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Lotteries in Europe

The present note provides an overview, based on recent data, of the activities and contribution to society of lotteries in Europe and discusses the threat that the rapid growth in gambling offers from other gambling operators (i.e., gambling operators not offering lottery products), especially illegal operators offering online gambling products, pose to the business model of lotteries as well as to the wider public in the EU.

These lottery operators include for-profit and not-for-profit State-owned and private operators that operate the lottery on behalf of the State.

The business model of lotteries and gambling operators

The **lottery operators** follow the *European Lotteries'* business model of maximising revenues for society (the State and good causes) and minimising social costs for the State. The core aims of the model are the protection of consumers, the safeguarding of the integrity of the games and the provision of significant benefits to the wider public from the revenues generated from the operators' activities. Furthermore, they offer games of chance legally in all the jurisdictions in which they operate and pay all taxes and duties required by law.

Other gambling operators, i.e. gambling operators that do not offer lottery products, typically do not follow such a multi-objective business model. Over the last decade, the gambling offer from these other gambling operators has increased substantially and threatens the *European Lotteries'* business model of relatively low payout ratio and significant payments to the government and good causes.

For the purpose of the present analysis we distinguish between other gambling operators which operate in a Member State under a licence issued by the relevant authority in the Member State and illegal operators which offer their gaming products in a Member State without being licensed to do so. The latter may, however, be licensed in their home country.

Other gambling operators are typically subject to less onerous tax obligations than lottery operators and generally do not have to make payments to society. Illegal operators are typically based in low-tax jurisdictions in or outside Europe.

The presence of these other gambling operators, especially illegal operators, raises serious concerns about their potential negative social and economic consequences, in particular with regards to:

- the level playing field in the gaming industry;
- consumer protection; and,
- crime.

The combination of high payout ratios, little or no obligations to contribute to society and operating from low-tax jurisdictions implies that any substitution away from spending by consumers of gaming products offered by lottery operators to those offered by other gambling operators will reduce the amount of monies paid by the gaming industry to society.

In the EU, 293,500 jobs were supported directly and indirectly by the activities of lottery operators.

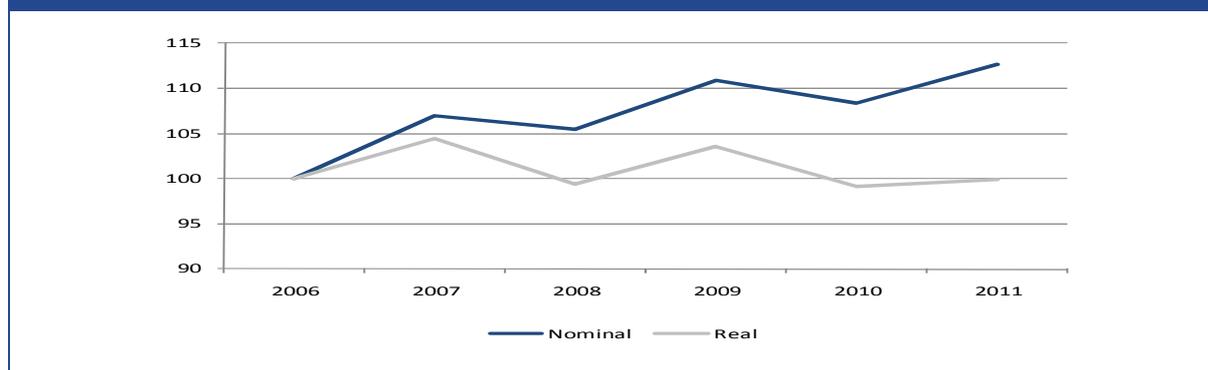
Consumer spending on lottery products

In 2011, total expenditure on gaming products offered by the lottery operators in the EU26 stood at €76.2 billion, or 1.2% of total consumer expenditures.¹

A few key points are worth noting:

- In 2011, total consumer spending on gaming products offered by lottery operators in the EU was 12.6% higher than 2006. But, after taking into account the increase in the general price level over this period, total expenditures were 0.12% lower in 2011 than in 2006 (see Figure 1).
- Overall, and abstracting from year-to-year volatility, the euro value of total sales of gaming products by lottery operators in the EU shows a small upward trend over the period 2006-2011. However, once inflation is taken into account, the picture changes and a small negative trend is observed.

Figure 1: Consumer spending on gaming products offered by lottery operators in the EU (excl.CY) in nominal and real terms from 2006 to 2011, 2006 = 100



Source: London Economics analysis based European Lotteries ELISE Reports, and data from Camelot and the Orbis database published by Bureau van Dijk

Gross Gambling Revenue

Gross Gambling Revenue (GGR) is equal to the difference between total sales and prize payouts made to consumers.

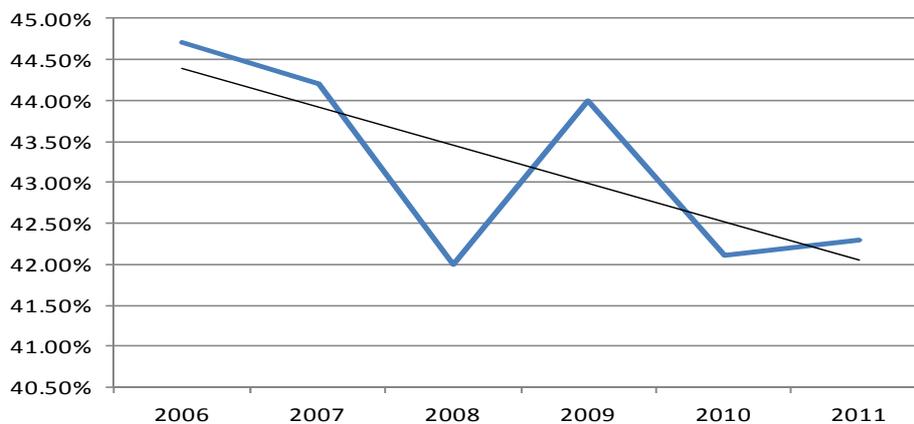
Such a measure gives an indication of the size of the lottery operators' market and is the best measure of the level of revenues to be shared between lottery operators, the State and good causes.

EU-wide GGR of lottery operators stood at €34.2 billion in 2011, and yearly fluctuations in GGR are very similar to those on total spending on gaming products offered by these lotteries.

¹ In order to compute the share of spending on gaming products offered by lottery operators in total consumer spending, the total spending on such products was added to the official Eurostat consumer expenditures figures which do not include any gaming spending. As all forms of gaming other than those offered by the lottery operators are not included in the adjusted consumer spending figure, the actual share of total consumer spending on lottery products is somewhat smaller than the figure shown in the report.

However, due to increased competition from other gambling operators (legal and illegal), the EU-wide GGR market share of lottery operators declined from 44.7% in 2006 to 42.3% in 2011(Figure 2).

Figure 2: Gross gambling revenue market share of lotteries in EU27 gambling market



Source: London Economics analysis based European Lotteries Elise Reports 2006-2011 and data from Camelot and H2 Gambling Capital

The contribution of lottery operators to society

Lottery operators are authorised to provide gaming services by their public authority, with the objective to meet the demand for gaming in a responsible and regulated manner. This is in contrast to other gaming operators aiming to maximise profits in a less controlled environment, especially illegal operators.

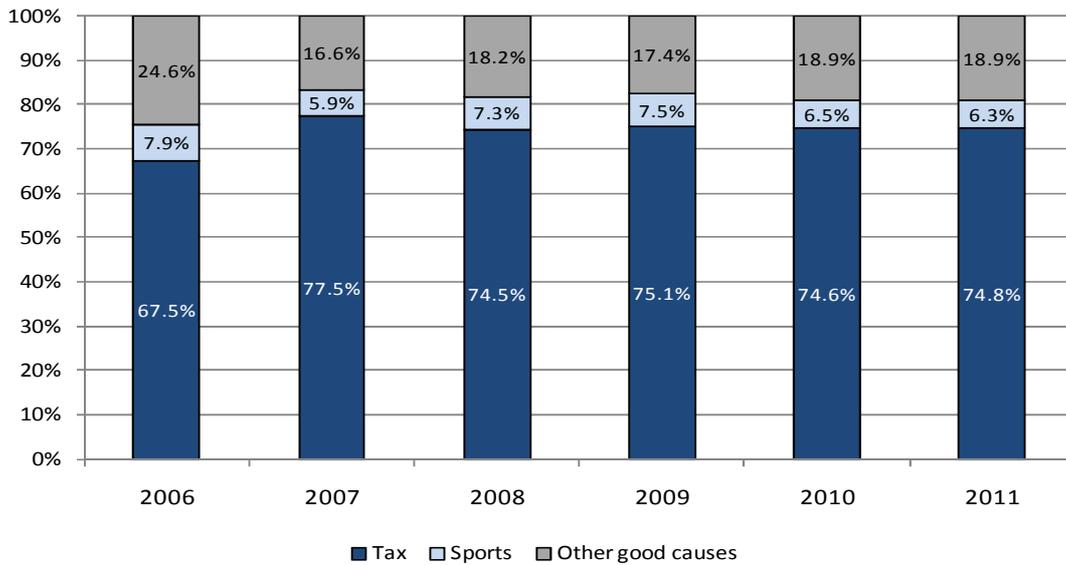
In addition, as an act of social responsibility, these operators are required to make mandatory financial contributions to society. The latter include contributions to the State budget through taxes, duties and fees, as well as contributions to State-defined good causes, such as activities supporting education, sports and charitable work.

Of the €34.2 billion in GGR accruing to lotteries, €23.2 billion was paid to society in 2011 by lottery operators in the form of taxes, duties and fees to the State Exchequer and good causes such as sports.

Of this total of €23.2 billion, 75.1% accrued to the Treasury whilst the remaining monies were given to other good causes, in particular sports which received €1.5 billion of the total payments to society (Figure 3).

Post-2006, the contribution to the Treasury has been relatively steady over the years (in range of 74% to 77%). Payments to good causes have also been stable, with contributions to sports ranging from 5-7% of total payments to society) and payments to other good causes ranging from 16% to 19% over the period 2007 to 2011.

Figure 3: Distribution of money provided to society by lottery operators in the EU, 2006-2011



Source: London Economics analysis based European Lotteries ELISE Reports, 2006-2011 and data from Camelot

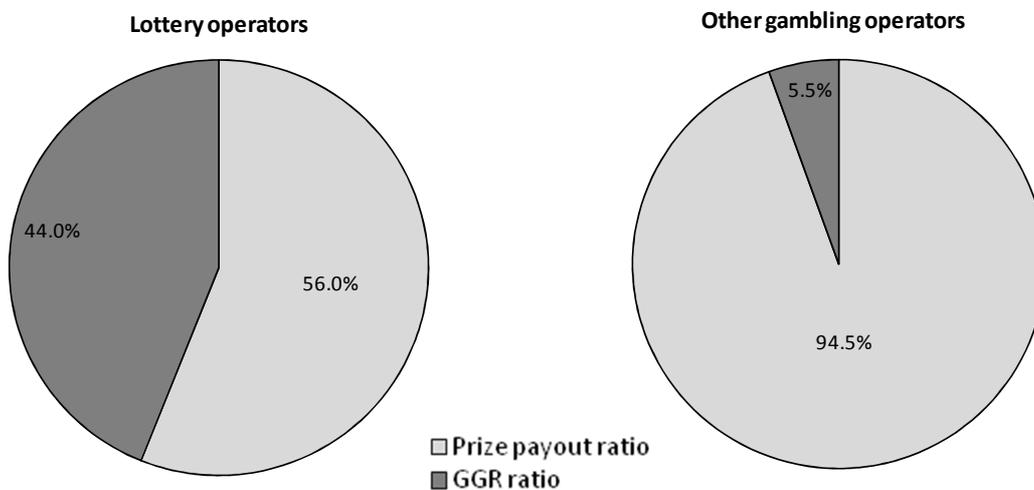
Differences between the business models of lotteries and other gambling operators

The European Lotteries business model pursued by lottery operators aims to guarantee a fair treatment of consumers, protect the more vulnerable gamblers and ensure the wider public benefit to some extent from the revenues generated from such activities.

A key feature of the business model is that the payout ratio is typically much lower than that of other gambling operators.

For example, in 2011, 56.0% of total turnover was paid out in prizes on average by lottery operators. In contrast, prize winnings provided by the other gambling operators were substantially larger, at an average of 94.5% of total turnover (Figure 4).

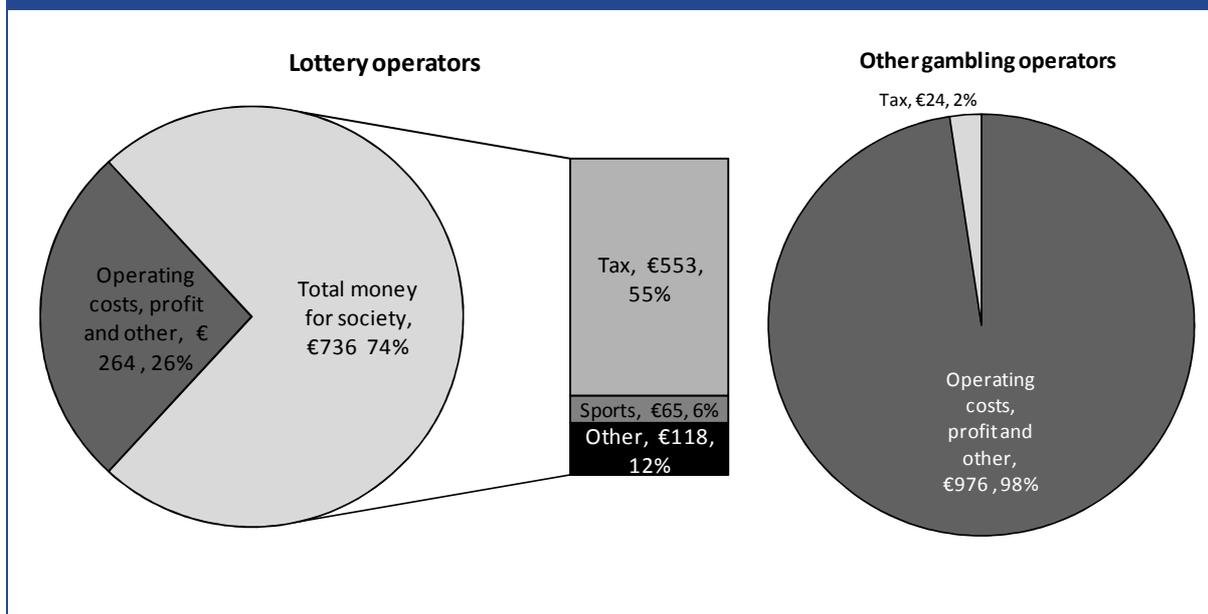
Figure 4: Average prize payouts and GGR as a percentage of sales, 2011



Source: London Economics' calculations based on ELISE report 2011 and data from Camelot, and annual reports of other operators

The next figure highlights the vast difference in the distribution of GGR between lottery operators and other gambling operators in 2011. For example, for €1,000 in GGR, lottery operators in the EU on average made €736 payments to society (including taxes) while such payments by other gambling operators amounted to only €24 (Figure 5).

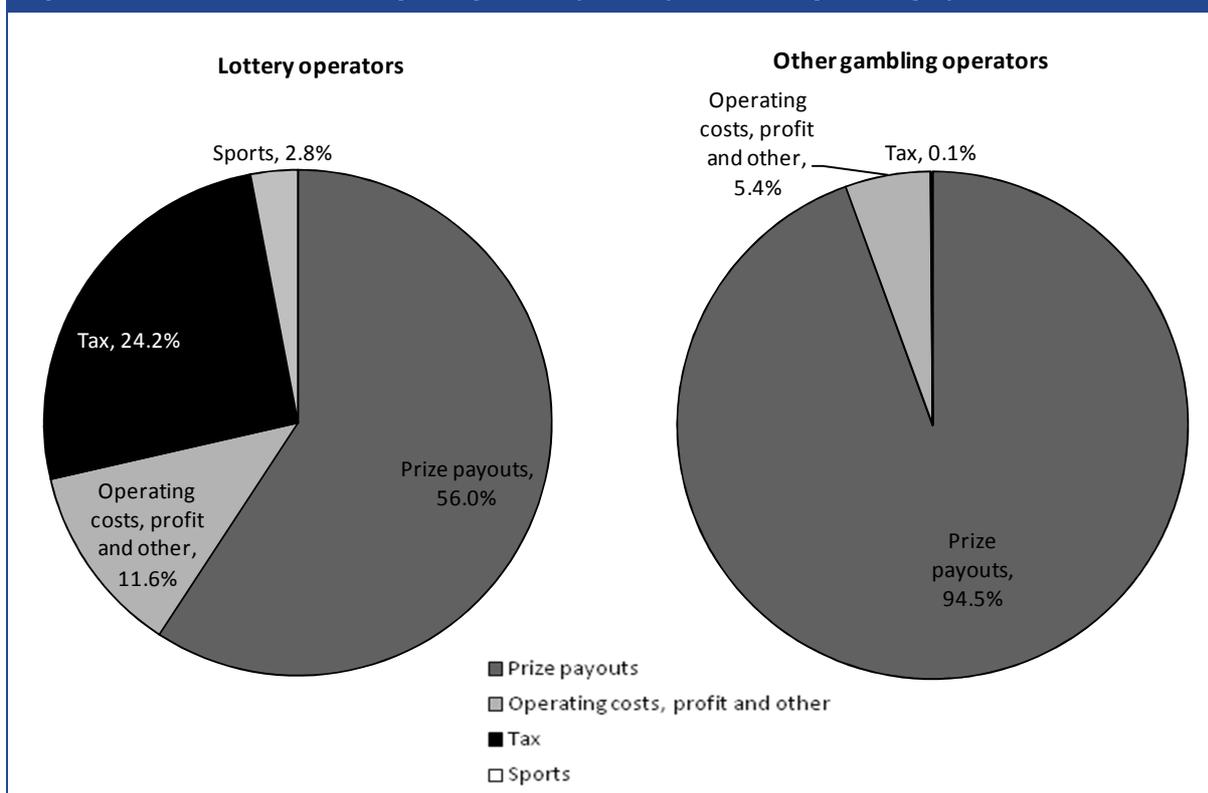
Figure 5: Distribution of GGR for lottery and other gambling operators, 2011



Source: London Economics' calculations based on ELISE report 2011 and data from Camelot, and annual reports of other operators

The combination of the facts that a) the price-payout ratio is much higher for other gambling operators and b) the share of GGR going to society is much smaller means that for each euro of sales only a very small fraction goes to society in the case of other gambling operators while the opposite is true in the case of lottery operators (Figure 6).

Figure 6: Distribution of €1 in gaming sales by lottery and other gambling operators, 2011



Note: GGR from Slots/VLTs/EILs outside casinos and other games and non-gaming activities has been excluded from the analysis

Source: London Economics' calculations based on ELISE report 2011 and data from Camelot, and annual reports of other operators

Secondly, the occurrences of gambling addiction and crime are minimised, given the possible incentives that are linked with high returns. A significant return may create incentives to continuously gamble despite negative consequences, whilst certain players may choose to cheat in order to win a substantial amount. Hence, the European Lotteries' model ensures the consumer is protected in the best possible way.

In contrast, other gambling operators offer higher pay-out rates, which are likely to seduce the more vulnerable players. This is particularly the case with illegal operators who pay no taxes and do not comply with the gambling regulations of the Member State in which the gambler resides.

Moreover, lottery operators have a wide distribution network within their respective Member State, which ensures all consumers are able to satisfy their demand for gaming. It also prevents the over-stimulation of demand and the creation of addictive behaviour, as firms are not required to undergo mass advertising to reach out to consumers.

Therefore, the European Lotteries business model which has been adopted by lottery operators ensures that the key objectives of being socially responsible and providing benefits to its stakeholders (through mandatory payments to society) are met. At the same time, the model aims to protect consumers and strictly regulate the gaming market in Europe.

Illustration of the impact of the competition from other gambling operators on lotteries and funding of good causes

The growth in gambling offers from other gambling operators in the European gambling market challenges the business model of the European Lotteries.

Any shift in consumer spending from gaming products offered by lottery operators to gaming products offered by other gambling operators will have a major impact on both the lotteries themselves and the good causes funded by the lotteries.

To illustrate this point, the impact of a hypothetical 20% shift in sales from the lottery operators in Europe to other gambling operators is quantified.

A 20% (€15.3 billion) shift in sales of gaming products offered by lottery operators in all Member States to gambling products offered by other gambling operators reduces:

- the GGR of lottery operators in the EU by €6.9 billion; and,
- payments to society by €4.6 billion;.
 - overall tax payments by all gambling operators go down by €3.5 billion; and,
 - contributions to good causes fall by €1.2 billion, with sports losing €0.3 billion and other good causes €0.9 billion.



London Economics

71-75 Shelton Street, Covent Garden

London WC2H 9JQ, United Kingdom

www.londecon.co.uk

info@londecon.co.uk

+44 (0) 20 7866 8185

[🐦 @LondonEconomics](https://twitter.com/LondonEconomics)