

Small Giant in the North – Paving the way for Scandinavia?

It is, perhaps, safe to assume that when discussing today's emerging European markets, France's proposed liberalisation is probably getting most of the industry's attention. Yet in the background, at times almost neglected, several other countries are setting about liberalising large parts of their gambling market. Martin Oelbermann, Managing Director of Media and Entertainment Consulting Network (MECN) discusses the new report that examines the liberalisation of Denmark's gambling market.



Why Denmark is worth a detailed analysis

Denmark's gambling market may not be as big as that of France or Italy, but the planned liberalisation is, nevertheless, highly relevant for the global market:

Firstly, the Danish government is one of the first in both the EU and Scandinavia to respond to the growing market share of Internet gambling operators and to the increasing pressure of the European Commission by liberalising its gambling market. And then, there is the scope of this liberalisation. Whereas the French draft law limits liberalisation to selected online games, the Danish government goes further and also plans to open up the retail/land-based betting market. This expansion to the retail sector is likely to prove a more sustainable solution and, therefore, be more likely to be taken up and adapted in other European countries.

Influence

It is still an open question as to how developments in Denmark will influence current discussions in the other, more protectionist Scandinavian states. But what we are certain is that the rest of Scandinavia will be closely monitoring the implementation of Denmark's liberalisation plans, its challenges, private operators' actions, developments of tax/levies, and, last but not least, the impact on problematic gambling.

From an operator's perspective, it would be prudent for private operators with a focus on Scandinavia to participate in Denmark's liberalised market. Not only would they be gathering valuable experience but also presenting themselves as trustworthy partners for gambling operations throughout all of Scandinavia.

Size of the Licensed Market

The total size of the licensed market in terms of turnover/sales was circa €3.9 billion in 2005 and grew to circa €4.1 billion in 2008. In terms of gross revenues (turnover/sales after payout of winnings), the Danish market amounted to €966 million in 2008 with a CAGR (2005 – 2008) of 2%. In terms of gross revenues, the lottery sector holds the biggest

market share with 49% in 2008, followed by the gambling machine sector.

Licensed Interactive Gambling Turnover

Denmark's licensed interactive (Internet and mobile) gambling market consists of the sales generated by Danske Spil. Turnover/sales amounted to €77 million in 2005 and grew to €152 million in 2008 (all figures excluding lottery subscription). This means a CAGR (2005–2008) of approximately 25%. Nevertheless, the growth rates have been declining in the past three years.

According to the Danish Tax Ministry and partners of MECN, no figures have so far been tracked that could indicate the size of the non-licensed gambling market in Denmark. Nevertheless, MECN estimates that the unlicensed gambling turnover via the Internet in Denmark came to between €500 and €600 million in 2008.

Liberalisation Ahead – key elements

In April 2009, the Danish Tax Ministry finally

announced plans for the partial liberalisation of the online gambling market. A draft law to liberalise the Danish gambling market was presented to the European Commission in July 2009 in accordance with the notification procedure. Although the draft was confidential we are now able to present some first insights into the key issues:

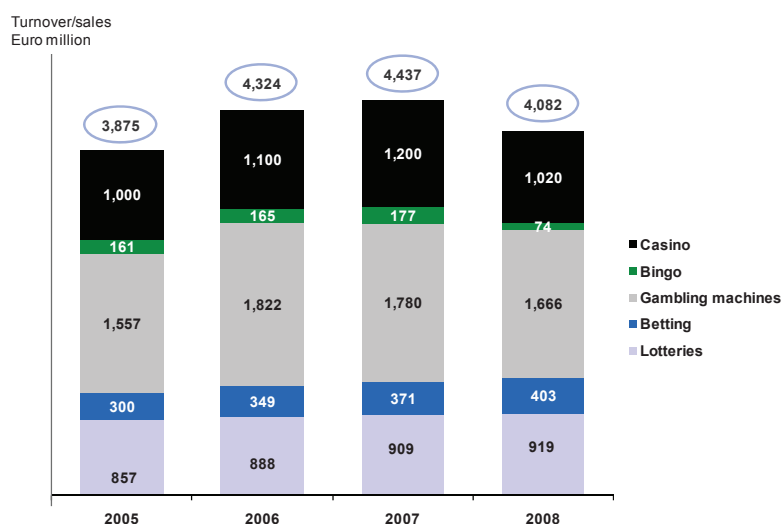
Liberalising large parts of the gambling markets

Foreign as well as Danish based gambling providers will be able to obtain a Danish license to offer gambling to the Danish market, including online and retail sportsbetting (e.g., betting shops), casino games (online), and poker (online). Casino games include roulette, blackjack, poker, and slot machines.

No change to lottery sector or horserace betting

Lotteries such as Lotto and instant lotteries will continue as a monopoly (most likely with Danske

Exhibit 1: Development and breakdown of the Danish gambling market (turnover/sales) - 2005 to 2008



Note: CAGR 05-08 = 2%, Growth 05-08 = 5%; Betting with highest growth: CAGR 05-08 = 10%, Growth 05-08 = 32%; casino turnover (drop/coin) estimate based on gross gambling revenue applying 95% payout rate; excluding unlicensed offerings
Source: Danske Spil, Skat, MECN

Spil as license holder). Moreover, horserace betting will also continue as a monopoly.

Betting exchanges

Article 8 of the draft allows the Gaming Commission to grant a licence for the provision of facilities for betting, including betting provided through a system designed to facilitate the making or acceptance of bets between players.

No maximum payout rate

Unlike the French draft, the Danish draft bill, according to our understanding, does not provide for maximum payout rates. However, it cannot be ruled out that limits may be introduced by way of secondary legislation at a later time.

15% – 20% on gross revenues/profits

There are rumours circulating that license holders will be subject to a gross revenue/profit tax of around 15% – 20%. However, this is not part of the draft but will be determined in secondary legislation, which has not yet been presented to the public.

Liberalisation takes effect by the end of 2010

The legislative proposal is expected to be presented and discussed in the present parliamentary year (October 2009 to May 2010) in the Danish Parliament. In September 2009, the Minister of Tax stated that he expects the liberalisation plans to take effect as of January 1, 2011.

Denmark: paving the way for the global industry?

As mentioned earlier, it is still an open question as to how the developments in Denmark will influence the current discussions in the other, more protectionist Scandinavian states. Scandinavia as a whole is one of the key markets for online gambling operators with many starting their operations in the North. Moreover, Scandinavian state lotteries and operators are leading the way in many fields for the global lottery sector, so changes or developments in this region are likely to have repercussions throughout the global market.

In many countries, the most problematic issue is a lack of experience with liberalised gambling markets.

Martin Oelbermann Partner, MECN



Martin Oelbermann is partner at the Media & Entertainment Consulting Network (MECN). In this capacity he is responsible for areas such as Gaming/Gambling, P2P business models, and Mobile Entertainment. He has led many projects within the industry and headed the development of studies such as "The Spanish Gambling Market", "Casual Gaming and Gambling on the Internet", and "Online Poker". He is a regular speaker at renowned industry conferences.

In this sense, Denmark could be a test case for all of Scandinavia as the Northern States share a history of a uniform approach to many issues. ■

MECN's new report about the Danish gambling market includes detailed analyses on various topics, including:

Overview of the liberalisation process and content of the draft law

- Analyses of all sectors
- Current market figures
- Legal/regulatory and tax information

For more information visit www.denmark-gambling.mecn.net



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