

Friedrich Stickler

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The gaming industry in Austria has evolved into a system that works well. No jurisdiction is without its own set of political and regulatory challenges. But between them, Austria Lotteries and Casinos Austria manage a comprehensive range of products that meets the needs of their government, their shareholders, the players, and the general public. Friedrich Stickler discusses how this equilibrium evolved, what they do to reinforce it, and why it is so important that the EU member states be allowed to determine their own regulatory model.

(This interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Paul Jason, Public Gaming: How is the gaming industry structured in Austria? What is the ownership structure of the casinos and the lottery and the relationship between the government and the shareholders?

Friedrich Stickler: There was a monopoly in Austria on casino games and lotteries that, I would say, goes back forever, with state-run lotteries operating as a monopoly, beginning back in the 18th century. Casinos entered the field in the beginning of the 20th century, and have also been operated as a monopoly, since then. Sports betting was liberalized following World War One, and was given to the responsibility of the Austrian provinces. Sports betting was mostly about horse racing, not becoming significant until the Internet brought in a whole new category of players. It then gets a little complicated. Austrian Lotteries, owned by Casinos Austria (68%), a consortium of Austrian banks and insurances and the Austrian broadcasting corporation ORF, was founded in 1986 and was given the license for lottery games. Since then Austrian Lotteries operates all the traditional lotto and scratch-off games. On the other hand you have Casinos Austria with 12 licensed casinos in Austria. You have the privatized bookmakers. And then you have a segment that's a little complicated. Let's put it this way, this is gaming machines with low stakes, and under the authority of the provinces. Some allow it, some don't allow it, and nevertheless, it's everywhere because there

are also illegal gaming machines all around in Austria. There are several thousands; we don't know the exact figures. This is, shall we say, under review. An amendment to the Aus-

trian Lotteries, with each owning 50%. And it additionally holds 56% in our sports betting company called tipp3. The rest is owned by the big Austrian newspapers. So we have a

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trian Gaming Law is on its way, and so the legislature is trying to regulate this segment also by giving a license for gaming machines for all Austria.

Are you owned by the same consortium of banks? Do you have the same owner?

F. Stickler: No. Casinos Austria's shareholders include some major Austrian Banks (Raiffeisen, Vienna Insurance Group), Austrian Mint and various private shareholders.

The ownership structure would seem to have implications as to how you operate. It would probably create potential to collaborate on things like Win2Day?

F. Stickler: Indeed. There is potential on Win2day, our internet gaming platform, and also in our VLT outlets called WINWIN. These two subsidiary companies are owned by Entertainment, a holding company that is jointly owned by Casinos Austria and Aus-

trian Lotteries, with each owning 50%. And it additionally holds 56% in our sports betting company called tipp3. The rest is owned by the big Austrian newspapers. So we have a very close cooperation with big Austrian daily newspapers. We have a very wide variety of companies doing business together. So when it comes to a description of the whole conglomerate, you could say that we most likely are the broadest casino/lottery/sports betting operator world wide because we are doing almost everything. Our casino operations have been international since 1977. We operate 63 casinos in 18 countries on each continent and on board 11 cruise ships. We have this lottery branch of the business, and then we have the holdings with all the other sectors we are covering. So it's a wide variety of different products and segments we are covering.

There is a large number of electronic gaming machines that are not legal, that operate outside of the control of Austria Casinos and so are not properly regulated?

F. Stickler: Correct. These are in restaura-

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rants, in pubs, gas stations, and other smaller venues. And these are not necessarily electronic machines. There are also low stakes traditional gaming machines. But as we all know, machines that are intended to be low stakes can easily be switched to high stakes with the push of a button. These machines are not properly controlled and regulated at all.

That's why the government is attempting to enact laws that bring the illegal machines under the umbrella of a regulated system?

F. Stickler: Yes. The problem is that a great number of machines that are under the control and laws of the provinces are not fully regulated. The new laws are attempting to bring these gaming machines under federal

The traditional lottery player did not stop buying from the retailer and go on the Internet to buy. No, instead the new Internet customer is much more likely to become a customer of the retailer than vice-versa. We now have more than 400,000 registered Internet players, which is 5 percent of the Austrian population, most of whom are new to the lottery.

law and out of provincial law. The provinces do not want control to be taken away from them and given over to the federal government. So there will be disagreements over how and whether this should be done. We will have to see how this amendment to the Austrian Gaming Law will resolve.

I assume that the issue of who controls the machines is mostly about who gets the money, the tax receipts?

F. Stickler: In general, but not always. It's about control and who decides how this market should be operated. Some of the provinces don't even want gaming machines at all, and do not want the federal government to allow them. But in principle I would say it's more about the distribution of revenues coming from these gaming machines. Revenues can be distributed according to several keys and indices. The mechanisms for doing that are not difficult to implement. The hard part is the negotiation process between provinces and the federal government to determine just where the split should be made, how much should the federal government receive and how much should the provincial government receive.

Between the two of you, Casinos Austria and Austria Lottery, you're able to implement and operate virtually anything that is done in

the gaming and gambling industry, correct?

F. Stickler: Yes. Of course, all the while holding ourselves to the highest ethical standards, and being respectful of all legal and regulatory boundaries. We have begun to go international with lotteries. For example, we have now started an operation in one of the Russian states, Bashkortostan, a state of Russia which has a population of four million inhabitants. We were recently awarded the license to operate the lottery there and will start in the middle of the year with lotto. An important part of our strategy is that we respect the monopolistic structure of government regulated lotteries everywhere. We operate as a monopoly ourselves and believe that the interests of the public are best served

by the monopolistic structure. So it is not our intention to enter markets that are being served by an existing government-approved operator. We will not be interfering with or competing with our colleagues who operate the government approved lottery. The multiple operator model is not a model that we think our government should adopt. The public and the governments and good causes that the lotteries support with funds have all benefited by this system of mutual support and cooperation and we want to do everything we can to preserve that system.

You just implemented a huge conversion of your online terminals this past year with new terminals from KEBA. Did it exceed expectations or is there anything of interest to note about that implementation?

F. Stickler: No news and that's good news. There were some improvements in ease of operation and in other ways, but the best thing I can say about the conversion is that I heard nothing about it! It's too bad for the IT people that the best measure of their success is if we don't hear anything about it. If you talk with any operator, they would say that the best thing that can happen with a conversion is that it all happens without any problems. To be up and running and forget that you even

have terminals that process all those transactions is fantastic news. In fact, thanks for reminding me – I'll have to remember to congratulate Keba for a smooth implementation.

Are you attempting to bid on the Turkey lottery license?

F. Stickler: We have expressed interest, asking for the bidding documents and explored the possibility. But I am not at all sure that we will bid on that. It's quite a huge task, it's a huge company, and a huge opportunity and so we will check it very carefully. But even though we had €2.38 billion turnover last year, we're still a relatively small company and we are a financially conservative company. So it is probably not practical for us to bid on the Turkey lottery.

So from a capitalization point of view, it may not be feasible. How about from an operational point of view?

F. Stickler: I would call it both. The burden on human resources, manpower and management, will be quite significant. And like I mentioned, we operate conservatively, meaning that we would not enter into something without being 100% confident that we could perform and deliver the results that we commit to. Think about what is at stake for the operator of the lottery, any lottery. Think about all the stakeholders who depend on the operator to manage the business in a responsible way. You have shareholders, employees, government, and the good causes that the lotteries fund. The lotteries are truly a public trust and decisions about how to operate the lottery, or change the ownership or regulatory structure, should not be taken lightly. That's why we wouldn't take on a project that we may be qualified for but not necessarily to the high standard we hold ourselves to. If we do take it on, our stakeholders can be quite confident that our performance and results will exceed their expectations.

Your background includes casino gaming experience, doesn't it?

F. Stickler: I speak more on behalf of the lotteries now than casinos even though I began my career with Casinos Austria, working as a croupier while studying. Then I worked in international, then in the cruise ships casino operations, traveling around the world in the middle 80's, and continued to work my way through all the different areas of the business. In 1985 I was moved to the project team for the introduction of lottery in Austria. So I'm

coming from the casinos side but since 1985 have been on the lottery side. That's when we developed the formulae and systems for running the traditional lottery games in Austria and they have proven to be a huge success.

When I told the hotel front desk manager that I was meeting with you, he said, "oh, you mean Mr. Lotto!" There is a reference in the annual report to your being awarded the Responsible Manager of the Year in 2006 in the category of public interest. And it refers to responsible management reaching beyond core business and beyond responsible gaming. What exactly does that mean, "reaching beyond"?

F. Stickler: We have always tried to be ahead of developments, whether it is technology and distribution as with the Internet, or with organizational structure, or employee development, or with cultural changes. It's now called corporate social responsibility. But Austrian Lotteries and many of our lottery colleagues recognized long ago that the influence of institutions and corporations is much greater than the funds they turn over to good causes or the profits they turn over to shareholders. We all have an impact on hundreds of employees, on the environment, on the general public, and of course on the thousands of people who play the lottery. The concept of 'reaching beyond' means simply that it is up to us to see the opportunities to improve our performance and to take action to make improvements, because obviously we ourselves are in a better position than anyone to know where and how we can do better. If we wait for the government or the media to tell us to improve, then they are right to ask us why we did not realize it sooner and make the corrective actions sooner. We owe it to society, to our employees, to our players, to always be assessing our own performance and looking for ways to reach beyond our core business mission and do what we can to make this be a better world.

For instance, we began to integrate the Internet into our operations seriously back in 1997 and 1998. At first, it was just informational and creating a communications channel with our players. Then we started implementing games and enlarging the scope and mission of our Internet operation, ending up last year with more than 400,000 Austrian customers (5 percent of the Austrian population) and a turnover of €945 million. The business potential was apparent and we acted on that. But we also used the relationship we built with our customers on the Internet to evolve what we think of as

a new way of communicating with our customers. We could call it "responsible advertising," which it is, but it's also something more than that. We work hard to use this medium to create a more open and transparent dialogue and relationship with our customer. It's not only about promoting a "responsible gaming" and a "responsible advertising" agenda. It's not just about your fiduciary responsibility or complying with the laws or even staying one step ahead of the media and government expectations for being a good corporate citizen. It is about reaching beyond all these things, always thinking first and foremost about the welfare of all of your constituents, and that includes society as a whole. Our acting can be seen under the principle of sustainability and responsibility, this is the main difference to our competitors. I would submit to you that my colleagues in the WLA community all understand and act on these principles more than others in the gaming industry. I think that in the end we will all see that this is also the smartest business strategy. Another way to think about 'reaching beyond' is that we think beyond today and tomorrow to anticipate and always be exceeding the increased expectations of our stakeholders.

Your annual report distinguishes between maximizing results and optimizing results. How do you balance the need between protecting the player from playing too much and maximizing revenues?

F. Stickler: The concept of optimizing revenue is actually written in the Austrian Gaming Law. It is explicitly stated that the mission of the operator is to bring the best result, not to maximize revenue. So this is the principle we have to enforce. But we do now have shareholders who are expecting earnings to increase. One of the most critical attributes of a great product, a successful game, is that it not appeal too much to the problem gambler. We work closely with our regulator, and with scientists who help us develop games that are fun and exciting products but do not stimulate the impulse of problem gamblers. Responsible advertising is another component of an optimized approach. Again, just as with 'reaching beyond,' optimizing results for the benefit of everyone is also the best business strategy, from a longer-term sustainability point of view. It is an ongoing process, though, a work in progress that will always be changing and evolving.

Is it possible to apply the traditional model of free market capitalism with multiple enterprises competing for the customers to the

gaming business? More specifically, how does that traditional capitalist model integrate into this additional concept of optimizing versus maximizing the business?

F. Stickler: I think that's not only a question for the gaming industry. I think you're touching on a very crucial point in the world economy of today. The tradition of thinking that government regulations interfere with the way the integrity of the free market system seems to have resulted in lots of problems in the financial services industry in particular. I would propose that all industries make corporate social responsibility a foundational part of their mission and purpose. With respect to the gaming industry, I would say that there is not necessarily one perfect model. But the notion that the only regulatory criteria should be the protection of 'public order' is misguided. That is what the EU Commission and the ECJ are struggling with now. Everyone agrees that governments should have the right to regulate for the purpose of protecting the public and the players. But that is such a narrow concept of corporate social responsibility. We need to do that and so much more. For one thing, if your responsible gaming agenda is based on complying with the law, you will never have an effective responsible gaming program. The reason for that is simple. Technology, player behavior patterns, game development, everything changes much faster than the law can possibly keep up with. The codes of conduct that we impose on ourselves in our Internet operations, and in responsible advertising, and in all other areas of our business, were done years before the government and regulators even realized that there was a need. To answer your question, the traditional capitalist model does not include this distinction between maximizing and optimizing results. That's not to say that there aren't many leaders of private enterprises who are enlightened and perform as good corporate citizens and perform to a high standard of corporate social responsibility. But can society leave that to chance or to a wish and a prayer that everyone will maintain this idealistic ethical standard? How about when increased competition and shareholder expectations demand more focus on minimizing costs and maximizing revenues and profits? So my answer is that I think that all industries need to raise their standard of corporate social responsibility and that it would be a very big mistake to apply a laissez faire form of capitalism to the gaming industry.

Attention to the principle of 'public or-

der' and protecting the player is a vital part of optimizing the results. Another part of the goal of optimization is to channel the profits to where they can do the most good. We all know that shareholders deserve a return on their investment and that free market competition causes operators to look for ways to drive down costs to increase that return. Nothing wrong with that. In our business, though, the biggest cost factor is taxes and the funds that are channeled to good causes. So, free market competition results in private operators taking action to drive down those costs. How do they do that? By moving to low tax jurisdictions like Gibraltar or Malta where they do not have to pay the taxes or support the good causes of the country where the players actually live. Do you know how much money European lotteries as a whole contribute to good causes? It's over €2 Billion a year! Austrian Lotteries contributes over €60 million to amateur sports. That is a lot of money! The funding to good causes like public health, culture, sports, education and others would largely disappear if the EU Commission were to force member nations to open up the markets to free competition. The profits would obviously go to private operators based in low tax jurisdictions who would use their cost advantage to increase prize payout and take all the customers. I can't imagine that anyone thinks that is a good thing for society. The financial support of good causes is, in my mind, just as important as the preservation of public order and responsible gaming.

Do you see tax harmonization as a realistic possibility?

F. Stickler: Not in the near future, not for at least 10 years. It would be a possible solution, but it is simply not feasible in the short-term.

Will the European Union Commission come around to supporting the rights of member nations to control lottery profits for the benefit of the public or will they force liberalization on everyone?

F. Stickler: Commissioner McCreevy (commissioner of Internal Markets whose term expires this year) has a clear agenda. He wants to liberalize the gaming market. When he found that he did not have the political support, he changed tactics to route the issue over to the European Court of Justice. This is the wrong way for this issue to be handled. This is a political issue with very high stakes. Important policies like this need to be decided by legislation before they go to the Court.

The Court needs direction from the legislative side, from our political leaders, in order to enforce the law. Mr. McCreevy thought that the Court would act in a more liberal way than the European Commission or the national parliaments or the courts of the member states. It is a transparently manipulative attempt to have legislation be done by the court and this is really harmful to our system and undermines the political process.

Too, we have the principle of subsidiarity that says that matters that can be handled at the member state level should not be referred to the European Union Commission. Almost all the member states want to retain the right to control and regulate gaming within their own borders and not have a system imposed upon them by a central authority like the EU Commission. And for these issues to be referred to the ECJ without clear guidance from the EU Commission is the worst way to handle it. Until there is agreement among the member nations and the EU Commission as to what the policy should be, these matters do not belong in the ECJ.

It sounds like you think that the subsidiarity principle will prevail; that the right to control and regulate gambling will stay vested with the individual member states?

F. Stickler: If this is treated as a political decision and is allowed to be vetted like political decisions should be, then yes, I think the result will be that the EU Commission will agree with the member states that regulatory control should remain with the member state and that if the member state chooses to operate a monopoly for the benefit of the public then that is their right.

Is there evidence indicating that the EU Commission will apply the subsidiarity principle to the gaming industry?

F. Stickler: Yes, there is. Much of the discussion is now focused on online Internet gaming, but going beyond. On March 10th, the European Parliament has made a strong political statement that online gambling is a sensitive sector and internet operators must respect national laws. Let me just name some of the major arguments, this so called "Schaldemose-Resolution," that was passed with a majority of 544 votes:

- Member States have the right to strictly regulate and control gambling, in accordance with the subsidiarity principle and the respective tradition and culture of their country.
- The European Commission infringement

proceedings against 10 Member States do not touch upon the existence of monopolies or national lotteries as such, nor do they have any implication for the liberalization of the gambling markets in general.

- Gambling is not an ordinary economic activity and a pure Internal Market approach to gambling is not appropriate.

This resolution certainly marks a historic point in the European gaming market.

A slight digression, but I think you might find it interesting. I attended a legal seminar in London last week (January '09) for the online gambling group. It was attended and supported by the advocates for liberalization who want to open things up for private operators to sell across borders without incurring tax liabilities. There is a frustration on their part because they are realizing that even if they succeed at getting the ECJ or the EU Commission to decide something in their favor, they'll never get the EU to dictate all the terms and conditions upon which the nations will license companies to operate. And as long as the national government has control over those terms and conditions, the operator will not be able to skirt the laws requiring them to pay taxes. As you might imagine, they are very saddened by this state of affairs.

F. Stickler: Yes, but we need a mechanism to block the illegal operators. Without that, it doesn't much matter what laws we enact. And they will fight hard because they demand a tax rate that amounts to less than 1% of turnover. We pay a €500 million in taxes on €2.3 billion in turnover. That's over 20% in taxes. The private operators claim to be willing to comply with all the laws of the land. They say they just want to compete fairly for the business. That may be true except for the one small matter of paying taxes.

And I don't really recall who decided that it's private companies that are supposed to determine what constitutes a fair tax rate.

F. Stickler: Do you remember the discussion that was ongoing in England when the bookmakers basically told their regulator they might leave England if the tax was not reduced, protesting loudly that so many jobs would be lost because they would move to the Channel Islands or to Gibraltar? Taxes were then decreased for the English bookmakers to entice them to stay.

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What can be done about it?

F. Stickler: We are working very hard within the framework of the executive committee and also within our representation in Brussels to make our standpoint very clear and very public. That means that we in my view have to speak up much louder and that we have to clarify certain circumstances. For example, the tax issue that we were just talking about. Private operators claim to be paying 10% taxes. And we pay 20%. Not so far apart, right? Wrong, because they are referring to 10% of net profit, the amount that's left after paying prizes and expenses. 10% of net amounts to less than 1% of total turnover. When we refer to paying 20%, that's 20% of gross turnover. When you introduce the element of competition into the business, it completely changes every aspect of how you operate. And that happens as soon as you have more than one operator. As soon as you allow two operators, you have competition. As soon as that happens, the pressure to decrease taxes, increase market share, and increase prize payouts sets in. Just like in the UK, the operators will threaten to leave if you don't do things their way. So we need to do a better job of communicating these facts to the public and our political leaders.

It seems to me that there is already a state of confusion over how France is opening up the market. How is that going to work?

F. Stickler: France is attempting to implement a solution that allows for multiple operators in the single market but in a "controlled" structure. When you think about it, how do you implement this kind of a "controlled opening", as for example France allowing only licenses for sports betting and poker on the internet, with a sustainable taxation.

Your Internet initiative, Win2Day ... How do you manage what I call channel conflict?

Did your land based retailers complain about losing business to the Internet?

F. Stickler: It is true that in the beginning our retailers thought they would lose a lot of turnover to this new channel. But the fact is that it is a younger demographic that is coming to the lottery on the Internet, people who may never have played if it weren't for our Internet program. The traditional lottery player did not stop buying from the retailer and go on the Internet to buy. No, instead the new Internet customer is much more likely to become a customer of the retailer than vice-versa. We now have more than 400,000 registered Internet players, most of whom are new to the lottery. People will always enjoy buying lotto at their retailers, so the retailer business has increased as well. It's not a conflict and our retailers see that now. Of course, it helps when you have the big amounts, and when you have a big jackpot like Euro Millions, then everybody is playing.

Like you had in 2006, but apparently not in 2007.

F. Stickler: Yes. But 2008 again became much better and we have a strong growth in Euro Millions also. I see a big future in pooled games. Joining together to implement games that involve multiple countries is very exciting. It's fun for the players, it creates bigger jackpots, so I see it as a wonderful thing that we can collaborate to make these kinds of pooled games work. It's one of the big advantages of the way our industry is configured, with monopoly operators in different countries who can work together to create these kinds of games. This is especially good for a smaller country like Austria. With a population of 8 million people, it is hard for us to generate the super big jackpots that EuroMillions brings.

The biggest rate of increase is now in VLT's. Do you think you'll maintain what appears to be 30% plus annual increase on what is increasingly robust base revenue?

F. Stickler: Yes. We have opened some new outlets and are continuing to expand, but focusing on higher-end outlets, smaller classy establishments in mid-size Austrian cities. So we are doing everything in a responsible fashion, being careful to not expand too quickly or push gaming onto the marketplace. So the VLT business is working quite successfully.

Mobile, cellular, what is the status of that? Any plans to re-introduce a mobile gaming initiative?

F. Stickler: This is funny. Just earlier today, I was chairing this sports betting working group of European lotteries in Munich, and we have been discussing a seminar we are having in May. This is a WLA and European Lotteries event. And we have thought about putting Mobile gaming on the agenda. I remember how eight or ten years ago that so many of my colleagues were convinced that Mobile would be the next big thing, tremendous growth potential and all. I was skeptical then and I am still skeptical. I do not see people playing on their mobiles, even when it's an iPhone or whatever, I don't see it happening right now.

Do you know of anybody who has successfully implemented a Mobile gaming program?

F. Stickler: No. Many have tried, nobody has really succeeded as far as I can tell. I do not see Mobile gaming as the area of growth for the next few years.

What thought would you like to close with?

I would like to go on record as being quite confident that the subsidiarity principle will prevail and that member states will retain the right to control and regulate gaming within their own borders. It is the right resolution, politically and legally, and in no way impedes the economic imperative of opening up other markets to free and open competition. Gaming is in fact a special industry for all the reasons we have discussed and governments should be allowed to manage it sustainably in the way that best serves the interests of their citizens. ♦

about the areas they seem to be interested in.

Presently there are only two sustainable arguments to justify having the lotteries be a monopoly, according to the EU Court of Justice. One is to fight against crime, and the other one is to prevent social problems. Knowing our customers is the key to both of those. Organized crime is a very big and very real threat, and poses a serious threat to the integrity of both sports and the lotteries that run sports betting. It's not only a question of sports betting, but it can also be any high pay out games, like casino games. Money laundering is a huge business. Globally it's the way the drug smugglers launder huge profits or a terrorist organization gets financing. Knowing the customers and the sources of funds and transactions is critical, and we need those capabilities now.

Have there been instances of rigging sports matches and money laundering?

J. Isotalo: Yes. There are clear signs that match fixing in sports has increased all around the world. We have a lot of examples and even more allegations. We know that it's not easy to trap those criminals, but we can see that it is happening. When you see something very odd going on in sports, there is almost always a reason for it. And yes, there have been a number of public confessions. Sportsmen that lose or 'throw' the game, referees that take bribes to give a penalty to the wrong team. This is a serious matter. And as long as it is possible to place bets anonymously, the tracking of these kinds of things is difficult or impossible. For the players who are not engaged in criminal activities, there is not an issue with paying with open accounts. Clearly, in the future, all money gaming, whether online or in casinos or anywhere, personal identification for just these reasons, to track the source of funds.

But you don't have all of your players identified, do you?

J. Isotalo: Not yet. But we are on track. At this very moment we have 900,000 Finns who are already our registered players. My vision is that within a few years all the players will be identified and all transactions be traceable.

Customer relation strategy is about having this one to one relationship, and that's about having your player remove the veil of anonymity, of basically becoming known to the operator.

J. Isotalo: Exactly, yes. I see that the main task of legalized state lotteries is to channelize the natural demand for money games into legal, strictly controlled and responsible operators. That is our big task. The special bonus for registered customers is that there will be no prizes that remain unclaimed or subject to retailer dishonesty, because the prize money is automatically paid to player's account.

Do you see Internet sales increasing as a percentage of total sales?

J. Isotalo: Yes, it will definitely increase, but it will not overtake the land based distribution. I personally don't care for the vision of the future in which people just stay at home sitting at their desktops surrounded by electronic contraptions, never having to go into a store and actually interact with a human being. I would hope that we can keep the joy of shopping for people, and so I'm strongly in favor of continuing to invest in traditional land-based distribution. Make the point of sales more entertaining and appealing.

That's a refreshing idea coming from somebody who has been so successful at the Internet channel. Has it been a difficulty maintaining the loyalty and cooperative support of the land based channel if they see you selling the product in what they would think of, perhaps, as a competitive way of selling?

J. Isotalo: This is a challenging matter, but since the Internet has become part of everyone's life, our retailers understand very well that if we hadn't gone to the Internet, we would have left this platform open to non-licensed operators. We need to make our products available wherever the public is, and the public is definitely on the Internet. This is the only way we can keep most of the Finnish players' money in Finland. On the other hand, we have invested heavily in our land based distribution and so they have been able to increase their sales. Everyone should be happy.

Part of the whole strategy in keeping that player percentage up at 85% engagement is to have a channel mix that reaches people where they happen to be.

J. Isotalo: Yes. It is important to recognize that most Internet players also buy at retail stores as well, and that the different channels reinforce the customer bond in ways that helps everyone succeed, including the land-based retailers.

Do you have Internet poker, and how is that done?

J. Isotalo: There is no license for Internet poker in Finland yet. Poker has become very popular in the last two years, and it's presently only served by non-licensed operators who are thus operating illegally in Finland. I think that in the future this matter must be solved. Again, we come back to the importance of having legal and regulated operators for the games. Their task is to channelize the demand into a legal, well-controlled and responsible gaming venue. And without a domestic offering, this task cannot be fulfilled. Maybe it would be the Slot Machine Association because they already run casino games. The situation we have now is not good for anyone. The players play on unsecured websites which are unregulated, and the money leaves Finland.

Do you have any comment on the way in which the European Union Commission, the ECJ and the policies might change as a result of Charlie McCreevy leaving? It looks to me like the tide has changed in the last six months, like the European Commission is starting to appreciate that they don't want to push liberalization of the gaming industry too quickly on the member states.

J. Isotalo: Well, let me start by saying that I'm a friend and supporter of the market economy. But I believe it always needs a social and ecological conscience with control mechanisms to make sure that the public is not harmed. Without the methods to regulate it, it's like a Ferrari without a brake pedal, and we have seen in recent months what can happen if you are not in control. I think the change of attitude which you have recognized within the European Union is very much due to the economic crisis that is going on in the world. Additionally, we have worked hard to find solutions in which we can maintain the principle of subsidiarity, which means that all legislation that is possible to make on a local level is based on the local legislation. The EU should legislate only in those areas that are not well handled at the member state level. I am strongly in favor of subsidiarity as it applies to the regulation of the gaming and lottery industry. But there are areas that seem not to be easily solved with national legislation. An example is, of course, the cross border online betting. My thought is that there is a certain need for a new European regulatory framework. The European Court of Justice has giv-

en judgments in 14 lottery cases. There are no severe losses. But there are another 15 cases pending, and the private companies, many of which operate in tax safe havens, are pushing hard to liberalize the market. Since we do not now have an effective European regulatory environment concerning money games, it can lead to the court becoming a legislative body. This is fundamentally wrong, because I believe that the legislation should be made by politicians, not by judges. This is a big challenge in the near future. We have to solve certain things on a European level, and we have to have a good dialogue with the European Commission. There will be changes. As you

know, we will have the election of European Parliament in June. The current Commission goes and the new Commission will be nominated. When it comes to the role of the Commission, it has traditionally been the guardian of the Treaty, which includes the principle of free movement of goods, services and people. But on the other hand, lotteries and money games were excluded from the service directive. The argument was that money games are an economic activity of a special nature. And then there is a reference to the considerations of social problems and criminal behavior.

European Parliament gave its strong support to national lotteries in March, voting

by overwhelming majority for a resolution on online gambling. In this resolution, the Parliament insists that profits from gambling should be used for the benefit of society.

It would be wrong for the EU Commission to force the member states to open up the gaming industry to a free market. That would be a very big mistake from the point of public order and harmful to everyone except the private operators' shareholders. This would lead to chaos in a multi-billion dollar market that supports good causes. This simply must not happen. ♦