

SMART-TECH PRESENTATION:
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UNIVERSAL PRINCIPLES FOR LOTTERIES

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In December 2010, the Council of Ministers of the European Union, composed of Ministers of the 27 Member States of the European Union, unanimously adopted a number of political conclusions to be taken into consideration for developing further legislative actions in relation to online gambling in Europe.

Among those conclusions are important statements regarding the specific role of State Lotteries.

THE SUSTAINABLE CONTRIBUTION OF LOTTERY AND RELATED SERVICES TO SOCIETY

13. RECALLS that all EU Member States have different types of state lotteries or lotteries licensed by the competent state authorities, providing lottery services. (...)

15. RECOGNIZES that contributions, in particular from state lotteries or lotteries licensed by the competent state authorities play an important role for society, via for example the funding of good causes, directly or indirectly where applicable.

16. AGREES that this specific role should be recognized in discussions at the European level.

The problems and issues we are facing are common to lotteries

all around the world. Problems sometimes originate in Europe, sometimes in United States, but everywhere there are discussions regarding the use of the Internet (and tomorrow's issue of social gambling), that actually all need to be addressed properly. Lawmakers and shapers of public policy are starting to look into manipulation of sport events, the very intense globalization of cybercrime, money laundering risks, and the need to find proper international solutions for these problems through the OECD/FATF guidelines, and universal CSR questions.

Issues large and small abound. For instance, Lotteries around the globe were recently obliged to initiate (through the WLA and EL associations) ICC arbitration regarding the new Generic Top-Level Domain Name ("gTLD") for the extension LOTTO. An Irish private company obtained the rights on the extension LOTTO and can now give licenses to everyone, even illegal operators, to use such domain extension and create confusion all over the world. Logically, both lottery associations (WLA and EL) are fighting against it.

It is thus clear that Lotteries around the world need to become more proactive and work together to defend themselves against these common threats. Take the example of Corporate Social Responsibility (CSR). What we've seen in Europe is that every operator in the gambling industry is going to great lengths to promote their deep commitment to Corporate Social Responsibility. The remote gambling operators have their pan-European level "CEN" standards which they hope demonstrate their commitment to responsible gaming. The reality is very different. The reality is that the community of remote i-gambling operators has diminished the fundamental CSR principles. They pay lip-service to CSR and RG for public relations purposes but do little to help society or protect the consumer. Whereas lotteries' genuine commitment to CSR and RG have resulted in the highest standards of integrity, and an approach to the business that is consistent with the inter-

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ests of society and sustainability, today we see that the word CSR has been banalized by the remote gambling industry. We need to embrace the challenge to consolidate the leadership role of Lotteries in CSR. Better would be to even redefine the meaning of CSR to reflect the difference between what Lotteries do and what the remote i-gaming operators do. Lotteries need to move beyond traditional CSR and put their high values even more at the center of their brand and core values.

Lotteries all around the world actually share the same goals and values. Our political constituents and the public we all serve would benefit by understanding the importance of these shared values. That is why Lotteries would benefit from the establishment of a set Universal Standards that redefine what it means for a business to be committed to creating societal benefit. A set of Universal Standards based on a redefined mission including CSR could be integrated into a global brand of Lottery, powerfully augmenting the market-specific brand that each individual Lottery maintains for itself.

Over a number of years, The European Lotteries developed a number of these principles. Between 2009 and 2011, various resolutions were adopted and further detailed at general assemblies in Istanbul, Barcelona and Helsinki. Despite the differences, Lotteries share the same fundamental values. The EL Association has endeavored to identify, articulate, and reinforce those values. The EL is now working hard to communicate this commitment to all Lottery stakeholders. Central to those values is that Lotteries place social and public order over purely economic interest. Consumer protection, law enforcement, and the fight against fraud and crime are at the center of the Lottery's mission. All over the world, Lotteries play a key role for society by distributing their profits largely to good causes and thereby supporting the non-economic values of today's society. It is these values which separate Lotteries from commercial gambling operators. Even those operators which comply with the rule of law do not have the genuine commitment that Lotteries have to serving and protecting the interests of society. We need to promote that fact!

What Lotteries have been doing at the European level with

those resolutions could serve as the basis for developing a framework of Universal Principles that can be used in all jurisdictions all around the world to represent to politicians that how Lotteries operate, their commitment to CSR and RG and serving society in a sustainable way, is actually no different in Europe than in the U.S. or Canada or South America or Asia. Lotteries stand for something completely different than commercial gambling operators, and this difference can be represented in and expressed by a set of Universal Principles. Is there an opportunity for a universal approach? Can we come together in a Lottery Partnership that includes Lottery vendors as well as Lottery operators, and can we promote on a world scale this sustainable partnership with society? Perhaps these three components could serve as an initial basis for such a partnership?

Starting with the partnership with society: We can base it upon the principles that the European Lotteries developed over the years. In Europe we have a name for the concept that all business of lotteries is "embedded in the state." It is an important legal term which we call "subsidiarity." It means that public policy as regards to gaming, gambling, and lottery is driven by the interest of the state and is within the state competence. We are not driven by the interest of a global community, or by some macro-economic ideal of free-market capitalism. The interests of the citizens of the state should be represented at the state jurisdictional level and supra-state entities like the European Union and the U.S. federal government should respect the rights of the state to determine public, regulatory, and taxation policies as regards to this sector.

The second principle that comes from The European Lotteries resolutions is solidarity. Namely, whatever we do, we do it in order to create benefit to society. The creation of a better society is central to our corporate mission and integrated into the fabric of our businesses. And we do it in a way whereby there is no potential compromise on our principles.

The third principle, Integrity, is of the utmost importance. Integrity is what makes a Lottery so different from the private operators who really are more concerned about enriching their shareholders than about their public stakeholders and the community. Lottery must not only comply with the highest standards, Lottery must be the ones to continually raise the bar and set those standards. That will not be hard to do since that is what Lotteries have always done.

The last element is Precaution. We need to take care that everything we do always reflects the highest standards, the Universal Principles that we have established for ourselves. That is our brand and is our most valuable asset and we must take every precaution to protect the societal values and commitments. The Universal Principles include our commitment to protect people against the risks of excessive gambling by offering them attractive but low risk games which are a good alternative for other more aggressive games. We need to study and prevent addiction. We always need to remain ahead of problems and make sure we do not create harm to society. Otherwise we undermine our solidarity principle. So we monitor development. We educate people. All of



that is part of our partnership with society. And we need to have a proactive approach towards making all this happen.

There is also a partnership between the lotteries. Lotteries are promoting a cooperative model, while the private sector is promoting a competitive model. Lotteries are not pursuing a market model driven by competition which results in constantly increasing the prize-payout percentage in order to increase demand. The purely economic cycle of improving the value proposition in order to increase consumption may work well for commodities that do not have social costs. But it is a destructive model to impose on the gambling and lottery industries because it creates problem gambling and addiction.

Lotteries are actually working together but with respect for each other. These cooperative models have proven to be very efficient and very effective, it provides also equal opportunities and solidarity. We see it in coordinated games as EuroMillions, Euro Jackpot and Powerball and MegaMillions. We see that lotteries cooperate, exchange information, and they can do that freely because Lotteries are not competing against each other. This also creates the foundation for sharing values in a big-picture way. It goes back to the basic principle that Lotteries are embedded in their own society, they pursue other than purely economic objectives, and their genuine commitment to CSR is a shared value that takes on a global significance.

Finally Lotteries must develop a partnership with their commercial suppliers because they need to be able to respond to changes in society as well as the market-place. Today's young adults meet on Facebook or other SNS. These Social Networks are much more than a marketing medium. It is where society meets now, it's where they communicate, engage and share and bond with each other. It's where parties are organized, opinions expressed, recommendations proffered, questions and requests for advice are made, and where even games are played. This is the natural environment that has become a part of all social interaction and communication. And that's where we see now also social gambling emerging, which is most likely going to be a far more problematic issue for regulators than the "classic" internet gambling. Lotteries need their suppliers to think and work together with the lotteries on innovative solutions to be able to continue to pursue the model that serves their beneficiaries. Their business strategies need to evolve to stay also relevant in this new world of Social Networking. The challenges are many. For one thing, there are pressing technical challenges. For example, in Europe there is a new legislation coming up on money laundering that will require lotteries to establish customer identification tools. When a player puts a stake over 2000 Euro and/or a suspicious bet, the player will need to be identified, just as winners above 2000 Euro need to be identified. It means Lotteries need to think about new tools, how they will be able to sell lottery products as they remain responsible for their various points of sales. And therefore they need to work together with their suppliers and with their colleagues on solutions. This is the cooperative model that will enable Lotteries to maintain their leadership role in society and in the market-place.

Building such a partnership can only strengthen the position of Lotteries in their respective jurisdictions. We see the debate on liberalization of internet gambling and we need to be able to respond to that. Consider the trans-Atlantic negotiations between the USA and the EU on a Free Trade Area Agreement. According to the British Prime Minister, no single service sector should be excluded up-front. Lotteries are such a service sector and Lotteries need to take action to ensure that these negotiations do not put their model at risk. The previous WTO case initiated by Antigua & Barbuda did put the US market at severe risk and these current negotiations will be much more impactful and binding than any earlier ones. The specific role of Lotteries and their substantial contribution to society can be undermined if Lotteries do not join forces around the world to tell their governments that the principles they stand for are common to all Lotteries, and thus they are Universal Principles, and they are worth defending for the long-term benefit of society.

It is important that our political leaders around the world, whether it's the US Senate or the European Parliament, understand the lottery model and recognize its role and its value to society. They need to understand the universality of the lottery model and the common strength and benefit of lotteries around the world. Lotteries have not been as effective as they need to be to prevent the destruction of the government-gaming model. The EL, NASPL, and the WLA do attempt to inform our political leaders in Brussels and Washington, and did act to defend the Lottery model against the Remote Gambling Association in the EU Trade Barriers case. By promoting the idea of Universal Principles, Lotteries can have an important impact on the political dialogue and can actually affect the outcome of these trans-national problems. These Principles could be the basis for a real partnership that would be effective at defending the goals of lotteries and promoting the value sharing of lotteries around the world. Lotteries create value for society and are therefore today an example of the "Shared Value" approach promoted by Harvard Business professor and WLA keynote speaker Michael Porter (Porter, M.E., Kramer, M., Creating Shared Values, Harvard Business Review, 01-02/2011, p.4). ♦

"Companies must take the lead in bringing business and society back together"

"The solution lies in the principle of shared values, which involves creating economic value in a way that it also creates value for society by addressing its needs and challenges"

"Shared value is not social responsibility, (...) but a new way to achieve economic success. It is not in the margin of what companies do but at the center."

SHARED VALUES beyond CSR

(Porter, M.E. & Kramer, M., Creating Shared Values, Harvard Business Review, 01-02/2011, p.4)