



NATIONAL LOTTERY PRIVATIZATION IN EUROPE

What can Finland learn from the privatization efforts of other EU countries?

Jenni Huttunen

Bachelor's Thesis

Instructor: Rita Buckley

Date of submission: 8th of April 2020

Declaration

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Title of thesis: National lottery privatization in Europe – What can Finland learn from the privatization efforts of other EU countries?

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Objectives

The main objectives of this study were to assess how European countries have privatized their national lotteries and whether these privatization processes could be useful for Finland, if Finland were to privatize its national lottery.

Summary

This thesis discusses the privatization of Danish, French, and Swedish national lotteries and assesses how successful these privatizations have been. Sweden, France, and Denmark have all implemented a license-based system, which has increased the revenue from gambling, as taxation has been introduced. These systems also reduce gambling related harm, as monitoring authorities can regulate all licensed lotteries.

Conclusions

This thesis concludes that the Swedish model of national lottery privatization, in which the market moves from monopoly-based system to a license-based system would be the best for Finland. This thesis also concludes that Finland should form an independent authority to monitor and regulate the Finnish gambling market to remove any conflicts of interests that currently exist.

Key words: National lottery, privatization, gambling, monopoly, Veikkaus

Language: English

Grade:

Table of Contents

1. INTRODUCTION.....	1
1.1. Background info on Finnish national lottery and debate surrounding it.....	1
1.2. Research questions	3
1.3. Research objectives.....	3
1.4. Structure of the thesis.....	4
1.5. Definitions of terms used in the research	5
2. LITERATURE REVIEW.....	7
2.1. Introduction.....	7
2.1.1. Privatization.....	7
2.1.2. National lottery.....	8
2.2. Privatization.....	9
2.2.1. Politics of privatization.....	9
2.2.2. Effects of privatization on national economy.....	10
2.2.3. Effects of privatization on the enterprise	11
2.2.4. Privatization and employment	12
2.3. National lotteries	13
2.3.1. Who partakes in a lottery?	13
2.3.2. Benefits of national lotteries.....	14
2.3.3. Criticisms of national lotteries.....	15
2.4. Privatization of national lotteries	15
2.4.1. Privatization.....	15
2.4.2. Monopoly privatization.....	16
2.5. Conclusion	17
3. METHODOLOGY.....	19
4. FINDINGS.....	20

4.1.	Lotteries in European Union	20
4.2.	The French case.....	21
4.3.	The Danish case	22
4.4.	The Swedish case	23
4.4.1.	Lottery in Sweden prior to privatization	24
4.4.2.	Svenska Spel	25
4.4.3.	Svenska Spel's social responsibility	27
4.4.4.	Privatization process	29
4.4.5.	Swedish lottery post privatization	32
4.4.6.	Lottery income.....	33
5.	<i>DISCUSSION AND ANALYSIS</i>	35
6.	<i>CONCLUSIONS AND RECOMMENDATIONS</i>	42
6.1.	Recommendations	42
6.2.	Suggestions for future research.....	43
	<i>REFERENCES</i>	44

1. INTRODUCTION

1.1. Background info on Finnish national lottery and debate surrounding it

This thesis explores whether lottery privatization efforts in European Union have been successful. This topic has not been widely studied yet, with most gambling privatization studies looking at the United States instead of Europe. Yet, countries in Europe have rushed to privatize their national lotteries at the same time as states have rushed to privatize their state lotteries. There is some research available on how privatization of state lotteries has often caused the states to lose money, but barely any regarding whether whole countries privatizing their national lotteries have had the same negative economic effects, or possibly positive economic effects.

This research also looks to find the best possible way for Finland to treat their national lottery. As Finnish Veikkaus has gathered more and more negative publicity in Finland, it has become clearer that something has to be done about the company. The choices are to either strengthen the lottery monopoly in ways that would make its operations more acceptable in the eyes of the people, or to dismantle the existing lottery monopoly and to move onto a more competitive gambling market.

As this research discusses how Finland should privatize its national lottery, if it were to do so, this research looks especially into the privatization that has happened in Sweden in the previous years. This is due to Finland and Sweden being fairly similar in multiple ways and Finland having a similar national lottery monopoly to that of Sweden prior to privatization.

Currently Finland is the only member state of the European Union, which still has a gambling monopoly. Most other EU member states have gone through privatization processes and moved onto a license-based system (Nikkinen, 2014). In the larger scale of the entire Europe, there is only one country apart from Finland, which has a lottery monopoly, and that is Norway (Raijas & Pirilä, 2019). Finland's lottery monopoly hands all rights to provide gambling services in Finland to one company, Veikkaus.

Veikkaus was established in 2017 when three state-owned gambling companies were united into one. These companies were previous Veikkaus, a company that had provided Finnish people with lottery games, such as lotto and keno, RAY, in Finnish “raha-automaattiyhdistys”, which literally stands for slot machine association, and Fintoto, a company that provided Finnish people with horse race betting (Veikkaus.fi). Raijas & Pirilä (2019) argued that this was largely done to avoid competition between these three gambling companies, which could’ve led to increased problem gambling due to increased advertising.

Veikkaus has been involved in multiple controversies in Finland due to its Monopoly position. In 2019 the main controversies surrounding Veikkaus were their aggressive advertising and the allegations that Veikkaus did not do enough to prevent harms related to gambling to justify its monopoly position (Kauppinen, 2019b).

In 2019 Veikkaus ran an advertisement campaign in Finland where they juxtaposed gambling with traditional Finnish habits, such as having an afternoon cup of coffee, essentially noting that these are as regularly present in the lives of Finns (Lehtinen, 2019a). In another advertisement Veikkaus also ran in 2019, they portrayed people asking from a therapist whether it is okay to seek excitement in their lives by gambling (Kauppinen, 2019a). Both of these advertisements were deemed to be illegal, as they promoted gambling in a light that incites people to play more and therefore can cause increased problem gambling. Due to this Veikkaus eventually halted a part of their advertising for some time to re-evaluate their actions.

From the issues with advertising arose the debate of whether Veikkaus is doing enough to justify the monopoly position. The topic was discussed widely on TV, where both members of parliament and members of the executive board of Veikkaus tried to defend the company against the allegations (A-Studio, 2019a; A-Studio, 2019b). Many of the allegations accused Veikkaus of not being monitored and controlled well enough to actually be able to be a responsible gambling company, especially as so many of the organizations monitoring Veikkaus also benefit from Veikkaus making larger profits (HS editorial team, 2019). Although Veikkaus made changes to their operations to

become more responsible, for example, by removing some of the slot machines from public areas, no meaningful efforts were made to change the monitoring structure (Kajander, 2019).

These controversies also reignited the longstanding discussion of whether Finland should privatize its national lottery. Especially as Finland's neighbor, Sweden, had privatized their lottery in the beginning of 2019, Finnish narrative of pro-privatization groups became more popular, because it was seen as less harmful than the current lottery monopoly (see Toivonen, 2019; Hakola, 2019). Therefore, this thesis also looks at whether there is a reason for Finland to privatize their national lottery or if privatization would have even more harmful implications on the Finnish society.

1.2. Research questions

This thesis investigates three different questions. These are 1) How have different EU countries privatized their national lotteries? 2) What are the social and economic implications of privatizing a national lottery? 3) Should Finland follow other EU countries on the path of privatizing its national lottery, and how should it be done?

1.3. Research objectives

The first research objective is to assess the different ways in which countries that are members of the European Union have handled their lottery privatization. This includes exploring which countries have privatized their national lotteries and which privatization methods these countries have employed in their lottery privatization. This thesis especially looks at whether these countries have privatized their national lotteries due to reasons related to budget deficits and expected monetary gains from privatization, or due to reasons related to wanting to protect their citizens from the harms related to gambling.

The second research objective is to explore the implications of national lottery privatization from socioeconomic perspective and assess whether the privatization

has been a successful effort or not. Whether a national lottery privatization has been successful is not only determined by the revenue earned or lost by the state, but also through the implications lottery privatization has on the society. If the number of problem gamblers increases sharply after lottery privatization, although revenues would also grow, this can be seen as an unsuccessful privatization effort, because of the many negative effects increased problem gambling can bring along, such as increased number of insolvent people.

The third research objective is to explore whether there are any incentives for Finland to privatize their national lottery. This is tied to the two previous research objectives, as the exploration of whether there is any incentive to privatizing a lottery is done based on whether there have been successful lottery privatizations in other countries. For this research objective it is helpful to look at countries that have had a similar situation compared to Finland prior to lottery privatization.

1.4. Structure of the thesis

The basis of this thesis structure is based on the structure recommended by Aalto University's business program for bachelor's thesis. This includes mostly the order of chapters, yet the contents of these chapters are structured by the author. Chapter two includes the literature review, where privatization, national lotteries, and the privatization of national lotteries are discussed in depth based on the previous literature published.

Chapter three includes methodology used in this thesis, while chapter four includes the research on national lottery privatizations in different EU member states. This chapter includes sections on French and Danish lottery privatizations, as well as a case study on Swedish lottery privatization.

Chapter five discusses the methods of lottery privatization employed in different EU member states, compares these to the Finnish environment and explores whether these would be feasible options in Finland, or whether they would be non-feasible to

the point where Finland should keep its national lottery monopoly. In chapter six this thesis draws conclusions and gives recommendations as to what Finland should do and how this research could be extended in the future.

1.5. Definitions of terms used in the research

This research uses terms national lottery and privatization, which are defined in section 2.1..

In this research, terms lottery and gambling are used interchangeably. Lottery can be defined as game where participants buy in to enter a chance to win prizes. Gambling can be defined as playing a game for money. As these definitions can be interpreted to be the same in the context of this thesis, these terms are used interchangeably. Although not everyone would agree that these terms can be used interchangeably, but it can be argued that lottery enterprises provide players with different forms of gambling, but also that gambling companies provide players with the same forms of gambling.

In this research, the term gambler is avoided due to its negative connotations, unless this research is discussing problem gambling. Instead of the word gambler, this research uses words such as player to describe those who partake in any forms of gambling. As gambler often refers to players who often play more than an average person, it was seen unfit for the purposes of this research, as most of the players discussed in this research are casual players, who semi-regularly partake in games such as lotto or instant games, like scratch cards.

In this research an important discussion is the comparison of monopoly-based lottery system and license-based lottery system. This research employs commonly used definitions for both of these, as redefining these terms for the purposes of this research would possibly skew the results and make it difficult to use the results of this research as part of further research. Therefore, monopoly-based lottery system is defined as a system where one or multiple state-owned or state-controlled providers are allowed to provide gambling services in a country and all other gambling provided by overseas

operators is seen as an illegal form of gambling (Nikkinen, 2014; Raijas & Pirilä, 2019). Although monopolies are often seen as negative, a gambling monopoly can be justified as it is seen to decrease the gambling related harm, such as the number of problem gamblers (Tammi, 2008).

A license-based system is defined by the market being open to operators that are not state-owned or controlled by the state. A license-based system allows foreign operators to apply for a license to provide gambling services in a country legally (Nikkinen, 2014). This means that any company that is deemed eligible to purchase a license, and to provide forms of gambling in a country, must also follow the regulations of said country and pay taxes to the country it operates in. License-based system can include some aspects of monopoly, as some forms of gambling might still be operated by the national lotteries to decrease harm related to gambling, such as high-risk gambling, like slot machines (see Raijas & Pirilä, 2019.; Sweden, 2018b).

2. LITERATURE REVIEW

2.1. Introduction

This literature review discusses the privatization of national lottery enterprises based on previous literature written on the topic, concentrating on the socioeconomic impacts privatization of national lotteries has had in countries that have privatized their lotteries. The objective of this literature review is to examine the possible impacts of national lottery privatization on the Finnish economy and the Finnish society. There has been a running debate going on in Finland about the possibility of privatizing the Finnish national lottery, as the monopoly position has been questioned by people, including the Finnish Competition and Consumer Agency, who have deemed that Veikkaus Oy has been unable to fill its responsibility of decreasing problem gambling in Finland, although that is the main reason for the monopoly position (Salomäki, 2019). The debate has also been fueled by the different corruption accusations the Finnish national broadcasting company Yleisradio has made towards Veikkaus Oy (see A-Studio, 2019a & 2019b; MOT, 2019). Finnish regulators have been faced with a choice of either keeping the national lottery as it is, or reforming the national lottery as a whole, a choice this research is looking to help make. This literature review is structured around three topics that are important to the debate. Section two of this literature review focuses on defining the key terms, section three discusses the issue of privatization, section four discusses national lotteries, and section five discusses the privatization of national lotteries.

2.1.1. Privatization

OECD (2009) defined privatization as the transfer of the ownership of a corporate entity from the government to private owners. Fay (2014, 615) defined privatization as “*changing from an arrangement with high government involvement to one with less*”. Jomo (2008) suggests that privatization is understood to only refer to cases where majority of shares or assets are sold to private owners, although privatization can refer

to a wider variety of activities. These three examples have the same meaning, yet still leave open the question of which activities can be referred to as privatization.

Ramamurti (1991) presents the different categories of privatization, which are referred to as the basic methods by Clarke (1994, 5). These basic methods of privatization are public offering, private sale, sale of assets, leasing, management contracts, employee buyouts, fragmentation of government owned enterprises, and new private investment in existing government owned enterprises. Despite the World Bank having its own definition of privatization, the meaning of privatization can differ based on the context and country it is used in. In India, Reddy (1990) counted that there were five different possible ways of privatization in India, which were sale of shares to the public, opening previously closed industry sectors to private companies, distancing public enterprises from the government, public enterprises including privatization techniques in their internal operations, and the privatization of services of the public sector, such as healthcare or education. Clarke (1994) gave an example from the formerly socialist Czech Republic, where the different ways of privatization included returning property to its owners prior to nationalization, the selling of shares, selling shares to citizens on a basis of voucher system, and privatization of small business, such as stores, cafes, and farms.

Later research does not separate different ways of privatizing government owned enterprises in different countries, but either discusses privatization through the World Bank methods or defines what they mean by privatization in the context of their article. For the purposes of this research Fay's definition can be seen as most appropriate, because although privatization is discussed only within one industry, methods of privatization vary, and it would be foolish to not consider all privatization efforts from decreased government control to selling a majority of shares as privatization.

2.1.2. National lottery

National lottery refers to a lottery enterprise or multiple lottery enterprises ran by a government in either a restricted market or in a monopolistic market. National lotteries

provide multiple types of gambling from more traditional lotto games, instant game tickets, daily numbers games, to video slot machines, and recently sports and other forms of betting. Through a government providing lottery operation, the government is able to regulate gambling, but also to collect funds needed for the running of other public services, such as sports, education, and culture, which is why national lotteries are often called voluntary taxes. (Clotfelter and Cook, 1990; Grote & Matheson, 2011; Williams et al., 2011).

For the purposes of this research national lottery is defined as a single government run lottery enterprise operating in a monopolistic market within the country it operates in, with no direct competition from outside the state borders.

2.2. Privatization

The academic discourse around privatization began in the late 1980s as previously socialist countries began to privatize government owned companies that were experiencing financial losses.

2.2.1. Politics of privatization

Privatization was largely credited to economists and countries opposing government ownership of enterprises, as well as to right-wing parties. McGowan (1994) noted that the first larger privatization efforts were made by the UK's Conservative government that came to power in 1979, as well as by the Conservative governments before that to some limited extent. McGowan also notes that right-wing governments in the United States and West-Germany had also sold government owned assets to private owners before. However, Roland (2008) disagrees, arguing that both right-wing and left-wing governments have been eager to privatize government owned enterprises. Roland argues that right-wing governments have made privatization efforts to keep down the size of the government, while left-wing governments have made privatization efforts to generate revenue. Left-wing governments have also been eager to privatize because of the disappointment felt due to the inefficiency of government owned enterprises, as well as due to the markets being presented to them as appealing. It

seems as though privatization is not dependent on whether left-wing or right-wing parties form the government. Therefore, Bortolotti (2005) suggests that political stance matters more in the method of privatization, than in whether a government is going to privatize, and that for right-wing parties privatization can be politically motivated.

2.2.2. Effects of privatization on national economy

Government owned enterprises are often privatized in the hopes of performance increases. Throughout the past three decades, most authors discussing privatization have agreed that privatization can lead to increased revenue and profits for said company, and that privatization can also positively affect the economy (Vickers & Yarrow, 1991; Cuervo & Villalonga, 2000; McGowan, 2011; Cuadrado-Ballesteros & Peña-Miguel, 2018). Cuervo and Villalonga (2000) reviewed 153 studies on privatization to prove that although in most cases privatization has led to increased performance, increased performance is dependent on variables other than ownership. Cuervo and Villalonga discuss privatization from the perspective of agency theory and public choice theory. Cuervo and Villalonga theorize that the positive economic effects of privatization are linked to whether management is replaced, contextual factors, such as privatization method, changes in the company's goals, incentives, and controls, changes in corporate governance, and changes in company's strategy, structure and culture. Researchers have agreed with Cuervo and Villalonga, and, for example, Filipovic (2005) suggested that although economic growth is a potential consequence of privatization, a lack of reforms by governments can not only halt, but negatively affect economic growth post-privatization. Adams and Mengistu (2008) went even further and proposed that privatization does not cause economic growth, and that good governance and country specific policies are more likely to cause economic growth than privatization on its own. Roland (2008) agreed with Adams and Mengistu, arguing that whether a company's owner is a government, or a private owner does not matter as long as a company strives to maximize profits, and therefore economic growth is not achieved by privatizing government owned enterprises.

Privatization can have a larger effect on national finances in both short and long term. Mansoor (1993) stated that the sale of a government owned enterprise or its assets

affects the national budget positively in the year the sale occurs by decreasing budget deficit, if there are no other changes to the budget. Mansoor also noted that there are more long term implications to the sale of a government owned enterprise, or its asset, in the form of lost revenue from dividends, and if a government owned enterprise has a negative present value, government will have to sell it at a negative price, meaning that subsidies must be paid to the new private owner. Mansoor also notes that any deficit created by selling government owned enterprises or their assets will have to be compensated for by the government, either by the government taking more debt or increasing the taxation rate. Other literature disagrees with Mansoor's claims of budget deficit, noting that privatization means less drainage in government budget due to the reduced size of the government (Goodman & Loveman, 1991; Gupta et al., 2001). Sheshinski and López-Calva (2003) state that it is difficult to isolate the effects of privatization on national budgets, and that although some trends can be observed, no causality can be determined. It has to also be noted that if a privatized company begins to make profit, the government can collect taxes from them, which can cover the loss incurred from lost dividends (Sheshinski & López-Calva 2003; McGowan 2011).

2.2.3. Effects of privatization on the enterprise

Government owned enterprises are often deemed more successful than private companies in terms of economic performance and efficiency. Heath (1990) concluded that government owned companies that were facing financial losses at the time, were less efficient than private companies, and that most government owned enterprises were failing to create enough revenue to cover their concurring costs. Heath argued that the inefficiency of government owned enterprises was largely the fault of governments, as they owned too many enterprises to be effectively able to run them. According to Heath, the requirements governments set for government owned enterprises were also to blame, as they were often almost impossible to meet, as well as the managerial deficiencies, although Hiten Baya (1990) concluded in the same collection of essays that there is no difference in the management efficiency between private and public sectors, except for return on investment. Later research has agreed with Heath's ideas of why government owned companies are inefficient, but also

added to the discussion. McGowan (2011) argued that the lack of competition is also an important reason as to why government owned companies are less profitable and efficient than their private counterparts.

An argument used for privatization is that it lessens the costs incurred by the government, while still profiting the government through taxes. McGowan (2011) argued that private companies are more efficient than government owned companies for budgetary reasons. According to McGowan, the existence of private companies is based on whether they can create profits, thus private companies strive to create maximum profits and to cut back on frivolous spending. Roland (2008) argued that due to soft-budget constraint, this is not the case for government owned enterprises, as bankruptcy is not a credible threat. Roland noted that it is in the best interest of governments to keep funding government owned enterprises in the case of financial distress, as any prior funding to said enterprises is seen as sunk costs. This means that bailing out a government owned enterprise is a more sensible action than liquidating the enterprise. Previous literature has agreed with Roland (see Sheshinski and López-Calva, 2003). Lin and Li (2008) argued that due to government subsidization, privatization will not necessarily tighten the soft budget constraints of government owned enterprises. Therefore, it can be suspected that privatization on its own does not increase the efficiency of government owned enterprises.

2.2.4. Privatization and employment

The effects of privatization on the labor force differ widely, but researchers also tend to disagree on issues regarding employment. Both McGowan (2011) and Cuadrado-Ballesteros and Peña-Miguel (2018) argued that government owned enterprises hire unnecessary employees due to soft-budget constraints, which is why privatization is often linked with job losses. However, Gupta et al. (2001) suggested that although pre-privatization activities and privatization can negatively affect employment, post-privatization employment can fall due to the previously government owned enterprise being unviable and eventually getting liquidated, stay the same due to permanent downsizing, or increase due to expansion. Literature does not agree on the effects of privatization on employment, which could be due to country context, but also due to

the previously government owned enterprises studied. Cuadrado-Ballesteros and Peña-Miguel (2018) studied privatizations that happened in Europe between 2004 and 2013 and also came to the conclusion that privatization reduced the unemployment rate. Earle and Shpak (2019) also supported this idea, basing their claim on the cases of Hungary, Romania, Russia, and Ukraine, and although privatization did not affect employment in the same way in all countries in question, the overall effect on employment was positive. However, Chong & López-de-Silanes (2002) concluded a study of 308 privatized companies in 84 countries and found that 78 per cent of these companies had let employees go during the privatization process.

Privatization of government owned enterprises affects the lives of not only those working for the enterprise, but also those using the products or services of those enterprises. Government enterprises often create equity in the country, and state-ownership can be used as a tool of redistribution, as states can offer products and services at prices that make them accessible to most, for example, water and electricity (McGowan, 2011; Roland, 2008). Birdsall and Nellis (2003) suggested that privatization has increased income inequality in many countries, and thus increased dissatisfaction with privatization efforts, although some privatization efforts have made services more available to consumers than they were before. Dissatisfaction with privatization seems to be fairly universal, as Cuadrado-Ballesteros and Peña-Miguel (2018) reported that most citizens think privatization benefits the rich and privileged, while the less fortunate groups suffer from privatization.

2.3. National lotteries

Although gambling has been studied widely, most research has focused on casino gambling and only a marginal portion of these studies have discussed national lotteries.

2.3.1. Who partakes in a lottery?

National lotteries can either be viewed as a consumer commodity or as a public revenue. Clotfelter and Cook (1990) stated that as a consumer commodity a lottery is notable due to the broad penetration it has on the consumer market, and due to its rapid growth. Both Clotfelter and Cook (1990) and Grote and Matheson (2011) discussed that a lottery works like a voluntary and regressive tax. Lower income households tend to spend proportionally more money on lottery tickets compared to higher income households, but lower income households tend to also play lottery games for the money, while higher income households participate in lottery games for fun. Household income is not the only determinant of whether someone will play a lottery, as also the level of education, and race play a part in who is more likely to participate in a lottery (Clotfelter and Cook, 1990). Grote and Matheson (2011) also argued that both gender and residence affect whether someone participates in lottery games, as men are more likely than women to play, as well as people living in urban areas are more likely to play than those living in rural areas. Although lottery profits are used towards public services like education (Williams et al., 2011.), Grote and Matheson (2011) argued that wealthy individuals tend to benefit disproportionately from funds poured into education.

2.3.2. Benefits of national lotteries

Profit created by national lotteries flows straight to the government's budget. Clotfelter and Cook (1990) and Grote and Matheson (2011) both suggested that although national lottery revenue equates to only a few per cent of government's revenue needs, the revenue collected from national lottery activities is higher than tax revenue collected from alcohol and tobacco sales. It is also notable that although national lottery is still one of the most profitable activities for a government, as after payouts to winners and operating costs, such as fees paid to the private vendors of lottery tickets, the average profit rate of operating a national lottery is about 40 per cent (Clotfelter and Cook, 1990). For these reasons it is clear why governments are unwilling to impose regulation that could harm their income, by cutting the revenue created from national lotteries.

2.3.3. Criticisms of national lotteries

Lottery is often grouped together with other harmful commodities, such as alcoholic beverages and cigarettes. Örnberg (2006) and Fink (2018) both noted that the stated purpose of national lotteries is protecting citizens from the harms of gambling. Government regulation has been justified with the possible harms linked to gambling, but this has raised the question of why prices have not been raised to discourage partaking in a harmful activity (Clotfelter and Cook, 1990). Many researchers have stated that the true purpose of national lotteries is to maximize profits (Grote and Matheson, 2011; Williams et al., 2011). Feeney (2002) disagreed with most literature and argued that governments rarely favor profit maximization over social responsibility. However, Grote and Matheson (2011) noted, as only a small group of problem gamblers can create a large lump of national lottery revenue. Problem gambling is one of the most notable negative issues to come from government regulated gambling, but literature does not agree on whether it is a consequence of government regulated gambling. Williams et al. (2011) theorized that national lotteries are not solely responsible for creating gambling related problems, as possible illegal gambling, as well as mental health and substance abuse problems can contribute to gambling problems.

2.4. Privatization of national lotteries

This section focuses only on the efficiency of lottery privatization, because literature written on the topic has mostly focused on the efficiency aspect and not on other aspects, such as benefits or drawbacks of lottery privatization.

2.4.1. Privatization

As stated in the previous section, national lotteries are a highly profitable industry to governments, which begs the question of why would a government want to privatize a national lottery? McGowan (2011) answered this question in the final chapter of his book, "Privatize this? Assessing the Opportunities and Costs of Privatization" where

the privatization of Illinois state lottery was discussed. McGowan argued that a government should look into privatization of a lottery, when there is a possibility that the profitability of said lottery will decrease in the future, and the government taking on more debt is not a viable option. This way a government can receive a lump sum of cash in the year the sale occurs, which can help to decrease budget deficit, and annual payments in the future in the form of taxes, as noted previously in the section about privatization.

Previous literature on national lottery privatization presents a surprisingly few options for privatization, although previous literature calls for the privatization of national lotteries for the sake of efficiency. Fay (2014) theorizes that implementation of Privatized Special Purpose Lottery Administrations (PSPLAs), that share both the qualities of public and private companies in that they are subject to government audits like public companies, but that they produce revenue that meets their expenditures without government subsidization like private companies. PSPLAs are a form of privatization in that they are not subject to high government involvement, but the ownership of the national lottery does not transfer from a public operator to a private one. Fay's PSPLAs can be criticized due to their assumption of no government involvement in funding, because as discussed in section three, due to soft-budget constraints there is no credible threat of bankruptcy to government owned enterprises. Therefore, it can be argued that PSPLAs do not operate like private firms, even if their regular day to day activities are not supported financially by the government.

2.4.2. Monopoly privatization

A notable factor in privatization is the control of the industry being privatized. For national lotteries privatization often means the privatization of the whole industry due to monopoly position, which can be seen as an issue of losing control over a whole industry. This might not be the case, as Fink (2018) noted, because even if a national lottery is privatized through a sale of the lottery to a private operator, governments are able regulate private lottery providers, which can help governments to attain their official goals.

Privatization can make an enterprise more efficient, especially in the case of lotteries as national lotteries often function in a monopoly environment. McGowan (2011) argued that the efficiency of a national lottery is difficult to determine in a monopoly environment, as the efficiency cannot be compared to others, nor does competition push lotteries to become more efficient. Fink (2018) also stated that whether a lottery is run efficiently under either a private or public ownership can only be judged based on aspects that cannot be changed with regulation. Although there is a wide agreement that privatization can make a government owned enterprise more efficient, this might not be the case in the case of monopolistic national lotteries. Cuervo and Villalonga (2000) argued that privatization of a monopolistic enterprise without concurrent changes in competition and regulation can yield negative results, such as increasing prices, decreasing output, and consumers can suffer from the increased market power of the enterprise, thus decreasing the efficiency of the enterprise. Therefore, it could be suggested that privatization of a national lottery requires that the national market is opened to multiple lottery providers, but this possibility is not widely discussed in literature regarding national lotteries.

Privatization of a national lottery seems to improve efficiency of the lottery, provide sufficient funding for the government, and give the government a possibility to still keep regulating the lottery industry, why are more countries not privatizing their lotteries? Fink (2018) suggested that the reason why governments are so unwilling to sell their lottery operations comes from self-interest of members of government, employees and managers of national lottery providers, and the private vendors of lottery products, who all benefit from a national lottery in one way or another. At least a partial reasoning to the self-interest of these groups is discussed previously in this literature review, for example, for managers and employees of national lotteries the self-interest is tied to their employment, as privatization could lead to their unemployment, and for private vendors the self-interest is revenue received from governments for selling lottery tickets.

2.5. Conclusion

This literature review concludes that privatization has generally been viewed as more of a negative idea in the previous literature than as a positive idea. This is especially because many of the privatization efforts made in multiple countries in the past decades have been somewhat unsuccessful. But the success of a privatization is dependent on many different factors and the previous literature on national lottery privatization even argues that lottery privatization could actually be a more efficient way of providing lottery services. Therefore it is safe to conclude that under right kind of regulation from the state, privatizing a national lottery, whether it be by opening the market to private providers or selling a majority of the shares of a national lottery enterprise to private investors, can be successful and bring in more revenue for the state than a national lottery.

3. METHODOLOGY

This thesis research is a qualitative assessment of European national lotteries and the privatization efforts made in selected countries. Qualitative research methods were chosen due to the lack of available statistical data, which would allow for any quantitative methodology to be used. It also became very clear in the beginning of the research project that collecting quantitative data for this research should not be employed, as methods, such as surveying a sample group of gamblers, would not reveal any relevant data around the topic.

This paper employs literature review as one of its main research methods. Literature review was chosen due to the reasons presented in the previous paragraph.

Because the topic of lottery privatization has not been widely researched from the European perspective, this thesis includes a lot of original research. This thesis employs legal documents from the countries discussed, as well as from the European Union, reports from the European Commission, reports from the ministries of the countries discussed, annual reports from the national lottery enterprises discussed, and newspaper articles. With these source materials this thesis builds a case study of the Swedish lottery privatization, where the changes to Swedish gambling market are discussed in the latter half of 2010s.

Finally, this thesis employs comparative analysis, where the different methods of lottery privatization from around Europe are compared to each other, as well as to the Finnish gambling market to present a recommendation of what Finland should do to its national lottery, if the national lottery was to be privatized.

4. FINDINGS

In Europe there have been a few major ways of privatizing a lottery. These methods can be discussed through country focused case studies. The countries chosen for this section have been chosen due to the recentness of their lottery privatization, and their geographical location in Europe, which is why privatized state lotteries in the United States will not be discussed in this section.

4.1. Lotteries in European Union

European Union does not have union-wide legislation regarding gambling and national lotteries (Raijas and Pirilä, 2019). This can be seen clearly from the different age limits for gambling, where in Finland an 18-year-old can play casino games, make bets, partake in lotteries and in remote gambling, whereas in Sweden an 18-year-old cannot enter a casino, although they can partake in other forms of gambling (Gamblingcompliance.com; Sweden 2018b; Finland 2020). Every member state is free to conduct their national operations according to their gambling legislation, as long as it does not interfere with other EU legislation, such as laws about the conducting of monopolies. An example of this can be seen in the Swedish case, where the European Commission ruled that Sweden's lottery monopoly was unjustifiable due to its faults.

There have been a few different ways of privatizing a national lottery in Europe. This chapter discusses the privatization of national lotteries in France, Denmark, and Sweden in depth, but the privatization methods used in these countries have not been the only ones in Europe. For example, in Ireland the national lottery was privatized by the Irish government selling a license to a company to conduct the national lottery (Ireland, 2013). Greece on the other hand sold a majority share of the Greek lottery to a group of Greek and Eastern European investors in order to raise money for the state (Hope, 2013).

4.2. The French case

France has implemented a combination of both lottery monopoly- and license-based system. State-owned Francaise de Jeux (FDJ) holds a lottery monopoly on some forms of gambling, whilst others are open for any license holder to provide. In France the license-holders have to be accepted by Autorité de régulation des jeux en ligne (ARJEL)(arjel.fr). ARJEL is an independent administrative authority that monitors the behavior of gambling companies on the French market.

In 2019 French government decided on privatization efforts which included the selling a majority stake of FDJ shares, decreasing the French government's stake in the lottery operations from 71% down to 20%. The privatization was to be handled as an initial public offering (IPO) in the November of 2019. (Thomas et al. 2019). The French government collected a total of 1.89 billion euros in the IPO. (Gopinath et al. 2019).

The plan for the French government was to collect funds for future investments by selling off a large stake of the national lottery (Keohane, 2019). As discussed in the literature review section, selling off one of the most profitable government assets can be a losing game in the long run, because the funds received in present day will not cover the losses made in a long run, especially as funds previously directed from lottery to culture and education have to be replaced with other government funds.

The French regulatory system has handled this successfully, as they have implemented levies on player stakes, which are deducted from gross gaming revenue (FDJ, 2019). A levy is instituted for the benefit of the State on the sums bet by the players on the lottery games and sport betting, and that this levy corresponds, for each game, to the balance of player stakes net of winnings, structural allocations, tax and social security deductions and net gaming revenue (Article 88, LOI n° 2012-1510 du 29 décembre 2012 de finances rectificative pour 2012, 2012).

In 2018 FDJ contributed 3.2 billion euros in levies on player stakes to the French national budget and in 2019 the sum contributed in levies grew by almost 10%, with FDJ paying 3.5 billion euros in levies (FDJ, 2018). In 2019 FDJ contributed a total of

3.9 billion euros to the French national budget, with less than 0.1 billion euros coming from dividends paid. The drop in dividends is significant, as the French government's stake in FDJ fell from 72% to around 20%, but the effect on the French national budget was not as significant, as dividends only accounted to about 3.5% of the FDJ contribution towards national budget.

4.3. The Danish case

Denmark was one of the very first countries in Europe to make changes to their gambling regulations in the wake of the rise of online casinos (Blitz, 2011). Denmark wanted to privatize their gambling market to protect the Danish consumers, especially those who play at online casinos. Prior to privatization Danish government couldn't in any way regulate online casinos, as they weren't licensed to operate in the country.

There are two national lottery operators in Denmark, who host offline gambling, such as different forms of lotteries. These companies are Danske Lotteri Spil A/S and Det Danske Klasselotteri A/S. These companies, as well as all other licensed operators are monitored by Danish Spillemyndigheden, an independent government agency for monitoring gambling operations (Ortamo, 2019; Spillemyndigheden, 2019).

Although Denmark operates a gambling monopoly in all of its physical gambling, it opened its online gambling market to overseas operators back in 2012 (Raijas & Pirilä, 2019). This was due to the rise of online gambling, of which the Danish government decided to take an advantage of. Opening the market to overseas companies brings in more competition, as discussed in literature review section, but also brings in tax revenue to the Danish government. Denmark introduced a twenty percent tax for online based gambling, while there was a seventy percent tax on land-based gambling (Blitz, 2011).

As the Danish online market was opened, Denmark introduced different types of gambling licenses. These licenses are valid for either one year or five years, and there are four different types of licenses: a one year license tied to profit margin, where profit

margin cannot cross one million Danish kronor, a one year license tied to net revenue, which cannot cross five million Danish kronor, a five year license for online casino operations, and a five year license for online betting (Raijas & Pirilä, 2019).

Denmark moving to a license-based system decreased the market share of state-owned gambling companies, such as Danske Lotteri Spil. While Danske Lotteri Spil's market share of the Danish gambling market has decreased, they have worked to improve their market position by acquiring more online operators (Danske Lotteri Spil, 2020). In fact, in Denmark the state-owned national lottery operators still have the highest net revenues of all gambling companies. In 2018 monopoly games created 3 024 million Danish kronor in revenue, whereas private betting created revenues of 2 526 million Danish kronor, private online casinos created revenues of 2 158 million Danish kronor, and slot machines created a revenue of 1 406 million Danish kronor (Raijas & Pirilä, 2019).

Back in 2017 less than ten percent of all online gambling in Denmark was done on unlicensed websites (Ortamo, 2019). This can be seen as a successful way of privatizing a national lottery, as it has been able to decrease the amount of illegal gambling in Denmark, by legalizing the websites where Danes were already playing. This has allowed Denmark to control online gambling and therefore limit problem gambling.

Following Denmark's way of privatizing a lottery would be beneficial to Finland, as a third of all online gambling by Finns happens on the websites of overseas lottery enterprises (Ortamo, 2019). Allowing these overseas enterprises to enter the Finnish gambling market would allow the Finnish government to regulate their operations, as in the case of Denmark, and Finland could collect taxes from these companies.

4.4. The Swedish case

Sweden's gambling market was privatized during the late 2010s, so very recently. Due to Sweden's close proximity and similarity to Finland, and the similarity of Sweden's

gambling market to the Finnish gambling market, exploring Swedish gambling reregulation in depth is most beneficial for this study.

4.4.1. Lottery in Sweden prior to privatization

In Sweden, lottery monopoly existed prior to 2019. Prior to 2019, lottery services were provided by two nationalized Swedish operators, Svenska Spel and Trav och Galopp (Raijas & Pirilä, 2019). Both of these lottery operators were owned and operated by the Swedish government.

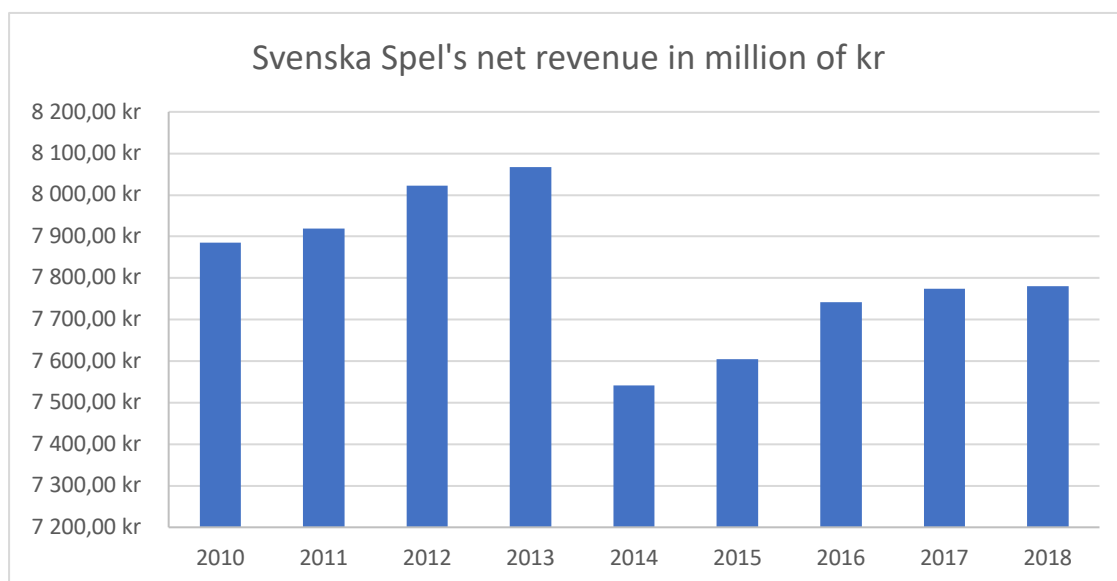
From the two gambling providers, Trav och Galopp provided betting on horse racing in Sweden, whilst Svenska Spel offered the rest of the lottery services. These services included different lotteries, as well as instant games, such as scratch cards. Svenska Spel also provided Swedish people with betting on sports competitions other than horse racing, as well as video slot machines, and casino games in designated casinos. Additionally, Svenska Spel also ran online operations, such as online poker, and mobile gambling. (Svenska Spel, 2015).

Svenska Spel's market share of the Swedish gambling market had decreased throughout the 2010s. In 2010 Svenska Spel's market share was 51 percent, so it still held a majority share of the market. Trav och Galopp held a 20 percent market share, and different games and lotteries held by non-governmental organizations held a 17 percent share of the market. It was estimated that the overseas online lottery enterprises held a 10 percent market share in the Swedish gambling market. (Svenska Spel, 2011). Looking at the changes to market shares throughout the 2010s, it is clear where players are moving from playing Svenska Spel's games, as the market share of overseas online lottery enterprises increases as Svenska Spel's decreases (Svenska Spel, 2019). Svenska Spel's market share had dropped to below 40 percent in 2018, while the market share of overseas lottery enterprises had grown to be almost 30 percent. The market shares of Trav och Galopp and other lotteries held by non-governmental institutions had stayed fairly stagnant, with only small one or two percentage changes over the years.

Although Svenska Spel held the largest market share in the Swedish gambling market, when it came to online operations its share of the market was very close to Trav och Galopp's at around 20 percent, whilst overseas lottery enterprises held a majority of the online market, with above 50 percent market share (Svenska Spel, 2019). The main reason for this was that Svenska Spel did not offer online casino games, and therefore Swedish players had to resort to playing these games on the websites of overseas casinos.

Due to Svenska Spel having held the largest market share in Sweden prior to the privatization of 2019, this case study focuses largely on Svenska Spel. Svenska Spel also offered most of the traditional lottery games and its operations fit the description of a national lottery well, which is why this study does not discuss Trav och Galopp in the same depth as it discusses Svenska Spel.

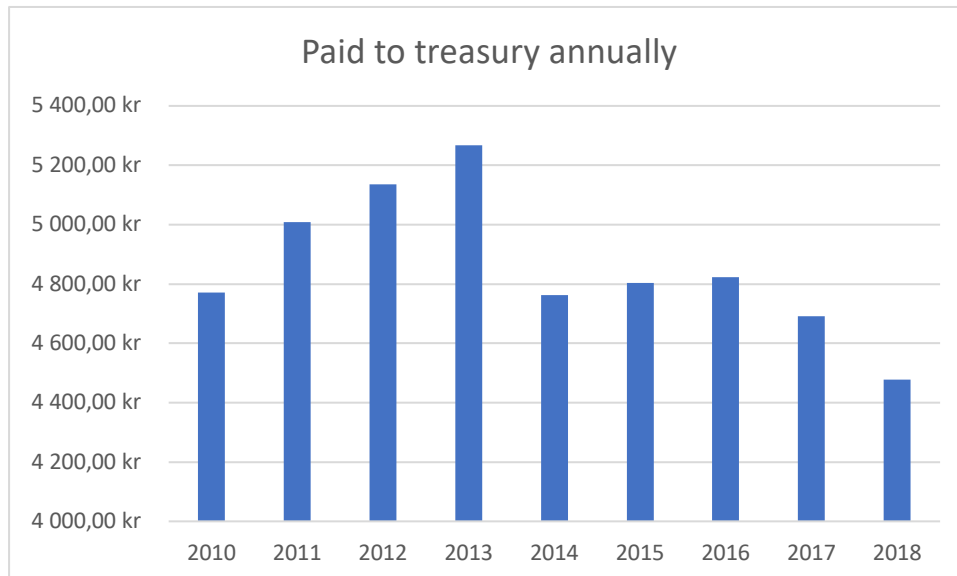
4.4.2. Svenska Spel



Svenska Spel's annual net revenue in millions of Swedish kronor between 2010 and 2018 according to Annual financial reports.

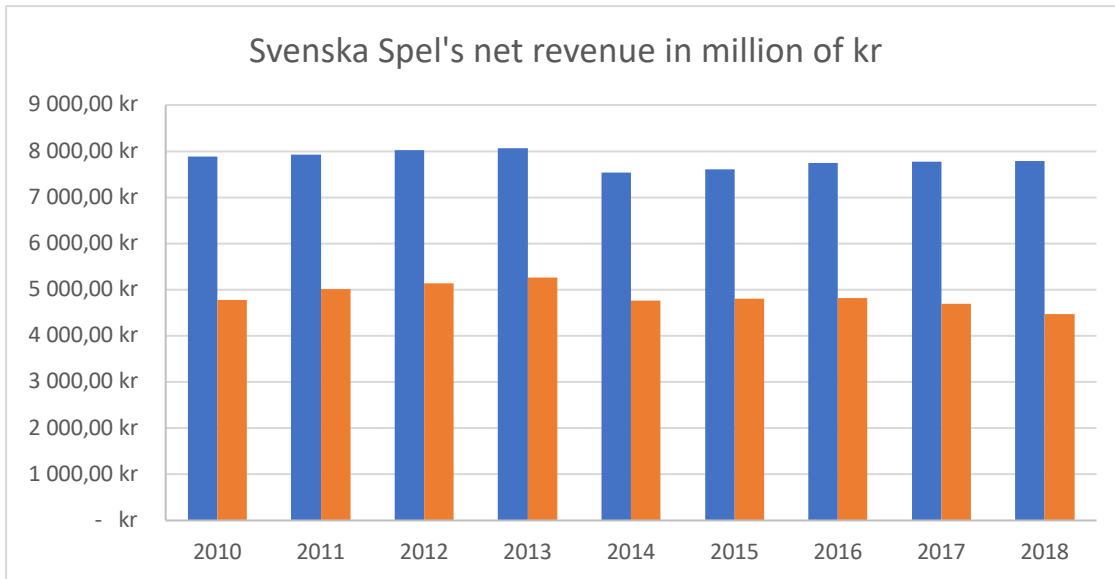
Under the old legislation Svenska Spel was not required to pay taxes on its revenue, but the excess revenue created through the operations of the company was paid out to the Swedish government. Between 2010 and 2018 Svenska Spel's revenue varied

between 7.541 billion Swedish kronor in 2014 and 8.067 billion Swedish kronor in 2013 (information collected from Svenska Spel's financial statements between 2010 and 2018).



The amount paid to the public treasury annually by Svenska Spel between 2010 and 2018 according to Svenska Spel's annual reports.

Svenska Spel paid out its excess revenue to the public treasury of Sweden, which created extra income for the state as discussed before in the literature review section about national lotteries. For the Swedish government this was highly profitable, as Svenska Spel paid a total of over 43 billion Swedish kronor to the state in just nine years. Although the amount paid out to the public treasury increased annually in the beginning of the 2010s, the amount dropped by a half a billion Swedish kronor in 2014. This could be explained by the privatization process beginning during that year, but also by the falling net revenue. When back in 2013 Svenska Spel paid out a total of 5.268 billion Swedish kronor to the public treasury in 2013, in 2018 the amount reached the low of 4.478 billion Swedish kronor. 2013 was also the year Svenska Spel earned the highest net revenue during the time period, which explains the high payout, but the net revenue earned in 2018 was the highest since 2013, so the low payout cannot be explained by the net revenue.



Annual revenue of Svenska Spel compared to sum paid out to the Swedish treasury annually according to Annual financial reports.

4.4.3. Svenska Spel's social responsibility

The main goal of Swedish gaming policies was to achieve a secure gambling market, which takes into account social considerations. Svenska Spel had a mandate from the Swedish government to provide lottery services to Swedish people. The mandate included six points: meeting the consumers' demand for attractive gambling activities, providing games which entail risks to social responsibility, providing a credible and attractive alternative to illegal gambling, taking into account fraud risks and customer interest in game development and operations, providing services in both rural and urban areas, and finally, focusing on social responsibility in its marketing to avoid being perceived as excessively intrusive (Svenska Spel, 2015).

Svenska Spel offered the Swedish people many games and participated in the development of many new forms of gambling. They highlighted that they're in the forefront of developing low-risk games, but that they did not participate in the development of medium- and high-risk games (Svenska Spel, 2015). Low-risk games include games where the player's risk is low, but the possible reward is high. A good example of such a game is a lottery, where a player purchases a single ticket and thus participates in the draw, or a scratch card, where a player purchases a single ticket

and immediately finds out whether they have won or not. High risk games include gambling such as different slot machines, online bingo, and casino games, where a player can easily get addicted and lose sums of money they cannot afford to lose.

Svenska Spel had tried to decrease the risk related to gambling by especially concentrating on high-risk gambling. Prior to privatization overseas lottery enterprises offered many of these games online to Swedish people, although this was illegal (Hakola, 2014). Svenska Spel tried to offer a safer option to people playing these high-risk games by offering their own versions of these games, but within the limits it was given by the government mandate. This safer option argument was partly based to the mandate, as the mandate called for games which entail social responsibility, and for attractive alternatives to illegal gambling, although it is debatable whether Svenska Spel offering these high risk games in a more regulated environment is due to the company wanting to be more socially responsible, or due to the possible revenues created from such forms of gambling. Svenska Spel stated in their 2014 annual report that caring for their customers and minimizing the negative effects of gambling always outweigh the profit (Svenska Spel, 2015).

Although Svenska Spel's social responsibility could be questioned, just as any other national lottery's social responsibility, the company had also made efforts to improve the safety of their consumers and to prevent problem gambling. Prior to 2014 anyone could buy a lottery ticket anonymously, but in 2014 Svenska Spel began to require registration of customers to be able to play their games online platform and in physical locations, such as retailers and casinos (Svenska Spel, 2015). With registration required players were no longer anonymous, which offered Svenska Spel an opportunity to more effectively monitor the gambling habits of Swedes. Players who registered were also required to set time and money limits to their gambling, and they were offered a possibility to exclude themselves from all forms of gambling (Svenska Spel, 2015). The limits of how much time and money a player can spend on gambling could help to reduce problem gambling, but in the case of Sweden, where overseas gambling had also been readily available, these limits could have just drive problem gamblers, who have reached their time or money limits, to illegal gambling.

Svenska Spel also employed Playscan, a behavioral tracking system that consisted of three parts, which were risk assessment, feedback on the risk assessment, and advice on how to limit gambling (Forsström and Cisneros Örnberg, 2018). With user registration required, Playscan could track the customers' risky gambling behavior and offer players the information it has gathered from the players' gambling habits, which could help players to recognize their problematic behavior. This is important, because people tend to underestimate how much time or money, they spend gambling (Wohl et al., 2017).

Other changes Svenska Spel had tried to make prior to 2019 included appealing to the Swedish government to allow the Company to trial placing video slot machines in environments, where alcohol is not served, such as cafés or supermarkets, because there seemed to be a scientific link between risky gambling behavior and alcohol consumption (Svenska Spel, 2016). Prior to the appeal Svenska Spel's video slot machines had been placed in restaurants that held licenses to serve alcohol and in bingo halls. The Swedish government did not allow this move, on the basis of the entire gambling system being re-regulated at that time (Svenska Spel, 2016).

Placing more video slot machines to environments where alcohol is not served could decrease the risk of risky gambling behavior but could also increase other risks related to video slot machines. For example, in Finland video slot machines are placed virtually everywhere, from hyper- and supermarkets to gas stations, smaller stores, kiosks, and restaurants, and this has been seen as a large reason for increased problem gambling (Kajander, 2019).

4.4.4. Privatization process

In Sweden, the privatization process began in the November of 2013, when the European Union notified Sweden of its gambling monopoly not adhering to the EU legislation regarding gambling monopolies (European Commission, 2013). The issue with Sweden's gambling monopoly was that it was not restricting gambling consistently. Although Sweden had a gambling monopoly, it was allowing overseas lottery enterprises to provide gambling services in Sweden, such as sports-betting and

online poker services. Sweden was also allowing these overseas lottery enterprises to both advertise and sponsor in Sweden. European Commission recommended Sweden to take action and align its actions and regulation with the EU rules.

Strengthening the monopoly would've meant moving towards an even more restricted market, where Sweden would've had to ban overseas lottery operators completely from operating in Sweden. Closing the market from these operators could have helped to direct the players to play Svenska Spel's games, but it could have also caused a situation where the same players would have sought out other ways to play illegal games. This can be seen in Sweden post-privatization, as the online market share of unlicensed lottery enterprises is still 13 to 15 percent (Ortamo, 2019).

Sweden decided to privatize its national lottery operations by breaking down the monopoly completely. In late 2017 the Swedish government made a proposition for a new gambling act and new gambling tax (Spelinspektionen, 2017). In this proposition Sweden's government suggested that the new gambling system in Sweden would be license-based and enter into force in the beginning of 2019 (Sweden, 2017). The proposition proposed that the market would be opened to overseas operators, who were already operating in the Swedish market, but that they could now do it legally. The Minister of Public Administration, Ardalan Shekarabi, stated that the Swedish government would regain the control of the Swedish gambling market, as operators who would want to operate under the proposed licensing system would have to comply with the Swedish rules and therefore also pay taxes (Sweden, 2017).

Taxation of gambling companies was something that was not actively done in Sweden prior to privatization, but which would be done equally to all for-profit companies post-privatization. Sweden settled for an 18 percent gambling tax on all licensed gambling companies, which would also include Sweden's national lottery Svenska Spel, as well as Trav och Galopp (Dickson et al., 2018). Taxation would create extra revenue for Sweden, as all of the companies licensed to operate in Sweden would be paying an 18 percent tax on their operations, whilst they hadn't previously paid any taxes to the Swedish government. Taxing the Swedish operators on the other hand could hurt their

operations, as they're subjected to the same 18 percent tax, while also still paying their excess revenue to the Swedish public treasury (Kontiainen, 2019).

Sweden's proposal to re-regulate the gambling market also included issues other than licensing and taxation. These issues included the safety of players, such as the licensed game operators must protect players from excessive gambling, that gamblers must be able to set themselves a ban to all gambling, and that no bonus offers will be presented to players after the first gambling session (Sweden, 2018a). These regulations would standardize the Swedish gambling market, where Svenska Spel was already required to do all of these things. Svenska Spel had already taken up program and actions that protected players from excessive gambling, like time- and money-limits, as well as possibility to exclude oneself from all of Svenska Spel's gambling. Most online lottery providers offered self-exclusion from gambling and information on problem gambling prior to this, but companies like Mr. Green, Betsson, Betfair, Pokerstars, and Videoslots did not offer limits for gambling nor did they stop sending bonus offers after first gambling session (Forsström and Cisneros Örnberg, 2018)

Re-regulation would also bring strict requirements for moderation in the marketing of gambling (Sweden, 2018a). Prior to the re-regulation of the gambling market Swedish people were bombarded with advertisements from overseas lottery enterprises, although it must be noted that Svenska Spel had been advertising in Sweden prior to this too. Whilst Svenska Spel had limited the investment to its advertising due to the mandate denying advertising that could be perceived as too aggressive. Whilst Svenska Spel's investments towards advertising had decreased between 2014 and 2018, the investments made by overseas operators had almost doubled (Svenska Spel, 2015; Svenska Spel, 2019).

For licensing to work in a way that entices operators to purchase licenses, Sweden had to make sure that they would impose regulation that would cause larger monetary losses to overseas lottery enterprises than what obeying the local law would cost in license fees and taxes. Therefore, Sweden proposed the implementation of blocking payment transfers between players and unlicensed operators (Sweden, 2018a). This

would mean that no Swedes could play on the sites of these operators, as they would not be able to make deposits to these sites, which is required for gambling, nor receive their winnings from the sites.

Sweden's gambling reregulation bill also lastly included the criminalization of all forms of marketing of unlicensed lottery enterprises in Sweden (Sweden, 2018a). This helps to curb the issue Sweden had faced prior to privatization, where most of the advertising for gambling was promoting illegal gambling. Criminalizing all forms of marketing of unlicensed operators could stop unlicensed companies from marketing in Sweden, but based on the severity of the punishment, the results may vary.

4.4.5. Swedish lottery post privatization

Swedish lottery was privatized on the first of January in 2019. Previously legally operated Svenska Spel, Trav och Galopp, and non-governmental non-profit lotteries were joined by a bunch of newly legally operated licensed overseas lottery enterprises. Sweden had expected for fifty to seventy overseas companies to apply for licenses, but by the August of 2019 Sweden already had 86 licensed gambling companies and by the March of 2020 a total of 96 licensed gaming companies were operating in Sweden (Kontiainen, 2019; Spelinspektionen, 2020). The number of licenses granted had surprised the Swedish government, yet licenses weren't just handed out to everyone.

The new Swedish gambling act has prerequisites for granting a license, as well as a list of reasons why a license cannot be granted to someone. For someone to receive a license, they must meet all three of the prerequisites. The first of these prerequisites is that the Swedish authorities must have assessed the applicant to have the knowledge, experience, and organization required to run lottery operations (Sweden, 2018b). This shows that these licenses are directed towards existing lottery enterprises that have already conducted business prior to applying for a license. A license cannot be granted to a company that is just starting out, unless they already have the knowledge and experience of running lottery operations.

The second prerequisite is that the applicant is committed to running the operations in accordance to the Swedish regulation (Sweden, 2018b). As discussed before in this paper, Sweden moved to the license system partly because they wanted to regain the control of their gambling market. If a lottery operator in Sweden does not follow the regulations, it is possible for the Swedish government to revoke their license. This has happened to license-holders, such as Global Gaming, a company that runs both Ninja Casino and Spelandet.net (Spelinspektionen, 2019a).

Lastly, applicants for a gambling license in Sweden must be assessed by the Swedish authorities to be fit to run lottery operations in other respects that are not mentioned in the other prerequisites (Sweden, 2018b). These other respects can include the list of reasons why a license cannot be granted to a certain applicant. The reasons mentioned in the law include: if the applicant is under the age of 18, if they have been assigned a legal guardian, if they have declared bankruptcy, if they have committed serious crimes, or if they have previously failed to fulfil their obligations in a business (Sweden, 2018b).

In the new gambling legislation, some forms of gambling are still reserved to state-owned operators. These forms of gambling include providing casino games at a physical casino location, slot machines, lotteries other than bingo, online bingo, computer-simulated gambling machines, local pool betting, and cash and goods gambling machines (Sweden, 2018b). By the limiting of these forms of gambling to only be provided by state-owned and state-licensed operators Sweden makes sure that possible harm caused by gambling is limited.

4.4.6. Lottery income

Moving from monopolistic market to a license market has created significant amount of income for the Swedish government. All operators in Sweden have to pay an eighteen percent tax on all gambling activities, which in just January of 2019 raised a total of 1.8 billion Swedish kronor in tax revenue (Konttinen, 2019). Gambling tax is

also paid by Svenska Spel, although their excess revenue still goes to the public treasury.

Opening the market to overseas lottery enterprises did not drastically affect Svenska Spel's finances. In the first half of 2019 Svenska Spel's net revenue fell by four percent, which might be explained by consumers deciding to try out gambling on websites of other licensed gambling companies, but Svenska Spel's profits fell by some 800 million Swedish kronor, mostly due to the taxes paid to the Swedish state (Kontiainen, 2019). In total, Svenska Spel's net revenue fell by 205 million Swedish kronor between 2018 and 2019, so by some two percent (Svenska Spel, 2020). Svenska Spel's profits fell from 4 522 million Swedish kronor in 2018 to 2 716 million Swedish kronor in 2019, so by a total of almost forty percent.

Tax income from licensed operators wasn't the only new form of income for the Swedish state, albeit it was the largest new income stream. With the new licensing system, the Swedish government also gained the ability to discipline companies that were not following the new regulations. Multiple companies have received fines for offering bonuses to the registered players on their sites after their first gambling sessions (Kontiainen, 2019). License holders such as Betway Limited, and Mandalorian Technologies Limited have been fined for offering bonuses to players, which have been against the rules. Betway was fined five million Swedish kronor, and Mandalorian Technologies was fined ten million Swedish kronor (Spelinspektionen, 2019b).

5. DISCUSSION AND ANALYSIS

Although the French way of privatizing their national lottery through selling a majority of shares seems to be successful, there is a big reason as to why selling off a majority of a national lottery might not be successful in Finland and why the success of the French privatization cannot be repeated in Finland. This reason can be found from regulation. The French regulation guarantees a stream of steady income to the French government as long as the French people keep playing the lottery.

If FDJ will not drastically changing their operations, for example, the company will not be making a drastic overhaul in their games, there will be no reason depending on FDJ, which would decrease the amount played by the French. Of course, there are reasons that can decrease the amount played, but those reasons would most likely decrease the amount played whether the ownership majority is in the hands of the French government or private owners. Therefore, for the French national lottery privatization success to be repeated in other countries, similar regulation would also have to be implemented. Without similar regulation, the sale of a majority stake of a national lottery can eventually lead to net losses due to the lost revenue.

Another reason as to why the French lottery privatization cannot be repeated successfully in Finland is that the French national lottery FDJ is one of the largest lotteries in the European Union (groupefdj.com). Offering shares of something of this magnitude is more likely to coax in investors than offering shares of a much smaller lottery, such as Veikkaus oy. A comparison that shows clearly the size difference between these lotteries is comparison of gross gaming revenue (GGR). FDJ had a GGR of 5.1 billion euros in 2018, as Veikkaus had a GGR of 1.7 billion euros, which is about one third of FDJ's GGR (groupefdj.com, Veikkaus, 2019). It is safe to say that Veikkaus would not be able to gather a similar sum of money, if Finland were to sell a majority stake in the company, like France did when they sold a majority of FDJ for almost 2 billion euros.

Finland's best bet of privatizing the national lottery, Veikkaus, would be to follow in the footsteps of Sweden and Denmark and implement a license-based system. The main

reason for this is that Finland is currently and especially in the near future facing similar issues as Sweden and Denmark were facing prior to privatization, as the popularity of online gambling grows.

Currently Veikkaus offers the majority of the online games played by Finnish people, as only an estimated thirty percent of all online gambling by Finns happens on illegal websites (Ortamo, 2019). Although Veikkaus offers a wide variety of online games from video slots to sports betting (veikkaus.fi), similarly to many other gambling sites, Finnish people are still attracted to gambling on the websites of illegally operated online casinos. There could be many reasons for this, as people are individuals and like to make their decisions as consumers based on their beliefs and preferences. If a consumer feels as though Veikkaus is not operating efficiently, they might decide to therefore move to consume the services of another online gambling provider as a form of boycotting the lottery monopoly.

For a person to be able to access the online games provided by Veikkaus, they must register at first through their Finnish banking service. Every customer is asked to set limits to their gambling on a daily and monthly basis. These limits include a maximum sum of money a player can transfer from their bank account to their Veikkaus account on a daily and monthly basis, and a maximum sum of money a player can lose in a day and in a month if they participate in games with higher risk (Veikkaus.fi). After reaching these limits the player cannot keep playing, until the next day or month. As with Sweden prior to privatization, a player reaching these daily and monthly limits can lead to especially problem gamblers moving from legal sites to illegal sites.

Currently Veikkaus also offers players a possibility to ban their selves from the Veikkaus online games for a limited amount of time, and for the maximum time of a year (Veikkaus.fi). In Sweden, even prior to privatization of the gambling market, players were able to ban themselves from all games provided by Svenska Spel for the rest of their lives, if they wished to do so. Many online operators also offer similar services, where players can set bans to their selves. For example, Pokerstars offers bans of seven, thirty, sixty, or hundred and twenty days, as well as longer personal bans, during which the player cannot play on the site, nor will they receive any

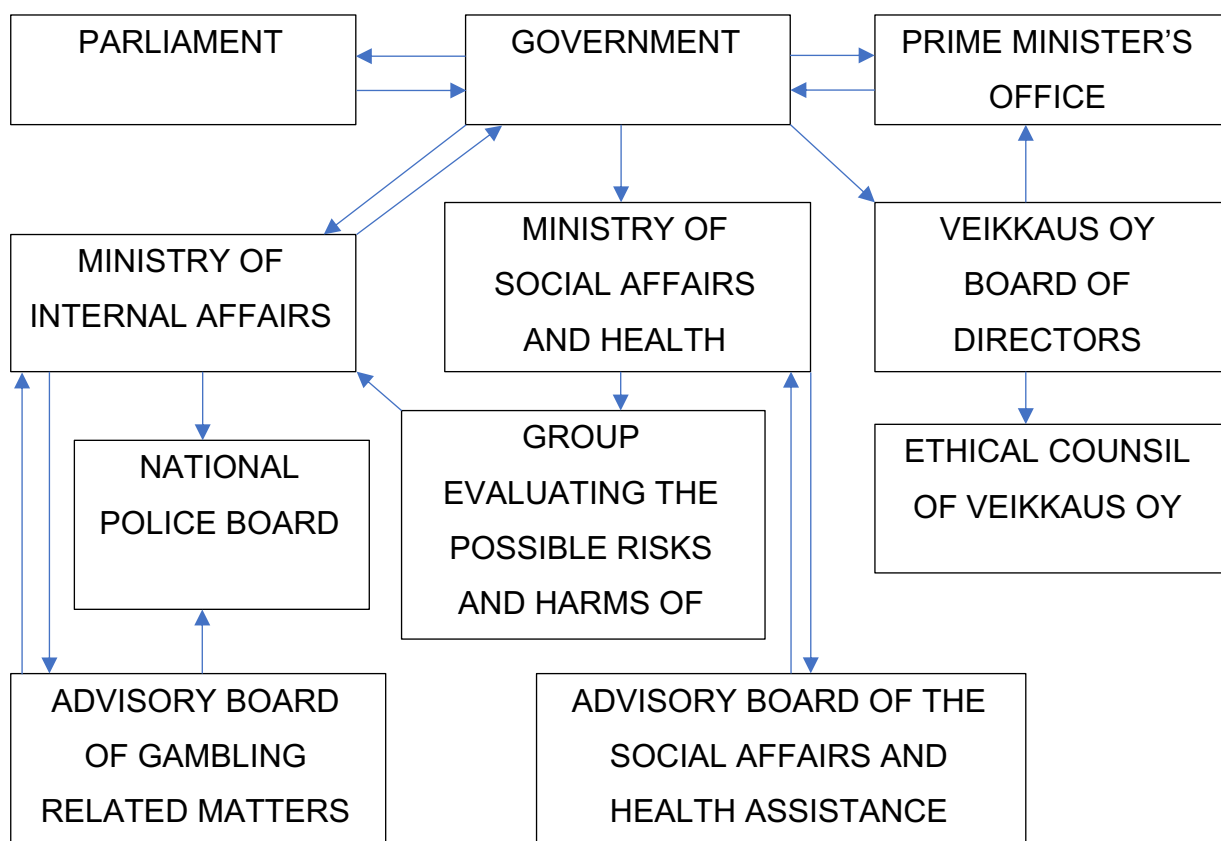
promotional materials from the company (pokerstars.eu). After the personal ban of a player ends on the Pokerstars site, the player still needs to contact the customer service, if they want to continue playing to the site.

Although Veikkaus holds a monopoly of gambling in Finland, Finland has not limited the ability of the Finnish people to access the websites of overseas gambling providers. Finland has not seen it necessary to begin blocking the access to these online casinos, like Sweden and Denmark have done. In 2019, the Veikkaus board of directors began to demand for Finland to also implement such block to illegal online casinos (Ovaskainen, 2019). As of April 2020, Finland had not proceeded with these blocking efforts. It can also be discussed whether these blocking efforts would even be effective to curb illegal online gambling, as they are fairly easy to bypass with software that is easily accessible to everyone, which can be seen in both Denmark and Sweden, where gambling on unlicensed websites is still significant.

These efforts raise a question of whether Veikkaus and Finland are doing enough to keep Finnish players safe online? Finland is neither making an effort to stop players from accessing unlicensed online casinos, which are provided by profit-seeking overseas lottery enterprises, nor making an effort to regulate the way in which these sites operate. As Sweden and Denmark have moved to licensing of gambling operators, they have also gained control over these operators. For example, Sweden has forced all of the licensed gambling providers to adapt to the Swedish legislation, which has included removing all bonuses from the online casinos after the initial gambling session. While a company cannot offer bonuses to Swedish players, they can bombard Finnish players with different bonuses in effort to get them to return to their site.

Finland cannot currently limit the operations of any gambling sites, apart from Veikkaus, and even that ability has been questioned as of late, as the authorities regulating Veikkaus have had difficulties of accessing information needed to monitor the company (Juutilainen & Berglund, 2019). Currently, Veikkaus is regulated and monitored by multiple different organization. Professor Mika Maliranta had created a graph of the different organizations responsible controlling Veikkaus for A-Studio

(2019b), and from it can be seen that effectively controlling Veikkaus is currently an impossible task. There are currently eleven different organizations controlling Veikkaus, and some of these organizations are also receiving benefits from Veikkaus, so it can be questioned whether they have some conflict of interest. A good example of a conflict of interest in the current monitoring system is that Veikkaus funds the operations of political youth organizations that are directly affiliated with political parties that are in the Finnish parliament (Lehtinen, 2019b).



The structure of organizations currently monitoring Veikkaus Oy, translated from Mika Maliranta's graph seen in A-Studio (2019b).

In the cases of all, Denmark, France, and Sweden, an independent authority has been founded for regulating gambling. In Denmark this organization is Spillemyndigheden, which regulates both the state-owned gambling companies as well as the overseas companies that have been licensed to operate in Denmark. Additionally, in France ARJEL is regulating all licensed gambling, and in Sweden Spelinspektionen is in charge of regulating all forms of gambling. All of these authorities monitor that licensed

operators are following the law and the authorities are able to fine these companies, if necessary.

With Finland's current regulation system even regulating Veikkaus is difficult, so creating an authority solely for the regulation of gambling would be effective. Currently even Veikkaus itself is in charge of controlling Veikkaus, so creating an external authority to regulate and monitor the behavior of Veikkaus would create an environment, where regulation would be fairer. This would especially be the case, if Finland were to privatize their gambling market in a similar way as Sweden has. If the current system would be used whilst the market is opened to overseas lottery enterprises, this could create chaos, as these eleven organizations would also be in charge of regulating multiple other companies beyond just Veikkaus. Even more so, this regulating system could also cause further conflict of interest, as Veikkaus would not only be regulating itself, but also other gambling companies.

Currently Finland has no ability to control any of the operations of online gambling providers, and thus the consumer protection is weak. All restrictions made by Sweden and Denmark can be seen as results of the governments wanting to protect the Swedish and Danish consumers from profit-maximizing operators' sometimes aggressive attempts to get players to play as much as they can. A good example of this is the Swedish system, where a consumer can decide that they do not want to partake in any form of gambling and block themselves from all gambling sites at once. This is an effort that can help to protect consumers from problem gambling, as the player is instantly blocked from partaking in any of the games provided by the licensed gambling companies. In Finland a player has to make more efforts to stop their selves from gambling, as they will need to block themselves from gambling on each website individually. This would not be an issue if Finland were to implement a license-based system, as blocking the online casinos of overseas providers would not be effective from stopping Finns from accessing these sites.

Moving from a monopoly system to a license-based system would also create more revenue for the Finnish government. As all gambling sites, apart from Veikkaus, are not licensed to operate in Finland, they do not pay a single cent in taxes to the Finnish

government. In Sweden opening the market to these overseas lottery enterprises has brought in tax revenue, which easily compensates for the lost revenues of the state-owned gambling companies. Both Denmark and France are also receiving tax revenue from licensed gambling companies. If the tax percentage is set low enough to be attractive, such as the Swedish 18 percent or the Danish 20 percent, gambling companies will be willing to pay it to legally operate in the country. This is beneficial to both the country licensing the gambling company to operate inside its borders and to the gambling company, as the country receives tax revenue and the gambling company receives new customers from that country.

There is still an issue with implementing the model of Danish or French national lottery privatization in Finland. As the system in both countries combines monopoly- and license-based systems, their national lottery operators have privileges that licensed companies do not have. A large issue of this privatization model in Finland would be the position of Veikkaus. Veikkaus would still retain their monopoly position on all land-based gambling, and therefore many of the problems associated with Veikkaus and Finnish problem gambling would persist. Therefore, the Swedish model of license-based system would be preferable, as Veikkaus would just be one licensed operator among the rest, although it is a state-owned operator, to which the authority responsible for monitoring gambling could afford special rights if it would be seen as necessary.

An example of special rights could be slot machines. In Sweden Svenska Spel has a monopoly on physical slot machines. As of 2017 there were six physical slot machines in Sweden per 10 000 people (Ortamo, 2019). If the of physical slot machines were not restricted to just one provider, multiple operators would be placing theirs around Sweden, and the number of slot machines would explode. As slot machines are highly addictive, this would increase the number of problem gamblers in Sweden and thus increase gambling harm. Under the monopoly Finland already had 39 slot machines per 10 000 people in 2017 and many of the gambling related problems were linked to the high number of slot machines (Ortamo, 2019).

It must also be noted that moving to a license-based system might not decrease the gambling harm related to slot machines. Denmark has a relatively high number of slot machines per 10 000 inhabitants at 46, but these are not causing as many issues as in Finland (Ortamo, 2019; Spillemyndigheten, 2019). A reason for this can largely be where the slot machines are placed, which the license-based system wouldn't fix, but an issue which an independent authority responsible for decreasing gambling related harm could fix by suggesting reregulation of placements.

6. CONCLUSIONS AND RECOMMENDATIONS

European Union member states have gone through different national lottery privatizations, all of which would not be possible to repeat in Finland successfully. A best example of a successful privatization that would not be possible in Finland is the IPO of French FDJ, which gathered a total of almost 2 billion euros. This success is not possible in Finland due to the sheer size difference of FDJ and Veikkaus.

This thesis concludes that moving from a monopoly-based system to a license-based system would be the most successful way for Finland to privatize their national lottery. License-based lotteries have become the norm in Europe with countries such as Denmark, France, and Sweden implementing their own versions of license-based systems. Moving from a monopoly-based system to license-based system, at least in the case of Sweden has been successful in terms of both player safety and revenues. As Finland and Sweden are similar in terms of their national lottery operations prior to the Swedish privatization, it can be estimated that the same privatization effort would also be successful in the case of Finland.

Lottery monitoring in the case of all countries discussed in this thesis is done by an independent authority that has been formed for the purpose of monitoring and regulating the lottery operations. Finland on the other hand currently has an ineffective monitoring system which includes organizations from police to the Finnish parliament and the Veikkaus board of directors. This has made monitoring Veikkaus difficult and partly helped Veikkaus to get away with behavior that is not preventing gambling related harm.

6.1. Recommendations

Based on the current state of the Finnish national lottery and the debate surrounding its justification, as well as the example given by multiple European Union member states, it can be recommended that Finland should implement a license-based system. Finland should especially follow in the footsteps of Sweden and implement a license-based system with some special considerations for high-risk gambling, such as slot

machines, as it would balance the market. Implementing a partly monopoly-based and partly license-based system like Denmark and France have done is not recommended, as it would give Veikkaus an unfair market position, where it would have a disproportional amount of power, which could affect competition among the licensed gambling operators negatively.

Finland should also establish an independent authority, which would only focus on monitoring and regulating gambling, like Sweden and Denmark have done, instead of dividing the responsibility of monitoring gambling between ten or so different organizations and ministries. This thesis recommends that Finland should establish this independent authority prior to moving forward with privatization of the national lottery to avoid the current monitoring system affecting the course of privatization. An independent authority is also recommended to remove any conflict of interest in the monitoring and regulation of gambling prior to privatization and post-privatization, as the Veikkaus board of directors is currently responsible for monitoring the Finnish gambling market.

6.2. Suggestions for future research

The topic of privatization of European national lotteries has not been widely studied previously, so researching more into the privatization efforts of France and Denmark is needed, as well as into the privatization efforts of other countries. It is also suggested that privatization efforts of European Union's state lotteries and United States' state lotteries are compared in future research to assess why European lottery privatizations seem to be more successful than American lottery privatizations.

The timing of this thesis was unfortunate for Sweden and France, which both had privatized their national lotteries in 2019. This meant that for this research it was not possible to truly look into the further implications of the privatizations. In a few years' time it would be recommendable to look back into this topic and assess what have been the long-term implications of privatizing to see if there have been negative socioeconomic effects.

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