately 353 licensed casinos in the European Community. Casinos are permitted in eleven of the twelve Member States. Ireland does not allow casinos. Table 1 shows the number of casinos in each country and the type of games available.

Casinos were first legalised in Europe in 1907 in France. They had become popular during the 1890s despite being illegal under Article 40 of the French Penal Code. The licences were granted specifically for spa towns. The motivation for licensing was that the affluent members of French society wished to have some entertainment when they visited these spa towns.

Casinos are not permitted in Paris. A ban extends for some 60 kms from the centre of the city. The principle behind the distance is that prior to automotive transport, it was considered impossible for a person to travel 60 kms and return home within the same day.

The most recent legalisation of casinos within the European Community is Denmark. On June 13, 1990, Denmark passed laws allowing the introduction of casinos. The casinos became operative from December 31, 1990. The Government of Denmark has issued licences for a maximum of ten casinos.

Casinos have been introduced to discourage Danes from travelling abroad to play.

In Belgium casinos are illegal. However, eight are 'officially tolerated' by the Belgian Government. Indeed, although they are illegal, there are officials from the Ministry of Finance in each of the casinos during opening hours to ensure that correct fiscal procedures are followed.

In Holland there are eight casinos operating as part of a state monopoly. It is widely known that a series of illegal casinos also operate. Eradiction of illegal casinos would prove difficult given the necessity of proving that the types of games operated within the casinos are not games of skill. Besides, closing down these illegal casinos would force the casino operators underground.

Table 1 : Casinos and Games available by Member State

Member States	Casinos Permitted	Approximate Number	Games permitted		
			Roulette	Cards	Gaming Machines
Belgium	✓	8	✓	✓	✗
Denmark	✓	10	✓	✓	✓
France	✓	135	✓	✓	✓
Germany	✓	32	✓	✓	✓
Greece	✓	3	✓	✓	✓
Ireland	✗	-	-	-	-
Italy	✓	4	✓	✓	✓
Luxembourg	✓	1	✓	✓	✓
Netherlands	✓	8	✓	✓	✓
Portugal	✓	11	✓	✓	✓
Spain	✓	22	✓	✓	✓
U.K.	✓	119	✓	✓	✓
		353			

3. Why Casinos are Permitted

There are principally four groups of justifications for the licensing of casinos in Member States.

In Spain, Portugal and Belgium casinos are regarded as a stimulus to tourism. This is reflected in the geographic location of the casinos. In Portugal and Spain they are in designated tourism areas. In Belgium casinos are only 'tolerated' in those cities which have been designated as tourism centres. Brussels has not been designated a centre of tourism by the Belgian Government and, therefore, does not have a casino.

The fulfilment of unstimulated demand cited by the British Government as the reason for licensing of casinos and the public order interests cited by countries such as Germany, Denmark and Holland are two further reasons for granting licences. The argument in both cases is that such activities would exist despite legislation and, therefore, in order to protect players and to dissuade criminal elements from entering the market, it is better that casinos are regulated and controlled rather than forced underground.

France illustrated the fourth reason for licensing casinos. French casinos are seen as an entertainment and, in the history of its regulatory evolution, were confirmed centres of relaxation frequented by the relatively well-off.

4. Taxation Revenue

In 1989, total tax revenue from casino gaming was over 600 million ECU. This is small compared to the Lotto and Toto fiscal benefits to Member States and is indicative of a relatively small market.

Table 2 : Tax Revenues from Gaming in Casinos by Country

Member States	1989 Tax Revenues Million ECU
Belgium	12
Denmark	Not available
France	78
Germany	328**
Greece	> 1
Ireland	Not applicable
Italy	5*
Luxembourg	Not available
Netherlands	32
Portugal	24
Spain	101
United Kingdom	85
	666

* Estimate based on fixed rate plus 8% on gross wins plus 60% entrance fee.

** Based on an estimate table winning ratio of 16.66%.

Tax regimes vary from country to country and in some cases are used to suppress the growth of this activity by reducing net profits and hence the motivation for private casino operators.

5. Control and Supervision

5.1. The Need for Control and Supervision

The casino gaming market throughout the Community is subject to strictly applied legislation in terms of both licensing casino operations and the policing of gaming. This reflects fears about the penetration of organised crime into the industry.

Reservations have been expressed about the involvement of casinos in questionable financial transactions and in other forms of tax fraud.

The fear of criminal involvement exists throughout the industry. During the course of the interview programme, continual reference was made by both regulators and casino operators to the need to keep the casino industry clean. All the Member State regulators and operators agreed that the licensing must primarily ensure that the operator is a fit and proper person.

5.2. Core Licensing Considerations

Two common elements run through the licensing requirements of all Member States.

They are:

- that the persons applying for licences either as individual applicants or directors of a company, are able to prove to the satisfaction of the licensing board that they are fit and proper persons (i.e. not a criminal or immoral person) and that they are capable of running a casino;
- that the applicants are sufficiently solvent to meet any debts arising from the operation of the casino.

Emphasis in terms of importance is unequivocally placed on the 'fit and proper' consideration.

5.3. Secondary Considerations

In addition to the two afore-mentioned conditions, national considerations for the granting of casino licences also apply. These conditions reflect broader motivations behind legislation for the casino markets such as tourism considerations or association of casinos with undesirable activities.

In Spain, a casino is obliged to supply bar, restaurant, lounge and nightclub or cabaret facilities in conjunction with the gaming rooms. Legislation states that only 25% of capital investment in a casino may be in foreign ownership.

In Portugal, the tourism theme continues with the Gambling and Gaming Inspectorate operating under the Ministry of Tourism. New licences are granted by a tender procedure organised by the Council of Ministers and the Ministry of Tourism. The licensing of casinos in Greece also falls under the Ministry of Tourism.

In Belgium, the municipalities grant licences, one of the conditions for which is the promotion of tourism within the locality. Legislation in Denmark has highlighted tourism areas as being prime locations for casinos.

From the examples above, it is clear that these countries view casinos as part of the leisure industry and being part of the holiday experience. To some extent, the same can be said in France.

The licensing conditions in Holland and the U.K. reflect a different philosophy. In Holland, licensing is the responsibility of the Ministry of Justice and Economic Affairs. They have granted only one licence and that is to a State monopoly 'Holland Casinos'. The aim behind State control is to ensure that players are protected and that the authorities control the size and growth of the market. This aim has been seriously compromised by the inability of the Government to police and control the boom in illegal casinos. This highlights the need for a close relationship between licensing, control and supervision.

In the UK, licences will only be granted if the local magistrate acknowledges there is unstimulated and unfulfilled demand for casino gaming. Areas of high population and a large number of visitors have been given the status of areas where gaming can take place.

In Germany, licensing is the responsibility of the Ministry of Interior in each of the Länder. The Ministers of the Interior have not established consistent conditions for the granting of licences. In Bavaria only the state can operate casinos. In Bremen and Nordrhein/Westphalen only a foundation or a trust can operate a casino. In Berlin only private individuals or private companies can operate casinos.

In Italy, each licence is subject to a separate Ministerial Decree. In Luxembourg, only one casino has been authorised. This casino is marketed as a tourist attraction.

6. European Community Market Activity

6.1. The Market Mix

The casino market sector is mixed in terms of ownership. In Holland and four German Länder, only the State can own and run casinos. In most other countries of the European Community, private enterprises hold licences to operate casinos although the property may be owned by the State.

Despite the fact that a casino operation is dependent on the National Government for permission to operate, the private operators are clearly profit-motivated economic activities. Even Holland Casinos, the Dutch state monopoly, is treated as a profit centre. It has budgets and revenue and profit targets similar to those to a private company.

There are a number of leisure groups with chains of casino operations, such as Lucien Barrière and Citerici in France, and London Clubs, Brent Walker and Stakis in England. Even in the newer market of Portugal, multiple casino operators have sprung up with four casinos in the Algarve licensed to a single operator.

6.2. Turnover

It is difficult to identify the exact size of gaming stakes (turnover) within the EC casino market. In some Member States, casinos do not have to publish total gaming stakes or total winnings in favour of the casino. They are very reluctant to divulge this information.

Working backwards from published tax revenues, we estimate that casino stakes in the European Community now exceed 7.750 million ECU. Estimated total stakes in each Member State is shown in Table 3.

Table 3. Estimate of Casino Stakes in 1990.

Member States	Projected 1990 Turnover in Million ECU
Belgium	30
Denmark	Not applicable
France	2136
Germany	2463
Greece	50
Ireland	Not applicable
Italy	300
Luxembourg	50
Netherlands	160
Portugal	83
Spain	338
United Kingdom	2143
TOTAL	7753

6.3. Trends

Market trends vary from country to country and are dependent on how each market has historically been controlled and taxed as well as how long the market has been in operation.

In France, for example, the oldest of European Community casino markets, the casino industry was under severe pressure in 1987. The problems were so acute that a 10% tax alleviation was instituted in 1987 and a law permitting the installation of gaming machines exclusively into casinos was passed. This act has gone some way to rejuvenate the industry but has also caused some controversy since only fifteen casinos out of a total of 135 were granted licences for gaming machines although all applied for them. No gaming machine licences have been granted for eighteen months following concern that the popularity of the machines was luring people into casinos.

In London, another well-established market, the decline in gaming stakes has resulted from a fall over the last five years of Arab spending power, the dominant customer group in the London casinos market. Casinos outside London, however, have continued to grow revenue and stakes in excess of inflation.

In Germany, there are strong indications of expansion both in turnover and in the number of casinos permitted.

As would be expected in such a highly regulated market, the catalyst for casino market growth in the Member States comes from a relaxation of regulations which either improve profit opportunities or permit activity which under earlier legislation was banned. This is evident in Denmark which permitted casinos as of December 31, 1990 and France whose decision to allow AWP's has somewhat regenerated the industry.

6.4. Expansion

Casino operators have found it difficult to expand their activity internationally for a number of reasons, some of which are common with other businesses, eg. of management control, funding, etc, and some of which reflect barriers imposed by national fiscal regimes and restrictive licensing requirements.

6.5. The Impact of Taxation on the Move Towards a Single Market

Taxation is used by some countries as a method of controlling the growth of casinos which are seen as an anti-social and immoral activity.

The tax ranges on gaming wins in favour of the casinos are as follows:

*Table 4.
Range of Tax expressed as a % of the Casinos' Total Gaming Winnings per Annum*

Member States	Minimum	Maximum
Belgium	30%	40%
Denmark	65%	65%
France	10%	80%
Germany	80%	80%
Greece	80%	80%
Ireland	Not applicable	Not applicable
Italy	40%	*
Luxembourg	15%	80%
Netherlands	33.33%	33.33%
Portugal	**17.5%	17.5%
Spain	35%	50%
United Kingdom	25%	33.33%

* 8% on total stakes at a win retention of 20%; this would be equivalent to 40% of winning

** Average 15% on winnings plus approximately 0.5% on turnover = 17.5%.

The higher levels of taxation on gross gaming winnings are indicative of attempts to control growth through taxation. Such a level of taxation can encourage operators to commit fraud.

Tipping at gaming tables in casinos is practised in all Member States with the exception of the United Kingdom where it is forbidden by law.

Where tipping is allowed there are often two deposit boxes for chips played at a casino table; one for house wins, one for tips. The tips are used to off-set the operating costs of the casino. If the tips are taxed, it is invariably at a lower level. The tax system encourages people to syphon funds into the lower tax bracket.

Tips may be given as a free bet, or they may sometimes be left on the table until won by the house thus artificially increasing winnings.

It is impossible to quantify the level of such activity because of its nature, but we understand that the practice is widespread. It clearly undermines the integrity of operators.

These practices have market impacts. Multiple outlets are at a disadvantage and must put in place strict cash control procedures to discourage 'skimming'. Honest operators tend to be disadvantaged; their effective profitability would not be as favourable as the dishonest operator who could more easily fund expansion.

The tax levels are indicative of a contradiction in the legislation for casinos. The principle of incentives for tourism is often put forward by states as the reason why casinos are permitted. In reality, however, the vast majority of players (over 80% in the case in Spain, Portugal, Greece, France and Italy) are in fact nationals and not foreign visitors.

Throughout the European Community casinos would exist illegally if they were not legislated for. Strict control and supervision are used to protect the players and prevent stimulation of the market. The tourism promotion argument may be used as a political vehicle to fight against conservative moralism.

6.6. The Impact of Licensing Procedures on the Move to a Single Market

The principles of licensing throughout the European Community are consistent in that applicants must be fit and proper to run a casino and solvent in order to meet all debts arising from the casino's operations.

There are local restrictions on licensing which effectively limit foreign licence holders. They are :

- Spain: only 25% of capital of a casino operation can be foreign owned.
- Portugal: only 10% of ownership may be foreign.
- Holland: only the State may operate casinos.
- German: in four Länder only the State can operate casinos.

There are other Member States with a history of licensing foreign operators. These are :

- Belgium: a history of licences granted to French, UK and German operators
- France: current licences have been granted to UK owners and other European Community operators
- Denmark: the new licences include foreign multinational hotel groups
- Luxembourg: the licence holder is German

In other Member States, where legislation does not formally preclude foreign operators, the application of the law has frequently resulted in a nationals-only market. These are:

- UK: all licence holders are British
- Greece: all licence holders are Greek
- Italy: all licence holders are Italian
- Germany: in the non-state monopoly Länder, all the casinos have German licence holders

This reflects the relative ease of control of national operators and the relative simplicity of establishing the licensees' credentials, rather than a specific bias against foreign ownership.

VII. A PAN-EUROPEAN COMMUNITY REVIEW OF THE GAMING MACHINES MARKET

1. An Introduction to Gaming Machines

Gaming machines are machines into which coins are inserted providing the right to play and the chance to win money prizes in excess of the stake inserted into the machine. The games are principally games of chance. They are known as amusements with prize machines (AWPs).

They differ fundamentally from video games and other entertainments which require money inserted in order to play but not offering money prizes.

Market information often groups AWPs with other non-prize paying video games which make gathering of data difficult. Our market data thus contains some estimates although accurate figures are available from the majority of the Member States.

2. Where Amusements With Prizes are Permitted

AWPs are permitted in some shape or form in all twelve Member States, although access to machines varies and reflects the social and cultural attitude to this form of gaming.

In Spain and the UK AWP's are accessible to all the population without regard to age. In other countries, such as Portugal and France access is restricted by the fact they are available only in casinos.

Market estimates indicate that there are some 700,000 AWP's throughout the European Community (see Table 1). In each country games are graded by the size of winnings and stakes. The larger the stake, the larger the prize and the larger the direct tax on the machine.

Table 1

Member State	Number of AWP's
Belgium	84,720
Denmark	2,000
France	1,100
Germany	173,800
Greece	400*
Ireland	3,500
Italy	400*
Luxembourg	80
Netherlands	10,000
Portugal	328
Spain	304,000
U.K.	117,500
TOTAL	697,500

* Estimates

3. Why Gaming Machines are Permitted

Compared to other market sectors within the betting, gaming and lotteries industry, AWP's are a relatively new phenomenon. Legislation permitting these machines throughout Europe is likewise relatively new. In Germany they first became legal in 1985, in the Netherlands 1986, in France 1987, in Denmark 1988 and in Luxembourg 1989. Belgian legislation covering gaming machines dates back to 1973, while Ireland goes back to 1956 and chronologically ties with U.K. legislation.

There is no commonality of reasoning within the European Community as to why such games are permitted. Some countries have a very liberal attitude in that they regard AWP's as a form of entertainment and therefore have allowed the public easy access. Other Member States, notably those with more recent legislation believe that these games potentially corrupt the young, enticing people to bet and play on a habitual basis. The more restrictive Member States argue that due to the machines' design and instant availability of prizes, they are potentially addictive.

4. Taxation Revenue

Gaming machines are taxed directly and indirectly. Direct taxation is applied at the time licences are granted to install gaming machines. Indirect taxation can take the form of entrance fees into arcades and casinos as well as taxation on gaming profits within the arcades and casinos.

This second method of taxation is only viable in a controlled environment and therefore is not feasible where there is easy access to the gaming machines, i.e. in Spain, UK, Germany and the Netherlands.

Technological developments are promoting indirect taxation on individual machines, as counters and cash registers can now be fitted into more sophisticated and adaptable machines.

Direct taxation is levied when machines are licensed. The level of tax relates to the size of stake and the size of prize that can be won. The direct tax at time of licensing is often dependent on the type of machine. Such taxation results in ranges of tax levels, for example in Belgium the tax ranges between 69 and 830 ECUs. In France the taxation varies between 100 and 600 ECU and is dependent on the size of the population in the licensing authority's area.

Direct licensing revenue for gaming machines in Europe is conservatively estimated at approximately 500 million ECUs.

5. Control and Supervision

Gaming machines are an extremely controversial market sector of the gambling and gaming industries. There are two reasons for this:

5.1. Attractiveness and Addiction

The machines are designed to excite. They play music, have flashing lights and make noises when somebody wins. This is a form of static marketing intended to create an exciting environment. Young people particularly have become addicted to playing these machines. Such addiction may lead to antisocial behaviour in order to obtain enough money to play continually on these machines.

In Spain, where the machines are particularly popular, the health service has introduced psychiatric units to deal with addiction. In many Member States AWP's are easily accessible. This gaming machine is often the first gaming bet that youngsters in Spain, the UK, Holland and Belgium make.

5.2. Incitement to Bet

The question of incitement to bet is again related to access. In some countries gaming machines are available in cafés, fast food restaurants and amusement arcades. This can lead to a person who does not normally play on games of chance putting money into these machines.

5.3. Ministries Responsible

As a result of the two areas of contention, control and supervision of AWP's usually falls under the control of the police, the Ministry of Justice and sometimes under the control of the Ministry of Finance.

Police control and supervision operates in Denmark, and France where the casino police enforces control and supervision. In Germany the Federal Bureau of Criminal Investigations is responsible for the technical control of machines and in Spain the gambling and gaming squad are responsible for the control of these machines.

In Greece and Portugal the Ministries of Tourism are responsible for casinos and hence machines situated in them.

In Belgium control and supervision is the responsibility of the administration for direct taxes, a department of the Ministry of Finance. In Luxembourg it is the responsibility of the Ministry of Finance as is the case in The Netherlands. In Ireland and the UK responsibility for control and supervision lies with the local authorities but the enforcement these regulations is the responsibility of the police.

6. European Community Market Activity

6.1. Size of the Market

Turnover or total stake figures for this market are difficult to obtain. The reasons for this are twofold. Firstly where the activity is limited to casinos, operators were reluctant to provide unpublished turnover figures. Secondly, where there is easier access to the machines, turnover data has not been collected either by governments or industry. This is because the method of raising taxes is dependent on the number of machines, the average stake and the maximum prize and is not conditional upon turnover. Much of the turnover data has been estimated.

The biggest market by far is in Spain, with turnover of 1,9 billion ECUs.

The Spanish market is followed by Germany, with 1,6 billion ECUs turnover and the third largest market is the UK with approximately 1 billion ECUs turnover.

This reflects the fact that Spain with 304.000 has the largest number of machines in Europe. Germany has the next largest number of machines at 173.800, and the UK is third with 117.500 machines. Spain, Germany and the UK operate 85% of all AWP's. Total stakes were 4,5 billion ECUs in 1989 continued growth is forecasted for this market.

6.2. The Market Structure

The gaming machine market in the European Community is fragmented. Most operators are independent. In the large markets, multinational leisure corporations have invested in machine production and servicing facilities. Machines are often manufactured in one country for use in another. The market for machines varies from Member State to Member State and is dependent on the social attitudes prevailing within each State towards level of development of the market.

In France for example these machines only became legitimate in May 1987. Today fifteen casinos have received approval to have gaming machines. When the Ministry of the Interior became aware of the high levels of demand to play on these machines they were immediately concerned about the social impact. Licences have since not been granted to the remaining casinos in France.

Spain permitted gaming machines in 1981. They now account for forty percent of all turnover on betting, gaming and lotteries within that country. The Spanish authorities have become so concerned about addiction that new legislation curbing the marketing of AWP's was drawn up in 1990.

In Ireland, the Dublin authorities have banned the gaming machines from their area of control; they are now limited to coastal resorts and are only then available for three months of the year.

Denmark only granted permission for gaming machines in 1988. Since then 1.800 permits have been issued. These machines are not allowed in amusements arcades where video games are available to minors.

In the Netherlands gaming machines have been permitted since 1986. There are now nearly 10.000 machines in this country. In Belgium jackpot machines and 'one arm bandits' were banned in 1973, although other gaming machines regarded as less perverse have remained available.

There is great enthusiasm among casino owners and gaming machines operators to develop this market. It is obviously extremely lucrative with computerised guaranteed percentage winnings programmed into the machines. This eliminates risk for the operators and it is a relatively cost efficient way of earning money from gaming as there is little labour cost in automatic gaming machines. Currently there are proposals from operators within Belgium, France and the UK to increase the number of gaming machines which can be permitted within casinos. In Belgium they are totally banned.

Gaming machine manufacturers and associations are acutely aware of the poor publicity these machines have in terms of the social consequences of addiction and the incitement of the young to play on these machines.

6.3. Machine Manufacturers

For logistical reasons machine manufacturers are located near the large markets. Any standardisation of paybacks and measuring techniques for the machines' revenue would considerably improve economies of scale.

The dilemma is that many manufacturers are owned by those who also distribute and host the machines on their premises.

This vertical diversification results in a conflict of interest. The ability of governments to monitor revenue could result in new taxation levels and reduced profits.

Minimum payouts if commonly known by players could reduce the attractiveness of such machines. This would have a negative effect on the growth of the market.

VIII. A PAN-EUROPEAN COMMUNITY REVIEW OF OTHER BETTING AND GAMING ACTIVITIES

1. An Introduction to Other Betting and Gaming Activities

Within each Member State there are small market niches for betting and gaming activities, reflecting social and cultural developments particular to each Member State. They are often organised on an ad hoc basis without supervision, control or taxation. Bingo, however, is organised and legislated for in four Member States in a way that is different from general local lottery legislation.

Dog racing is organised in four Member States. It is most significant in the United Kingdom. Betting in this industry is dominated by off-track bookmakers and there is no separation of figures between horses and dogs.

2. Where Other Betting and Gaming Activities Are Found

There is evidence in ten of the twelve Member States of forms of betting and gaming other than lotteries, football betting, horse racing, casinos and gaming machines.

The type of activities by country are listed in Table 1 below.

Table 1

Member State	Other Forms of Betting and Gaming
Belgium	Dog, Cycling and Pigeon racing
Denmark	Dog, Pigeon racing and Prize bonds
France	Dog, Cycling and Pigeon racing, Pelotte
Germany	Prize bonds
Greece	None Found
Ireland	Bingo, Dog racing, Prize bonds
Italy	Cycling and Car racing
Luxembourg	None Found
Netherlands	None Found
Portugal	Bingo
Spain	Bingo, Pelotte
United Kingdom	Bingo, Greyhound racing, Events, Prize bonds

Betting on dog races is to be found in Belgium, Denmark, France and the UK. In Belgium, Denmark and France the activity is regionalised. In Belgium races are held in Liège and in France towards the Normandy and Brittany coast. In the UK and Ireland, greyhound racing and betting is found throughout the state. Betting on dog racing takes the form of pool betting in Belgium, Denmark and France. In the UK betting takes the form of bookmaking and totalisator.

Bingo was evident in Ireland, Portugal, Spain and the UK. Similar games are found in the other Member States, however, they were legislated for as local lotteries.

Pigeon racing was found in Belgium, Denmark and France. This is controlled by fixed taxes for rings which are placed on the pigeon as a form of licensing fee. These rings identify the pigeon. When betting on pigeons, they also act as a means of validating winners.

Betting on cycling is found in France, Belgium and Italy. In France and Belgium the form of bet is by tote and in Italy it is a lottery bet.

Betting on events such as boxing, pelotte and individual matches is a very popular form of illegal activity. It is often informally organised between friends and associates.

Prize bonds, that is to say Government bonds where no interest is paid but the bond is numbered to allow a draw to take place with a grand prize, are available in the UK, Ireland, Germany and Denmark.

3. How Other Forms of Betting and Gaming are Controlled

Dog racing generally falls under the same legislation as that covering horse race betting. The principles of the betting mechanisms are the same.

Bingo in most shapes and forms is covered under local lottery legislation.

Legalised events betting is covered under local lottery legislation. Prize bonds are fiscal mechanisms to raise state revenue. The interest rates due on the bonds are pooled and a percentage paid out in prize money.

Many of the other small niche markets are illegal.

4. The Bingo Market

Bingo is a popular pastime in four of the twelve Member States: Ireland, Portugal, Spain and the UK.

In Ireland it is predominantly a non profit-making local activity, for philanthropic purposes. The major organiser of bingo is the Catholic Church. There is no fiscal regime governing the operation of non-national lotteries or bingo as they are for charitable or philanthropic purposes only.

The total bingo stakes for Portugal, Spain and the UK in 1989 was 2,3 billion ECUs. Tax revenue totalled 355 million ECUs.

The breakdown of the tax revenue and turnover figures is shown in table 2.

As can be seen from the Table 2, Spain and the UK account for the majority of stakes. Spain accounted for approximately 58 % of the total turnover in 1989, the UK 42%.

Table 2

Member State	Bingo Turnover and Tax Revenue 1989 (.000 ECU)	
	Stakes in 1989	Gaming Tax
Portugal	988	136
Spain	130.362	260.724
United Kingdom	952.027	94.044
Total	2.255.747	354.782

In Portugal, Spain and the UK special gaming inspectorates are used to ensure that legislation is enforced in the bingo halls. In Portugal this function is carried out by the Gambling Inspectorate, in Spain the Gaming and Betting Squad and in the UK the Inspectors for the Gaming Board of Great Britain.

In all three countries the supervising authorities for bingo halls are also responsible for the supervision of casinos operations.

The bingo market in Portugal is growing. There are at present 35 bingo halls in Portugal. Applications for additional concessions are currently being considered. In Spain the market has declined following its initial growth on

the introduction of bingo halls in 1979. In 1979 the stakes on bingo accounted for over 35 % of the total betting, gaming and lottery market. The market share is now standing at under 20 %. Licensed bingo clubs in the UK have fallen from 1.820 in 1974 to 978 operating at the end of March 1990. Admission to clubs fell throughout the 1970s and the trend is continuing. In 1989 attendances were estimated at 250.000.

The key issue for the bingo industry in common with casinos is licensing. There is a necessity to ensure that there is no discrimination in licensing procedures, while enabling the licence authority to establish that the applicant is fit, proper and able to run a bingo hall.

In addition Spanish and Portugal legislation contains formal restrictions on foreign ownership of bingo halls.

5. Illegal Betting and Gaming Activities

Illegal betting and gaming is widely practiced throughout the Member States. It is impossible to give a value both in terms of stakes and lost tax revenue to this illegal activity. Despite the widespread nature of the activity, legislators regard the monies involved as being insignificant when compared to the rest of the industry.

Illegal betting can take the form of wagering between friends on the outcome of football matches, pigeon races, pelotte games, boxing, etc. or games of cards, dominos, checkers etc. wagered in cafés, as well as illegal cross-border participation in activities that are legal in other Member States.

Although cross-border betting under national legislation is frequently illegal it is widely practiced.

The only major illegal gaming operation that was identified was the parallel Totocalcio in Italy and casinos in the Netherlands.

The illegal operation is clearly well organised. Utilising the results of the official Totocalcio it pays out 10% more in prizes. The operation is financed by the portion of revenue that would normally be paid in tax.

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