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ANALYSIS - No jackpot for online gambling firms in France

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By Nina Sovich

PARIS (Reuters) - Online gambling sites will not rake in easy winnings from the newly legalised French market, with high taxes and strict compliance rules eating into margins and a state monopoly retaining the sweetest part of the pie.

Last week, France made certain kinds of online gambling legal, breaking the stranglehold of state-run group Francaise de Jeux and horse racing outfit PMU.

A host of gambling companies, including Austria's BWIN, UK group Partygaming and privately held Mangas Gaming and Pokerstar are in the process of applying for a licence, fearing the loss of vital first-mover advantage.

But critics say the terrain is risky because liberalisation is inadequate: online companies have been shut out of lucrative and low-risk casino games like blackjack and roulette as well as lotto.

Meanwhile Francaise de Jeux will keep all its betting outlets, set inside France's ubiquitous cafes and tobacco shops.

Only the most robust companies will survive.

"We won't make any money at first. But first-mover is important in this market so we're there," said Mangas Gaming vice-chairman Isabelle Parize, who described the tax regime as "catastrophic".

TOUGH FIELD

The French gambling market is one of the most important new fields in Europe since both Italy and the UK have already legalised gambling and analysts say Germany won't legalise soon.

Online gambling in France could reach 1.25 billion euros (\$1.70 billion) by 2012, says Manchester-based consultancy H2 Gambling Capital and around 50 companies are expected to apply for between one and three licences in France.

The new law, which makes online poker and sports betting legal in time for the soccer World Cup in June, is designed to both boost tax revenue and end the dominance of the two players in France's 8.5-billion-euro gambling market.

Companies say the sports betting tax rate, set at 8.8 percent of revenues, will erode profits.

The French regulator has also put in one of the strictest compliance regimes in Europe and requires all bets to be permanently stored in order to track and fight addiction.

Risk runs high for new entrants as Francaise de Jeux will keep its monopoly on low-risk lotto and casino games while online operators will be overly exposed to sports betting, where losses can potentially wipe out the house.

"We're missing casino games, which is a shame, since they are important to overall financial stability," said Antonio Costanzo, interim CEO of BWIN France.

"Let's just say the monopoly will do fine."

WHO WILL WIN?

The French parliament will review the law in 18 months and could lower the tax rate then, as Italy did last year when it became clear that punters were not switching to legal sites because they were too expensive.

By then, some companies could fold, merge or take advantage of their

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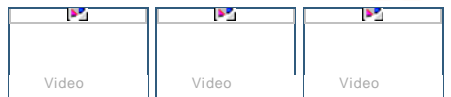


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legal status and raise new cash by floating their shares.

Francaise de Jeux, already the world's second-largest lottery, has said it would team up with television broadcaster TF1 and look at acquisitions abroad, while PMU, a horse racing specialist, has teamed up with Partygaming to get into poker.

The question remains over what role the media companies -- with more money, legitimacy and market power than the gaming companies -- will play.

So far their entry has been cautious.

Vivendi subsidiary Canal Plus announced a joint venture with Ladbrokes and television station M6 made a less binding agreement with Mangas. But TF1 is the only one to set up its own online gambling web site.

"You'd better have a good plan. You're betting against your customers," said Martin Oelbermann at Munich-based consulting group, MECN, adding he thought gambling too risky for media companies.

Another question is whether French players will switch to the legal sites and embrace gambling.

In 2009, the average French adult lost 171 euros gambling which H2 Gambling thinks will increase to 192 euros by 2012.

But this is still modest compared to the average Italian at over 400 euros and it could take a lot to change French habits.

"The 60-year-old granny playing lotto may get thousands of flyers for online poker, but I'm not sure she's going to take it up," said Oelbermann.

(Additional reporting by Cyril Altmeyerhenzien, Editing by Sitaraman Shankar)

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