

# Case Study of Privatisation & Liberalisation of State-Controlled Gambling Markets

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The increased focus on reducing gambling opportunities (rather than expanding sales) and the hard-to-control Internet gambling offers make the lives difficult for state-controlled operators. As a result, the strategists in many state lotteries and operators have begun thinking about future scenarios. This fact combined with tight state budgets makes a growing number of state shareholders to see the regular contribution to state budgets in jeopardy and prompt them to consider liberalization and privatization of their gambling operations.

Recent and ongoing privatizations, such as those of the Greek OPAP and the UK tote, show that this is not just idle speculation. Furthermore do 73% of experts surveyed in a recent MECN survey expect that the number of privatized state lotteries will continue to increase in the near future and experts see some statecontrolled operators' worth already reaching several billion USD.

There are plenty of case studies, which show the potential of privatization and liberalization including operators in all continents. We would like to focus on the two most known European examples: UK tote and the Greek OPAP.

***Case study UK National Lottery – A state lottery run by a private company***

In 1994 the British National Lottery Commission (NLC) called

for bids in a licensing process for the British lottery industry. The NLC is charged by the National Lottery Acts of 1993 and 1998 with issuing the license to operate the national lottery to one company only. In the 1994 call for bids the Camelot Group plc, which had been established that same year, was victorious over rivals such as Richards Branson's Virgin Group. Since then Camelot as licensee has entered into a contract with the NLC because in the second round of licensing in 2000 Camelot also was granted the license for the next seven years, until 2009. The Camelot Group is a private company that is answerable to the British parliament and regulated by the NLC. Camelot is owned by a consortium of private and state companies; the ownership is structured as follows: Cadbury Schweppes, De La Rue, Thales Electronics, Fujitsu Services, and Royal Mail Enterprises each own 20%.

While in 1994 eight companies put in bids for the license for the UK National Lottery, when the second license was to be granted in 2000, only two companies applied. This led the British government to introduce a proposal in 2003 to increase competition for future licenses. Among other things, the government proposed to move away from granting a single license and instead to empower the NLC to offer several licenses, each for different areas of the lottery, for applicants to compete for. The expiration terms for each of the licenses would also vary. In November 2004 the committee for culture, media, and sports published a report on the reform of the national lottery. This report argued for closer examination of the consequences of adopting a model involving several licenses to be competed for. Further study, however, led the British government to conclude that it was better to retain the current system since it met all requirements sufficiently. Accordingly, the government focuses on making the competition more effective and to draw more applicants for the third licensing competition in order to achieve the highest possible proceeds for charity.

Currently competitors are gearing up for the bidding process for the next license period. Camelot is again seen as the favorite for a renewal, but several other firms are likely to challenge Camelot. Among the challengers are again Richard Branson's Virgin Group and betting heavyweight Ladbrokes in cooperation with technology provider Intralot.

**Case study Greek betting and lottery operator OPAP – Partly privatized and publicly traded; the value of the shares held by the Greek state has risen from ca. USD 1.1 billion to almost USD 4.8 billion.**

OPAP was founded in 1958 to organize and operate the national football pools PROPO. In subsequent years OPAP was also granted the exclusive right to offer numerical lottery and other sports betting games. Until 1999, the company operated as a non-profit organization but then OPAP was listed on the Athens Exchange in April 2001.

OPAP paid the sum of Euro 323 million to the Greek state for a license that is valid for twenty years (until 2020). Since OPAP holds the exclusive license in Greece, the company can offer, operate and manage not only certain lottery and betting games but also any new sports betting products subject to government's approval. In addition, the company has the right to operate and manage all lottery products approved by the Greek government.

As a nonprofit organization, OPAP was exempt from corporate taxation, but this changed after it became a société anonyme. Since then, the company has been paying the usual taxes on corporate profits; tax in 2003: Euro 147 million, in 2004: Euro 266 million. Additionally the value of the shares held by the Greek state (51%) has thus risen from ca. USD 1.1 billion to almost USD 4.8 billion.

Currently, its share ownership is structured as follows: the

state is the principal shareholder with approximately 51% of shares, and the remaining shares are traded publicly. As of May 2005, the government will be allowed to further reduce its stake in OPAP to 34%. About 31% of shares are held by institutional, generally foreign, investors.

***More information in special report***

The text is an extract of the report "Privatisation of state-controlled gambling operators". The study completed by MECN and coauthors like the investment bank Sal. Oppenheim analyzes the privatization of statecontrolled gambling businesses. The study also includes the results of MECN's survey of more than 90 industry experts who offered their unique insights and assessments. The study can be obtained at MECN.[i]