



# Gaming in the EU – The Case for State Lotteries

Presentation to EL Congress  
by  
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# Agenda



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- ❑ Introduction
- ❑ State lotteries versus for-profit operators
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- ❑ Single market for lotteries and other types of gambling?

# Terminology



- ❑ **Gaming** – all forms of recorded gambling activities
- ❑ **State lotteries** – enterprises that have a licence from the State to provide lottery games. Required to give a mandated share of their turnover to 'good causes'
- ❑ **For-profit operators** – do not have to give a mandated share of their turnover to good causes. Game offerings can include betting, casinos and slot machines
- ❑ **Expenditure/Turnover** – value of stakes placed by players
- ❑ **Gross Gaming Revenue (GGR)** – income received by gaming enterprises after prize payouts
- ❑ **Contributions to Good Causes** – payments to recipients for the benefit of society, including taxes paid to the State

# Introduction



- ❑ Many EU Member States retain tightly regulated gaming sectors
- ❑ Game operators in many EU Member States are State monopolies
- ❑ States strike a balance in accommodating individuals' desire for gambling whilst minimising the private and social costs of gambling-related social problems

# State lotteries versus for-profit operators



- ❑ Characteristics and operation of gaming markets are very much specific to each Member State
- ❑ However, some broad distinctions can be described:

Typical key differences between State lotteries and for-profit operators		
Differentiating factors	State lotteries and regulated betting operators	For profit operators
Legal framework	Regulated activity	Unregulated activity
Main beneficiaries	Stakeholders	Shareholders
Main business objective	Social responsibility	Maximisation of profit

*Source: London Economics*

# Legal entitlement to regulation of gaming



- ❑ The European Court has repeatedly recognised the right of Member States to restrict the supply of gaming for social reasons
- ❑ Cases cited include Gambelli (2003), Schindler (1994), Läärä (1999) and Zenatti (1999)
- ❑ A similar line was adopted by the World Trade Organisation when its appeals body was asked to consider the right of the US government to restrict cross-border provision of gaming

# Gaming activities in EU Member States



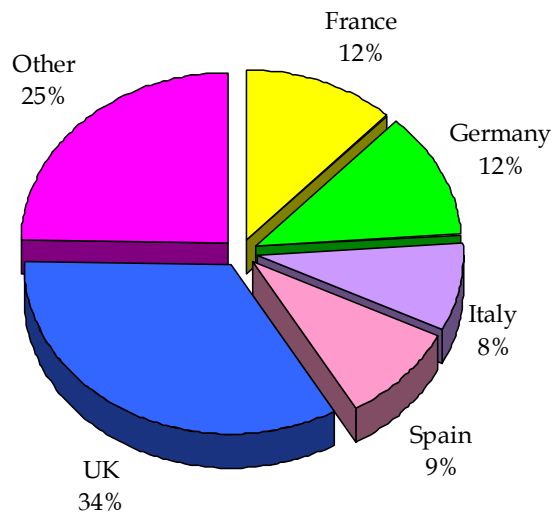
- ❑ Lotteries and betting are present in all EU25 Member States (*note: we do not have any information from Malta throughout this study*)
- ❑ Casinos and slot machines are allowed in all EU25 Member States, with the exception of Cyprus and Ireland

# Size of the EU gaming market



- ❑ Total turnover in the EU gaming market, 2004 = €290 billion
- ❑ Equivalent to 2.8% of EU25 GDP in 2004
- ❑ Largest five markets comprise 75% of the total

Member State's shares of total EU gaming market, by turnover, 2004



NOTE: All other EU Member States have market shares of less than 5%. Excludes Malta.

Source: London Economics' calculations, based on the replies from the members of the European Lotteries and Toto Association



# Per capita expenditures on gaming activities



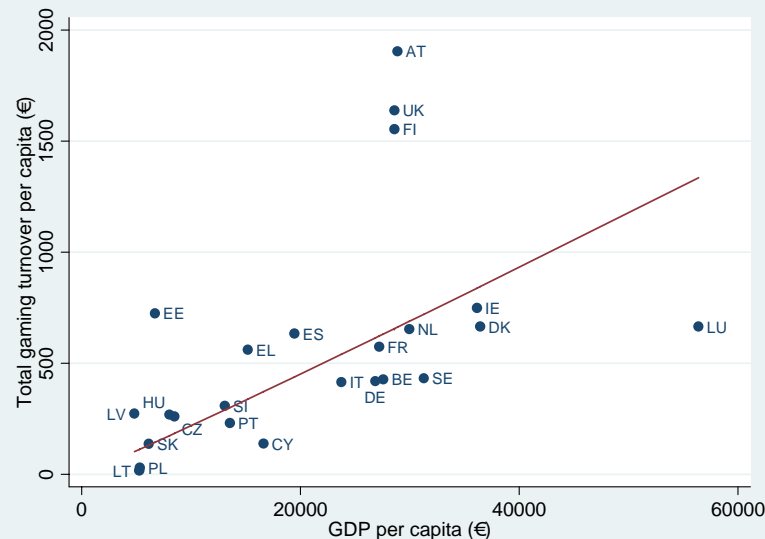
- ❑ Average (mean) gaming expenditure per person per year in the EU25 is €630
- ❑ Huge variety: highest value was €1,900 in Austria, whilst lowest was €20 in Lithuania
- ❑ The median amount spent – €430 – is considerably lower than the mean

# GDP affects gaming but so may culture



- ❑ GDP per capita seems to be a major determinant – on a per capita basis, a one percentage point rise in GDP increases gaming expenditures by 1.1%

Gaming expenditures and GDP per capita



- ❑ But different social and cultural attitudes towards gaming may also play a role

Source: London Economics' calculations, based on data from the members of the European Lotteries and Toto Association, and Eurostat

# Expenditure in lottery markets

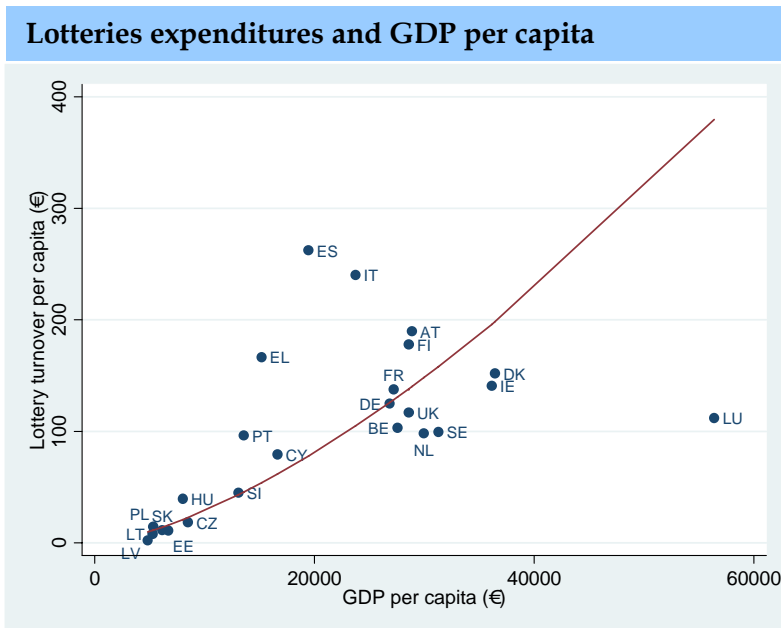


- ❑ Expenditure on lotteries in the EU25, 2004 = €63 billion (22% of the total gaming market)
- ❑ Average individual expenditure was €140 and median was €100
- ❑ Highest per capita annual lottery expenditure was €260 in Spain, and the lowest was €2 (Latvia)
- ❑ Share of lotteries in total gaming market varies from 1% in Latvia to 58% in Italy

# Determinants of expenditure on lotteries



- ❑ Compared across countries on a per capita basis, lottery expenditures increase by 1.5% for each 1% increase in GDP



- ❑ Lottery expenditures are crowded out by other forms of gambling in more liberal markets

*Source: London Economics' calculations, based on data from the members of the European Lotteries and Toto Association, and Eurostat*

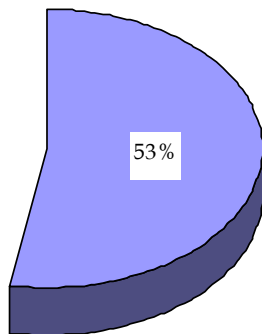
# Prize payouts from gaming activities



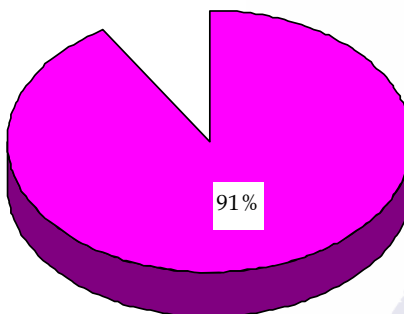
- Almost all of the players' stakes are returned to the winners in for-profit gaming operations, compared to just over half in State lotteries

Prize payouts to customers as a percentage of gaming turnover, 2004

EU-25 State Lotteries (excl. IT, MT)



Large, publicly-listed, for-profit gaming operators



NOTE: IT = Italy, MT = Malta.

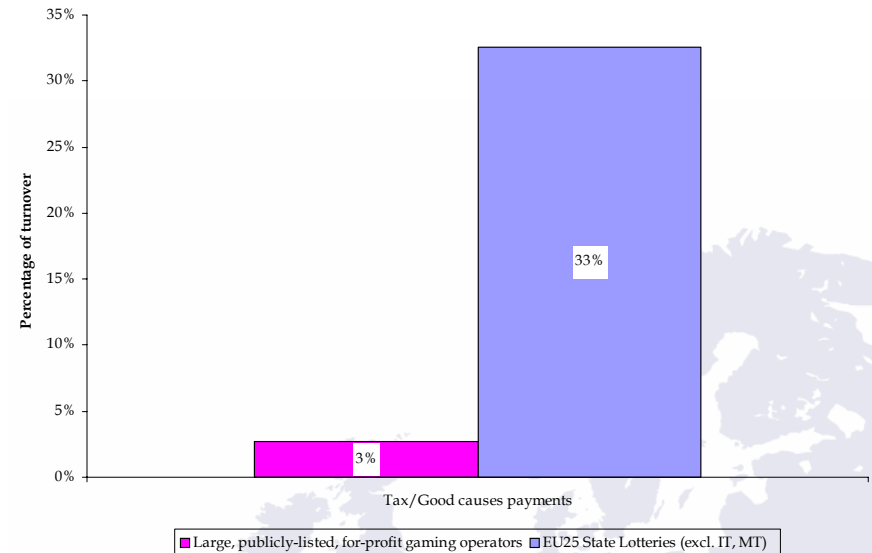
Source: London Economics' calculations, based on the replies from the members of the European Lotteries and Toto Association, and annual reports of large, publicly-listed, for-profit gaming operators

# Social payouts of gaming activities



- ❑ One-third of the revenues generated by State Lotteries were subsequently paid out to good causes
- ❑ Just 3% of the revenues generated by other gaming activities was paid to the government in the form of tax

**Payouts to good causes by State lotteries, and tax paid by private gaming operators as a percentage of gaming turnover, 2004**



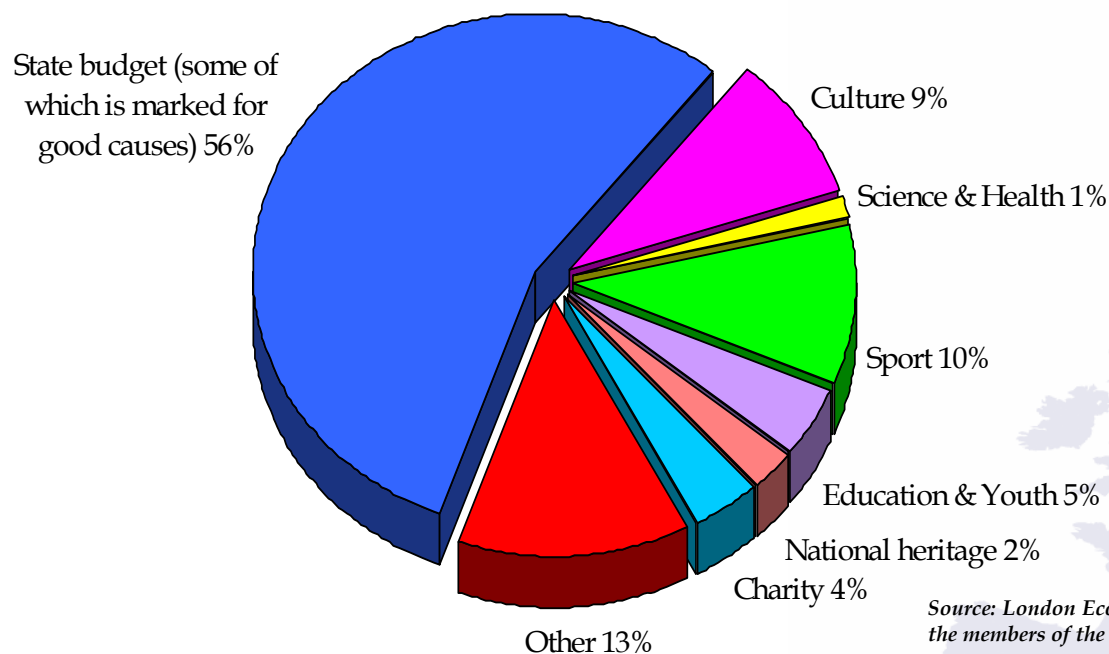
NOTE: IT = Italy, MT = Malta.

*Source: London Economics' calculations, based on the replies from the members of the European Lotteries and Toto Association, and annual reports of large, publicly-listed, for-profit gaming operators*

# Good causes supported by EU State Lotteries



- In 2004, payments to good causes from expenditure on State lotteries across the EU25 amounted to €15.9 billion



*Source: London Economics' calculations, based on data from the members of the European Lotteries and Toto Association*

# Single market for all gaming?



- ❑ Several studies, from a variety of countries (UK, Ireland, US and Australia), show that there is substitution between expenditure on lotteries and other forms of gaming
- ❑ Implies that expansion of other gambling activities would be at the expense of revenues to State lotteries



# Impact of (domestic) liberalisation in the gaming sector



- ❑ Estimated potential loss of funding for good causes from gaming markets in each Member State becoming as liberal as the UK market
- ❑ Funding for good causes across the EU25 would fall by more than 35%, if such a liberalisation was fully achieved
- ❑ Amounts to a loss of €5.5 billion
- ❑ Increased tax revenues from for-profit operators would be negligible in comparison

# Issues of problem gaming



- ❑ Overall findings are that:
  - Lotteries are not a source of damaging gaming behaviour
  - Fast-paced games, such as slot machines, can, however, lead to gaming addiction
- ❑ In the one study (Australian Productivity Commission, 1999) that did estimate the total economic and social cost of gaming, which looked at the whole Australian market, the cost was estimated at between 17% and 52% of the total amount spent on gaming

# Conclusions



- ❑ State lotteries provide a conduit by which gambling can be enjoyed, whilst limiting the infiltration of gaming problems
- ❑ State lotteries provide an important source of funding for good causes
- ❑ Liberalisation of the gaming sector will reduce the revenues generated by State lotteries
- ❑ Increased expenditure on other types of gaming will result in greater incidence of gaming problems, and the social costs that that entails

# Considerations for future work



- ❑ Thorough investigation into the economic and social costs of gaming problems
- ❑ Size and penetration of Internet-based gaming, and its impact on the traditional gaming market
- ❑ Better data on gaming expenditures

# Questions

