Online gambling in Europe: A stacked deck

Recalcitrant European governments refuse to open their gambling markets

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PROFESSIONAL poker players say that if you have been playing for a while and cannot figure out who the patsy is, it's you. This dictum also applies to those involved in a high-stakes game between the European Commission, online-gambling firms and several European countries opposed to internet betting. The European Union's supposed single market, which the commission polices, is fractured over the issue. A study for the European Parliament last year found that seven of the union's 27 members outlaw online gambling. Of the other 20, only 13 have liberalised their markets. The rest limit online gambling to monopolies owned or licensed by the state.

The sharpest crackdown on gambling firms in Europe is now taking place in the Netherlands, which only allows its residents to place online bets with a state monopoly, De Lotto. Earlier this year the government ratcheted up the pressure on foreign betting firms. Its tactics seem to have been copied from America, which in 2006 struck at online-gambling firms by threatening the banks that they used. In February the Dutch Ministry of Justice warned banks in the country that they could be prosecuted for transferring money from the accounts of Dutch residents to those of online-gambling firms abroad.

Other countries are also pursuing prohibition of various sorts. In Germany, where a ban on online gambling came into force last year, the state of North Rhine-Westphalia has ordered Betfair, a British firm (see article), to block access to its residents. A Dusseldorf court is expected shortly to rule on the legality of that order. In February a Greek court told Stanleybet, a British firm, to shut its operations in Greece. Germany, Estonia, Sweden and Hungary have either passed or are contemplating laws to force internet providers to block access to gambling websites, says Gambling Compliance, a consultancy.

Most European countries that ban or restrict online gambling argue that they do so to protect consumers from themselves. That argument wears thin, however, in countries such as Sweden or the Netherlands that still allow gambling through national monopolies. The rate of "problem gambling" in these countries is similar to that in Britain, which has liberalised.

The real problem is that online betting threatens the revenue governments earn from local monopolies. In the Netherlands, for instance, gambling winnings are taxed at 29%. Gibraltar, where most British online gambling firms pay tax, takes just 1% of the pot. "The policy of many of the EU member states towards online gambling seems to be motivated more by protection of the public purse than by protection of the public," says Leighton Vaughan Williams of the Betting Research Unit at Nottingham Business School.

There is a lot of money at stake. The gross profit from online betting in Europe is thought to be about €3.5 billion ($5 billion) a year. Just as important are questions of principle over member countries' authority to override the single market on sensitive issues like gambling. In this respect the commission has played a strong hand badly. It feels that countries cannot close their markets to gambling firms from elsewhere in Europe and has a number of court rulings to back that view. But it has little stomach for a fight over a subject that touches such a raw nerve. It has scolded France, Sweden, Greece, Denmark, Hungary and the Netherlands by issuing "reasoned opinions" arguing that they are in breach of European law. It has threatened to take them to the European Court of Justice. Yet the recalcitrant countries continue to behave as if the commission is the patsy.