



EPMA

PARI MUTUEL EUROPE

WHITE PAPER

**SUSTAINABLE FUNDING OF THE EUROPEAN
HORSERACING SECTOR
THROUGH PARI MUTUEL BETTING**

September 2008

European Pari Mutuel Association

www.parimutuel-europe.org

FOREWORD

From the EPMA Board of Directors

Our Association is young but our experience as gambling operator is considerable. Based on our knowledge, this reference document has the objective to spread our messages and continue to position ourselves on the legal and economic scene of the gambling sector. EPMA members hope to share their aims with European decision-makers: to provide fair services and to preserve part of European cultural know-how.

It is well timed as European Member States and the European Parliament will debate gaming and gambling issues during autumn 2008.

With a view to educate and inform, we, the European Pari Mutuel operators, have collectively written this document and are supported in this by many European horseracing authorities.

On behalf of the entire membership of EPMA, we sincerely hope that this White Paper will serve as a useful tool in the political and regulatory debate on the future of gaming and gambling sector in the European Union.

*Bertrand Bélinguier,
President PMU
Chairman of EPMA*

*Remy Nilson
CEO ATG
Treasurer of EPMA*

*Trevor Beaumont
Executive Director UK Totalisator*

*Alexis Murphy
CEO Tote Ireland Limited*

*Mattis Asplin
President Norsk Rikstoto*

*Antonio Tagliaferri
Game Director AAMS*



EPMA members in Stockholm – April 2008

MESSAGE FROM THE HORSERACING AUTHORITIES

International Federation of Horseracing Authorities

Horseracing is interlinked with betting almost anywhere in the world and as authorities, we pay much attention to the way it is organised. It is the foremost contributor to the financing of our activity and it gives us the best possible guarantee for ensuring the integrity of the sport.

In the vast majority of countries around the world, the pari-mutuel model is the main, if not the only form of betting. Contributions from pari-mutuel betting have allowed us to develop horseracing into an important economic activity that employs several thousand people in Europe.

Racing authorities work in close relationship with pari-mutuel operators and we welcome the creation of a European organisation of pari-mutuel betting operators to promote their activities and to ensure that policy makers understand what pari-mutuel means to our sport and adopt proper and fair laws.

We trust that the EPMA White Paper will provide useful information for European decision makers and regulators in their legal approach of the market.

Louis Romanet
IFHA Chairman



European Trotting Union: UET

Members from 18 countries organising trotting races in Europe signed a Declaration on January 2008 asking "to support the lawfulness of the races and fairness and transparency of the betting, and... to uphold the mutuel betting system in our countries." The Declaration, sent to national and European decision makers is clearly supporting the Pari Mutuel operators.

Europe's trotting sector represents 65 000 races each year on 400 racecourses, with the participation of 73 000 horses. The total turnover of betting on trotting is €7 billion annually. Approximately 15 % is given back as payment for the service providers in horseracing, as prizes, payment for the tracks and personnel, promotion of breeding and other necessary purposes and costs.

The economic and socially responsible attitude of the Pari Mutuel operators, as enhanced in this White Paper, should be preserved and taken into account by our governments when adapting regulations to economic and technological changes.

Patrik SANDIN
President of UET



EXECUTIVE SUMMARY

The European Pari Mutuel Association brings together leading operators present in 10 countries. As historically experienced actors in the gambling sector, they are entitled to submit their views and position on the development of the gambling sector. In this White Paper, the EPMA describes the challenges currently faced by the European horseracing sector.

As betting operators, Pari Mutuel organisations have a dual objective, offering the best entertainment value to bettors in a fair and moderate way and serving the European horseracing industry in its long-term development. A large majority of horseracing organisations have acknowledged the benefits of the Pari Mutuel model as the best tool to preserve and develop their industry.

Member States have started a dialogue on the subject of gaming and gambling with the aim of agreeing on a political document to promote their common interests on the subject. EPMA supports this approach hoping it will create the conditions for adherence to the following **common principles**:

Guaranteeing the right for Member States to define a national legal framework assessing the model on which betting is organised.

- Each Member States can define under a licensing system the various requirements essential to respect at national level.
- Member States can promote the betting model corresponding to public order and funding national priorities such as Pari Mutuel on horse racing.
- National rules must avoid tax competition

Recognising the right of sport event organisers to get a fair return on betting revenues generated.

- Create a regime for sports betting that enables a fair return to sports for the use of their events by betting operators.

Promoting the sport by preserving integrity.

- Supporting the approach of the Sports Rights Owners Coalition – have the possibility to ban betting on an event or to control the various forms of betting (ban intra-event bets, side bets etc).
- Considering the costs of addressing integrity risks by providing relevant funding and not diverting resources away from training, social structures, rural development, etc.

Implementing obligatory responsible gaming rules.

- Organise the measurement and apportionment of the costs to gambling.
- Fund social and medical analysis to set up the best prevention mechanisms.

Organising coordination of Member States to control illegal betting activities with strict legal penalties.

Invented in 1864 to reduce the risk level of bet taking and to facilitate the processing of bets, **Pari Mutuel has become the most widely used form of betting on horse races accounting for 78% of horserace betting in the world. In Europe in 2007, it totalled €14 billion. Out of that sum, more than €11 billion returned to the winning punters and as much as € 1.5 billion was reinvested in the European horse industry and racing, a considerable investment which represents more than 200 000 people directly employed by the sport.** These figures can be doubled if all indirect employment is taken into account, often at the crux of regional development (Normandy, County Kildare, etc.).

Compared with other sports, horseracing mainly relies on betting revenue, which can be explained by the early introduction of betting legalisation and the recognition of the right of horseracing to benefit from this revenue. In addition to this historical link, both activities have developed symbiotically, particularly for Pari Mutuel operators, which are often set up and supervised by the racing authorities.

A socially and economically responsible attitude of the Pari Mutuel operators has grown over the years in order to respond in a moderate way to the demand of the players and to ensure the long-term sustainable development of the sport. The values of the Pari Mutuel model, transparency, neutrality and integrity, as well as fairness amongst punters, are now being examined by other sports federations and Olympic organisations.

Newcomers on the gambling market have not been subject to the same requirements from the start and have developed their activities according to a completely different economic model. As a result, the different “players” on the European market are not competing on the same basis and do not share the same objectives.

To reach the same level playing field for all actors on the market, Members States have to modernise their approach to gaming and gambling. National legislation, which has regulated the market for more than 100 years, has to adapt to the evolution.

To respond to this technological and economic transformation, a thorough analysis of the benefits and risks brought about by these changes must be assessed at national and European level.

Although gambling activities have been considered by many as a normal service, it involves internal risks that cannot be ignored by legislators. European decision-makers are now in the position to evaluate those risks and lay down common principles so that the market can develop properly.

EPMA members hope to share their objectives with European decision-makers: to provide fair services and to preserve part of European cultural know-how.

For this to come about, Pari Mutuel operators continue to innovate without, however, losing their *raison d'être*.

European Key figures - 2007

€ 30 billion for the total betting activity on horseracing:

€ 14 billion collected by EPMA Members:

€ 11 billion returned to the winning bettors

€ 1.5 billion returned to the horse sector

20 million bettors

100 000 horse owners

40 000 breeders

200 000 people directly employed

500 racecourses

80 000 horse races

110 000 different racehorses involved

Pari Mutuel is globally the most widespread form of betting on horseracing, accounting for 78% of betting stakes worldwide.

Except for the UK and Ireland, Pari Mutuel is the dominant or exclusive betting model of the major horseracing nations.

Contact EPMA : contact@parimutuel-europe.org

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INTRODUCTION

The leading European Pari Mutuel operators have joined together to promote their business model, the Pari Mutuel system for betting as a vital support for the horse sector in Europe.

Members of EPMA are present in 10 countries, traditionally active in developing horse races and horse breeding: Austria, Finland, France, Germany, Ireland, Italy, Norway, Sweden, Switzerland and the United Kingdom. They have developed efficient tools for a sustainable future of the horseracing sector and fairness and protection for consumers. Out of a turnover of € 14 billion collected by EPMA members in 2007, played by more than 20 million punters, **more than € 11 billion returned to the winners and € 1.5 billion were paid to the horse sector.** The sector is of great importance from an economic, ecological and cultural point of view with more than 40 000 breeders in Europe and 200 000 people directly employed contributing to a great extent to rural development.

Recent changes in the European betting market brought about by Internet gambling and legal developments put forward by the European Commission and national governments are challenging traditional betting operators with an impact on the European horseracing sector.

EPMA members, as responsible actors, want to provide an overall understanding of the importance of the horseracing sector in Europe, the way it operates through betting funding and demonstrate how Pari Mutuel has become the most appropriate partner of the industry.

Benefiting from long-standing experience, EPMA members have pooled their common knowledge of the market and submitted proposals for a sustainable future in a changing European context.

1- THE BENEFITS OF THE EUROPEAN HORSERACING SECTOR AND ITS NEED FOR BETTING REVENUE

European horseracing is a truly competitive sport aimed at improving horse breeds through competition. It is organised locally by horseracing bodies and processed by a whole vertical industry. The horseracing sector was originally interlinked with betting activities which are its main source of funding.

A) THE BENEFITS OF THE HORSERACING SECTOR IN EUROPE

Horseracing plays an important role in the European sporting landscape and its benefits can be perceived in other economic sectors due to the activity it generates. Moreover, in many countries it is considered as an integral part of social and cultural life with a long tradition and impacts on the agricultural, environmental, educational and leisure sectors.

Sport and its economic impact

Europe is the birthplace of horseracing. It is unique as it offers races in the three disciplines, flat, jump and trot. It plays an important role worldwide with top races and world champions. More than 80 000 horse races are organised yearly in Europe on almost 500 racecourses with 110 000 different racehorses involved per year¹.

European racing is broadcast all over the world including the US, Australia, South Africa and Hong Kong. The Prix de l'Arc de Triomphe, the flagship of French gallop racing, can be seen in 200 countries and is broadcast to 200 million households.

The horseracing industry directly employs more than 200 000 people in Europe² with a large variety of jobs including breeders, trainers, jockeys and drivers, stable staff, employees of the betting sectors, etc. Thousands of indirect jobs can be added to the total.

Horseracing supports a flourishing betting activity with € 30 billion stakes in 2007³.

Turnover of horses sold privately and at public sales total more than € 800 million for thoroughbreds only annually⁴. European-bred horses are sold to many countries outside Europe such as the United Arab Emirates, the United States, Japan and China (Hong Kong).

¹ EPMA figures 2007 (all figures in the document correspond to the European market unless specified).

² IFHA and UET figures.

³ IFHA figures 2007 adding bookmaking and Pari Mutuel turnover for the European market.

⁴ European Federation of Thoroughbred Breeders Associations (EFTBA) 2007.

Cultural and ecological benefits

Every day, millions of horse lovers and bettors view races across Europe. Betting on horse racing is a traditional leisure activity for people in many countries with more than 20 million bettors in Europe. Horseracing bettors enjoy a challenging game which mixes luck and expertise with the opportunity to socialise at betting outlets and on the web.

Horseracing as a sport encourages social cohesion. For instance, the Grand National in Great Britain or the Elitloppet in Sweden are considered national events.

Horseracing is such an attractive sport, that many European horseracing associations are non-for-profit associations and most of their stakeholders are volunteers.

Horses contribute to the preservation of rural landscapes. The economy of rural European areas such as Normandy in France or County Kildare in Ireland is strongly linked to the horse racing sector. Horse feed is produced locally and contributes to jobs and the demand for agricultural products. At least 100 000 hectares of grassland are used for thoroughbred horses alone⁵. Such land would not have any economic use otherwise.

The horse breeding industry also results in the protection and promotion of existing breeds (maintaining the diversity of breeds such as cold-blooded horses in the Scandinavian countries).

B) THE HORSERACING ECONOMIC MODEL

Creating a top champion and organising high-level races take years, investment and expertise in breeding, training and riding. The small to large-scale structures involved need adequate resources in order to thrive and develop. Their work is mainly funded by owners.

The owners and covering costs

There are more than 100 000 owners⁶ in Europe who need to cover the costs of acquiring, stabling and training their racehorses, with a wide diversity of economic situations: from renowned stables owned by a single person to horse syndicates with dozens of people sharing a single horse through the rural family business. The price of a horse can vary considerably and ranges between €10 000 to €50 000 on average⁷. Stable costs per horse are also high from €1 000 to €1 800 /month.

The aim of the owner is to maximise the money earned through prize money (amount paid by the horseracing associations to winning horses) in races and other activities directly linked to the performance of horses in racing such as breeding and horse sales.

⁵ European Federation of Thoroughbred Breeders Associations (EFTBA) 2007

⁶ IFHA and UET figures

⁷ August 2008 yearling sale in Deauville reached the average of €111 000: www.arqana.com

Prize money, which accounts for large amounts per year in the main racing countries (€ 350 million in France - € 155 million in UK), while only partially covering financial needs, is decisive in any decision to continue racing. The percentage of stabling and training expenses covered by prize money won per horse ranges in the main European racing countries from 56% in France to 24% in the UK.

Racing management costs

Horseracing authorities which organise racing also provide large investment and support operating costs.

Racecourses represent important capital investment. For example, € 350 million between 2004 and 2006 for the redevelopment of the Ascot racecourse⁸.

Like other sport federations, the horseracing authorities are responsible for providing prize money to competition winners with a total of **more than € 1 billion**⁹ paid in 2007. As far as the Grand Prix are concerned, the horseracing authorities compete with ever-increasing prize money to attract the best champions worldwide and to make their racing industry among the best. Offering attractive prize money prevents owners from selling or exporting their best horses to countries such as Hong Kong or the United States where purses are especially high (cf. Breeders' Cup).

The highest prize money at racing events in 2008 - comparison with major sporting events

HORSERACING EVENTS		OTHER SPORTS	
	<i>In million of US \$</i>		<i>In million of US \$</i>
Breeders' Cup (USA)	24 (2007)	Wimbledon (tennis)	23.5
Dubai World Cup Festival	21,2	Roland Garros	21,8
Melbourne Cup Carnival	16	The British Open (golf)	8.5 (2007)
Japan Cup weekend	8.1	US Open (golf)	7.5
Prix Arc de Triomphe weekend (F)	9.4	US Masters (golf)	7.2 (2007)
Royal Ascot	7	Tour de France (cycling)	4.5
Cheltenham Festival (UK)	6		
Grand National Meeting (UK)	4.3		

⁸ Ascot redevelopment facts and figures www.ascot.co.uk

⁹ IFHA Figures 2007

C) AN ORIGINAL FUNDING SYSTEM THROUGH BETTING REVENUE

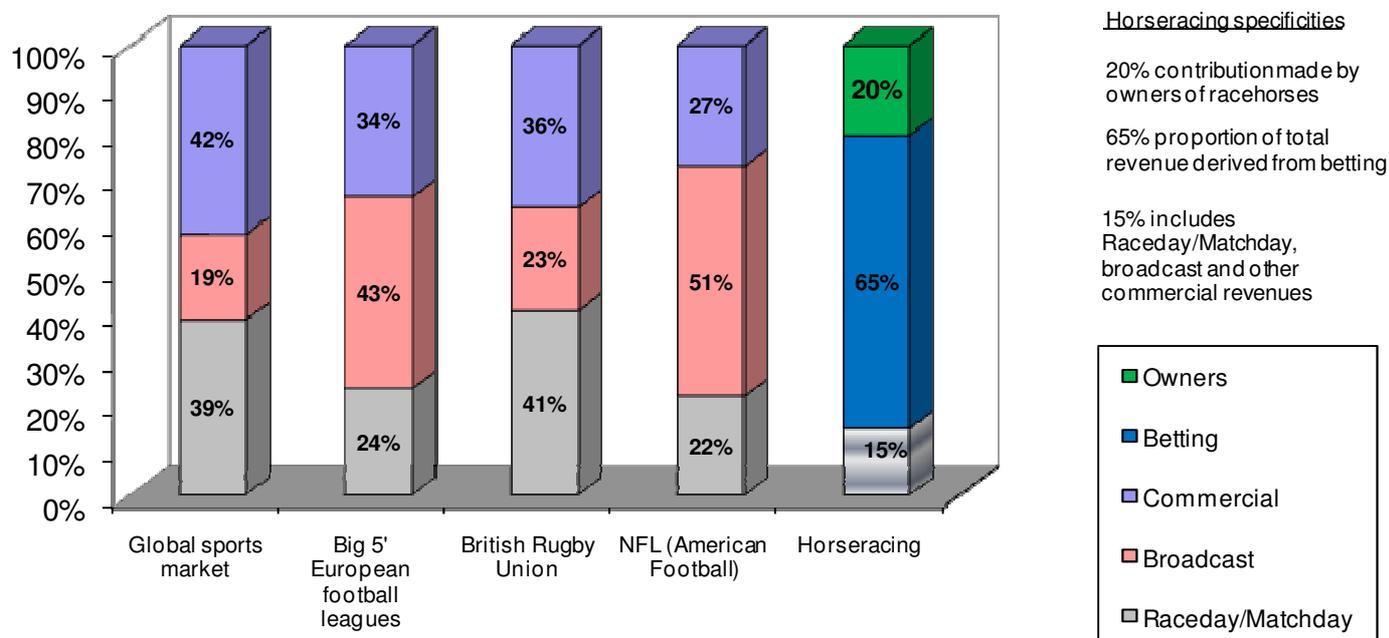
The economy of the horseracing sector is mainly supported by betting

The European white paper on sports covers the various ways of funding sport through public or private sources. Among the most common sources of revenue are:

- Media rights,
- Sponsorship,
- Hospitality (tickets, food and drink, etc.).

Moreover, the Commission document stressed the importance of funding in the various Member States, “through a tax or levy on state-run or state licensed gambling or lottery services. The Commission invites Member States to reflect upon how best to maintain and develop a sustainable financing model for giving long-term support to sports organisations.”¹⁰ To start reflection on this issue, the Commission will launch an independent study at the end of 2008.

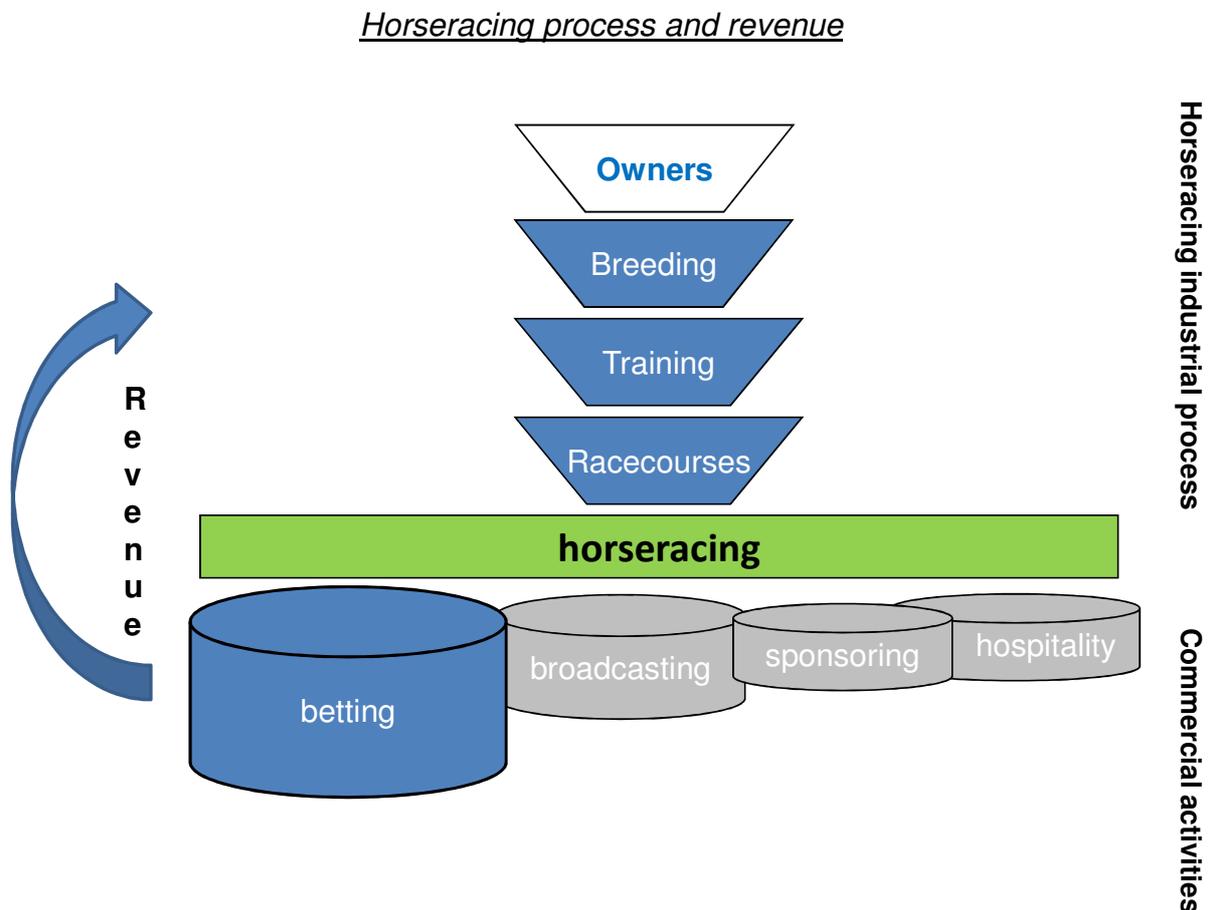
Revenue breakdown for global sports market and selected sports



Source: Deloitte 2006

¹⁰ The White Paper on Sport COM (2007) 391 - 11th July 2007

Unlike most other sports, in the case of the horseracing industry, the early legalisation of betting and the recognition of the horseracing's right to benefit from its revenue mean that betting is the main source of income for the sector.



Horseracing and betting have always been linked.

As early as 600 BC in Rome, bets were placed on horse races. The first modern English gallop races were subject to betting in the 17th century and, at the same time in Scandinavia, the first bets on trotting appeared (the first carriage to arrive at the church).

Horseracing is a natural support for betting:

- Large numbers of runners making it a challenge to pick the winner(s) (as opposed to other sports with only two teams or sportsmen per event),
- Races, lasting for a short period of time with an emotionally intensive finish, can easily be followed from start to finish,
- Racing allows for a large variety of types of bets involving one or more runners and one or more races.

Betting on horseracing was gradually made legal in most countries at the end of the 19th and the beginning of the 20th centuries: France in 1881, Germany in 1922, Sweden in 1923, Norway and Finland in 1927, Italy in 1931, 21 states of the USA in the 30s, etc. Horseracing associations have in most cases been granted exclusive rights to organise betting or rights to the revenue generated.

At the same time, racing has evolved to fit betting requirements

- Permanent improvement of horse breeding to provide racing champions,
- Handicapping and other measures to ensure truly interesting competition,
- Growth in the number of races open to betting with one race organised worldwide every three minutes,
- Development in betting networks of simultaneous broadcasts of race meetings organised on different tracks nationally or internationally, etc.

The horserace funding model based on betting is now being examined by other sport federations in need of supplementary resources (French professional football league¹¹, Fédération française de Tennis, etc.).

¹¹ Interview of F .Thiriez, President of FLP– by Paris Match 8/06/2008

2-EPMA OPERATORS HAVE DEVELOPED A MODEL ENSURING A PROPER FUNDING OF HORSERACING WHILE PROVIDING A FAIR, RESPONSIBLE AND ATTRACTIVE OFFER TO PUNTERS

On March 6, 2008 at the European Parliament in Brussels, the European horseracing industry asked for a guarantee of:

- a fair return from betting on horse races on which bets are promoted or offered,
- the protection of the future integrity of the sport.

A large majority of horseracing stakeholders have acknowledged the benefits of the Pari-mutuel model as the best tool to preserve and develop their industry.

A) THE INTERNAL VALUES OF PARI MUTUEL

Integrity

Pari Mutuel is a form of betting with certain internal values which guarantees the integrity of the sport. Indeed, with Pari Mutuel betting, the amounts bet are added together and shared among the winners, after the take-out of the operator which is completely independent of the result of the race. The Pari Mutuel operator has therefore absolutely no interest in the outcome of the race.

Transparency

Pari Mutuel betting ensures transparency through:

- the application of equal treatment of punters,
- the implementation of predetermined rules to establish the share of total bets that will be returned to winning punters,
- the operator's ability to put all the information available at the disposal of punters without weakening his position.

Comparison with other forms of betting

The bookmaker bets against punters which involves a risk. Even though he tries to balance the books, his profitability will differ depending on the result of the race.

The Betting Exchange (Internet only) allows the broader public to act as a bookmaker. This means that individuals can take odds (ie: "back") on the outcome of any event. Equally, they can offer odds "lay" to other participants. The technology automatically matches back

and lay bets between various bettors – a percentage of winning bets being taken by the operator. The system makes it possible for individuals to bet on a horse to lose a race.

B) EPMA MEMBERS : A CORPORATE SOCIALLY RESPONSIBLE ATTITUDE

Gambling operators have many responsibilities in the economic sector in which they operate: a responsibility towards customers, partners/shareholders and society as a whole.

EPMA's members take advantage of Pari Mutuel for the benefit of punters and the sport of horseracing. Beyond legal obligations, EPMA's members are committed to maintaining a balance between their economic objective and social responsibility and are therefore promoting responsible gaming behaviour and the funding of racing.

Many newcomers on the market, on the contrary, have a tendency to exploit loopholes in legislation.

EPMA's members respect strong ethical principles:

- **Observe strict compliance with legal frameworks**
- **Develop and improve responsible gaming tools**

Over the years, national Pari Mutuel operators have developed a strong and consistent programme to promote responsible gaming through various campaigns (information for punters, network training, awareness campaigns, anti-addiction systems on websites and links to associations dealing with compulsive gambling).

Some examples:

- PMU in partnership with La Française des Jeux are providing more than € 1 million for the next three years for specific research and centres for the prevention of addiction to provide better therapeutic guidance to deal with pathological gambling in France.
 - The advertising budget is deliberately limited for all EPMA members – less than 0.5% of turnover. In Sweden, national operators are contributing to a study on the influence of advertisement on addiction. UK Tote adheres to the GC's Gambling Industry Code of Practice for Socially Responsible Advertising which provides social responsibility standards for gambling operators to apply to their advertising.
- **Respect the integrity commitment**
 - EPMA operators only enable betting on successful results. This makes it difficult to fix a race as it would need the acceptance of all the participants.
 - Integrity of betting and racing is a key condition for ensuring the continued development of betting. For this purpose, close cooperation with racing authorities has been developed and promoted.
 - EPMA's operators are strictly controlled by their own State which ensures that the processing of bets is done in complete transparency.

- **Fund horseracing in a maximised and predictable way**

- Large pools and no risk taken give rise to a wide range of types of bets, notably bets offering life-changing dividends attracting new punters to horserace betting.
- More than 10% of stakes in certain countries are paid to the horse sector; € 1.5 billion was returned to the sector in 2007 (see table below).
- Harmonious funding of racing throughout a territory and of racing disciplines across the country.
- Optimisation of operating costs.
- Contribution to the funding of other components of the equestrian sector (Olympic teams, equestrian centres, schools and local development).

Contribution from EPMA's members in 2007

PARI MUTUEL OPERATOR	BETTING TURNOVER	RETURN TO HORSE SECTOR
EPMA MEMBERS	€ Million	€ Million
PMU	8 842	727.2
UNIRE	2 667	395
ATG	1 284	149
NORSK RIKSTOTO	395	64
FINTOTO	209	32.5
UK TOTE	484	24.8
TOTE IRELAND	61	10.6
GERMAN TOTE + TRS	85	8.4
LOTERIE ROMANDE	73	2*
WIENER TRAB	0.6	0.12
TOTAL	14 100.6	1413.6**

*In addition, more that €5 million are distributed to good causes through local non-profit associations (promotion of research, environment, associations to help youth, provide services for elderly and handicapped persons...).

**operating cost included for 5 members (UNIRE, TOTE Ireland, German TOTE, TRS and Wiener TRAB)

- Cooperate among European and international horseracing sectors

EPMA members have developed common pools at EU level. The purpose is to increase the racing programme, create attractive pool sizes, while preventing punters from participating in uncontrolled betting and continuing to support local breeding and the racing sector (e.g. PMU and Loterie Romande¹², Nordic countries)

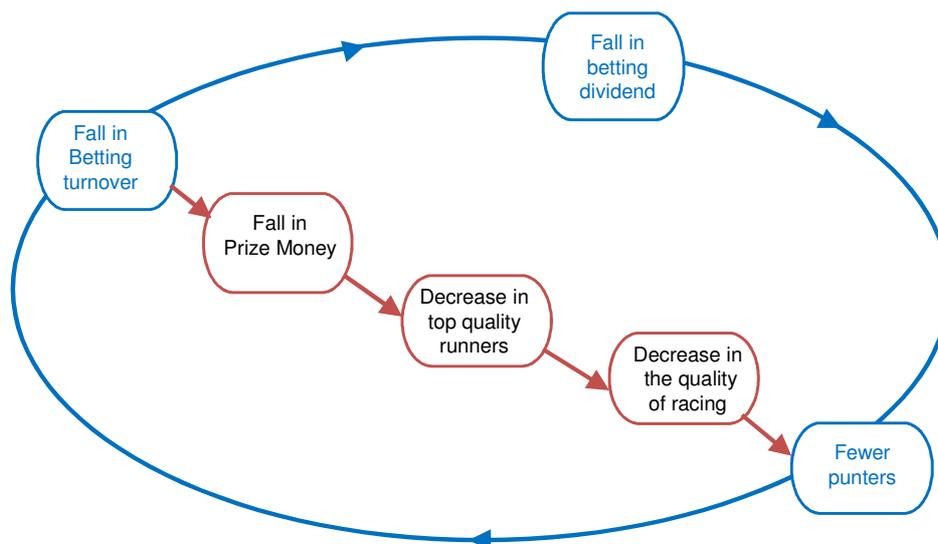
The EPMA model has been implemented in various ways across Europe depending on local history and cultural background as shown in the examples in annex 1. It has proven successful in those countries where it is fully implemented.

In the UK and Ireland where bookmaking is dominant, funding of the horseracing system is through a percentage of gross profits on betting, at an agreed rate negotiated between the parties and supervised by the government (see annex 2). This can cause conflict as bookmakers inevitably look to minimise their contribution to horseracing (and associated costs in offering betting on the racing product to their customers) for the benefit of their own shareholders.

C) THE VULNERABILITY OF THE SYSTEM

The symbiotic link between the horseracing sector and betting that the EPMA model manages to implement, is a fragile one. If the level of financial return in a given geographic area falls below expectation, owners will turn to other areas (or cease activities) which may lead to a rapid decrease in competitiveness of the entire local industry and upset the balance in neighbouring areas. On the other hand, poorly funded racing leads to low betting as punters want large field races with challenging competition. Low dividends discourage betting because punters also want attractive winnings.

Vulnerability of the “ecosystem”

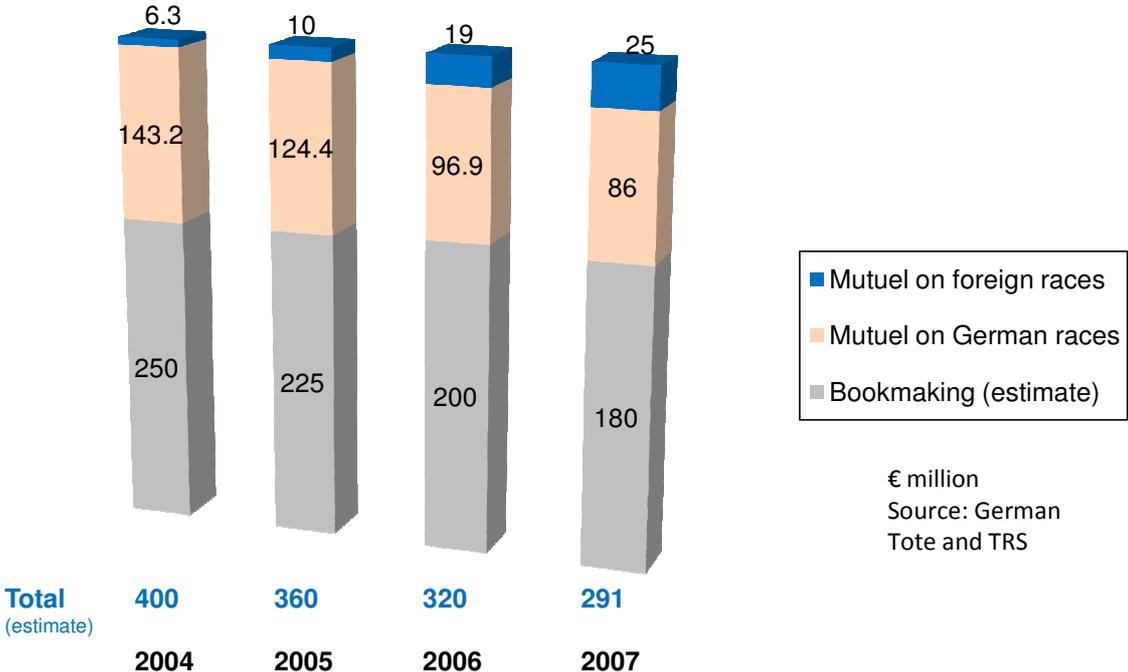


¹² PMU implemented original and successful cross-border cooperation with French-speaking Switzerland where, since 1991, the Loterie Romande has offered common pool betting on French racing. This activity, which enables Swiss punters to benefit from PMU's large betting pools, contributes to funding both the Swiss and French horseracing industry. Out of CHF 120 million bet in Switzerland in 2007 on French racing, CHF 3.5 million went to the Swiss horse industry.

The case of Germany illustrates the weakness of the system. Due to a legal framework requiring no contribution from bookmakers to the horseracing sector and the development of a financially attractive offshore-based offer, the German horse industry is insufficiently financed through betting. As a result, it has been strongly in decline since 1995.

- The number of German races has dropped by 44%,
- The number of owners has dropped by 40%,
- The number of mares has been reduced by 22% and breeding has been reduced by 30%.

Horse betting in Germany



It took centuries to build the racing industry in Europe to what it is today and could take only a few years to destroy it. It is our responsibility to preserve this essential cultural know-how and heritage.

3-CHALLENGES ARISING FROM THE INTERNET AND THE NEW EUROPEAN CONTEXT

The emergence of the Internet gave national punters online access to foreign operators.

A) NEW ACTORS AND NEW FORMS OF BETTING

New online operators chose the most open legal frameworks, whether inside or outside the EU, where they could lower their cost and maximise their profit and dividends to punters by minimising levies and paying no return to the sport. Taxation in Malta corresponds to 0.5% of turnover compared to Sweden 11.4% and France 12.6%. This strategy enables them to propose attractive (up to 95% in pay-out rate) betting offers on national markets for horseracing or other sports which unfairly compete with historical ones and threaten the funding of the horseracing sector from which it benefits.

Some operators maintain that they are eager to contribute to sport funding but in practice, none of them is ready to pay the level of contribution paid by EPMA members which is totally incompatible with their current business model.

Even when a country opens its market with the obligation to apply for a local license as was done recently in Italy, the operators that agree to apply for a licence negotiate in order to lower the duty they have to pay.

The gambling games offered by online operators are characterised by permanent requests, high diversity and aggressive promotional campaigns.

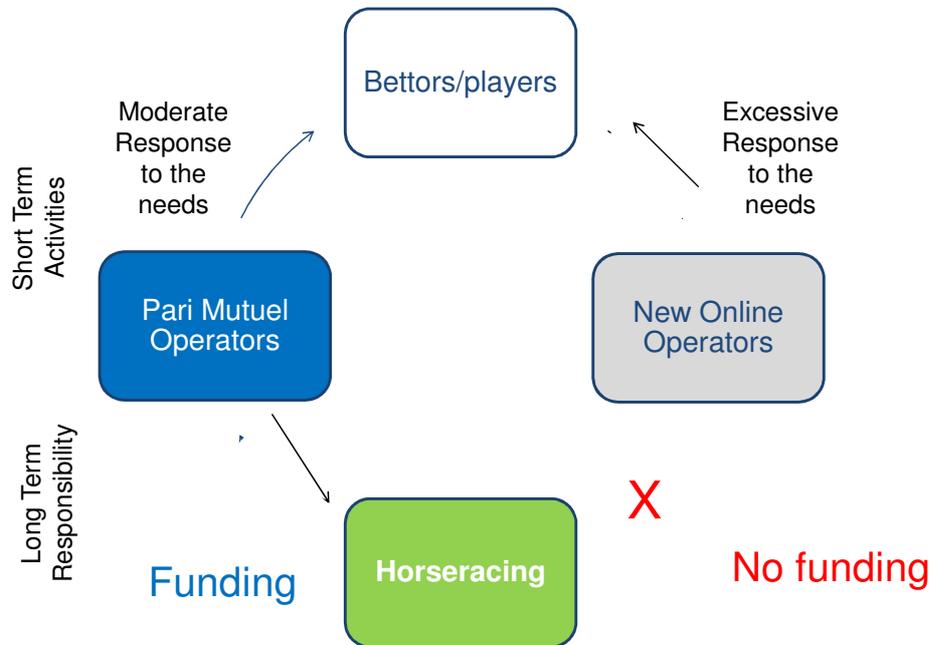
A large number of gambling sites operate without any licence or with licences from legislation which imposes no serious controls on their activity making them ideal tools for money laundering and other criminal activities. According to Jupiter Research, 90% of the global online gambling market is illegal. Even when gambling on foreign websites is properly established, it remains difficult for punters to complain in the event of a problem.

Online operators are introducing to national markets, new forms of betting that have been forbidden due to a lack of integrity. As a result, the market has seen an increase in irregular betting patterns which threatens the integrity of sporting competitions ¹³

¹³Risks to the integrity of sport from betting corruption - A report for the central council for physical recreation by the centre for the study of gambling, University of Salford – February 2008

Attitude of new operators

The change in attitude is threatening long term development



B) ONLINE OPERATORS TAKE ADVANTAGE OF AN UNCERTAIN EUROPEAN REGULATORY FRAMEWORK

The gambling sector has so far been regulated by national legislation, which is considered as locally driven and influenced by historical and cultural considerations. Most Member States require every operator on their territories to obtain a licence within their jurisdiction with restrictive conditions on access to these licences. Such a situation was not called into question for decades until the Internet developed the possibility of betting online where the gambling market is considered as both European and worldwide.

Adopting the Services Directive should have opened up another debate on the nature of gambling services. However, since it was defined as very specific, it was not included in the European regulatory framework on services when adopted in 2006. In the absence of any specific regulation on the sector, the freedom of access and establishment laid down by the Treaty of Rome is the only rule applicable.

As a result, countries have found it increasingly difficult to defend their national gambling markets against foreign gambling operators with an EU member's licence, particularly through legal action.

Monopolistic practices have been called into question by the courts as a result of the Gambelli and Placanica cases which forced the Member States to justify the legitimacy of their current legal framework. Furthermore, national courts give a diverging interpretation of national laws and increasingly refer to the ECJ. In such a context, compliance with EU rules has still not been clarified and although we are awaiting the forthcoming ruling interpretation of compatibility of national laws with European internal market legislation with regard to the cases of the Portuguese Football League and Winner Wetten in Germany, there does not appear to be a straightforward solution applicable to all situations.

As a result of complaints by online operators looking for legitimate access to national markets, since 2006 the Commission has taken action to remove any obstacles by pursuing infringement proceedings against 10 European countries. However, legal uncertainty seems to be on the increase. Member States are adopting different strategies, which highlight the numerous technical and social parameters to consider and the difficulty of implementing a satisfactory framework.

EPMA members are concerned about the uncontrolled opening up of the gambling market. Its negative impact will become a general concern for the whole of Europe if a consistent approach is not discussed soon.

In the present situation, the European Commission cannot ask for an opening of the market without a thorough analysis of the sector and without any legal mechanism in place to protect consumers and to ensure the same level-playing field for all economic actors.

In the past, the European Commission has adopted other methods to open up markets. Although the situation and the market are not fully comparable, there has been a 15 year process in developing a single market for postal services – from the Green Paper in 1992 to the adoption of the Third Postal Directive on first reading at the end of January 2008. Many studies, impact assessments and consultations have been carried out suggesting global solutions.

4-PERSPECTIVE AND PROPOSALS

EPMA members, as traditional operators, have witnessed changes while maintaining and increasing their economically and socially responsible attitude. Such requirements should be applied to all actors but this is not the case today.

A) CONSISTENCY OF ACTION AT EU LEVEL

Member States, before summer 2008, have started a dialogue on the gaming and gambling issue with the aim of agreeing on a political document to support their common interests on the subject. EPMA supports this approach hoping it will create conditions for adherence to the following common principles:

- Guaranteeing the right for Member States to define **a national legal framework assessing the model on which betting is organised**.
 - Each Member States can define under a licensing system the various requirements essential to respect at national level.
 - Member States can promote the betting model corresponding to public order and funding national priorities such as Pari Mutuel on horse racing.
 - National rules must avoid tax competition
- Recognising the **right of sport event organisers** to get a fair return on betting revenues generated.
 - Create a regime for sports betting that enables a fair return to sports for the use of their events by betting operators.
- Promoting the sport by preserving **integrity**.
 - Supporting the approach of the Sports Rights Owners Coalition – have the possibility to ban betting on an event or to control the various forms of betting (ban intra-event bets, side bets etc).
 - Considering the costs of addressing integrity risks by providing the funding and not diverting resources away from training, social structures, rural development, etc.
- Agreeing on **obligatory responsible gaming rules**.
 - Organise the measurement and apportionment of the costs to gambling.
 - Fund social and medical analysis to set up the best prevention mechanisms.
- Organising coordination of Member States to **control illegal betting activities** with strict legal penalties.

B) THE SAME LEVEL-PLAYING FIELD FOR ALL ACTORS AT NATIONAL LEVEL

Recent legal developments in certain Member States demonstrate the implementation of a national gaming authority in charge of a national licensing system. Such licenses are necessary in order to integrate national terms and conditions such as:

- sanctions for operators who fail to maintain standards,
- advertising regulations,
- prevention of dangerous betting patterns,
- monitoring and minimising addiction.

In such a context, EPMA members are determined to contribute to the setting up of basic principles:

- A fair tax system for all kinds of games to maintain competition.
- A high level of contribution to horseracing, sports and any other sector with a general interest:

The “fair return” principle - minimum level must be assessed, corresponding to the intangible right of the sport on betting in order to provide various funding mechanisms, notably to ensure sustainable development of the sport and to control the integrity of the event.

Moreover, so that any legal work is based on significant economic data, European Pari Mutuel operators are asking for:

- clear assessment of the impact of opening up of the market in Europe through an independent impact study with a genuine debate on the social and economic commitment of all gambling operators,
- Build up indicators to follow the market evolution and learn from experience.

Such results would help formulate European principles to be shared by all operators in the gambling sector.

ANNEXES

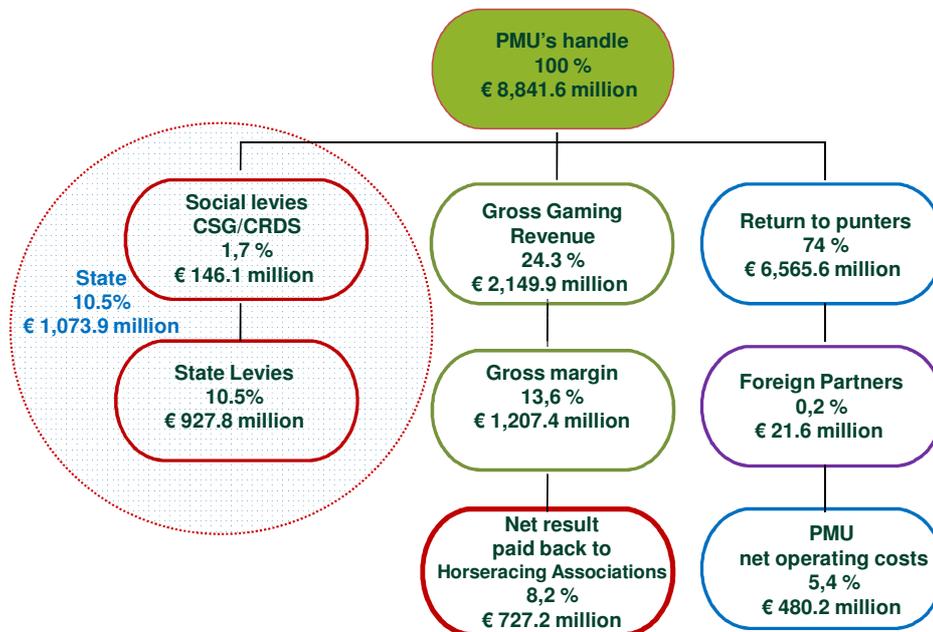
1 - THE EUROPEAN PARI MUTUEL MODEL IN PRACTICE

The French model

On June 2 1891, betting legislators in France acting on the principle of Pari Mutuel, granted the horse racing authorities the exclusive right to organise public horse races and on-track betting. From 1930 onwards, some of the horseracing authorities were allowed to collect off-track bets. Two of these, France Galop and Le Cheval Français, are responsible for racing regulation and prize money of flat and jump racing and trotting racing respectively with a balance between the two codes.

The racing authorities created PMU, an Economic Interest Group, to organise off-track betting on their behalf. PMU's stakes amounted to € 8.8 billion in 2007 which makes it the second most important horseracing Pari Mutuel operator in the world and the first in Europe. PMU funds 80% of the French horse sector, to which it pays its entire net profit, € 727 million in 2007.

Financing of the French horse sector due to handle collected by PMU



The Nordic model

In Sweden, ATG has the exclusive right to organise bets on horseracing since 1974 under the ownership and authority of the horseracing organisations. The company's objective is to ensure the positive development of the horseracing industry by complying with requirements such as paying concerns to small racecourses and supporting both flat and trotting activities and organising only certain betting types with a maximum layout. ATG supports horse clinics and horse-related training/education. In 2007, € 154 million was distributed to horseracing organisations out of a total betting turnover of € 1.290 million, or 12% of total betting.

Norsk Rikstoto has the exclusive right to organise bets under the Totalisator Act in **Norway**. Norsk Rikstoto is a foundation, created in 1982 by the Norwegian Trotting organisation and the Norwegian Jockey Club. Norsk Rikstoto is the financial contributor of all horse-related activities in Norway including the Norwegian Equine Centre, a foundation made up of 17 nationwide horse and pony organisations with two main objectives: education and breeding. The Norwegian Equine Centre is keeper of stud books and maintains breeding plans for typical Norwegian breed horses such as the Dølehorse, the Fjordhorse, the Nordlands/Lyngshorse and the Warm-blooded riding horse. Norsk Rikstoto took nationwide responsibility for horses' welfare by establishing an equine hospital in November 2007 to provide relevant veterinarian expertise to horses all over the country. In 2007, € 64 million, 16% of the company's turnover, was transferred to the horse industry without intervention of the State.

2 - FUNDING FOR BRITISH HORSERACING

All betting organisations in the UK are required to pay a Levy on bets taken on British horse racing. This includes contributions from bookmakers, the Tote, betting exchanges and spread betting firms. It is estimated that betting on horseracing accounts for 69% of over-the-counter stakes in Tote betting shops (although due to its strong racing heritage and links this figure is likely to be higher than the industry-wide average).

The current scheme governing the bookmaker's contribution to racing is based on 10% of gross profits. A new framework for the future funding of racing has been the source of much debate and in the absence of an agreed formula this scheme was extended to include the most recent financial year.

The Levy yield for the latest financial year reached £116.5 million, a 17.4% increase on the previous year; however, 1% of the total betting amount in UK goes back to racing/breeding.

UK Tote contribution to the Levy in 2007: £9 million (this is in addition to the £11.9 million contribution to racing through sponsorship, donations and commissions payments to racecourses).

The Levy Board has set a minimum prize money allocation of £65 million per year from 2009 to 2011, although this is dependent on obtaining a long-term levy agreement between betting operators and racing.

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