

# **An outlook of the Italian gaming market at two years from its liberalisation**

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The paragraphs below try to summarise the most relevant regulatory and commercial developments that dramatically affected the Italian gaming business over the last biennium.

The 2006 year marked the beginning of a new era for the Italian gaming industry. In an effort to put an end to the thriving business of many foreign-based gambling sites that had long since been aggressively targeting and profitably servicing Italian players without holding an Italian licence, in early February the local authorities enacted the infamous and very controversial measures aimed at restricting Italian residents from accessing a large number of blacklisted '.com' sites. Yet shortly thereafter (August) the Prodi-led cabinet suddenly opened up the domestic market by legalising remote skill games and launching a licence tender that resulted in some 14.000-plus fresh terrestrial licences and 33 pure remote gaming licences being awarded.

Notably the liberalisation pushed by the Italian authorities was much more driven by budgetary needs than by a genuine desire to free up the domestic gaming market after decades of unchallenged oligopoly by the three Italian sisters (SNAI, Lottomatica and SISAL). Whatever the reasons that may have actually spurred the government's action, such regulatory breakthrough resulted in a wave of new operators being at long last able to legally and legitimately offer their gaming services to Italians.

The 2007 year was mainly a transition one during which the new licensees worked hard to set up their Italian online gaming platforms and organise the launch of their terrestrial networks of betting outlets (shops and corners) with very few of them, if indeed any, managing to launch operations in the first semester. In the meantime the gaming regulatory authority (AAMS) implemented the online bingo and the skill gaming rules and in particular legalised online poker tournaments by making them eligible for skill game classification. In December then Italy notified the European Commission with the proposed new remote gaming rules and relevant lighter licensing requirements which look more EU-friendly than those currently in place. Such move by the Italian authorities had been triggered by a combined effect of a landmark ruling issued by the European Court of Justice earlier that year in re Placanica where the Luxembourg magistrates had heavily criticised the regulatory regime currently in place in Italy, as well as by the need to defuse the enormous political pressure that Brussels had been placing on Rome over the past several months by opening up to seven different dossiers on charges that Italy was enforcing gaming laws and regulations not fully in compliance with EU law.

At the end of April 2008 the European Commission sent a letter of remarks and observations to the Italian government suggesting also a few amendments aimed at rendering the proposed new rules fully consistent with the recommendations of the EC as well as with the jurisprudence of the European Court of Justice. Further contacts and meetings took place since between the Rome and the Brussels authorities to fine-tune the draft new regulations which are now understood to be ready for issuance any time soon.

Even though the new rules are not yet in place it is interesting to outline below their most relevant aspects:

- Any gaming company licensed and operationally based in another EU jurisdiction may apply for an AAMS licence

subject to proving a global gaming turnover of no less than €1,5mln over the last biennium.

- Even a non-gaming operator will be able to apply for an AAMS remote gaming licence subject to: (i) proving that he holds all required logistic, technical and organisational infrastructure, (ii) releasing an €1,5mln bank guarantee in favour of AAMS, (iii) setting up a company in an EU jurisdiction and locating there the hardware and software infrastructure that will be running the games covered by the AAMS licence

Among the fresh licensing requirements set out above is worth noting in particular the server location rule which will make it possible for a foreign-based AAMS licensee to keep his gaming servers abroad provided (i) they are within the European Union space, and (ii) a 24/7 remote linkup with the AAMS centralised system is guaranteed for bets validation, compliance monitoring and tax purposes.

The 2008 year also coincided with the time when most (if all) of the 2006 tender licensees went actually live with the first online poker tournaments being launched by a couple of Italian operators (Gioco Digitale and Microgaming) as from September. Notably a few other AAMS-licensed major operators like Bwin and Lottomatica launched their online poker product since and two of the largest poker rooms worldwide (PokerStars and PartyGaming) also got licensed in Italy in the second semester and are now preparing to launch their own tournaments.

The first figures available on the impact of poker (tournaments) on the Italian gaming market are quite impressive as while we are still in the very early stages with just a few platforms already offering it, the monthly turnover is already at around €65mln despite the fact that for the time being AAMS allows tournaments open to local residents only (national pool liquidity as opposed to international pool liquidity). Given such a good response notwithstanding the game is only available at domestic level, it can be quite

safely predicted that in 2009 the poker tournaments turnover will by far exceed the rosier expectations of the Italian authorities that were initially forecasting for next year a total turnover in the region of €400mln.

Such key factors as (i) a relatively favourable regulatory framework and (ii) a very responsive domestic market, coupled with a much less online operator-friendly environment across most of the other first-tier continental Europe jurisdictions like France and particularly Germany, lead to believe that in 2009 Italy will be yet again at the forefront of the online gaming business in the EU. Actually the "stick-and-carrot" regulatory model adopted by AAMS (blacklist restrictions enforced flat out on the unlicensed foreign-based sites and full right to offer online gaming services to local residents only granted to those operators holding an Italian licence) is now being carefully analysed by other EU regulators with a view to assessing whether it could be usefully exported across the Alps too. Indeed in the past few months there was an intense traffic of delegations of regulators from France and from Northern European countries too that repeatedly met with AAMS to better understand the Italian model.

Italy's chances to become a champion in Europe of a pragmatic and profitable regulatory model placed somewhere in between the Franco/German-style monopoly-driven approach and the pro-market, de-regulated UK regime, may prove even higher if once the new remote gaming rules are enacted AAMS should also adopt in due course a "whitelist policy" along the lines of what the UK Gambling Commission has already been doing for a while. In this respect it is understood that bilateral talks and meetings already took place earlier this year between Rome, Alderney and the Isle of Man competent authorities and the "whitelist policy" is on the AAMS' 2009 agenda.

All in all 2009 is promisingly set to be another buoyant year for the Italian gaming business altogether given also the traditional attitude of Italians to spend even more money in

betting and gambling under gloom economy times like the present ones. Other important market growth drivers will be the following:

- The implementation of the new remote gaming and relevant licensing rules
- The possibility as from 1 December 2008 for each AAMS licensee to propose to his own regulator new sporting and non-sporting events on which he would like to take fixed odds bets (AAMS publishes on a weekly basis the full list of all “bookable” events and up until now bookmakers were not allowed to accept bets on any unlisted events)
- The likely advent of other top online poker rooms not yet licensed in Italy
- The likely introduction by AAMS of the international pool liquidity rule
- The possible legalisation and subsequent regulation by AAMS of online poker and other cash games over a time period realistically ranging from 1 to 3 years

With specific regard to the latter aspect, it should also be said that legalising and regulating online poker and other cash games seems an almost inevitable outcome for the Italian authorities if they do aim at making the ‘.it’ gaming platforms fully competitive in commercial terms vis-à-vis the ‘.com’ ones. Hence the real question is not if poker and other cash games will be introduced in Italy, but when this will in fact happen. The only sensible answer one could presently give to such question is: time will tell.

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