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POLICY ISSUES

« ON-LINE GAMBLING IN FRANCE »

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Martina Barcaroli

Member of the Paris and Rome Bars

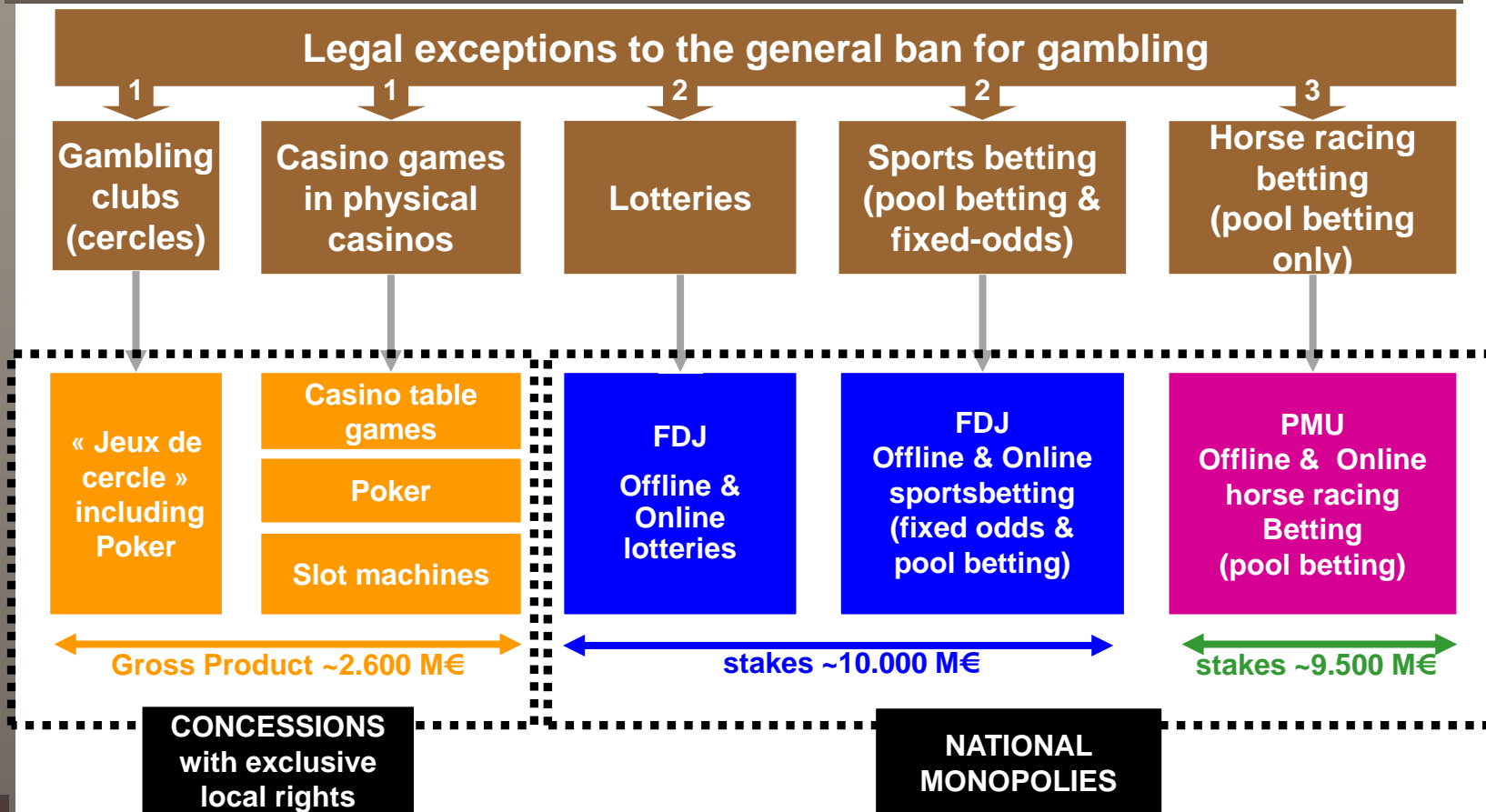
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I. An introduction to the new French law on on-line gambling (1/1)

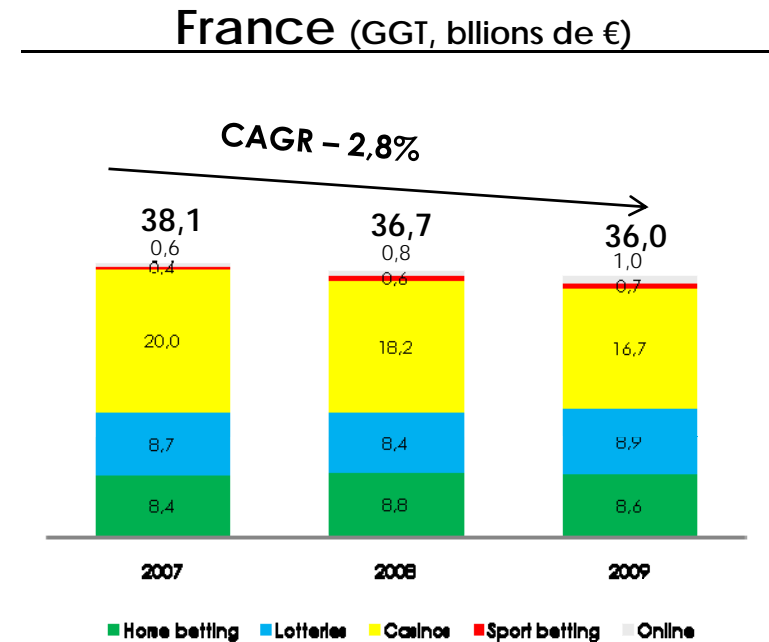
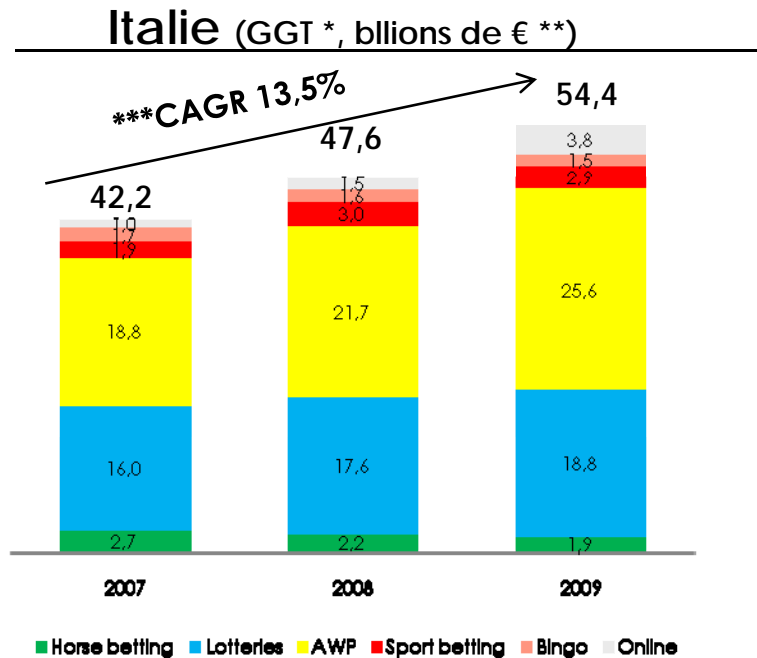
- The Law n° 2010-476 of May 12th 2010 (the « French Gambling Act ») on the opening to competition and the regulation of the on-line gambling sector is a partial revolution (it concerns only one part of the on-line gambling market).
- Inspired by the Italian model
- Introduces a system based upon three major axes:
 - i) Open to competition under strict public control through national licences (no mutual recognition)
 - ii) Measures for channelling illegal gambling into legal controlled gambling
 - iii) Measures for protecting vulnerable gamblers
- Today, after the green light of the EU Commission, the French regulatory system is a complete one and amounts to a complex set of rules composed by the Law of May 12th PLUS 19 Government Decrees.

II. The French market before the Gambling Act of May 12th: why opening up ? (1/1)



- French gambling regulations were challenged by the European Commission which opened infringement proceedings against France because in contravention with art. 49 of the EU Treaty
- 25.000 sites offering illegal gambling
- 20 % in French
- 75 % of stakes on Internet from France were registered on illegal sites

III. The French gambling market is an attractive one: comparing with Italy in 2009 (1/1)



MB2* Gross Gaming Turnover (wagers)
 ** The land-based casinos GGT are not included (estimated 4 bilions)
 *** Compound Annual Growth Rate

Source: **MAG** on AAMS, FDJ and PMU data

- In **Italy**, the GGT growth (of 13,5% from 2007 to 2009) is mainly due to the developpement of the on-line and the new slot sector.
- In **France** the GGT decrease (of 2% from 2008 to 2009) is mainly due to the crisis in the casino sector. A fall in wages has also been registered for FDJ and PMU. In three years a major increase in turnover concerns the on-line (+30% in 2009 with respect to 2008).

Diapositive 5

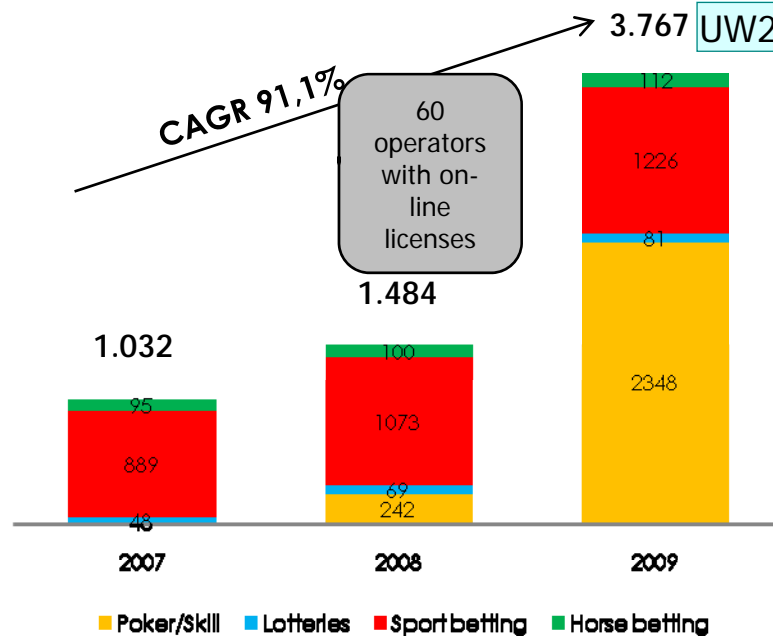
MB2

"raccolta"

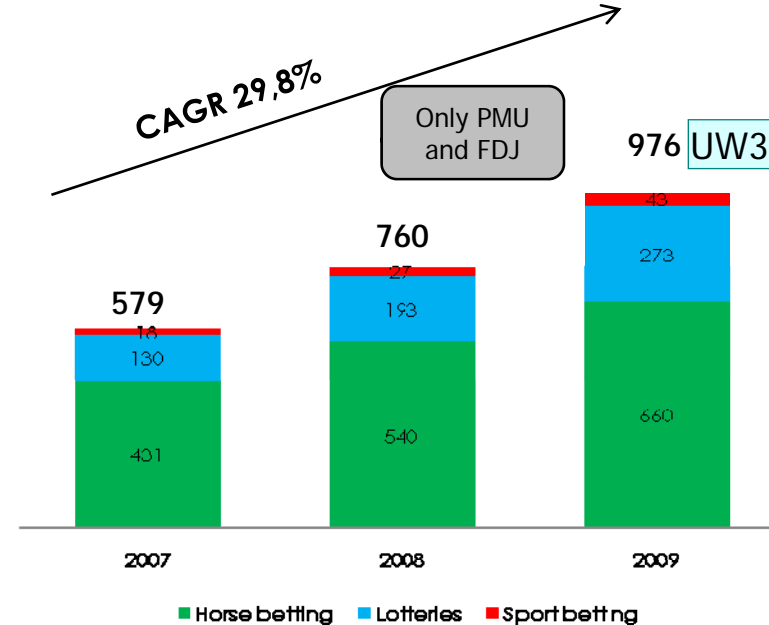
Martina Barcaroli; 16/09/2010

IV. The on-line gambling market in France before the opening up: monopoly vs. competition (1/1)

On-line gaming Italy (GGT, billions €)



On-line gaming France (GGT, billions €)



Source: **MAG** on AAMS, FDJ and PMU data

- In **Italy** the online gaming increase is due to the "Poker" launch in 2008 and to the increase registered in 2009 (growth 2009/2008: +154%).
- In **France**, the online gaming turnover has increased mainly in 2009 (+30% in comparison with 2008: sport betting +59%, lotteries +41% and horse betting +21%).
- The online gaming in France is very attractive. In the World cup period sport betting turnover has been **107 million euro**.

Diapositive 6

UW2 **3 milliards et demie**
Utente Windows; 13/04/2010

UW3 **Presque 1 milliard**
Utente Windows; 13/04/2010

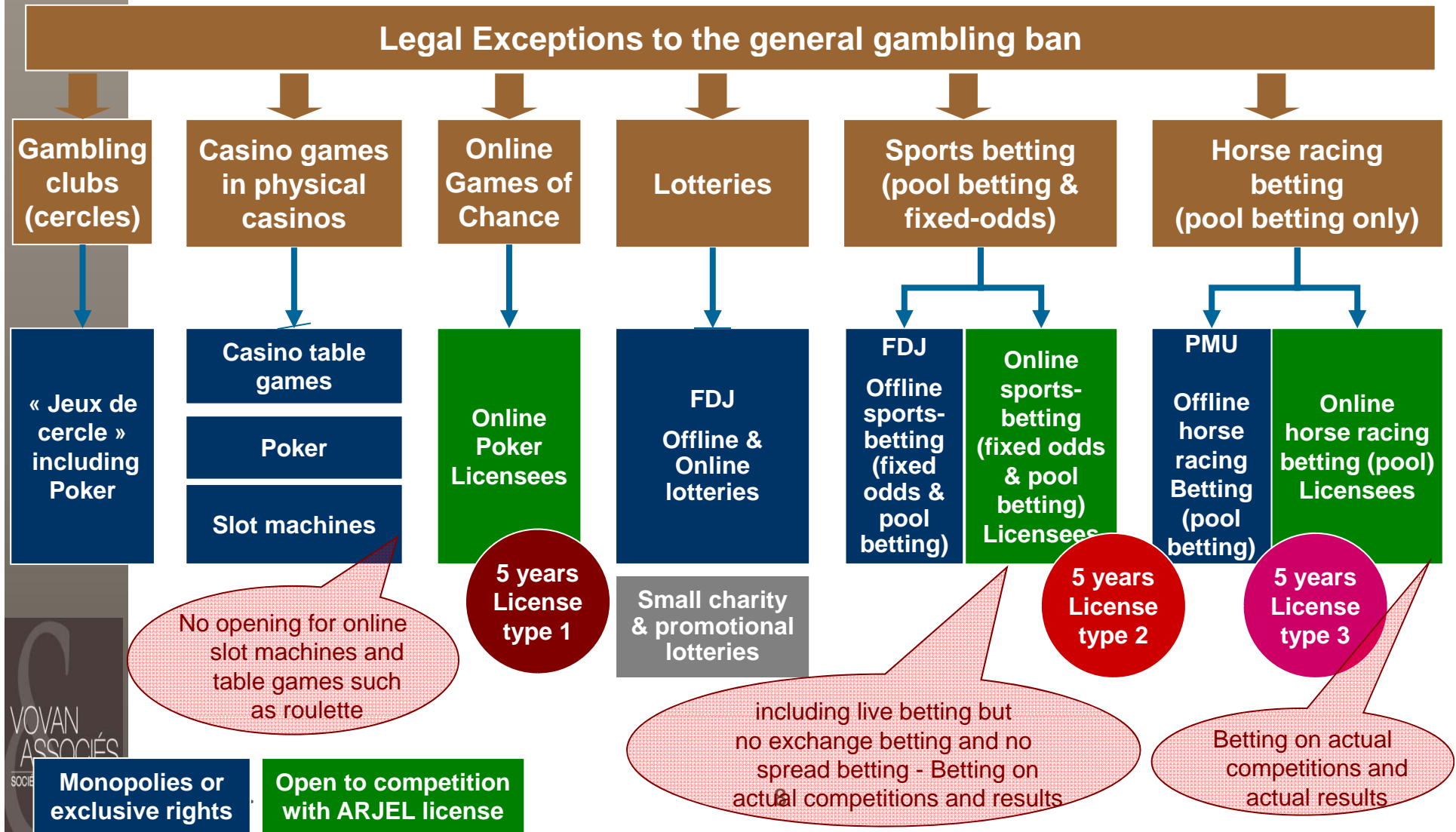
V. Picturing today's French on-line gambling market (1/1)



Sorce: **MAG**

- The French online market has been attractive for the most important operators.
- **40 licenses** have been delivered by Arjel: Poker (21), sport betting (14) and horse betting (5)
- The poker authorization is the most demanded because:
 - the taxation impact is lower than in the betting sector
 - It is possible to join existing platform (7 for the time being)

VI. The French regulatory scenario after the Gambling Act : controlled expansion (1/1)



VII. Main features of the French Gambling Act (1/9)

A. A limited number of on-line bettings and games are allowed

- Sports bets (live betting, pool betting and fixed odds betting) **MB1**
- Horse race bets (pool betting)
- Poker

- No online casinos
- No slot machines outside casinos
- No permanent charity lotteries
- No betting exchange
- No spread betting
- No betting other than sports betting and horse racing betting identified by the Authority
- No promotional lotteries with obligation to buy a product or service

B. Monopoly is maintained in the field of loteries and scratch cards (FDJ and PMU)

Diapositive 9

MB1

the loss cannot be superior to the bet amount

Martina Barcaroli; 14/09/2010

VII. Main features of the French Gambling Act (2/9)

C. Licenses are delivered by a new independent administrative Authority (ARJEL) - the French watch-dog missions are :

- Define the technical and legal « Specifications » requirements (conditions required to accessing to the French market)
- Grant 5 year licences to operators in compliance with the Specifications
- Homologate technical platforms
- Verify operator compliance with technical standards and other specifications
- Active role in the detection and fight against illegal sites
- Revoke license when required

VII. Main features of the French Gambling Act (3/9)

D. Major obligations for on-line operators, as conditions to be licensed

- Establishment of the operator in a EU or EEA country
- Bank account of the operator in a EU or EEA country
- Website in « .fr »
- Separate accounting for operators activities on the French territory
- Transparency and financial soundness of operators
- Policy of protection of vulnerable persons and prevention of addictive behaviors
- Policy against fraud and money laundering
- Identification of players, through access codes to the website, dedicated bank account in a EU or EEA country
- A permanent tax correspondent in France
- Certification of the operator French activity by a recognized organization
- Strict conflict of interest rules for owners, managers, staff of an operator
- Gambling banned for minors
- Advertisement is regulated

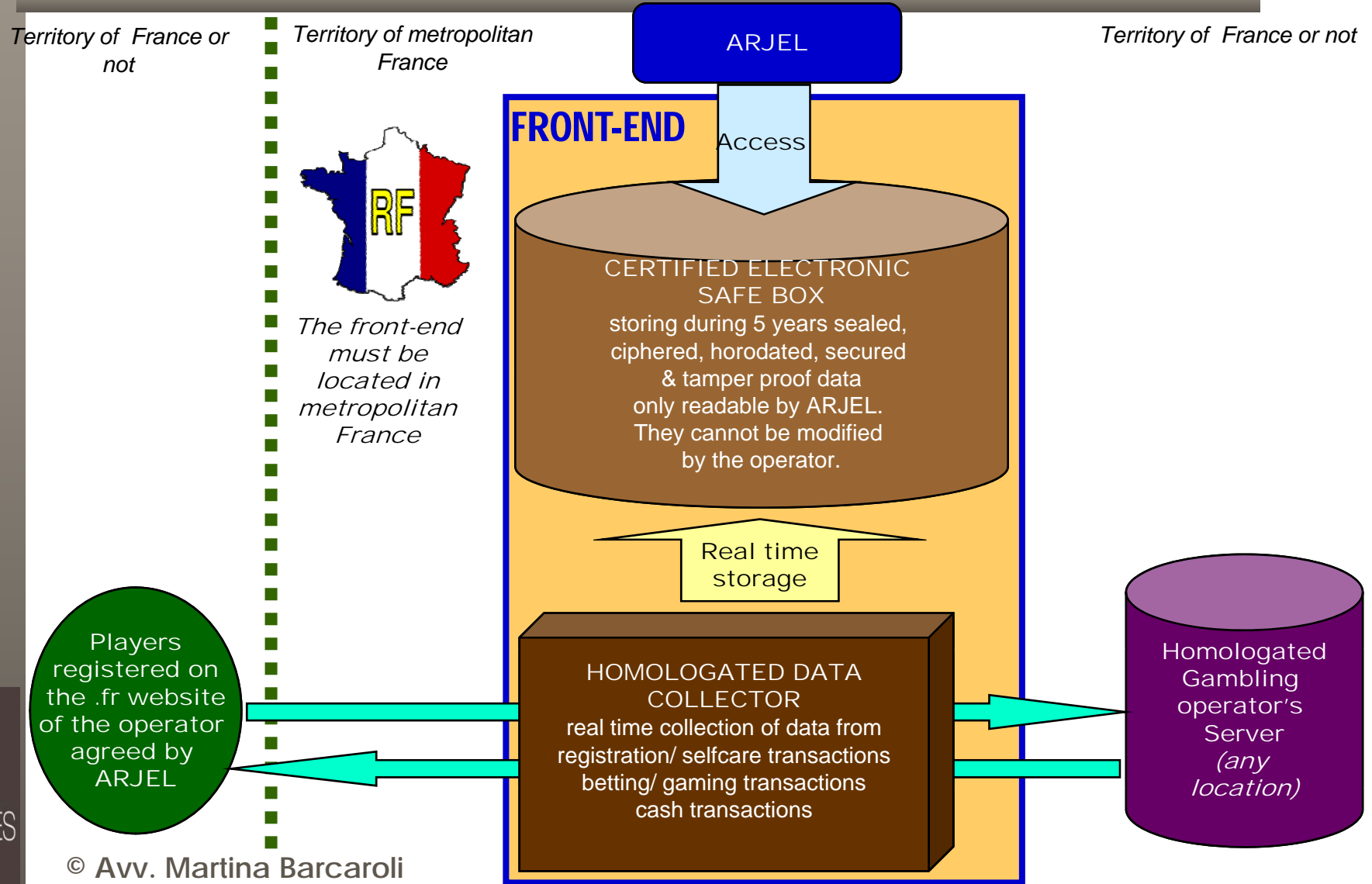
VII. Main features of the French Gambling Act (4/9)

E. ARJEL has full access to the operators' data (disclosure requirements)

- Information about each player : name, surname, gender, date and place of birth, home address, email address, username to access the player's account, opening date of the player's account, reference of the payment account
- Account transactions and gambling operations conducted by the players and all data concerning the player's account
- Catalog of games and bets which is proposed
- Drawing of cards produced by the random number generator for poker
- Profiles of the players and their gambling behavior
- Special promotions granted by the operator
- Management of the gambling platform and technical problems
- Checks conducted by the operator and their results, as well as gambling incidents of fraudulent transactions detected
- Evolution and maintenance of hardware and software platforms

→ For this purpose: the FRONT-END

VII. Main features of the French Gambling Act (5/9)



© Avv. Martina Barcaroli

Each operator has its own front-end

VII. Main features of the French Gambling Act (6/9)

F. Fight against illegal on-line gambling

- Blocking of access to illegal sites
- Blocking bank transactions with illegal sites
- Illegal Internet gambling be punished with 3 years of imprisonment and a € 90 000 fine (7 years and € 200 000 if the infraction is committed by an organised gang)
- Advertising for illegal gambling is banned: minimum fine € 30 000. The amount of the fine may reach 4 times the amount of the advertising budget

VII. Main features of the French Gambling Act (7/9)

G. Fight against problem gambling

- Part of the tax revenues is allocated for the prevention of gambling addiction and to the fight against it
- Message on the first page and all pages of the gambling websites and commercial communications :
 - « *Family, social life, financial health. Are you ready to stake everything ? If you need help, call 09 74 75 13 13 (call not surtaxed) »*
 - « *Gambling entails risks : getting into debt, dependence, isolation ... Call 09 74 75 13 13 (call not surtaxed) »*
- Voluntary banning procedure
- Advertising banned if it concerns young people
- Limitation of Payout
 - Payout to be limited to a % of the stakes
 - Common cap for sports betting and horse racing betting
 - Cap is fixed by decree at **85%** of stakes for sport betting

VII. Main features of the French Gambling Act (8/9)

H. Ensure integrity of sport competition

- Limitation of the types of bets
- Fight against illegal sites with tools not used so far
- Stringent conflict of interest rules
- Rights granted to sport event organizers :
 - i. They are involved in the decision on the definition of the types of bets and the events on which betting is proposed
 - ii. Operators will have to take into account their indications for protecting the ethics and image of the competitions
 - iii. Rights of property over competitions :
 - the event organizers must conclude a **non exclusive agreements** with the operators to determine the price and modalities of such exploitation
 - In August the **French Football League** has concluded a collective agreement with 7 licensed operators to fix the price of these rights.
 - With respect to this type of commercial agreements the French Authority (ARJEL) has preventive a right of consultation, together with the French Antitrust Authority. It is up to the Courts to decide whether to block or sanction the parties
 - This will be the end of the former situation where the major competitions were used as betting supports without any possibility for the organizers to intervene

VII. Main features of the French Gambling Act (9/9)

I. Taxation as a tool for achieving general interest objectives

- Basis of taxation = Stakes
 - and not the Gross Product (Wagers minus Payout) or the Winnings
- In addition to the fix duty to be paid at the granting or renewal of the licence, there are several taxes, levies and fees on stakes :
 - Sport betting = **8,8% in 2010** (tax 7,5% + levy for CNDS 1,3%)
 - Sports levy will increase to 1,5% in 2011 and 1,8% in 2012
 - Specific fees have to be paid to the organizers of the events
 - Horse betting = **15,0%-16,5%** (7,5% + 7,5%-9,0% for the horse betting value chain)
 - Tax for on-online poker:
 - For tournaments: **2% of turnover**
 - For « cash game », **2% of turnover with a maximum of 0,9 € per deal** for the tax and 0,1€ per deal for the social levy (maximum 1 €)
 - **VAT = 19,60%** on the remuneration for operators established in France (Turnover – Payout – Taxes)

VII. Conclusions (1/1)

- French market is only at its initial stage in the liberalisation process
- Incumbent operators benefit of a strong competitive advantage (this is mostly the case in the horse racing sector)
- Taxation could be dropped in 16 months. However, today it creates a problem of competitiveness for betting operators with respect to dot.com operators
- Legal issues still open : (i) obligation for sport betting operators and event organizers to reach an agreement for the exploitation of property rights over competitions; (ii) problem of effective control over illegal on-line gambling
- No mutual recognition and the announced idea of government alliances for sharing a common policy (ex., Italy-France)

MERCI !

Martina Barcaroli
Avocat aux Barreaux de Paris et de Rome

Vovan & Associés
7, rue de Madrid
75008 Paris (France)
Tel: +33 1 44 90 17 10

Email: martina.barcaroli@vovan-associes.com