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Online Sports Betting Regulation in Estonia:
The Dichotomy between Protectionism and Social Objectives

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Table of Contents

Preface.....	3
Abstract	5
Introduction.....	7
Methodology	12
Theory.....	15
Regulation.....	15
Protectionism	19
Responsible Gaming	21
The Case	24
Comparative Analysis	24
Taxation, licensing fees and financial requirements.....	24
ISP and Financial Blocks	27
Technical Requirements	31
Protectionist Features	32
Gambling Tax.....	33
Development of enterprises.....	34
Indirect Impacts.....	38
Social Objectives.....	39
Universal prevention	40
Selective Prevention	43
Indicated Prevention	46
Conclusion	49
Bibliography.....	54

Preface

This thesis is submitted for the degree of Master in Social Sciences at Tallinn University of Technology. Professor Wolfgang Drechsler, to whom I am sincerely grateful for valuable insights and suggestions at different stages of thesis development, supervised the research. I would also like to express my gratitude to my family and friends, who provided the necessary support during such a busy and stressful period. I would also like to use this opportunity and thank all the Technology Governance program lecturers and co-students, without whom I would not have had the necessary platform and skills required for conducting such an investigation.

The development of the thesis was rather lengthy, with a lot of material being processed and analyzed in the last 12 months. This thesis would not have been completed without the help of different people related to the industry, all providing valuable insights and perspectives from the business, research and legal points of view. I would like to thank Dominic Atkinson, currently a director at Six Degrees Sporting Connections, for sharing his ideas on the discussed topic at the very beginning of my journey. I would also like to thank Laurie Korpi, Legal and Research Director at Gambling Compliance, who provided fully free access to their services; David Morgan, a Gambling Compliance CEO, who made it happen; and David Henwood from “H2 Gambling Capital”, who shared available information on the industry’s development in the EU. Nick Tuchband from SimilarWeb was extremely helpful, as well, particularly when it came to access and financial blocks applied by governments, even though most of the discussed issues were not included in the final version of the thesis.

Most of the local documentation was available as open-source material, but the help of Taivo Põrk, one of the main area specialists working for the Ministry of Finance, was extremely valuable in my understanding of the position of the authorities. He also found the time to provide me with most of the operators’ annual reports, otherwise not available for free. Madis Herkül, a board member at Optiwin OÜ (Optibet), was the only senior management executive among all the local operators who found the time to express his point of view on the development and progress made by the introduction of the regulation. I also want to thank Max Kaur for sharing his view on the local environment.

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Last but not least, I would like to thank all the respondents to the questionnaire and all the people who remained anonymous but provided their view on the state of the industry in Estonia from a consumer point of view. Executive managers from Genius Sports Group, a company I work for, were extremely helpful due to their deep understanding of the subject and willingness to aid a colleague in pursuit of knowledge and development. They wish to be anonymous due to their connections to the industry and the impartial formal position of the company at the time on the discussed subject. Its sensitivity did not allow me to be more explicit as far as interviews were concerned that I have been above; this is unusual for a thesis, but the alternative was not to tackle the topic at all.

Abstract

This thesis explores the historical development of the industry regulatory practices within both the European Union Member States and Estonia. A comparative analysis of the European regulatory frameworks and legal/social issues associated with the activity is used as an anchor against which the licensing regime introduced by the local government is then compared as well. The thesis concentrates on both the conditions and the rhetoric used by the local authorities in the development of the building blocks of the regulation introduced in 2010. The aim of the author is to analyze the dichotomy between potential economic protectionism in the form of the fiscal, economical and developmental benefits that the regulation brings, and the impact on social objectives that are considered, on paper at least, as the primary purpose of the industry regulation. From the methodological perspective, the current paper is a mix between qualitative and quantitative methods and includes historical research, documentation analysis and (background) interviews. As a result, the current thesis outlines the imbalances that the currently used regulatory structure has when analyzed thoroughly. Many of these issues are universal, although there is scope for improvement if appropriate investments would be considered.

Magistritöö „Veebipõhise Spordipanustamise Reguleerimine Eestis: Protektsionismi ja Sotsiaalse Eesmärki Dikhotomia“ uurib selle valdkonna reguleerimise läbiviimist nii Euroopa Liidu liikmesriikides kui ka Eestis. Euroopa reguleeriva raamistiku analüüs ja sealse sotsiaalse/seaduslike probleemid seotud tegevusega on aluseks võrdlemaks kohaliku valitsuse litsentsimisrežiimi. Töö keskendub kohalike võimude poolt sätestatud tingimustele ja retoorikale 2010-ndal aastal tutvustatud reguleerimises. Autori eesmärk on uurida vasturääkivusi võimaliku protektsionismi rahalise, majandusliku ja arenguga seotud kasudega, mida reguleerimine toob ning mõju sotsiaalsele eesmärgile, mis paberil on põhiline põhjus valdkonna reguleerimiseks. Metodoloogia seisukohalt on see töö segu nii kvalitatiivsetest kui ka kvantitatiivsetest meetoditest, mis sisaldab ajaloo käsitlemist, dokumentatsiooni uurimist ja intervjuusi. Kokkuvõttes sotsiaalteadustes on vähem otsustavad võrreldes mõne teise alaga, seetõttu see töö toob välja hetkel kasutusel oleva reguleeriva struktuuri nõrgad kohad. Suur osa rõhutatud probleemidest

on universaalsed, kuigi esineb ka arenguvõimalusi, kui vastavad meetmed võetak kasutusele.

Introduction

Betting as an abstract idea of risk-taking with a potential reward that might come afterwards is probably as old as humanity itself. One of the first decisions that started to shape the activity into the developing sector we know today occurred in 1190.¹ The kings of England and France set up a law defining who could gamble, and for how much. In essence, it was the first normative act designed with a purpose to bring structure and avoid negative consequences associated with unsupervised activity. In 1711, England went further and became the first country to introduce a centralized tax on gaming, as it represented a substantial revenue source that could be channeled into the monarchy's coffers (Tosney 2010, 2). The shift in logic derived primarily from the economic context of the early 1700s, as England was fighting expensive wars in continental Europe. *Pecunia non olet* when you have your back against the wall.

The popularity and profitability of early versions of the operating enterprises were catalyzed by the technological advancements in communication. Development and innovation around the organization of events in many ways resembled those of the society as a whole with the electric telegraph playing a massive role in the speed of transmitting the results from racecourses and sports fields to betting outlets (Clapson 1989, 38). The popular activity, however, often faced an organized opposition that resulted in Queen Victoria and her Government's decision to proclaim it as an offence to keep a shop, room or any other territory with the sole purpose of betting. The 1853 Betting Act was born primarily from the notion that working-class citizens are unable to decide how to spend their money consciously and arguably should not be.

This dichotomy between the potential harm the activity could cause and the economic benefits it could generate has always been the main narrative in the industry's development. The idea that restrictions on the supply side could be translated into the diminishing demand was considered an effective solution. Contrary to that belief, participants have been ready to risk facing penalties

¹ Philip Graf, Gambling Commission Chairman. "Joint Seminar Organized by the Singapore Academy of Law and Casino Regulatory Authority." Available at <http://www.gamblingcommission.gov.uk/pdf/Speech%20to%20Singapore%20academy%20of%20law%20and%20casino%20regulatory%20authority.pdf>.

in their pursuit of betting (Tosney 2010, 7). The demand of the masses remained strong, and activity moved to public houses as what seemed to be a secondary part of a social lifestyle. Victoria's government eventually "struck back" with the 1872 Licensing Act that prohibited all betting in British pubs (Samuels 2011, 17), and further legislation in 1874 suspended all the advertisements amongst the working class. The only place left for bettors were street corners, where the activity informally relocated and stayed for almost 30 more years until the Street Betting Act of 1906 limited the participation to sporting venues and official racecourses (Dixon 1980). That should have been the final nail in the coffin, but these efforts were practically a failure, as betting continued away from private clubs on disguised premises, the same streets that it was specifically designed to be banned from. "Where there is a will, there is a way." After World War II, the pressure for a "greater libertarianism" has arguably brought a consensus of tolerance and trust towards people's own moral and economic decisions (Basham and Luik 2011, 145). In 1951, the Royal Commission on Betting, Lotteries and Gaming first recommended the legalization of off-course betting as it was then viewed as a "relatively harmless issue" that could generate additional fiscal revenue and spark developmental opportunities (ibid). Even though it took another 9 years before the Betting and Gaming Act of 1960 came into existence, the combination of personal liberty and economic benefits clearly overpowered the question of morality.

The pace of development for the 30 years since then was set by the competition between major companies and private individuals, as many forms of technology were embraced. For a long time betting shops operated through cash tills, microfilm cameras and employed highly sophisticated human bet settlers with advanced mathematical skills. In the beginning of the internet era, the development of software and image-scanning equipment that allowed the understanding of betting terminology and actions to be programmed was a primary source of innovation. The introduction of complex calculation models and quick data-transmission systems became affordable and constituted a big leap forward for any company that could effectively integrate these into their business model. In order to realize the idea of an online gaming platform, an operator should have had a powerful server, a piece of appropriate software and suitable support activities all organized in a user-friendly way with the internet representing a new medium of communication (Manzin and Biroslavo 2008, 98). Successful ventures started to generate big amounts of revenue, which allowed the cycle of development and innovation to continue, thus

creating a virtuous circle for the industry as a whole. At the same time, the emerging structure of e-commerce presupposed a challenge for authorities as it required adequate organizational and regulatory practices (Erixon et al. 2010, 2). Coupled with substantial fiscal benefits, circumstances provided an opportunity for national governments to draw sophisticated legislation that would both aid the development of all sides of the activity while at the same time regulate and sufficiently tackle problematic areas associated with it, such as match-fixing, money-laundering and risky consumer behavior.

For years the lack of clarity characterizing the regulation allowed many companies to operate from different jurisdictions, depending on the circumstances in each individual country by outsourcing parts of organizational practices to places where the most efficiency could be achieved (Manzin and Biroslavo 2008, 99;). The popularity of the industry along with its regulatory fragmentation became so obvious that national parliaments could not really turn a blind eye to it, meaning that questions of appropriate legislation would inevitably pop up almost everywhere. Depending on the general understanding of whether the activity was harmful or not, different approaches to regulation were adopted with totally prohibitive and liberal systems becoming two extremes (Casabona 2014, 4). These outlooks, however, often changed according to the ways development manifested itself in everyday life. When formerly reluctant governments recognized the importance of online-sports-betting regulation, the great number of their citizens were already using websites of operators from abroad. As a result, these enterprises earned revenue that governments could have capitalized on in taxes and used generated income for a variety of purposes. The absence of any systematic approach similarly failed to account the data regarding financial transactions and behavioral patterns (ADL 2009, 1-2), leading to a weak position that no authority would ever want to find itself in, especially regarding highly sensitive questions that might fall under the category of social objectives. The situation receives additional complexity when it comes to the multidimensional nature of integrated markets, such as the European Union. There are mixed signals by Member States when it comes to betting as doubts over its utility and social legitimacy are expressed through national regulation. Activity represents an interesting case of different normative claims (economic efficiency vs morality) that are locked into rivalry with one another (Della Salla 2012, 110). Even though the common market for many goods and services is integrated and harmonized, it both gives the EU more weight on the international arena *and* makes the decision-making processes fragmented in areas

concerning national interests (Erixon and Razeen 2010, 16). There are many calls for the betting industry's complete standardization within the EU (EGBA 2012), but national interests block these initiatives on grounds of different social objectives. Subsequently, there is no supranational legislation governing the sector. The European Court of Justice, which defines possible regulatory actions by MS through its rulings, albeit so far in the form of advice (Lovejoy 2014, 1526), sets many criteria of the best organizational practices that comply with the nature of a common economic environment. The two most commonly used regulatory structures are either monopolies or licensing regimes. Even though the barriers are prohibitive in nature, the former was allowed by the CJEU as a service of general economic interest (Mustilli and Pelkmans 2013, 49). The latter presupposes an environment characterized by the free establishment of an enterprise based on country-specific conditions. They represent different values for operators depending on the resources already invested, the difficulty of technical adaptation and the projected return from investment.

The industry had not been regulated in Estonia before The Gambling Act of 2009 created a unified legislative structure for all products and services relating to the industry. The timing of the financial crisis coinciding with discussions regarding details of the legislation presupposes the logical assumption that its introduction might be merely a way to collect more revenue to fill in the budget holes. At the same time, practices governing the market at the time were also outdated and largely inadequate to offer tools for the efficient management of the environment. New forms of gaming platforms being available through the internet offered huge and unpredictable risks for the government's ability to keep the situation in the social sphere under control. Techniques and mechanisms effective in the case of terrestrial betting were impractical when projected on their internet analogues. As with the majority of other European countries before and after, Estonia chose a licensing regulatory model and appealed to obligations in the social sphere as a justification for its adoption. Authorities decided to introduce a structure that required potential operators to fulfil certain criteria such as clear rules of play, warnings of addictiveness, fraud prevention, participation restrictions, etc. (PWC 2013, 145-146). The main purposes of the Act included player protection standards, the reduction of negative consequences associated with activity, and improved supervision and documentation.² Its adoption has arguably made a positive impact on gambling in the terrestrial premises (Korpi 2009, 5). The

² § 1 of Gambling Act, available at <https://www.riigiteataja.ee/en/eli/530102013030/consolide>; PWC (2013, 145-146).

nature of the online sports betting environment, however, has brought a variety of new challenges, and it remains unclear whether authorities were successful in fulfilling social objectives. Arguably, in many cases governments simply use the rhetoric of protection but instead are more interested in revenues and overall economic development (Cabot 2013, 6).

The main idea of the current thesis is to analyze whether the adopted normative act could be considered to be protectionist in simple economic terms, as opposed to the government's actions in designing the efficient structure that facilitates the reduction of the harmful side. In particular, an author of the thesis will concentrate on the below research questions.

- 1) Assessment of the environment that the regulation was introduced into and comparative analysis of the Estonian regulation against other EU countries. What was the logic behind the decision-making process why the regulation was introduced in the first place, and what issues might have contributed to the final shape of the legislation? How competitive, strict or open is an introduced regulatory framework compared to other countries? What insights might be gained from the decisions that the authorities made in regulating an industry?
- 2) Financial, fiscal and economic impacts of the introduction of the regulation from the government's point of view. What taxation system was chosen? How substantial is the regulation to the government's tax revenue? How beneficial is the legalized nature of the activity to the economic development? What are regulation's direct and indirect impacts?
- 3) Proportionality of the introduced regulatory framework from the perspective of social objectives. What are the problems associated with the betting activity? How efficiently does the government use generated revenue in achieving the reduction of risks? How efficient and up-to-date is the introduced structure and what deficiencies might it potentially have?

The statement of regulation that comes primarily from the obligation to defend the public is not sufficient because it lacks qualitative connotations. It could only be effective and proportionate if the introduced mechanism indeed worked, took into the account the nature and complexity of internet-based communication, and addressed the core reasons behind risky behavior. The

significance of economic and fiscal benefits, especially at times of tight budgetary constraints, unemployment and need for development, could be way too tempting, and the draft of regulation in practice focuses on completely different impacts than is manifested in public.

Methodology

The research of the proposed topic from the methodological point of view represents a mix between qualitative and quantitative methods. In order to draw any kind of conclusion, analysis requires both statistical data and its appropriate examination along the proposed theoretical lines. Document analysis, the comparison of regulatory practices and annual economic reports of selected companies play a big part in the current thesis. These points are supplemented by existing research depicting environments in other countries and the EU scale in general, which is done by different online gambling intelligence units (such as EGBA, Gambling Compliance, etc.). The development of the narrative also relies on interviews and answers to questions related to the topic that were available as open-source material in various internet journals (such as *EGR Magazine*) or were gathered through communication with respective individuals. In order to reach the goal of the analysis, the following steps are proposed by the author of the thesis:

Step One: Review of the Theoretical Background

One of the most important parts of any successful thesis requires a comprehensive in-depth analysis of academic research regarding the proposed topic. The available material creates a generalized picture of the industry as a whole, provides examples from different environments, and allows a researcher to both extrapolate the continuity of the developmental path into the future and project existing data regarding best practices characterizing the field onto the case study. The theoretical part of the study therefore serves as the foundation that the case study would primarily rely on in its unravelling. The complex nature of the industry, the absence of its systematic understanding and the lack of research on the topic demand additional explanations or commentaries along the way, which subsequently stretches the thesis.

Stage Two: Comparative Analysis of the Environment and Regulation

In order to judge the introduction of any kind of regulatory practice, it is necessary to create an understanding of the environment it is introduced into. However, everything is relative, an old proverb states. The nominal presentation of regulation aspects would not allow for a qualitative assessment because of the absence of any reference points. Therefore, the comparative analysis of other countries in Europe serves as an anchor against which decisions made by local authorities are compared. It includes sub-chapters on purely monetary issues, technical standards, blocking measures, etc. This move allows for the introduction of critical thinking necessary for the establishment of efficiency-evaluation criteria and the positioning of the environment in an abstract grading scale based on competitiveness. Materials and conditions regulating the industry in other EU countries were gathered primarily through sources such as the PWC study (2013) and the Gambling Compliance website.³ Both quantitative and qualitative data describing certain behavioral patterns of local consumers were collected through an online questionnaire.⁴

Stage Three: Description of Protectionist Features

One of the ideas behind the introduction of regulation in Estonia revolves around the perspective of a protectionist approach used by the authorities in order to aid the government's financial position or add catalysts to an economic development. This view is tested against data regarding tax base and subsequent expenses, indirect economic impacts of the regulation and, lastly, the progress of licensed operators on the market. The latter is examined using annual reports of selected enterprises for a variety of periods (in some cases dating back to 2007-2008, in others just a few years of reporting were available for different reasons). Direct and indirect fiscal consequences of the imposed tax regime were analyzed through the prism of the Gambling Tax

³ One month of free access was granted to the author of the thesis after communication with the company's research director and confirmation of the student status.

⁴ www.surveymonkey.com was used as a platform; access and details will be provided upon request.

Act points while using the same companies' reports and the government's annual economic reports. Additional information regarding expenses relating to the newly enforced tax entry such as supported programs, projects, etc. were available as open-source material on Estonia ministries' websites in forms of plans and protocols.

Stage Four: Examination of Social Objectives and their Fulfilment

Understanding the position of a regulatory practice projected on an abstract continuum between different extremes of financial gain and social objectives outlined in the regulation would not be possible without the latter. Social objectives serve as a justification for the introduction of legislation restricting the provision of services throughout Europe, and it is only reasonable to examine the situation of the environment using its perspective. Operators' and regulators' accomplishments on the issue are analyzed through the concept of responsible gaming, which is presented in the theoretical part of the thesis. It must also be noted that areas of match-fixing and money-laundering are too complex to be included in the current thesis and therefore require a separate analytical investigation to be assessed critically.

Stage Five: Comparison and Conclusion

After identifying and evaluating the environment in Estonia after the introduction of regulation from both economic and social perspectives, the author would like to understand which one outweighs the other while concentrating on structure evaluation as a whole, its possible impacts and analytical remarks that require attention based on findings gathered during the aforementioned steps.

Theory

Regulation

The fear of opening a Pandora's box of potential issues such as gaming addiction, money laundering and the negative impact on consumers have long characterized the reluctance of many jurisdictions to regulate betting activity.⁵ In many ways, it was felt that the introduction of any kind of regulation legitimizes these negative connotations, and governments would practically wash their hands of them if they allowed that. As time went by though, it was recognized that there is no efficient way of stopping online betting, as interested consumers will be able to get their hands on the product regardless of the wishes that governments might have.⁶ A completely different logic began to unravel as regulation in essence started to be regarded as a solution, although frameworks chosen by authorities differ, with some being more oriented towards player protection, supporting standards and policies, while others pursue developmental goals (Wiebe and Lipton 2008, 9). Ideally, authorities would identify the cost of regulation and compare it with the value that represents the loss in case of not regulating it (Cabot 2013, 7). Licensing in this regard represents a relatively simple and efficient tool that bypasses the difficulties that police enforcement may encounter and could arguably persuade both the economic development and management of harm the activity could bring. Aspects of player protection, such as the fairness of games, security of money transactions and barriers to fraud by operators themselves or their employees, are basic building blocks for an introduction of any type of regulation (ibid., 13), and the MS' positions on them are arguably shared (PWC 2013). At the same time, other obstacles prevent the complete harmonization of the industry and the evolution of a truly integrated environment. Quite a few reasonably argue that online betting should be regulated at the EU level due to the complexity of activity, its cross-border nature and the inefficiency of separate initiatives to both tackle problematic issues and assure the fundamental freedoms embedded in the idea of the Internal Market (Lovejoy 2014, 1527). This, however, is not as straightforward as

⁵ Trunkfield, D. 2014. *Online Betting and Gambling Regulation 2014*, PWC. Available at <https://www.pwc.se/sv/media/assets/online-betting-and-gaming-regulation-2014.pdf>.

⁶ Ibid.

it may sound, as others regard online betting as being a unique form of service provision due to the societal risks involved (Casabona 2014, 2). Keeping in mind that issues such as consumer protection, human health, the fight against fraud, etc., are unique in the case of each MS, online betting services are currently not seriously considered for potential regulation at the EU level. The EC supported the initial position that could categorize all jurisdictions as a whole but later noted that MS are in principle allowed to set objectives freely and regulate the activity accordingly.⁷ The Treaty of Lisbon specifically outlines the allowed restriction to the freedom of provided services if they are linked to issues of national security, public policy and public health (Lovejoy 2014, 1528). At the same time, any legislative act that falls under one of these categories should not discriminate based on nationality (ibid.). It means that in essence, any national regulation concerning online sports betting should not be adopted if it creates a direct disadvantage for the EU operators listed and licensed in other MS (Casabona 2014, 6). On the one hand, the purpose of an integrated environment was to open up markets and achieve greater levels of competition, innovation and progress that would eventually benefit both consumers and facilitate development (Lovejoy 2014, 1535). On the other, the industry creates potential risks. News stories quite often shock all those who were not even aware of the magnitude of the problem, as in cases when a policeman in Italy kidnapped his neighbor's son for ransom, or when addiction led a young man to set himself on fire.⁸ The CJEU has recognized the position of both sides of the argument, stating on a number of occasions that even though sports-betting regulation is a clear restriction to the general idea of free service provision, MS are allowed to defend their objectives (Lovejoy 2014, 1526). What makes it all tricky is evidence that the potential tax revenue is so significant that it is difficult to turn down entirely (ibid., 1532). The economic objectives were frequently being used to justify the adoption of regulation in the industry as well, so that the institution was bound to explicitly reject the idea of economic protectionism in examples of stabilizing tax revenues on a number of occasions (ibid., 1564). Tax revenues in this regard are considered to be practically a side effect that is unintentional, as the main objective of any adopted legislation should primarily focus on the reduction of issues associated with problematic and risky behavior (ibid., 1549). However, since there is no binding

⁷ Press release available at http://europa.eu/rapid/press-release_IP-13-1101_en.htm.

⁸ Kingston, T. 2012. "State and Mafia Take their Cut as Italians Develop Gambling Habit." *The Guardian*. Available at <http://www.theguardian.com/world/2012/feb/29/state-mafia-italy-gambling>.

supranational legislation in the industry of online sports betting but only a case law based on criteria outlined in a number of CJEU rulings (Arendts 2007, 47), the environment leaves room for potential maneuvers in terms of regulation enforcement and subsequent differences in terms of criteria applied to potential license holders.

From taxation and supervision perspectives, the structure depends on the initial choice between the monopolistic outlook and licensing (Millar 2013, 113-114). The administration of the activity in the case of the former is performed by the governmental agency itself, or a license is issued to a single operator that fulfils the criteria imposed by the authority. Competition is practically non-existent in these types of models, and consequently operators often lag behind the industry standards set out by leaders (Millar 2013, 5). Despite being relatively efficient in terrestrial betting, the evolution of internet-based products and the nature of betting preferences lead to customers seeking more variety and quality services. Precisely because of the eventual lack of competitiveness and the subsequent popularity of unlicensed operators amongst consumers, monopolies fail to strike the balance between economic development, consistency of revenues and the fulfilment of governments' social objectives towards the public. Licensing models, on the other hand, allow the attraction of more operators to the market, potentially nourish the development and competition between them and create an environment that is suitable for the management of established objectives in the social sphere (ibid., 116). Taxation in such cases includes different types of fees (application, initial license, renewal etc.) and consistent tax revenue depending on the system that the government adopts (ibid.). One possibility indicates a certain percentage paid by operators that is based on revenues (GGR), which could also include software-licensing fees, development costs, system-integration costs, credit-card chargebacks and other explicitly defined aspects of service provision (ibid., 118). The biggest apparent advantage in such cases is a lower business risk for enterprises operating in the industry, as they are being taxed only on profits and not transactions, but its attractiveness depends on the final number, which could vary drastically. The alternative way of taxing licensed operators is for them to pay a certain percentage on total player fund deposits (ibid., 119). Obviously, the percentage is much lower, but it allows better planning, collection efficiency and avoids the dependency of government on operators' profit margins. The adopted system and imposed taxation percentages often describe intentions of an authority towards the industry's presence in a much clearer way than any formal statement.

Technical requirements constitute another such grey area and arguably possess one of the biggest obstacles for operators willing to provide services across borders, as in the majority of countries a potential operator must comply with a number of objectives outlined in the legislation. These include a plan of infrastructure setup, the full breakdown of both hardware and software solutions used, etc. In fact, some authors argue that the complexity of the online betting sites often goes beyond the capacity of authorities to efficiently test or even understand them (Miller 2013, 53). This practically suggests that licensing regimes and requirements in technical areas are in many ways the attempts of regulators to keep up with the pace of development, as they do not have enough resources or expertise to assure it otherwise (ibid.). These different requirements, however, are a challenge to any operator willing to obtain a license in another country, as different technical setups presuppose additional investment, which practically constitutes a duplication of IT infrastructure. In addition to this, a number of jurisdictions require a potential operator to keep data servers or at least some part of the equipment located in that country. In a study done by the PWC (2013, 85), operators trying to offer services across the EU indicated a lack of planning and consideration when it comes to cross-border documentation or the precise location of gathered data. Even in cases where requirements are not that difficult to comply with, the potential operator still needs to present documentation in different formats or languages (ibid., 44). When it comes to data gathering, regulation often presupposes the obligation of an operator to consistently capture, store and retain important information, such as the number of bets made, winnings paid or the identities of participants (ibid., 53). In some cases, the data is recorded and managed by the respective authority using its equipment, in others it is supposed to go through the regulators' systems, while in some examples it should be simply handed out upon request. The establishment of the integrated data-processing system might pursue many goals and potentially address a variety of issues associated with the management of the activity, such as tax evasion, money-laundering, fraud and, last but not least, the evaluation of betting patterns amongst consumers. It gives an authority a platform for a comprehensive analysis of big data flows, but the question is how these options are being used and what efforts they are devoted to. Keeping objective and subjective notions of different cultural and societal environments in mind, it is not whether the desired structures by the authorities should or should not be introduced. Rather, its application, proportionality and long-term economic and social

impacts are the primary criteria for the justification and qualitative assessment (Williams et al. 2011, 13).

Protectionism

The global economic and financial crisis has arguably shifted the logic behind ideas and policies towards the function of free markets as government intervention became more prominent in certain areas and industries (Erixon and Razeen 2010, 8). Negative social costs associated with excessive betting activities often constitute a market failure and allow the authorities to a certain extent to restrict the complete freedom of service provision. In theory, tax revenue coming from legalized industry can offset additional costs associated with the legalized activity, such as management, record-keeping, policing, prevention programs, education and treatment (Morse 2010, 292), but only if these are indeed channeled back to actually dealing with these issues. From governments' point of view, the simplest definition of protectionism would be the usage of these revenue streams for other purposes. Authorities earn revenue from legitimate betting operations in a variety of ways. First, direct taxation of the activity based on transactions or profit margins brings extra money (Williams et al. 2011, 35). In addition to a certain percentage, operators normally pay standard fees for the revision of licenses or operating permits. The second way is to become directly involved in the provision of services (*ibid.*). However, even in the presence of an addiction and other negative consequences that could affect the population, the establishment of the monopoly is often considered an inappropriate kind of an intervention. Gains in terms of welfare deriving from betting compared to losses caused by the strict regulation show negative results in most cases (Rebeggiani 2009, 118). These findings appear to be a catalyst for an evolving understanding amongst European countries that licensing regimes arguably offer more benefits, despite concerns that it may increase participation rates (Gainsbury and Wood 2011, 315-316). The third way, which is often hidden from the analytical passages of many researchers, is the income tax of people employed in the industry.

Even though direct taxation rates in many countries tend to be higher than those for other industries (Clotfelter 2005 via *ibid.*), the amount of revenue is significantly lower than in case of

other sin taxes, such as alcohol or tobacco, but could still be used in the provision of social services, including projects in sports, culture and education. The cause is good, but some authors argue that the principle has led to a formation of a powerful lobby of organizations that clearly benefit from regulation and become its proponents (Rebeggiani 2009, 115). In addition to that, the establishment of rules and exact normative connotations that regulation brings is often viewed as dangerous by both supporters and opposition because it could aid the agenda of certain economic actors and impose hidden costs on the society without participants even knowing it (Watson and James 2013, 2-3). Some scholars go further and label regulation as a measure to prevent the foreign take-over of local market shares (Ngono Fuonda 2012, 351-352). Consequently, it all often results in a symbiosis between traditionally opposing social-welfare activists and specific commercial groups who use different ways and tactics, and have different goals, but together crave the introduction of a regulatory regime. From the perspective of local enterprises and other groups associated with the industry in an economic environment that is regulated by policies and entry criteria imposed by the government, it is necessary to establish whether these practices favor their development by protection from the external competition. Early arguments behind the need of the introduction of protectionist measures outline it as a requirement for local producers to achieve sufficient competitiveness and scale to operate successfully in a global market (Braguinsky et al. 2011, 2). Others imply the need for them to catch-up with the level of technology that is used by producers from more advanced nations or businesses (ibid.). One of the questions that the current thesis is designed to address circulates around the simple idea whether the introduction of licensing regimes in Estonia aids the development of licensed operators by protecting them from bigger innovative companies on the EU market. It also seems important to understand if the regulation indeed aids the channeling of consumers to operators that obtained the license. The nature of transactions on the internet leave a variety of ways for any person to access technically illegal services by altering the route of communication. Obviously, no regulation could achieve 100% outcome, as many people will break the law in their pursuit of more sophisticated services, and therefore it is all about the share that regulation allows for local businesses to capture. Supply restraint sometimes tends to bolster and stabilize profit levels and business continuity (Morse 2010, 293), making it easier to plan into the future, which is good for all the parties, except for bettors with problems or those who simply keep losing their money.

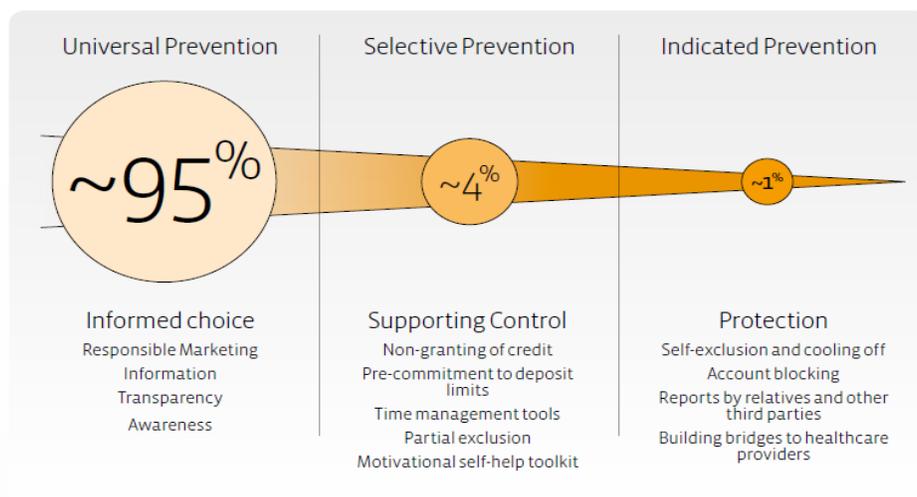
Responsible Gaming

Since the 1980s, the American Psychiatric Association has added problematic gambling to a list of disorders associated with a greater than average amount of impulsiveness and negative emotionality (Slutske et al. 2005, 775). Researchers treat the field and its possible links to psychiatry with caution as it could result in a “slippery slope” leading to practically any behavioral category fitting into the addiction class (Dowling 2014, 1408). Attraction to betting as a sort of entertainment lies in old human traits of curiosity that makes people strive for novelty, variety, intensity and complexity of emotional experience; a sense of “excitement”, as participants themselves put it (Zuckermann 1994, 270). High participation has been recorded amongst those who display a stronger drive towards sensation-seeking, although a connection does not go beyond a certain degree. It rather catalyzes the development of problem behavior in combination *with* other variables such as easiness to spend money online (Griffiths and Parke 2002, 313-314) or convenience (McCormack and Griffiths 2012, 44), meaning that the need for emotional explorations is not a risk factor in itself (Sharpe 2002, 20). It seems to play a big part in the initial decision to get involved in the first place, but does not clarify the complexity of behavioral patterns expressed by problem bettors. The qualitative research provides a straightforward picture on the demographic group most commonly associated with regular sports-betting activities. In the majority of cases, participants are young males in the age of 18 to 30, educated, of a higher socio-economic status, occupied with full-time positions and obviously having internet access, a smartphone or any other technological solution that could be used as a medium (Palmer 2014, 11). The supply side of the activity is different in the internet-dominated era as there is an obvious switch from small localized provision towards large-scale commercial operations (Adams et al. 2009, 689). The abundant amount of data, social profiles and findings in the establishment of thinking and behavioral algorithms allows operators engaged in the activity to know much more about potential and existing target groups than anyone could have imagined a decade ago. These trends allow for a gradual popularization and expansion of the activity very much in the way that the Overton’s idea works – the public slowly accepts the fact that betting is normal. The biggest question mark for any government that decides to regulate the activity not

for the sake of economic protectionism and increased tax revenue, but for the actual attempt to control and influence the involvement of its citizens, is the definition of risky behavior, subsequent analysis of its causes and the introduction of appropriate policies to tackle the issue. It might be tempting to assume that operators in the industry would take all the necessary steps towards the management of excessive behavior. That is precisely the reason why top-down policies and restrictions are needed in the application. In theory, operators would work closely with respective government units, scientists and represented communities in order to find the best solutions for a closer monitoring and prevention of harmful risks (Adams et al. 2009, 689-690). In contrast to that idea, history tells a different story as some authors show that the marketing strategies in the case of tobacco or alcohol consumption rather helped to spread the activity than control it and delayed the effective intervention (Moodie and Hastings 2009, 692-693; Samarasinghe 2009, 695-696). Betting is not as widespread and popular as to consider it a high-priority problem yet; however, opinions from other countries tend to outline the dynamic aspect of its prevalence (Monaghan 2009, 204), which means that there is a possibility that these rates might eventually cross the line of the current norm.

One of the most interesting propositions regarding the effective solution of player protection is the creation of regulated shortage of service offerings (Hayer and Meyer 2004 via Bwin 2013, 10). Mirroring the practices used in treatments of other substance abuses, the idea is to eliminate the cause of addiction, which is the game itself, by the gradual and consistent limitation of criteria available for measurement (time spent, money, etc.). However, a linear relationship between the availability and prevalence of pathological betting has not been supported, as the progression of offerings rather displays a curved adaptation and saturation effect (ibid., 11), while research showing some extent of a positive correlation often lacks a necessary sample number to receive a confirmation (Gainsbury 2015, 187). There is little to no evidence according to many authors that the participation as such is the primary cause for excessive characteristics (Miller 2013, 68; Dowling et al. 2015, 125-126). Value that is being assigned to a singular experience of betting on a sporting event is not spread evenly – the 20th bet during the week does not have the same effect as the 1st one. Limitation forced upon the consumer can actually catalyze the development of pathology, as each instance of experience now has a greater value assigned to it. The situation is different on the other side of the extreme, as the inclusion of a 10th operator on the market or a 400th market type available to bet on does not have a great effect on participation rates and/or

pathology of behavioral patterns. Old methods of adaptation characterized by restrictions are deemed inefficient when tackling the problem, instead new methods of protection through engagement, education, corporate social responsibility and awareness are considered to have much greater potential (Kendall 2009, 19). The development of problems associated with betting is often linked to causes solely connected to the nature of the game or the vulnerability of an individual. Different characteristics of individuals are being tested against modified games, against control groups, against other individual criteria, etc., with treatment and its research globally receiving the biggest share of total investments (Adams et al. 2009, 689-690). Generic factors, on the other hand, often missing from the consideration, largely affect the complex reality a potential pathological bettor may end up in, as well (Bwin 2013, 8). Thus, the focus on people and the game itself is not sustainable in the long run, as it fails to take into the account important settings affecting the decision-making algorithms from deeper psychological layers than those visible on the surface. The systematic approach usually referred to as the responsible gaming concept would therefore constitute a more efficient starting point. It consists of a broad range of different aspects, issues and policies that relate to individual as well as public attitudes towards the activity and health in general. According to Shaffer (Bwin 2013, 13), successful prevention strategies of responsible gaming concept are multidimensional and focus on the following criteria:



Source: Bwin 2013, 13

The greatest emphasis of the proposed structure is placed on the universal prevention of risks coupled with the activity. In particular, the efficient setting presupposes that potential customers

are equipped with information necessary to create awareness (ibid.). It also consists of valuable organizational traits, such as transparency, fairness and accountability, that support the self-sufficient nature of the system. Last but not least, responsible marketing plays a big role, as the nature of symbols and images that the activity is linked to might determine the predisposition of different cultural and societal groups without even the slightest resemblance of realization. Members of the next focus group are not experiencing all the features of problematic behavior yet, but their current state of uncertainty might go both ways. In order to prevent their slide further, an efficient approach would require impersonal and universal features of the introduced game – non-granting of a credit, pre-commitment to deposit and loss limits, time-management tools, partial exclusion and motivational self-help toolkits (Bwin 2013, 13). The last criterion targets those individuals who require selective care and attention with more radical measures that are explicitly designed to block access to activity, which creates and reinforces symptoms of problematic behavior (ibid.). At the same time, the simple exclusion or restriction of service does not matter if not supported by treatment and health-care provision. Any structured and comprehensive approach focusing on the fulfilment of social objectives subsequently has to address different areas of the multidimensional aspect that problematic betting is.

The Case

Comparative Analysis

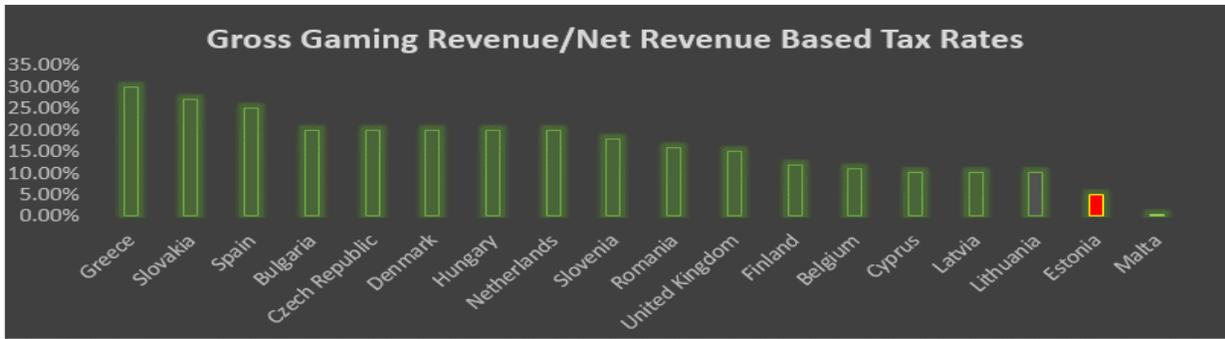
Taxation, licensing fees and financial requirements

Prior to the enforcement of the new legislation's online-betting-related points in 2010, the unregulated nature of the market permitted many international companies to establish their presence by spending huge amounts of money on advertising and brand promotion. Some others remained in the shadow, although they have built their own customer bases that proved to be quite loyal. Legislation, however, changed the status quo and posed questions regarding the formal status of these companies. Operators faced a financial decision, as after transitional

provisions of a new regulation came into force, they required a license or a partnership with another local licensee to stay in the business legitimately. Enforced conditions often have the potential to create barriers to market entry by adding uncertainties over the questionable likelihood of profitability, additional investments and capital requirements, the length of application investigation and criteria of technical compliance (Cabot 2013, 10). In the end, the decision is normally based on a comparative analysis between different jurisdictions and the particular company's commitments to the country. Understanding the cost imposed on potential entrants compared to gains that they envision to achieve is the key to an efficient and flexible regulatory regime that accomplishes the majority of policy goals outlined in the objective without great disturbance of the industry's development.

The simplest criterion imaginable, which greatly determines the final decision of a presence in any regulated environment, relates to financial commitments a potential license holder must address and plan. Taxation is one such cost, many aspects of which have raised complicated legal challenges across Europe (Gambling Compliance 2014, 16-17). Appropriate rates and bases are difficult to agree on while the margin for error is relatively small. If the rate is too low, it is difficult to introduce a self-sufficient system, and if it is too high, it will suffocate licensed operators by driving their consumers towards unlicensed competitors (ibid.). Sometimes, this does not mean that authorities fail to see the consequences, it might be the other way around, and they simply do not want the sector to prosper. Taxation rate (along with other financial aspects), thus, shows a lot in terms of intentions and desires. Estonia introduced a 5% tax rate from net revenue (GGR model), one of the lowest in Europe. For the simplicity of the argument, the current subsection will exclude details regarding the turnover-based taxation model, as it is quite difficult to compare the two outright. Even though there is a slight difference between standards used in the case of GGR calculations (certain administration fees included or not, additional corporate taxes, etc.), the relative importance of direct numerical comparisons illustrates countries' attractiveness⁹:

⁹ All the graphs with country-specific data were compiled by the author, using the Gambling Compliance website as a basis.

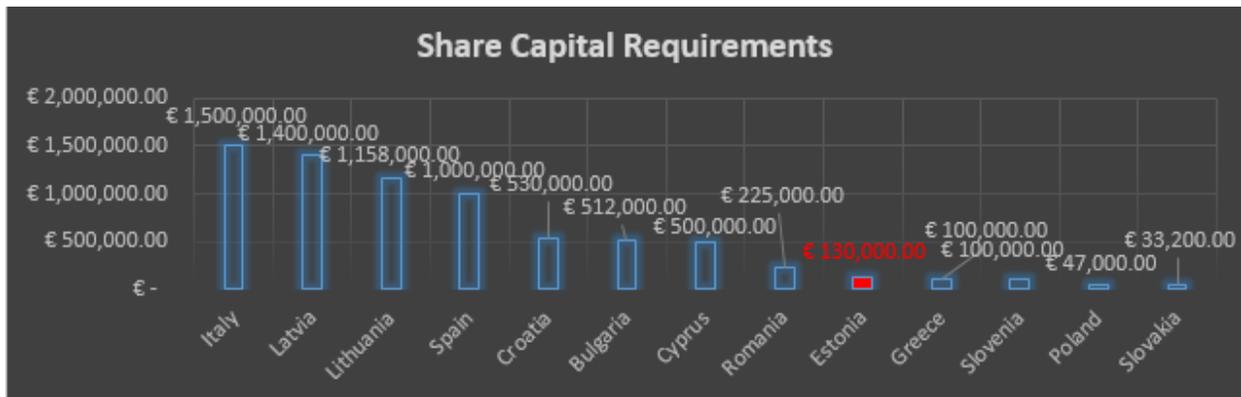


As depicted above, only Malta has a lower taxation rate, which in fact depends on a license class and represents 0.5% of real income, while is capped at €446,000. It is not surprising that smaller countries tend to introduce regimes that are more competitive. They are in an objectively weaker position at the start of the race due to the low number of potential customers. Tax rates, however, might be misleading, as they do not represent the whole picture of financial requirements, especially in the moving-in phase when licensing fees are a more sensitive matter. Once again, the complexity of the calculations behind some of cases does not allow for direct comparisons. Many countries have licensing fees depending on turnover and are paid by the end of the year; some include one-off fees, tender fees, fees for renewal and certification. Others could be compared with each other simply to illustrate the initial decision-making algorithm of any potential operator who chooses between different jurisdictions:



These numbers show a variety of different things when coupled with adopted tax regimes. First, some countries like Estonia and Malta are consistent when it comes to both instances and are adopting attractive regimes. At the other extreme, Hungary's 20% tax rate, coupled with the 2nd highest licensing fee, is a probable explanation behind the uncompetitive market (1 license issued). Others, like Latvia, that had quite a competitive tax regime practically balance it out

with the highest licensing fee amongst the compared countries. France’s €5,000 for one license from a selection of horse racing, sports betting and poker is nothing when compared to different payouts adopted by authorities amounting to 8.3% of the turnover. The last monetary requirement worth outlining in this section relates to share capital requirements imposed by the authority. This sum practically represents a cushion with which an operator might compensate unpredictable losses. Not that many European countries explicitly state these requirements in their normative acts, but there are a few to compare:

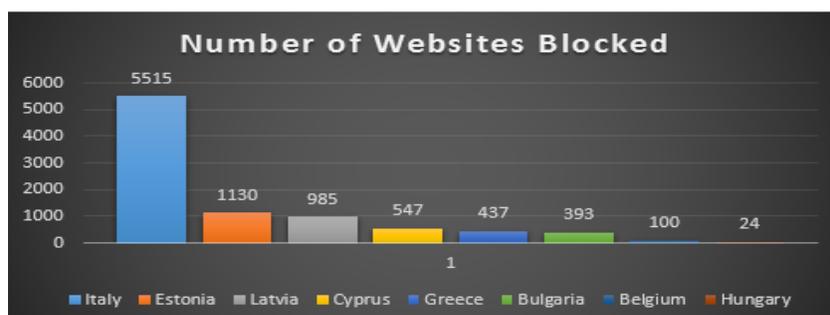


Based on these pure monetary numbers, it could be concluded that the tax rate, licensing fee and share capital requirements adopted by Estonian authorities are quite attractive, both in their nature and when compared to others. The environment could even be characterized as one that tries to lure as many potential operators as possible, using highly competitive conditions due to its small size, lower living standards and relatively late adoption of legislation. The industry is not viewed as problematic *per se*, because otherwise the adopted criteria might have been closer to the other extreme. At the same time, these conditions are not the only ones applicable.

ISP and Financial Blocks

The process of opening up markets for competition, regardless of the adopted licensing regime’s conditions, created a tendency towards ring-fencing, using financial and ISP blocking. Essentially, jurisdictions try to communicate to potential consumers the idea of a division between illegal and legal offerings in any given country (Gambling Compliance 2014, 18-19) and catalyze player protection with adopted measures. These restrictions, however, are

questionable in nature and have been criticized by the EC in a number of notifications and infringement proceedings.¹⁰ Theoretically, the idea makes a lot of sense. If the environment becomes regulated according to the player-protection standards adopted by the authorities, activity is bound to be in line with the desired impacts. Operators also feel secure about their prospects in the market, do not have to fear illegal competition and might cooperate with more precision and consistency. In practice, there is always a catch, especially when it comes to any type of restriction forced upon the population in the top-down approach. Access to illegal websites is usually restricted through either DNS-filtering or IP-blocking. A blacklist is currently in place in eight EU countries, while some others require a court order to have any individual website blocked (ibid.). Italy is a clear leader in this regard, while the numbers of Estonia and Latvia are similar to each other:



The blocking of financial transactions to unlicensed betting operators is more popular amongst European countries:



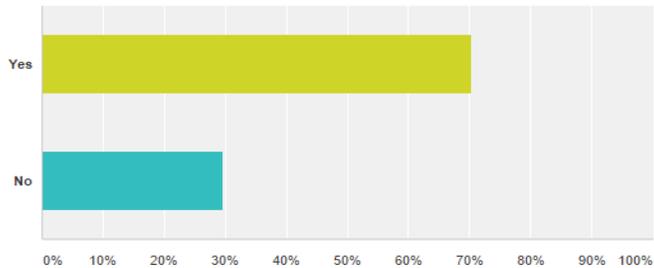
¹⁰ Financial and ISP blocking factsheet prepared by EGBA, available at http://www.egba.eu/media/FACTSHEET_FINANCIALISPBLOCKINGS.pdf

Nevertheless, it represents a similar thinking algorithm as with website-access blocking, despite being implemented through different structures, and therefore has the same shortcomings cited (Gambling Compliance 2014, 21). Taking these measures as the sole way to tackle the problem of illegal betting has shown that there is “no way to ensure a seamless control of illegal sites. Taken separately none of the means identified ... is sufficient” (ibid., 19). Although there is no specific research available for the efficiency of used practices in Estonia’s context, there is a high probability that generic issues are also applicable to the local environment. These regulatory choices are often supplemented by penalties against both players who try to access unlicensed operators and organizers of illegal betting themselves. Estonia’s position of applying no such penalties to consumers, who might bet online on unlicensed websites, makes the whole idea of a restriction look like a “paper tiger”. Internet service providers who fail to block illegal websites could be fined €2,600, and organizers of illegal gambling could go to prison for up to 7 years, but the point’s inclusion in the penal code before the introduction of a Gambling Act suggests that it was primarily added to tackle problems with terrestrial gambling.¹¹ As a result, EGBA states that over 45% of the gambling market in Estonia is grey.¹² It is debatable if penalties would change the situation, and it is even more difficult to say what would have been the situation without these measures, but one thing is clear – if consumers want to access unlicensed operators within the current environment, it is quite easy to be done. From their perspective, the uncompetitive local market and deteriorating quality of services provided (bonuses, number of markets, slow systems, slow payment procedures, lower return percentage, etc.) by licensed operators might drive them to unregulated betting companies. Not all of them will go through that process, but demand will practically mirror the opinion regarding the quality that licensed operators offer. Over 70% of bettors in Estonia confirm their usage of international websites, but that does not represent the share, continuity and consistency of choices consumers make. It could happen once a year or every 20th bet, which is not the same if a person is using unlicensed operators’ services all the time, on a daily or a weekly basis.

¹¹ Gambling Compliance report on Estonia, available at http://gamblingcompliance.com/premium-content/research_report/faq-online-gambling-estonia.

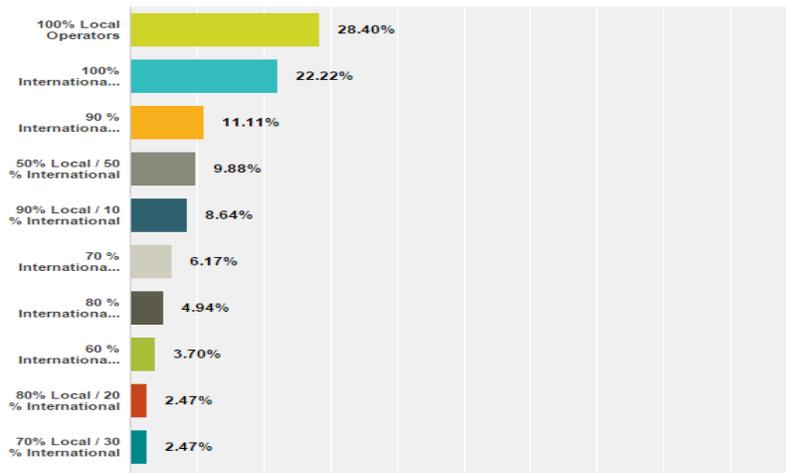
¹² Available at <http://www.egba.eu/facts-and-figures/interactive-map/?location=ew>.

Do you use international betting operators?



In fact, almost 55% of respondents have said that they used multiple accounts anyway. Eventually, the question regarding proportions had to be asked, which showed that even though the majority of respondents preferred using only local operators, the 2nd and 3rd favorite answers give a lot of food for thought regarding the competitiveness of local operators versus international ones:

Proportion of operators usage



The low sample number of less than 100 respondents does not allow for definite conclusions, since those who participated might have been representing groups more open to offerings from abroad, or they are just more familiar with the topic. The static nature of the survey also lacks important characteristics necessary for the establishment of trends or dynamism as well. Further research on the topic needs to have the comprehensive data regarding the clicks on operators' websites analyzed (similar to Italy's experiment in 2010¹³). At the same time, it seems that

¹³ Financial and ISP blocking factsheet prepared by EGBA, available at http://www.egba.eu/media/FACTSHEET_FINANCIALISPBLOCKINGS.pdf.

regulation actually had an effect on local consumers, and some proportion prefers using local operators and is not willing to go through altering settings, finding ways to make financial transactions, etc. In the opinion of Madis Herkül, a board member at Optiwin OÜ (Optibet), the introduction of the blacklist has had a “noticeable effect”. On the other hand, empirical data discussed so far supports the suggestion of its partial efficiency, although in a kind of a static snapshot. Collected opinions regarding the choices that consumers make imply, at the very least and to a certain degree, the *perceptual* “uncompetitiveness” of local operators when compared to international ones. For an average consumer, slight differences in terms of payback percentages or an additional variety of markets to bet on should not constitute a huge difference. However, dedicated bettors who engage in the activity on a regular basis, or those willing to risk big amounts of money, explicitly look for these relatively marginal differences in product qualities. The system introduced by the regulator amongst many objectives was designed to capture these transactions and behavioral patterns. Instead, all these actions remain unrecorded, making it difficult to draw a complex measurement of the environment for both operators and the regulator, which is itself a worrying sign.

Technical Requirements

As was discovered in the comparative analysis against other European countries, Estonia is a quite attractive destination of investment from the market-entry point of view. Financial requirements for potential operators do not represent a burden or a clear industry-development blocking measure when compared to others. In fact, based on objective comparative criteria, authorities practically welcome operators to the market. The country’s policy in the context of access and payment blocking is in line with measures adopted by many other European countries and do no harm, even though their overall efficiency is questionable. At the same time, there are some unique requirements on the technical side that proved to be a prerequisite for the development of specific IT solutions for any potential licensee to consider. The operators’ data systems need to be integrated with information systems of the Estonian Tax and Customs Board, have electronic record keeping and control configurations, connect to a national self-exclusion list, implement a possibility to use Estonian ID cards or mobile IDs for the correct and adequate

verification of players and fulfil requirements in payment systems (Lepasepp and Miidla 2013). A server containing software should store all the necessary information regarding registration details, player identity, transactions, length of session, etc. A possessor of a server should also ensure unrestricted access for supervisory officials to the aforementioned data. It was previously mandatory for a company willing to acquire a license to have a server located in Estonia, which was considered technically very demanding by many operators. Authorities quickly realized that it would be difficult to attract and force big international companies to move their hardware to a country that possesses only 1.3m potential customers and subsequently asked for a looser interpretation of these standards. Many of the 2012 amendments related precisely to technical requirements because they did not match practical needs and the reality of the environment (ibid.). For instance, servers might not be located in Estonia anymore, but at the same time, operators must provide the Estonian Tax and Customs Board with evidence that respective authorities in the country of the location of the server have the legal basis, resources and possibilities to co-operate with its Financial Intelligence Unit. According to certain classifications, all these technical standards constitute a partly “protectionist prohibitive system” (Pijetlovic 2012, 364). However, this common practice is allowed all across Europe, and only five countries with licensing regimes permit servers to be placed outside the state without specific additions in the regulation. Some other countries require servers to be located inside their jurisdiction or have monitoring access, mirror servers, accounting, internal control etc. available for authorities to check upon at any time. Player protection, anti-money-laundering or sports-betting integrity aspects create commitments for authorities with regard to data analysis and therefore presuppose a practical decision of the inclusion of such points in the regulation. This aspect seems to be reasonable, but it creates a feeling that every MS is playing for itself, as the duplication of infrastructure and the complexity of IT solutions in both software and hardware make the overall process more costly while the shortcomings of disintegration are still in place. Arguably, an integrated data analysis for the European market would be more equipped with tools to tackle all of the aforementioned problems.

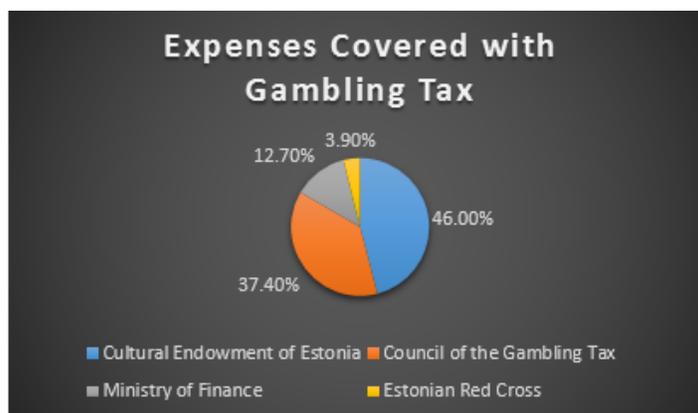
Protectionist Features

Gambling Tax

Since the introduction of a normative act in 2009, tax revenue has been steadily growing with the exception of 2010-2011, which is explained by a combination of factors, including the financial crisis and problems of a transitional period for many operators:



According to the Gambling Tax Act¹⁴, the proceeds derived from the activity and the imposed tax rate of 5% from net revenue (from all gambling, not just online sports betting) are used to bolster social objectives of the government's vision in the following proportions:



Authorities are indeed channeling the money to the development of social, cultural and educational spheres. Last year, around 6.5 million Euros were used in the construction of the Estonian National Museum's new building (4th year in a row); many activists of the social sphere received grants, awards and scholarships; the Council also decided to support many projects in education, science and health, while many sports associations received consistent support in their

¹⁴ <https://www.riigiteataja.ee/en/eli/530102013105/consolide>.

preparation for the Olympic Games in Rio; the Ministry of Finance used redistributed funds for granting regional investment aid; etc. These facts support the rhetoric used for the justification of the regulation, because the cause of all the projects outlined is good. One peculiar question remains, though. Would the government support all these spheres, projects and activities if there were no betting in Estonia at all? Would people with disabilities receive no support? Would different sport associations receive no help in their preparation for the Olympic Games from the authorities? Would there be no grants or sponsorship of cultural and educational accomplishments? Of all the distributed funds in 2016, the Estonian Council of the Gambling Tax plans to allocate only €88,184 to the Gambling Addiction Counseling Center for the project relating to Psychological rehabilitation of gambling and computer games addicts and prevention of associated risks.¹⁵ Hardly a problematic area according to the assigned monetary value. It shows the magnitude of the perceived problem in the authorities' point of view. At the same time, the analysis of the expenses shows that the problem's existence on paper could help to support people with disabilities, the handicapped, the elderly and many other *traditional* expenses of the government. It is the subjective view of the author of this thesis, but it is highly likely that the majority of these instances in the budget would have been supported one way or another. Since there is a new tax base available for all these expenses, deductive reasoning insists on the probability that a certain amount of money is subsequently being used for purposes not related to the activity at all. Is it worth being labelled protectionism or filling in the budget holes? It seems to be an open question for every reader to decide on his or her own.

Development of enterprises

The introduction of the regulation has arguably meant different things for companies operating in the market at that time. Some of them have already heavily invested in the country and their brand, so it did not seem logical to pull out. Others remained skeptical regarding the conditions of entry and, in the end, decided not to apply for the license. It seems obvious that the data on the tax-revenue collection by authorities mirrors the development and success of the licensed

¹⁵ Examples are taken from projects from the year 2015 discussed in one of body's meetings; protocol available at http://www.kul.ee/sites/kulminn/files/copy_of_nr_12-1_protokoll_21_dets_somaastaprojektid_valjavote.pdf.

operators. Despite the different financial and economic worries that still haunt many inhabitants of Estonia, operators have managed to show a steady growth of the sector with the overall payments rising at least 3 years in a row. It is difficult to deduct the tax that is assigned to sports-betting activities from the overall gambling tax paid by the operators. All the companies take into account expenses relating to the activity before the tax is calculated, but these are unevenly spread across the jurisdiction, making the precise number unattainable. There are, however, numbers available on the amount of bets placed, winnings paid out and the difference operators got as an operating profit, which relate specifically to sports betting (totos). Unfortunately, it is only since the introduction of regulation that this data is consistently and correctly recorded, making it difficult to compare environments before and after. Having said that there are some interesting things shown in the data. First, it appears logical to focus on the most profitable sports-betting operator in the country, which has been present in the market for more than 10 years. The example of Triobet, originally an Estonian company, which belonged to Nordic Holding Ltd. for a number of years before becoming part of the Betsson Group, indirectly shows the supportive nature of the regulation on investments made by the enterprise as the amount of bets placed, winnings paid and difference have been steadily rising:

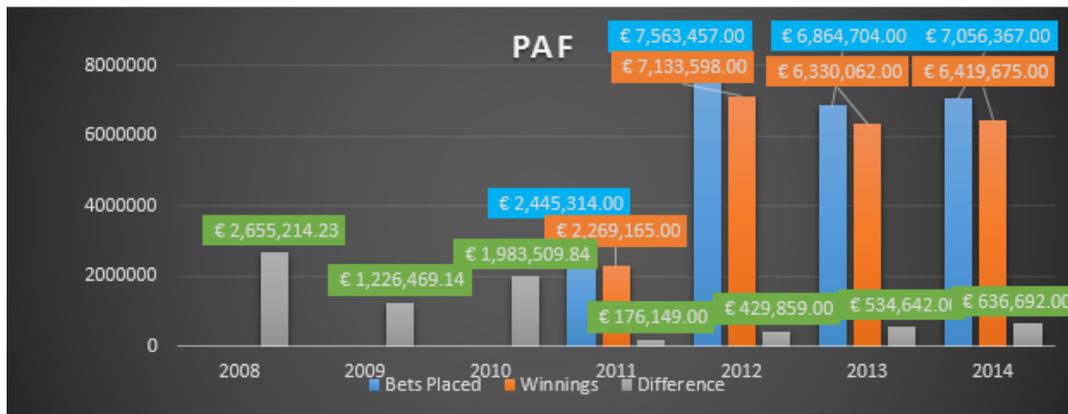


As can be seen from the above, the only thing that the numbers after the regulation's introduction can be compared against is the operating negative profit of 2007.¹⁶ After the company's acquisition by Nordic Holding Ltd. at the end of that year, data practically went missing in the years 2008-2009 before the regulation presupposed certain standards of accounting, which is useful in these types of analysis. In its 2010 Economic Report, the company states that the

¹⁶ All the sums prior to the introduction of the Euro in 2011 are recalculated using the official rate of €1 = EKR 15,6466.

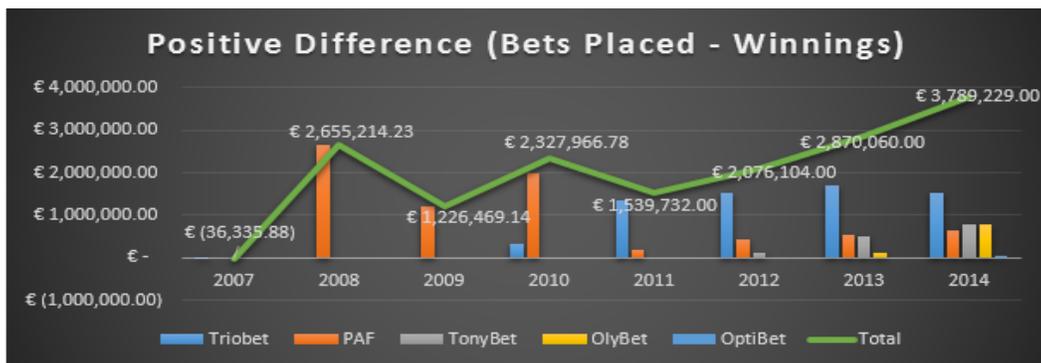
absence of any activity in the market in the years of 2008/2009 was due to the lack of regulation. After the investigation of newly adopted criteria, Triobet's parent company decided to reinstate its position on the market, and its website has been available since May 2010 (explaining why there is such a significant rise in all categories in 2011). The example shows the mutual beneficence of the partnership between the operator and the authority that, according to the former, would not have been possible without the legislative structure introduced.

The second company worth looking at is PAF, which has also been operating as long as Triobet, if not longer if we take into account the whole story of its establishment on the Estonian market. Its predecessor, Magapanus, was the very first one to attempt to organize an online sports-betting service in Estonia in 2001 (Pijetlovic 2012, 374). The Estonian Olympic Committee (EOK) purchased the company and used it as a base for the creation of AS Spordiennustus, a subsidiary that has been offering sports-betting services in cooperation with Ålands Penningautomatförening (PAF), which owns 20% of the business and European Game & Entertainment Technology Ltd Ab, a software provider (ibid., 374).



Similarly to the previous example, the standards of accounting reports prior to the introduction of regulation are different, and therefore there are only operating profits relating to the activity available for consideration. Data from the company's economic reports suggests that the legitimization of the sports-betting activity in Estonia has had a negative impact on the company's profitability, which is accepted by the management itself and explained exactly in this fashion in its 2009 and 2010 reports. There has been a steady growth from 2011 onwards, but the competition from other operators will make it tough for the company to get to the pre-regulation stance.

OlyBet has been a relative latecomer to the sports-betting service provision as it has only been offered since 2013, but the company's brand and physical presence all across the country quickly made it visible and competitive.¹⁷ Operating on the Estonian market since 1993, the Olympic Entertainment Group was one of the most recognized brands amongst licensed operators despite lagging behind in terms of online solutions and software sophistication. It has collaborated with software provider Playtech, which helped them to launch online gaming services, initially starting with casino and poker. TonyBet has also been very quick to establish itself in the market, not least due to its relatively high advertisement expenses, compared to other companies. OptiBet has been on the market for a couple of years, but is still in a transitional period, which does not yet allow for a sophisticated analysis of its prospects. It has already established a sponsorship deal with Nõmme Kalju JK, one of the most famous football clubs in the country, but it remains to be seen if it brings the expected dividends. So far, attainable numbers are a pure formality (please note that the following graph depicts only available data, which is used for illustrating the trend)¹⁸:



To conclude the section, the author of the thesis has to admit that only indirect assumptions can be made using this data, as the absence of many entries does not allow for a definite outcome evaluation. The overall amount of bets placed on sports-betting events within operators licensed in Estonia seems to be rising, along with the positive operating profits registered. At the same time, it is not clear whether the overall popularity of betting has been on the rise or whether blocking has had an effect. The Gambling Prevalence studies in Estonia do not support the

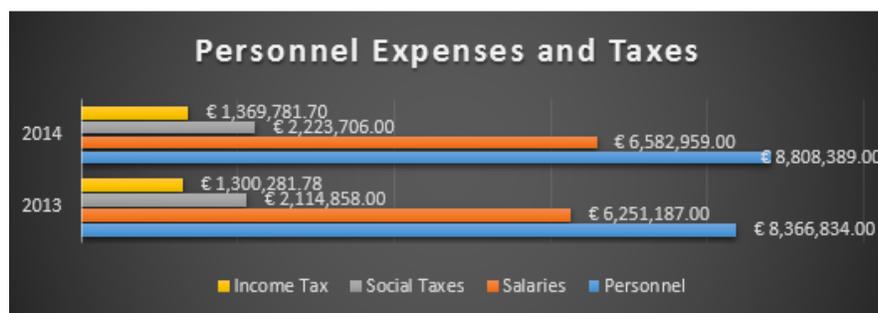
¹⁷ According to the newly appointed CEO of Olybet, Veiko Krünberg, around 25% percent of all sports bets in both Estonia and Latvia come from these bars, available at <http://www.casinolifemagazine.com/news/olympic-entertainment-group-seeks-new-markets-expand-online-operations>.

¹⁸ Unibet is the only company that has not specifically registered a respective operating branch in Estonia; it has no entries in open databases (no available annual reports) and therefore will be missing from statistical data.

former argument (2012¹⁹ and 2014²⁰) and showed a rather modest increase in popularity, if any at all. As for the latter, the scope and resources of the current thesis do not allow for a comprehensive analysis of the data relating to the popularity (in monetary value) of unlicensed operators. Have these also been on the rise in the last couple of years along with licensed operators? Alternatively, has a proportion been shifting lately? The static subjective opinion expressed by bettors in the conducted survey indicates that even if the proportion has been shifting, it is still far from being favorable to local enterprises. Nevertheless, this information lacks dynamism, meaning that further studies might or might not support the view of the dynamic efficiency of blocking and licensing for selected operators in Estonia. The scariest thought that derives from the understanding that these two aforementioned categories might be constant (betting is not becoming more popular amongst the population and the proportion of popularity remains relatively unchanged), is that the population in Estonia simply started to spend more money on this type of entertainment.

Indirect Impacts

In addition to the aforementioned direct fiscal influences from the introduction of regulation, there are certain indirect benefits that the activity brings as well. The simplest of them relates to expenses and the subsequent tax deductions in the personnel area:



There are other examples that might be relevant for the general argument that the companies' presence in the economic environment positively affects it. Even though there is less

¹⁹ Available at <http://www.15410.ee/pdf/Gambling%20prevalence%20in%20Estonia%202012.pdf>.

²⁰ Available at http://www.15410.ee/pdf/Gambling_prevalence_in_Estonia2014_EN.pdf.

standardization in terms of economic report compilation, sports-betting enterprises add value to economic development in a variety of ways:

- 1) TonyBet has had expenses amounting to €756,515 in 2014, which consisted of different commissions, office expenses, advertisement, translation costs, etc.;
- 2) The Olympic Entertainment Group has spent €6,194,867 in the last 2 accounting years for advertisement of the brand alone;
- 3) Triobet has paid around €75,000 annually in different taxes not relating to the ones already discussed.

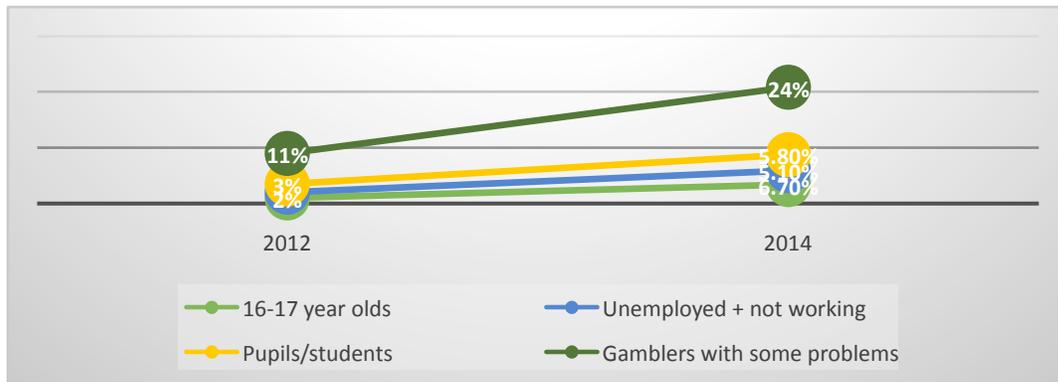
All of these companies are somehow integrated into global chains of production and innovation and have partners or parent companies operating in other jurisdictions. Despite this, most of them have a physical presence in Estonia, which presupposes expenses on areas that are often overlooked but still contribute to the development of other local enterprises. The competitive nature of the business also demands aggressive advertisement on behalf of the operators. Money used for these purposes is “reinvested” back into the environment. The economic benefits of the activity are also quite clear. In addition to the aforementioned employment factor, online betting often has spillover effects on innovation and job creation in other sectors.²¹ Many skills acquired by the local population within the industry, such as software development, web design, marketing, communication etc. are applicable to other industries in one way or another and represent a learning opportunity.

Social Objectives

With the help of TNS EMOR (a research agency), the Centre of Gambling Addiction conducts a survey every 2 years to monitor the consequences of legalized gambling activity and identify trends that the situation could be categorized by. Only the last two surveys, however, contain specific questionnaires that go beyond generic information connected to the issue of sports betting, including those specifically related to the online aspect. The overall participation in online sports betting and wagering have varied from 2% to 4% (of all inhabitants aged 15-74) in

²¹ Similar points on Sweden are at http://www.egba.eu/media/EGBA_Newsletter_LOWRES_ISSUE-10.pdf

the last three surveys (HNK 2010, 2012, 2014), rising from 2% to 3% in the last 2 years (HNK 2014). The relatively small sample number (n~3500 in all three surveys) and the absence of longer dynamic data does not really allow for a conclusive opinion regarding the magnitude of the problem. At the same time, the latest survey shows that the number of people from almost all categories who have participated in online sports betting in their lifetime has increased more drastically, including from the following risk-associated categories:



Once again, the trend is not yet established, as data is available for only a couple of reference points (2012, 2014), with the survey following in 2016 yet to be confirmed. In addition to this, the percentage points for those who have been participating in online sports betting in the last 2 years have been introduced only in the latest survey and are static. It will be interesting to see if the trend continues its current development or not. Regardless, even the data available on the surface should be considered with all seriousness by the authorities in their universal prevention approach.

Universal prevention

From the breakdown of costs that are being covered with the collected tax, the reader can see that money is indeed given back to people through a number of projects in the social sphere. These in theory indirectly support the universal prevention idea by creating additional capacity amongst different (especially vulnerable) classes to engage in socially enabling activities and events. The situation is, however, more complicated than simple engagement in attempts to raise the socio-economic conditions of an average inhabitant. Many individuals with the potential to develop

problems down the line do not intuitively appear as those who would need to be helped in one way or another. In the opinion of Taivo Põrk, one of the main area specialists working for the Finance Department, online sports betting is considered a low-risk activity, simply because the timing between the bets being made is greater than in the case of other gambling products – players have a chance to cool off and think about their actions. Even though he still acknowledges the potential for risks as well, the absence of integrated data storage regarding all the actions of all players makes it difficult to conclude that cooling off indeed happens. First, the mere fact of participation on unregulated websites might be predictive of higher than average risks associated with the activity (Gainsbury 2015, 190). As was shown before, there is a probability that many players slip through the system of checks and therefore might not appear in the so-called red zone, because their activity on regulated websites does not show actions that would imply that. It seems understandable that connections and data regarding the activity on unregulated websites is not taken into consideration for obvious reasons described previously, but the story is similar when it comes to licensed operators as well. If a player uses one operator to make a bet on a certain event while simultaneously using another to make a second one, both actions will be recorded as singulars in each of the operators' systems. From the perspective of the actual playing frequency, there is a big difference between the integrated data storage for these cases or its absence. Multiple accounts are also considered to be a sign for potential harmful behavior developing in the future (ibid., 189), and according to the survey conducted by the author, at least 50% of online sports bettors do have them. Another interesting aspect is sports betting's connection to other gambling activities, such as poker. Equivalently to previous points, a customer could be using one website to play poker while performing bets on another one *at the same time*, and it will not be registered. It goes without saying that this behavior is also considered to be predictive of higher than average problems with betting (ibid.). The absence of a methodical and organized technique for data-gathering amongst at least licensed operators fails to grasp all the details about consumer behavioral patterns necessary for a preventive approach to work with maximum efficiency, transparency, accountability, etc.

The second aspect related to the universal prevention is linked to the nature of the competition between regulated and unregulated websites. Quite often, familiarity with well-branded platforms and the quality of their service makes bettors connect to them even after the regulation has been introduced. A good reputation is often mentioned as a reason for choosing one operator

over others (Haefeli et al. 2011, 274). It is argued that only a few of the global market leaders can provide their customers with platforms that are consistently quick, secure, entertaining and hassle-free (ADL 2009, 3). The question is why bettors do not prefer these operators in any regulated market environment when there is a chance to access them. It all depends on how easy the blocking could be overcome and what kind of bettors would go through the trouble. Only those who have greatly invested in the activity, both emotionally and financially, will consider this step, exactly the type of a consumer that arguably should be monitored. One way to deal with this aspect is to strengthen rules, monitoring and the efficiency of a blocking system, but that appears to be a dead end considering international experience and understanding of responsible people in the country. Mr. Põrk expressed an opinion that regulators' best shot against unlicensed offerings is actually to use the second route and work harder on developing the better product. From this perspective, demands for market entry, subsequent competition and possibilities for development and innovation in Estonia resemble one of the best available combinations around the EU. Unfortunately, the small and still developing market along with average socio-economic conditions and the complexity of infrastructure integration puts the country into an unfavorable position when compared to others. A crucial step in the further analysis of the environment and market entry conditions demands more advanced communication with operators who turned down the chance to acquire a license. Their view on the setting might be beneficial for the recognition of weak points in the legislation and their successive adaptation. The enhancement of competition, however, has its own dilemmas because on the one hand it allows the regulator to be in better control of an environment, but on the other indirectly facilitates aspects of betting activity that are clearly related to risks. One example that could be drawn from the product-quality-improvement perspective is the in-play betting category. In itself, the opportunity to place a bet *during* a certain event (in-play) is considered a factor catalyzing the development of risky behavioral patterns (Gainsbury 2015, 189). Yet, it remains one of the most trending developments in the industry with more variety and customized approaches being introduced to draw in customers. There are quite a few other potential examples, like quicker pay-outs during the event, bigger bonuses or "risk-free" bets, etc. The development of these features either nudge consumers towards unlicensed services due to (in their eyes) better quality or actually encourage people to participate in the activity, using

methods that seem to show a correlation with problematic behavior – a very thin line, which makes the necessity of sophisticated monitoring of data even more noticeable.

Selective Prevention

So far, the numbers of people who experience clear-cut problems with the activity revolve around 1% (Bwin 2013, 13), with a few authors disagreeing on the adopted methodology (Miller 2013, 68). In the opinion of the author, the category of selective prevention proposed by Schaffer (Bwin 2013, 13) is one of the reasons why many individuals do not slide further during the “entertainment”. Industry has developed quite a few universal techniques and methods that offer additional control and protect consumers from crossing the line.²²

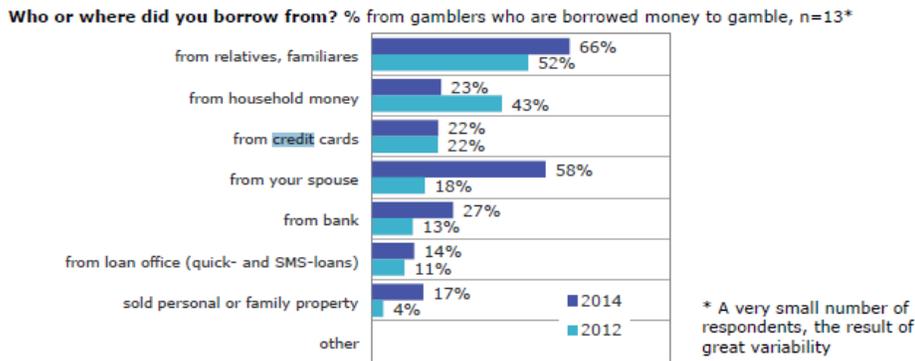
1) *Under-age betting*

All the operators clearly state that the activity is allowed only for users who are at least 18 years old, and they demand personal information upon registration to validate the person. The Centre of Gambling Addiction states that around 6.7% of minors aged 16-17 (n=93) have participated in online sports betting in the last two years (HNK 2014, 13), meaning that access is available. In order to understand the full scale of this number it needs to be compared against other countries, but the very idea that verification does not offer close to 100% confirmation of the individual is action-provoking. In addition to that, even an anonymous survey conducted online could keep the minor from telling the truth, so, essentially the numbers could be even bigger. Some operators, like Triobet, offer additional helpful tips for parents who fear for their children by recommending both paid and free software solutions offering parental control. These might be indeed very useful for those who manage to find a section on responsible gaming at the bottom of the page, right below the Terms & Conditions section and afterwards manage to install the required software. In the present environment of the digital divide, however, there is a possibility that children aged 16-17 will find a way of overcoming any type of blocks; hypothetically even more so than their parents finding a way to install a piece of software.

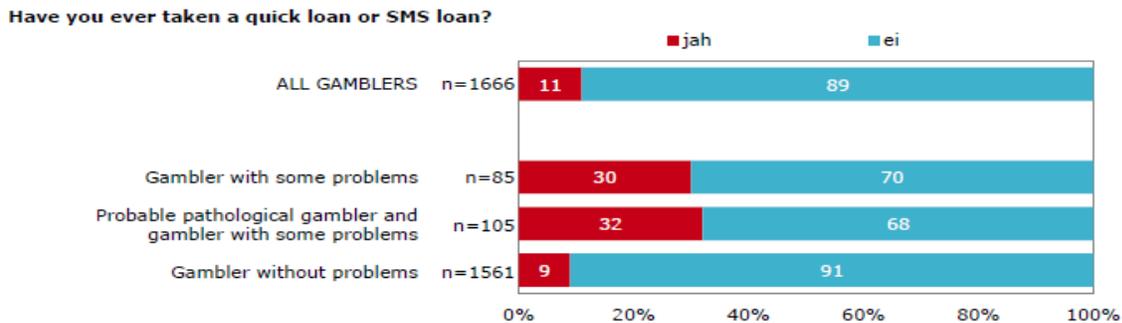
²² The majority of operators in Estonia appeal to similar key concepts when they refer to responsible gaming; most of them are also connected to a bigger partner company that deals explicitly with aspects relating to the issue in question (Global Gaming Guidance Group, Gamble Aware, eCOGRA, etc.).

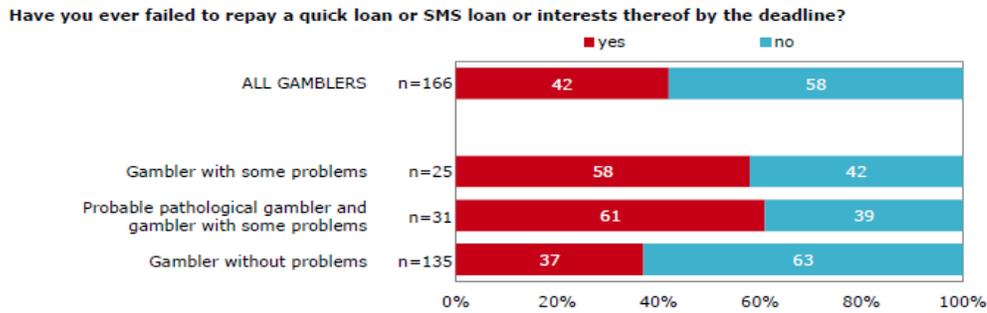
2) *No credit issued to support the activity*

Betting operators should not provide money to their customers in the form of credit. No such experience or possibility exists amongst the licensed companies in Estonia to the author’s knowledge. Market economy, though, might work against the desired objective of a legislator in a number of ways. The following graph taken from a Gambling Prevalence survey does not offer big empirical data in terms of who the money is borrowed from (due to the low sample number, n=13) but outlines available options that existed for already 2 surveys (HNK 2014, 51):



Variety of options available for a gambler without the necessary money is striking. It is clear that to a certain extent, any person would be able to pretend to need money for some purpose other than betting, but that would not happen many times in a row. SMS or quick loans, on the other hand, are a completely different case with more data being available from the same source (HNK 2014, 70-71):





The only question that bothers the author of the current thesis after looking at this graph is the methodology behind declaring 37% of gamblers without problems as such after finding out that they have failed to repay a quick loan or SMS loan by the deadline.

3) *Self-Exclusion*

Self-exclusion appears to be a debatable topic for researchers, as these kinds of provisions are not considered to be effective according to some studies pointing to the mere fact that they attract a small percentage of participants in relation to potential problematic bettors (Morse 2010, 292). Others consider voluntary or prescribed self-exclusion as an effective measure in case of an online environment, as it seems to be easier psychologically to activate that feature on the internet rather than personally contacting an employee of a land-based gambling premise (Haefeli et al. 2011, 276). For all that, the same study acknowledges limitations of this approach and is therefore labelled successful only if a mechanism guarantees that no other website will be visited. The feature has been available for gambling products other than sports betting since the introduction of a regulation with the 2016 amendments creating a similar database for sports betting and horse-racing clients. Self-exclusion is a standard practice in the EU countries and appears to have partial efficiency because first, it requires the acknowledgement of a problem, which is the hardest step for any addict. Secondly, even though the list of people excluded from any gambling (and betting from 2016) is an integrated database mandatory for all the licensed operators to confirm with, the option of using unlicensed operators remains on the table.

4) *Limits*

According to section 55 of the Gambling Act, consumers of gambling products are entitled to set an upper limit of total money spent in the outlined period. Similarly to the previous condition, the 2016 amendments will introduce the same option for sports betting. Contrary to the land-

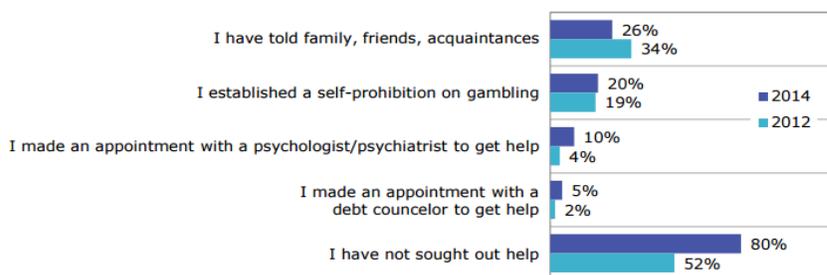
based provision of gambling services, online-sports-betting-related behavioral characteristics (deposits, wagers, losses, duration, etc.) could be observed, evaluated and conditioned by both operator and consumer (Haefeli et al. 2011, 275). However, all of them, except for deposit limits, have been graded as confined in practice (ibid.). The reason for that lies in the essence of an imposed control as a deposit's limitation is usually assessed before the active phase of the process, while others often become relevant during the session, which may result in a sense of losing control (e.g. panic triggered after the consumer realizes that he/she has only 10 more minutes to play). In the opinion of the author the feature of deposit limits is also questionable precisely for the same reason because once the active phase of the activity approaches, the consumer is free to use another operator (licensed or unlicensed) once the current-accounts limit becomes an issue.

Indicated Prevention

The current subsection is the most problematic one due to the absence of practically any information on the issue of treatment concerning sports betting in Estonia. The most important step in this context is efficient and consistent identification of people with problematic behavior. In contrast to the recognition of particular physical expressions relating to problematic behavior in land-based premises, the online environment presupposes completely different indicators that issues manifest themselves with. These are usually recognized and expressed in an indirect way. For example, a moderate bettor does not express concern if a certain financial matter is not resolved within an hour (depending on the event's priority), but those who have developed problems have a tendency to show this urgency through aspects of their communication with client-service representatives (shift in tonality). Internet communication patterns therefore offer a platform for an effective identification, measurement and prevention of dangers deriving from the process (Monaghan and Blaszczynski, 2011, 14). Subsequently, trainings of the staff and analytical programs are of great value when it comes to the establishment of an efficient mechanism. According to answers provided by spokespersons from different licensed operators in Estonia, client-service representatives receive training and are familiar with aiding bettors with problems in ways described in the previous section (setting limits, self-exclusion, etc.). In

addition to that, almost all websites have a self-survey tests and further reading or consultation material. In the opinion of the author, the biggest deficiency of this approach is placing too much hope in adequate self-assessment. Addiction is a delusional state, which does not include a high probability of problem acknowledgement. Even if the person spots the problem him- or herself, the coming-out phase might be difficult, as well. There is no data available exclusively for the sports-betting aspect, but the amount of people who state that they have not sought help with their overall gambling behavior is close to 80% (HNK 2014, 46; relatively low sample number, n=28):

Have you used help resources and which ones, if you have had problems with gambling for money or staking bets?



Most of the measures available at operators' disposal are similar to what supportive control tries to achieve (self-exclusion, limits, etc.) and subsequently have the same shortcomings in the context of treatment. The essential element of the efficient approach concerning problematic bettors is bridging the gap between a person and the responsible health-care provider (Błaszczynski et al., 2004, 308). It seems to be a more difficult task online than in the case of land-based environment, as online participants are significantly less likely to seek help from almost all possible sources, including face-to-face counselling, visits to professionals, online support groups and even family or friends (Hing et al. 2015, 13). In addition to that, most problematic forms of betting are self-assessed rather than identified through screening (ibid., 18). In the end, according to studies done abroad, the online environment presupposes a completely different mechanism of risk identification, players themselves are less likely to contact anyone regarding the problem (or they might not even see or feel it) and on top of that screening is not as effective as it is portrayed to be in many jurisdictions, because players are assessing themselves. It is not clear if the reported combination is applicable to the Estonian context, and therefore additional inquiries are needed on that front. Innovation and research of the topic is what is

needed in this area. On a positive note, operators themselves also realize the magnitude of the task they are challenged with, and perhaps the recent announcement of PAF's plan to invest \$320,000 in a research project with Stockholm University applying users' data will silence a few critics.²³

Overall, the analysis of the environment and circumstances that the Estonian version of regulation was introduced into shows that despite the usual difficulties in technical requirements (not unique to other countries), the conditions outlined in the regulation are comparatively favorable. In the opinion of the author, these requirements show that the authority is not against the industry per se, which is supported by the rhetoric – operators are welcome to the market if all parties together work on the limitation of risks associated with the activity. Market-entry barriers are the lowest compared to other EU countries, partially because of the small market and scarcer potential. The presence of a variety of operators has had a positive impact on the tax revenue, even though these numbers are lower compared to standard sources and do not make many headlines. The number of operators is growing, as well, albeit at a very slow pace, while their development in the region has indirect positive impacts on the economy – employment, social taxes, income taxes, etc. In principle, generated funds are channeled back in the form of support for social objectives outlined by the government. The distribution of funds follows a logical pattern, with most of the revenue going towards expenses that have a potentially high social impact – either towards groups that require it the most or towards the high-value projects. However, in the opinion of the author most of these expenses could and should have been a part of the traditional government expenses. The actual research and improvement of the industry framework receives just a tiny proportion of the generated revenue. The analysis of the introduced industry check-balance structure has many deficiencies on paper and it is difficult to ignore them. Some of the issues are mostly outside of direct control (ISP, financial blocking, etc.), even though there are potential solutions that could improve each instance. For example, instead of adding a 1151th domain to the blocklist, it might be more reasonable to monitor the introduction of FAQ tutorials in the region that reveal necessary steps for overcoming the block. With the current development of automated contextual webpage-scanning systems used in marketing, it is an easy solution to the problem. 100% will not be achieved, but the obligations

²³ <http://www.g3newswire.com/aland-paf-invests-e320000-in-gambling-addiction-research/>.

outlined in the regulation suggest that attempts to bring it closer to the ideal state should take place.

Scope for direct involvement exists as well, particularly with the integration of data coming from the operators into a unified cluster. 2016 amendments to the regulation should introduce a country-wide exclusion list, which is a good step. But there are other points that should be looked into. What is the point of having a limit if it could be exceeded with multiple accounts? Some of the findings outlined in the last three chapters should be worrying as well – there is the potential that many people slip through the cracks, even though all the necessary information for their identification is in front of the governments eyes. As long as these topics do not get a proper examination and almost nothing is being done to address them, except for the rhetoric, the potential problems related to the industry will remain below the surface, until one day the trend is accelerated so much that cases like the aforementioned horrors in Italy get into local newspapers. Many signs are pointing to its potential, but not much is done to identify them before they happen.

Conclusion

It is now widely recognized that internet technology has changed the way business models, organizational practices and communication patterns in the online sports-betting industry work. Enterprises have been transformed radically, and the good old days of geographical proximity being one of the most important factors have passed. Mark Wilson states that “an example of online gambling is Casino Australia, which has a name suggesting Australia, a domain name registered in New Hampshire in the United States, and a website based in the Netherlands Antilles” (2003, 1246 in Diemer and Rodenberg 2013, 3). Sportsbooks were local in nature, and an emphasis on transactions, personal communication and subsequent identification of problematic side effects from the behavioral perspective was governed by principles not applicable in the internet era. The legalization of the activity in many countries including Estonia followed the recognition of restrictions’ inefficiency. It is now, however, argued that managed liberalization (or regulation) does not influence the availability of services and access to both

safe and unsafe platforms, but at the same time has a great impact on peoples' perception of trust linked with the activity and licensed operators (Gainsbury and Wood 2011, 317). People expect standards, competition, improvements of service and protection, of course. In general, authors often argue that authorities around the world were lagging behind in addressing social costs deriving from the activity, partly because it hampers the revenue-stream potential, which is often the actual focus behind the regulation (Morse 2010, 292). Consequently, there is often a strong reluctance for a dramatic reduction in the consumption of gambling and betting services (Adams et al. 2009, 690). This is most evident in cases of Canada, where the tax revenue from gambling exceeded that of tobacco and alcohol combined (ibid.) or in several Australian states, where it makes up almost 15% of the overall revenues (ibid.). The substantial tax revenue collected through a very competitive and attractive tax rate of 5% in Estonia, and the amount of traditional budgetary expenses covered with it, presuppose a similar conclusion, if topic got a secondary revision by the authority. The industry in general, some opine, is also relentless when it comes to the actual implementation of agreed upon measures as bettors of any kind are a significant source of profits (ibid.). Authorities in Estonia could highlight the effective job in making games safe and fair and on the data-protection front, which in the past was often considered a concern amongst potential customers abroad (Griffiths and Parke 2002, 314). At the same time, it would not be necessarily linked to social objectives by the author of the thesis as overall, sports-betting integrity is a huge concern primarily for operators. The absence of trust towards products and services results in lower rates of participation and a subsequent loss of unrealized potential in terms of revenue. Applying that perspective to authorities' investment in the industry and reliance on a projected and envisioned tax to cover a certain share of expenses, protection might constitute a kind of insurance policy that has nothing to do with reducing harms. The glass is half empty and half full in this context. The legitimacy of online-sports-betting regulation simultaneously creates potential in terms of economic development for operators, indirectly involved enterprises, employment etc. and aids the activity of other social groups through tax redistribution. Conceivably, regulatory framework leaves a potential for an (in)formal, maybe even an unconscious lobby that places a large value on the industry and its success. Once the regulation has been adopted, all parties concerned have invested a lot to build such a platform that would allow the industry to successfully move forward in *all* directions. The cornerstone remains the same, though, striking the balance between seemingly opposing targets:

*All operators, both private and public, need to deal with the conflict of interest between seeking profit and protecting gamblers from harm.*²⁴

Objectives in social policy coupled with the amount of data gathered in the process of service provision offer both headaches and practical solutions, depending on the attitude or willingness to project it into working policies and mechanisms. The decision time allowed, however, is not infinite. In the words of UK Gambling Commission's senior official Matthew Hill, there are two doors available for choosing:

*One door leads to the greater constraints, ever tighter legislation and regulation, greater controls on products and deployment to essentially evade public fear whether or not well branded. And that's the door that will be opened by the industry's failure to act. The other door indeed leads to a somewhat sunnier place which involves the industry and its leaders importantly understanding and taking the public concerns seriously and responding to it by devising and testing practical measures to reduce harms.*²⁵

In his evaluation of the industry, the professor of psychiatry from Harvard Medical School states that the issue of problematic betting behavior is often connected not to the expansion, availability or participation rates, but rather to the maturity of the society to acknowledge the risks and enjoy the positive sides of it, not suffer from it:

*The more mature gambling environment, more mature gambling community, the less it's affected by expansion or changing of the characteristics of the gambling system.*²⁶

If the proposed scenario of awareness creation and scientific management of the activity had been established as a social objective, authorities would have devoted more resources towards the creation of an efficient and multidimensional systematic approach. The assessment of current initiatives towards the elimination of risks associated with betting based on international research and consumer preferences' patterns, albeit with a low sample number, indicates a number of

²⁴ Taivo Põrk, available at http://gamblingcompliance.com/premium-content/news_analysis/european-regulators-prod-firms-weigh-profit-protection.

²⁵ Available at http://gamblingcompliance.com/premium-content/news_analysis/uk-commission-urges-industry-tackle-%E2%80%98toxic-environment%E2%80%99.

²⁶ Dr. Howard Shaffer in Purdum, D. 2015. "Will Sports Betting Legalization Increase Gambling Addiction?" *ESPN* article. Available at http://espn.go.com/chalk/story/_/id/12555614/betting-sports-betting-legalization-cause-more-problem-gamblers.

inefficiencies in the majority of reference angles. Many of the organizational practices have shortcomings that derive primarily from the same loopholes, particularly from the absence of integrated data collection and analysis and accessibility (popularity) of unlicensed operators. Addressing the former seems to be a logical way for the regulator to proceed with, as it is very much in its capacity and would arguably constitute an obligation if the rhetoric is quoted. These actions might also be indirectly beneficial to the understanding of consumers' wishes and desires, thus enhancing the development of products that are more sophisticated. Some issues of the international collaboration also presuppose at least a regional involvement in a number of subjects, and the recent announcement of the cooperation between the Baltic States in tackling the sports-integrity problem looks to be a good place to start. The core reasons of the latter, namely the absence of a common regulation and the subsequent fragmentation of the industry are arguably beyond the scope of direct influence. The situation with the status of an industry on the EU agenda is not easily projected into the future, as arguments for its regulation on the supranational level continue to be presented, and external forces might very much play a big role in shaping the industry in the long run. In 2014, the European Parliament conducted a study that calculated the approximate economic gains from the establishment of a truly integrated market for services. The report included a section with reference to the gambling industry which concluded that a unified and harmonized structure of the industry could bring up to an additional 5.6 billion per year in terms of revenue. The research on the share between costs and benefits of sports betting identifies the environment for even more profitability (Braun and Kvasnicka 2013). Regulated betting accounted for \$58 billion in the total global gross gambling yield in 2012 and is projected to reach \$70 billion in 2016 (Forley-Train 2014, 2). Essentially, the absence of a common legislation on the EU level creates a lot of unnecessary burden that both the government and enterprises have to share – different integration systems, absence of technical standards, duplicated infrastructure, additional paperwork, etc. The functionality of the current environment limits the competition amongst service providers through the establishment of (un)intentional protective measures that result in higher average prices for consumers. Quoted calculations (odds) for online-sports-betting products reflect a margin of operators cut for administering the activity. If the average price on the single market would be lower with the establishment of common regulations and standards, a certain proportion of the gain could be transferred towards more satisfaction of consumers and more spending on research and

development, subsequently catalyzing the pace of a virtuous cycle. Besides pure economic benefits, the study also states that “at present, the absence of a single market results in an unequal protection of consumers (specifically vulnerable persons and minors)” (EPRS 2014, 55). Authors of the study acknowledge the fact that the absence of an integrated data platform creates gaps in consumer-protection standards, identification and validation of consumers, especially when transactions occur across borders. Therefore, “protection for problem gamblers and vulnerable consumers is also fragmented and less effective as a result” (ibid., 23). It seems logical that information and data-sharing amongst all legal operators in the European environment within an integrated and sophisticated system would allow regulators to know much more about betting patterns of consumers, thus creating more efficient and effective tools at their disposal. Nevertheless, this development seems to be unlikely now due to the absence of a common ground amongst jurisdictions on a number of issues, starting with the overall relationship to the industry as such. There are many transitional steps ahead before the proposed structural changes get any momentum, but it has to start somewhere.

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